GTA HOUSING PULSE

April 3, 2020

A PANDEMONIUM

The widespread COVID-19 shutdowns have created both a health and an economic emergency and the outcomes from these shutdowns are widely uncertain. CUR will be tracking the impact of the spread of COVID-19 through key economic trends as the pandemic unfolds, and as they relate to housing, with a focus on the Greater Toronto Area (GTA).

Figure 1: Canada Economic Forecasts for 2020 and 2021, by Forecaster

	Real GDP* Annual % Growth				Unemployment Rate (%)		
	2019	2020F	2021F	Total % Change between 2019 and 2021	2019	2020F	2021F
Bank of Canada Pre-Pandemic	1.6	1.6	2	3.6	5.7	--	--
TD	1.6	-4.2	3.6	-0.8	5.7	7.5	5.9
RBC	1.6	-2.5	2.9	0.3	5.7	8.7	7.4
BMO	1.6	-3	3.5	0.4	5.7	8	7
CIBC	1.6	-2.6	4.1	1.4	5.7	8.3	7.9
Scotiabank	1.6	-4.1	5.1	0.8	5.7	8.5	7
Central 1	1.6	-5.4	4	-1.6	5.7	8.2	6.4
Conference Board**	1.6	0.3	2.5	2.8	5.7	5.9	5.8

Source: CUR based on various economic forecasters. *GDP=Gross Domestic Product. **Forecast as of March 17 and may prove outdated

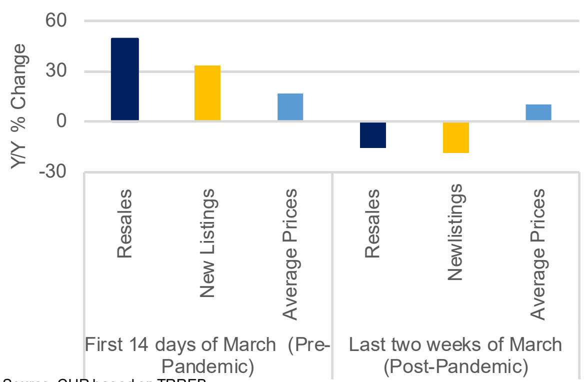
Here we looked at how various economic forecasts (Figure 1) have evolved since the breakout of COVID-19 and the implication for the housing outlook. The backbone for a robust housing market is the economy, after all.

Three interesting trends are unfolding:

- **The hit to the economy is going to be large.** Economic commentators have switched their tune from forecasting a short-term moderate hit to the economy to forecasting the largest annual percentage decline in Canadian economic activity seen since the Great Depression. Underlying these annual forecasts is a sharp 25% to 30% annualized decline in real GDP in the second quarter of this year. The unemployment rate is expected to peak at between 8% and 11%, although the average annuals range between 5.4% and 8.7%;
- **The economy is expected to snap back in the second half of the year** as life starts to get back to normal and consumers unleash pent-up demand. But scars will be left in 2021. Prior to the COVID-19 outbreak, the Bank of Canada was forecasting Canadian Real GDP to be 3.6% higher in 2021 than it was in 2019. Currently, TD and Central 1 expect the economy to be 1% to 2% below its pre-pandemic level in 2021, while most other forecasts see very little growth over this two-year period. Oddly, TD and Central 1 have also forecasted a quicker improvement in the Canadian unemployment rate than other forecasting shops; and
- **There is a large range of uncertainty in these forecasts.** The economic forecasts across shops vary more widely than normally. And, most forecasters have started their forecast commentaries with the caveat that "the situation remains fluid and we will be revisiting our forecasts more frequently than in the past". All the above forecasts were predicated on the assumption that we would all be back to work by May. The City of Toronto and the Ontario Provincial Government has suggested that they are preparing for social distancing measures to continue for up to 7 months (as a worst case scenario). Meanwhile, job indicators in the United States (Canada's biggest trading partner) have suggested a more massive-than-already expected downturn is in store.

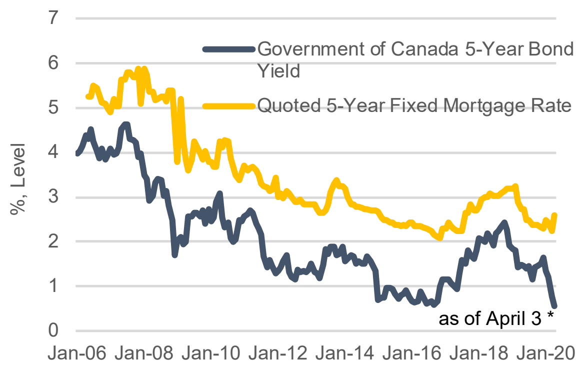
Today's Toronto Regional Real Estate Board's release gave us our first glimpse into the impact Canada's shutdowns will have on housing markets (Figure 2). The housing market in the GTA saw sizable year-over-year

Figure 2: GTA MLS Housing Market Activity in March, Before and After Pandemic-Related Shutdowns



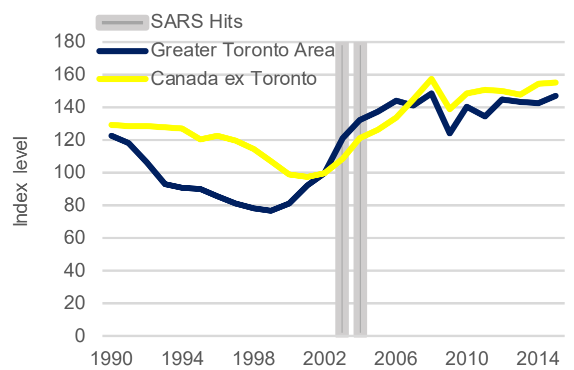
Source: CUR based on TRREB

Figure 3: 5-Year Interest Rates in Canada, %



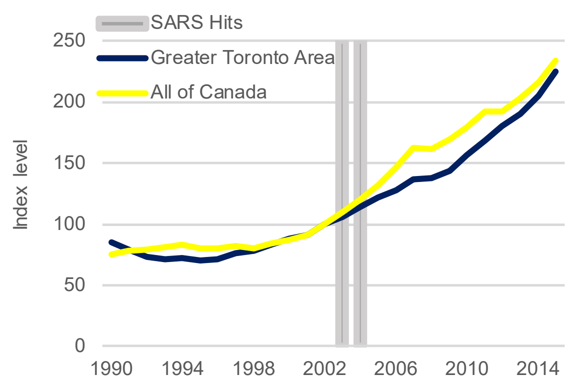
Source: CUR based Statistics Canada and Ratehub.ca

Figure 4: New Listings Indexed at 2002=100, GTA and the Rest of Canada



Source: CUR based On TRREB data

Figure 5: Average Existing Home Prices Indexed at 2002=100, GTA and Canada



Source: CUR based On TRREB data

gains in the first half of March, which were quickly shut-down in the second half of the month. Both sales and listings dropping abruptly. Average resale home prices also fell in the last two weeks of the months, but were still up year-over-year.. Note, performance in the first half of March likely looks stronger than it was because March break was in the first half of the month last year, while it was scheduled for the second half of the month this year.

The housing forecasts released so far are calling for a considerable drop in home sales during the rest of the first half of 2020, followed by a sharp snap back in activity in the second half of the year. Average resale home prices are expected to fall moderately in the second half of 2020, but the decline is expected to be cushioned by a sharp drop off in listings, as would-be sellers decide to weather the storm by not listing.

There are three main risks to this seemingly sanguine view:

- Mortgage rates are going up, not down (Figure 3). The Bank of Canada has cut its overnight rate by 150 basis points and embarked on the largest quantitative easing (QE) program ever undertaken in Canada. These measures have helped lower risk-free government bond yields. However, it is not being passed on to new mortgage borrowers. This week, the best five-year mortgage rate on offer jumped to 2.59% according to ratehub.ca, up from 2.25% last week. It remains to be seen how monetary stimulus will be used to support new lending;
- The argument that home prices will remain relatively isolated is informed by research that suggests that during pandemics, sales tumble, but listings fall by more. The story in Toronto (the hardest hit region outside of China) seemed to be a bit different during the SARS outbreak (Figure 4 and 5). Existing home sales remained largely on par with other parts of Canada, but listings grew faster. Home prices in Toronto underperformed those of the rest of Canada for quite some time following the SARS pandemic, even if they did not fall outright; and
- This shock is hitting at a time when overstretched households already don't have very much wiggle-room. Federal Government spending should help provide a backstop for households who lose their jobs. But a lot of households will still have a hard time meeting their debt obligations.

There is little doubt that the near-term economic fallout from the COVID-19 shutdowns and layoffs are going to be huge for both the economy and the housing market in the GTA. The economic consequences will be unlike anything we have seen in recent history. COVID-19 has so far been more infectious and has already killed far more people than any pandemic/epidemic in recent history, including SARS. While forecasters are calling for a sharp snap back in activity in the second half of the year, the prospects for this to happen remain doubtful.