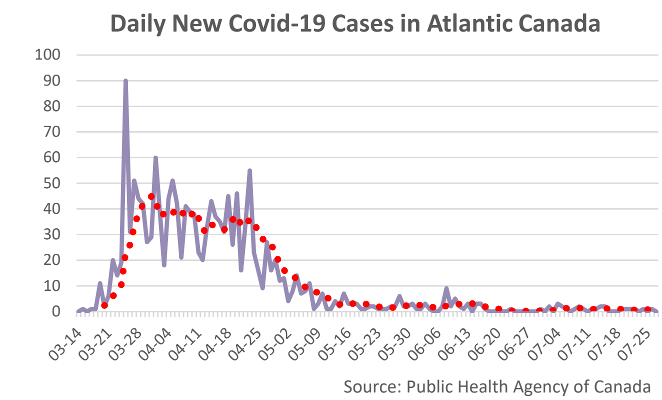
HOUSING MARKET DIGEST
ATLANTIC CANADA

MORTGAGE PROFESSIONALS CANADA

Encouraging Signs?

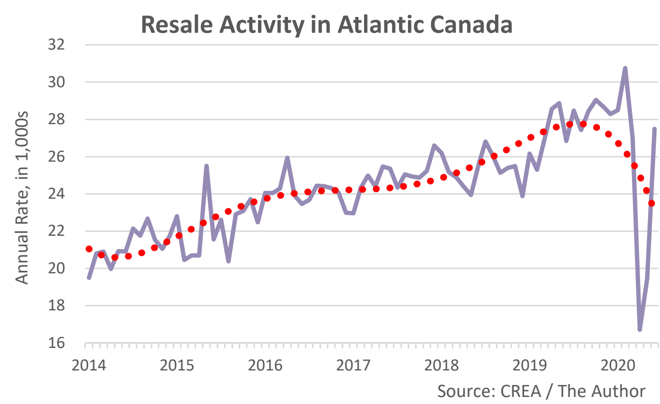
Key economic indicators (housing and employment) were badly depressed but are now showing substantial improvement.

For the Atlantic Region, the data on new confirmed Covid-19 cases remains exceptionally low (over the past two weeks, the average is less than one new case per day). This chart shows data up to July 27. Current data can be found here: https://health-infobase.canada.ca/src/data/covidLive/covid19.csv

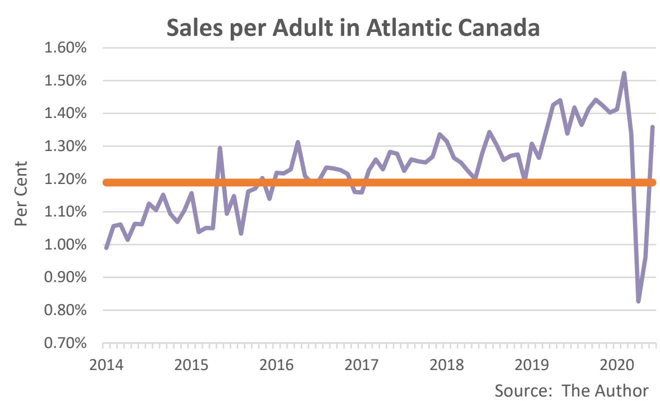


For all of Canada, the trend has inched upwards during the past two weeks, but remains quite low. The data tells us that we can feel a lot more relaxed, but that we need to stay vigilant. There is still a great deal of uncertainty about how this emergency will unfold, and therefore, we should not be confident about our ability to predict what will happen to the economy or the housing market.

Resale Market



Resale activity has rebounded quite strongly. The sales rate for all of June was a very impressive 27,500, which is just slightly lower than the rate for all of 2019 (27,700). But, for the entire second quarter, the average rate was just 21,200. How should we interpret this data? Some people will focus on the data for June and see a very robust recovery. Some will look at the entire quarter and see a sharply impaired housing market. I look at the data and see continued uncertainty about how this might unfold.



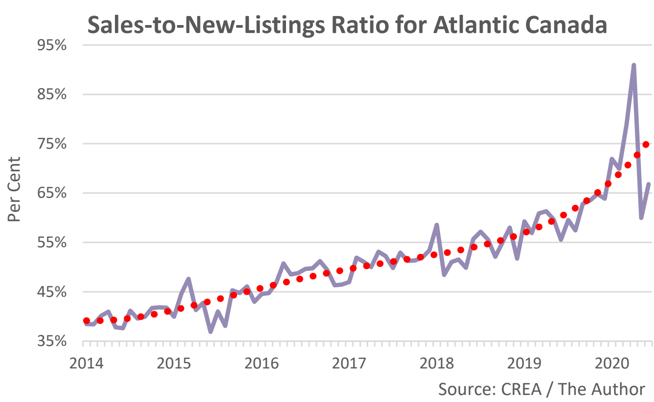
Looking at the data in terms of sales per adult, the rate for June was well above the long-term average (calculated for 2001 to the present, and shown by the flat line).

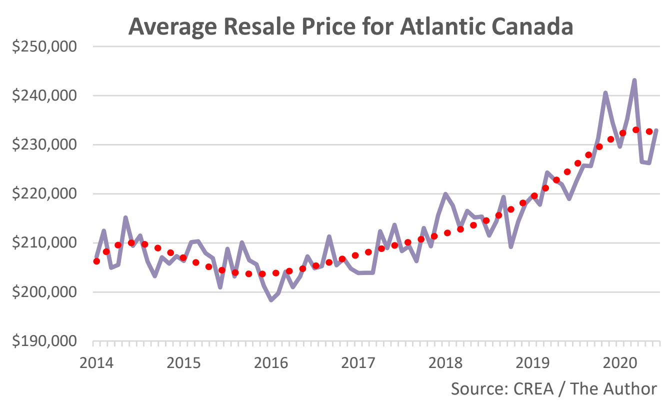
Resale Market (Continued)

For the entire second quarter, the sales rate was 12% below the long-term average. (On this measure, the regional market is performing much better than for all of Canada, for which the per adult sales rate was 37% below average during the second quarter.) The flow of new listings into the market also dropped sharply, but has now recovered (partially).

The regional sales-to-new-listings ratio ("SNLR") was 67% in June (and 69% for the entire second quarter). The regional SNLR is far above the 52% threshold for a "balanced market" - this is the level at which prices are expected to rise by 2% per year. Based on the past statistical relationships, the elevated SNLR should in theory be resulting in continued robust price growth.

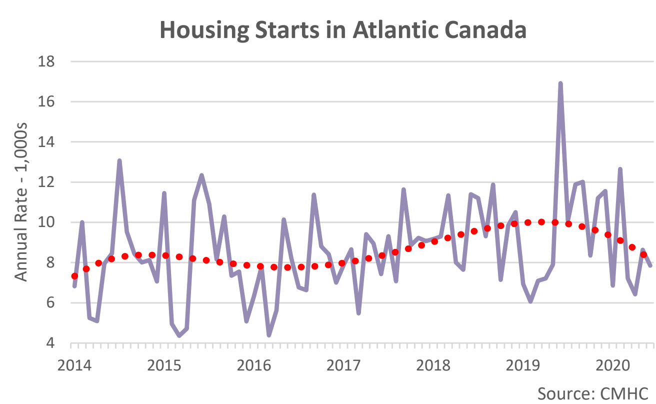
Due to volatile data, it is hard to draw a conclusion about movements in the regional average resale price. The trend line hints that price growth might be limited over the past few months (although compared to a year ago, the average price is 3.6% higher).





Housing Starts

Housing starts have slowed in Atlantic Canada. For the second quarter, the starts rate (about 7,700) was about one-quarter below the long-term average (10,900 per year during 2001 to 2019). This reduction is part of a developing cycle, and does not yet show effects from Covid-19.



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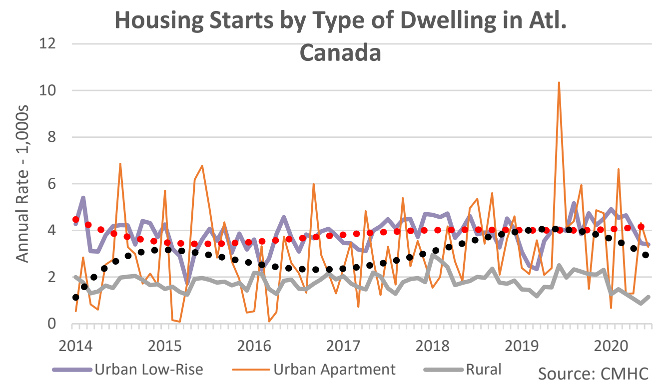
Housing Starts (Continued)

The evolving downturn in housing starts is largely due to falling activity for apartments, as investors are responding to increased vacancy rates. Low-rise activity (single-detached, semi-detached, and town homes) is roughly flat.

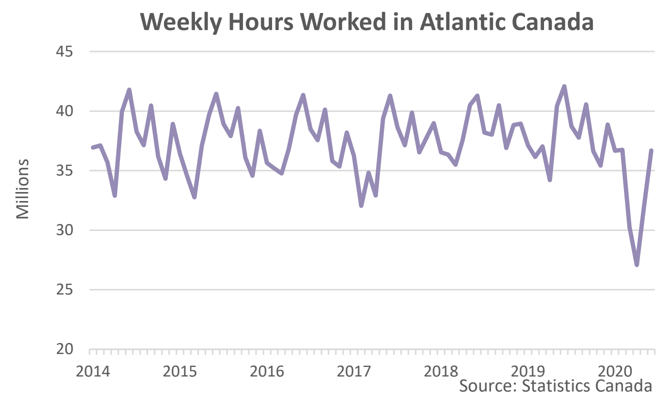


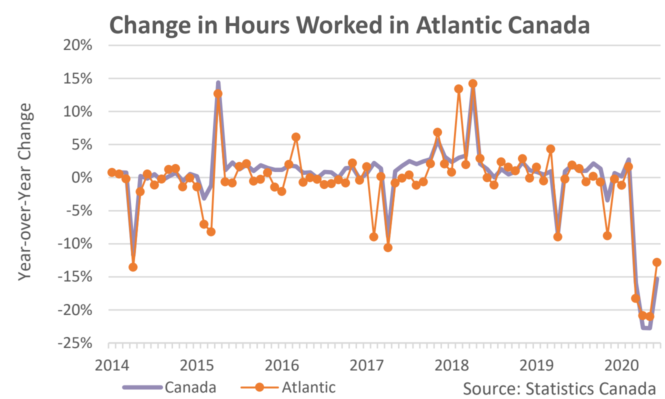
Employment Trends

Statistics Canada estimates that employment rose by about 59,000 in June, as more people have been able to return to work. But, the level of employment in June was still 75,000 (6.6%) lower than in February.

At present, I prefer to watch employment in terms of total hours worked. The first chart below shows data that is not seasonally-adjusted, and the large month-to-month gyrations make it hard to read. The second chart shows that this June, total hours worked were 13% lower than a year ago. The downturn (and the subsequent partial recovery) has not been materially different within the region than in all of Canada.

The worst employment impacts of Covid-19 have been seen in low wage service industries and for younger age groups. This implies that the damage within the housing market will be greater for the rental sector than for home buying.





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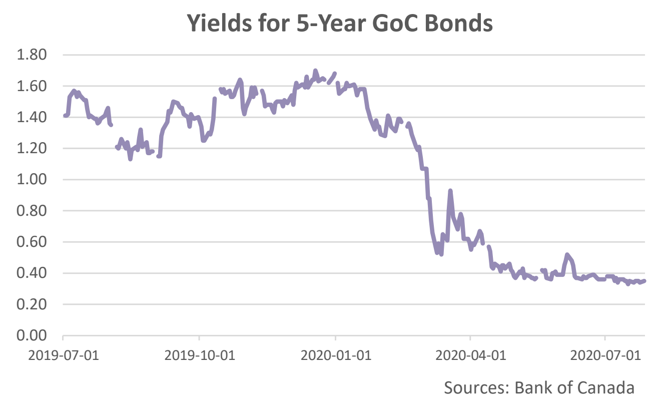
Interest Rates

Bond yields are currently making unusually small movements, and are at extremely low levels. So far in July, the average yield for 5-year Government of Canada bonds is just 0.35%. Mortgage interest rates have largely adjusted to the plunge in bond yields.

My opinion-estimate of a typical advertised "special offer" mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now just 2.1%, by far the lowest-ever (and even lower rates can be negotiated). The spread between mortgage rates and bond yields has closed, and is similar to the long-term average of 1.8 points (although it is still higher than the average of 1.49 points for all of 2019). For variable rates, my opinion-estimate is now 2.0%.

Meanwhile, the mortgage stress tests continue to use a ridiculous test rate of 4.94%.



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