Housing Market Digest

Greater Toronto Area, April 2020

Synopsis: Repeating what I wrote last month, I'm not convinced that I can say anything useful on current market trends or the outlook. But, we should talk about government policies.

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Still Biting My Tongue

Economic commentary can be backward-looking (discussing recent events) or forward-looking (forecasts).

Either type of commentary is most useful in reducing our sense of uncertainty about the future.

The main benefit in talking about recent trends is that, in normal times, what has happened recently provides a reasonable guide to what might happen in the near term.

Recent data is not performing that function: looking at data for March, a person might have concluded that Covid-19 was not a very big deal. Or, we might have looked at how trends changed during the second half of March, and concluded that the economy and the housing market have been disrupted very badly.

Now (I'm writing this on May 4) April's housing data are seeping out across the country, and it's really bad.

So, I could provide some housing market charts here, but that seems pointless to me. You don't need to see a chart to know that things are bad, and secondly, those charts and commentary won't provide any reliable guidance on what might happen during the coming months, let alone the next year or two.

Now, about forecasting…

I have said elsewhere that forecasts tell us more about the person doing the forecasts than they tell us about the future. That is now especially true.

To illustrate this, today's issue of the news service I use (courtesy of Mortgage Professionals Canada) lists two items that forecast housing activity. Both of these analysts are people who I respect a great deal. One of them predicts prolonged weakness extending into next year; the other expects a rapid rebound starting in a few months:

> https://business.financialpost.com/real-estate/pandemics-economic-hangover-will-hit-home-prices-by-2021-cibc-economists-predict?video_autoplay=true

> https://business.financialpost.com/real-estate/dont-underestimate-how-fast-things-may-come-back-housing-sector-seen-rebounding-by-years-end?video_autoplay=true

Uncertainty about the future is now greater than it has been in a really long time.

I understand the impulse that people have to try to reduce uncertainty. At present, I believe that we just have to accept and endure that uncertainty, and (try to) direct our energies elsewhere.

Let's Talk About Policy

In the prior (March) edition of Housing Market Digest, I commented that, once the economic recovery begins, housing will play a really important role, and that we should start a discussion on what government policies should be to support recovery, while managing risk. I mentioned three points that I think should be part of the discussion.

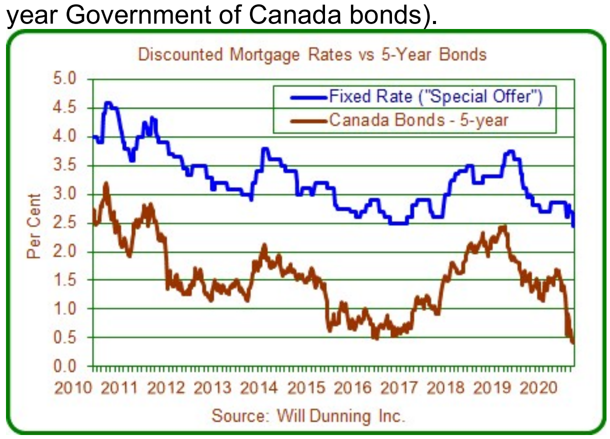
I repeat, we need to start that discussion.

Interest Rates

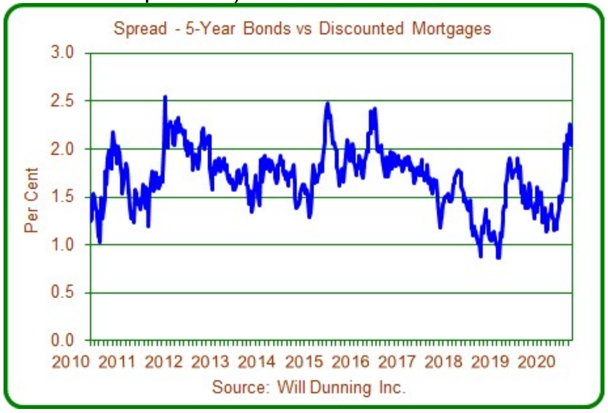
I have two points to make here.

The first is that while mortgage interest rates have fallen, they have not fallen by as much as they might have (relative to benchmark rates).

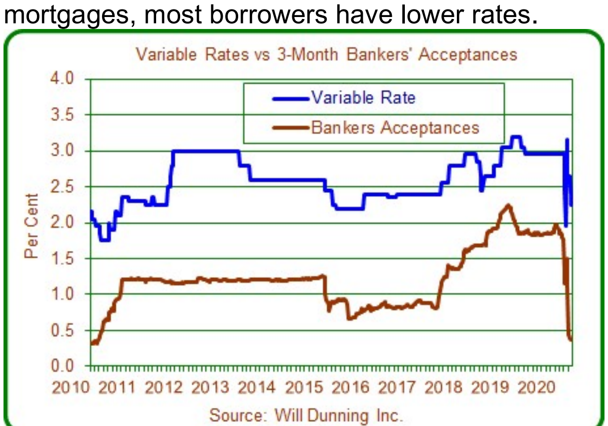
Rates for 5-year fixed-rate mortgages have been reduced, but not by as much as bond yields (for 5-year Government of Canada bonds).



In consequence, the spread between mortgages and bonds is unusually large (2.04 points as of last Wednesday, versus an average of 1.69 points for 2010 to the present).



Similarly, for variable rates, the spread (against 3-month Bankers' Acceptances) is also wider than normal (currently 1.87 points versus a long-term average of 1.38). Note that the rates shown here (currently 2.25%) are typical offer rates for new mortgages. For continuing variable rate mortgages, most borrowers have lower rates.



I don't see these rate changes as especially consequential in terms of housing market effects, because personal considerations should be much more important than interest rates. This data just shows that there is still quite a lot of friction within the financial system.

The sharp reduction in rates is good news (in theory) for people renewing mortgages, and even moreso for people whose variable rates have been reduced.

The second point (which I have made before) is that the OSFI requirement for lenders to do stress testing on mortgage transfers is an added hazard within the economy. I'm not in a position to do this, but I think it would be really useful for somebody (maybe the Bank of Canada?) to do some real-time research on what's happening to interest rates for people who renew mortgages – and to publish that research as quickly as possible.

I'm looking forward to seeing you again.

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