

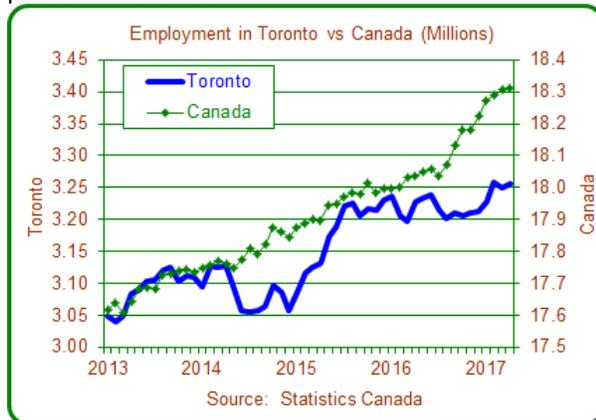
Housing Market Digest

Greater Toronto Area, May 2017

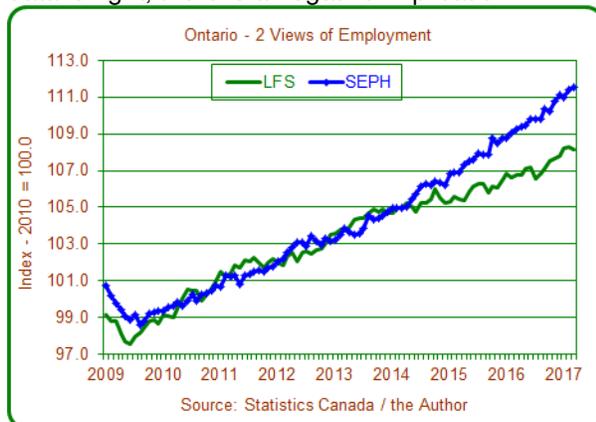
Synopsis: talk of a slowdown in the GTA housing market is premature.

Economic Trends

The employment data from Statistics Canada's Labour Force suggest that the Toronto CMA has seen very little job creation during the past two years (and during the past year has badly underperformed compared to Canada as a whole). The technical indicators I look at (to decide whether the data might be an "artifact") only explain a small part of the slowdown.



But, Statistics Canada's other survey of employment ("SEPH", which has data for Ontario only) indicates that job creation has strengthened. If the SEPH data is correct, that is a positive for continued strong housing activity. But, if the LFS data is right, there is a negative implication.



Interest Rates

Bond yields have slid during the past two months, and the yield for 5-year Government of Canada bonds is now below 1.0%. Correspondingly, mortgage interest rates remain extremely low. My opinion-estimate of the typical rate for 5-year fixed mortgages at major lenders is 2.6%. The spread between bonds and mortgage rates is skinny at

present, at just 1.6 points, versus a long-term average of 1.8 points.



Resale Market

Resale activity dipped during April, but the annualized rate of 114,800 is still quite high in historic terms.



There has been a lot of commentary about a surge of new listings in April. But, that follows a few months of very low new supply. The inventory of active listings (on the market at month end) also picked up in April, but is still very low (see the chart on page 2). In short, I think it's much too early to say this is a turning point. There is still a long-run problem of too few homes on-the-ground, which will mean persistently inadequate resale inventory. The long-term solution is that we need a very large and sustained increase in construction of new low-rise homes. In the short term, what could provide some relief would be large numbers of resales of low-rise homes that result in move-aways (outside of the GTA+Hamilton) and move-downs into apartments (rented or condo) – at least 25,000 per year. Is there any evidence of that?

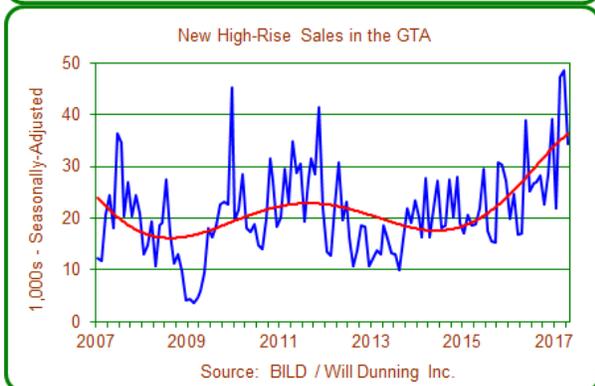
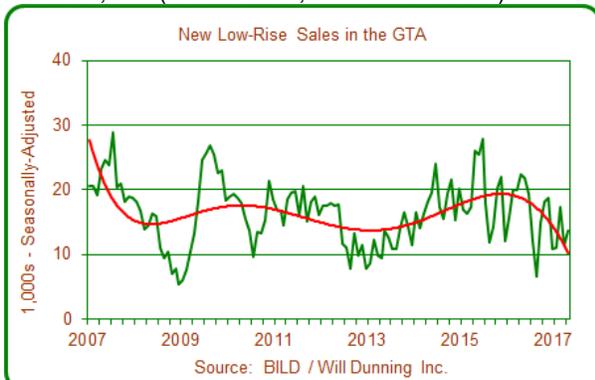


The average price rose by 24.6% versus a year ago. CREA's House Price Index was up by 31.7%.

For all of Canada, the April report also shows a slight easing, but sales remain very strong. CREA's price index for Canada shows year-over-year growth at 19.8%, driven by Toronto and environs.

New Homes Market

New home sales have strengthened so far this year, but this is entirely due to apartments. For April, the sales rate was 47,800 (based on 4,680 actual sales). Low-rise sales were just 13,600 (based on 1,415 actual sales). High-rise sales were 34,200 (based on 3,265 actual sales).



Other News

On May 16, I was at BNN, talking about the supply situation: <http://www.bnn.ca/video/mortgage-rules-and-unintended-consequences~1125999>

Also, in two recent columns on canadianmortgagetrends.com I discussed:

- Borrowing by the federal government implies that it is not worried about increases for bond yields: <http://www.bnn.ca/video/mortgage-rules-and-unintended-consequences~1125999>
- A recent report from Manulife Bank probably over-stated mortgage borrowers' susceptibility to higher interest rates: <https://www.canadianmortgagetrends.com/2017/05/dissenting-opinion-manulife-bank-survey/>

The Outlook

No changes have been to my forecasts.

Toronto Indicators		
	2016 Actual	2017 Forecast
Job Growth (Toronto CMA)	1.2%	2.1%
Resales (units)	113,725	109,800
Ch. in Avg. Resale Price	17.3%	10.8%
GTA New Home Sales		
Low-Rise	17,975	19,600
High-Rise	29,186	24,400
Total	47,161	44,000
Housing Starts (Toronto CMA)		
Low-Rise Ownership	17,581	16,800
Condo Apartment	18,769	23,900
Rentals	2,677	2,500
Total	39,027	43,200
Apartment Vacancy Rate	1.3%	1.4%
Source: forecasts by Will Dunning Inc. (Feb 8/17)		

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