Economics | Current Economic Trends

Ontario Economic Briefing

Volume 29 • Issue 28 • Week of July 10 - July 14 2023 | ISSN: 1981-355

central 1 Economics

Highlights

- Ontario MLS® sales fell 1.3 per cent in June
- Home average sale prices edged up 0.9 per cent
- Building permits bounce back up in May after lower volumes in April
- Ontario manufacturing sales boosted by gains in transportation equipment and chemical manufacturing industries

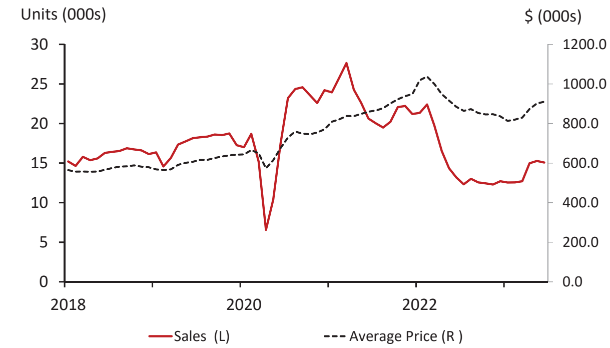
Ontario housing market slows in June as Toronto downshifts, broader slowdown expected

Bryan Yu, Chief Economist

Ontario housing market activity decelerated in June to underperform the broader national pattern as sales fell and price growth slowed. However, this was not a broad-based slowing as the slowdown was concentrated in the Greater Toronto Area (GTA), which was highlighted in last week's note. Higher borrowing costs are expected to contribute to a broader slowdown in housing activity in coming months, although strong population growth and lack of supply will generally support demand and prices.

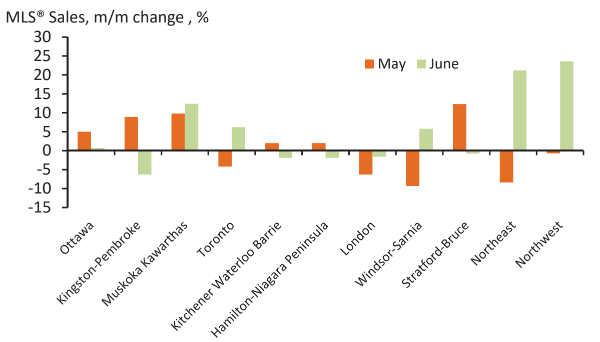
MLS® sales fell 1.3 per cent from May to a seasonally-adjusted 15,063 units. This ended a string of four monthly gains. This was 14 per cent above same-month 2022 but still 20 per cent lower than February 2020. Interest rate hikes and a rebound in fixed rates likely curbed some activity, but this will be more apparent in coming months. The sales decline was driven largely by the GTA which recorded a 6.9 per cent monthly decline in sales, while most other regions experienced steady or higher sales. In the Ottawa Economic Region (which includes Ottawa, Cornwall and surrounding areas), sales held steady, while Kitchener-Waterloo-Barrie (up 6.7 per cent) and Windsor-Sarnia (up 5.8 per cent) recorded significant increase. Northern Ontario sales picked up sharply. This may be a sign that more affordable markets continued to experience stronger demand as buyers chase lower costs of living.

Ontario home sales soften, prices edge higher



Source: CREA, Central 1 seasonal adjustment latest: June/23

Mixed sales patterns across regions in June



Source: CREA, Central 1 latest: June/23

While total sales inched lower, the market saw only modest progress in fixing the inventory and supply side problems that have contributed to high prices. While new listings rose more than nine per cent for a second consecutive month (led by the GTA and London) — suggesting more sellers are testing the market or in some cases needing to sell for financial reasons — levels remain low and below historical averages. The increase in new listings, while moving in the opposite direction of sales, barely budged the inventory trend. Months of inventory sat at 2.1, compared to 2 months in May and highly indicative of a sellers' market. Sellers' market conditions prevail across the province.

Prices have held steady. While still 10 per cent down from peak, the average price rose 0.9 per cent to $909,991. Sales composition was a factor in tempering the provincial average price as sales in the high-priced

GTA fell and less expensive markets recorded sales growth. Some highlights include GTA prices rising 1.6 per cent, Hamilton-Burlington up 2.2 per cent, Ottawa increasing 1.6 per cent and Thunder Bay rising 2.7 per cent. The constant-quality measure of home values (housing price index) jumped 2.2 per cent compared to 2.5 per cent in May and signals ongoing price growth. Housing price indexes across markets have broadly increased.

Recent rate hikes are expected to cool Ontario's housing market more broadly. Recent buyers are likely working off pre-approved rate offers which will expire and reprice at much higher levels. Affordability has further eroded and is keeping potential buyers out of the homeownership market. At the same time, this is unlikely to trigger a severe reduction in prices. As we have seen recently, buyers are more than willing to pay high prices and any move down in prices or rates is likely to draw in the pool of buyers in the market, a number which is swelling as population continues to soar. This is particularly the case in the largest urban markets, albeit with more downside demand risk in smaller markets reliant on recreational purchases.

Slowing in the existing home sales due to higher rates is also likely to trigger more upside pressure in the rental market as vacancy rates shrink and rents continued to move higher. Relief is unlikely in new home markets which are wilting under the heat of higher interest rates and construction costs despite high demand.

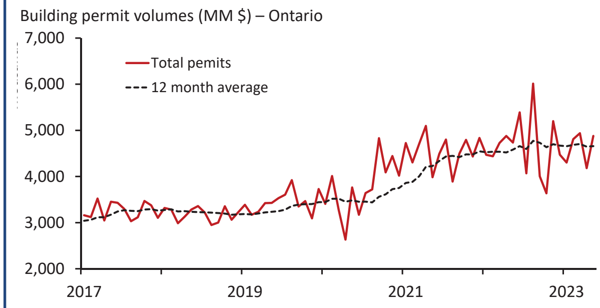
Higher dollar value permit volumes seen in both residential and non-residential sectors

Alan Chow, Business Economist

Building intentions in Ontario bounced back in the month of May, after dipping sharply in April. On a seasonally adjusted basis, permit volume levels were 16.6 per cent higher in May over April at $4.8 billion. The increase was seen in both residential permit volumes, which was up 16.3 per cent to $3.1 billion, and non-residential permit volumes, which were up 17.2 per cent to $1.7 billion.

Within the residential permit volume levels, all the gains were seen in multi dwelling buildings, which was up 27.4 per cent to $2.0 billion — the highest level since August 2022. Single dwelling homes on the other hand were flat, with a slight decline of 0.4 per cent and remained at $1.0 billion. This is the lowest level since June 2020 and the overall trend has permit dollar volumes issued in single dwelling homes on a decline since May 2022.

Ontario's building permit volumes rise in February



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

The non-residential side was driven by a large bump in commercial permit volumes issued. It was up 54.8 per cent in May when compared to April at $1.1 billion, which nearly matched the high seen in March 2023. Industrial permit volumes issued in May were essential unchanged, up 1.3 per cent to $330 million. On the other hand, institutional and governmental permit volumes levels were down 28.8 per cent to $334 million.

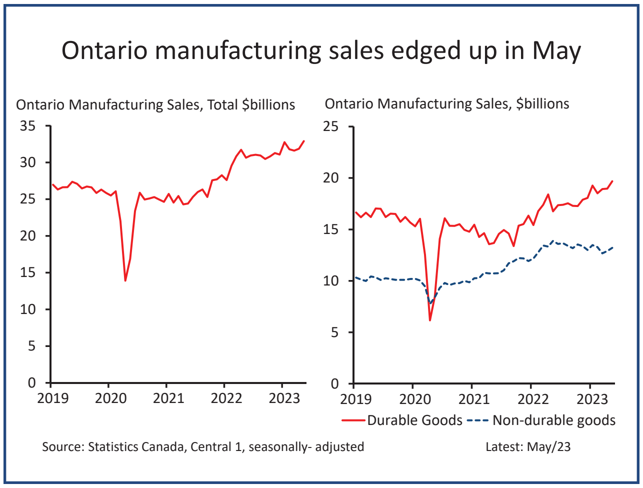
A large portion of the increase in permit volume levels in Ontario were seen in the metro areas, which saw an increase of 17.4 per cent to $4.0 billion. Of the 16 listed metro areas, only one saw a lower dollar value of permit volumes issued in May when compared to April. That metro was Guelph, which saw a decline of 25.7 per cent.

Manufacturing sales in Ontario pushes forward in May

Eloho Ennah, Economic Analyst

Manufacturing sales in Ontario edged further in May, adding to the increase recorded in April. On a seasonally adjusted basis, sales in Ontario's manufacturing industries increased 3.2 per cent to $32.9 billion in May. This marked a second consecutive month of increases, with May 2023's figure up by 7.3 per cent from last year's reading and nearly double 2020's figure. Durable goods sales were up 3.8 per cent during the month, while non-durable goods industries saw sales rise by 2.4 per cent. Year-to-date, manufacturing sales were up 6.6 per cent and led by a 12.3 per cent increase in durable goods activity.

Within the durable goods industries, May's gains were attributed to an increase in transportation equipment manufacturing which saw sales rise 5.0 per cent in what was the second straight monthly increase and with year-over-year sales up by 40.1 per cent. As semiconductor chip supply improved in 2023, almost all auto manufacturers in the province experienced



greater sales. Motor vehicle manufacturing sales rose 4.2 per cent from April while motor vehicle parts manufacturing sales rose 6.2 per cent. Toronto and Windsor also garnered higher total sales due to gains in the motor vehicle and motor vehicle parts industries, with sales up in both areas by 5.4 per cent and 10.6 per cent respectively. Wood product manufacturing and computer and electronic product manufacturing were the two sub-sectors to experience declines during the month, with sales falling 4.9 per cent and 3.5 per cent respectively.

Among the non-durable goods industries, the chemical manufacturing industry saw a boost in sales of 15.2 per cent in May, after the dip of 1.5 per cent in the prior month. Ontario recorded higher sales of pharmaceutical and medicine products, contributing to the rise in sales in the chemical manufacturing sub-sector in the province and nationally. Plastics and rubber products manufacturing sales increased 5.8 per cent while food manufacturing sales rose 2.4 per cent. On the other hand, petroleum and coal product manufacturing sales dipped in May, now down by 6.2 per cent.

For more information, contact economics@central1.com.