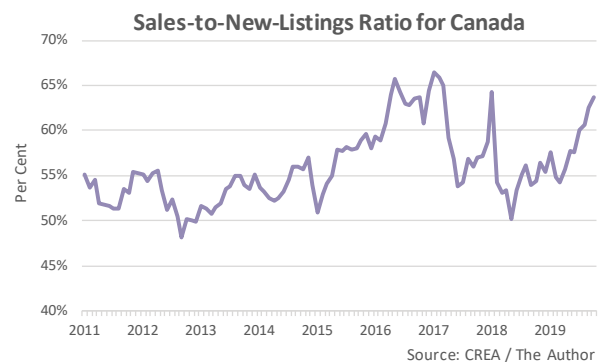
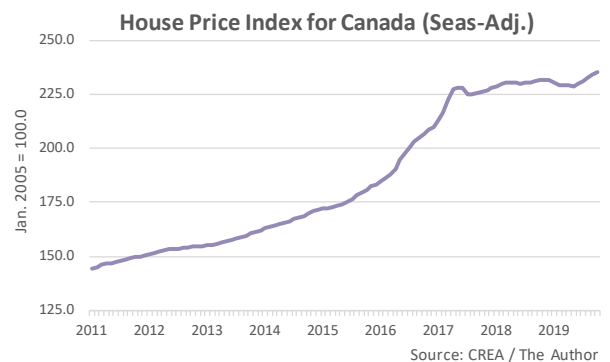
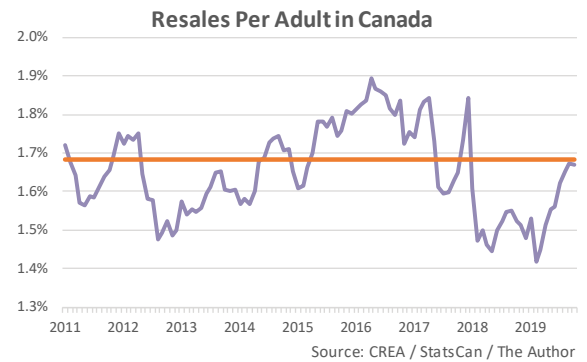
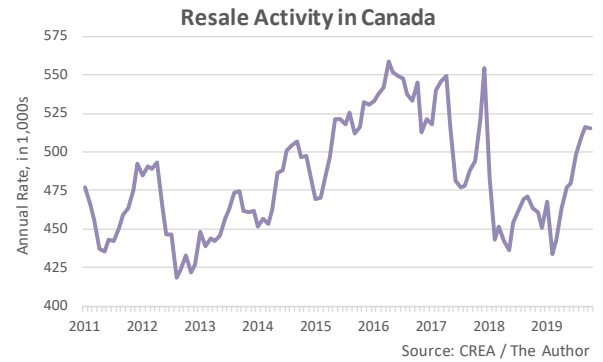


Resale Market

Resale activity appears to have plateaued, with the sales rate at 516,000 in both September and October (the rate for September was revised upwards from the original 512,200). With interest rates now up slightly, we could see an acceleration of sales, as buyers rush to take advantage of pre-approvals before they expire. Thus, we could see a similar (or even stronger) sales rate for November, but then we might see some slowing in the new year. On a population-adjusted basis, the long-term average sales rate is now very close to the long-term average. As I've commented repeatedly, with economic fundamentals 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 fallen sharply 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. The House Price Index from the Canadian Real Estate Association ("CREA") has increased substantially (by 2.9%, or an annualized rate of 5.8%) during the past six months.

The state-of-balance in the market has shifted sharply into a "sellers' market". The sales-to-new-listings ratio ("SNLR") was at 63.7% in October, far above the threshold (52%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). Flows of new listings into the housing market are not keeping up with demand, largely because there is less interest in moving up and therefore fewer current owners are trying to sell. Factors influencing this reduced interest might include 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).

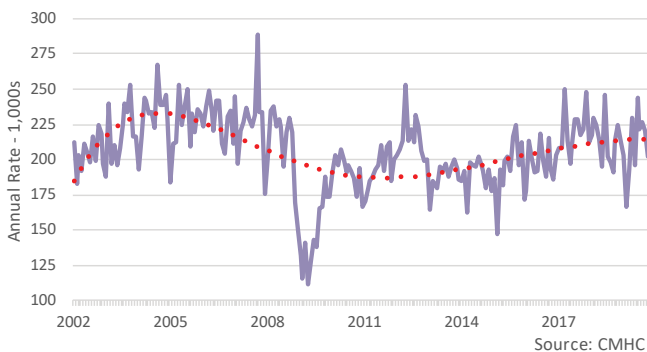


Housing Starts

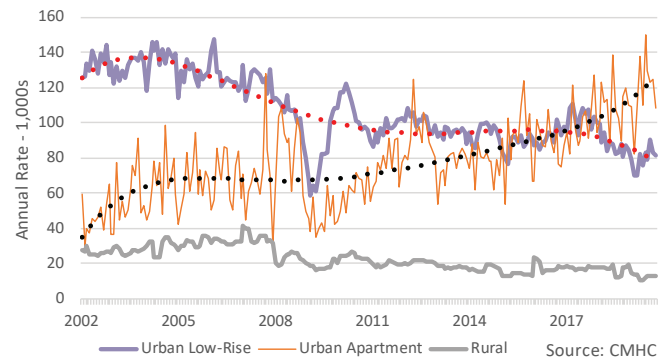
Housing starts remain quite strong in historic terms. The rate did dip in October, to 202,000. The year-to-date average is 210,000. But, as commented before, very rapid population growth means that the current requirement is in the area of 240,000 new dwellings (or even more). Unless housing construction soon expands by a substantial amount, housing shortages will worsen in future, and based on current trends it appears quite likely that the requirements will not be met.

Low-rise activity (singles, semi-detached, and town homes) remains very weak, setting the stage for prolonged price pressures. The data also show a substantial drop in starts in rural areas. On the other hand, apartment activity remains very strong, due to pre-construction sales that were made earlier and to increased rental apartment construction. I continue to expect that there will be a significant drop for apartment starts (due to reduced pre-construction sales in the wake of the stress tests), but the timing is uncertain.

Housing Starts in Canada



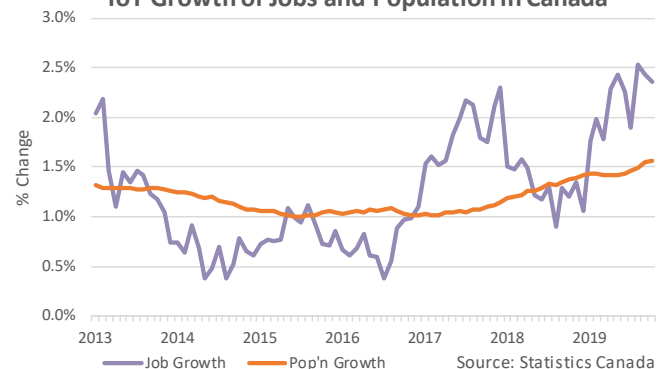
Housing Starts by Type of Dwelling in Canada



Employment Trends

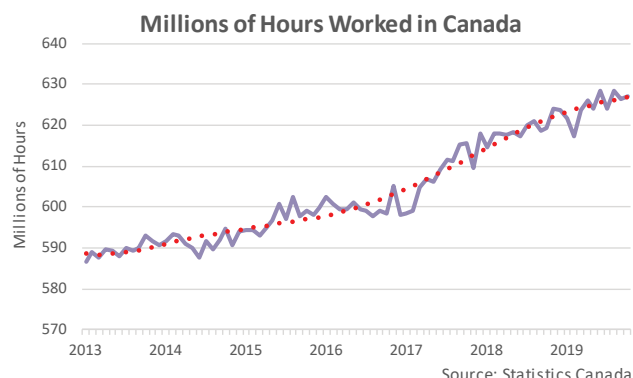
Job creation remains very strong. According to the Statistics Canada's Labour Force Survey employment is up by 2.4% versus a year ago. Since this is well above the rate of population growth (1.6%) this is a quite bullish sign. But, the recent data shows slower job growth (a 1.4% annualized rate during the past six months). Since this data is sometimes wrong, it's too soon to draw a conclusion that the growth trend has been disrupted.

YoY Growth of Jobs and Population in Canada



Employment Trends (Continued..)

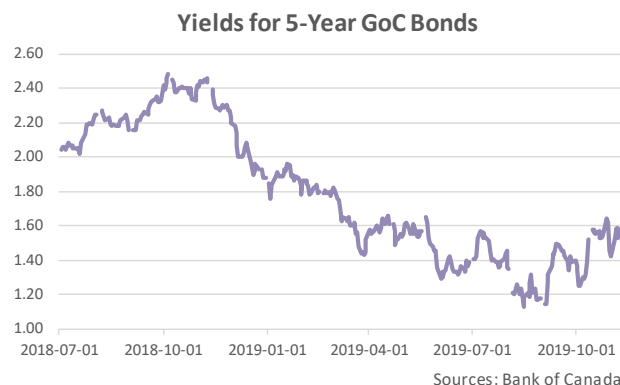
A further consideration is that average hours of work per employee has fallen slightly, with the consequence that total hours worked are growing slowly (the year-over-year growth rate for total hours is now just 1.3%; and over the past six months the annualized rate is just 0.4% - this is becoming a worrisome indicator).



Interest Rates

Bond yields have been unusually volatile during the past half year. At present (November 15) the yield for 5-year Government of Canada bonds is just under 1.5%. Based on economic conditions, I think that 1.5-1.75% is an appropriate range.

My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate from major lenders) has been raised to 2.85% (from a prior 2.7%). The mortgage-bond spread remains skinny (about 1.3-1.4 points versus a long-term average in the area 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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