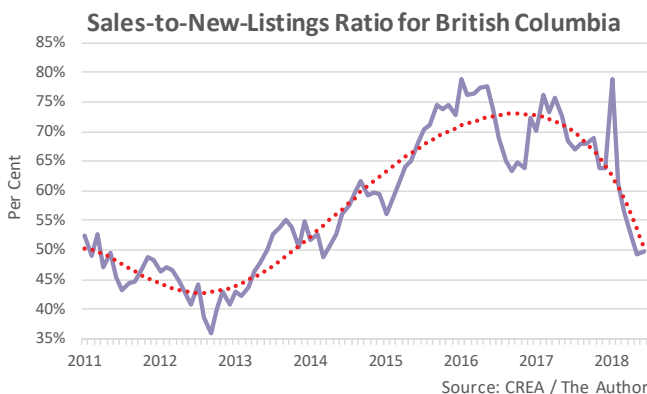
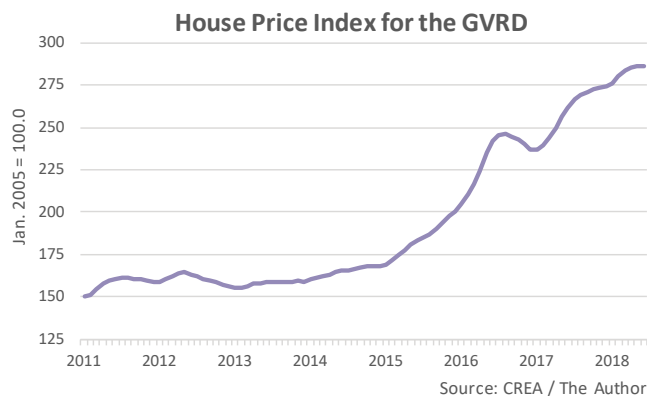
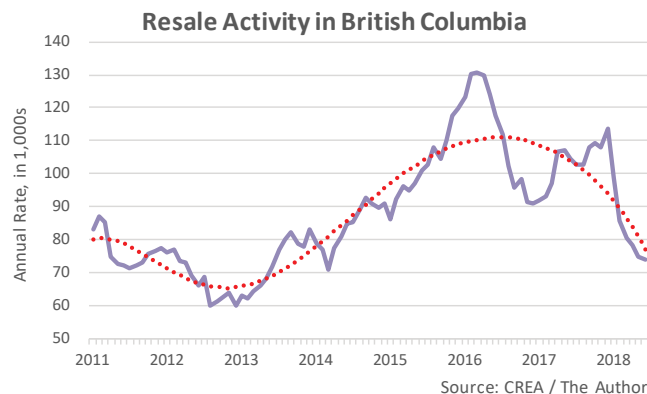


Resale Market

Resale activity has gyrated sharply during the past three years, with positive pressures coming from rapid job creation and population inflows, but negative pressures coming from federal and provincial government policies (the duo of mortgage stress tests plus the provincial policies that aim to deter home buying by non-residents). The sales rate in British Columbia is now at least 20% lower than would be considered a normal or healthy level (based on the population).

Concerning house prices, the average price published by CREA for BC is highly distorted by changes in composition (the types and locations of homes sold). As an alternative, this chart shows CREA's house price index for the Vancouver area. This data shows that price growth has moderated quite sharply.

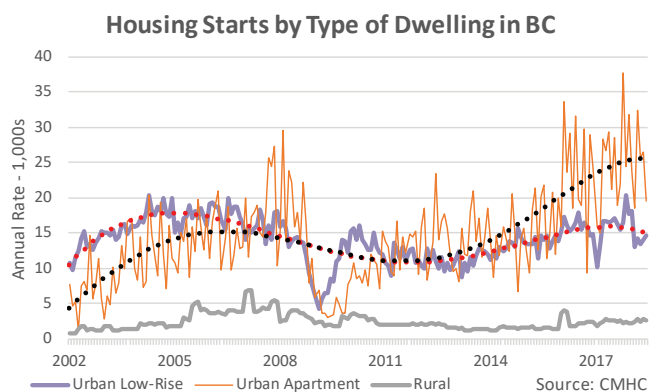
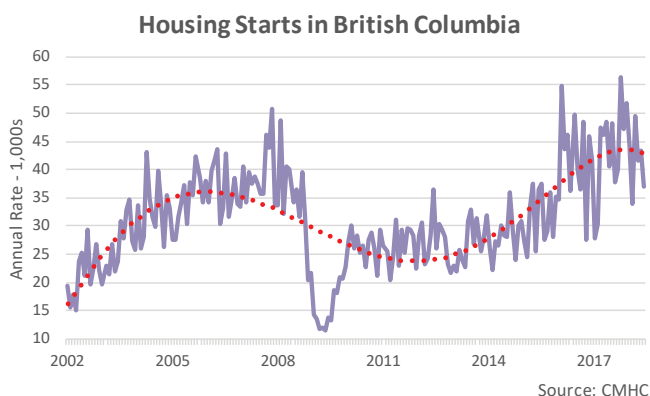
Weak sales have caused the sales-to-new-listings ratio ("SNLR") to plunge this year. During the past three months, the ratio of about 50% has been slightly above the threshold (47%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). At the current level of the SNLR, prices should rise at moderate rates, but there are very large variations across the province that cause local prospects to vary.



Housing Starts

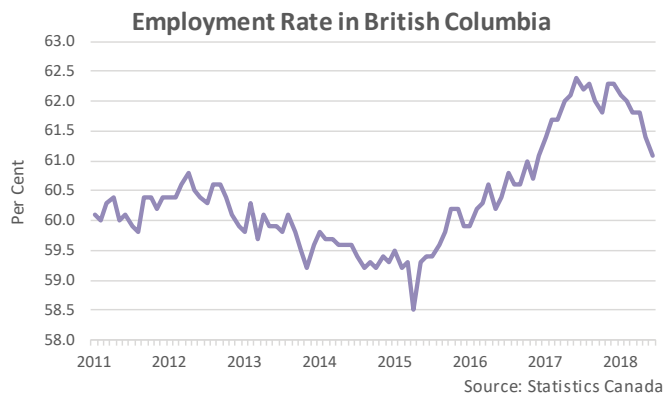
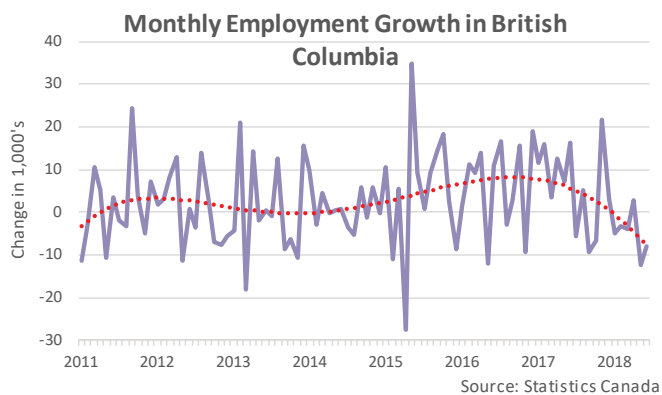
Housing starts follow trends from the resale market, but with a lag. It appears that the trend for starts is now close to a peak, and activity could fall during the remainder of this year and into next year.

Low-rise activity (singles, semi-detached, and town homes) reacts more rapidly than apartments and it appears that the trend may now be turning down for low-rises. For apartments, however, the process takes longer and the trend is still rising, reflecting pre-construction sales that were made earlier. A turning point for apartments may occur next year.



Employment Trends

The employment data indicates that there has been a sharp turn in the employment situation during the past year, as the trend of month-to-month growth has gone from a quite rapid pace to negative numbers. The data is derived from a sample survey and therefore there is a margin of error. The recent data contains some fingerprints of erroneous data. When errors occur it takes some time for them to be reversed (sometimes 6 months or more). This data certainly needs to be watched closely.



Employment Trends (Continued)

The employment-to-population ratio (the share of adults who have jobs) had been at an exceptionally high level, although the recent data points to a reversal (as noted, this could be erroneous). The high level for the employment rate is still a positive indicator for the housing market, which should be resulting in very strong sales activity.

Looking farther ahead, there are currently some downward economic pressures, all of which will play out only gradually. These include higher interest rates and escalating threats about a trade war. Federal and provincial policies that are suppressing housing activity will certainly weigh heavily on the employment situation.

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.

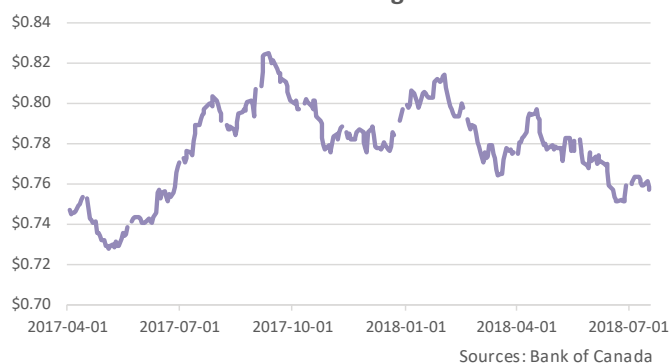
In consequence, mortgage rates (my opinion-estimate of a typical “special offer” rate for 5-year fixed rate mortgages at major lenders) has changed little this year. The current rate (3.3%) is about 1.25 points above the yield for 5-year GoC bonds, versus an average of 1.83 points over the past decade. 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



Canada-US Exchange Rate



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