

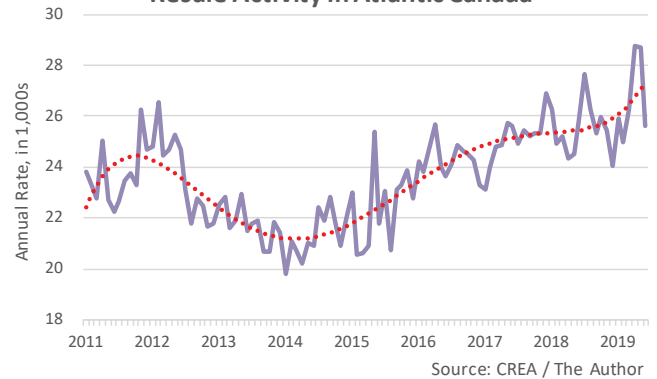
Resale Market

Activity expanded during the second quarter. A combination of a strengthened employment situation, improved population growth, and a sharp drop in mortgage interest rates has been very positive for home-buying.

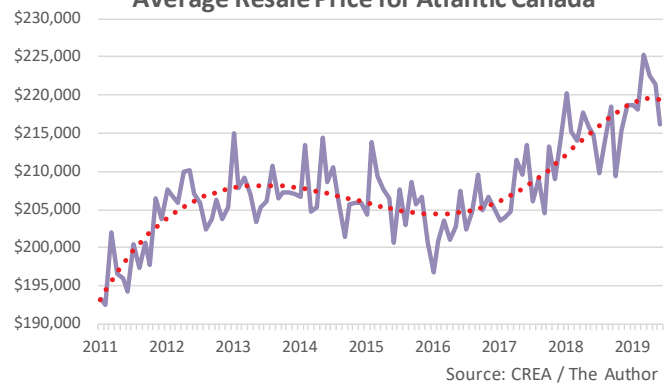
Month-to-month volatility in the average price creates some uncertainty about the trend, but the data suggests that the trend has increased by about 2-2.5% per year during the past two years. Prices appear to be flat (or possibly eroding) in New Brunswick and Newfoundland and Labrador, and rising in Nova Scotia and PEI.

The sales-to-new-listings ratio (“SNLR”) is quite high (now close to 60%). 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 37%.

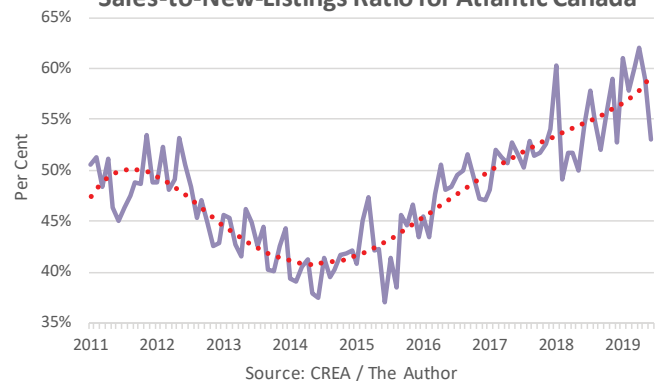
Resale Activity in Atlantic Canada



Average Resale Price for Atlantic Canada



Sales-to-New-Listings Ratio for Atlantic Canada

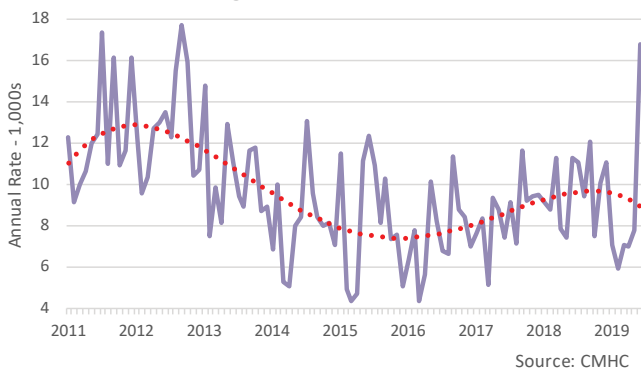


Housing Starts

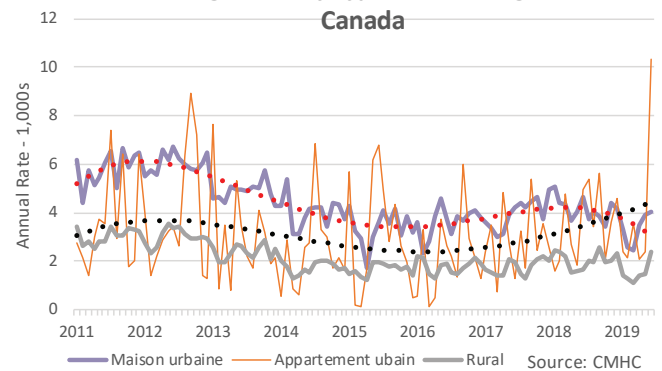
Improved resale market conditions should be resulting in a spillover into housing starts, but that is not yet in evidence (apart from a highly out-of-trend figure for June). Since the employment situation is strong and population growth has accelerated, we should be seeing a rising trend for starts, not a reduction.

Low-rise activity (singles, semi-detached, and town homes) remains very weak in historic terms. Recent data shows improvement, and the long-awaited turning point might be developing. Starts of apartments were also quite weak for the first five months of this year, but a large jump in June has twisted the trend line upwards. According to CMHC, these apartment starts are entirely for rental purposes. Investors are responding to a combination of strong rent growth and low interest rates.

Housing Starts in Atlantic Canada



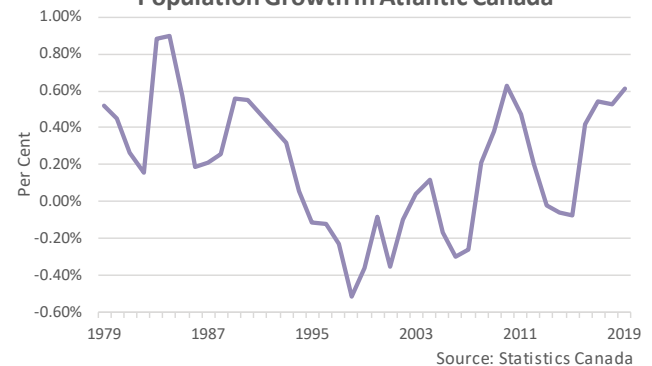
Housing Starts by Type of Dwelling in Atl. Canada



Population Growth

The population of Atlantic Canada is currently growing at a rate that is rapid in historic terms. In order to avoid future housing shortages (in both the ownership and rental sectors) a stronger supply response is needed.

Population Growth in Atlantic Canada

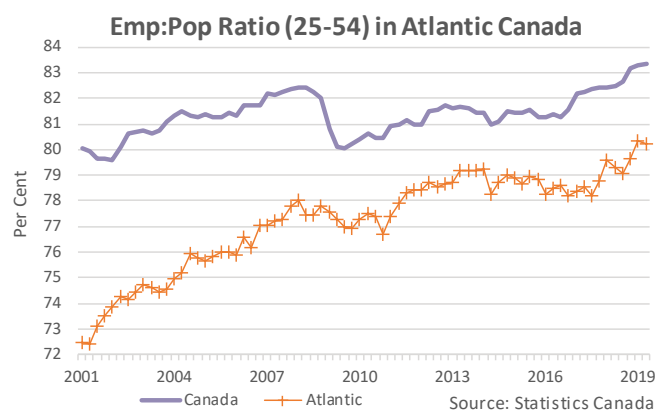
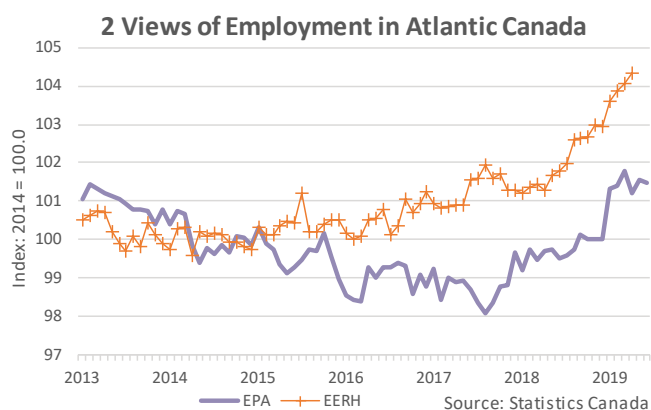


Employment Trends

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 1.7%. Both estimates far exceed 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.

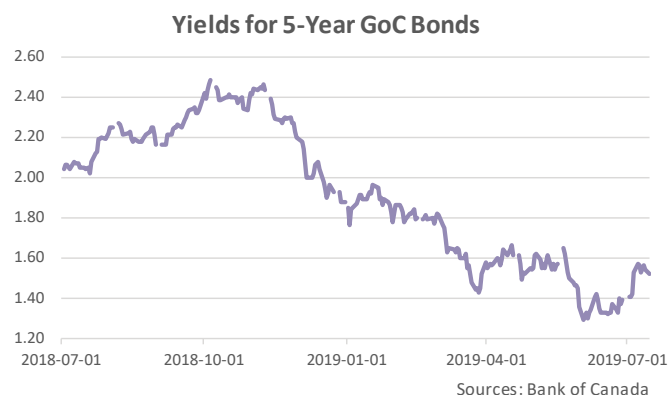
Employment Trends (Continued)

The employment-to-population ratio (the percentage of people who have jobs) for the “prime working ages” (25-54) is very encouraging for the region. Firstly, it’s at a record level. Secondly, the gap compared to all of Canada is smaller than it was during the prior decade, which is a positive factor for stronger population growth. The highly-positive employment situation in Atlantic Canada is resulting in stronger housing market trends.



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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