Economics | Current Economic Trends

Ontario Economic Briefing

Volume 29 • Issue 9 • Week of February 27 - March 3 2023 | ISSN: 1981-355

central 1 Economics

Highlights

- Weak market conditions linger in Toronto housing market
- Real GDP declines in December
- Residential building permits dropped 5.1 per cent in January, while commercial building intentions led the gains in non-residential sector

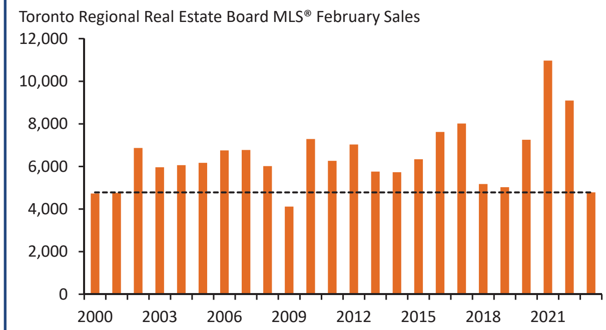
Toronto housing slump persists, price rebound seasonal rather than a sign of strength

Bryan Yu, Chief Economist

Toronto's interest-rate driven home sales slump continued through February with mixed signs of home price stabilization. The latest data out of the Toronto Regional Real Estate Board (TRREB) pegged home sales at only 4,783 units marking a 47 per cent decline from a year ago, and comparatively worse than January's 45 per cent drop. While influenced by high sales a year ago, this marked the fewest February sales since 2009, highlighting just how dismal conditions are for sectors reliant on volumes such as realtors and lenders. Adjusting for seasonal factors, we calculate a one per cent drop in sales from January , but official estimates from the Canadian Real Estate Association will be released mid-March.

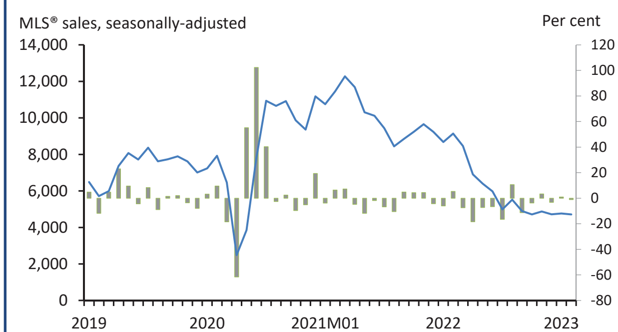
Headline home prices increased in February but we argue this was largely due to seasonal factors and could reflect the quality of homes listed. The average price rose 5.5 per cent from January to $1.09 million but this is not outside the norm with typical seasonal growth of about 5 per cent. Year-over-year declines accelerated to 18 per cent from 16 per cent in January. Benchmark values showed similar patterns, with unadjusted prices up 1.1 per cent from January, but below an average gain of about two per cent. For both pricing measures, our seasonally- adjusted calculations pointed to further declines in home values. Average and benchmark values are down 18 per cent from a year ago when prices peaked. A scan of benchmark patterns by product points to a sharp decline in apartment prices which were down 10 per cent year-over-year, compared to a 4.1 per cent decline in January. This works out to about a 0.5 per cent monthly decline (and -3 per cent after normal seasonal factors). Declines in townhome and apartments prices were milder.

Fewest February home sales since 2009



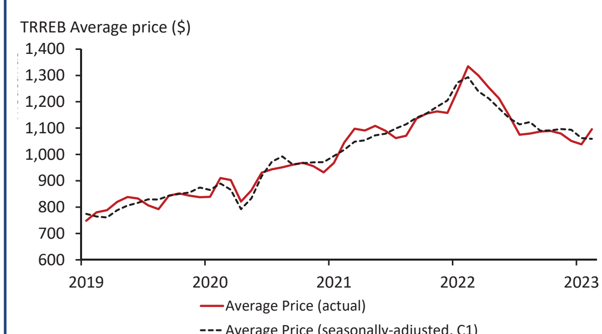
Source: CREA. TRREB, Central 1 latest: Feb/23

Little change in sales trend



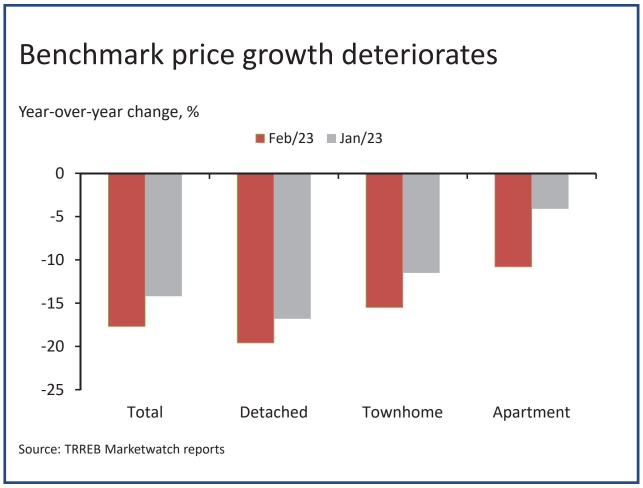
Source: CREA. TRREB, Central 1 latest: Feb/23

Average price climbs in February, but likely a normal seasonal bump



Source: CREA. TRREB, Central 1 latest: Feb/23

The persistence of the weak housing market conditions reflects the impacts of soaring interest rates from the past year which amplified early pandemic price growth. Many buyers are priced out of the market and waiting for prices or interest rates to decline to restore affordability, while also navigating broader inflation challenges. Price levels remain 20 per cent above prepandemic levels despite the recent correction while interest rates are higher.



Home prices are anticipated to fall through the first half of 2023 but most of the drop is in the rear-view mirror. Homeowners are more reluctant to sell in current market conditions, reflected in lower new and active listings in February. A tight labour market, elevated savings and strong population growth mean most homeowners have the luxury of time. We also expect more buyers to inch back into the market, for a combination of housing needs, higher wages, with bets t hat interest rates will decline in the future. This is likely to support prices, even as more investors and households come under financial stress.

Goods producing sectors decline but manufacturing grows. Finance sector take a hit.

Alan Chow, Business Economist

Canadian seasonally adjusted at annual rate (SAAR) real gross domestic product (GDP) declined by 0.1 per cent month-over-month in December after increasing 0.1 per cent in November. Good producing sectors were the main drag, declining 0.6 per cent while the service sector was little changed at 0.0 per cent. Not surprising then is that Q4 GDP was unchanged, which was a welcomed sign for the Bank of Canada and its goal of taming inflation. However, preliminary estimates for January have GDP expanding again by 0.3 per cent month over month.

Despite the overall decline in goods producing sectors, manufacturing saw a gain of 0.4 per cent. Transportation and equipment manufacturing saw further increases, up 3.7 per cent. This marked its third straight month of increases. Supply chain issues and semiconductor shortages in the sector have eased substantially and as a result, output is beginning to normalize. Chemical manufacturing also saw output increasing 2.9 per cent.

Finance and insurance sector saw a 0.4 per cent decline in GDP in December after increasing 0.6 per cent in November. While insurance carriers and related activities increased by 0.1 per cent, financial investment services saw a marked decline of 1.5 per cent along with credit intermediation, which declined 0.3 per cent. Weakness in the financial markets as well as the expectations of further rate hikes were contributing factors.

Ontario permits trended down further in January on residential constructions

Ivy Ruan, Economic Analyst

Ontario building permit activity continued to slow down in January, the second monthly retreat since the robust performance in last November. Dollar-volume permits dropped 0.9 per cent to a seasonally adjusted $4.21 billion. The decline in residential building intentions led the overall decrease, while the volume of non-residential constructions increased during the same period. Compared to January 2022, when the housing market thrived, Ontario building permits' total volume dropped 2.8 per cent.

The residential sector's further slowdown was reflected in developers' building intentions. The Ontario residential sector issued fewer building permits in January, with a 5.1 per cent pullback to a seasonally adjusted $2.61 billion. Both detached and multi-family permits fell. A slower underlying momentum in the residential sector is expected to continue and residential building intentions are expected to decline further in the new year. That said, government projects on affordable housing may likely continue, with large-scale residential construction to support the provincial housing supply.

On the non-residential sector side, the spike in commercial building permits (22.8 per cent m/m) led the growth in not only Ontario's January results but also the national commercial sector. Industrial and government sectors both issued fewer permits in January. A slowing economy could temper private sector activities, with investments holding back amidst uncertainties.

Among Census Metropolitan Areas (CMA), non-residential building permits' growth in January was broadly spread among regions, notably in Belleville CMA (1011.8 per cent m/m), Kingston CMA (160.9 per cent m/m), and Thunder Bay CMA (991.5 per cent m/m). Declines in residential construction intentions were largely concentrated in large areas such as Ottawa- Gatineau CMA (-26.6 per cent m/m), Toronto CMA (-16.8 per cent m/m) and Windsor CMA (-44.0 per cent m/m). That said, volatility in permit volumes is typical. While residential activities remained relatively

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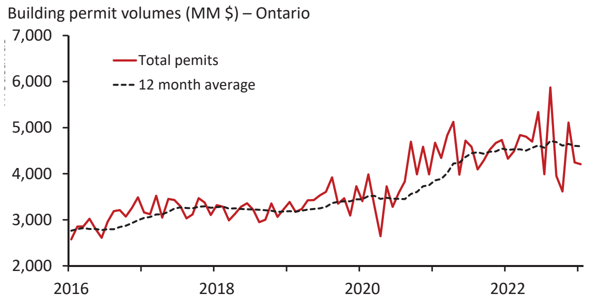

Source: Statistics Canada, Central 1 latest: Jan/23

more resilient in smaller markets amidst housing slowdown, larger markets are more likely to experience further adjustments on housing price and pause on new construction projects through mid-2023.

For more information, contact economics@central1.com.