MORTGAGE PROFESSIONALS CANADA

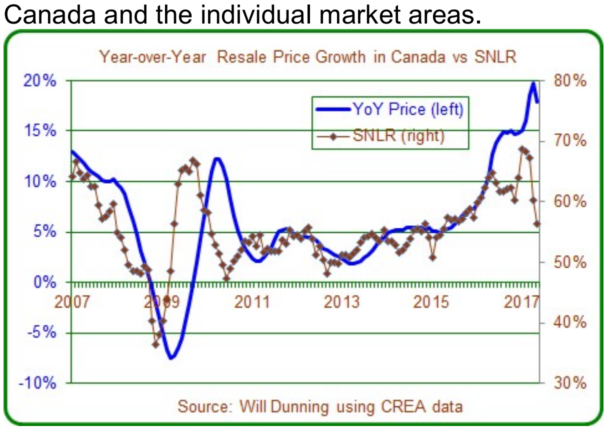
Housing Market Digest – Canada

June 2017

Resale Market

Resale activity dropped sharply in May, due largely to a large drop (28%) in the Greater Toronto Area (and surrounding areas). Sales trends are improving in most other areas, in response to improved job creation, better consumer confidence, and excellent affordability. Data from the Canadian Real Estate Association shows an annualized sales rate of 515,100. This is still a healthy rate in historic terms.

CREA's price index for Canada showed slower growth for May, at a still too strong rate of 17.9%. The sales-to-new-listings ratio fell sharply in May, to 56.3%. This is still above the balanced market threshold, which I believe is in the area of 52%. A 56% SNLR should cause price growth to slow, to perhaps 5%, during the coming months. However, the "true" volume of new listings is being over-stated, by large numbers of cancellations and re-listings in the Toronto area: the true SNLR is probably closer to 60%. At this juncture, it would be very useful to have data on activity listings for Canada and the individual market areas.

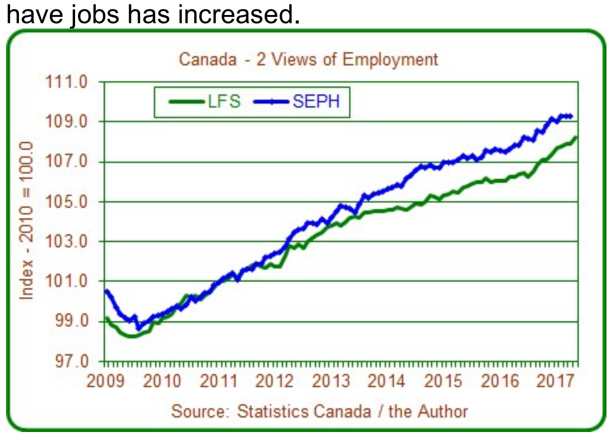


Housing Starts

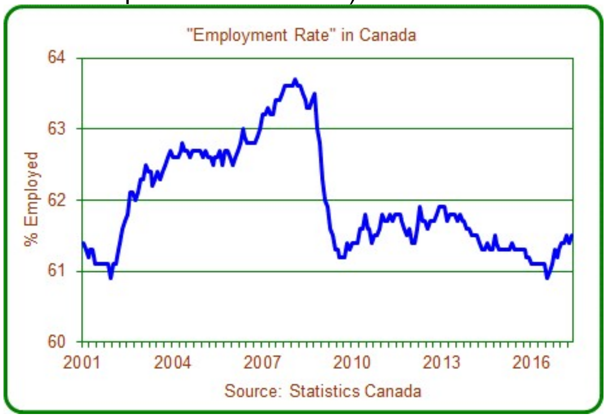
Housing starts dipped in May. The unusually high number for March makes it impossible to create a reasonable trend line, but the trend does appear to be relatively flat for the past two years, at just over 200,000. This makes sense given that the employment situation is improving.

Employment Trends

Statistics Canada's Labour Force Survey ("LFS") indicates that employment has expanded by 1.8% during the past year. The other survey (Survey of Employment, Payrolls and Hours, or "SEPH") also shows healthy growth, although at 1.4% year-over-year. By contrast, the population (adults 15 years and over) is estimated to have increased by 1.1%. As a result, the percentage of adults who have jobs has increased.



It is possible that a year ago the LFS was slightly under-estimating job creation, and therefore the recent growth rates are partly due to catch-up from the prior under-estimates. For the past two years, the growth rate averaged 1.2%, which is fractionally better than the rate of population growth. In consequence, the employment-to-population ratio ("employment rate") is slightly higher than it was two years ago (but still well below the pre-recession level).

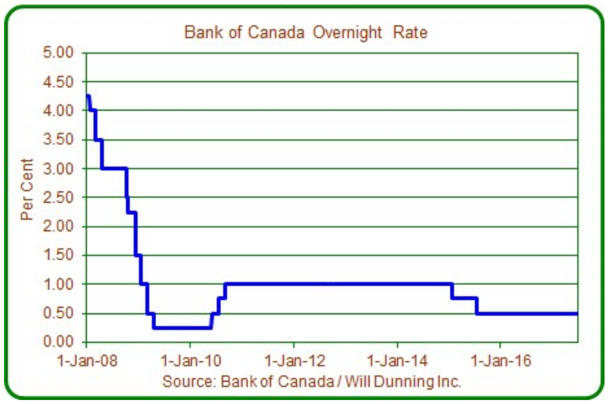


Demographic change is weighing on the employment rate: an increasing share of the population is moving into the retirement age groups, which means that we should expect the employment rate to fall gradually over time (by perhaps 0.2 points per year). It is interesting, therefore, to look at the changes for different age groups. The chart below looks at the "prime working ages" (25 to 54). For this group, the employment rate was, until late last year, stuck at about 1 point below the pre-recession level. Then, it very rapidly jumped and closed the gap. This is a fascinating change: if this data is correct, it suggests that the Canadian economy is basically at full-employment and it's time for interest rates to rise. Yet, a sudden change like this makes me highly skeptical. If the recent data are wrong (and are reversed during the second half of the year), then there is a very different implication for interest rates. Stay tuned.

Interest Rates

Bond yields have increased sharply during the past month, and are now at the highest level since the end of 2014. Mortgage interest rates are now in the process of adjusting. My opinion-estimate of the typical 5-year fixed mortgage rate is 2.75%, but likely to rise during the next few days.

It now seems highly likely that the Bank of Canada will raise its policy rate In July, with another possible increase in October. A half-point rise would just reverse the drops seen in January and July 2015, leaving rates at exceptionally low levels.



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