

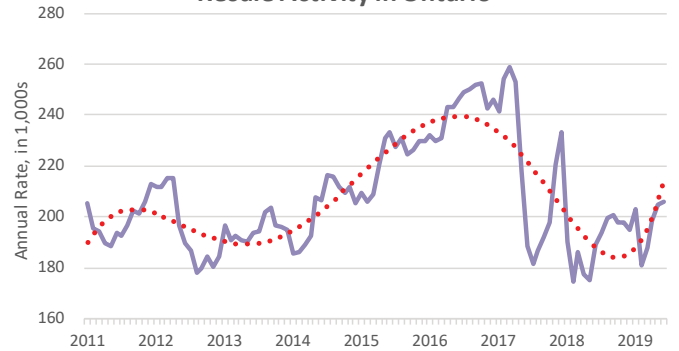
## Resale Market

Resale activity in Ontario has been so volatile that it is impossible to create a reliable trend line. That said, it is obvious that sales remain weak. On a population-adjusted basis, resales are now 9% below the long-term average, at a time when the fundamentals are very strong (rapid population growth and job creation, plus recent reductions in mortgage interest rates): sales should currently be 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 3.8% during the past year. Stronger trends are seen in some of the surrounding areas (which will attract move-away buyers) as well as Ottawa.

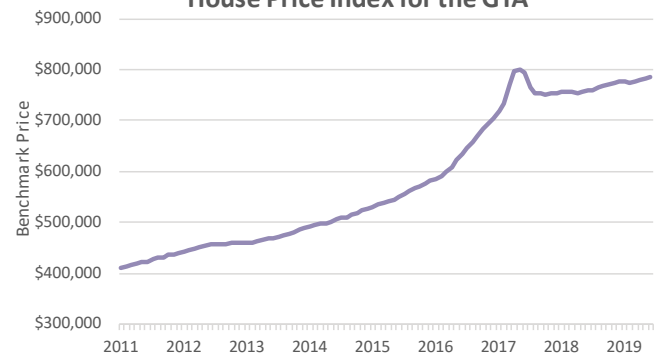
The sales-to-new-listings ratio (“SNLR”) remains healthy, at 60% in the second quarter, which is above the threshold (estimated at 53%) for a “balanced market” (this is the level at which prices are expected to rise by 2% per year). At this level, the province should continue to experience price growth.

**Resale Activity in Ontario**



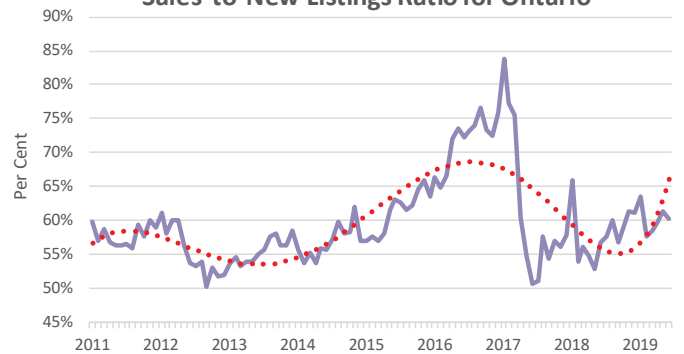
Source: CREA / The Author

**House Price Index for the GTA**



Source: CREA / The Author

**Sales-to-New-Listings Ratio for Ontario**

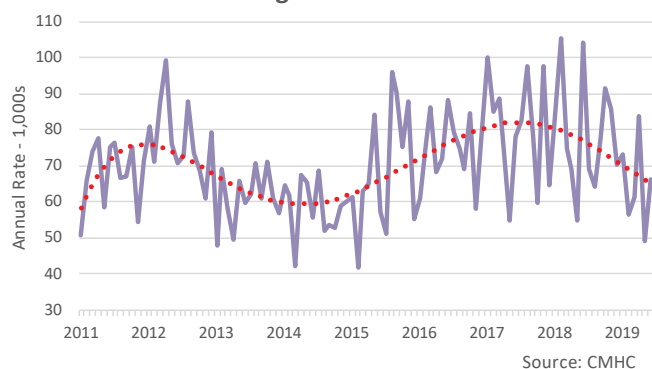


Source: CREA / The Author

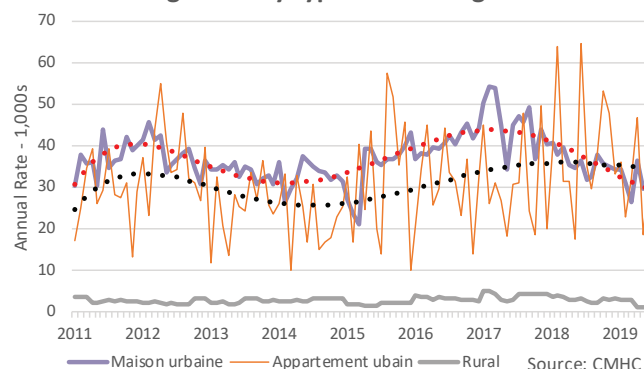
## Housing Starts

Housing starts continue to trend downwards in Ontario, and the trend is now down by 15% (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 continues to hint that a turning point has been reached. It takes apartments longer to react to changing conditions. I expect that apartment starts will trend downwards during the second half of this year.

**Housing Starts in Ontario**



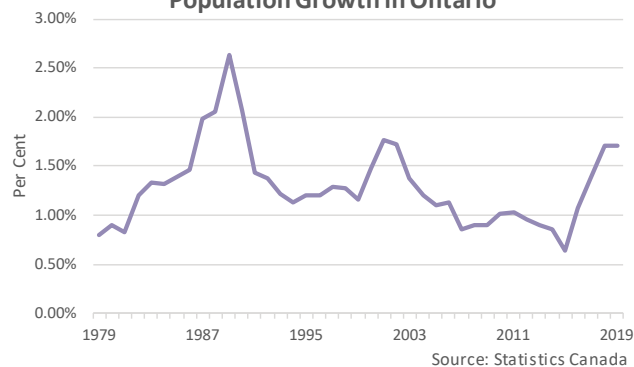
**Housing Starts by Type of Dwelling in Ontario**



## Population Growth

The population of Ontario is currently growing at a rate that is rapid in historic terms. The slowdown in housing starts means that housing shortages (in both the ownership and rental sectors) will worsen during the next few years.

**Population Growth in Ontario**

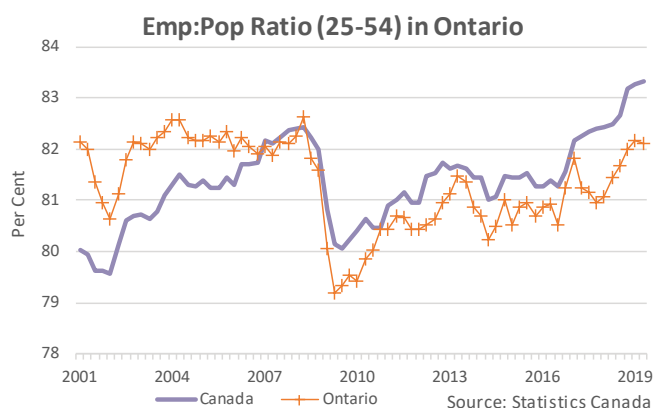
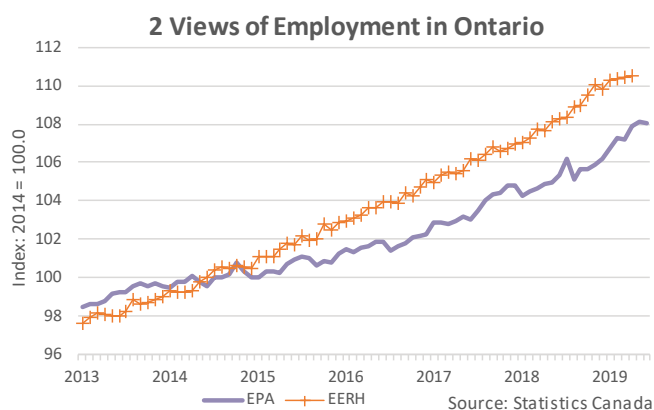


## Employment Trends

Statistics Canada's two surveys of employment show strong improvements in the employment situation. Both the Labour Force Survey ("LFS") and the Survey of Employment Payrolls and Hours ("SEPH") show average growth rates of 2.4% per year during the past two years. Job creation exceeds the rate at which the adult population is expanding (1.9%). In this light, housing activity is much weaker than it ought to be.

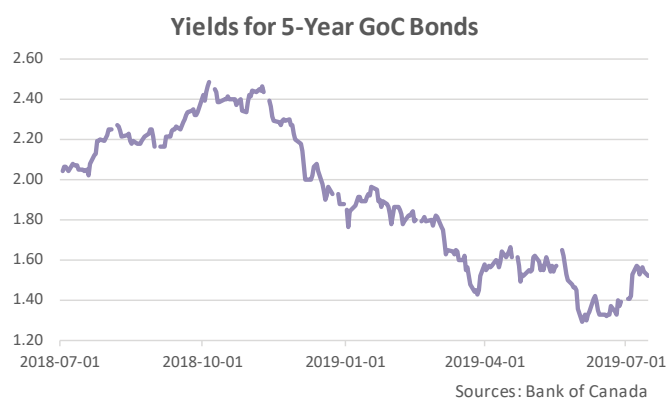
## Employment Trends (Continued)

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 a recovery. If this is sustained, it will be a positive factor for home buying.



## Interest Rates

Bond yields fell sharply during the late spring, but have now partially reversed that drop. As of mid-July, the yield for 5-year Government of Canada bonds is in the area of 1.5%. My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate, from major lenders) has been reduced six times this year (from 3.75% at the start of the year to a current 2.8%). Because housing activity has slowed for all of Canada, demand for mortgages has been reduced and the mortgage market has become much more competitive: the spread between 5-year fixed-rate mortgages versus 5-year bonds is now just 1.3 points (versus a long-term average of 1.8). At this point, we should expect that mortgage rates have bottomed.



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