DECEMBER 2019

HOUSING MARKET DIGEST CANADA

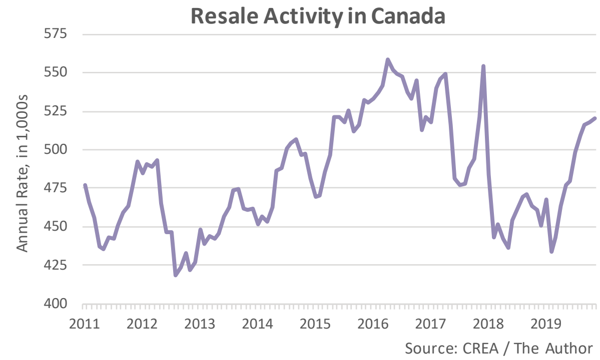
MORTGAGE PROFESSIONALS CANADA

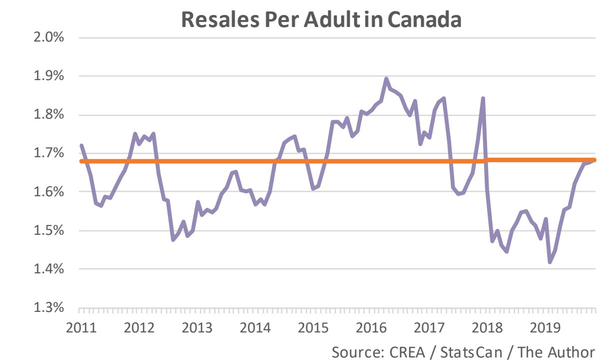
Resale Market

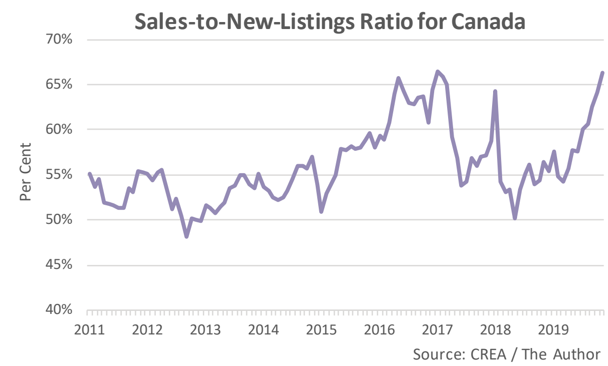
Resale activity is estimated to have inched up slightly. The sales rate for November was 520,700. (However, there is some "smoothing" of these estimates, and I suspect that there could be an upward revision of the November estimate when we get the December release.) As I commented last month, recent rises in mortgage interest rates might be causing a rush into the market, to take advantage of pre-approvals before they expire, and therefore, there could be some slowing in the new year. An additional factor for the recent rise in sales is that fear of price drops was discouraging buying in British Columbia, and that fear has been dissipating: most of the rise in the national sales rate has occurred within BC. Other provinces are seeing smaller changes in sales rates.

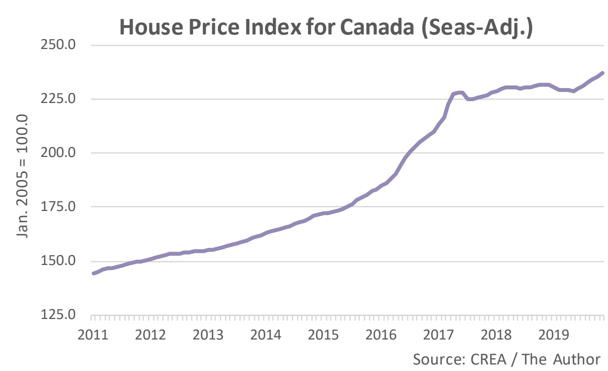
On a population-adjusted basis, the sales rate is now equal to the long-term average. As I've commented repeatedly, economic fundamentals are very positive (job creation has been robust during the past 2.5 years, population growth is at the strongest rate in a generation, and mortgage interest rates have been sharply lower this year): we should be seeing activity well above average, not at or below average. The mortgage stress tests continue to weigh heavily on home-buying.

Supply conditions continue to tighten in many areas: the national sales-to-new-listings ratio ("SNLR") has increased to 66% as of November, which is far above the threshold (52%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). As commented previously, flows of new listings into the housing market are too slow, due to reduced interest in moving up, as the result of multiple factors: the high cost of selling and buying (close to 10% of value, considering realty commissions, land transfer taxes, and other related costs), reduced price growth (which reduces any sense of urgency), and the stress tests (which limit available funding for a new purchase and make it more difficult to sell the existing home).









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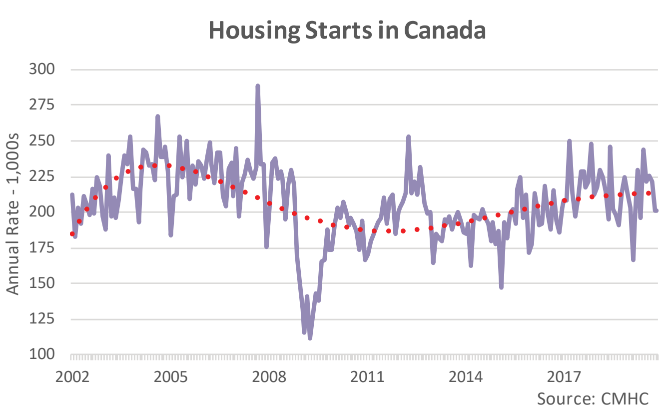
Resale Market (Continued)

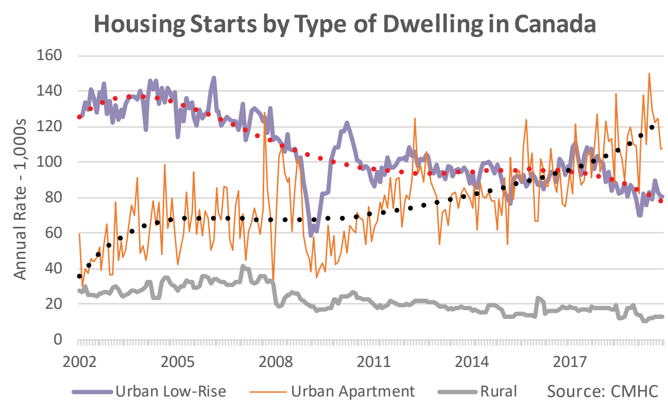
Prices are now in the early stage of responding to the shift in the supply-demand balance: the House Price Index from the Canadian Real Estate Association ("CREA") has increased by just 2.5% compared to a year ago, but during the past six months there has been an annualized growth rate of 7.8%.

Housing Starts

The rate of housing starts was 201,300 in November, and the year-to-date average rate is 209,300. Both of these figures are quite high in historic terms (the average since 1990 has been 184,000). But, as I've commented before, very rapid population growth means that the current requirement is in the area of 240,000 new dwellings (or even more). This means that housing shortages will worsen., in both the rental and ownership sectors. (Note: CMHC has delayed the release of its annual survey of the rental market until January 15 – last year the release happened in late November. I expect that the 2019 survey will show a further drop in the vacancy rate and an acceleration of rent growth.)

Most aspiring home buyers (80% according to surveys) want to buy a low-rise home (singles, semi-detached, and town homes) Construction of those homes has been weakened considerably, with no sign of substantive improvement. On the other hand, starts of apartments remain very strong.





Employment Trends

The employment data for November showed a large drop (-71,000). This looks like one of the occasional errors that are produced by Statistics Canada's Labour Force Survey: I'm not inclined to ignore this datapoint. The year-over-year growth rate is still reasonably healthy (1.6%), although this is a slowing from the rates (about 2.5%) seen just a few months ago.

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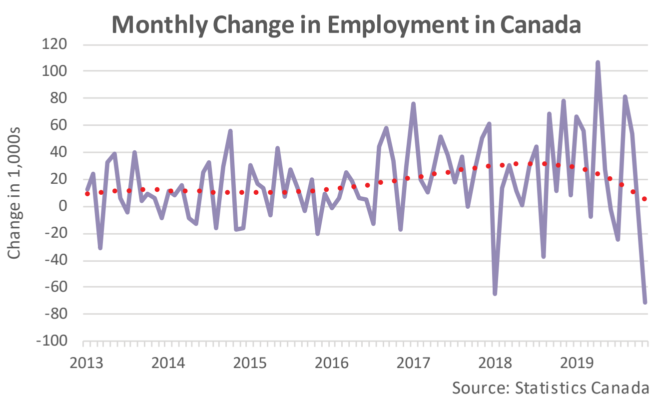
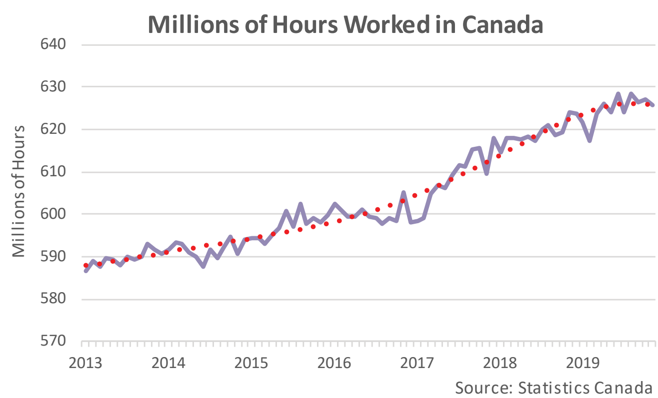
Employment Trends (Continued)

But, there is a more substantive discouraging trend, which is that total hours worked are showing negligible growth. This is one of several signs of an economic slowdown (including weak retail spending).

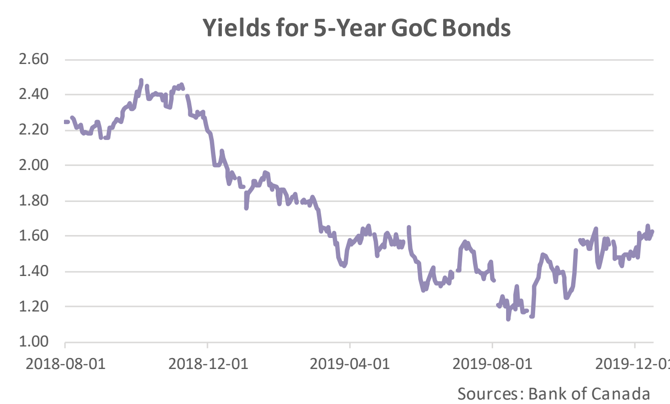




Interest Rates

Bond yields overshot last year, and then over-compensated during this summer. I think they are now more-or-less where they should be: the current yield for 5-year Government of Canada bonds is 1.65% (as of December 16), within the range of 1.5-1.75% that I think is appropriate.

My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate from major lenders) remains at 2.85%. The spread between mortgage rates and bond yields has gotten even skinnier (in the area of 1.2-1.3 points versus a long-term average of 1.8 points). Therefore, fixed rates are more likely to rise than to fall. Variable rates are unchanged (my opinion-estimate remains at 2.95%). I don’t expect any change until at least March.



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