Economics | Current Economic Trends

Ontario Economic Briefing

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Highlights

- Ontario home sales slip in November, price patterns mixed
- Gains in multi-family units led the rebound in provincial housing starts
- Manufacturing sales up in October on stronger non-durable goods

Housing sales hold weak range-bound trend, benchmark price deteriorates

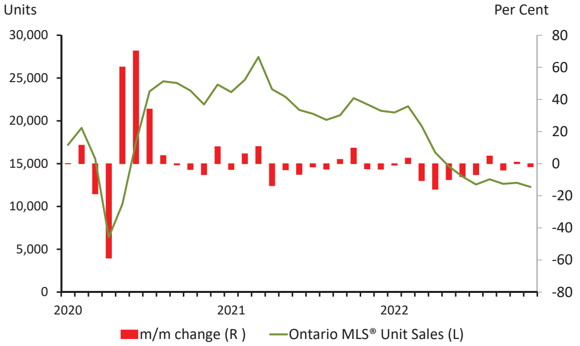
Bryan Yu, Chief Economist

Ontario home sales backtracked again in November but held its weak range-bound trend amidst elevated mortgage rates and low buyer confidence. MLS® sales in the province fell 1.9 per cent from November to a seasonally-adjusted 12,289 units with actual sales down about 44 per cent from a year ago. While this outsized decline partly reflects robust sales a year ago, levels are 36 per cent below pre-pandemic February 2020. Higher mortgage rates following Bank of Canada monetary policy tightening continues to push prospective buyers out of the market. In recent years, variable rate mortgages were increasingly popular given rock bottom levels but have climbed by 400 basis points this year.

Sales were mixed during the month. Sales in the larger markets of Greater Toronto (-2.4 per cent), Hamilton-Burlington (-2.0 per cent) and Kitchener-Waterloo (-3.9 per cent), were key contributors to the decline. That said, Ottawa (up 1.2 per cent) and Sudbury (up 14.3 per cent) were positive contributors to sales.

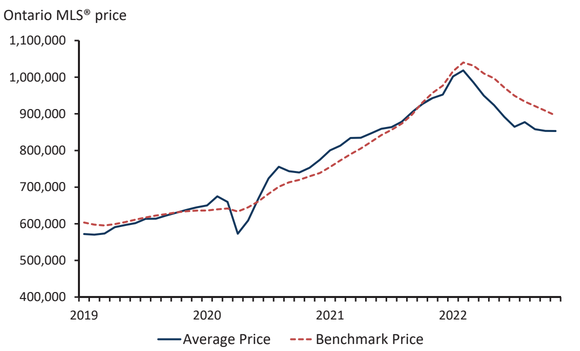
Year-to-date, Ontario sales have declined 31.9 per cent and was the steepest decline next to B.C. This reflects a higher sensitivity to higher interest rates due to higher debt and home values. Ontario's household debt-to-income ratio was second only to B.C. Lower year-to-date sales was nearly universal among real estate boards reflecting the erosion of affordability due to rates and a broad retracement after pandemic strength. Sales are down in almost all boards areas within a range of 20-50 per cent.

Ontario home sales hold range-bound through November



Source: CREA, Central 1 latest: Nov-22

Average price continues erodes but signs of stabilization



Source: CREA, Central 1 latest: Nov-22
Ontario benchmark is aggregate of select real estate boards

The average home value held steady, in part due to subdued supply in the market. New listings have not moved higher in the weaker sales environment as sellers have increasingly held off on listing properties in a down market. The average price was unchanged at $853,156 but still 16 per cent off the peak earlier this year. This is consistent with the MLS® quality-adjusted composite benchmark price. While down 1.4 per cent from October, levels were 14 per cent below peak. Ground-oriented home prices have declined most rapidly by 15 per cent, with apartments down 11 per cent. That said, prices are still 41 per cent higher.

Challenging housing market conditions are anticipated to continue through the first half of 2023. Sales remain constrained by interest rates and weaker economic growth, while home sellers remain stubborn in pricing although levels erode slowly. The combined effect of easing fixed rate mortgages through the course of the coming year, forecasted Bank of Canada rate cuts by early 2024 and robust population is expected to propel sales higher in the later stages of 2023.

Housing starts rebounded in November

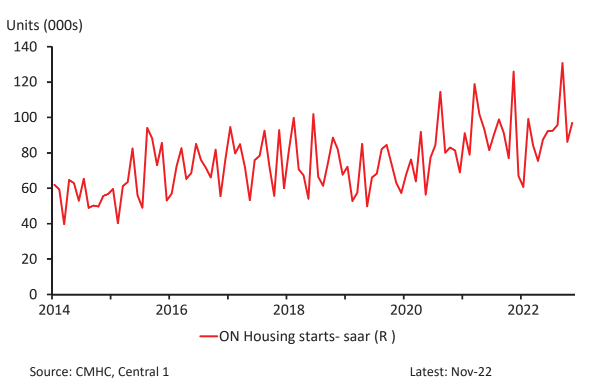
Ivy Ruan, Economic Analyst

Ontario housing starts turned higher in November, following October's sharp loss. Starts came in at a seasonally-adjusted annualized pace of 96,905 units, up 12.3 per cent from 86,264 units. This monthly rebound brought provincial housing starts to a level relatively comparable to the trailing 12-month average.

All of November's increase reflected gains from multi-family projects, offsetting the loss in single-detached units. Ontario multi-family units starts gained 17.3 per cent to 74,692 units. Single-detached units fell again following October's drop, but to a lesser extent at 1.6 per cent in November to 22,213 units.

Within the metro areas, eleven areas saw higher housing starts with the remainder seeing fewer housing starts. Toronto saw 19.8 per cent more housing starts to a seasonally-adjusted annualized pace of 41,530 units. Hamilton reported 1.5 times more starts than the previous month and Kitchener-Cambridge-Waterloo region also had 1.2 times more housing starts in November. Both regions recorded the highest reading of 2022.

Housing starts rebounded in November



On a year-to-date basis, housing starts in Ontario are down 4.0 per cent with 83,324 starts compared to 86,837 starts from the year before. Multi-family units were down 0.8 per cent from 62,952 units to 62,445 units while single-detached units dragged down the total (down to 20,879 units from 23,885 units). The story is similar in most of the metro regions. In Toronto, total units were down year-to-date by 0.6 per cent with higher starts coming from multi-family units, up 1.4 per cent contrasted by fewer single-family unit starts, down 10.8 per cent. Ottawa had 8.7 per cent more housing starts with 21.9 per cent more multi-family units but 20.4 per cent fewer single-detached units.

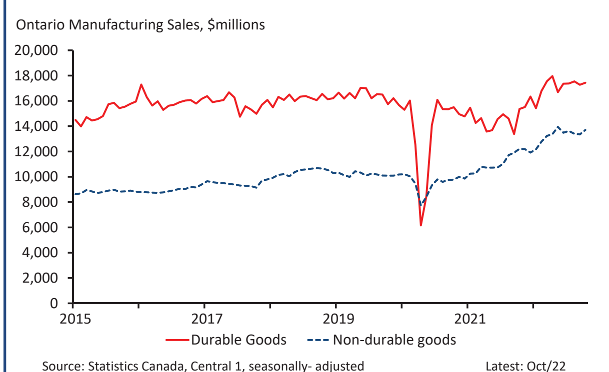
While housing start levels in the province remain strong, patterns reflect prior development plans and the long lead times of multi-family projects as detached units have retreated. Current market weakness will flow through lower condominium sales, future project starts and rentals. Higher interest rates make rental construction more challenging for developers.

Petro and chemical sales increase while autos and transportation down

Alan Chow, Business Economist

Manufacturing sales rose in October, reversing 3 consecutive months of declines. On a seasonally-adjusted basis, Ontario sales increased 1.7 per cent to $31.1 billion. Non-durable goods were up 2.7 per cent on strong sales in Petroleum and coal manufacturing as well as food manufacturing. Durable goods manufacturing sales were also up 0.9 per cent led by strength in machinery manufacturing and other miscellaneous manufacturing.

Both durable and non-durable goods up this month



Petroleum and coal products were up 11.9 per cent to 2.9 billion for the month, a stark reversal and almost erasing the 5 months of declines seen previously. Food manufacturing was also up 2.5 per cent to $4.6 billion, a new high for the month in the dollar volume of sales seen within the data presented. On the other hand, chemical manufacturing sales slipped 2.5 per cent in October. Plastic and rubber products manufacturing sales also decreased 0.9 per cent.

Machinery manufacturing increased 5.5 per cent in October over the previous month, a bounce back from the 4.3 per cent decline seen in September while miscellaneous manufacturing sales were up 15.7 per cent. Balancing out these gains was weakness in transportation equipment manufacturing sales, Ontario's largest manufacturing industry in terms of sales. It saw a 1.7 per cent decrease, its fourth consecutive month of declines.

Within the CMAs in Ontario, Ottawa-Gatineau region saw the highest increase in manufacturing sales, up 17.3 per cent. This was followed by Toronto, up 1.1 per cent. The remainder, on the other hand, recorded a decrease, with Hamilton experiencing a 0.4 per cent decrease, followed by Windsor (-1.2 per cent), and Kitchener-Waterloo-Cambridge (-11.9 per cent).

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