HOUSING MARKET DIGEST
CANADA

MORTGAGE PROFESSIONALS CANADA

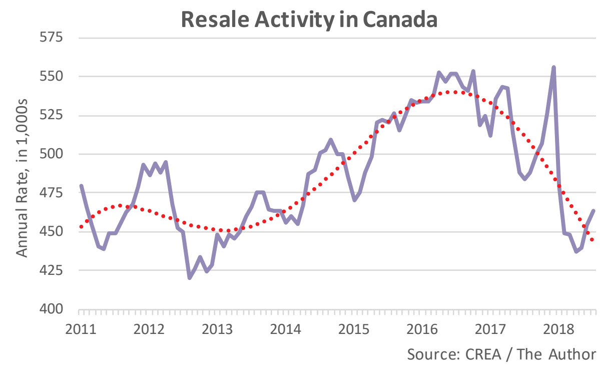
Resale Market

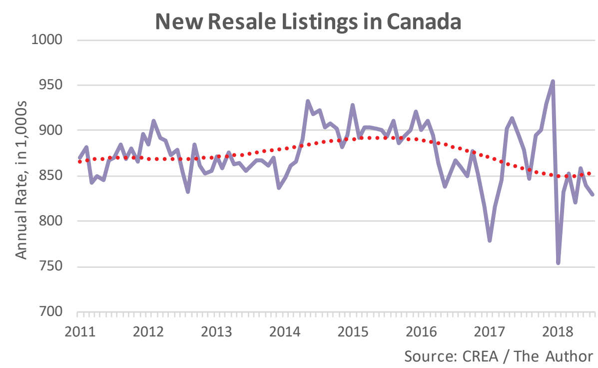
Resale activity has picked up, with three consecutive rises. Yet, the annualized rate for July (436,300) is still lower than any month during 2015 to 2017. Looking across the provinces, the recent improvement is very narrowly focused (Ontario, and in particular Toronto and surrounding areas – this reflects a thaw of the pause that followed the short-lived bubble of late 2016/early 2017). It is still too soon to argue, as some commentators have, that the effects of the stress tests are waning.

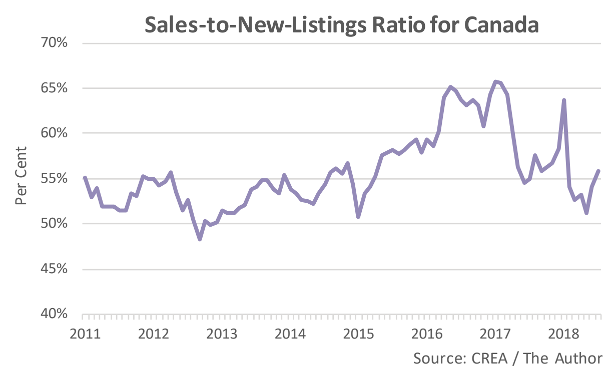
The flow of new listings into local housing markets is still constrained, as potential sellers (move-up, move-down, move-way) are discovering that (a) their ability to buy has been reduced by the stress tests and (b) it is more difficult to sell. These facts are discouraging listings.

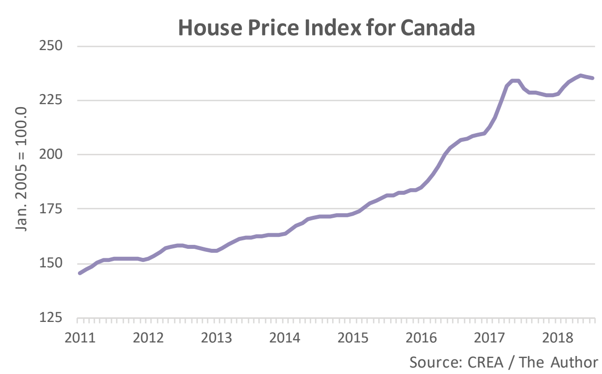
The sales-to-new-listings ratio ("SNLR") has increased, due to the combination of the slight recovery of sales plus limited listings. The rate for July (55.9%) and the average over the past 12 months (55.8%) are above the threshold (51.5%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). This situation should support gradual price growth.

Corresponding to the state of the SNLR, the House Price Index produced by the Canadian Real Estate Association ("CREA") has increased by 2.1% during the past year.



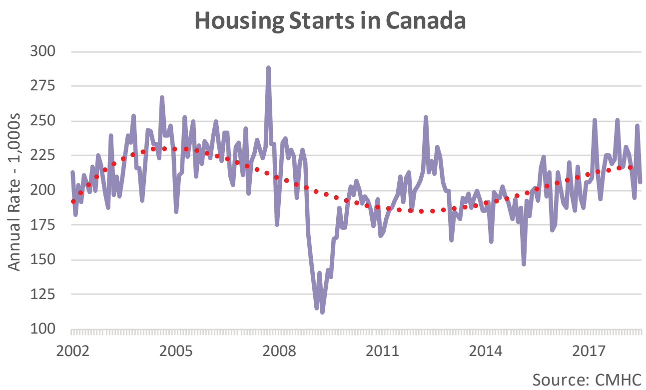


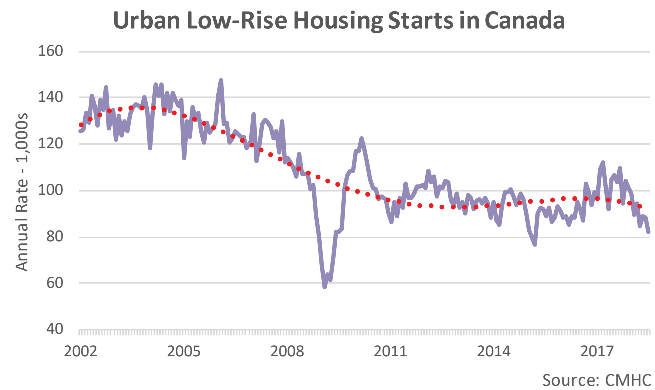




Housing Starts

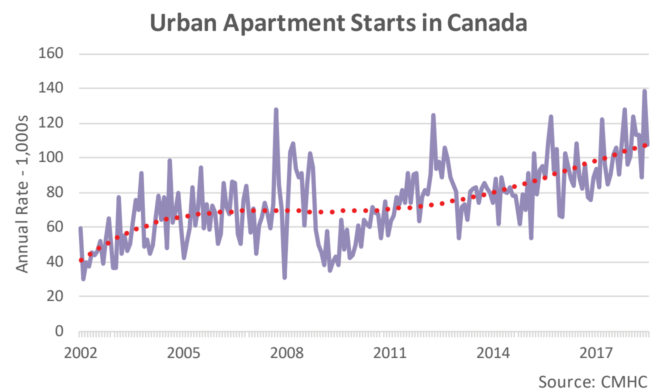
Housing starts in Canada continue to hint that they are approaching a turning point. The average rate so far this year is 219,500, which is essentially equal to the 2017 total of 219,763. Housing starts are expected to lag behind the drop that has occurred for resales. It is highly likely that by year end the trend for housing starts will have turned down. For low-rises (singles, semi-detached, and town homes), the trend is clearly in the process of falling (although the calculated trend line isn't yet keeping up with the actual change). For apartments, the lag between pre-construction sales and the measurement of a housing start is longer. Therefore, the trend continues to rise for apartment starts. By year end, this trend line should be flat or commencing a downturn.

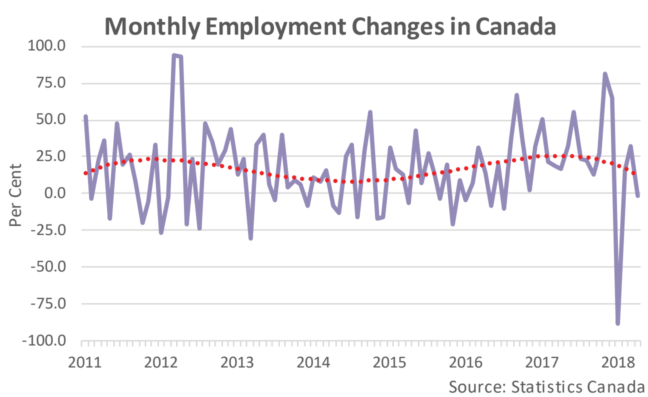


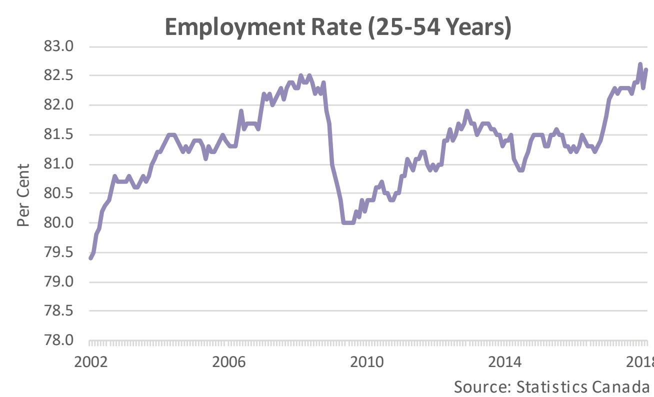


Employment Trends

Out of seven months this year, there have been three with surprisingly weak employment reports (especially January, for which there was a reported loss of 88,000) Each of those three instances contain signs of statistical anomalies, and the actual situations were likely better than reported. But, one month (July) showed a surprisingly large rise.







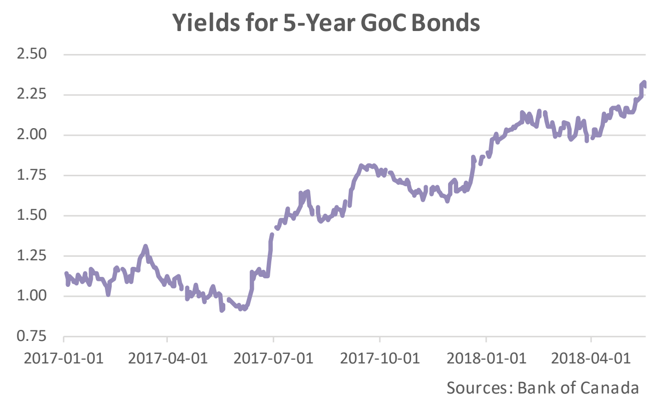
Employment Trends (Continued)

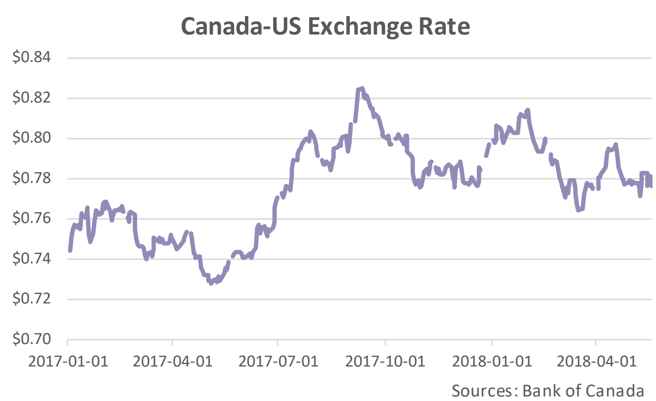
All of this said, the reported data shows a healthy rate of job growth, and the "true" situation might be even better. As I have commented before, the employment-to-population ratio is lower than a decade ago, because more of the adult population is retired, and because young people are staying in school longer. Looking at just the "prime working ages" (25-54), the employment rate has returned to the pre-recession peak level. The Canadian economy has hit its "speed limit" and from this point job creation cannot be much faster than the rate of population growth (this would result in a maximum sustainable rate of job growth at about 25,000 per month). The question, however, is whether current conditions (including slightly higher interest rates and government policies that are deliberately suppressing housing activity) will lead to a subpar rate of job creation.

Interest Rates

Bond yields (5-year Government of Canada) continue t vary, but there is no discernible trend for the past four months. I continue to believe that reckless fiscal policies in the US are likely to cause to further rises during the remainder of this year.My opinion-estimate of a typical "special offer" rate for 5-year fixed rate mortgages (major lenders) is still 3.3% (lower rates can be negotiated). With yields for 5-year GoC bonds now in the range of 2.2%, the mortgage versus bonds spread is now about 1.1 point, versus an average of 1.83 points over the past decade. Variable rates are even lower, with my opinion-estimate now at 2.75%.

Meanwhile, the Bank of Canada is reporting the 5-year posted rate at 5.34%. The mortgage stress tests are unduly onerous, which is weighing heavily on housing markets. The stress tests fail to consider that borrowers will experience income growth by the time they renew (typically 12% to 13% over a five-year period). To be fair to Canadians, the government should adjust the regulations to include reasonable expectations about income growth.





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