Economics | Current Economic Trends

Ontario Economic Briefing

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Highlights

- Average home prices are down 15.5 per cent since the market peak in February 2022
- Sales dip in July on weaker non-durable goods

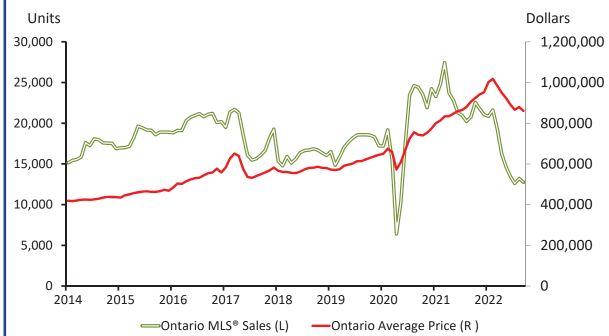
Market cools again after a one-month blip in activity in August

Edgard Navarrete, Regional Economist

After a one-month blip in August that saw prices and sales move up, the market reverted back to its longer-term trend in September. According to the latest data from the Canadian Real Estate Association (CREA) for September, sales fell 3.5 per cent m/m and the average home price fell 2.2 per cent m/m to $860,527. With September data now in the books, the average home value in Ontario has fallen 15.5 per cent since the peak of this market in February 2022 but still remains up 27.5 per cent from pre-pandemic activity in February 2020. Long-term homeowners are still ahead in the grand scheme of things, but more recent buyers are losing equity and some are at risk of being underwater with their mortgages, especially if they purchased closer to the peak and overpaid for a home.

With the market continuing to cool, new listings have also continued to trend down. In September, new listings fell 2.6 per cent m/m and this marked the third consecutive month that new listings have fallen. With fewer buyers and lower bids due to smaller budgets impacted by interest rates, home sellers are opting to either not list or de-list their home in order to list on the hot rental market instead. With the prospect of buying a long shot for many, especially younger households, and the draw back to work in large urban areas, many people are scrambling to rent — helping homeowners ride out this correction by renting their homes out rather than selling at a loss or below their expectations.

Market reverts back to longer term trend in September, prices and sales both down



Source: CREA, Central 1 Latest: Sep-22

With sales falling at a faster clip than new listings, the SNLR was only slightly changed inching down to 46.3 per cent in September down from 46.7 in August. With that, the market remains in the lower part of a balanced market. Further hikes to the Bank of Canada policy rate and slowing down of the labour market and wage growth is a risk for the market to fall to a buyers' market later this year and into 2023.

Year-to-date, home sales in Ontario are down 28.4 per cent while new listings and average home price remained one per cent and 13.1 per cent of last year's paces respectively.

Of the 44 real estate boards in Ontario, sales fell in nearly half (21 of 44 real estate boards) in September. Fewer sales in the Greater Toronto Area and a few other large boards in southern Ontario pulled down the overall sales tally in Ontario. Not surprising, many of these large markets where sales fell in September are some of the most expensive regions to buy in, and with buyers backing away at this time due to affordability concerns, sales have suffered.

Each month CREA releases housing price indices (HPIs), in Ontario HPIs are released for seven boards. In September, the HPIs continued to fall in all but two of the seven boards: Ottawa (up 0.6 per cent m/m) and Oakville-Milton (up 1.3 per cent m/m). The largest m/m dips were reported in Barrie (down 2.7 per cent m/m), Niagara region (down 2.5 per cent m/m), and Hamilton-Burlington (down 2.1 per cent m/m). The HPI in Toronto fell 1.0 per cent m/m.

Despite the continued decline in the HPIs, the rate of decline is slowing down and could be due to compositional effects. Low-rise home demand has waned, but condo apartment activity has increased substantially and intense competition in this segment by end users and investors is partially lifting the overall HPIs.

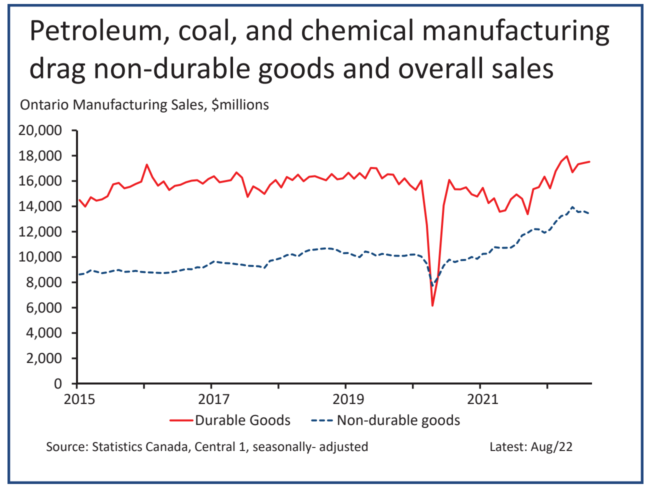
The Bank of Canada is expected to continue to raise its policy rate until inflation is brought back under control and this will continue to act as a break on the existing homes market for some time, likely well into 2023. Moreover, with increased economic uncertainty in the air, a slowdown in the labour market could dampen homebuying activity further as people focus on essential purchases and avoid big-ticket items such as homes.

Petro and chemical sales drag non-durable sales, autos and transportation down too

Alan Chow, Business Economist

Manufacturing sales slowed slightly in the month of August, down 0.3 per cent to just under $31 billion representing the first decline in two months. Sales of non-durable goods lagged, as they were down 1.4 per cent while durable goods were up 0.5 per cent.

The decline in non-durable goods was led by chemical manufacturing, down 6.2 per cent followed by petroleum and coal products, down 3.9 per cent. Ontario did see strong growth in sales of food manufacturing, which was up 1.6 per cent as well as beverage and tobacco products, up 11.9 per cent.



On the durable goods side, strong growth was seen in machinery manufacturing, which was up 6.2 per cent followed by aerospace products, up 13.6 per cent. Transportation equipment, which is Ontario's largest sector, was relatively flat, falling a tiny 0.2 per cent. Motor vehicle sales also fell 1.8 per cent.

Overall, 9 out of the 22 sectors saw gains while the other 13 saw declines. Growth is expected to slowdown further in the coming months as the economy decelerates and inventory levels begin to rise from slower demand and excess supply from the recent ramp-up in production.

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