Economics | Current Economic Trends

Ontario Economic Briefing

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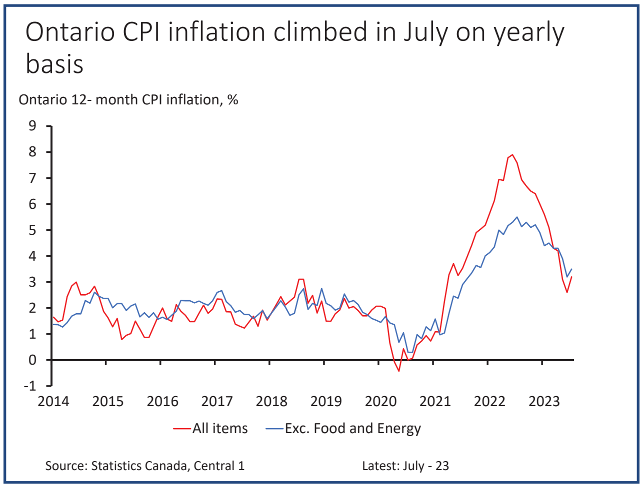
central 1 Economics

Highlights

- Ontario energy prices up again in July
- Core inflation up to 3.5 per cent
- Ontario housing market showed further signs of cooling as home sales and prices retracted in July
- Housing starts result normalized in July with declines seen in both multi-family and single-detached starts
- Ontario manufacturing sales declined in the month of June



Ontario CPI readings back up on yearly basis along with monthly figures

Alan Chow, Business Economist

July's reading for the Consumer Price Index (CPI) in Ontario climbed to 3.2 per cent year-over-year compared to 2.6 per cent during the previous month, driving the national pattern higher (from 2.8 per cent to 3.3 per cent). On a monthly basis, the provincial CPI moved up 0.8 per cent. Core CPI (excluding energy and food) in Ontario was also up from last month by 0.8 per cent and 3.5 per cent, year-over-year compared to 3.2 per cent in June. Goods (0.4 per cent) increased from last month while services prices were up 1.0 per cent from June.

Gasoline prices are still down 10.4 per cent from a year ago, but the decline is lower than the 22.8 per cent decline seen in June as prices did climb a little on a monthly basis, up 1.9 per cent. The yearly percentage change was mainly driven by the base year effect from a surge in energy prices since spring last year. Overall, energy prices were also down 8.3 per cent from last July but up 1.6 per cent from June. Meanwhile, the provincial transportation cost increased 1.6 per cent for the month, its second monthly increase.

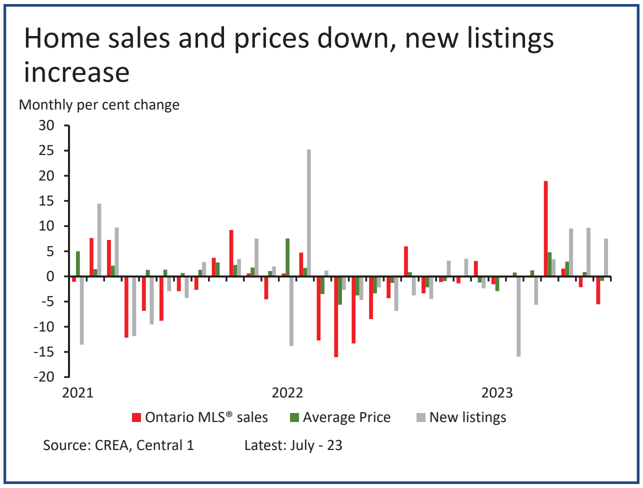
Food prices in Ontario remained elevated on a year-over-year basis, up 7.2 per cent from July last year, but slipped slightly from the previous month's 7.7 per cent yearly growth. The monthly figure was 0.4 per cent higher in July from June. Ontario shelter costs' yearly growth was back down again to 4.4 per cent from 4.8 per cent with a monthly increase of 0.4 per cent.

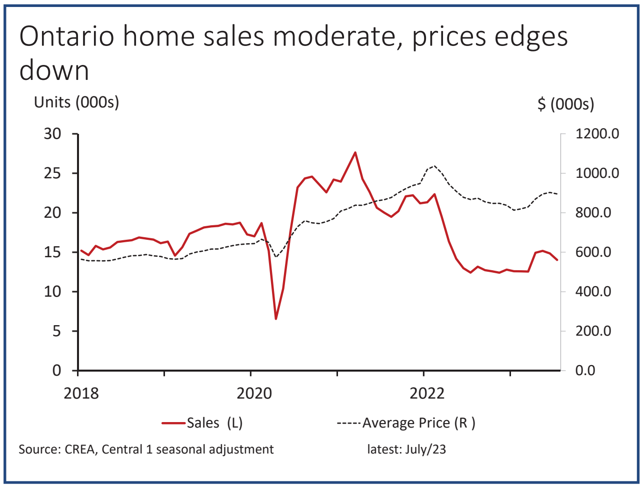
Ontario home sales and prices edged down in July

Eloho Ennah, Economic Analyst

Ontario's housing market eased further in July as both sales and prices fell. MLS® sales, which had resumed growth in April, receded 5.5 per cent to a seasonally adjusted 14,021 units and following the 2.1 per cent pullback in June. Sales were also down 12.9 per cent from a year ago while falling 24 per cent beneath value from February 2020. As the Bank of Canada's most recent rate hikes fan the flames of lingering affordability issues, housing market activity is expected to slow through the coming months.

Home sales were down broadly across Ontario real estate markets. Sales in Greater Toronto dipped 8.7 per cent to lead the monthly decline, while Kitchener-





Waterloo sales fell 5.9 per cent. Sales were also lower in the Hamilton-Burlington and Mississauga regions, with 3.7 per cent and 11.6 per cent fewer sales, respectively. The Ottawa-Carleton real estate market saw a 1.5 per cent decline in home sales during the month. London & St. Thomas was notable for its increase of 3.6 per cent.

The average price fell alongside sales by 0.9 per cent during the month to an average of $895,140 and completely reversed June's 0.9 increase. This was partly owing to the severe pullback in sales in the higher priced Greater Toronto area. This was the first decline recorded following five straight months of increases. Prices are 13.0 per cent off-peak in February 2020, but still 34.5 per cent above pre-pandemic levels, remaining resilient even in the face of higher interest rates. July saw lower prices in most real estate market areas. Toronto home values fell 0.7 per cent to $1.153 million. In Durham and Mississauga, which are areas included in Greater Toronto area statistics, prices were down 1.3 per cent and 2.0 per cent respectively. Prices were also unchanged in Kitchener-Waterloo. In contrast, prices rose 3.0 per cent in Hamilton-Burlington, up 0.9 per cent in London & St. Thomas region and 0.3 per cent in Windsor-Essex.

Benchmark prices, which adjust for housing attributes were broadly higher, pointing to increases in Toronto (1.4 per cent), Ottawa (1.3 per cent), Guelph (1.3 per cent), Kingston (1.3 per cent) and Simcoe (0.9 per cent). Benchmark prices tend to trail average price turns, and while the trend is generally positive, prices are expected to soften in coming months amid weakening demand and as the impact of cumulative rate hikes sets in. However, demand remains supported by buyers with previously pre-approved lower rates and population growth supported by strong immigration.

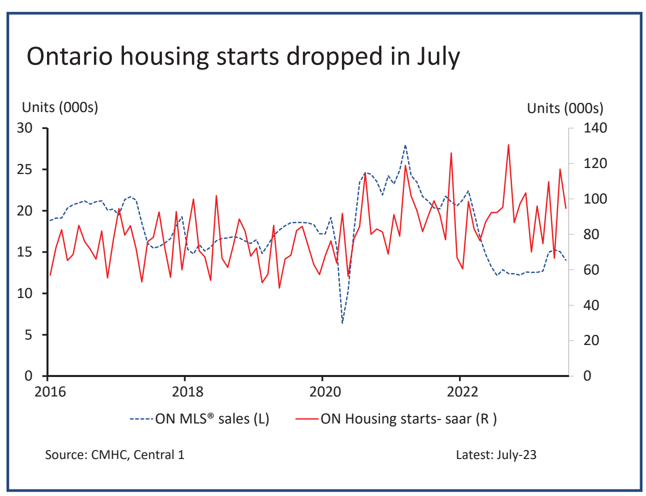
New listings continued edging higher in July, up 7.5 per cent and continuing the upward trend seen since March 2023 as market conditions eased. Prospective sellers have likely been startled by the most recent interest rate hikes and growing uncertainty around future rate hikes may prompt more to list on the market. Home prices are expected to decline further in the coming months although not by much given underlying demand and buyers are often quick to flock to the market at any signs of a decline in prices. In addition, undersupply issues will be further exacerbated by the dampening of residential construction activity due to the high-rate environment.

Ontario housing starts fell in July following the surge last month

Ivy Ruan, Economic Analyst

Following June's surge, Ontario urban-area housing starts fell in July to a seasonally adjusted annualized pace of 94,769 units, down from 116,852 units (-18.9 per cent) recorded in the prior month, which drove the national decline of 10.0 per cent. That said, July's result was in line with the six-month moving average of 93,130 units. Both multi-family home starts (-20.9 per cent) and single-detached starts (-5.9 per cent) contributed to the July decline.

Among census metropolitan areas (CMAs), Toronto saw a decrease of 29.0 per cent in housing starts in July to an annualized 61,066 units. In contrast, Kitchener-Cambridge-Waterloo housing starts almost doubled in July while Ottawa saw a relatively small increase of 34.3 per cent more housing starts in July. Kingston also reported a surge of starts to 4,706 units in July from 239 units in June. Most of the other CMAs reported declines in their housing starts' results in July, yet the number of starts among those areas was much smaller compared to the major cities.



Volatility in monthly housing starts is not unusual given the scale of multi-family projects. Despite the monthly decline in July, multi-unit starts have been strong this year. Ontario's actual unadjusted urban-area housing starts in the first seven months of 2023 increased by 7.4 per cent to 50,556 units when compared to the same period in 2022, driven entirely by the increase in multi-family starts (21.0 per cent). Meanwhile, single-detached unit starts declined by 30.4 per cent to 8,673 units compared to the same period last year. In Toronto, total housing starts from January to July 2023 were up 35.0 per cent in comparison to 2022. Declines were seen in other CMAs, such as Ottawa and Kitchener-Cambridge-Waterloo, which were down by 26.5 per cent and 13.3 per cent respectively.

The strength in housing starts will likely be softened due to the persistence of higher interest rates and inflation in construction and labour costs. Another interest rate hike in September is a risk given higher than expected inflation results in July. This inflation report also follows the soft labour market report and other signs of an economic slowdown, which may also defer developments of large multi-unit housing projects.

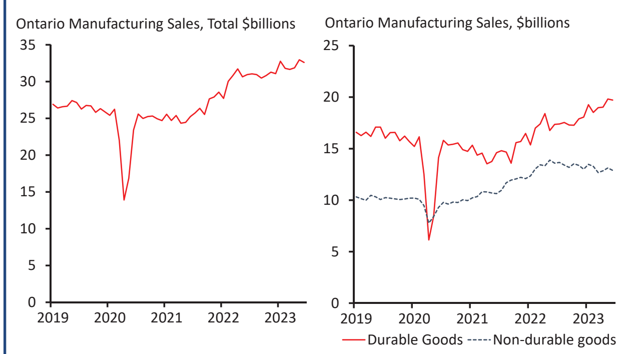
Manufacturing sales in Ontario pulled back in June

Alan Chow, Business Economist

Manufacturing sales edged down in the month of June. On a seasonally adjusted basis, sales were down 1.0 per cent in June when compared to May. Non-durable goods industries led the decline as they were down 1.8 per cent while durable goods industries were also down but by only 0.5 per cent. Year to date, on the other hand, is up 6.4 per cent over the same period last year with durable goods industries up 12.7 per cent offsetting the lower level of non-durable goods sales, which are down 1.6 per cent.

Within the durable goods industries, the largest monthly decline was seen in machinery manufacturing (down 7.2 per cent), primary metals manufacturing (down 4.5 per cent), and fabricated metal products manufacturing (down 4.1 per cent). On the other hand, transportation equipment manufacturing continues to see higher sales, with a monthly increase of 2.3 per cent, which is its fourth straight month of higher sales. Also seeing higher sales was furniture and related product manufacturing, which was up 7.1 per cent.

Ontario manufacturing sales down in June



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

Non-durable goods sales were dragged down by lower sales in petroleum and coal products (down 10.0 per cent), and in the chemical manufacturing industry (down 2.4 per cent). On the other hand, food manufacturing saw a 1.1 per cent increase in monthly sales, which represents its fourth consecutive monthly increase.

Within the metro areas, Toronto saw a 3.5 per cent monthly decline in manufacturing sales. Ottawa also saw a 5.6 per cent decline. Hamilton, though, was able to show a 0.8 per cent monthly increase in manufacturing sales. Year-to-date sales are up amongst the three metros, with Toronto up 29.8 per cent, Ottawa up 23.2 per cent, and Hamilton up 10.9 per cent.

For more information, contact economics@central1.com.