

# SECOND QUARTER 2020 HOUSING MARKET DIGEST ALBERTA



## Encouraging Signs?

Key economic indicators (housing and employment) were badly depressed but are now showing substantial improvement.

For the province of Alberta, the very recent data shows a sharp rise in new confirmed Covid-19 cases, although the numbers are still quite low. This chart shows data up to July 27. Current data can be found here: <https://health-infobase.canada.ca/src/data/covidLive/covid19.csv>

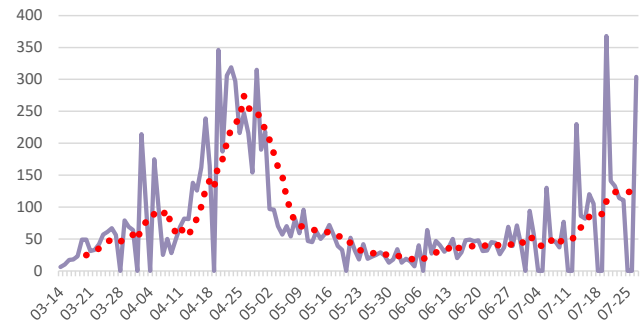
For all of Canada, the trend has inched upwards during the past two weeks, but remains quite low. The data tells us that we can feel a lot more relaxed, but that we need to stay vigilant. There is still a great deal of uncertainty about how this emergency will unfold, and therefore, we should not be confident about our ability to predict what will happen to the economy or the housing market.

## Resale Market

Resale activity improved in June, to an annualized rate of 53,300. But, for the entire second quarter, the average rate of 37,000 was much lower than for the fourth quarter of last year (53,600) and the first quarter of this year (51,200). How should we interpret this data? Some people will focus on the data for June and see a robust recovery. Some will look at the entire quarter and see that the provincial housing market hasn't broken out of the weakness that has persisted for several years. I look at the data and see continued uncertainty about how this might unfold.

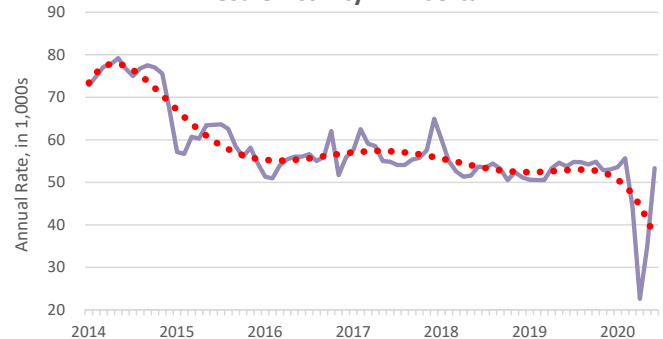
Looking at the data in terms of sales per adult, the rate for June was improved, but it was still 26% below the long-term average (calculated for 2001 to the present, and shown by the flat line).

Daily New Covid-19 Cases in Alberta



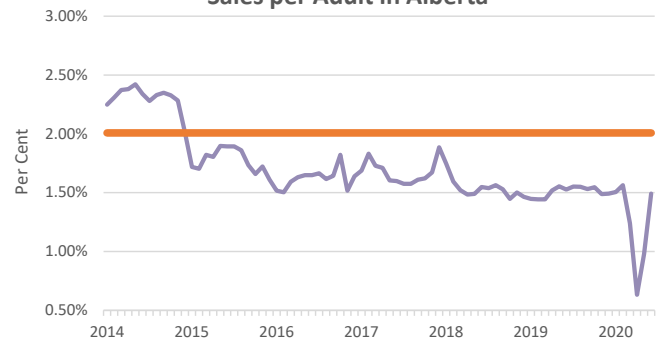
Source: Public Health Agency of Canada

Resale Activity in Alberta



Source: CREA / The Author

Sales per Adult in Alberta



Source: The Author

# SECOND QUARTER 2020 HOUSING MARKET DIGEST ALBERTA

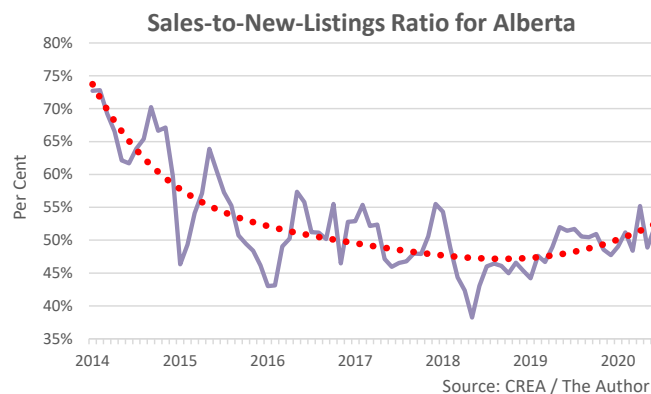
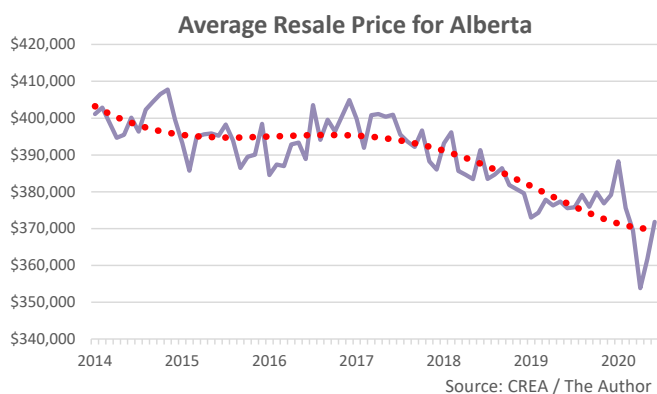


## Resale Market (Continued)

For the entire second quarter, the sales rate was 48% below the long-term average. This data shows that housing markets in Alberta remain very weak, in historic terms and compared to all of Canada, for which the per adult sales rate was 37% below average during the second quarter.

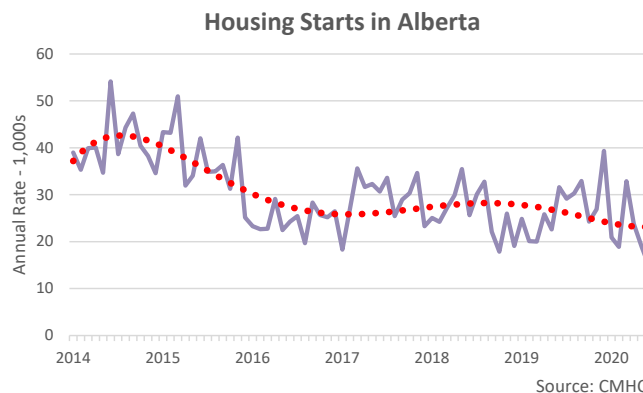
The flow of new listings into the market has been in excess of requirements for some time. The provincial sales-to-new-listings ratio (“SNLR”) was 52% for the entire second quarter. For some time, the provincial SNLR has been persistently below the 56% threshold for a “balanced market” - this is the level at which prices are expected to rise by 2% per year.

The prolonged “buyers’ market” condition in Alberta has resulted in price erosion. The recent data hints at a slight improvement in the SNLR, which, if this continues, would reduce the downward pressure on pricing. For the second quarter, the average price was 4.0% lower than a year ago.



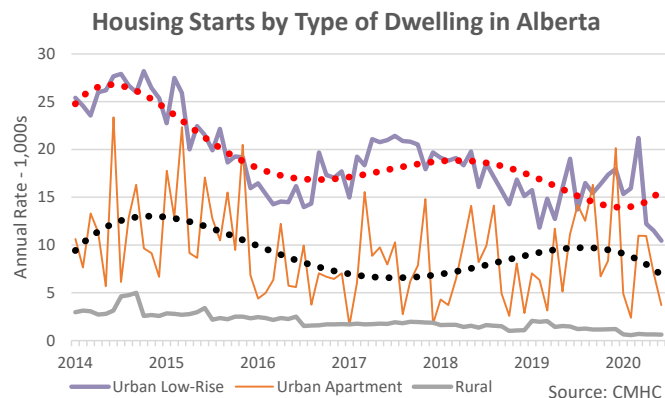
## Housing Starts

Weak conditions in the resale market have resulted in reduced construction of new homes within Alberta. For the second quarter, the starts rate (19,000) was lower than the rate for all of 2019 (27,300), and even farther below the long-term average (33,400 per year during 2001 to 2019). It remains to be seen whether Covid-19 (on top of depressed oil prices) brings a further reduction, or whether the recent tightening in the resale market encourages more new starts.



## Housing Starts (Continued)

Housing starts have been reduced for both apartments and low-rise dwellings (single-detached, semi-detached, and town homes), and even moreso for rural areas.

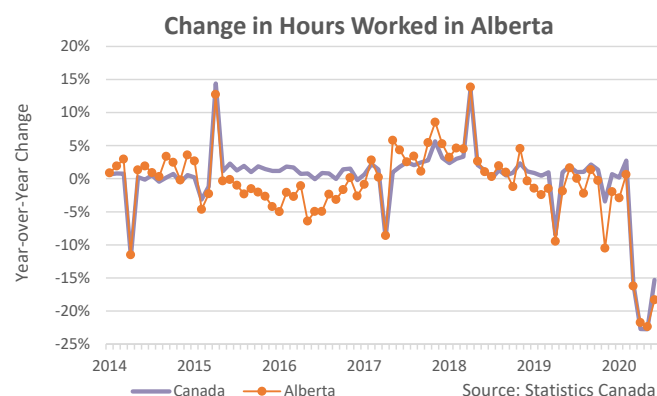
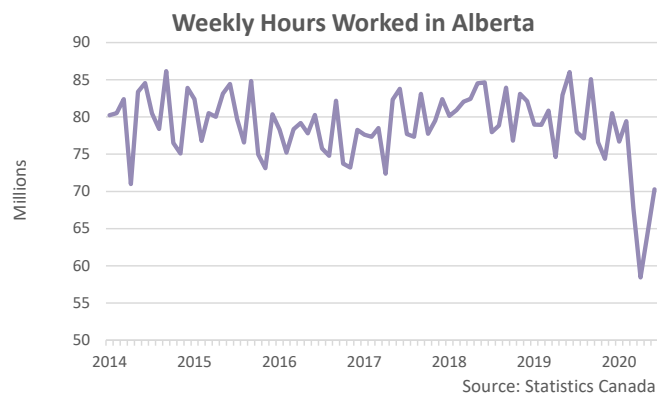


## Employment Trends

Statistics Canada estimates that employment in Alberta rose by about 92,000 in June, as more people have been able to return to work. But, the level of employment in June was still 241,000 (10.3%) lower than in February.

At present, I prefer to watch employment in terms of total hours worked. The first chart below shows data that is not seasonally-adjusted, and the large month-to-month gyrations make it hard to read. The second chart shows that this June, total hours worked were 18% lower than a year ago. The data indicate that the effect of Covid-19 has been similar within Alberta compared to all of Canada (for which total hours are now 15% lower than a year ago).

The worst employment impacts of Covid-19 have been seen in low wage service industries and for younger age groups. This implies that the damage within the housing market will be greater for the rental sector than for home buying.



## Interest Rates

Bond yields are currently making unusually small movements, and are at extremely low levels. So far in July, the average yield for 5-year Government of Canada bonds is just 0.35%. Mortgage interest rates have largely adjusted to the plunge in bond yields.

My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now just 2.1%, by far the lowest-ever (and even lower rates can be negotiated). The spread between mortgage rates and bond yields has closed, and is similar to the long-term average of 1.8 points (although it is still higher than the average of 1.49 points for all of 2019). For variable rates, my opinion-estimate is now 2.0%.

Meanwhile, the mortgage stress tests continue to use a ridiculous test rate of 4.94%.

**Yields for 5-Year GoC Bonds**



Sources: Bank of Canada

## Disclaimer of Liability

*This report has been compiled using data and sources that are believed to be reliable. Mortgage Professionals Canada Inc. accepts no responsibility for any data or conclusions contained herein. Completed by Will Dunning, July 28, 2020. Copyright: Mortgage Professionals Canada 2020.*