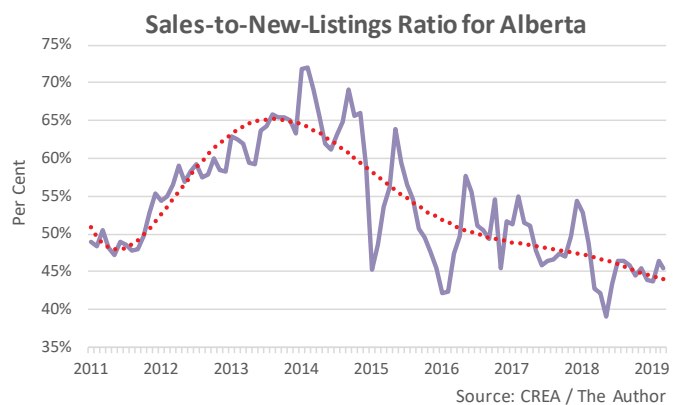
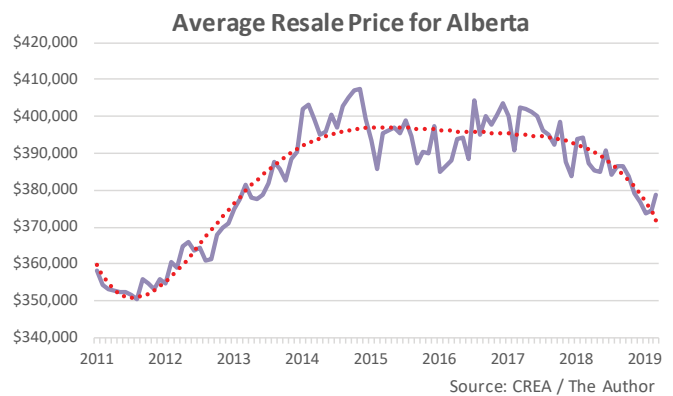
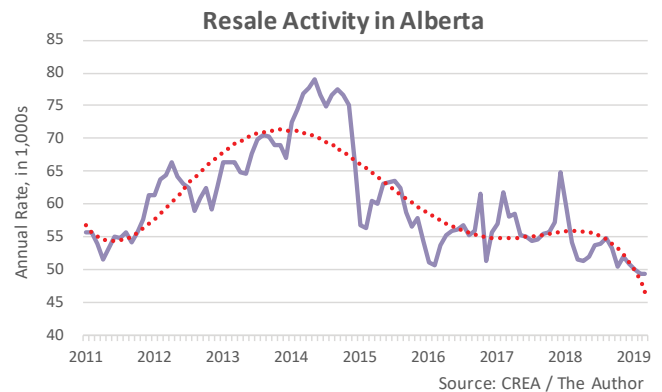


## Resale Market

Resale activity might has dropped sharply in Alberta, and recent data hints that further reductions may be occurring. (It isn't possible to generate a reliable trend line for the end of the data, but there has clearly been some further weakening.) Population growth has slowed, to an average of 1.49% during the past two years, versus rates that exceeded 2% at the peak (2005 to 2014). The employment situation has also been relatively weak (as is discussed below). On top of these real conditions, the federal government's mortgage stress tests are suppressing activity by potential buyers.

Weakened demand did not materially affect the average price for some time, but during the past year, the average price has dropped substantially (by about 4%). This may become a further deterrent to home-buying, since prospective owners would be discouraged by the potential loss of home equity. This psychological factor may explain the recent further drop in the sales trend.

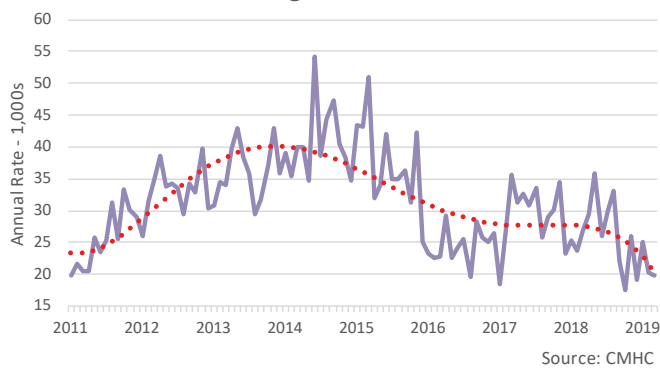
The sales-to-new-listings ratio ("SNLR") is quite low in Alberta, at just 45% in the first quarter of this year. This far below the threshold (estimated at 56%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). The low level of the SNLR is consistent with the recent reductions of the average resale prices. At this time, it seems likely that the province will continue to experience price erosion.



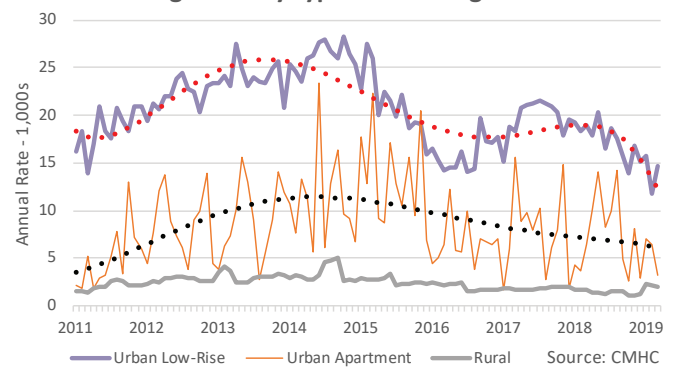
## Housing Starts

Housing starts have fallen very sharply, by about one-half from the prior peak. This is now developing into a drag on the provincial economy: as construction is completed on the dwellings that are now under construction, there will be further losses of construction jobs, for the rest of this year and into next year. Starts fell first for low-rise homes (singles, semi-detached, and town homes). It takes apartments longer to react to changing conditions, and therefore, there are quite likely to be further reductions during the coming year.

Housing Starts in Alberta



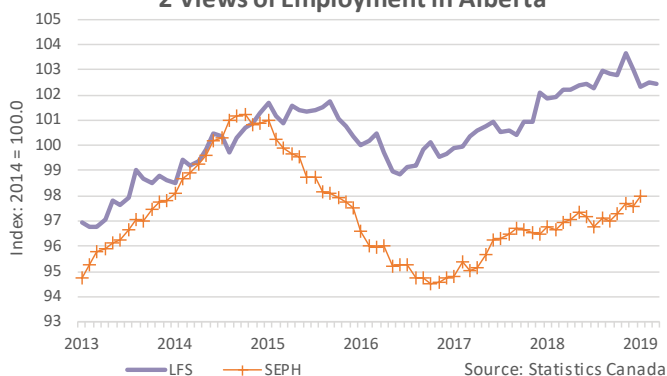
Housing Starts by Type of Dwelling in Alberta



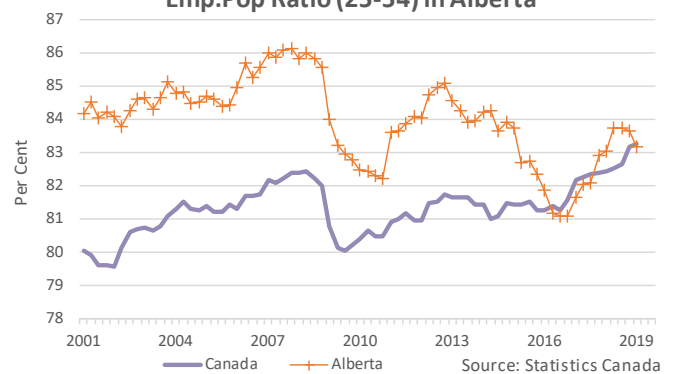
## Employment Trends

Statistics Canada's two surveys of employment both indicate that employment is recovering from the drops that started in 2015. However, they differ on the amounts of change that have occurred. The Labour Force Survey ("LFS"), which is based on personal surveys, suggests that the level of employment is now slightly higher than in 2015. The Survey of Employment Payrolls and Hours ("SEPH") showed a larger drop and suggests that employment is still substantially below the prior peak. Given the designs of these two surveys, I believe that the SEPH data is probably more accurate. In either event, a prolonged weak employment situation is a negative factor for home buying. Yet, the directions shown by both surveys provide some encouragement.

2 Views of Employment in Alberta



Emp:Pop Ratio (25-54) in Alberta



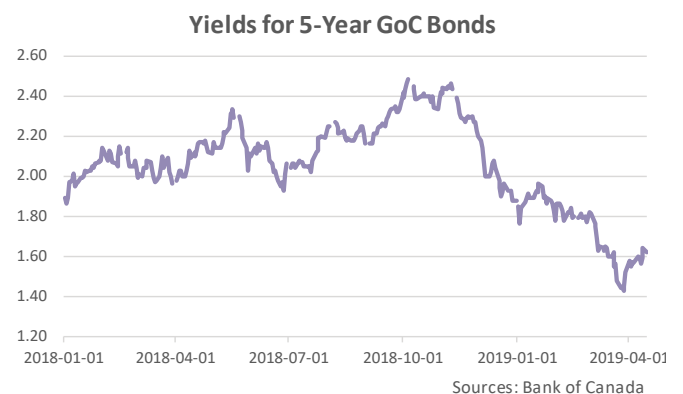
## Employment Trends (Continued)

The employment-to-population ratio (the percentage of people who have jobs) for the “prime working ages” (25-54) has trended gradually downwards during the past decade (although waves within the data make it difficult to draw any precise conclusions). Previously, this statistic had shown that Alberta’s employment situation was stronger than the national average. Now, Alberta has fallen to the national average. This is a depressive factor for population growth and for home buying.

## Interest Rates

Bond yields might have “overshot” early this year (fallen by too much given evolving economic conditions). Thus, the 5-year yield has partially retraced some of the recent drop. But, at a current 1.6%, the yield is still about 0.8 points above the trough that was seen during 2015 and 2016.

I have reduced my opinion-estimate of a typical “special offer” mortgage interest rate (from major lenders) for the third time this year, to 3.1% (versus 3.75% at the start of the year). Movements in mortgage rates are lagging behind the changes in bond yields. The spread between typical mortgage rates and bond yields is now skinny (1.5 points versus a long-term average of 1.8). I won’t be surprised if 5-year fixed rates are a bit higher during the second half of this year (say 3.25% to 3.5%).



## Comments on Federal Mortgage Policies

The Canada edition of Housing Market Digest (April 2019) includes some thoughts on the federal government’s proposed First-time Home Buyers Incentive (the shared equity mortgage). The main take-away is that CMHC’s own estimates suggest that it expects a very small impact, which will only partially offset the damage done by the mortgage stress tests (perhaps 1/10th).

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