THIRD QUARTER 2018
HOUSING MARKET DIGEST
ONTARIO

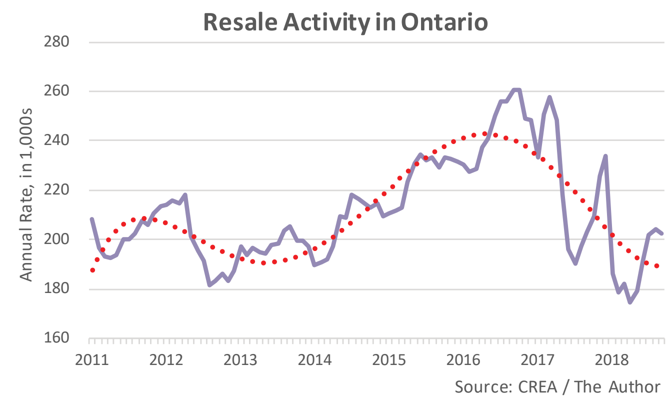
MORTGAGE PROFESSIONALS CANADA

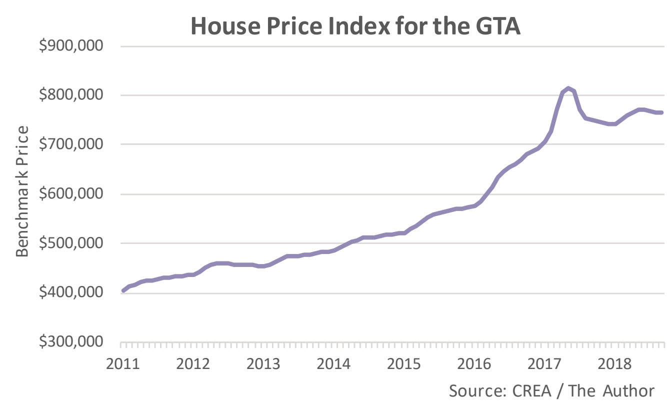
Resale Market

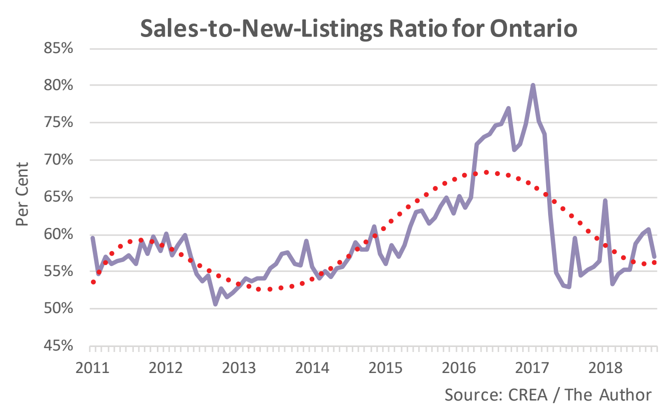
Resale activity improved during the third quarter, but remains quite weak compared to 2015 into early 2017. The strong employment situation should be very positive for housing activity, but home-buying is being depressed by higher interest rates and the mortgage stress tests (as well as provincial policies that aim to discourage buying by non-residents). While activity is now similar to 2011 to 2014, it must be remembered that the population is growing, and housing activity should trend upwards over time: on this basis alone, current sales should be 7-8% higher than five years ago. Secondly, economic conditions were much less supportive during the earlier period (in the aftermath of the recession of 2008/09).

The average price data for Ontario is highly distorted by changes in composition (the locations and types of properties sold). Therefore, this chart uses CREA's house price index for Greater Toronto Area. With much slower demand, prices are currently showing little change.

The sales-to-new-listings ratio ("SNLR") averaged 57% during the past year, which is slightly above the threshold (53%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). At the current level of the SNLR, we should expect moderate price growth (slightly better than 2% per year, but less than 5%).







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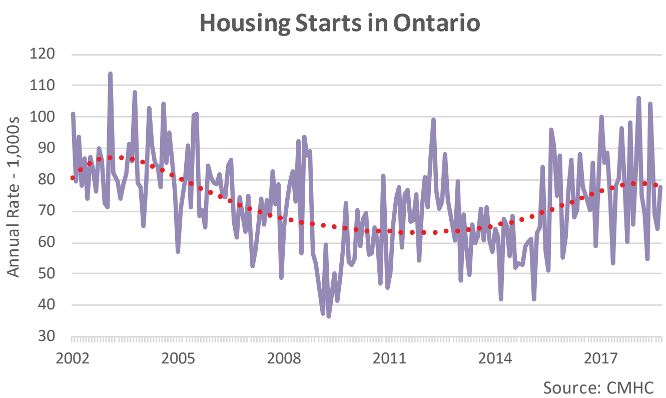
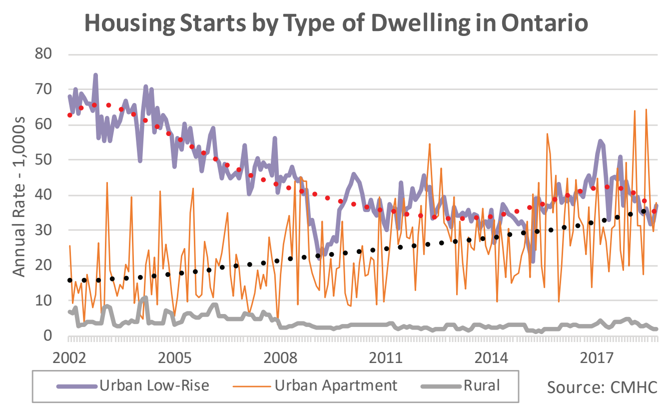
Housing Starts

Housing starts generally follow trends in the resale market, although with a delay. This is developing in Ontario. The trend line for total starts has now flattened, at a level that is mid-range in historic terms. Given that the province is currently experiencing rapid population growth (due to immigration plus in-movements from other provinces) current starts should be higher and he trend should be rising.

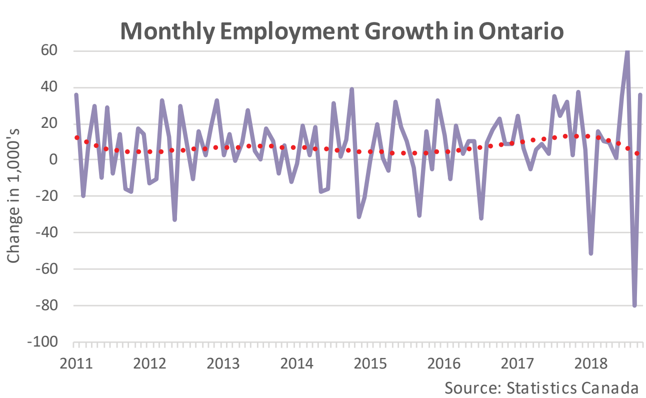
When conditions change, the reaction is more rapid for low-rise activity (singles, semi-detached, and town homes) than for apartments. The low-rise trend is now in decline. For apartments, the trend is still rising. A turning point is likely to arrive late this year or early next year.

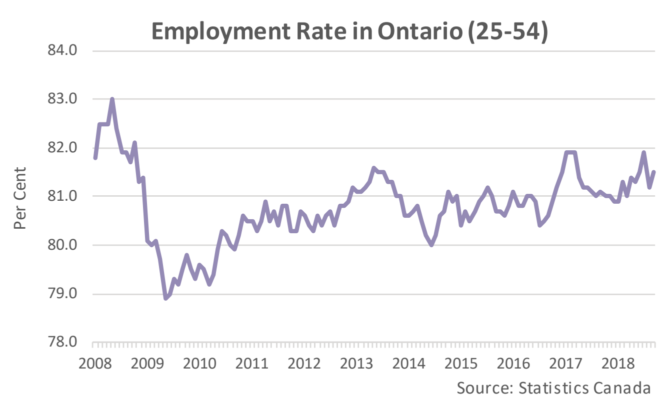




Employment Trends

The employment data indicates that there has been a sharp turn, from rapid growth during 2016 and 2017, to negligible growth this year. But, the data is generated by a sample survey and it contains random errors. This chart illustrates that the data is highly volatile (during the first nine months the reported data contains two unbelievably large drops and one unbelievably large rise). This creates uncertainty about the true state of affairs. I am inclined to be very skeptical about this data.





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Employment Trends (Continued)

My favorite economic indicator is the employment-to-population ratio (or the "employment rate"). Digging deeper, I'm watching the rate for "prime working age" adults (25 to 54). Once again, volatility in the data creates uncertainty. It does appear that the employment rate is currently higher than during 2009 to 2016 (although still below the level seen before the recession of 2008/09). This should be supporting continued healthy housing demand.

The prime age employment rate is also at a high level for all of Canada (and for the US). This justifies the rises that have recently happened for Canadian interest rates (and could push them a bit higher).

Interest Rates

Bond yields (5-year Government of Canada) have increased considerably during the past year and a half (this includes a further small rise during the past month).

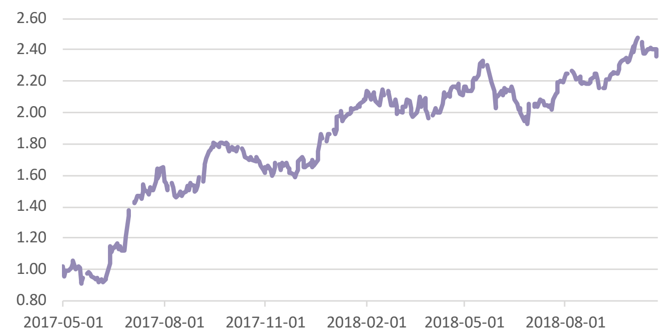
However, reduced housing activity has caused lenders to limit the increases for their "special offer" mortgage interest rates. My opinion-estimate of a typical 5-year fixed rate at major lenders is now 3.5%. Thus, while the 5-year bond yield has increased by 1.4 points during the past year and a half, the mortgage rate has increased by just 0.8 points.

Five years ago, my "special offer" estimate was 3.6%, slightly higher than the current 3.5%.

My opinion-estimate for 5-year variable rates is now 3.05% (reflecting the increase today - October 25th), versus 2.6% five years ago.

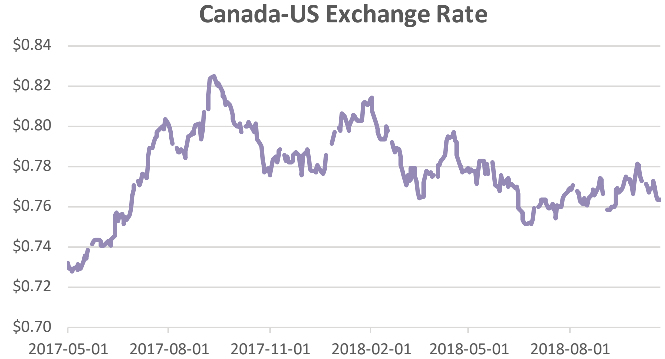
Based on these estimates of typical interest rates, most people renewing mortgages this year are seeing little or no change in their borrowing costs.

Yields for 5-Year GoC Bonds



Sources: Bank of Canada

Canada-US Exchange Rate



Sources: Bank of Canada

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