

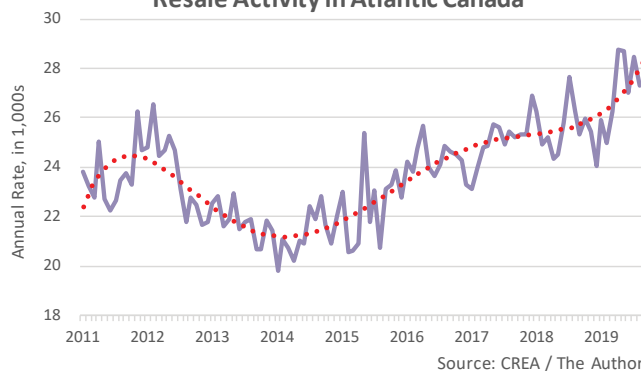
Resale Market

Resale activity remains quite strong in the Atlantic region (although the sales rates for the third quarter was slightly lower than for the second quarter). Strong job creation during the past two years and reduced mortgage interest rates have supported home-buying.

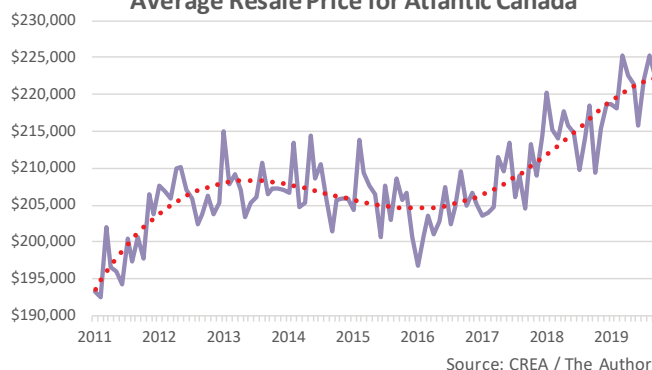
Strong demand has supported rapid price growth during the past two years (including 4% over the past year). This follows a long period of flat prices. Trends vary across the region, as the average price is falling in Newfoundland (-6%), almost flat in New Brunswick (1%), rising rapidly in Nova Scotia (8%), and at an extreme rate in PEI (15%).

The sales-to-new-listings ratio (“SNLR”) remains quite high (with the trend now in the high 50s), 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).

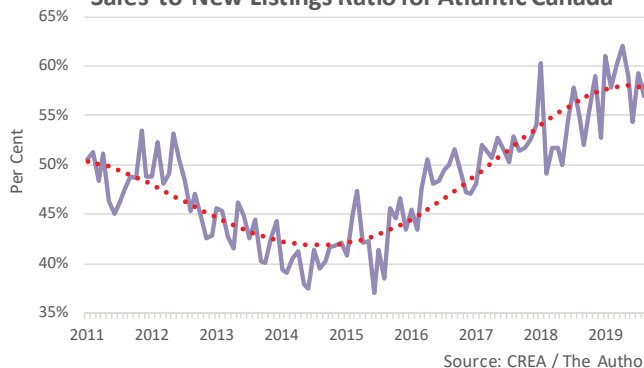
Resale Activity in Atlantic Canada



Average Resale Price for Atlantic Canada



Sales-to-New-Listings Ratio for Atlantic Canada

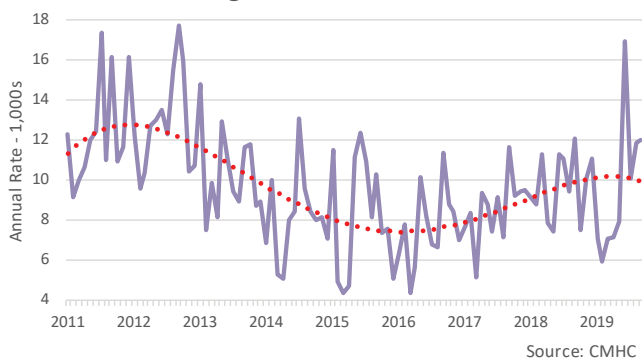


Housing Starts

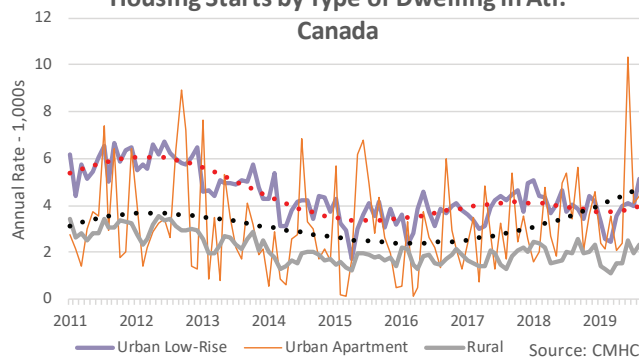
Volatile data create uncertainty about the trend, but it appears that housing starts have responded (albeit modestly) to increased housing demand. Given the employment situation (and price growth for resales) we should be seeing more growth for housing starts.

The response has been tepid for low-rise starts (singles, semi-detached, and town homes). Starts of apartments, on the other hand, have expanded. According to CMHC, apartment starts in the Atlantic region are almost entirely for rental purposes. Investors are responding to a combination of strong rent growth and low interest rates. Looking at low-rises and apartments in combination, starts for home ownership remain weak.

Housing Starts in Atlantic Canada



Housing Starts by Type of Dwelling in Atl. Canada

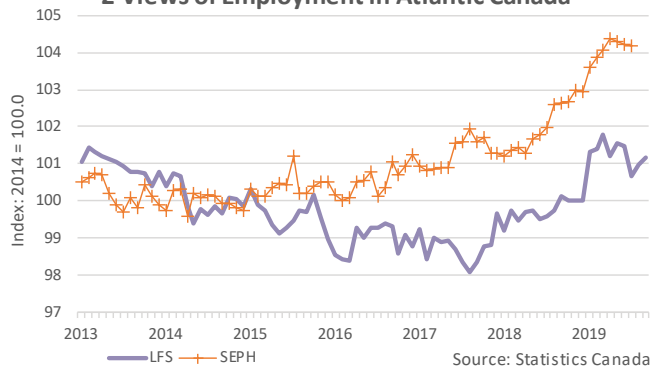


Employment Trends

Statistics Canada's surveys of employment show strong improvements in the employment situation compared to two years ago. The Labour Force Survey ("LFS") shows average growth of 1.4% over the past two years and the Survey of Employment Payrolls and Hours ("SEPH") shows a rate of 1.3%. Both estimates exceed the 0.6% rate of population growth.

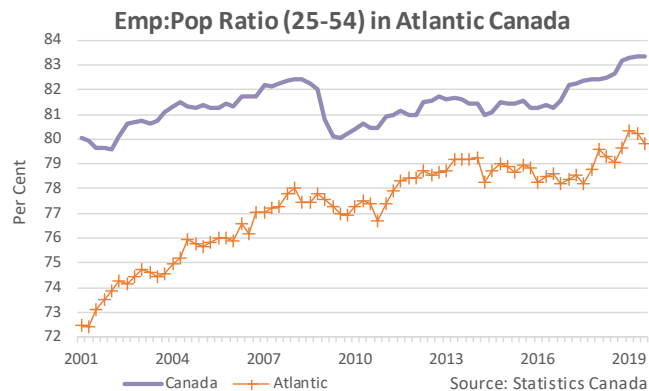
The recent sharp rises are especially interesting. Both of these surveys are capable of generating errors, but the consistency of the estimates provides some reassurance.

2 Views of Employment in Atlantic Canada



Employment Trends (Continued)

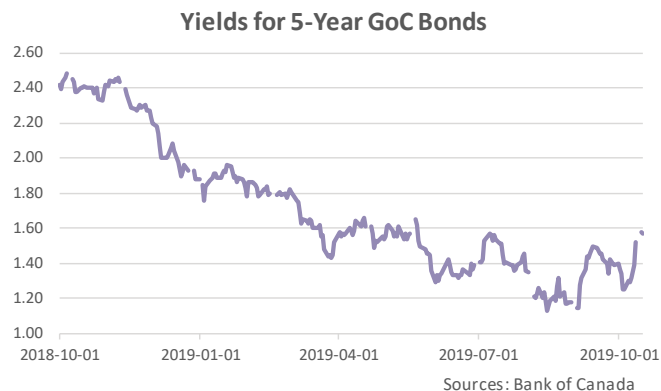
Because employment is growing more rapidly than the population, the employment-to-population ratio (the percentage of people who have jobs) for the “prime working ages” (25-54) has increased. While this data shows a small setback for the third quarter, the current employment ratio remains close to a record high for the region. In addition, the gap compared to all of Canada is smaller than it was during the prior decade. This is a positive factor for stronger population growth and is resulting in stronger housing market trends.



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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