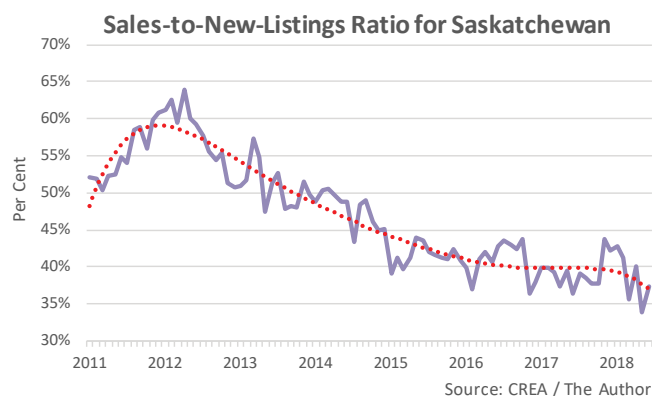
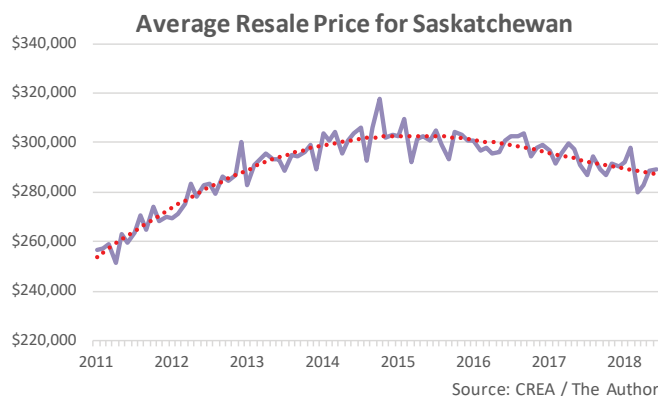
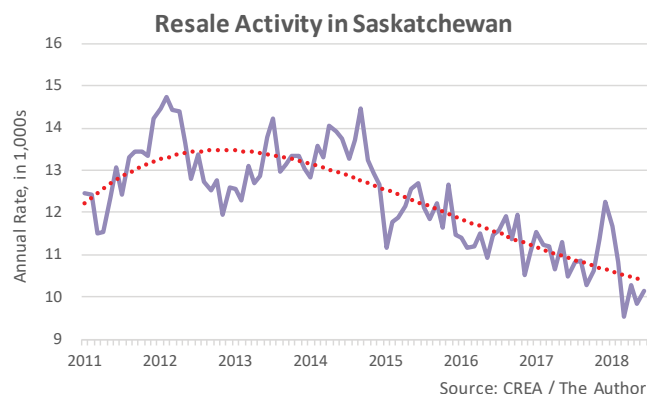


Resale Market

Resale activity fell in the wake of the drop of oil prices. The slowdown continues. The duo of mortgage stress tests is adding to the downward pressures that are resulting from the weakened provincial economy. The sales rate in Saskatchewan is now at least 15% lower than would be considered a normal or healthy level (based on the population).

House prices rose rapidly during the first half of this decade but have been eroding during the past four years. Volatile data creates uncertainty about the “true” rate of change, but the trend line is now falling by about 2% per year.

Weak sales have caused the sales-to-new-listings ratio (“SNLR”) to fall sharply, to less than 40%, which is far below the threshold (51%) 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, there is a risk that prices could fall more sharply if consumers lose confidence in the housing market (if fears about future prices cause potential buyers to pause and sellers to accept low offers).

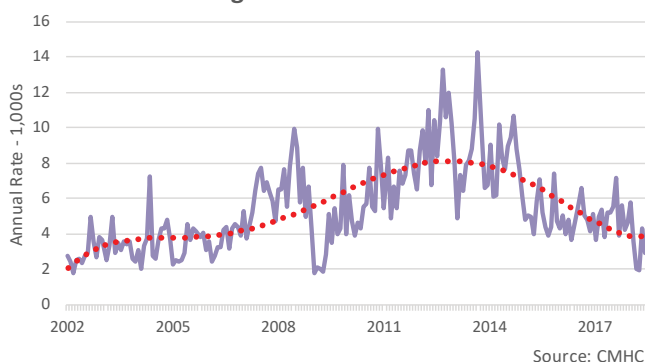


Housing Starts

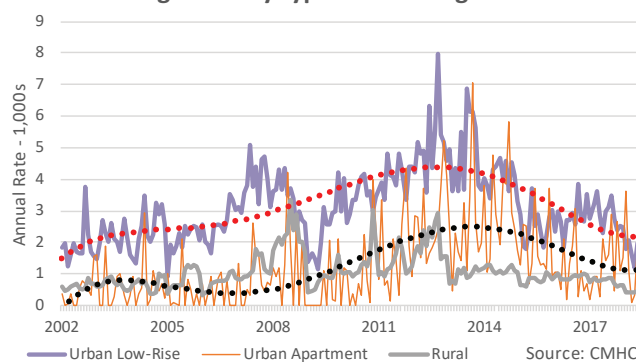
Housing starts have followed the trends in the resale market, although with a delay. As shown in this chart, the trend for housing starts has fallen by about one-half from the peak level. The continuing downward trend in the resale market is highly likely to bring further reductions for housing starts.

Construction has fallen sharply for all three of the major components of housing starts, and the trends are continuing to slow.

Housing Starts in Saskatchewan



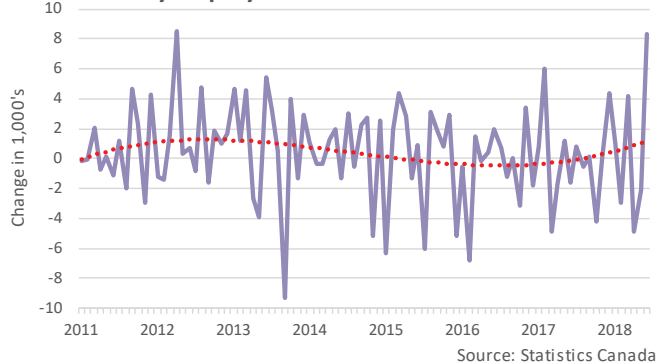
Housing Starts by Type of Dwelling in Sask'n



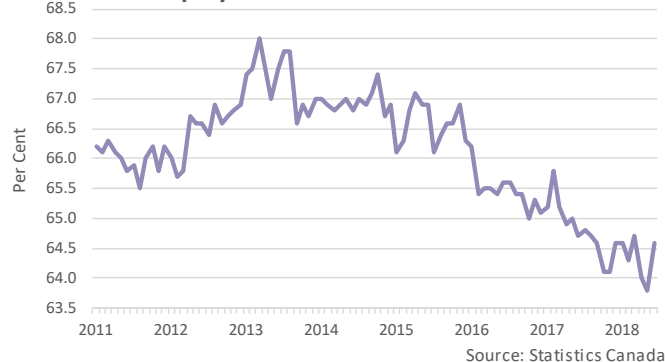
Employment Trends

The employment data hints that job creation has improved in Saskatchewan. As shown in the chart, it appears that the trend of job creation has shifted to a slightly positive position from the prior slightly negative position. Statistics Canada estimates that employment has increased by 0.8% during the past year. Since this data comes from a sample survey there is of course, uncertainty about the actual situation.

Monthly Employment Growth in Saskatchewan



Employment Rate in Saskatchewan



Employment Trends (Continued)

The employment-to-population ratio (the share of adults who have jobs) has fallen quite sharply during the past four years. 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 84.8% during 2010 to 2011, to 83.1% during the past two years. This negative pressure, on top of the mortgage stress tests, 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.

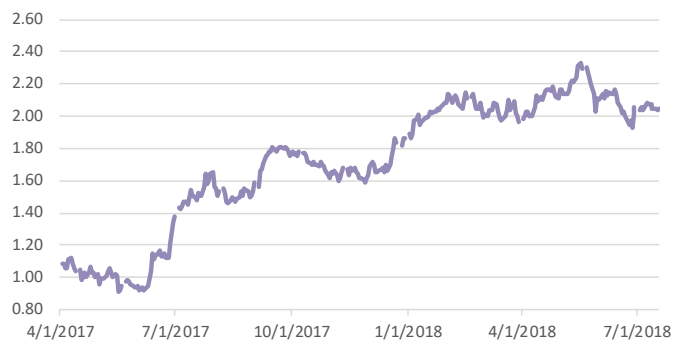
The Canadian dollar has trended downwards versus the \$US this year.

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Yields for 5-Year GoC Bonds



Sources: Bank of Canada

Canada-US Exchange Rate



Sources: Bank of Canada