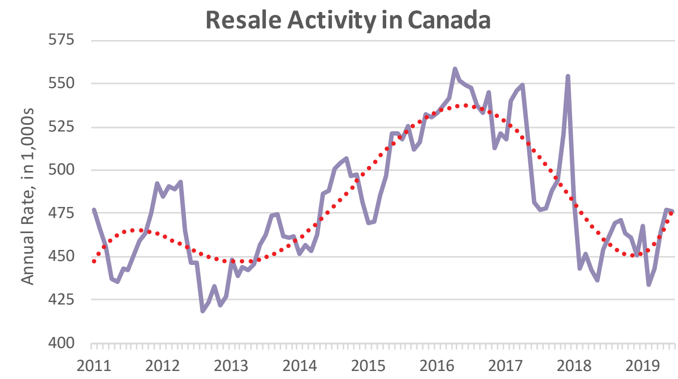
HOUSING MARKET DIGEST CANADA

MORTGAGE PROFESSIONALS CANADA

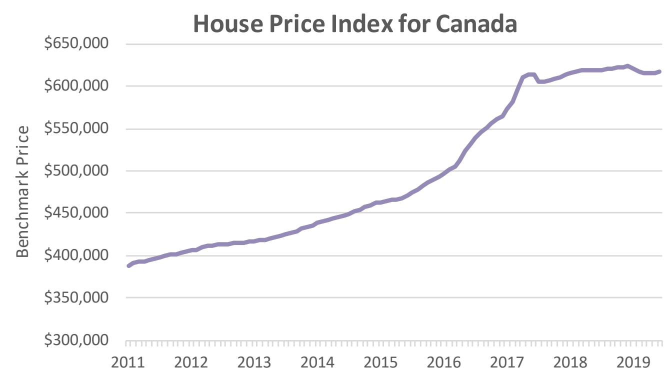
Resale Market

Resale activity has increased, with the annualized rate at 476,000 for June (and 472,000 for the second quarter). On a population-adjusted basis, the long-term average sales rate is in the area of 517,000. As commented in prior months, economic fundamentals are very positive (job creation has been robust during the past two 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 above average, not 8% below average. The mortgage stress tests continue to weigh very heavily on home-buying.



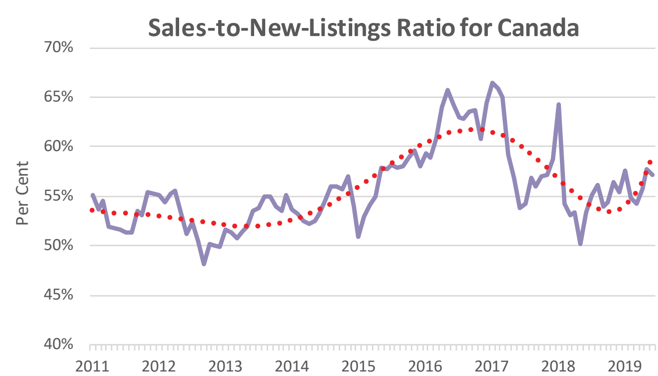
Source: CREA / The Author

The House Price Index from the Canadian Real Estate Association ("CREA") indicates that there has been little change in the national benchmark price during the past two years (year-over-year, the index is down by 0.3%). But, the national index masks that there are large variations across the country.



Source: CREA / The Author

Flows of new listings into the housing market also remain muted, with the consequence that the sales-to-new-listings ratio ("SNLR") was 57.1% in June. This is above the threshold (52%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). In general, this should result in price growth at slightly faster than 2%. But, there is a wide variety of conditions across the country, with some areas seeing rapid price growth and others showing drops. More discussion of these trends is provided in the regional editions of Housing Market Digest.



Source: CREA / The Author

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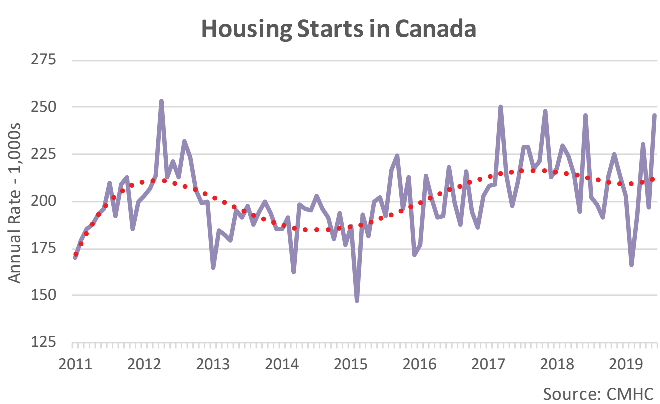
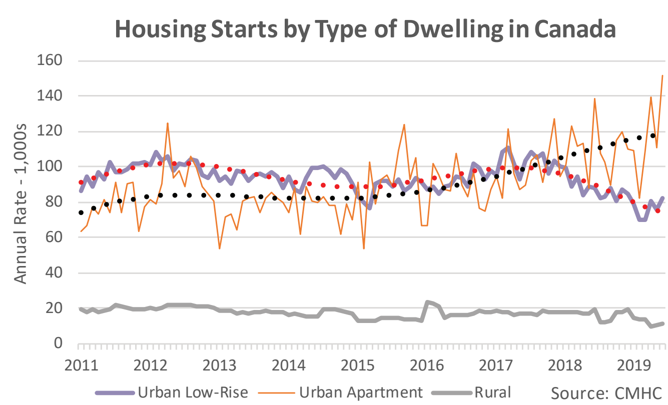
Housing Starts

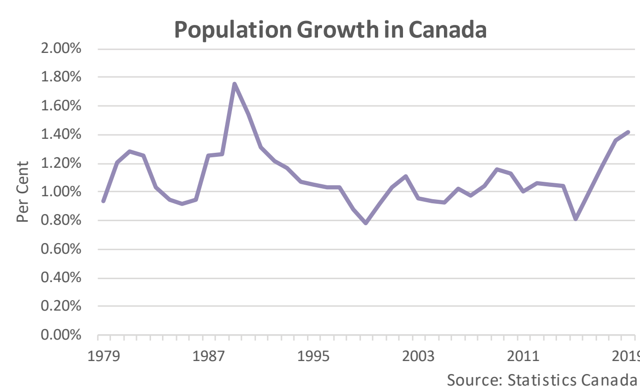
Housing starts were surprisingly strong in two of the past three months (including an annualized rate of 245,700 in June). This has stopped the fall in the trend line that was seen previously. As I've commented previously, given the very strong fundamentals, we should now be seeing even stronger activity, but demand has been suppressed by the mortgage stress tests. Low-rise activity (singles, semi-detached, and town homes) is behaving very differently than apartments: the trend has dropped sharply for low-rises but has risen for apartments. The data also show a substantial drop in starts in rural areas. Strong apartment activity continues to result from pre-construction sales that were made earlier, and doesn't yet reflect the sharp drop in sales that has occurred since the start of last year. As well, low interest rates and rapid growth of rents (and the expectation that low vacancy rates will continue to drive rapid rent growth) is encouraging some construction of new rental apartment buildings (most notably in Quebec).





Population Growth

The population of Canada is currently growing at the fastest rate in a generation. To accommodate this, housing starts should be expanding. The lack of a supply response means that housing shortages (in both the ownership and rental sectors) will worsen during the next few years.



Employment Trends

Both of Statistics Canada's surveys of employment show that job creation has been very strong during the past two years. The Labour Force Survey ("LFS") hints that there has recently been a pause (but this may very well be anomalous data rather than a real change). The LFS shows year-over-year growth at 2.3% as of June, which exceeds the 1.4% rate of population growth.

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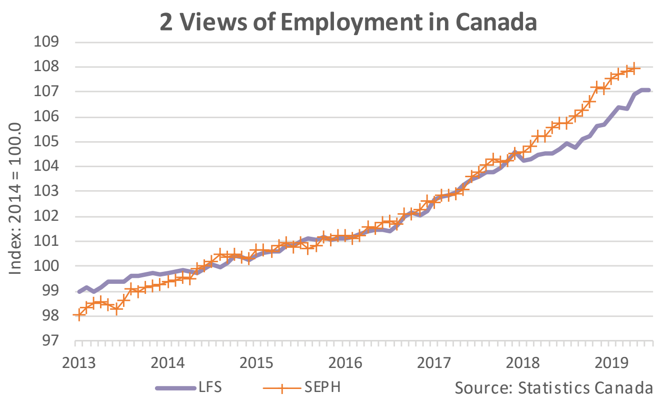
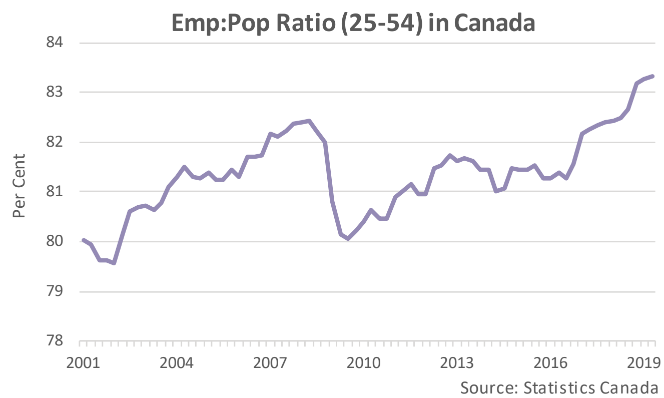
Employment Trends (Continued)

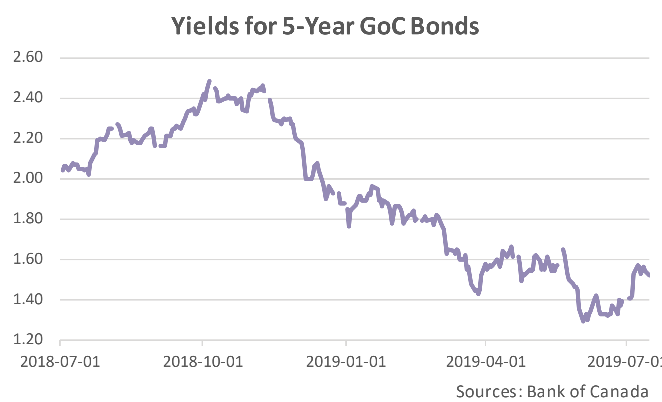
The Survey of Employment Payrolls and Hours ("SEPH") shows even stronger growth, at 2.6% (but as of April). SEPH also hints that there has been a recent deceleration. Another way to look at the employment situation is via the employment-to-population ratio (the percentage of people who have jobs), especially for the "prime working ages" (25-54). This indicator is now 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 fell sharply during the late spring, but have now partially reversed that drop. As of mid-July, the yield for 5-year Government of Canada bonds is in the area of 1.5%. My opinion-estimate of a typical advertised "special offer" mortgage interest rate (5-year fixed-rate from major lenders) has been reduced six times this year (from 3.75% at the start of the year to a current 2.8%). Because the slower housing market has reduced demand for mortgages, the mortgage market has become much more competitive: the spread between 5-year fixed-rate mortgages versus 5-year bonds is now just 1.3 points (versus a long-term average of 1.8). At this point, we should expect that mortgage rates have bottomed.



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