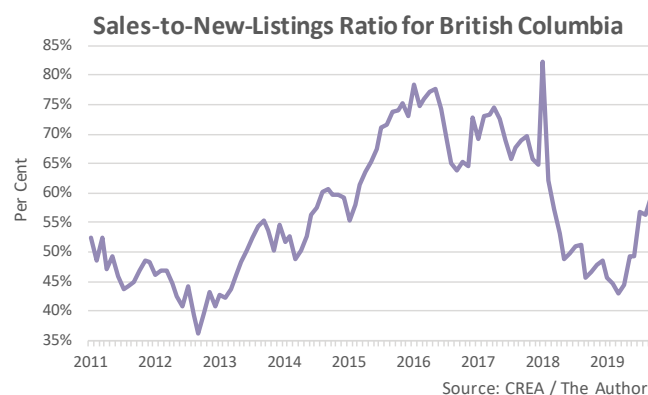
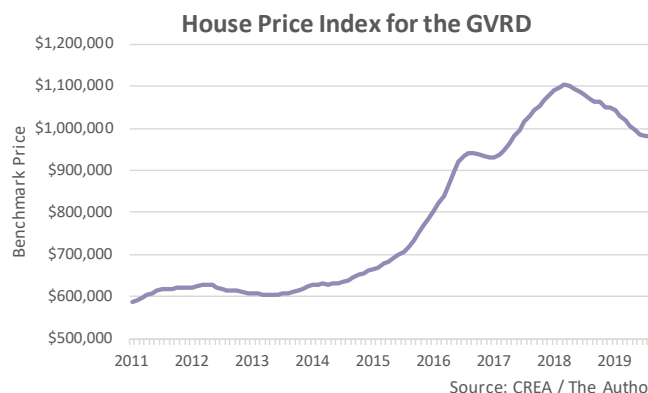
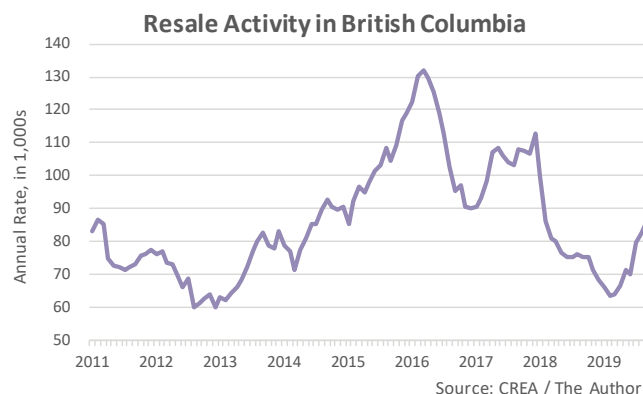


## Resale Market

Resale market data for the third quarter is quite encouraging. Sales activity increased strongly (but, from a very low level). Thus, on a population-adjusted basis, third quarter resale activity in BC was still 16% below the long-term average. The federal mortgage stress tests and the provincial foreign buyer and speculation taxes continue to weigh very heavily on housing markets within BC. A further factor is that uncertainty about the future market (and the risk of price drops) has no doubt become a deterrent to potential buyers. Fears about price reductions can become self-fulfilling.

It is difficult to use the provincial average resale price for analysis purposes, as changes in the locations and types of homes sold artificially distort the average. As an alternative, this chart shows CREA's House Price Index for the Greater Vancouver Regional District. The most recent data hints that price reductions have ended in the GVRD (and the Fraser Valley). CREA's estimates indicate that prices continue to rise on Vancouver Island, but that the rate of growth has slowed considerably (to 4%).

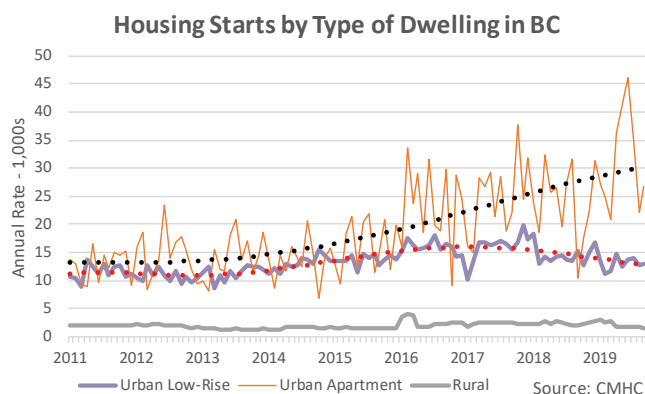
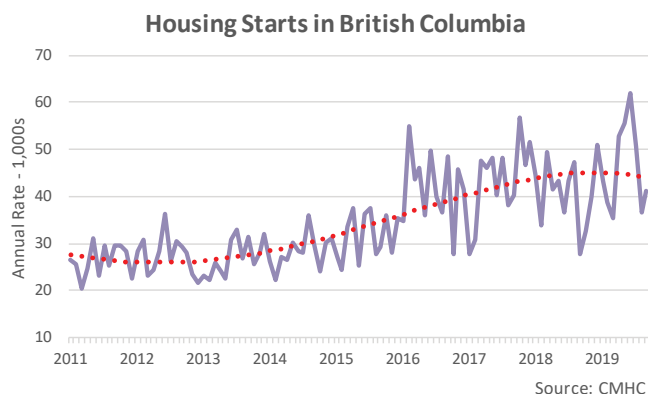
The sales-to-new-listings ratio ("SNLR") had fallen sharply in BC, but jumped to 58% during the third quarter. The SNLR is now above the threshold (estimated at 47%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). If the SNLR is sustained at a similar level, we should, in theory, see a re-emergence of price growth during the coming year. However, the very wide mix of conditions across the province will make it difficult to generalize about conditions for the province as a whole.



## Housing Starts

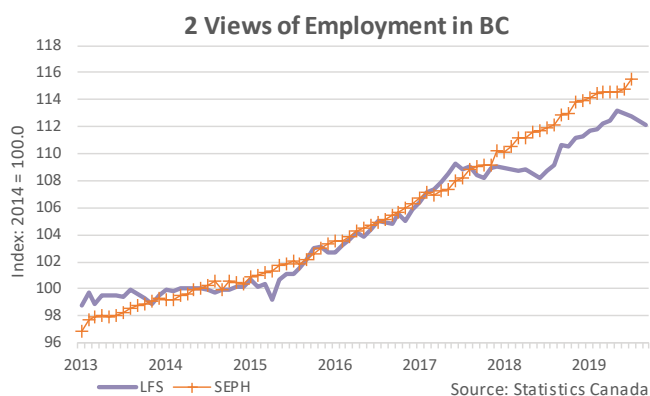
Housing starts remain strong in BC.

The current strength is entirely due to apartments. Most (about two-thirds) of apartment starts in BC are for condominiums, rather than for rentals. The strong starts data continue to reflect projects that were pre-sold earlier. For low-rise homes (singles, semi-detached, and town homes), starts continue to trend downwards, from levels that were already too low.



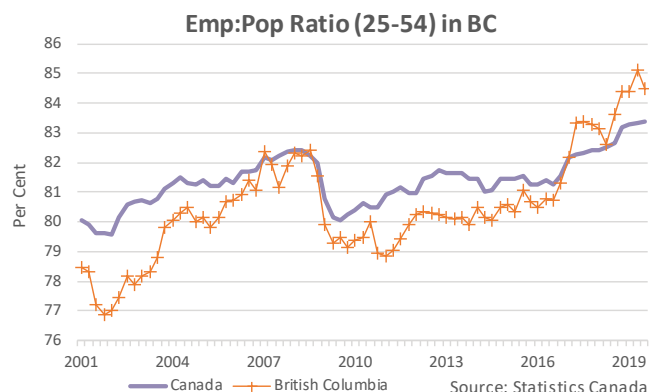
## Employment Trends

Statistics Canada's two surveys of employment both show strong rates of job creation starting at mid-decade, but their recent data sends mixed messages. The Labour Force Survey ("LFS"), which is based on personal surveys, shows growth of just 1.3% for the past year (as of September). The Survey of Employment Payrolls and Hours ("SEPH"), which is based on a survey of companies, show much stronger growth, at 3.3% (but as of July). Yet, that increase for SEPH is largely due to an unusual estimate for the very last month. Regardless of the uncertainty in the recent data, the strong histories should be resulting in robust housing demand (especially considering the large drops in interest rates that have occurred this year). The weak housing market performance shows the strong negative influences of federal and provincial government policies.



## Employment Trends (Continued)

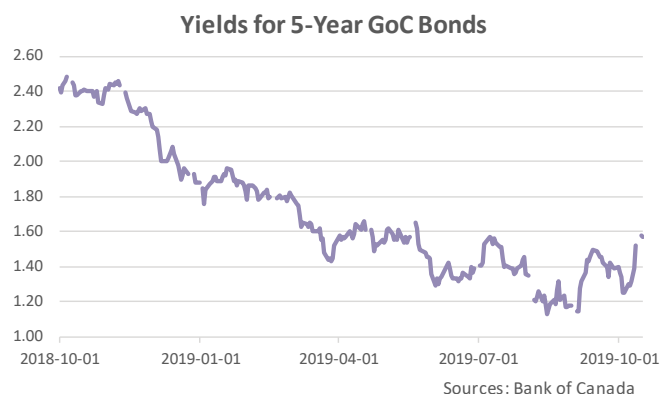
Employment has been growing more rapidly than the population, which has resulted in a rise for the employment-to-population ratio (the percentage of people who have jobs). For the “prime working ages” (25-54) the ratio has recently been at very high levels. This should be a positive factor for population growth and for home buying.



## 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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