

## Encouraging Signs?

As I write this (on September 15), some of us are becoming anxious about the possible emergence of a second wave, and about the implications (personal safety, economic, social, educational...). Current data can be found here:

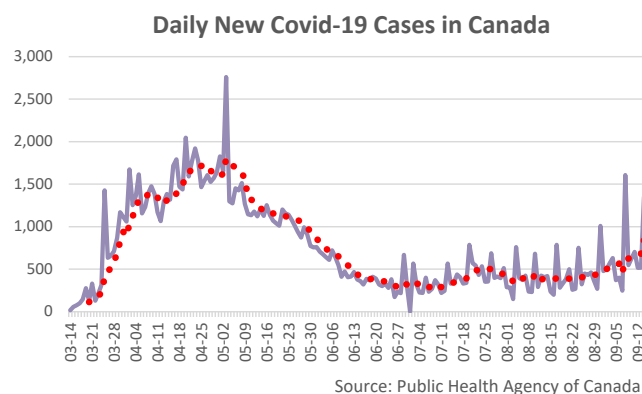
<https://health-infobase.canada.ca/src/data/covidLive/covid19.csv>

On September 14th, Mortgage Professionals Canada released the second edition of a report that is investigating changes in consumers' attitudes and expectations about mortgages and home buying, during the Covid-19 period. The reports can be found on this page.

<https://mortgageproscan.ca/membership/resources/covid-19-consumer-reports>

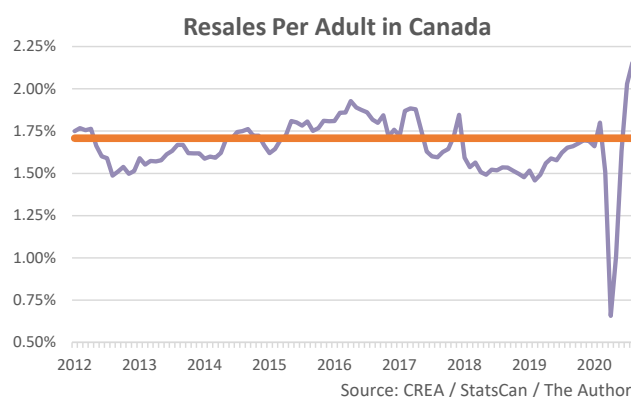
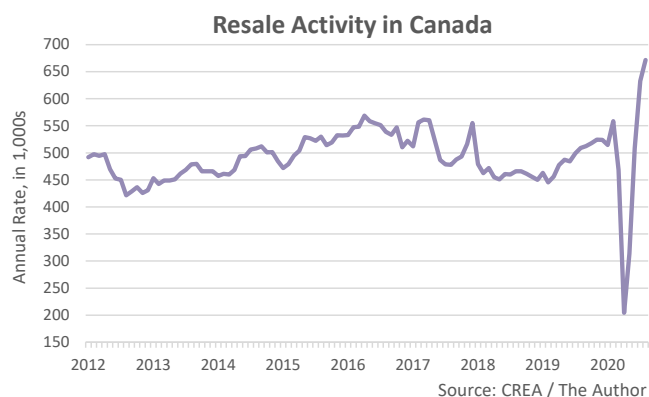
Key take-aways include:

- Changes in needs (especially social distancing) and opportunity (record low interest rates) have contributed to sharply higher interest in home-buying.
- Canadians remain comfortable with the home-buying choices (and mortgage choices) that they have made.
- While recent data from the housing market is quite encouraging, the future remains unpredictable.



## Resale Market

Resale activity set a new record in July and another in August. The annualized rate for August was 672,000. The prior record was 569,000, in April 2016. (As an aside, it appears to me that the seasonal-adjustment process was quite conservative in August. Based on the actual, unadjusted data, I would expect the SA rate to be above 700,000.)



## Resale Market (Continued)

As I commented last month, recent sales activity is largely catch-up for sales that did not happen during April to June. I think it's useful to look at the average for April to August, which is weak in historic terms at 466,000.

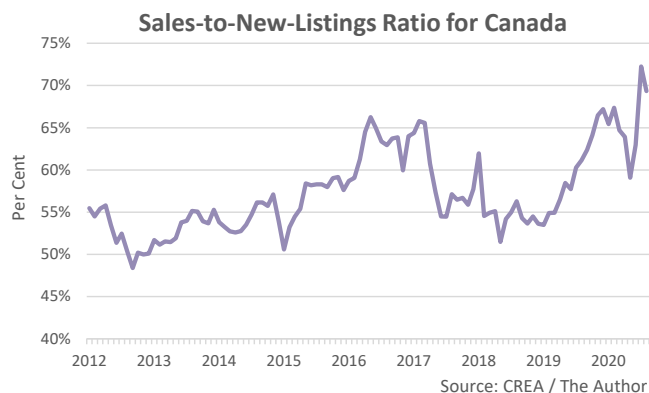
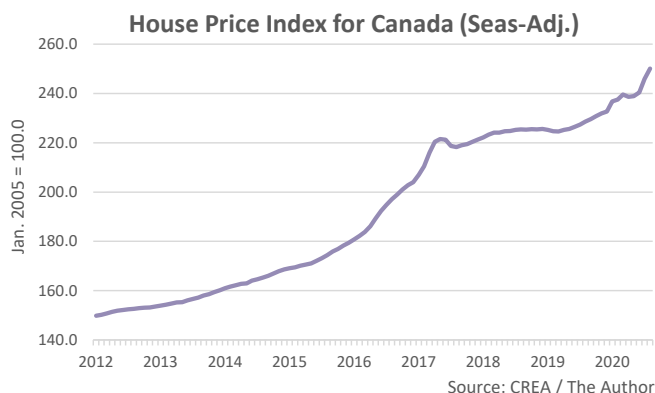
Looking at the data in terms of sales per adult, the rate for August was 26% above the long-term average (calculated for 2001 to the present, and shown by the flat line). But, for the five months from April to August, the sales rate is 12% below average.

The flow of new listings into the market also improved during the summer, but less strongly than for sales. Consequently, the national sales-to-new-listings ratio ("SNLR") remains quite high, at 69.4% in August. This 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.

The tight state-of-the-market is causing rapid price growth in many communities. CREA's house price index has risen by 9.4% versus a year ago, and by 4.7% during just the past three months.

Reasonable people can disagree on how to interpret the recent data. I see a process of catch-up from the extremely low figures of a few months ago. Some people see a ridiculously strong housing market. I will add that if the recent strength continues beyond the end of October, I would see that as problematic. Also, there may be an element of undue urgency in the current market that is resulting in excessive price growth. (A few months of that might create problems for the small numbers of people affected, but this would not be significant as a systemic risk, so long as it doesn't last very long.)

All of this said, I remain unwilling to draw conclusions about what will happen next.

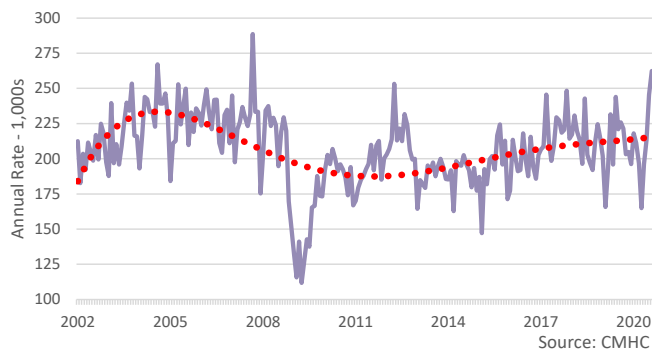


## Housing Starts

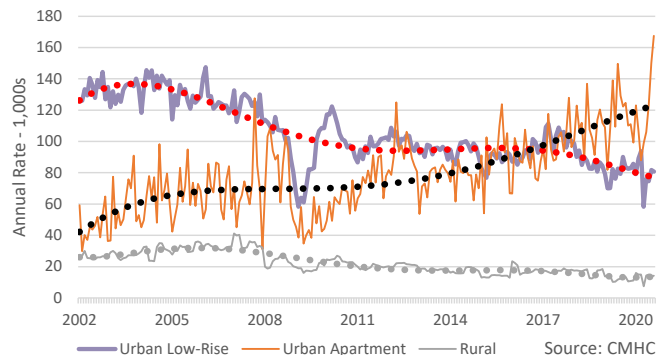
Housing starts increased sharply in both July and August (with the annualized rate at a very high 262,400 for August). Repeating a prior comment: starts continue to reflect pre-construction sales that occurred prior to Covid-19, and reductions in new starts may be slow to materialize.

The recent rise in starts was entirely for apartments (reflecting long lags between decisions and actual starts). Low-rise activity (single-detached, semi-detached, and town homes) responds more quickly to changing conditions, and the trend now appears to be falling. Rural starts are also weak.

Housing Starts in Canada



Housing Starts by Type of Dwelling in Canada

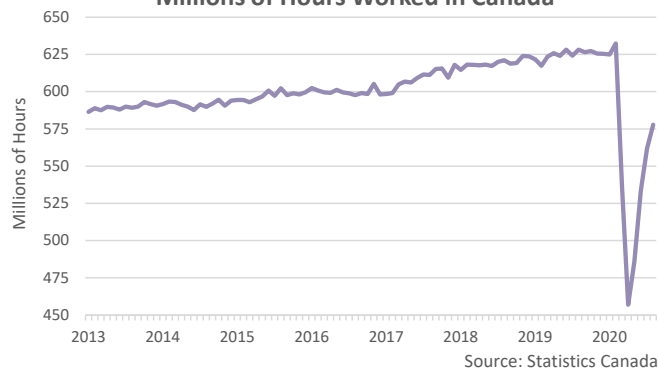


## Employment Trends

Employment continues to recover, although the rate of recovery is slowing. Statistics Canada estimates that employment rose by 246,000 in August. The level of employment in August was still 1.1 million (5.7%) lower than in February.

Data on total hours worked shows a slightly weaker recovery: as of August, total hours (on a seasonally-adjusted basis) were 8.6% lower than in February. So far, 69% of the loss has been regained.

Millions of Hours Worked in Canada

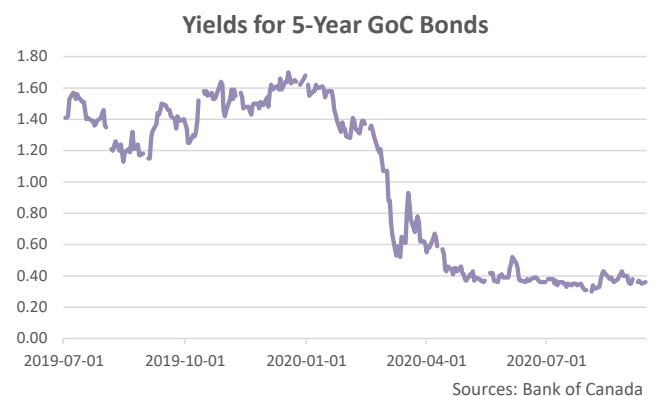


## Interest Rates

Interest rates (including bond yields) have shown only small changes during the past month. The recent yield for 5-year Government of Canada bonds (close to 0.35%) remains extremely low.

My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate, advertised by major lenders) is 1.95%, by far the lowest-ever (the prior record low was 2.5% during the summer of 2016). The spread between mortgage rates and bond yields (currently 1.6 points versus the long-term average of 1.8 points) shows a competitive market. For variable rates, my opinion-estimate is 1.9%.

As I’ve commented many times, the interest rate used in the mortgage stress tests is ridiculously high and is an unnecessary impediment to Canadians achieving their reasonable home ownership goals (the test rate of 4.79% is almost 3 points above actual market interest rates).



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