

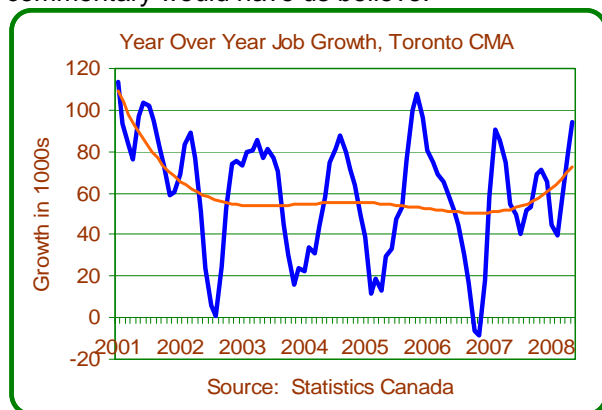
# Housing Market Digest

Greater Toronto Area, June 2008

**Synopsis: The resale market is recovering from its winter lull; new homes activity continues to lag. Continued strong job growth in the GTA (and Canada) should support good levels of housing activity into 2009, so long as individuals pay more attention to their own situations and prospects than to the increasingly negative economic reporting. Inflation's coming back.**

## Economic Trends

Statistics Canada continues to report very positive employment numbers for the Toronto CMA, with the 4<sup>th</sup> consecutive large increase in May. We don't know to what extent the data are real versus artifacts of sampling, but it seems possible there is some reality in the numbers. Wealth effects are very powerful, and huge amounts of wealth have been generated during the past half decade in the housing and stock markets - wealth is still being created. My employment forecast model tells me that the wealth effect should be dominant now - for the moment the positive force from wealth creation is stronger than the negative force from the strong dollar and high commodity prices. Having the data and forecasting model pointing in the same direction gives some comfort - it seems that our economy may be a lot stronger than recent commentary would have us believe.



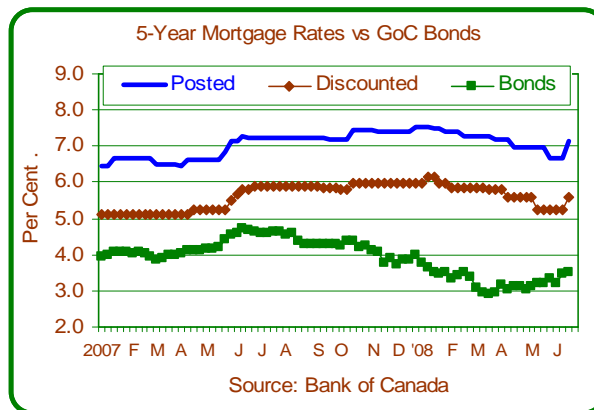
For the past three months, reported job growth for Canada has been modest (an annualized rate of about 1%, slightly slower than the growth rate for the population). This has caused the employment-to-population ratio to slip slightly from its record level. Year-over-year job growth for Canada is still very strong, at 2.0%.

As I said last month, the rest of this year looks quite positive, but for 2009 and 2010 there are escalating risks. The increasingly negative economic commentary about Canada is premature (on the other hand, most of the US commentary

isn't negative enough). In that light, I disagree with recent comments that the Bank of Canada is too concerned about inflation - I expect that the Canadian inflation rate (both core and all-items) will exceed 3% by early next year.

## Interest Rates

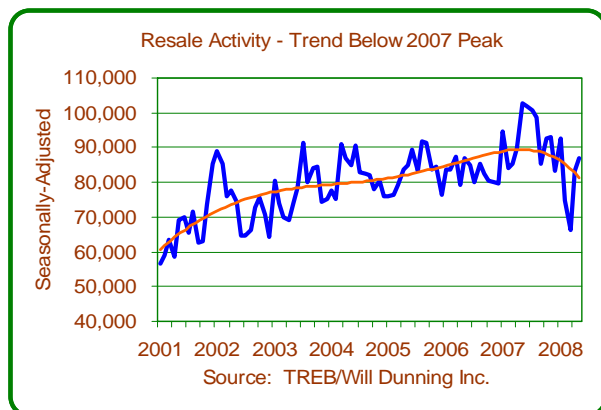
Bond yields (Government of Canada) were in a long period of gradual decline during the second half of last year and into this year, which resulted in a large total drop. During the past six weeks, that reduction has been partially reversed (to about 3.5% for 5-year bonds at present). Mortgage rates did not follow the declines completely, but have responded to the recent rise in bond yields. Mortgage rates (5-year terms, after discounts) are now typically 5.6-5.7%, sustaining the spread at about 210 basis points spread (still well above a prior normal spread of 110-120 bps).



## Resale Market

Resale market activity continues to recover from the lows seen in February and March. May's 9,411 sales equate to 86,900 seasonally-adjusted. TREB has recently started publishing mid-month data - a great initiative - THANK-YOU! At mid June, sales were 14% lower than a year ago. With sales at a phenomenal peak a year ago, a 14% drop is a very good performance, implying a rate in the high 80,000s. As I said last month, for 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.



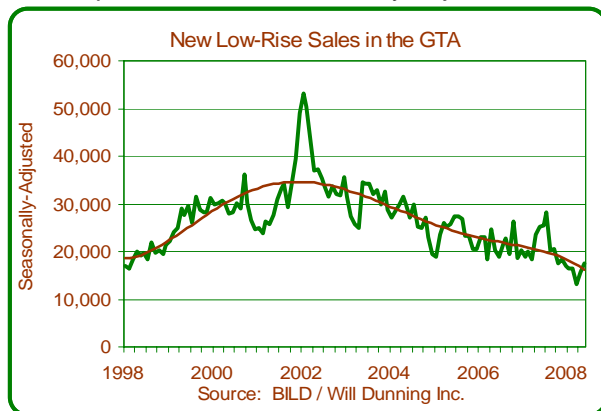
Listings are also recovering from a trough, which is a healthy sign. Resale price growth remains moderate, with my estimate of the price trend up by 4.5% year-over-year. The average price was \$398,148 in May.

### Other News

CMHC found a 2.8% apartment vacancy rate for Toronto in April versus 3.2% in October. I attribute the drop to delayed condo deliveries, which has delayed movement out of rentals. I see higher vacancies ahead, once completions recover.

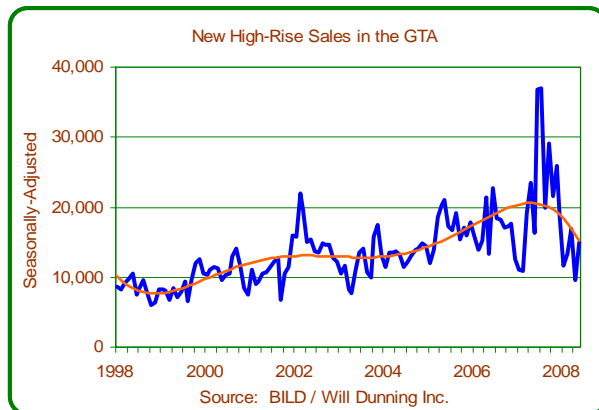
### New Homes Market

New home sales recovered somewhat in May from a very weak April (largely due to a bump for high-rises). May's 3,181 actual sales equate to 32,400 after seasonal-adjustment, far below total 2007 sales of about 45,000. Low-rise sales were below 20,000 annualized for the 8<sup>th</sup> month - May's 1,626 sales equate to 17,400 seasonally-adjusted.



For high rises, 1,555 actual sales equate to 15,000 seasonally-adjusted. The sales trend has dropped from last year's peak and is now at a healthy level.

The consequences of very high sales during 2005 to 2007 remain to be seen.



### The GTA Outlook

I've made no changes to any of my forecasts in the past month. The forecasts, covering 2008 to 2011, are published in detail in [Toronto Employment and Housing Outlook](#). With low rise sales at an average pace of just 17,700 so far this year, there is at least one revision coming.

Forecast for 2008		
	2007 Actual	2008 Forecast
Employment in 1,000s (Annual Average)	2,866	2,937
Resales	95,223	86,000
Avg Resale Price	\$377,066	\$390,300
New Home Sales		
Low-Rise	21,500	24,500
High-Rise	23,400	16,500
Total	44,900	41,000
Housing Starts – Toronto CMA		
Low-Rise (Ownership)	22,904	23,000
High-Rise + Rental	10,389	23,100
Total	33,293	46,000

Source: Will Dunning Inc.

### 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)

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