HOUSING MARKET DIGEST CANADA

MORTGAGE PROFESSIONALS CANADA

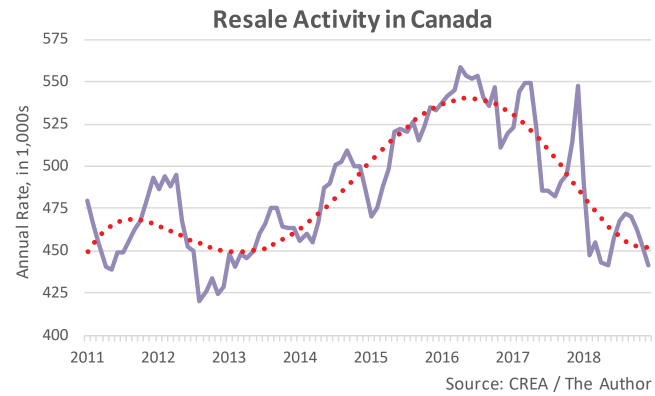
Resale Market

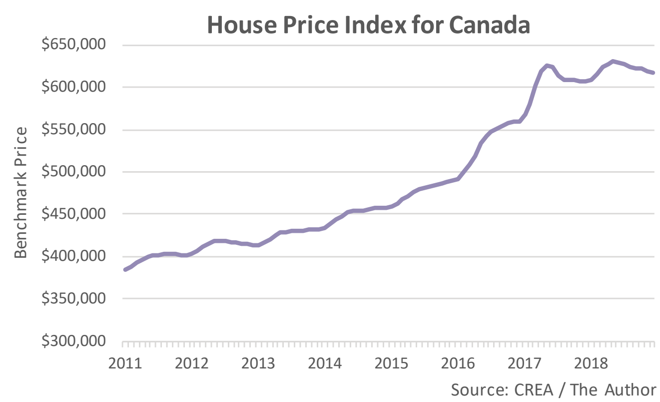
Housing markets ended 2018 with a whimper. The annualized sales rate fell in December, for the fourth consecutive month, to a rate of just 441,000. Total sales for the year (458,442) were 11% lower than in 2017 and 15% below the record set in 2016. Sales trends are flat or falling in all of the regions except for Quebec.

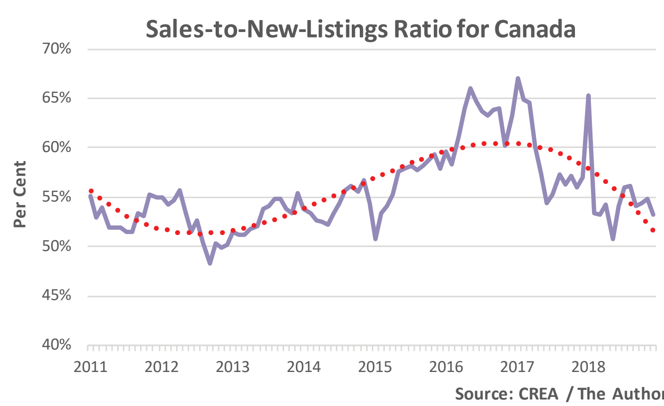
Higher mortgage interest rates were, of course, a factor in the slowdown. But, on the other hand it appears that job creation has been quite strong, and that should have offset the effect of higher mortgage costs. The mortgage stress tests continue to significantly impair home buying in Canada.

The House Price Index from the Canadian Real Estate Association ("CREA") has now fallen for seven consecutive months (by a combined total of 2.3%). This is partly a normal seasonal event, but it also reflects that prices are clearly eroding in Alberta, Saskatchewan, and Newfoundland and Labrador, and price growth has slowed substantially in most other locales.

Flows of new listings into the resale market have also slowed, as potential move-up buyers see less opportunity to make a move. The sales-to-new-listings ratio ("SNLR") is now falling. At 53% in December it is now just barely above the threshold (52%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). Repeating a comment made in prior months, there are wide variations across the country: the three prairie provinces plus Newfoundland and Labrador have ratios below their thresholds and there are risks of price reductions. The six other provinces have ratios above their thresholds, and prices should be stable or rise modestly.



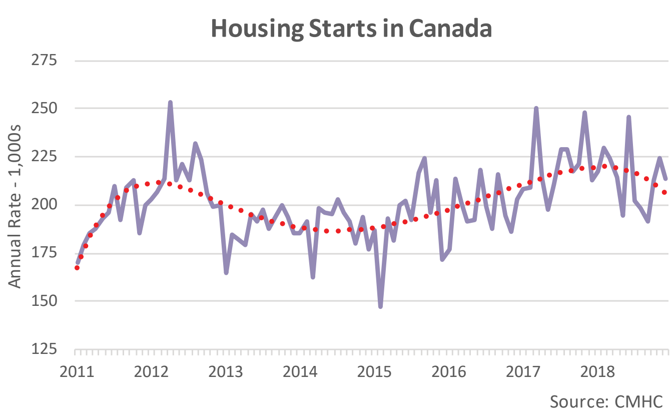


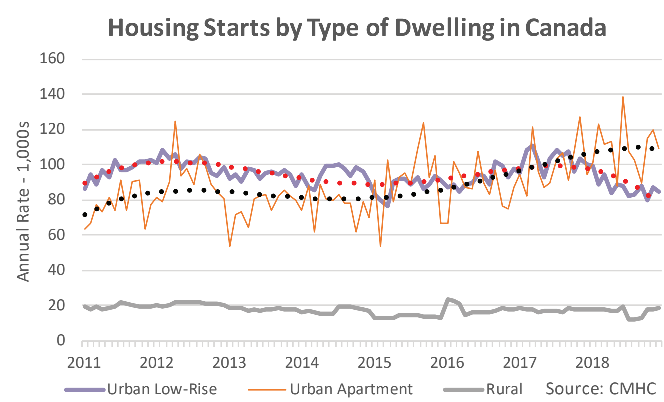


Housing Starts

Housing starts fell slightly in December. It still appears that total starts for Canada have passed a peak and the trend is falling. Low-rise activity (singles, semi-detached, and town homes) in urban areas has clearly dropped. It may be that activity is stabilizing, at about 20% below the prior level (which was already too low). The current sales trend for low-rises is about 40% below the levels seen before the recession of 2008/09.

For apartments, the data is very lumpy, making it difficult to be conclusive about the trend. For almost a year, the trend lines have been hinting that starts are roughly stable at a very high level. This has resulted from strong pre-construction sales during 2016 and 2017. I continue to expect that apartment starts will drop during this year, due to slower pre-sales during 2018. By year end, the trend for total starts may be under 180,000 a drop of 15% from the current trend level of about 210,000, and as much as 20% below the figures seen during 2017.





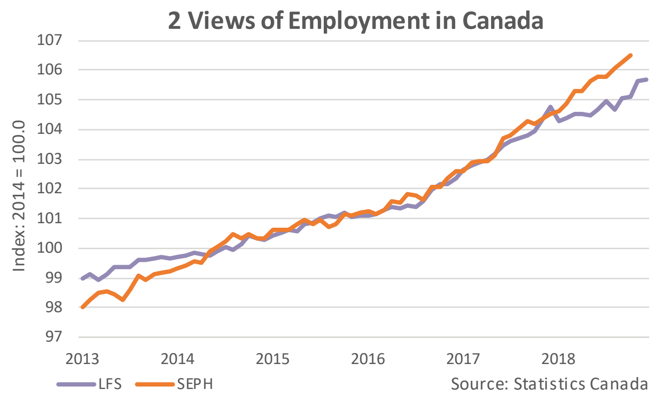
Employment Trends

Statistics Canada's reports on the employment situation remain highly variable from month to month. Looking at trends in the data, year-over-year job growth is reported as just 0.9% as of December (according to the Labour Force Survey, or "LFS"). Since this is considerably slower than the rate at which the population of adults is growing (estimated at 1.4%) it is quite disappointing. If the data is correct, it would have discouraging implications for the housing market.

StatsCan's other survey (the Survey of Employment, Payrolls and Hours, or "SEPH"), tells a much different story, with job growth estimated at 2.2% (but as of October).

Employment Trends (Continued)

In this chart, I have converted the two datasets into "indexes", to make them easier to compare.

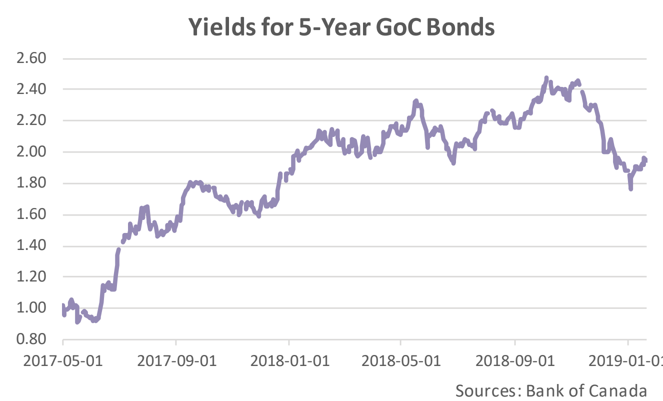


I believe that the SEPH data is probably more reliable than LFS. The issues are discussed in more detail in the new edition of the "Annual State of the Residential Mortgage Market in Canada" (in the section "Outlook for the Mortgage Market").

Interest Rates

It appears that the sharp drop in bond yields has ended. Attitudes remain volatile in financial markets. I would not be surprised to see moderate increases in bond yields during the next two months, as economic fears may have become overdone. Further, reckless fiscal policies in the US will continue to result in enormous borrowing requirements, and rising political risks in the US could reduce interest in bonds.

Mortgage rates did not follow the drops in bond yields. My opinion-estimate of a typical "special offer" mortgage interest rate (from major lenders) has been reduced to 3.60% (as of January 21). This is, as usual, far below the 5-year "posted rate" of 5.34%). The spread between bonds and mortgages is now about 1.65 points, slightly below the historic average of 1.8 points. Looking ahead, therefore, changes in mortgage rates might become more closely related to changing bond yields. My opinion-estimate for 5-year variable rates increased (today) to 3.20%. This is 0.75 points below prime.



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