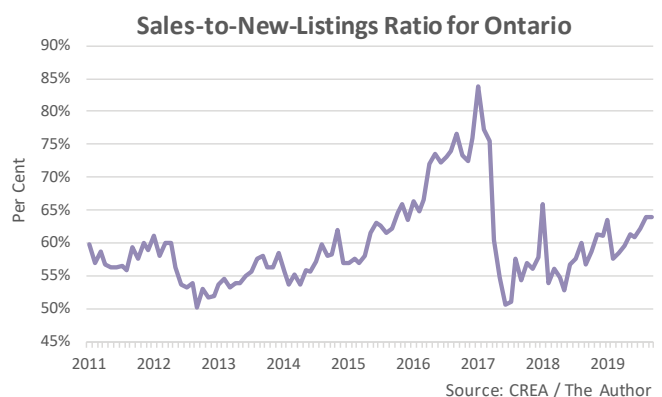
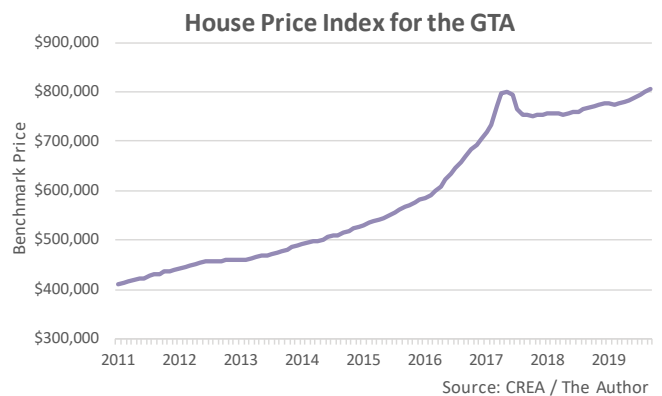
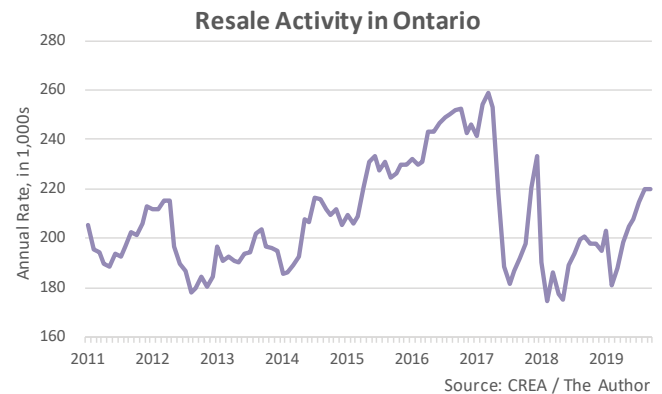


## Resale Market

Resale activity has recovered somewhat in Ontario, but remains weak in historic terms. Looking at sales on a population-adjusted basis, activity in August and September was still 3% below the long-term average. Considering the very strong fundamental conditions (rapid population growth and job creation, plus sharp reductions in mortgage interest rates this year), sales should currently be considerably above average. The federal mortgage stress tests and provincial policies that were announced in the spring of 2017 have combined to sharply suppress home buying.

House price trends vary across the province. For the Greater Toronto Area, the Canadian Real Estate Association estimates that prices have increased by 5% during the past year. Stronger trends are seen in some of the surrounding areas (which will attract move-away buyers) as well as Ottawa (where the index is up by almost 10%).

The sales-to-new-listings ratio ("SNLR") remains healthy, at 63% in the third quarter, which is far 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 price growth.

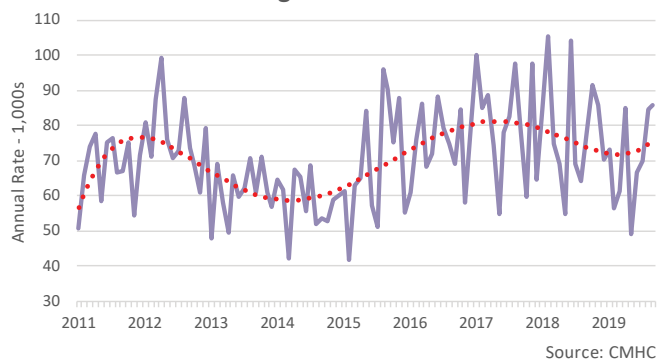


## Housing Starts

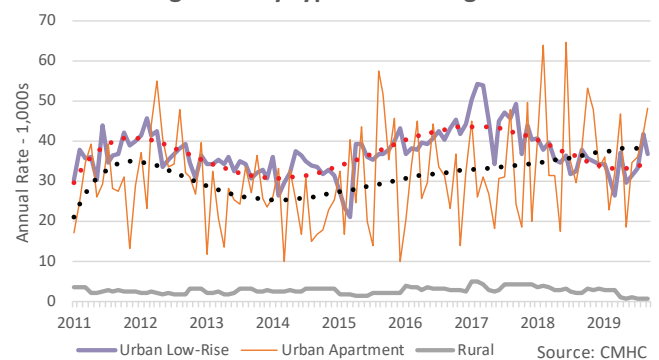
Housing starts remain constrained in Ontario (they are not responding as strongly as they should to the economic fundamentals).

Low-rise activity (singles, semi-detached, and town homes) may have stabilized (or even increased slightly) but remains far below the levels seen during 2015 to 2017. Apartment starts remain very strong, due to enormous volumes of pre-construction sales that occurred earlier. There has also been an increase in starts of apartments for rental. Traditionally, apartment starts have been largely for home ownership (with less than one-quarter for rentals). The rental share has increased slightly this year (to 29%).

**Housing Starts in Ontario**



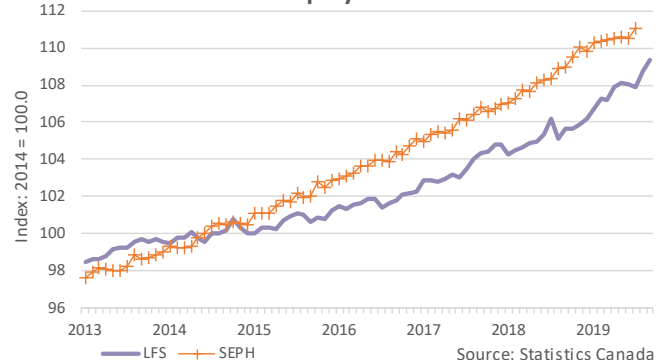
**Housing Starts by Type of Dwelling in Ontario**



## Employment Trends

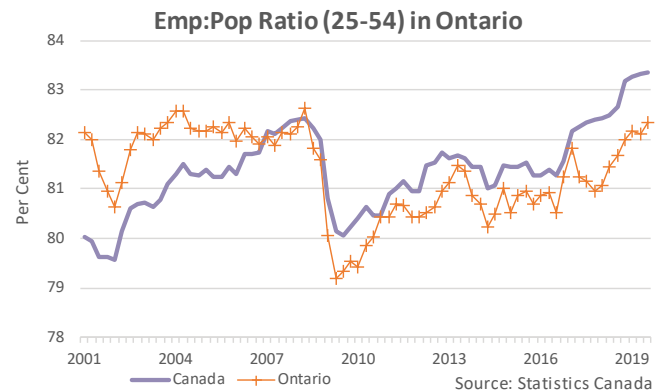
Statistics Canada's two surveys of employment had both hinted at a slowdown for job creation, but then both showed large rises in their most recent months: in September for the Labour Force Survey ("LFS") and July for the Survey of Employment Payrolls and Hours ("SEPH"). LFS shows an average growth rate of 2.4% per year during the past two years, with SEPH at 2.3%. Job creation exceeds the rate at which the adult population is expanding (2.0% per year). In this light, housing activity is much weaker than it ought to be.

**2 Views of Employment in Ontario**



## Employment Trends (Continued)

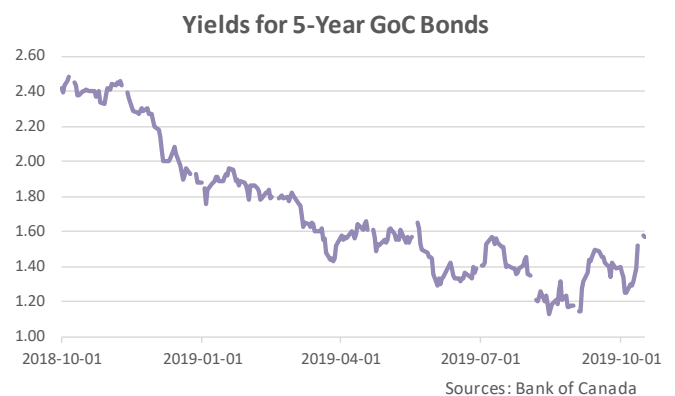
The employment-to-population ratio (the percentage of people who have jobs) for the “prime working ages” (25-54) has increased, and has finally returned to the pre-recession level. This is a positive factor for home buying. The employment rate for Ontario remains below the national average, which has a small dampening effect for the rate of population growth.



## Interest Rates

Bond yields have been unusually volatile during the past four months, due to swings in expectations about the outlook (and fears about the consequences of erratic trade policies and political disfunction in the US). At present (October 16) the yield for 5-year Government of Canada bonds is in the area of 1.55%-1.6%, which is more-or-less where I think it should be given current economic conditions.

My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate from major lenders) has been unchanged (at 2.7%) for the past two months. The mortgage-bond spread is quite thin (about 1.1 points versus a long-term average in the area of 1.8 points). Therefore, we could to see some increases in mortgage rates during the next few days (or weeks).



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