



## Highlights

- Ontario housing starts fell 17.1 per cent in October
- Extremely tight market conditions keep pushing sale price up in Ontario
- Average provincial value \$907,016 – up 23 per cent from a year ago
- Inflation jumps 4.9 per cent year-over-year
- Manufacturing sales in Ontario decreased 4.1 per cent in September, primarily on lower sales of motor vehicles.
- Non-durable goods reported fifth consecutive monthly increase at 2.3 per cent.
- Retail sales slide 4.4 per cent in September

## Inflationary pressures and skilled labour shortages driving new home construction down

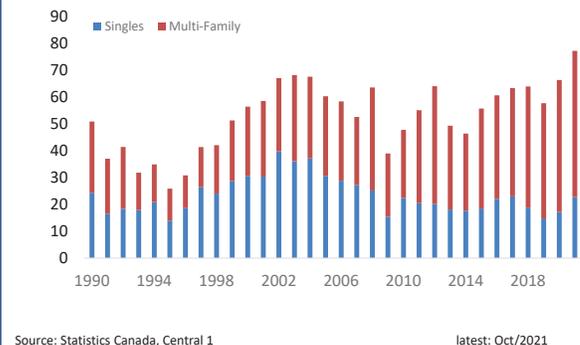
*Edgard Navarrete, Regional Economist*

New home construction in Ontario fell by 17.1 per cent to 83,002 seasonally adjusted at annual rate in October, adding to the 8.7 per cent drop in September, according to the Canada Mortgage and Housing Corporation's (CMHC) latest estimates.

After peaking in March 2021 – where over 130,000 units SAAR were started – new home construction in Ontario is on a downward trend as the sector continues to feel the effects of, not only those well documented skilled labour shortages, but also significant inflation affecting home builder's cost forecasts and the subsequent number and types of new projects brought to market.

## Ontario urban area starts up over 16 per cent on strong multi-family unit growth

Ontario housing starts, January - October



In urban areas, new home construction rose 16.7 per cent in October to 75,820 units, the lowest tally since February 2021. This was due to a strong contraction of new single-detached home construction (down 6.6 per cent month-over-month) and new condo apartments (down 29.2 per cent month-over-month). New construction of semi-detached homes (up 28.9 per cent), and row/townhomes (up 9.8 per cent) increased but not sufficiently to offset losses in new construction of single-detached homes and condo apartments.

With many condo apartments expected to enter the market in 2021 and 2022 and increased costs for home builders, profit margins have shrunk. Therefore, builders are likely taking a pause on new condo apartment projects and concentrating on low-rise housing that provides a larger profit margin.

Over the first 10 months of 2021, new home construction in Ontario's urban areas is up 16.3 per cent even with the strong recoil in October and September.

Of the 15 metro areas in Ontario new housing starts increased in nine with strong gains in the following:

- Kingston (up 354 units)
- KCW (up 4,554 units)
- Ottawa-Gatineau (up 5,108 units)
- Oshawa (up 1,138 units)

Over the first 10 months of 2021 the average and median contract price for a new single-detached home in Ontario remained 7.0 per cent and 14.2 per cent respectively ahead of last year's pace.

## Ontario home sales rose to the highest level since the summer in October

Bryan Yu, Chief Economist

Ontario housing market activity surged in October as MLS® sales jumped 9.7 per cent from September to a seasonally- adjusted 21,554 units. After a period of normalization that returned sales to pre-pandemic trend, sales rose to the highest level since July. While unadjusted home sales were 12.6 per cent lower than same-month in 2020 largely owing to the exceptionally strong pandemic demand heading into 2021, sales were nearly 11 per cent higher than same-month 2019 and 25 per cent above the average October pace from 2010-2019.

Surprisingly robust demand has continued despite rapid home price growth during the pandemic. Buyers continue to be incentivized by a low interest rate environment, investor demand, shifts in preferences due to the pandemic and likely some fear of missing the homeownership boat as prices further increase. A rebound in population growth is also adding to underlying demand. A bump up in new listings flow may have also provided more choice for buyers and contributed to higher sales, but rising interest rates have likely triggered a rush by buyers to lock in their rates through a purchase – even if the property was less than desired.

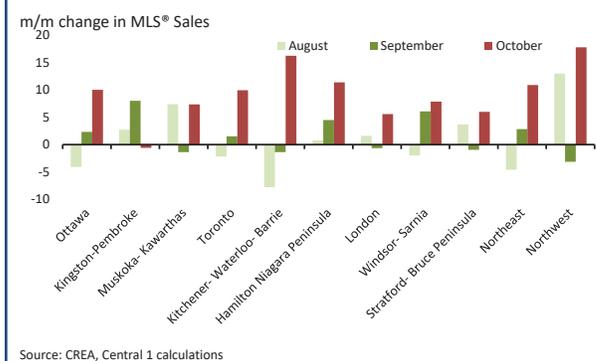
Home sales rose across economic regions pointing to a broad-based acceleration in demand. Toronto area sales rose 9.9 per cent, but gains were stronger in Kitchener-Waterloo- Barrie (up 16 per cent), Hamilton-Niagara (up 11 per cent) and Ottawa (up 10 per cent). While data is volatile, growth was stronger outside the largest urban markets highlighting the flexibility of hybrid and remote work options that have been driven by the pandemic.

Despite higher new listings in most regions, strong sales continue to draw down inventory, triggering higher bids for the scant number of units on the market. Months of inventory in Ontario are staggeringly low at less than a month. This has declined from 1.2 months a year ago and an already low two months pre-pandemic. Based on sales-to-new listing ratio, which is above 80 per cent provincially, conditions are hottest in Hamilton-Niagara Peninsula, London and the Kitchener-Waterloo-Barrie regions.

## Ontario home sales gain momentum in October, prices accelerate



## MLS® sales growth by economic region



The severe sales and inventory imbalance continues to drive prices higher. The average provincial value climbed 1.9 per cent to \$907,016 which was up 23 per cent from a year ago. Provincial monthly prices can be volatile given changing sales composition among regions, but this marked an 11th increase in 12 months and nearly all real estate board areas posted strong growth. Our regional calculations show growth of nearly seven per cent in Kitchener-Waterloo- Barrie, and 4.5 per cent growth in the regions of Hamilton-Niagara Peninsula and London. Toronto area average prices rose 1.4 per cent.

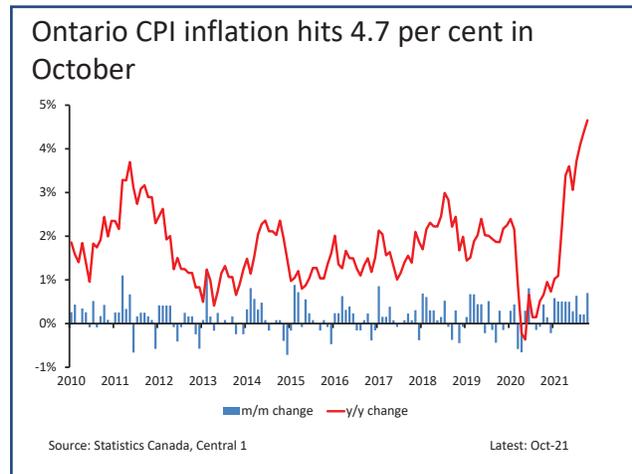
Benchmark Housing Price Index (HPI) values, which adjust for sales composition and quality, was similarly strong in nearly all markets where estimates are available. Growth in the benchmark for Toronto rose 4.8 per cent from September suggesting a rotation in demand to lower priced and multi-family units. Other market highlights included Cambridge (up 4.1 per cent), Kawartha Lakes (up 4.2 per cent), North Bay (up 4.9 per cent), Oakville- Milton (up 6.3 per cent).

Sales flow is expected to soften as the combination of high prices and increased mortgage rates push more households out of the market, pent up demand is satiated, and shift in households towards smaller urban and rural markets slows as the pandemic wanes and worklife further normalizes. However, the severe inventory shortage will likely keep prices on the rise, while buyers rotate toward apartment condos and lower their housing expectations.

## Ontario inflation surges higher in October

Bryan Yu, Chief Economist

Consumer price inflation in Ontario jumped in October, lifting the broad national trend with it. Headline CPI inflation reached 4.9 per cent year-over-year, while prices rose 0.9 per cent from September. This exceeded the national increase of 4.7 per cent and 4.9 per cent. Among large provinces, inflation was second highest behind Quebec but exceeded by the Atlantic provinces.



Like the national figure, base year effects are contributing to high rates alongside supply chain disruptions, and factors such as high commodity prices. Gasoline prices were the key driver of higher inflation with levels up 5.3 per cent from September and 43 per cent above year-ago levels. Broadly, consumers are feeling the pinch across the spectrum with food prices up 3.6 per cent and shelter up five per cent from a year on rising ownership costs, although both were like September gains.

Consistent with supply chain factors hitting motor vehicles, electronics and other items, durable goods prices rose 5.1 per cent year-over-year, with non-durables up 8.6 per cent reflecting energy and food prices primarily. Services price growth was also elevated at 3.7 per cent, which accelerated from 3.4 per cent in September. Re-opening conditions have lifted prices for recreational services.

## Lower sales of motor vehicle and motor vehicle parts hit Ontario's manufacturing sales

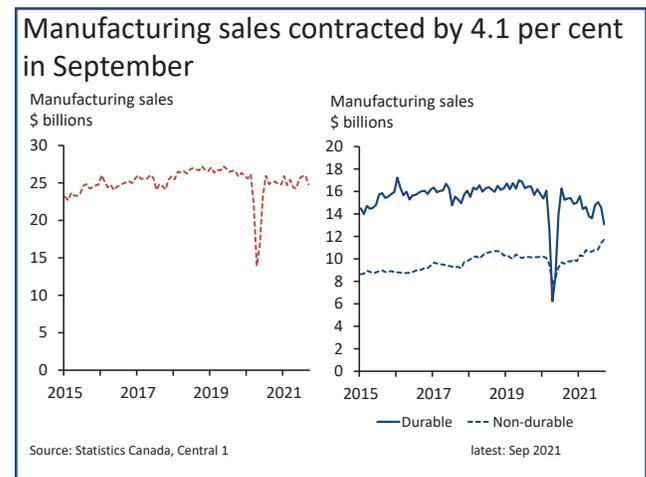
Ivy Ruan, Economic Research Associate

Manufacturing sales decreased in eight provinces in September, led by Ontario which saw total sales of goods manufactured (\$24.8 billion) fall by seasonally adjusted 4.1 per cent in September, offsetting the growth in sales during the summer.

Durable goods sales contracted by 9.2 per cent, led primarily by lower sales of motor vehicle and motor vehicle parts due to the lack of semiconductor parts. Non-durable goods kept up the rising momentum and reported the fifth consecutive monthly increase of 2.3 per cent.

Sales of motor vehicles in Ontario fell by 36.9 per cent in September, bringing sales (\$1.8 billion) to under \$2.0 billion, the lowest level since May 2020. Sales of motor vehicle parts were also down 14.1 per cent. Consistent with the national trend, Ontario's sales also decreased in the chemical (8.0 per cent), computer and electronic (3.3 per cent), plastic and rubber (2.9 per cent) product, and electrical equipment and appliance (2.5 per cent) product industries in September.

Sales of wood products in Ontario rose 3.9 per cent since last month's decline (12.2 per cent). Price for lumber and other wood products continued to drop in September, yet higher volumes led the surge in wood sales. Petroleum and coal products sales escalated by 30.1 per cent compared to last month due to increasing prices for refined petroleum energy products. Ontario also reported increases in fabricated metal (0.6 per cent) sales.



Following two consecutive months of increases, sales in Toronto declined 2.7 per cent in September, while total sales were down 5.0 per cent in areas outside Toronto metropolitan areas. Motor vehicle sales fell 12.3 per cent, as auto assembly plants in Toronto lowered production due to the semiconductor shortage.

The disruption in supply chains, and environmental disasters in the coming winter would keep posing challenges to manufacturers and distributors of goods, and the supply chain issues are expected to continue into next year.

## Retail sales slide 4.4 per cent in September

*Edgard Navarrete, Regional Economist*

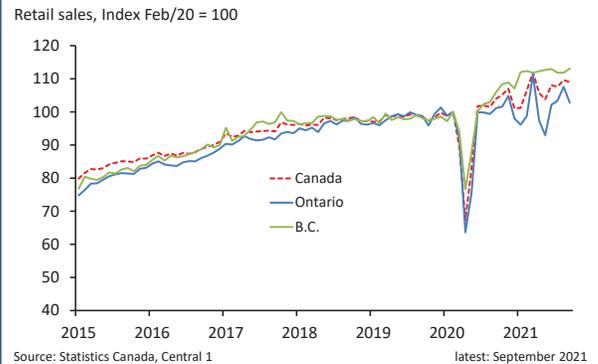
After moving up 4.0 per cent in August, retail sales in Ontario gave back all that growth in September, sliding down 4.4 per cent to \$20.1 billion. Core retail sales fell 4.8 per cent to \$13.3 billion.

The month-over-month slide in sales in Ontario was quite significant and was even more pronounced than the 0.6 per cent slide posted nationally. Moreover, Ontario was the only province to report a month-over-month sales decline in September. Compared to pre-pandemic activity from February 2020, retail sales in Ontario are up 2.8 per cent in September.

Over the first nine months of 2021 retail sales are ahead of last year's pace by 10.2 per cent. Core retail sales year-to-date are up 5.5 per cent.

The retail sales contraction in Ontario was widespread in September. Retail sales in Toronto declined 6.0 per cent to \$8.2 billion and in the rest of Ontario, excluding Toronto, retail sales also declined by 3.3 per cent to \$11.9 billion.

## Ontario retail sales decline strongly in September



Over the first nine months of 2021, retail sales in Toronto and the rest of Ontario, excluding Toronto, remained 7.3 per cent and 11.7 per cent ahead of last year's pace respectively even with a strong dip in activity in September.

Retail sales were pulled down by a few areas in September. While areas like clothing (up 3.6 per cent), sporting goods and recreation (up 1.3 per cent) and food and beverage (up 3.0 per cent) posted healthy gains other large retail areas such as motor vehicle and parts (down 5.8 per cent), building materials (down 3.6 per cent), health related (down 1.8 per cent) due to their relative strong weight as sectors pushed down overall sales.

New car sales fell as continued supply chain issues is affecting production of new cars. Gasoline station sales increased on higher prices at the pumps.

After many months of being locked down people want to spend those pandemic-era savings but strong upward inflationary pressure is likely holding back some consumers from spending on some more expensive items such as a new car.

*For more information, contact [economics@central1.com](mailto:economics@central1.com).*