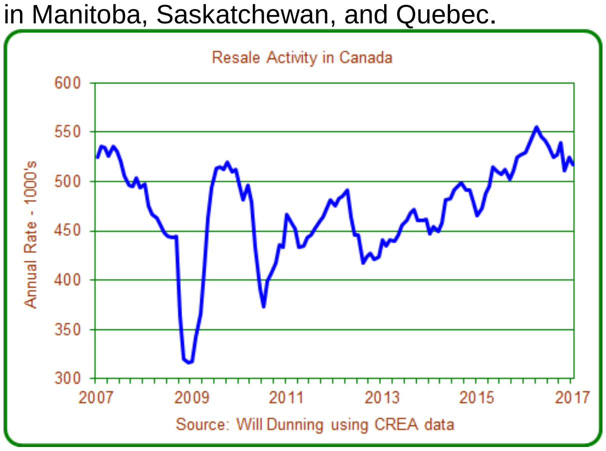
Housing Market Digest – Canada

February 2017

Resale Market

The Canadian Real Estate Association reported that resale activity fell slightly in January, to an annualized sales rate of 517,000. The sales rate for January was 3.1% lower compared to the 12 months prior to the policy announcement. To this point, the national stats hint at an impact, but do not show a meaningful impairment.

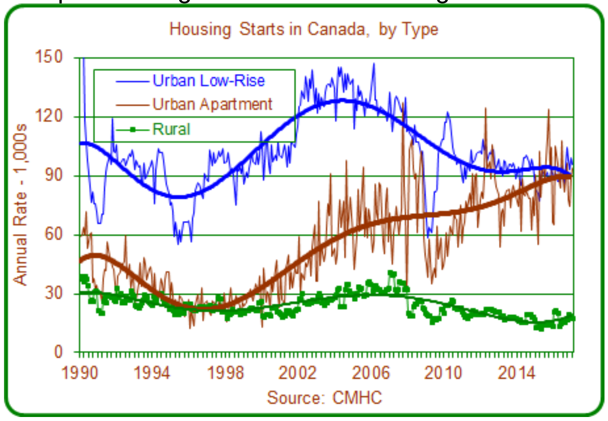
But, some nuances are starting to emerge in the details. Sales have surged in Alberta (due to the improved optimism for oil) and Ontario (mostly in Toronto and the surrounding area; sales have fallen in more remote parts of the province). Activity is down in all four Atlantic provinces (by 7% for the region). Trends in Atlantic Canada and small town Ontario provide a tentative indication that, as expected, the greatest impacts of the policy change are in the areas that have the weakest economies and housing markets. In BC, resale activity plunged in the wake of the 15% foreign buyers' tax, and has fallen further since the October 3rd policy announcement. The sales rate in BC is now one-quarter lower than it had been before these events (as commented in the two prior months, there is a risk of a policy-induced economic downturn in BC). Activity is roughly flat in Manitoba, Saskatchewan, and Quebec.



CREA's price index for Canada shows year-over-year growth at 15.0%. Apart from Toronto and environs, prices are tame.

Housing Starts

Housing starts vary from month to month, mainly due to "lumpiness" for apartments. Yet, the trend has been relatively stable for more than half a decade. This stability corresponds to a relatively flat employment-to-population ratio (as was illustrated in last month's report). One continuing issue is that starts of low-rise homes (single-detached, semi-detached, and row homes) have been consistently lower than they "ought" to be, due to shortages of development-ready land in Vancouver as well as Toronto and surrounding communities. In the Greater Toronto Area, the cumulative shortfall of low-rise construction now exceeds 100,000 homes. The result has been a worsening shortage of existing homes for sale, which is contributing to escalating prices. Federal attempts to address price escalation by constraining demand are not solving the problem. The provincial government needs to get involved.

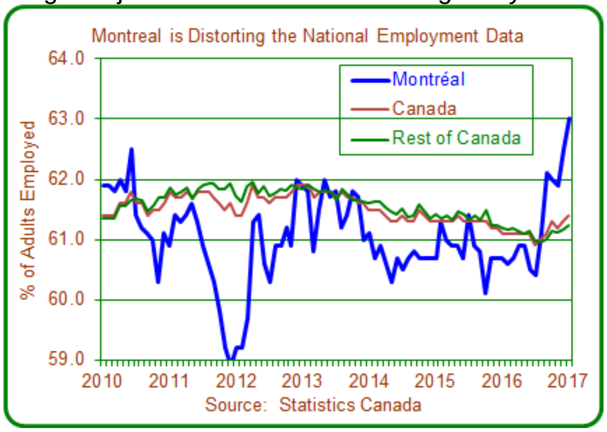


Employment Trends

Data from Statistics Canada's Labour Force Survey indicates that employment has increased by 1.5% during the past 12 months. Most of this growth occurred during the past six months (when the annualized rate was 2.7%). If that data is correct, the Canadian economy is red hot, and we everything is fine.

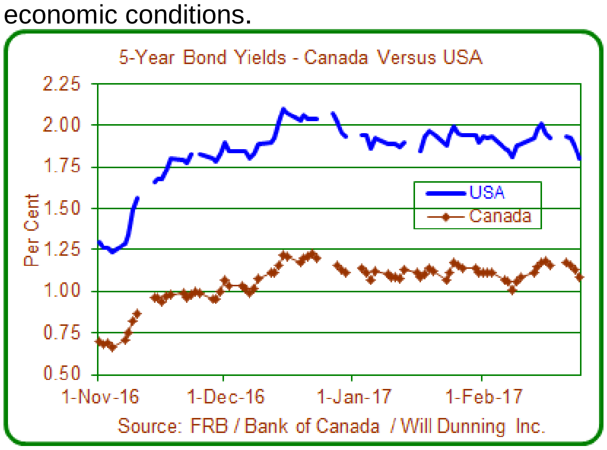
We always need to be mindful that the monthly numbers are estimates, not reality, and the estimates can be wrong.

That seems to be the case here. The data indicate that job growth is outstanding in Montreal, an annualized rate of 9.8% during the past six months. This obvious set of errors is distorting the numbers for all of Canada. Looking at the rest of Canada, excluding Montreal, the growth rate for the past six months is an annualized 1.8%. A growth rate of 1.8%, if this is accurate, is quite healthy. However, it looks like the growth seen in the second half of last year might be just a reversal of under-estimates in the first half (look at the rest of Canada line in the chart). Overall, the data might be reasonable – who knows? If so, then, because it is recent news, and follows 3.5 years of weak job creation, this needs to continue for a while to turn into a positive effect for housing markets. In the interim, there are clearly some negative risks for Canada associated with political developments in the US. And, should the federal government's mortgage insurance policy changes impair Canadian housing activity, this would also weigh on job creation over the coming two years.



Interest Rates

Bond yields have been roughly flat since the start of the year. The greatest risk factor for interest rates is the developing chaos in US politics and government. This could result in increasing bond yields and rising market interest rates during the coming months, irrespective of what happens to economic conditions.



Meanwhile, my opinion-estimate of the typical 5-year fixed mortgage rate is still 2.9% and the spread versus bonds is 1.8 points, equal to the long-term average. From that perspective, there should be no pressure for mortgage rates to increase. Yet, regulatory issues (increased capital requirements and funding issues for non-deposit-taking lenders, which are making the mortgage market less competitive) could result in a widening of the spread, causing unwarranted increases for mortgage rates.

Other News

Canadian Mortgage Trends has published an excellent 2-part commentary on the House of Commons committee hearing on the housing and mortgage markets. The comments below the articles are also interesting.
Part 1 is here.
Part 2 is here.

On March 9, I'll be on a panel (with Jason Mercer of the Toronto Real Estate Board), discussing the GTA market. I hope to see you there. Info and registration are here: https://mortgageproscan.ca/en/page/index/toronto-symposium-and-trade-show

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