

Resale Market

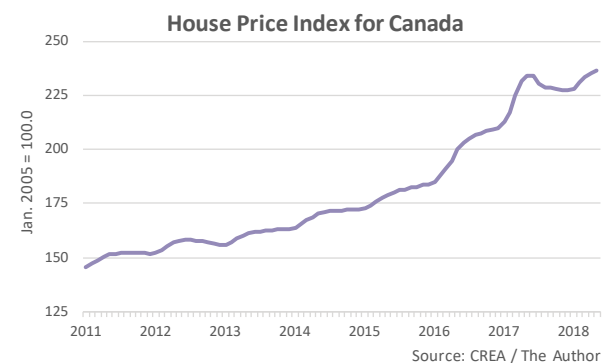
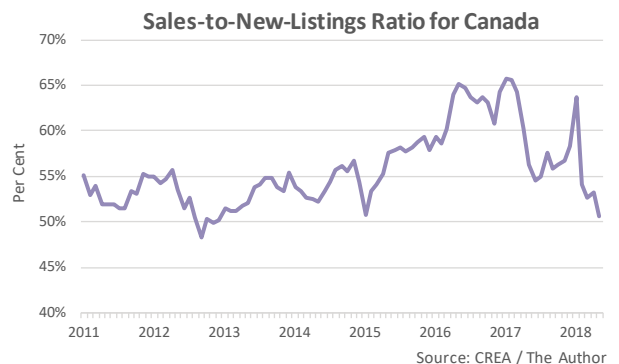
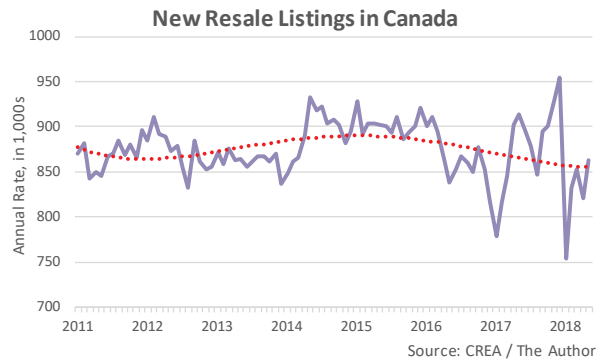
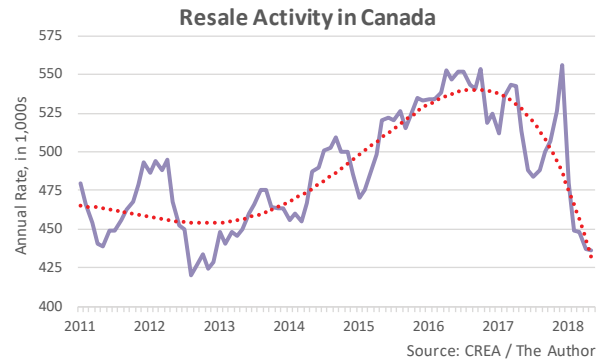
Resale activity is still being significantly impaired by the mortgage stress tests. The annualized sales rate for May was 436,500. For the first five months of this year, the average sales rate is 12.8% lower than for all of 2017 (and 16.8% lower compared to 2016).

The flow of new listings has slowed (a bit) as potential sellers (move-up, move-down, move-way) are being discouraged by increased difficulty in selling (and as some of them find they can't make their desired purchases).

As a result, the sales-to-new-listings ratio ("SNLR") for Canada has fallen sharply, to 50.6% as of May, which is at the threshold (51%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year).

The House Price Index produced by the Canadian Real Estate Association ("CREA") has now increased for five consecutive months. But, as stated before, this is a normal seasonal event. Prices tend to peak in May. The combination of a much weaker state-of-balance plus normal seasonality will result in softer prices this summer.

Commentary in the media is evolving. There was a story line that the effects of the stress test would be short-lived. Now, there is a growing realization that the expected bounce-back is not happening. The fall report by MPC said there would be a long-lasting impairment. We will see minor variations in the sales figures, but I expect that we will not see the sales rate back to 500K (let alone 525K, which it should be) until the federal government makes some much-needed adjustments to the stress tests. The chief change needed is to recognize that when borrowers renew their mortgages in future, their incomes will be higher. Failure to take this into account is resulting in an overly-onerous test, unnecessarily frustrating consumers and handicapping the economy.

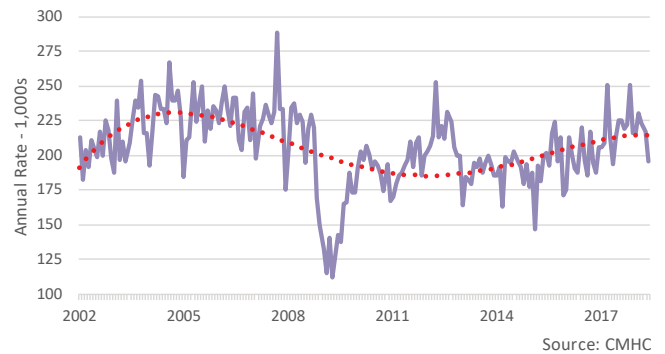


Housing Starts

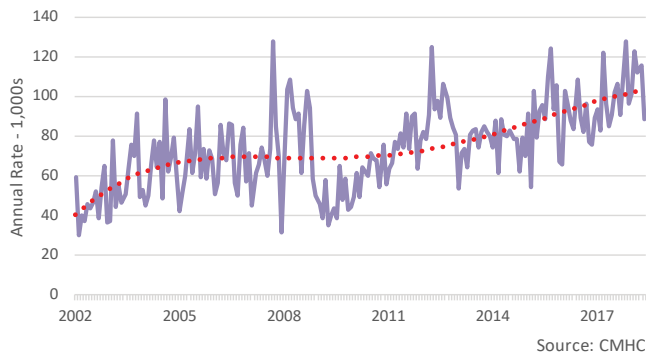
Housing starts in Canada dipped in May, to an annual rate of 195,600, due to a sharp drop for the volatile apartment sector. The trend line appears to be at or close to a turning point. Starts are slower than resales to react to the stress tests, The trend for starts is likely to fall gradually during the second half of this year and into 2019.

For low-rises (singles, semi-detached, and town homes), the trend is now slipping, and I expect it will be in the range of 80,000 by year end. For apartments, on the other hand, the lag between sales and starts is longer, and the trend continues to rise for apartment starts. I expect the trend to fall to 80,000 during the second half of next year. Rural activity will also slow, to a trend of 15,000 from the current 17,500. Thus, by late next the trend for total starts will be in the area of 175,000, versus 220,000 at present. This will have increasingly negative economic consequences.

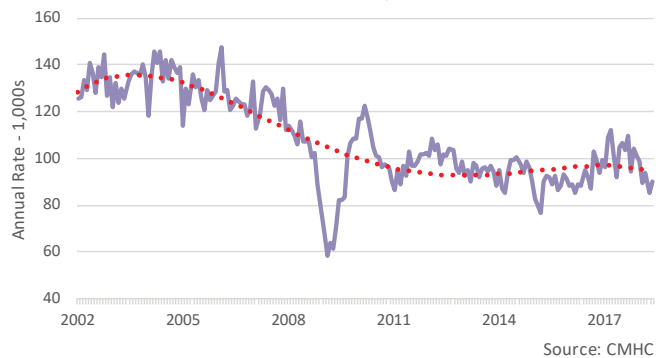
Housing Starts in Canada



Urban Apartment Starts in Canada

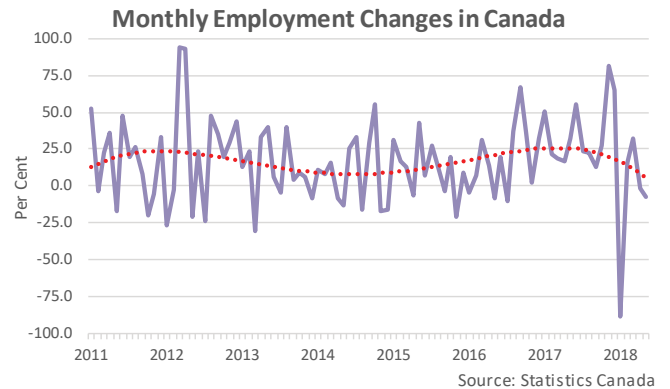


Urban Low-Rise Housing Starts in Canada



Employment Trends

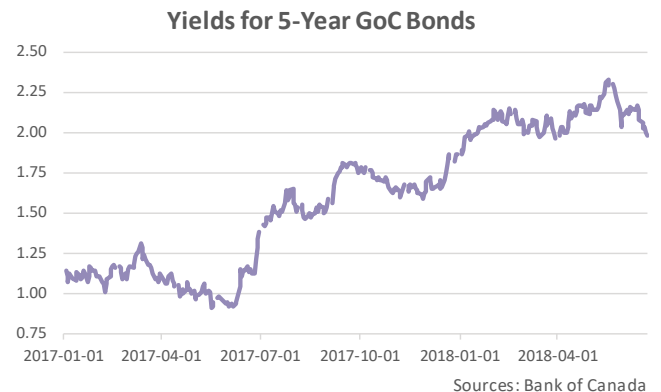
Statistics Canada reported another employment drop (-7,500 for May). A year ago, there was a wave of quite positive economic indicators. Current trends are less encouraging (notably, retail spending, adjusted for inflation, has fallen by 1% during the past six months). Looking forward, the risk factors are more negative than positive, especially the developing trade war, but also the negative effects of the stress tests, which will develop slowly during the next year and a half.



Interest Rates

Economic confidence has swung sharply during the past three months, resulting in up-and-down moves for bond yields. Bond yields (5-year Government of Canada) are currently (June 22) slightly below 2%. I still believe that reckless fiscal policies in the US will cause further rises during the remainder of this year.

I have raised my opinion-estimate of a typical “special offer” rate (major lenders) for 5-year fixed rate mortgages to 3.3%. A rate war among lenders brought a sharp drop for variable rates (although this has been partially reversed, to a current opinion-estimate of 2.65%). I have personally just renewed (transferred) my mortgage at a 2.39% variable rate, with the expert help of a mortgage broker.



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