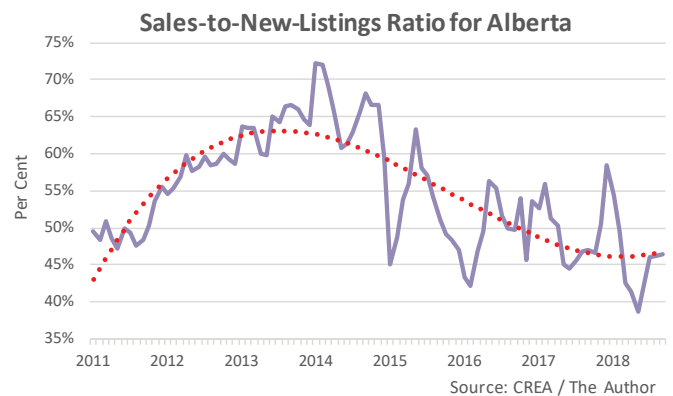
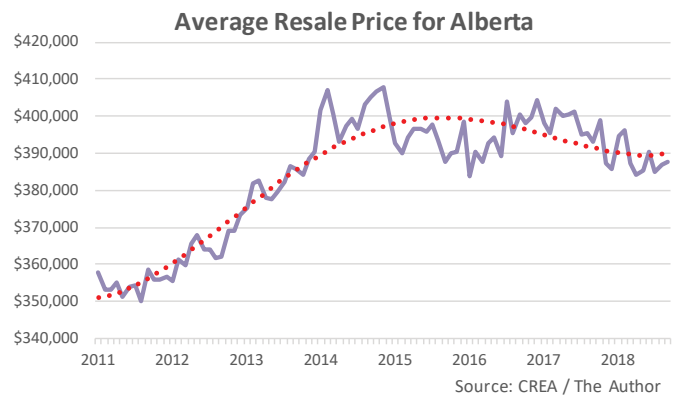
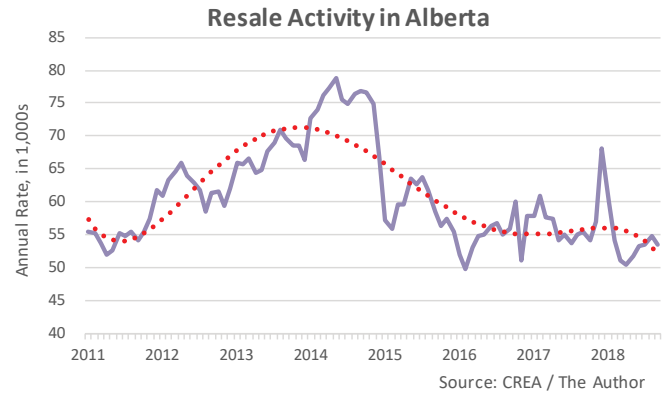


## Resale Market

Resale activity has suffered further erosion this year, due to the mortgage stress tests and increased mortgage interest rates. On the other hand, it does appear that the employment situation has become more positive, which should be supporting the housing market. The sales rate in Alberta is now at least 20% lower than would be considered a normal or healthy level (based on the population).

Volatile data creates uncertainty about the “true” rate of change for house prices, but it appears that prices have been roughly flat or falling fractionally this year.

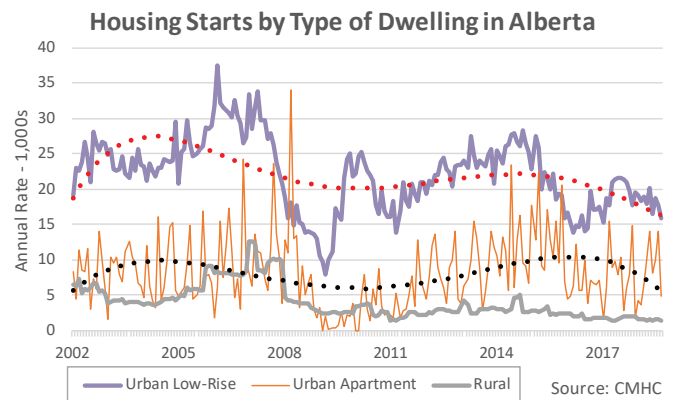
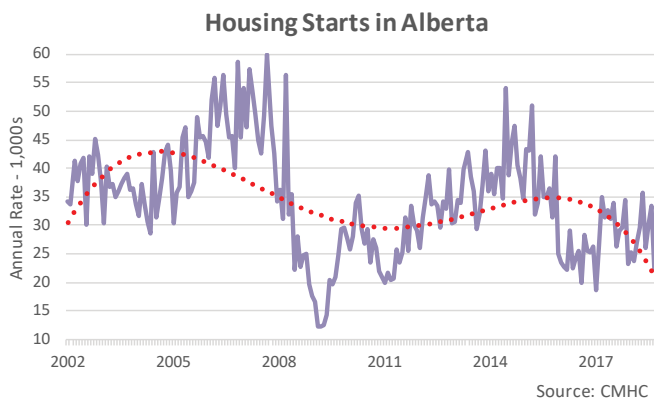
The sales-to-new-listings ratio (“SNLR”) has averaged just 45% this year, which is far below the threshold (56%) for a “balanced market” (this is the level at which prices are expected to rise by 2% per year). At this level, there is a risk of larger reductions in house prices. If that materializes, consumers could lose confidence in the housing market, which would reduce sales and add to downward pressure on prices.



## Housing Starts

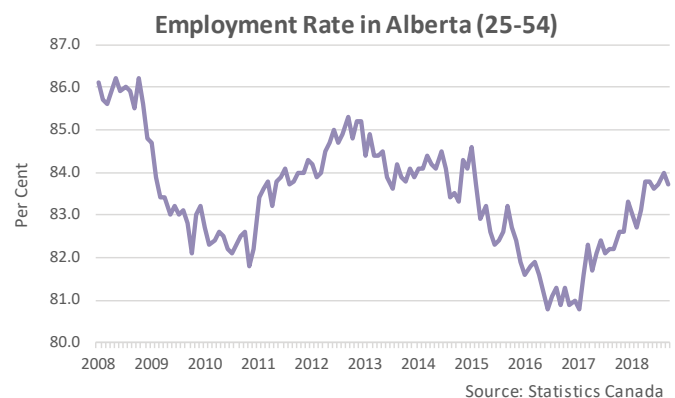
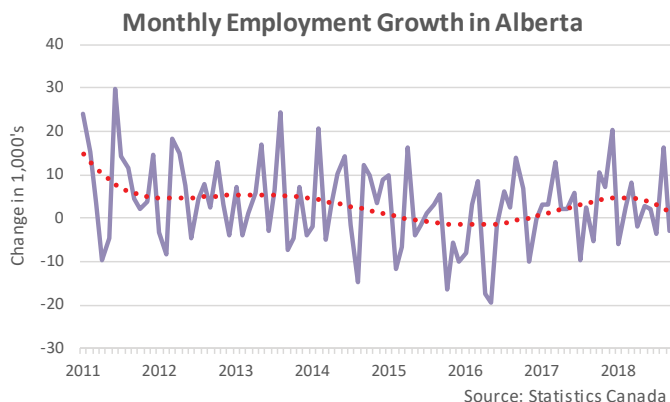
Movements in starts lag behind changes in the resale market. It isn't possible to insert a useful trend line into this chart of total starts, but it is obvious that starts are now considerably lower than they were during 2013 and 2014 (by about one-quarter).

Construction has fallen sharply for all three of the major components of housing starts (The urban low-rise category includes single-detached, semi-detached, and town homes.)



## Employment Trends

The data suggests that there was a small improvement in the employment situation last year (with the trend line for job growth moving from slightly below zero to slightly above), but the recent data shows very little growth. This data is generated by a sample survey and it contains random errors. This chart illustrates that the data is highly volatile (during the first nine months of this year the reported data contains four drops and five rises). This creates uncertainty about the true state of affairs. My favorite economic indicator is the employment-to-population ratio (or the "employment rate"). Digging deeper, I'm watching the rate for "prime working age" adults (25 to 54).



## Employment Trends (Continued)

Once again, volatility in the data creates uncertainty. This data suggests that there has been a substantial recovery from the drop that occurred after the plunge in energy prices. If this data is correct, job creation should be supporting improving housing activity in Alberta.

For all of Canada, the prime age employment rate is at a high level (and the US has also shown rapid improvement). This justifies the rises that have recently happened for Canadian interest rates (and could push them a bit higher).

## Interest Rates

Bond yields (5-year Government of Canada) have increased considerably during the past year and a half (this includes a further small rise during the past month).

However, reduced housing activity has caused lenders to limit the increases for their “special offer” mortgage interest rates. My opinion-estimate of a typical 5-year fixed rate at major lenders is now 3.5%. Thus, while the 5-year bond yield has increased by 1.4 points during the past year and a half, the mortgage rate has increased by just 0.8 points.

Five years ago, my “special offer” estimate was 3.6%, slightly higher than the current 3.5%.

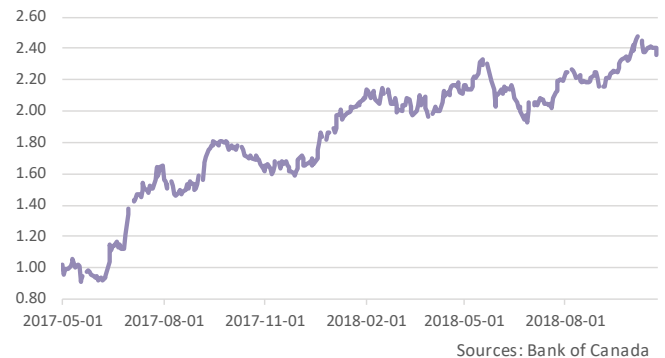
My opinion-estimate for 5-year variable rates is now 3.05% (reflecting the increase today - October 25th), versus 2.6% five years ago.

Based on these estimates of typical interest rates, most people renewing mortgages this year are seeing little or no change in their borrowing costs.

## 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, October 25, 2018. Copyright: Mortgage Professionals Canada, 2018.*

Yields for 5-Year GoC Bonds



Canada-US Exchange Rate

