Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

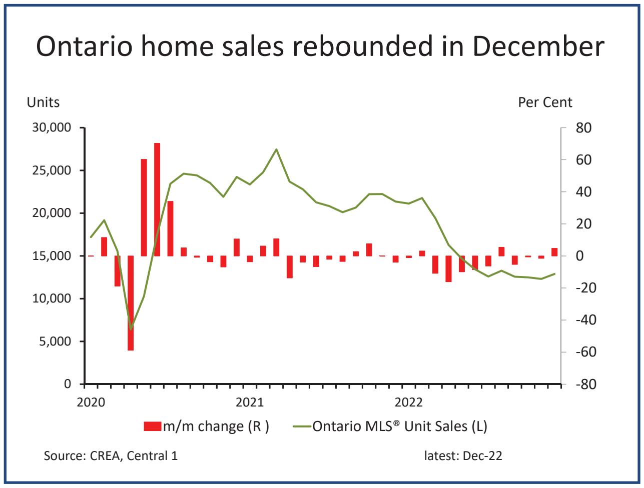
- Home sales rebounded in December while average home price continued to erode
- Retail spending holds steady
- Manufacturing sales up in November on strong durable goods
- Housing starts remained strong in December, yet entire gain was from Toronto multi-unit sector
- Year-to-date housing starts figures remained flat from 2021
- Ontario inflation trends lower as consumer prices fall

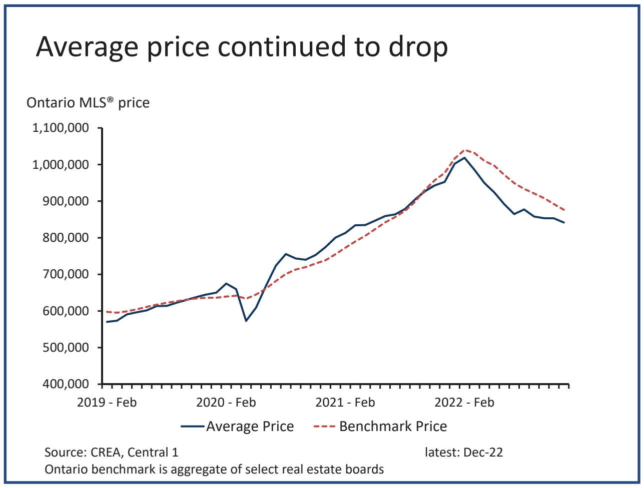
Housing sales rebounded in December while benchmark price continued to decrease

Ivy Ruan, Economic Analyst

Ontario home sales rebounded in December following three consecutive months' declines, with MLS® sales in the province growing 4.7 per cent from previous month to a seasonally-adjusted 12,890 units. However, sales flow remained low with actual unadjusted sales (7,516 units) 41.3 per cent below a year ago. While this outsized difference partly reflected robust sales a year ago, December's seasonally-adjusted sales level was 36.5 per cent below pre-pandemic February 2020. Higher mortgage rates following Bank of Canada monetary policy tightening continue 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. Weakness in home sales reflect a higher sensitivity to higher interest rates due to higher debt and home values.

Sales were mostly positive among regions during the month. Seasonally-adjusted sales in the larger markets of Greater Toronto (1.6 per cent), Hamilton-Burlington (11.1 per cent) and Ottawa (16.3 per cent) were key contributors to the provincial growth. Northeast and Northwest regions were the only two regions reporting negative sales in December. TRREB reported 4,933 residential transactions (seasonally-adjusted) in December, up 1.1 per cent from the previous month, with average selling price unchanged.





Year-to-date, Ontario actual home sales have declined 32.3 per cent. Sales are down in almost all TRREB areas within a range of 20-40 per cent.

The average home value continued to erode with a 1.1 per cent dip from last month. New listings dropped by 1.2 per cent in the weaker sales environment as sellers have increasingly held off on listing properties in a down market. The average seasonally-adjusted price was down to $841,778 and 17.4 per cent off the peak earlier this February. This is consistent with the MLS® quality-adjusted composite benchmark price. While down 1.7 per cent from November, levels were 15.9 per cent below peak.

As mortgage rates are near peak for variable products and fixed rate mortgage rates are easing, home sales and prices are anticipated to stabilize in the coming months. While high financing costs remain a constraint to purchasing, more buyers will step off the sidelines and strong population growth is likely to lift sales later this year and prices in 2024.

Ontario consumer hold spending steady in November

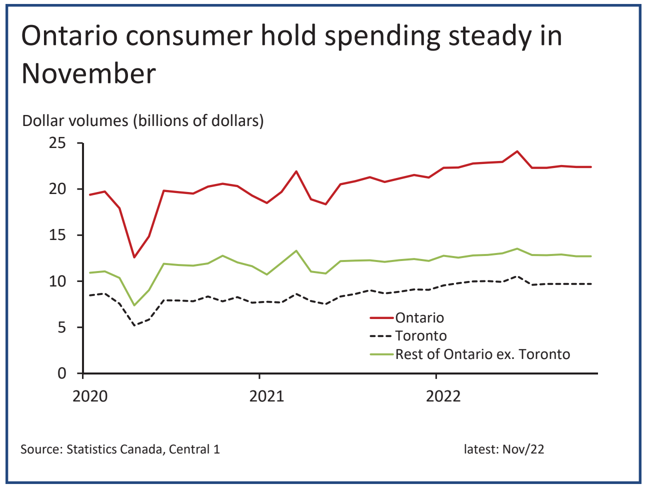
Bryan Yu, Chief Economist

Canadian consumer spending at retail stores softened in November but held surprisingly sturdy with a mild 0.1 per cent decline from October. That said, the pinch of higher prices is evident as real sales volume declined 0.4 per cent and consumer sales bridged the inflationary gap. Much of the strength was also driven by spending at new car dealerships (up 1.2 per cent) which may reflect timing of inventory and higher spending on gasoline (up 2.2 per cent). Excluding these segments, dollar sales were 1.1 per cent lower with sharper declines in housing and renovation-related sectors, while gains were recorded at clothing and grocery stores. Sales fell in 6 of 11 sectors. Preliminary data suggests a robust increase in retail sales of 0.5 per cent in December, marking a strong turnaround that aligns with stronger labour market activity, population growth and higher prices (aside from gasoline which plunged during the month).

Notwithstanding monthly fluctuations, retail spending has generally held in a range-bound trend reflecting shifts in purchasing habits and financial headwinds. Real spending has eased since mid-year. Current dollar sales in December were up 5.2 per cent year-over-year, with real volume down 0.2 per cent. In part, consumers are still reallocating incomes to services such as dining out and other experiences, while a weak housing market and early pandemic purchases have curbed demand for housing-related products. Financial headwinds from higher interest rates are pinching wallets as interest payments surge, while households manage inflation pressures by delaying purchases or cutting back. These trends are likely to intensify into the early parts of 2023 as the economy slows.

Ontario retail performance was essentially unchanged in November to slightly outperform the national performance. Total sales nudged lower to $22.42 billion, with year-over-year growth of 4.2 per cent. The Toronto Census Metropolitan Area underperformed as sales fell 0.7 per cent from October.

Similar to the broader picture, motor vehicle and parts dealers drove the upswing. Actual sales rose 12 per cent year-over-year as sales surged from November. Consumers also spent more on gasoline, where store sales rose 25 per cent from a year ago. Moreover, there was a mild recovery in monthly sales among beaten down housing-related sectors like furniture and furnishings, and electronics stores although sales volumes remain subdued. Ontario's housing market has been among the worst performing in the country



but may be stabilizing. Clothing sales and sporting goods sales also slowed. Through the first 11 months, clothing and sporting goods sales rose 11 per cent but Ontario had lagged other provinces during initial pandemic recovery period.

Nominal dollar volume retail spending is expected to hold steady, but consumers will be more hesitant to spend given higher interest rates and impending economic slowdown, curbing real consumption. High excess savings during the pandemic will act as a buffer against some of these headwinds.

Strong auto sales lead manufacturing gains

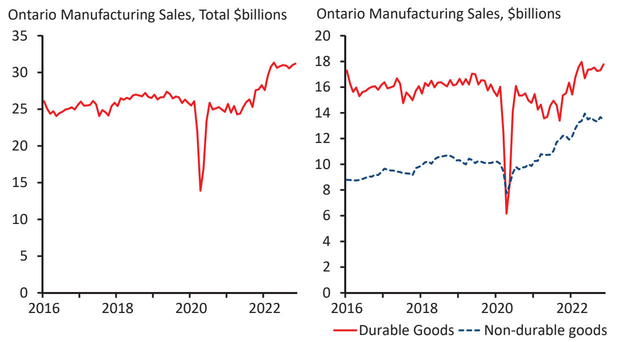
Alan Chow, Business Economist

Manufacturing sales rose again in November, up by 0.73 per cent from October on a seasonally-adjusted basis. Strong sales numbers were seen in the durable goods sectors, up 2.68 per cent. However, offsetting those higher sales were lower sales in the non-durable goods sectors, which was down 1.73 per cent in November as compared to October.

Within the durable goods sectors, transportation equipment sales saw a big increase. It was up 7.46 per cent in November over October and reversed the three months of declining sales. Without the increase in sales from the automotive sector, durable goods sales would have declined again. Other sectors that saw increases include the furniture sector, up 5.51 per cent, followed by wood products manufacturing, up 3.83 per cent. Offsetting these increases was a decline in primary metals manufacturing, down 3.49 per cent and miscellaneous manufacturing, down 4.90 per cent.

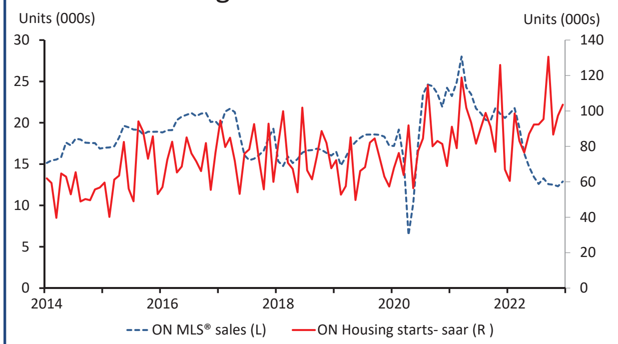
Most non-durable goods industries saw a decline in manufacturing sales. The largest fall was in the petro-leum and coal products manufacturing sector which was down 3.61 per cent from October to $2.78 billion in November. Food manufacturing was also down

Manufacturing sales up on higher durable goods



Source: Statistics Canada, Central 1, seasonally- adjusted   Latest: Nov/22

Toronto multi-unit sector led the growth in Ontario housing starts



Source: CMHC, Central 1   Latest: Dec-22

1.14 per cent to $4.63 million while paper manufacturing and printing and related support activities (both relatively smaller industries in term of total manufacturing sales) were down 3.76 per cent and 9.4 per cent respectively. The lone industry within the non-durable goods sector that saw an increase in sales was beverage and tobacco manufacturing, up 4.40 per cent.

Year-to-date, Ontario has seen strong manufacturing sales. Unadjusted for seasonality, it was up 19.1 per cent over the same period last year. However, this ranks only sixth amongst the province in terms of sales growth. Within the census metropolitan areas, Windsor saw the highest monthly increase, up 21.97 per cent in November over October. In contrast, the Ottawa-Gatineau region was the only area to see a decrease in manufacturing sales. It was down 9.91 per cent.

Toronto multi-unit sector led the growth in Ontario housing starts

Ivy Ruan, Economic Analyst

Ontario housing starts' performance remained robust in December, following November's rebound. Starts came in at a seasonally-adjusted annualized pace of 103,563 units, up 6.4 per cent from revised 97,329 units from previous month. This monthly increase brought the provincial housing starts to the second highest level in 2022 which ended with a robust trailing 12-month average.

All of December's increase reflected gains from multi-family projects, offsetting the loss in single-detached units. Ontario multi-family unit starts gained 12.1 per cent to 85,207 units. Single-detached units fell again following November's dip, although to a larger extent at 13.9 per cent in December to 18,356 units.

Within the metro areas, the large increase in the Toronto region offset the losses reported among the remaining areas. Toronto saw 72.3 per cent more housing starts to a seasonally-adjusted annualized pace of 71,510 units. Hamilton and Kitchener-Cambridge-Waterloo regions reported large gains in their housing starts in November, however, readings for both regions drew back in December, with Hamilton at 1,950 units (-81.9 per cent) and Kitchener-Cambridge-Waterloo at 8,062 units (-34.2 per cent).

On a year-to-date basis, urban housing starts in Ontario were down 0.4 per cent with 91,885 starts compared to 92,284 starts from the year before. Multi-family units were up 4.7 per cent from 66,529 units to 69,660 units while single-detached units dragged down the total (down to 22,225 units from 25,755 units). The multi-family sector remained the driver for housing starts in most of the metro regions. In Toronto, total units were up year-to-date by 7.7 per cent with multi-family units up 10.9 per cent, contrasted by fewer single-family unit starts, down 8.5 per cent. Ottawa had 7.9 per cent more housing starts, with 22.0 per cent more multi-family units but 21.9 per cent fewer single-detached units.

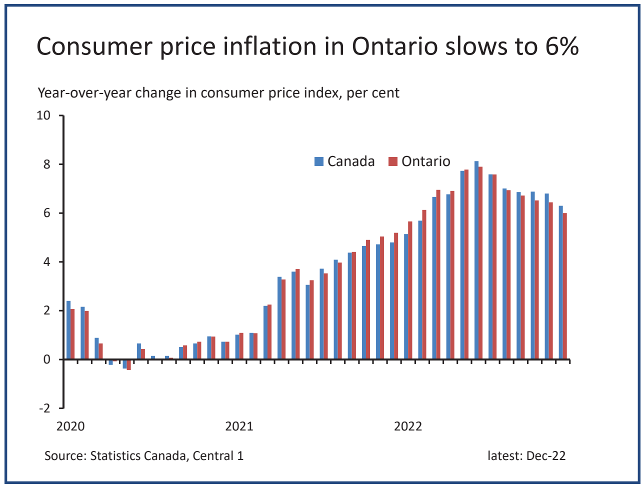
2022 ended with a robust performance for the year-to-date housing start levels in urban centres with population 10,000 and above, consistent with the results from previous years, yet the single-detached sector reflected impacts from housing market cooldown and economic uncertainties. Population growth and government plans for affordable housing will continue to support construction activities, especially in the multi-unit sector in the new year, while market weakness and the high interest rate environment will continue to pose challenges for developers.

Consumer price inflation in Ontario eases to 6 per cent

Eloho Ennah, Economic Analyst

Ontario's inflation rate mirrored the downward trend in year-over-year national inflation as year-end inflation stood at 6 per cent for the province. The growth of consumer prices slowed in December by 0.4 per cent. The most notable price decrease from November to December occurred in gasoline prices, which fell by 12.8 per cent and further drove a 7.8 per cent decline in energy prices. Lower gasoline prices also contributed to a drop in transportation costs by 2.3 per cent (m/m). Other drivers that contributed to decelerating growth in consumer prices include declining prices for recreation, education and reading items, down 1.6 per cent in December.

Food prices increased steadily over the last quarter of 2022 and continued to fuel rising prices, although a reduced monthly growth rate of 0.9 per cent was recorded in December as opposed to 1.4 per cent in November. Year-over-year food prices grew at a whopping 9.9 per cent, the highest increase amongst all the components of CPI.



On a year-over-year basis, the price of shelter increased by 6.5 per cent while the prices of items related to household operations, furnishings and equipment increased by 5 per cent in the same period. The price of health and personal care products increased gradually over the last quarter of 2022. December also brought a 0.1 per cent reduction in the price of alcoholic beverages, tobacco products and recreational cannabis in contrast with its increase by 0.3 per cent in the preceding month.

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