

# Housing Market Digest

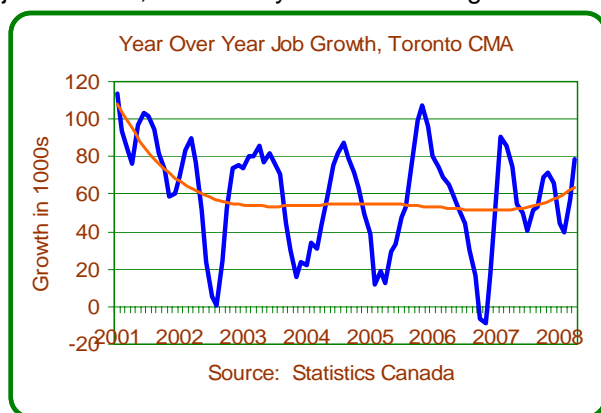
Greater Toronto Area, May 2008

**Synopsis: New homes activity in the GTA is a lot lower than it should be, given continued job creation and favourable interest rates. Consumers may be hesitating, in reaction to negative reports on the economic outlook for Canada (especially Ontario). As individuals assess (and act on) their own circumstances, we should see some improvements in the next few months.**

## Economic Trends

My recurring theme is that job creation is the key factor that determines housing activity – not just recent growth but the growth that has occurred during the past 3-4 years. The data on job creation for the Toronto CMA is highly murky (the chart illustrates the consequence of generating economic data by a sample survey). The data (note the orange trend line) suggests that job creation has not worsened and may have actually improved during the past year. If the data is reasonably correct, then housing activity in the GTA should be stable, or even improving. But, it isn't. It may be that the recent shift in economic reporting is causing consumers to hesitate, irrespective of their personal circumstances (which, for most of us, remain positive). On this reading, it's too soon to say that the housing market has turned down – given the combination of continued job creation and reasonable affordability we may see improvement in the new homes market in the coming months.

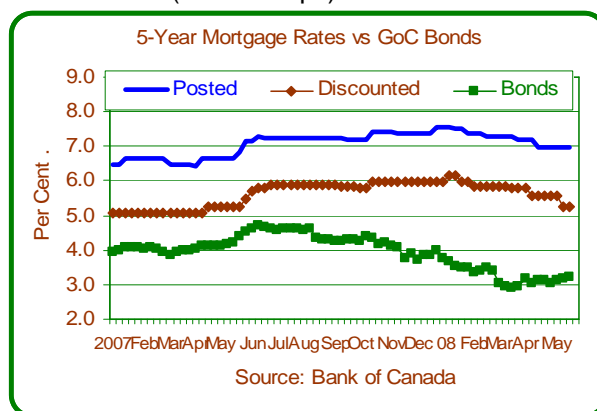
But, the outlook for 2009 and 2010 is becoming less favourable, because the strong dollar and high energy costs will eventually result in slower job creation, followed by weaker housing demand.



For Canada, year-over-year job growth is 2.1% as of April. The growth rate may be slowing – for the past six months the rate is 1.7% at an annualized rate. While job creation for Canada might be slowing, it continues to exceed growth of the adult population (1.4%).

## Interest Rates

Bond yields (Government of Canada) have increased slightly during the past two month and are now in the range of 3.25%. Mortgage rates have not followed – in fact, discounted rates (5-year terms) have fallen by about a half point, to a current typical 5.25%. Therefore, the mortgage-bond spread has been reduced to about 200 basis points – while improved, the spread is still well above normal (110-120 bps).

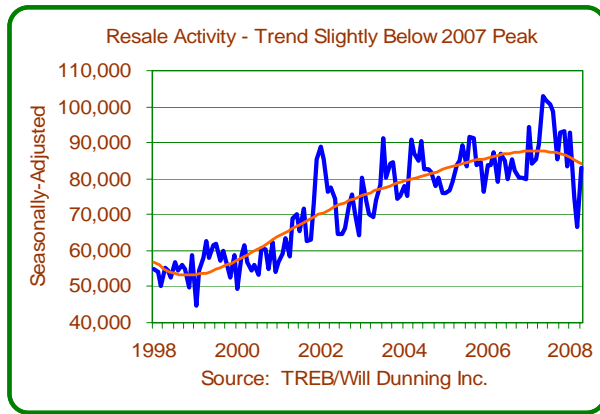


## Resale Market

With improved weather, resale market activity rebounded in April, with 8,762 actual sales equating to 83,100 seasonally-adjusted. Activity is lower than a year ago. That will continue for the next few months, as all-time records were set during the middle third of last year. Thus, during the next few months, reports will show significant year-over-year drops in resale volumes, but we shouldn't be concerned, so long as the sales rate stays above 80,000 seasonally-adjusted.

Listings jumped sharply in April, but this followed two months of low listing activity. The April increase may be a positive sign, indicating that there is continued move-up interest in the market.

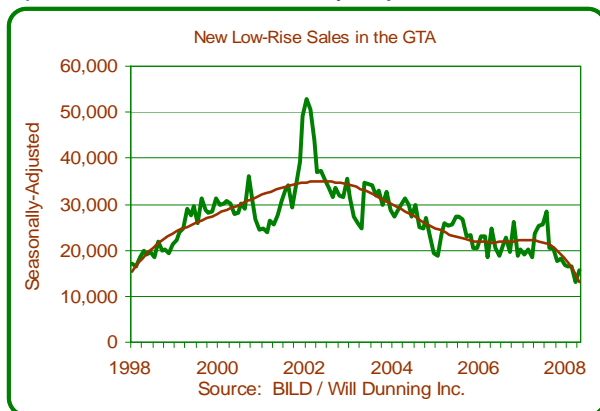
Resale price gains have moderated this year, but still exceed the overall inflation rate. With the average price at \$398,687 in April, my estimate of the price trend is up by 4.4% year-over-year.



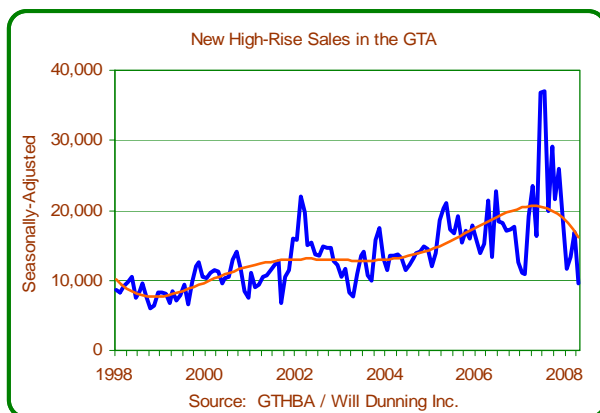
### New Homes Market

New home sales weakened in April - 2,560 actual sales equate to 25,200 after seasonal-adjustment, far below total 2007 sales of about 45,000.

Low-rise sales have been below 20,000 annualized for seven months. In April, 1,602 sales equated to 16,600 seasonally-adjusted.



For high rises, 958 actual sales equate to 9,600 seasonally-adjusted. While this is far below the record pace of 2007, it is still strong in historic terms.



### The GTA Outlook

I've revised my forecasts. The forecasts, covering 2008 to 2011, are published in detail in [Toronto Employment and Housing Outlook](#). Two scenarios are provided in the report. Here, I summarize the scenario that I consider most likely. The large upward revisions in the housing forecasts are due to the continued strength of job creation and the recent reductions of interest rates.

Forecast for 2008		
	Prior Forecast	Revised 2008-Q2
Employment in 1,000s (Annual Average)	2,898	2,937
Resales	79,200	86,000
Avg Resale Price	\$396,200	\$390,300
New Home Sales		
Low-Rise	19,700	24,500
High-Rise	15,800	16,500
Total	35,500	41,000
Housing Starts – Toronto CMA		
Low-Rise (Ownership)	20,800	23,000
High-Rise + Rental	22,000	23,100
Total	42,800	46,000

Source: Will Dunning Inc.

### Other News

A new report for the Canadian Association of Accredited Mortgage Professionals, on trends and the outlook for the Canadian housing and mortgage markets, is available at the CAAMP website and at [www.wdunning.com](http://www.wdunning.com), under Recent Reports. Two key findings are:

- Canadians are becoming more aware of events in the US, but their level of concern is moderate.
- Their attitudes to their local housing markets have not deteriorated.

### How to Reach Will Dunning Inc.

Telephone: 416-236-5115  
 Email: [wdunning@sympatico.ca](mailto:wdunning@sympatico.ca)  
 Web site: [www.wdunning.com](http://www.wdunning.com)

### Disclaimer of Liability

This report has been compiled using data and sources that are believed to be reliable. Will Dunning Inc. accepts no responsibility for any data or conclusions contained herein.

Copyright: Will Dunning Inc. 2008