Economics | Current Economic Trends

Ontario Economic Briefing

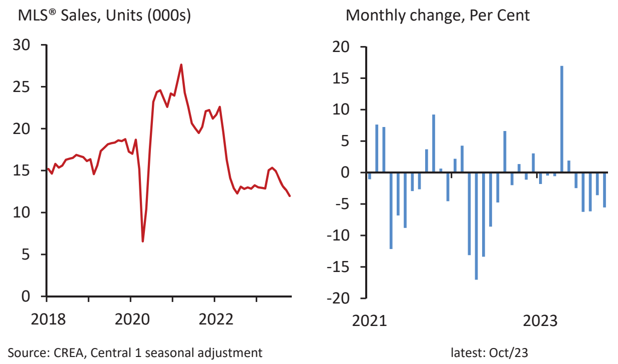
Volume 29 • Issue 46 • Week of November 13 - November 17 2023 | ISSN: 1981-355

central 1 Economics

Highlights

- Home sales in Ontario lessened by 5.5 per cent in October; Ontario home prices fall
- Single-detached housing starts rose in October by 13.3 per cent; multi-family housing starts down 1.7 per cent
- Ontario manufacturing sales are down slightly in the month of September

Housing unaffordability cuts home sales to below 2022 low



Ontario home sales down while prices decline

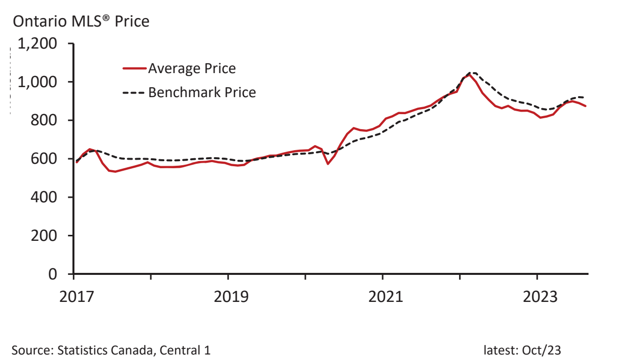
Bryan Yu, Chief Economist

A hush has fallen over Ontario's real estate market as buyers stand at the sidelines, grappling with worsening affordability brought on by higher mortgage rates. Declining prices and market uncertainty have added to the challenges, eroding confidence among potential buyers. Ontario home sales fell 5.5 per cent from September and 7.8 per cent year-over-year. Early year momentum has fully evaporated, and sales are now below 2022 lows and excluding the early pandemic downturn, the lowest since the financial crisis period of 2008/09. Adjusting for population growth over this period, housing sales are the lowest since the early 1990s. High mortgage rates, pandemic era home price increases, and inflation mean many buyers are unable to qualify for mortgages at prevailing prices.

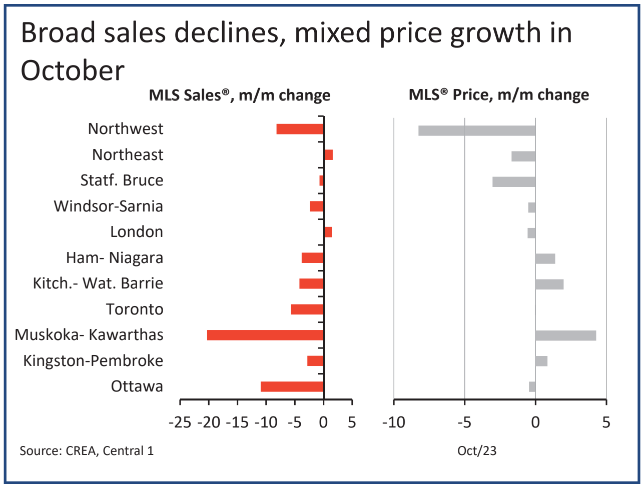
Sales retrenchment was broadly observed across the province based on our calculations for economic regions by MLS® board area. Among larger metros, Ottawa reported the sharpest decline contributing to a decline in the economic region of 11 per cent, while combined sales in the Muskoka-Kawarthas region fell 20 per cent and were down 26 per cent year-over-year. Sales declined six per cent in the Toronto economic region, with both Kitchener-Waterloo-Barrie and Hamilton-Niagara Peninsula down four per cent from September.

Weakening market conditions have contributed to mixed activity for new listings. At a province-wide level, new listings declined three per cent after a 10 per cent increase in September. Nevertheless, levels are elevated and sharply higher than previous quarters. With the market on the decline, an increasing number of sellers are entering the scene. Recent buyers, facing challenges from higher rates and renewals, as well as and leveraged investors, seem to be selling amid the downturn. Meanwhile, long-time owners are opting to step aside. Months of inventory are no longer low, and at a level unseen since the mid-2010s.

Prices rolling over as demand drops



Not surprisingly, prices are in decline despite the provincial average being unchanged in October at a seasonally- adjusted $872,450. This exceeded levels from a year-ago by a modest 2.7 per cent. This is 15 per cent below the pandemic high, but above the early year low, and 30 per cent higher than pre-pandemic trend. Benchmark prices declines accelerated, with October coming in at -1.4 per cent. Regionally, average price patterns varied, showing a stable reading in Toronto and higher prices in Kitchener-Waterloo Barrie and Hamilton Niagara Peninsula. Average prices declined in other markets, but trends have been negative in recent months.



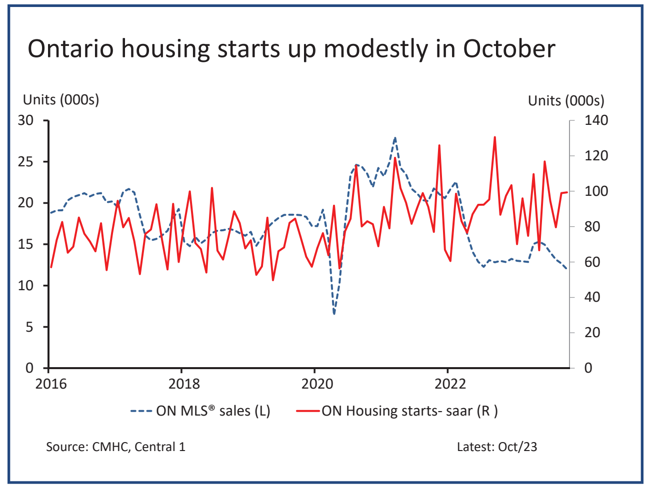
Market conditions point to persistence of low home sales and declining price trends into 2024. More new listings could emerge as mortgage renewals create further challenges for existing homeowners. That said, demand will be supported by high levels of immigration, and declining interest rates pattern starting in the second quarter.

Ontario housing starts up slightly in October

Eloho Ennah, Economic Analyst

Ontario housing starts turned slightly higher in October, following a stronger increase in September. Urban area housing starts rose by a modest 0.4 per cent to reach 99,360 units at a seasonally-adjusted annualized pace. The longer-term trend across the province, represented by the six-month moving average of the seasonally adjusted annual rate, shows 92,648 units, down 1.8 per cent from the previous month. The uptick in housing starts during the month can be linked to more single-detached units which increased 13.3 per cent. While multi-family unit starts fell 1.7 per cent after a 27.1 per cent increase in September. Volatility in monthly housing starts is not unusual given the scale of multi-family projects.

Within the census metropolitan areas, Toronto housing starts fell in October to an annualized 44,583 units, a 23.8 per cent decrease from September. Housing starts in Ottawa declined 11.5 per cent during the month, while starts in St Catharines-Niagara and Guelph fell by 15.7 per cent and 89.6 per cent respectively. Kitchener-Cambridge-Waterloo housing starts also decreased 36.9 per cent. In contrast, In Hamilton, housing starts rose six times from September while they grew by 17 per cent in London. While a variety of changes in housing starts' results were reported among the other the regions, the number of starts in those areas was much smaller compared to the major cities.



Ontario's actual unadjusted urban-area housing starts from January to October was unchanged when compared to same period in 2022. Although during this period, single-detached starts fell 32.3 per cent. Meanwhile, multi-family unit starts rose by 10.9 per cent to 61,958 units compared to the same period last year. In Toronto, total housing starts from January to October was up 22.2 per cent in comparison to 2022. Hamilton saw housing starts increase 20.0 per cent. In contrast, total housing starts in Ottawa lessened, down 25.2 per cent. Declines were also seen in other census metropolitan areas, such as London and Kitchener-Cambridge-Waterloo, down by 31.8 per cent and 11.3 per cent respectively.

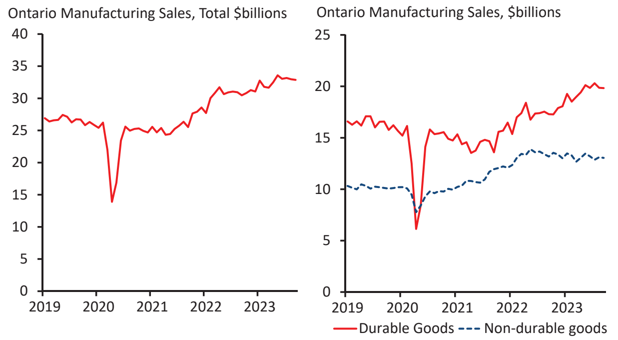
It is expected that housing starts will decline into 2024 as builders encounter greater financing difficulties in the context of a high-interest-rate environment. The current increase in multi-family starts reflect pre-planned projects from years ago. It is important to note that multi-family construction can exhibit significant monthly volatility due to the scale of new condo projects.

Both durable goods and non-durable goods industries are down

Alan Chow, Business Economist

Manufacturing sales edged down again in the month of September. On a seasonally-adjusted basis, sales were down 0.3 per cent in September when compared to August. Non-durable goods industries led the fall in sales as they were down 0.5 per cent while durable goods industry sales were also down, but by only 0.1 per cent. Year-to-date, manufacturing sales are up 6.0 per cent over the same period last year with durable goods industries up 12.8 per cent. This is more than enough to offset the lower level of non-durable goods sales, which are down 2.6 per cent. Strong export growth, led by shipments to the U.S., have underpinned this strength.

Ontario manufacturing sales down again in September



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

Within the durable goods industries, the largest monthly decline in sales was seen in fabricated metal product manufacturing (down 3.3 per cent) and reaching that industry's lowest monthly sales since September of last year. Computer and electronic product manufacturing was also down 4.6 per cent to its lowest level since February 2022. And finally, transportation equipment manufacturing down 1.0 per cent, marking a second straight monthly decline. On the other hand, higher sales were seen in miscellaneous manufacturing (up 8.6 per cent), electrical equipment, appliance and component manufacturing (up 5.3 per cent), and wood product manufacturing (up 5.1 per cent). Non-durable goods sales were dragged down by lower sales in chemical manufacturing (down 1.6 per cent), paper manufacturing (down 2.3 per cent), and plastic and rubber products manufacturing (down 1.0 per cent).

Within the metro areas, Toronto and Hamilton saw stable manufacturing sales. Kitchener-Cambridge-Waterloo saw a 0.5 per cent decrease in monthly manufacturing sales. Ottawa and Windsor saw manufacturing sales decline by 3.2 per cent and 16.8 per cent.

For more information, contact economics@central1.com.