

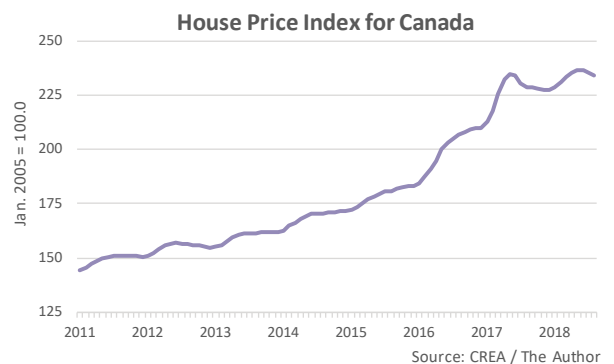
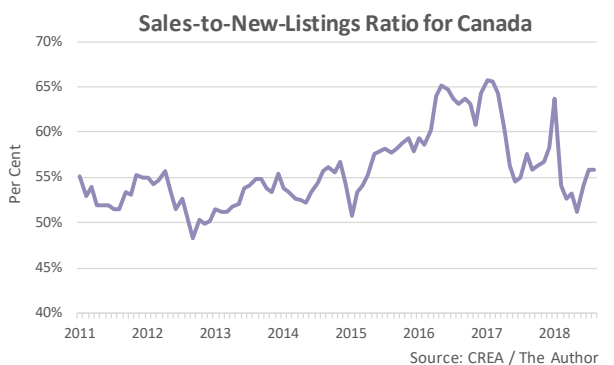
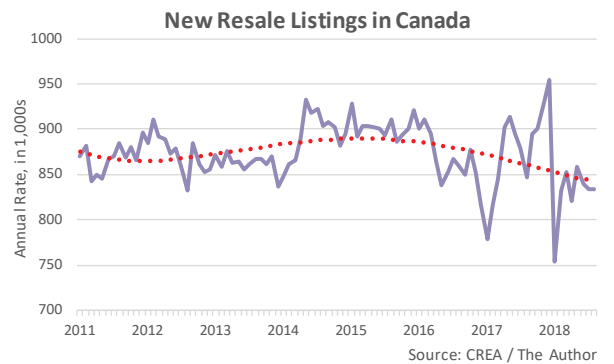
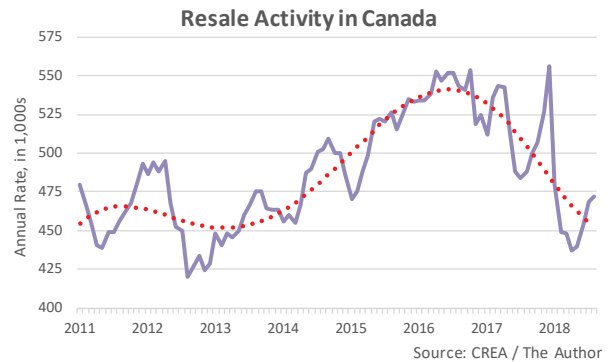
Resale Market

Resale activity continues to improve. Still, the annualized rate for August (472,400) is considerably lower than it should be. The improvement seen during the past four months has been narrowly focused: Ontario accounts for 85% of that growth, and most of it has been in Toronto and surrounding areas. As I've commented before, this reflects a thaw of the pause that followed the GTA's short-lived bubble of late 2016/early 2017. Alberta has also seen improvement (but less than we should expect based on rebounding oil prices). Elsewhere, activity remains quite weak, reflecting effects of the stress tests.

For new listings, the story is unchanged: flows of listings into local housing markets are constrained, as potential sellers (move-up, move-down, move-way) are discouraged by (a) their ability to buy has been reduced by the stress tests and (b) it is more difficult to sell.

The sales-to-new-listings ratio ("SNLR") was 55.9% in August. This is 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. However, there are wide variations in the state-of-balance across the country and therefore price trends differ.

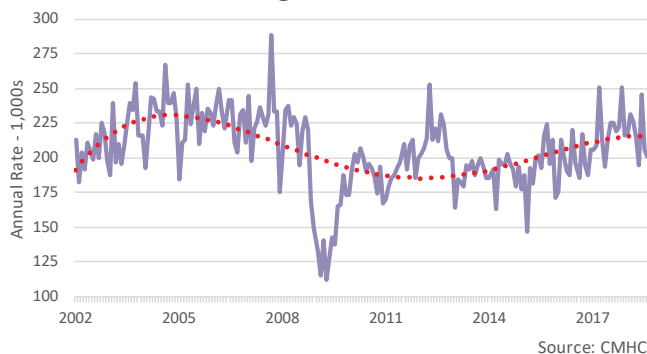
Corresponding to the slightly elevated SNLR, the House Price Index produced by the Canadian Real Estate Association ("CREA") has increased by 2.5% during the past year. As shown in the chart, the index has slipped during the past two months, but this is a normal summer-time event. If this data was seasonally-adjusted it would likely show rises during the past few months. Prices appear to be eroding on the prairies but are flat or rising in most of the other areas included in the index (which is dominated by Ontario and BC).



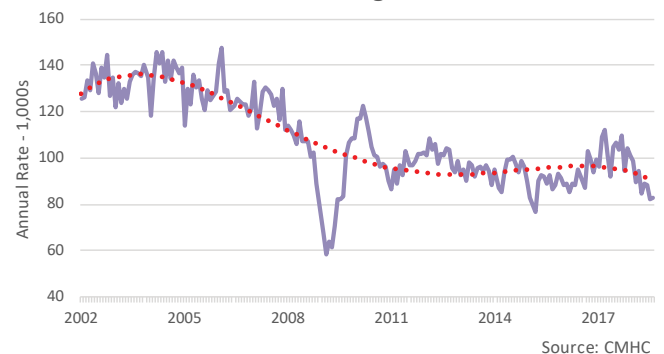
Housing Starts

Housing starts in Canada are getting closer to a turning point. During the past three months, the annualized rate has averaged 217,000, which is slightly below the 2017 total of 219,763. Starts of low-rises (singles, semi-detached, and town homes) in urban areas have clearly weakened this year (although the calculated trend line isn't yet keeping up with the actual change). The evolving downturn is due to the stress tests as well as constrained supply of new homes in the Toronto area. The trend continues to rise for apartments, which reflects sales that were made last year (and even in 2016). However, sales of new condominium apartments have reportedly slowed, which will eventually bring a downturn for apartment starts.

Housing Starts in Canada



Urban Low-Rise Housing Starts in Canada

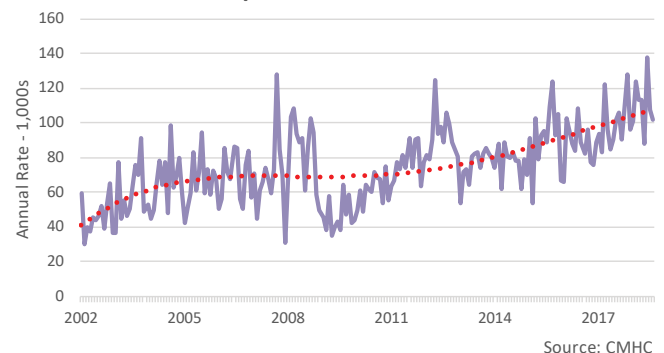


Employment Trends

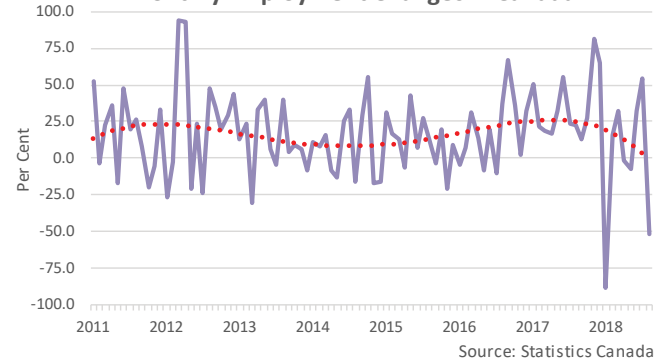
The employment data for August showed a drop of 51,600 for the month. This is the fourth sub-zero report out of eight months this year, and I don't believe this data.

The data is based on a survey and it has a "margin-of-error" (in other words, it can be wrong). When I see unusual jobs numbers, I look for clues that the data might be erroneous. One clue is a sudden change in the "labour force participation rate" (the percentage of adults who have jobs or are looking for jobs). The chart below indicates that the participation rate has suddenly down-shifted this year. This has led to a corresponding downshift in the employment estimates. It's possible that this has really happened, but I am skeptical. I think it's more likely that the data is wrong and that jobs are being created at about the same rate as the population is growing.

Urban Apartment Starts in Canada



Monthly Employment Changes in Canada



Employment Trends (Continued)

While the data in the chart above suggests that there has no job creation this year, I am inclined to believe that there has been actual growth, in the range of 20,000 to 25,000 jobs per month. If this theory is correct, then during the coming months we might see some unusually large numbers for job growth (if and when errors get washed out of the data). If the data is correct, and there has been a deceleration, that would be negative for housing. But, if job creation remains healthy, then housing activity should be stronger than it has been.

Interest Rates

The trend for bond yields (5-year Government of Canada) has crept upwards this year.

My opinion-estimate of a typical “special offer” rate from major lenders remains at 3.3% for 5-year fixed rate mortgages. For 5-year variable rate mortgages, my opinion estimate is 2.8%. In both cases, the current estimates are the same as a year ago, even though bond yields and lenders’ prime rates have both increased by a half-point. With the substantial drop in housing activity, the mortgage market has become more competitive.

Even though actual mortgage rates haven’t changed compared to a year ago, the “posted rate” has increased by a half-point, which has made the stress tests more onerous.

Other News

A new report, published by Mortgage Professionals Canada on September 12th, compares the costs of owning and renting, for a larger number of housing options across Canada. Contrary to what you might have heard, home ownership is still financially advantageous compared to renting. The report can be found [HERE](#).

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