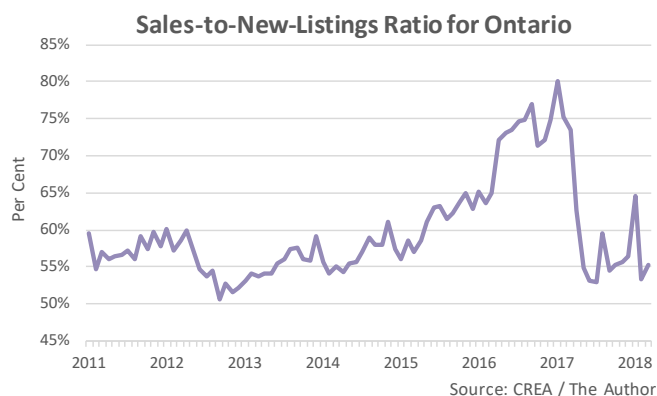
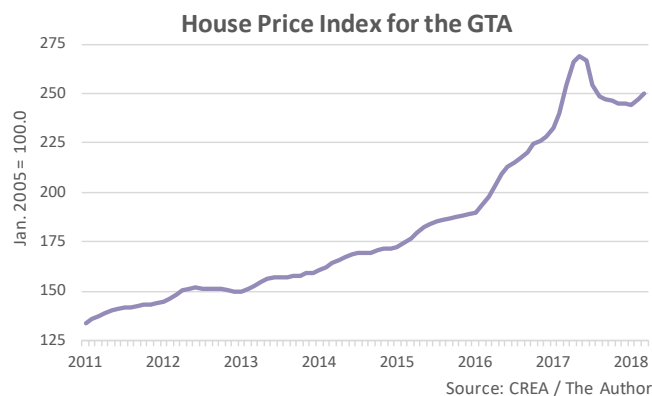
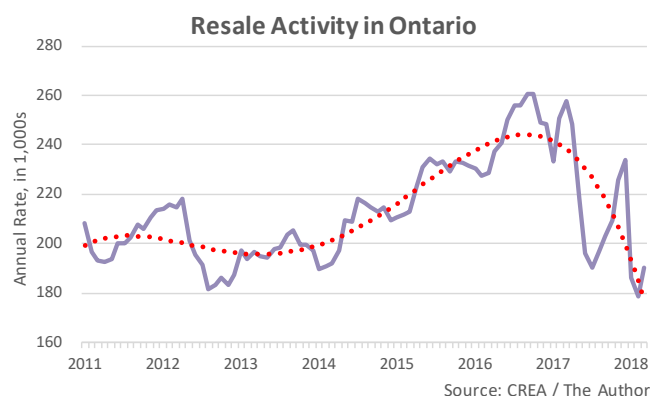


Resale Market

Resale activity has slowed sharply in Ontario, for several reasons. Potential home buyers (and sellers) have become much more cautious in the wake of the excess exuberance that was seen during late 2016 and early 2017; higher interest rates are weighing on affordability; and government policies are suppressing housing demand, chiefly the duo of mortgage stress tests, with a minor contribution from the provincial policies that were announced last spring. During the first quarter, the annualized sales rate was 185,000, which was 16.7% lower than the total for 2017. The downturn is widespread across the province, with a few exceptions in eastern and northern Ontario.

The average resale price for Ontario is highly distorted by changes in composition (the types and locations of properties sold). As an alternative, this chart shows CREA's House Price Index for the Greater Toronto Area. The HPI has increased for two consecutive months, but this is a normal seasonal event. If this data was seasonally-adjusted, it would show that prices have been more-or-less flat during the recent past.

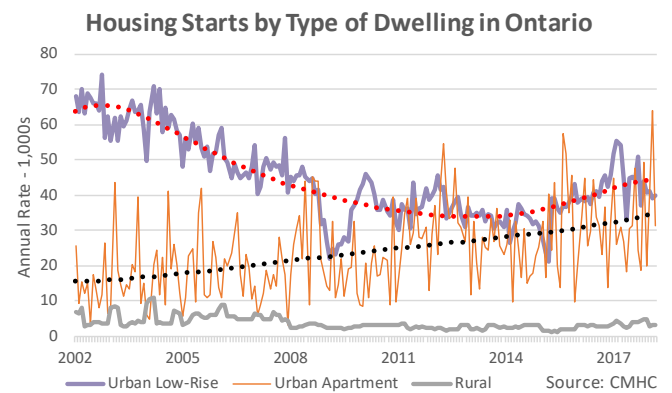
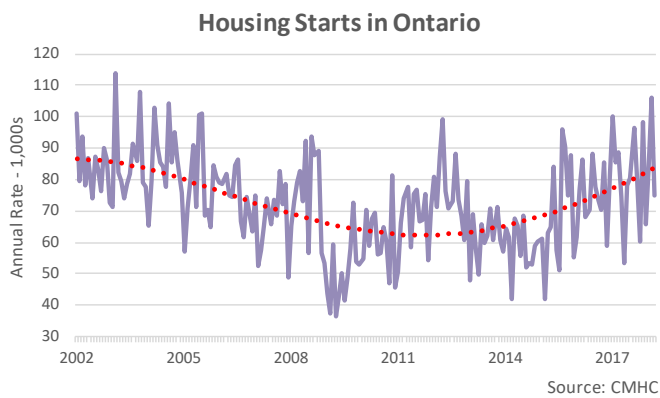
The sales-to-new-listings ratio ("SNLR") was 57% during the first quarter, slightly above the threshold (53%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year).



Housing Starts

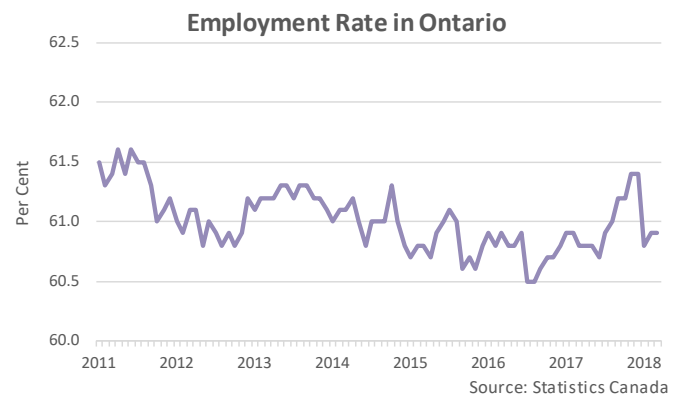
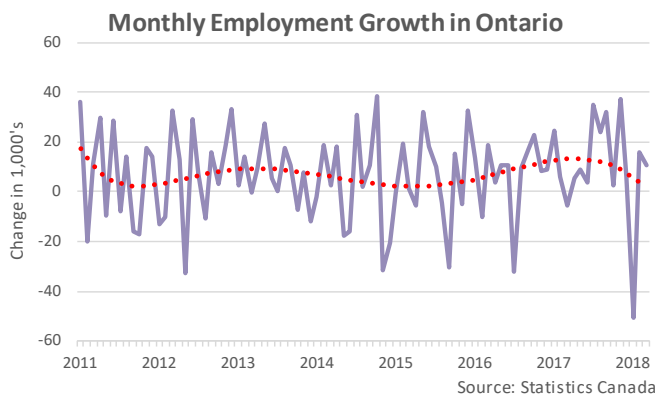
Housing starts are quite strong in Ontario, at an annual rate of 89,000 during the first quarter. The trend line continues to rise. This is in sharp contrast to the sharp slowing for resale activity: housing starts lag behind the resale market, since they result from new home sales that occurred earlier.

For low-rise starts (singles, semi-detached, and town homes), this chart still shows a rising trend line, but the trend is likely to turn down within the next few months. For apartments, on the other hand, the lag between sales and starts is longer. Therefore, apartment starts should remain strong until later this year.



Employment Trends

Statistics Canada data suggests that job creation is slowing. This is largely due to a large drop reported for January, which is pulling down the trend line. Yet, it is possible that job creation was over-estimated last fall and the recent slowing might be a correction of erroneous data, rather than a true reversal. At this time, the data is ambiguous.



Employment Trends (Continued)

The recent unusual months also caused changes for the employment-to-population ratio. At the moment it looks like the “true” employment rate might have been flat during the past two or three years, which means that jobs have been created at the same rate as the population is growing. This is a healthy situation.

Looking forward, there are some negative factors. These include the weakening of housing activity. The drop for resale activity will soon start to have minor effects. If housing starts also slow, that will have larger effects, but not until next year.

Interest Rates

Bond yields (5-year Government of Canada) have been roughly flat since early January, albeit with some small movements that have reflected volatile policies and politics in the US.

My opinion-estimate of a typical “special offer” rate for 5-year fixed rate mortgages (major lenders) is 3.2% (lower rates can be negotiated). The spread versus 5-year Government of Canada bonds is just 1.0-1.1 points, versus an average of 1.83 points over the past decade. The compression of housing activity is resulting in more competition among lenders.

The Canadian dollar has strengthened versus the US (rather, the US dollar is weakening against major currencies). While it takes very long periods of time for the exchange rate to have significant effects on our economy, recent movements in the dollar will be mildly depressive..

Yields for 5-Year GoC Bonds



Sources: Bank of Canada

Canada-US Exchange Rate



Sources: Bank of Canada

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