

Housing Market Digest

Greater Toronto Area, May 2020

Synopsis: Is the government planning to commit an enormous blunder?

On May 19, in a presentation to the House of Commons Standing Committee on Finance, a senior official in the federal government seemed to be hinting that the government is considering raising the minimum down payment from 5% to 10%.

Part of the current economic crisis is that home buying has fallen by extreme amounts (these charts show monthly sales figures, up to April, for the Toronto area and then for Canada). Partial data for May (I'm writing this on May 22) hint that there has been some recovery, but sales remain far below prior levels.



There is a great deal of conjecture about what will happen to prices. That senior federal official suggested that Canadian house prices might fall by 9% to 18% during the coming year.

The book "House of Debt" has been highly-popular among analysts and government officials who look at mortgage policies. For me, the key take-away from that book is that in the current situation of very high mortgage indebtedness, a sharp reduction in house prices would have severe

negative consequences for the broader economy. I think the most important sentence in the book is this (from page 133: "The dramatic loss in wealth of indebted home owners is the key driver of severe recessions").

Well, we are already in a severe recession. A new policy that further depresses housing demand will add to the downward pressure on house prices, causing this economic crisis to be even deeper and to last even longer.

Economic Forecasting Isn't Very Useful At Present

Forecasting is partly science, and partly opinions and assumptions. At this time, the science does not work. Every economic forecast you see now is really just a set of assumptions. Different people will make different assumptions, and in consequence, we are seeing a very wide range of forecasts for the housing market, and especially about house prices.

Anyone publishing forecasts should be very clear about what they are assuming. For example, in that senior official's forecast that prices will fall by 9% to 18%, what is he assuming about future changes for relevant government policies, including income supports and mortgage payment deferrals?

Rather than talking about forecasts, I think we should be talking about policies, and about contingencies – depending on how this situation evolves, how might policies be amended? For example, under what circumstances would mortgage deferrals be extended from the current six months? Would it be useful to allow 30-year amortization periods for insured mortgages? Should the qualifying mortgage interest rates for the stress tests be amended? Should OSFI rescind the requirement to stress test mortgages that are transferred between lenders? Since OSFI won't do that, should the Minister of Finance order them to do it?

Some of you know my opinions on these questions. At this moment, I'm not raising these issues to argue for my positions, but instead to say – WE NEED TO TALK ABOUT THESE ISSUES.

I'm looking forward to seeing you again.

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