

FOURTH QUARTER 2020 HOUSING MARKET DIGEST SASKATCHEWAN



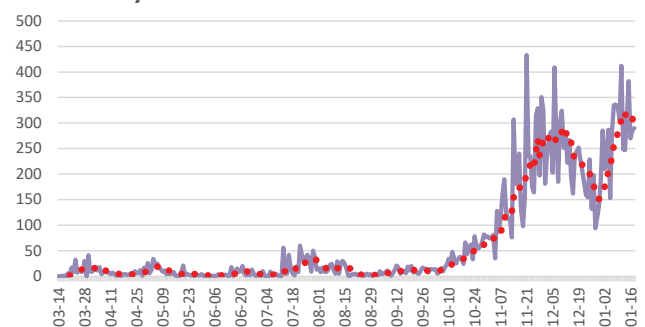
More Worries

Across the provinces, Saskatchewan is now experiencing the worst spread of Covid-19 in Canada. The 7-day average rate of new infections, expressed on a per million or per 100,000 basis, is now 40% above the national average. This chart shows data up to January 18. Current data can be found here:

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

Economic indicators are showing some economic consequences from the rapid spread of Covid-19, although that data, of course, lags behind actual events, and recent events may have further negative economic consequences. That said, 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.

Daily New Covid-19 Cases in Saskatchewan

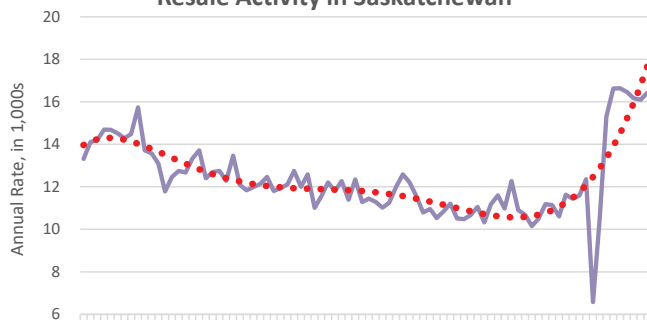


Source: Public Health Agency of Canada

Resale Market

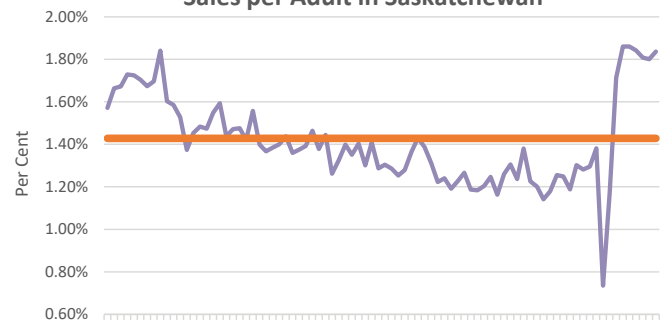
Resale activity has improved very strongly within Saskatchewan. The third and fourth quarters of 2020 provided the highest sales rates recorded in the province. For the entire year, sales totaled 13,845, which is a substantial improvement compared to the weak activity that was seen during the prior five years. Unlike all of Canada and most of the other provinces, Saskatchewan did not set a new annual record in 2020. The provincial economy is still relatively weak compared to other provinces and this has constrained the response to low interest rates.

Resale Activity in Saskatchewan



Source: CREA / The Author

Sales per Adult in Saskatchewan

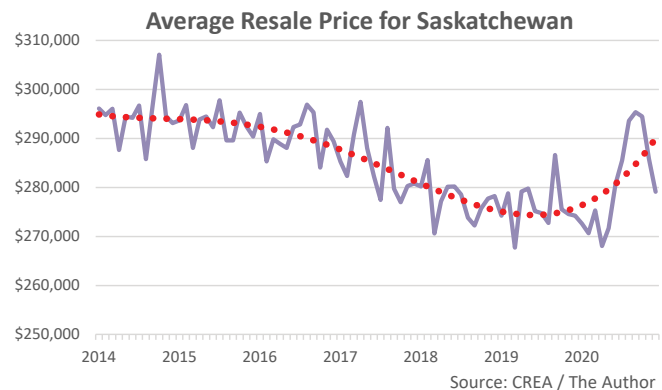
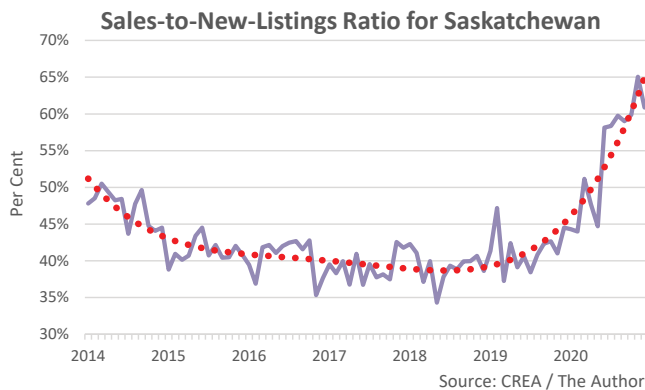


Source: The Author

Resale Market (Continued)

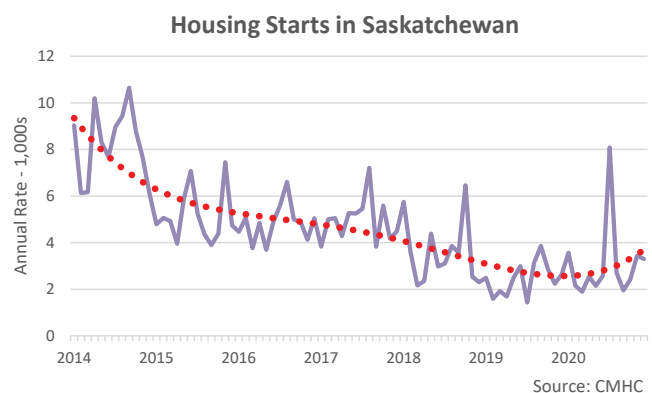
Looking at sales rates over the past two decades and then making an adjustment for population growth, I calculate that the long-term average rate for 2020 would be about 12,750. On this basis, the sales rate for 2020 was 8% above average.

Stronger sales combined with a moderate rate of inflows of new listings into the market has caused an abrupt shift in the state-of-balance in Saskatchewan. During the past six months, the sales-to-new-listings ratio (“SNLR”) has averaged 60.5%, which is now significantly 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. Volatile data creates some uncertainty about the trend for resale prices within the province. That said, the average price for the fourth quarter was about 4% higher than a year earlier: a period of soft pricing has been interrupted. Within Saskatchewan and across the country, there has been some shifting away from condominium apartments towards low-rise dwellings. CREA’s estimates of “benchmark” prices for Regina and Saskatoon indicate that on a “constant quality” basis, prices are now rising for single-family homes (by 4.6% and 6% respectively, during the past six months), but are showing smaller changes for apartments (2.1% and 1.7%).



Housing Starts

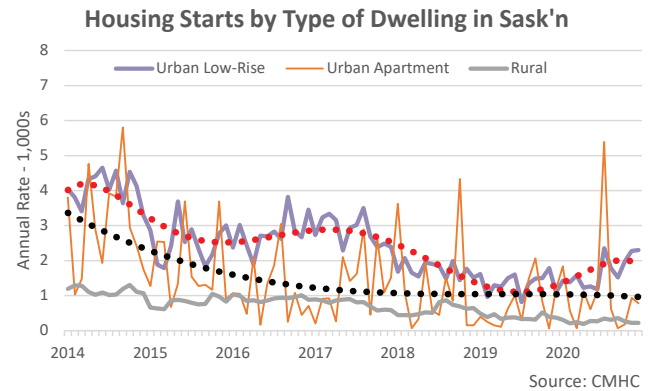
Housing starts retreated during the fourth quarter (to an annualized rate of 3,100) from the relatively strong performance in the third quarter. In a long-term perspective, Saskatchewan’s housing starts are quite weak.



Housing Starts (Continued)

For the entire year, starts totaled 3,087, which was 38% below the average of the past 20 years.

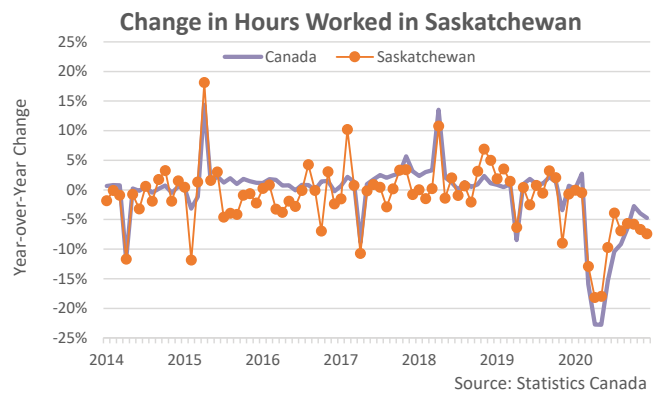
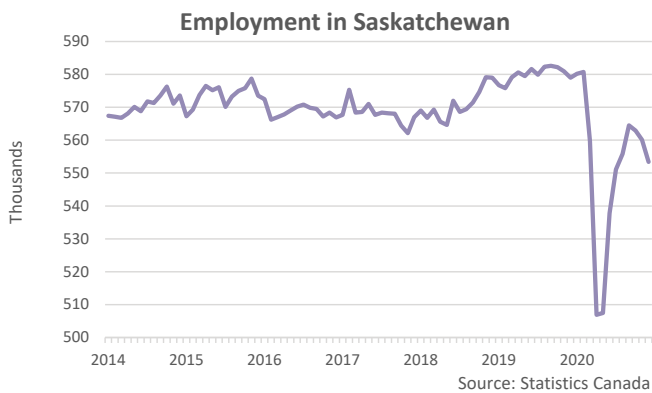
Starts have improved slightly for low-rises (single-detached, semi-detached, and town homes) but activity is still very weak. Apartment activity varies from month-to-month, but the trend remains very low. Starts are also very weak in rural areas.



Employment Trends

The estimates from Statistics Canada's Labour Force Survey show a reversal for Saskatchewan's employment during the last three months of the year. As of December, the province's employment is estimated to be 27,000 (4.7%) lower than in February. Because the data is generated via a sample survey it can sometimes be wrong. But, if the data is correct this is a worrying sign. For all of Canada, the current shortfall is 3.3%.

The next chart looks at employment in terms of numbers of hours worked. As of December, total hours for Saskatchewan are 7.4% lower than a year ago. The reduction for all of Canada is less substantial, at 4.7%.

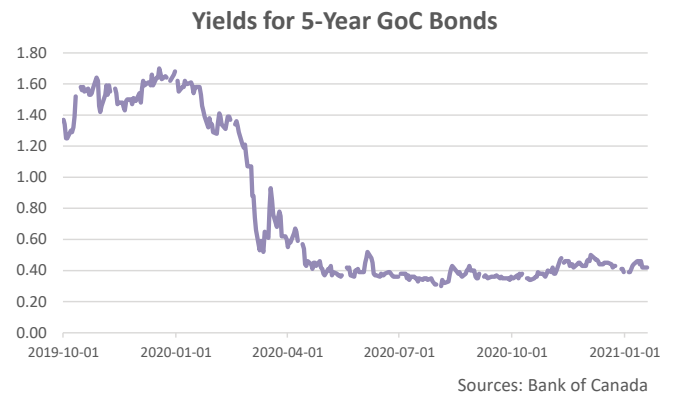


Interest Rates

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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