

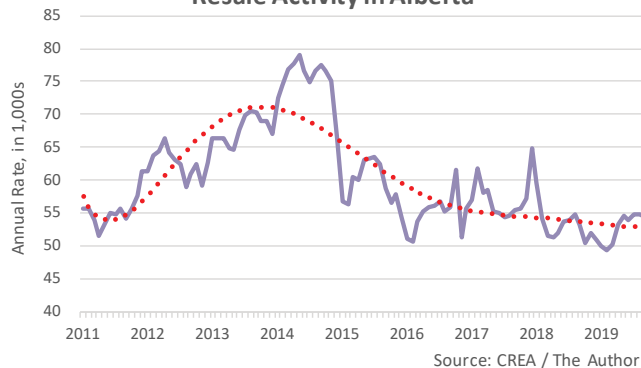
Resale Market

Resale activity has been quite weak in Alberta, although recent data hints at a stabilization, and possibly even a small degree of recovery. The reduction of mortgage interest rates is certainly a positive factor, and other fundamental conditions (job creation and population growth) might be improving. The federal government’s mortgage stress tests remain a substantial negative factor.

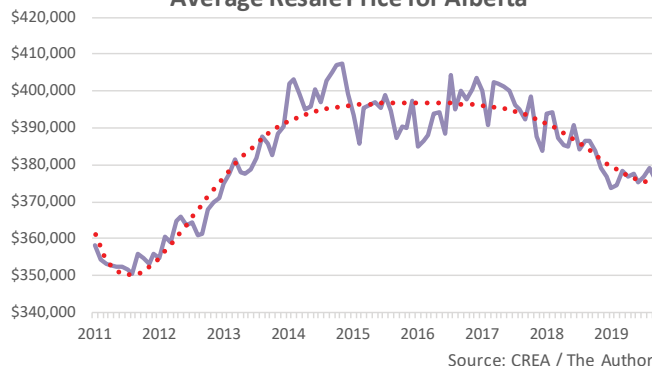
Weakened demand has resulted in price erosion: the trend line for the average price has fallen by 5-6% during the last 2.5 years. Recent data is more encouraging, as the trend data hints that the price erosion has ended. For now, the recent history of price erosion is a deterrent to home-buying, since prospective owners would be discouraged by the potential loss of home equity.

The sales-to-new-listings ratio (“SNLR”) has improved, and averaged 51% during the third quarter. This is still 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). If the ratio remains at the current level (or improves further) prices could stabilize, or show only small additional erosion.

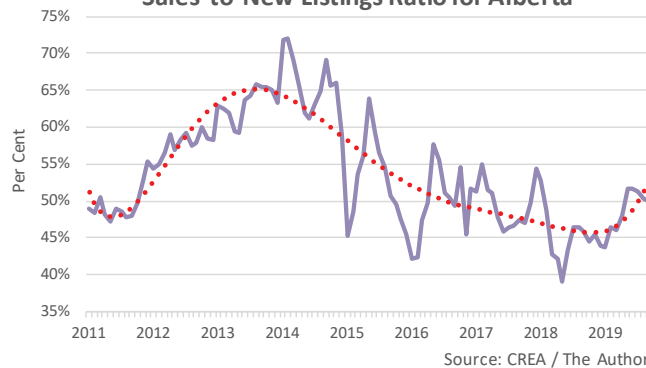
Resale Activity in Alberta



Average Resale Price for Alberta



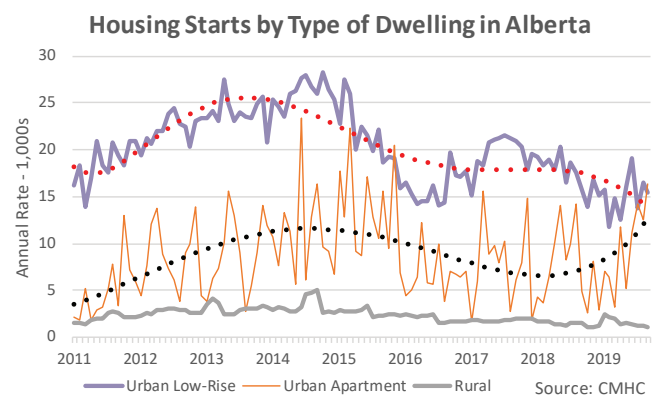
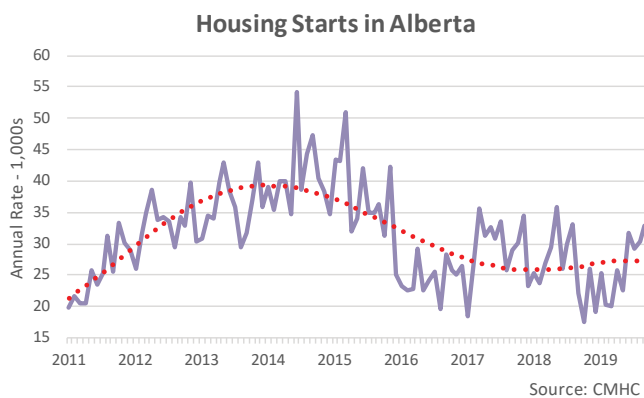
Sales-to-New-Listings Ratio for Alberta



Housing Starts

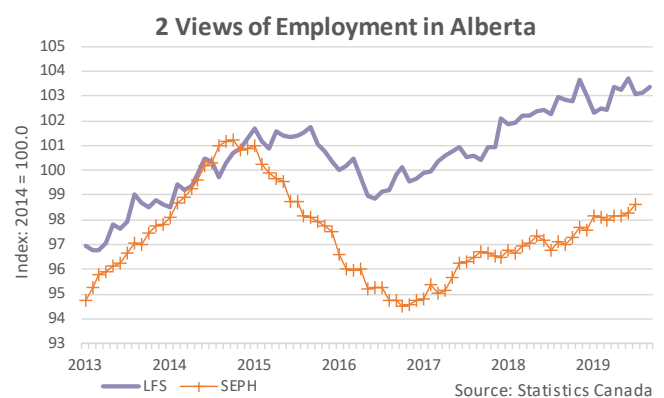
Housing starts remain weak, with the trend line now about one-third lower than the prior peak. This large reduction has become a drag on the provincial economy.

The recent slight improvement in starts is largely for apartments. Within Alberta, most apartment starts (about two-thirds) are for condominiums. Starts remain very weak for low-rise homes (singles, semi-detached, and town homes).



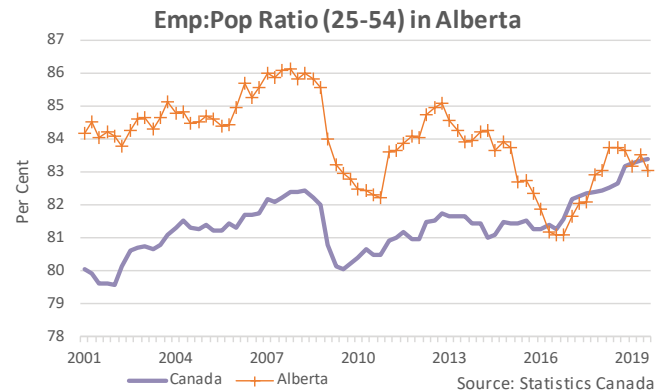
Employment Trends

Statistics Canada's two surveys of employment both indicate that employment has expanded during the past two years. The Labour Force Survey ("LFS"), which is based on personal surveys, estimates growth at an average of 1.4% per year over the past two years (as of September). The Survey of Employment Payrolls and Hours ("SEPH") estimates 1.2% growth per year (as of July). Both of those surveys hint that job growth has slowed this year. Given the designs of these two surveys, I believe that the SEPH data is probably more accurate. The SEPH data shows that total employment is still below the prior peak, which implies that housing demand will remain constrained for a while longer.



Employment Trends (Continued)

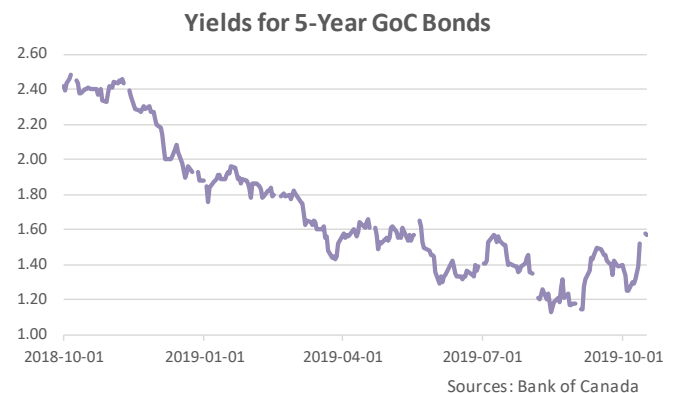
Employment is growing at a slower rate than the adult population (estimated at 1.5%). This means that the employment-to-population ratio (the percentage of people who have jobs) has fallen. For the “prime working ages” (25-54) the employment rate remains well below prior levels, which is negative for home buying. It also important to note that Alberta’s employment rate is now similar to the national average whereas it previously was considerably higher than for all of Canada. This is a depressive factor for population growth and for home buying.



Interest Rates

Bond yields have been unusually volatile during the past four months, due to swings in expectations about the outlook (and fears about the consequences of erratic trade policies and political disfunction in the US). At present (October 16) the yield for 5-year Government of Canada bonds is in the area of 1.55%-1.6%, which is more-or-less where I think it should be given current economic conditions.

My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate from major lenders) has been unchanged (at 2.7%) for the past two months. The mortgage-bond spread is quite thin (about 1.1 points versus a long-term average in the area of 1.8 points). Therefore, we could to see some increases in mortgage rates during the next few days (or weeks).



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