



HIGHLIGHTS

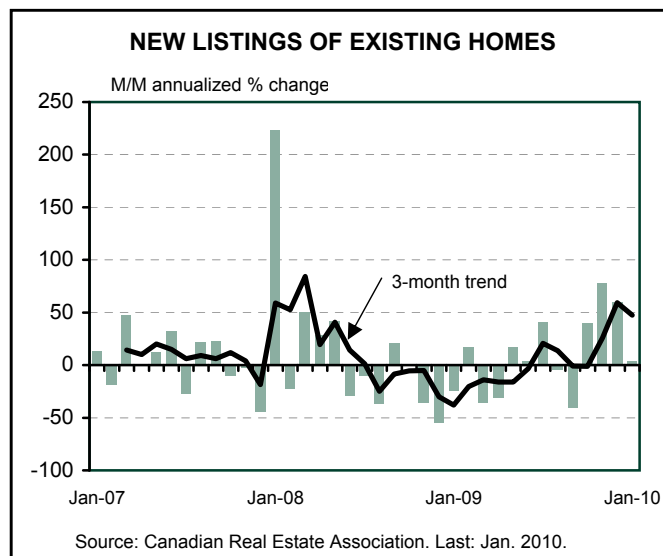
- Resale housing market data over the last three months suggest activity is cooling, as expected
- A substantial increase in new listings and an easing in sales have softened the market balance significantly, which in turn has led to slower month-over-month price growth
- Because of a legacy (base) effect, the easing in price growth will likely not become apparent on a year-over-year basis until spring
- While it may boost near-term sales, the recent announcement by Finance Canada to tighten mortgage insurance rules diminishes upside risks to our sales and price forecast for 2010 overall
- As a consequence of the normal functioning and cooling of housing markets and the recent regulatory change, risks of a housing bubble forming have diminished and could become marginal by year-end.

Pascal Gauthier,
Economist
416-944-5730
mailto:pascal.gauthier@td.com

**SIGNS OF COOLING IN CANADA'S
RESALE HOUSING MARKETS**

While existing home sales and prices grew rapidly in 2009, we have been expecting markets to cool gradually heading into 2010, more markedly in the second half. Are there any signs of this in the latest data or are markets still red hot? Price growth should cool if supply (new listings) increases and/or demand (sales) eases. We look at each side of the market in isolation before combining them to look at the evolution of market balance (sales-to-new listings ratio).

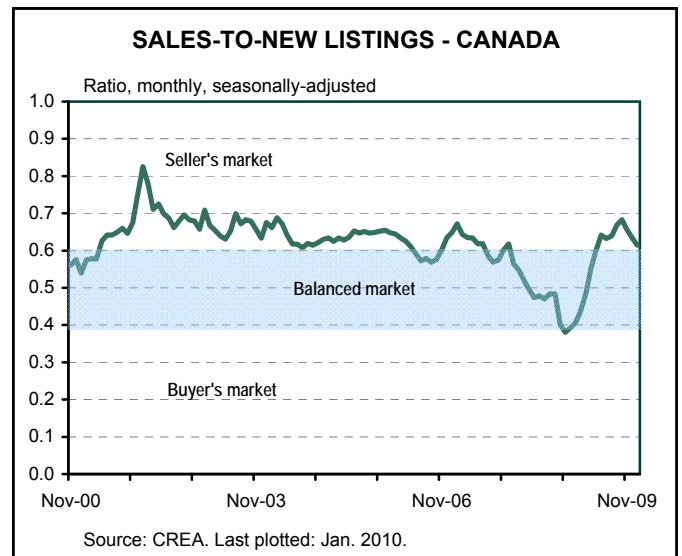
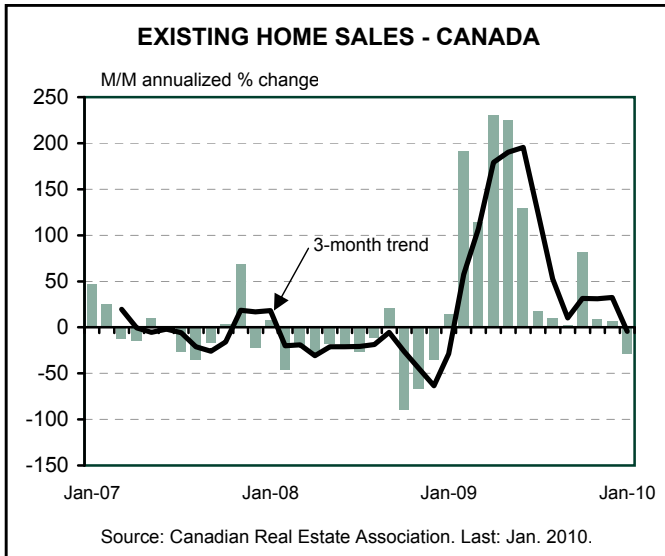
Supply side: Listings should increase as a result of the solid price gains made recently. After declining substantially during the downturn, new listings stabilized by Q3/2009. The last 4 months have seen a substantial rise in new listings. From



a low of 63K (seasonally-adjusted) in September 2009, new listings were at 71K as of January 2010. In fact, this supply response is significantly outpacing our conservative forecast (in which new listings would take until Q2/2011 to reach this level). Housing starts have also been trending up strongly over the last 6 months, which

should help relieve upward price pressures observed in resale markets. Toronto is also seeing a record number of units under construction (~50K), about half of which should hit the market this year. Meanwhile, units under construction bottomed out in most cities in 2009, and have held steady or increased slightly in recent months.

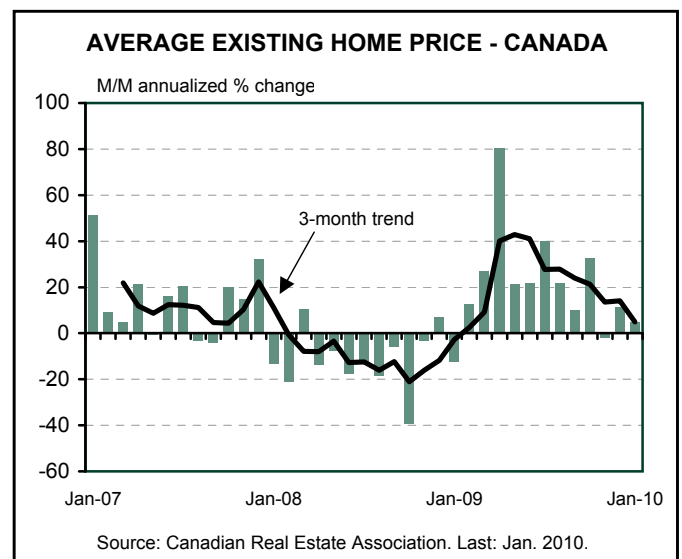
Demand side: This side of the market remains strong, but is also showing signs of cooling. The monthly data is highly volatile, however. To get a smoother reading, we look at the 3-month M/M annualized trend, which shows a pickup and ebbing in Q4/2009 after a significant cooling in Q3/2009. The bottom line is the sales momentum has eased from the summer of 2009 but remains strong and well supported by low rates. Although the actual path will surely be choppy, we forecast a gradual easing down to 35K (seasonally-adjusted) monthly sales by Q4/2011, from the January level near 45K.



Market balance and price:

New listings have increased more than forecast. Meanwhile, sales have held up better. This is essentially a wash in terms of our market balance and price forecast, however. The forecast called for a gradual easing, which is what we are starting to observe. On a seasonally-adjusted basis, the sales-to-new listings ratio has decreased from 0.68 to 0.61 over the last 3 months. As a result, month-over-month price growth has also eased. This has yet to show up in year-over-year figures due to a legacy (base) effect, but should become apparent by April-May. The table on the following page provides recent housing market data for key metrics, highlighting whether any particular month is showing signs of heating up or cooling on the demand-side, supply-side, and overall market balance.

In short, while sales remain strong, signs of cooling have emerged. The sales-to-new listings ratio is on track with our forecast towards more balanced markets. As such, we currently have little reason to deviate from our last base case price forecast. The recent move by Finance Canada to tighten mortgage insurance rules (effective April 19th, see our recent note on our website) will surely boost sales between now and April, but effectively diminishes upside risks to our forecast for 2010 overall. From the latest (January) year-over-year sales growth near 60%, we expect a gradual easing over the course of 2010, to eventually show 10-15% year-over-year declines by year-end. On the price front, the 20% year-over-year gains observed over the last four months should ease to 3-5% by the fourth quarter. On an annual basis, 2010 is expected to record a 9-10% price gain, following the 5% observed in 2009.





EXISTING HOME MARKET - CANADA													
	SALES			NEW LISTINGS			SNL RATIO [^]		AVERAGE PRICE				
	Units	% change		Units	% change		level	change	C\$	% change			
		M/M	3m*		M/M	Ann.				M/M	3m*	Y/Y	Y/Y**
Jan-08	42,574	0.6	18.1	75,495	10.3	59.2	0.564	-0.05	321,308	-1.2	11.2	9.2	9.5
Feb-08	40,463	-5.0	-20.0	73,990	-2.0	52.7	0.547	-0.02	315,088	-1.9	-0.6	6.3	9.8
Mar-08	39,776	-1.7	-18.9	76,572	3.5	84.3	0.519	-0.03	317,719	0.8	-7.8	6.7	9.4
Apr-08	38,716	-2.7	-30.6	78,198	2.1	19.4	0.495	-0.02	313,899	-1.2	-8.0	3.7	8.0
May-08	38,109	-1.6	-21.2	80,535	3.0	40.7	0.473	-0.02	311,884	-0.6	-3.5	3.1	7.0
Jun-08	37,475	-1.7	-21.1	78,330	-2.7	14.2	0.478	0.01	306,965	-1.6	-12.8	0.2	6.2
Jul-08	36,515	-2.6	-20.8	77,637	-0.9	1.3	0.470	-0.01	303,507	-1.1	-12.5	-2.4	5.2
Aug-08	36,166	-1.0	-18.6	74,790	-3.7	-24.9	0.484	0.01	298,426	-1.7	-16.1	-3.8	4.3
Sep-08	36,757	1.6	-5.4	75,966	1.6	-8.6	0.484	0.00	296,932	-0.5	-12.3	-4.0	3.3
Oct-08	30,490	-17.0	-26.3	75,936	0.0	-5.3	0.402	-0.08	284,879	-4.1	-21.1	-9.3	2.1
Nov-08	27,869	-8.6	-44.6	73,209	-3.6	-5.1	0.381	-0.02	284,114	-0.3	-16.1	-10.5	0.6
Dec-08	26,902	-3.5	-63.3	68,566	-6.3	-30.1	0.392	0.01	285,725	0.6	-11.8	-12.1	-0.6
Jan-09	27,213	1.2	-28.6	67,014	-2.3	-38.0	0.406	0.01	282,667	-1.1	-2.8	-12.0	-2.4
Feb-09	29,753	9.3	57.3	67,912	1.3	-20.4	0.438	0.03	285,517	1.0	2.6	-9.4	-4.1
Mar-09	31,709	6.6	107.1	65,515	-3.5	-13.9	0.484	0.05	291,281	2.0	9.3	-8.3	-5.8
Apr-09	35,034	10.5	179.1	63,547	-3.0	-16.1	0.551	0.07	305,949	5.0	40.1	-2.5	-6.7
May-09	38,654	10.3	190.3	64,394	1.3	-16.2	0.600	0.05	310,888	1.6	42.9	-0.3	-6.9
Jun-09	41,428	7.2	195.3	64,574	0.3	-3.3	0.642	0.04	316,044	1.7	41.1	3.0	-6.2
Jul-09	42,012	1.4	124.5	66,459	2.9	20.6	0.632	-0.01	325,059	2.9	27.7	7.1	-5.1
Aug-09	42,350	0.8	52.7	66,264	-0.3	13.7	0.639	0.01	330,396	1.6	27.8	10.7	-3.4
Sep-09	42,431	0.2	10.2	63,489	-4.2	-0.8	0.668	0.03	333,018	0.8	23.9	12.2	-1.8
Oct-09	44,599	5.1	31.4	65,290	2.8	-1.2	0.683	0.01	340,923	2.4	21.3	19.7	0.6
Nov-09	44,912	0.7	31.0	68,506	4.9	25.9	0.656	-0.03	340,385	-0.2	13.5	19.8	2.6
Dec-09	45,154	0.5	32.4	71,256	4.0	59.4	0.634	-0.02	343,520	0.9	14.1	20.2	n/a
Jan-10	43,910	-2.8	-4.4	71,479	0.3	47.4	0.614	-0.02	344,900	0.4	4.9	22.0	n/a

Notes: **hotter than month prior**
cooler than month prior

[^] SNL: sales-to-new listings; * 3-month average in annualized M/M % change; ** From Teranet-NB home price index.
Source: Canadian Real Estate Association (CREA), Teranet-NB. All CREA data shown is seasonally-adjusted.

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