Economics | Current Economic Trends

# Ontario Economic Briefing

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central 1 Economics

## Highlights

- Building permit volumes fall 8.1 per cent in January due largely to fewer residential investments
- Real Canadian GDP growth flat lines in December
- Toronto home price growth decelerated to 2.7 per cent in February on greater supply and substitution effect to high-rise housing

## Ontario building permits reported declines in both residential and non-residential activities

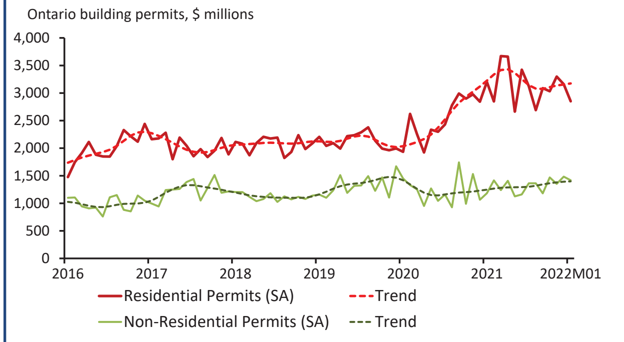
*Ivy Ruan, Economics Research Associate*

Ontario construction intentions reported a monthly decline of 8.1 per cent in January to a seasonally adjusted $4.27 billion, showing a return to normal trend following the strong performances during the past three months. The drop in total residential construction (9.8 per cent) contributed the most to the overall decline, and falling commercial permits (34.6 per cent) were another key driver to the loss. Total permits were 2.6 per cent lower than January 2021.

Both single-family homes (7.2 per cent) and multi-family homes (12.5 per cent) saw less construction activity in January compared to December. Despite the Toronto census metropolitan area (CMA) reporting a monthly growth of 29.8 per cent in multi-family permits level, its gain was offset by major declines in other CMAs such as Hamilton (80.7 per cent), Oshawa (85.1 per cent), St. Catharines-Niagara (62.6 per cent) and Ottawa (31.1 per cent). Uncertainties related to interest hikes may shift home purchasers' behaviors in the coming months and cool down the hot housing market a bit, yet economic recovery and population growth are expected to maintain housing demand.

Janauary's loss in non-residential permits (4.4 per cent) was driven by declining commercial construction intentions, which offset the recovery in industrial (31.7 per cent) and government (68.4 per cent) activities.

Ontario building permits reported declines in both residential and non-residential activities




Source: Statistics Canada, Central 1 Latest: Jan-21

The strong growth in government construction, reflecting a $102 million nursing home permit issued in North Bay, brought the government permits level to the highest since last February. As the reopening plans continue to roll out, business confidence will likely lift in the new year, stimulating more business/industrial opportunities. Demand for offices is expected to recover as many employers announce their return to in-person work plans.

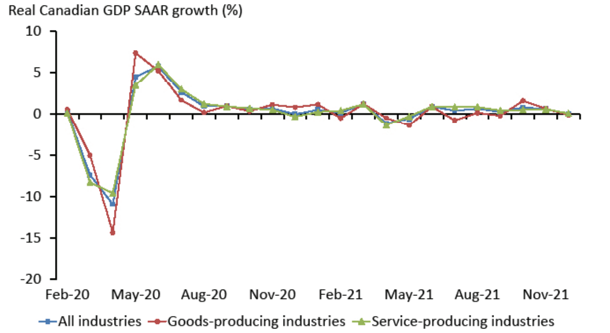
## Omicron wave tames economic growth in December

*Edgard Navarrete, Regional Economist*

Canadian real GDP figures at seasonally adjusted annual rate (SAAR) were released this week. In December, the real GDP SAAR was unchanged from November despite drag from Omicron-related restrictions. While growth in the services sector continued for the seventh consecutive month, up 0.1 per cent m/m in December, the goods sector hit a road bump and slid 0.1 per cent m/m in December. As expected, the presence of increased public health restrictions to control the spread of the Omicron variant affected the national economy with growth in both the goods and services sectors decelerating.

Overall, in 2021, despite the ebb and flow of public health restrictions in the country the overall industry, GDP rebounded 4.9 per cent real growth with the goods sector up 4.3 per cent and the services sector up 5.1 per cent.

Goods-producing sector's real ouput slowed down in December




Source: Statistics Canada, Central 1

Latest: Dec-21

Of particular importance to the Ontario economy, given a large footprint in this area, manufacturing expanded by 0.5 per cent in December but slowed down considerably from production in November when output in this area grew by 1.8 per cent m/m. Non-durable manufacturing continued to expand, moving up 1.0 per cent m/m while durable manufacturing stalled and growth was flat in December. Fourth quarter manufacturing increased 2.3 per cent with transportation equipment manufacturing up 5.9 per cent. That said, manufacturing increased 4.5 per cent in 2021 while transportation equipment manufacturing fell 4.0 per cent as production was affected for most of the year with parts shortages.

Month-over-month growth in non-durable manufacturing was broad-based with six of nine subsectors up in December. Leading this growth were areas such as plastics and rubber products and chemical manufacturing. Meanwhile, for durable goods manufacturing, increases in areas such as fabricated metal products, non-metallic mineral products manufacturing and transportation equipment manufacturing only partially offset declines in miscellaneous manufacturing, machinery, and computer and electronic product manufacturing.

Motor vehicle and parts manufacturing moved up 0.7 per cent m/m as motor vehicle manufacturing, up 7.1 per cent was offset by motor vehicle body manufacturing, down 6.1 per cent and motor vehicle parts manufacturing, down 1.6 per cent. New car production is ramping up after some choppy periods in 2021 due to supply chain issues as auto producers try to catch up on unfilled orders.

Looking ahead, a continued wane of the Omicron wave will lift economic activity in Canada, but ongoing inflationary pressures and the effects of the ongoing war in Europe will hit home affecting energy prices and perhaps food prices. Specifically for Ontario, some risks remain to auto manufacturing and auto parts manufacturing as consumers may forgo new or used car purchases.

## New listings increased by 30 per cent in February taking some froth from price growth

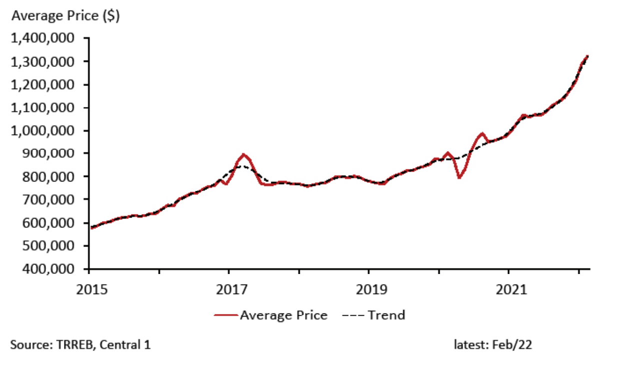
*Edgard Navarrete, Regional Economist*

Toronto's resale homes market rebalanced a bit in February with new listings moving up at a faster clip, (up 30 per cent m/m) than the growth in sales (up 14.5 per cent m/m) allowing buyers a little bit more choice than has been usual during this pandemic. The much-needed boost to supply helped take some of the acceleration from average home values. Average price increased 2.7 per cent m/m in February to $1,322,126, a much slower rate of growth than the 6.2 per cent growth reported in January.

The boost in supply notwithstanding, the market remains very active. The average days on the market in February was nine; an average low not seen since April 2017 when the market had overheated to a similar level seen currently. The SNLR also benefitted from the boost in supply and came in at 62.8 per cent in February, down from 71.3 per cent in January. Despite the m/m moderation, Toronto's SNLR has now been in a sellers' market for 16 consecutive months, a large chunk of the pandemic, as people have raced not walked to homeownership and investors have become bigger players in the market. Since the start of the pandemic, the average home value in Toronto has increased 32.1 per cent.

Both sales and new listings are tracking lower than 2021 thus far over the first two months of 2022. Year-to-date sales and new listings are down 17.3 per cent and 10 per cent respectively. Average price remains 28.1 per cent ahead of last year's pace. The SNLR thus far sits at 66.6 per cent, still a sellers' market, but much lower than the 72.5 per cent posted a year ago.

New listings increased by 30 per cent helping to take some steam off average price growth




Intense competition from end users and investors for anything considered low-rise housing in Toronto continues to erode affordability in that segment. End users still looking for a home are likely turning their sights away from low-rise housing and onto high-density housing. This could be a reason for the moderation in price growth apart from the increased supply in the month. Moreover, many buyers are likely aware of the upcoming Bank of Canada rate hikes and are planning their purchases accordingly. We will likely see some minor effect on March market data from the recent rate hike.

The constant quality housing price index (HPI) bears this out. The overall HPI increased relatively modestly in February up 4.2 per cent from 4.0 per cent in January, largely due to modest growth for single-detached homes and a slight decline in townhome values. Condo apartments, on the other hand, posted a robust jump in value from 2.4 per cent growth in January to 4.2 per cent growth in February.

With two months of data in the books, the overall HPI is up 36 per cent from a year ago with single-detached homes (up 38.7 per cent), townhomes (up 31.2 per cent), and condo apartments (up 30.3 per cent) all up significantly from values a year ago.

As affordability continues to erode, the move to condo apartments will increase in Toronto as both end users and investors look for relatively affordable options. Bank of Canada interest rate hikes will not really have a major effect on the market until past the second half of the year as both investors and many end users arrive at the market with deep pockets through savings and/or family gifts. With immigration set to pick up in 2022, many investors are preparing to rent out units to these new residents hence the strong push to compete aggressively in the market for any reasonably attractive units that come onboard.

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