Housing Market Digest

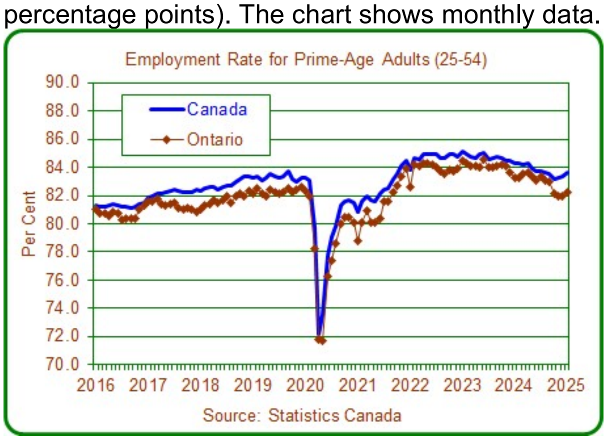
Greater Toronto Area, February 2025

What is a Recession?

The people who draw conclusions about recessions consider a lot of factors. But, for a really long-time, the commonly-used definition has been two or more consecutive quarters during which GDP falls. A variation looks at GDP per capita.

I don't consider GDP a very useful measure – I like to think about how people's lives are being affected by changes in the economy. The employment situation provides useful data – especially the employment-to-population ratio. But, that data considers the population aged 15 years and older, and the data is being pushed (downwards) by increasing movement of people into retirement, and by students. So, I prefer to look at the "prime aged" population aged 25 to 54.

For Canada (and across the provinces), that data peaked during the first half of 2023, and has fallen since then (as of Q4-2024, it is down by 1.6 percentage points). The chart shows monthly data.



There are variations across the provinces. The table shows that the largest falls are in the two provinces that have the highest housing costs (therefore, they have larger negative impacts from high interest rates). An important qualification is that in both Ontario and BC, I see evidence that the recent data has been distorted downwards (by something called a "sampling error"). The "true" reductions in the employment rates might be about 1.4 or 1.5 point in Ontario and 0.4 or 0.5 in BC. For all of Canada, the true drop for the employment rate might be about 1.0 to 1.1 point.

The bottom line for me is:

- Canada has been in recession for about a year and a half.
- The worst recession is in Ontario.
- As I discuss in the Canada edition, mortgage renewals are likely to weigh increasingly heavily on the economy for another two years.

Employment-to-Population Ratios

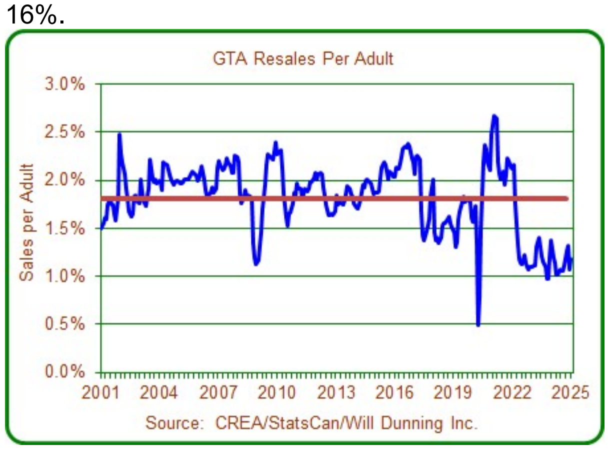
	1st half 2013	Q4-2024	Change
Canada	85.0	83.4	-1.6
Newfoundland and Labrador	80.4	80.5	0.0
Prince Edward Island	84.2	83.0	-1.2
Nova Scotia	83.4	83.0	-0.4
New Brunswick	83.3	82.5	-0.9
Quebec	87.3	85.7	-1.6
Ontario	84.3	82.2	-2.1
Manitoba	85.0	84.8	-0.1
Saskatchewan	85.3	84.8	-0.4
Alberta	84.4	83.4	-1.0
British Columbia	84.6	82.8	-1.7

Source: StatsCan/calculations by Will Dunning Inc.

As I've commented repeatedly, at present we should not trust Statistics Canada's estimates of the number of people employed (because they are based on unrealistic assumptions about underlying growth of the population). StatsCan's other survey of employment (Survey of Employment, Payrolls and Hours) shows that as of November, employment in Ontario has fallen for three consecutive months, by a total of 51,000 (by 0.7% in just three months).

Resale Activity

Following an unexpectedly large drop for sales in December, there was a partial rebound in January, to an annualized rate of 71,600. This was 35% below the long-term population-adjusted average. For all of Canada, the shortfall was less severe, at 16%.



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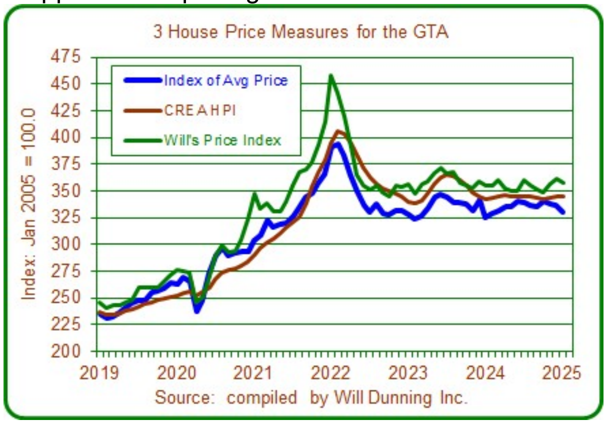
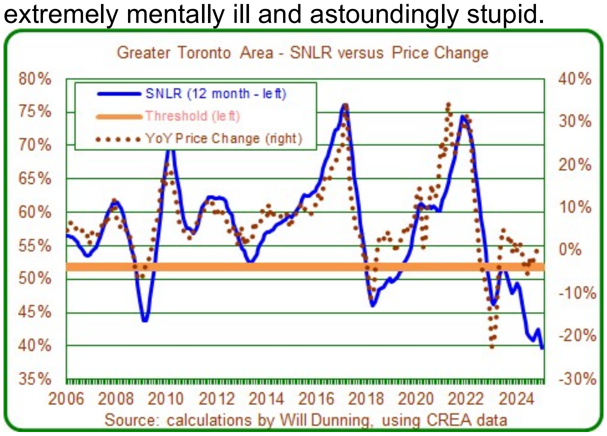
It appears that pricing is still flat in the GTA.

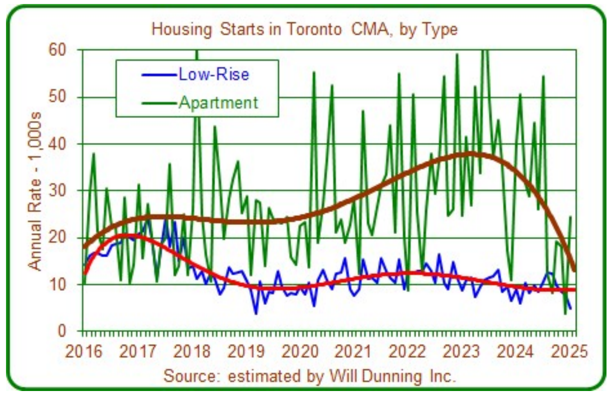


There was a large flow of listings into the market during January, to one of the highest levels ever seen. The combination of weak sales and the large flow of listings caused the sales-to-new-listings ratio to plunge, to just 33.4% (versus the 52% threshold for a balanced market). During the past 12 months, the SNLR has averaged 40%. This should be causing price reductions. As I've said many times, prices aren't falling because, while the employment situation has weakened, it is still reasonably healthy and few home owners are being forced to sell due to economic hardship. This is a major risk factor for the GTA housing market and the economy. But really, today the greatest risk factor is that the most important job in the world has been given to a person who is extremely mentally ill and astoundingly stupid.

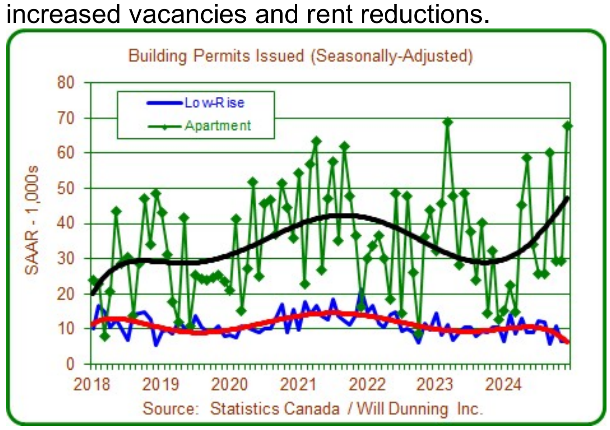


New Construction

Housing starts in the Toronto CMA have been weak for six consecutive months. Starts of all types of units (and expressed as a seasonally-adjusted annualized rate) have averaged 23,600 during that period. For apartments, starts have averaged 14,300. For low-rises, the trend hasn't changed by very much, but activity was previously at levels that were much too low.



Still, I'm not prepared to say that starts are now reflecting the effects of too-high interest rates. Data on building permits (which are indicative of near-term future events), are suggesting that we might see another strong wave of apartment starts. In the review of the Toronto rental market that I published last month, I concluded that excessive expectations about future rents have resulted in over-building of apartments, and that there might be a lengthy adjustment process (at least three years), involving some combination of increased vacancies and rent reductions.



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