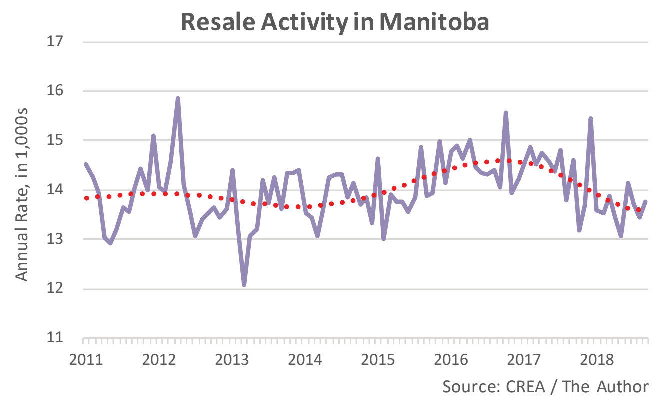
HOUSING MARKET DIGEST
MANITOBA

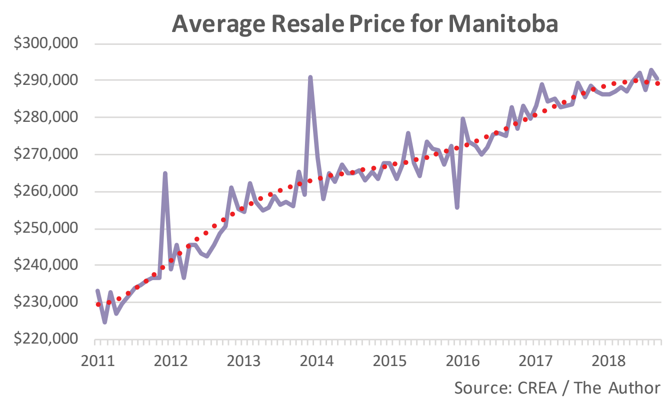
MORTGAGE PROFESSIONALS CANADA

Resale Market

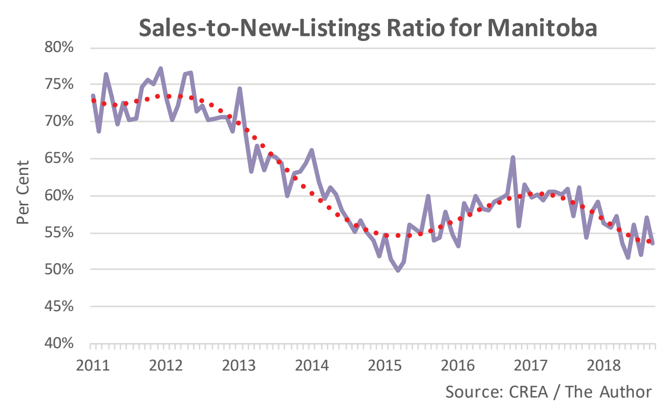
Resale activity remains weak. The trend line has fallen compared to 2015 to 2017, and is now similar to the 2011 to 2014 period. Two points to consider are that the population is growing, and we should expect sales to be at least 5% higher than they were five years ago. Secondly, the economy was relatively weak earlier in the decade, in the aftermath of the 2008/09 recession, and this is a further reason to expect improvement. Current weakness for sales is due to a combination of higher interest rates, the mortgage stress tests, and an apparent slowdown of job creation.



Month-to-month variations in the average price create some uncertainty about price growth, but it appears that prices are increasing slowly: the trend line is up by about $3,000 (or 1%) compared to a year ago.



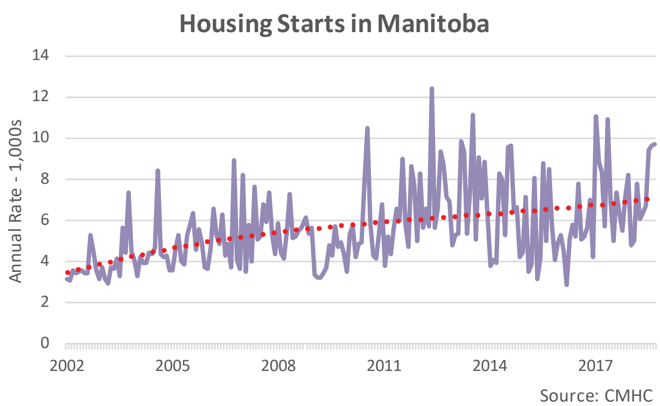
The sales-to-new-listings ratio ("SNLR") has averaged 55% so far this year, which is slightly below the threshold (59%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). This explains the deceleration of price growth. At this level of the SNLR, there is a small risk of price reductions.

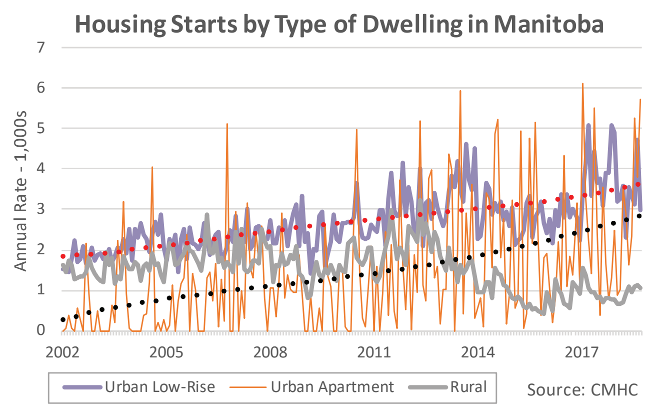


Housing Starts

Housing starts generally follow trends in the resale market, although with a delay. The trend line for starts continues to rise in Manitoba (in contrast, for all of Canada, the trend line appears to have started a downturn). 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 (7,300) is 13% higher than during 2016 to 2017.

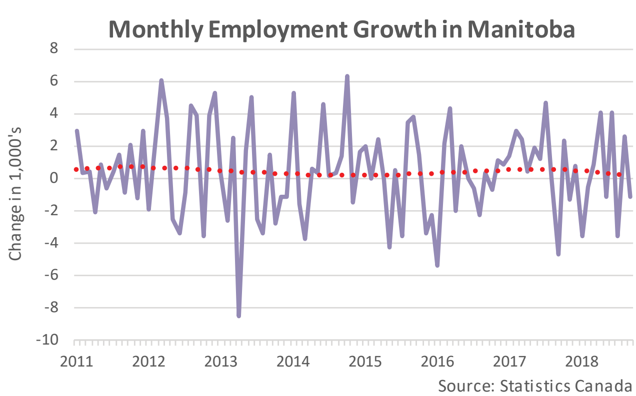
Low-rise activity (singles, semi-detached, and town homes) is continuing a gradual expansion in urban areas of Manitoba, and is at a level that is high in historic terms, Apartment starts, on the other hand, have surged this year (up by 41% versus 2016/17). Activity in rural areas is weak.

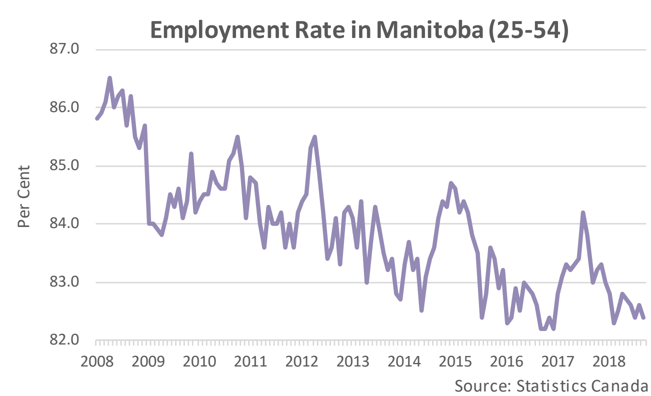




Employment Trends

The employment data suggests that there has been a slowdown and that there has recently been negligible job creation. But, the data is generated by a sample survey and it contains random errors. This chart illustrates that the data is highly volatile (during the first nine months of this year the reported data contains five drops and four rises). This creates uncertainty about the true state of affairs. My favorite economic indicator is the employment-to-population ratio (or the "employment rate"). Digging deeper, I'm watching the rate for "prime working age" adults (25 to 54). Once again, volatility in the data creates uncertainty.





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Employment Trends (Continued)

This data suggests that there has been on-going erosion during the past decade. While the estimated trend line shows continued declines during the past two years, it is unclear what the real trend is. Regardless of this uncertainty, the long-term weakening of this economic indicator is unfavourable for housing demand in Manitoba.

For all of Canada, the prime age employment rate is at a high level (and the US has also shown rapid improvement). This justifies the rises that have recently happened for Canadian interest rates (and could push them a bit higher).

Interest Rates

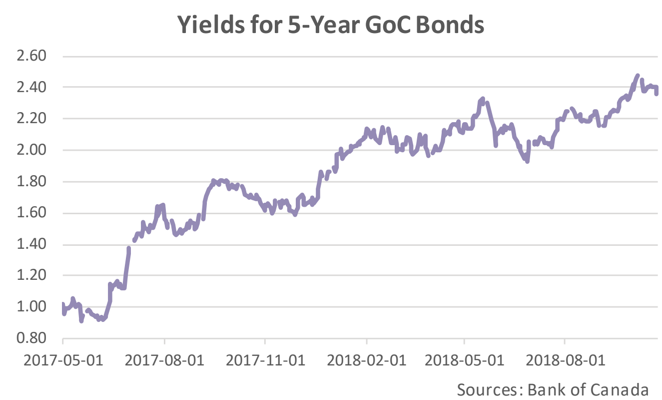
Bond yields (5-year Government of Canada) have increased considerably during the past year and a half (this includes a further small rise during the past month).

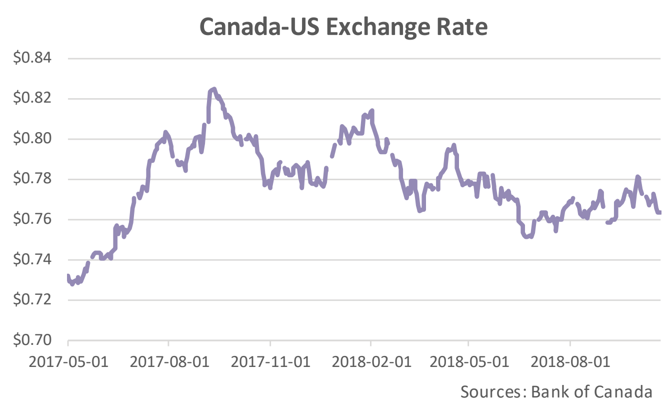
However, reduced housing activity has caused lenders to limit the increases for their "special offer" mortgage interest rates. My opinion-estimate of a typical 5-year fixed rate at major lenders is now 3.5%. Thus, while the 5-year bond yield has increased by 1.4 points during the past year and a half,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