



## Highlights

- Home prices eroded further in December
- Small business confidence remained weak
- Trade volumes increase slightly in November
- Ontario's hiring gains were driven almost entirely by full-time employment in December
- Unemployment rate dropped to 5.3 per cent

## Greater Toronto home prices enter 2023 on a losing streak

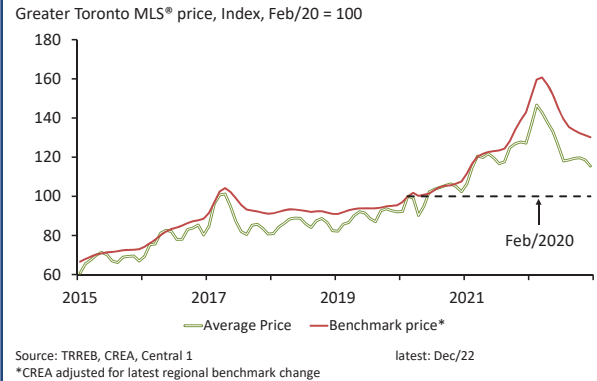
*Bryan Yu, Chief Economist*

Toronto's housing market dropped the ball in the handoff to 2023 as MLS® sales and prices further deteriorated in December. Based on data published by the Toronto Regional Real Estate Board, home sales reached a piddly 3,117 units. This was 48 per cent lower than a year ago, and the fewest same-month sales since December 2008. Notwithstanding the early pandemic freeze, seasonally-adjusted sales declined during the month and were the lowest since the great financial crisis in 2008.

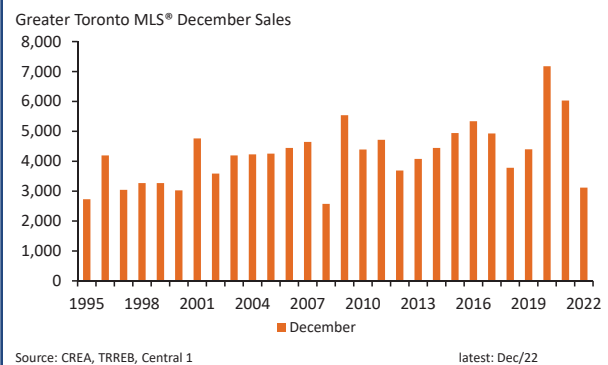
The frozen market reflects severe erosion in housing affordability. The surge in mortgage rates, particularly for variable rate products, has pushed prospective buyers out of the market. Declining home values have been insufficient to offset the rate impact on carrying costs. Average home prices were still about 20 per cent higher than pre-pandemic levels due to higher mortgage rates.

Market trends remain negative into 2023 with rising existing home inventory. However, this is largely due to a rise in stale listings rather than a wall of new listings flooding the market — new listings are trending below normal levels. A strong economy and recency bias of peak prices have kept sellers firm in their expectations. Nevertheless, with sales-to-active listings consistent with previous lows, further price erosion is likely as sellers adjust expectations lower and more listings come on during the spring.

## Home prices eroding quickly into 2023



## Home sales crater in Greater Toronto, weakest December since 2008



The average home price fell 2.6 per cent from November and are 20 per cent off peak highs. The composite price index, which adjusts for housing attributes, declined 0.8 per cent, consistent with November's drop and a ninth straight monthly decline. This marked a 19 per cent decline from the March peak, albeit up 31 per cent higher than February 2020. The sharpest peak-to-trough declines have been observed for detached units (-20 per cent), with townhome prices (-17 per cent) and apartments (-13 per cent) recording shallower declines. That said, ground-oriented units lead in comparison to pre-pandemic levels.

Transaction volume and prices are expected to remain weak through early 2023. Prices are forecast to deteriorate further in coming months marking a severe market contraction. That said, pain will be felt more acutely by recent buyers with lower down payments

who have seen equity wiped out, while long-time owners and move-up buyers will see this as evaporation of paper wealth. Stabilization in mortgage rates and expected declines later in the year, coupled with robust immigration flows, will propel home sales in 2024 onwards.

## Ontario business confidence remains weak in December but outpaces peers

*Bryan Yu, Chief Economist*

Small business confidence continued its stumbles in December according to the latest monthly Business Barometer results out of the Canadian Federation of Independent Business (CFIB). This is not surprising given the drum beat of recession calls, elevated wage and supply costs, and interest rate hikes. Nationally, the latest data showed a fourth consecutive decline in short-term sentiment to 40.2 points. Any value below 50 means on net, the number of businesses surveyed with a negative 3-month outlook exceeds those with a positive outlook. This was the lowest reading since January 2022 when the Omicron wave dominated headlines. The 12-month outlook improved slightly to 50.9 points but remained low and consistent with a low to negative growth environment.

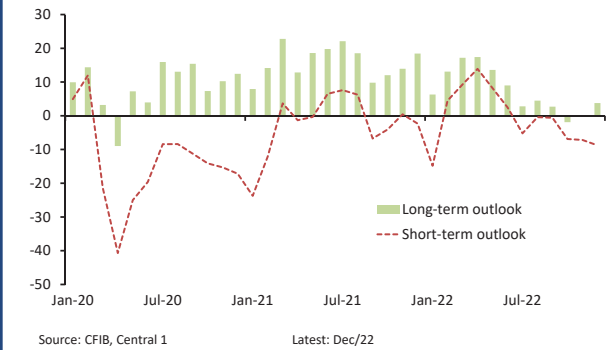
While firms may be spooked by the external environment, many are feeling the pinch of inflationary pressures and labour shortages. The latter is a constraint to meeting demand which is keeping wage expectations higher than normal at 2.9 per cent, albeit sale prices are expected to climb at a stronger pace.

While the national trend deteriorated, Ontario business sentiment has held up relatively well. The province has experienced greater fluctuations in sentiment during the pandemic as businesses adapted to stringent restrictions and businesses may be more resilient to current challenges. The 3-month index slipped to 41.2 from 42.8 points in November but exceeded the national figure. More impressively, longer-term sentiment jumped more than 4 points to 53.8 points. While not spectacular, this signals firmer expectations over the next year. Easing gasoline prices and signs of peaking interest rates could be a factor. According to the CFIB, although most firms plan to hold employment steady, 22 per cent are looking to hire, while 15 per cent look to fire.

A period of weaker activity is likely to persist through the first half of 2023 as higher interest rates curb economic activity and revenue.

## Ontario SME short-term confidence slides, longer-term outlook improves

B.C. SME confidence – deviation from 50



## Both exports and imports up in Ontario

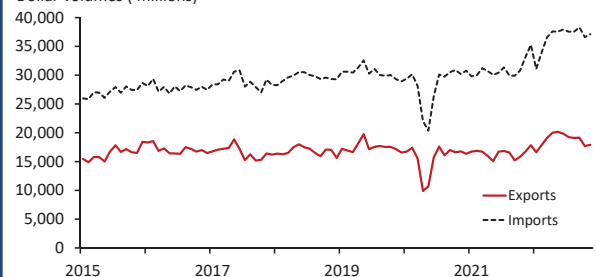
*Alan Chow, Business Economist*

Ontario exports rose slightly in November after falling significantly in the month of October. On a seasonally-adjusted basis, levels are up 1.2 per cent over the previous month from a revised \$17.6 billion to \$17.9 billion. Despite the increase, dollar volumes remain below the previous 12-month average of \$18.6 billion. Imports also climbed slightly in November after having declined in October, up 1.3 per cent from \$36.6 billion to \$37.1 billion. Unadjusted, export dollar volumes are up 7.0 per cent year-over-year from \$17.9 billion to \$19.1 billion while imports are up 12 per cent from \$33.8 billion to \$37.9 billion.

Export growth in Ontario for November was largely the result of an increase in metallic and non-metallic mineral products, up 19.9 per cent from \$3.1 billion to \$3.7 billion. Precious metals such as gold, silver, and platinum were behind the growth. Agricultural and food products also saw an increase, but only up 0.6 per cent from \$1.17 billion to \$1.18 billion. All other categories experienced a decline in dollar volume with consumer products declining the most, down 4.7 per cent from \$3.42 billion to \$3.26 billion.

## Exports and imports up slightly in November

Dollar volumes ('millions)



Import growth was led by higher dollar volumes in special trade transactions, up 64.3 per cent from \$898 million to \$1.48 billion. Higher dollar volume of imported motor vehicles and parts was also reported, up 5.9 per cent from \$7.7 billion to \$8.1 billion, the highest level of 2022 and likely owing to continued easing of supply chain issues. Metal ores and non-metallic minerals imports were also up 13.6 per cent from \$932 million to \$1.06 billion. Offsetting these gains was a decline in imported consumer goods, which decreased from \$8.4 billion to \$8.0 billion. This represents the lowest level since February.

## Professional, scientific, and technical services contributed to the large employment gain in Ontario

*Ivy Ruan, Economics Analyst*

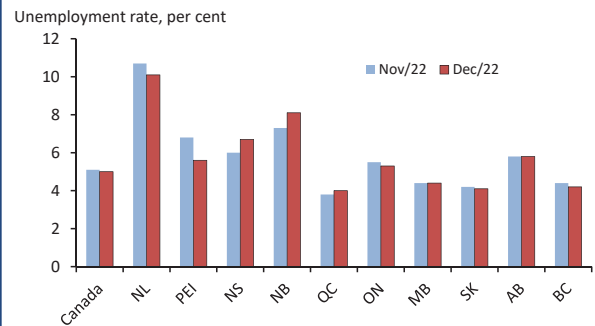
Ontario's labour market led the strong momentum of national hirings in December, with 42,100 more persons (0.5 per cent) in seasonally-adjusted employment, marking the highest employment level in 2022. This latest increase pushed the provincial employment rate above pre-pandemic February 2020 by 3.3 per cent. The Ontario labour participation rate edged up to 64.9 per cent while the unemployment rate dropped to the lowest level since July 2022 to 5.3 per cent. Nationally, employment was up 0.5 per cent over the same period.

In Toronto census metropolitan area, employment saw little change in December with its unemployment rate falling 0.5 per cent to 5.7 per cent.

Ontario hiring gains were driven almost entirely by full-time employment of 41,900 persons (up 0.7 per cent). December marked the fourth consecutive monthly increase in full-time employment, reaching the highest level in 2022. Meanwhile, provincial part-time employment remained relatively low, suggesting workers' stronger motivation for long-term job security and also employers' focus on long-term hiring plans. The actual hours worked in the economy remained almost flat, slowed from a year-over-year pace of 0.6 per cent to 0.2 per cent and slipped on a monthly basis after adjusting for normal seasonal influences.

At the industry level, October gains were led by services-producing sectors. Specifically, professional/scientific/technical services rose by 22,200 persons (up 2.8 per cent), offsetting the large losses seen in educational services (down 17,100 persons or 2.9 per cent) and the health care and social assistance sector (down 11,100 persons or 1.2 per cent). Notable

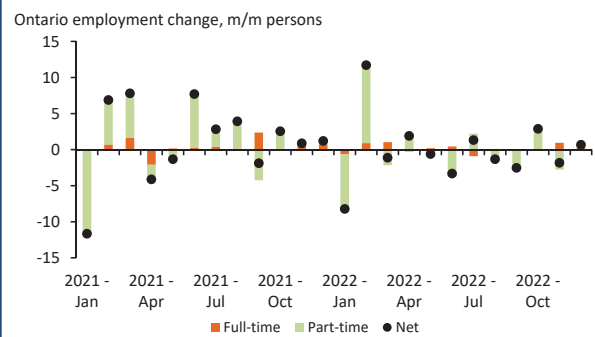
## Ontario unemployment rate slides in December



Source: Statistics Canada, Central 1

latest: Dec/22

## December employment surges, driven by full-time gains



Source: REBGV, FVREB, Central 1

latest: Dec/22

increases were also reported in the information, culture and recreation sector (up 12,900 persons or 4.2 per cent) and accommodation and food services (up 10,700 persons or 2.6 per cent). Goods-producing sector employment rose 0.9 per cent with a lift from construction (up 15,600 persons or 2.7 per cent).

The latest Labour Force Survey figures continued to point to the strength in the labour market (despite risks of an economic slowdown), and a high inflation and interest environment. Ontario's December unemployment rate (5.3 per cent) slipped to a level comparable to the pre-pandemic era. Average hourly wage earnings remained robust at 5.5 per cent year-over-year but slowed from a 6.4 per cent rate in November. Part of deceleration may reflect job composition. Relief for the tight labour markets is expected in coming months, reflecting a slower economy and pass through of record population growth.

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