Economics | Current Economic Trends

Ontario Economic Briefing

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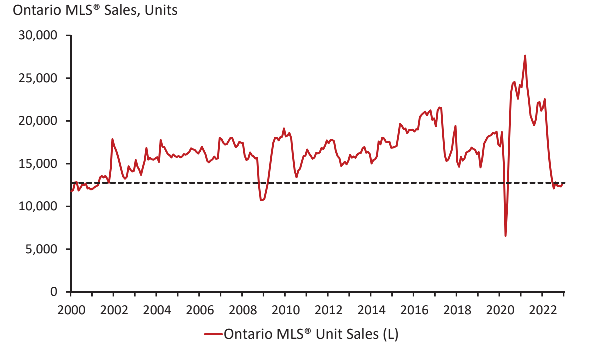
central 1 Economics

Highlights

- Ontario home sales steady, but trend at a recession pace
- Manufacturing sales slip in December, but total 2022 sales increase strong
- Ontario housing starts dropped 30.8 per cent following December's gain

Ontario home sales steady, but trend at a recession pace



Source: CREA, Central 1 latest: Jan-23

Home sales range-bound in January but sluggish pace curbs prices

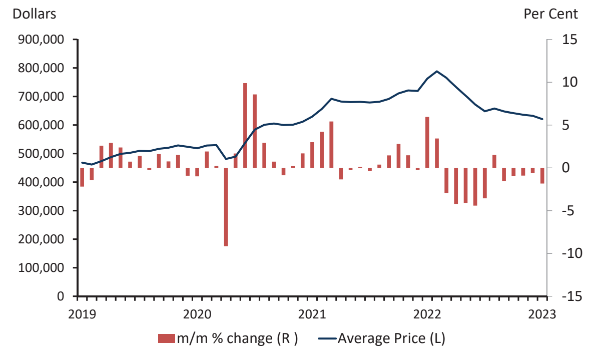
Bryan Yu, Chief Economist

Ontario's housing market maintained a sluggish pace to start the year with high mortgage rates and weak affordability keeping prospective buyers out of the market while home prices continue to correct lower. According to the Canadian Real Estate Association, MLS® sales reached a seasonally-adjusted 12,758 units which was up 0.4 per cent from December but maintained the low range-bound trend observed since mid-July. After more than halving from the pandemic era peak, sales were 32 per cent below pre-pandemic February 2020.

Flat January home sales reflected mixed patterns among real estate boards. While Greater Toronto sales were steady, sales surged in Hamilton-Burlington by 11 per cent and Thunder Bay (15.6 per cent) from December. In contrast, steep sales declines were observed in smaller centres including Kitchener Waterloo (-5.5 per cent), Quinte (-11 per cent) among others. Weak sales reflect markets impacted by higher interest rates, where buyers had flocked as well during the pandemic in search of affordability. Grouped by economic region, growth in Kitchener-Waterloo-Barrie and the Hamilton-Niagara Peninsula offset declines in Ottawa, Kingston-Pembroke and Muskoka Kawarthas.

With affordability decimated by higher interest rates and high pandemic era prices, reduced purchasing power has curbed demand and eroded price levels. The average price fell 3.0 per cent to $808,824 in January to mark the tenth decline in 11 months. After peaking in February 2022, the average price has declined 21 per cent. Among economic regions, the monthly decline was led by Hamilton-Niagara Peninsula (-5.8 per cent), London (-7.1 per cent), and Stratford-Bruce Peninsula (-9.5 per cent). Toronto fell 3.5 per cent.

Price levels erode on weak demand



Source: CREA, Central 1 latest: Jan-23

Sales composition plays a role in monthly price but the trend remains negative. This is observed in benchmark prices which adjust for housing attributes. Both the Toronto and Hamilton real estate boards posted near 2 per cent price declines over the month, with Ottawa down 2.8 per cent and Kitchener-Waterloo down more than 3.6 per cent.

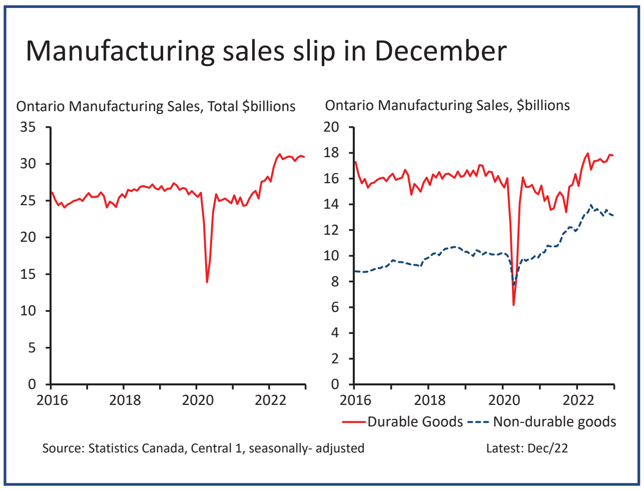
While substantial, these price declines have yet to mark a price crash despite magnitude . With the run up during the pandemic, the average price is still 21 per cent higher than pre-pandemic February 2020, while mortgage rates have more than doubled. Prices have remained relatively high as prospective sellers have held back on listing properties with modest signs of panic (aside from those with excessive leverage or recent investors). This has been further supported by a tight labour market.

Going forward, weak sales environment and further price declines are anticipated, although the latter is near bottom. Prospects of lower fixed mortgage rates, and further price erosion will lead to improved affordability that specifically improves through 2024. Meanwhile, high immigration will boost demand, particularly in urban areas.

Durable and non-durable sales slip

Alan Chow, Business Economist

Manufacturing sales slipped slightly in the month of December. On a seasonally-adjusted basis, they were down 0.5 per cent when compared to November. Between the two major classifications of industries, non-durable goods industries sales fell the most, down 0.9 per cent. Durable goods industries also saw lower sales, but by only 0.3 per cent.



Eight out of the 10 listed durable goods industries saw a decline in sales from November to December. Leading the decline was furniture and related products, down 13.6 per cent. Miscellaneous manufacturing also dropped by 11.2 per cent and machinery manufacturing was down 3.3 per cent. Balancing out the decline in sales was an uptick in transportation equipment manufacturing. It increased 4.4 per cent to $7.46 billion, which is the highest level since April 2022.

Amongst non-durable goods industries, the largest decline was seen in plastics and rubber products manufacturing, which was down 13.3 per cent to $1.5 billion, its lowest sales since June 2021. Beverage and tobacco products manufacturing was also down 12.6 per cent. Offsetting lower sales in these industries was a 3.1 per cent increase in petroleum and coal products manufacturing, followed by chemical manufacturing, up 3.4 per cent.

Overall for 2022, Ontario posted strong growth in manufacturing sales with an 18 per cent increase to $366 billion. Higher sales were equally spread amongst durable goods (up 17.6 per cent) and non-durable goods industries (up 18.3 per cent). Within the metro areas, annual manufacturing sales were up in all areas. They are, in the order: Windsor (up 19.4 per cent), Toronto (up 17.3 per cent), Hamilton (up 11.1 per cent), Ottawa-Gatineau (up 8.9 per cent), and Kitchener-Cambridge-Waterloo (up 8.4 per cent).

Toronto and Kitchener-Cambridge-Waterloo regions' losses led the provincial decline in housing starts

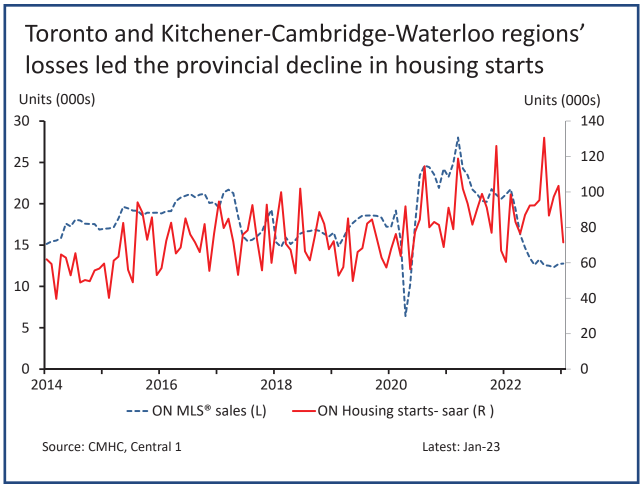
Ivy Ruan, Economic Analyst

Housing starts plunged in Ontario in January following two consecutive monthly gains. Starts came in at a seasonally-adjusted annualized pace of 71,545 units, down 30.8 per cent from revised 103,408 units in December. This sharp decline suggests the new home market is finally adjusting lower with low sales in the resale market and more challenging conditions for presale activity. MLS® sales reached a seasonally-adjusted 12,758 units in January which was up 0.4 per cent from December but maintained the low range-bound trend observed since mid-July 2022.

January's decrease reflected a slide in the number of multi-family projects, offsetting the small gain in single-detached units. Ontario multi-family units starts fell 34.6 per cent to 53,175 units. Single-detached units gained just 209 units following December's large drop.

Within the metro areas, the large declines in Toronto and Kitchener-Cambridge-Waterloo region offset the gains reported among the rest of the areas. Toronto saw 51.9 per cent fewer housing starts to a seasonally-adjusted annualized pace of 34,301 units, offsetting the gain from last month. Kitchener-Cambridge-Waterloo region also reported 40.6 per cent monthly decline in January, the second consecutive monthly decline since November's large monthly gain. London (61.3 per cent) and Windsor (351.2 per cent) regions led the growth in provincial housing starts in January.

Comparing with same-month 2022, actual unadjusted Ontario housing starts (4,886 units) remained elevated this January, being 29.3 per cent higher than last year's reading, largely thanks to more starts in the multi-family unit sector (3,886 units versus 2,472 units). Single-detached units were down 23.5 per cent from 1,307 units to 1,000 units. Toronto region's multi-family sector contributed the most (97.9 per cent) to the over-



all jump (64.0 per cent) in new constructions. Windsor also reported more than twofold increase in its multi-unit sector. Other regions reported similar increases to multi-family starts, whereas Kitchener-Cambridge-Waterloo region recorded higher new constructions in single-detached and multi-family buildings.

Ontario observed a similar trend to the national reading, which recorded a sharp decline and fewest starts since September 2020. Housing starts are forecast to decline in 2023 as lower demand and presale activity from 2022 curb new project starts.

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