MARCH 2019

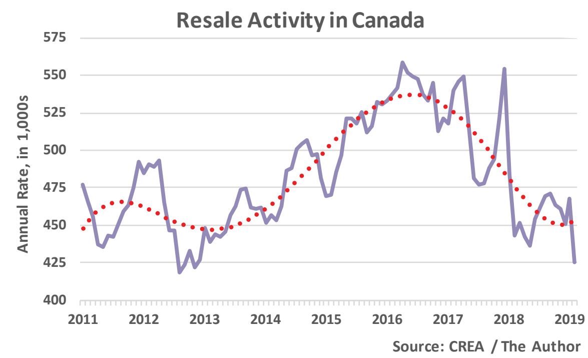
HOUSING MARKET DIGEST

CANADA

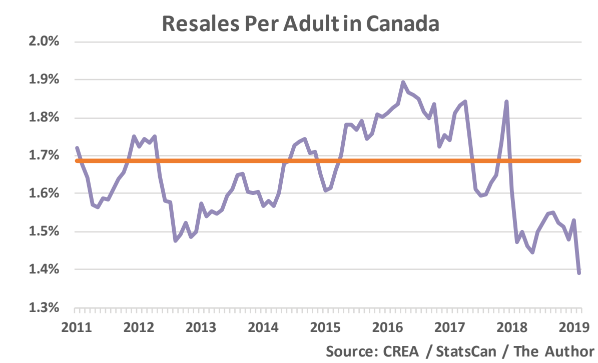
MORTGAGE PROFESSIONALS CANADA

Resale Market

Resale activity dropped sharply in February (by 9% versus January), to an annualized rate of 425,000. In much of the country, weather was unusually harsh, starting in late January, and so the February data doesn't tell us much. With better weather in March we may see an offsetting rebound. It will be more useful to look at data for the entire first quarter, once it is available in mid-April.

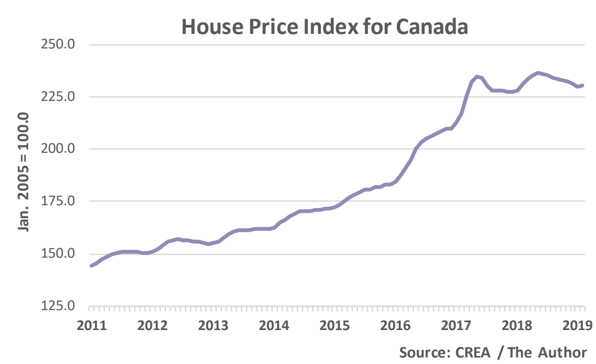


In research for the Canadian Home Builders Association, I have estimated that 70% of the reduction in sales is attributable to the mortgage stress tests and 30% is due to increased interest rates.

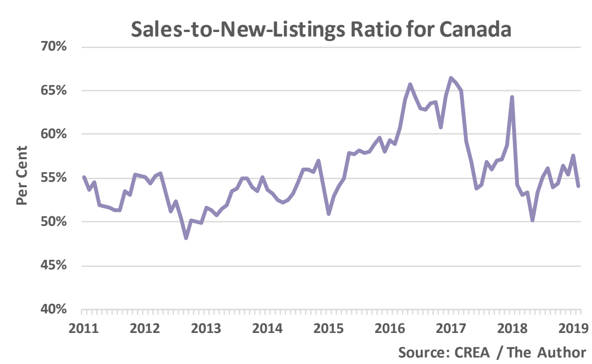


Expressed as sales per adult (taking into consideration that the population is growing, and therefore we should expect that sales will trend upwards over time), the rate for February was 18% below the long-term average (which is shown by the flat orange line).

For the first time in almost a decade, the House Price Index from the Canadian Real Estate Association ("CREA") now shows a negative year-over-year change (-0.1%). 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. In areas where prices are falling, the changes are severe enough that they could have substantial negative effects on consumer confidence, raising risks for the local economies.



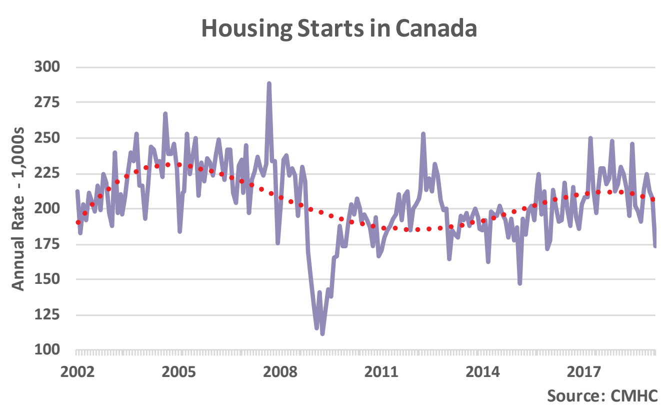
The sales-to-new-listings ratio ("SNLR") was 54.1% in February. It remains slightly above the threshold (52%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). As noted, there are wide variations across the country.

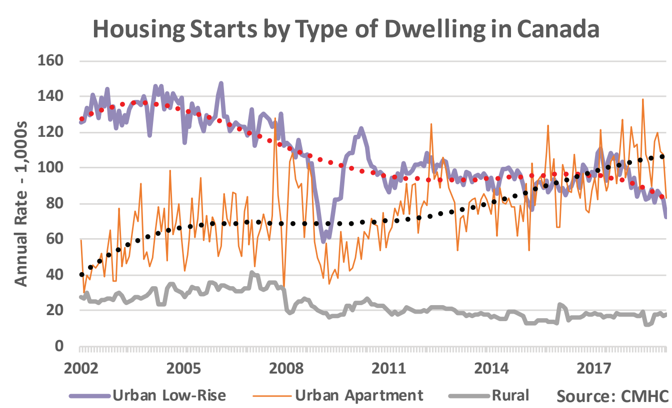


Housing Starts

Housing starts dropped sharply in February. This may have been partly due to the weather. When there is so much month-to-month variation in this data, one change doesn't tell us much. But, the slow downturn of the trend continues.

For low-rise activity (singles, semi-detached, and town homes) the trend is unambiguously downwards, with a drop of at least 15%. For apartments, it isn't possible to draw a reliable trend line. The data continues to hint that apartment starts have peaked and I expect that the trend for apartment starts will begin to fall during the first half of this year. As I commented in a new report, published on my personal website, once the economic effects have fully occurred (by the second half of 2021), the stress tests will cause employment in Canada to be 200,000 lower than it would otherwise be.

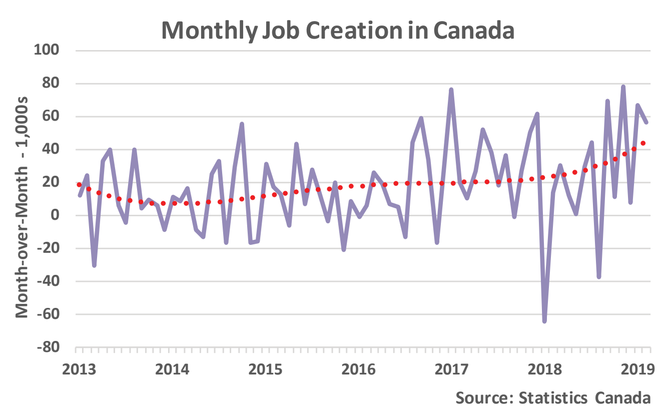




Employment Trends

Th employment data (from Statistics Canada's Labour Force Survey) continues to indicate that jobs are being created at a very rapid rate (2.0% year-over-year, as of February). There are hints within the data that there has been some over-estimation, but even so, this data is very encouraging.

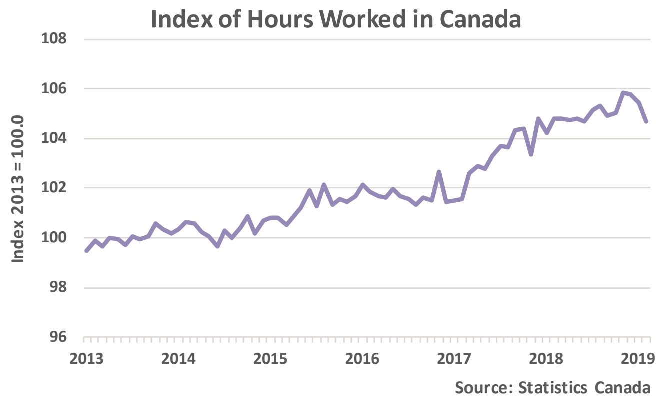
But, other economic indicators, for consumer demand, industrial production, and housing, are weakening, and there seems to be a contradiction between employment versus the other data.



MORTGAGE PROFESSIONALS CANADA

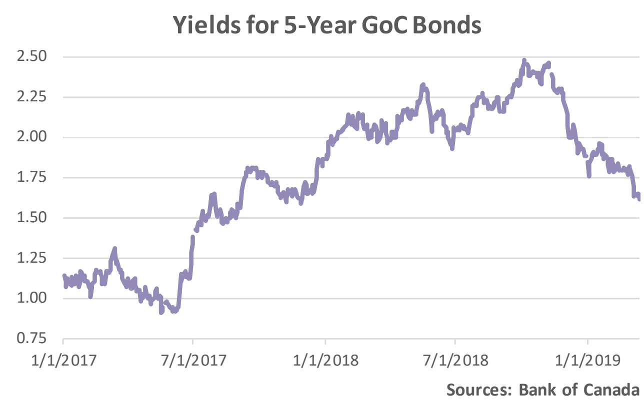
Employment Trends (Continued)

As David Rosenberg has pointed out, there has been a reduction in the number of hours worked. This chart indicates that the total number of hours worked (as of February) is unchanged versus last spring. Statistics Canada's other survey of employment ("SEPH") tells a similar story. In short, there is increasingly convincing evidence that Canada has entered a soft patch. The mortgage stress tests have contributed to that.



Interest Rates

Interest rates affect the economy with a lag. The result is that changes in interest rates can "overshoot" (change by more than is warranted by evolving economic conditions). As a result, it is starting to appear that the increases in rates that have occurred since mid-2017 went too far. Bond yields have already substantially reversed the increases. For the Bank of Canada's administered rate (which rose by 1.25 points), the reversal has not yet happened.



The economy is only partially feeling the effects of interest rate increases that have occurred. During the coming half year there will be increased pressure for the Bank of Canada to reduce its rate (perhaps by a half point in total). On the other hand, it is possible that bond yields might have already adjusted as much as needed, and I do not expect any further drops for bond yields and fixed mortgage rates (unless they overshoot downwards).

I have reduced my opinion-estimate of a typical "special offer" mortgage interest rate (from major lenders) to 3.35% (from the previous 3.6%). The 5-year variable rate remains at 3.2%.

Disclaimer of Liability

This report has been compiled using data and sources that are believed to be reliable. Mortgage Professionals Canada Inc. accepts no responsibility for any data or conclusions contained herein. Completed by Will Dunning, March 15, 2019.
Copyright: Mortgage Professionals Canada 2019