Housing Market Digest

Greater Toronto Area, February 2018

Synopsis: it's too soon to draw a definite conclusion about the impacts of the double stress tests (and higher interest rates). But, the early signs point to a significant reduction in resale market activity, not just in the GTA but throughout the country. If the slowdown is sustained (and I expect it will be), there will be gradually-emerging macroeconomic consequences.

Resale Market

January sales data showed a sudden turn: CREA's estimate of seasonally-adjusted sales equates to an annualized rate of 77,400 (which is 17% below the total for all of 2017). There are multiple causes here: unusually cold and snowy weather, insufficient new listings (especially in the right locations), higher interest rates, and the double stress tests (the insured mortgage test that took effect in late 2016 and the uninsured mortgage test starting this year). Unofficial data for the first 14 days of February hints at a further drop in the sales rate (73,000).

There was also a sharp drop in the flow of new listings into the market. In consequence, the sales-to-new-listings ratio rose in January (to 55.4%, which is slightly above the 52% threshold for a balanced market). If there had been more supply in the right places, the sales rate might have been better.

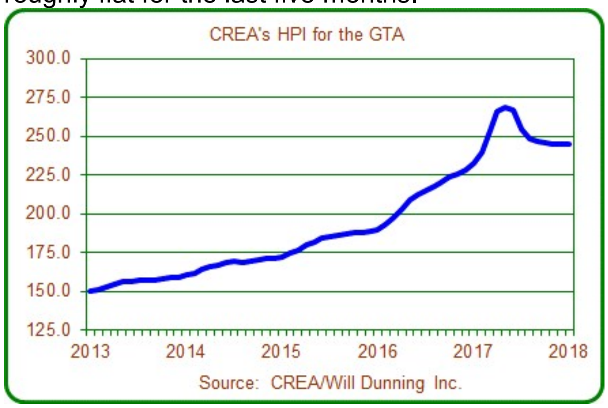
The table to the right provides back-of-the-envelope estimates of sales-to-new-listings ratios ("SNLRs"), by region, for January. Apart from York Region, the regional markets (for all types of dwellings) are under-supplied to varying degrees (with the SNLRs above 52%). The single-detached sectors are in balance or slightly weaker; the condominium apartment and "other" sectors are severely under-supplied (again, apart from York Region).

January 2018 SNLRs (seasonally-adjusted)

Region	Single-Detached	Condo Apt.	Other Types	All Types
Halton	47.7%	42.1%	74.3%	54.9%
Peel	50.9%	79.5%	77.0%	64.2%
Toronto	53.3%	70.3%	66.7%	69.3%
York	29.6%	48.5%	41.8%	35.3%
Durham	53.3%	72.6%	73.5%	58.3%
TREB Total	44.8%	67.4%	65.1%	55.4%

Source: estimates by Will Dunning Inc, using data from the Toronto Real Estate Board and the Canadian Real Estate Association.

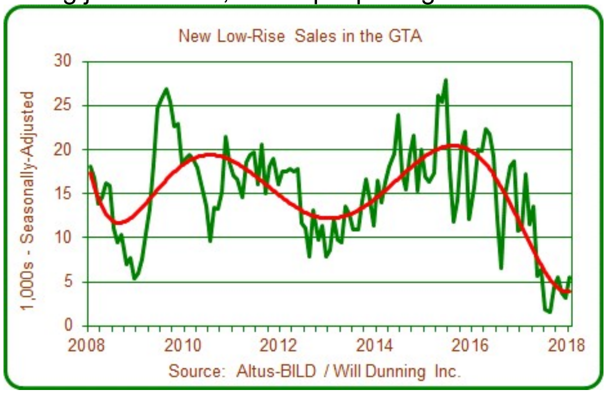
CREA's House Price Index for the GTA has been roughly flat for the last five months.



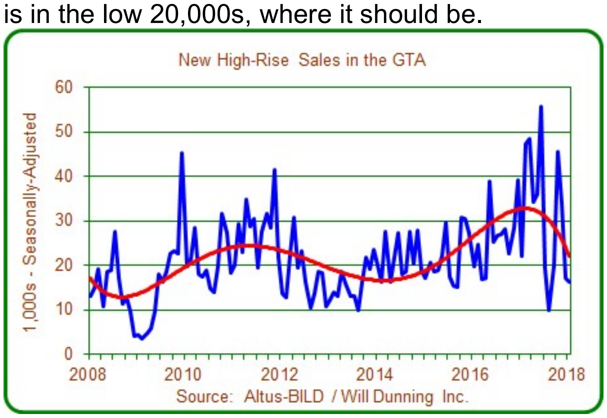
New Homes Market

The sales rate for January was just 21,700 (one-half of what it should be). Sales figures have been disappointing for 6 of the past 7 months.

The prolonged under-supplied situation in the resale market can be related to a long period of under-production of new homes (especially low-rises), which means that increasingly there are not enough homes on the ground. On top of this, there has been a recent further, and severe, collapse of low rise activity (which will mean an even largely supply deficit in future). I have a dataset for new home sales that covers 445 months: for low-rises, out of the 10 worst months of all time, 5 have occurred during the past year. There should have been very strong activity, due to low-interest rates combined with rapid growth of the population, strong job creation, and rapid price growth.

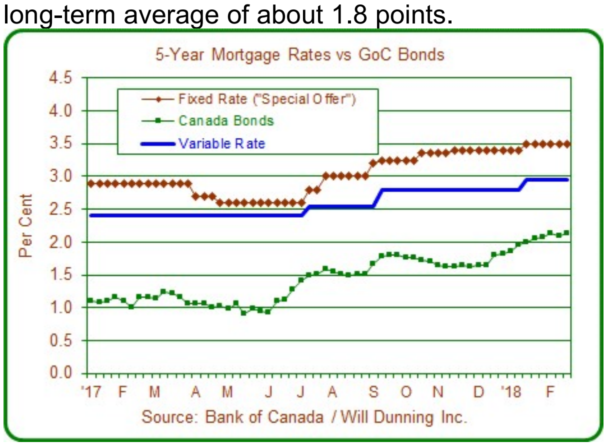


Sales of condominium apartments have also slowed, but from very high levels that I think were unsustainable (and risky). The current trend level is in the low 20,000s, where it should be.



Interest Rates

The yield for 5-year GoCs is now 2.06% (as of February 23), which is about 1.25 points higher than the average for 2015/16 (0.79%). Mortgage rates have not fully followed bond yields. The spread between fixed rates (advertised "special offer" from major lenders, which I currently place at 3.5%) versus bonds is just 1.4 points versus a long-term average of about 1.8 points.



Reckless fiscal policy in the US (tax cuts plus increased spending) is bringing a rapidly expanding need to issue new bonds. On top of this, the US Federal Reserve is no longer doing "quantitative easing" (buying bonds). This combination is quite negative for the interest rate outlook. As a result, I have amended my view of the interest rate outlook: I now think further significant increases are quite likely for the balance of the year.

Employment

Last month, I said that Statistics Canada was grossly over-estimating job creation for Toronto CMA. For January, they produced a gross under-estimate. I discussed the Canada data in a 6-part Twitter thread: https://twitter.com/LooseCannonEcon/status/961967365448716289

The Outlook

Forecasts have not been updated.

Toronto Indicators		
	2017	2018
Job Growth	2.2%	3.6%
Resales (units)	92,688	89,400
Sales-to-New-Listings Ratio	51.9%	50.6%
Ch. in Avg. Resale Price	12.0%	-1.2%
GTA New Home Sales		
Low-Rise	7,714	7,900
High-Rise	36,429	20,000
Total	44,143	27,900
Housing Starts		
Low-Rise Ownership	18,525	9,900
Condo Apartment	17,849	27,300
Rentals	2,364	2,500
Total	38,738	39,700
Apartment Vacancy Rate	1.0%	0.7%
Rent Increase	4.4%	3.7%
Source: forecasts by Will Dunning Inc. (Jan. 30/18)		

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