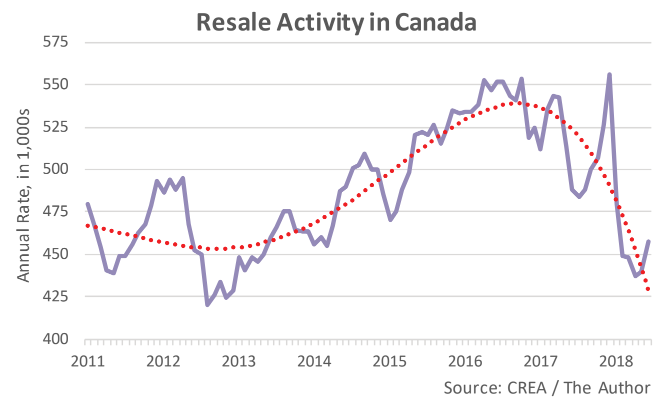
HOUSING MARKET DIGEST CANADA

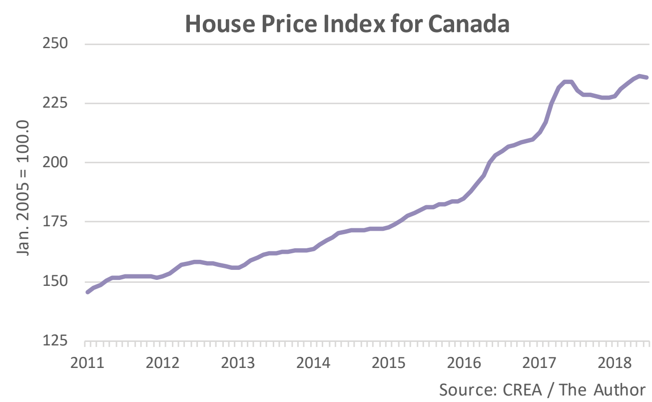
MORTGAGE PROFESSIONALS CANADA

Resale Market

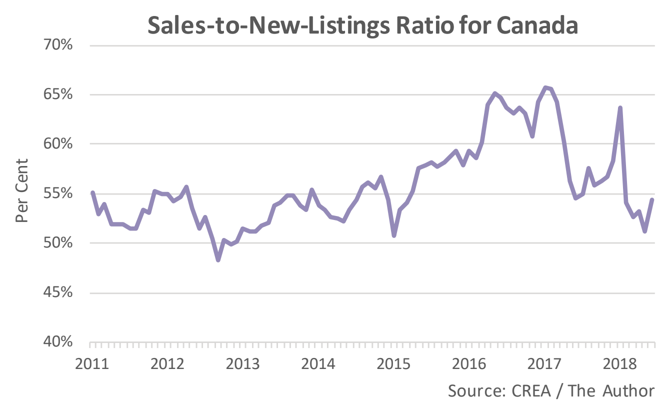
Resale activity picked up in June, to an annualized rate of 457.500. But, sales remain far below prior levels (and the minimum of 500,000 sales per year that we should be seeing, based on the size of the population and a favourable economic environment). The sales rate for the first quarter (444,700) was 14% lower than for all of 2017. The duo of mortgage stress tests continue to weigh very heavily on the market. Some commentators see the small increase in June as evidence that the effects of the stress test are starting to wane. I think that is premature, and that the effects of the draconian policies will be long-lasting.



The House Price Index produced by the Canadian Real Estate Association ("CREA") has increased slightly (just 0.9%) during the past year.



The sales-to-new-listings ratio ("SNLR") was 54% in June, comfortably above the threshold (51.5%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). But, there are wide variations across the country: Alberta, Saskatchewan, and Newfoundland and Labrador have ratios far below their thresholds and there are risks of price reductions. Manitoba's ratio is slightly below its threshold. The six other provinces have ratios above their thresholds. At this time, price reductions seem unlikely in most places, but the risk is not zero.



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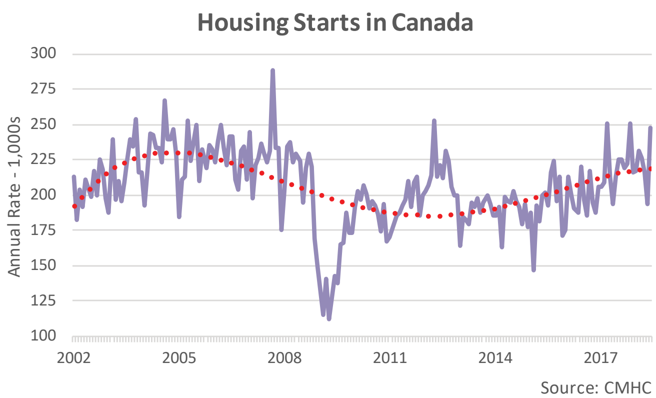
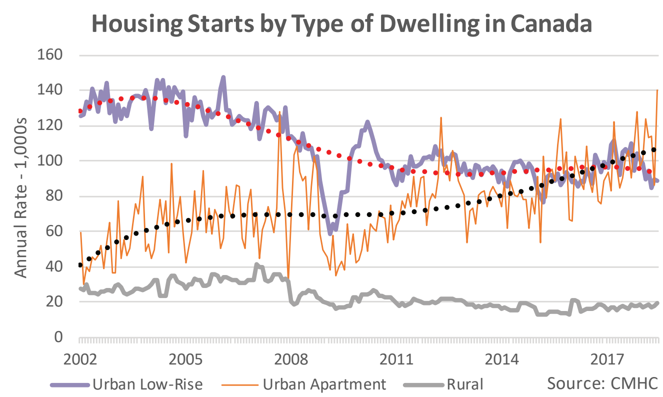
Housing Starts

Housing starts in Canada were at an annual rate of 248,100 in March. Trends for new construction starts lag behind resale activity, as they depends on sales that occurred months earlier. The volatile data makes it hard to create a reliable trend line, but it does appear that starts are now at or close to a peak level, and they may begin to drop during the second half of the year.

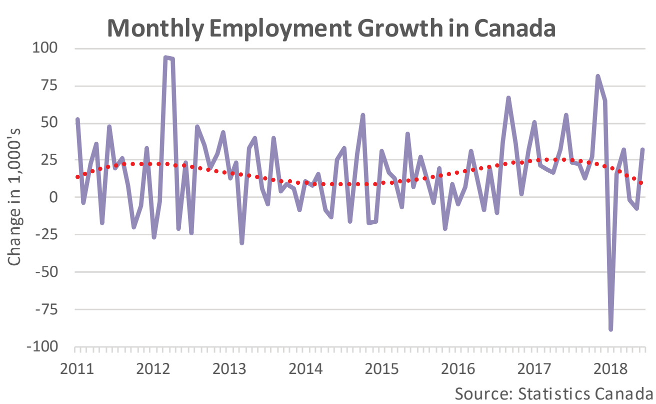
For low-rises (singles, semi-detached, and town homes), the trend has now turned down. For apartments, on the other hand, the lag between sales and starts is longer. Therefore, apartment starts should remain strong until later this year.

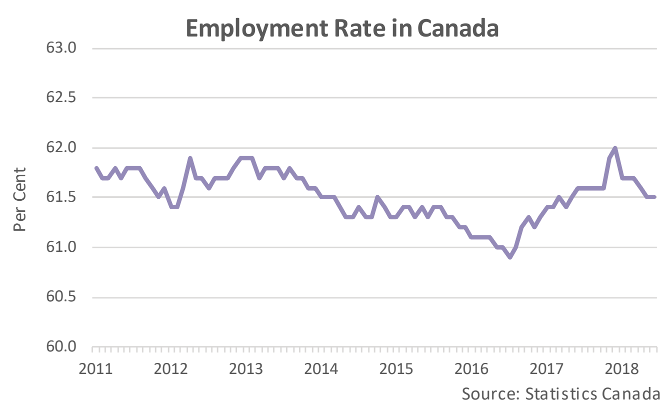




Employment Trends

The employment data suggests that job creation has slowed in Canada, as the trend line has dropped by about one-half from a year ago. But the data is skewed by an obvious error in January (a reported drop of 88,000). The design of the Labour Force Survey means that large changes can be reversed six months later. It is possible (but not a sure thing) that the data for July (to be released on August 10) will show a large rise, which would shift the trend line upwards (and could also shift the narrative about the outlook for interest rates).





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Employment Trends (Continued)

On the other hand, there have been some other economic reports that are nor encouraging (such as a deceleration of retail spending). In short, I confess to feeling uncertainty about the current "true" state of the economy. Unusual movements in the employment data have recently caused some suspect movements in the employment-to-population ratio. At the moment it looks like the "true" employment rate might be slightly higher than it was three years ago, which is a positive for the housing market.

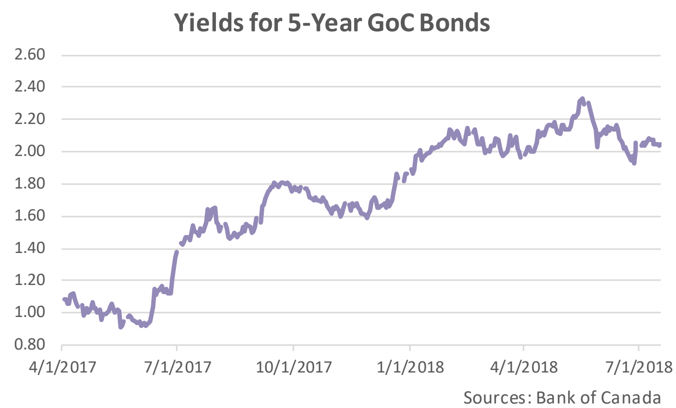
Looking farther ahead, there are currently more downward than upward economic pressures, all of which will play out only gradually. These include higher interest rates, the impacts of the mortgage stress tests, and escalating threats about a trade war.

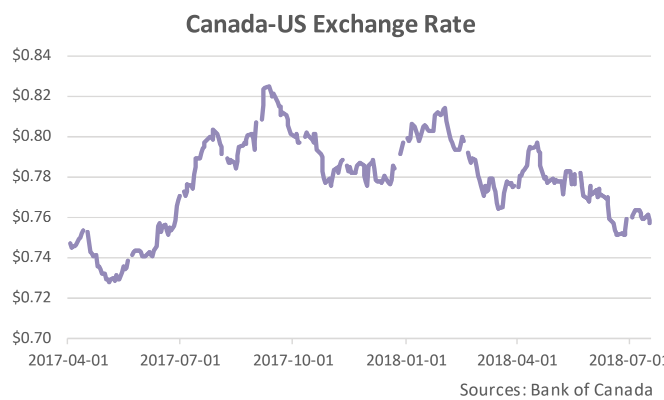
Interest Rates

Bond yields (5-year Government of Canada) have been roughly flat since early January, although there have been variations as expectations have shifted about the economic prospects.

In consequence, mortgage rates (my opinion-estimate of a typical "special offer" rate for 5-year fixed rate mortgages at major lenders) has changed little this year. The current rate (3.3%) is about 1.25 points above the yield for 5-year GoC bonds, versus an average of 1.83 points over the past decade. The compression of housing activity is resulting in more competition among lenders.

The Canadian dollar has trended downwards versus the $US this year.





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