Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

- Ontario's headline inflation comes in at 6.9 per cent in April, higher than the national print
- Average home price valuations gave back nearly ten per cent of pandemic-era gains in one month
- Month-over-month sales slipped 20.9 per cent in April
- Market is now balanced with a SNLR of 55.0 per cent
- Manufacturing sales volumes growth in March led the nation
- Urban area housing starts fall 6.7 per cent in April

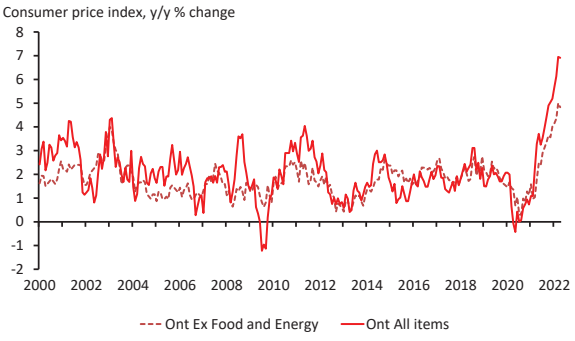
Households pinched by another massive inflation print

Bryan Yu, Chief Economist

Ontario households saw their purchasing power erode again through April. Consumer prices rose 0.5 per cent from March and 6.9 per cent year-over-year. While the former lagged national growth of 0.6 per cent, Ontario year-over-year inflation was unchanged from March and exceeded the national print of 6.8 per cent.

Not surprisingly, trends were consistent with the national pattern with households feeling their wallets pinched across a wide spectrum of goods and services. Among non-discretionary items, food prices rose 0.6 per cent from March and 9.2 per cent y/y. Growth was particularly strong for store-bought foods (9.8 per cent) where meat (+9.5 per cent), dairy (+9.5 per cent) and baked goods (+12.7 per cent) prices jumped considerably. Restaurants have also passed through rising input and wage costs, taking advantage of stronger demand from tourism and re-openings as prices increased 7.6 per cent y/y. Gas prices were unchanged after a March surge but remained well above year ago levels by 38 per cent. A spike in May gasoline prices will mean this relief is short-lived. Broad energy prices were 27 per cent higher than a year ago. Shelter costs also accelerated, a combination of higher home values via replacement costs, rising interest rates and base

Consumer price inflation sits at 6.9 per cent punishing consumer wallets



Source: Statistics Canada, Central 1 Latest: Apr-22

period effects. Shelter rose one per cent from March and 7.6 per cent from a year ago. Strong price growth for non-discretionary items is hurting household finances with income growth lagging.

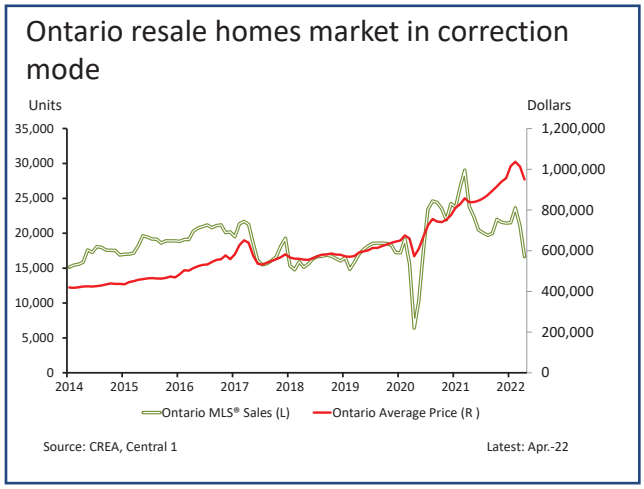
Meanwhile, price growth generally remains elevated among other goods and services, reflecting supply chain constraints and re-opening patterns. Furniture is up 14 per cent, while airfare and travel related prices have spiked. Goods prices are up 9.5 per cent driven largely by non-durables like food and gasoline, while global supply constraints have factored into higher durable goods pricing. Services prices rose 4.8 per cent.

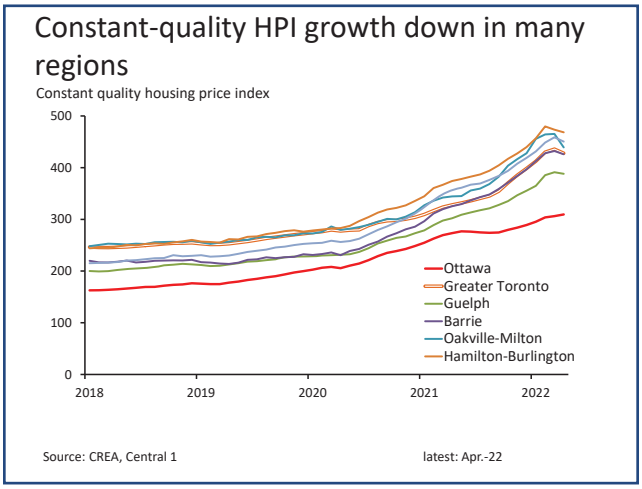
Going forward, supply chain driven inflation is likely to temper in the second half of the year, but flow-through from a tight labour market through higher wages and increasing shelter costs will continue to support underlying elevated inflation.

Ontario housing market has now entered a correction phase

Edgard Navarrete, Regional Economist

Canada Real Estate Association (CREA) released its latest housing market dataset this week and what was seen last week in the Toronto release was confirmed for Ontario this week. The resale market has started a correction phase brought about by tighter monetary policy and renewed economic uncertainty. Households have started to tighten belts and pivot further away from big-ticket non-essential purchases a like a home or auto towards the necessities of life.





In April, sales fell off 20.9 per cent m/m adding to the 10.9 per cent contraction from March. The last time the market had this significant two-digit level of correction over two months occurred in March and April 2020 when consumer sentiment took a nosedive at the onset of the pandemic.

Supply has also started to dry up again, likely due to sellers seeing lower attendance at open houses and fewer and fewer offers on opening night. After listings moving up 34.7 per cent in February, new listings have since eased 3.1 per cent in March and 1.2 per cent in April m/m.

With significantly fewer sales relative to the recoil in new listings, the Ontario market has cooled significantly and has moved down from a sellers' market (SNLR at 68.6 per cent in March) to a balanced market by April (SNLR 55.0 per cent) with the prospect of further cooling as anticipated additional policy rate hikes will cool inflation.

With a less hectic housing market allowing prospective buyers room to breathe for the first time in two years, many buyers are taking advantage of the situation by negotiating more aggressively and pushing down sale prices. The average sale price in Ontario fell 6.3 per cent m/m in April to $949,596, the first time the average sale price has fallen from $1.0 million since December 2021.

Of course, part of the price correction currently in play is compositional effects; the higher rates have eaten at maximum mortgage approvals from financial institutions for buyers and smaller budgets have shifted demand from turnkey homes to fixer-uppers and more condo apartments and rows.

Year-to-date, sales and new listings are lagging last year's totals by 19.7 per cent and 6.7 per cent respectively. Prices have held up despite the recent softening over the last two months, remaining 20.7 per cent ahead of last year's pace.

Ontario's 20.9 per cent m/m contraction mentioned at the start of this section came from a nearly universal contraction in sales. Of Ontario's 44 real estate boards, sales fell in all but four in April. The dip in sales ranged from as deep as 45.1 per cent in Simcoe to as relatively muted as 6.2 per cent in Cornwall.

In GTA area real estate boards, the sales dip averaged 23.5 per cent, in Ottawa 13.8 per cent, in London and St. Thomas 14.6 per cent, in Kitchener-Waterloo 14.4 per cent and heading north, 3.1 per cent in Thunder Bay and 13.0 per cent in Sudbury.

The constant quality housing price index (HPI) reported a near universal dip in April with only Ottawa's HPI (up 1.0 per cent) posting growth. Toronto (down 1.8 per cent), Oakville-Milton (down 5.6 per cent), and Niagara Region (down 1.9 per cent) all had significant m/m dips in value.

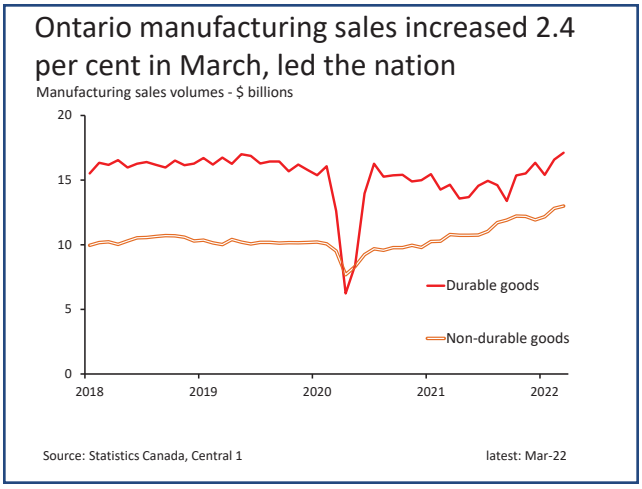
The correction seen now in the market is only the start and Ontario's housing market activity will continue to decrease in 2022 into 2023 due to a shallower pool of buyers able to comfortably handle increased borrowing costs and increased economic uncertainty from runaway inflation.

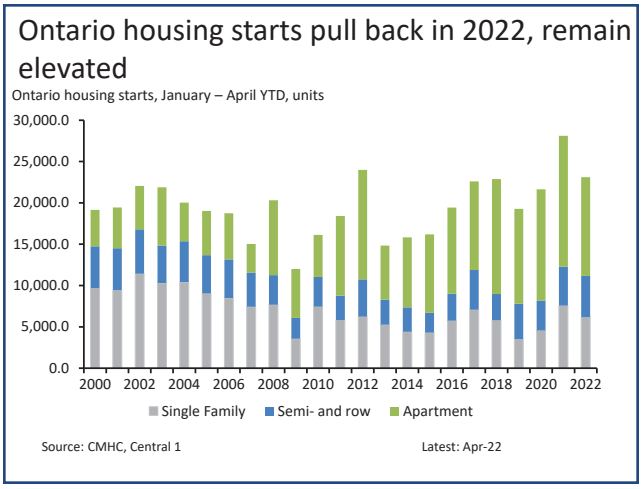
Manufacturing sales volumes increased 2.4 per cent

Edgard Navarrete, Regional Economist

Manufacturing volume sales increased 2.4 per cent m/m to $30.1 billion in March with Ontario leading all other regions in Canada. Sales volumes were robust in both non-durable goods (up 1.4 per cent m/m) and durable goods (up 3.2 per cent m/m) helping to elevate overall sales volume as 12 of 21 sectors surveyed posted increased dollar volumes.

Compared to activity prior to the pandemic, the current manufacturing sales volumes in Ontario have fully rebounded. March sales are up 15.2 per cent from where they were in February 2020.





Among key sectors, sales increased for petroleum and coal products (up 10.3 per cent m/m), transportation and equipment (up 6.2 per cent m/m) and plastics and rubber products (up 0.5 per cent m/m) while sales all fell for food (down 2.2 per cent m/m), chemicals (down 1.3 per cent m/m), fabricated metal products (down 2.4 per cent m/m) and machinery (down 3.1 per cent).

Year-to-date, manufacturing sales remained 15.1 per cent ahead of last year's pace with durables up 10.7 per cent and non-durables up 21.3 per cent.

Inflationary pressures are partly responsible for the increased sales volumes in addition to supply chain issues faced by manufacturers being passed on to their clients.

Energy prices increased on higher demand as the economy continues towards a complete opening and supply constraints due to the war in Europe affecting global supply.

Increased demand for new vehicles and parts has lifted sales volumes for transportation equipment manufacturers.

Month-over-month, manufacturing sales volumes increased substantially in Hamilton (up 14.0 per cent) and Ottawa-Gatineau (up 14.2 per cent) while Toronto reported a more modest uptick in sales (up 2.5 per cent).

Housing starts track a modest pace, smaller markets down sharply in 2022

Edgard Navarrete, Regional Economist

New home construction in Ontario continued a modest range-bound trend through April but slipped for a second straight month. Urban-area housing starts fell to an annualized rate of 78.900 units during the month marking a 6.7 per cent decline from March. This was in line with the Q1 pace but lower than levels observed through most of 2021.

The latest decline reflected a 10 per cent pullback in multi-family starts to 52.400 units as developers broke ground on fewer apartment units, which was only partly offset by an increase in townhome starts. Single-family activity held steady at 26.5k units. Among metro areas, Toronto led the pullback with a 38 per cent drop to an annualized 24.600 starts alongside a 40 per cent decline in Kitchener-Waterloo-Cambridge to 2.4700. In contrast, starts more than doubled in markets like Hamilton, St. Catharines- Niagara, and Brantford.

While starts are often volatile on a month-to-month basis, the trend has softened. Through the first four months of 2022, starts fell 18 per cent from same-period 2021 with similar declines for both detached and multi-family units. Toronto starts fell a mild four per cent, while steeper declines were recorded in Hamilton (-31 per cent), Guelph (-69 per cent), Kingston (-85 per cent) and Kitchener Cambridge-Waterloo (-62 per cent). Brighter spots included Barrie (+70 per cent) and St. Catharines-Niagara (+10 per cent). This remains a very strong start to the year and consistent with levels in 2016/17. That said, sharp rollbacks in various markets suggest a combination of capacity constraints to building and a retrenchment to more normal levels of activity after a pandemic surge last year.

Going forward, we anticipate housing starts to remain range-bound this year and reach 85,000 annual units. While demand for new housing remains strong due to high immigration, government policies to stoke construction and a shortage of resale supply, the combination of higher interest rates and a resale market slowdown is expected to slow the pace of construction through 2023.

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