Housing Market Digest – Saskatchewan

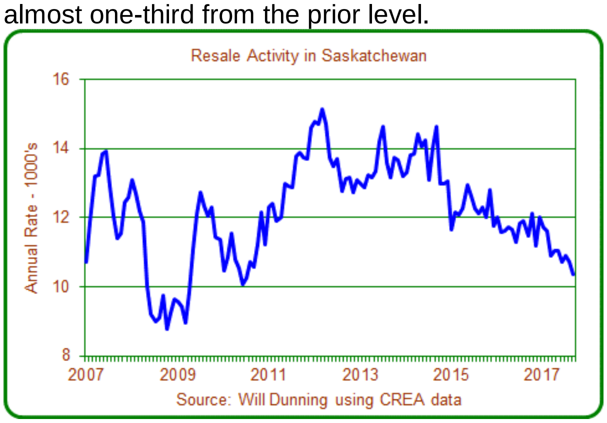
Third Quarter 2017

A New Risk for Housing Markets

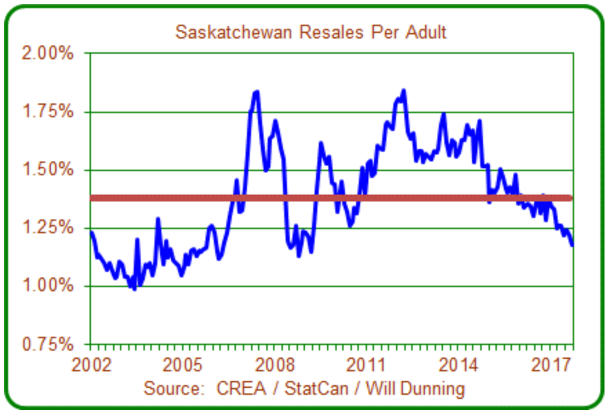
The Office of the Superintendent of Financial Institutions ("OSFI") now requires that all residential mortgages by federally-regulated lenders must be "stress-tested", at two percentage points above the contract interest rate (or the 5-year posted rate, if that is higher). In combination with the requirements for mortgage insurance, about 90% of all new mortgages will be tested. This can be expected to reduce housing activity by 10-15%. It is on top of the impact from recent rises for mortgage interest rates (another 5-10% drop in activity). The combined 15-25% drop in housing activity will affect the broader economy. In two years, employment (for all of Canada) could be 150,000-250,000 lower than it would otherwise be. There is a risk that house prices will fall in some communities. In a modern economy, a sustained drop in house prices is one of the most dangerous things that can happen: as happened in the US a decade ago, falling house prices can turn into widespread economic decline.

Resale Market

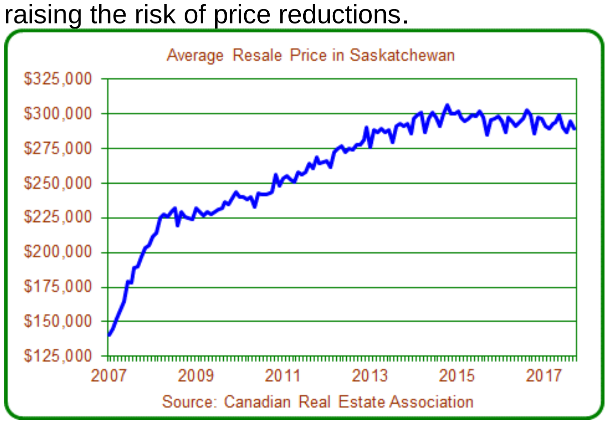
Resale activity has weakened sharply during the past three years and sales are now down by almost one-third from the prior level.



We should, in general, expect that resale activity will trend upwards over time, because the population is growing and the housing inventory is expanding. Therefore, it is useful to look at sales on a per capita basis. In Saskatchewan, activity has fallen well below the long-term average (the flat brown line) during the past year.

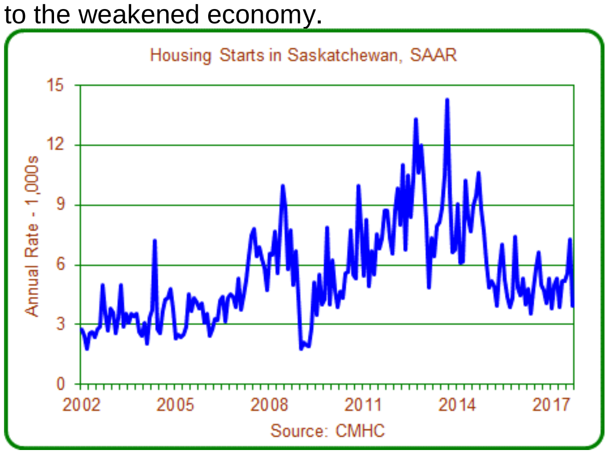


The sales-to-new-listings ratio ("SNLR") has fallen and is now just 38%, below the balanced market threshold (which appears to be about 45% for Saskatchewan). Due to the soft market conditions, the average resale price has been roughly flat during the past four years. OSFI's stress test policy can be expected to further reduce sales, raising the risk of price reductions.

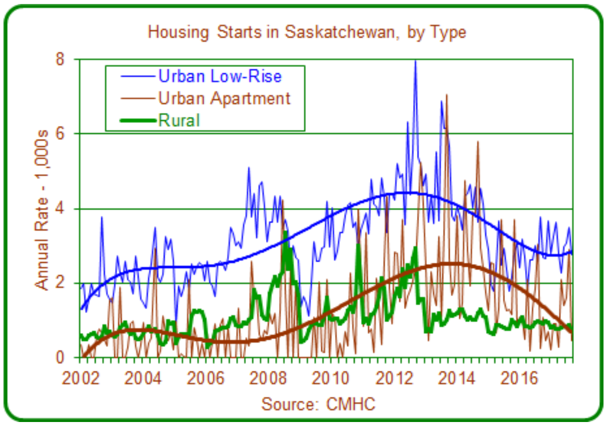


Housing Starts

Housing starts in Saskatchewan are now about one-half of the level seen just four years ago, due to the weakened economy.



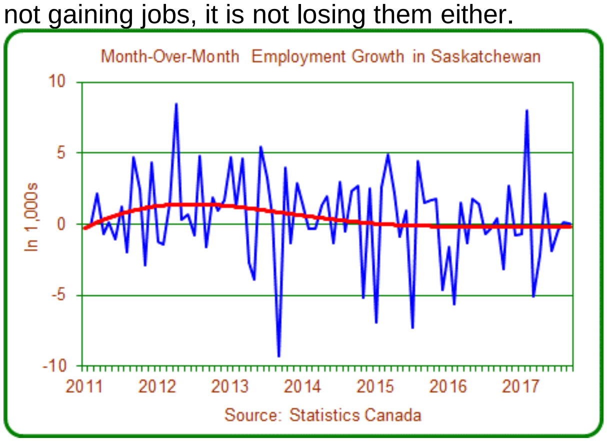
Trends have been broadly similar for low-rise dwellings and apartments. In both cases, starts have returned to the levels seen before the resource boom.



Construction activity is likely to slow in the wake of OSFI, although this will take time, as starts result from sales that occurred in the past. The lags are longest for apartments. The magnitude of the economic impacts won't be visible for some time. (This is the main reason that it will take two years for the employment effects to occur.)

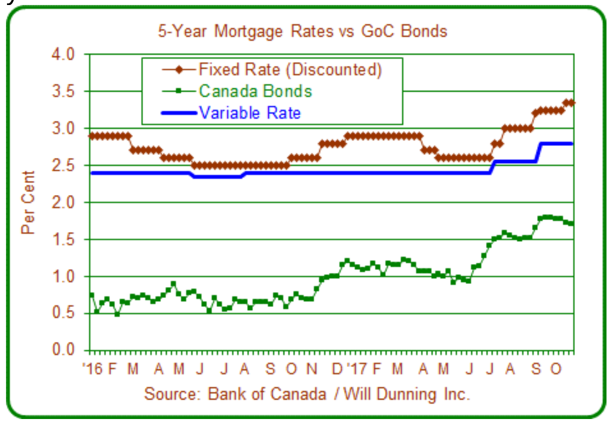
Employment Trends

Saskatchewan has seen little or no job growth during the past three years. While there are variations from month-to-month, short-term changes are always suspect, and it is therefore useful to look at trends over longer periods of time. The trend line indicates that while the province is not gaining jobs, it is not losing them either.

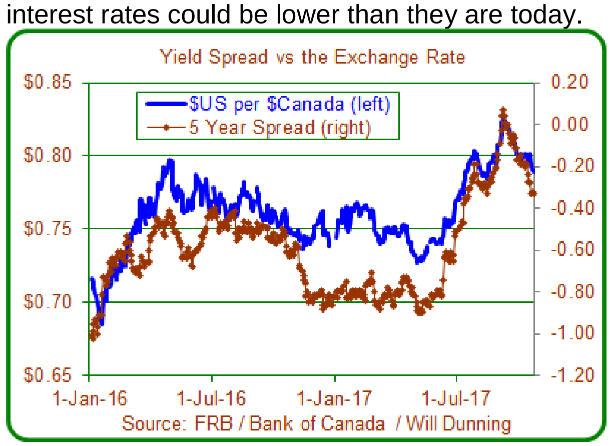


Interest Rates

Bond yields (5-year GoC) have eased slightly during the past month. They are now 0.9 point higher than the average for 2015/16. Increases for mortgage rates have more-or-less followed bond yields.



A month ago, 5-year bond yields in Canada and the US were about equal. More recently, the spread has turned negative once again, which has contributed to a weaker dollar. But, the dollar is still relatively strong compared to the past few years. That plus higher interest rates and the OSFI stress test are significant factors that will increasingly weigh on the Canadian economy. Consequently, it is possible that by next spring our interest rates could be lower than they are today.



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