Economics | Current Economic Trends

Ontario Economic Briefing

Volume 28 • Issue 28 • Week of July 11 - July 15 2022 | ISSN: 1981-355

central 1
Economics

Highlights

- Average pre-pandemic home valuations in Ontario have fallen from a February peak of 50.8 per cent to 31.5 per cent in June
- Manufacturing sales volumes down in May by 5.3 per cent
- Very strong household consumption and business investment helped lift real GDP growth in Ontario in the first quarter of 2022

Months of supply continue to climb in Ontario as more potential homebuyers stay away

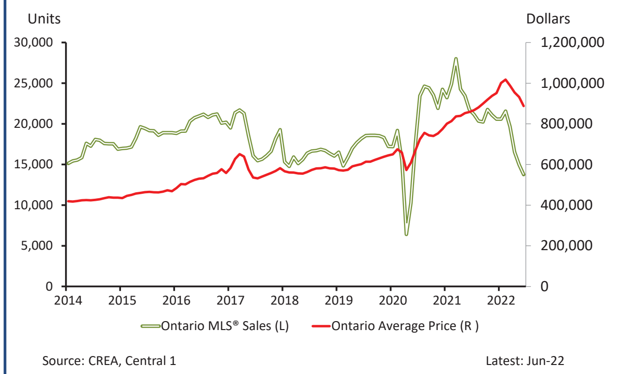
Edgard Navarrete, Regional Economist

Ontario resale home sales and average price continued to slide unsurprisingly as buyers stepped away in larger numbers due to increased borrowing costs. Sales and average price fell 8.1 per cent m/m and 4.8 per cent m/m respectively. This marked the fourth consecutive month that both sales and average price have fallen since the Bank of Canada started raising interest rates to try and quell inflation.

Despite the ongoing slide in the price of a home in Ontario to its current $887,658 average, pandemic-era gains remain robust. Compared to the average price from February 2020, the current average price is 31.5 per cent or $212,751 dollars higher. Because the current correction cycle started at the peak of home valuations in February when homes were 50.8 per cent higher than pre-pandemic levels, homes have lost a substantial amount of pandemic-era gains and will likely continue to lose more gains as the Bank of Canada seriously pursues tighter monetary policy.

While both sales and average price are heading lower, new listings are moving in the opposite direction. In June, new listings climbed 1.4 per cent and have now been trending up for two consecutive months. With that, the current months of supply in the market has also climbed up further and stands at 2.3 months in June, up from 2.0 months in May. Moreover, current months of supply are back up to June 2019 levels.

Months of supply up to 2.3 as market continues to cool considerably



New listings are likely rising as some sellers are starting to face difficulties from increased monthly carrying costs, especially if they selected a variable mortgage rate as many buyers did during this run-up in activity and would rather try to offload a home, even with some losses incurred. The increased listings could also signal a return to the large urban markets. During the pandemic, many households either left the province or relocated to smaller markets. As some employers are mandating workers back to their workspaces on a full-time or regular basis, many may be trying to return to urban dwelling to avoid regular and lengthy commutes.

The sales-to-new-listings-ratio (SNLR), a rough metric to quantify demand and supply in the market, also continues to slide. In June, the SNLR was 44.6 per cent down from 49.2 per cent in May. In stark comparison, January's SNLR was 87.8 per cent — since then the market has cooled considerably as sales and new listings rebalance. The market is currently still in a balanced state, but with monetary policy expected to cool the market further, it is not beyond possible that Ontario's housing market could become a buyers' market before the year is over.

Over the first six months of 2022, sales and new listings are down 26.5 per cent and 2.1 per cent respectively compared to the same period last year. The average home price remained 16.5 per cent ahead of last year's pace.

The correction underway is largely province wide. Of the 44 real estate boards in Ontario, June sales fell in 40 of them with many posting strong double-digit sales contractions. Sales in the Greater Toronto Area are also down, but by single digits. The call to return to workspaces by employers is likely insulating this region from the strong double-digit dip seen elsewhere in the province. By comparison, Ottawa saw a 14.9 per cent drop in sales in June compared to Toronto's 4.7 per cent drop. London and Hamilton saw sales fall 16.7 per cent and 15.5 per cent respectively.

The Canadian Real Estate Association (CREA) releases a monthly constant quality housing price index for seven of Ontario's real estate boards. In June, the HPI for all these boards continued to slide. Barrie (down 3.5 per cent), Oakville-Milton (down 3.9 per cent), Hamilton-Burlington (down 3.6 per cent), and Niagara Region (down 4.0 per cent) all posted strong losses in values. Ottawa (down 0.6 per cent) and Toronto (down 2.0 per cent) had weaker contractions.

Weaker sales of transportation equipment drag durable goods sales volumes down

Edgard Navarrete, Regional Economist

Manufacturing sales numbers were released this week and sales in Ontario fell 5.3 per cent in May, putting an end to three consecutive months of growth. Total sales slipped to $29.9 billion as sales of durable goods contracted significantly (down 9.2 per cent) while sales of non-durable goods remained flat, moving up only 0.1 per cent m/m in May.

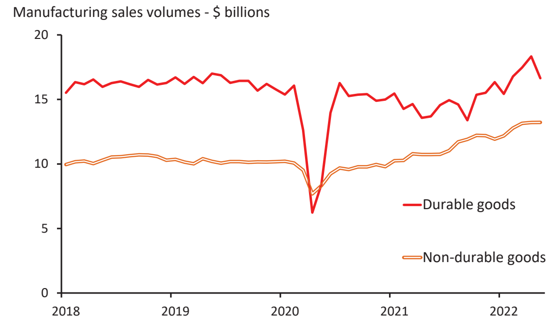
Sales of manufactured food (up 1.7 per cent m/m), petroleum and coal products (up 4.6 per cent m/m), and beverage and tobacco (up 3.8 per cent m/m) helped offset weaker sales of chemicals (down 1.2 per cent m/m), plastics and rubber products (down 6.6 per cent m/m) and paper (down 3.2 per cent m/m) to keep non-durable goods sales flat.

High energy prices are likely helping lift petroleum and coal products along with stronger demand for these goods, while food manufacturing sales are also going up due to inflationary costs being passed on to consumers.

Sales of non-durable goods were weighted down by weaker sales, largely transportation equipment (down 20.8 per cent m/m), non-metallic mineral products (down 12.5 per cent m/m) and wood products (down 0.9 per cent m/m).

Ontario's auto production in May was impacted by a plant shutdown, along with the global semiconductor shortages. Weaker wood product sales likely points to a weakening of residential investments as new home construction slows down.

Sales of durable goods fall sharply in Ontario



Source: Statistics Canada, Central 1

latest: May-22

Year-to-date, manufacturing sales are up 19.9 per cent with durable goods and non-durable goods sales up 18.2 per cent and 22.3 per cent respectively.

At the census metro area level, manufacturing sales in May fell in Toronto (down 3.9 per cent) but increased in Hamilton (up 4.8 per cent) and Ottawa (up 3.0 per cent). In the rest of Ontario excluding these three metro areas, manufacturing sales fell 7.9 per cent.

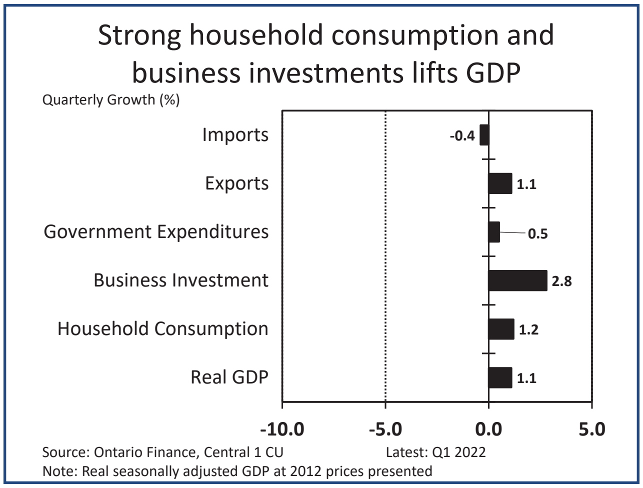
Ontario real seasonally adjusted GDP growth climbed 1.1 per cent q/q

Edgard Navarrete, Regional Economist

Ontario's economy continued to expand in the first quarter of 2022, albeit at a slower rate of growth than the final quarter of 2021. This was due to increased public health restrictions coming into the early part of 2022 and ongoing supply chain issues affecting production. In the first quarter, real seasonally adjusted annualized GDP moved up 4.7 per cent (q/q 1.1 per cent) after the economy expanded by 6.1 per cent (q/q 1.5 per cent) over the final three months of 2021.

Growth in the first quarter came largely from substantially stronger household consumption (up 1.2 per cent q/q) and business investments (up 2.8 per cent q/q) which offset a drop in imports (down 0.4 per cent q/q) and a slower rate of growth of exports (up 1.1 per cent q/q). Investments in inventories was also quite muted in the quarter (up 0.2 per cent q/q).

Household spending was lifted significantly by increased spending in the goods sectors in the first quarter 2022 after all sub-areas of the goods sector posting lower spending over the last three months of 2021. Specifically, durable goods moved up 4.7 per cent q/q, semi-durable sales increased 2.4 per cent q/q and non-durables increased 0.3 per cent q/q. The rate of growth of service expenditures decelerated in the second quarter after moving up 0.7 per cent q/q in the first quarter and 1.0 per cent growth q/q in the fourth quarter of 2022. Increased costs passed onto consumers supported gains in these areas.



The rate of growth for business investments intensified in the first quarter on strong residential (up 4.0 per cent q/q) and non-residential investments (up 3.3 per cent q/q), offsetting nearly unchanged machinery and equipment expenditures (up 0.1 per cent q/q) while investments in intellectual property products (down 0.6 per cent q/q) declined. Strong housing demand and low mortgage rates continued to drive investments in residential units. A boost in industrial projects continued to drive growth in non-residential investments.

International exports rose 0.6 per cent q/q, while international imports declined 0.7 per cent q/q. Interprovincial exports (up 2.0 per cent q/q) and imports (up 0.5 per cent q/q) both increased in the quarter.

Looking ahead, inflationary pressures on goods and services and the Bank of Canada starting to raise their trend-setting policy rate will dampen consumer and business expenditures as more individuals tighten belts and eschew non-necessary expenditures.

For more information, contact economics@central1.com.