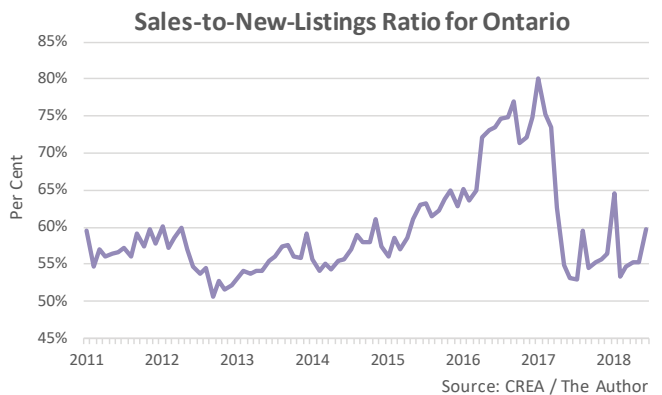
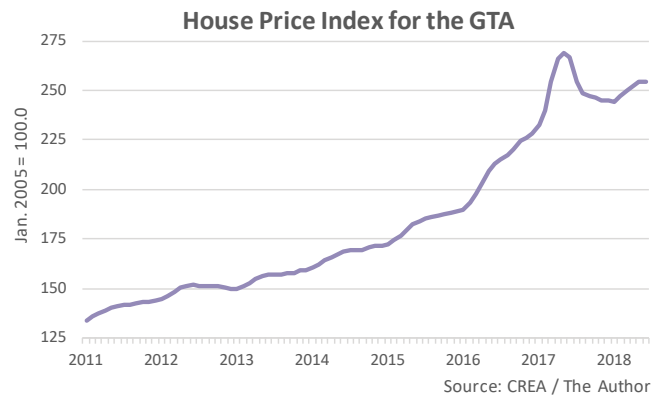
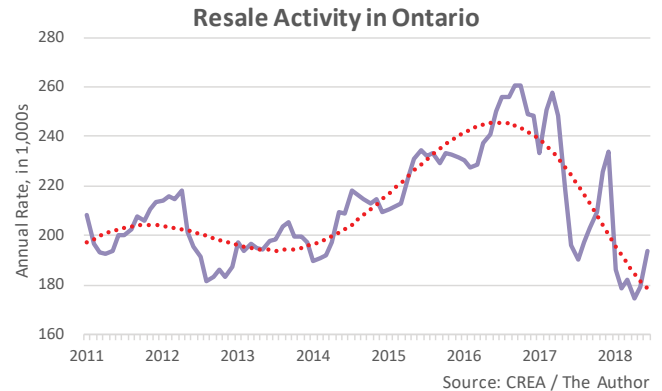


Resale Market

Resale activity has dropped sharply this year, in response to the duo of mortgage stress tests (as well as provincial policies that aim to discourage buying by non-residents). Activity is now lower than it was during the first half of this decade. It must be remembered that the population is growing, and housing activity should trend upwards over time. Therefore, sales this year are at least 15% lower than they should be, based on the population and economic conditions. Sales rose in June but remain weak in historic terms.

The average price data for Ontario is highly distorted by changes in composition (the locations and types of properties sold). Therefore, this chart uses CREA's house price index for Greater Toronto Area. The GTA had experienced rapid price growth, including a period of excess exuberance during 2016 into early 2017. With much slower demand, prices are currently showing little change.

The sales-to-new-listings ratio ("SNLR") has averaged about 57% during the first half of this year, which is slightly above the threshold (53%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). At the current level of the SNLR, we should expect moderate price growth (slightly better than 2% per year, but less than 5%).

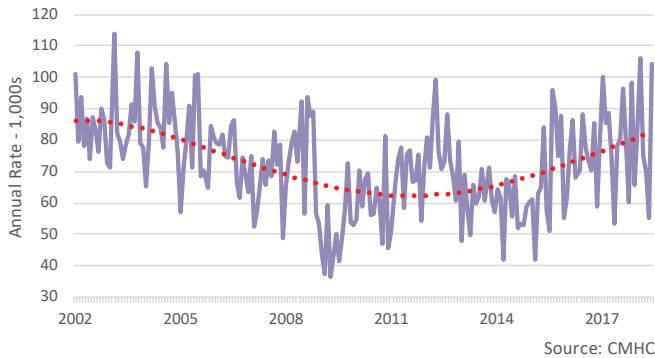


Housing Starts

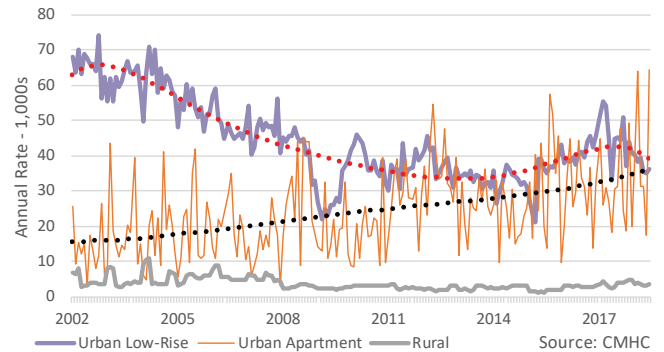
Housing starts generally follow trends in the resale market, although with a delay. This is developing in Ontario. Total starts continue to trend upwards, which results from pre-construction sales that were made earlier. The average starts rate for this year (82,500) is 14% above the long-term average in this chart.

Low-rise activity (singles, semi-detached, and town homes) is expected to react most rapidly to changing conditions, and it is becoming evident that a downshift is underway. Low-rise activity had been very low and is now weakening further. For apartments, the reaction takes longer. That should begin later this year.

Housing Starts in Ontario



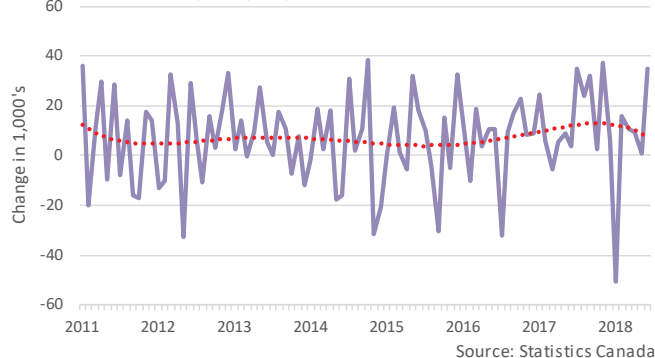
Housing Starts by Type of Dwelling in Ontario



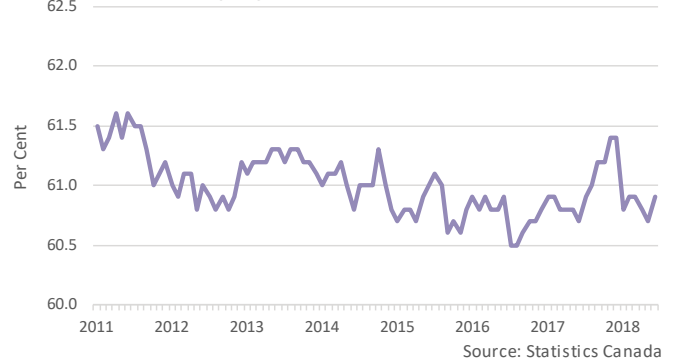
Employment Trends

The employment data suggests that job creation has slowed in Ontario, as the trend line has fallen from an unusually high level (as of late last year) to a mid-range position. However, this data is from a sample survey and it is occasionally wrong: it is possible that job creation was over-estimated last year and is currently being under-estimated (note especially the very large drop reported for January 2018). If this interpretation is correct, the trend line should move higher during the coming months.

Monthly Employment Growth in Ontario



Employment Rate in Ontario



Employment Trends (Continued)

The employment-to-population ratio (the share of adults who have jobs) also hints that job creation was over-estimated last year and that there has been a correction this year. While this data is volatile, it appears that the employment rate has been roughly flat during the past three years, meaning that employment is growing at the same rate as the population. This is a healthy situation that would support a stable housing market.

Looking farther ahead, there are currently some downward economic pressures, all of which will play out only gradually. These include higher interest rates, escalating threats about a trade war, and the mortgage stress tests that are impairing housing markets.

Interest Rates

Bond yields (5-year Government of Canada) have been roughly flat since early January, although there have been variations as expectations have shifted about the economic prospects.

In consequence, mortgage rates (my opinion-estimate of a typical “special offer” rate for 5-year fixed rate mortgages at major lenders) has changed little this year. The current rate (3.3%) is about 1.25 points above the yield for 5-year GoC bonds, versus an average of 1.83 points over the past decade. The compression of housing activity is resulting in more competition among lenders.

The Canadian dollar has trended downwards versus the \$US this year.

Yields for 5-Year GoC Bonds



Canada-US Exchange Rate



Disclaimer of Liability

This report has been compiled using data and sources that are believed to be reliable. Mortgage Professionals Canada Inc. accepts no responsibility for any data or conclusions contained herein. Completed by Will Dunning, July 20, 2018

Copyright © 2018 Mortgage Professionals Canada. All rights reserved.