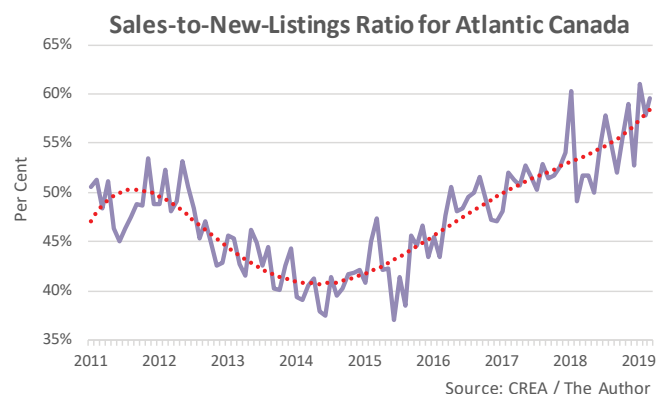
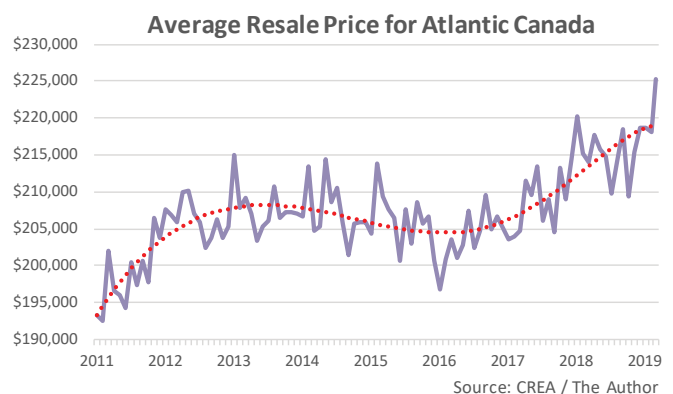
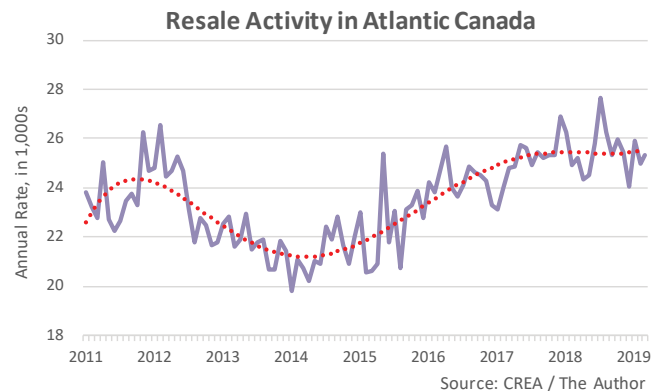


Resale Market

Increasingly it is becoming clear that a growth phase has ended for the regional housing market. Volatility in the data makes it difficult to draw a definitive trend line, but it does appear that resale activity has been flat during the past two years. The employment situation is highly favourable (as is discussed below) and the population is growing at the strongest rate in a generation (during the past two years, growth has averaged 0.58% per year, versus an average rate of just 0.13% per year for 1986 to the present). In this light, resale activity is well below potential, which indicates that the mortgage stress tests have substantially suppressed home buying in Atlantic Canada.

Looking at house prices, it is also quite difficult to discern a trend. There was an unusual jump in the last month of data (March), which twists the trend line. Apart from that, it appears that the average price has been roughly flat during the past year.

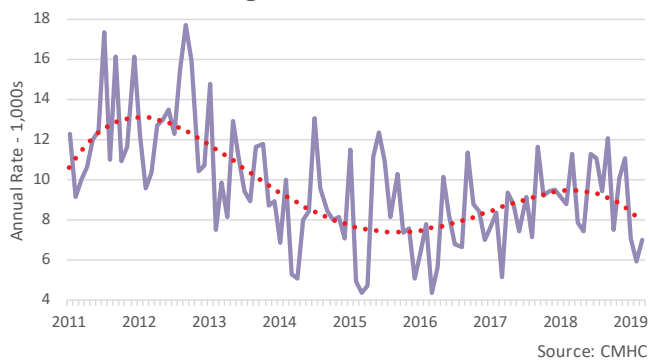
The sales-to-new-listings ratio (“SNLR”) is quite high (now close to 60%) and continues to rise. This is far above the threshold (estimated at 45%) for a “balanced market” (this is the level at which prices are expected to rise by 2% per year). As commented previously, conditions are quite strong in three of the four provinces but Newfoundland and Labrador remains quite weak, with the SNLR at just 33% and the province’s average price appears to be trending downwards.



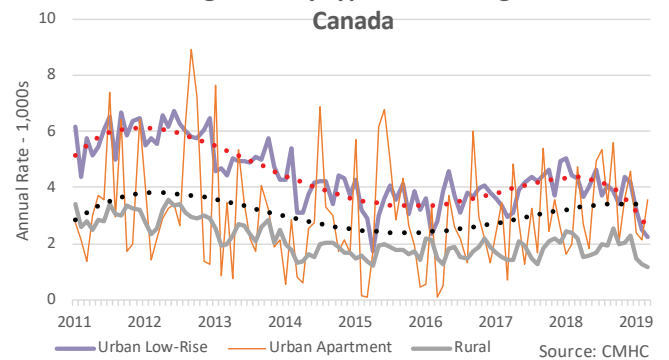
Housing Starts

A tentative and partial recovery of housing starts has been interrupted (although given the harsh winter this year, the drop during the past few months may have been distorted). Again, since the employment situation is strong and population growth has accelerated, we should be seeing increased starts, not a reduction. Low-rise activity (singles, semi-detached, and town homes) has fallen by at least one-third compared to 2017. Starts of apartments take longer to react to changing conditions. The trend for apartments continues to hint that activity is at a peak. Apartment activity in the region is largely for rental purposes rather than for condominiums. With vacancy rates low, apartment construction could hold up in the region (unlike most other regions, for which I expect that apartment starts will trend downwards throughout this year).

Housing Starts in Atlantic Canada



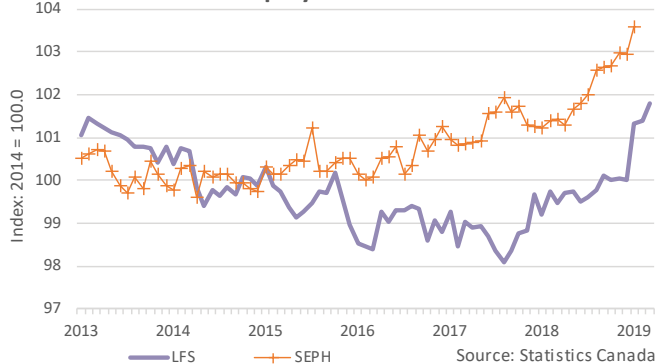
Housing Starts by Type of Dwelling in Atl. Canada



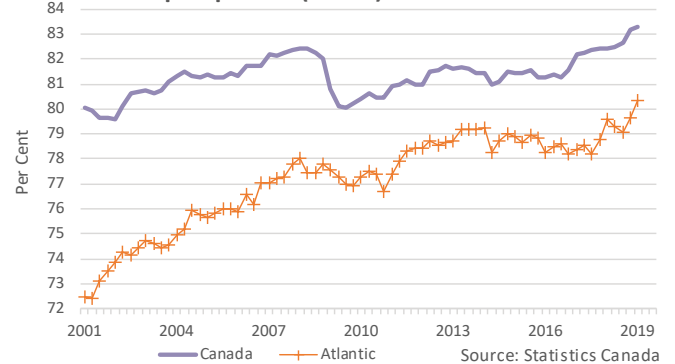
Employment Trends

Statistics Canada's surveys of employment show strong improvement in the employment situation during the past two years. Both the Labour Force Survey ("LFS") and the Survey of Employment Payrolls and Hours ("SEPH") show year-over-year growth at 2.3%, which is far in excess of the 0.5% rate of population growth. The recent sharp rises are especially interesting. Both of these surveys are capable of generating errors, but the consistency of the estimates provides some reassurance. The employment-to-population ratio (the percentage of people who have jobs) for the "prime working ages" (25-54) is at a very high level.

2 Views of Employment in Atlantic Canada



Emp:Pop Ratio (25-54) in Atlantic Canada



Employment Trends (Continued)

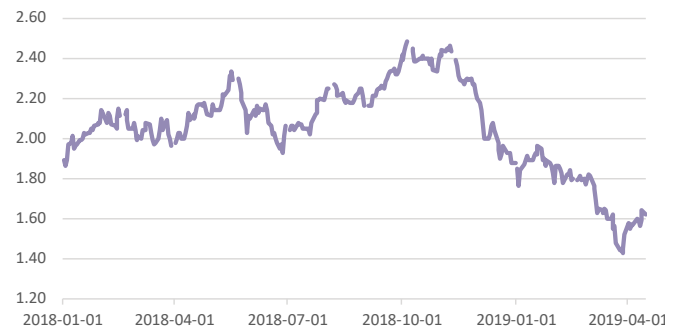
What's more, the gap compared to all of Canada is smaller than it was during the prior decade. This is a major factor that has supported stronger population growth. The highly-positive employment situation in Atlantic Canada should be resulting in stronger housing market trends.

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%).

Yields for 5-Year GoC Bonds



Sources: Bank of Canada

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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