

# Housing Market Digest

Greater Toronto Area, December 2023

## Interest Rates

Following a spike during the summer, bond yields have reversed direction. As I discuss at some length in the Canada edition, mortgage rates have only partially followed, and even if they fully follow the lower bond yields, 5-year fixed mortgage interest rates at about 5% (versus 5.8% today) would still be 2 points above their neutral level: for next year (and possibly into 2025), we will still face a weak housing market, with considerable risk of a tough economy.



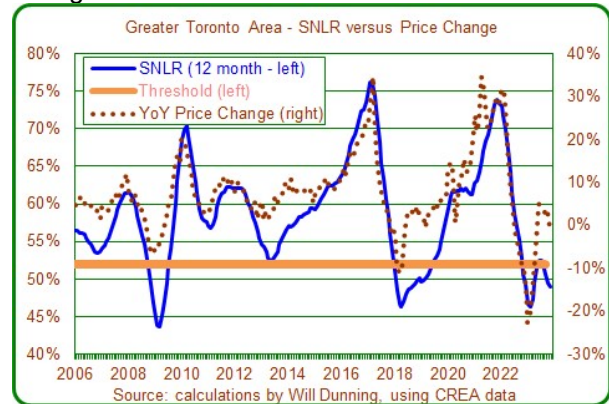
## Resale Market

The CREA data for November shows a small rise in seasonally-adjusted sales for the GTA (but to be a bit nerdy, that is due to an irregular movement in the calculated seasonal factor – if not for that, there would have been a small drop in the sales rate). The (annualized) rate for November was 59,200. This is still exceptionally weak, at 46% below the population-adjusted long-term average. For all of Canada, November sales fell a bit, and were 25% below the long-term population-adjusted average.

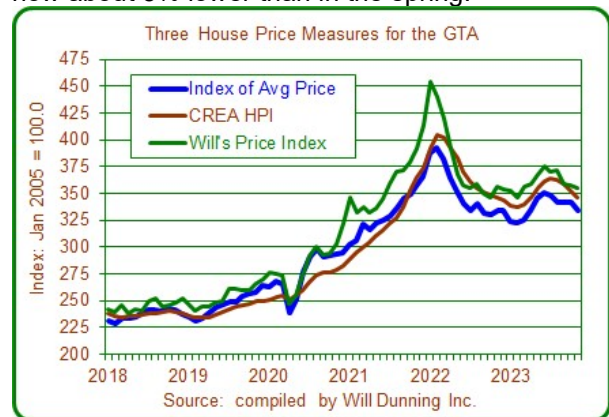


The sales-to-new-listings ratio remains quite low (37%, versus the 52% threshold for a balanced

market). Over the years, analysis has told me that what matters most for year-over-year price change is the average of the SNLR over the same 12-month period. The 12-month average is now 49%, and correspondingly, the year-over-year price change is now about 0%.



All three of the price measures that I use are showing some erosion of prices during the past 4 or 5 months, and (seasonally-adjusted) prices are now about 5% lower than in the spring.



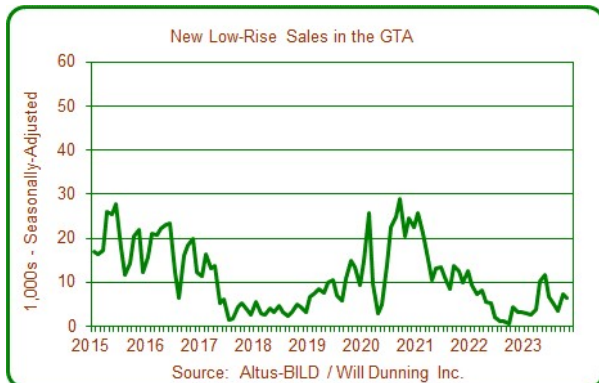
## New Home Sales

During the past 12 months, the new homes sales rate in the GTA has been very low, at an annualized 17,500 units (the available data is up to October). This includes just 5,500 for low-rise dwellings and 12,000 for apartments.

As in the resale market, a drop in interest rates during the spring brought a minor improvement for sales. That was always going to be short-lived. And so, as in the resale market, interest rate reductions that might occur in the next while might bring only a partial improvement for new home sales. We need to see mortgage rates fall by much more than seems to be in the cards at this time.

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Housing starts continue to reflect sales that were made when interest rates were lower (the drop in apartment starts for November could be a turning point, but it's more likely just random noise in a data series that is naturally lumpy).

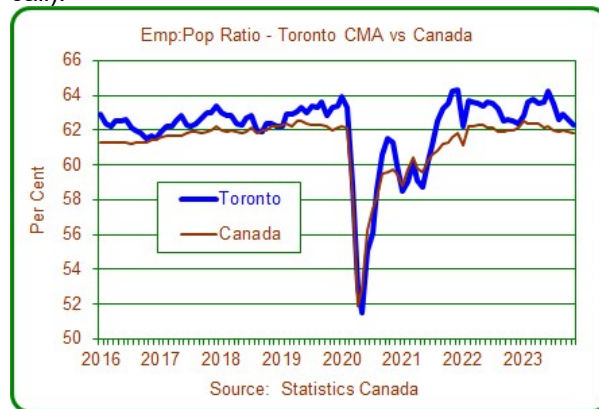


I've commented elsewhere that for all of Canada, the coming drop in housing construction (new builds and renovations, plus impacts in related industries that provide materials and services to construction) might cost a quarter million jobs during the next 1.5 to 2 years. A large share of that will be in the GTA, because this is the most interest-sensitive location. Similarly, the GTA is more sensitive to the depressive economic effects of mortgage renewals at sharply higher interest rates.

## Employment

The outlook for prices in the resale and new construction markets depends a great deal on employment. If more people face job losses next year, there will be more listings by people who need to sell.

For Toronto, the employment situation is uncertain at the moment, due to random variations in the estimates. For all of Canada, the employment-to-population ratio hasn't changed materially (although the very recent data hints that we might be at a turning point – it's too soon to make that call).



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