MARCH 2018

HOUSING MARKET DIGEST CANADA

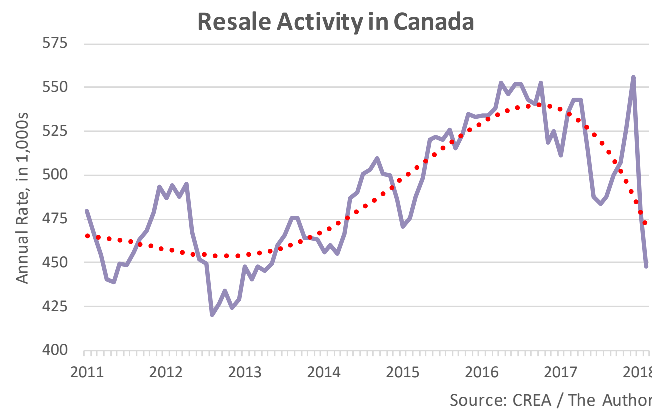
MORTGAGE PROFESSIONALS CANADA

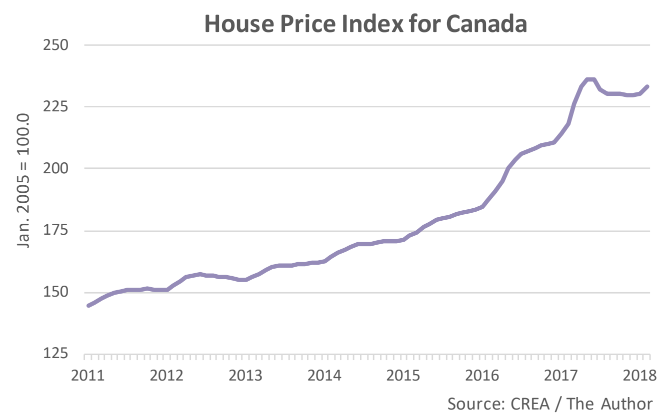
Resale Market

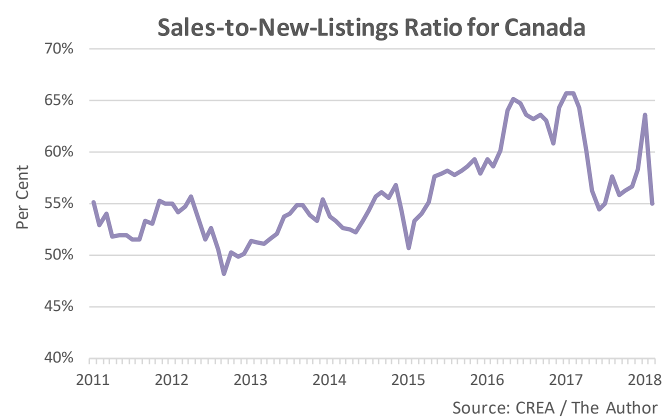
Resale activity fell sharply in January, and again in February, to an annualized rate of 448,000. This was 13% lower than for all of 2017. The duo of stress tests (CMHC and OSFI) on top of higher mortgage interest rates is clearly weighing very heavily on housing markets across Canada.

The House Price Index produced by the Canadian Real Estate Association ("CREA") shows a rise in February. But, it is a normal seasonal event for prices to rise in February. Unfortunately, CREA does not seasonally-adjusted the HPI. The rise in February looks like a smaller-than-normal increase, and therefore, seasonal-adjustment would potentially show a drop. It's too soon to draw a conclusion on price trends, but this certainly bears close watching, given the collapse that has occurred for sales.

The sales-to-new-listings ratio ("SNLR") fell sharply in February, but at 55% it is still 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). Local SNLRs are quite likely to fall during the coming months, meaning that price growth should be constrained. There will be areas with SNLRs below their local balanced market thresholds. Prices won't necessarily fall, since they do tend to be "sticky downwards". But, experience shows that this stickiness can – sometimes – spontaneously dissolve. What I'm saying here is that in the current environment there is a small risk of price reductions, but the risk is not zero.

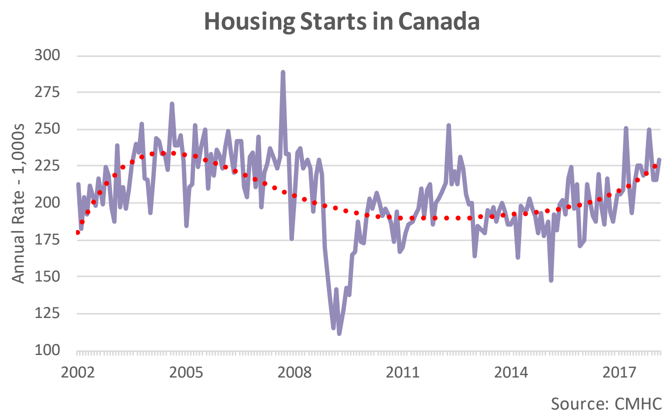






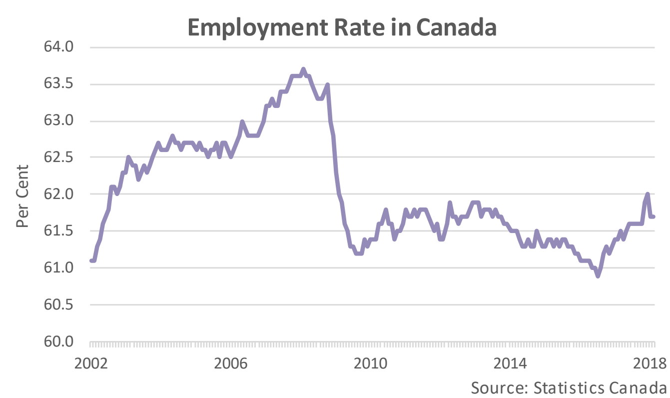
Housing Starts

Housing starts remain very strong in Canada, with the rate for February at 229,700. During the past year, the average rate has been 222,800, which is considerably stronger than was seen earlier in this decade. These high starts volumes reflect new home sales that occurred earlier. While resale activity has slowed sharply, it will take a while for reduced sales to translate into lower starts.

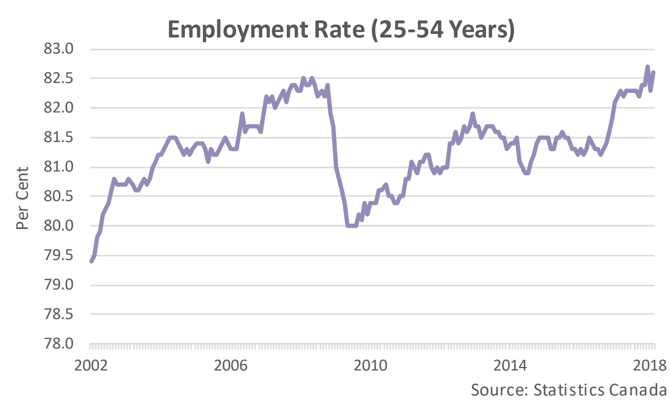


Employment Trends

Statistics Canada reported a small rise in employment for February (15,400). In some quarters this was seen as disappointing. Yes, it is a slowdown, compared to the average rate of 23,500 per month seen during the past year. But, during the past year and a half job growth has been faster than the rate of population growth, which has resulted in a rise in the employment-to-population ratio: a "neutral" rate of job creation (matching the rate of population growth) would be 16,800. Therefore, monthly job creation rates of 15,000 to 20,000 would match population growth and be in a goldilocks zone.



As I've commented previously, the employment rate for prime working age adults (25-54) has returned to the pre-recession level, which is probably "full-employment". For young adults aged 20-24, the employment rate is now in the area of 69%, which is below the pre-recession level of 72%. This is ambiguous, since more of them are in full-time education. Still, it would be desirable to see improvement in the job situation for young people.



MORTGAGE PROFESSIONALS CANADA

Growth Of Mortgage Credit

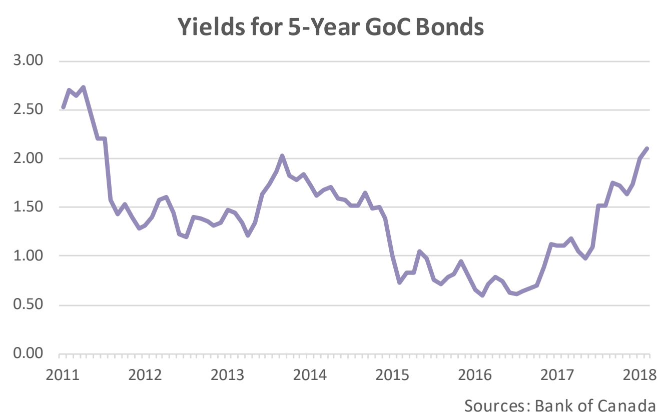
It might be expected that the slowdown of resale activity will result in slower growth of mortgage credit. But, completions of new dwellings are a very important component of mortgage demand. High levels of housing starts mean that there will similarly high numbers of housing completions for some time, resulting in continued high volumes of mortgage finance for new dwellings into 2019. Therefore, the growth rate for mortgage credit in Canada (5.5% as of December) is unlikely to slow appreciably during the coming year.

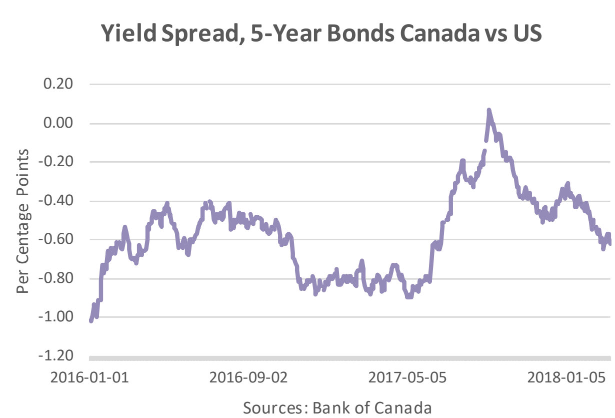
Interest Rates

Bond yields (5-year Government of Canada) have been roughly flat since early January. In fact, they have slipped a bit recently, as stock markets have struggled and economic expectations have weakened. As commented last month, there is still 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.

Canadian yields have increased by less than in the US, and are now about 0.6 points lower than in the US. I expect the spread to widen further (in part due to the depressive effects of the mortgage stress tests).

My current opinion estimate for special offer mortgage rates from major lenders is now 3.2% (5-year fixed rate). The spread between bond yields and mortgage rates has gotten quite thin.





Disclaimer of Liability

This report has been compiled using data and sources that are believed to be reliable. Mortgage Professionals Canada Inc. accepts no responsibility for any data or conclusions contained herein. Completed by Will Dunning, Chief Economist of Mortgage Professionals Canada.