

GTA HOUSING PULSE

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GOVERNMENT STIMULUS PROGRAMS HELPING ONTARIO AND GTA HOUSEHOLDS AVOID A DEBT CLIFF

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Friday's release of Canada's economic accounts showed that the economic carnage from the pandemic has been significant. Canadian economic activity fell 8.2% in the first quarter of the year, after lock-down measures were put in place in March (the final month of the quarter). The coordinated release of monthly employee compensation (earnings) data fell by \$2 billion in Ontario in March, and are predicted to have fallen by a further \$2.5 billion in April when job losses accelerated.

The knock-on effects to the housing market are two-fold;

- Less demand for housing: Income losses and economic uncertainty will continue to weigh on demand for housing even as the economy starts to recovery; and
- Financial Stress: Losing a job and income makes it harder for households to keep up with mortgage payments. Higher mortgage in arrears (borrowers late on their debt payments) are commonly associated with higher unemployment and can weaken housing market conditions. The best measure of financial stress we have is the number of mortgages that are late on their payments by 90 days or more.

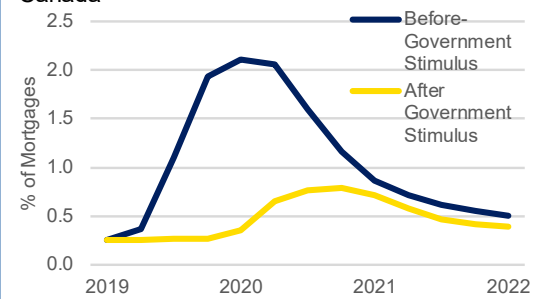
In this issue we look at how government stimulus programs will help mitigate aggravated financial stress in Ontario and the Greater Toronto Area (GTA) resulting from these economic outcomes.

Bank of Canada predicts that federal government stimulus will help Canadians avoid a debt-cliff

In its Spring Financial System Review, the Bank of Canada noted that government stimulus measures will help offset virus-caused economic weakness and help avoid an extreme aggravation of financial stress in Canada. The Bank estimates that absent of stimulus measures the percent of mortgages in arrears would have risen substantially to 2.2%, from the current level of 0.2% (Figure 1), which would have been the worst on record for the Canadian economy.

However, owing to federal government stimulus measures, the percent of mortgages in arrears in Canada is only expected to peak at 0.8% in late 2020 (Figure 1).

Figure 1: Bank of Canada Forecast of % of Mortgages in Arrears More than 90 days, Canada



Source: CUR, based on Bank of Canada data

These measures include:

- Government income replacement - Canadian Emergency Relief Benefits (CERB). The main support for households includes enhancements to employment insurance. A person is getting up to \$2,000 a month (\$500 a week) for four months if they are over the age of 15, made at least \$5,000 in 2019, and are earning under \$1,000 a month because of the pandemic;
- Quantitative easing and an increase to Canada Mortgage and Housing Corporation's (CMHC) mortgage purchase program have helped bring mortgage rates down. At the start of the crisis, mortgage rates started to climb higher, but have since turned down. The average offered mortgage rate in 2019 was 2.6%, and it is now 2.2% according to RateHub.ca; and
- Mortgage deferral programs will ensure those who cannot meet their debt obligations are not required to. Regulators and banks have implemented programs to allow borrowers, who can demonstrate need, to defer their mortgage payments for up to 6 months. These deferred payments, however, are added to the borrower's mortgage amount and collect interest. The Bank of Canada estimated that banks have already approved mortgage deferral for 15% (700,000) of mortgages in Canada.

Ontario (and GTA) to benefit from federal stimulus

We extended the Bank of Canada analysis to Ontario and the GTA market. Our estimates show that federal stimulus measures will have a similar impact in these regions.

There are two major predictors of mortgage in arrears in Ontario – the unemployment rate and the debt service ratio (the ratio of interest debt payments to household income). Both impact a household's ability to meet their debt payments.

Mortgage in arrears rates in Ontario and the GTA are far lower than in the rest of Canada (Figure 2 and 3). Only 0.1% of mortgage payments were late more than 90 days at the end of 2019. However, with the unemployment rate rising to just over 11% as of April 2020, the share of mortgages in arrears would have jumped to an estimated 0.7% without stimulus measures. For Ontario, that would have meant that 18,000 mortgage borrowers with mortgages at six of the large banks alone would have been delinquent on their mortgage payments, up from just 1,800 as of January 2020.

The stimulus measures are expected to keep the debt service ratio from skyrocketing in Ontario and Toronto (Figure 4) by:

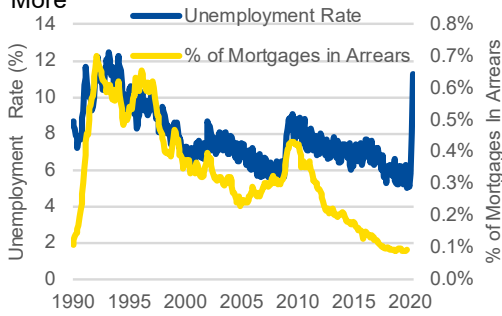
- Supporting the denominator (income) by replacing over 90% of the lost wages in 2020 (Figure 5). Assuming all 1 million of those who lost their jobs in Ontario since March collect employment insurance, the program will replenish roughly \$2 billion per month in wages over the course of the next four months in Ontario. However, there will be distributional impacts with some households receiving more than they previously made and some receiving less;
- Lower interest rate will help bring mortgage interest payments lower; and
- The mortgage deferral program will help lower the numerator by almost 8% in 2020, helping to offset income losses.

As such, we estimate that the % of mortgages in arrears will only rise to 0.4% in Ontario and the GTA, from historically low levels of 0.1% in the first quarter of 2020. This means that 8,000 households, not 18,000 with mortgages at the six banks alone, will face mortgage stress in Ontario, as would be the case without federal stimulus programs.

Conclusion

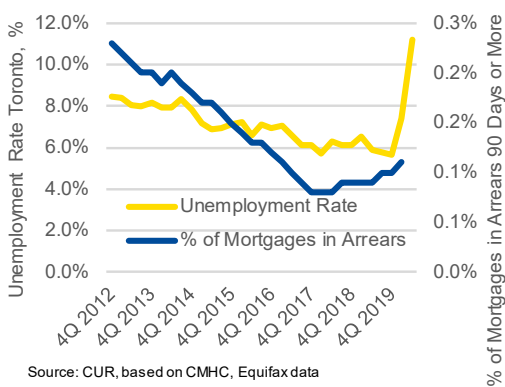
The anticipated hit to household income from the pandemic are likely to continue to weigh on housing demand through 2020 and 2021. However, government stimulus measures will help avoid extreme financial stress in the housing market.

Figure 2: Ontario Unemployment Rate (%) versus % of Mortgages in Arrears 90 Days or More



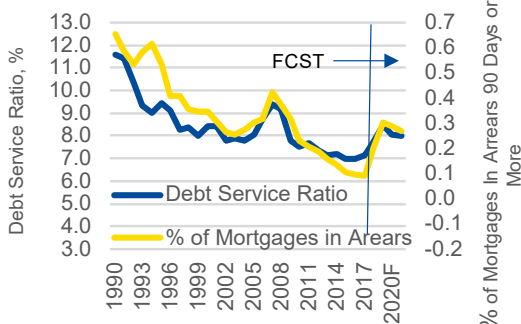
Source: CUR, based on Statistics Canada and Canadian Bankers Association data

Figure 3: % of Mortgage in Arrears 90 Days or More and Unemployment Rate, GTA



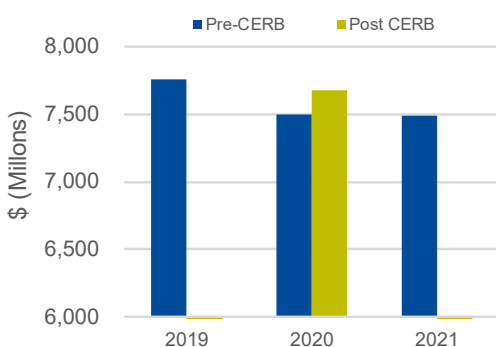
Source: CUR, based on CMHC, Equifax data

Figure 4: % of Mortgages in Arrears and the Debt Service Ratio, Ontario



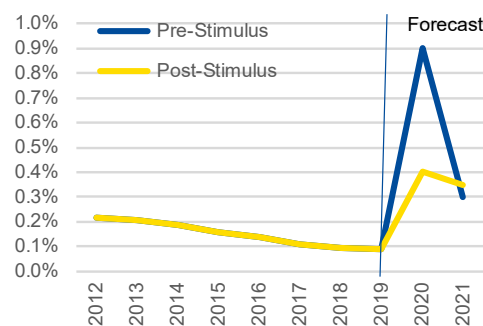
Source: CUR, based on Statistics Canada and Canadian Bankers Association data

Figure 5: Total Weekly Wages, Ontario



Source: CUR, based on Statistics Canada data

Figure 6: % of Mortgage in Arrears 90 Days or More Pre vs. Post Federal Stimulus, Ontario



Source: CUR, based on Canadian Bankers Association data