Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

- New listings up 34.1 per cent in February, average price growth decelerated
- Ontario economy continues to run hot
- Headline inflation up 6.1 per cent in February
- Manufacturing sales volumes slip in January
- Housing starts pick up after slow start to the year
- Retail sales climbed 3.1 per cent in January

Ontario's resale homes market remains tight, but some signs of an inflection point possibly emerging

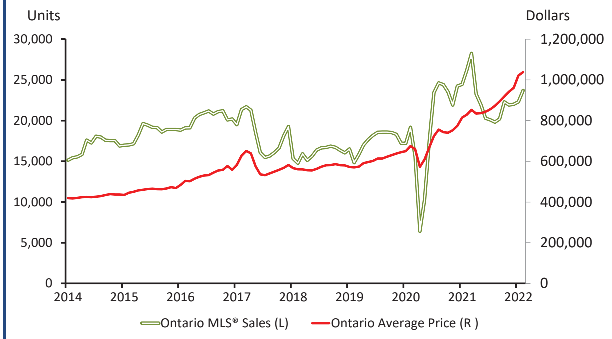
Edgard Navarrete, Regional Economist

Average home prices in Ontario's resale homes market moved up an additional 1.7 per cent in February to $1,038,257, a deceleration from recent trend but still robust growth when compared to non-pandemic market conditions. February's m/m rate of growth was the slowest in about half a year. Despite the recent data, the pandemic has been good for homeowners and investors. Average home values in Ontario remained 53.8 per cent ahead of home values prior to the pandemic in February 2020.

The deceleration in average price can be attributed to a larger than usual inflow of supply into the market which has given buyers much needed choice. New listings increased 34.1 per cent m/m while sales increased 6.3 per cent m/m. Sales growth was still above trend, but a larger inflow of supply helped relax the market somewhat. The SNLR in February came in at 73.8 per cent, still a sellers' market, but down from 93.1 per cent in January.

It seems with both buyers and sellers aware of current inflation and the need for the Bank of Canada to tighten monetary policy, sellers are trying to time the peak of the market and buyers are trying to get into the market before it becomes harder or more expensive to do so. One month does not make a trend but the increased supply in the market could be caused by some investors offloading some units as well.

Average home values are up 53.8 per cent from two years ago



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

Year-to-date, sales and new listings are down 9.2 per cent and 3.9 per cent respectively. Average home price is up 25.3 per cent and the SNLR has decelerated slightly in 2022 to 82.1 per cent from 86.8 per cent during the same period a year ago.

Sales increased in most of Ontario's real estate boards (nearly 73 per cent of them) m/m. Moreover, sales increased significantly in the largest real estate boards and accounted for most of the activity in February (nearly 73.8 per cent of sales). A higher share of sales in the largest real estate boards relative to trend has been the status quote since May 2021, with the share increasing over the last month. It is anticipated that many employers will likely recall employees that worked exclusively on a remote basis during the pandemic once the pandemic becomes endemic and manageable. With that in mind, many households could be converging closer to their jobs once again. Possibly, some investors with deep pockets, thus more insulated from interest rate hikes, may also be readying for the large inflow of new residents to Ontario (via immigration and other in-country migration) looking for rental units.

The constant quality HPI accelerated in nearly all Ontario real estate boards surveyed except Barrie (up 3.5 per cent in February from 4.1 per cent growth in January) and Oakville-Milton (up 2.7 per cent in February from 6.3 per cent in January). The biggest accelerations in the HPI occurred in the Guelph and Niagara regions.

Ontario inflation continues to climb even higher than the decades-high level from January

Edgard Navarrete, Regional Economist

Ontario inflationary pressures continued unabated in February with the province's economy running hotter than the national metric for five consecutive months now. Ontario's headline inflation was 6.1 per cent in February, higher than the 5.7 per cent reported in January, a figure already at a three-decade high. Core inflation, removing the effects of food and energy prices, also picked up pace in February, up 4.4 per cent up from 4.1 per cent in January pointing to broad increases in the cost of living for many Ontarians.

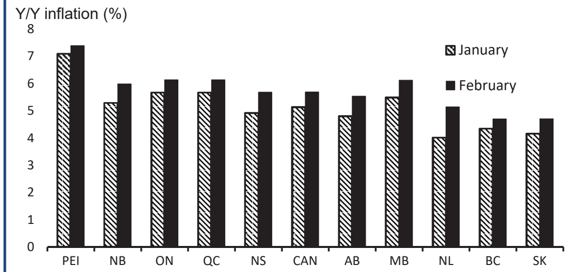
Supply chain issues, the conflict in Europe, and substantial liquidity in the economy since early in the pandemic have all kept adding fuel to the inflationary fire.

Among major areas, prices continued to accelerate into February in all but two: clothing and footwear (up 2.8 per cent in February from a 2.9 per cent rise in January) and health and personal care (up 3.9 per cent in February from a 4.2 per cent rise in January). A sustained high cost of living due to inflation will compel consumers to rotate away from unnecessary goods and services towards necessary goods and services, even as necessary goods and services also go up in price. Food prices moved up 7.4 per cent in February (up from 6.1 per cent growth in January) while shelter costs moved up 7.2 per cent in February (up from 7.1 per cent in January). Transportation costs moved up 9.0 per cent (up from 8.4 per cent in January) and household operations, furnishings and equipment costs moved up 3.2 per cent (up from 2.8 per cent in January).

Sustained growth to gasoline prices is raising transportation costs for private transportation. Increased costs of rental and homeownership and utilities costs are raising shelter costs.

Inflation rose in all three metro areas surveyed in February with the highest level occurring in Ottawa-Gatineau (up 6.3 per cent), followed by Toronto (up 5.7 per cent), and Thunder Bay (up 5.4 per cent). Shelter costs accelerated in Toronto for both owned and rental accommodations contributing to the price growth there. Inflationary pressures in Ottawa-Gatineau, and Thunder Bay came from areas outside of utilities and shelter.

Inflationary pressures continue to intensify



Source: Statistics Canada, Central 1

Durable goods sales volumes down on lower auto sales

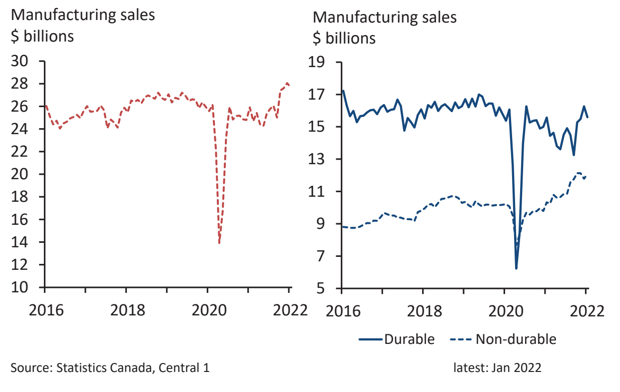
Alan Chow, Business Economist

Manufacturing sales volumes declined 1.3 per cent in the month of January after three consecutive months of increases. Durable goods saw a decrease of 4.2 per cent over the previous month while non-durable goods increased 2.6 per cent. Despite the decrease in overall durable goods sales volume, seven out of the 10 industries had increases. For non-durable goods, five out of the seven industries with available data had increases. Year over year, manufacturing sales volumes saw a 7.9 per cent increase, however industrial product price index had increased 16.8 per cent for the year and3.0 per cent for the month, suggesting product volumes was down.

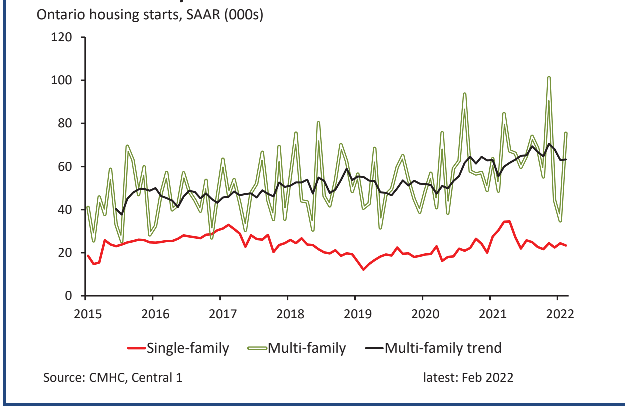
The decrease in durable goods was led by a decline in motor vehicle sales, which decreased 11.6 per cent over the previous month. The semiconductor shortage is still constraining the supply of motor vehicles. Year-over-year motor vehicle sales are also down 14.0 per cent. Primary metals manufacturing was also down 7.6 per cent. Industries that saw increases include electrical equipment, which increased 4.6 per cent followed by machinery, which increased 4.1 per cent, and wood products, which increased 2.4 per cent.

The increase in non-durable goods was led by petroleum and coal products, which was up 7.9 per cent. The gain was largely attributed to higher prices of refined products, which is influenced by higher crude oil prices. Other industries that saw increases were chemical manufacturing, which saw a 4.0 per cent increase, and paper manufacturing, which saw a 3.8 per cent increase. The two industries that saw decreases were printing, which saw a 6.8 per cent decrease and beverage and tobacco products, which decreased 2.0 per cent.

Manufacturing sales down slightly on lower autos



Housing starts up in February on higher multi-family units



The three CMAs that had available data all saw decreases in manufacturing sales. The Ottawa-Gatineau area saw the biggest decline, down 6.4 per cent. Hamilton saw a decline of 2.2 per cent and Toronto saw a small decline of 0.9 per cent. On a year-over-year basis, Hamilton led the way with a 14.6 per cent increase, followed by Toronto at 13.3 per cent, and trailing was Ottawa-Gatineau at a 6.9 per cent increase.

Housing starts up, Toronto sees big increase

Alan Chow, Business Economist

Ontario new housing starts picked up the pace again in February, with around 98,000 units registered on a seasonally adjusted and annualized rate basis. This is above the average over the past 12 months, which was 91,000 units and up 66.9 per cent from the previous month. The big increase was from multi-family units, which jumped 116.6 per cent to 75,000. Single family units, on the other hand, slowed slightly, down 4.1 per cent to 23,300.

The big jump was caused by a large increase in the Toronto area. It experienced a 195 per cent increase in starts, going from 22,200 to 65,700. However, only five out of the 16 metros experienced an increase. 10 of them saw a slowdown in housing starts again, with one experiencing no change. Other metros that saw gains include:

- Belleville (up 70.6 per cent)
- Kitchener-Cambridge-Waterloo (up 65.2 per cent)
- Hamilton (up 64.0 per cent)

Leading the metros with decreases are:

- London (down 55.3 per cent)
- Brantford (down 52.7 per cent)
- Windsor (down 40.7 per cent)

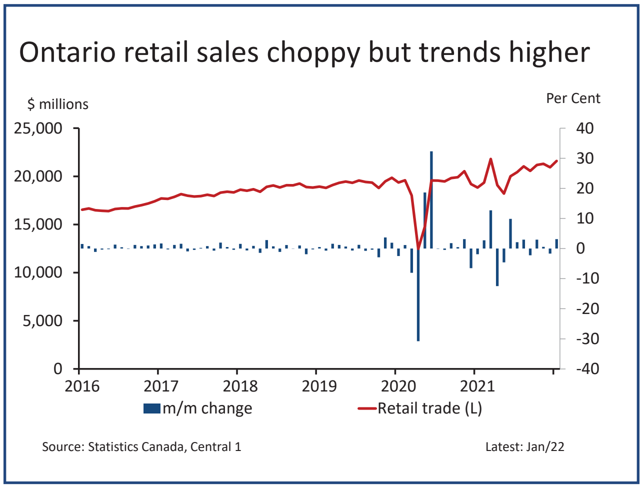
Year-to-date housing starts for Ontario totaled around 7,000, which is up 35.0 per cent over the previous year with multi-family units up 62.0 per cent to around 5,700 units. Single family homes, on the other hand, are down 22.0 per cent to around 1,300.

Ontario retail sales gain traction in January

Bryan Yu, Chief Economist

Canadian consumer spending roared back in January after tapping on the brakes during the holiday season period. Despite additional uncertainty from the Omicron wave and job losses during the month, national sales rose 3.2 per cent in January to reverse December's two per cent decline. Adjusted for price levels, retail sales increased a comparable 2.9 per cent point underlying strength in consumer spending. Sales picked up sharply in motor vehicles and parts, suggesting supply backlog may have been partly cleared during the month, although most segments posted stronger sales, such as building materials and renovation stores, electronics and general merchandisers.

Ontario retail spending rose in line with the national picture, with a 3.1 per cent increase from December following a 1.7 per cent decline in December. This extended the choppy recovery in retail spending in the province which has been more interrupted by stricter health measures than its provincial peers. Year-over-year, sales rose 15 per cent but owed in large part to base-period weakness.



Like the national picture, Central 1 calculations at the store-segment level pointed to increased sales for motor vehicle and parts as supply conditions improved, as well as home furniture and furnishings, and renovations driven by a hot housing market. Strengthening labour market conditions and population growth is expected to support demand but rising interest rates could dampen purchases of durable goods in coming quarters.

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