MANITOBA

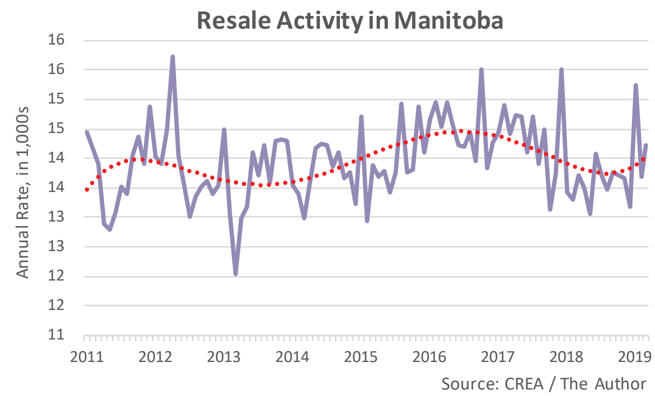
MORTGAGE PROFESSIONALS CANADA

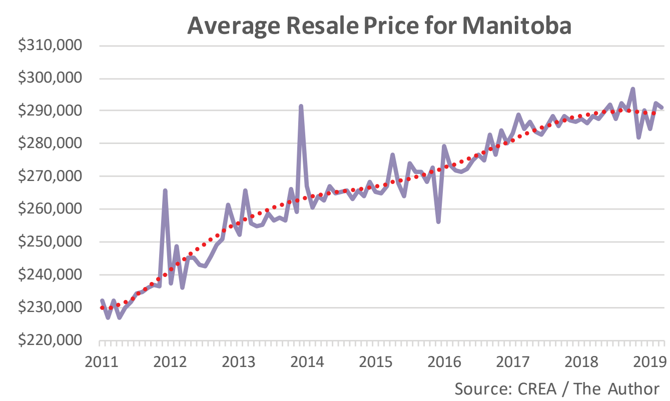
Resale Market

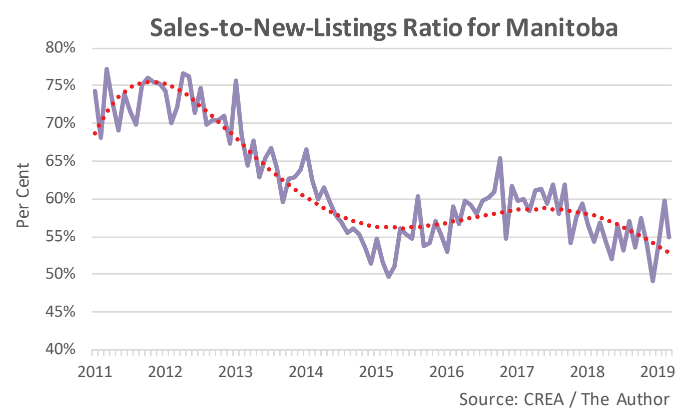
Resale activity has weakened in Manitoba (apart from a jump in January, which is traditionally the second slowest month of the year and is therefore subject to random volatility). Since the population is growing, home buying should trend upwards over time. On a population-adjusted basis, resales are now slightly (2-3%) below the long-term average. The employment situation is strong (as is discussed below). Population growth has accelerated: the average growth rate for the past two years (1.35%) is double the average of 0.68% per year for 1986 to the present. Resale activity should be expanding. In short, the mortgage stress tests are impairing home buying within Manitoba.

Following a long period of steady growth, the average resale price has flattened (and the trend line indicates it may have fallen fractionally).

The sales-to-new-listings ratio ("SNLR") at 56% in the first quarter is slightly below the threshold (estimated at 58%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). The relatively low level of the SNLR is consistent with the recent weak performance of house prices. At this time, the province should experience slight price growth, and there appears to be little risk of significant price drops.







FIRST QUARTER 2019

HOUSING MARKET DIGEST

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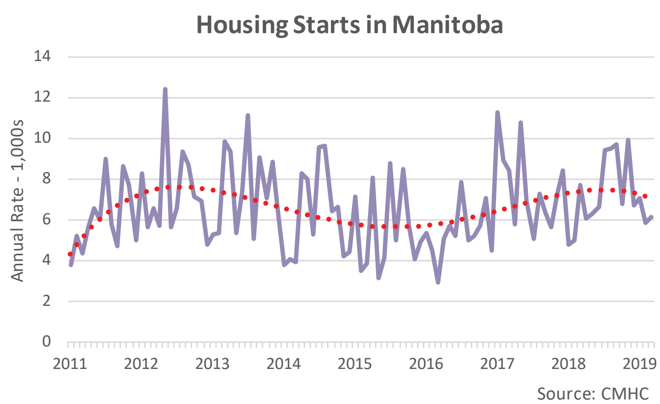
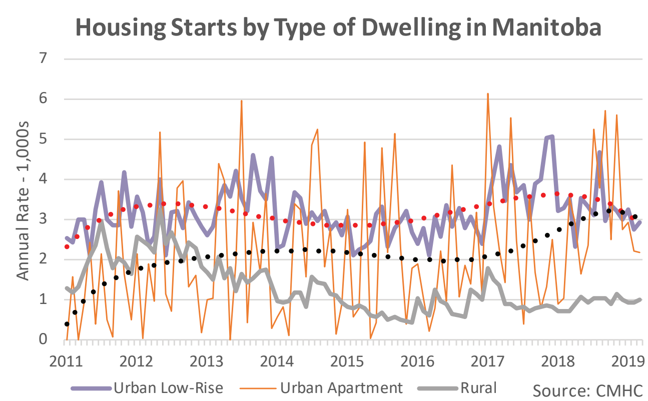
Housing Starts

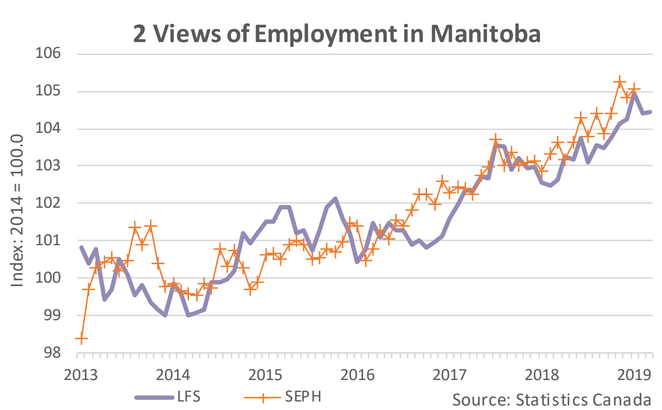
Volatile data make it impossible to generate a reliable trend line for Manitoba's housing starts That said, it appears that total starts are more-or-less flat. Low-rise activity (singles, semi-detached, and town homes) has clearly fallen (by perhaps 10%) from a peak that was seen during 2017. The trend for apartments rose during 2018 (due to a surge of investment in rental buildings). It takes apartments longer to react to changing conditions. I expect that apartment starts will trend downwards throughout this year, bringing a downturn for total starts.

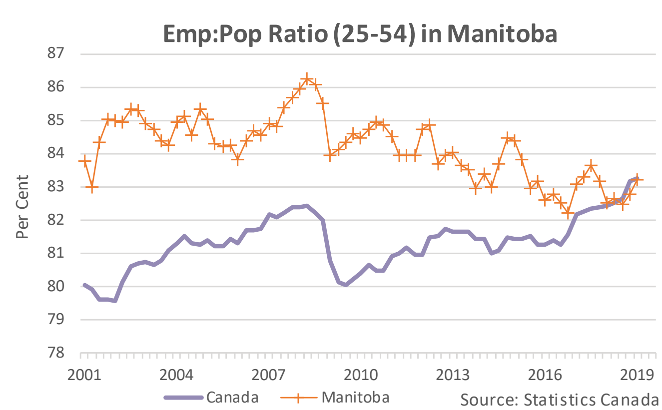




Employment Trends

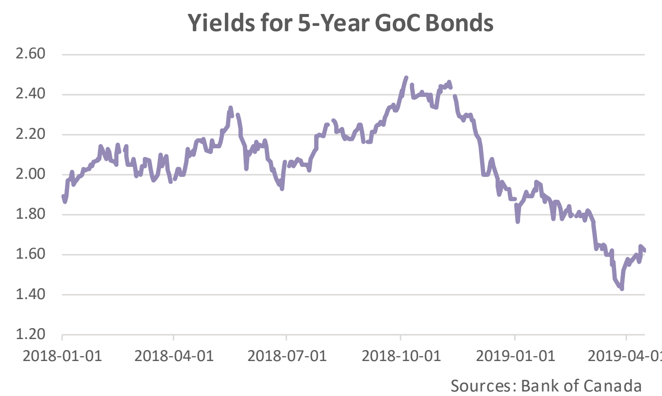
Statistics Canada's two surveys of employment both show strong improvements in the employment situation. The Labour Force Survey ("LFS"), which is based on personal surveys, shows growth at 1.8% for the past year, while the Survey of Employment Payrolls and Hours ("SEPH") shows 2.1%. Both of these estimates exceed the rate at which the adult population is growing (1.1%). In this light, housing activity is much weaker than it ought to be. The employment-to-population ratio (the percentage of people who have jobs) for the "prime working ages" (25-54) has trended gradually downwards during this decade, which has been a small depressive factor for home buying.





Interest Rates

Bond yields might have "overshot" early this year (fallen by too much given evolving economic conditions). Thus, the 5-year yield has partially retraced some of the recent drop. But, at a current 1.6%, the yield is still about 0.8 points above the trough that was seen during 2015 and 2016.



I have reduced my opinion-estimate of a typical "special offer" mortgage interest rate (from major lenders) for the third time this year, to 3.1% (versus 3.75% at the start of the year). Movements in mortgage rates are lagging behind the changes in bond yields. The spread between typical mortgage rates and bond yields is now skinny (1.5 points versus a long-term average of 1.8). I won't be surprised if 5-year fixed rates are a bit higher during the second half of this year (say 3.25% to 3.5%).

Comments on Federal Mortgage Policies

The Canada edition of Housing Market Digest (April 2019) includes some thoughts on the federal government's proposed First-time Home Buyers Incentive (the shared equity mortgage). The main take-away is that CMHC's own estimates suggest that it expects a very small impact, which will only partially offset the damage done by the mortgage stress tests (perhaps 1/10th).

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