

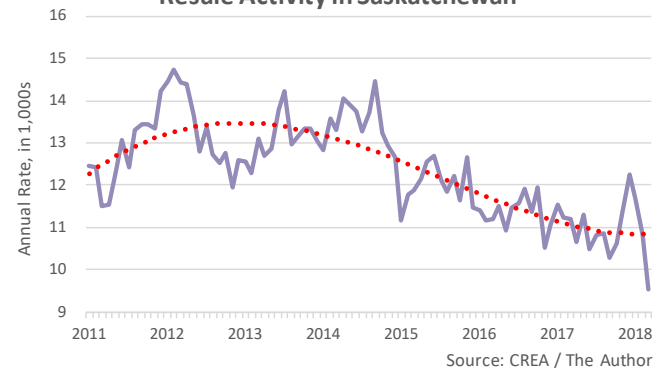
## Resale Market

Resale activity has been weak in Saskatchewan, in the wake of reduced prices for commodities. Activity slowed further during the first quarter, to an annualized rate of 10,700, which is 3.4% 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 Saskatchewan 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 Saskatchewan is on top of reductions that occurred earlier.

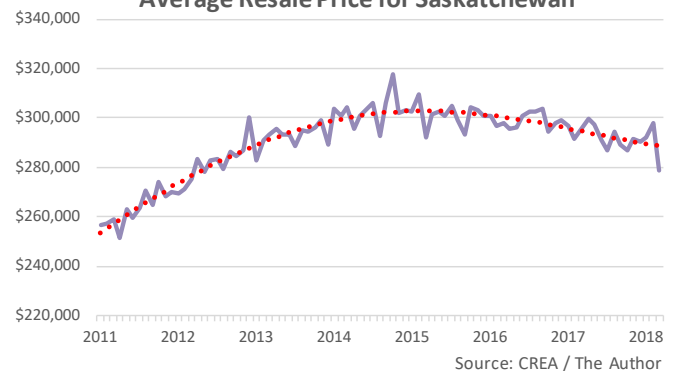
The average resale price in the province is trending downwards. During the past two years, CREA's House Price Indexes have fallen by 5.4% in Saskatoon and 2.9% in Regina.

The sharply lower sales have brought a drop in the sales-to-new-listings ratio, to 40% during the first quarter. This is far below the estimated threshold (estimated at 52%) 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 Saskatchewan.

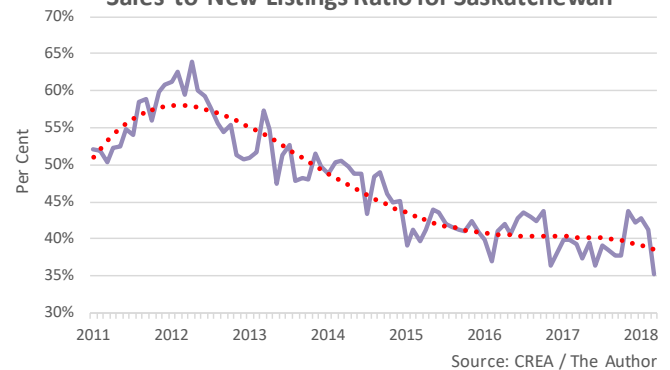
**Resale Activity in Saskatchewan**



**Average Resale Price for Saskatchewan**



**Sales-to-New-Listings Ratio for Saskatchewan**

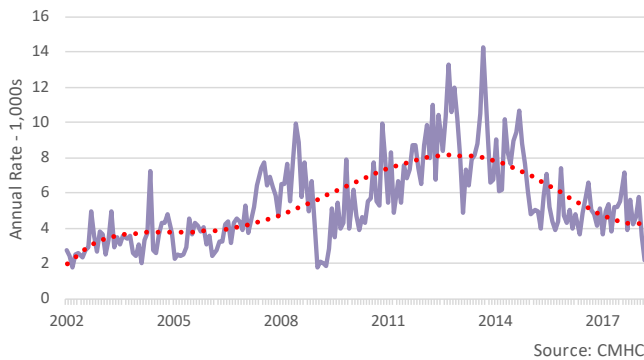


## Housing Starts

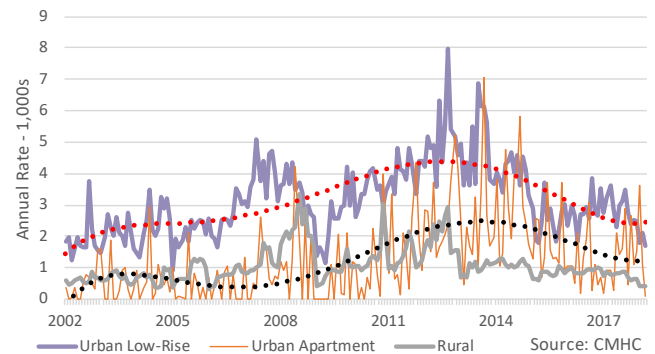
Housing starts have also weakened, which is consistent with the weakened resale market: with over-supplies of resales (and very high vacancies in the rental sector) there is much less need to build new housing. Housing starts lag behind the resale market, since they result from new home sales that occurred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

**Housing Starts in Saskatchewan**



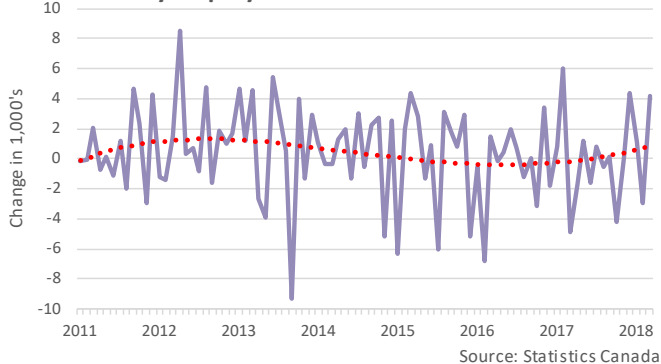
**Housing Starts by Type of Dwelling in Sask'n**



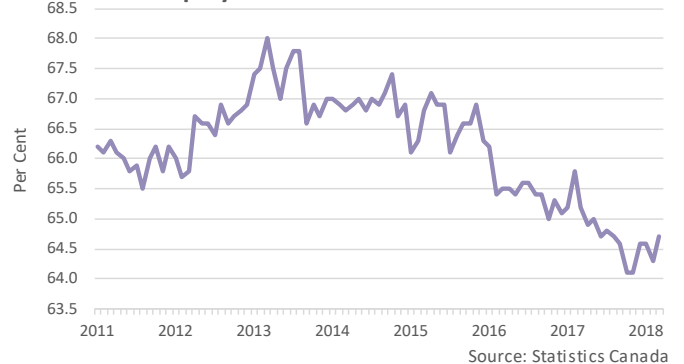
## Employment Trends

Recent data hints that there has been a slight improvement in the rate of job creation in Saskatchewan, 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 Saskatchewan**



**Employment Rate in Saskatchewan**



## 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 year the rate of job creation was roughly equal to the rate of population change, 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, and the evolving housing slowdown. The employment rate could fall further, with additional negative 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..

Yields for 5-Year GoC Bonds



Sources: Bank of Canada

Canada-US Exchange Rate



Sources: Bank of Canada

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