

Resale Market

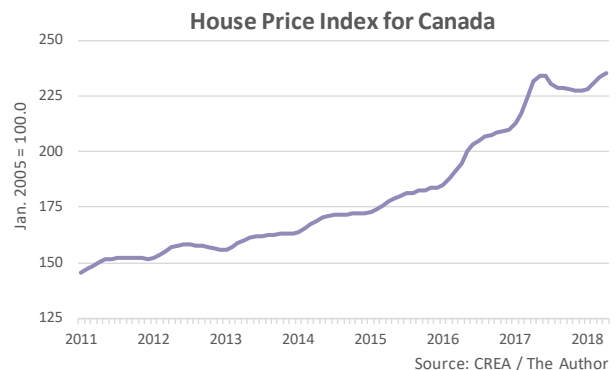
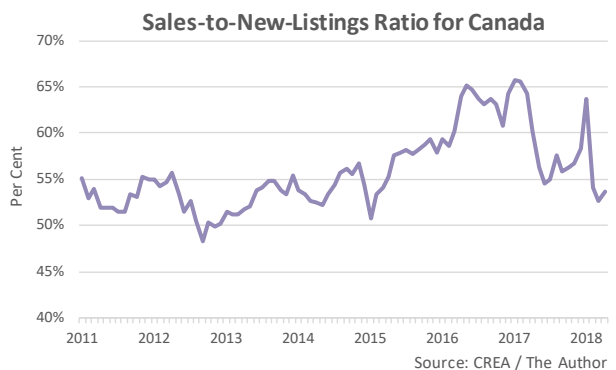
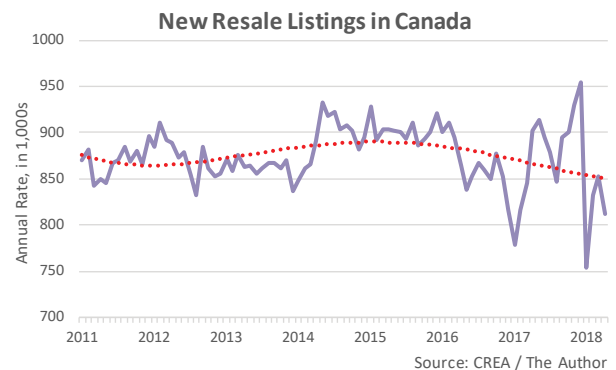
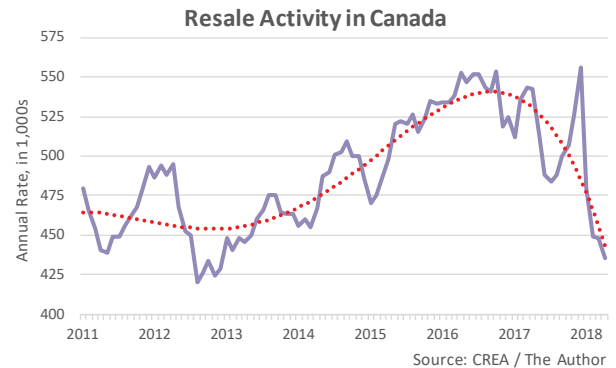
Resale activity weakened further in April, to an annualized rate of 436,000. For the first four months of this year, the average sales rate is 12.2% lower than for all of 2017. The duo of stress tests and higher interest rates are weighing increasingly heavy on housing activity.

Potential sellers (move-up, move-down, move-way) are discovering that it is more difficult to sell, which is reducing flows of new listings into housing markets.

The combination of slower sales and reduced listings has resulted in a sales-to-new-listings ratio ("SNLR") that is just above the threshold (51.5%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). For April, the ratio was 53.6%.

The House Price Index produced by the Canadian Real Estate Association ("CREA") has increased for four consecutive months. But, this is a normal seasonal event, reflecting the transition from the slow winter market to the stronger spring. If this data was seasonally-adjusted, it would show that prices are more-or-less flat. On a year-over-year basis, the HPI is up by just 1.5%: this is consistent with the "balanced" state of the market.

As commented previously, 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.

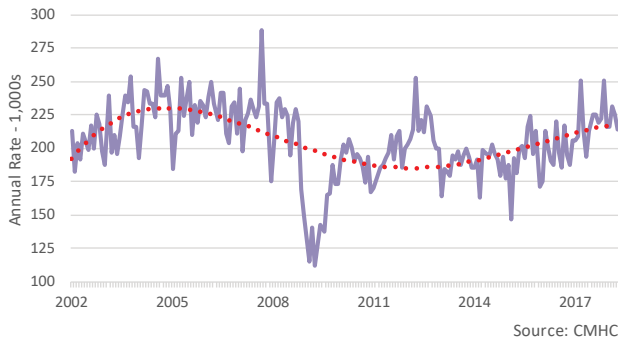


Housing Starts

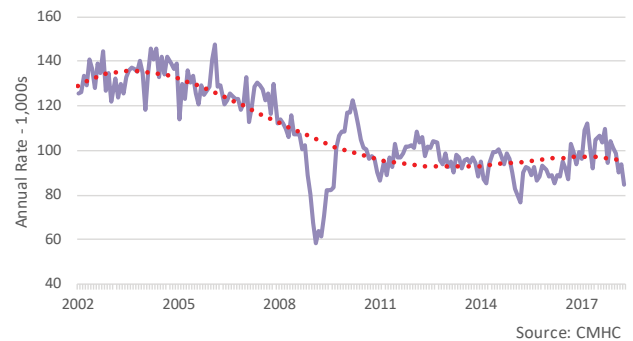
Housing starts in Canada were at an annual rate of 214,400 in April. The trend line continues to rise (although it may be approaching a turning point). The continued strength for housing starts is in sharp contrast to the sharp slowing for resale activity: housing starts lag behind the resale market, since they result from new home sales that occurred earlier.

For low-rises (singles, semi-detached, and town homes), it appears that the trend is on the verge of turning down. For apartments, on the other hand, the lag between sales and starts is longer. Therefore, the trend continues to rise for apartment starts.

Housing Starts in Canada



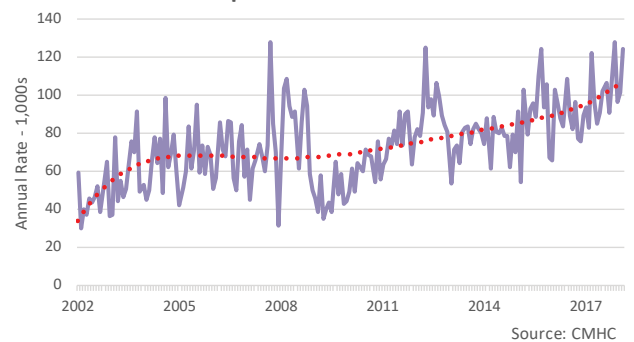
Urban Low-Rise Housing Starts in Canada



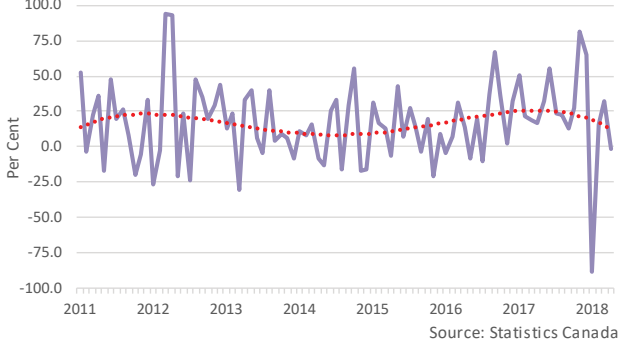
Employment Trends

Statistics Canada reported essentially no change in employment for April (a drop of 1,100). Year-over-year growth (1.5%) is slightly faster than the rate of population growth (1.3%). Looking at the trend of month-over-month changes, it appears that job creation has slowed, although volatility of the estimates leaves uncertainty.

Urban Apartment Starts in Canada



Monthly Employment Changes in Canada



Employment Rate (25-54 Years)



Employment Trends (Continued)

The employment-to-population ratio is lower than a decade ago, because more of the adult population is retired, and because young people are staying in school longer. Looking at just the “prime working ages” (25-54), the employment rate has returned to the pre-recession peak level. From this, I conclude that the Canadian economy has hit its “speed limit” and from this point job creation cannot be much faster than the rate of population growth. The question, however, is whether current conditions (including higher interest rates and government policies that are deliberately suppressing housing activity) will lead to a subpar rate of job creation.

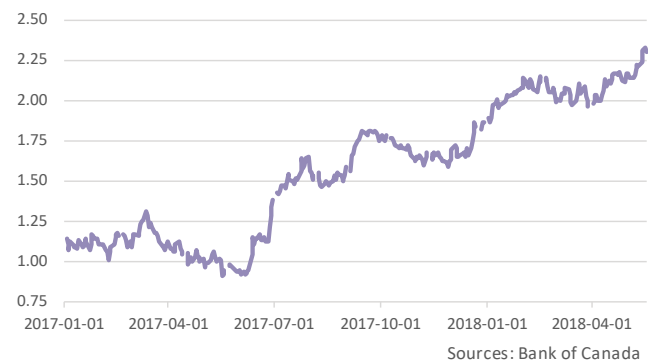
Interest Rates

Bond yields (5-year Government of Canada) have moved up in recent days. Reckless fiscal policies in the US are likely to cause to further rises during the coming months.

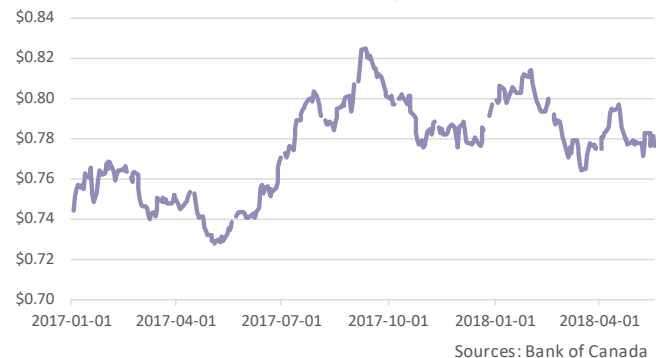
My opinion-estimate of a typical “special offer” rate for 5-year fixed rate mortgages (major lenders) is still 3.2% (lower rates can be negotiated). The spread versus 5-year GoC bonds is now less than 1.0 point, versus an average of 1.83 points over the past decade. Variable rates have moved down, to 1 point below lenders’ prime rates. The compression of housing activity is resulting in more competition among lenders.

Meanwhile, the banks have raised their posted rates. The Bank of Canada is now reporting the 5-year rate at 5.34% as of May 9 (up from the previous 5.14%): the mortgage stress tests have become even more onerous, which will weigh even more heavily on housing markets. We should expect that the already weak rates of resale activity will slow further. The greatest damage (with the greatest risks of price declines) will be in communities that are already weak economically.

Yields for 5-Year GoC Bonds



Canada-US Exchange Rate



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