AUGUST 2019

HOUSING MARKET DIGEST

CANADA

MORTGAGE PROFESSIONALS CANADA

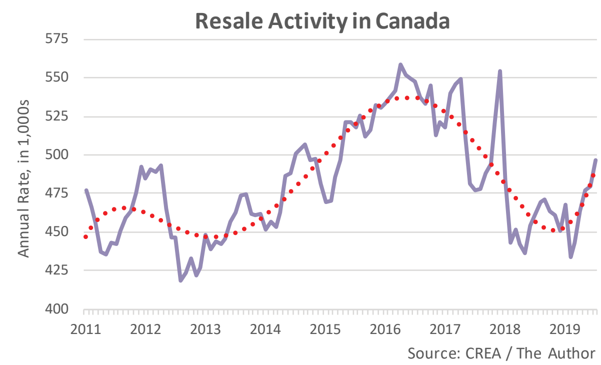
Resale Market

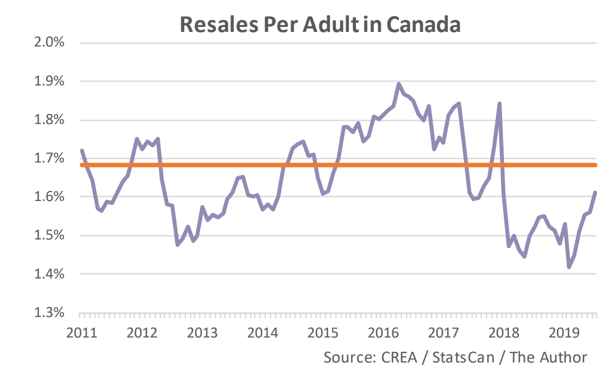
Resale activity continues to improve. The annualized sales rate reached 496,300 in July.

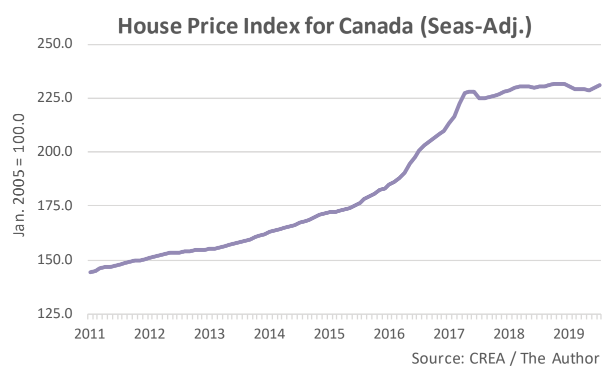
Over time, we should expect sales to trend gradually upwards, because there are more potential buyers and more properties that could potentially be sold. On a population-adjusted basis, the long-term average sales rate is currently in the area of 518,000. Sales in July were 4% below that population-adjusted average. The population-adjusted sales rates are above the long-term averages in Quebec and Atlantic Canada but are below average in all of the other provinces, and in most cases by substantial amounts. Conditions remain very favourable for home-buying and sales activity should be above average, not below average: 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.

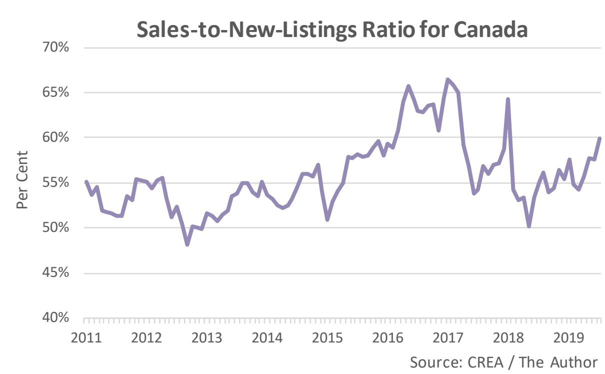
The House Price Index from the Canadian Real Estate Association ("CREA") has been essentially flat for two years (and is up by just 0.2% versus a year ago).

The mortgage stress tests have discouraged home buying, and in consequence are tending to discourage people from selling their homes. Flows of new listings into the housing market remain muted. The sales-to-new-listings ratio ("SNLR") has increased. At 59.8% in June, it is well above the threshold (52%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). On this basis, we might expect prices to be rising on a national basis. But, there is a wide variety of conditions across the country, Quebec and Ontario are seeing price growth, prices are roughly flat in Manitoba and Atlantic Canada, and price erosion is occurring in many areas of western Canada.









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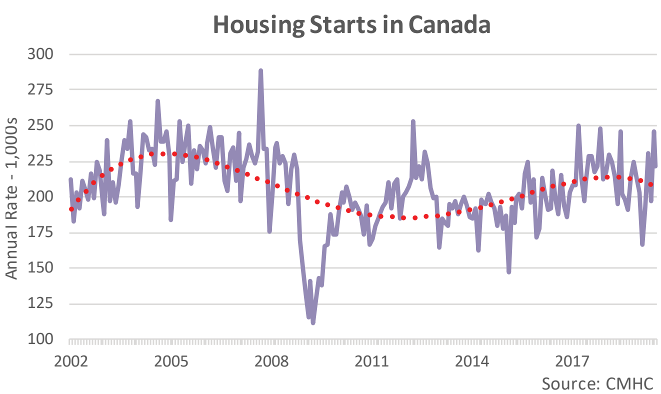
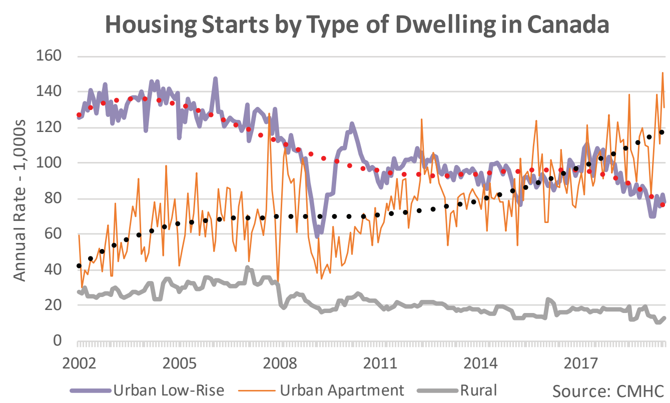
Housing Starts

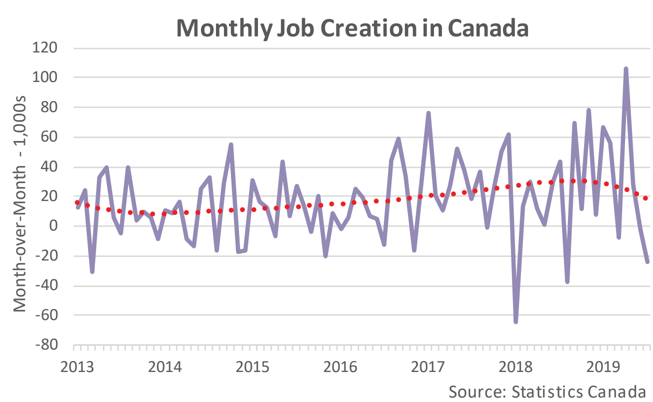
Housing starts remain relatively strong, including an annualized rate of 222,000 in July. As was noted, fundamental conditions are very favourable for housing, and we should be seeing quite robust new housing construction. Low-rise activity (singles, semi-detached, and town homes) has weakened very substantially, which is quite disappointing considering the conditions that exist: the mortgage stress tests have sharply impaired sales of new homes. The data also show a substantial drop in starts in rural areas. On the other hand, the trend for apartments remains very strong: this continues to result from pre-construction sales that were made before 2018, and still doesn't reflect the sharp drop in sales that has occurred since the start of last year.





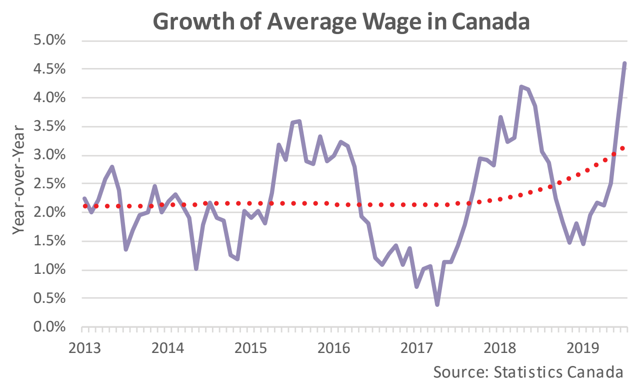
Employment Trends

Statistics Canada has reported weak growth figures for the past two months (including a drop of 24,200 jobs for July). Looking at the data, I suspect that job creation was over-estimated late last year and early this year, and the recent data may be a reversal of prior over-estimates, rather than a true turning point. Year-over-year growth is still at a very respectable pace (1.9%), and over the past 2.5 years the growth rate averaged 1.6% per year.



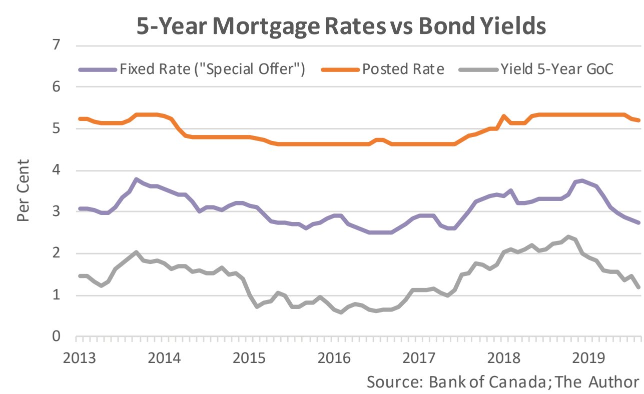
Employment Trends (Continued)

Intriguingly, data on average weekly wages shows a recent surge of growth, to a year-over-year rate of 4.6% as of July. It is too early to conclude whether this is “noise” in the data (as has been seen in the past) or a substantive change.



Interest Rates

Bond yields continue to fall, as reckless economic policies (and worsening political disfunction) in the US are creating fears about the future economy. Canadian bond yields are still above the record lows that were seen during 2015 until mid-2017, but they are very low in historic terms. Actual mortgage interest rates have largely followed the movements in bond yields, as the market is quite competitive. But, the posted rate (as reported by the Bank of Canada) has barely moved. As a result, the spread between the posted rate and 5-year bond yields in now 4.0 points, which is substantially higher than normal (for the period shown in this chart, the spread averaged 3.53 points).



At present, the posted rate should be about a half-point lower than it is. My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate from major lenders) has now been reduced seven times this year, from 3.75% at the start of the year to a current 2.7%. Rates now are just slightly above the all-time low opinion-estimate, which was 2.5% during the summer of 2016.The data is based on advertised interest rates - even lower rates can be negotiated.

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