Economics | Current Economic Trends

Ontario Economic Briefing

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central 1 Economics

Highlights

- Toronto home sales fall in October, average sale prices steady
- Economy stalls again, GDP flat
- Ontario unemployment rate edged up to 6.2 per cent in October; full-time employment contracted while part-time employment rose

Toronto housing downturn continues through October

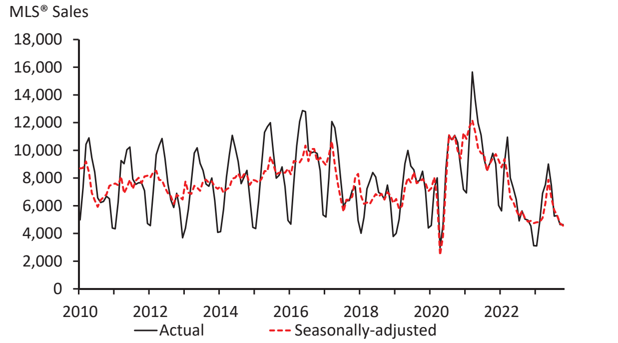
Bryan Yu, Chief Economist

Mid-year Bank of Canada interest rate hikes, along with higher fixed term mortgage rates and low buyer confidence, has resulted in reduced demand and led to a multi-decade low in MLS® home sales in the Greater Toronto area. This decline in sales occurred despite conditions during the pandemic and financial crisis of 2008/09. While a steady average price has been a surprise, this reflects compositional factors and further declines are anticipated.

MLS® sales reached 4,646 units in October. This marked a 6.3 per cent drop from already dismal levels a year ago and the lowest number of same-month sales since the turn of the century. On a seasonally-adjusted basis, we calculate a fifth straight monthly decline and the lowest level since the early pandemic shock. There is little doubt that this reflects the impacts of mid-year Bank of Canada rate hikes, and bond yield driven increases in fixed term rates. Deterioration in affordability has priced more buyers out of the market and overwhelmed a lift from rapid population growth, while contributing to a further tightening of the rental market.

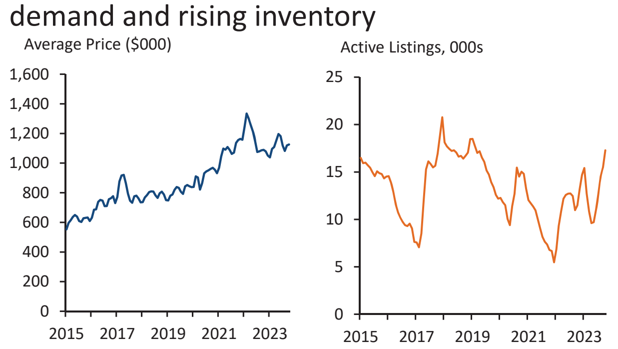
Demand weakness, financial stress on investors and new owners is increasingly driving an increase in new listings and inventory. New listings rose 38 per cent from a year ago and recent momentum has lifted levels above pre-pandemic trends. Active listings have also increased to a level last seen in 2019 reflecting more units coming to market and an increase in stale active listings. The market has clearly shifted in favor of buyers, with a sales-to-active listings ratio now matching levels last observed during the 2008/09 financial crisis.

Toronto home sales trend below 2022 trough



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

House price steady, trend to decline with weak demand and rising inventory



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

It is surprising that average home values are holding steady. At $1.12 million, levels were higher than September, albeit down 15 per cent from the 2022 peak. Steady average prices are a result of the current market conditions and reflect composition effects. Benchmark values broadly declined with the aggregate down two per cent from September marking a fourth consecutive decline. Detached homes led the pullback (-2.2 per cent), but apartment and townhomes also declined in value.

It is likely that price declines will continue into 2024 given the challenging demand conditions and increasing supply in the market. That said, the downside is limited in our view to about 5 per cent given strong population growth and a tight rental market, although economic weakness will weigh. Market conditions turn around in the second quarter as interest rate cuts spur demand.

Overall manufacturing down, but finance sector and transportation manufacturing up

Alan Chow, Business Economist

Canada's real industry gross domestic product (GDP) was unchanged for the month of August. This marks the second straight month the seasonally-adjusted real industry GDP number did not change. Goods producing sectors experienced a decrease of around 0.2 per cent while services producing sectors saw an increase of around 0.1 per cent. Advance estimates for the month of September suggest more of the same.

Among sectors more relevant to Ontario, the finance and insurance sector saw particularly robust growth in August, as it was up 0.4 per cent, and brings it beyond the recent elevated level seen in December 2021. All this month's gains though were in financial investment services, which were up 2.6 per cent. The increase in real GDP in this sector was largely driven by high market volatility, leading to higher trading volumes during the month.

Manufacturing saw a 0.6 per cent decrease in monthly output, reaching its lowest point this year. A significant factor in this decline was chemical manufacturing, which was down 3.2 per cent, aproaching the lowest monthly output recorded in January. On the other hand, transportation equipment manufacturing saw a 0.7 per cent increase in real industry GDP. The 2.5 per cent increase seen in motor vehicle manufacturing more than offset the 0.7 per cent declines seen in body and trailer manufacturing and parts manufacturing.

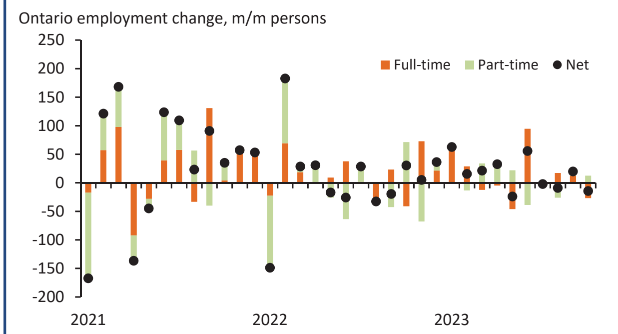
Ontario labour market posts decline in October

Eloho Ennah, Economic Analyst

In October, Ontario's labour market recorded a modest decline in employment, with a seasonally-adjusted reduction of 14,300 people (0.2 per cent) from September. Provincial employment is 2.6 per cent higher than the same month last year and sits 5.9 per cent above pre-pandemic levels from February 2020. The labour participation rate edged down slightly from 65.6 per cent to 65.5 per cent while the provincial unemployment rate rose to 6.2 per cent, up from 6.0 per cent in September. Meanwhile, the provincial labour force expanded slightly by 0.1 per cent, driven by an ongoing population growth of 0.3 per cent.

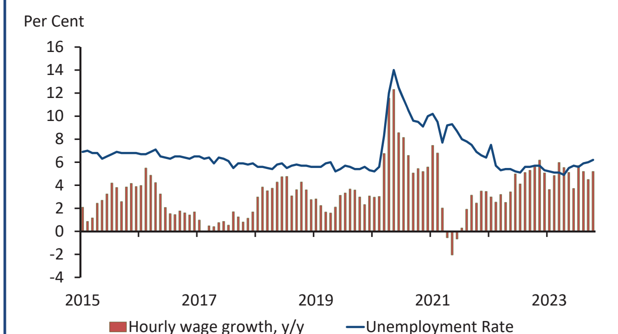
In the Toronto Census Metropolitan Area, a labour force expansion of 0.2 per cent coincided with a 0.1 per cent hiring decline during the same period. The unemployment rate increased to 6.8 per cent from 6.5 per cent in September. At the provincial level, the

Full-time employment declined while part-time employment rose



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

Ontario unemployment rate edged up to 6.2 per cent



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

employment decline in October was driven by reduction in full-time employment, down by 0.4 per cent or 26,900 persons. Part-time employment increased 12,600 persons (0.9 per cent).

On an industry level, employment declines were seen in both the services-producing sectors (-0.1 per cent), and goods-producing sectors (-0.7 per cent). Specifically, large declines in utilities (-6.6 per cent or -4,300 persons), manufacturing (-0.5 per cent or -4,200 persons) and natural resources (-6.9 per cent or -2,800 persons) offset the hiring gains in other goods-producing sectors, such as agriculture (2.0 per cent or 1,600 persons). In the service-producing sector, notable increases were observed in information, culture and recreation (5.6 per cent or 17,400 persons), educational services (1.6 per cent or 9,000 persons), and health care and social assistance (0.7 per cent or 6,900 persons). While significant declines were seen in wholesale and retail trade (-2.6 per cent or -29,200 persons), accommodation and food services (-1.9 per cent or -8,500 persons), and finance, insurance, real estate, rental and leasing (-1.1 per cent or -7,300 persons).

On the national front, Canadian employment was up by a minor 0.1 per cent during the month as employment growth faltered in light of slowing economic conditions. October's minimal employment growth was concentrated in the goods sectors, while employment in the services sector remained unchanged. Canada's unemployment rate notched higher by two percentage points to 5.7 per cent which was the highest since January 2022 (6.5 per cent), and a touch higher than the pre-pandemic level.

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