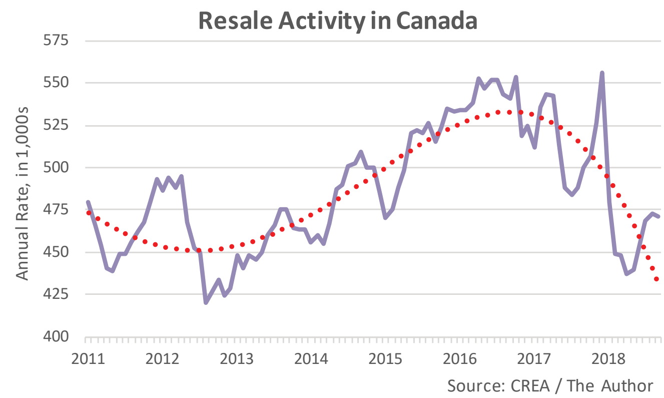
HOUSING MARKET DIGEST CANADA

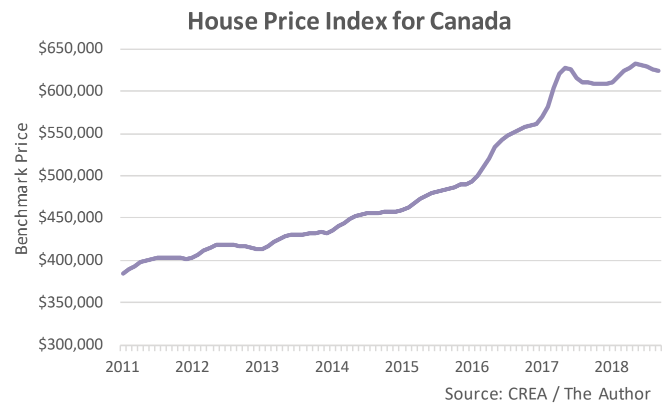
MORTGAGE PROFESSIONALS CANADA

Resale Market

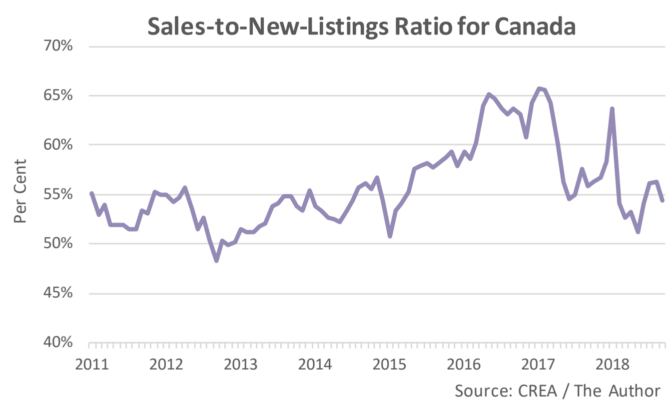
Resale activity remains weak in Canada, with the annualized rate for September at just 471,100. Based on economic fundamentals (including a robust employment situation, but with the weight of higher mortgage interest rates) the current pace of sales should be similar to the average that was seen during 2015 to 2017 (about 513,000). Activity has weakened in most areas west of Ottawa, as the draconian stress tests are frustrating too many Canadians who could be buying homes. In the eastern half of the country, sales trends are more positive, but the stress tests have interrupted positive trends.



The House Price Index from the Canadian Real Estate Association ("CREA") has increased by 2.2% during the past year. (The small drop seen at the end of the data is a normal seasonal event).



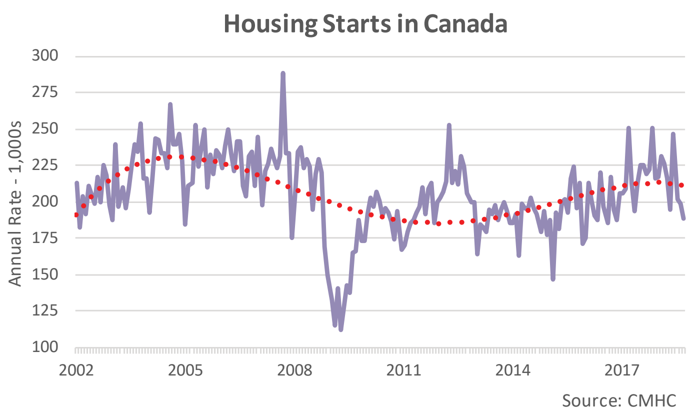
The sales-to-new-listings ratio ("SNLR") was 54% in September, and remains above the threshold (51.5%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). This has allowed a moderate rate of price increase overall. But, there are wide variations across the 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. At this time, price reductions seem unlikely in most places.

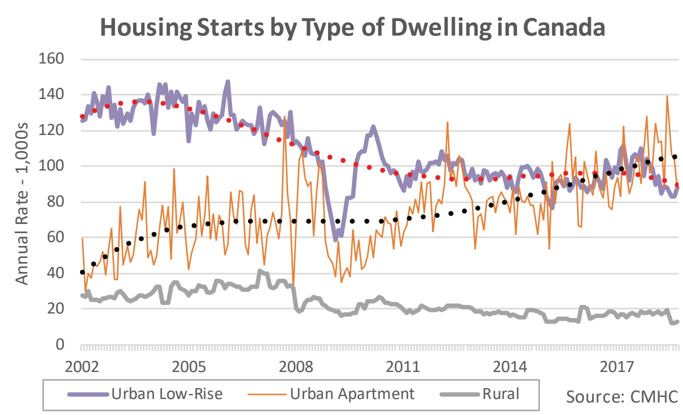


Housing Starts

It appears that the trend for total housing starts has peaked, and may have started to fall. During the third quarter, the average pace of starts was about 196,000, which was 6% below the average for 2016/17. Monthly figures can be volatile (chiefly due to lumpiness for apartments) and therefore it is too soon to say definitively that a downturn is underway – but the data is certainly leaning in that direction.

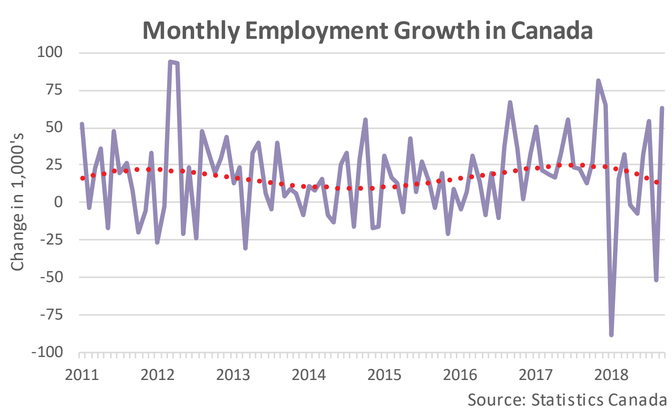
For low-rises (singles, semi-detached, and town homes), the trend has clearly turned down (due to the stress tests). For apartments, the lag between sales and starts is longer. Apartment starts might now be approaching a turning point.

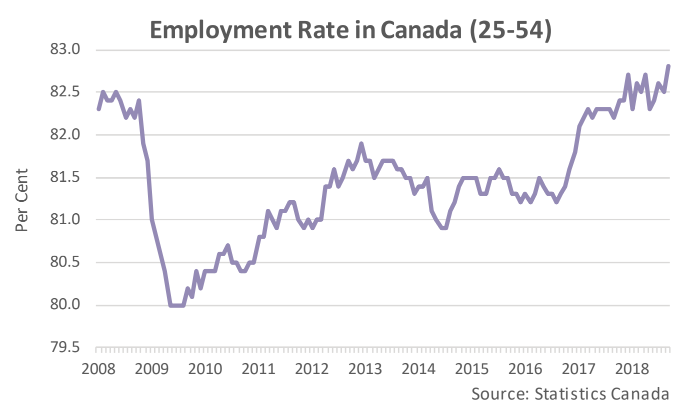




Employment Trends

The employment data is perplexing. Two large negative changes have been reported this year. Those drops probably didn't really happen, but they have pulled down the trend line for job creation. On the other hand, job creation was probably over-estimated last year. All things considered, it appears that the employment situation has been quite favourable during the past two years, which should be supporting continued strong housing activity.





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Employment Trends (Continued)

That said, other economic reports have recently turned from positive towards neutrality (such as a deceleration of retail spending and manufacturing activity): the "true" rate of job creation is likely to slow during the coming year. But, what gets estimated and reported could be different.

I am watching the employment-to-population ratio for "prime working age" adults (25 to 54). The high level for this indicator (at or above the pre-recession level for the past two years) tells me that the Canadian economy has reached its "speed limit". Three implications: employment is highly unlikely to grow faster; secondly, Canadians should see improved wage growth; thirdly, current economic conditions justify the rises that have recently happened for Canadian interest rates (and could push them a bit higher).

Interest Rates

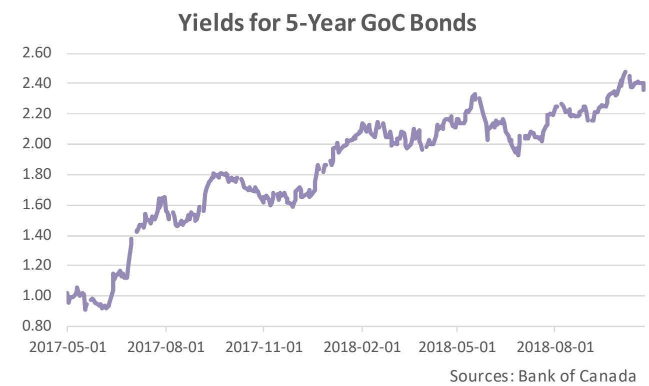
Bond yields (5-year Government of Canada) have increased considerably during the past year and a half (this includes a further small rise during the past month).

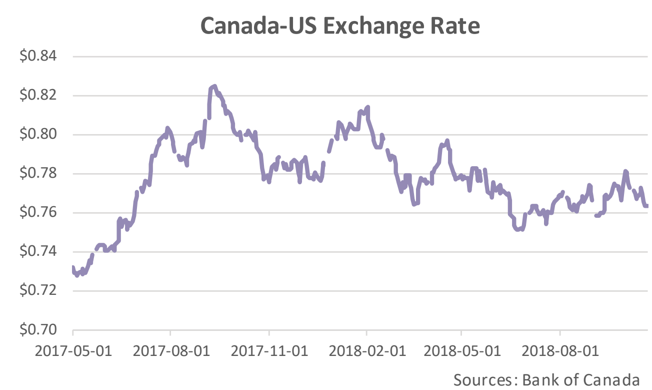
However, reduced housing activity has caused lenders to limit the increases for their "special offer" mortgage interest rates. My opinion-estimate of a typical 5-year fixed rate at major lenders is now 3.5%. Thus, while the 5-year bond yield has increased by 1.4 points during the past year and a half, 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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