

Resale Market

Covid-19 has caused a very sudden and massive downturn in home sales. Data published by the Canadian Real Estate Association (“CREA”) show a sales rate of just 199,000 for the month. This is a drop of 61% compared to the average rate (514,000) seen from July 2019 to March this year.

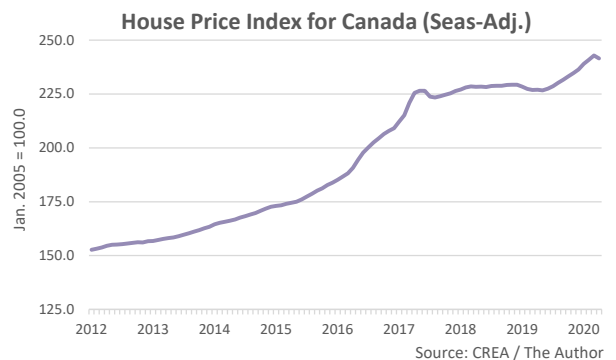
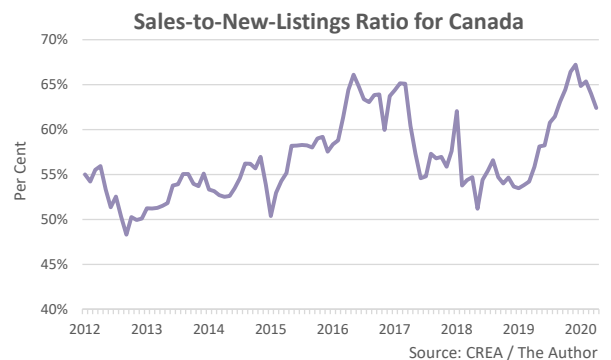
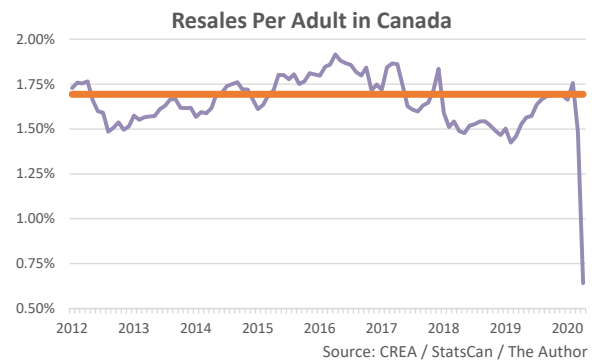
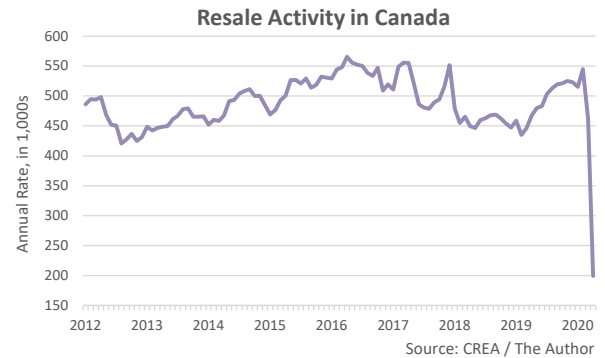
When sales are expressed on a population-adjusted basis, there was a similarly large drop in April. The adjusted rate for April is 62% below the long-term average (which is shown by the flat line).

The flow of new listings into the market has also dropped very sharply. Consequently, the national sales-to-new-listings ratio (“SNLR”) fell only slightly. The SNLR for April (62.4%) remains far above the 52% threshold for a “balanced market” - this is the level at which prices are expected to rise by 2% per year).

I expect that under the circumstances, it must be very challenging for CREA to generate its price indexes. The data for April shows a reduction compared to the prior month, but compared to a year ago the index is up by 6.4%.

Housing Starts

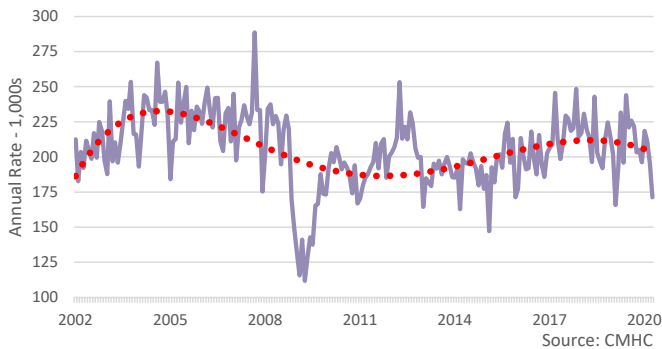
Housing starts have been much less affected. The seasonally-adjusted annual rate for April was 171,300, which was about 15% below the prior trend. This muted slowing makes sense, because starts result from decisions made in the past (pre-construction purchases made earlier and investment decisions made for new rental properties). In fact, the reduction for April was mainly because CMHC did not conduct the survey in Quebec for April. In the remaining nine provinces, total starts actually increased.



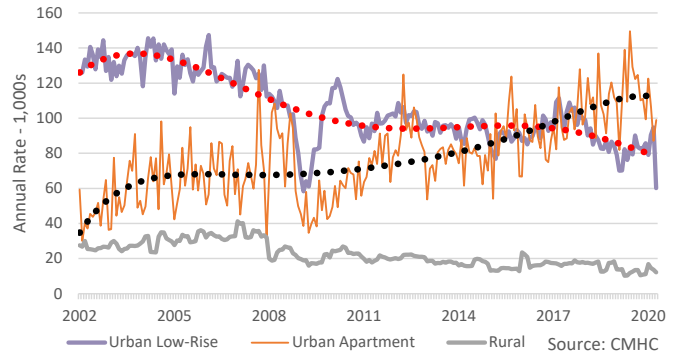
Housing Starts (Continued)

Starts for apartments remain much stronger than for low-rise dwellings (single-detached, semi-detached, and town homes). Rural starts remain quite weak.

Housing Starts in Canada



Housing Starts by Type of Dwelling in Canada

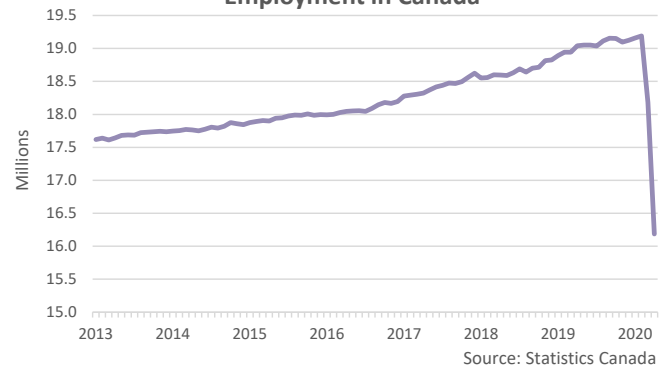


Employment Trends

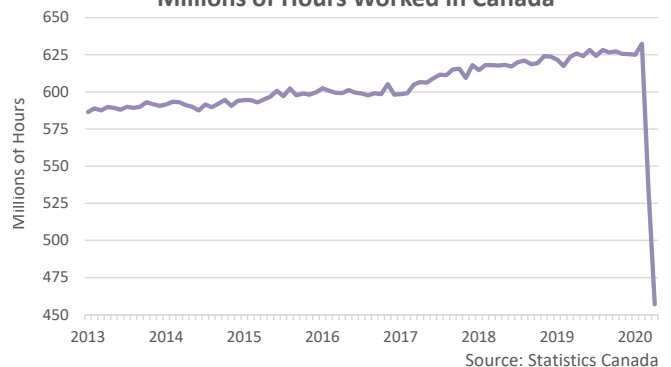
By every available measure, the employment situation is very badly damaged in Canada. As of April, total employment is three million people lower than in February. As is shown in the second chart below, total hours worked (per week) have fallen by more than one-quarter, and the third chart shows that the share of adult Canadians who have jobs has fallen by 10 percentage points. Labour market analysts point out that 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.

However, fear and uncertainty about future employment and incomes, as well as fears about physical safety, are resulting in the very sharp deceleration of home buying.

Employment in Canada

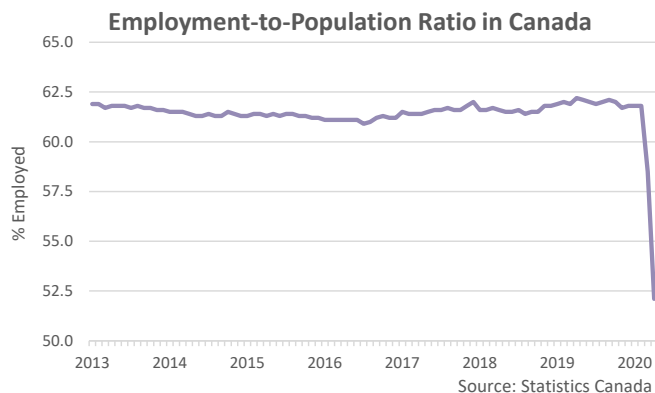


Millions of Hours Worked in Canada



Employment Trends (Continued)

As I have said elsewhere, at this time it is impossible to confidently forecast what might happen within the housing market (or for the broader economy). Any forecasts being made at this time are really just assumptions, which tell us about the biases and predispositions of the forecasters. Consequently, we are seeing very wide ranges of forecasts.



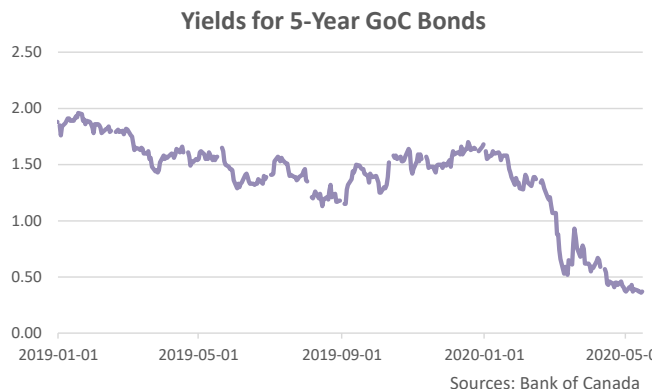
Interest Rates

Bond yields have fallen sharply, to the lowest levels ever seen in Canada. The yield for 5-year Government of Canada bonds is currently (as of May 15) just 0.37%.

Mortgage interest rates have partially followed 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 2.45%, which is a new record low. However, the spread between mortgage rates and bond yields is currently large (at the moment exceeding 2.0 points versus a long-term average of 1.8 points, and an average of 1.49 points for all of 2019).

Uncertainty about supply and costs of funds is making it very difficult for lenders to set rates. For variable rates, my opinion-estimate is now 2.25%. There is some room for reduction of both fixed and variable mortgage interest rates.

In normal times, these exceptionally low interest rates would be highly stimulative for home sales, but I expect that fears and uncertainty will constrain the responses.



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