Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

- Average home prices declined 2.3 per cent in March for the first time in 11 months
- Market remains a sellers' market, but signs of rebalancing are now emerging
- Headline inflation continues to climb and break three-decade records
- Retail sales decelerated in February moving up 0.3 per cent m/m
- Fewer multi-family units breaking ground moderate total housing starts in March
- Multi-family new housing starts down nearly 24 per cent m/m in March

Ontario home sales fell just over ten per cent in March

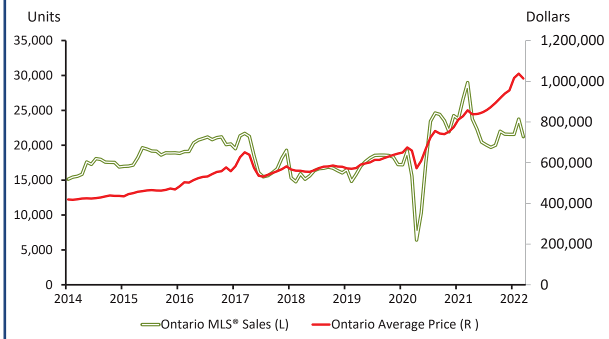
Edgard Navarrete, Regional Economist

Reduced resale home market activity seen earlier this month with the Toronto Region Real Estate Board (TRREB) data served as a bellwether for the rest of the province. The Canadian Real Estate Association (CREA) released March figures this week and the market has moderated given increased borrowing costs and some economic uncertainty. In March, sales fell by 10.6 per cent m/m while new listings fell 1.8 per cent m/m and average price fell 2.3 per cent m/m to $1,013,438. This was the first-time average prices have stopped climbing in 11 months. Even with prices moving down in March they remain 50.2 per cent higher or up nearly $340,000 from pre-pandemic activity in February 2020.

The rebalancing between supply and demand in March helped to cool the market as seen from the SNLR which moved down to a hefty 68.7 per cent in March from 75.4 per cent in February. A SNLR reading above 60 per cent still pegs a sellers' market so the market still has some way to go until it rebalances further. This was the first time since March 2020 that the SNLR fell below 70 per cent.

Over the first quarter of 2022, sales and new listings have cooled considerably from a year ago moving down 16.1 per cent and 8.0 per cent respectively.

Increased mortgage rates begins to cool resale market



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

Average prices remain elevated and up 22.6 per cent over a year ago. Despite fewer sales in Ontario now occurring, there are likely compositional effects at play still with a higher mix of low-rise housing being purchased, keeping prices higher.

Each month CREA releases constant quality HPIS for seven real estate boards in Ontario. In March, the HPIs decelerated in six regions and declined in Hamilton-Burlington, moving down 1.2 per cent m/m. This was the largest absolute slowdown of all regions surveyed moving down from 5.1 per cent growth in February to a 1.2 per cent decline in March. The HPIs in Oakville-Milton (0.2 per cent) and Ottawa (0.9 per cent) were the lowest while HPI in Toronto came in at 1.4 per cent.

The communities of Barrie, Guelph and Hamilton-Burlington posted the strongest decelerations in March from February, likely a result of fewer buyers looking at these areas as organizations rotate back to the office. Anecdotal evidence points to the condo markets in large urban areas like Toronto and Ottawa heating up as households that left during the pandemic are now hurrying back to those centres and looking for condo apartments to re-enter those markets.

By real estate board, the sales activity slowdown was largely broad-based with 32 of 44 real estate boards posting lower sales in March over February. The m/m decline in sales activity in March ranged from as strong as 25 per cent down in Tillsonbourg, to 0.3 per cent down in Guelph. Sales declined in all of Ontario's large real estate boards, collectively averaging 8.5 per cent fewer sales. Among the 32 real estate boards that posted fewer sales, the average in this group was 8.2 per cent lower sales.

The Bank of Canada (BOC) has just started to tighten monetary policy to try and wrestle down the inflation rate. In the latest policy rate meeting, the BOC went ahead and increased its policy rate an additional 50 basis points. Higher borrowing costs (fixed-rate mortgages have already climbed considerably and variable-rate mortgages are climbing) will continue to dampen sales activity and average price growth as the budgets of potential buyers is shaved down due to higher qualifying rates. Moreover, inflationary pressures in other necessities of life apart from housing will keep some buyers in the sidelines as household tighten belts to try and weather this storm. Currently, Central 1 is calling for a 12 per cent reduction in sales in 2022.

Inflationary pressures continue to increase in Ontario

Edgard Navarrete, Regional Economist

Headline inflation in Ontario continued to climb in March, moving up 7.0 per cent y/y up from 6.1 per cent y/y growth in February. Moreover, over the last three months, inflation has continued to climb to a new three-decade high each successive month. Core-inflation, which removes the effects of food and energy prices, also continued to climb in March moving up 5.0 per cent y/y up from 4.4 per cent growth y/y in February.

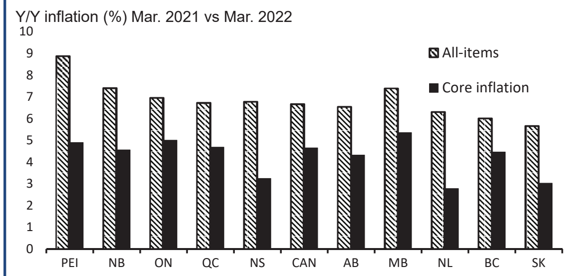
Energy (up 28 per cent y/y in March) and food prices (up 8.2 per cent y/y in March) are significant contributors to the higher cost of living facing many Ontarians currently but they are not the sole reasons for it. The inflation eating away at household wallets is broad-based with all major categories reporting higher prices in March with only clothing and footwear prices decelerating (up 2.0 per cent in March from 2.8 per cent growth in February).

Apart from food and energy prices, shelter (up 7.4 per cent), transportation (up 10.8 per cent), household operations, furnishings and equipment (up 4.8 per cent) and recreation, education and reading (up 5.0 per cent) also posted higher prices.

The uncertainty around gasoline supply due to the war in Europe and the mix of gasoline typically sold in spring and summer, which has higher input costs for refineries, contributed to higher energy prices which are also appearing in private transportation costs for consumers.

Food prices are climbing on increased demand, and supply of food not able to keep pace given supply chain issues and higher costs of production, lifting grocery prices and passing through to restaurant patrons.

Inflation remained elevated throughout the country



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

A faster pace of growth for replacement costs is pushing up the costs of owned shelter. Recreation costs are increasing as people are returning to a level of social and economic activity closer to pre-pandemic times, but the higher costs of labour and materials faced by many establishments are being transferred to the consumer.

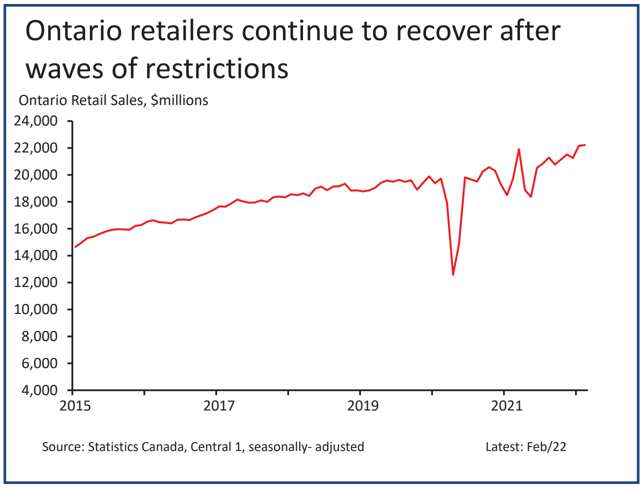
In the three metro areas surveyed for the consumer price index, prices continued to increase in all three. Ottawa-Gatineau faced the fastest acceleration in prices as headline inflation in the metro area came in at 7.5 per cent in March up from 6.3 per cent in February. Toronto faced the next fastest rate of inflation as headline inflation increased 6.5 per cent in March up from 5.7 per cent in February. In Thunder Bay prices climbed 5.6 per cent in March up from 5.4 per cent in February.

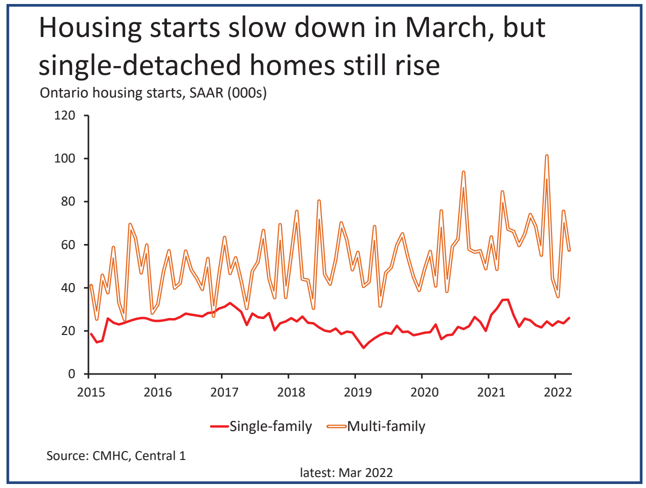
Ongoing monetary policy tightening will begin to slow down inflation somewhat but not completely. There is a significant international aspect to today's inflationary pressures that will not likely abate until supply chain issues resolve and conflict-led commodity price shocks moderate as well.

Retail spending growth remains positive in February

Bryan Yu, Chief Economist

Ontario retail spending growth decelerated in February but built on the strong January rebound. Dollar-volume sales rose 0.3 per cent m/m to $22.2 billion following a 4.3 per cent increase the prior month. On a year-over-year basis, spending at brick-and-mortar stores rose 12.7 per cent but this robust pace reflects the uneven patterns over the pandemic as Ontario faced multiple waves of temporary business closures and capacity restrictions unseen in most other regions.





The trend remains positive despite consumer rotating their dollars back to events and experiences. That said, headline values also overstate the strength in real spending given high inflation. Ontario CPI inflation surged to 0.9 per cent m/m and 6.1 per cent y/y. Retail spending has increasingly reflected pass through of inflation through prices as consumers are allocating the same dollar to fewer goods. Nationally, retail sales rose 0.1 per cent m/m but fell 0.4 per cent once factoring in prices.

Among retail store segments, housing related sales accelerated from January led by furniture and furnishings (+35 per cent y/y) and building material stores (up 28 per cent) amidst strong demand and pass through of supply chain costs and tariffs on import prices. Meanwhile, clothing sales accelerated 11 per cent m/m and doubled from a year ago as households restocked their closets with return to offices and events. Gasoline station sales rose 6.9 per cent m/m and 43 per cent year-over-year reflecting increased mobility and higher prices at the pump. Food sales were flat y/y at 1.1 per cent amidst increased dining out.

First quarter housing starts slow below the previous quarter

Alan Chow, Business Economist

Ontario new housing starts slowed in March, down 15.5 per cent to around 83,600 units (seasonally adjusted and annualized) after showing a sizable uptick in February. Fewer multi-unit dwellings broke ground, down 23.8 per cent m/m. Single family homes, though, still saw an increase of 10.7 per cent m/m. For the first quarter 2022, new housing starts came in at a seasonally-adjusted rate of 82,000 units, which is 14.9 per cent lower than the previous quarter and 17.7 per cent lower than all quarterly levels recorded in 2021.

Toronto saw housing starts drop 39.5 per cent to around 39,700. This brings it back below the 12-month trailing average of 44,300 units. Ottawa, on the other hand, saw an uptick in starts, increasing to 10,100 units from 6,800. Ten of the 16 metros saw a monthly increase in housing starts with most of them being the smaller ones.

Year-to-date housing starts for Ontario totaled around 17,000, which is 15.7 per cent below a year ago. Both single detached homes and multi-family homes are down a similar amount at 17.1 per cent and 15.2 per cent, respectively. This slow-down is likely to remain for the rest of this year as demand homeownership housing has already slowed down due to high interest rates. Moreover, fewer projects ready to commence will break ground due to increased input costs and an ongoing shortage of skilled labour.

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