

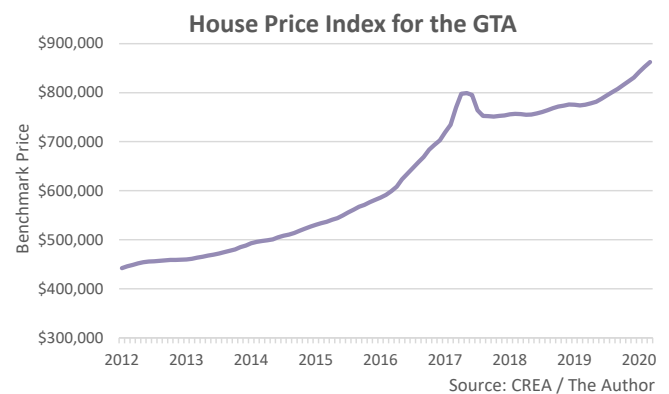
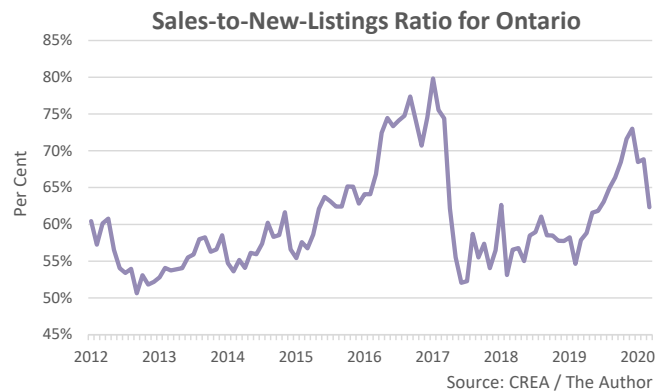
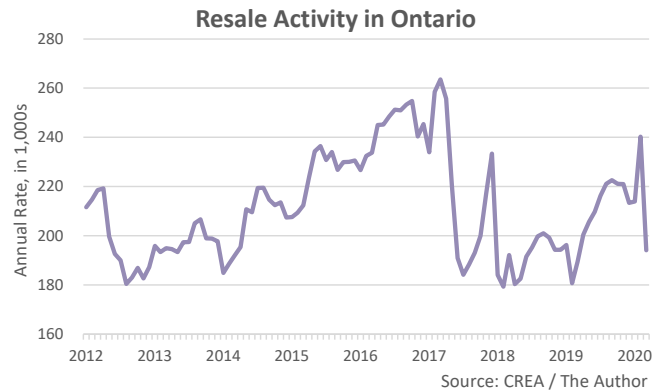
## Resale Market

During 2019, the province’s resale activity began to recover from the weakness seen in 2018. During late last year and early this year, the data was beginning to show signs of excessive enthusiasm (potentially a “speculative mindset” in response to rapid price growth). The data for March show a very sharp downturn. In Toronto and across Canada, there have been reports that activity was quite strong during the first half of March, but then there were sharp downturns during the second half, as fears developed about personal safety, the federal and provincial governments urged us to stay at home, and businesses reduced their activities, which generated great fears about our incomes and employment. It is quite likely that during the second half of March, the effective sales rate within Ontario was much lower. For the entire first quarter, the provincial sales rate was slightly (just 1.1%) lower than for the fourth quarter of last year.

At present, there is a great deal of uncertainty about the effects of the developing health emergency.

The sales-to-new-listings ratio (“SNLR”) shows a tight market. During the first quarter, the SNLR averaged 67%, although this was down from 71% in the fourth quarter. This 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).

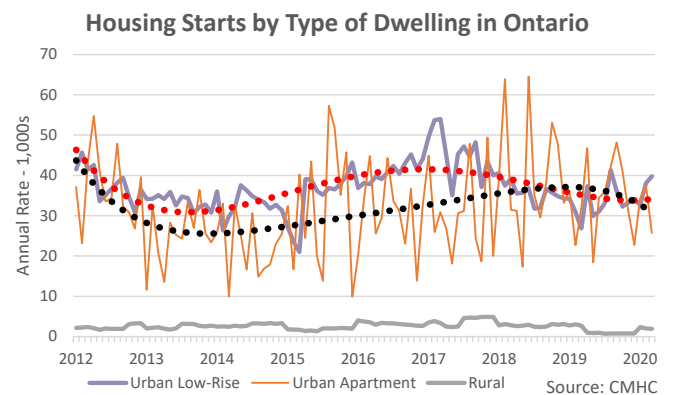
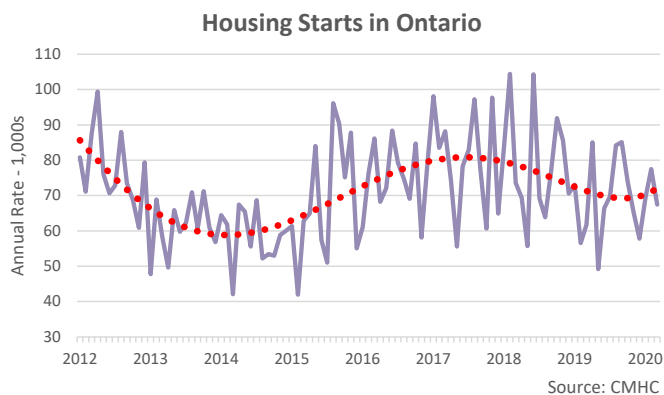
The tight conditions are driving rapid price growth. The house price index for the Greater Toronto Area (produced by the Canadian Real Estate Association, or “CREA”) has increased by 10% versus the first quarter of 2019.



## Housing Starts

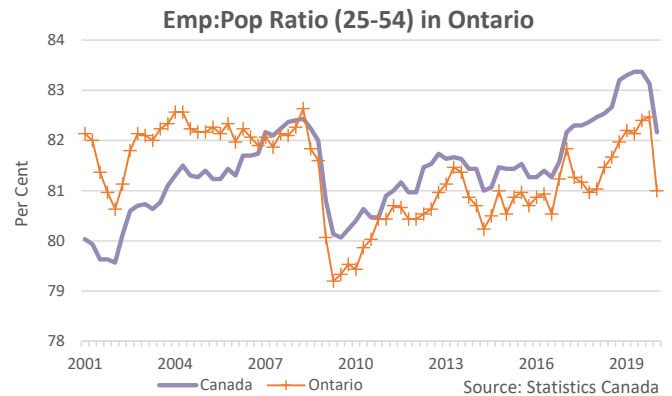
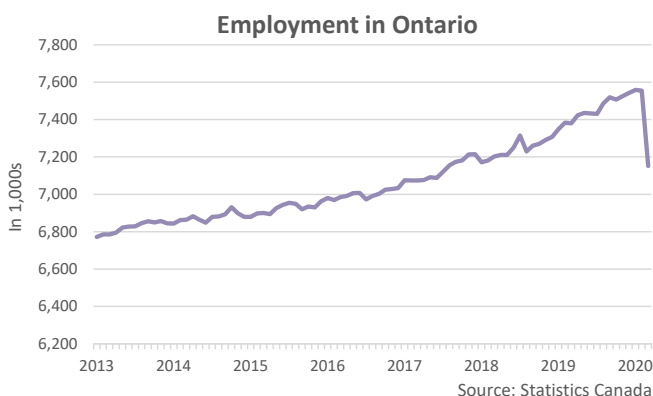
Tight conditions in the resale sector should be encouraging more housing starts, but new construction within Ontario remains much too low, which will result in prolonged shortages. The rate of housing starts in the first quarter (71,400) was slightly improved compared to the fourth quarter (65,600).

Starts of low-rise homes (single-detached, semi-detached, and town homes) have picked up slightly, but remain vastly too low. On the other hand, apartment activity has been very strong for several years, to the extent that I wonder if there is an excess supply in the construction pipeline.



## Employment Trends

The employment situation in Ontario improved during 2019 and into early this year. But, the onset of Covid-19 and the need for social distancing caused a sharp reduction in March. StatsCan's estimate of employment for March was 403,000 (5.3%) lower than for February (for all of Canada, the drop was also 5.3%). A sharp rise in fears about personal safety and economic security has resulted in a very rapid downturn in home buying.

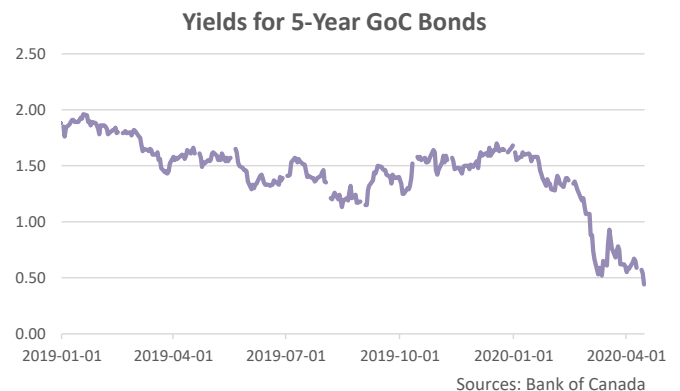


## Employment Trends (Continued)

The next chart shows data on the percentage of “prime working age” adults who have jobs, for quarterly periods (in order to reduce “statistical noise” and make it easier to see longer term trends). This chart shows that last year, the prime age employment rate for Ontario finally returned to the pre-2008/09 recession level. The quarterly data only partially shows the effect of the sudden negative change that occurred in March.

## Interest Rates

Changes in bond yields show that fears began to rise during late January and into February. Then, during late February and into March, escalating fears caused bond yields to fall rapidly. At this time (as of April 15), the yield for 5-year Government of Canada bonds (0.44%) has fallen by more than 1 point since year end (1.68%). Lending rates tend to move a bit later than bond yields. My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate from major lenders) is currently 2.7%. The spread between this typical mortgage rate versus bonds is currently about 2.25 points, which is well above the long-term average of 1.8 points.



It remains to be seen if bond yields will remain extremely low and then to what extent mortgage rates will follow the reductions for bond yields. Similarly, the Bank of Canada’s policy interest rate has been reduced by 1.5 points in a very short period of time, to just 0.25%, and it remains to be seen if variable rates will fully follow those reductions (my opinion-estimate of a typical special offer rate is at 2.65%, versus 2.9% at the end of last year).

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