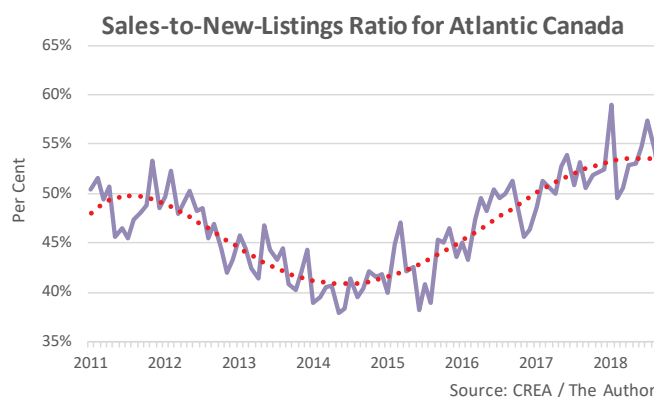
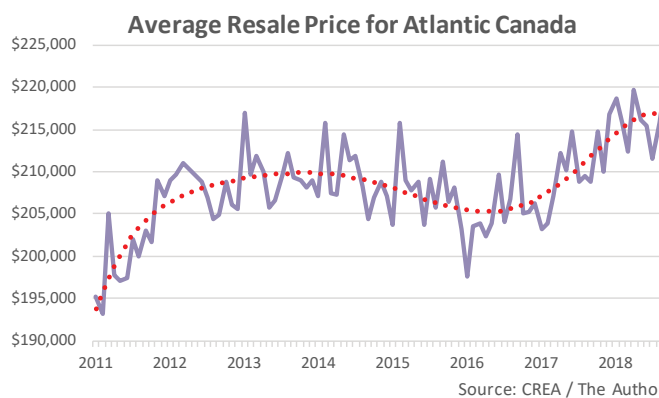
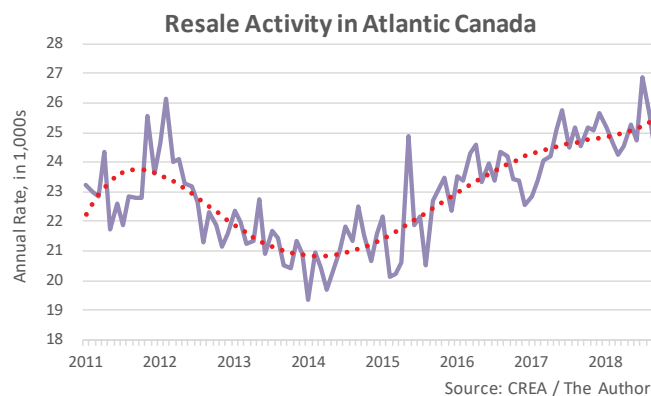


Resale Market

It appears that resale activity has been roughly flat during the past year (although the mechanically-generated trend line shows a continued rise, that is the result of just one unusual month, in July). A period of strength that started in 2015 has been interrupted by the mortgage stress tests.

Similarly, pricing has improved, as the result of stronger demand, but the data now suggests that this has ended. That said, given the volatility of the data, there is uncertainty about whether the trend is now flat, rising, or falling. The last three months of this year might give us a more definitive picture.

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. Even though the SNLR has flattened, it is at a high level, which should support further price growth. There appears to be little risk of price reductions in three of the four Atlantic provinces: Newfoundland and Labrador is the exception as the drop in oil prices has weakened the provincial economy. Adding in the effects of the stress tests, housing activity has slowed sharply, and the SNLKR in the province has averaged just 33% so far this year.

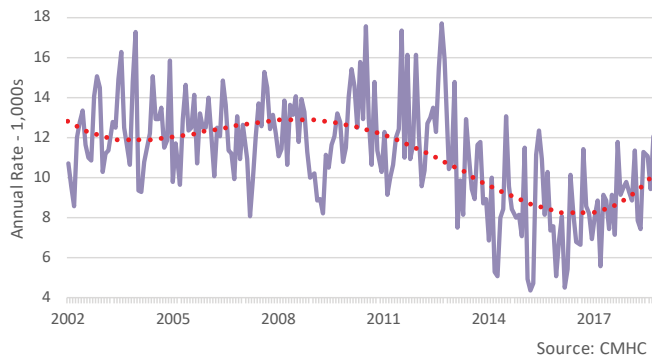


Housing Starts

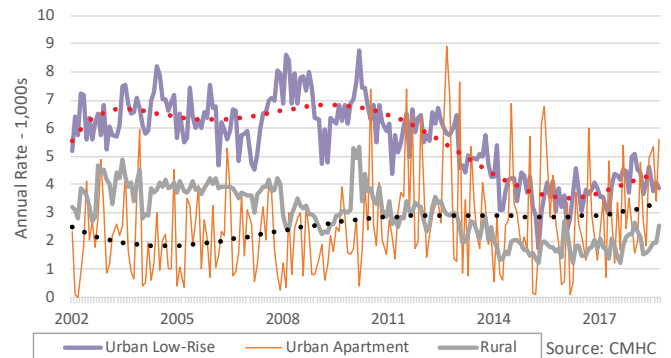
Housing starts in Atlantic Canada have recently begun to recover, following a half-decade of very weak activity. Even so, the trend for starts (about 10,000 units) has not returned to the level seen prior to 2011 (more than 12,000 units).

The decline and the recent partial recovery have been focused on low-rises (singles, semi-detached, and town homes). On the other hand apartment starts (while highly volatile) have shown a slight upward trend. Since starts are the result of sales that occurred earlier, we have to expect that it would take a while for the stress tests to cause reduced starts. Consequently, the reduction in low-rise starts seen recently could persist.

Housing Starts in Atlantic Canada



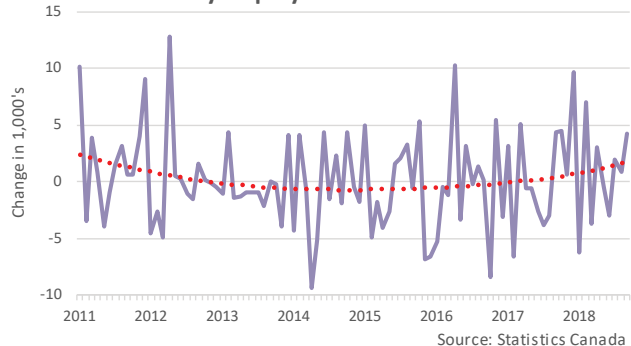
Housing Starts by Type of Dwelling in Atl. Canada



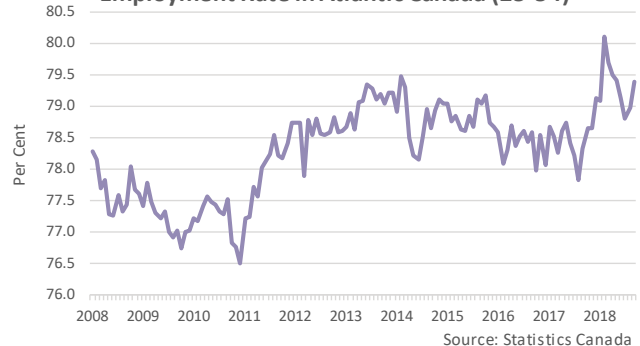
Employment Trends

The employment data hints at improved job growth. But, the data is generated by a sample survey and it contains random errors. This chart illustrates that the data is highly volatile and in consequence there is uncertainty about the true state of affairs. The trend line suggests that year-over-year growth is in the range of 1%, which is slightly better than the rate of population growth (0.7%). If this data is correct, it is an encouraging sign, but given the volatility of the data, it is difficult to draw firm conclusions about the state of the regional economy.

Monthly Employment Growth in Atlantic Canada



Employment Rate in Atlantic Canada (25-54)



Employment Trends (Continued)

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). During the past year, this indicator has been at a record level for the Atlantic region. This means that the region should see improving housing demand. But, the mortgage stress tests will continue to suppress demand, and prevent the Atlantic region from achieving the volumes of housing activity that should occur.

The prime age employment rate is also at a high level for all of Canada (and for the US). 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%.

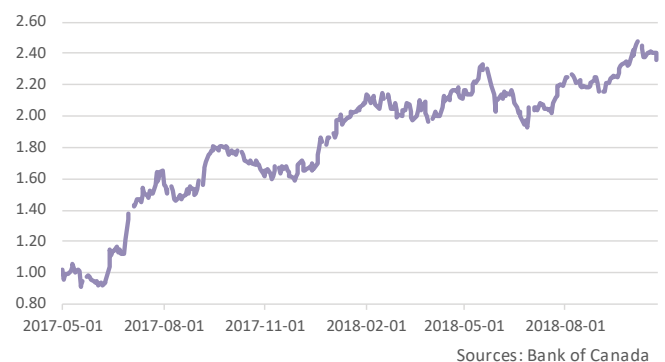
My opinion-estimate for 5-year variable rates is now 3.05% (reflecting the increase today - October 25th), versus 2.6% five years ago.

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

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Yields for 5-Year GoC Bonds



Canada-US Exchange Rate

