DECEMBER 2018

HOUSING MARKET DIGEST
CANADA

MORTGAGE PROFESSIONALS CANADA

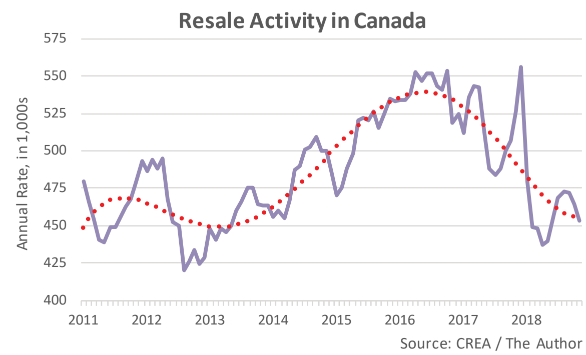
Resale Market

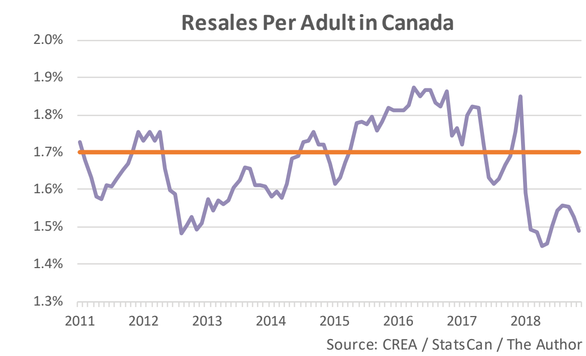
Sales slipped again in November, to an annualized rate of 453,500. This is the third consecutive reduction, and the total drop since August is 4%.

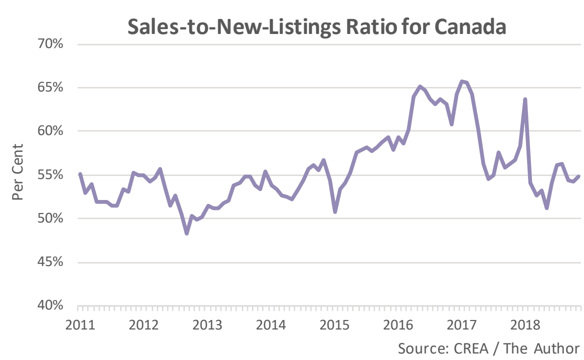
An alternative view looks at sales per adult (taking into consideration that the population is growing, and therefore we should expect that sales will trend upwards over time). So far this year, the sales rate has been 11% below the long-term average (the flat orange line shows the average sales rate for 2000 to the present). The reduction is partly due to the rise in mortgage interest rates we've seen over the past year and a half, but the more important factor is the mortgage stress tests.

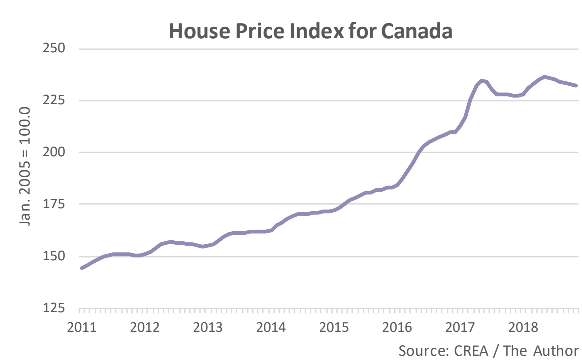
The House Price Index from the Canadian Real Estate Association ("CREA") has increased by 2.0% during the past year. But, the year-over-year calculations are hiding that the price index has now fallen for six consecutive months (by a combined total of 1.9%). Based on the evolving data, we might see the a year-over-year drop in the data for February (to be released in March) or March (April release). That will get a lot of coverage at the time, but remember that this is already happening. This drop in the national house price index is largely due to worrying developments in Alberta.

The sales-to-new-listings ratio ("SNLR") at 54.8% in November remains slightly above the threshold (52%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). Repeating a comment made in prior months, 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.









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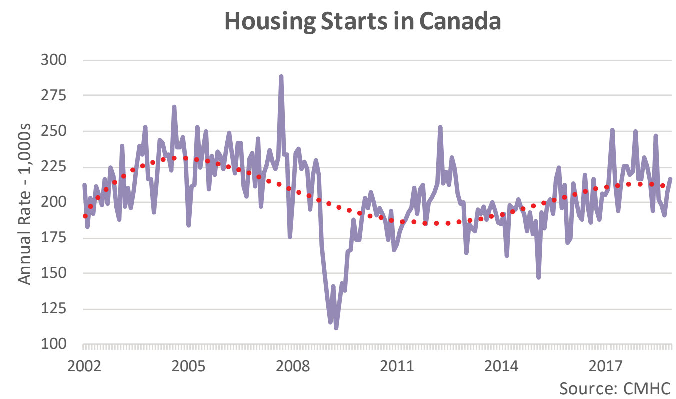
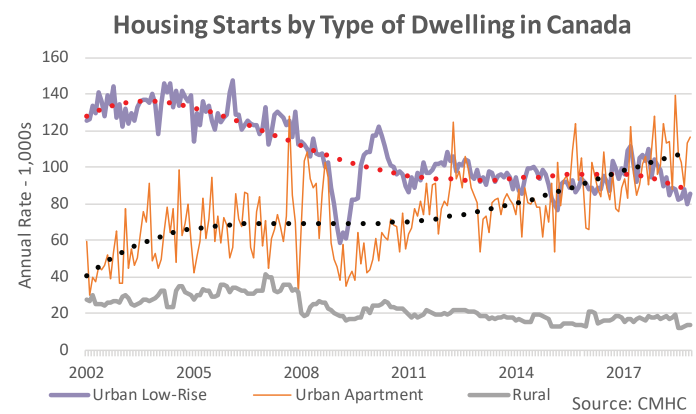
Housing Starts

The figures for housing starts increased for both October and November. This does not change the story line that the trend has probably peaked and will start to fall during the opening months of next year.

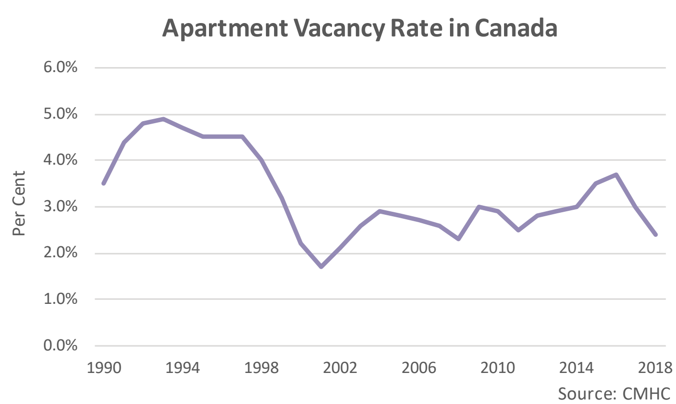
Low-rise activity (singles, semi-detached, and town homes) remains deeply depressed, and the evolving further reductions are largely due to the stress tests. For apartments, volatile data make it difficult to draw a reliable trend line: rises in the monthly figures during the past two months have pulled the trend line upwards. Apartment starts reflect pre-construction sales that occurred many months ago and it is too soon for this data to be showing the effects of the stress tests. I continue to expect that 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.





Rental Apartment Market

Canada Mortgage and Housing Corporation has reported that the national vacancy rate fell to 2.4% this October, from 3.0% a year ago. Rents rose by 3.5% (almost twice as fast as incomes). I attribute the tightened rental market to the failure of total housing production to keep up with population growth (1.4% at present, versus 1.0% during the prior five years). With the stress tests increasingly weighing on housing production, there will be further downward pressure on vacancies during the coming three years. More discussion is in a short report that can be found here: https://goo.gl/W7cpoH



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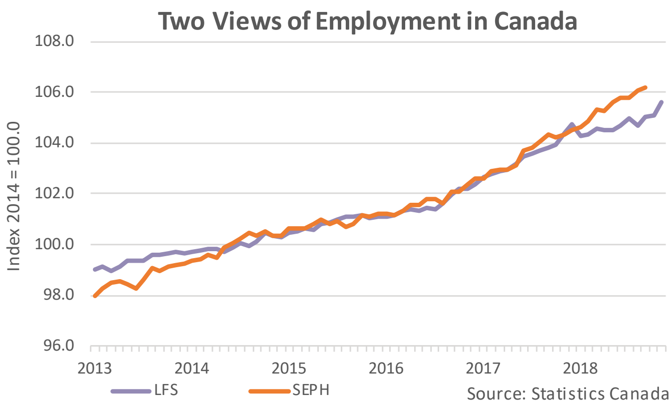
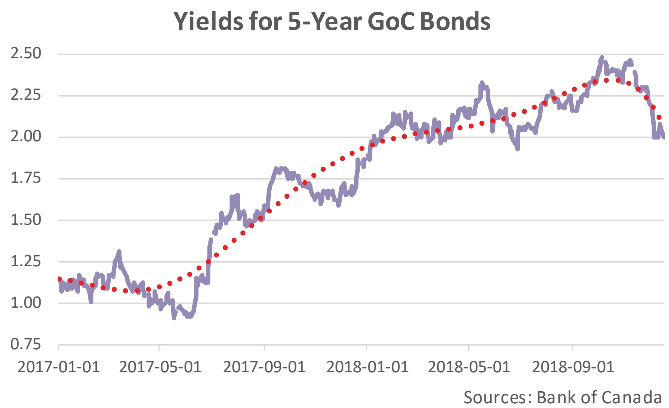
Employment Trends

Statistics Canada reported a huge rise in employment for November: 94,100 (0.5%) in just one month. Of, course, that didn't actually happen, it is just one of the occasional out-riders that result from the Labour Force Survey ("LFS"). Year-over-year, the LFS show tepid growth of just 1.2%. This is slower than the rate of population growth (1.4%). StatsCan's other survey (the Survey of Employment, Payrolls and Hours, or "SEPH"), shows much stronger job creation, at 1.8% (but for the year up to September). If we believe the LFS data we would conclude that the economy has been disappointing during the past year. Based on the SEPH data, we would be encouraged. Considering the designs of these two surveys, SEPH is more likely to be right.





Interest Rates

Bond yields have turned down sharply during the past month as there is a new sense of fear about the economic outlook. For now, I'm viewing this as a temporary dip, rather than a turning point: the Canadian and US economies are still quite strong (and reckless fiscal policies in the US will continue to result in enormous borrowing requirements). Mortgage rates only partially followed the rise in bond yields during the past year, and have not followed the sudden drop. In fact, I have slightly raised my opinion-estimate of a typical "special offer" mortgage interest rate (from major lenders) to 3.75%, from 3.7% last month. These recent events mean that the spread between mortgage rates versus bonds has returned to a normal level (1.75 points). It appears that rate war between major lenders has ended (for now).

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

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