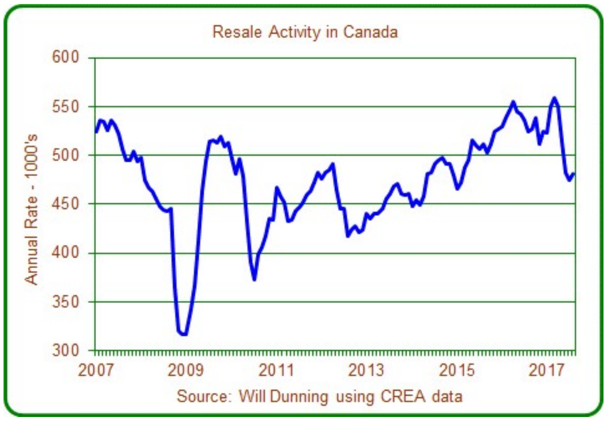
MORTGAGE PROFESSIONALS CANADA

Housing Market Digest – Canada

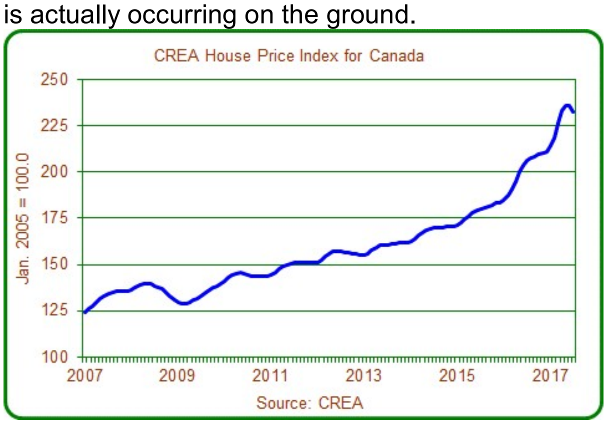
September 2017

Resale Market

Resale activity recovered a bit in August, to 481,200. This is related to what appears to be a turning point in the Greater Toronto Area. Sales were flat in most other areas.



CREA's House Price Index has fallen slightly (by 2.3%) from the peak level seen in May. The year-over-year change is now 11.2% (down from the peak of 19.7% that was seen in April). Because of "smoothing" of the data, the HPI is likely to show further drops for a few months, regardless of what is actually occurring on the ground.

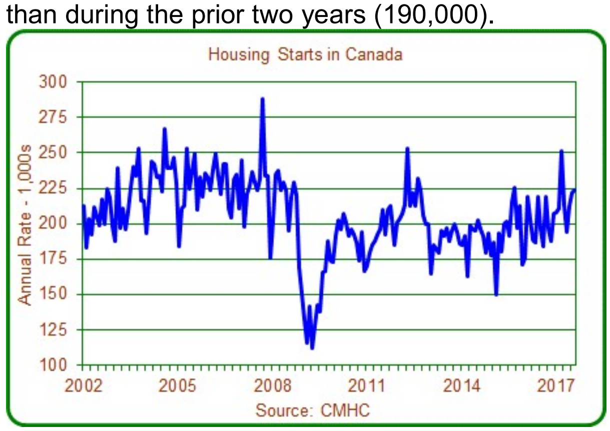


The sales-to-new-listings ratio ("SNLR") rose, to 57%, which is above the balanced market threshold of 51%. This indicator points to stable prices (at worst), although the year-over-year price changes will continue to fall for a few months.

Looking forward, risks appear to be dissipating in Toronto, which should bring some recovery for Ontario's sales figures. On the other hand, the recent interest rate increases will soon weigh on local housing markets across the country. Overall, the national sales rate is unlikely to show much improvement during the coming six months or so. The proposal by OSFI to require stress testing of all federally-regulated mortgage lending (at 2 points above actual contracted interest rates) is a serious risk factor, which has the potential to tip many local markets into depressive situations.

Housing Starts

During the past two years, housing starts (an average rate of 205,100) have been 8% stronger than during the prior two years (190,000).



This is mainly due to apartments (up 13% - see the chart on page 2), with only a minor improvement for low-rises in urban areas (up 4%) and in rural areas (up 3%).

The increase in starts is mainly due to low interest rates, which have boosted investment in rental apartments (purpose-built rentals plus investor-owned condominiums). Improvements in the job situation (the employment-to-population ratio is rising) may also be contributing. Once again, we are hearing arguments that starts exceed demographic requirements and are therefore excessive. But, the increased construction is occurring in communities where vacancy rates are too low, where some "excess supply" would be a good thing, to reduce market pressures.

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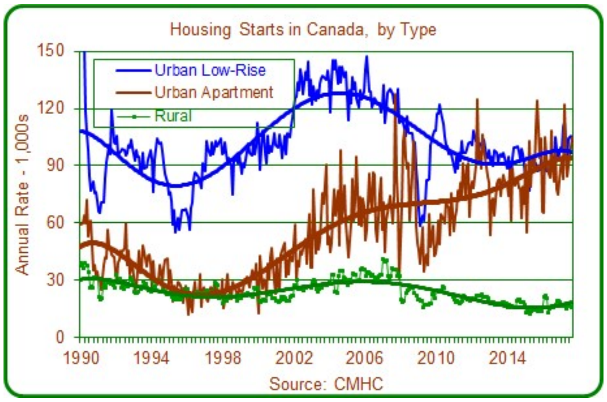
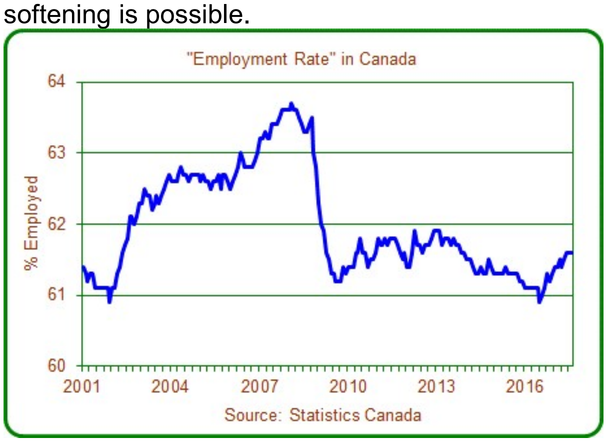


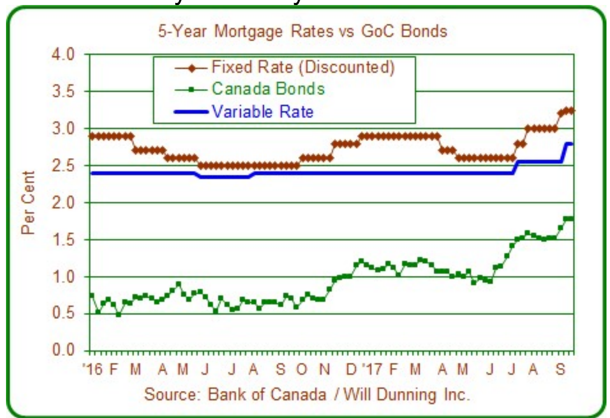
Employment Trends

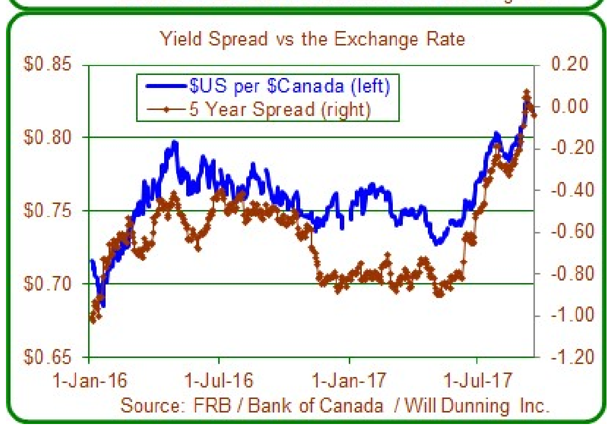
The employment-to-population ratio for Canada has improved considerably during the past year. But… (1) this is partly the reversal of what looks like some bad data a year ago. (2) the current level of the employment rate is encouraging, but not wildly so. I suspect that we won't see much further improvement, given recent events for interest rates and the exchange rate. In fact, some softening is possible.



Interest Rates

Interest rates have increased further. Bond yields (5-year GoC) are now a full point higher than the average for 2015/16. Increases for mortgage rates have not fully followed bond yields, and there is room for some increase. Bond yields have increased by more in Canada than in the US, to the extent that the yield spread has disappeared. In consequence, the Canadian dollar has strengthened. The combination of higher interest rates and a stronger dollar will impair the Canadian economy. Therefore, rates should not increase any more (but the market may decide differently). In fact, there is a possibility that rates have overshot, and by next spring they could be lower than they are today.





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