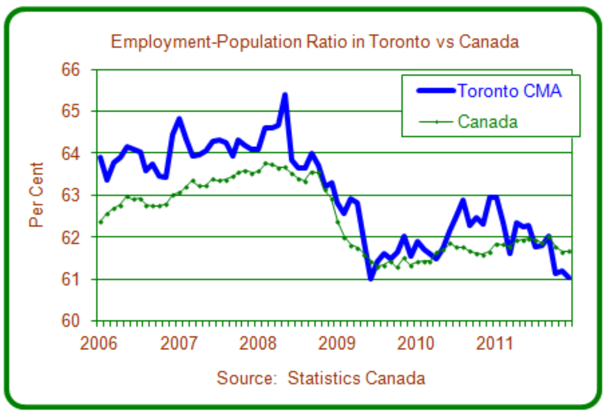
Housing Market Digest

Greater Toronto Area, January 2012

Synopsis: Employment data indicates that the recovery has weakened. Housing activity dropped in December (even after seasonal-adjustment), but we shouldn`t pay much attention – Decembers are highly variable. Due to weaker employment data plus international events, we do need to watch for signs that softening confidence is affecting the housing market.

Economic Trends

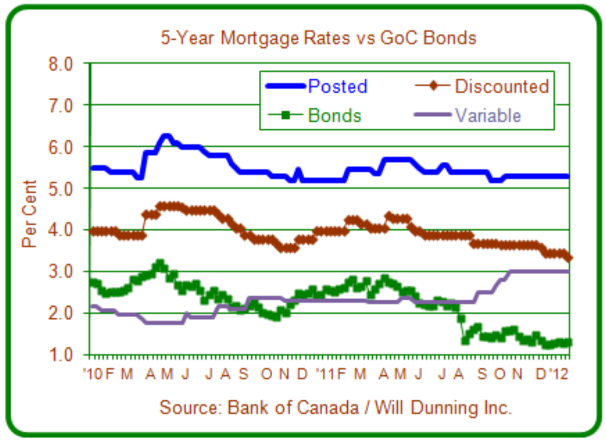
Based on Statistics Canada data, it appears that the level of employment in the Toronto CMA has been flat for a year, and for Canada for the past half year. I think the recent data may be under-estimated, but regardless, the data suggests that the recovery has lost steam. Since employment has not kept up with population growth, the share of people who are employed (the employment-to-population ratio) has fallen by a notable amount for the GTA and is slipping for Canada. To me (but probably to no one else) this is the definition of a recession.



Interest Rates

Yields for Canadian government bonds have flattened, at a very low level (currently in the area of 1.3% to 1.4% for 5-year maturities).

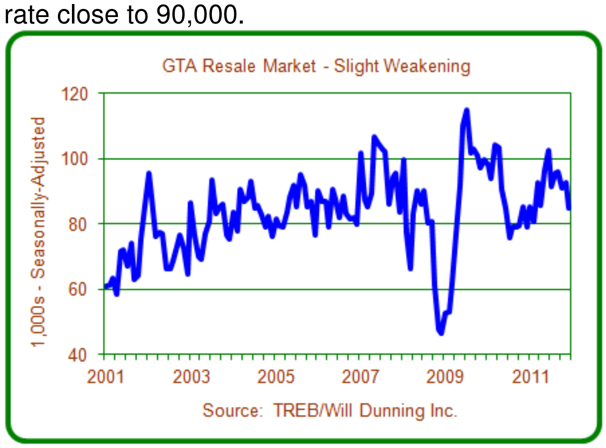
Mortgage rates have fallen a bit, but have not fully matched the drop for bond yields. Based on a current typical (advertised discounted) 5-year rate of 3.35%, the spread is 200 points (120 should be normal). There are some special offer rates under 3%, which still results in a spread well above normal. The challenge for lenders remains the need to attract funds – the spread between deposit rates and discounted mortgage rates is about equal to the historic average. Therefore, there is little scope to further reduce mortgage rates, unless they can persuade consumers to take even lower deposit rates.



The dollar remains slightly below par versus the US dollar, which is still too strong.

Resale Market

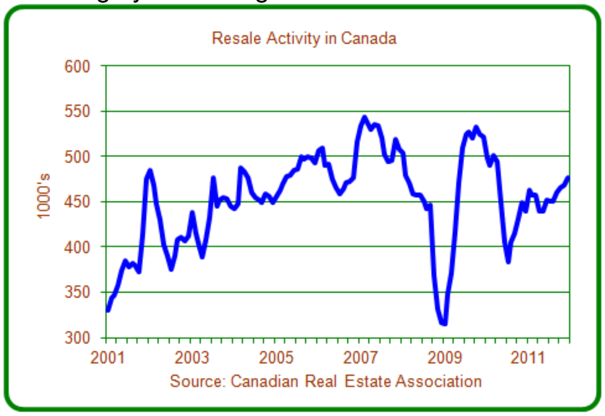
GTA resale activity dipped in December. The sales rate of 84,800 (based on 4,718 actual sales) was slower than the annual total of about 91,750, but it should not be seen as disappointing. TREB's mid-month report for January implies a rate close to 90,000.



Total sales for 2011 were the second highest ever annual total (just 3.6% lower than the record set in 2007). I find the strength surprising, given the very weak recovery from the recession.

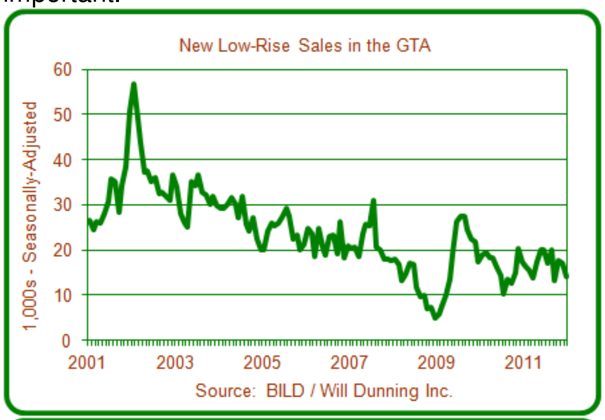
The average resale price dropped sharply in the month (to $451,436), but this is a normal seasonal event. My estimate of the price trend is up by 7.2% from a year ago.

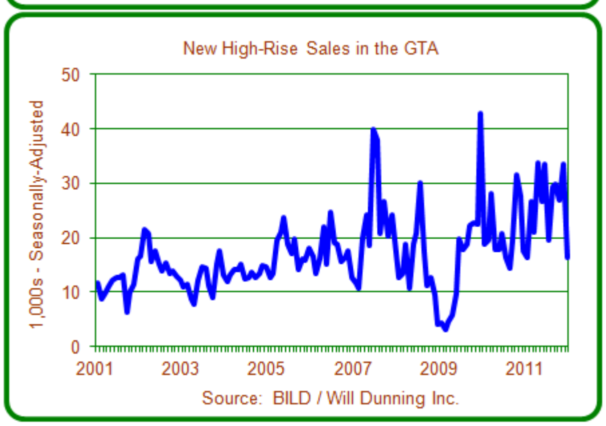
For all of Canada, resale activity has improved for four consecutive months. The average resale price was roughly flat during 2011.



New Homes Market

Total new home sales dropped substantially in December, to a rate of 30,500 (based on 1,623 actual sales). Low-rises were at a quite slow rate of just 14,200 (based on 774 actual sales). High-rise sales dropped from recent levels, but the December rate of 16,300 (based on 849 actual sales) was still high in historic terms. I attach little significance to sales data for December or January – the February sales rates will be more important.





Total new home sales for 2011 (45,926) were much higher than I was expecting a year ago. High-rise activity (28,466 units) was shocking, as investment buying long ago entered dangerous territory; low-rise sales (17,460) were obviously constrained by supply shortages, and were highly disappointing

The GTA Outlook

No changes have been made to my forecasts in the past month. Revised forecasts will be available in early February.

The 2012 forecasts shown below are averages from two very different scenarios (which are described in *Toronto Employment and Housing Outlook)*. Due to a rising likelihood of a widespread economic slowdown, the probabilities are shifting towards the more negative of the two scenarios. More info on TEHO is available here: http://www.wdunning.com/forecastreport.html.

GTA Forecasts - Averages of 2 Scenarios		
	2011 Actual	2012
Employment in Toronto CMA	2,962	2,972
Resales (units)	91,756	89,786
Average Resale Price	$466,342	$471,902
GTA New Home Sales		
Low-Rise	17,460	11,526
High-Rise	28,466	12,029
Total	45,926	23,555
Housing Starts – Toronto CMA		
Low-Rise (Ownership)	17,476	13,471
High-Rise	19,195	20,039
Rental	3,074	1,953
Total	39,745	35,463
Source: Will Dunning Inc.		

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