



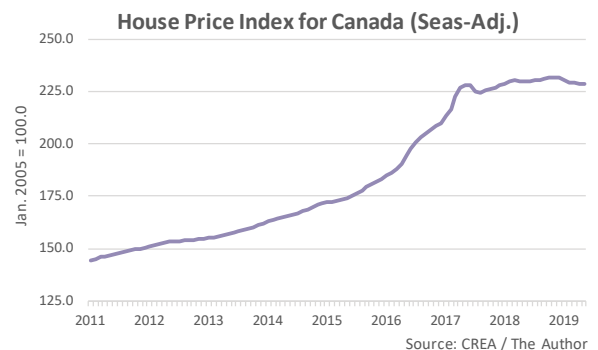
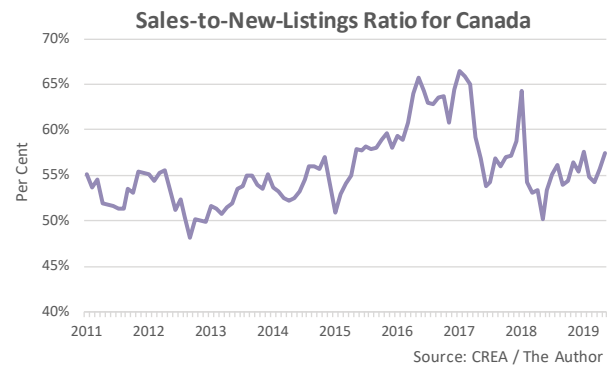
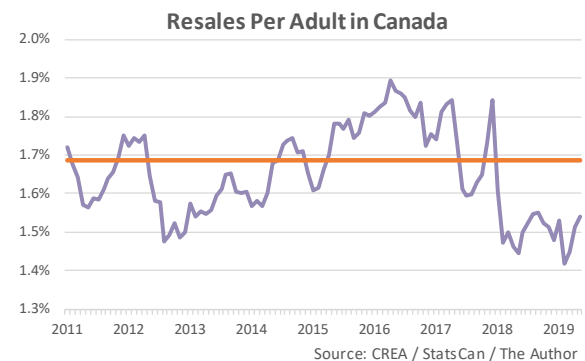
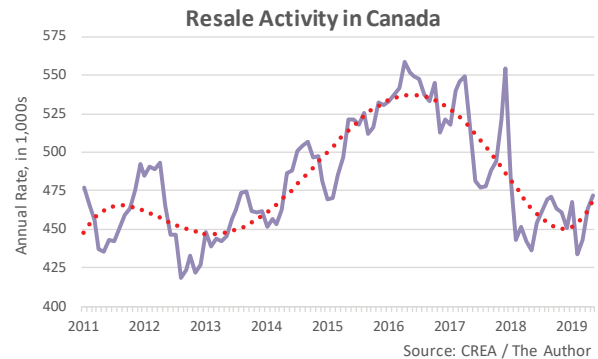
Resale Market

Resale activity increased in May (the third consecutive rise), to an annualized rate of 472,200.

On a population-adjusted basis, an average level of sales would be about 515,000, so the sales rate for May is still 9% below average. This is despite the fact that economic fundamentals have become very favourable: job growth has been very strong for almost three years, the population is growing at the fastest rate in a generation, and – very importantly – mortgage interest rates have fallen substantially this year: for the fourth quarter of 2018, the typical “special offer” rate for 5-year fixed-rate mortgages averaged 3.6%. By April, it was down to 3.1% and in May it was 2.95% (and today – June 14 – I am reducing my opinion-estimate once again, to 2.8%). Considering these conditions, resale activity should currently be above-average, not below-average. The mortgage stress tests continue to weigh very heavily on home-buying: tens of thousands of Canadians who could responsibly buy homes are being prevented from doing so.

And now for some really exciting news... CREA is now publishing seasonally-adjusted estimates for its House Price Indexes. For Canada, the index is down slightly (by 0.6%) on a year-over-year basis. The seasonally-adjusted data indicates that prices peaked last December and have eroded by 1.4% since then. Price trends vary across the country: erosion is occurring in much of western Canada, but gains are occurring in Ontario, Montreal, and Moncton (the only centre in Atlantic Canada that is currently covered).

The sales-to-new-listings ratio (“SNLR”) has increased and was 57.8% during May (and the average for the past year was 55.4%). This is above the threshold (52%) for a “balanced market” (this is the level at which prices are expected to rise by 2% per year). However, wide variations across the country are resulting in flat prices overall.



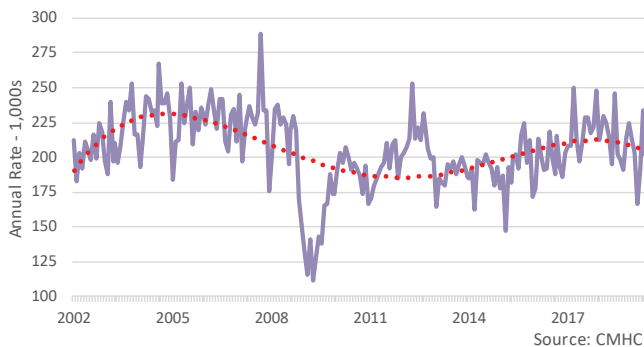
Housing Starts

Housing starts were lower in May, at an annualized rate of 202,300. The trend for housing starts continues to erode gradually. As commented previously, economic conditions have been very positive, and population growth has accelerated: we should be seeing increased housing starts.

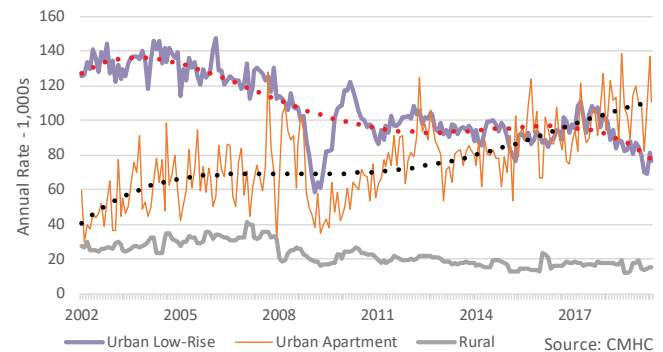
Large month-to-month variations in starts are due mainly to volatility for apartments. For low-rise homes, there has been a pronounced drop in activity (the trend line has fallen by about 20% compared to 2011 to 2017). For apartments, the trend is uncertain: the data hints that apartment starts are at a peak, and I continue to expect that the trend line will turn down this year (resulting from a slow adjustment of construction activity to a sharp drop in pre-construction sales that has already occurred).

Further discussion of trends in housing activity, and the evolving economic consequences, is contained within a new report (“The False Binary”) published by Mortgage Professionals Canada in late May. [The report can be found HERE.](#)

Housing Starts in Canada



Housing Starts by Type of Dwelling in Canada

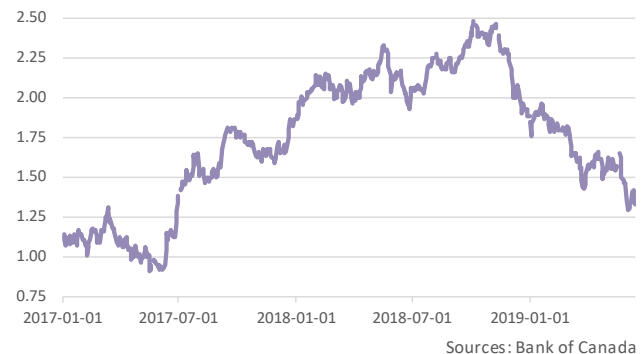


Interest Rates

Reflecting continued fears about the economic outlook, bond yields have fallen further during the past month (by about ¼ of a point).

The spread between mortgage rates and bonds is skinny, at a current 1.5 points, versus a long-term average of 1.8 points. Meanwhile, the posted rate (at which most mortgage borrowers must be tested) is still 5.34%, even though the actual mortgages would usually have rates below 3%.

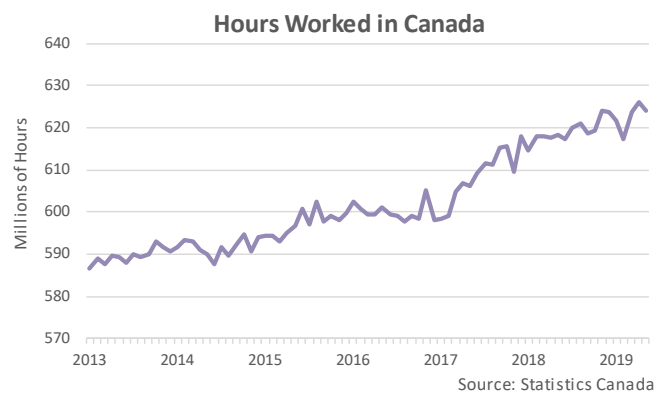
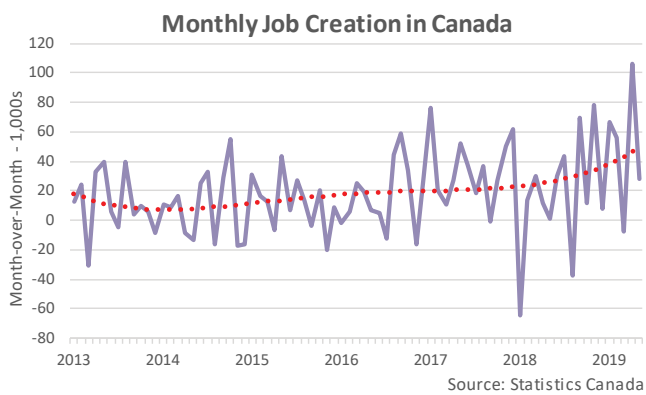
Yields for 5-Year GoC Bonds





Employment Trends

Employment continues to expand at a strong rate. Statistics Canada reported a gain of 27,700 for May (month-over-month, and year-over-year growth of 453,000 (2.4%). During the past three years, job growth has averaged 1.8% per year. All of these numbers exceed the growth rate for the population (currently 1.4%) and are therefore very positive.



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