HOUSING MARKET DIGEST
ONTARIO

MORTGAGE PROFESSIONALS CANADA

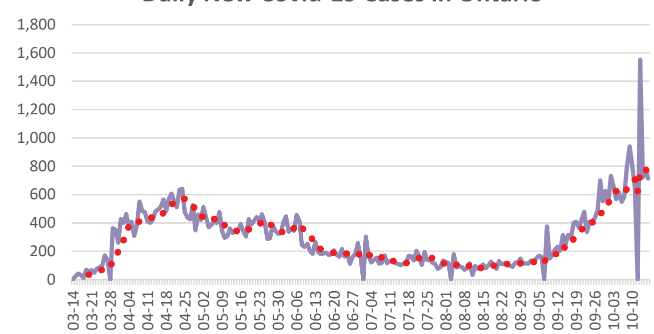
Staying Safe?

It is clear that Canada is now in a second wave of the Covid-19 epidemic, and the seven-day moving average of new cases has recently moved higher than was seen during the spring. Within Alberta, the recent per capita rate of new cases has been close to the national average. It remains to be seen what effects this wave will have for the housing market and the broader economy. This chart shows data up to October 16. Current data can be found here: https://health-infobase.canada.ca/src/data/covidLive/covid19.csv

Data from the Canadian Bankers Association implies that about 11% of mortgages were still in deferral at the end of August (down from 16% at the end of June). The CBA report can be found here: https://cba.ca/canadian-banks-are-standing-by-canadians

Deferrals will now begin to end in large numbers, creating a risk that there could be a large rise in mortgage arrears in Canada. There is an urgent need for a national conversation about options to assist mortgage borrowers who are still suffering from impaired incomes.

Daily New Covid-19 Cases in Ontario

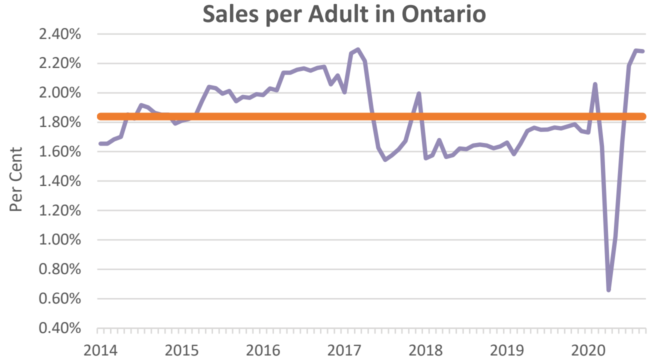


Source: Public Health Agency of Canada

Resale Market

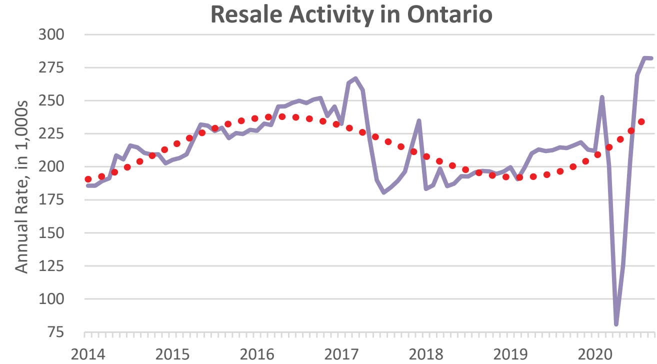
Resale activity has partially recovered from the sharp drop that occurred during the spring. For the third quarter, the annualized sales rate was 278,000, which was similar to the record level seen in early 2017. But, the recent surge has only partially offset the very weak activity that was seen during the second quarter, and combined sales for the second plus third quarters were 8% below average (in this calculation, the average sales rate has been adjusted for growth of the population).

Sales per Adult in Ontario



Source: The Author

Resale Activity in Ontario



Source: CREA / The Author

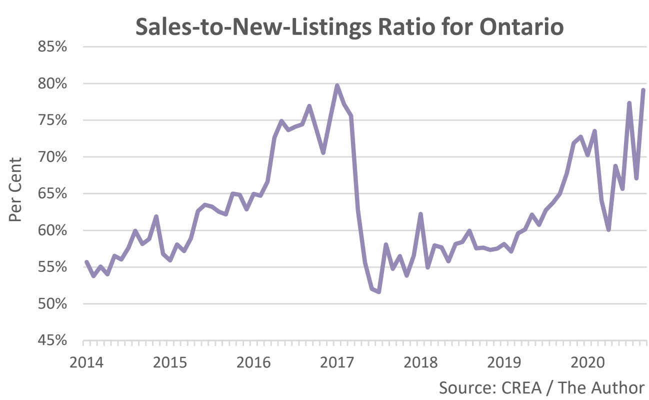
Resale Market (Continued)

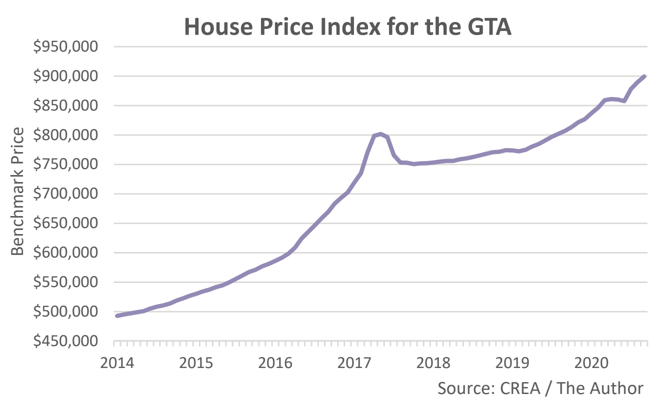
The provincial performance has been weaker than for all of Canada (combined second and third quarter sales in Canada were 5% below the population-adjusted average).

Looking at the data in terms of sales per adult, activity in the third quarter was 22% above the long-term average. Extremely low interest rates and the re-opening of the economy are now quite supportive for home buying.

The flow of new listings into the market has failed to keep up with demand, causing the provincial sales-to-new-listings ratio ("SNLR") to increase sharply. The SNLR has averaged 70% during the past six months, far above the threshold for a "balanced market", which may be in the range of 53% - this is the level at which prices are expected to rise by 2% per year.

The sharp imbalance between supply and demand is now resulting in rapid price growth. CREA's estimate of a typical "benchmark" house price for the Greater Toronto Area for the third quarter was 11% higher than a year ago.





Housing Starts

Housing starts strengthened during the third quarter, to a rate of 93,800, which is the strongest quarterly rate of the past two decades. The rise in starts in the third quarter was mostly due to apartments. For low-rises (single-detached, semi-detached, and town homes) activity has varied from month-to-month. While the trend line in this chart shows a small upturn for low-rises, new starts remain far too low.

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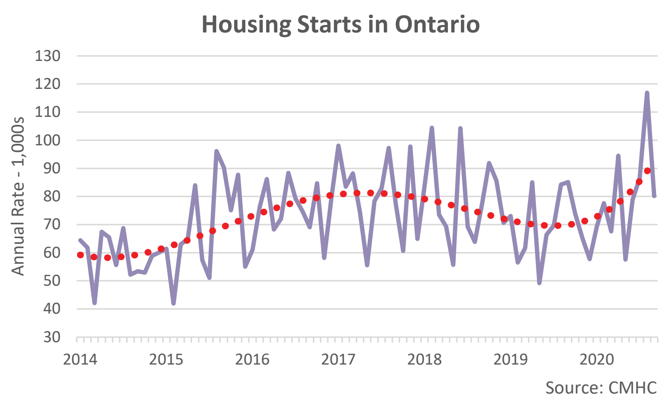
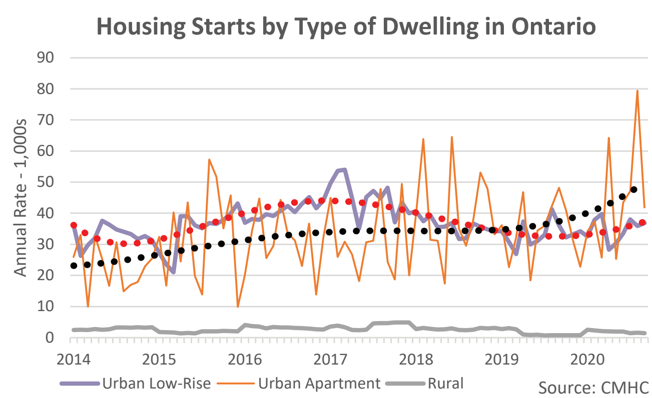
Housing Starts (Continued)

The data on housing starts continue to imply that during the coming year (and beyond) we will see shortages in resale markets for low-rise homes and there is a significant risk of excessive supply for apartments.

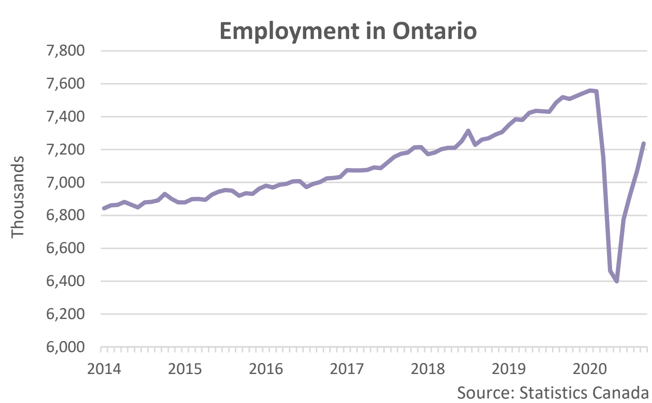


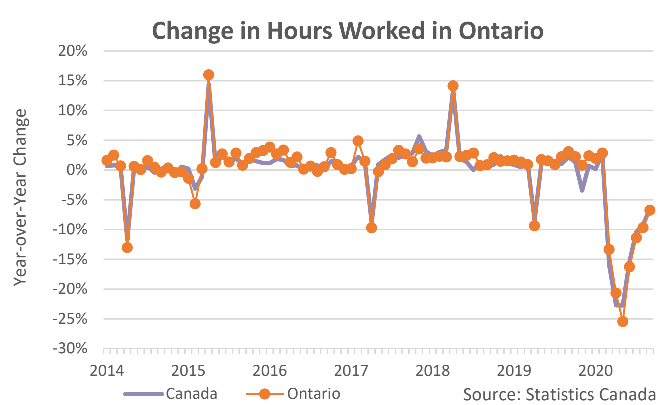


Employment Trends

Employment continues to recover, with the fourth consecutive large rise in September. Statistics Canada estimates that employment fell by 1.16 million during March to May, but since then 838,000 jobs have been regained. As of September, total employment is estimated to be 319,000 (or 4.2%) lower than in February. For all of Canada, the current shortfall is 3.7%. At present, I prefer to watch employment in terms of total hours worked. The next chart shows that while there has been a strong rebound, as of September, hours worked in Manitoba were 2.0% lower than a year ago (for all of Canada, the figure is 6.6%).

The worst impacts have been seen in low wage service industries and for younger age groups. This implies that the damage within the housing market will be greater for the rental sector than for home buying. Canada Mortgage and Housing Corporation is currently conducting its annual survey of rental markets across Canada. Unfortunately, CMHC expects that it won't release the results until January.



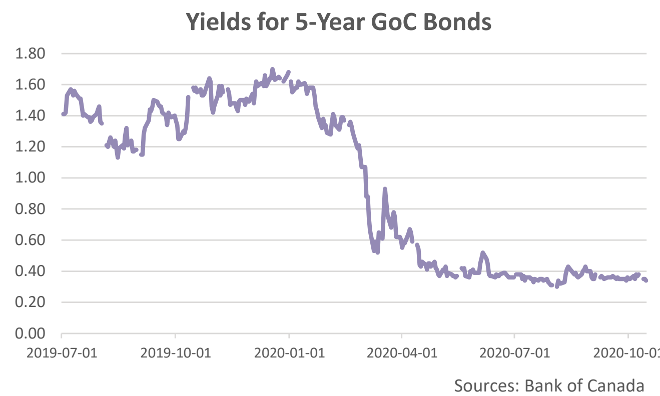


Interest Rates

Bond yields remain extremely low and are showing only very small movements. During the past month, the average yield for 5-year Government of Canada bonds has been just 0.36%.

Mortgage interest rates have largely adjusted to the plunge in bond yields. My opinion-estimate of a typical advertised "special offer" mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now just 1.9%, by far the lowest-ever (and even lower rates can be negotiated). The spread between mortgage rates and bond yields has closed, and at 1.55 points is now below the long-term average of 1.8 points. However, it is similar to the average of 1.49 points for all of 2019. For variable rates, my opinion-estimate is now 1.8%.

Meanwhile, the mortgage stress tests continue to use a ridiculous test rate of 4.79%.



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