Economics | Current Economic Trends

Ontario Economic Briefing

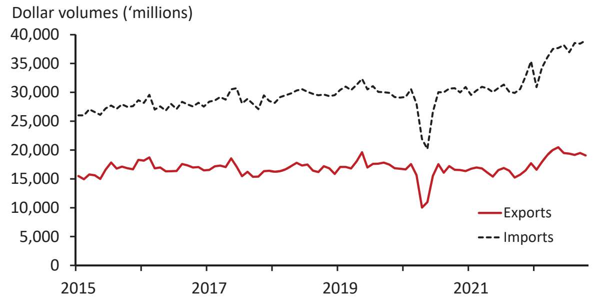
Volume 28 • Issue 49 • Week of December 5 - December 9 2022 | ISSN: 1981-355

central 1 Economics

Highlights

- Despite declines in both exports and imports, Ontario trade volume remained above 2021 level
- Ontario monthly building permits trends at slowest levels since mid-2020
- Weak home sales in GTA plus recent rate hikes will continue to grind home prices lower into 2023

Exports and imports both fell on seasonally adjusted basis in Ontario despite national gains



Source: Statistics Canada, Central 1 latest: Oct/22

Both exports and imports fell in Ontario despite national gains

Ivy Ruan, Economic Analyst

Canadian merchandise exports maintained positive momentum from September rising 1.5 per cent in October and widening trade surplus to $1.2 billion from $607 million last month. Our Ontario calculations pointed to a seasonally- adjusted monthly decline of 7.3 per cent however, while unadjusted sales rose 11.8 per cent year-over-year compared to September's modest 26.5 per cent increase. On an unadjusted basis, export sales were at $19.1 billion.

The latest monthly decrease in Ontario goods exports was led largely by the metallic and non-metallic mineral products sector which posted a 26.0 per cent decline in October following minimal losses in previous months. With that monthly dip, the exports of metallic and non-metallic mineral products dropped to 5.4 per cent below the level from last year to $3.2 billion. In addition, exports of motor vehicles and parts also posted a 13.4 per cent monthly decline on a seasonally-adjusted basis, following September's rebound. As the largest exports sector in Ontario, the motor vehicles and parts sector reported low year-over-year growth of only 5.5 per cent on a seasonally-unadjusted basis landing at $4.8 billion in October.

National imports were up 0.6 per cent in October from last month, and we calculated a 3.8 per cent drop from last month for Ontario on a seasonally-adjusted basis. October's total imports came in at $39.0 billion in Ontario, up 19.3 per cent compared to last year. Consumer goods continued to lead yearly growth in imports, reporting a 22.7 per cent year-over-year increase as inflation pressures also added to dollar volume growth, followed by large growth also seen in industrial machinery (up 20.0 per cent y/y) and motor vehicles and parts (up 16.5 per cent y/y). The basic/industrial chemical/plastic/rubber products sector posted a monthly decline in October at 11.2 per cent on a seasonally-adjusted basis, yet the sector's imports remained 4.9 per cent above last year's October level.

Slump in Ontario permits points to weaker construction activity ahead

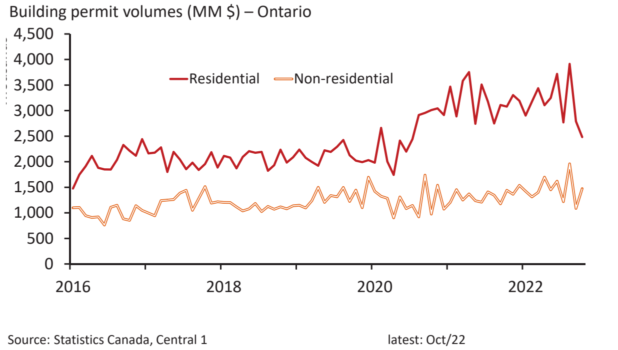
Bryan Yu, Chief Economist

After slamming on the brakes in September, Ontario building permit volume failed to rebound in October, signaling a pronounced slowdown in construction in coming quarters. Dollar-volume permits rose 2.1 per cent to a seasonally-adjusted $3.95 billion following a 34 per cent decline in September. While part of this reflects a giveback from mid-year strength, monthly permit volume has declined to the slowest since mid-2020. Residential permit declines were offset by non-residential permit growth.

With the recent pullback, building construction has evolved into a slow growth sector. Year-to-date, permits were up only 1.9 per cent through the first month and with rapid growth in construction costs, real volume was down 14 per cent over the period.

The housing market is showing signs of adjusting quickly to weak market conditions and higher mortgage rates. Residential retreated sharply for a second straight month with an 11.1 per cent pullback to a seasonally-adjusted $2.48 billion. Both detached and multi-family permits fell sharply. Year-to-date, permits fell 2.1 per cent (19.3 per cent in real terms). Both single- and multi-family starts fell by a similar amount. Weakness is likely to continue given the slowing housing market.

Residential permits roll back as housing downturn weighs



The non-residential construction sector is faring better. Activity rebounded from a September retrenchment with a 35.7 per cent increase to $1.47 billion, spread broadly across private and public sectors. A 12.1 per cent year-to-date increase has been driven by demand for industrial space which has been lifted by a stronger export economy, as office markets weaken. That said, a slowing economy could work to slow demand for new construction.

Among metro areas, total year-to-date permit growth was led by markets outside Toronto. Notable highlights included Windsor (up 57.5 per cent), Barrie (up 46.5 per cent), Belleville (up 48.9 per cent) and Guelph (up 29.5 per cent). In contrast, permits fell in Hamilton (down 13.6 per cent), and London (8.4 per cent).

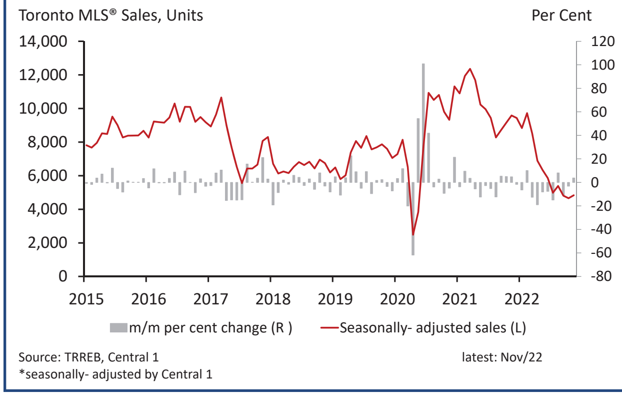
GTA home prices drop in November as sales steady

Bryan Yu, Chief Economist

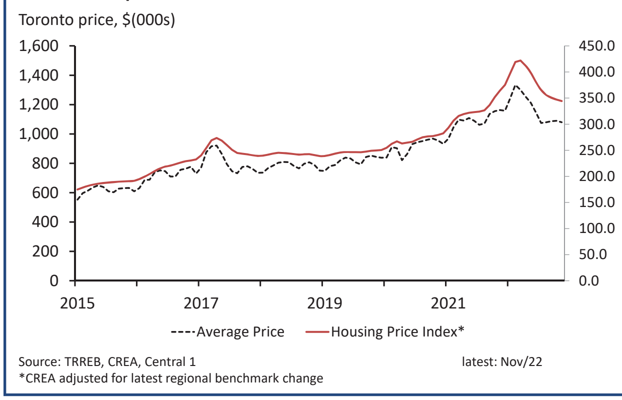
Toronto's housing sales downturn showed signs of bottoming out in November according to the latest statistics from the Toronto Regional Real Estate Board, but the price rout looks to have deepened amidst higher interest rates and weak buyer sentiment.

Greater Toronto home sales fell 49.6 per cent from a year ago to 4,544 units, a decline similar to the prior month. On a seasonally-adjusted basis, our calculation points to monthly sales that ticked higher from October but remained 40 per cent below pre-pandemic February 2020. Levels are the lowest levels observed since the Great Financial Crisis in 2018 and early pandemic days. Weaker sales flow reflects the sharp deterioration in affordability from higher mortgage rates. The Bank of Canada increased its policy rate by 50 basis points on October 26 which impacted November activity. This week's hike of 50 bps will only serve to further reduce short-term home sales. Concerns of a deeper economic contraction in early 2023 has further curbed buyer confidence.

Toronto area home sales show signs of bottoming, weakness persists



Average price steadies, benchmark price index falls 0.8 per cent in November



Price patterns were mixed but were generally negative. The average price fell about 1 per cent from October to $1.08 million, but is down sharply from peak by 20 per cent and 7.7 per cent year-over-year. Similar declines were observed in the quality-adjusted housing price index (HPI) which fell 0.8 per cent from October and 18 per cent from the early year peak. November's HPI decline was driven by apartment and townhome prices. That said, detached prices have led the peak-to-trough decline with a drop of 21 per cent, while townhomes (-17 per cent) and apartments (-13 per cent) contracted at a more moderate pace.

Weak sales and more recent rate hikes will continue to grind home prices lower into 2023. One silver lining leaning against a deeper price decline is housing supply. Many would-be sellers have delayed listings and opted to wait for better conditions, supported by a strong labour market and tight rental market that have limited panic sales. New listings continue to trend lower, while active listings remain lower than normal. Modest levels of supply should cushion some downside price risk. Moreover, population contributes to demand, although the key constraint is currently financing availability at prevailing prices.

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