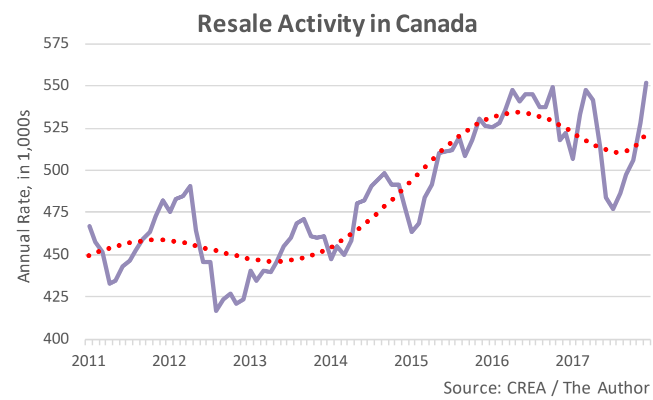
JANUARY 2018

HOUSING MARKET DIGEST CANADA

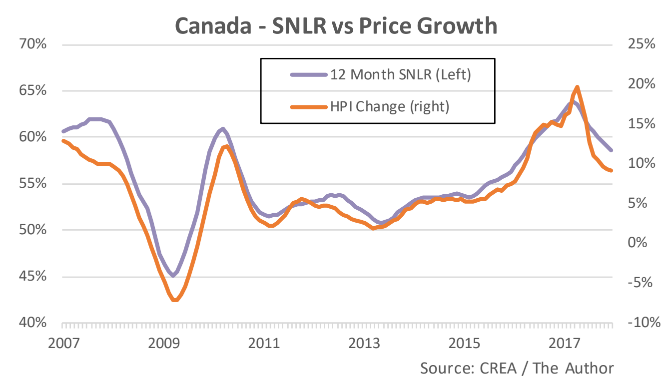
MORTGAGE PROFESSIONALS CANADA

Resale Market

Resale activity rose to an all-time record in December, to an annualized rate of 551,700. This was no doubt partly due to an acceleration of buying in advance of the OSFI stress test, which took effect on January 1st. Yet, the increment in sales that can be attributed to this acceleration is no more than 2,500 units, and this should not be labelled as anything like "panic". An additional factor is the continued recovery of the Toronto-centred region from the swoon that happened last spring and summer.

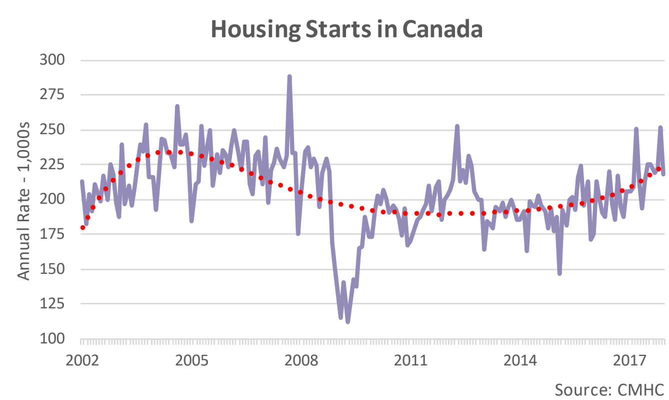


There is a very close relationship between the sales-to-new-listings ratio ("SNLR") and house price growth (which is measured in this chart using the House Price Index produced by the Canadian Real Estate Association). Statistical analysis indicates that for Canada, the "balanced market" SNLR is 51.5% (this is the level of SNLR at which prices would be expected to rise by 2% per year). The actual SNLR is currently 57%, which is resulting (on a national basis) in continued rapid price growth. Since sales are likely to slow by 10-15% this year (under the weight of increased interest rates and the mortgage stress tests), the SNLR is likely to fall to or even below the balanced market level. This should result in further deceleration of price growth (at a national level, with significant variations across the country).



Housing Starts

Housing starts increased during 2017. Total starts for the year (219,763) were 7% above the average for the entire period shown in this chart. The housing market is working as it should: rapid price growth in the resale market has signaled that there is a need to expand the housing inventory, and encouraged builders to provide that supply.



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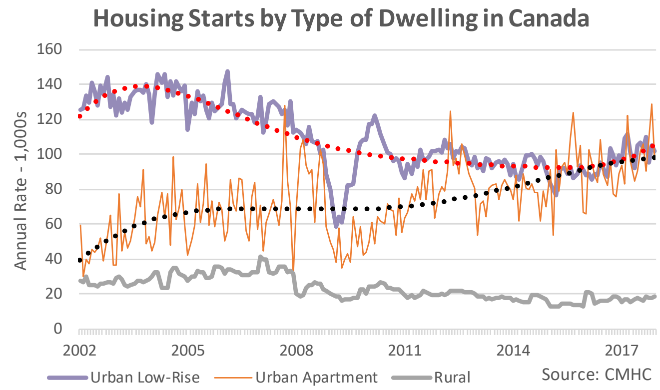
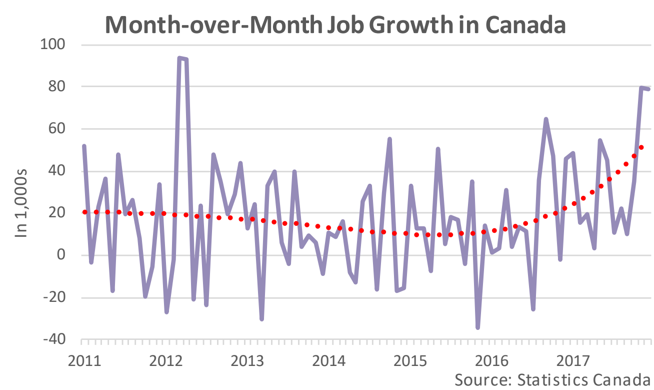
Housing Starts (Continued)

Increases were seen for both low-rise dwellings and apartments. Yet, while low-rise activity increased during 2017, it is much lower than it ought to be, because of supply constraints in some major market areas (most notably Vancouver and Toronto). For 2017, low-rise starts were 9.9% below the average for the entire period. Apartment starts, on the other hand, were 36% above average. Within the low-rise sector, there has been a change in the mix: single-detached starts were 20% below average, while town home starts were 34% above average. Semi-detached starts were 5% below average.

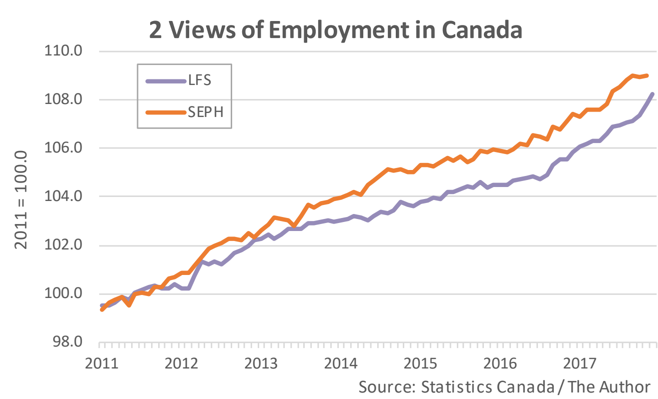


Employment Trends

The reported data on month-to-month growth in employment is highly volatile. Yet, the trend clearly indicates that there has been a substantial improvement during the past year and a half. As of December, the year-over-year growth rate is estimated at 2.3%, which is far in excess of the 1.1% rate of population growth.



This data comes from a sample survey (the "Labour Force Survey", or "LFS"), and so it can be inaccurate. But, there are no clear signs of significant distortion in the recent data. Statistics Canada's other survey of employment (Survey of Employment, Payrolls and Hours", or "SEPH") shows a slightly lower rate of job growth (1.8% for the year up to November). In the next chart, the data from the two surveys has been converted to indexes. There are slight differences between the two sets of estimates. It is possible that the LFS has slightly over-estimated job growth or that SEPH is currently under-estimating growth. Regardless of this uncertainty, the data supports a conclusion about stronger job creation.



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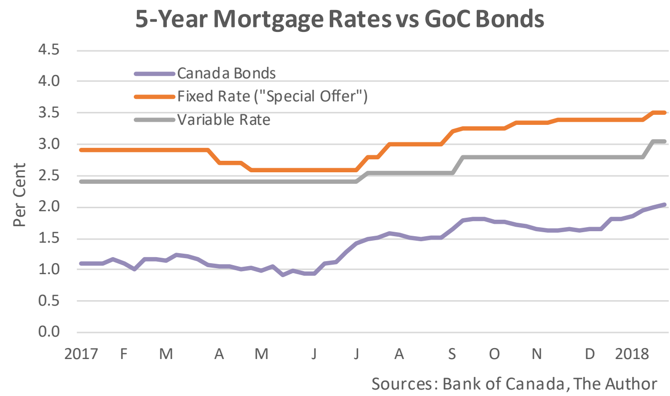
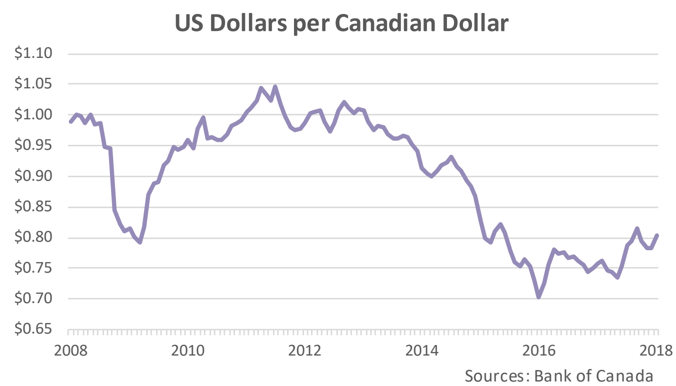
Interest Rates

Unambiguous signs of a stronger Canadian economy have caused bond yields to increase yet again. The yield for 5-year GoCs is now (as of January 26) about 2.05%, which is 1.25 points higher than the average for 2015/16. Mortgage rates have not fully followed bond yields. The spread between fixed rates (advertised "special offer" from major lenders, which I currently place at 3.5%) versus bonds is now just 1.45 points versus a long-term average of about 1.8 points. Consequently, we are likely to see some further increases for mortgage rates in the near term. For variable rate mortgages, my opinion-estimate is now 3.05%. Mortgage interest rates lower than these opinion-estimates can be negotiated.

The Canadian dollar has been weak versus the US dollar for three years. In order for Canadian companies to take advantage, they need confidence that favourable conditions will last for a long time and therefore be willing to invest in new productive capacity. The prolonged weaker dollar may now have brought us closer to that point. But, there is still a lot of uncertainty that will cause hesitation (notably NAFTA).





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