

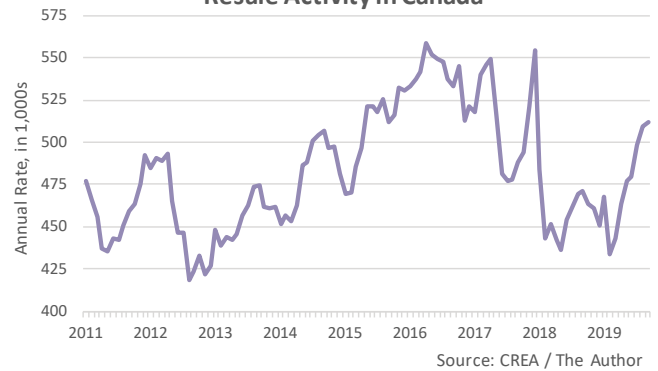
Resale Market

Resale activity has increased for seven consecutive months, bringing the annualized rate to 512,200 for September. For the year to date, the average sales rate is 476,000. On a population-adjusted basis, the long-term average sales rate is in the area of 520,000. As commented in prior issues of this report, 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 fallen sharply this year): we should be seeing activity well above average, not at or below average. The mortgage stress tests continue to weigh very heavily on home-buying.

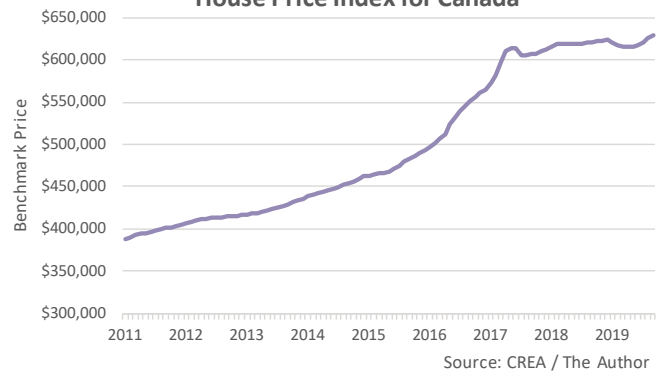
The House Price Index from the Canadian Real Estate Association (“CREA”) has increased during the past four months, but compared to a year ago the figure is up by just 1.3%. There are large variations across the country.

Flows of new listings into the housing market are not keeping up with demand, causing the sales-to-new-listings ratio (“SNLR”) to rise. As of September, the ratio has reached 61.3%, 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). It is quite likely that the national price index will show further rises during the coming months, although there will continue to be considerable differences in trends across the country. More discussion of price trends is provided in the regional editions of Housing Market Digest.

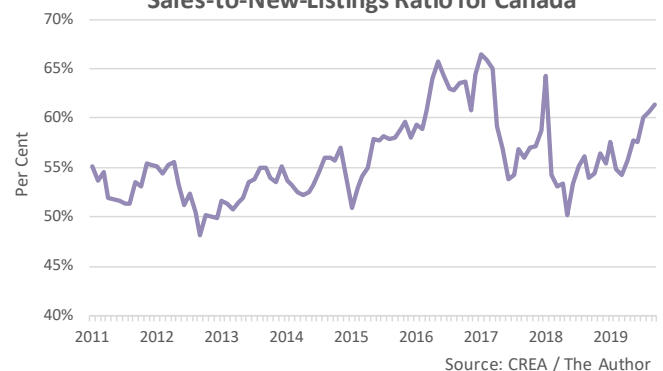
Resale Activity in Canada



House Price Index for Canada



Sales-to-New-Listings Ratio for Canada

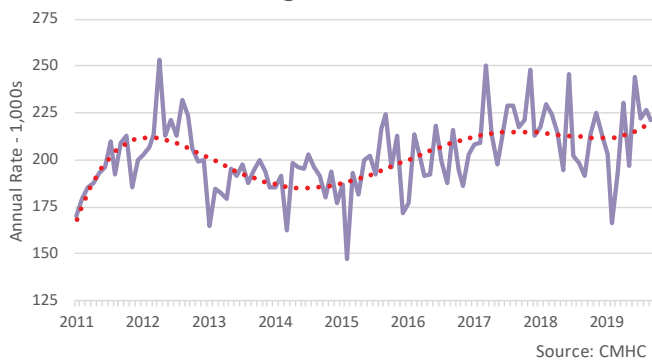


Housing Starts

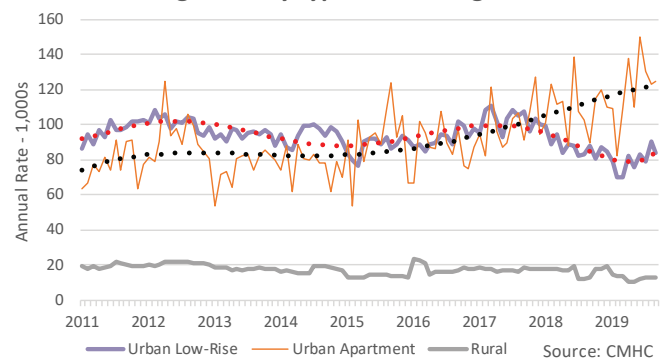
Housing starts have improved, with the average rate at 211,000 so far this year (and a rate of 221,200 for September). But, new construction activity is still low (based on the rapid growth rate for the population, the demographic requirement is currently in the area of 240,000).

Low-rise activity (singles, semi-detached, and town homes) has improved slightly in recent months, but remains far below the prior trend (and below the requirement). Slow production of low-rise homes is setting the stage for continued shortages that will result in 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 in part to pre-construction sales that were made earlier. As well, there has been an expansion of rental apartment construction, in response to low interest rates and rapid growth of rents (and the expectation that low vacancy rates will continue to drive rapid rent growth). During the third quarter of this year, slightly more than one-half of apartment starts were for rentals.

Housing Starts in Canada



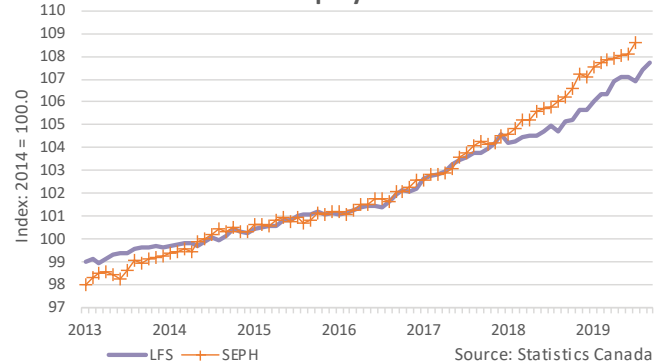
Housing Starts by Type of Dwelling in Canada



Employment Trends

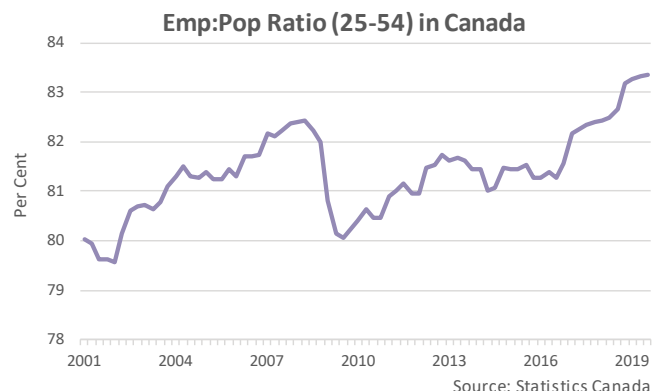
Both of Statistics Canada's surveys of employment show that job creation is still very strong. The Labour Force Survey ("LFS") shows growth of 2.4% during the past year (substantially faster than the 1.5% growth rate for the population). The Survey of Employment Payrolls and Hours ("SEPH") shows even stronger growth, at 2.7% (but as of July, since that data is slower to be released).

2 Views of Employment in Canada



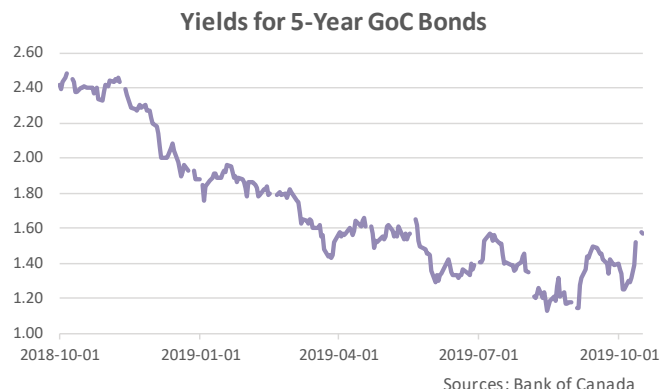
Employment Trends (Continued)

Another way to look at the employment situation is via the employment-to-population ratio (the percentage of people who have jobs), especially for the “prime working ages” (25-54). This year, this indicator has been at the highest-ever level (since the start of this data in 1976). This should be supporting a very strong housing market.



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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