Economics | Current Economic Trends

Ontario Economic Briefing

Volume 29 • Issue 40 • Week of October 2 - October 6 2023 | ISSN: 1981-355

central 1 Economics

Highlights

- Greater Toronto MLS® home sales were down by 12 per cent from last month
- Ontario unemployment rate edged up to 6.0 per cent in September
- Motor vehicles and parts' trade volumes continued to lead the exports and imports in Ontario

Toronto housing recession underway, sales return to 2022 lows

Source: TRREB, Central 1 seasonal adjustment latest: Sep/23

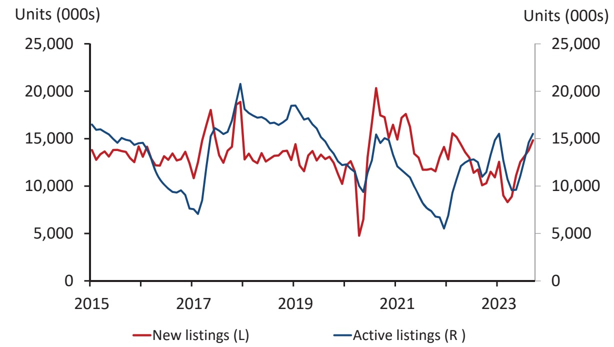
Toronto housing market recession returns

Bryan Yu, Chief Economist

The return of the housing recession in Greater Toronto is in play driven by the recent round of Bank of Canada interest hikes, rising bond yields, and increased financial stress and renewed uncertainty. The continued erosion of buyer purchasing power has resulted in a 12 per cent drop in MLS® home sales compared to August, and a 7.9 per cent decrease year-over-year. This decline represents an acceleration of recent sales decreases. Moreover, this marked the fewest sales for the month of September since 1998 despite a much larger population base, highlighting just how weak current conditions are as young homebuyers are effectively shut out of homeownership while others mull on the sidelines. After adjusting seasonal factors, sales have seen a decline for four consecutive months. While they are currently at levels similar to those observed last year, they remain higher than the lows witnessed during the early months of 2020 and the 2008/09 financial crisis.

Conditions have rapidly shifted in favour of buyers. New listings have quickly ramped higher by 45 per cent year-over-year. While driven by a scarcity of listings last year, this is about 17 per cent more than the trend heading into the pandemic and a signal that more owners, including investors, are looking to sell either by choice or necessity from the force of high interest rates and financial stress. Rising inventory and low sales are triggering buyers' market conditions and a supply-demand imbalance consistent with 2020 lows. Listings will continue to grow in the short-term, but the upside is limited by high rents which is keeping investors in the market and still severe housing supply shortages.

Supply rapidly increasing in Toronto market



Source: TRREB, Central 1 seasonal adjustment latest: Sep/23

Home values are again turning lower but have remained firm. The average price rebounded 3 per cent from August to reach $1.11 million but was still down five per cent compared to the summer and still sharply lower than the peak observed last year. Seasonally-adjusted prices have fallen for three months. Moreover, benchmark prices have also been in decline for three months. We anticipate that downward pressure on home values, ranging from five to ten per cent, will persist into early 2024 due to weak demand and an increase in fixed-rate mortgage rates. Despite this, homes will continue to remain unaffordable given the interest rate environment. However, the potential for rate cuts next year and increased demand driven by immigration will likely mitigate the downside, contributing to a potential rise in prices in the second half of 2024.

Ontario gained jobs in September following August's decline

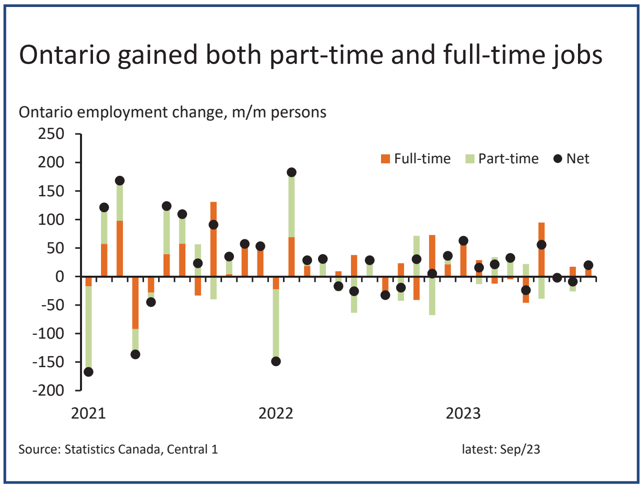
Ivy Ruan, Economic Analyst

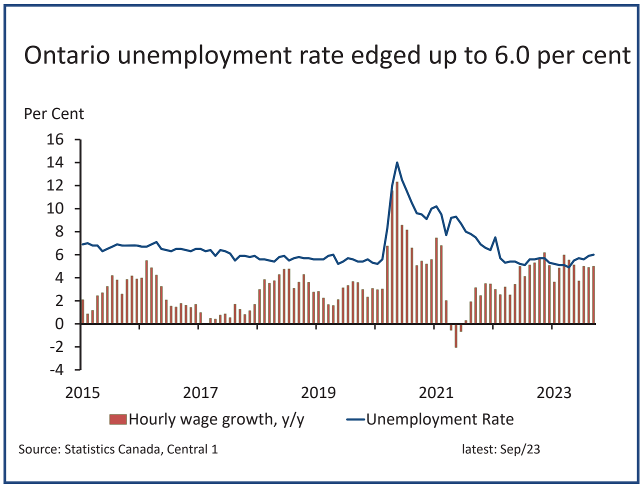
In September, Ontario's labour market recorded modest growth, with a seasonally adjusted increase of 19,900 persons (0.3 per cent) from August. Ontario was one of six provinces to record monthly gains. It's worth noting that provincial employment is 3.6 per cent higher than the same month last year and 6.1 per cent ahead of pre-pandemic levels from February 2020. The labour participation rate remained at the same level at 65.6 per cent. The provincial unemployment rate edged up to 6.0 per cent, up 0.1 per cent from August. Meanwhile, the provincial labour force expanded slightly by 0.3 per cent, driven by an ongoing population growth of 0.3 per cent. At the national level, Canada also showed a 0.3 per cent increase in employment, along with a population growth of 0.3 per cent.

In the Toronto Census Metropolitan Area, a labour force expansion of 0.8 per cent coincided with a 0.8 per cent hiring decline during the same period, pushing the unemployment rate down by 0.1 per cent to 6.5 per cent.

At the provincial level, the employment growth in September was driven by increases in both full-time and part-time employment. Part-time employment increased 3,500 people (0.6 per cent), while full-time employment grew by 3,100 people (0.2 per cent).

On an industry level, employment growth concentrated in the services-producing sectors (0.5 per cent), offsetting the declines in goods-producing sectors (-0.6 per cent). Specifically, large declines in construction (-1.1 per cent), utilities (-2.8 per cent) and natural resources (-1.7 per cent) offset the hiring gains in other goods-producing sectors, such as agriculture (1.5 per cent). In the service-producing sector, notable increases were observed in educational services, where employment increased by 27,800 people (a 5.1 per cent increase) following August's large decline in hirings. It is worth noting that these figures can be volatile, especially at the start of the school year. Additionally, there was a significant increase of, 12,100 people (a 3.1 per cent increase) in transporting and warehousing. In contrast, large hiring decline was reported in finance, insurance, real estate, rental and leasing, with 1.9 per cent fewer hirings.



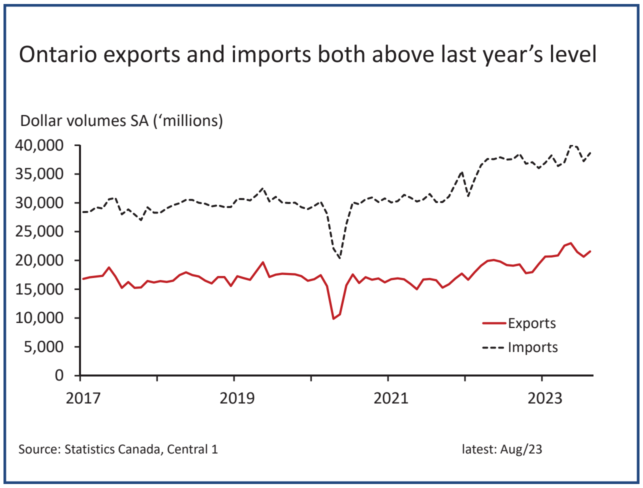


Ontario labour market performance in September was in line with the national picture, with employment up in the services-producing sector, led by educational services, reflecting timing issues of back-to-school contracts in the sector. September's strong pace of headline hiring growth and wage growth may provide fuel for rate hike speculation, but it is clear the details were far weaker below the surface.

Both exports and imports were above last year's levels in Ontario

Ivy Ruan, Economic Analyst

The value of Ontario exports in August jumped by 14.3 per cent to $22.0 billion on a year-over-year basis while imports were up 2.1 per cent to $39.8 billion compared to same month in 2022. A recent number of import categories have shown fluctuations in the past months although export figures have continued to see a general positive trend relative to last year. According to Central 1's seasonally adjusted numbers, exports rose 4.4 per cent on a monthly basis while imports gained 3.7 per cent in August.



Within the exports category, a lower volume of energy products (-50.2 per cent y/y) and basic/industrial chemical/plastic/rubber product (-6.0 per cent y/y) was reported in July. The Forestry product category also saw lower exports value, down 5.0 per cent to $1.08 billion. However, declines in these sectors were offset by the growth in exports of motor vehicles and parts, which had 37.4 per cent more dollar-volume than a year ago. Industrial machinery, equipment and parts volume also contributed to the provincial growth, reporting a gain of 9.7 per cent to $1.81 billion from last year.

On the imports side, half of the categories reported declines in August compared to a year ago. Consumer goods were 5.3 per cent lower than last year's value while basic/industrial chemical/plastic/rubber product values edged down 0.5 per cent to $2.64 billion in August following the large declines in past months. Metal ores and non-metallic minerals' imports value also dropped 10.2 per cent to $1.05 billion in the same period. On the other hand, the import values of motor vehicles and parts continued to grow, up 13.9 per cent from a year earlier to $9.89 billion, following a substantial 22.6 per cent yearly gain observed last month. Industrial machinery, equipment and parts' import value also saw 6.6 per cent increase in August compared to last August.

For more information, contact economics@central1.com.