THIRD QUARTER 2018

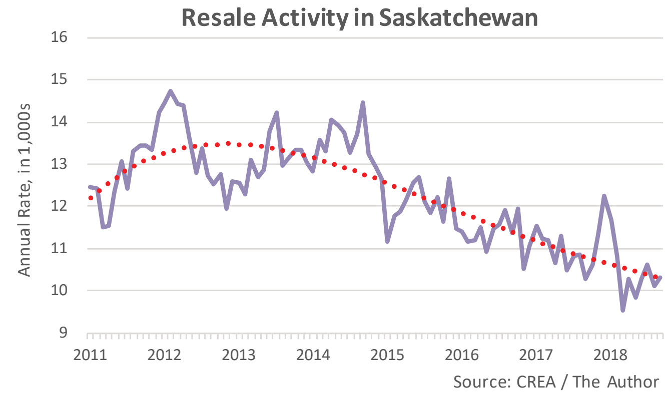
HOUSING MARKET DIGEST

SASKATCHEWAN

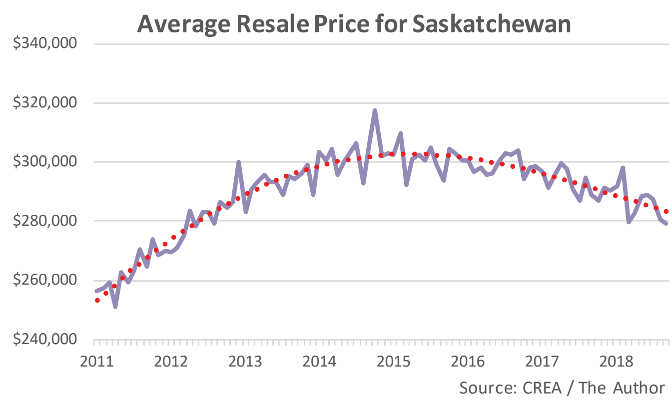
MORTGAGE PROFESSIONALS CANADA

Resale Market

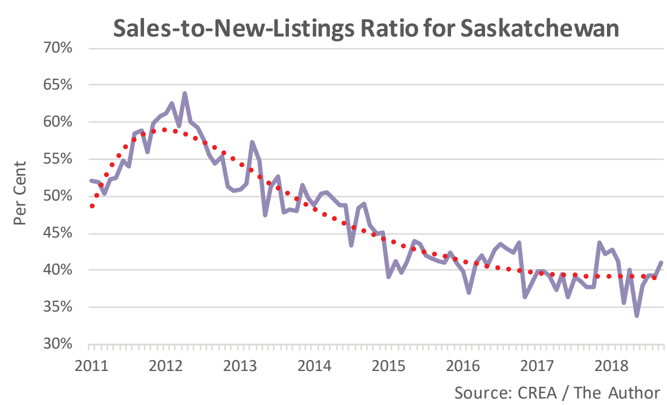
Resale activity remains very weak in Saskatchewan, with the sales rate at least 15% lower than would be considered a normal or healthy level (based on the population). The downturn was initially due to economic weakness in the wake of the drop of oil prices, with the added negative pressure from the duo of mortgage stress tests. A further developing issue is that falling prices will cause some potential buyers to hesitate.



The average resale price continues to trend downwards. Volatile data creates uncertainty about the “true” rate of change, but the trend line is now falling by about 2% per year.



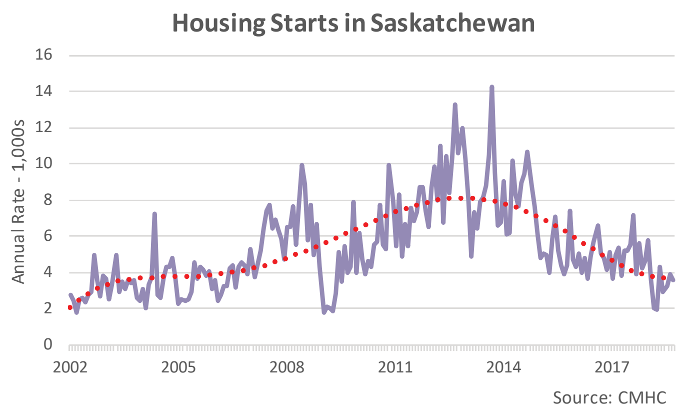
So far this year, the sales-to-new-listings ratio (“SNLR”) has averaged just 39%, which is far below the threshold (51%) for a “balanced market” (this is the level at which prices are expected to rise by 2% per year). This pronounced imbalance explains the price erosion. At the current level of the SNLR, there is a risk that prices could fall more sharply (if fears about future prices cause potential buyers to pause and sellers to accept low offers).

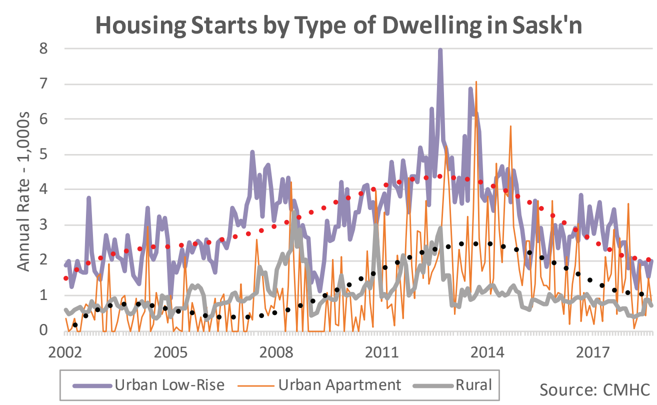


Housing Starts

Changes in housing starts tend to lag behind 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. It is too soon for housing starts to be showing the full effects of the mortgage stress tests and therefore there could be further reductions for housing starts.

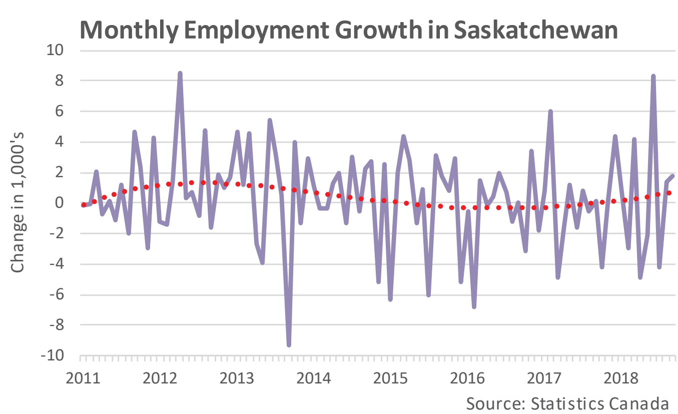
Construction has fallen sharply for all three of the major components of housing starts.

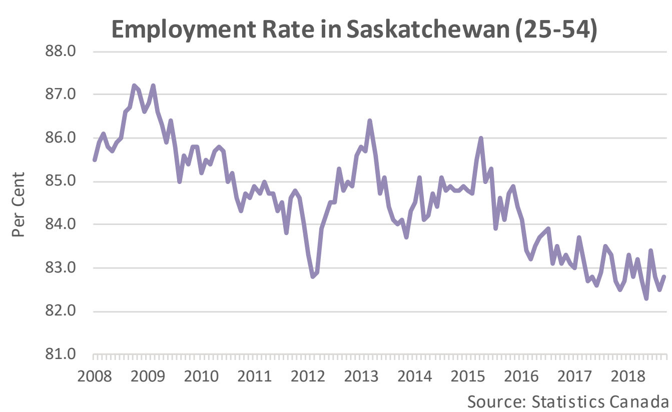




Employment Trends

The data suggests that there has been a small improvement in the employment situation (with the trend line for job growth moving from slightly below zero to slightly above). But, the data is generated by a sample survey and it contains random errors. This chart illustrates that the data is highly volatile (the reported data contains an unbelievably large rise for June, but also two suspiciously large drops). This creates uncertainty about the true state of affairs. It does appear that the province is, at least, not experiencing substantial job losses. My favorite economic indicator is the employment-to-population ratio (or the "employment rate").





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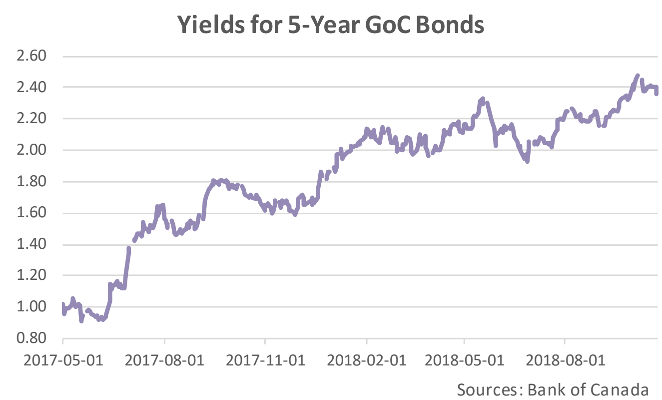
Employment Trends (Continued)

Digging deeper, I'm watching the rate for "prime working age" adults (25 to 54). Once again, volatility in the data creates uncertainty. This data suggests that there has been a large drop during the past four or five years. But, the employment rate now be stable (albeit at a low level). Regardless of this uncertainty, the sharp weakening of this economic indicator is unfavourable for housing demand.

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).

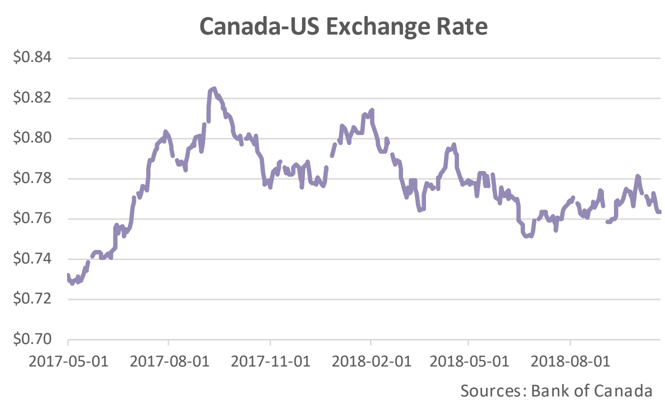
Interest Rates

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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