HOUSING MARKET DIGEST
ATLANTIC CANADA

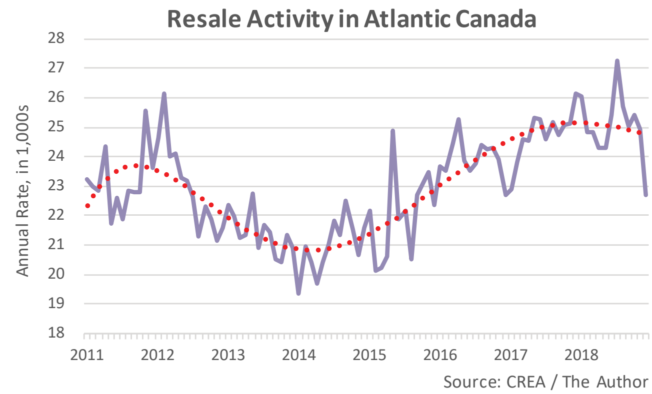
MORTGAGE PROFESSIONALS CANADA

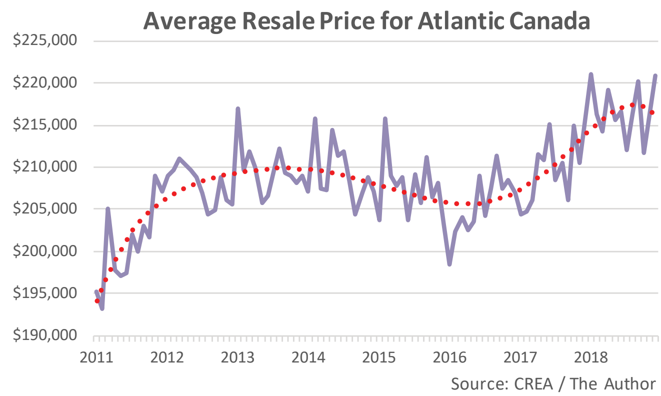
Resale Market

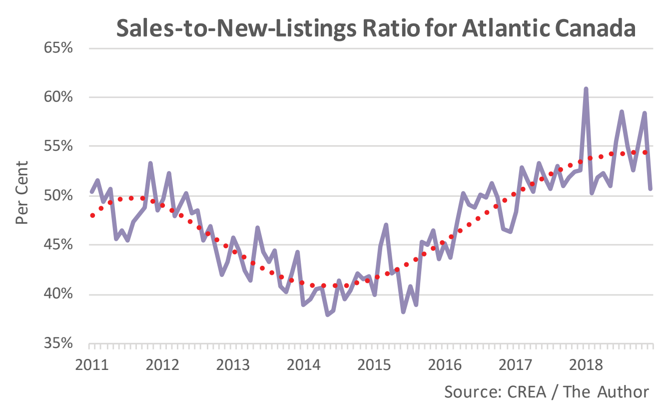
Sales remained quite strong in the fourth quarter (although a surprisingly large drop for December creates uncertainty about the trend). For the year, total sales in the region were 1.2% higher than in 2017. In most of the country, sales fell in 2018, due to the combined effects of the mortgage stress tests and higher interest rates. In the Atlantic region, the impact was the interruption of what had been a very encouraging growth trend. Resale activity is eroding in PEI (from a very high level) and Newfoundland and Labrador (from a level that was already quite low), but demand remains strong in New Brunswick and Nova Scotia.

The average house price in the region rose by 2.9% for 2018 versus 2017. The data hints quite strongly that a period of rapid growth has ended. During the year, the average price fell in Newfoundland and Labrador (by 1.3%), but rose in the other three provinces (by 5.6% in New Brunswick, 2.8% in Nova Scotia, and 4.1% in PEI).

The sales-to-new-listings ratio ("SNLR") remains very high, with the estimated trend at close to 55%, which is far above threshold (45%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). Once again, Newfoundland remains quite weak (the SNLR averaged just 33% for the year), suggesting that prices will continue to erode. The other provinces have high SNLRs, indicating that they are far into "sellers' market" territory, and prices should be stable (at worst) or rise further.







FOURTH QUARTER 2018

HOUSING MARKET DIGEST

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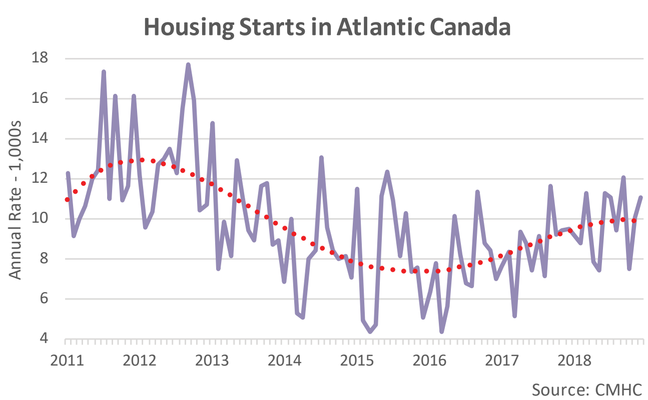
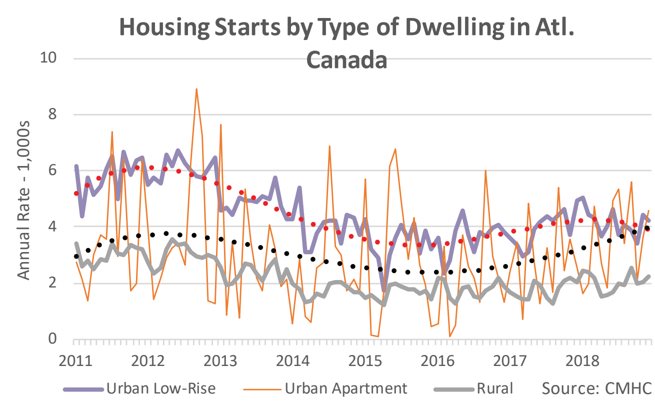
Housing Starts

As in the resale market, it appears that a growth trend has been interrupted for housing starts. Even with the improvements seen recently, housing starts remain weak in historic terms. The current trend (at about 10,000 units per year), is about 20% lower than during the 2000s. The next chart shows that low-rise activity (singles, semi-detached, and town homes) in urban areas has begun to slow. This activity responds more rapidly to changing conditions than apartments.

For apartments, the data is very lumpy, making it difficult to be conclusive about the trend, but it appears that activity is expanding. In the Atlantic region, apartment starts are mainly for rentals rather than condominiums. With vacancy rates still low in Halifax and Charlottetown, and rents rising, apartment construction could remain strong in 2019 (unlike in the rest of the country where apartment activity is expected to slow). Combining the low-rise and apartment sectors, total starts are likely to remain close to the current level during 2019.





Employment Trends

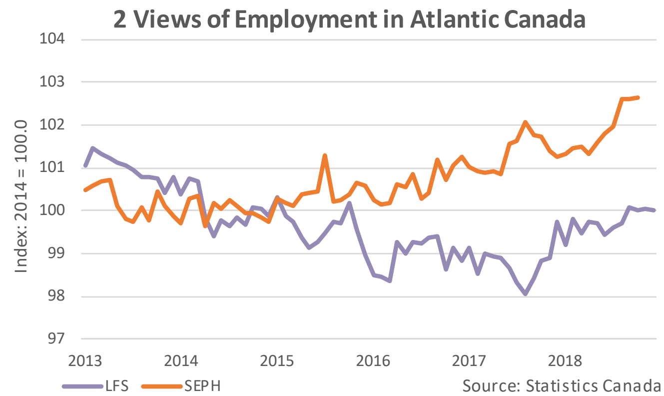
Statistics Canada's reports on the employment situation remain highly variable from month to month. Looking at trends in the data, year-over-year job growth is reported as just 0.3% as of December (according to the Labour Force Survey, or "LFS"). Since this is slightly slower than the rate at which the population of adults is growing (estimated at 0.5%) it is disappointing. If the data is correct, it would have discouraging implications for the housing market.

StatsCan's other survey (the Survey of Employment, Payrolls and Hours, or "SEPH"), tells a much different story, with job growth estimated at 0.9% (but as of October).

Employment Trends (Continued)

In this chart, I have converted the two datasets into "indexes", to make them easier to compare.

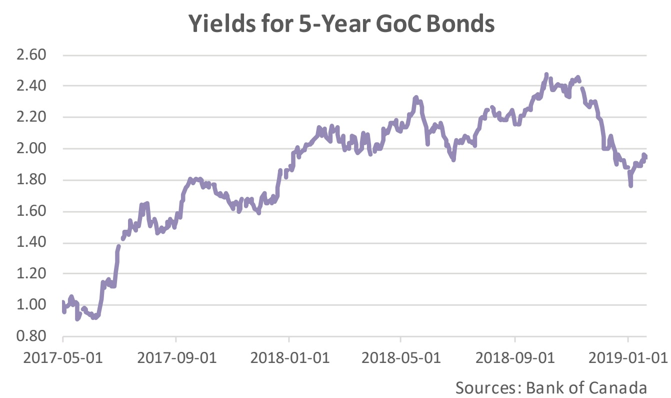
I believe that the SEPH data is probably more reliable than LFS. The issues are discussed in more detail in the new edition of the "Annual State of the Residential Mortgage Market in Canada" (in the section "Outlook for the Mortgage Market").



Interest Rates

It appears that the sharp drop in bond yields has ended. Attitudes remain volatile in financial markets. I would not be surprised to see moderate increases in bond yields during the next two months, as economic fears may have become overdone. Further, reckless fiscal policies in the US will continue to result in enormous borrowing requirements, and rising political risks in the US could reduce interest in bonds.

Mortgage rates did not follow the drops in bond yields. My opinion-estimate of a typical "special offer" mortgage interest rate (from major lenders) has been reduced to 3.60% (as of January 21). This is, as usual, far below the 5-year "posted rate" of 5.34%). The spread between bonds and mortgages is now about 1.65 points, slightly below the historic average of 1.8 points. Looking ahead, therefore, changes in mortgage rates might become more closely related to changing bond yields. My opinion-estimate for 5-year variable rates increased (today) to 3.20%. This is 0.75 points below prime.



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