Ontario Economic Briefing

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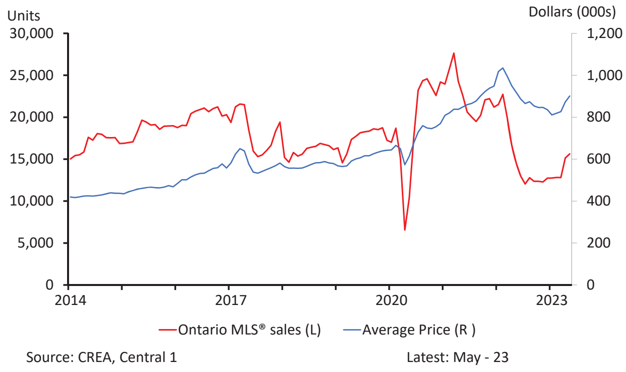
Economics

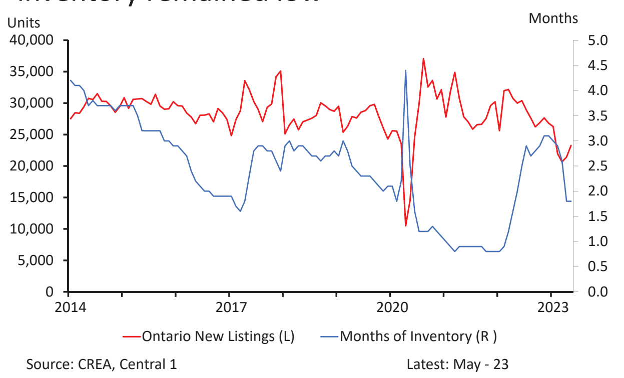
Highlights

- Ontario MLS® sales gained 3.3 per cent in May
- Average housing prices rose for the fourth consecutive month
- Multi-family dwelling starts receded in May, single-detached starts rose
- Manufacturing sales volume up in Ontario by 1.9 per cent in April

Housing trends continued positive momentum



New listings increased in Ontario while inventory remained low



Ontario sales and prices reported modest gains in May

Ivy Ruan, Economic Analyst

Ontario MLS® sales rose 3.3 per cent from April to seasonally adjusted 15,632 units, following the robust growth (18.1 per cent) from the previous month. Ontario sales reported to be 7.4 per cent above the level from a year ago, 43.4 per cent from the pandemic peak in March 2021, and 13.5 per cent off pre-pandemic February 2020 as weak affordability continues to constrain activity.

Sales gains were observed in markets in major Ontario markets, with notable growth in Toronto (5.2 per cent), Ottawa-Carlton (7.5 per cent), Mississauga (12.6 per cent) and Durham (7.0 per cent). In contrast, sales fell in Hamilton-Burlington (-3.2 per cent) and Windsor-Essex (-1.8 per cent).

Ontario's average price rose for a fourth straight month with a 3.3 per cent gain to $901,000 in May, following the 5.7 per cent monthly gain last month. This further pared some portion of the past year's decline and the average price levels returned above $900,000 for the first time since last May. With that gain, price levels were just 12.9 per cent lower than the pandemic peak in February 2022, albeit 35.4 per cent higher than pre-pandemic February 2020. Despite persistence of high interest rates and weak affordability, buyers returned on masse. Much of the increase could reflect buyer catch up after a 2022 pause. Toronto home values rose 3.5 per cent to $1.144 million. Prices jumped 4.6 per cent in Mississauga, up 2.8 per cent in Kitchener-Waterloo, 2.2 per cent in London and 5.0 per cent in Windsor-Essex.

Benchmark prices, which adjust for housing attributes were generally positive, pointing to a seasonally adjusted increase in Ontario (3.1 per cent) with increments reported in regions such as Greater Toronto (3.2 per cent), Mississauga (3.3 per cent), Kitchener-Waterloo (3.6 per cent) and London (2.7 per cent). Benchmark prices tend to fall behind average price turns, confirming the trend of price rebound amidst rising demand.

Strengthening conditions also triggered a modest supply response as new listings jumped 8.6 per cent with more owners looking to sell into the strengthening market. That said, the listing level remained near two-decade lows notwithstanding the early pandemic period. Months of inventory flattened at 1.8 by the end of May, still below the long-run average of 2.1 months for this time of year but consistent with the inventory level in last May. The number of months of inventory is the number of months it would take to sell current inventories at the current rate of sales activity.

Market momentum is likely to be cut short as Bank of Canada hikes hit short-term variable borrowing costs while fixed rate mortgage costs have already moved up. This will curb demand and cut into both sales and listings once again, while capping prices. Meanwhile, underlying demand remains strong as immigration flows remain robust and ahead of year ago patterns while the economy has remained resilient.

Ontario housing starts pull back in May following April's upsurge

Eloho Ennah, Economic Analyst

Ontario housing starts declined in May, following strong performance in April when they rose 47.9 per cent. Housing starts retreated 38.9 per cent to reach 67,707 units at a seasonally adjusted annualized pace. The decrease in housing starts during the month can be attributed to lower multi-family units which fell by 45.5 per cent to 52,202 units, while the single-detached sector experienced an increase of 3.8 per cent to 15,505 units during the month.

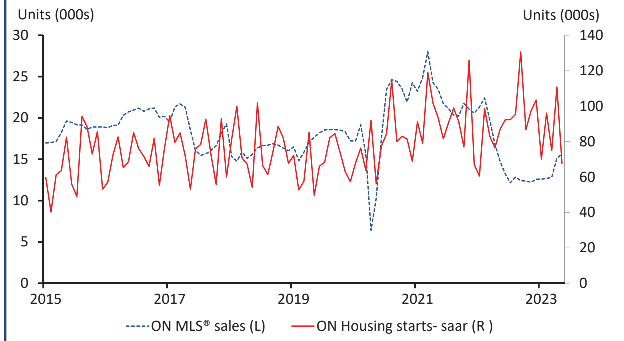
Amongst the census metropolitan areas, Toronto saw housing starts decline by 28.1 per cent to an annualized 42,801 units in May. In Ottawa, housing starts dipped 68.1 per cent to 3,548 units and in Oshawa, housing starts decreased by 65.6 per cent to 1,861 units. Hamilton and Barrie both saw housing starts decrease by 85.1 per cent and 78.6 per cent respectively. Balancing these declines, were increases in several regions, including Kitchener-Cambridge-Waterloo where housing starts almost doubled and compensated for the 32.4 per cent fall in April. Windsor and Sudbury, where housing starts had declined in both areas in April, saw a 93.6 per cent and a 25.4 per cent jump in housing starts, respectively. In St Catharines-Niagara, housing starts were up 47.8 per cent.

Ontario's actual unadjusted urban-area housing starts in the first five months of 2023 increased by 5.7 per cent to 32,306 units when compared to same period in 2022 as a result of more multi-family units. Total multi-family housing starts increased by 18.3 per cent to 26,522 units during the period while single-detached unit starts decreased by 29.0 per cent to 5,784 units compared to same period last year.

Toronto saw a 21.8 per increase in housing starts during the five-month period and Kitchener-Cambridge-Waterloo starts rose 22.1 per cent during the same period. Ottawa reported a decline of 12.1 per cent. Brantford and London also reported decreases, with total housing starts falling by near 30 per cent in both areas.

The strength in new construction has been surprising. However, we anticipate a downturn in the coming months. Multi-family projects are pre-sold well in advance and current patterns reflect construction of project marketed and sold years ago. The slowdown in activity last year is likely to curb future condominium housing starts, while rental building will also be stressed economically due to the high-rate environment.

Multi-family dwelling starts recede in May, single-detached starts rise



Source: CMHC, Central 1 Latest: May-23

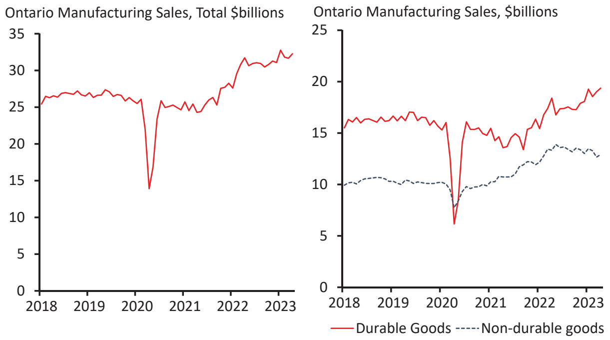
Ontario manufacturing sales edge up in April

Eloho Ennah, Economic Analyst

Manufacturing sales in Ontario rose in April, following March's minor decline. On a seasonally adjusted basis, sales in Ontario's manufacturing industries increased 1.9 per cent to $32.3 billion in April. The non-durable goods industries saw sales rise by 2.0 per cent while sales in the durable goods industries increased 1.9 per cent. Year-to-date, manufacturing sales were up 6.8 per cent and led by a 11.8 per cent increase in durable goods activity.

In addition, manufacturing sales in the province were up 1.7 per cent year-over-year with durable goods sales rising 5.2 per cent and non-durable goods sales down 3.1 per cent. Unadjusted for seasonality, manufacturing sales in Ontario increased slightly by 0.6 per cent year-over year, with sales of durable goods up by 5.3 per cent and non-durable goods sales down by 5.8 per cent.

Among the durable goods industries to report declines in March, the electrical equipment, appliance and component manufacturing industry saw further sales reduction, down by 11.1 per cent and reached $2.4 billion year-to-date. In the non-metallic mineral product manufacturing and furniture and related product manufacturing industries, sales fell 6.4 per cent and 3.2 per cent respectively. Wood product manufacturing sales dropped by 2.7 per cent, reaching $2.4 billion year-to-date. On the other hand, sales in the transportation equipment manufacturing industry increased 6.4 per cent, reaching $33.2 billion year-to-date. Supply-chain constraints eased in the first four months of 2023, Manufacturing sales volume up in Ontario by 1.9 per cent in April



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

allowing transportation equipment manufacturers to increase production and address order backlogs. Computer and electronic product manufacturing sales was also up 3.8 per cent.

Within the non-durable goods industries, petroleum and coal product manufacturing industry sales rose by 8.4 per cent to reach $9.9 billion in sales so far this year. This increase contributed largely to the national gain in petroleum and coal industry sales. Food manufacturing sales were up slightly by 0.5 per cent during the month and came in at $19.2 billion year-to-date. Textile product mills industry saw sales fall by 8.6 per cent while paper manufacturing sales receded by 0.5 per cent.

Among metro areas, manufacturing sales in Windsor increased by 10.4 per cent on a seasonally adjusted basis, while in Hamilton, manufacturing sales rose by 4.4 per cent in April. Kitchener-Cambridge-Waterloo and Toronto manufacturing sales lessened by 4.3 per cent and 1.6 per cent, respectively. The Ottawa-Gatineau area also recorded a 3.6 per cent drop in manufacturing sales.

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