

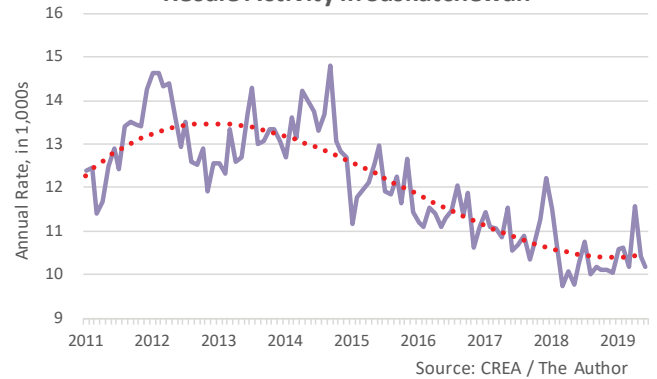
Resale Market

The data increasingly indicates that resale activity in Saskatchewan has bottomed and might be starting to recover. However, that recovery is occurring from a very weak position, with sales one-quarter below the peak seen five years ago. Interest rates have fallen sharply this year, which is a strongly positive factor, but a weakened employment situation and a slowdown in population growth are constraints, as are the federal government's mortgage stress tests.

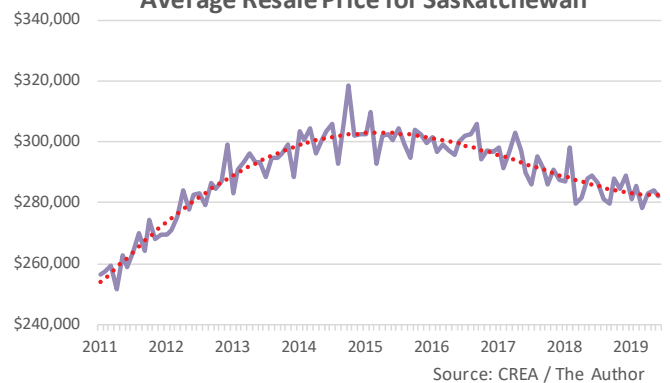
Weakened demand has resulted in gradual erosion of house prices (the provincial average resale price has seen a total drop of 6-7% during the past four years). This is also a deterrent to home-buying, since prospective owners would be discouraged by the potential loss of home equity.

The sales-to-new-listings ratio ("SNLR") remains quite low in Saskatchewan, at just 42% in the second quarter. 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 suggests that the province will continue to experience price erosion.

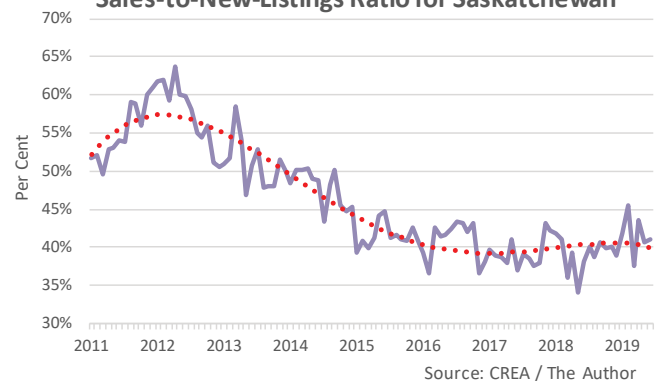
Resale Activity in Saskatchewan



Average Resale Price for Saskatchewan

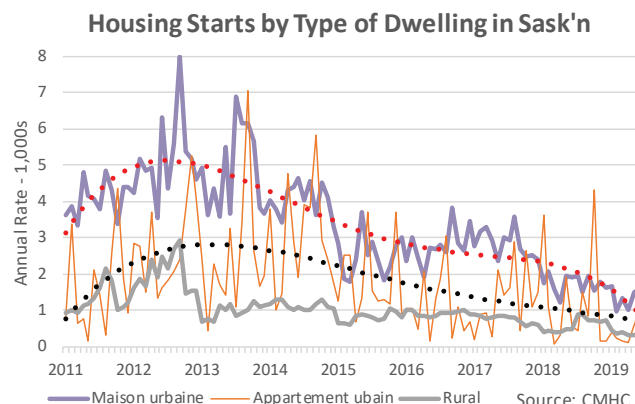
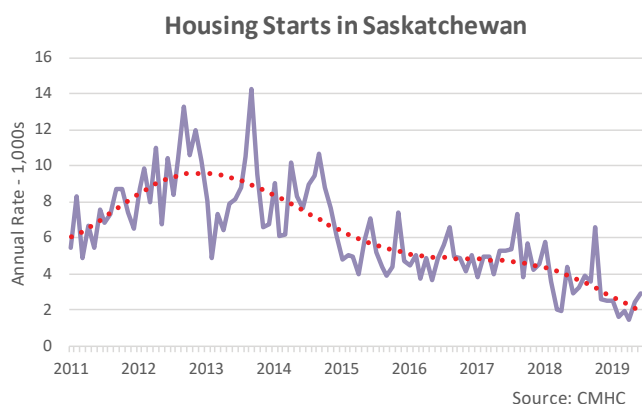


Sales-to-New-Listings Ratio for Saskatchewan



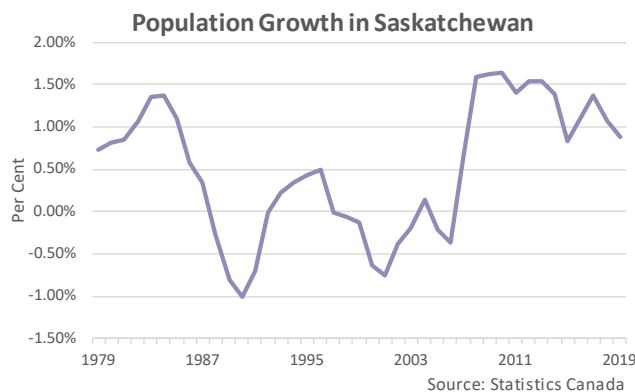
Housing Starts

Housing starts continue to weaken, and are now very far below the levels seen earlier in this decade. Job losses in the residential construction sector are an added negative factor for the provincial economy. Starts have fallen by large amounts for low-rise homes (singles, semi-detached, and town homes) and apartments.



Population Growth

Saskatchewan is experiencing a deceleration of population growth (albeit from a level that was very strong in historic terms). This is certainly contributing to the reduction of housing activity. Yet, the drops for resale activity and starts appear to be considerably larger than is warranted.

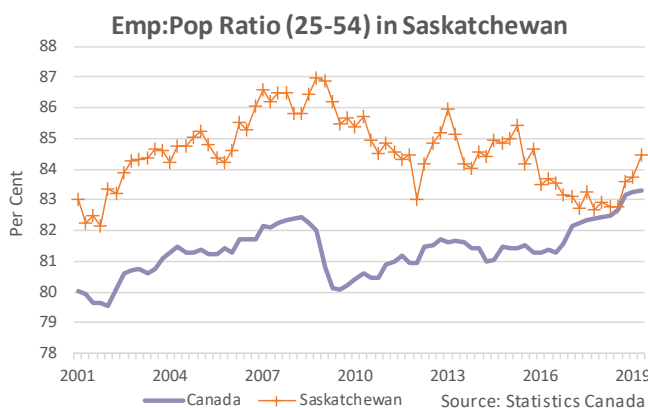
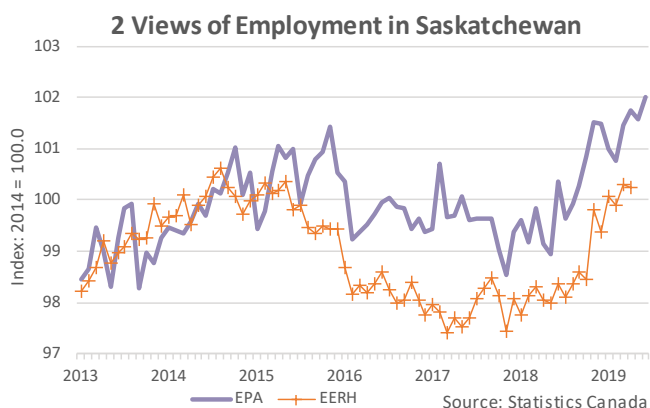


Employment Trends

Statistics Canada's two surveys of employment both show substantial improvements in the employment situation, with a recovery to roughly the levels seen before the oil price collapse. If sustained, this should support some improvements in housing demand next year. The Labour Force Survey ("LFS"), which is based on personal surveys, shows a 1.6% year-over-year growth rate as of June. The Survey of Employment Payrolls and Hours ("SEPH") shows an even larger rise of 2.2% (as of April).

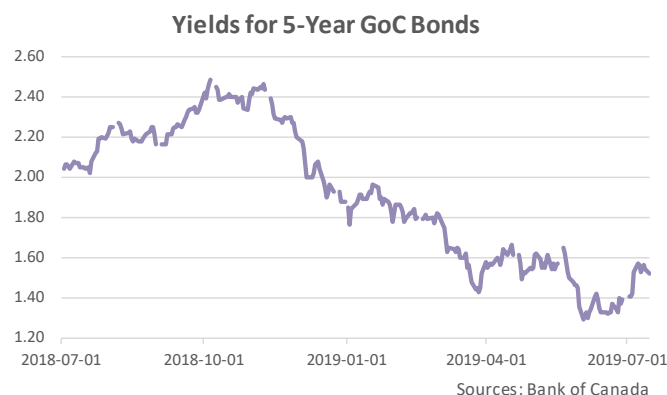
Employment Trends (Continued)

The employment-to-population ratio (the percentage of people who have jobs) for the “prime working ages” (25-54) had trended gradually downwards during the past decade. Recent data shows a tantalizing rebound. This data is volatile, and should be watched for a while before we draw conclusions.



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 housing activity has slowed for all of Canada, demand for mortgages has been reduced and 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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