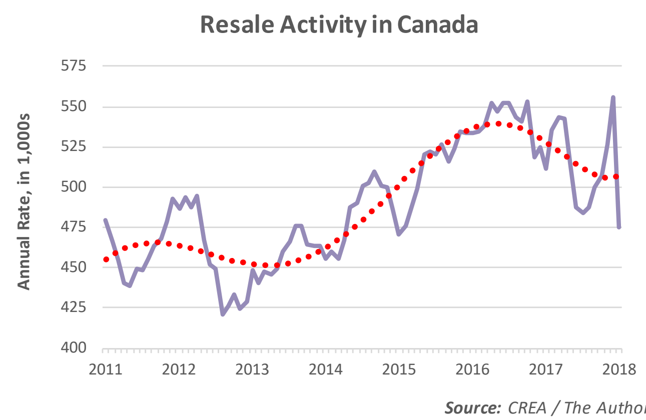
HOUSING MARKET DIGEST
CANADA

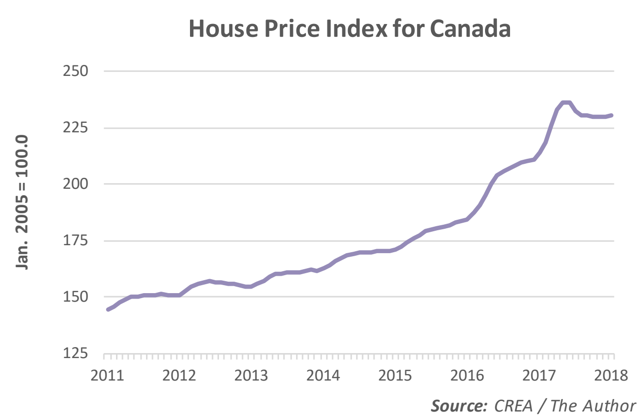
MORTGAGE PROFESSIONALS CANADA

Resale Market

After setting an all-time record in December, resale activity fell sharply in January, to an annualized rate of 475,300. This was 7.6% lower than for all of 2017. While very strong job creation over the past year and a half is very positive for housing activity in Canada, there are three negative factors currently weighing on the market. During January, weather was unusually tough in many parts of Canada. More importantly (and with more durability as a negative factor), the OSFI stress test took effect on January 1st. In addition, mortgage interest rates have increased since last spring.

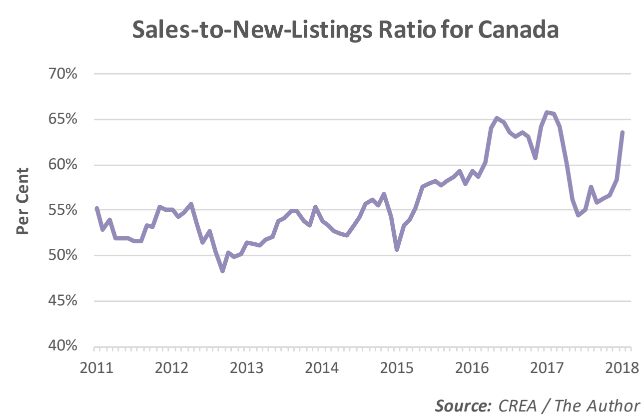


Partial data for February, for Toronto (14 days) and Calgary (21 days), hint that there will a further drop in the sales rates for February.



The House Price Index produced by the Canadian Real Estate Association ("CREA") indicates that prices have been roughly flat since last July. During the next few months, the calculated year-over-year changes are likely to show reductions (a correction from the exuberant prices seen last winter). This may attract a lot of negative commentary. But, it will be much more useful to look at the short-term trend.

While sales slowed in January, there was an even larger reduction in the rate at which new listings flowed into the market. This brought a large rise in the sales-to-new-listings ratio ("SNLR"). The January figure (63.6%) is far above the threshold (51.5%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). The SNLRs that have been seen recently should provide us with some insulation against price reductions at the national level, in the near-term at least. However, if there is a further drop in sales, then the volume of listings would likely increase, the SNLR would fall, and the market balance could shift as this year progresses.



FEBRUARY 2018

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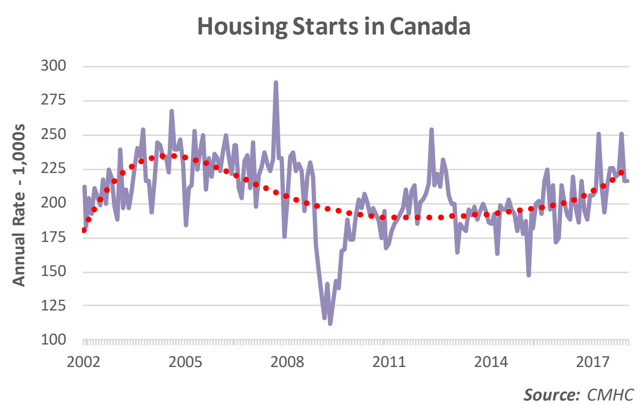
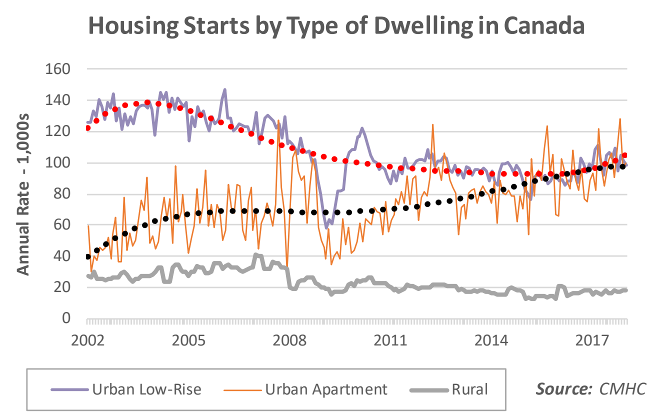
Housing Starts

Strong job creation combined with low interest rates supported an increase for housing starts during 2017: in 2017 total starts for the year (219,763) were 7% above the average for the entire period shown in this chart. However, the negative factors of higher interest rates and the mortgage stress tests mean that the cycle for housing starts is probably at its peak and the trend is likely to slow gradually this year.

The mix of housing starts has changed dramatically during the past decade: we are producing too few low-rise dwellings, which is increasingly frustrating for families that want traditional ground-oriented homes.

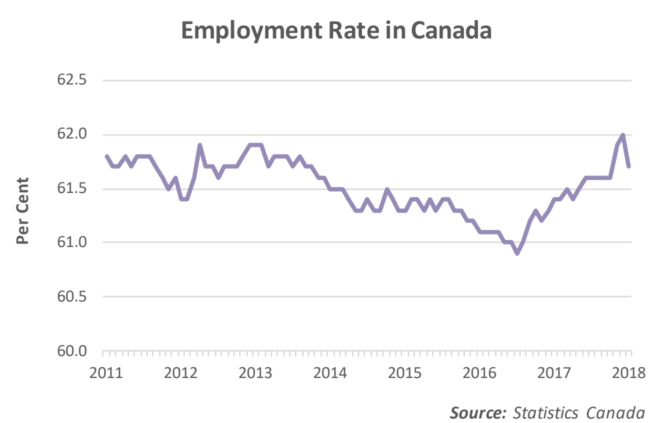




Employment Trends

Statistics Canada reported a large drop in employment for January (88,000). I have discussed this (dismissively) in a short Twitter thread.

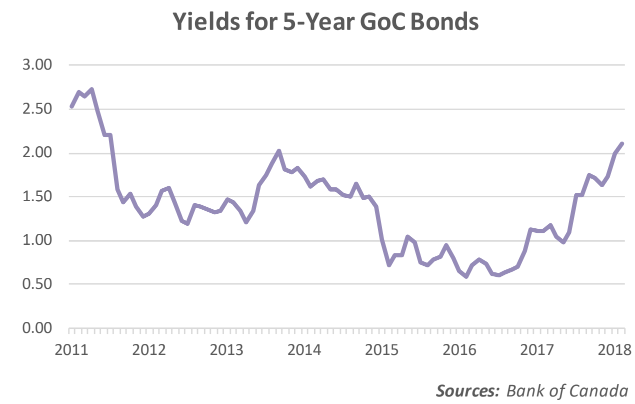
The data does show an encouraging amount of growth on a year-over-year basis, at 288,700, or 1.6%. This exceeds the rate of population growth (1.2%), which means that the share of Canadians who have jobs has increased (currently estimated at 61.7% versus 61.4% a year ago).

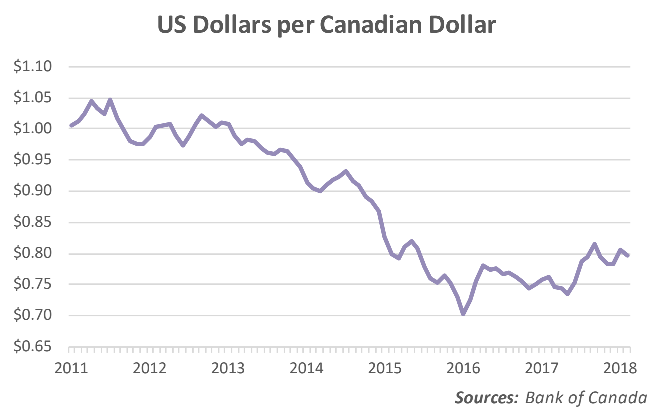


Interest Rates

Bond yields have increased sharply since the US elections in November 2016. The yields for 5-year Government of Canada bonds is now up by about 1.25 points versus the average for 2015 and 2016. Mortgage rates have increased, but by considerably less. My opinion-estimate of a typical "special offer" rate for 5-year fixed mortgages is now 3.5% (versus an average of 2.9% for 2015/16, or a rise of just 0.6 points). Mortgage interest rates are still lower than they were in 2013, which means that among people renewing mortgages this year, very few will see meaningful cost increases. 2019 will be a different matter. There is further upside-risk for bond yields and mortgage interest rates: reckless fiscal policies in the US, combined with the end of "quantitative easing", means that the US government's borrowing requirements are expanding rapidly.

During the past few months, the Canadian dollar has strengthened a bit versus the US dollar, but it remains low in historic terms. This is quite gradually providing support to our economy as Canadian companies take advantage of opportunities to make sales into the US. But, as is widely discussed, uncertainty (notably about NAFTA) is causing hesitation.





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