Ontario Economic Briefing

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Highlights

- Real GDP up in November
- Total value of Ontario building permits in 2022 dropped below last year's level in real terms
- Residential slowdown continued, with lower building intentions

Ontario permits trended down in December

Ivy Ruan, Economic Analyst

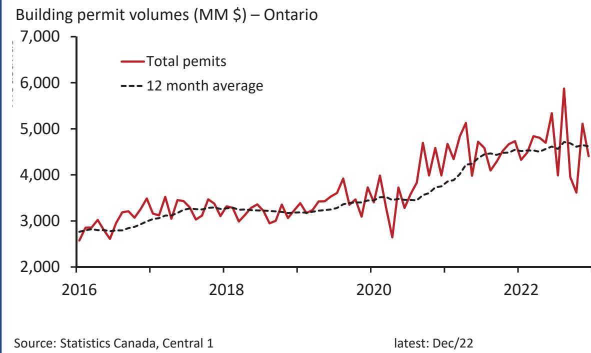
Following the robust rebound due to the one-off construction projects in November, Ontario building permit activity cooled down in December. Dollar-volume permits dropped 13.9 per cent to a seasonally-adjusted $4.41 billion. Both residential and non-residential reported lower building intentions.

Ontario building permits' total volume dropped 6.9 per cent year-over-year in December. Year-to-date volume reached $55.4 billion in 2022, just 1.6 per cent above 2021. That said, a significant portion of this increase reflects higher construction costs as real permit volume was 12.7 per cent lower through 2022.

The housing market is showing signs of adjusting quickly to weak market conditions and higher mortgage rates. Ontario residential sector retreated following the boost in November, with a 6.6 per cent pullback to a seasonally-adjusted $2.78 billion. Both detached and multi-family permits fell. Year-to-date, total residential permits fell 4.0 per cent (20.0 per cent in real terms). Both single- and multi-family starts fell by a similar amount. A slower underlying momentum in the residential sector would continue and residential building intentions are expected to decline more sharply in 2023.

Following the robust performance in November, the non-residential construction sector in Ontario contracted with a 24.1 per cent decrease to $1.63 billion, spreading broadly across private and public sectors. Year-to-date permit growth reached 15.3 per cent (1.5 per cent in real terms) in non-residential sectors. Government spending on major projects will continue to support activity in the new year, although a slowing economy could temper private sector activities.

Ontario permits trended down in December



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

Among metro areas, total year-to-date permit growth was led by markets outside Toronto. Toronto region reported a 2.2 per cent decline in its 2022 dollar-volume. Notable highlights included Windsor (up 47.2 per cent), Barrie (up 25.5 per cent), Belleville (up 32.5 per cent), Peterborough (up 22.0 per cent) and Brantford (up 26.4 per cent). In contrast, permits fell in Hamilton (down 7.7 per cent), and London (down 8.7 per cent).

Transportation equipment manufacturing and finance and insurance flourish in November

Alan Chow, Business Economist

Canadian seasonally-adjusted at annual rate (SAAR) real gross domestic product (GDP) increased by 0.1 per cent month-over-month in November lifted by 0.2 per cent growth in the service-producing industries but partially offset by 0.1 per cent decline in goods-producing industries. Preliminary estimates for December show real GDP as essentially unchanged, which points strongly that the engineered slow down by the Bank of Canada is beginning to arrive . Ontario figures over the past year also show that trend, with real GDP growth slowing over the past three quarters with 2022Q3 real GDP growing at 0.4 per cent.

The 0.1 per cent decline in goods-producing industries was matched by a 0.1 per cent decline in manufacturing for the month of November. Despite the decline, transportation equipment manufacturing was able to show solid gains of 4.3 per cent in November over October led by an increase motor vehicles and parts manufacturing, which increased 6.7 per cent. Within the subsectors, parts manufacturing saw a 2.2 per cent gain while vehicle manufacturing increased 15.1 per cent. These increases were in tandem to a 7.4 per

cent increase in the wholesale distribution of motor vehicles and parts.

The finance and insurance industries saw a 0.5 per cent increase in real GDP in November, reversing three months of declines. Credit intermediation and monetary authorities was a strong contributor, up 0.5 per cent as well. Financial investment services also saw an increase of 1.2 per cent. All this was buoyed by stronger activity in Canada in the stock and bond market as well as an increase in mortgage debt.

Rough conditions for Toronto housing market extend into 2023

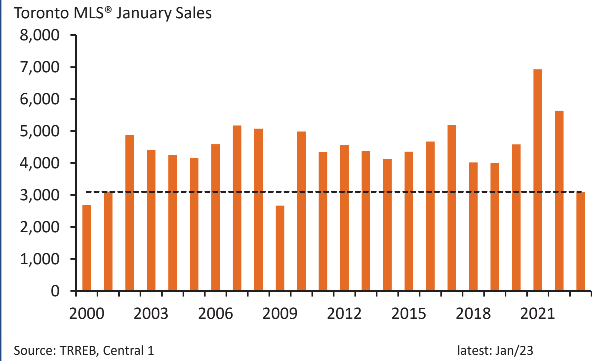
Bryan Yu, Chief Economist

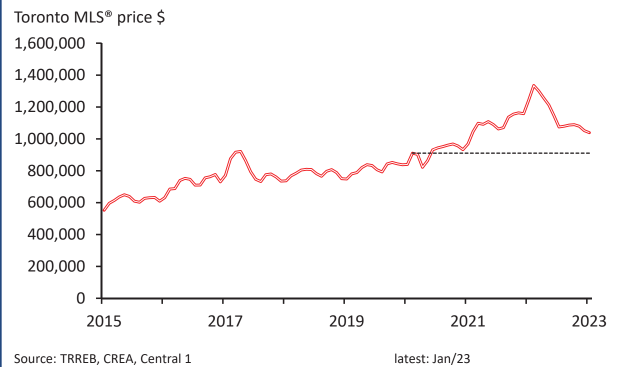
Toronto resale housing market activity remained anchored at a more than a decade low through January as severe affordability erosion due to higher interest rates kept buyers on the sidelines despite reduced home values. Total home sales fell to 3,100 units in January marking a 45 per cent year-over-year decline and the lowest same-month count since 2009 when only 2,670 units sold during the period of the financial crisis. Based on our calculations, seasonally-adjusted sales have declined by more than a third compared to pre-pandemic trends and are 60 per cent below pandemic highs.

Home values have adjusted lower in response to downturn in sales and demand but not to levels needed to restore affordability. At $1.038 million, the average price fell 2.6 per cent from December is down 22 per cent from peak. However, this is still 14 per cent above pre-pandemic levels while interest rates are sharply higher.

The housing price index, which adjusts for product attributes, held relatively steady on a monthly basis but the trend remained negative and levels were 19 per cent below peak. Ground-oriented homes which experienced the sharpest gains earlier in the pandemic during acceleration of remote work and desire for space have led the retreat with a 20 per cent decline from peak, while apartment units are down about 14 per cent. The latter could reflect demand from buyers sliding down the housing ladder to find affordable homeownership and a strong rental market driving investment.

Further reductions are needed to lift sales volume, but sellers have generally remained patient and willing to wait out the current cycle which reflects of the strong labour market, economy, and high levels of pandemic saving. New listings flow fell 3.6 per cent from a year ago and modest relative to average historical patterns. Rising inventory reflects stale listings rather than a flood of new properties coming to market. Distressed selling may be rising however, particularly for recent buyers with variable mortgages.





Going forward, we expect prices to erode modestly with the bulk of the downturn already taking place. Demand is expected to improve by mid-year as peak variable rates and declining fixed rates, coupled with lower prices lift sales. Strong population growth will be a driver of demand into 2024.

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