

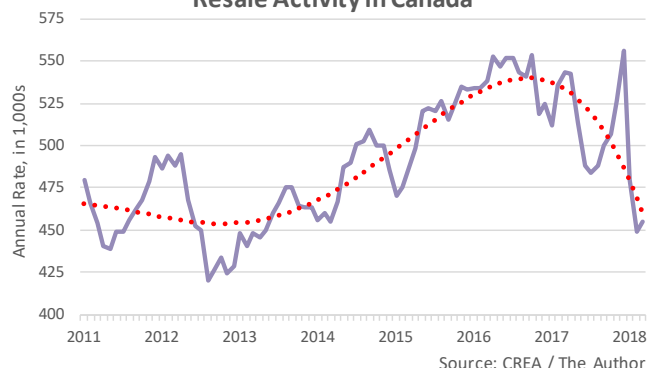
Resale Market

Resale activity was at an annualized rate of 455,000 in March. This was up slightly from 449,000 in February. The small rise for March was immaterial, especially since Good Friday was in March this year, which complicates the seasonal-adjustment. The recent sharp drop is the consequence of higher interest rates plus the duo of mortgage stress tests. The sales rate for the first quarter was 10.7% lower than for all of 2017.

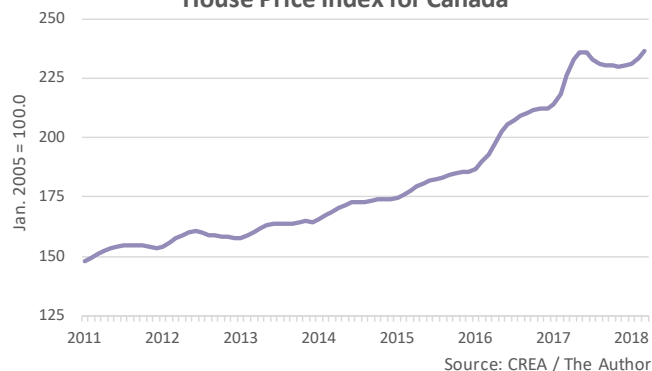
The House Price Index produced by the Canadian Real Estate Association (“CREA”) has increased for two consecutive months. But, this is a normal seasonal event. If this data was seasonally-adjusted, it would show that prices have been more-or-less flat during the recent past.

The sales-to-new-listings ratio (“SNLR”) was 53% in March, just slightly above the threshold (51.5%) for a “balanced market” (this is the level at which prices are expected to rise by 2% per year). There are wide variations across the country: Alberta, Saskatchewan, and Newfoundland/Labrador have ratios far below their thresholds and there are risks of price reductions. Manitoba’s ratio is close to its threshold. The six other provinces have ratios above their thresholds. The ratios are currently trending downwards in most locations. At this time, price reductions seem unlikely in most places, but the risk is not zero.

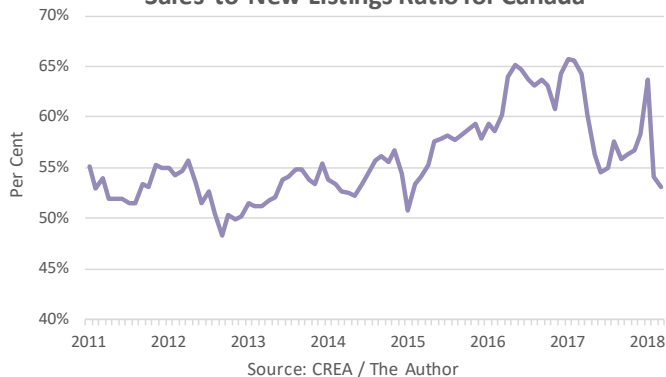
Resale Activity in Canada



House Price Index for Canada



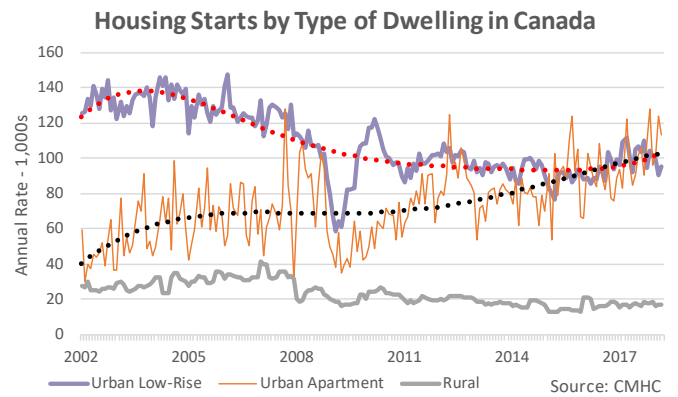
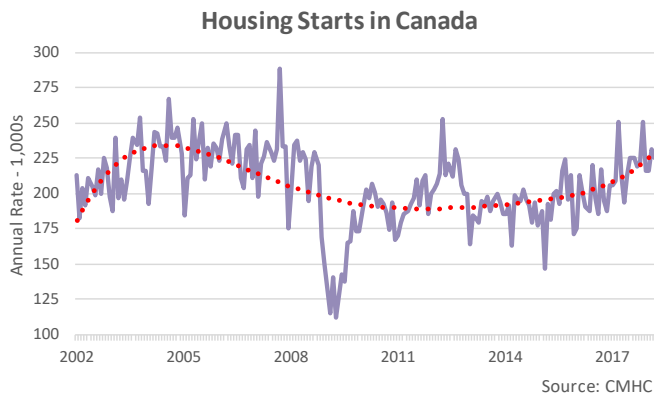
Sales-to-New-Listings Ratio for Canada



Housing Starts

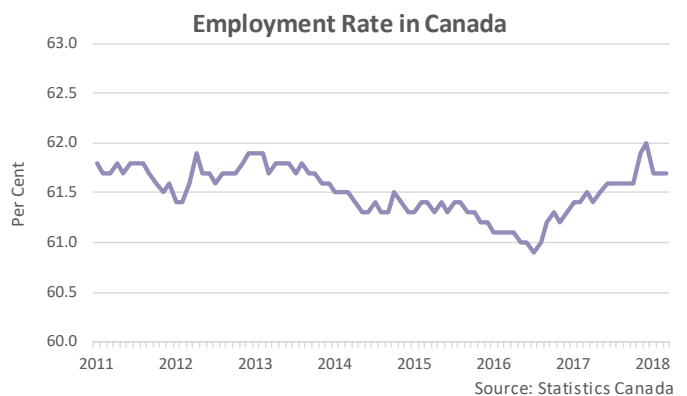
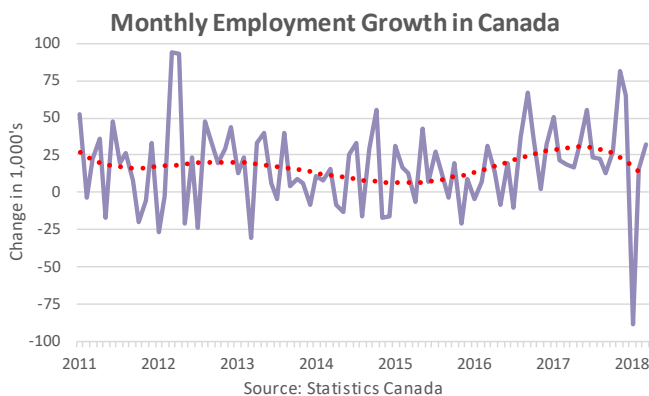
Housing starts in Canada were at an annual rate of 225,200 in March. The trend line continues to rise. This is in sharp contrast to the sharp slowing for resale activity: housing starts lag behind the resale market, since they result from new home sales that occurred earlier.

For low-rises (singles, semi-detached, and town homes), this chart still shows a rising trend line, but the trend is likely to turn down within the next few months. For apartments, on the other hand, the lag between sales and starts is longer. Therefore, apartment starts should remain strong until later this year.



Employment Trends

Statistics Canada reported robust job growth for March (32,300). But, estimated year-over-year growth is slowing, with the rate at 1.6% as of March. There is a lot of uncertainty about the true state of affairs. There have recently been three large changes that might have been statistical out-riders (+81,200 in November, +64,800 in December, and -88,000 in January).



Employment Trends (Continued)

For now, we ought to be skeptical about the recent estimates of job creation and the year-over-year growth rates. It is possible that the growth rate was over-estimated last year (especially late in the year).

Those unusual months also caused changes for the employment-to-population ratio. At the moment it looks like the “true” employment rate might have been flat since last summer. The current employment rate is healthy.

Looking forward, there are some negative factors. These include the weakening of housing activity. The drop for resale activity will soon start to have minor effects. If housing starts also slow, that will have larger effects, but not until next year.

Interest Rates

Bond yields (5-year Government of Canada) have been roughly flat since early January, albeit with some small movements that have reflected volatile policies and politics in the US.

My opinion-estimate of a typical “special offer” rate for 5-year fixed rate mortgages (major lenders) is 3.2% (lower rates can be negotiated). The spread versus 5-year GoC bonds is just 1.0-1.1 points, versus an average of 1.83 points over the past decade. The compression of housing activity is resulting in more competition among lenders.

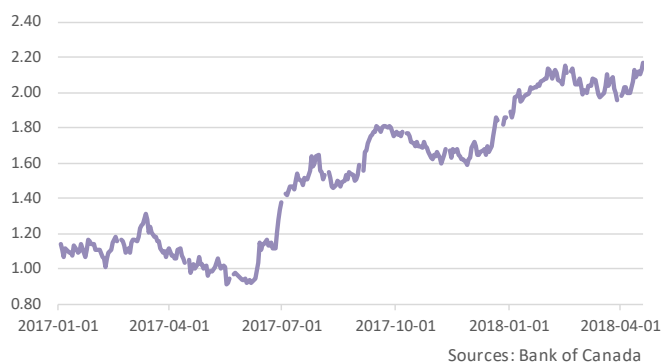
The Canadian dollar has strengthened versus the US (rather, the US dollar is weakening against major currencies). While it takes very long periods of time for the exchange rate to have significant effects on our economy, recent movements in the dollar will be mildly depressive.

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Yields for 5-Year GoC Bonds



Canada-US Exchange Rate

