



Highlights:

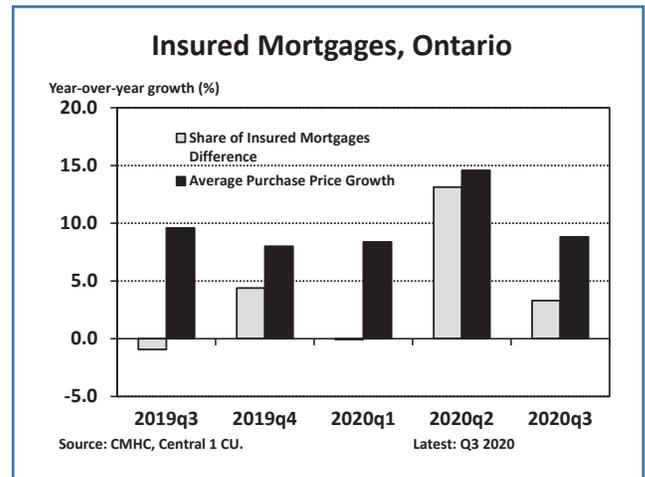
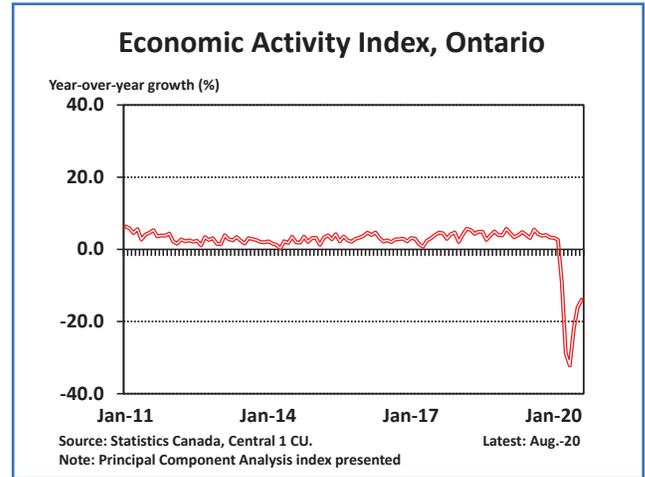
- Ontario's economic index still down 14.2 per cent in August from February's reading
- Risks to CMHC's mortgage insurance portfolio remain low despite strains caused to the overall economy by the pandemic

Ontario's economy continued to show signs of life in the summer but still a significant gap from pre-pandemic activity persists

This week, Statistics Canada released updates to its experimental economic activity index. This is a composite index that factors variables such as employment, merchandise trade, retail sales, etc. The experimental indexes were developed to address the need for a comprehensive measure of economic activity at the sub-national level in advance of the annual estimates of gross domestic product for provinces and territories.

This latest data covers up to August 2020 for all provinces and territories. From June 2020 to August 2020 all provinces continued to recover from the economic hole created by the pandemic's first wave in March and April. Ontario economic activity, while still down 14 per cent year-over-year in August, continued to show improvement from the previous month which came in 16 per cent down year-over-year. Compared to February, Ontario's economic index remained 14.2 per cent down in August. While still a large portion of potential economic activity remains idle in Ontario it is far from the weakest showing. For context, compared to pre-pandemic activity in February, Alberta remains 31.0 per cent down.

As discussed in other weekly briefs, the summer months helped many sectors regain some economic footing especially those client facing services areas such as accommodation and food services, information, culture and recreation, and, health and social services but ongoing restrictions by the province to



stem the transmission of the virus has handcuffed many businesses from fully tapping into their economic potential.

With a second wave of the virus upon us in the fall and winter and an upping of restrictions in several regions the gains over the summer could evaporate.

The share of mortgages insured by CMHC in Ontario on the rise

The Canada Mortgage and Housing Corporation (CMHC) released third quarter mortgage loan insurance data recently. The data released expands from the third quarter of 2018 to the third quarter of 2020 (nine quarters). Over the last two quarters of 2020 the share of Canadian mortgages insured in Ontario by CMHC have totaled 43.6 per cent in the second quarter (up 13.1 per cent year-over-year) and 40 per cent in the third quarter (up 3.3 per cent year-over-year).

Moreover, the average equity of mortgages insured in the third quarter of 2020 in Ontario was 8.0 per cent (down 0.3 per cent year-over-year) compared to 7.6 per cent in Canada over the same period (unchanged year-over-year). Attractive mortgage rates have allowed more potential buyers in expensive Ontario to enter homeownership. The low mortgage rates also have allowed these buyers to likely put lower down payments as shown by the year-over-year change in equity.

The quality of homeowner insured by CMHC has also continued to improve, using average credit score as a proxy over the last nine quarters, even more so over the last two quarters, likely due to more stringent criteria put in place by the Canadian government around allowable debt and minimum credit scores. In Ontario, the average credit score of home buyers in the third quarter of 2020 was 766.9 points (up 7.4 points from a year ago) while the average credit score in Canada during the same quarter was 762.2 points (up 6.2 points from a year ago).

Strong demand in Ontario for homeownership housing since the economic restart in May is coming through in the data. Year-over-year, the average insured home price in Ontario came in at \$434,583, up 8.8 per cent, the highest of all provinces and territories. Again, accommodative policies such as low mortgage rates and CMHC's first-time home buyers' program have pulled a greater number of buyers into the market keeping it very tight for most of the year since the economic restart.

With the Bank of Canada keeping the bank rate very low (0.25 per cent at the time of this report) and likely to remain there for the short-term many buyers that seek mortgage insurance from CMHC are moving to flexible mortgage rates over fixed mortgage rates to take advantage of further decreases by the central bank should those be necessary to help kickstart the economy. In the third quarter of 2020, 85 per cent of lenders in Ontario used a fixed mortgage rate compared to 94.1 per cent a year ago.

Finally, despite a greater number of households entering homeownership in Ontario, for those buyers that seek CMHC mortgage insurance at least, the share of mortgages that have fallen behind on payments (arrears) while it has gone up to 0.21 per cent in the third quarter of 2020 from 0.17 per cent a year ago. Compared to the national average (0.46 per cent in the third quarter of 2020) the rate of households that have fallen behind is more than twice lower the national average. During the pandemic's first wave in

the spring, measures such as mortgage deferrals have done a great job insulating households from potentially catastrophic situations financially.

In closing: a few caveats about this data. It represents only what CMHC has insured, not the overall market. With stricter lending criteria affecting areas like credit scores, GDS and TDS ratios put in place by CMHC their market share is shrinking. A growing share of higher risk borrowers may be going to private lenders or other financial institutions to qualify for mortgage insurance for which they would be denied by CMHC.

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