JULY 2018

HOUSING MARKET DIGEST

MANITOBA

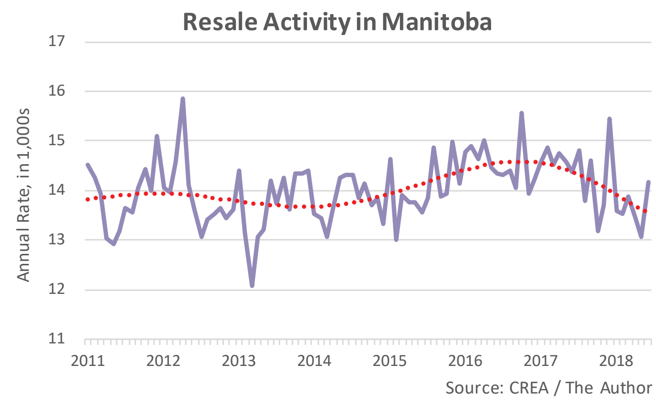
MORTGAGE PROFESSIONALS CANADA

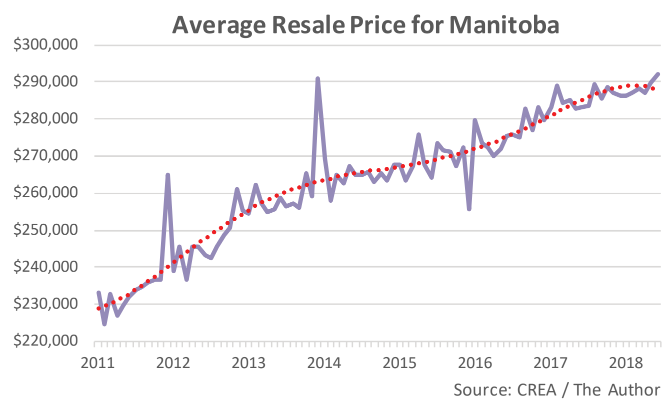
Resale Market

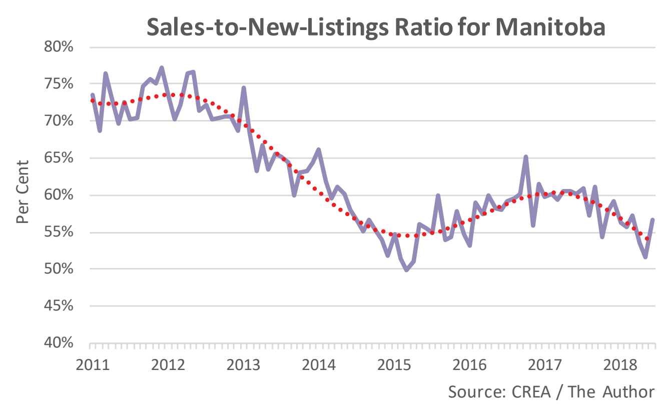
Resale activity had been relatively strong during 2015 to 2017, but has slowed this year, in the wake of the duo of mortgage stress tests. Activity is now similar to the first half of this decade. It must be remembered that the population is growing, and housing activity should trend upwards over time. Therefore, sales this year are at least 5% lower than they should be, based on the population and economic conditions.

Slightly stronger demand during 2017 had resulted in slightly stronger price growth, and the trend of the average price rose by about 3-3.5% during the year. The most recent data is harder to interpret, due to month-to-month variations, but it is clear that there has been a deceleration. Prices may be flat or increasingly only fractionally.

Slower sales have caused the sales-to-new-listings ratio ("SNLR") to fall. It has averaged about 55% during the first half of this year, which is slightly below the threshold (59%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). At the current level of the SNLR, we should expect negligible price growth.







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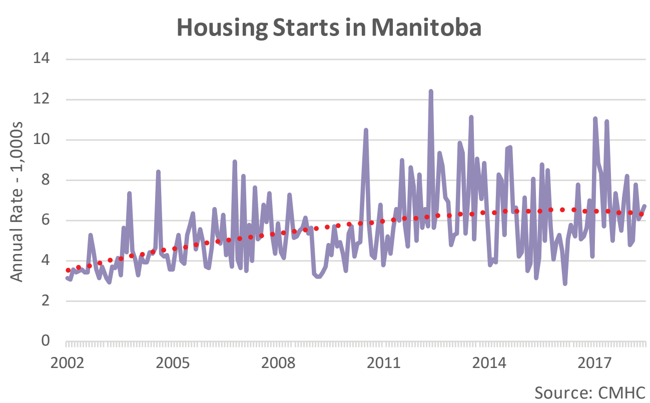
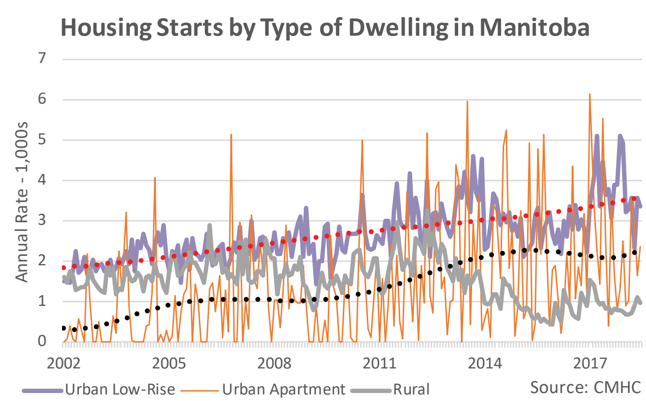
Housing Starts

Housing starts generally follow trends in the resale market, although with a delay. To this point, there is no sign of this developing in Manitoba, but the data is highly volatile from month-to-month, making it harder to detect any changes in the trend. The average starts rate for this year (6,100) is about 6% lower than during 2016 to 2017.

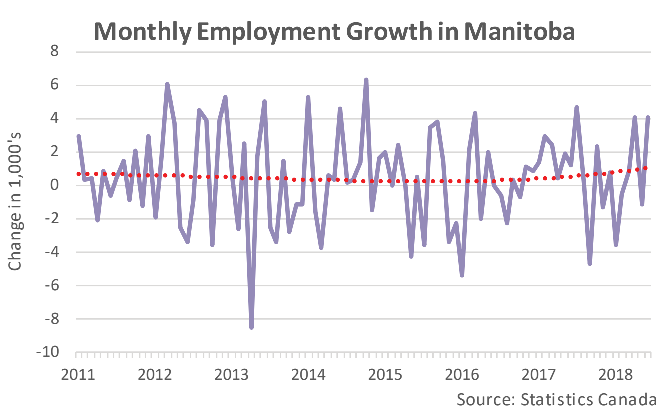
It appears that low-rise activity (singles, semi-detached, and town homes) is continuing to expand in urban areas of Manitoba, and is at a level that is high in historic terms, Apartment starts, on the other hand, appear to have peaked. Activity in rural areas is quite weak.

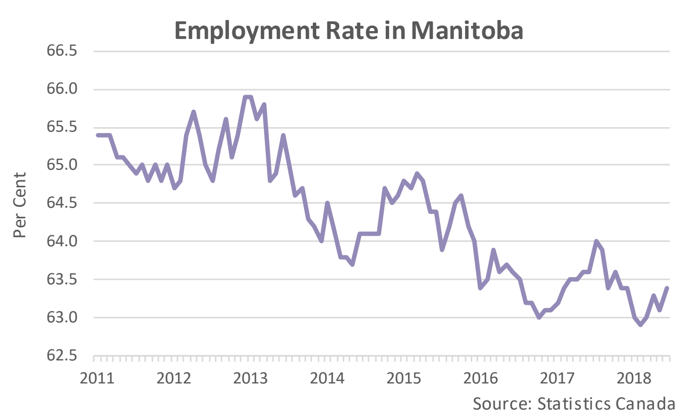




Employment Trends

The employment data hints that job creation has improved in Manitoba, but given the volatility of the data this in highly uncertain. This data is from a sample survey and it is occasionally wrong: it is possible that job creation was under-estimated last year and the current data is just a reversal of prior errors. All of this considered, the rate of job creation is slow, and the employment situation is provided only limited support to the housing market.





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Employment Trends (Continued)

The employment-to-population ratio (the share of adults who have jobs) seems to have trended downwards during the past decade. This partly reflects that an increased share of the province's population is in retirement. But, the employment rate has also eroded for prime working age adults (25-54), from an average of 84.4% during 2010 to 2011, to 82.9% during the past two years. This is a discouraging sign for the future housing market.

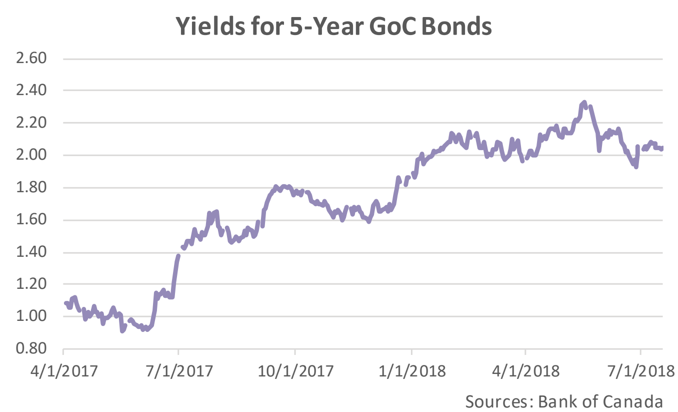
Looking farther ahead, there are currently some downward economic pressures, all of which will play out only gradually. These include higher interest rates, escalating threats about a trade war, and the mortgage stress tests that are impairing housing markets.

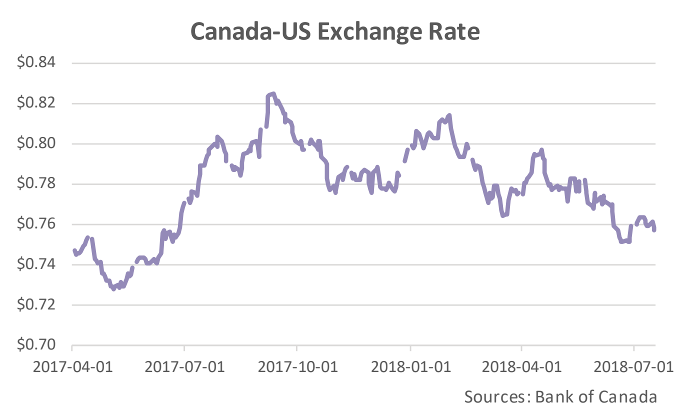
Interest Rates

Bond yields (5-year Government of Canada) have been roughly flat since early January, although there have been variations as expectations have shifted about the economic prospects.

In consequence, mortgage rates (my opinion-estimate of a typical "special offer" rate for 5-year fixed rate mortgages at major lenders) has changed little this year. The current rate (3.3%) is about 1.25 points above the yield for 5-year GoC bonds, versus an average of 1.83 points over the past decade. The compression of housing activity is resulting in more competition among lenders.

The Canadian dollar has trended downwards versus the $US this year.





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