APRIL 2021

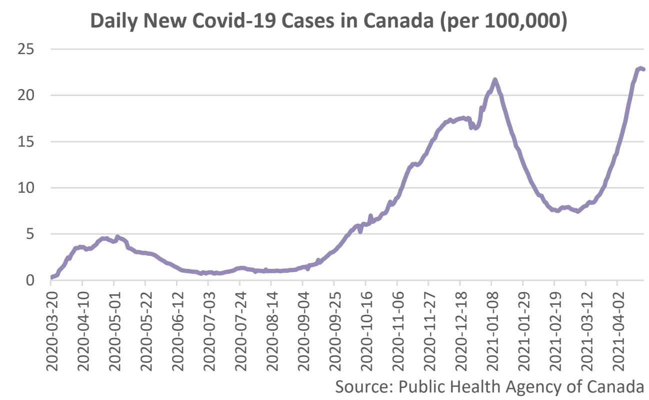
HOUSING MARKET DIGEST CANADA

MORTGAGE PROFESSIONALS CANADA

We're Not There Yet

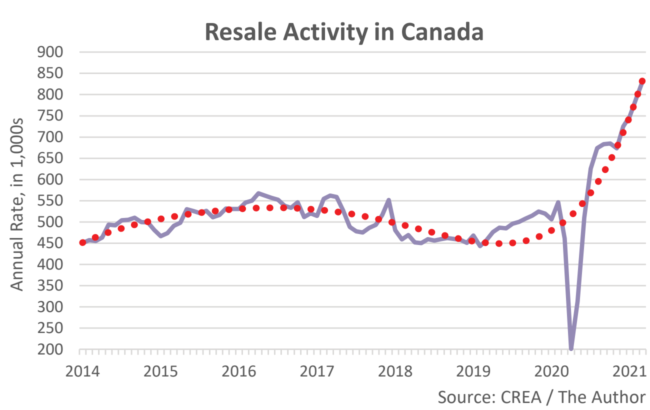
I found this very interesting, and it makes sense to an economist: around the world, places that aimed for Covid-zero have done better than places that have tried to finesse-the-curve, not just in health outcomes but also in economic damage:
https://thetyee.ca/News/2021/04/02/Canada-One-Big-Pandemic-Response-Experiment-Zero-COVID/

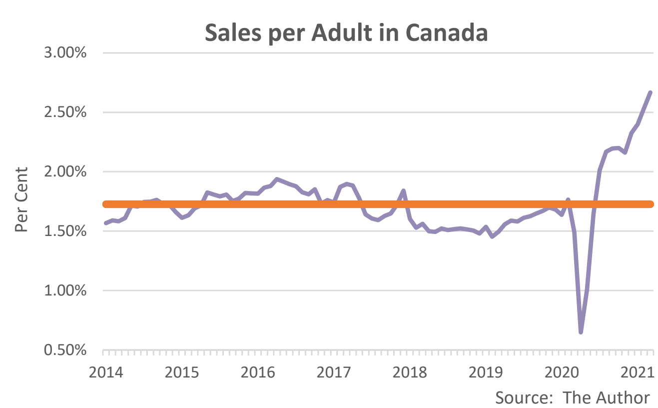
This chart presents the data on new covid-19 infections in a different way than previously (it shows the 7-day moving average, divided by the population). This makes it easier to compare trends across the provinces (in the quarterly Housing Market Digests for the provinces, charts compare each of the provinces' rates versus the all-Canada rate of 22 per 100,000). During the past week, the daily rate of new infections has passed the peak level that was seen during the 2nd wave. Five out of 10 provinces have seen sharp rises. Five have seen little change (notably the four Atlantic provinces, plus Manitoba). This chart shows data up to April 19. Current data can be found here:
https://health-infobase.canada.ca/src/data/covidLive/covid19.csv



Resale Market

In the prior edition of this report, I discussed that there has been a relatively small rise in the percentage of Canadians who buy homes (from a normal 4.5-5% per year to perhaps 5.5-6% this year). But, in proportional terms, this is a very large rise, which is overwhelming the available supply. There might now be another factor in play. It sometimes happens (but not always) that when interest rates rise there is a surge of sales, as people accelerate their purchases to take advantage of time-limited guaranteed interest rates.





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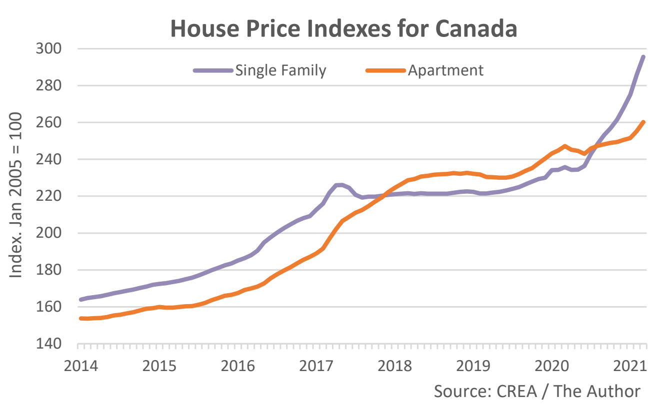
Resale Market (Continued)

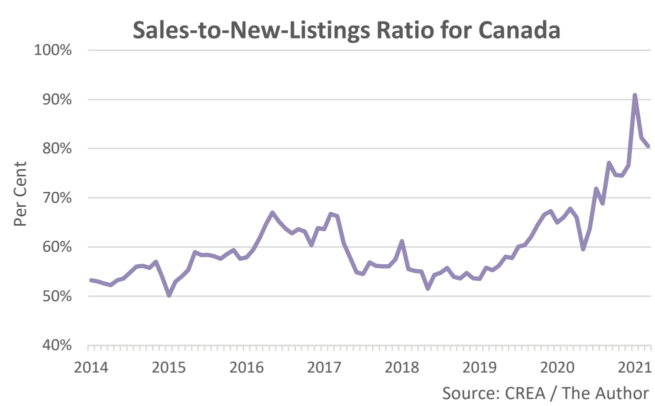
Typical "special offer" interest rates for 5-year fixed-rate mortgages have increased by about a half point since late January, and this might partially explain why sales increased very sharply during February and even further in March (an annualized rate of 833,000).

Expressed on a population-adjusted basis (per adult), sales in March also set another new record, at 55% above the long-term average. During 2018 and well into 2019, population-adjusted sales were substantially below average. For the entire period from January 2018 to March 2021, the average sales rate was almost exactly equal to the long-term average, as I discussed in my presentation to Mortgage Professionals Canada's Virtual Mortgage Symposium on April 21st (a net shortfall of just 37,000 sales, or a shortfall of just 2% compared to total sales).

At this time, there are a lot more first-time buyers in the market than repeat buyers (move-up, move-down, or move-away), which means that there aren't enough people who need to sell homes and there aren't enough listings flowing into the market. For March, the national sales-to-new-listings ratio ("SNLR") improved (fell) slightly, but at 81% it is still far above the 52% threshold for a "balanced market" - this is the level at which prices are expected to rise by 2% per year.

CREA's house price index for Canada has increased by large amounts in each of the past 10 months. Compared to a year ago, the price index for Canada is up by 20%. With a shift in consumer interest towards low-rise homes, the price index for single-detached homes has increased by 25% during the past year but for apartments the increase is 5%.





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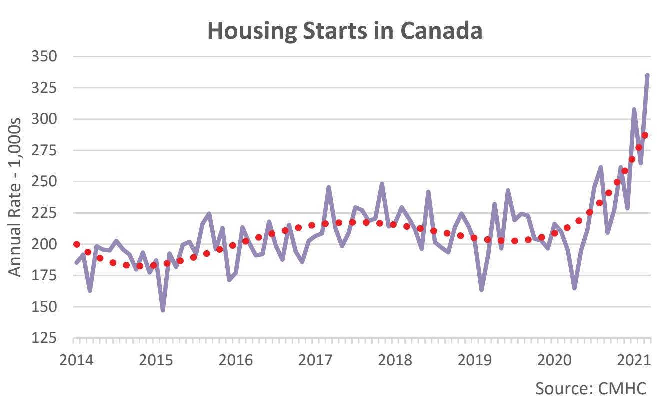
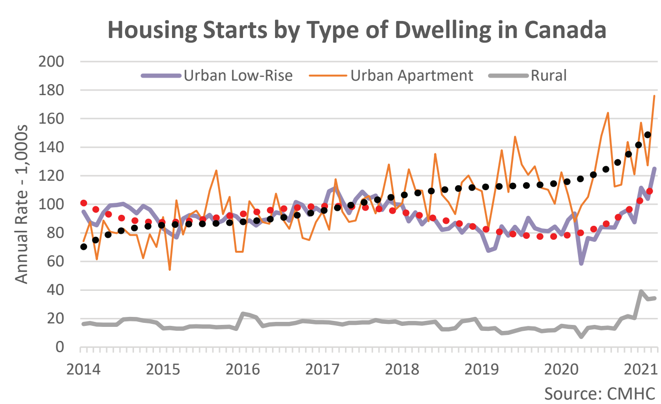
Housing Starts

Since the middle of last year, housing starts have surged in Canada. For March, the estimated rate of starts reached the highest rate of the past three decades (335,000). Apartment activity remains very strong. Encouragingly, starts of low-rise dwellings (single-detached, semi-detached, and town homes) are improving from very low levels. Recent very rapid price growth should encourage more construction of low-rise homes in the coming months, especially in smaller cities where supply is more "elastic" (is more able to respond quickly to pricing).

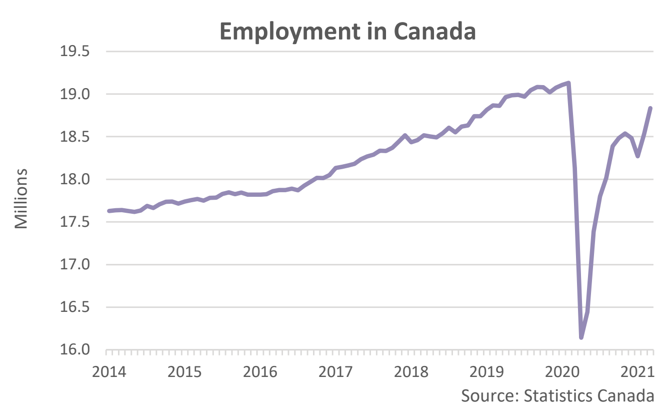
On my personal website, I have published a short article (in my monthly report for March) that looks at supply shortages for low-rise homes in the Toronto area (concluding that during the past decade and a half, production has been 100,000 less than is needed, and that the inadequate inventory on the ground is contributing to the current rapid price growth). The mortgage stress tests are one of several factors that have caused that under-production. I'm currently working on a personal project that extends that analysis across the country, and finding that almost every major city in Canada has under-produced low-rise housing.





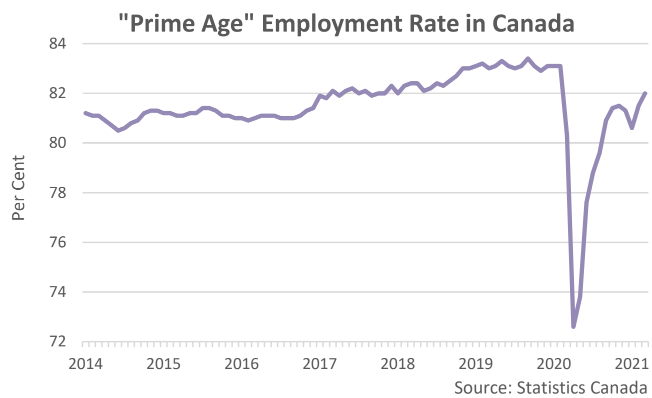
Employment Trends

Statistics Canada estimates that employment rose by a very large amount in March (by just over 300,000), which is attributed largely to economic re-opening. It is possible that there will be some reversal during April. There is always some uncertainty about the month-to-month changes that are estimated by the employment data, but the trend is encouraging: Canada has regained in the area of 90% of the job losses that happened last spring, and employment is now estimated to be just 1.4% lower than it was at the start of 2020.



Employment Trends (Continued)

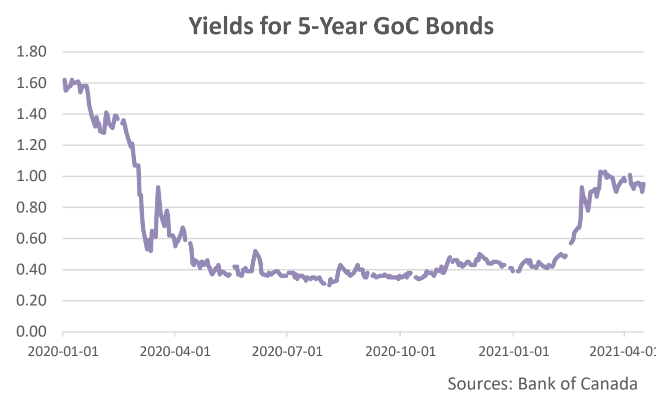
As I discussed in my presentation to the Virtual Mortgage Symposium, the recovery in Canada has been stronger than in the US (where employment is still 5% lower than pre-Covid), but our recovery has been weaker than Australia's (where employment is now higher than pre-Covid, by 0.7%). Looking at the percentage of Canadians who have jobs: within the "prime working age" (25 to 54) the share has not returned to the record level that was seen during 2019, but it is similar to 2017 and 2018, which was a time of quite good economic health in Canada. This economic indicator is quite positive for home buying in Canada.



Interest Rates

Interest rates rose sharply during late February into early March, but have shown litlle change since then. The yield for 5-year Government of Canada bonds has been just below 1.0% during the past four weeks, which is about 0.6 points higher than during the second half of last year. Mortgage interest rates have now followed, rising by a similar amount. My opinion-estimate of a typical "special offer" mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now 2.2% versus 1.65% at the end of last year.

For variable rates, my opinion-estimate is 1.3%. During most of last year, rates were similar for fixed rate and variable rate mortgages. Variable rates are now considerably cheaper.



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