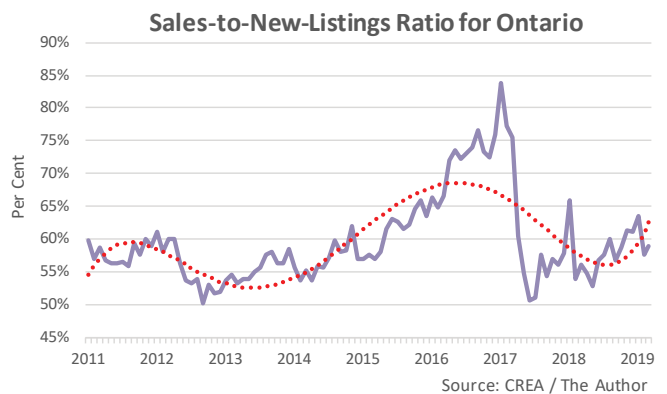
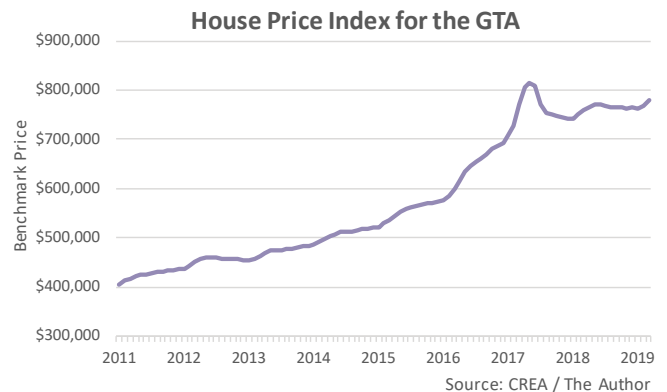
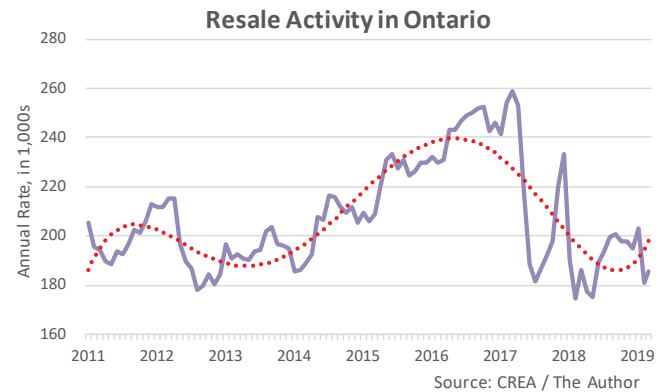


Resale Market

Resale activity has fallen sharply in Ontario, under the weight of the federal mortgage stress tests and provincial policies that were announced two years ago. Higher interest rates have made a minor contribution. It is also likely that uncertainty about the direction of the housing market (including whether house prices will fall) is causing many potential buyers to hesitate. A growing population should be causing home buying to expand. On a population-adjusted basis, resales are now 17% below the long-term average, at a time when rapid population growth should be causing increased sales (during the past two years, population growth has averaged 1.69% per year, versus an average rate of 1.32% per year for 1986 to the present).

House price trends vary across the province. Within the Greater Toronto Area, prices are flat or increasing slightly. Stronger trends are seen in some of the surrounding areas (which will attract move-away buyers) as well as Ottawa.

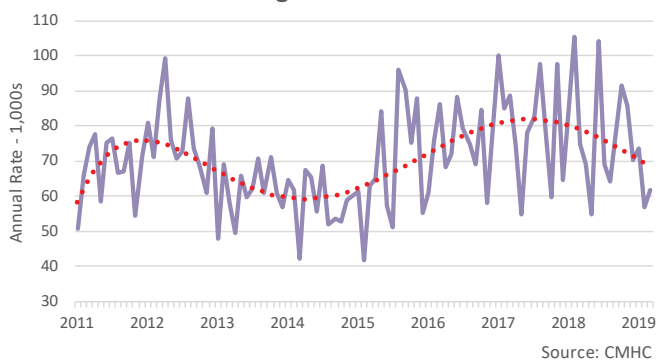
The sales-to-new-listings ratio (“SNLR”) remains healthy, at 60% in the first quarter, which is above the threshold (estimated at 53%) for a “balanced market” (this is the level at which prices are expected to rise by 2% per year). At this level, the province should continue to experience moderate price growth.



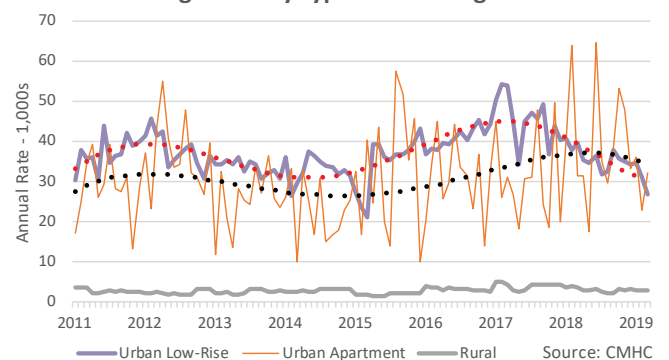
Housing Starts

Housing starts have turned down in Ontario, and the trend is now down by 10% (or more) compared to 2017. Low-rise activity (singles, semi-detached, and town homes) has fallen by about one-third. The trend for apartments had been very strong, but now appears to be turning downwards. It takes apartments longer to react to changing conditions. I expect that apartment starts will trend downwards throughout this year.

Housing Starts in Ontario



Housing Starts by Type of Dwelling in Ontario

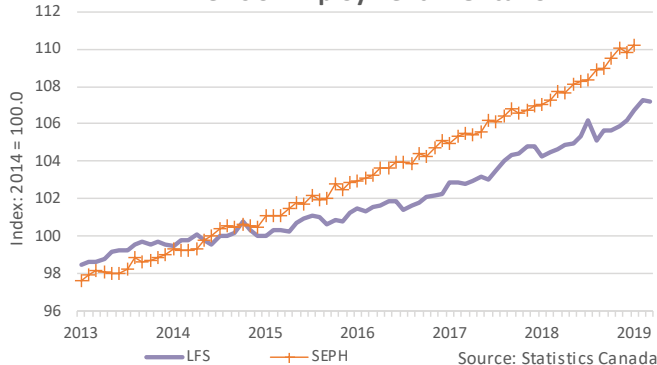


Employment Trends

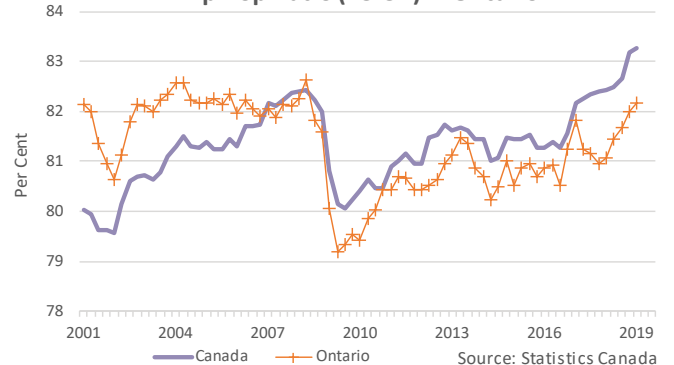
Statistics Canada's two surveys of employment both show strong improvements in the employment situation. That said, the Labour Force Survey ("LFS"), which is based on personal surveys, has consistently shown slower growth compared to the Survey of Employment Payrolls and Hours ("SEPH"). For the past year, the LFS shows 2.4% growth while SEPH shows 3.0%. Both surveys show job creation exceeding the rate at which the adult population is expanding (1.9%). In this light, housing activity is much weaker than it ought to be.

The employment-to-population ratio (the percentage of people who have jobs) for the "prime working ages" (25-54) has been a bit depressed (about 1 point below the pre-recession level) but the recent data suggests there has been improvement. If this is sustained, it will be a positive factor for home buying.

2 Views of Employment in Ontario



Emp:Pop Ratio (25-54) in Ontario



Interest Rates

Bond yields might have “overshot” early this year (fallen by too much given evolving economic conditions). Thus, the 5-year yield has partially retraced some of the recent drop. But, at a current 1.6%, the yield is still about 0.8 points above the trough that was seen during 2015 and 2016.

I have reduced my opinion-estimate of a typical “special offer” mortgage interest rate (from major lenders) for the third time this year, to 3.1% (versus 3.75% at the start of the year). Movements in mortgage rates are lagging behind the changes in bond yields. The spread between typical mortgage rates and bond yields is now skinny (1.5 points versus a long-term average of 1.8). I won’t be surprised if 5-year fixed rates are a bit higher during the second half of this year (say 3.25% to 3.5%).

Yields for 5-Year GoC Bonds



Sources: Bank of Canada

Comments on Federal Mortgage Policies

The Canada edition of Housing Market Digest (April 2019) includes some thoughts on the federal government’s proposed First-time Home Buyers Incentive (the shared equity mortgage). The main take-away is that CMHC’s own estimates suggest that it expects a very small impact, which will only partially offset the damage done by the mortgage stress tests (perhaps 1/10th).

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