Economics | Current Economic Trends

Ontario Economic Briefing

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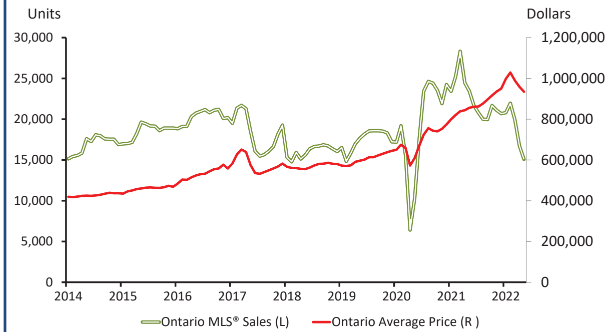
central 1 Economics

Highlights

- Average home valuations are down 14 per cent from the market peak in February 2022
- New housing starts up 13.3 per cent in May
- Sales of durable goods up 2.4 per cent m/m offsetting weaker non-durable good sales

Home sales fell 9.9 per cent in May while average price down a further 2.5 per cent



Source: CREA, Central 1 Latest: May-22

May's sales-to-new-listings-ratio in Ontario is at the lowest it has been in five years

Edgard Navarrete, Regional Economist

Another month of data is out and the story remains the same: the Ontario housing market continues to deflate as increased borrowing costs, higher cost of living, and increased economic uncertainty keeps many buyers on the sidelines. Similarly, potential sellers remain unable to secure a sale unless they adapt expectations to current market conditions and align asking prices accordingly.

The Ontario resale homes market continues to rebalance with the sales-to-new-listings-ratio SNLR coming in at 49.7 per cent in May, dropping from 55.6 per cent in April, and down from 81.3 per cent a year ago as sales growth declines and new listings growth slows. Moreover, the SNLR in May is the lowest the market has seen in the past five years; a real sign of how sensitive the market is to the shock of increased borrowing costs. The sensitivity is partly due to a psychological response and also in part to price levels. Currently, the price levels are quite elevated and increased borrowing costs makes the calculus of purchasing a home less attractive for some buyers. Not surprisingly, as the market continues to cool, power is quickly shifting to buyers. The average months of supply continues to climb in Ontario, reaching 1.9 months in May up from 1.6 months in April. The average months of supply in May is the highest seen since May 2020, a span of 25 months.

In May, the ongoing rebalancing in the market resulted from a 9.9 per cent m/m drop in sales (down 35.6 per cent y/y) and nearly no change in new listings as they only moved up 0.8 per cent m/m (up 5.4 per cent y/y).

A cooling market with more negotiating power swinging towards buyers means price growth continues to decline as buyers close purchases below or at asking price. Pressure on home price growth is also coming from compositional effects. The condo market is becoming ever tighter as people in the market for a home want to hedge against risk and not overextend themselves on a purchase, instead focusing on high-density housing such as condo apartments and away from low-rise housing that, despite the recent decline in prices, still have some relatively elevated asking prices. In May, the average sale price fell an additional 2.5 per cent m/m to $934.855 (up 9.2 per cent y/y). Currently, from the peak of the market in February where home valuations were up 52.5 per cent from February 2020, home valuations are still up 38.5 per cent in May but have given back 14 per cent of this valuation over the last three months. It is very possible with ongoing increases to borrowing costs as the Bank of Canada tightens monetary policy, home valuations from pre-pandemic levels will continue to decline.

The ongoing moderation in the market, particularly on sales, was broad-based as 35 of 44 real estate boards posted weaker m/m sales in May with several boards in large markets including Ottawa (down 11.1 per cent m/m) posting robust double-digit declines. May's decline in sales ranged from 3.2 per cent in Cambridge to as high as 30.9 per cent in Renfrew.

The Canadian Real Estate Association (CREA) releases a monthly constant quality housing price index (HPI) for seven Ontario real estate boards. The moderation in the HPIs we saw in April across these seven boards continued into May. Oakville-Milton (down 3.0 per cent m/m) and Guelph (down 3.3 per cent m/m) posted the steepest slide while Ottawa (down 0.6 per cent m/m) and Niagara Region (down 0.6 per cent m/m) saw some decline but not as severe as those two previously mentioned markets. Toronto posted a 1.1 per cent relatively moderate reduction in the HPI in May.

The resale market in Ontario is in correction mode and has yet to reach bottom. That will likely happen once inflation gets closer to the neutral rate (between two and three per cent).

Increased new home construction in urban areas lifts total starts

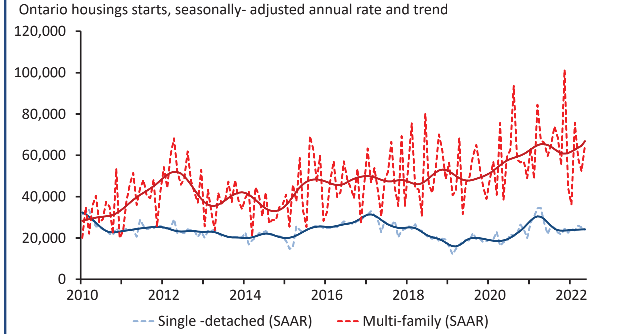
Bryan Yu, Chief Economist

Ontario housing starts held range-bound in May with urban area starts up 14.7 per cent to an annualized pace of 88.7k units compared to 77.4k in April. Urban areas led May's growth with total provincial starts up 13.3 per cent including rural markets.

May's increase reflected a pick-up in multi-family starts to an annualized 64.7k units (+23.7 per cent) as single-family starts edged lower. That said, housing starts generally fluctuate in an elevated pattern. While up from April, not all markets posted construction gains during the month. Toronto drove net increases among urban areas with a 60 per cent increase on the month to an annualized 39.5k units after an April lull. London also contributed to the increase with starts more than doubling to an annualized 5.9k units. In contrast, starts fell across most urban areas with notable declines in the census metropolitan areas (CMAs) of Hamilton (-71 per cent to 1,676 annualized units) and St. Catharines-Niagara (-42 per cent to 3,368 units), albeit after strong prior month increases. Starts fell 28 per cent in Ottawa to 8,384 units, 34 per cent in Windsor and 72 per cent in Barrie.

Year-to-date, housing starts fell 15 per cent through May with declines in both detached (-18 per cent) and multi- family starts (-14 per cent). This follows record high housing starts in 2021. The rapid declines in single-detached oriented markets could reflect the pinch from increased interest rates. Apartment condominiums are planned well in advance and largely pre-sold meaning current market weakness is unlikely to be a source of the drag.

Ontario starts bounce higher in May to maintain range-bound pace



Source: CMHC, Central 1 Latest: May-22

Like the monthly picture, year-to-date starts by region has been mixed. Toronto was largely unchanged with a one per cent gain whereas St. Catharines-Niagara jumped by eight per cent. In contrast, declines were widespread, including Guelph (-64 per cent), Kitchener-Cambridge-Waterloo (-62 per cent), Ottawa (-22 per cent), and Windsor (-15 per cent). Going forward, higher interest rates and significant slowdown in the resale housing market are anticipated to constrain new home starts. However, elevated immigration will continue to underpin demand for new construction.

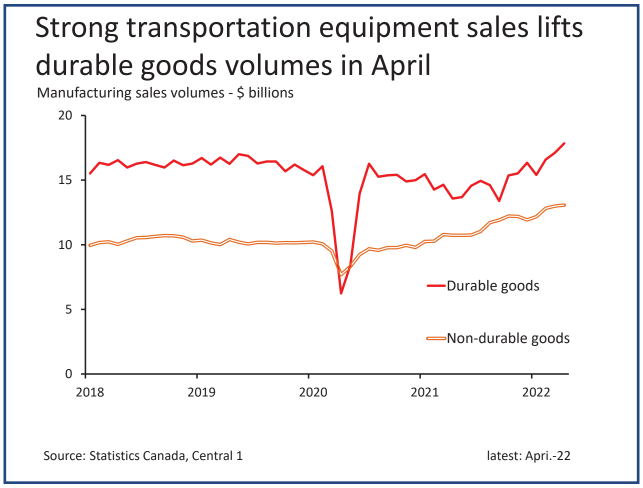
Sales of transportation equipment increased 5.0 per cent in April helping to lift total sales by 1.1 per cent

Edgard Navarrete, Regional Economist

Ontario manufacturing sales volumes continued to climb in April as sales increased an additional 1.1 per cent m/m to $30.9 billion, marking the third consecutive month that sales have climbed. With the sales posted in April, volumes are now up 18.5 per cent from total sales posted prior to the pandemic in February 2020. The ongoing rebound in sales volumes is due in part to an economy supported by fewer public health restrictions and consumers returning to normal life, as well as inflationary pressures lifting sales prices very rapidly m/m and y/y.

The lift in April sales came from durable goods (up 2.4 per cent m/m) while non-durable sales slid by 0.5 per cent m/m.

The slide in non-durable good sales came from weaker sales of beverages/tobacco (down 3.4 per cent m/m), petroleum and coal products (down 4.4 per cent m/m) and chemicals (down 2.2 per cent m/m), partially offset by gains to food sales (up 1.6 per cent m/m) and plastics and rubber products (up 2.7 per cent m/m).



Durable sales increased in large by higher sales of fabricated metal products (up 3.8 per cent m/m), transportation equipment (up 5.0 per cent m/m) and computer and electronic products (up 4.9 per cent m/m). Sales of machinery fell 1.0 per cent m/m.

Compared to a year ago, total manufactured good sales remained 18.6 per cent higher than the same time last year with durables (up 16.4 per cent) and non-durables (up 21.7 per cent) rising considerably.

At the census metropolitan area level, sales fell in April in both Hamilton (down 7.1 per cent m/m) and Ottawa (down 9.8 per cent m/m) while sales in Toronto increased 2.2 per cent, up for the third consecutive month and offsetting big losses in those two previously mentioned metro areas. Excluding the three metro areas, sales in the rest of Ontario climbed 2.1 per cent in April, a faster clip than the province.

Inflationary pressures being passed onto clients will likely pad the numbers going forward until inflation is controlled, giving an overestimated sense of manufacturing sales volume trend.

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