

Housing Market Digest

Greater Toronto Area, October 2023

New Email

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Employment

The published estimates suggest that Toronto's employment situation has weakened (the employment-to-population ratio for the past two months is lower than previously). For all of Canada, the employment rate is flat. It is possible that our situation is weaker, because high home prices make us more vulnerable to interest rates. But, this might just be a random variation that results from a sample survey, and I'm not going to rely on this data.

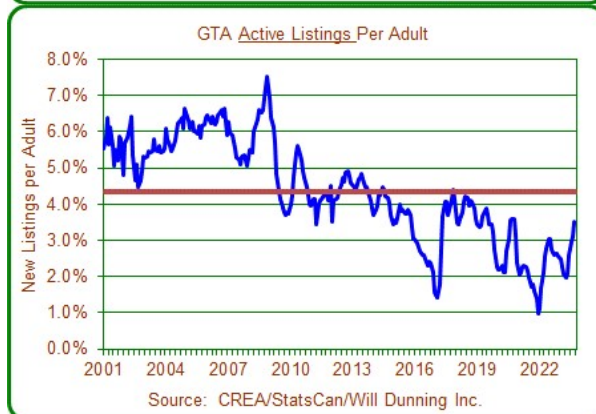
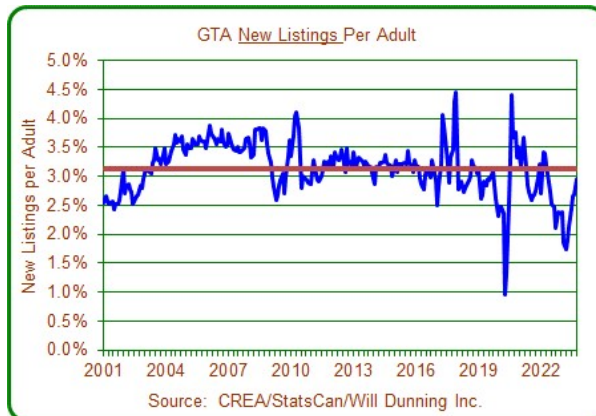


Resale Market

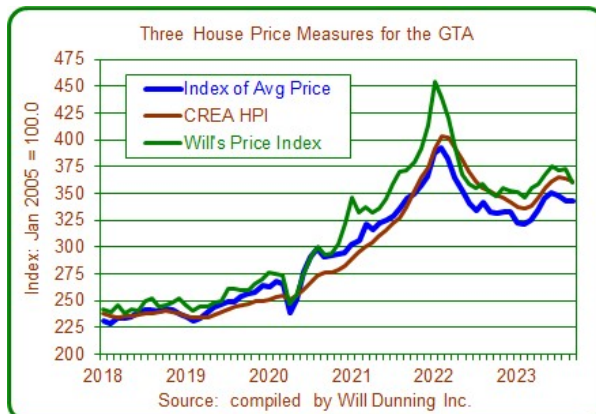
Sales continue to slow, to an annualized rate of 62,500 for September. This is 42% below the population-adjusted long-term average.



Listings continue to creep upwards. The sales-to-new-listings ratio is now very low (at just 36%, versus the 52% threshold for a balanced market). Active listings have also expanded. The sales-to-active listings ratio (30%) is now slightly below the balanced market threshold (which I estimate as 32%).



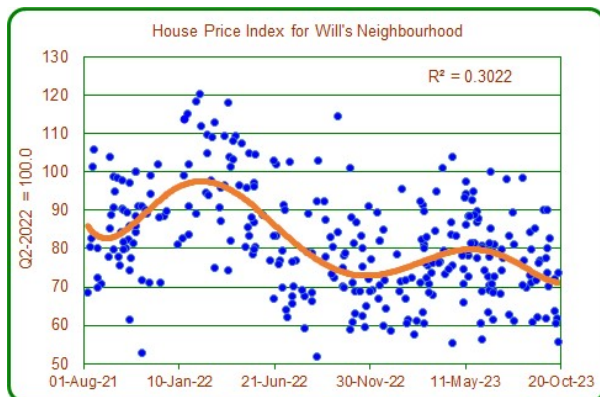
All three of the price measures I use are now hinting that prices are beginning to turn downwards.



To waste time and torture myself, I do a micro analysis of low-rise sales in my neighbourhood (the chart is on the next page). There are few sales happening now, so price discovery isn't working very well, and the tail end of the trend line might be unreliable. But, there is a strong suggestion here that values are now falling.

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Interest Rates

Bond yields have increased further in the past month. Mortgage rates have responded, and my opinion estimate for special-offer 5-year fixed rate mortgages is now 6.15%. The mortgage versus bond spread is now at a normal level (close to 1.8 points). The variable rate is unchanged, at 6.4%.



Housing Starts

Total housing starts have increased a bit (for the third quarter, starts were 6% higher than a year ago). But, low-rise activity is down by 5% while apartments are up by 10%.



For new homes sales, I can't find the most recent data (this chart ends in July). This is an important leading indicator for construction and for the broader economy. I understand that the industry may be quite disappointed by what's happening now, but it would be really useful for decision-makers in Ottawa to be informed about evolving conditions (the sharp reduction in construction activity that will develop next year). I continue to expect that construction employment in the GTA will fall by about 50,000 by the end of next year.

If there's a non-trivial drop in housing values, the negative wealth effect will also cost a lot of jobs.



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