

SECOND QUARTER 2020 HOUSING MARKET DIGEST MANITOBA



Encouraging Signs?

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

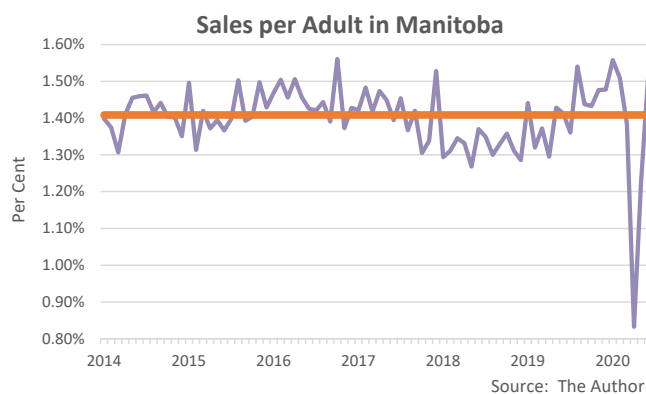
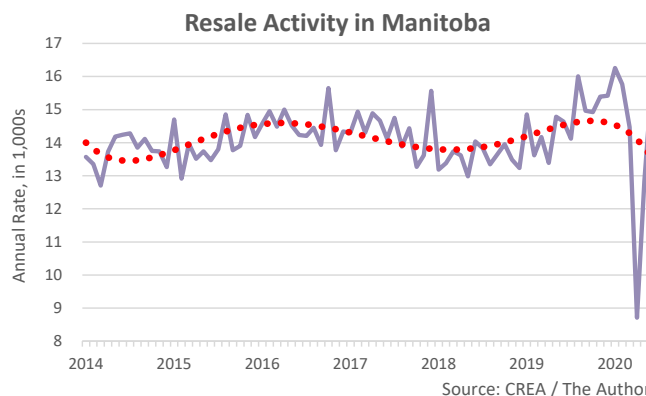
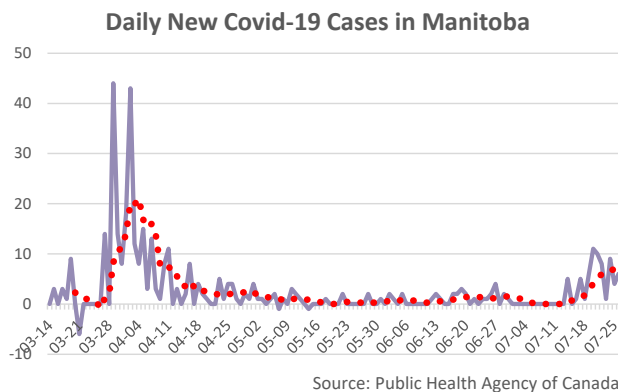
For the province of Manitoba, the data on new confirmed Covid-19 cases remains low, although the very recent data hints at a small increase. This chart shows data up to July 27. Current data can be found here: <https://health-infobase.canada.ca/src/data/covidLive/covid19.csv>

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 has shown a rapid recovery, as the sales rate increased sharply in both May and June. The rate for June (15,800) is at an above-average level. But, for the entire second quarter, the average rate was just 12,500. 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 an impaired housing market. 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 quite strong, at 7% above the long-term average (calculated for 2001 to the present, and shown by the flat line).



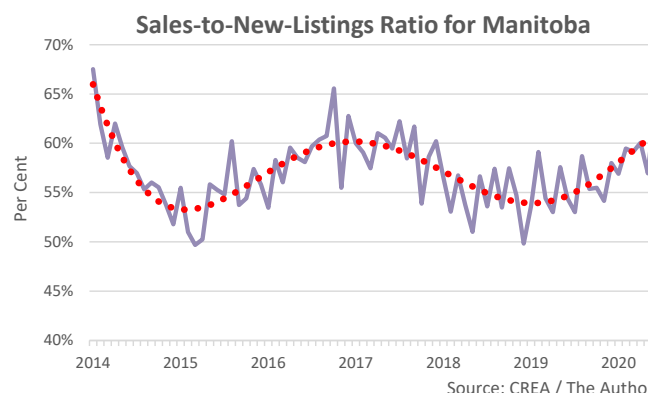
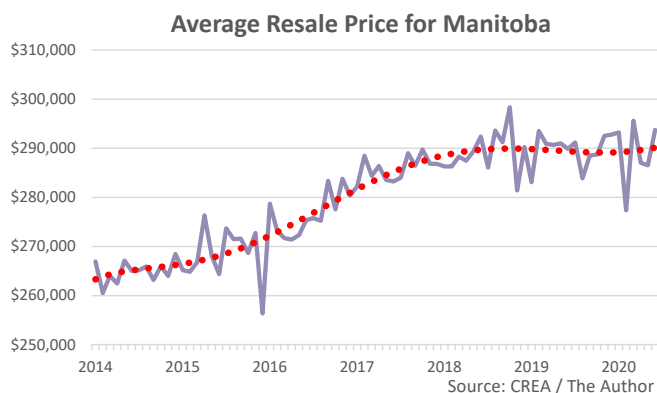
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Resale Market (Continued)

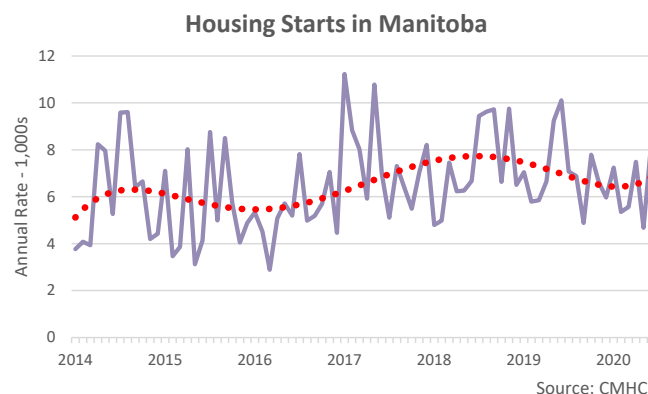
For the entire second quarter, the sales rate was 15% below the long-term average. On this measure, Manitoba has recovered more rapidly compared to all of Canada, for which the per adult sales rate was 37% below average during the second quarter. The flow of new listings into the market is still more-or-less meeting requirements. The provincial sales-to-new-listings ratio (“SNLR”) was 64% in June (and 61% for the entire second quarter). The regional SNLR is slightly above the 58% threshold for a “balanced market” - this is the level at which prices are expected to rise by 2% per year.

While the average resale price in Manitoba is erratic, a trend line hints that prices have been roughly flat during the past two years (which is consistent with the performance of the SNLR). The average price for the second quarter was 0.1% lower than a year ago.



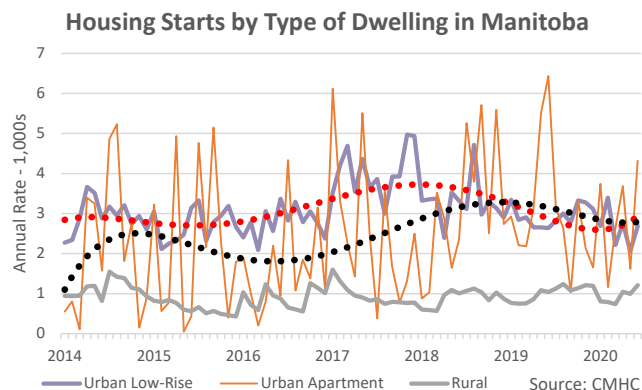
Housing Starts

Within Manitoba, the trend for housing starts has shown only minor variations for some time. For the second quarter, the starts rate (6,800) was fractionally lower than the rate for all of 2019 (6,900). However, during the recent past, starts have been higher than the long-term average (5,600 per year during 2001 to 2019). Any depressive effects of Covid-19 will most likely be gradual, because starts are determined by decisions made earlier.



Housing Starts (Continued)

The higher starts seen during the past few years have been mainly due to increased apartment activity. Low-rise activity (single-detached, semi-detached, and town homes) has been relatively flat.

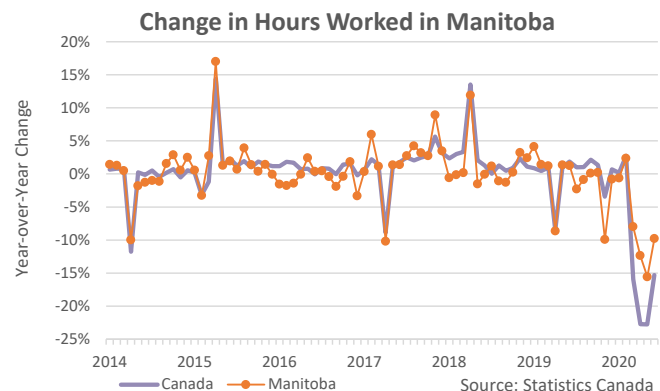
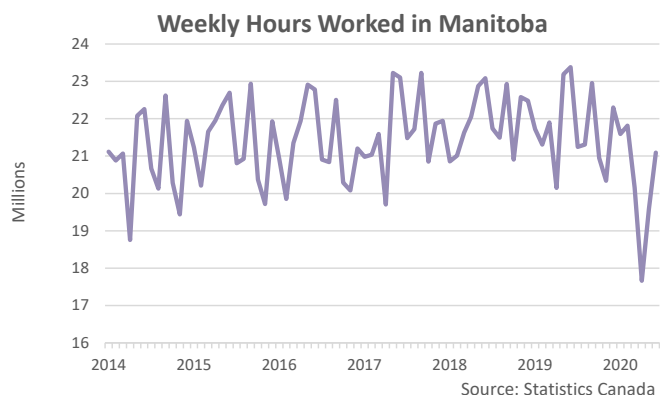


Employment Trends

Statistics Canada estimates that employment in Manitoba rose by about 29,000 in June, as more people have been able to return to work. But, the level of employment in June was still almost 48,000 (7.2%) 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 10% lower than a year ago. The data indicate that the effects of Covid-19 has been less severe within Manitoba 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.



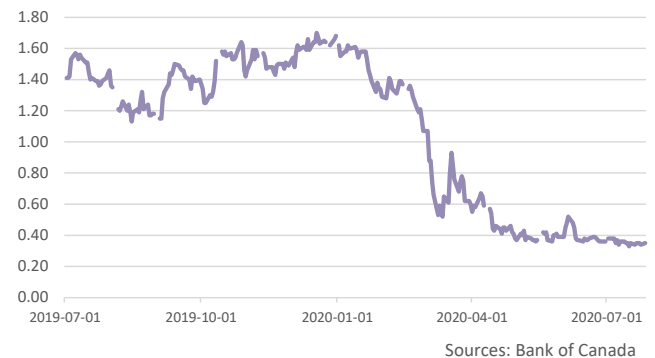
Interest Rates

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



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