

Housing Market Digest

Greater Toronto Area, May 2024

The Bank of Canada

About a year ago, I started to argue that Canada is now much more interest-rate sensitive than the US (because of our higher volume of mortgage debt and because we use renewable mortgages, while in the US for most mortgages, interest rates are fixed for the entire amortization period). Therefore, the BoC should not be following the rate decisions of the US Fed. Inevitably, I get responses that we have no choice, because if our rates were lower, the Canadian dollar would collapse, causing our inflation rate to skyrocket.

The BoC has recently started to muse about diverging from the US (with a similar argument), but there is no sign that their decision-making will actually change.

There are a lot of factors that influence the exchange rate, not just the spread between the policy rates of the BoC versus the US FRB. The exchange rate depends on total flows of funds, which is influenced by: interest rates for all types of debt instruments, as well flows related to equity investments, flows of goods and services, and prices for the goods that we trade internationally. For example, movements in the prices of energy products and metals are statistically associated with changes in the Canada-US exchange rate.

During the past 20 months, yields for 5-year federal bonds have been sharply lower in Canada than in the US (currently by about 0.8 points). That has clearly affected the exchange rate, but it hasn't caused a crisis. I would also argue that the 5-year bond yields are more important than the policy rates (because of the relationship to mortgage rates, which results in substantial economic impacts). Creating a spread in the policy rates makes sense to me.



Resale Market

Sales fell again this April, to an annualized rate of 63,800, which is 42% below the long-term population-adjusted average (which is now 110,600).



Dreadful affordability continues to weigh heavily on sales. In addition, the low-rise sector is somewhat gridlocked by a lack of listings. On the other hand, the condominium apartment sector is seeing increased listings, and it may now be entering what the financial folks call capitulation.

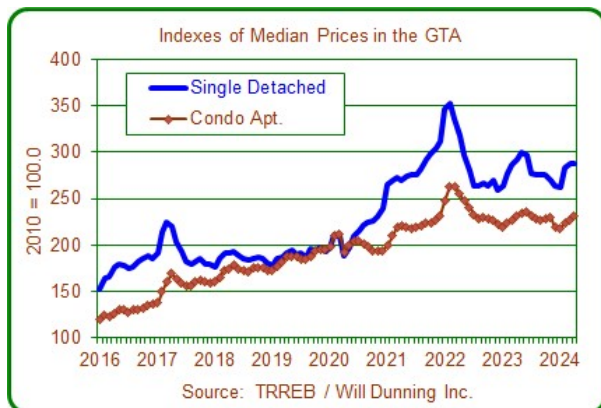


The sales-to-new-listings ratio is worsening, to just 42% for April (versus the balanced market threshold of 52%). The active listings ratio is also falling, but at 38% in April it is still well above the balanced market threshold (32%). But, the ratios differ for apartments (28%) versus low-rise homes (46%).

Pricing indicators aren't yet changing materially, for either low-rises or apartments. However, I suspect that the data is being distorted by a change in composition – it is possible that the market share has increased for new homes (which are priced higher than typical existing homes), which is artificially boosting the average and median prices.

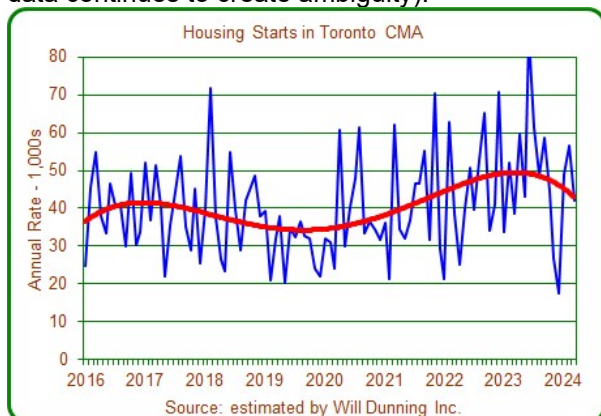
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Housing Starts

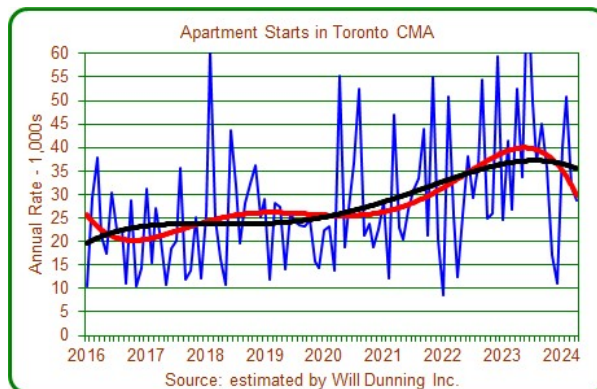
Housing starts might have started to turn down. The rate for April was just 37,000, and the trend line appears to be dropping (but volatility in the data continues to create ambiguity).



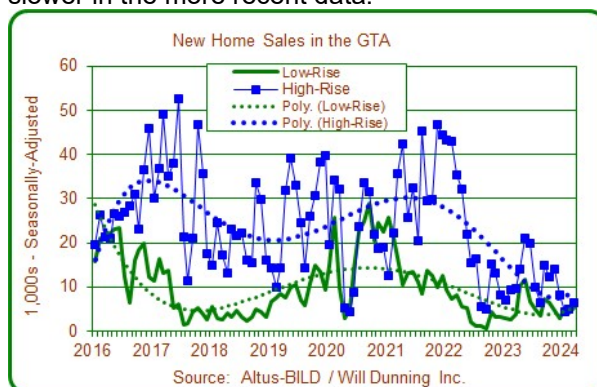
Low-rise activity remains quite weak (and I'm not convinced that this is the bottom for the trend).



Apartment starts are still quite strong, but it is unclear what the trend is. In this version of the chart, I am showing two different mechanically-generated trend lines (the black version is a 4th order polynomial, and the red line is 5th order). The "true" trend is uncertain.



Over the past year (up to March) new home sales as reported by BILD and Altus have totaled just 18,400 (including 6,300 for low-rises and 12,000 for condo apartments). The sales rates are even slower in the more recent data.



Other News

The Globe and Mail has published a short essay by me, in which I argue that the mortgage stress tests need a significant upgrade:

<https://www.theglobeandmail.com/investing/personal-finance/household-finances/article-mortgage-stress-tests-cause-more-harm-than-good-heres-how-to-fix-them/>

How to Reach Will Dunning Inc.

Email: wdunning1955@gmail.com
Web site: www.wdunning.com
Twitter: [@LooseCannonEcon](https://twitter.com/LooseCannonEcon)

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