Economics | Current Economic Trends

Ontario Economic Briefing

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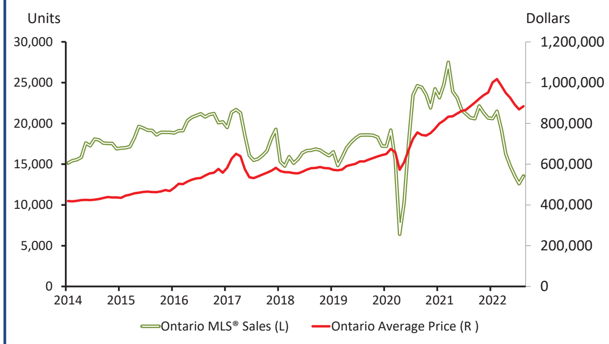
Economics

Highlights

- Average home sales and price rebound in August
- Ontario manufacturing sales reported another monthly gain in July, led by durable goods' growth
- Housing starts grew in August, with diverse results among CMAs

August market activity puts an end to several months of decline



Source: CREA, Central 1 Latest: Aug-22

Sales up 7.6 per cent m/m in August putting an end to a five-month skid

Edgard Navarrete, Regional Economist

The Canadian Real Estate Association (CREA) released new resale homes market data this week. Home sales and average price rebounded in August moving up 7.6 per cent and 1.8 per cent m/m respectively. This put an end to five consecutive months of sliding home sales and average price growth.

While price and sales moved up, new listings continued to slide, moving down 4.5 per cent m/m in August, adding to the 2.9 per cent m/m fall in July.

With increased sales and less inventory in the way of new listings, the sales-to-new-listings-ratio moved up in August to 48.2 per cent, up from 42.8 per cent in July. Despite the slight retightening of the market, the SNLR remained well within a balanced market. A balanced market is usually marked by an SNLR within 40 to 60 per cent. Stronger sales cut down the months of supply from 2.7 months in July to 2.4 months in August. With the new data in August, months of supply fell for the first time in seven months.

Year-to-date, sales remained 29.0 per cent lower than the same period last year while new listings and average price remained 0.5 per cent and 13.0 per cent, respectively, ahead of last year's pace.

Compared to the peak of the pandemic era market reached in February 2022, average home values are down 13.1 per cent in August to $884,296 (down from $1,017,869). Current homeowners have lost some "on paper value" but average valuations remain up 31.0 per cent from pre-pandemic levels in February 2020.

Of the 44 real estate boards surveyed monthly by CREA, home sales increased in nearly 71 per cent of them. Interestingly, large urban markets[1] recorded the most increased sales in August. Large urban markets accounted for over 81 per cent of the increased sales in August over July. This could suggest that with many workers being recalled back to work, many people who moved out of large urban areas are now trying to return. Increased gasoline prices are also likely a reason people are flocking back to large urban areas to minimize long commutes. To some extent, immigration is also a potential driver for increased sales in large urban markets. Immigrants with the monetary means may be coming into Ontario and taking advantage of lower housing prices and, if they can put down sufficiently large down payments, be immune to the increased mortgage rates.

The housing price index (HPI) in the seven real estate boards surveyed in Ontario continued to trend down now for the fifth consecutive month. The largest HPI declines occurred in Guelph (down 3.0 per cent m/m), Niagara region (down 2.5 per cent m/m), and Barrie (down 2.8 per cent m/m). Many of these markets are ex-suburban markets of the Greater Toronto Area (GTA). Again, now that people are being recalled back to work in the big city, demand for housing in these areas is liking waning.

1 These markets include: Hamilton-Burlington, KW, London-St. Thomas, Ottawa, Greater Toronto, Durham region, Mississauga, and York Region

The move up in sales and average price growth in August could be the start of a new trend or a blip as few buyers that were waiting in the sidelines decide to jump into home ownership to take advantage of more buyer-friendly conditions, higher mortgage rates notwithstanding. If the Bank of Canada continues to raise its policy rate though, as they have recently signaled, then this one month of activity may in fact be a blip rather than the start of a new trend. Higher borrowing costs will scare many potential buyers back to the sidelines once again.

Transportation equipment sector's rebound boosted Ontario manufacturing sector in July

Bryan Yu, Chief Economist

Ontario's manufacturing sector eked out another gain in July driven by further rebound in the transportation equipment sector. Factory sales rose 0.2 per cent from June to nearly $31 billion. This marked a second straight increase and the eighth monthly gain in ten months which contributed to a robust gain of about 19 per cent over the latest twelve months and as compared to February 2020.

Transportation goods sector support manufacturing sales in August

Source: Statistics Canada, Central 1, seasonally- adjusted Latest: Jul/22

July's increase was led by durable goods which rose nearly 0.3 per cent from June. While data is unavailable for a swath of industry sub-sectors, growth was entirely driven by higher production of transportation equipment. Vehicle manufacturing rose two per cent from June while parts manufacturing rose 11 per cent, which could reflect easing supply chains and recovery in production. Overall, transportation equipment sales jumped over $300 million from June, nearly five times the net manufacturing increase of $63 million.

The concentration of growth in a single sector masked broad weakness among other sectors. Specifically, coal and petroleum sales fell 4.6 per cent or $138.8 million, while metals and minerals products also contracted sharply. Furniture and related goods plunged 20 per cent or $150 million but marked a retracement after a sharp increase in June.

We anticipate manufacturing growth to slow through the second half. While easing supply chain challenges are helpful to sectors such as auto-related production, weakening economic conditions in the U.S., the housing market recession and delayed impact of interest rate hikes on the consumer economy is likely to curb activity.

Housing starts spiked in August with growth in both single-detached and multi-family sectors

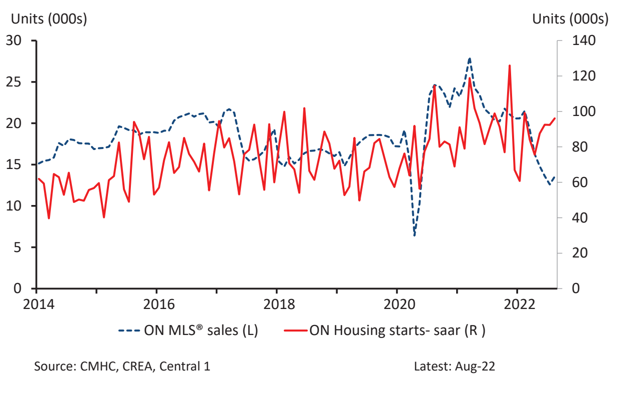
Ivy Ruan, Economic Analyst

Ontario reported robust gain in housing starts in August, with a seasonally-adjusted annualized pace of 96,092 units, up from 92,407 units (4.0 per cent) recorded in July.

Both new single-detached and multi-family homes in Ontario contributed to August's spike. Multi-family construction increased 3.3 per cent to an annualized 73,110 units following last month's decline. Detached units rose 6.3 per cent to 22,982 units. Among Ontario's Census Metropolitan Areas (CMA), starts activity was mixed. Toronto retrieved last month's loss and rose 31.7 per cent to 51,889 annualized starts. The large gain in Toronto offset the losses reported among other CMAs, such as 28.8 per cent decrease in Ottawa (annualized 14,852 units), 41.6 per cent decline in London, and 20.4 per cent loss in Hamilton (1,836 units).

Year-to-date, urban-area starts reached 55,972 units through the first eight months, continuing to narrow the year-over-year decline to 8.0 per cent following a robust 2021. Single-detached starts fell 15 per cent while multi-family starts were down 5 per cent. Year-to-date results varied among CMAs. Brantford saw large year-over-year increases in both single-detached starts (72 per cent) and multi-family starts (51 per cent), while Hamilton reported losses in both sectors (-6 per cent; -46 per cent). Toronto had an overall increase (4 per cent) in housing starts compared to last year thanks to its strong performance in the multi-family sector (8 per cent). However, Toronto's detached sector reported 14 per cent fewer starts from last year.

Housing starts spiked in August



Different results on housing starts reported among central areas suggested mixed impacts of housing downturn on local markets but likely reflects prior market conditions. In bigger markets like Toronto CMA, housing starts would remain steady, especially large multi-family constructions because long-term building projects could benefit from future market recovery. Strong population growth and migration to larger cities can also be supportive.

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