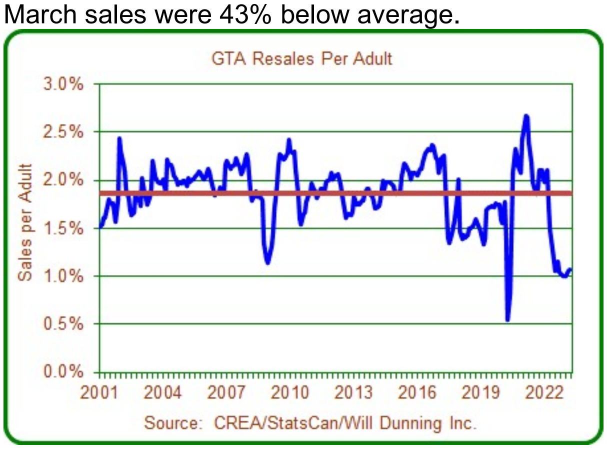
Housing Market Digest

Greater Toronto Area, April 2023

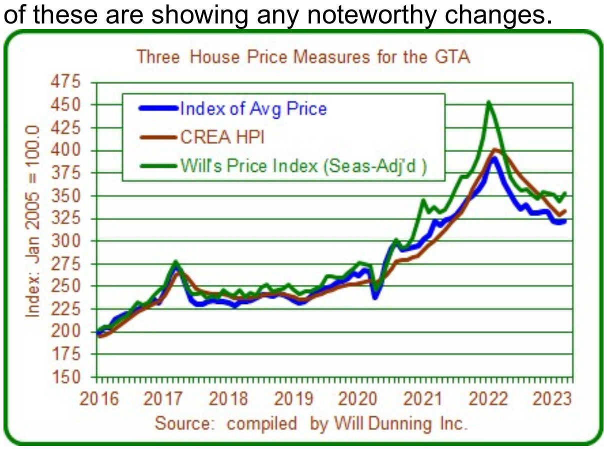
Resale Market

There has been some commentary about a resurgent housing market in the GTA. Comparing data for March versus January and February, there were large rises in sales and the various measures of prices, as well as the sales-to-listings ratios (for both new and active listings). But, these are just normal seasonal events. Once the data is seasonally-adjusted, the surge disappears, and the market remains very weak.

The annualized sales rate for March (61,200) was not materially different than it has been since last July. After adjustment for population growth, March sales were 43% below average.



I watch three different measures of prices. None of these are showing any noteworthy changes.



The sales-to-new-listings ratio has increased (to a seasonally-adjusted 63.8%, which is now well above the 52% threshold for a balanced market). That happened because flows of new listings into the market have cratered (in March, they were 47% below the long-term population-adjusted average).

There is an argument that sales are being depressed by a lack of supply. I see a causality here, but I think the causal arrow mostly points in the opposite direction: there are few new listings because there are few current owners who want to sell and move (to a move-up, a move-away, a move-down, or a rental). There is demand in the lower ranges of the ownership market, and that is resulting in some pressures, but it is being generated by small numbers of impatient people.

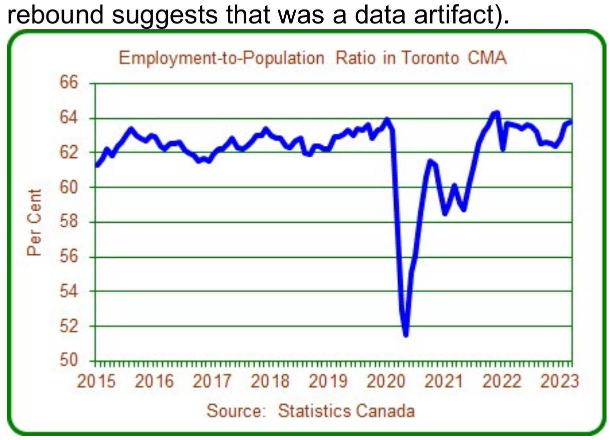
I can imagine two scenarios in which listings increase:

- Interest rates drop sharply (generating more interest in moving), or
- Financial distress (unaffordable mortgage costs and/or job losses) that forces increasing numbers of owners to sell.

I don't know if either of those events will occur, or when. Therefore, I don't expect to see substantial changes in the market in the near term. But, I continue to see a risk of a substantial weakening of the economy during the second half of this year and into 2024, which would cause more forced sales.

Employment

The data continues to show considerable strength (there was a dip last summer, but the recent rebound suggests that was a data artifact).



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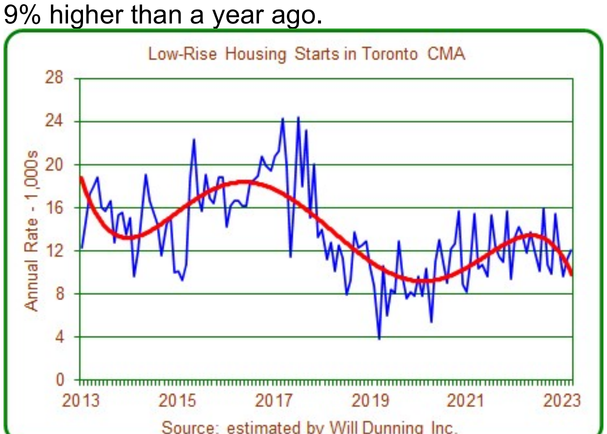
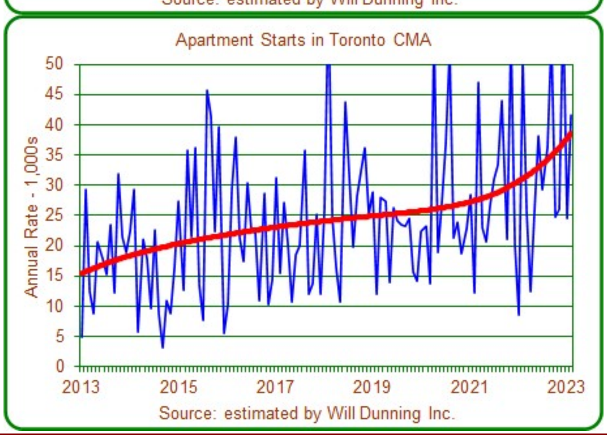
Changes in employment tend to lag behind changes in the economy. At present, economic indicators are mixed (I think they portray an economy that has peaked and is now starting a slow downwards turn). I continue to expect that there will be some deterioration during this quarter and that during the second half of this year (and into next year) the employment situation will weaken.

Housing Starts

New home sales remain extremely weak, at an average (annualized) rate of about 11,400 during the past seven months. Based on recent rates of population growth, we need in excess of 50,000.

It's still too soon for those sales figures to be reflected in housing starts: for the first quarter, starts were 2% higher than a year earlier. It appears that low-rise starts are starting to turn (due to volatility in the data, I have low confidence in the trend lines that are shown in these charts). For the first quarter of this year, low-rise starts were 17% lower than a year ago. For apartments, the pre-construction processes are more complicated, and starts won't trend downwards for some time. First quarter starts for apartments were 9% higher than a year ago.

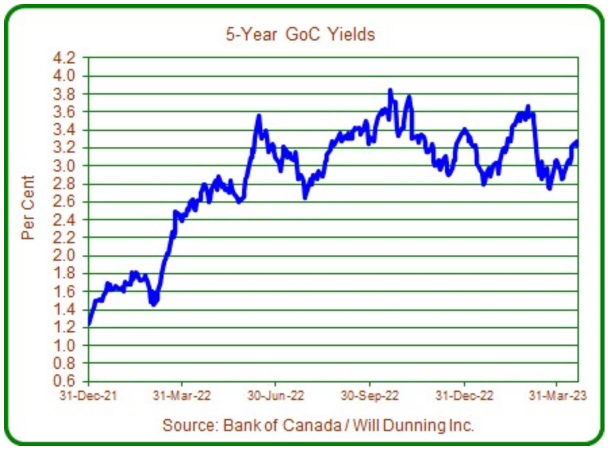




Employment impacts from the low-rise sector (and renovations) will start to show up during the second half of this year, and effects for apartments will start much later. As I've commented previously, by late next year, GTA employment related to housing construction (on site, and in industries that provide goods and services to the process) could be 50,000 lower than at present. (For all of Canada, the impact might be about 250,000 jobs.) Other economic sectors will have their own impacts from interest rates.

Interest Rates

Bond yields continue to show a lot of day-to-day variation.



Today (April 19), the spread between 5-year Government of Canada bonds (3.3%) versus my opinion-estimate for fixed rate mortgages (4.8%) is 1.5 points, which is close to the long-term average. Unless bond yields soon retreat again, I can't expect any further reductions for fixed mortgage rates. As I have commented previously, given its attitudes, the Bank of Canada will tend to lean against any substantive reductions.

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