Economics | Current Economic Trends

Ontario Economic Briefing

Volume 27 • Issue 50 • Week of December 13 - December 17 2021 | ISSN: 1981-355

central 1 Economics

Highlights

- Ontario's resale homes market remains tight in November
- Average price moves up 2.3 per cent to $931,324
- Robust price growth in the Greater Toronto Area (GTA) is pricing out many buyers and prompting increased activity in other Ontarian real estate boards
- Inflation intensifies – up 5 per cent in November; highest since 1991
- Ontario manufacturing sales up 8.6 per cent in October

Fierce bidding wars keep lifting sale prices in Ontario despite fewer absolute sales in November

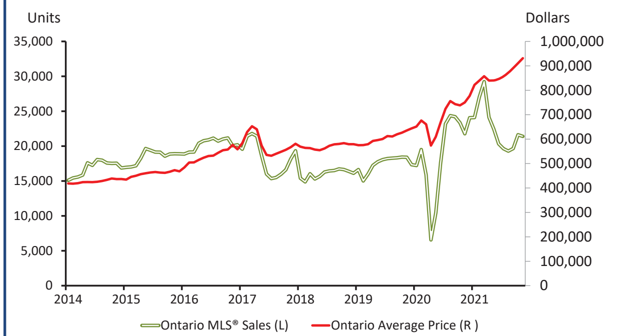
Edgard Navarrete, Regional Economist

Ontario's home sales market took a break in November with sales down 1.0 per cent and new listings down 6.8 per cent from October. This dip is in contrast to October's brisk market activity which saw a 10 per cent rise in sales from September and a 6 per cent increase in new listings.

The November figures from the Canadian Real Estate Association (CREA) also show that, year-over-year growth in both sales (down 1.7 per cent) and new listings (down 5.5 per cent) continued to slide, for the fifth consecutive month.

Despite the decline in sales and new listings activity, average price growth continued to climb in November. Price moved up an additional 2.3 per cent to $931,324. This marks seven consecutive months of price gains in Ontario. The market remained tight despite lower sales and new listings as seen by the sales-to-new-listings-ratio (SNLR) which came in at 75.6 per cent in November, down from 81.6 per cent in October. Any reading greater than 60 per cent signals a sellers' market.

Fewer buyers are intensely bidding for homes lifting average price further



Source: CREA, Central 1 Latest: Nov-21

Increased prices across many areas of Ontario are pricing out some potential buyers, especially first-time buyers, as investors remain active in the market. Fierce bidding wars are the norm in many parts of Ontario and homes are being sold far above asking price because buyers are trying to get into the market to either invest or move in before mortgage rates rise.

Over the first 11 months of 2021, all metrics continued to outpace growth from last year with sales (up 21.9 per cent), new listings (up 10.2 per cent) and average price (up 22.6 per cent). The year-to-date average SNLR in Ontario stands at 78.3 per cent up from 70.7 per cent during the same period in 2020.

Sales activity fell in 21 of 44 Ontario real estate boards in November, including a larger than average fall in big markets like Toronto (down 2.5 per cent), Mississauga (down 7.2 per cent) and York region (down 5.9 per cent). Sales were up in the largest boards: Kitchener-Waterloo (up 6.4 per cent), London/St. Thomas (up 2.2 per cent), Ottawa (up 1.0 per cent), Durham region (up 2.7 per cent), and Windsor-Essex (up 6.3 per cent).

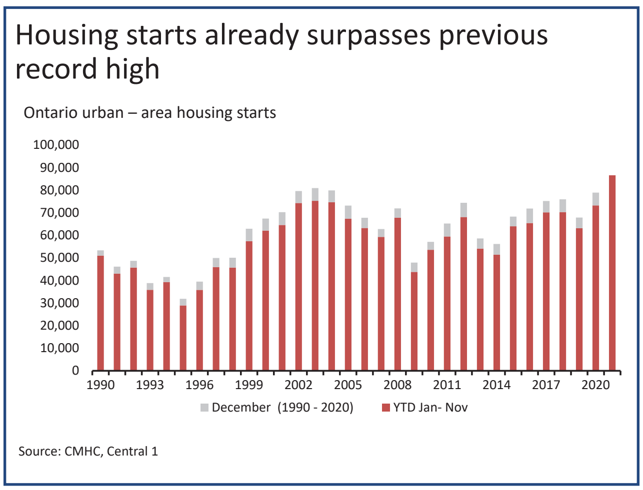
Very robust price growth in big markets in the Greater Toronto Area (GTA) are pricing out buyers from this region and more activity is occurring in outer areas particularly now that many employers are moving to remote or hybrid business models, even post-pandemic.

CREA publishes a monthly constant-quality housing price index (HPI). In November, of the seven real estate boards surveyed for the HPI in Ontario, month-over-month price growth ranged from 1.3 per cent in Ottawa to as high as 3.9 per cent in the Greater Toronto real estate board. The average month-over-month HPI across these seven real estate boards was 2.9 per cent, slightly lower than October's average of 3.3 per cent.

Housing starts surge to record high in November

Bryan Yu, Chief Economist

Ontario housing starts surged back in November after an October stumble as builders ramped up construction on new projects. The pace of new housing starts nearly doubled in November to an annualized pace of 123,570 units, marking a record month for urban areas and consistent with the March 2021 record high after accounting for rural area estimates. Growth in urban markets reflected an 81 per cent increase in multi-family starts to 99,250 annualized units as single- family starts increased 12 per cent to about 24,300 units.



Not surprisingly, Greater Toronto accounted for the bulk of the increase as the pace of starts more than doubled to a pace of 71,060 units. While not as influential on the monthly gain, annualized starts also surged in Kingston (900 per cent to reach 6,780 units), more than 1,400 per cent in Brantford to reach 4,100 units, and a 541 per cent increase in Hamilton to a pace of 6,500 units. Starts fell in Kitchener-Waterloo-Barrie by 56 per cent. These are of course one- offs but the pattern remained a strong pick up in construction in various markets amidst strong housing demand and home values.

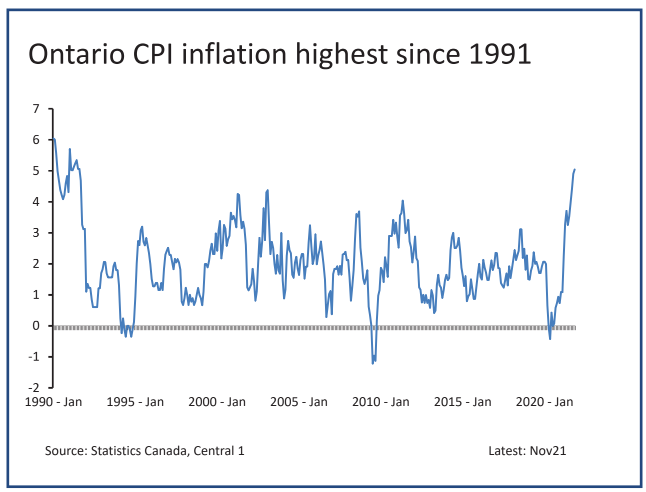
With the November's surge, year-to-date urban- area starts growth reached 18 per cent. Multi-family starts rose 16 per cent while single-family starts rose 24 per cent. Toronto area starts were up only 10 per cent, while starts surged in surrounding areas. This is consistent with the trend of urban outflow during the pandemic as households looked at more affordable regions to lay down roots, reflecting remote and hybrid work models. Starts have surged in areas like London (32 per cent), Guelph (53 per cent), Kingston(32 per cent), and Kitchener – Cambridge – Waterloo (48 per cent). While some of these trends will likely temper in 2022, shifts to these more affordable markets are likely to continue.

Ontario CPI inflation hits 5.0 per cent

Bryan Yu, Chief Economist

Consumer price growth in Ontario intensified in November. Headline CPI inflation rose to 5.0 per cent year-over-year, up from 4.9 per cent in October to reach the highest level since 1991. Nationally, CPI inflation came in at 4.7 per cent. Relative to October, prices rose 0.2 per cent. That said, Ontario inflation still trailed four other provinces including Quebec (5.2 per cent), and three of four Atlantic provinces, led by PEI at 7.0 per cent.

Inflation themes generally aligned with the national



picture, hitting key non-discretionary items. Ontario food prices accelerated to a 4.8 per cent pace and a notable jump from 3.6 per cent in October. Growth was led by a spike in store-bought foods of 1.7 per cent which drove year-over-year growth to 5.2 per cent. Fresh produce price rebounded after an October decline. Energy prices accelerated to 25 per cent, year-over-year. Meanwhile, shelter costs also picked up with an acceleration to 5.3 per cent. Growth in homeownership costs edged up to six per cent, but rental cost jumped to 2.4 per cent year-over-year from 1.9 per cent in October. A tight housing market and return of students are boosting housing costs. Supply chain challenges continue to drive high durable goods prices.

Elevated inflation pressure is likely to persist, marking an offshoot of supply chain disruptions in the economy, while food prices and shelter costs are on the rise. An easing of gasoline prices provides some respite, but Omicron challenges could amplify severe global supply chain disruptions.

Manufacturing sales rebounded in Ontario

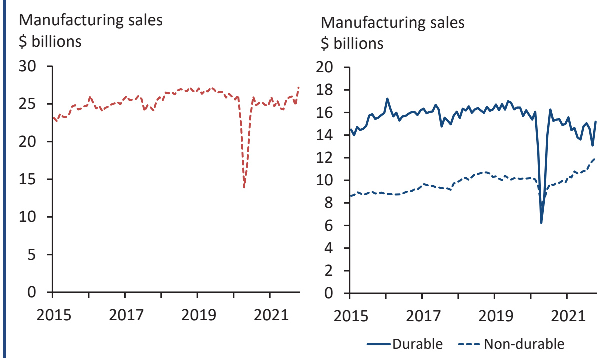
Ivy Ruan, Economics Research Associate

Manufacturing sales increased in six provinces in October, led by Ontario. Total sales of goods manufactured ($27.2 billion) rose by seasonally adjusted 8.6 per cent in October, bringing the sales level to the highest in 2021. The increase in Ontario was driven by rebounds in motor vehicle production (65.5 per cent) and motor vehicle parts (24.6 per cent) despite the shortage of semiconductor chips.

Both durable and non-durable goods output rose in October. Non-durable goods reported a 2.2 per cent monthly increase, which brought its manufacturing sales to the highest level in 2021. Durable goods sales rose by 14.3 per cent, second highest level in 2021. The increase not only indicated a higher volume of goods sold coming to the holiday season, but also the inflationary pressures.

Despite the increase in October, manufacturing sales were down in Ontario compared with the same month a year earlier in the motor vehicle (-30.2 per cent) and in the motor vehicle part (-18.2 per cent) industries. Month over month, the gains in Ontario were partially offset by the declines in the production of wood products (3.7 per cent) and sales of petroleum and coal products (3.6 per cent).

Manufacturing sales rebounded in Ontario



Source: Statistics Canada, Central 1 latest: Oct 2021

Following a decline last month, manufacturing sales in Toronto increased 1.3 per cent in October, mostly on higher sales of machinery (8.2 per cent) and motor vehicle parts (7.8 per cent). Despite the provincial gain in motor vehicle sales, Toronto reported the largest decline in its motor vehicle production in October, down 8.5 per cent.

The ongoing disruption in supply chains, and upcoming holiday season will continue lead upward pressure on both prices and volumes of manufacturing goods. Improvement on utilizing capacity across industries will support the mounting demand, yet uncertainties due to Omicron variant may result further changes to the government guidelines.

For more information, contact economics@central1.com.