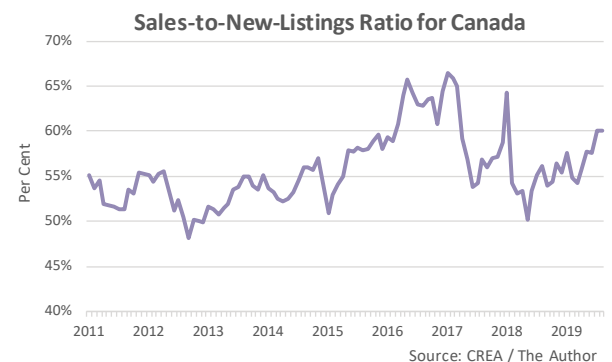
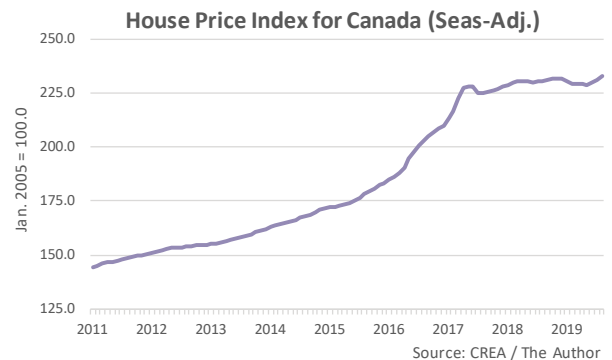
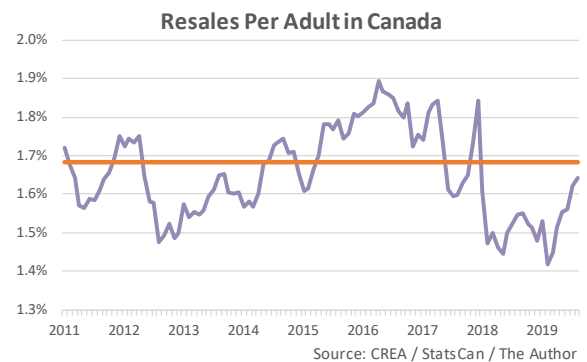
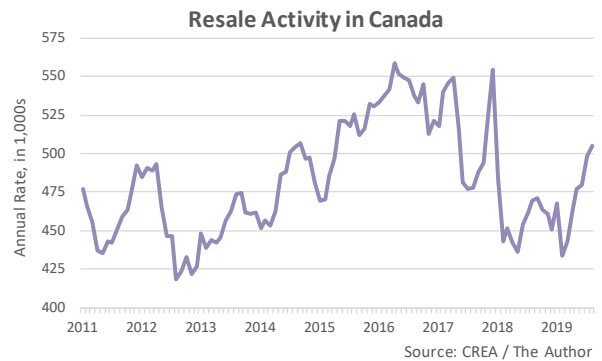


Resale Market

Resale activity has increased for six consecutive months. In September, the sales rate (505,500) exceeded 500,000 for the first time since December 2017.

As I've commented previously, conditions are very favourable for home-buying, with robust job creation during the past 2.5 years, population growth at the strongest rate in a generation, and mortgage interest rates down sharply this year. In these circumstances, sales activity should be very strong. Yet, sales for August were 2.6% below the long-term population-adjusted average (which is now 519,000). The mortgage stress tests (and provincial policies in BC and Ontario) continue to suppress home buying.

Flows of new listings into the market have not followed the recovery of sales, causing the sales-to-new-listings ratio to rise. For July and August, the rate was 60%, well above the threshold (52%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). Therefore, prices have strengthened: the House Price Index from the Canadian Real Estate Association ("CREA") has increased during the past three months, but this follows a period of weakness. As a result, the year-over-year change is just 1.0%.

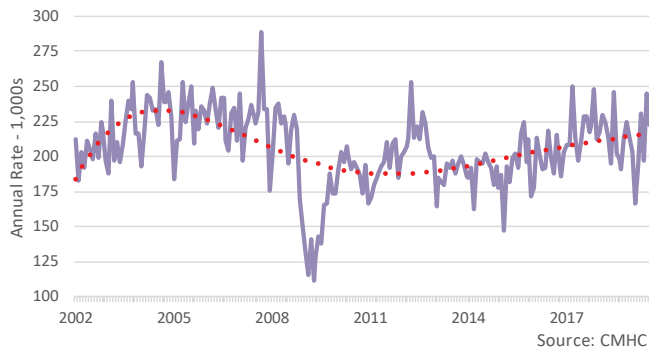


Housing Starts

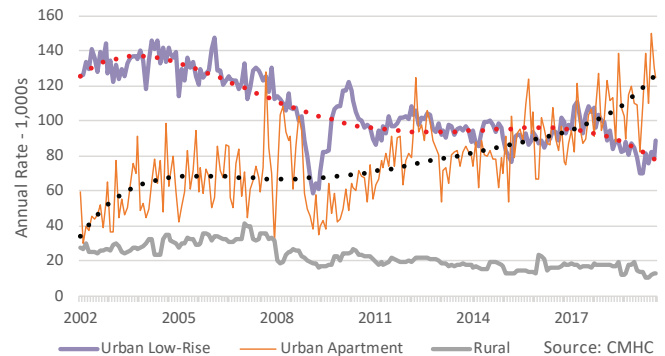
Housing starts are quite strong, at an annualized rate of 226,600 in August.

We continue to see much different trends for low-rises (singles, semi-detached, and town homes) versus apartments: the low-rise trend has fallen by about one-fifth, whereas the trend continues to rise for apartments.

Housing Starts in Canada



Housing Starts by Type of Dwelling in Canada



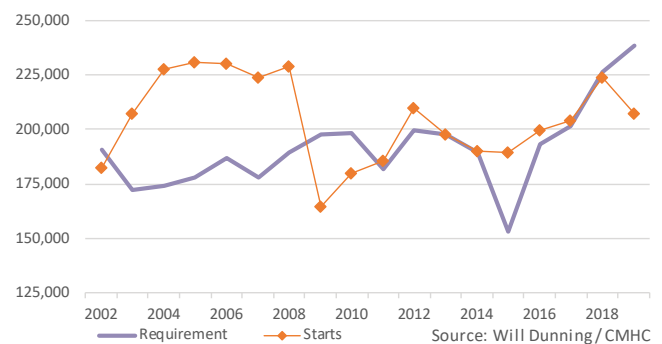
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We continue to see much different trends for low-rises (singles, semi-detached, and town homes) versus apartments: the low-rise trend has fallen by about one-fifth, whereas the trend continues to rise for apartments.

Again, considering the very strong background conditions we should be seeing very strong starts.

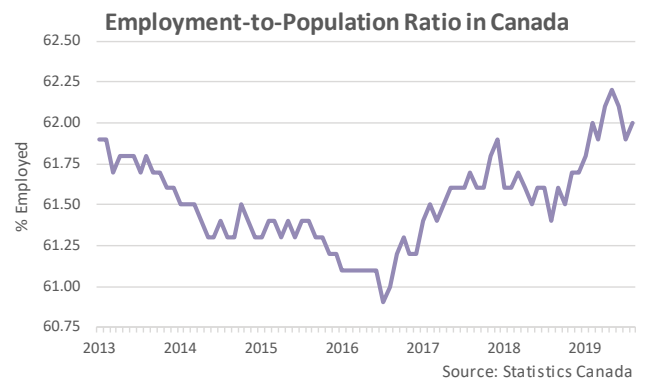
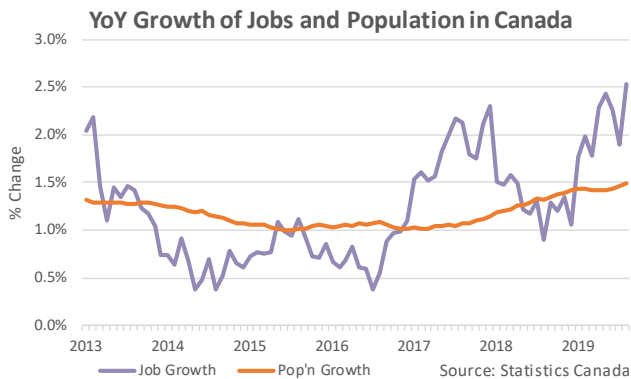
Another way to look at this is through a demographic analysis that estimates how many housing starts are needed to accommodate the growing population. The next chart compares my estimates of requirements to actual housing starts as reported by CMHC (in both cases, the estimates cover periods ending June 30).

Housing Requirements versus Starts in Canada



Employment Trends

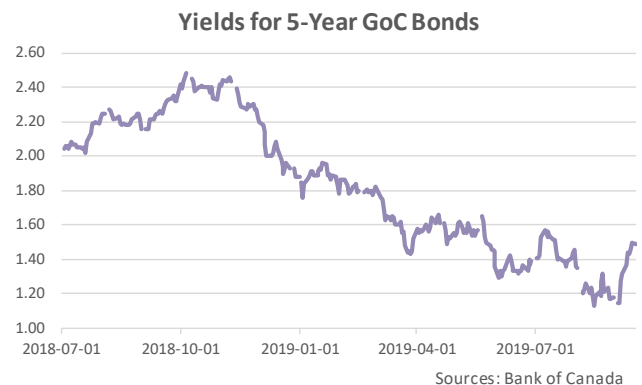
The employment data published by Statistics Canada contains a lot of volatility, and there is uncertainty about the trend. Overall, however, it is quite clear that Canada has seen rapid job growth during the past 2.5 years, well in excess of the rate of population growth. In consequence, the percentage of adults who have jobs is at a high level. These trends should be very positive for housing activity in the new and resale markets.



Interest Rates

Fears about the economic outlook caused the yield for 5-year Government of Canada bonds to fall, reaching a bottom of just 1.15% on Sept 3rd, but the yield is now back to about 1.5%.

Mortgage interest rates have not (yet) responded to that reversal, and my opinion-estimate of a typical advertised "special offer" mortgage interest rate (5-year fixed-rate from major lenders) is still at 2.7% (down from 3.75% at the start of the year). The mortgage-bond spread is therefore very thin (about 1.2 points versus a long-term average in the area of 1.8 points). Unless there is another drop for bond yields, we are likely to see some increases in rates during the next few weeks. I do not expect bond yields to fall: I have believed for a while that the bond yield should be in the area of 1.50-1.75%.



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