THIRD QUARTER 2020

HOUSING MARKET DIGEST

SASKATCHEWAN

MORTGAGE PROFESSIONALS CANADA

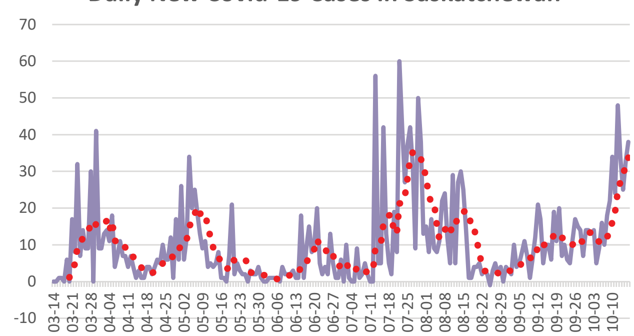
Staying Safe?

It is clear that Canada is now in a second wave of the Covid-19 epidemic, and the seven-day moving average of new cases has recently moved higher than was seen during the spring. Within Alberta, the recent per capita rate of new cases has been close to the national average. It remains to be seen what effects this wave will have for the housing market and the broader economy. This chart shows data up to October 16. Current data can be found here: https://health-infobase.canada.ca/src/data/covidLive/covid19.csv

Data from the Canadian Bankers Association implies that about 11% of mortgages were still in deferral at the end of August (down from 16% at the end of June). The CBA report can be found here: https://cba.ca/canadian-banks-are-standing-by-canadians

Deferrals will now begin to end in large numbers, creating a risk that there could be a large rise in mortgage arrears in Canada. There is an urgent need for a national conversation about options to assist mortgage borrowers who are still suffering from impaired incomes.

Daily New Covid-19 Cases in Saskatchewan



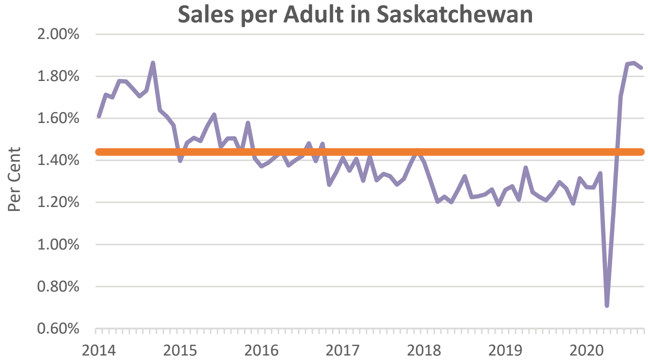
Source: Public Health Agency of Canada

Resale Market

The pandemic caused a sharp drop in sales, in a housing market that was already quite weak. But, then there was a sharp rebound in the third quarter, with the annualized sales rate at a very strong 16,600. The recent surge has more than fully offset the very weak activity that was seen during the second quarter, and combined sales for the second plus third quarters were 6% above average (in this calculation, the average sales rate has been adjusted for growth of the population).

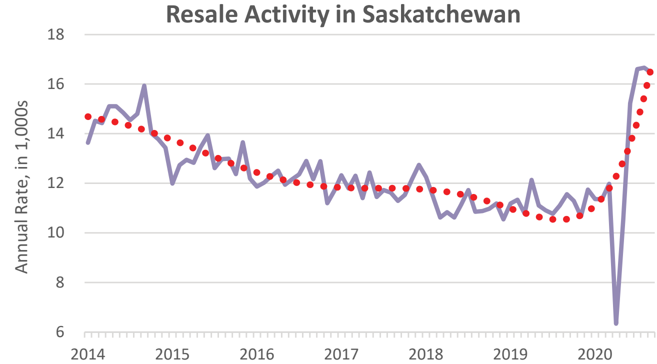
The provincial performance has been stronger than for all of Canada (combined second and third quarter sales in Canada were 5% below the population-adjusted average).

Sales per Adult in Saskatchewan



Source: The Author

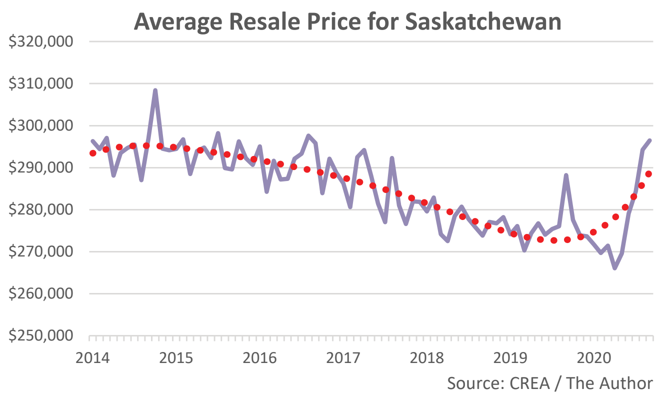
Resale Activity in Saskatchewan

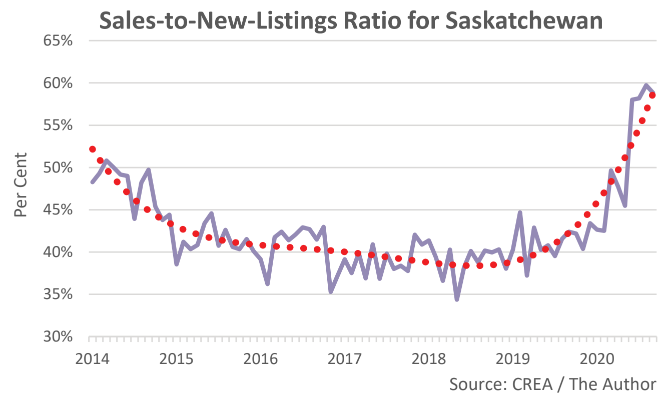


Source: CREA / The Author

Resale Market (Continued)

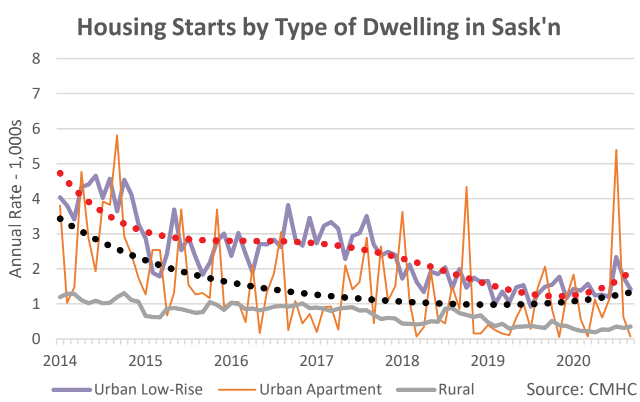
Looking at the data in terms of sales per adult, activity in the third quarter was 29% above the long-term average. Extremely low interest rates and the re-opening of the economy have been very supportive for home buying. The provincial sales-to-new-listings ratio ("SNLR") has improved, from previously depressed levels, to an average of 55% during the past six months, which is slightly above the threshold for a "balanced market", which may be in the range of 51% - this is the level at which prices are expected to rise by 2% per year. Previously, a negative imbalance between supply and demand was resulting in some price erosion. The recently improved SNLR has disrupted that erosion. CREA data shows that the provincial average resale price for the third quarter was 4% higher than a year ago.

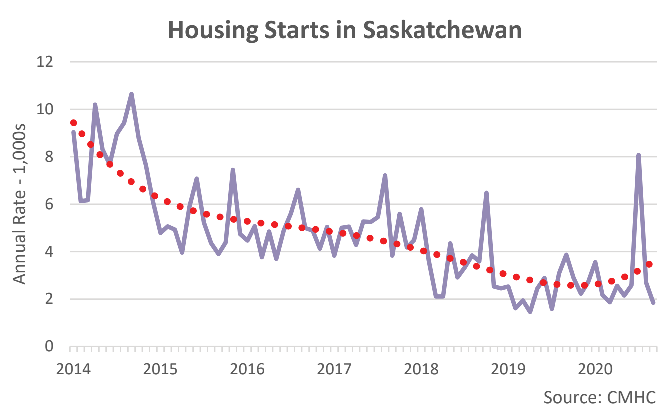




Housing Starts

Housing starts improved during the third quarter, to a rate of 4,100. In a long-term historic perspective, this is still quite weak. The third quarter rise for starts is mainly due to a lump of activity for apartments. For low-rises (single-detached, semi-detached, and town homes) activity has varied from month-to-month, and it is difficult to draw a conclusion about the trend. The recent data hints that a long period of falling starts might have ended. Starts remain very weak in rural areas.





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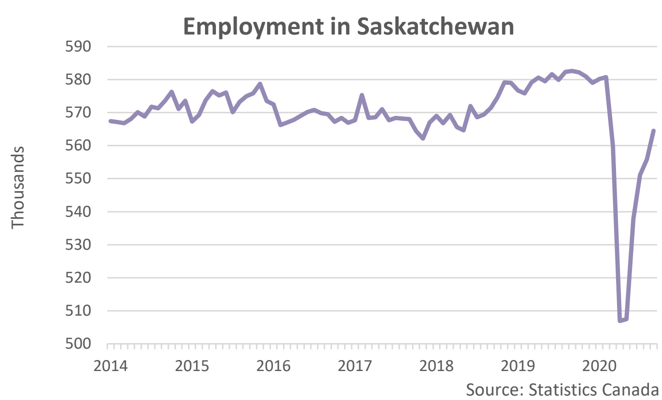
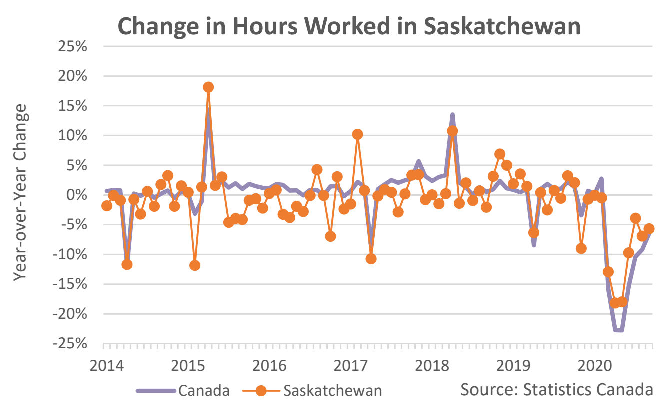
Employment Trends

Employment continues to recover, with the fifth consecutive large rise in September. Statistics Canada estimates that employment fell by 74,000 during March and April, but since then 58,000 jobs have been regained. As of September, total employment is estimated to be 16,000 (or 2.8%) lower than in February. For all of Canada, the current shortfall is 3.7%.

At present, I prefer to watch employment in terms of total hours worked. The next chart shows that while there has been a strong rebound, as of September, hours worked in Manitoba were 2.0% lower than a year ago (for all of Canada, the figure is 6.6%).

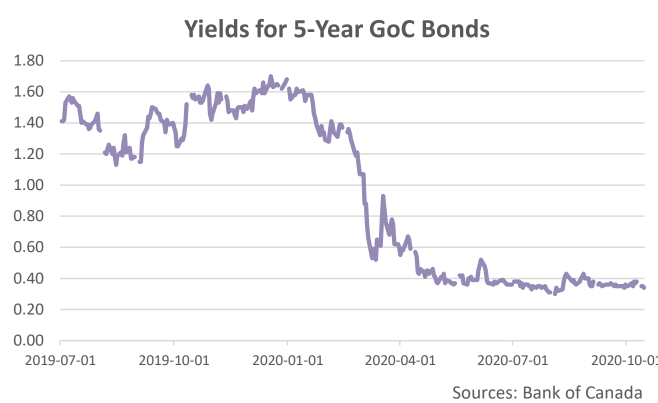
The worst impacts have been seen in low wage service industries and for younger age groups. This implies that the damage within the housing market will be greater for the rental sector than for home buying. Canada Mortgage and Housing Corporation is currently conducting its annual survey of rental markets across Canada. Unfortunately, CMHC expects that it won't release the results until January.





Interest Rates

Bond yields remain extremely low and are showing only very small movements. During the past month, the average yield for 5-year Government of Canada bonds has been just 0.36%.



Interest Rates (Continued)

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 1.9%, by far the lowest-ever (and even lower rates can be negotiated). The spread between mortgage rates and bond yields has closed, and at 1.55 points is now below the long-term average of 1.8 points. However, it is similar to the average of 1.49 points for all of 2019. For variable rates, my opinion-estimate is now 1.8%.

Meanwhile, the mortgage stress tests continue to use a ridiculous test rate of 4.79%.

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