

Housing Markets

During a normal year, about 4.5-5% of Canadian households buy a home (resale or new construction). Recent events (extremely low interest rates plus a Covid-19 driven desire to adjust housing situations) have caused a tiny rise in that share, perhaps by 1 or 1.5 percentage point. But, in proportional terms, this is a huge change that is having profound effects on housing market conditions across the country. There are other quite-marginal events that are causing disruptions in the details of housing markets, such as:

1. Small percentages of the population are moving out of apartments into lower-density environments. Consequently, prices are now rising extremely rapidly for low-rise homes but are roughly flat for apartments.
2. Small percentages of people are moving away from the largest cities to smaller ones. The move-to smaller cities are now experiencing more pressures than the larger move-from cities.

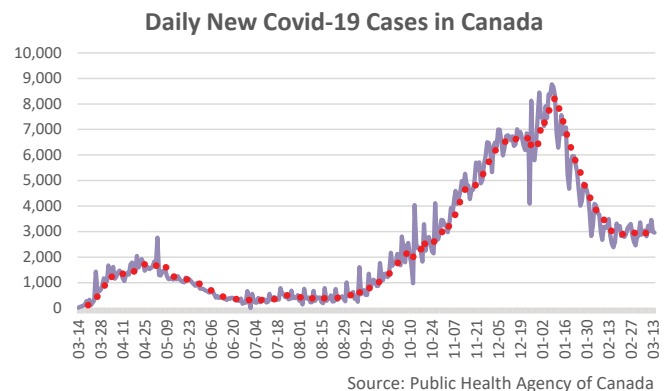
A much bigger change has been in the nature of work. Statistics Canada reports that as of February, 5.2 million Canadians were working at home, and 3.1 million of them were doing it temporarily due to Covid-19. How this will evolve is one of the most interesting unknowns, and has a lot of potential to substantially affect housing choices, and indeed the future of cities. My annual report on the residential mortgage market is almost ready. It contains a lot of discussion on the difficulty of forecasting and the issues that will affect the housing and mortgage markets in the coming months. The tentative release date is the 23rd. When available, it will probably be on this page: <https://mortgageproscan.ca/membership/resources/consumer-reports>

Now What?

The scientists are talking about the possibility of a third wave. For now, the trend (the 7-day moving average shown by the red dotted line) is roughly flat (it hints at a small rise, which is concentrated within Ontario). Current data can be found here:

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

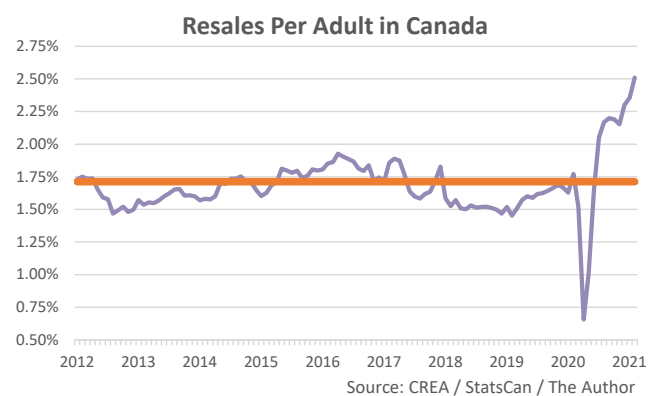
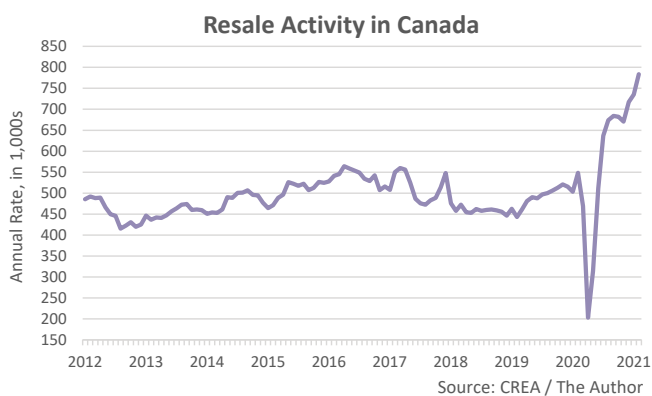
Emerging economic indicators continue to show that the recovery is still incomplete (apart from the housing market).



Resale Market

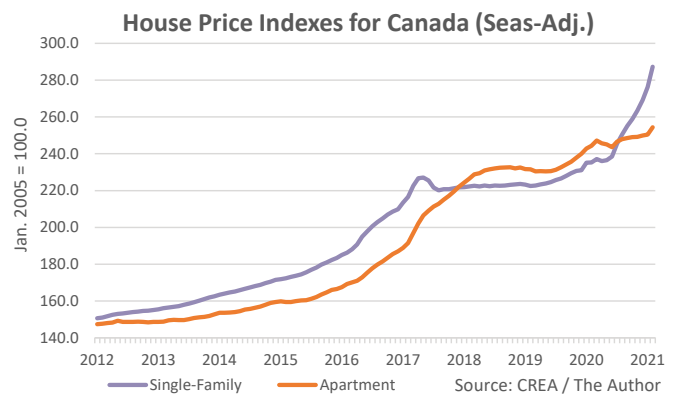
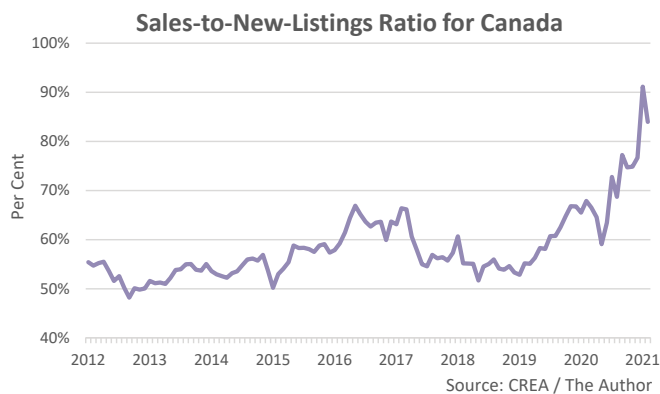
Another new monthly record was set in February (an annualized sales rate of 783,600).

Expressed on a population-adjusted basis (per adult), sales in February also set another new record, at 47% above the long-term average.



At this time, there is a lot more interest in buying (notably for first-time buyers) than in selling, with the result that flows of new listings into the resale market are insufficient. For February, the national sales-to-new-listings ratio (“SNLR”) improved (fell) slightly, but at 84% it remains far above the 52% threshold for a “balanced market” - this is the level at which prices are expected to rise by 2% per year.

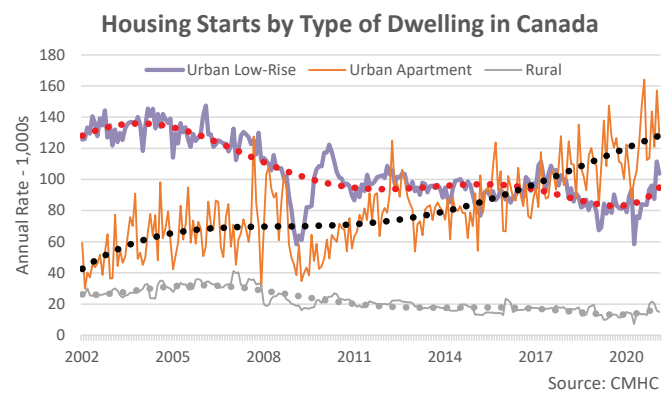
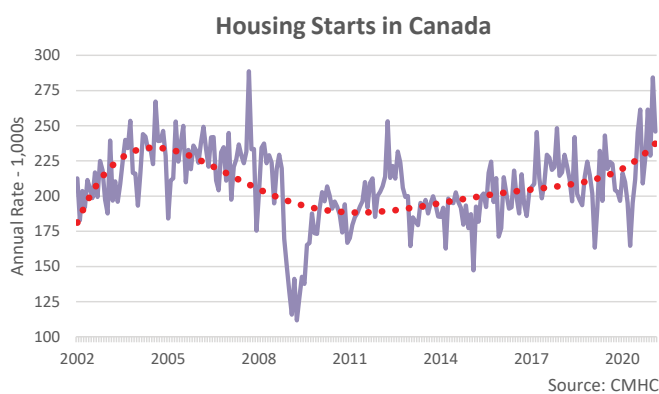
Prices are increasing very rapidly. CREA’s house price index for Canada has increased by 16.5% during the past nine months (expressed as an annualized rate, this is 23%). In many communities, there has been movement away from apartments, towards low-rise homes. The price index for single-detached homes has increased by 21.5% during the past nine months but for apartments the increase is 3.8%.



Housing Starts

Housing starts retreated in February (from an unusually high number in January, which increasingly looks like a data artifact). The rate for February (245,900) and the rising trend line are encouraging. Looking more closely, the trend continues to rise for apartments, which reflects decisions that were made prior to Covid-19. For low-rises, the data continues to hint at a modest improvement, from extremely 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).

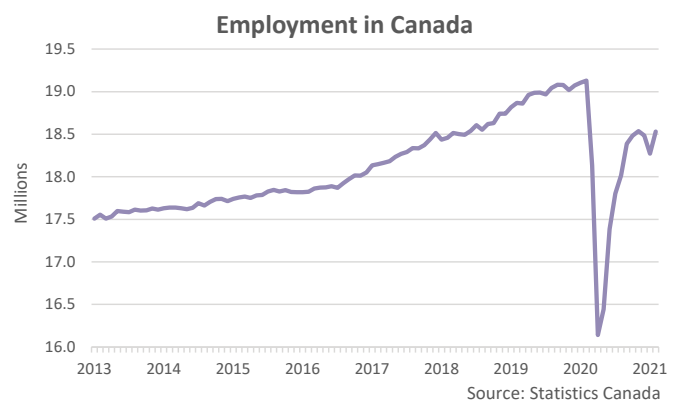
On my personal website, I have published a short article that looks at supply shortages for low-rise homes in the Toronto area (concluding that during the past decade and a half, production has been 100,000 less than is needed, and that the inadequate inventory on the ground is contributing to the current rapid price growth). The mortgage stress tests are one of several factors that have caused that under-production.



Employment Trends

It seems to me that some of the commentary oversold the employment data for February: during December and January, expanding shutdowns had resulted in a 266,000 drop in employment. As the shutdowns were eased, employment reversed the loss (rising by 259,000).

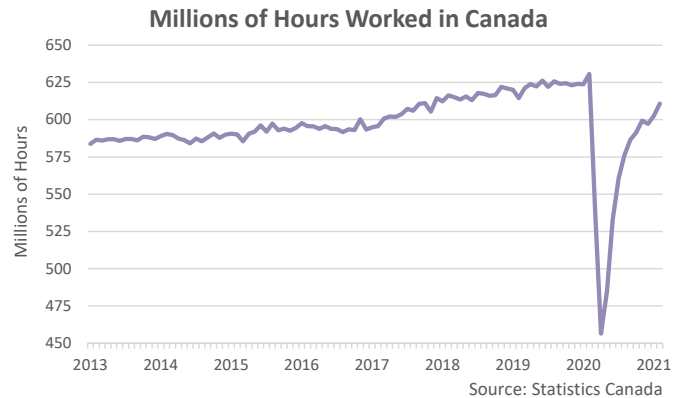
From that perspective, the recovery is still stalled. Total employment in Canada is still 3.1% (599,000 jobs) lower than last February.



Employment Trends (Continued)

The employment data continues to show that the job losses are most severe for young people and in public-facing service industries (such as hospitality, retail trade, and information, culture and recreation), which have below-average wages. Therefore, the housing market impacts are largely in the rental sector.

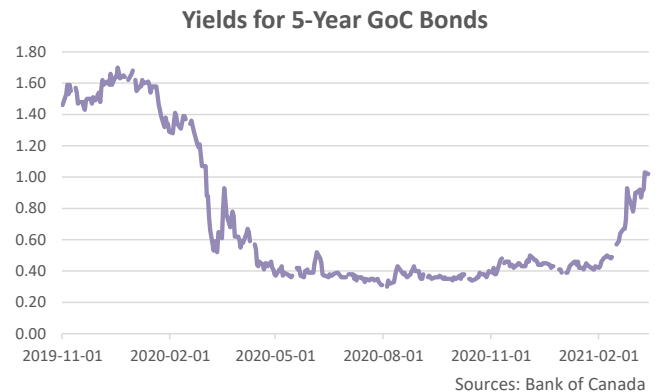
Total hours worked are similar (up in February, but 3.2% lower than last February).



Interest Rates

Interest rates have shifted gears, from creeping to sprinting. Six weeks ago, the yield for 5-year Government of Canada bonds was in the area of 0.4%.

Today (March 15), it is now just over 1.0%. Advertised “special offer” mortgage interest rates tend to follow, but with a lag, and not always fully. As of today, my opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate, advertised by major lenders) is 1.9% (up by just one-quarter of a point since the end of last year).



The spread between mortgage rates and bond yields is below 1 point, versus the long-term average of 1.8 points. For variable rates, I have dropped my opinion-estimate to 1.3%, from the prior 1.4%.

The forthcoming report on the annual state of the mortgage market has some comments about the mortgage stress tests, and recommends three actions.

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