DECEMBER 2020

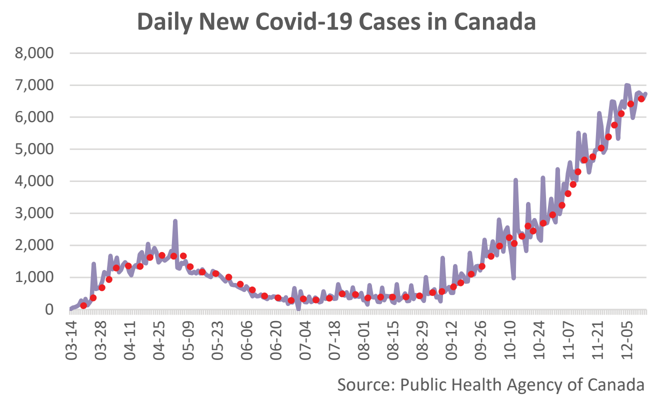
HOUSING MARKET DIGEST

CANADA

MORTGAGE PROFESSIONALS CANADA

Can We Bend the Curve Once Again?

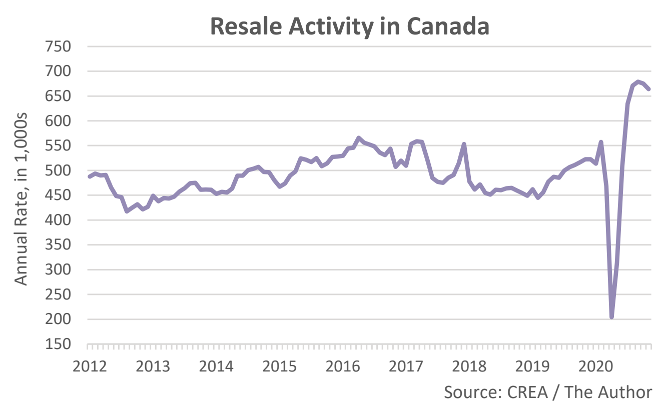
The rate of Covid-19 infections continues to accelerate in Canada: the 7-day average is now 6,544 (up considerably from 4,554 a month ago). Western Europe is showing that it is possible to bend the curve downwards. We haven't yet seen economic consequences from this second wave. This chart shows data up to December 14 (the dotted line is the 7-day moving average). Current data can be found here: https://health-infobase.canada.ca/src/data/covidLive/covid19.csv

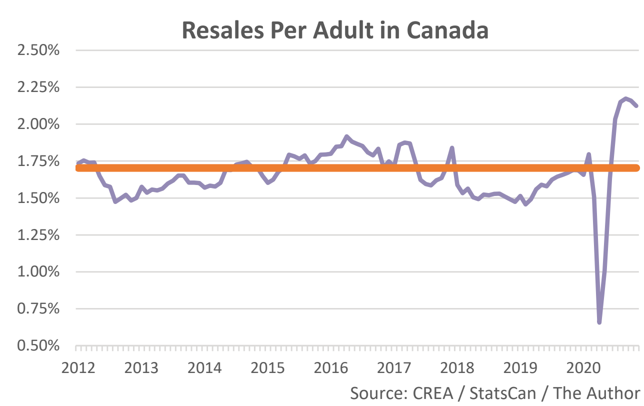


Resale Market

Resale activity remains very strong. The annualized sales rate for November (664,000) was fractionally lower than the three prior months. For the period from April to November, the average sales rate was 544,000. Taking sales rates over the past two decades and then making an adjustment for population growth, I calculate that the long-term average rate is about 533,000. On this basis, the sales rate for November was 25% above average. But, for the period April to November, sales were very close to the long-term average (just 2% higher). It is possible that sales will remain above average for some time, because Covid-19 has caused many of us to think about our living arrangements, and exceptionally low interest rates are supportive. Increased interest in home buying is discussed in my reports for Mortgage Professionals Canada, which can be found here: https://mortgageproscan.ca/membership/resources/covid-19-consumer-reports

The fourth edition of the reports was released on December 16.





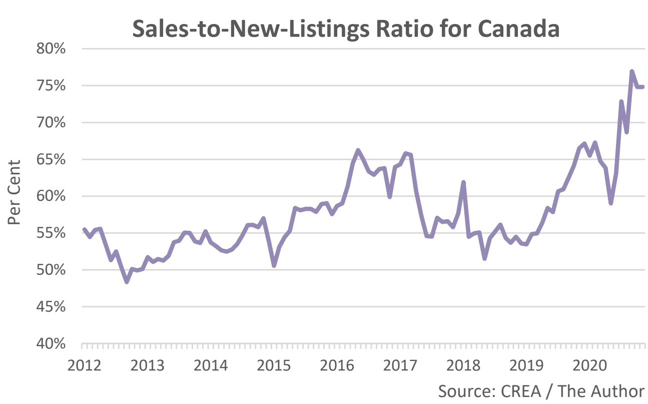
Resale Market (Continued)

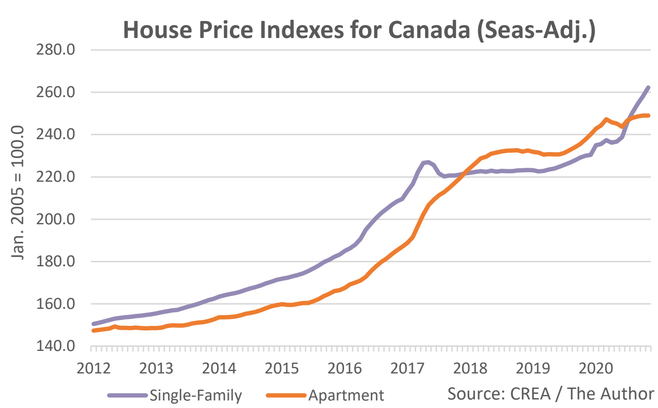
The next chart, looks at the data in terms of sales per adult. This shows that during the early stages of the pandemic, sales were at an all-time low, but during the past five months, sales have been far above the prior record. Flows of new listings into resale housing markets are far below required levels. In consequence, the national sales-to-new-listings ratio ("SNLR") is extremely high, at 75% in November (and an average of 69% since April). The SNLR is far above the 52% threshold for a "balanced market" - this is the level at which prices are expected to rise by 2% per year.

Prices are increasing very rapidly. CREA's house price index for Canada has increased by 8.3% during the past six months (expressed as an annualized rate, this is 17%). In many communities, there has been movement away from apartments, towards low-rise homes. The price index for single-detached homes has increased by 11% during the past six months but for apartments the increase is 1.5%.

Most mortgage deferrals have now expired. The Canadian Bankers Association has reported that Canada's banks have helped more than 795,000 homeowners with mortgage flexibility. As of October 31, 686,000 of those deferrals have expired, and close to 100% of the expired mortgages have resumed payments. The CBA report can be found here: https://cba.ca/canadian-banks-are-standing-by-canadians

For the mortgages that are still in deferral (possibly exceeding 100,000) it remains to be seen how these situations will be resolved. How many of these homes will become available, through voluntary or involuntary sales? Will this negatively affect pricing?



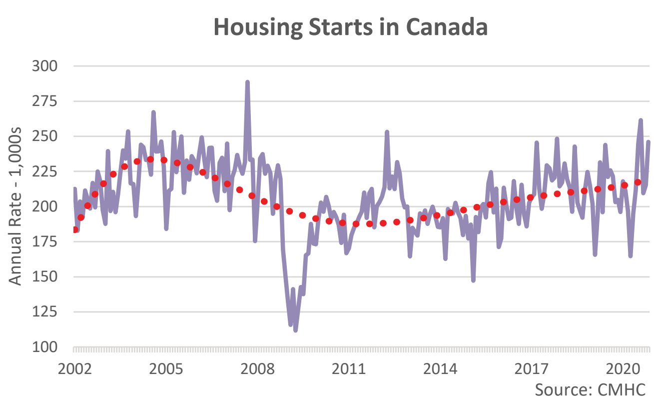


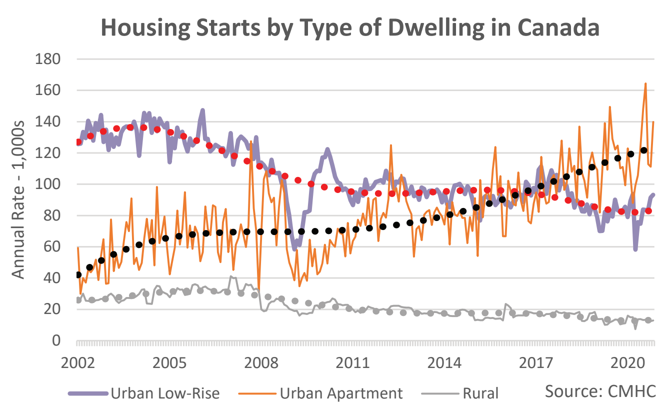
Housing Starts

Housing starts remain strong, with the rate for November at 246,000.

Looking at the details, starts remain very weak for low-rise homes. For some time, there has been inadequate production of new low-rises, which has resulted in upward price pressures for resales in many areas of the country. With Covid-19 now causing a further shift in interest towards low-rises those shortages are worsening, and there is no sign yet that new production will provide enough relief.

On the other hand, there has been a lot of new supply of apartments, at a time when demand is shifting away (for both ownership and renting). Continued very high volumes of new starts for apartments suggest that for some time many local apartment markets will be in-balance at best, and possibly over-supplied.

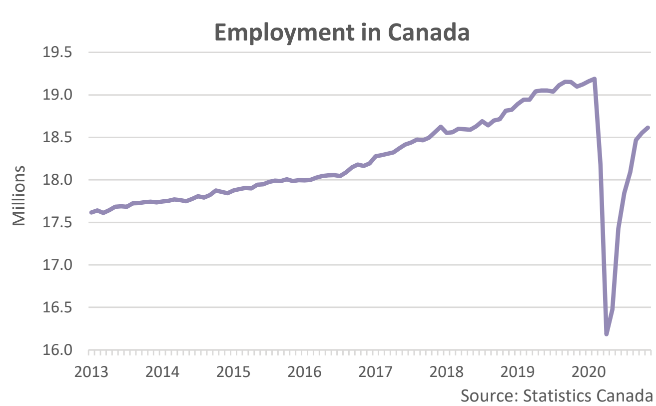




Employment Trends

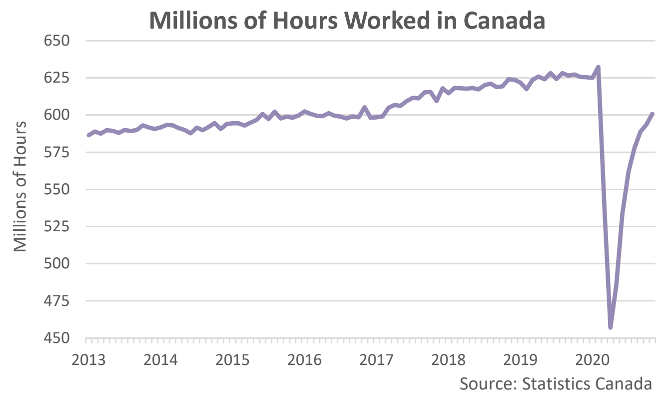
Employment continues to recover. But, the amounts of recovery were considerably smaller in October (84,000) and November (62,000) than in prior months. Statistics Canada estimates that as of November, total employment is 574,000 (or 3.0%) lower than in February.

The next chart looks at employment in terms of total hours worked, As of November, hours worked in Canada were 5.0% lower than in February.



Employment Trends (Continued)

Repeating a prior comment, the worst impacts 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. During October, Canada Mortgage and Housing Corporation conducted its annual survey of rental markets across Canada, but CMHC won't release the results until January. This would be a really good time for CMHC to do the survey on a quarterly (rather than annual) basis, and to accelerate the release of the data.

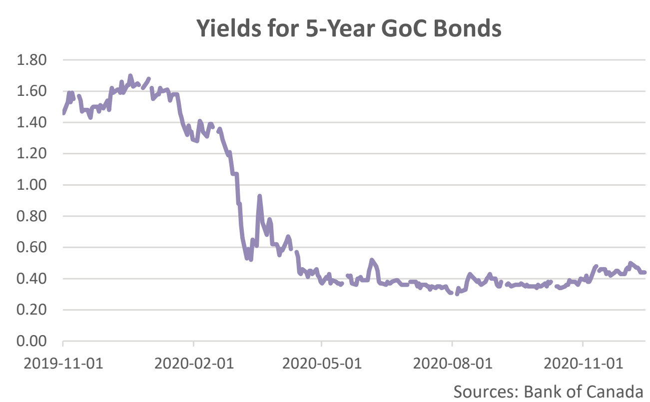


Interest Rates

Bond yields have changed very little during the past month. The yield for 5-year Government of Canada bonds has been in the area of 0.45%, just slightly higher than the record lows that were seen during the summer and early fall.

Mortgage interest rates have fallen. My opinion-estimate of a typical advertised "special offer" mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now 1.65% (even lower rates can be negotiated). The spread between mortgage rates and bond yields is just 1.2 points, which is below the long-term average of 1.8 points. For variable rates, my opinion-estimate is now 1.35%.

As commented previously, the rate used in the mortgage stress tests remains ridiculous, at 4.79%.



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