

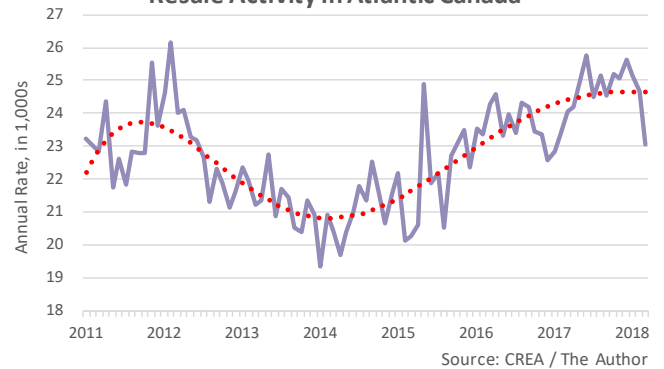
Resale Market

Resale activity had been recovering quite strongly, starting in 2015. During the first quarter, the annualized sales rate was 24,300, slightly (just 1.3%) below the 2017 total. But, data for February and March points to a disruption. Two factors have contributed to this deceleration. Higher interest rates are weighing on affordability. Equally important is the duo of mortgage stress tests. The sales rates have fallen in New Brunswick (8%) and PEI (7%), but increased in Nova Scotia (3%) and Newfoundland and Labrador (5%). The negative impacts of the stress tests have (so far) been less severe in the Atlantic region compared to most other areas of Canada: for all of Canada the first quarter sales rate is down by 10.7% versus 2017.

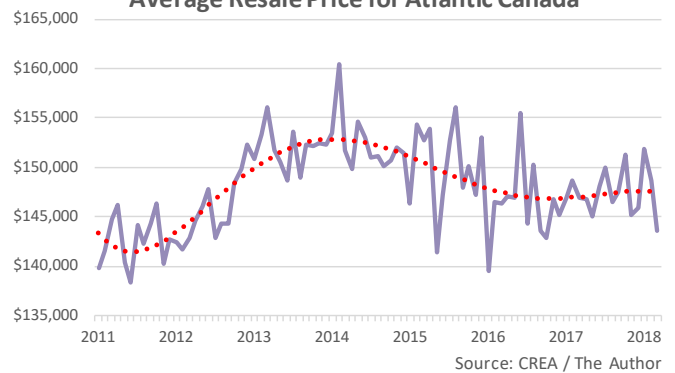
The average resale price in Atlantic Canada is quite volatile from month-to-month, which reflects changes in composition (the locations of sales and the types of homes sold). A trend line suggests that prices have been flat (or maybe increasing slowly) during the past two years.

Increased sales have brought a rise in the sales-to-new-listings ratio, to 52% during the first quarter. This is well above the threshold (estimated at 45%) 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 limit price growth this year.

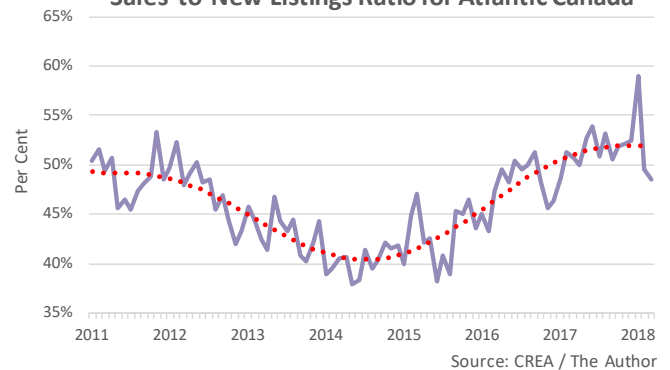
Resale Activity in Atlantic Canada



Average Resale Price for Atlantic Canada



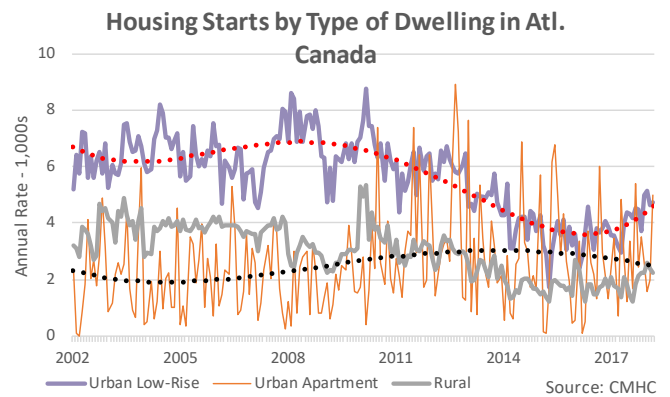
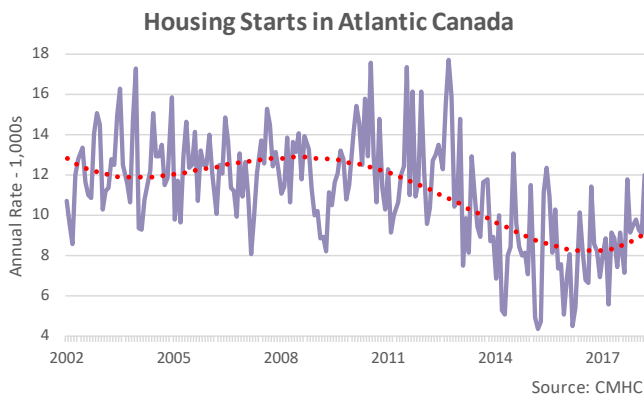
Sales-to-New-Listings Ratio for Atlantic Canada



Housing Starts

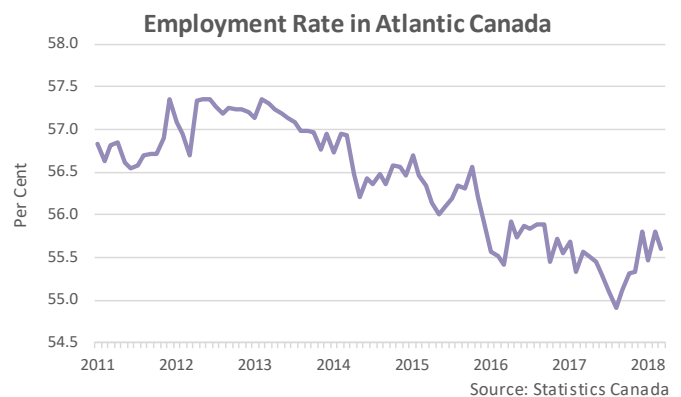
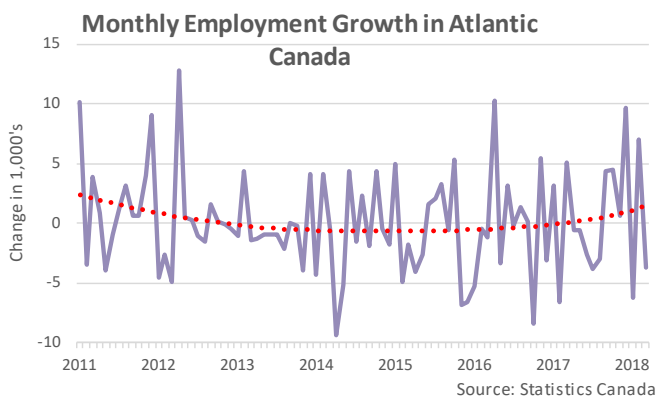
Housing starts had been quite weak, but have started to improve (on the tails of the stronger resale market, which was signaling a need for more new construction). Housing starts lag behind the resale market, since they result from new home sales that occurred earlier. Therefore, the trend for starts should increase further, for a while. But, there is now uncertainty about this, since the resale market may now be in a transition to weaker conditions.

Slow housing starts have been due to a sharp drop for low-rises (singles, semi-detached, and town homes). An expansion is needed, to allow families to meet their needs. Apartment activity, on the other hand, remains healthy.



Employment Trends

Recent data hints that there has been a slight improvement in the rate of job creation in the Atlantic region, 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.



Employment Trends (Continued)

Movements in the employment estimates have also resulted in changes for the employment-to-population ratio. The dip that was seen last summer may have been erroneous, as it was short-lived and has been reversed. It appears likely that during the past two years the rate of job creation was roughly equal to the rate of population growth, with the result that the “true” employment rate might be roughly flat.

Looking forward, it seems unlikely that the employment growth will strengthen by very much, due to higher interest rates. A flat employment rate (meaning that the rate of job creation matches population growth) would be a favourable situation, which would support 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..

Yields for 5-Year GoC Bonds



Sources: Bank of Canada

Canada-US Exchange Rate



Sources: Bank of Canada

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