SECOND QUARTER 2018

HOUSING MARKET DIGEST

ATLANTIC CANADA

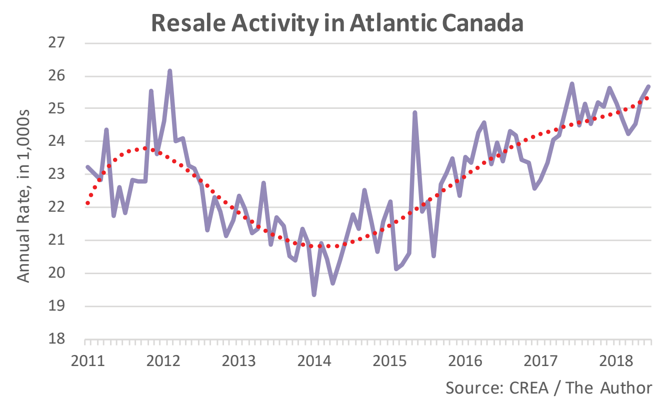
MORTGAGE PROFESSIONALS CANADA

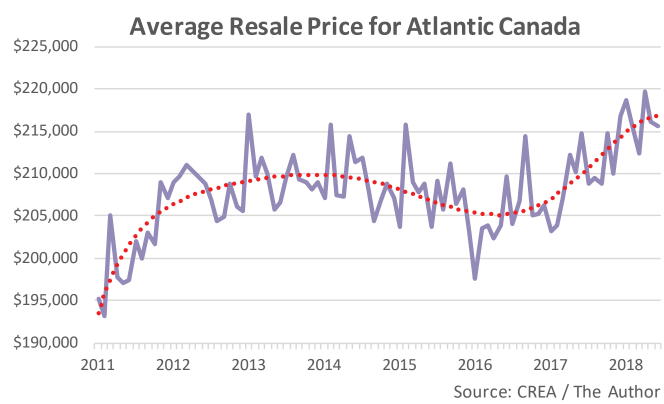
Resale Market

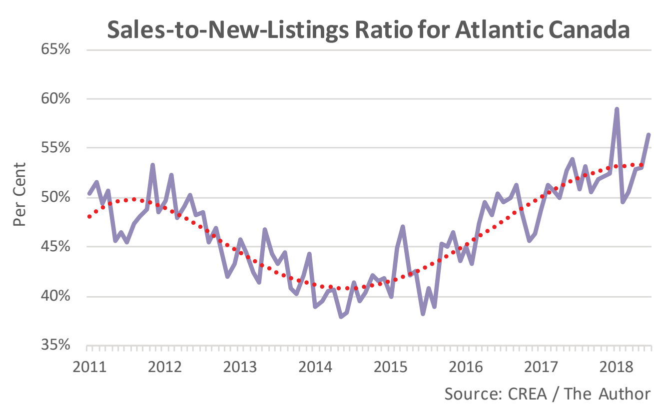
Resale activity continues the expansion that began in 2015. Erratic data this year makes it impossible to generate a reliable trend line: it appears that the “true” trend might have been flat during the past year. The duo of mortgage stress tests has interrupted what had been very positive stories in New Brunswick and Prince Edward Island, and aggravated already-weak conditions in Newfoundland and Labrador.

Stronger demand had supported a recovery of house prices in the region. During the past year, the estimated price trend has increased by about 4%. This has been catch-up following a half-decade of weak pricing. Recent data hints that price growth might be slowing, but several more months of data are needed before any conclusions can be drawn about whether the stress tests are disrupting pricing.

For Atlantic Canada, the “balanced market “sales-to-new-listings ratio” (“SNLR”) is estimated at about 45% (this is the level at which prices are expected to rise by 2% per year). The actual ratio has exceeded the threshold during the past two years, which has resulted in the recent price growth. The SNLRs are far above the balanced market thresholds in the three Maritime provinces, but far below the threshold in Newfoundland and Labrador.



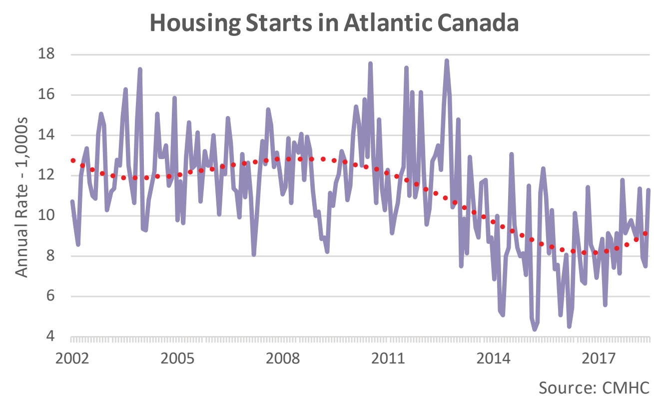


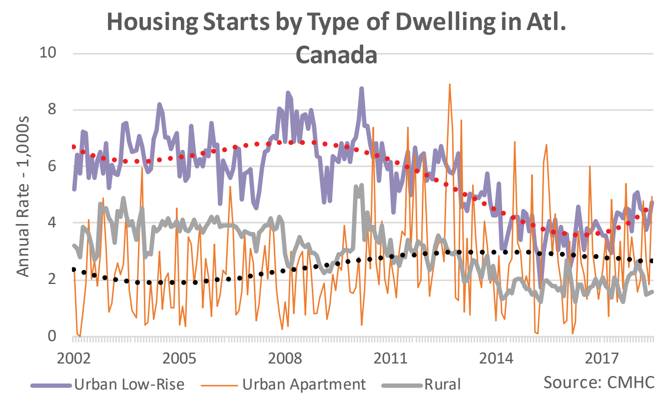


Housing Starts

Housing starts in Atlantic Canada have recently begun to recover, following a half-decade of very weak activity. Even so, the trend for starts (about 9,000 units) are still well below (by about 25%) the prior trend level of more than 12,000 units.

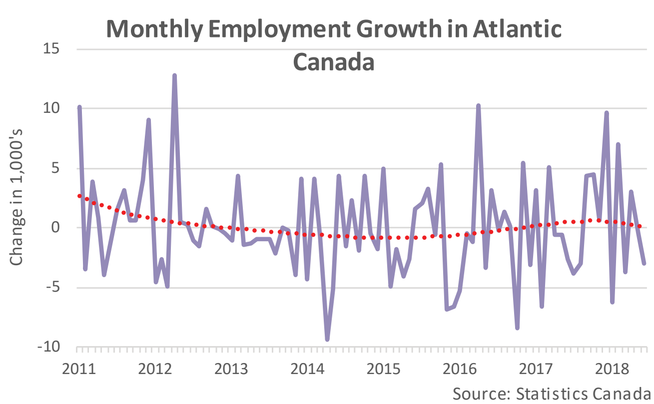
The movements for starts have been focused on low-rises (singles, semi-detached, and town homes), which fell sharply in response to the weak resale market of a few years ago and are now responding to the positive signals sent from the resale market. Low-rise starts in the region should continue to strengthen for the remainder of this year. For apartments, on the other hand, the trend has been quite stable.

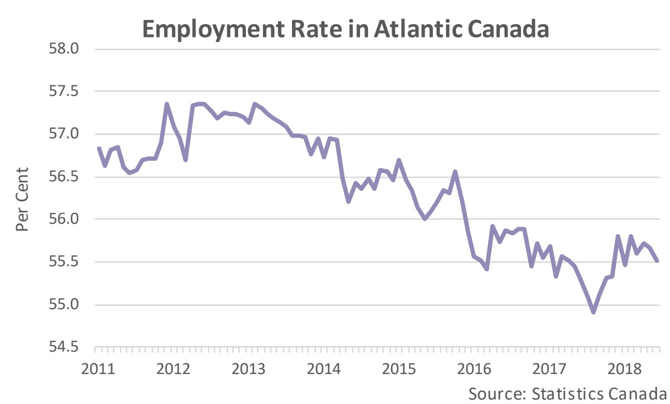




Employment Trends

The employment data is highly volatile, making it difficult to draw firm conclusions about the state of the regional economy. It appears most likely that there has been a very small amount of job creation during the past three years (perhaps 1,000 jobs per year, or 0.1%). This means that housing demand has been heavily reliant on low interest rates as well as in movements from other regions (especially by retired people).





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Employment Trends (Continued)

Meanwhile, the rate of population growth has been negligible. As a result, the share of adults who have jobs in Atlantic Canada (the “employment-to-population ratio” or “employment rate”) appears to have been more-or-less flat during the past two years (although a gyration in the data last summer creates uncertainty).

Looking farther ahead, there are currently more downward than upward economic pressures, all of which will play out only gradually. These include higher interest rates and escalating threats about a trade war. Elsewhere in Canada a third threat is that the mortgage stress tests are resulting in considerable weakening of housing markets, which will gradually impair job creation. In Atlantic Canada this is less of a factor, because of the recent upward momentum and because low house prices mean that the stress tests have less impact on potential home buyers.

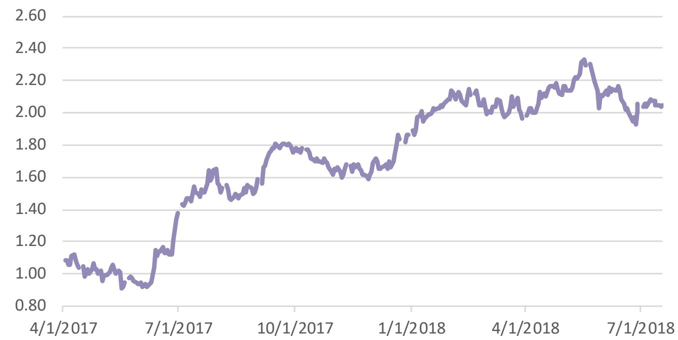
Interest Rates

Bond yields (5-year Government of Canada) have been roughly flat since early January, although there have been variations as expectations have shifted about the economic prospects.

In consequence, mortgage rates (my opinion-estimate of a typical “special offer” rate for 5-year fixed rate mortgages at major lenders) has changed little this year. The current rate (3.3%) is about 1.25 points above the yield for 5-year GoC bonds, 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 trended downwards versus the $US this year.

Yields for 5-Year GoC Bonds



Sources: Bank of Canada

Canada-US Exchange Rate

Sources: Bank of Canada

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