

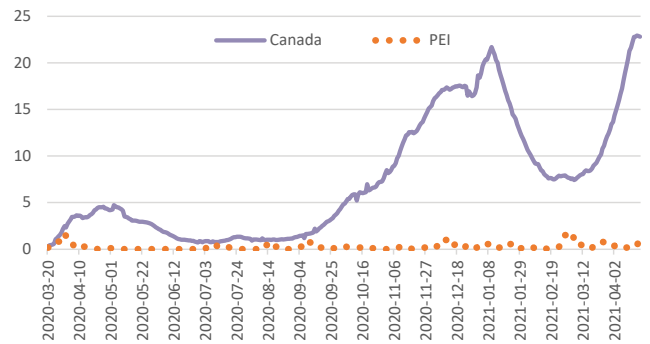


Are You Staying Safe?

PEI continues to experience a very low level of Covid-19 infections. As is illustrated in this chart, the population adjusted rate for the province remains very far below the national average (the 7-day average is just 0.7 per 100,000 people, versus 22 for all of Canada). This chart shows data up to April 19. Current data can be found here:

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

Daily Covid-19 Cases in PEI vs Canada (per 100,000)



Source: Public Health Agency of Canada

Resale Market

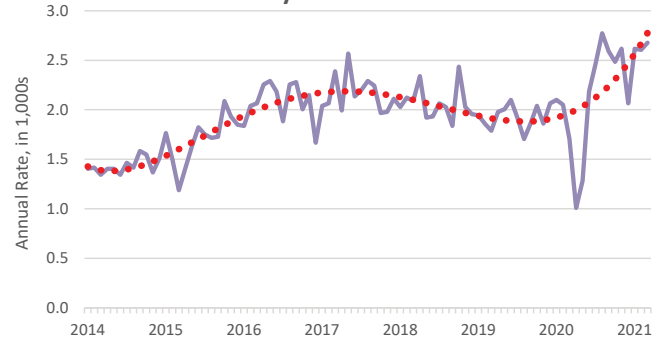
Resale activity is very strong in PEI (and across the country). For the first quarter, the annualized sales rate was 2,600, which was a new record for the province. However, this was only fractionally higher than the prior record, which was set in the third quarter of last year.

Looking at sales rates over the past two decades and then making an adjustment for population growth, I calculate that an average rate is now about 1,900. On this population-adjusted basis, the province's sales rate for the first quarter was 40% above the long-term average.

This demand increment is actually a bit lower than for the entire country (for all of Canada, the sales rate in the first quarter was 47% above the long-term average).

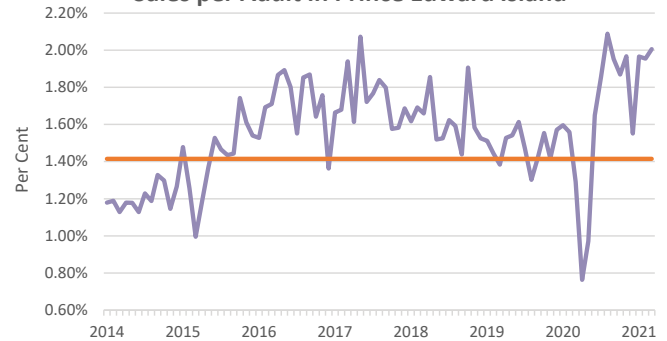
While demand is very strong within PEI (due to a combination of low interest rates and excellent affordability, with a relatively healthy employment situation), it appears that sales have been constrained within the province due to inadequate supply.

Resale Activity in Prince Edward Island



Source: CREA / The Author

Sales per Adult in Prince Edward Island



Source: The Author

Resale Market (Continued)

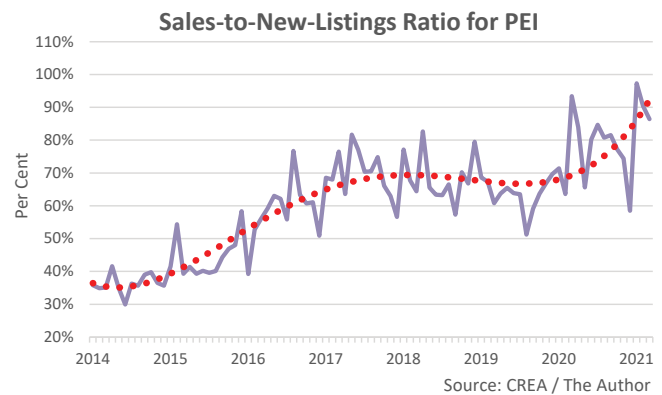
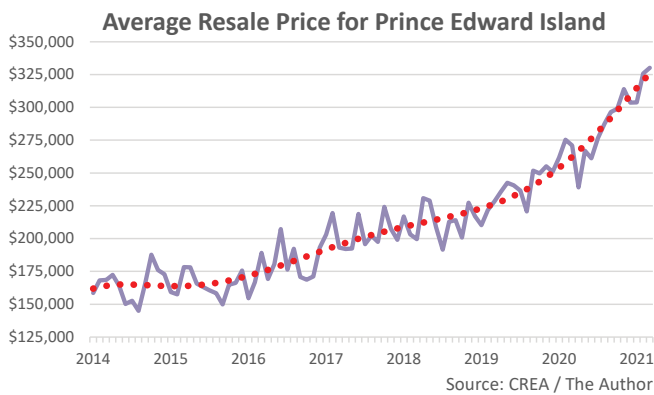
Looking at the entire period since January 2018, total sales in PEI have been significantly (about 800, or 13%) above the population-adjusted average.

The flow of new listings into the market isn't keeping up with demand, which has caused the province's sales-to-new-listings ratio ("SNLR") to increase to an extremely high level.

The SNLR has averaged 81% during the past six months, far above the threshold for a "balanced market", which for PEI may be in the range of 35% - this is the level at which prices are expected to rise by 2% per year.

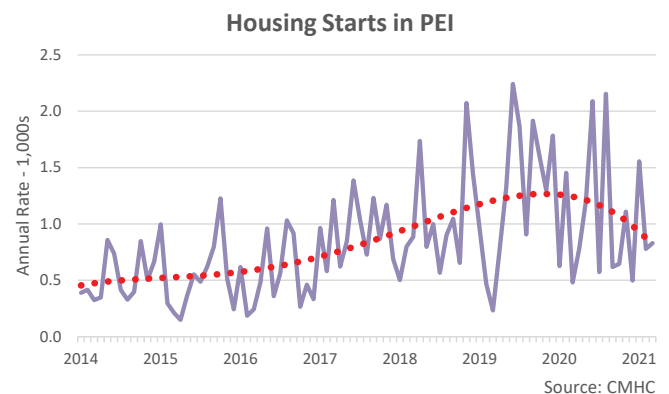
The sharp imbalance between supply and demand is now resulting in rapid price growth. CREA data shows that the average resale price for the first quarter was 19% higher than a year ago.

If more supply was available in PEI, sales would very likely be stronger than they currently are, and price growth would be less extreme.



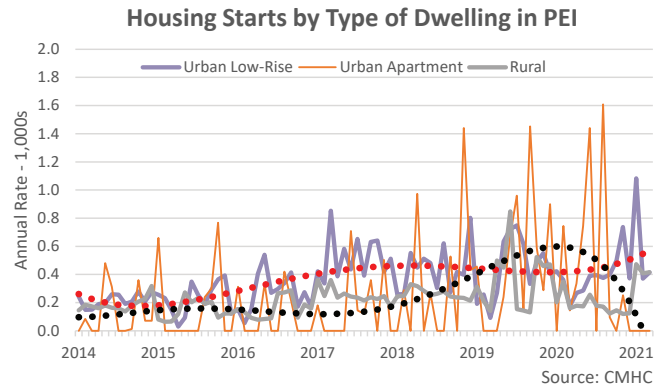
Housing Starts

The trend for housing starts has slowed in PEI, but from a level that was quite strong. For the first quarter, the annualized rate was 1,449.



Housing Starts (Continued)

Looking at the details, recent data hints at a substantial improvement for starts of low-rise dwellings in urban areas, although apartment activity is currently negligible.

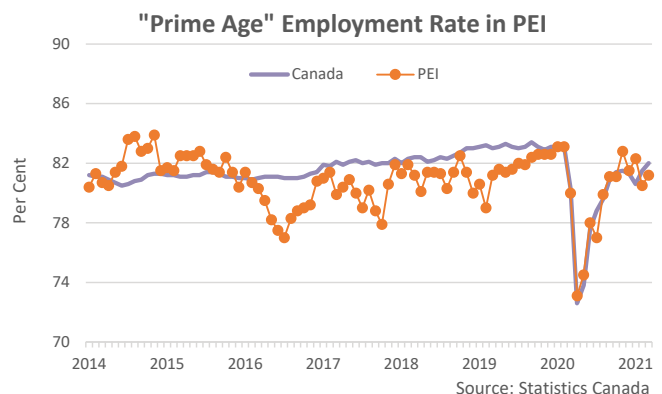
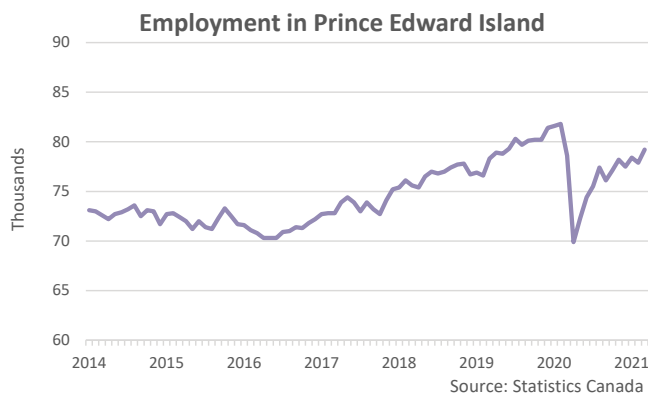


Employment Trends

Employment continues to recover in PEI. Employment is still estimated to be about 3% lower than prior to Covid-19. The recovery is less robust than for all of Canada (just 1.4% lower than in January 2020).

It must be remembered that the province economic situation was very healthy prior to Covid-19, and the substantial rebound is encouraging.

The next chart looks at the percentage of adults in the “prime working age” (25 to 54) who have jobs. The data comes from a sample survey, and therefore has some random variation, which creates some uncertainty about the true state of affairs. It appears that the “prime” employment situation is a bit weaker than before Covid-19, but otherwise healthy in a long-term perspective.



Interest Rates

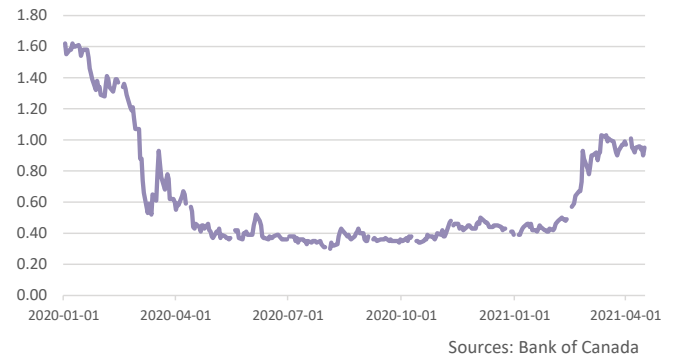
Interest rates rose sharply during late February into early March, but have shown little change since then. The yield for 5-year Government of Canada bonds has been just below 1.0% during the past four weeks, which is about 0.6 points higher than during the second half of last year.

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.

Yields for 5-Year GoC Bonds



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