FEBRUARY 2019

HOUSING MARKET DIGEST
CANADA

MORTGAGE PROFESSIONALS CANADA

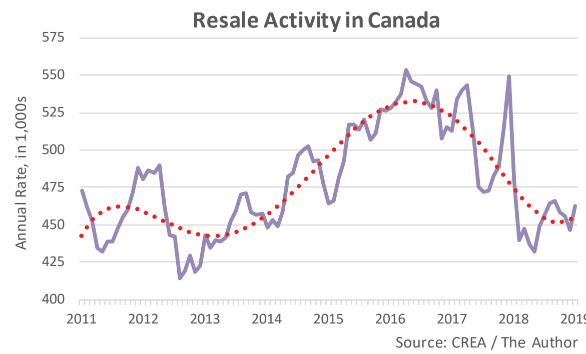
Resale Market

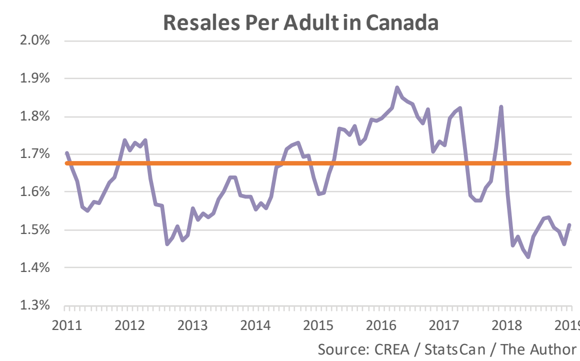
Sales rose in January, to an annualized rate of 462,300. This minor change does not alter the story that activity is much lower than it should be.

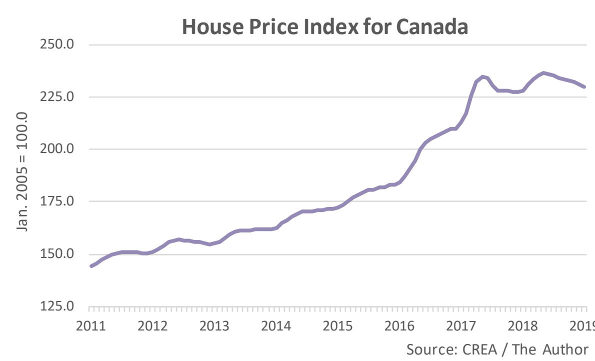
Looking at sales per adult (taking into consideration that the population is growing, and therefore we should expect that sales will trend upwards over time), the rate for January was 10% below the long-term average (which is shown by the flat orange line). Based on that long-term average sales rate, current sales should be in the area of 510,000. By contrast, the actual total for 2018 was 10% lower, at 458,442.

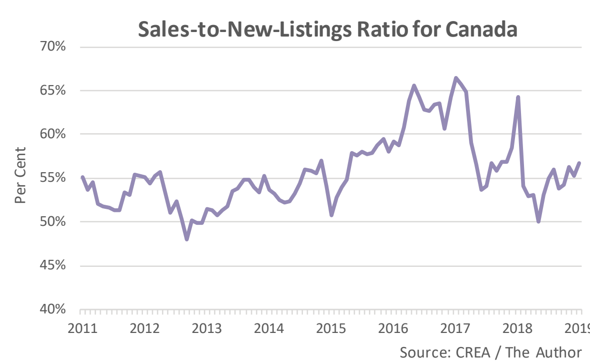
The House Price Index from the Canadian Real Estate Association ("CREA") continues to show gradual erosion. The index for January was 2.8% lower than the peak seen last May.

The sales-to-new-listings ratio ("SNLR") rose to 56.7% in January. It remains above the threshold (52%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). This should in theory be resulting in moderate price growth. But, there are wide variations across the country: the HPI shows falling prices in Vancouver, Alberta, and Saskatchewan, with rises in most of the other areas that are included in the index.









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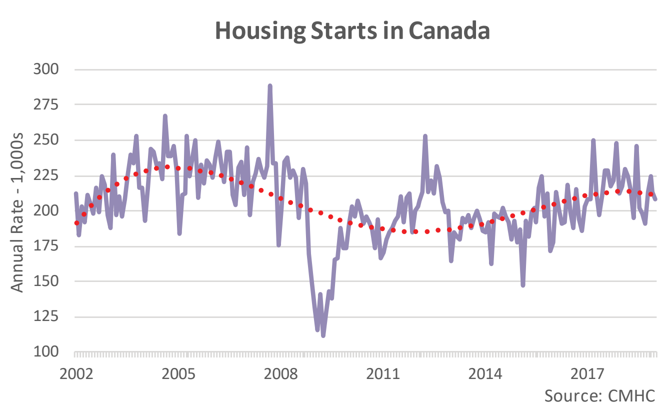
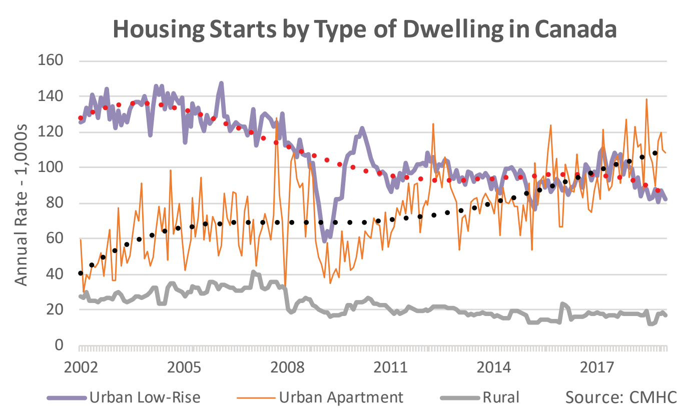
Housing Starts

Housing starts continue to evolve at a glacial pace. The trend for total starts now appears to be pointing downwards. With each new month, it is becoming increasingly clear that low-rise activity (singles, semi-detached, and town homes) has fallen sharply (largely due to the stress tests): the trend line is down by about 15%, and is still falling. For apartments, volatile data make it difficult to draw a reliable trend line. The trend line still suggests that apartment activity is rising. As commented previously, apartment starts reflect pre-construction sales that occurred many months ago and it is too soon for this data to be showing the effects of the stress tests. I continue to expect that the trend for apartment starts will begin to fall during the first half of this year. By year end, the trend for total starts (low-rises plus apartments) will be below 180,000, at least 15% below the 2018 level, and 18% lower than in 2017.

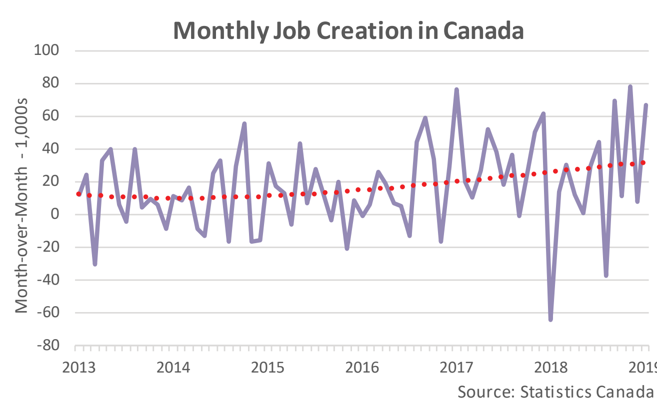
The population of Canada is currently growing at the fastest rate in more than two decades (1.44% during the past year, versus an average of 1.05% over the past 20 years). Therefore, housing construction should be expanding, not contracting. The mortgage stress tests will add to downward pressure on vacancies (and upward pressures on rents) during the coming three years.





Employment Trends

The employment data (from Statistics Canada's Labour Force Survey) remains highly erratic. As of December, the reported year-over-year growth rate was 1.1% (a disappointing figure). But, with a very large rise reported for January, estimated year-over-year growth jumped to 1.8% (which is quite encouraging). Reality does not change that quickly, so one of those two figures is wrong. We can't know for sure which one (if either) is correct.



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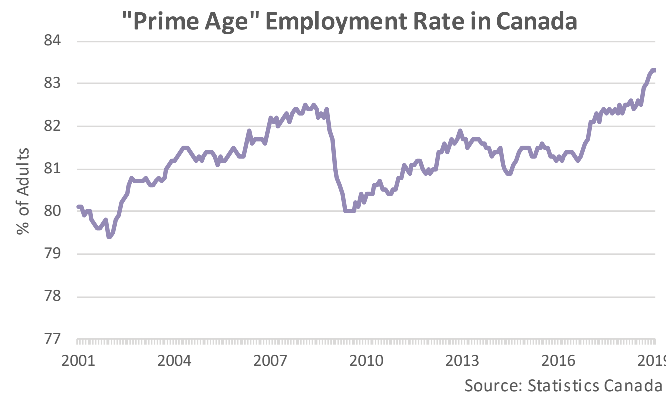
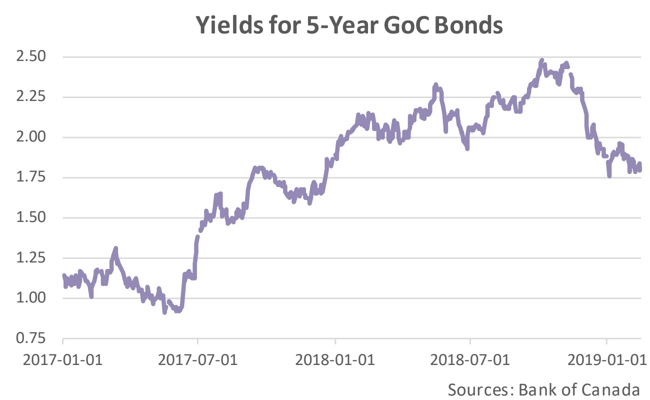
Employment Trends (Continued)

Another way to look at the employment situation is the percentage of adults who have jobs (the "employment-to-population ratio" or "employment rate"), and especially for "prime working age adults" (25 to 54). This data shows a very favourable situation. The sharp rise in the most recent data could be wrong, but even if it is, the employment rate has been at a high level, which should be positive for the housing market. Other economic indicators are softening (notably retail sales, manufacturing activity, and of course housing resales). Thus, we might see slower job creation this year, but it would be occurring from a position of strength. In consequence, housing activity should remain strong this year, but the mortgage stress tests will prevent that.



Interest Rates

Bond yields have remained relatively low during the past month, as economic expectations have become more fearful in the US and elsewhere. Yet, this is from a position of considerable strength in employment situations. Therefore, even if there is some weakening ahead, economies may still be quite healthy. Adding the pressures that will result reckless fiscal policies in the US, I am unable to expect further drops in interest rates for at least the next few months.



I have slightly reduced my opinion-estimate of a typical "special offer" mortgage interest rate (from major lenders) to 3.6% (from the previous 3.75%). The spread between mortgage rates and bonds was quite skinny during most of last year. The spread (for 5-year fixed rate mortgages) has now returned to the long-term average of about 1.8 points. For 5-year variable rates, I have raised my opinion-estimate to 3.2% (from 3.05%). Overall, it seems that major lenders are now competing less vigorously in the mortgage space. With continued sluggish activity in the resale market, we should see more discounting this year.

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