SECOND QUARTER 2020

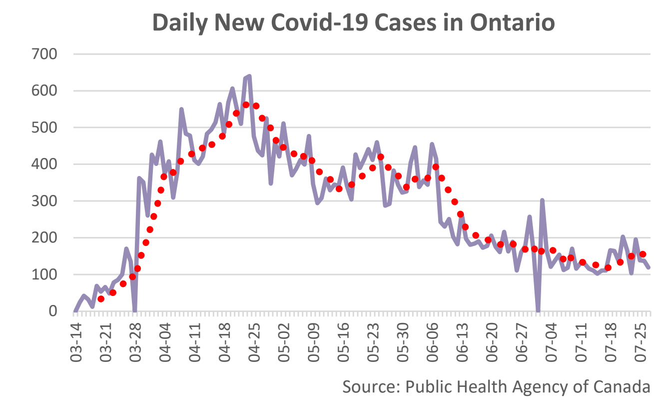
HOUSING MARKET DIGEST
ONTARIO

MORTGAGE PROFESSIONALS CANADA

Encouraging Signs?

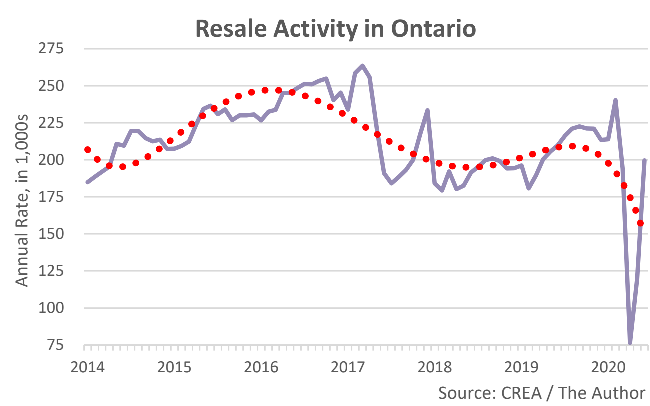
Key economic indicators (housing and employment) were badly depressed but are now showing substantial improvement.

For the province of Ontario, the data on new confirmed Covid-19 cases remains low. This chart shows data up to July 27. Current data can be found here: https://health-infobase.canada.ca/src/data/covidLive/covid19.csv

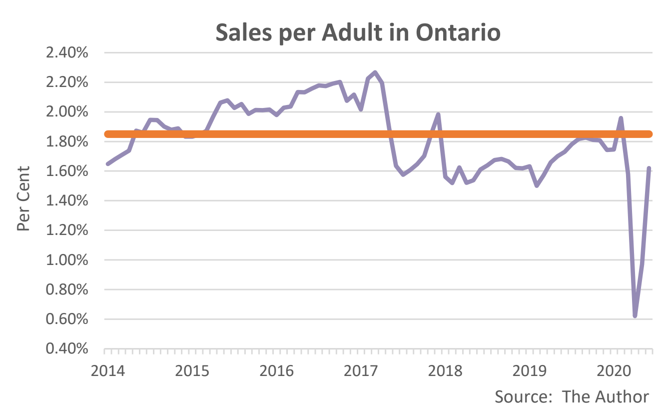


For all of Canada, the trend has inched upwards during the past two weeks, but remains quite low. The data tells us that we can feel a lot more relaxed, but that we need to stay vigilant. There is still a great deal of uncertainty about how this emergency will unfold, and therefore, we should not be confident about our ability to predict what will happen to the economy or the housing market.

Resale Market



Resale activity is sending mixed signals. The sales rate increased sharply in both May and June and now is close to a normal level (at an annualized rate of 200,000 for June). But, for the entire second quarter, the average rate was just 132,000. How should we interpret this data? Some people will focus on the data for June and see a very robust recovery.



Some will look at the entire quarter and see a badly impaired housing market. I look at the data and see continued uncertainty about how this might unfold. Looking at the data in terms of sales per adult, the rate for June was weak, at 12% below the long-term average (calculated for 2001 to the present, and shown by the flat line).

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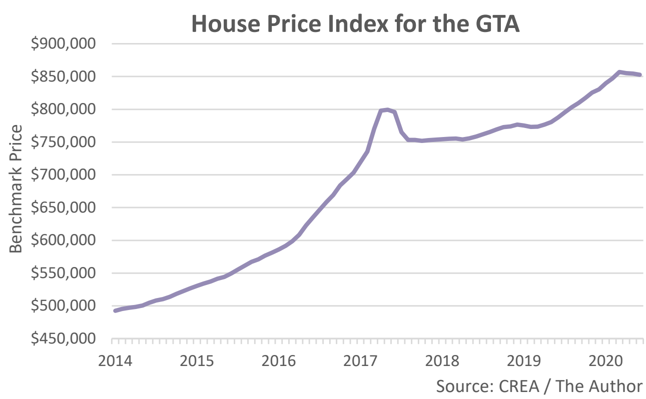
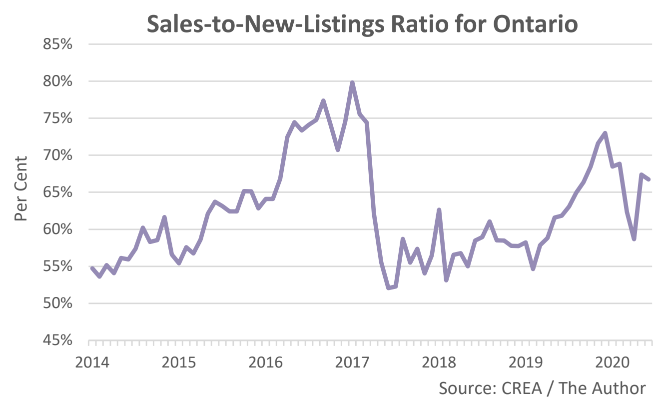
Resale Market (Continued)

For the entire second quarter, the sales rate was 42% below the long-term average. (On this measure, Ontario has been hurt worse compared to all of Canada, for which the per adult sales rate was 37% below average during the second quarter.) The flow of new listings into the market is still falling short of requirements. The provincial sales-to-new-listings ratio ("SNLR") was 67% in June (and 65% for the entire second quarter).

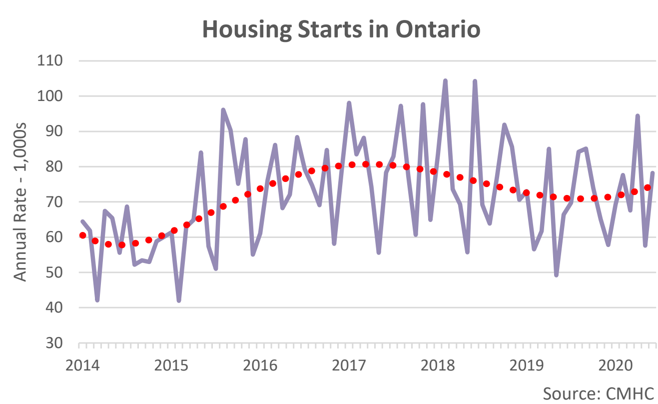
The regional SNLR is above the 53% threshold for a "balanced market" - this is the level at which prices are expected to rise by 2% per year. The average resale price in Ontario is highly erratic, due to month-to-month shifts in composition (the locations and types of homes sold). As an alternative, the next chart shows CREA's estimated benchmark price for the Greater Toronto Area. This data hints that, despite the tight conditions, prices are currently not changing by much (although the estimated price is 9% higher versus a year ago).





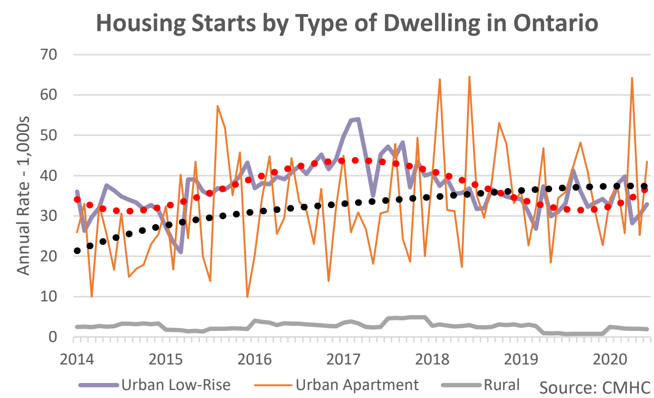
Housing Starts

Month-to-month variations in starts make it difficult to determine a trend for Ontario's housing starts, but the recent data does not show a material change. This makes sense, since starts are still being determined largely by decisions that were made earlier. For the second quarter, the starts rate (78,000) was higher than the rate for all of 2019 (69,000).



Housing Starts (Continued)

The second quarter starts rate is, also above the long-term average (about 72,000 per year during 2001 to 2019). Any depressive effects of Covid-19 will most likely be gradual. Housing starts within Ontario remain very strong for apartments. Low-rise activity (single-detached, semi-detached, and town homes) hints at a recent improvement, but this activity is still much lower than is required to meet the needs of Ontarians.

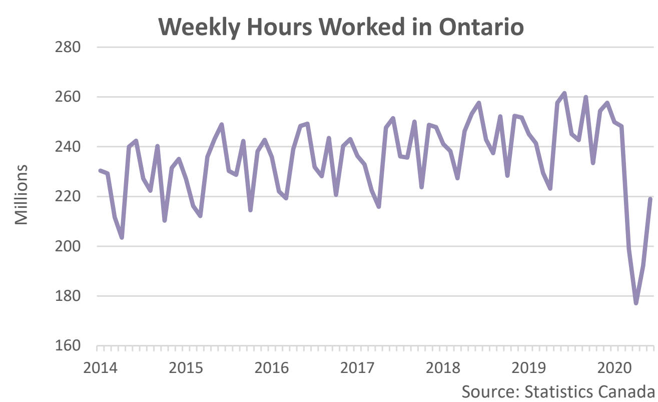


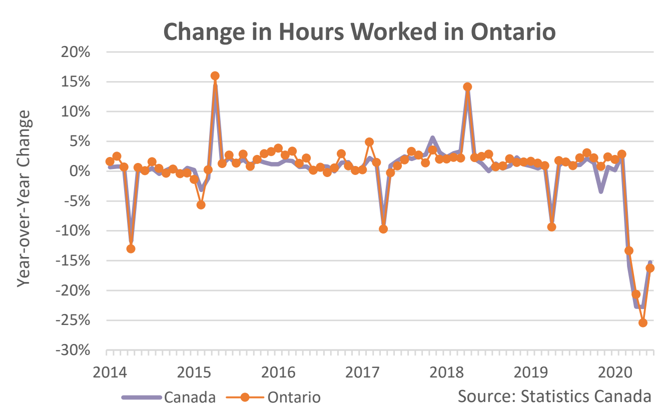
Employment Trends

Statistics Canada estimates that employment rose by almost 380,000 in June, as more people have been able to return to work. But, the level of employment in June was still almost 780,000 (10.3%) lower than in February.

At present, I prefer to watch employment in terms of total hours worked. The first chart below shows data that is not seasonally-adjusted, and the large month-to-month gyrations make it hard to read. The second chart shows that this June, total hours worked were 16% lower than a year ago. The downturn (and the subsequent partial recovery) has not been materially different within the province than in all of Canada.

The worst employment impacts of Covid-19 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.





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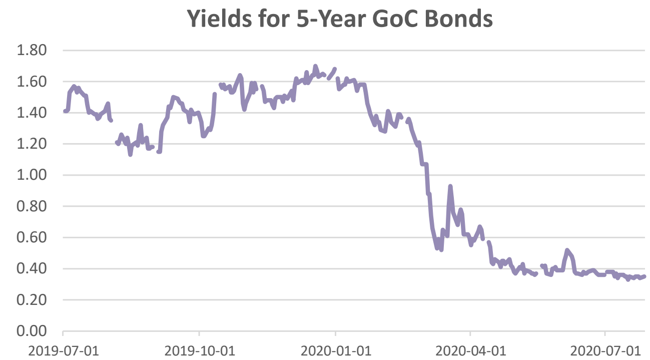
Interest Rates

Bond yields are currently making unusually small movements, and are at extremely low levels. So far in July, the average yield for 5-year Government of Canada bonds is just 0.35%. 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 2.1%, by far the lowest-ever (and even lower rates can be negotiated). The spread between mortgage rates and bond yields has closed, and is similar to the long-term average of 1.8 points (although it is still higher than the average of 1.49 points for all of 2019). For variable rates, my opinion-estimate is now 2.0%.

Meanwhile, the mortgage stress tests continue to use a ridiculous test rate of 4.94%.



Sources: Bank of Canada

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