

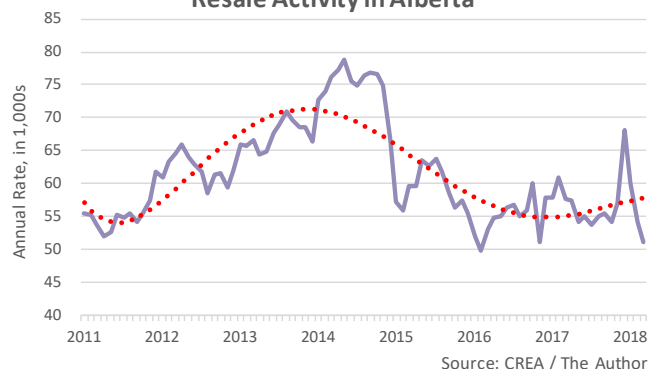
Resale Market

Resale activity has been weak in Alberta, in the wake of reduced oil prices. The sales trend has been roughly flat during the past two years. Activity slowed further during the first quarter, to an annualized sales rate of 55,000, which is 3.6% below the 2017 total. The data for February and March points to a further disruption. Two factors have contributed to this. Higher interest rates are weighing on affordability. Equally important is the duo of mortgage stress tests. The recent slowing in Alberta is less severe than for all of Canada (nationally, the first quarter sales rate is down by 10.7% versus 2017). But, the recent drop in the province is from a level that was already weak.

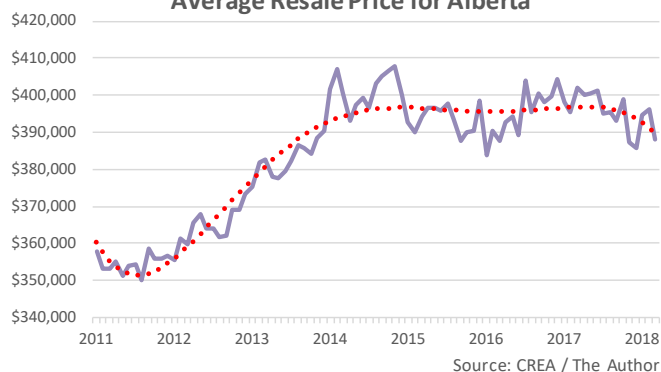
The average resale price in the province has been flat for some time (although there is uncertainty in the recent data, which has been volatile). During the past two years, CREA's House Price Indexes are down by 1.0% in both Calgary and Edmonton.

The lower sales have brought a drop in the sales-to-new-listings ratio, to 49% during the first quarter. This is well below the estimated threshold (estimated at 56%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). The very recent drop in the ratio, if it persists, should weigh further on prices. House prices are often "sticky downwards" (discouraging price drops), but that stickiness can dissolve under pressure. Thus, there is a risk of sharper price reductions in Alberta.

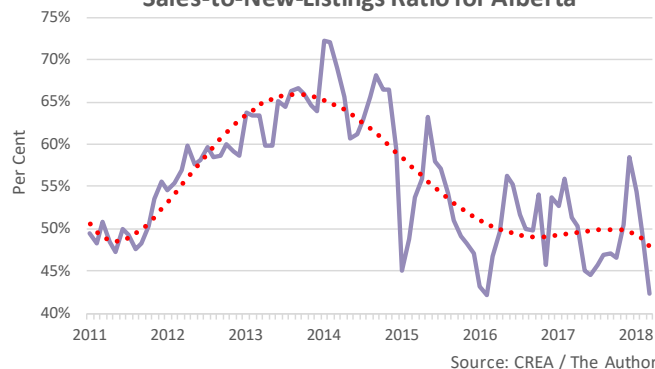
Resale Activity in Alberta



Average Resale Price for Alberta



Sales-to-New-Listings Ratio for Alberta

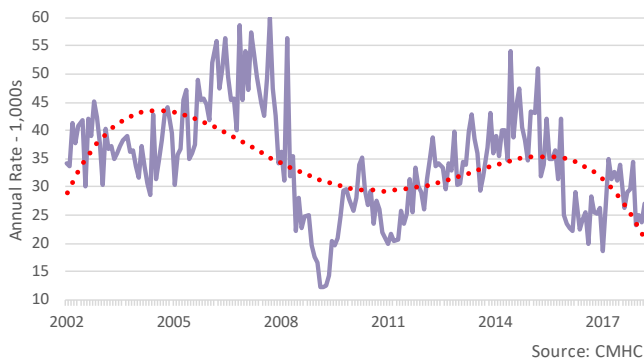


Housing Starts

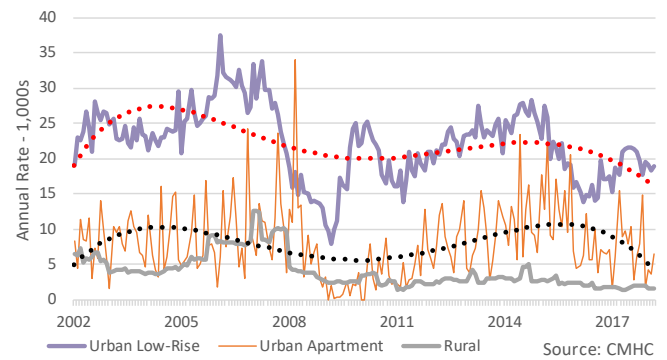
Housing starts have also weakened, which is consistent with the weakened resale market: with over-supplies of resales (and very high vacancies in the rental sector) there is much less need to build new housing. Housing starts lag behind the resale market, since they result from new home sales that occurred earlier. Therefore, starts are likely to fall further.

Housing starts have slowed for both low-rises (singles, semi-detached, and town homes) and apartments. The low-rise data has hinted at improvement, but that is likely to be disrupted.

Housing Starts in Alberta



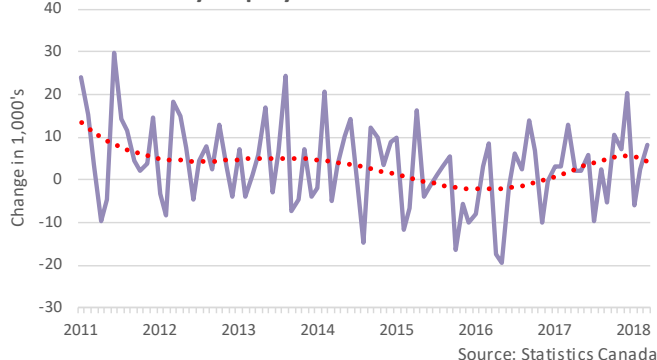
Housing Starts by Type of Dwelling in Alberta



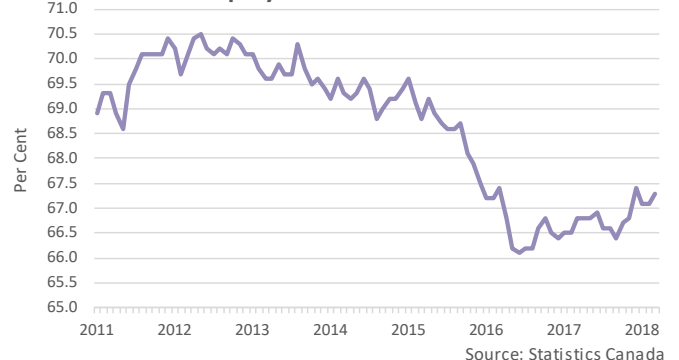
Employment Trends

Recent data hints that there has been a slight improvement in the rate of job creation in Alberta, as the trend line has moved from slightly below zero to slightly above zero. However, given the volatility in the estimates that are reported by Statistics Canada, there is uncertainty about the current state of affairs.

Monthly Employment Growth in Alberta



Employment Rate in Alberta



Employment Trends (Continued)

Movements in the employment estimates have also resulted in changes for the employment-to-population ratio. While the reported data is volatile, creating uncertainty about the “true” state of affairs, it does appear that the employment rate has recovered slightly, meaning that the rate of job creation has been slightly faster than the rate of population growth. There is still, however, a long way to go.

Looking forward, there is a mixed set of signals. A surge in oil prices is positive, but two significant negatives are higher interest rates and weakened housing activity (including the evolving impacts of the mortgage stress tests). The employment rate could improve gradually, with slightly positive implications for the housing market.

Interest Rates

Bond yields (5-year Government of Canada) have been roughly flat since early January, albeit with some small movements that have reflected volatile policies and politics in the US.

My opinion-estimate of a typical “special offer” rate for 5-year fixed rate mortgages (major lenders) is 3.2% (lower rates can be negotiated). The spread versus 5-year Government of Canada bonds is just 1.0-1.1 points, versus an average of 1.83 points over the past decade. The compression of housing activity is resulting in more competition among lenders.

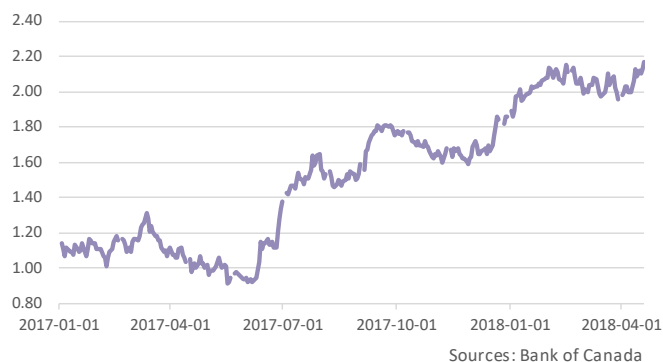
The Canadian dollar has strengthened versus the US (rather, the US dollar is weakening against major currencies). While it takes very long periods of time for the exchange rate to have significant effects on our economy, recent movements in the dollar will be mildly depressive.

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Yields for 5-Year GoC Bonds



Canada-US Exchange Rate

