

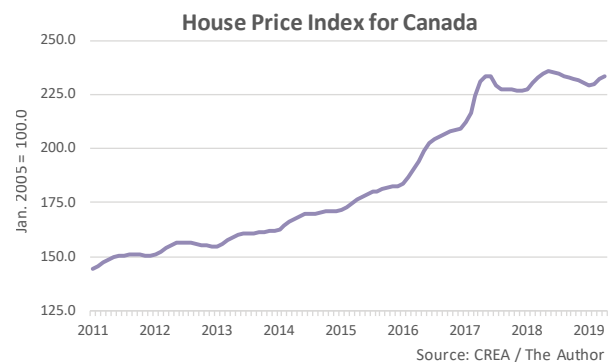
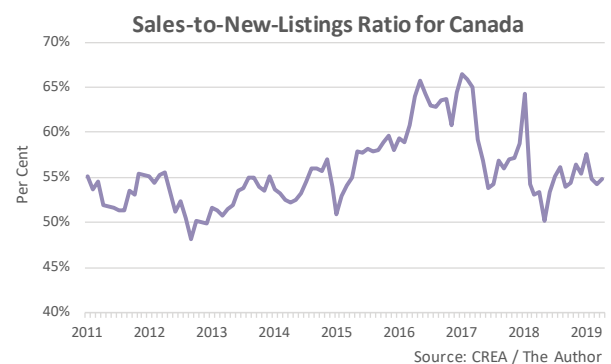
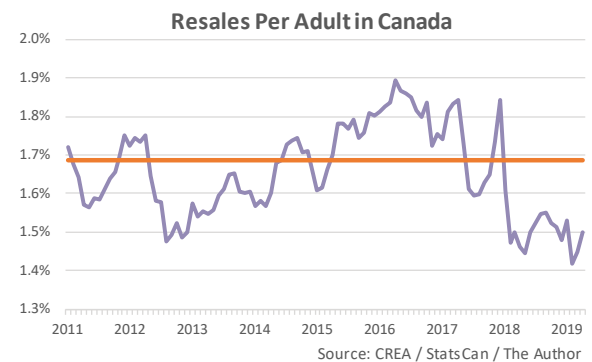
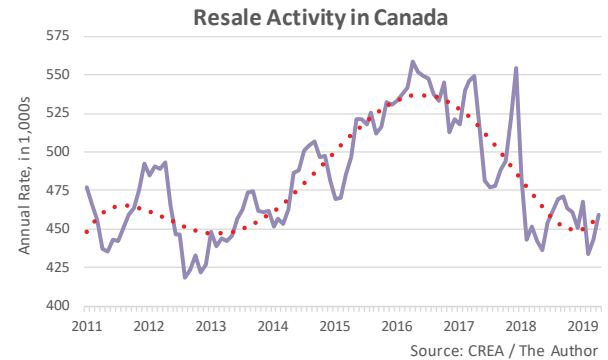
Resale Market

Resale activity increased in April, to an annualized rate of 459,700. Housing activity remains disappointing. Resale activity should trend upwards over time, due to population growth. On a population-adjusted basis, an average level of sales would now be about 515,000: the report for April is 11% below that average. This is despite the sharp drop in mortgage interest rates that has occurred this year, which should be causing sales to be above-average.

At the end of 2018, my opinion-estimate of advertised “special offer” rates from major lenders, for 5-year fixed-rate mortgages was 3.75%, and for the entire fourth quarter it was 3.60%. For this April the average rate was 3.1% and now (May 15) rates below 3% are being advertised. In response, we will very likely see a further rise in sales for May. But, given this very large improvement in affordability, we should be seeing a larger jump in the sales rate. The muted response is continued testimony to the deeply depressive effects of the mortgage stress tests. And... house prices are falling across much of western Canada, which is a further impediment: people will hesitate to buy when they see a risk of losing equity.

House prices in Canada are roughly flat, as the House Price Index from the Canadian Real Estate Association (“CREA”) was 0.3% lower than a year earlier. But, there are large variations across the country. In western Canada, most of the areas covered are showing drops, while elsewhere most areas are seeing price increases. A bit more discussion was provided in the regional editions of Housing Market Digest (for the first quarter).

The sales-to-new-listings ratio (“SNLR”) was 54.8% in April, which is slightly above the threshold (52%) for a “balanced market” (this is the level at which prices are expected to rise by 2% per year). As noted, there are wide variations across the country.

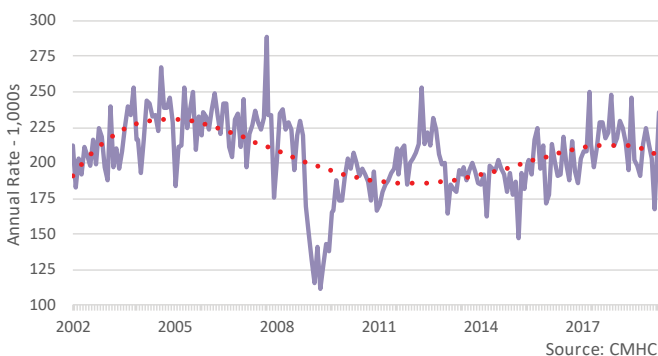


Housing Starts

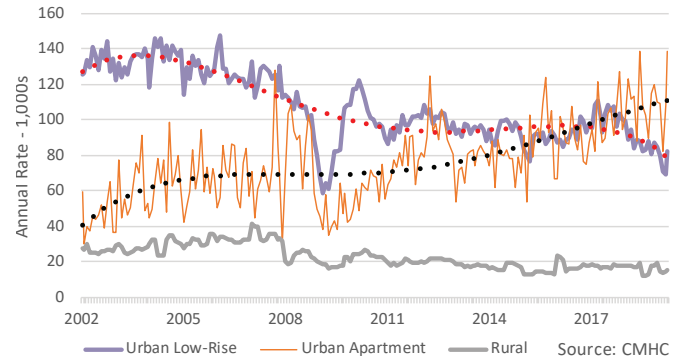
Housing starts jumped in April, to an annualized rate of 235,500. Despite this very strong one-month move, the trend for total starts is turning downwards. Economic conditions have been very positive, and population growth has accelerated: we should be seeing increased housing starts.

The rise in starts for April was largely due to apartments, which leaped, to the second highest monthly figure of the past three decades. The figure for April (138,100) was more than double the average seen since 1990 (58,600). Low-rise activity (singles, semi-detached, and town homes) improved slightly from the low figures seen in February and March. The April figure (82,200) is 19% below the average since 1990 (101,300) and the trend is sharply downwards.

Housing Starts in Canada



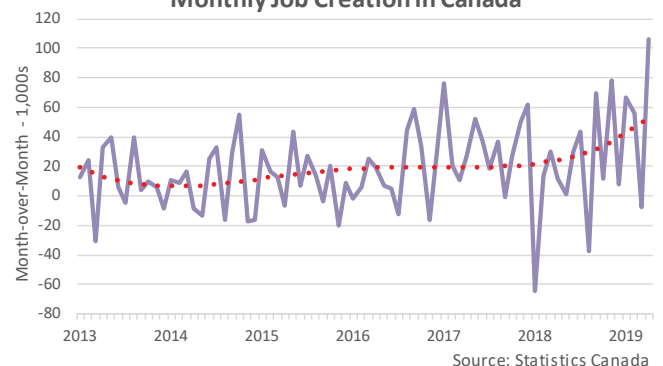
Housing Starts by Type of Dwelling in Canada



Employment Trends

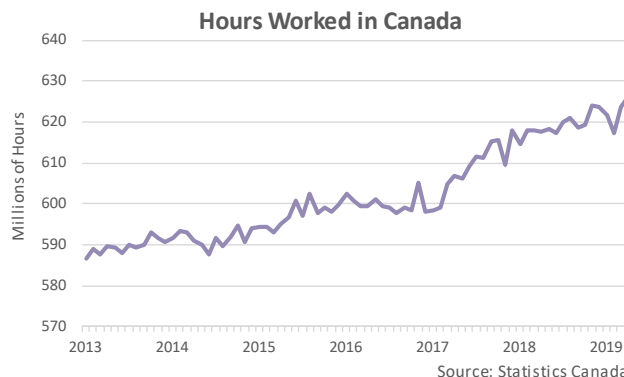
Statistics Canada reported the largest-ever monthly job gain for April (106,500, in just one month). The data is from a sample survey and can be wrong, and this one most likely contains a very large error. That said, even though there is uncertainty about the true state of affairs, it does appear that Canada has experienced a healthy rate of job creation since mid-2016.

Monthly Job Creation in Canada



Employment Trends

There is a further wrinkle: there has been weakening for average hours worked per person, and therefore we are seeing slow growth of total hours worked. Year-over-year, total hours are up by 1.3%. This is fractionally slower than the growth rate for the population (1.4%). From that perspective, the Canadian economy is in neutral at present.



Interest Rates

Attitudes about the economic outlook remain, I'd say, "concerned" (which is less serious than "worried"). Consequently, bond yields remain relatively low (currently in the area of 1.55%), almost a point below the peak seen last fall (but still 0.85 points higher than during 2015 and 2016).

Weak home buying has made the mortgage market more competitive: the spread between bonds versus my opinion-estimate of a typical "special offer" mortgage interest rate is now 1.6 points, which is below the long-term average of 1.8 points. The posted rate has not budged (it has now been at 5.34% for a year), regardless of the downshift for bond yields. This reminds us that this rate is set by the lenders for their own purposes, not by any competitive process.



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