Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

- Ontario's resale homes market remains extremely unbalanced as prices jump 7.8 per cent in January
- Year-over-year headline inflation jumped 5.7 per cent in January
- Inflation jumped on higher shelter, food, and energy prices
- Manufacturing sales up modestly in December
- Housing starts down 35 per cent in January
- The presence of Omicron and tighter public health restrictions likely affected consumer confidence pushing retail sales down

Average home price in Ontario jumped an eye-watering 7.8 per cent in January

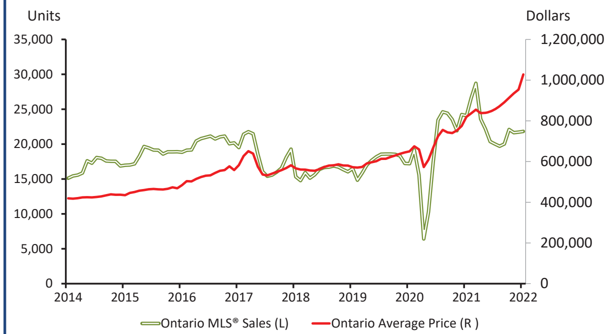
Edgard Navarrete, Regional Economist

Market imbalances in Ontario's resale homes market continued to lift average home prices into the new year at an unprecedented pace with the average price in Ontario surpassing $1.0M. Month-over-month prices climbed 7.8 per cent in January 2022 the highest month-over-month jump in sales since a year ago and the start of substantial tightening in the market as demand substantially started to outgrow supply.

Despite fewer new listings, down 20.3 per cent, the largest month-over-month drop in new listings growth since last spring, buyers are snapping up whatever is available, purchasing expensive homes and bidding up prices for already expensive homes due to intense competition. A key group driving this pace of activity is investors trying to increase their holdings in hard assets and to prepare for immigration to increase substantially once again in 2022, causing a jump in rental demand once again.

Since the start of the pandemic, buying activity has been so strong in Ontario that average home values have jumped 52.3 per cent or $352,068 since February 2020 when the average price of a home was $674,907, a real relative bargain when looking at current prevailing prices.

Average home values jumped in January, up 7.8 per cent



Source: CREA, Central 1 Latest: Jan.-22

The sales-to-new-listings-ratio (SNLR) and average months of supply are now at very extreme positions. In January, the SNLR was 91.2 per cent, up from 72.4 per cent. The last time the SNLR was this high was once again a year ago at the start of a very robust cycle of purchasing activity in Ontario which slowed down for a brief time over the summer before picking up again in the back half of 2021. Average monthly inventory in January was 0.7 months whereas a year ago Ontario had 0.9 months of inventory and the January average for 2018 to 2020 was 2.6 months of inventory.

A segment of the market banked on the possibility of the Bank of Canada raising the policy rate in January. When that meeting came and went with no rate hike, it signaled to many in the market to hurry and try to get into the market one last time before missing the opportunity to purchase homes at very low interest rates. We are now seeing the last batch of buyers with the means to purchase hurrying into the market. This trend will likely continue for at least the first half of the year even if the Bank raises rates in March. Many potential buyers will lock in mortgage rates even if they don't plan to purchase right away,which will provide them a three-month window to make a purchase.

CREA releases a monthly constant-quality housing price index (HPI) for several markets in Ontario. In January the HPI growth accelerated for all markets surveyed with the average growth coming in at 3.9 per cent up from 2.9 per cent in December. The strongest growth was reported in Oakville-Milton (up 7.1 per cent) and the lowest in Ottawa (up 2.4 per cent).

Compositional effects towards low-rise housing due to affordability and strong demand for housing are both keeping home price growth elevated in Ontario, especially in markets outside the 416 and 905 area codes. Ottawa has seen a strong surge in home values during the pandemic and part of the reason for the modest recent growth in the HPI compared to other markets is a concerted effort by buyers to move away from single-detached homes to higher density homes in this market. Many markets within reasonable driving distance from the GTA have seen home values rise rapidly during the pandemic as GTAers come with deeper pockets to purchase homes, many times pricing out local buyers. Given the distance from the GTA, Ottawa likely sees some GTA buyers but not as many as other adjacent markets to the GTA. Particularly now that remote-only work is fading and many office workers will be recalled back to on-site or hybrid work, . markets such as Ottawa are just too far to entertain the commute, even if only a of couple days per week.

Regionally, sales declined in half of the 44 real estate boards surveyed monthly with, as expected, strong pull-back in sales growth in the largest real estate boards in Ontario as elevated prices are pricing out even buyers with strong incomes and large down payments. The only large real estate boards to post month-over-month sales growth in January were Kitchener-Waterloo (up 6.9 per cent), Ottawa (up 7.3 per cent) and Niagara Falls (up 25.9 per cent). Sales in the GTA largely fell with sales in Mississauga staying relatively flat.

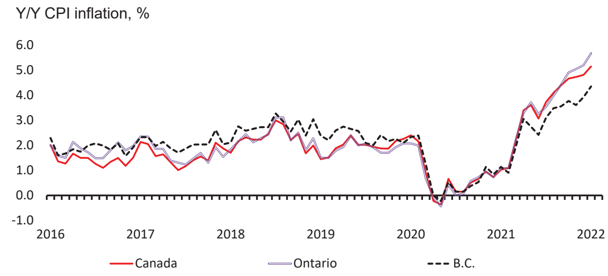
Ontario's headline inflation hits highest level in over 30 years in January

Edgard Navarrete, Regional Economist

Statistics Canada released the latest consumer price index numbers this week and, as anticipated, inflation continued to climb at an alarming rate in January. Headline inflation jumped 5.7 per cent year-over-year in January, a level not seen in over 30 years in Ontario and higher than the 5.2 per cent posted in December 2021. Core inflation, which removes food and energy prices, also climbed higher to 4.1 per cent in January, up from 4.0 per cent in December.

Since April 2021, headline inflation in Ontario has been consistently higher than the one to three per cent band of inflation at which the Bank of Canada prefers to keep the economy expanding without overheating. In fact, since August 2021 up to January 2022, monthly year-over-year headline inflation has averaged 4.9 per cent. Inflationary pressures are felt mostly in the goods sector (up 7.6 per cent) as prices

Inflation continues to climb across the country



Source: Statistics Canada, Central 1 CU Latest: Jan-22

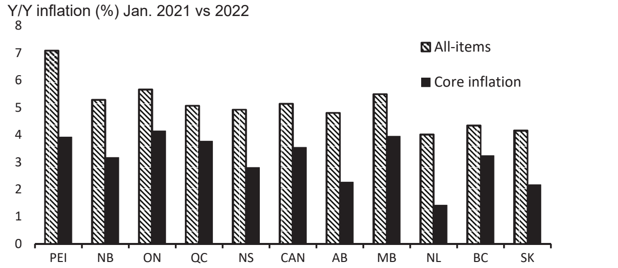
for durable (up 5.1 per cent) and non-durable goods (up 10 per cent) continue to climb. Services posted 4.2 per cent inflation, modest in comparison, likely due to public health restrictions keeping demand for services restrained.

Ontarians continue to feel spending power erode quickly month-over-month as prices spike in areas such as food (up 6.1 per cent), shelter (up 7.1 per cent), and transportation (up 8.4 per cent).

With consumers unable to eat-in at restaurants, many opted to do more cooking at home. Higher prices for proteins, dairy, and fruits and vegetables meant consumers paid more for groceries at supermarkets. Inclement weather, labour shortages brought about by increased omicron infections, supply chain issues, and higher costs of transportation all hit consumers in the wallet. A hot housing market has also added to inflationary pressures as home values have climbed substantially during the pandemic. The effects of increased imbalances in the homeownership market lifting prices is showing up through the homeowners' replacement costs and other owned accommodation expenses. Other owned accommodation expenses include commissions on the sale of real estate. A hot homeownership market thus put upward pressure on shelter prices amid rapid price growth in the housing market throughout the pandemic. Rental costs have also been climbing as an expensive homeownership market compels households to rent, particularly in expensive large urban markets. Increased competition for rental has turned market power towards landlords, especially owners of newer post-2018 units that are not subject to rent controls.

Transportation costs are climbing largely from increased costs of private transportation, including higher vehicle prices and gasoline costs faced by drivers at the pumps.

Energy and food prices a significant part of inflationary pressures but not completely



Source: Statistics Canada, Central 1 Note: core inflation removes energy and food prices

Prices in the three surveyed metro areas of Toronto (up 5.2 per cent), Ottawa-Gatineau (up 5.9 per cent), and Thunder Bay (up 5.7 per cent) all climbed significantly as all regions of Ontario are facing the same inflationary pressures.

Inflation is expected to be an ongoing issue in Ontario for at least the first half of the year until interest rate hikes start to cool areas of the economy such as the homeownership market, and global supply chains restabilize.

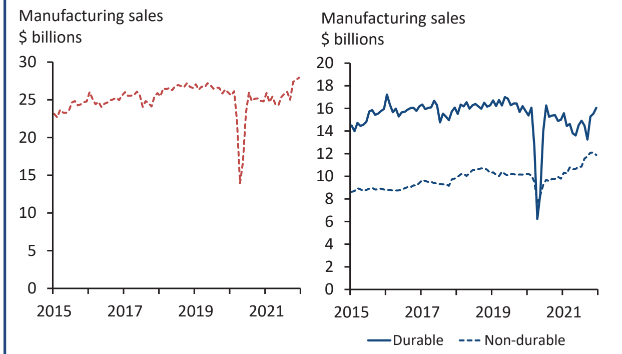
Durable goods climb higher, non-durables slip

Alan Chow, Business Economist

Manufacturing sales increased in December in Ontario. Total sales of goods manufactured ($27.9 billion) rose by a seasonally adjusted 1.1 per cent in December, which followed a similar growth trend in November and reached a new two-year high. Durable goods led the way, up 3.4 per cent while non-durable goods fell 1.8 per cent.

Growth in durable goods was again led by stronger motor vehicle production, which was up five per cent over the previous month. However, this still lags the volume from same period last year by 10.5 per cent. The shortage in semiconductors is still impacting the automobile industry and it’s not expected to be relieved until well into 2022. Non-metallic metal products also increased 14.0 per cent followed by fabricated metals, which was up 8.7 per cent. Balancing these increases was a drop in manufactured wood products, which was down 4.6 per cent and other miscellaneous manufactured products, which was down 4.5 per cent. Of the 10 durable goods industries tracked by Statistics Canada, half showed increases.

Manufacturing sales reach new highs in Ontario on strong non-durable



Source: Statistics Canada, Central 1 latest: Dec 2021

Manufacturing of non-durable goods was dragged down by lower petroleum and coal products, which was down 13.9 per cent after peaking over the last three months. This is followed by chemical manufacturing, which was down 6.0 per cent. On the other hand, plastics and rubber products saw a sharp increase of 14.0 per cent to $1.8 billion representing a three year high for the industry.

Manufacturing sales in Toronto increased 4.2 per cent in December, led by higher sales of durable goods, which is up 7.5 per cent. Non-durable goods were essentially flat though, up 0.2 per cent.

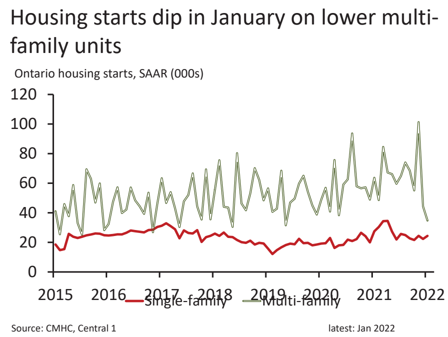
While the recent wave of COVID-19 has placed pressure on the economy and introduced restrictions on the trucking industry, the recent protests are more of a cause for concern as they disrupt the supply chains by slowing border entries.

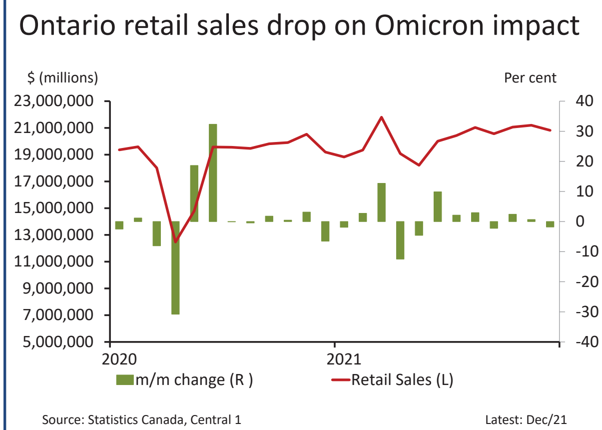
Housing starts declined significantly

Alan Chow, Business Economist

New housing starts in Ontario continued their downward trajectory with only 59,000 units breaking ground (annualized and seasonally adjusted), the lowest level since May 2020. This is down 11.2 per cent compared to the previous month of around 66,000 units. The fall in the number of multi-family units was the biggest factor, dropping almost 10,000 units to 34,000 units month-over-month. That said, single detached homes did rise, up 9.2 per cent to about 24,000 units.

The decline is even larger when compared to the previous year. New housing starts are down 35 per cent in January 2022 as compared to 2021 (91,000 units). Both multi-family units and single detached homes fell, with multi-family homes falling 45 per cent from about 63,000 and single detached homes 11 per cent from 27,000 units.





Among Ontario'smetro areas, housing starts fell in 9 out of the 16.. Toronto saw a 27.1 per cent decrease as compared to the previous month. Other notable decreases include:

- Kitchener-Cambridge-Waterloo (down 77.5 per cent)
- Brantford (down 50.3 per cent)
- Hamilton (down 58.9 per cent)

On the positive side, London led the way with a 60.5 per cent increase over the previous month. Other increases include:

- Oshawa (up 49.6 per cent)
- Kingston (up 48.5 per cent)
- Ottawa (up 28.1 per cent)

That said, last year was a very strong year for housing starts, and with interest rates expected to rise and construction cost rising, developers may be moderating expectations.

Retail sales affected by tighter Omicron restrictions in December

Bryan Yu, Chief Economist

Ontario retail spending declined in December as expected amidst the drag of tighter Omicron restrictions on the economy. Sales fell 1.8 per cent from November to a seasonally-adjusted $20.8 billion, albeit with a year-over-year gain of 8.5 per cent. Spread of the Omicron variant led to tighter health restrictions in Ontario including reduced capacity limits at retail stores, and gathering limits at restaurants and other events. The latest variant likely impacted consumer confidence and spending, while rotation of office workers likely impacted ancillary spending. Ontario's month-to-month change was consistent with the national decline.

Based on Central 1 calculations, spending fell in most store segments. Specifically, seasonally-adjusted sales fell more than six per cent at furniture, electronics/appliances, and sporting goods and recreation stores. Food and beverage stores sales rose two per cent, which could reflect the shift away from restaurant dining to home-cooked meals, alongside inflationary pressures.

Greater Toronto sales fell 1.4 per cent from November, although they were up 13.3 per cent from same-month 2020.

On a full-year basis, Ontario retail spending came in at a robust 9.2 per cent. That said, the pattern has been very choppy given the ebb and flow of tight restrictions. Sales totals were also boosted by sharp declines in sales early in the pandemic. Sales strength was led by motor vehicles and parts, and home furnishing stores with growth above 15 per cent – reflecting strong housing demand, and potentially due to concerns over the safety of riding public transit. Gas station sales jumped 25 per cent on higher fuel prices. Spending on clothing increased 14 per cent. Growth slowed for food and beverage (0.3 per cent) as households rotated towards social activities.

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