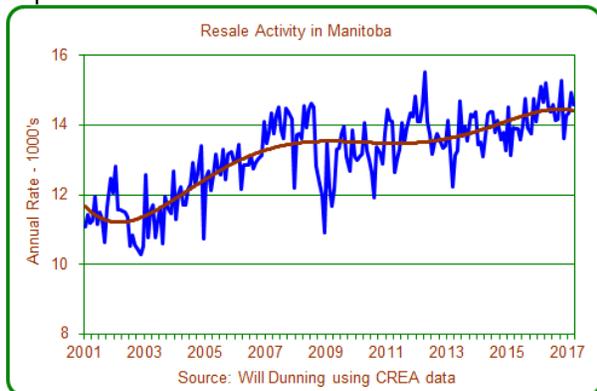


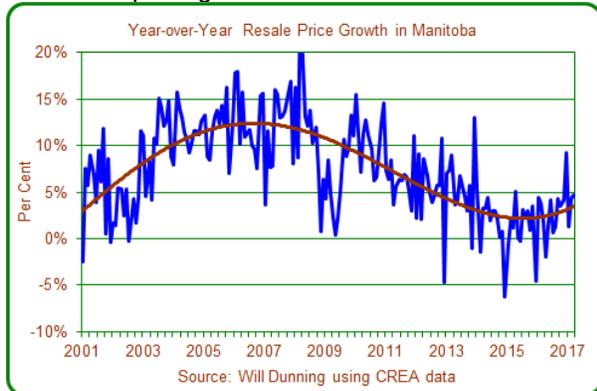
Resale Market

Data from the Canadian Real Estate Association show that resale activity in Manitoba remains quite strong, as the trend has reached a record level.

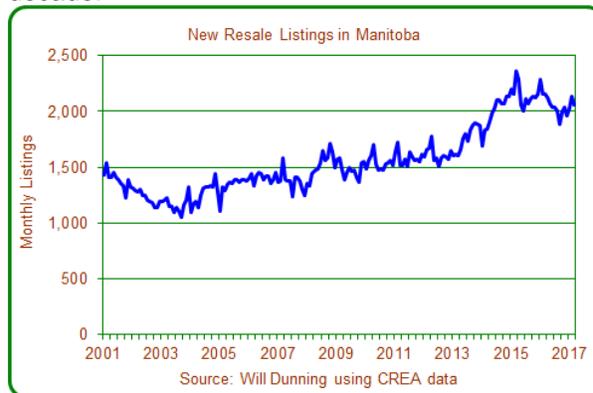
In the wake of the widening of the mortgage insurance stress test (which evaluates all insured loans at the 5-year posted rate - currently 4.64%), growth of the market has slowed. During December to March, the pace of sales was just 0.9% above the average seen during the 12 months prior to the change. However, there are multiple factors that affect housing activity. The main ones have been distinctly positive: while mortgage interest rates have shown some variation they remain exceptionally low, job creation is favourable, and a surge in stock markets since last fall should be raising consumer confidence. From that perspective, the stress test has most likely constrained the continued improvement that should have occurred



Average resale house prices show a great deal of volatility from month to month. Therefore, in the chart below, a trend line has been added. House price growth in Manitoba was at its most rapid during the period when demand was increasing (2003 to 2008), but during the past eight years or so, when demand was consistently strong, price growth slowed. This is not what we might expect – shouldn't consistently robust demand result in consistent price growth?



This apparent discrepancy between demand and price growth can be understood once we look at the supply side. As is shown in the next chart, the flow of new listings into Manitoba's resale markets was limited during the first decade of the 2000s. The supply situation has improved during this decade.

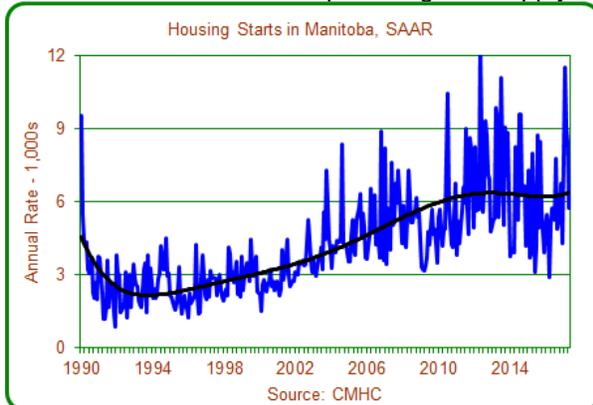


In combination with the relatively flat sales, this caused the sales-to-new-listings ratio ("SNLR") to fall. During the past year, the SNLR has averaged 59.6% versus 76.0% during 2000 to 2009. The chart below illustrates that there is a relationship between the SNLR and the rate of price change: analysis suggests that in Manitoba, the threshold for a balanced market is an SNLR in the area of 58%. During the past two and a half decades, the ratio has been well in excess of that threshold most of the time, resulting in prolonged, rapid price growth. More recently, with the ratio close to the threshold, price growth has been moderate. In other words, Manitoba has experienced a transition from a pronounced "sellers' market" to a situation that is close to a "balanced market". Under current conditions, it should be expected that within the province, resale prices will show moderate growth for some time.

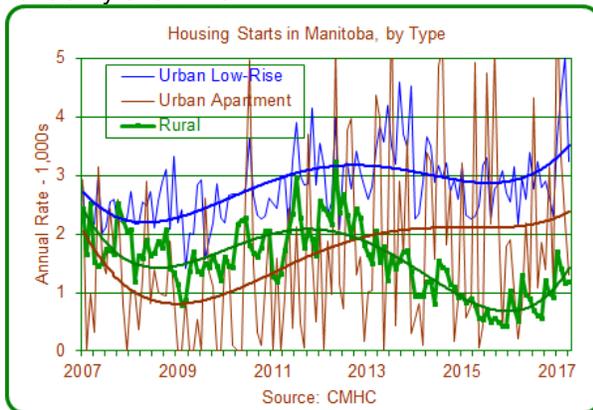


Housing Starts

Housing starts in Manitoba vary widely from month to month, but it is clear that they move in long cycles. Addition of a trend line in the chart emphasizes the point about cyclical nature. It suggests that the trend ceased to rise more than a half-decade ago, and has subsequently been flat (at a high level). The long rising trend was related to the prolonged shortage of supply and rapid price growth: the resale market was signaling that there was a need for more supply and the new construction market is now providing that supply.



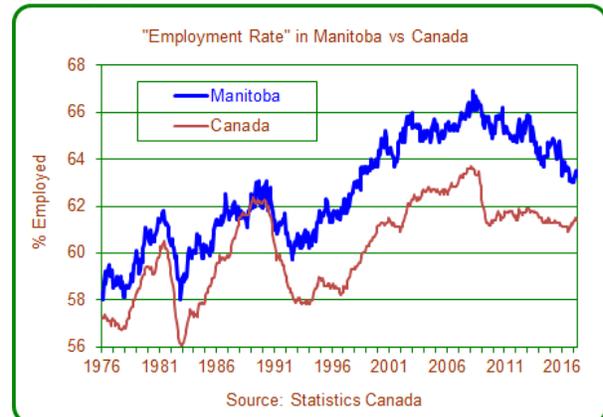
The next chart divides housing construction into three market segments. For the two “urban” segments, the trends have been roughly flat, apart from unusually strong numbers for low-rises in February and March this year, which distorted that trend line. (Low-rise activity includes single-detached, semi-detached and town homes). The trend for apartments has been roughly flat. For the rural segment, the trend line shows greater variability over time.



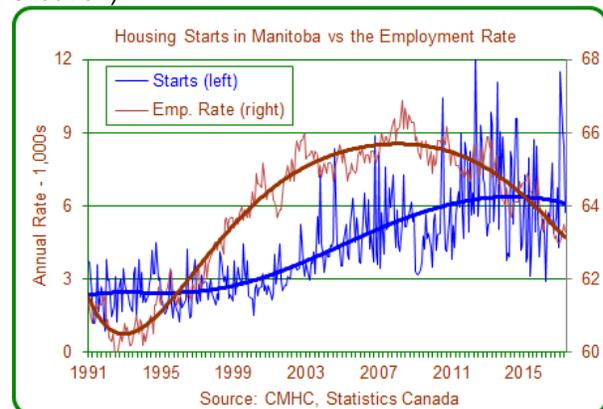
Employment Trends

The next chart uses data from Statistics Canada’s Labour Force Survey (“LFS”). It shows percentages of the adult population that are employed (“the employment-to-population ratio” or the “employment rate”). Based on this measure,

Manitoba’s economic performance has been better than the national average during the past two and a half decades, on a fairly consistent basis. For April, the employment rate in Manitoba is 63.3%, which is 1.9 percentage points higher than the 61.4% rate for all of Canada. The data hints that Manitoba’s employment rate has eroded during the past decade. This is partly due to the aging of the province’s population (more people are in retirement). But, it is also partly due to slow growth in some of the province’s traditional industries.

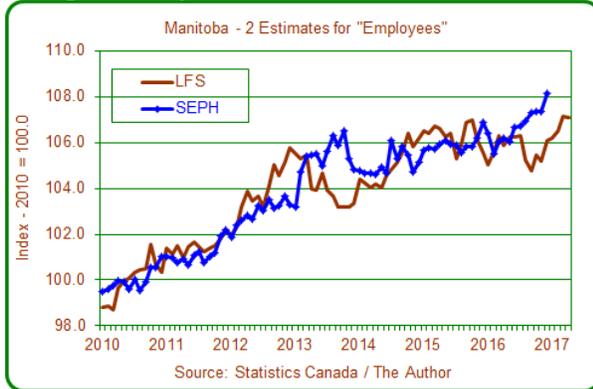


In general, we expect housing starts to be influenced by both job creation and the supply-demand situation. The next chart contrasts Manitoba’s employment rate and housing starts (emphasizing trend lines rather than the actual, volatile data). The data shows that there is only a very loose relationship. In most provinces and for Canada as a whole there are closer relationships. The situation in Manitoba indicates that the housing supply factor has been the main driver of its housing starts. A further consideration is the increased numbers of retirees (for these people, housing demand is independent of the job situation).



Statistics Canada’s has a second survey of the employment situation (the Survey of Employment, Payrolls and Hours, or “SEPH”). It can be illuminating to compare the two data sets (see the

next chart). During the period shown, the two surveys have been painting similar pictures most of the time, but, they have diverged recently: the LFS shows little or no growth during the past three years, while SEPH shows a sizable gain (+2.1%) during the last year.

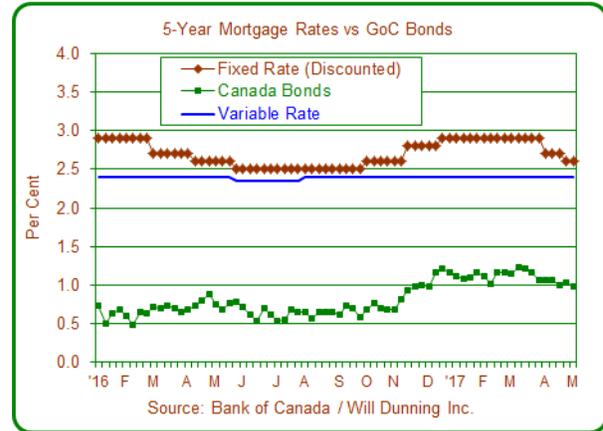


In general, the reality of job growth is likely closer to what is reported by SEPH rather than the LFS numbers, but the LFS is released much sooner and gets much more attention. The data from SEPH seems to do a better job of explaining why housing demand remains healthy in Manitoba.

Interest Rates

Bond yields have eased during the past two months, but remain higher than they were before the US elections.

I have dropped my opinion-estimate of the typical 5-year fixed mortgage rate, to 2.6%. The spread versus bonds is now skinny, at 1.6 points, versus a long-term average of 1.8 points. (It is now necessary to add a caveat that my estimate of a typical mortgage interest rate is for insured mortgages; typical rates are generally higher for uninsured mortgages).



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Completed by Will Dunning, Chief Economist, Mortgage Professionals Canada

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