

# Housing Market Digest

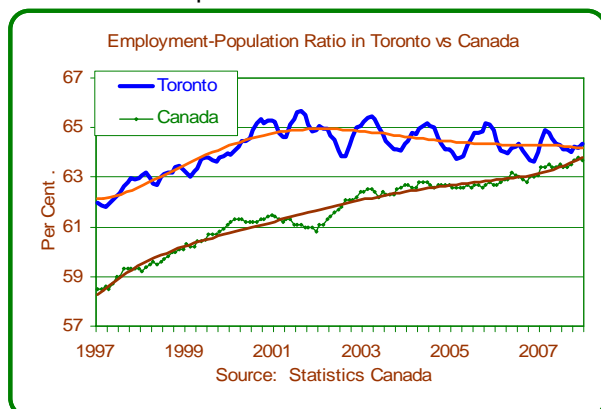
Greater Toronto Area, January 2008

**Synopsis: Toronto CMA employment appears to be expanding at about the same rate as the population – a weaker performance compared to Canada, but still a positive sign in the circumstances. Housing markets (both resales and new construction) have slowed in recent months. Mortgage rates still aren't following reductions in bond yields.**

## Economic Trends

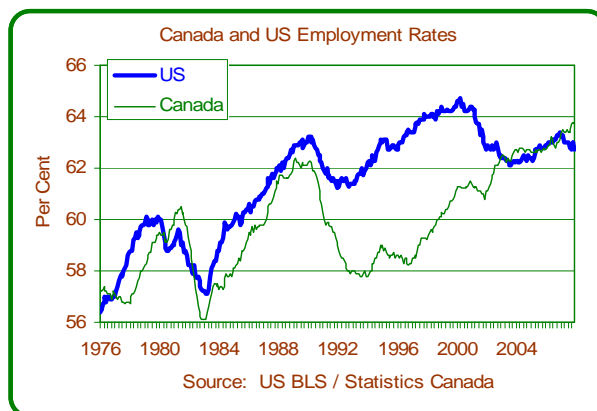
Employment reportedly jumped sharply in Toronto CMA in December (rising by 12,500, almost one-half of a percent in just one month). The character of the data suggests strongly that there is a data artifact here, but what isn't clear is whether this is a new error or a correction for a prior error. Based on the murky evidence, I suspect that December represents a correction (and that job creation during the prior three months was stronger than had been reported). The trend for the employment rate continues to move sideways. Considering the worsening fundamentals, this stability is a good sign, indicating that the wealth effect from high house prices and the stock market are more-or-less offsetting the negative effects from the high dollar and commodity prices.

For all of Canada, on the other hand, a drop was reported for December (-18,700). This also has the character of a data artifact, but in the other direction – it may be a correction from over-estimates in the prior three months.



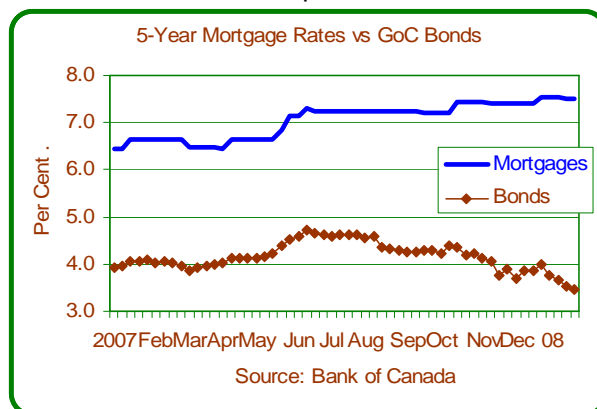
The Canadian economy continues to perform much differently than the US. As shown in the following chart:

- As measured by the employment-to-population ratio, the Canadian economy usually, but not always, moves in the same direction as the US.
- Not now, however. The US employment rate peaked at the end of 2006 and dropped during 2007; the Canadian rate continued to rise during the year.



## Interest Rates

Bond yields have fallen during the past month, with 5-year Government of Canada yields now at 3.5%. Mortgage rates have not followed, and are typically 7.4-7.5% (posted) and 6.0% (discounted). The spread between bond yields and posted mortgage rates (5-year terms) is now about 400 basis points, versus a normal spread of 240-250 basis points. For discounted rates the current spread of 250 basis points exceeds a normal amount of 110-120 basis points.

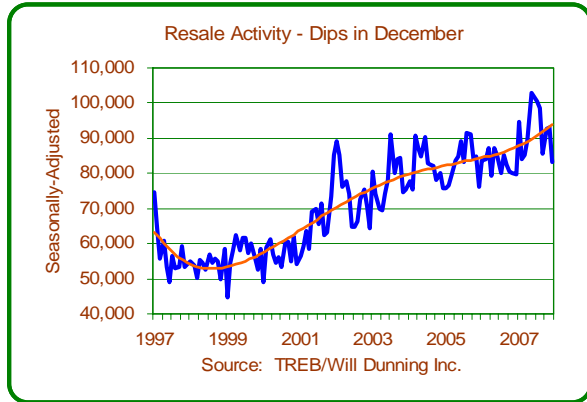


## Resale Market

For the past 4 months, resale market activity has been below the very high trend level established earlier in 2007. This includes a drop in December to 83,300 seasonally-adjusted (based on 4,646

actual sales). The drop in December was due to harsh weather at mid-month – there will probably be a strong rebound for January. The slowing seen in recent months is quite mild and continues to indicate a very strong market.

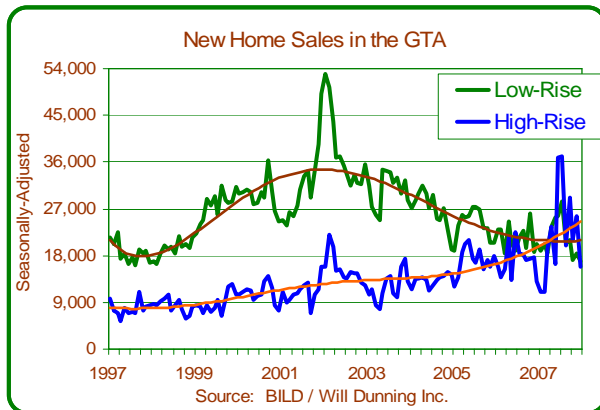
Total sales for the year exceeded 95,000, far above the 2005 record (about 85,700).



The resale price averaged \$394,931 in December. My estimate of the price trend is up by a phenomenal 12.8% year-over-year.

### **New Homes Market**

New home sales slumped in December, with 1,785 actual sales equating to 32,800 after seasonal-adjustment. We can attribute this partly to harsh weather.



Low-rise sales were 945 actual units and 16,800 seasonally adjusted in December. This is the third consecutive month that sales have fallen short of 20,000, and they have average averaged about 17,000 during that period. It is still too soon to say that low-rise sales have fallen from their prior level (a trend of about 21,000) but the low-rise market definitely needs watching. For high rises, a sharp drop was reported, to 16,000 seasonally-adjusted (840 actual sales). While this is much lower than in prior months, it is still a very strong performance.

BILD reports that for the year:

- Low-rise sales (21,550) were essentially unchanged from 2006 (21,674).
- For high-rises, 23,234 sales were 34% higher than the 17,353 sales in 2006.
- Total sales (44,784) increased by 15% from 39,027 in 2006. Sales in 2007 were the second highest all-time, surpassed only by roughly 54,000 sales in 2002.

### **Other News**

My subscription report [Toronto Employment and Housing Outlook](#) provides more detailed discussion of the GTA economy and housing market, with forecasts to 2010. A sample report (the issue released last October) is available at [www.wdunning.com](http://www.wdunning.com) in the Forecast Report section, which also has the order form. The price is still a very reasonable \$120+GST per year (4 issues).

### **How to Reach Will Dunning Inc.**

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### **The GTA Outlook**

None of my forecasts have been revised during the past month. Revisions will be published in [Toronto Employment and Housing Outlook](#) early in February.

Forecast for 2008		
	2007 Actual	2008 Forecast
Employment in 1,000s (Annual Average)	2,865	2,890
Resales	95,223	78,600
Avg Resale Price	\$377,066	\$386,300
New Home Sales		
Low-Rise	21,550	18,600
High-Rise	23,234	14,900
Total	44,784	33,500
Housing Starts – Toronto CMA	35,293	41,600
Source: Will Dunning Inc.		

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