Economics | Current Economic Trends

Ontario Economic Briefing

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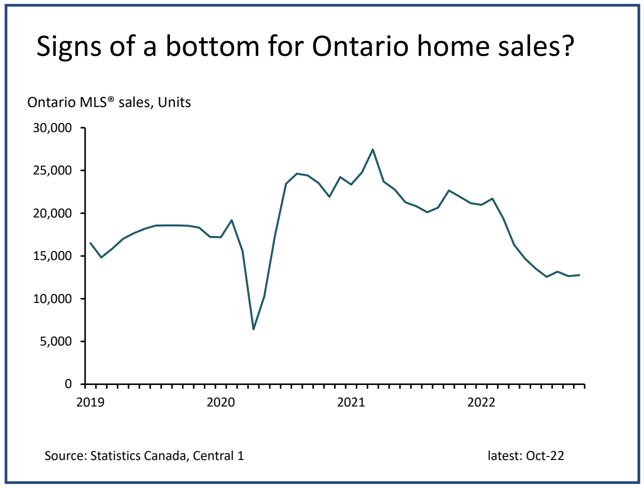
central 1 Economics

Highlights

- Home sales steady in October, average price declines 0.5 per cent
- Broad decline in housing starts
- Inflation pressure moderates, remains excessive



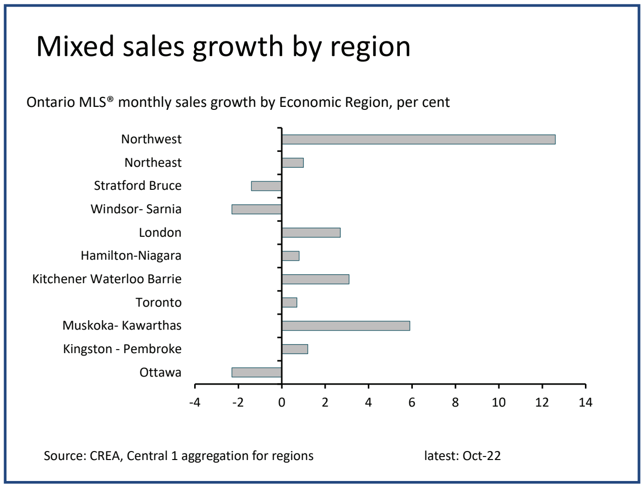
Ontario housing market shows modest sign of stabilization

Bryan Yu, Chief Economist

Ontario's housing market showed modest signs of stabilization in October but it too early to suggest a bottom in the sales cycle or home prices. According to the latest MLS® sales data reported by the Canadian Real Estate Association, Ontario sales rose 1 per cent in October to a seasonally-adjusted 12,765 units. Home sales have flip-flopped in recent months, albeit at 12,765 units, levels were 40 per cent below the pandemic peak and 33 per cent below pre-pandemic February 2020. Higher mortgage rates, particularly for variable rate products continue to price a large swath of buyers out of the market, but signs of a rate peak and steady fixed rates may be drawing some back in as prices ease and more housing choice becomes available.

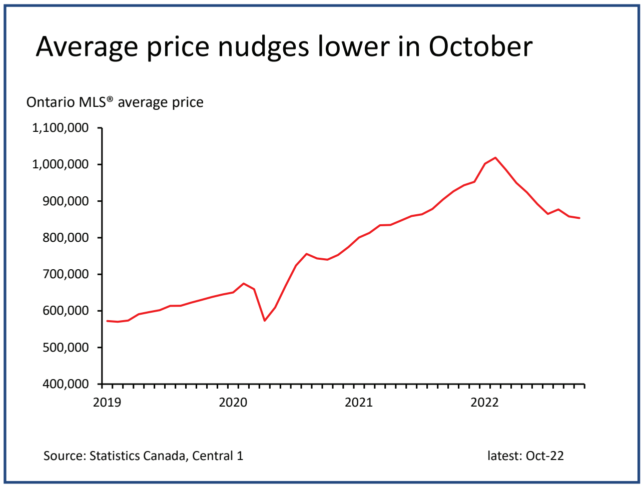
Based on Central 1's geographic aggregation of real estate boards, October's increase was relatively wide-spread within the province. Among economic regions, Toronto sales increased 0.7 per cent, while significant increases were observed in Muskoka-Kawarthas (5.9 per cent), Kitchener-Waterloo-Barrie (3.1 per cent), London (2.7 per cent) and the Northwest (12.6 per cent) regions. Ottawa and Windsor-Sarnia were the largest drags with sales down 2 per cent.

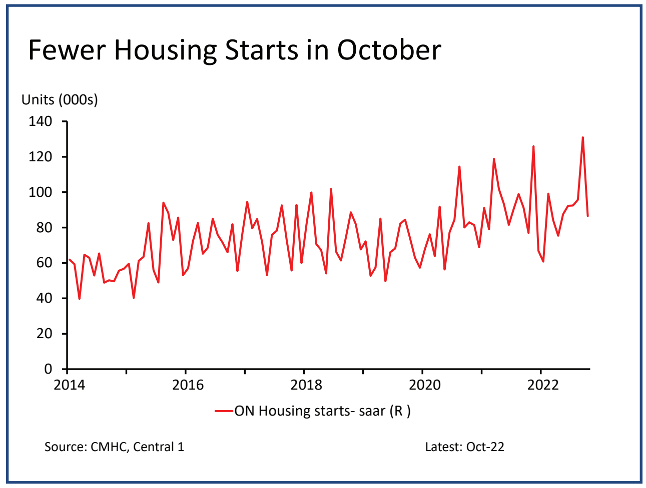
Despite the increase in sales, market conditions softened. New listings flow accelerated with a 3.5 per cent monthly increase led by Toronto and Ottawa. This lowered the sales-to-new listings ratio to 48.6 per cent. While the ratio is still in a range typically consistent with a balanced market, the sharp deterioration since the beginning of the year and declining prices means negotiating power has shifted to buyers. At the same time, this is not a flood of supply – higher existing inventories largely reflect homes remaining unsold for longer as many owners have opted to wait out the weak market conditions.



Home prices have continued to decline with another half per cent drop to $853,580 in October. The average price is down 16 per cent from peak, falling in most economic regions including Ottawa (-1.3 per cent), Kitchener-Waterloo-Barrie (-2.0 per cent), Windsor-Sarnia (-2.4 per cent) with Toronto relatively flat.

Housing composition is a factor in average price declines. Of 29 real estate boards covered by the constant-quality home price index, 22 reported month-to-month declines. This was led by declines of about 3 per cent in the Kawarthas, Windsor-Essex, Sault-Ste Marie, and Oakville-Milton. Double-digit declines over the past six months have been commonplace as has





affordability erosion and stabilization of remote work has sharply curbed demand in smaller urban markets.

The downward trend in home sales is likely coming to an end, although levels will remain weak given persistently higher mortgage rates and still elevated prices. While many sellers will try to wait out the downturn and are unwilling to reduce prices, we anticipate lower purchasing power to ultimately erode prices into 2023.

Multi-family and single-family housing starts both decline in October

Alan Chow, Business Economist

Housing starts in Ontario were sharply lower in the month of October, down 33.9 per cent compared to the month of September, which itself was sharply higher over August. The number of units started on a seasonally-adjusted annualized basis came in at 86,522 units, down from 130,964 units. This breaks a streak of five consecutive months of increased housing starts in Ontario.

As they say, what goes up must come down. The decrease in housing starts was a return to normal levels from multi-family units, which had 40.8 per cent fewer than the previous month. This is closer to the numbers seen in August after a 12 per cent drop in September. The number came in at a seasonally-adjusted annualized 63,890 units as compared to 107,919 units. Single-family units remain relatively stable, down a meager 0.1 per cent from 23,045 units to 22,632 units.

Within the metro areas, only five of the 16 metro areas saw higher housing starts. Toronto had 47.2 per cent fewer housing starts while Ottawa saw 40.9 per cent fewer starts. The metro areas with increased housing starts in October include Oshawa, up 172.7 per cent and Hamilton, up 107.7 per cent.

On a year-to-date basis, housing starts in Ontario are down 1.3 per cent with 74,576 starts compared to 75,523 starts from the year before. Multi-family units are up 3.4 per cent from 53,904 units to 55,711 units but single-detached units are dragging down the total. They are down to 18,865 units compared to 21,619 units. The story is similar in most of the metro regions. In Toronto, the numbers for total units year-to-date are up 6.6 per cent with higher starts coming from multi-family units (+10.4 per cent) but fewer single-family units (-12.0 per cent). Ottawa also saw 20.2 per cent more overall housing starts with 39.3 per cent more multi-family units compared to 18.9 per cent fewer single-detached units.

CPI inflation eases in October

Bryan Yu, Chief Economist

Ontario consumers saw mild inflation relief in October with headline growth in the consumer price inflation (CPI) slipping to 6.5 per cent from 6.7 per cent in September. In comparison, national inflation came in at 6.9 per cent.

While deviating from the national picture, Ontario's inflation patterns shared similar drivers. The price of gasoline was among the main drivers of elevated inflation with a monthly gain of 10 per cent to lift year-over-year growth to 13.3 per cent from 8.1 per cent in September. Fuel oil and natural gas price levels were sharply higher from a year ago. Excluding energy, inflation was more manageable but still high at 5.9 per cent.

According to the latest data, food prices moderated with a 0.3 per cent monthly decline while year-over-year gains moderated to 9.8 per cent from 10.4 per cent. Consumers saw a bit of relief in the price of meat, fruits and vegetables, although baked goods prices continued to soar. Shelter costs rose from the previous month but held steady year-over-year at 6.8 per cent. Rents continue to rise (up 5.6 per cent), while higher mortgage interest costs have offset the impact of lower home values and depreciation costs.

Consumers did see some relief in furniture prices, although levels were still 14.6 per cent above those a year ago. Clothing prices jumped 2.5 per cent m/m but were up only 1.1 per cent from a year ago. A weak Canadian dollar and return to social events may be boosting these prices. There was little change in health care costs with levels up 3.9 per cent from this time last year, while hotel costs fell in a normal seasonal pattern but remained 22 per cent above last year's level.

High inflation which is eroding real incomes remains a pain for consumers. Inflation is likely to decelerate in 2023, but households will continue to face the shock of higher prices and interest rates on their budgets.

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Inflations eases in October, energy a key driver