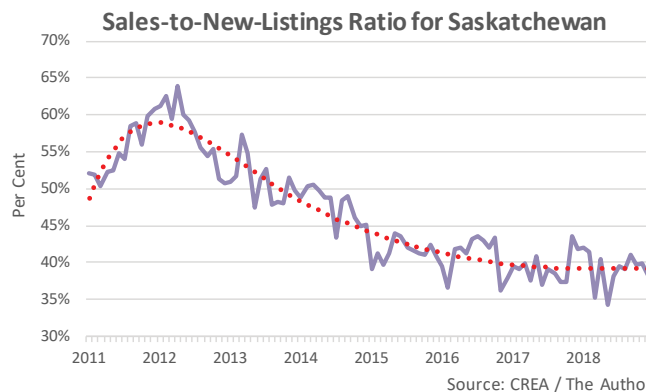
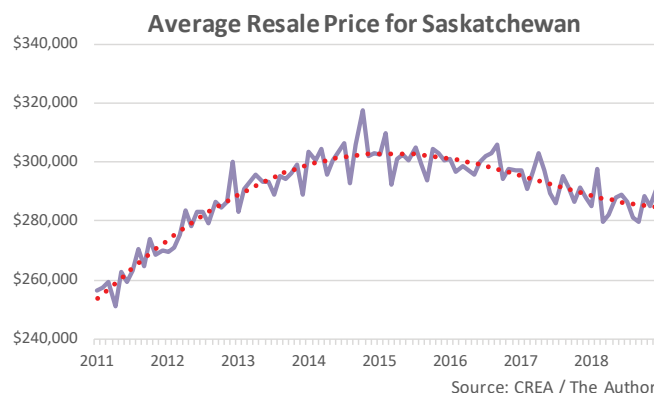
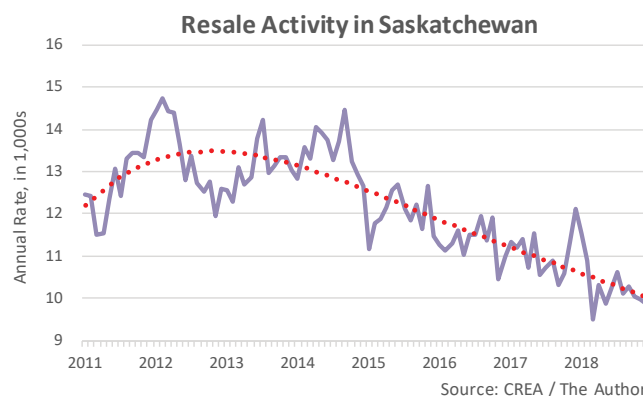


Resale Market

Resale activity continues to fall in Saskatchewan. On top of the weakened economic situation, the mortgage stress tests and higher interest rates are discouraging home-buying. Total sales for 2018 (10,282) were 7.1% lower than in 2017, and about one-quarter below the peak level seen during 2012 to 2014 (for all of Canada, sales fell by 11% in 2017). The most recent data indicates that the sales trend is still falling.

The data from CREA indicates that prices have been eroding since the start of 2015. The average price for the province fell by 2.5% in 2018, and is down by 5.7% compared to 2014.

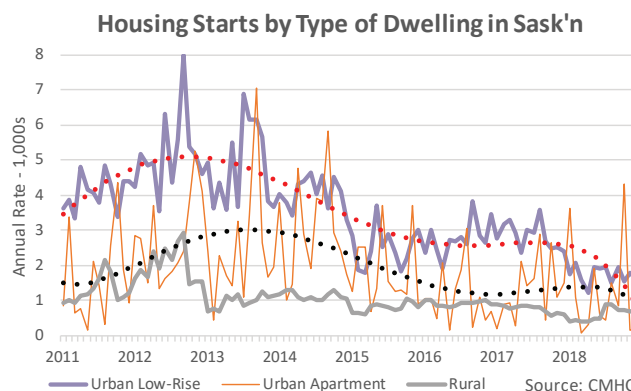
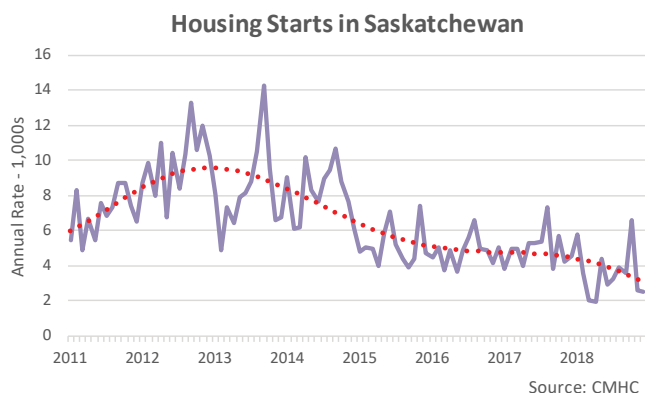
Flows of new listings into the resale market have also slowed, but not as sharply as for sales. In consequence, the sales-to-new-listings ratio ("SNLR") is below 40%, which is far below the threshold (51%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). On current trends, it should be expected that prices will continue to erode. Housing prices tend to be "sticky downwards", as potential sellers resist reducing their expectations, and this has – so far – limited the amounts of price reductions.



Housing Starts

Saskatchewan's housing starts fell further in 2018, and the trend is now down by more than one-half compared to 2012 to 2014. Housing starts follow behind trends in the resale market (since starts largely result from pre-construction sales that happened earlier), so we can expect to see further reductions for starts, in response to on-going changing in conditions. For low-rise homes (singles, semi-detached, and town homes) in urban areas, the lag time is relatively short, and the trend has fallen very sharply.

For apartments, the lag time is longer. In Saskatchewan, more than one-half of apartment starts are for rentals rather than condominiums, and therefore, starts are influenced more by the state of the rental market rather than by resales. Vacancy rates are currently very high in the province and rent increases are negligible, yet starts have not fallen by much.



Employment Trends

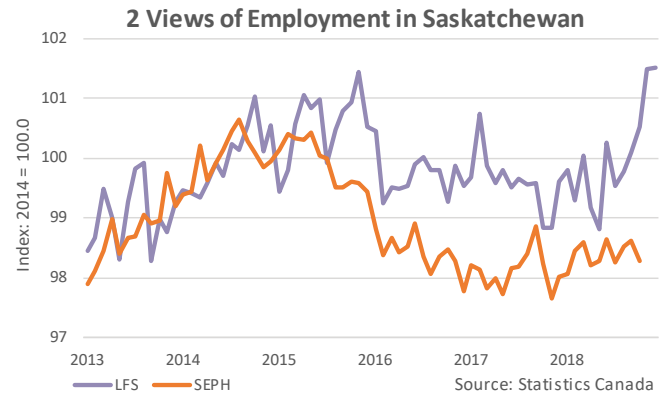
Statistics Canada's reports on the employment situation have been difficult to interpret, including a large rise during October and November. Looking at trends, the data indicates that employment has increased by 1.9% compared to a year ago (according to the Labour Force Survey, or "LFS"). This exceeds the growth rate for the population of adults (estimated at 0.8%). This means that the percentage of adults who have jobs is rising, which, if it is correct, would be a very encouraging sign for the housing market.

StatsCan's other survey (the Survey of Employment, Payrolls and Hours, or "SEPH"), tells a very different story: while it also shows month-to-month variations, compared to a year ago, the level of employment for Saskatchewan is unchanged.

Employment Trends (Continued)

In this chart, I have converted the two datasets into “indexes”, to make them easier to compare.

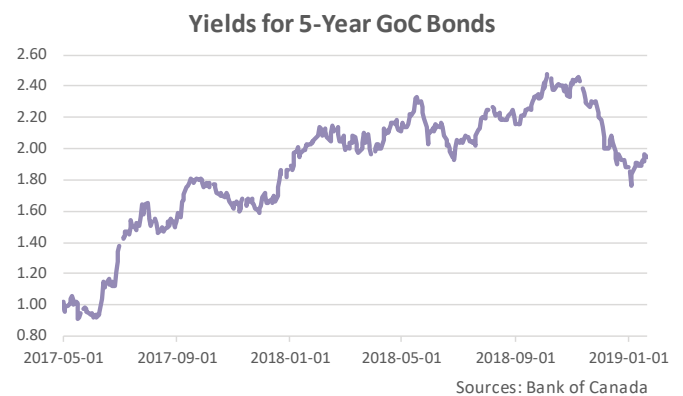
I believe that the SEPH data is probably more reliable than LFS. The issues are discussed in more detail in the new edition of the “Annual State of the Residential Mortgage Market in Canada” (in the section “Outlook for the Mortgage Market”).



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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