

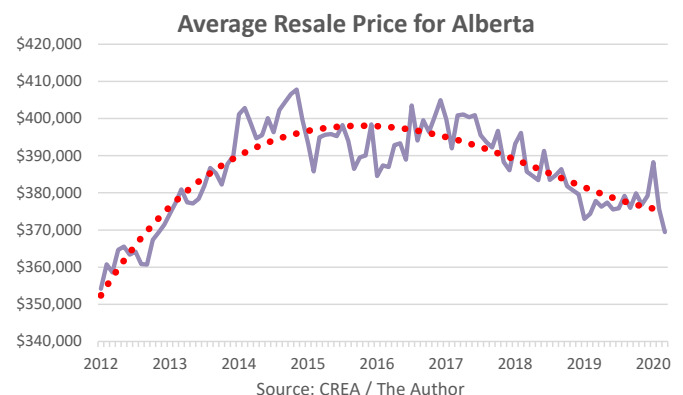
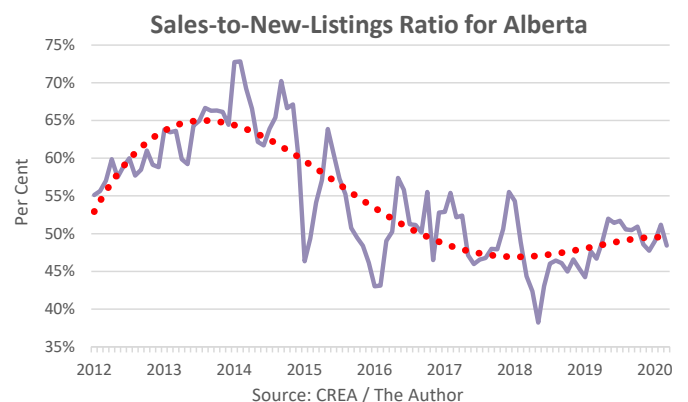
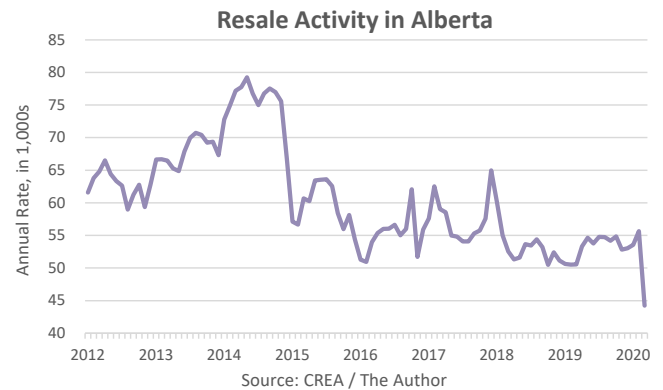
Resale Market

Data for the past year has shown a small recovery for resale market activity in Alberta, although from quite weak conditions. But, the data for March show a very sharp downturn. Across Canada, there have been reports that activity was quite strong during the first half of March, but then there were sharp downturns during the second half, as fears developed about personal safety, the federal and provincial governments urged us to stay at home, and businesses reduced their activities, which generated great fears about our incomes and employment. It is quite likely that during the second half of March, the effective sales rate within Alberta was much lower. For the entire first quarter, the provincial sales rate was 4.5% lower than for the fourth quarter of last year.

At present, there is a great deal of uncertainty about the effects of the developing health emergency.

The sales-to-new-listings ratio (“SNLR”) has shown a weak “buyers’ market” situation. For Alberta, the “balanced market” SNLR is estimated at 56% (this is the level at which prices are expected to rise by 2% per year). The actual SNLRs have been notably below that threshold during the past three years. For the first quarter, the SNLR averaged 49.5% (up fractionally from 49% in the fourth quarter).

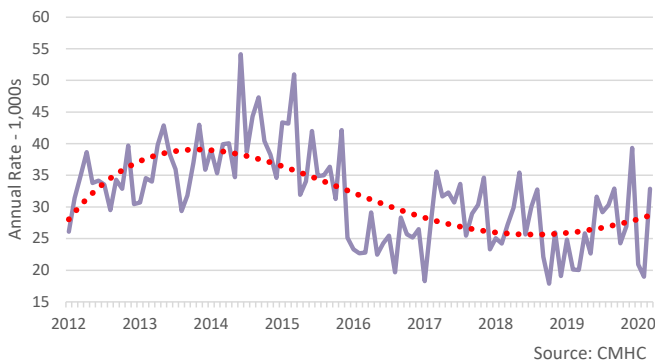
The imbalanced conditions have resulted in some price erosion. For the first quarter, the average selling price for the province (reported by the Canadian Real Estate Association, or “CREA”) was 0.7% higher compared to a year earlier. In this chart, a trend line is shown. But, due to the extreme movements at the end of the data, it is impossible to create an accurate trend line: while this trend line shows a further reduction, it is possible that the “true” trend is flat or rising slightly.



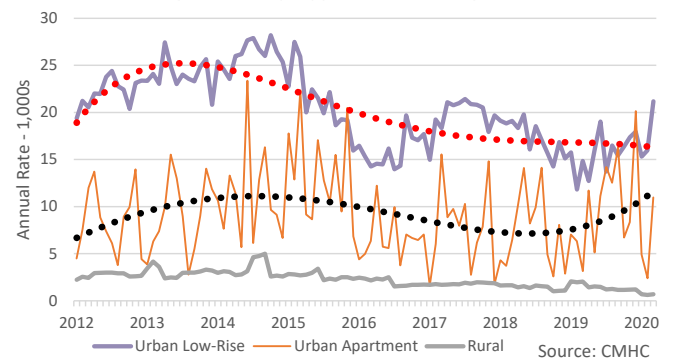
Housing Starts

The soft conditions in the resale sector (as well as weak job creation) have meant that there is less need for new housing construction. Housing starts have fallen in Alberta (the trend line is now about one-third below its prior peak level). The rate of housing starts in the first quarter (24,300) was 20% lower compared to the fourth quarter (30,200). Starts have been reduced for low-rise homes (single-detached, semi-detached, and town homes) and for rural areas. While apartment starts have been quite variable (making it difficult to discern a trend), it appears that recent activity is roughly similar to prior levels. Given a situation of still-high vacancies in local rental markets, I have to wonder if apartments are being over-built in Alberta (even before anticipating impacts of Covid-19).

Housing Starts in Alberta



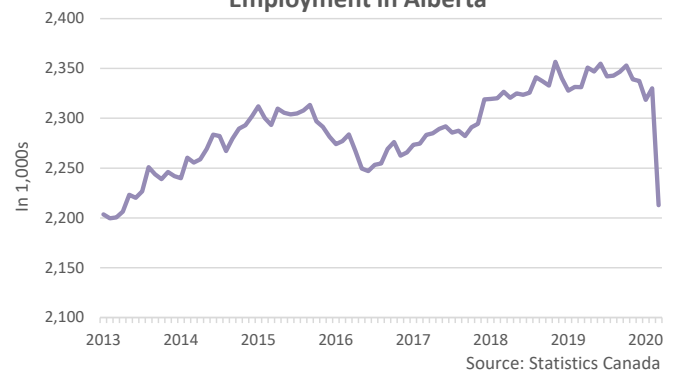
Housing Starts by Type of Dwelling in Alberta



Employment Trends

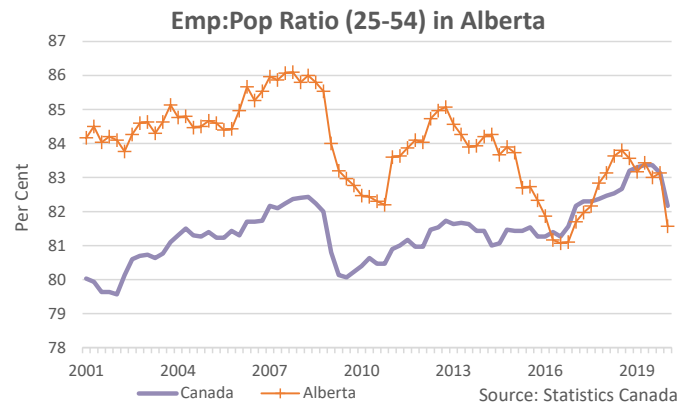
Statistics Canada's estimates indicate that Alberta has experienced some job growth (albeit at a slow rate) during the past four years. The data does show a small drop for employment late last year, but this might be just a random statistical variation (which is seen occasionally in this data). The slow job growth of recent years provided some support to the housing market (preventing a more serious erosion). Then, the onset of Covid-19 and the need for social distancing caused a sharp reduction in employment during March. StatsCan's estimate of employment for March was 117,000 (5.0%) lower than for February (for all of Canada, the drop was 5.3%). Housing data for March shows some negative effects from the sharp rise in fears about personal safety and economic security.

Employment in Alberta



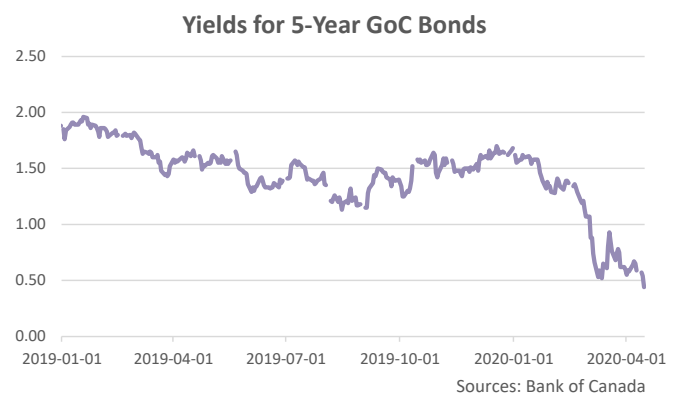
Employment Trends (Continued)

The next chart shows data on the percentage of “prime working age” adults who have jobs, for quarterly periods (in order to reduce “statistical noise” and make it easier to see longer term trends). This chart shows that the prime age employment rate for Alberta has fallen (meaning that job creation did not keep up with population growth). The quarterly data does not fully show the effect of the sudden negative change that occurred in March.



Interest Rates

Changes in bond yields show that fears began to rise during late January and into February. Then, during late February and into March, escalating fears caused bond yields to fall rapidly. At this time (as of April 15), the yield for 5-year Government of Canada bonds (0.44%) has fallen by more than 1 point since year end (1.68%). Lending rates tend to move a bit later than bond yields. My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate from major lenders) is currently 2.7%. The spread between this typical mortgage rate versus bonds is currently about 2.25 points, which is well above the long-term average of 1.8 points.



It remains to be seen if bond yields will remain extremely low and then to what extent mortgage rates will follow the reductions for bond yields. Similarly, the Bank of Canada’s policy interest rate has been reduced by 1.5 points in a very short period of time, to just 0.25%, and it remains to be seen if variable rates will fully follow those reductions (my opinion-estimate of a typical special offer rate is at 2.65%, versus 2.9% at the end of last year).

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