NOVEMBER 2018

HOUSING MARKET DIGEST CANADA

MORTGAGE PROFESSIONALS CANADA

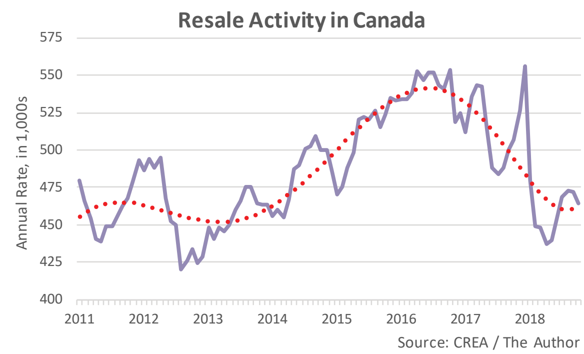
Resale Market

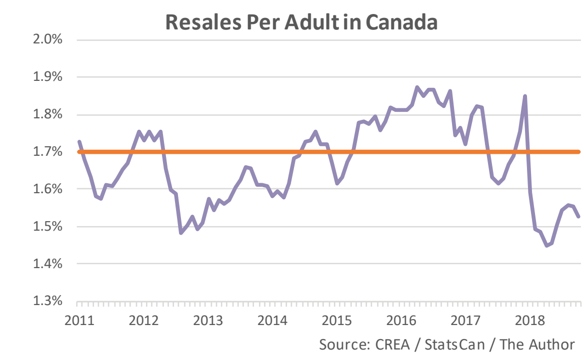
Sales dipped slightly in October, to an annualized rate of 464,500.

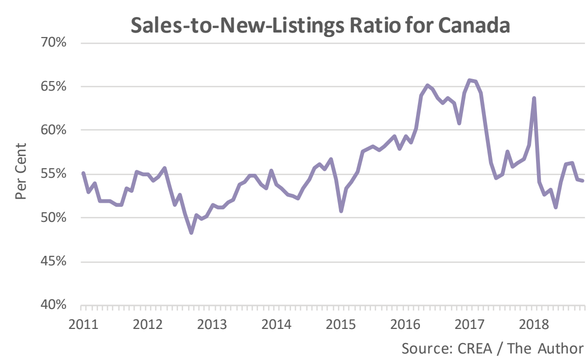
A slightly different view of this data takes into consideration that the population is growing, as is the stock of housing that could potentially be sold. This data shows that the sales rate in Canada is 10% below the long-term average (the flat orange line shows the average sales rate for 2000 to the present). The sales rate should be similar to the long-term average (or even higher), since the employment situation is still very healthy. The persistently sluggish sales activity shows that the mortgage stress tests continue to frustrate many Canadians who could be buying homes.

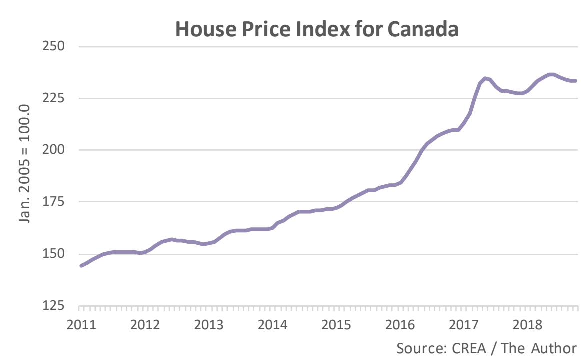
The House Price Index from the Canadian Real Estate Association ("CREA") has increased by 2.3% during the past year.

The sales-to-new-listings ratio ("SNLR") was 54% in October, which is slightly above the threshold (52%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). As discussed last month, there are wide variations across the country: the three prairie provinces plus Newfoundland and Labrador have ratios below their thresholds and there are risks of price reductions. The six other provinces have ratios above their thresholds.





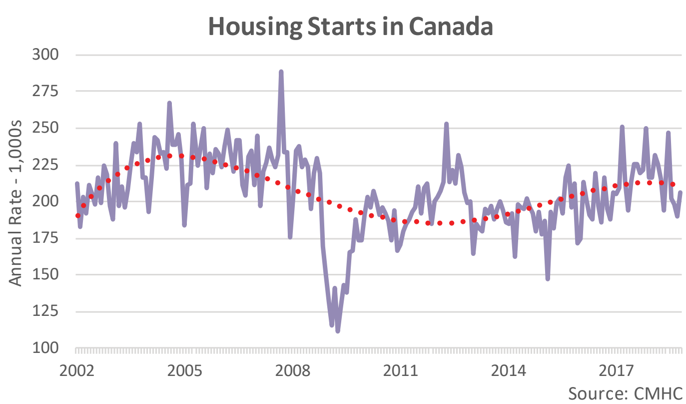


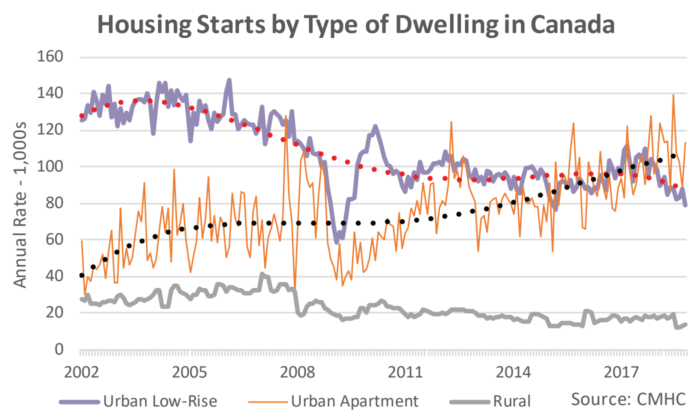


Housing Starts

Increasingly, it appears that housing starts have peaked, and may have started to fall. During the last four months, the average pace of starts was about 199,900. This is slightly below the average for the period shown in this chart (205,500). Canada is currently experiencing rapid population growth (1.4% at present, versus 1.0% during the prior five years) and a strong employment situation: housing starts should be above-average. This is further evidence of the evolving negative effects of the mortgage stress tests. The current under-production of new housing will result in worsening housing shortages down the road. One of the results will be a further tightening of vacancy rates in the rental sector and more-rapid rent increases: the stress tests are negating the government's efforts regarding affordable housing.

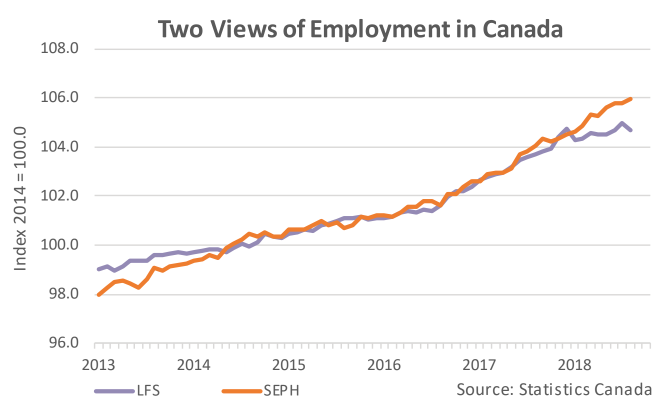
For low-rises (singles, semi-detached, and town homes), the trend has clearly turned down. For apartments, there is a longer adjustment period. Apartment starts are likely to turn down during the first half of next year. During the second half of next year, the trend for total starts may be in the area of 175,000 to 180,000, which would be far below the required level.





Employment Trends

The employment data provided by Statistics Canada's Labour Force Survey ("LFS") shows tepid growth, just 1.1% during the year up to October, which is slower than the rate of population growth (1.4%). StatsCan has a second survey (the Survey of Employment, Payrolls and Hours, or "SEPH"), which shows much stronger job creation, at 1.8% (but for the year up to August).

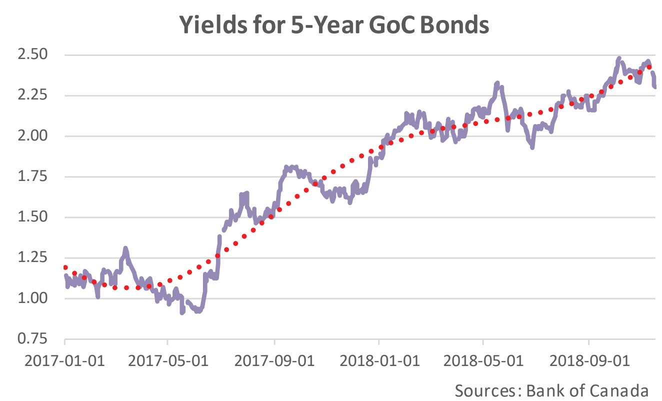


Employment Trends (Continued)

The chart below converts the two datasets into indexes. Last year, both surveys showed strong job growth. This year, the LFS indicates that there has been a substantial deceleration, but SEPH shows continued rapid growth. Since the LFS data is much more timely it gets the most attention. Based on my review of the data I conclude that at present the SEPH data is more accurate.

Interest Rates

Bond yields (5-year Government of Canada) continue to trend upwards (although they have dropped during the past week, in response to volatility in stock markets and increased fears about the outlook). Given the still-strong state of the Canadian and US economies (and reckless fiscal policies in the US that are resulting in enormous borrowing requirements), I expect that bond yields will rise a bit more during the coming six months or so.



Mortgage rates have only partially followed the rise in bond yields, because slower housing activity has reduced the demand for new mortgages. My opinion-estimate of a typical "special offer" mortgage interest rate (from major lenders) is now 3.7%. This is up by about one point from the 2015/16 average of 2.73%. By contrast, the bond yield is up by 1.6 points (the average 5-year yield for 2015/16 was 0.78%).

My opinion-estimate for 5-year variable rates is 3.05% (reflecting the rise in the Bank of Canada benchmark rate that occurred in late October).

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