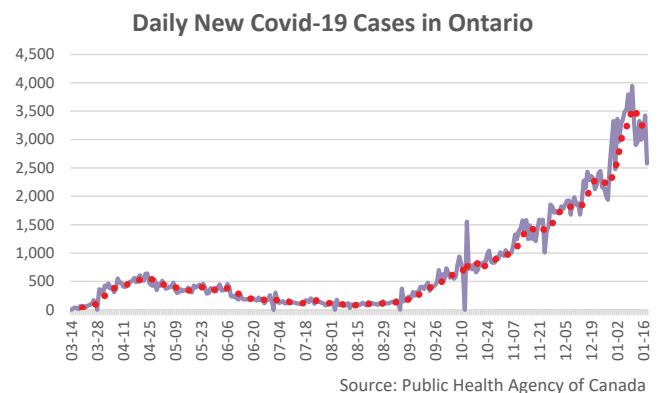


## Turning the Corner?

Following a very sharp post-holiday rise, the rate of new Covid-19 infections has retreated slightly in the past few days, but the rate remains very high (expressed on a per million or per 100,000 basis the 7-day average in Ontario is 17% above the national average). This chart shows data up to January 18. Current data can be found here: <https://health-infobase.canada.ca/src/data/covidLive/covid19.csv>

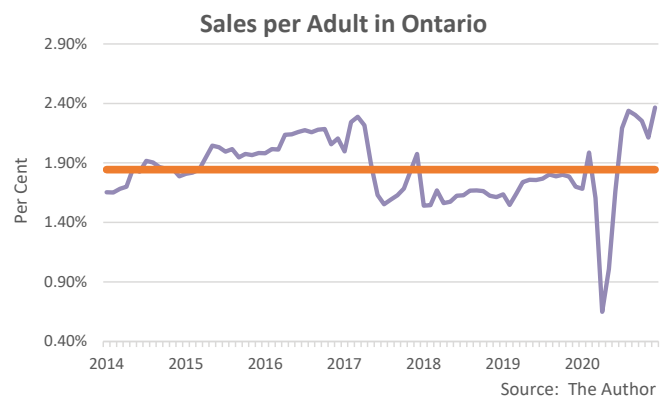
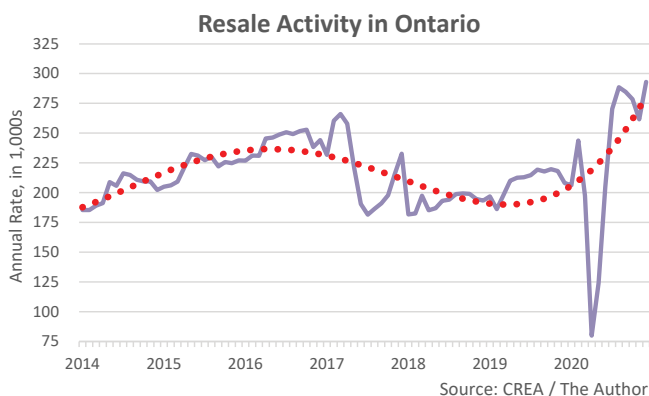
Economic indicators lag behind actual events. The recent data shows some emerging economic consequences from the rapid spread of Covid-19, even before taking account of what happened during December. That said, I am still unwilling to produce any forecasts on what might happen to the housing market or the broader economy, because we can't know how this will unfold.



## Resale Market

Resale activity remains quite robust within Ontario. For the fourth quarter, the annualized sales rate was 278,000. For the entire year, sales totaled 227,717 which (unlike all of Canada and most of the other provinces) was not a new annual record.

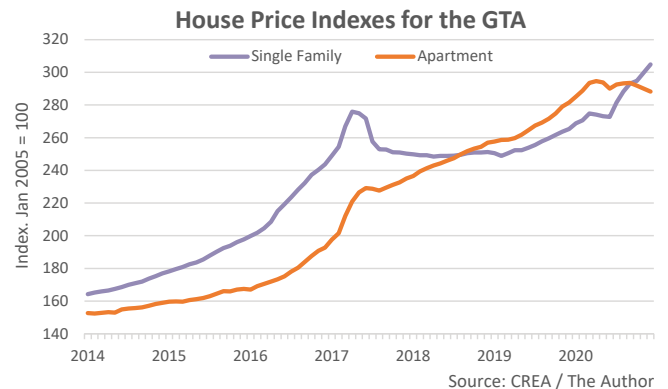
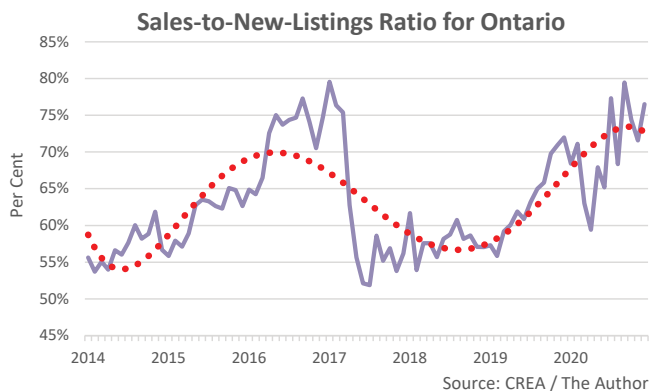
Looking at sales rates over the past two decades and then making an adjustment for population growth, I calculate that the long-term average rate for 2020 would be about 227,000. On this basis, the sales rate for 2020 was almost exactly equal to the long-term average. In part, 2020 looks spectacular because home buying was depressed during 2018 and 2019 by the mortgage stress tests, as well as provincial policies that have discouraged buying by non-residents.



## Resale Market (Continued)

The flow of new listings into the market has failed to respond to the increased demand, causing the provincial sales-to-new-listings ratio (“SNLR”) to increase sharply. The SNLR has averaged 75% during the past six months, far above the threshold for a “balanced market”, which may be in the range of 53% - this is the level at which prices are expected to rise by 2% per year.

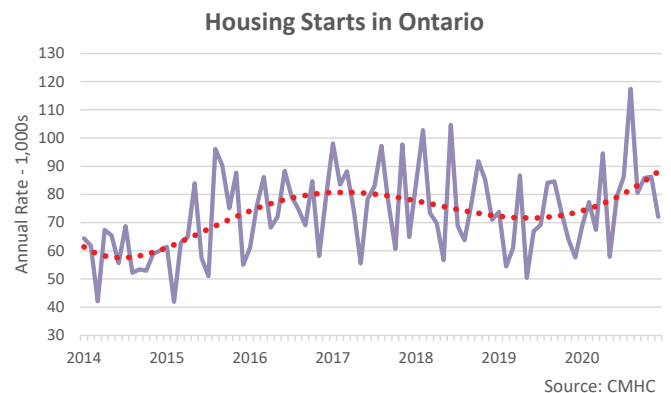
The sharp imbalance between supply and demand is now resulting in rapid price growth. CREA’s house price index for the Greater Toronto Area has increased by 7.5% during the past six months (expressed as an annualized rate, this is 15.6%). In many areas across Canada, data is showing movement away from apartments, towards low-rise homes. For the GTA, the price index for single-detached homes has increased by 11.7% during the past six months but for apartments the index has fallen slightly (0.6%).



## Housing Starts

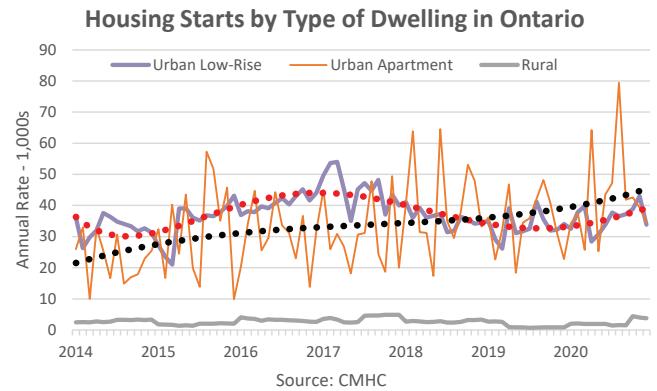
Housing starts dipped during the fourth quarter (to an annualized rate of 82,200). This is above average in historic terms. For the full year, total starts (81,305) were 12% above the average for the past 20 years.

Starts remain very strong for apartments. While there has been some improvement for low-rise activity (single-detached, semi-detached, and town homes) it remains far too low.



## Housing Starts (Continued)

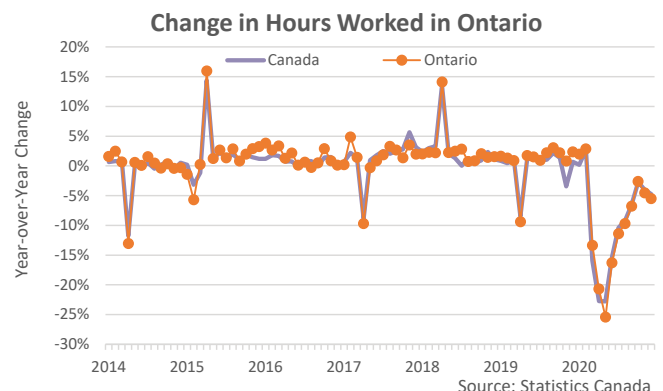
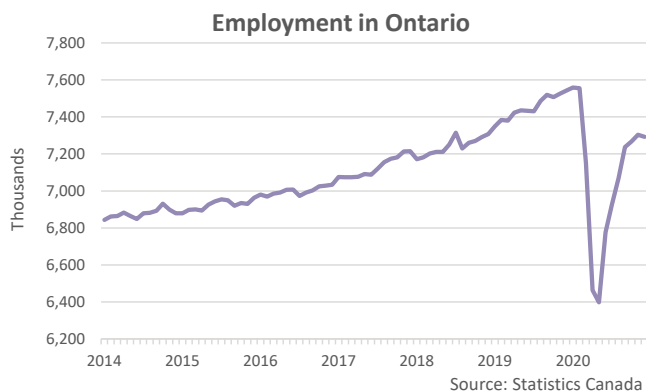
More than a decade of under-production means that there is not enough low-rise housing that could be sold in resale markets, resulting in rapid price growth. On the other hand, during a time when Covid-19 is encouraging a shift away from apartments, there is a substantial risk of over-supply in that sector.



## Employment Trends

Employment showed a small further improvement during the fourth quarter. Statistics Canada estimates that employment fell by 1.16 million during March to May, but since then 893,000 jobs have been regained. As of December, total employment is estimated to be 263,000 (or 3.5%) lower than in February. For all of Canada, the current shortfall is similar, at 3.3%.

The next chart looks at employment in terms of numbers of hours worked. As of December, total hours for Ontario are 5.5% lower than a year ago. The reduction for all of Canada is less substantial, at 4.7%.

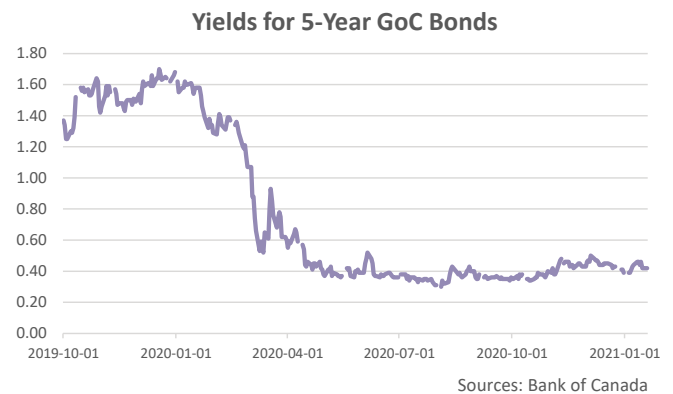


## Interest Rates

In reaction to positive news about Covid-19 vaccines, bond yields rose slightly during November. Since then, there have been only minor variations. The yield for 5-year Government of Canada bonds has been in the area of 0.45%, just slightly higher than the record lows that were seen during the summer and early fall.

Mortgage interest rates remain extremely low. My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now 1.65% (even lower rates can be negotiated). The spread between mortgage rates and bond yields is just 1.2 points, which is below the long-term average of 1.8 points. For variable rates, my opinion-estimate is now 1.35%.

As commented previously, the rate used in the mortgage stress tests remains ridiculous, at 4.79%.



## Rental Markets

CMHC will release the results from its October survey on January 28. Two years ago, the release occurred on November 28.

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