

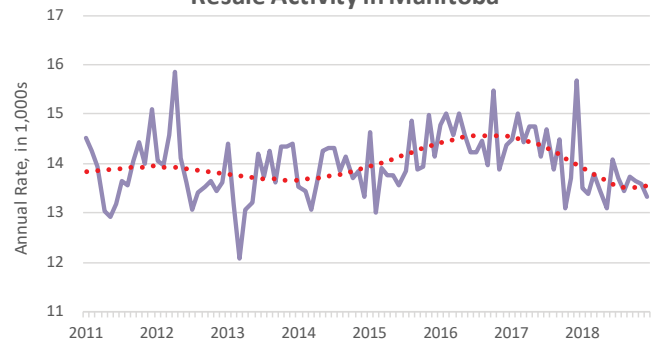
Resale Market

Resale activity has weakened in Manitoba. Total sales for 2018 (13,556) were 6.0% lower than in 2017 (for all of Canada, sales fell by 11%) and 7% below the record set in 2016. Data for the second half of 2018 suggests that there has been continuing erosion of sales. Higher interest rates are certainly a factor, plus the mortgage stress tests are weighing very heavily on potential buyers.

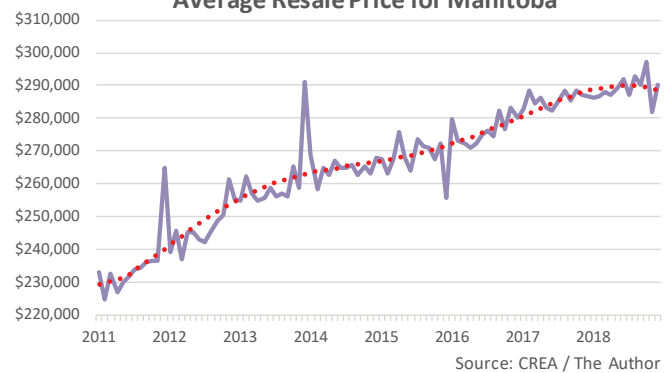
It appears that a long period of strong price growth in the province may be coming to an end (the trend line for prices appears to be roughly flat at present, although some unusual movements during the past three months create uncertainty).

Meanwhile, flows of new listings into the resale market have increased slightly (up by 2.4% versus 2017). The result of fewer sales and more supply is a drop in the sales-to-new-listings ratio ("SNLR"). During 2018, the SNLR averaged 54%, which is slightly below the threshold (58%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). On current trends, it should be expected that prices would be more-or-less flat.

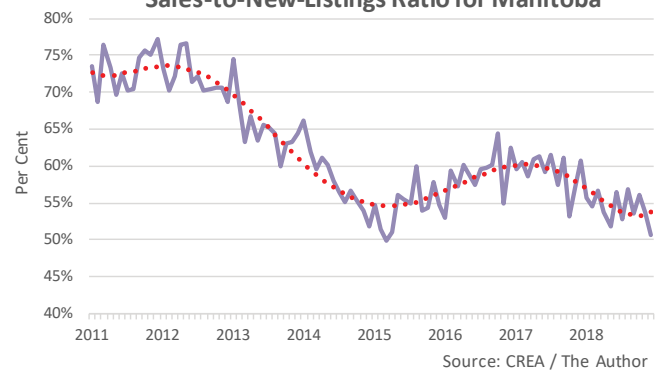
Resale Activity in Manitoba



Average Resale Price for Manitoba



Sales-to-New-Listings Ratio for Manitoba

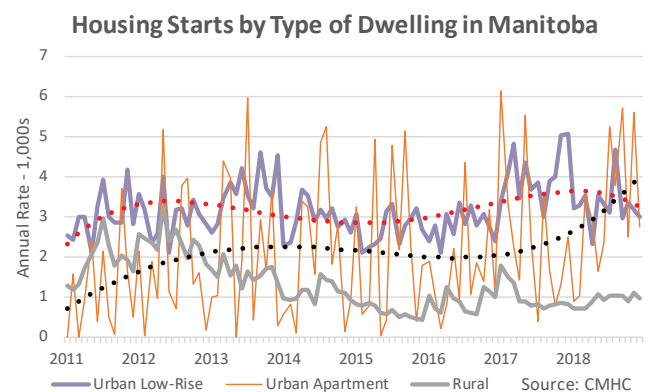
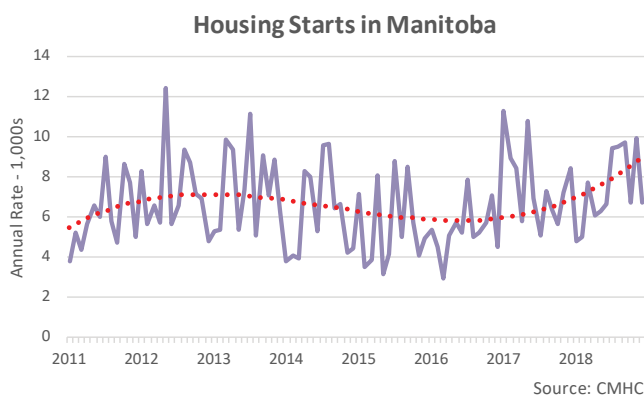


Housing Starts

The trend for housing starts has turned up sharply in Manitoba. Housing starts follow behind trends in the resale market (since starts largely result from pre-construction sales that happened earlier). For low-rise homes (singles, semi-detached, and town homes) in urban areas, the lag time is relatively short, and the trend has clearly started to fall in response to changing conditions.

For apartments, the lag time is longer. Moreover, in Manitoba, more than one-half of apartment starts are for rentals rather than condominiums. Condominium demand may be slowing, but moderate vacancy rates and rapid rent increases are encouraging more starts of rental apartments.

During 2019 and into 2020, starts for apartments are likely to turn downwards, causing the trend for total starts to also fall.



Employment Trends

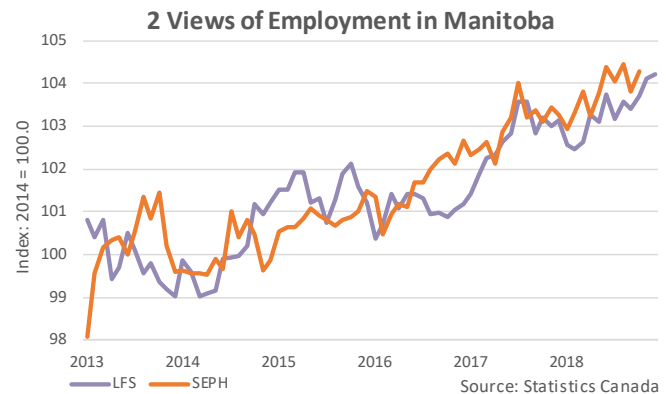
Statistics Canada's reports on the employment situation have been difficult to interpret, including a large drop for last January as well as a large rise during October and November. Looking at trends, the data indicates that employment has increased by 1.1% compared to a year ago (according to the Labour Force Survey, or "LFS"). This matches the growth rate for the population of adults. This means that the percentage of adults who have jobs is stable, which is neutral for the housing market.

StatsCan's other survey (the Survey of Employment, Payrolls and Hours, or "SEPH"), tells the same story overall (1.1% growth year-over-year (but as of October). This (the two surveys showing similar results in Manitoba) is currently unusual in Canada as in other provinces the data from the two surveys disagree.

Employment Trends (Continued)

In this chart, I have converted the two datasets into “indexes”, to make them easier to compare. For Manitoba, the two surveys often tell differing stories.

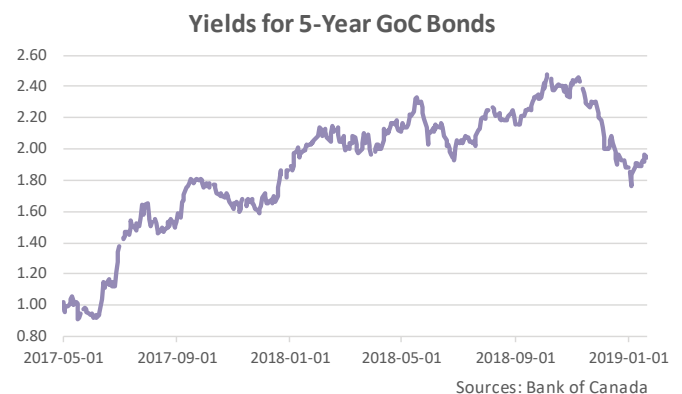
I believe that the SEPH data is probably more reliable than LFS. The issues are discussed in more detail in the new edition of the “Annual State of the Residential Mortgage Market in Canada” (in the section “Outlook for the Mortgage Market”).



Interest Rates

It appears that the sharp drop in bond yields has ended. Attitudes remain volatile in financial markets. I would not be surprised to see moderate increases in bond yields during the next two months, as economic fears may have become overdone. Further, reckless fiscal policies in the US will continue to result in enormous borrowing requirements, and rising political risks in the US could reduce interest in bonds.

Mortgage rates did not follow the drops in bond yields. My opinion-estimate of a typical “special offer” mortgage interest rate (from major lenders) has been reduced to 3.60% (as of January 21). This is, as usual, far below the 5-year “posted rate” of 5.34%. The spread between bonds and mortgages is now about 1.65 points, slightly below the historic average of 1.8 points. Looking ahead, therefore, changes in mortgage rates might become more closely related to changing bond yields. My opinion-estimate for 5-year variable rates increased (today) to 3.20%. This is 0.75 points below prime.



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