HOUSING MARKET DIGEST
SASKATCHEWAN

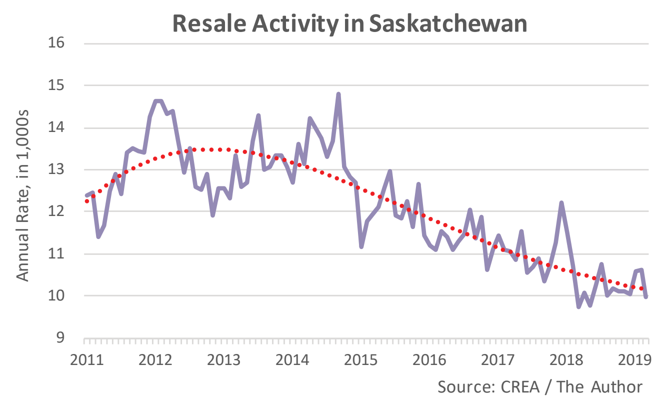
MORTGAGE PROFESSIONALS CANADA

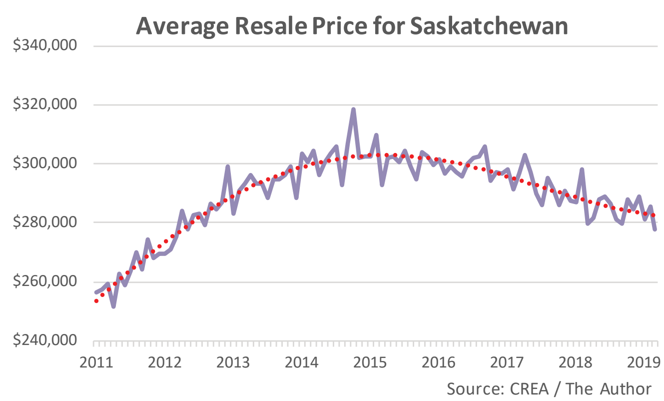
Resale Market

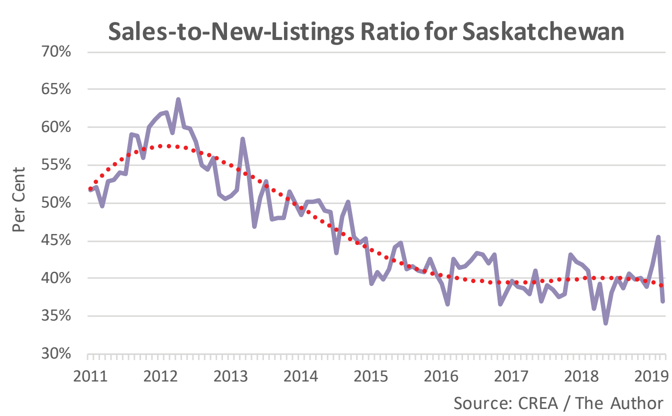
Resale activity might have stabilized in Saskatchewan, but at the current level – one-quarter below the peak seen five years ago – the provincial housing market clearly remains very weak. Population growth has slowed, to an average of 1.08% during the past two years, versus rates that exceeded 1.5% at the peak (2008 to 2012). The employment situation has also been relatively weak (as is discussed below). On top of these real conditions, the federal government's mortgage stress tests are suppressing activity by potential buyers.

Weakened demand has resulted in gradual erosion of house prices (the provincial average resale price has seen a total drop of about 6% during the past four years). This is also a deterrent to home-buying, since prospective owners would be discouraged by the potential loss of home equity.

The sales-to-new-listings ratio ("SNLR") is quite low in Saskatchewan, at just 40%. This is far below the threshold (estimated at 51%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). The continued low level of the SNLR is consistent with the recent weak performance of house prices. At this time, it seems likely that the province will continue to experience price erosion.

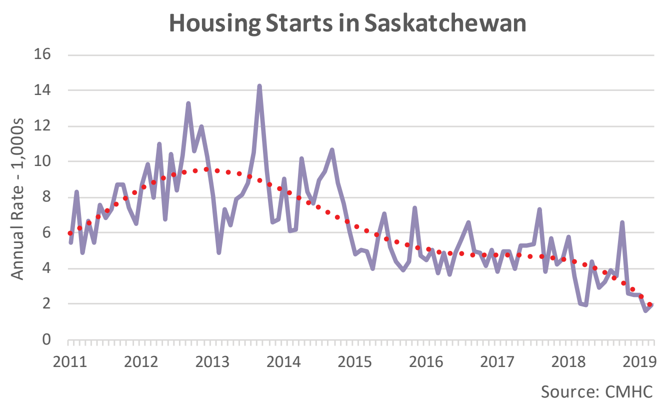


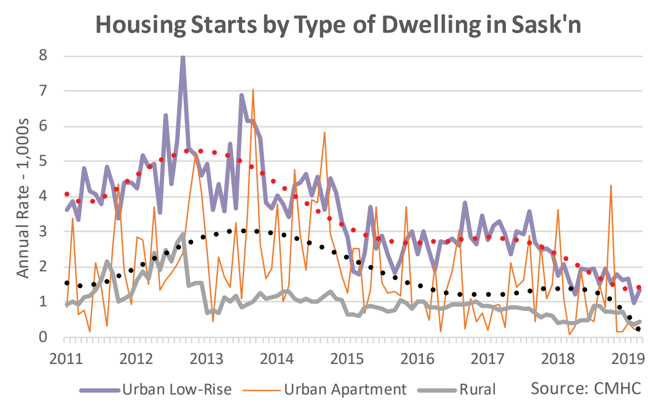




Housing Starts

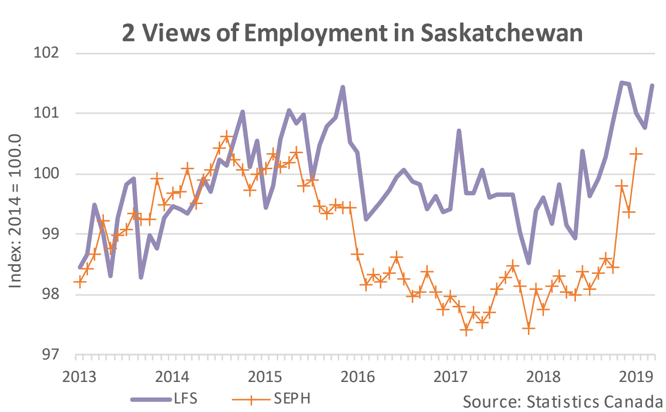
Housing starts have fallen very sharply, to the extent that this is now developing into a drag on the provincial economy: as construction is completed on the dwellings that are now under construction, there will be further losses of construction jobs, for the rest of this year and into next year. Starts fell first for low-rise homes (singles, semi-detached, and town homes), and that activity might now be stabilizing (at a greatly reduced level). It takes apartments longer to react to changing conditions, and therefore, the drops occurred later.

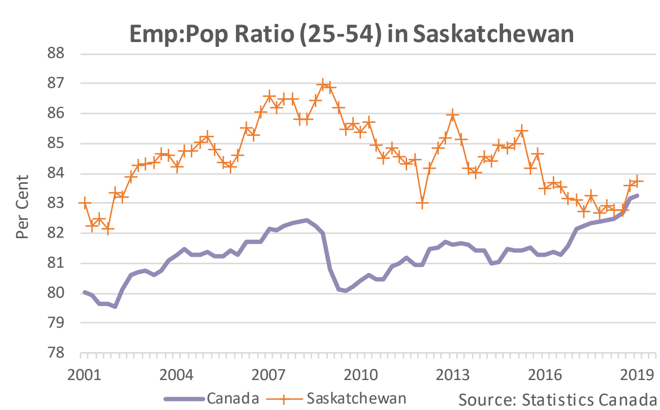




Employment Trends

Statistics Canada's two surveys of employment have both shown weak employment situations. During 2016 until recently, employment was lower than in 2015. The Labour Force Survey ("LFS"), which is based on personal surveys, showed a smaller drop than the Survey of Employment Payrolls and Hours ("SEPH"). Due to the design of the surveys, I expect that SEPH is likely to be more accurate. Both of these surveys indicate that there has been a surge of job creation in the past few months. Both surveys can generate erroneous estimates and therefore the data needs to be watched for a while before it can be concluded that the corner has been turned.



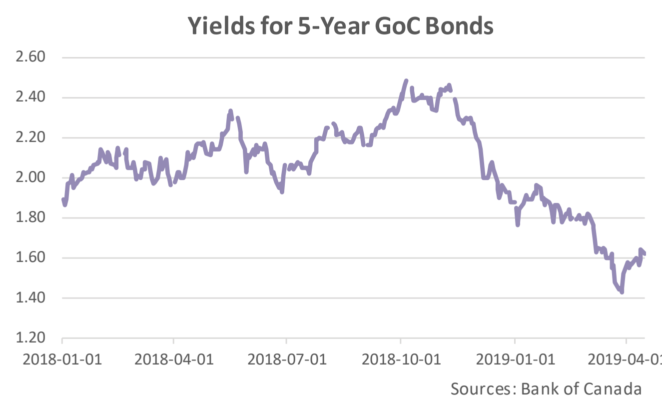


Employment Trends (Continued)

The employment-to-population ratio (the percentage of people who have jobs) for the "prime working ages" (25-54) has trended gradually downwards during the past decade. Previously, this statistic had shown that Saskatchewan's employment situation was stronger than the national average. Now, Saskatchewan has fallen to the national average. This is a depressive factor for population growth and 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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