

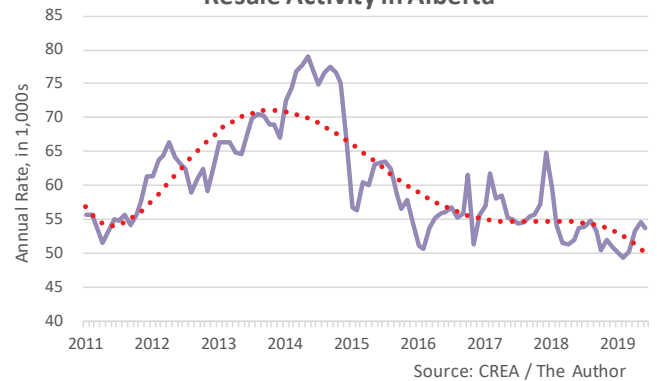
Resale Market

Resale activity has been quite weak in Alberta, although recent data hints at a stabilization. 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.

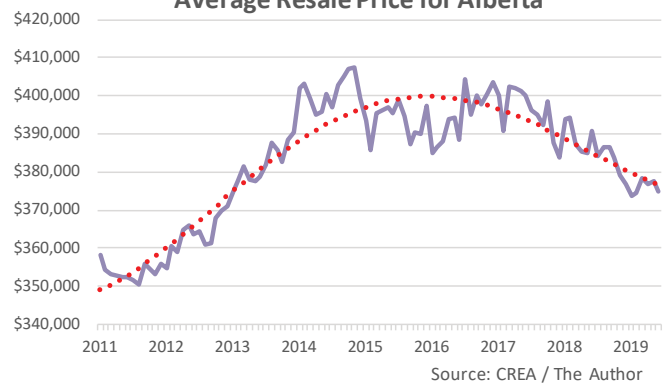
Weakened demand has resulted in price erosion: the trend line for the average price has fallen by 5-6% during the last two years. This could be a further deterrent to home-buying, since prospective owners would be discouraged by the potential loss of home equity.

The sales-to-new-listings ratio (“SNLR”) improved during the second quarter, but at 50% it 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 very small additional erosion.

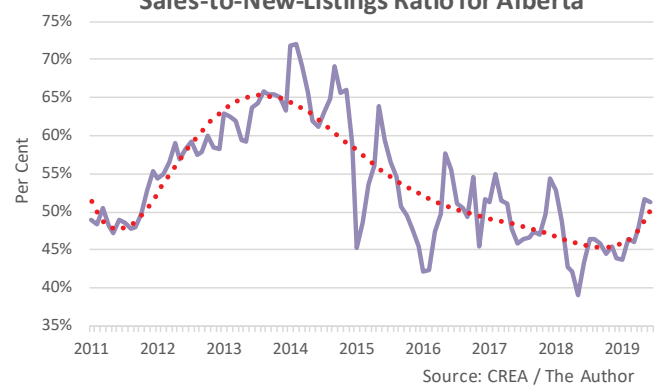
Resale Activity in Alberta



Average Resale Price for Alberta



Sales-to-New-Listings Ratio for Alberta

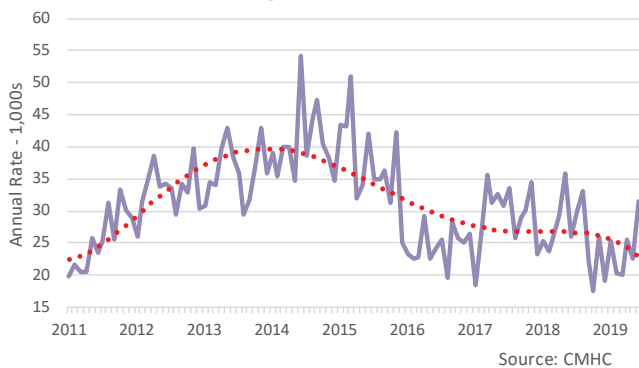


Housing Starts

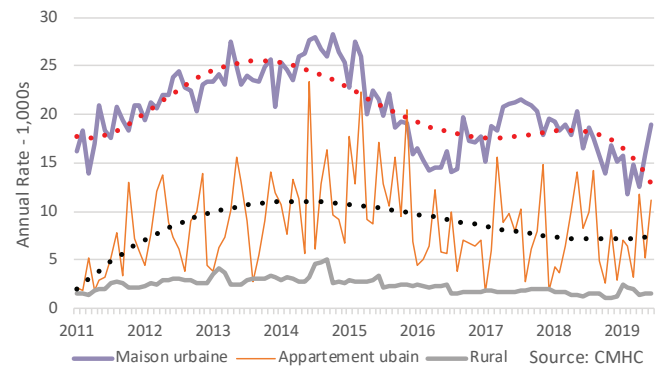
Housing starts remain weak, at about one-half below the prior peak. This large reduction is becoming a drag on the provincial economy.

Starts have fallen most sharply for low-rise homes (singles, semi-detached, and town homes). It takes apartments longer to react to changing conditions.

Housing Starts in Alberta



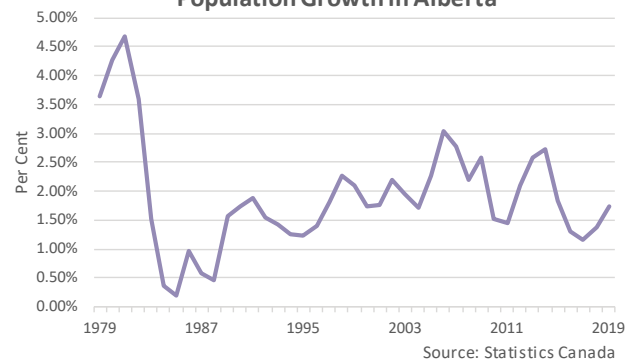
Housing Starts by Type of Dwelling in Alberta



Population Growth

Statistics Canada estimates suggest that the rate of population growth in Alberta remains slow in historic terms, with a hint at only a small recovery this year. This will continue to weigh on housing demand.

Population Growth in Alberta

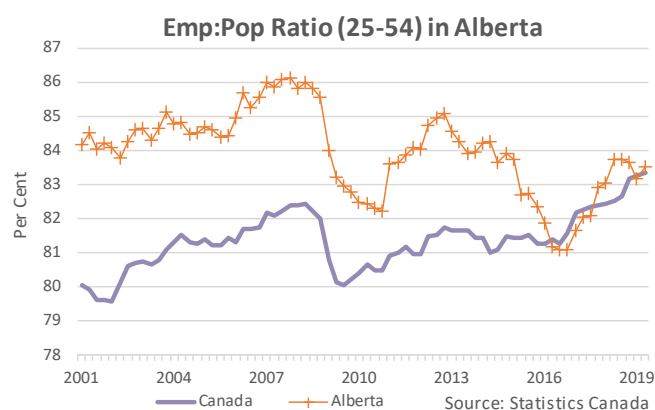
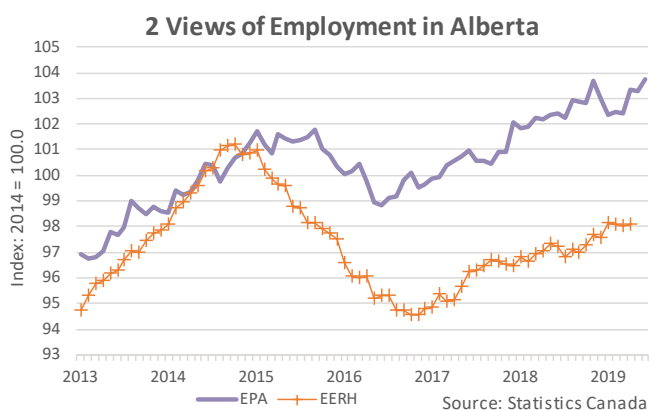


Employment Trends

Statistics Canada's two surveys of employment both indicate that employment is improving slowly. The Labour Force Survey ("LFS"), which is based on personal surveys, estimates year-over-year growth at 1.3% as of June. The Survey of Employment Payrolls and Hours ("SEPH") estimates 1.1% growth (as of April). Where these surveys differ is in the changes compared to 2014/15: LFS suggests that employment is now well above the prior peak, whereas SEPH shows a continued substantial deficit. Given the designs of these two surveys, I believe that the SEPH data is probably more accurate: the SEPH data implies that housing demand will remain constrained for a while longer.

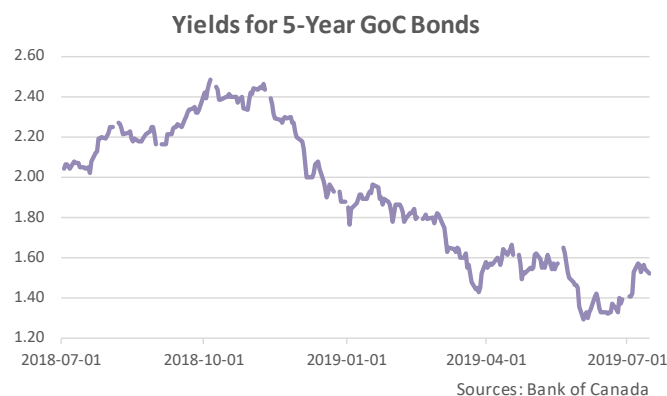
Employment Trends (Continued)

The employment-to-population ratio (the percentage of people who have jobs) for the “prime working ages” (25-54) remains well below prior levels, which is negative for home buying. Additionally, in earlier times 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 fell sharply during the late spring, but have now partially reversed that drop. As of mid-July, the yield for 5-year Government of Canada bonds is in the area of 1.5%. My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate, from major lenders) has been reduced six times this year (from 3.75% at the start of the year to a current 2.8%). Because housing activity has slowed for all of Canada, demand for mortgages has been reduced and the mortgage market has become much more competitive: the spread between 5-year fixed-rate mortgages versus 5-year bonds is now just 1.3 points (versus a long-term average of 1.8). At this point, we should expect that mortgage rates have bottomed.



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