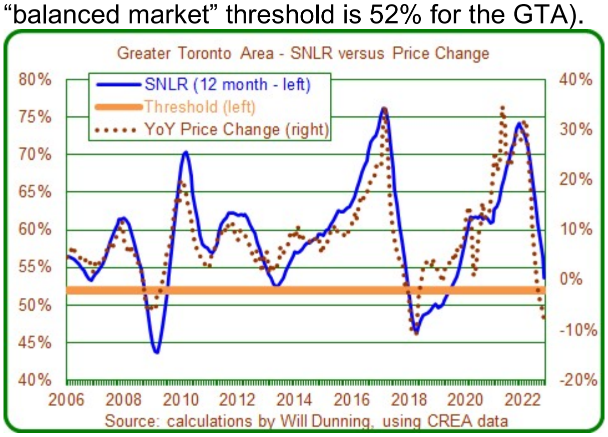
Housing Market Digest

Greater Toronto Area, November 2022

Resale Market

Sales were unchanged in October, at an annualized rate of 62,000. This is extremely weak: on a population-adjusted basis, sales in the GTA are 42% below the long-term average. Apart from the very short dip that occurred at the onset of Covid, this is the weakest market in two decades. Since the start of 2018, total GTA sales are 9.6% below the population-adjusted long-term average. I would argue that sales since 2018 should have been above average, because of very low interest rates and a highly-positive economic environment. The on-going sales deficit reflects the effects of the mortgage stress tests, plus the lingering consequences of changes to mortgage regulations that have occurred during the past decade (notably, the 2012 elimination of 30-year amortization periods for insured mortgages).

Listings are still constrained, as a lot of potential "discretionary" sellers (move-up, move-down, move-away) have gone to the sidelines. The sales-to-new-listings ratio (43.5%) remains in "buyers' market" territory (I calculate that the "balanced market" threshold is 52% for the GTA).



The big question for the coming months is whether we will see a substantive increase in non-discretionary listings (sales forced by job loss, unaffordable costs, or health issues, including Covid-related). If we see significant amounts of job losses during the first half of 2023, that could result in greater downward pressure on pricing.

The Bank of Canada is now stating that they think the current level of employment is too high. Therefore, they won't reverse direction on interest rates until we see substantive recessionary conditions: 2023 could be quite ugly for employment and therefore for the housing market, which would in turn further harm the economy.

Price Trends

My alternative price measure for the GTA showed a very large price jump during 2020 until early 2022, much larger than shown by the average price and CREA's index. But, it shows a larger drop since February (-23.6%) than either CREA's index (-11.2%) or the average price (-14.6%).

But – and I find this very interesting - the level of my index is now almost exactly equal to CREA's index. So, there is uncertainty in the pricing data: have prices recently been flat (as indicated by the average price and my index) or are they trending downwards? While this is interesting to me, what's more important is what will happen next.

Economic Conditions

The Bank of Canada sees an over-heated economy that is resulting in too-high inflation, and a risk that we are all going to expect higher inflation for the future. I see healthy but neutral conditions that are sustainable, and this current inflation as the consequence of two crises (1) the global health crisis in health that is disrupting the supply side of economies, and this is being worsened by (2) geopolitics, which is being amplified by major energy and gas producers. Interest rates are not going to fix these problems.

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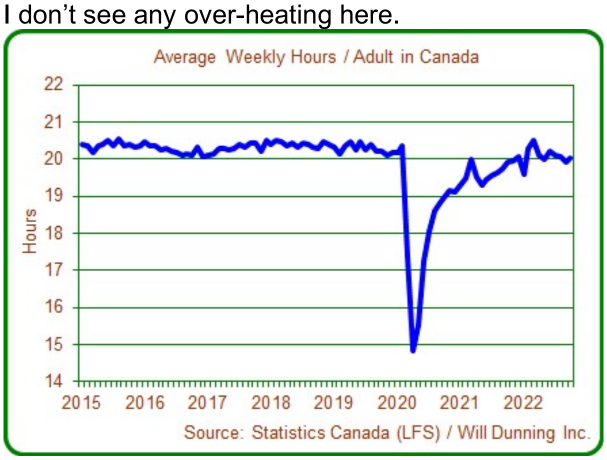
There are multiple ways to judge the health of the economy. Often, there is reliance on Gross Domestic Product ("GDP"). I ignore it: it tells us how much is being produced (and notably for commodities that we sell around the world). GDP does not tell us how we're collectively doing.

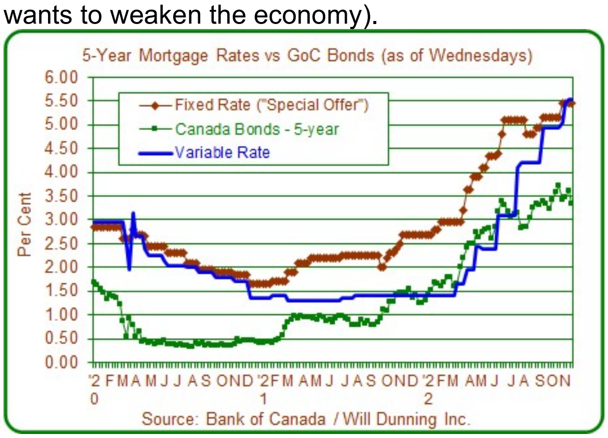
Long ago, I decided to focus on employment. But, people are counted as employed if they have a job, but they are not actually working (for multiple reasons, including vacations, but also illness and family responsibilities). This has become more of an issue in the Covid period. So, instead, I am looking at hours worked. Hours per adult are now 1% lower than in 2019.

I don't see any over-heating here.



Interest Rates

Is this the top for mortgage interest rates? For fixed rates, it might be, because bond yields are starting to soften. But, for variable rates, there could be further increases (since the BoC is says it wants to weaken the economy).



As I commented in the Canada edition for October, I calculate that the neutral mortgage interest rate is currently 2.7%.

Other News

When the Ontario government eliminated masking requirements for schools, I wrote that Doug Ford had made the biggest mistake of his life. That might have seemed hyperbolic at the time. But, we are now experiencing a catastrophe in pediatric health.

We need masking requirements now, not just in schools, but in all shared indoor spaces. And not just masking: there are other essential layers of mitigation that are needed immediately, including ventilation, air filtering, sterilizing UV lighting systems, and paid sick leave and family-care leave (because sick kids should not be at school).

This Twitter thread did a very good job of describing how public health officials have failed for all of us (after you read the first part, scroll up to the top):
https://twitter.com/DFisman/status/1591978837084147712

The thread comments on the suppression of information that is preventing people from making good decisions, and has allowed provincial leaders to hide their failures.

Something else has caught my attention: the provincial governments collect weekly data on deaths, which gets published by Statistics Canada. (Table: 13-10-0784-01) For Ontario, the most recent available data is for May 22nd. At this time, data should be available for September. For the first 5 months of this year, the number of deaths in Ontario was estimated to be 4,346 more than should have been expected. Today, the true year-to-date figure is likely in the area of 10,000.

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