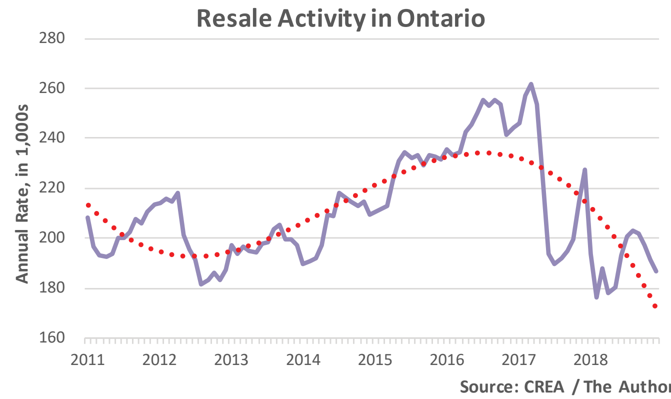
HOUSING MARKET DIGEST
ONTARIO

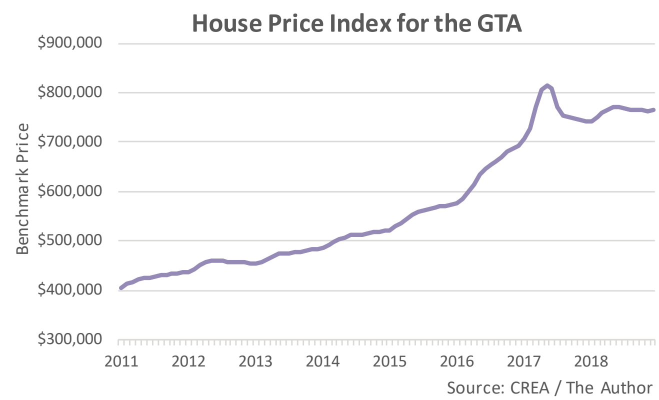
MORTGAGE PROFESSIONALS CANADA

Resale Market

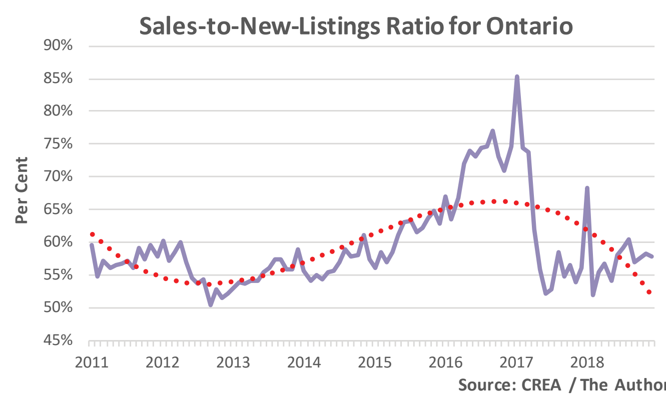
Resale activity has turned down once again in Ontario. Total sales for 2018 (192,830) were 13.7% lower than in 2017 (for all of Canada, sales fell by 11%) and 22% below the record set in 2016. The combination of the mortgage stress tests and higher interest rates is weighing very heavily on potential buyers. These negative factors are more than offsetting what should be a very positive effect from rapid job creation.



The average resale price in Ontario is distorted by changes in composition (the locations and types of homes sold). Instead, this chart shows CREA's estimated benchmark price for the Greater Toronto Area. This measure has been roughly flat since last spring.



Flows of new listings into the resale market have been reduced, but not as sharply: potential repeat buyers are finding that they have less opportunity to move, and therefore, there is less interest in selling. The sales-to-new-listings ratio ("SNLR") is at 58%, slightly above the threshold (53%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). On current trends, it should be expected that prices would be stable or rise at moderate rates.



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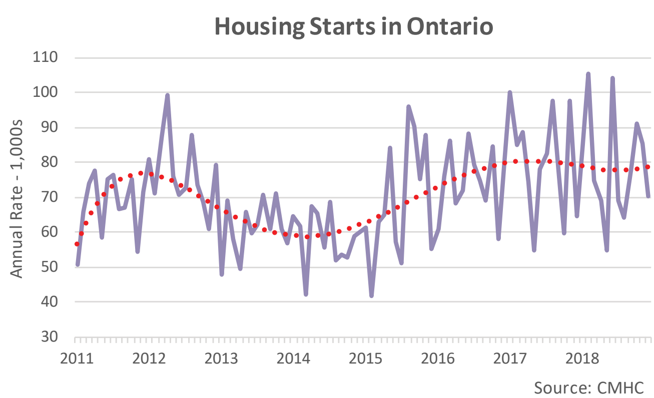
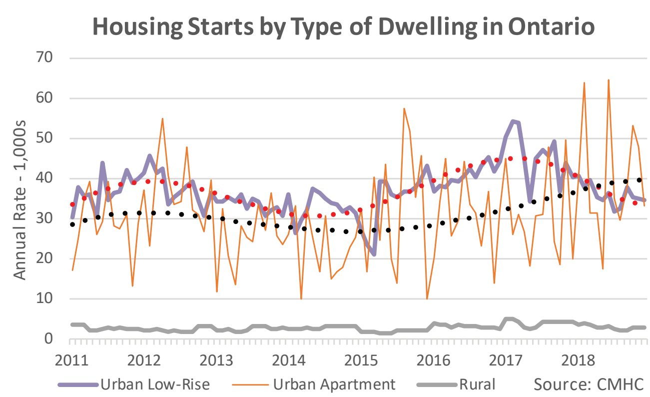
Housing Starts

The trend for housing starts is essentially flat in Ontario. For low-rise homes (singles, semi-detached, and town homes) in urban areas, the trend has fallen by about 20% compared to early 2017 (and is down by more than 40% from a peak seen in the early 2000s). This has occurred despite the strong employment situation and rapid population growth (which should be supporting expansion of housing starts). Low-rise construction responds relatively quickly to changes in conditions, and this downturn reflects the impacts of the stress tests.

Apartment construction, on the other hand takes longer to respond to changing conditions. The data continues to hint that this activity is close to peaking, and I expect that there will be a sharp reduction as 2019 progresses and into 2020. By the end of 2019, the trend for total starts is likely to be below 70,000.





Employment Trends

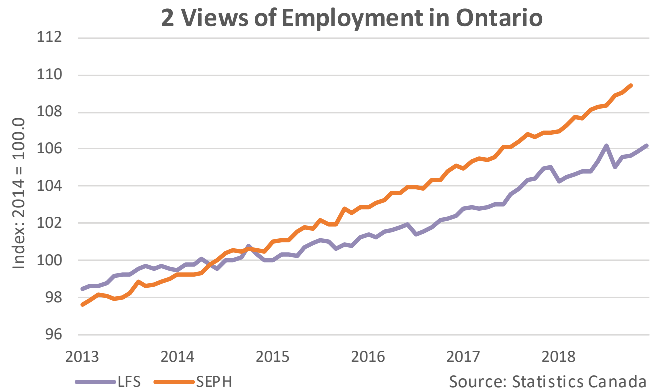
Statistics Canada's reports on the employment situation have been surprising. Looking at trends in the data, employment has increased slightly compared to a year ago: 1.1% growth as of December (according to the Labour Force Survey, or "LFS"). Since the population of adults is growing more rapidly (estimated at 1.9%) the modest job growth would be disappointing (if the data is correct) and it would have discouraging implications for the housing market.

StatsCan's other survey (the Survey of Employment, Payrolls and Hours, or "SEPH"), tells a much different story, with job growth estimated at 2.6% (but as of October). The much stronger picture portrayed by the SEPH data is encouraging about the potential housing outlook for Ontario (and reinforces that the stress tests are causing the housing market to significantly under-achieve).

Employment Trends (Continued)

In this chart, I have converted the two datasets into "indexes", to make them easier to compare.

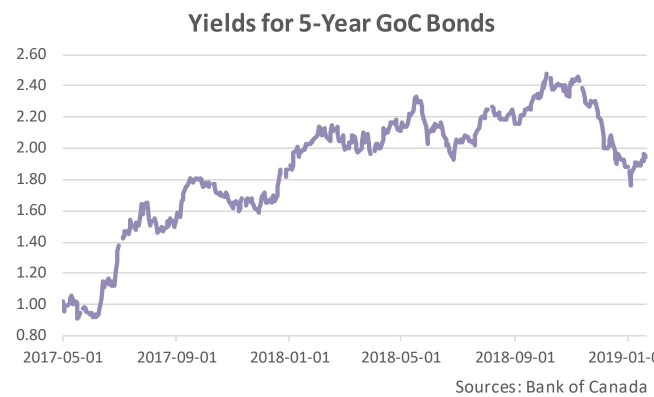
I believe that the SEPH data is probably more reliable than LFS. The issues are discussed in more detail in the new edition of the "Annual State of the Residential Mortgage Market in Canada" (in the section "Outlook for the Mortgage Market"). In Ontario, there is an additional issue: the data also hints that the province's rate of population growth has been under-estimated (since 2015).



Interest Rates

It appears that the sharp drop in bond yields has ended. Attitudes remain volatile in financial markets. I would not be surprised to see moderate increases in bond yields during the next two months, as economic fears may have become overdone. Further, reckless fiscal policies in the US will continue to result in enormous borrowing requirements, and rising political risks in the US could reduce interest in bonds.

Mortgage rates did not follow the drops in bond yields. My opinion-estimate of a typical "special offer" mortgage interest rate (from major lenders) has been reduced to 3.60% (as of January 21). This is, as usual, far below the 5-year "posted rate" of 5.34%). The spread between bonds and mortgages is now about 1.65 points, slightly below the historic average of 1.8 points. Looking ahead, therefore, changes in mortgage rates might become more closely related to changing bond yields. My opinion-estimate for 5-year variable rates increased (today) to 3.20%. This is 0.75 points below prime.



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