Economics | Current Economic Trends

Ontario Economic Briefing

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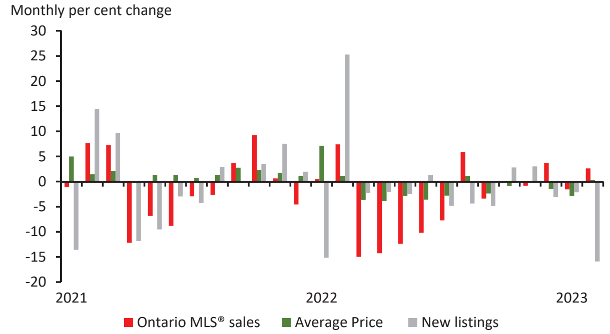
central 1 Economics

Highlights

- Ontario home sales and prices steady, new listings plunge
- Ontario housing starts surged 36.6 per cent, reversing the loss from last month
- Manufacturing sales start the year strong

Home sales and prices steady, new listings plunge



Source: CREA, Central 1 Latest: Feb - 23

Ontario home sales edge up, prices soft in February

Bryan Yu, Chief Economist

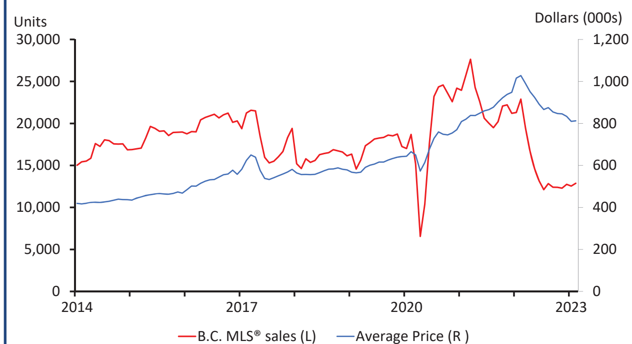
There was little change in momentum for Ontario's housing market in February as home sales reversed January's slide and average price levels held steady. Affordability challenges, resulting from high prices and interest rates, continue to constrain market activity.

MLS® home sales rose 2.6 per cent to a seasonally-adjusted 12,878 units, which more than reversed January's 1.5 per cent decline. This lifted sales to above-December levels and to the highest monthly count since June. That said, sales were less than half of peak levels observed during the pandemic and 31 per cent lower than February 2020. Higher sales were seen in most economic regions of Ontario, specifically, Toronto and Kingston-Pembroke. Sales in Greater Toronto rose 8.5 per cent to lead the increase, while Quinte (+17 per cent) drove sales in the latter. These gains were offset by fewer sales in Kitchener-Waterloo-Barrie and Hamilton-Niagara-Peninsula. Low sales reflect persistence of challenging affordability.

While sales are exceptionally low, prices edged up 0.3 per cent during the month to an average of $812,439. Indeed, prices are 21 per cent off the year-ago peak, but still 22 per cent above pre-pandemic levels despite much higher interest rates and have remained resilient. This change has been a significant correction but not a crash given the run up and rate impacts.

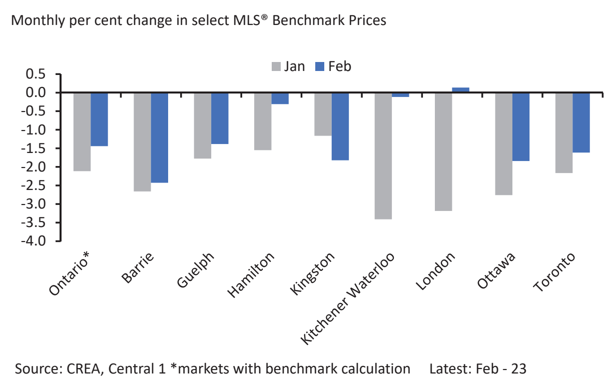
A severe price decline has been tempered by an undersupplied market. Sellers are choosing to hold back from selling in a down market with resolve coming from strength in labour markets, rental demand and robust population growth. Also having seen peak prices, they are loathe to accept less. New listings plunged by 16 per cent from January and were the lowest since early days of the pandemic when COVID health measures paused activity. The sales-to-new listings ratio reached a firm 58 per cent with tighter conditions in the economic regions of Toronto, Ottawa and London.

Housing trends remain negative



Source: CREA, Central 1 Latest: Feb - 23

Benchmark prices fell again



Source: CREA, Central 1 *markets with benchmark calculation Latest: Feb - 23

Average price can be impacted by sales composition. Benchmark prices adjust for housing attributes but can lag market turning points. Benchmark values continued to decline on a seasonally-adjusted basis including a 1.6 per cent drop in Greater Toronto, 1.8 per cent in Ottawa, 0.3 per cent in Hamilton-Burlington and 0.1 per cent in Kitchener Waterloo. While generally negative, signs are that price declines are stabilizing but will depend on any supply adjustment going forward as sales remain low.

Weak market conditions are expected to continue despite low inventory and robust population growth. Affordability is the key constraint which can be improvde by a combination of lower prices, lower interest rate and higher wages. Interest rates are a wildcard as bond yields have declined sharply with financial uncertainty in the U.S. which could curb mortgage rates and lift sales and prices.

Toronto led the provincial growth in housing starts

Ivy Ruan, Economic Analyst

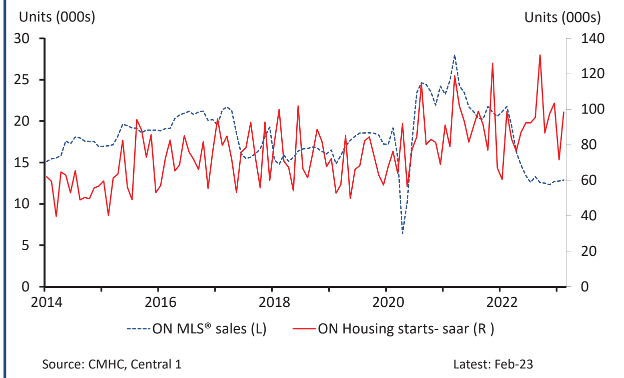
Housing starts jumped in Ontario in February following January's sharp contraction. Starts soared to a seasonally-adjusted annualized pace of 98,409 units, up 36.6 per cent from revised 72,020 units in January as more projects moved to the construction stage. That said, given weak resale market conditions, this is unlikely to reflect the current environment.

February's increase reflected a surge in the number of multi-family projects, in addition to modest growth in single-detached starts. Ontario multi-family units starts rose 47.2 per cent to 78,895 units. Single-detached units gained just over 1,000 units, increasing by 5.5 per cent.

Within the metro areas, a broad gain was reported across most regions. Toronto saw 55.3 per cent more housing starts to a seasonally-adjusted annualized pace of 53,417 units, reversing the decline from last month. Ottawa region reported over 3.5 times more starts than January's volume. Guelph (4,161 units) and Thunder Bay (7,439 units) regions also posted large boosts in housing starts in February. Meanwhile, London stood out with a large decline in annualized housing starts of 84.2 per cent (from 4,051 units to 639 units).

During the first two months of 2023, actual unadjusted Ontario housing starts (7,122 units) were 11.0 percent above the level during the same period last year. Around 20.0 per cent more starts were reported in the multi-family unit sector (9,832 units vs 8,175 units). Single-detached units were down 17.6 per cent from 2,640 units to 2,176 units. Toronto region's year-to-date figures were almost flat from last year,

Sharp rebound in provincial housing starts led by Toronto



with the multi-family sector seeing 3.4 per cent more starts compared to last year and the single-detached sector at 4.2 per cent fewer new constructions. Mixed performances were reported in other regions. Kitchener-Cambridge-Waterloo and Windsor regions' robust growths in total starts were both led by their multi-unit sectors, which had 295 per cent and 443 per cent more starts respectively.

Toronto's robust performance in total housing starts compared to losses posted in other major regions such as Montreal and Vancouver. However, it is too early to call this a shift in momentum given persistence of weak housing market conditions, alongside both economic and interest rate uncertainty.

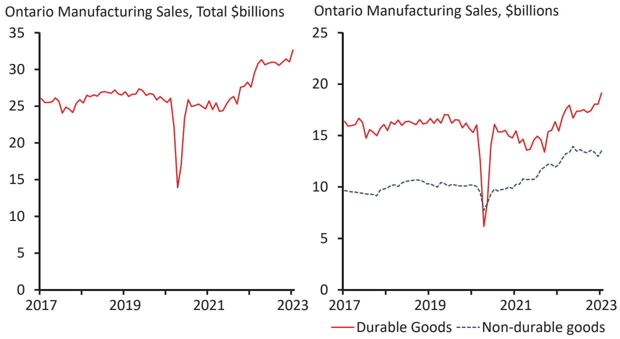
Durable and non-durable sales are up

Alan Chow, Business Economist

Manufacturing sales got off to a strong start for 2023. On a seasonally-adjusted basis, January sales rose 5.3 per cent from the previous month. Durable goods industries sales rose the most, up 6.0 per cent while non-durable goods industries also saw higher sales, increasing 4.1 per cent over the previous month. Unadjusted, January 2023 sales are up 21.3 per cent from January 2022 with durable goods industries up 29.6 per cent and non-durable goods industries up 11.0 per cent.

Of 10 durable goods sectors, 8 saw an increase in seasonally-adjusted sales from December. Leading the way was a marked increase in transportation equipment manufacturing sales, which were 7.5 per cent higher. Computer and electronic products manufacturing sales were also up sharply, increasing 19.8 per cent while non-metallic mineral products manufacturing and machinery manufacturing were up 8.3 per cent and 7.2 per cent respectively. Balancing out the gains were small declines in sales in wood product manufacturing (down 2.5 per cent) and furniture manufacturing (down 2.9 per cent).

Manufacturing sales climb sharply in January



Source: Statistics Canada, Central 1, seasonally- adjusted Latest: Jan/23

Amongst non-durable goods industries, plastic and rubber products manufacturing saw an 8.2 per cent increase in sales in January 2023 over December 2022 while food manufacturing, the biggest non-durable goods industries in term of sales, saw a 4.1 per cent increase. The lone non-durable goods industry that saw a decline in sales was paper manufacturing, showing a sales decline of 1.8 per cent.

In the metropolitan areas of Ontario, Hamilton led the way with a seasonally-adjusted increase of 10.3 per cent in January 2023 over December 2022. Closely behind was the Ottawa-Gatineau region, which was up 10.2 per cent. Windsor saw a 6.6 per cent monthly increase while Kitchener-Cambridge-Waterloo and Toronto each saw a 3.8 per cent and 2.7 per cent increase in manufacturing sales.

For more information, contact economics@central1.com.