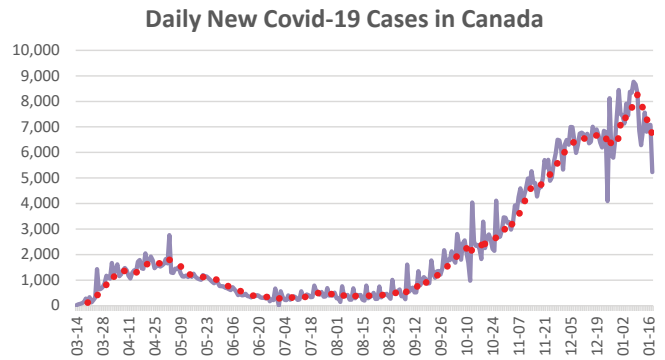


More Economic Damage?

The rate of new Covid-19 infections has retreated during the past week, but remains very high. This chart shows data up to January 18 (the dotted line is the 7-day moving average). Current data can be found here: <https://health-infobase.canada.ca/src/data/covidLive/covid19.csv>

Emerging economic indicators (apart from the housing market) are starting to show negative effects (and those indicators are, in this environment, out of date by the time they are released). I am still unwilling to produce any forecasts on what might happen to the housing market or the broader economy, because we can't know how this will unfold.



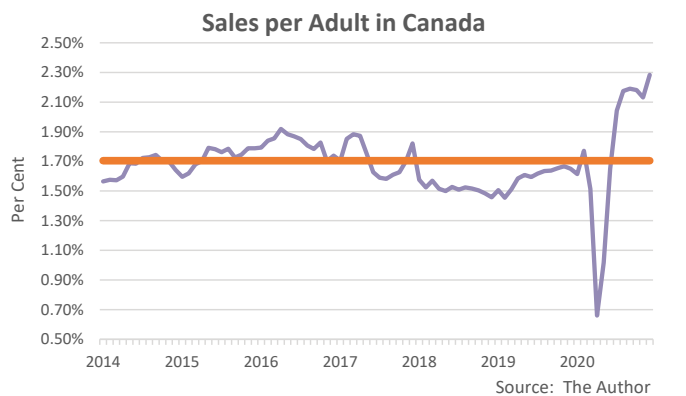
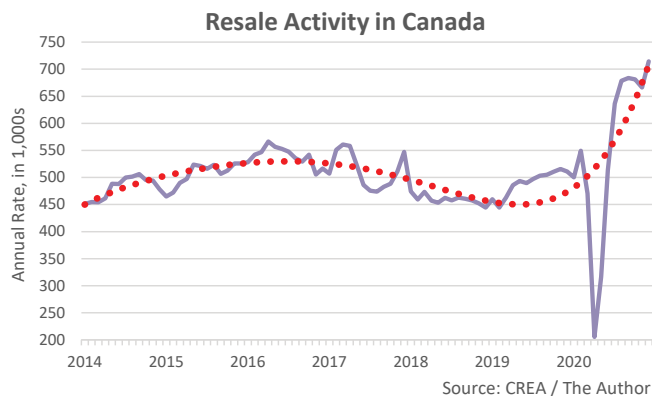
Source: Public Health Agency of Canada

Resale Market

A new monthly record was set in December (an annualized sales rate of 714,500) and there was a new annual record for all of 2020 (551,392, versus the prior record of 539,000 set in 2016. 2020 saw a substantial rise from the 2019 total of 490,000). Looking at sales rates over the past two decades and then making an adjustment for population growth, I calculate that the long-term average rate for 2020 would be about 531,000. On this basis, the sales rate for 2020 was slightly (4%) above average. In part, 2020 looks spectacular because home buying was depressed during 2018 and 2019 by the mortgage stress tests.

Home buying has been bolstered by a combination of positive factors. Covid-19 has caused us to think carefully about our living arrangements and many of us have decided to make changes, as is discussed in much more detail in my reports for Mortgage Professionals Canada, which can be found here:

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



Resale Market (Continued)

Decisions to move are being supported by exceptionally low interest rates and the reasonably stable financial circumstances that most of us are experiencing.

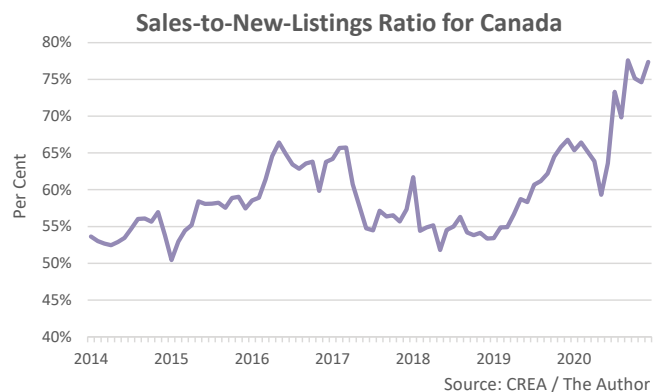
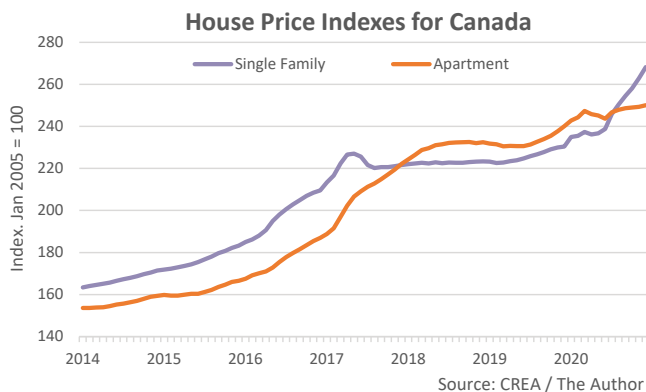
Flows of new listings into resale housing markets increased during the second half of the year, but did not keep up with demand. The result is that the national sales-to-new-listings ratio (“SNLR”) is extremely high, at 77% in December (and an average of 74.6% for the second half of 2020). The SNLR is far above the 52% threshold for a “balanced market” - this is the level at which prices are expected to rise by 2% per year.

Prices are increasing very rapidly. CREA’s house price index for Canada has increased by 9.6% during the past six months (expressed as an annualized rate, this is 20%). In many communities, there has been movement away from apartments, towards low-rise homes. The price index for single-detached homes has increased by 12% during the past six months but for apartments the increase is 2.6%.

Most mortgage deferrals have now expired. On January 12, the Canadian Bankers Association reported that Canada’s banks have helped more than 797,900 homeowners with mortgage flexibility. As of November 30, 743,000 of those deferrals have expired (93%). The CBA report can be found here:

<https://cba.ca/canadian-banks-are-standing-by-canadians>

It is too soon to draw conclusions about the impacts of the end of deferrals. While there have been many comments like “most borrowers have resumed their payments”, those comments appear to be based on data from September.

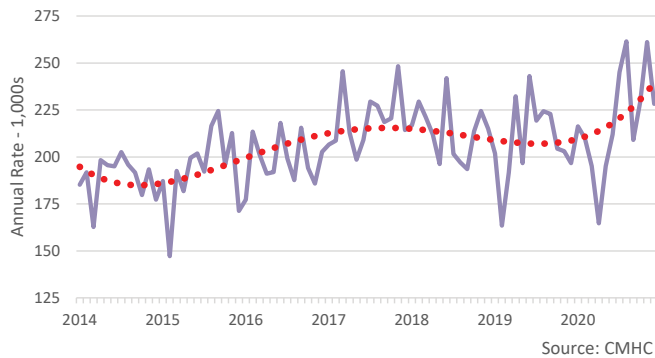


Housing Starts

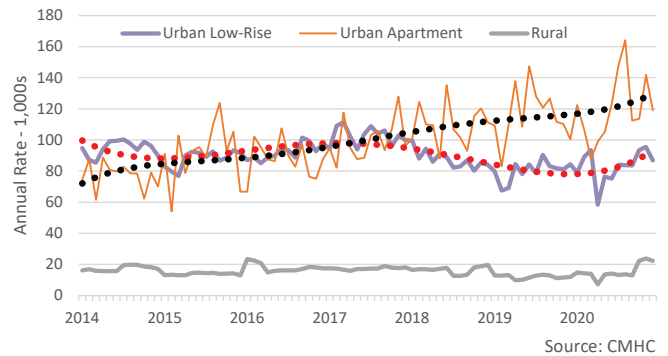
Housing starts remain strong, with the rate for December at 228,300. Total starts in 2020 (217,802) were 6.5% above the average of the past 20 years. The greatest strength was seen in central Canada (Quebec, Ontario, and Manitoba) and British Columbia.

Looking at the details, starts of low-rise homes have improved slightly during the past few months, but this is from extremely low levels and new starts remain far below what has been required historically. With Covid-19 now causing a further shift in interest towards low-rises, a decade of under-production of low-rise housing is resulting in severe shortages in many areas of the country. Apartment construction remains very strong. As that housing becomes available for occupancy, it may exceed the market requirements in many areas.

Housing Starts in Canada



Housing Starts by Type of Dwelling in Canada

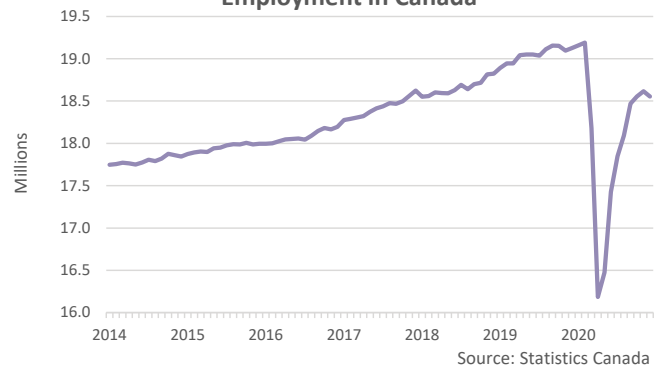


Employment Trends

Statistics Canada has changed the first sentence it uses in its release on the Labour Force Survey. The report for December begins: “December Labour Force Survey (LFS) results reflect labour market conditions as of the week of December 6 to 12” and a later paragraph adds: “Additional public health measures implemented in many provinces after the December LFS reference week (December 6 to 12) are likely to be reflected in January Labour Force Survey results”. The report can be found here (the “Highlights” section is well worth reading):

<https://www150.statcan.gc.ca/n1/daily-quotidien/210108/dq210108a-eng.htm?HPA=1>

Employment in Canada



Employment Trends (Continued)

With a drop in December (63,000) employment in Canada is now 636,000 (3.3%) lower than in February. Looking at employment in terms of total hours worked, as of December, hours worked in Canada were 4.7% lower versus a year ago.

Looking across the provinces, there is a close relationship between job losses and the severity of Covid-19 outbreaks. The worst employment impacts have been seen in the three Prairie provinces, which experienced the worst spreads of Covid-19 during the late fall.

Interest Rates

In reaction to positive news about Covid-19 vaccines, bond yields rose slightly during November. Since then, there have been only minor variations. The yield for 5-year Government of Canada bonds has been in the area of 0.45%, just slightly higher than the record lows that were seen during the summer and early fall.

Mortgage interest rates remain extremely low. My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now 1.65% (even lower rates can be negotiated). The spread between mortgage rates and bond yields is just 1.2 points, which is below the long-term average of 1.8 points. For variable rates, my opinion-estimate is now 1.35%.

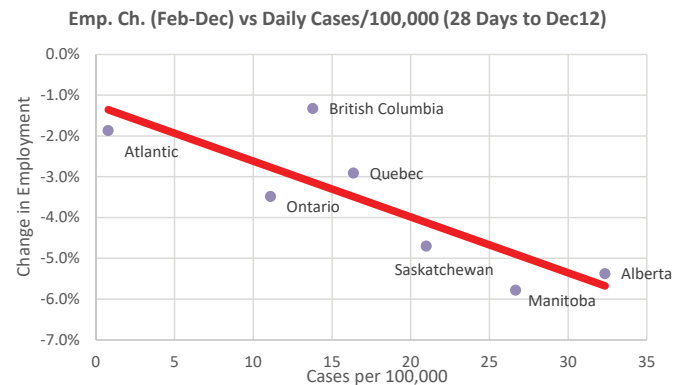
As commented previously, the rate used in the mortgage stress tests remains ridiculous, at 4.79%.

Rental Markets

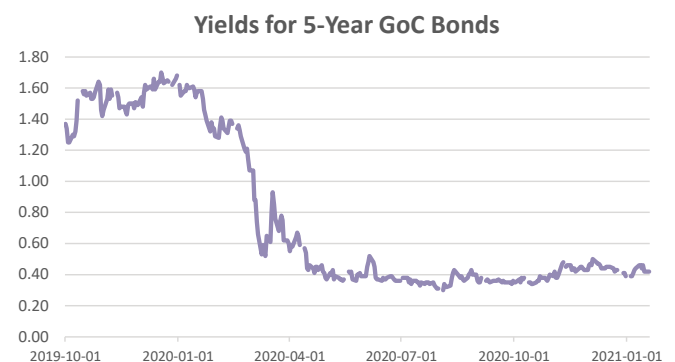
CMHC will release the results from its October survey on January 28. Two years ago, the release occurred on November 28.

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Source: calculations by Will Dunning



Sources: Bank of Canada