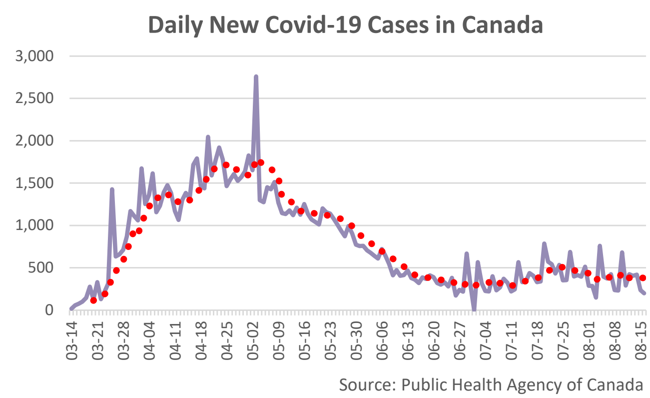
AUGUST 2020
HOUSING MARKET DIGEST
CANADA

MORTGAGE PROFESSIONALS CANADA

Still A Few Embers To Worry About

The data on new Covid-19 cases remains quite encouraging, as the trend line (7-day moving average) has been below 500 new cases per day for two months. This chart shows data up to August 16. Current data can be found here: https://bit.ly/2QMBiUx

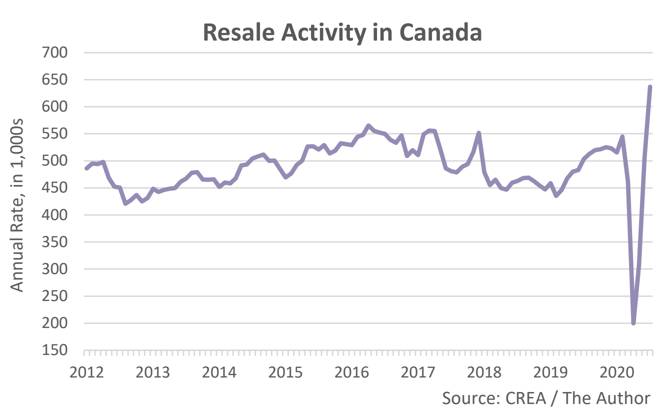
We all remain aware that while we can feel a lot more relaxed, we need to stay vigilant. I am still reluctant to draw any conclusions about what will happen to the pandemic, the economy, or the housing market in the coming months. As I say repeatedly in this report, we have seen huge surprises in each of the past five months, and there will most likely be more surprises. In an attempt to develop some forward-looking data, Mortgage Professionals Canada is doing a series of surveys of consumers' attitudes and expectations. The first edition of that report was released on August 6, and can be found here: https://bit.ly/2YQdljN

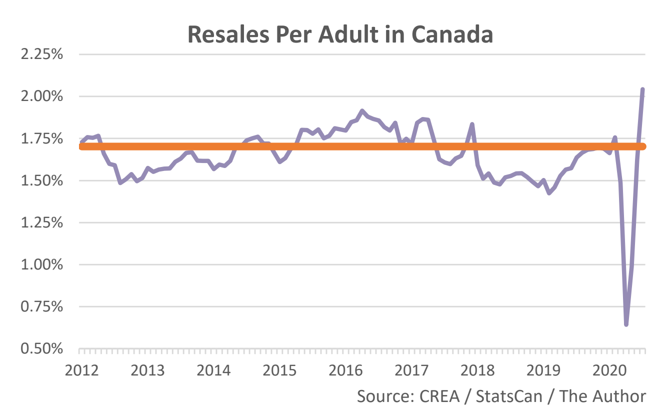


Resale Market

Resale activity set a new record in July. The annualized rate of 637,000 was 13% above the prior record (565,000, which was seen in April 2016). That this happened in the midst of a global crisis has caused a lot of commentary.

The housing market situation is highly fluid (every one of the past five months has been hugely surprising) and I am inclined to not draw definitive conclusions from the evolving data. That said, I see the July data as largely catch-up for sales that did not happen during April to June. Therefore, I'm looking at the average for the past four months, which remains quite weak, at just 412,000.





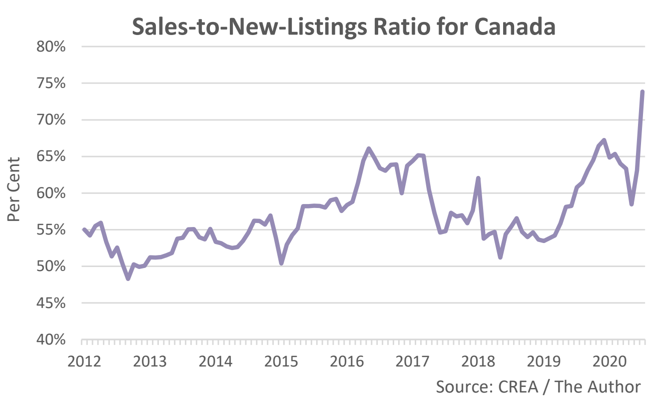
Resale Market (Continued)

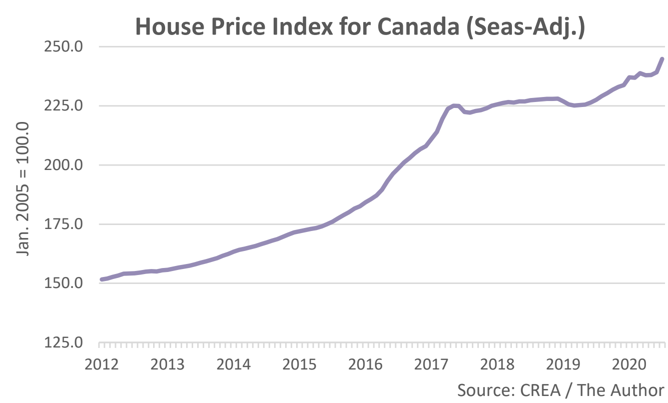
Looking at the data in terms of sales per adult, the rate for July was 20% above the long-term average (calculated for 2001 to the present, and shown by the flat line). But, over the past four months, the sales rate is 22% below average.

The flow of new listings into the market has also recovered, partially. During July, the growth in listings was much less strong than the growth of sales, which caused the national sales-to-new-listings ratio ("SNLR") to jump to a very high level at 73.9%. This is very far above 52% threshold for a "balanced market" - this is the level at which prices are expected to rise by 2% per year.

In consequence, July saw rapid price growth in many communities. CREA's house price index rose by 2.3% in just one month (and by 7.6% compared to a year ago).

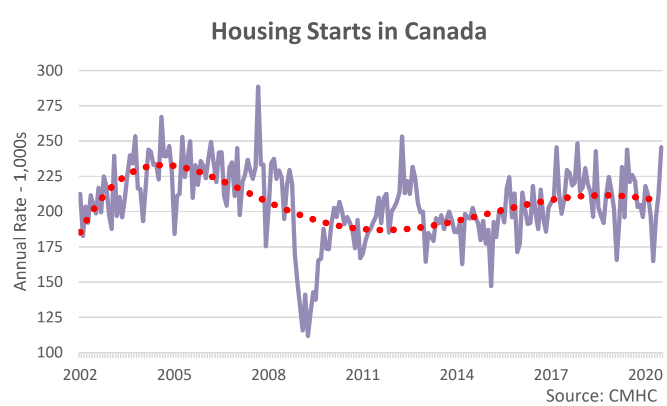
Some people are looking at the new data and seeing a ridiculously strong housing market. I am looking at it and seeing – so far – a substantial impairment with emerging signs of a partial recovery. And, when we have seen huge surprises for five consecutive months, I remain unwilling to draw conclusions about what will happen next.





Housing Starts

Housing starts leaped in July, to an annualized rate of 245,600. This surprisingly high number interrupted a declining trend. Starts continue to reflect pre-construction sales that occurred prior to COVID-19. Consequently. reductions in new starts may be slow to materialize.



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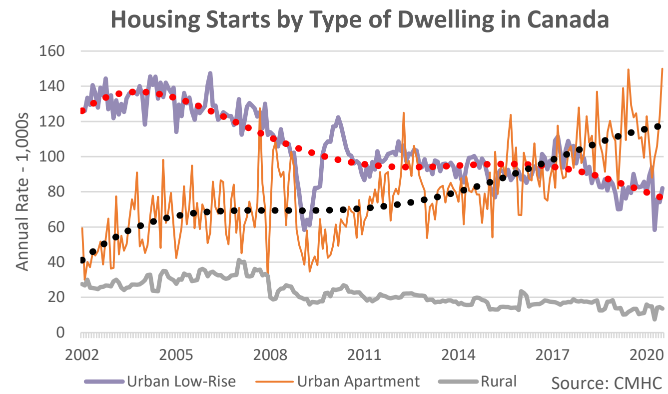
Housing Starts (Continued)

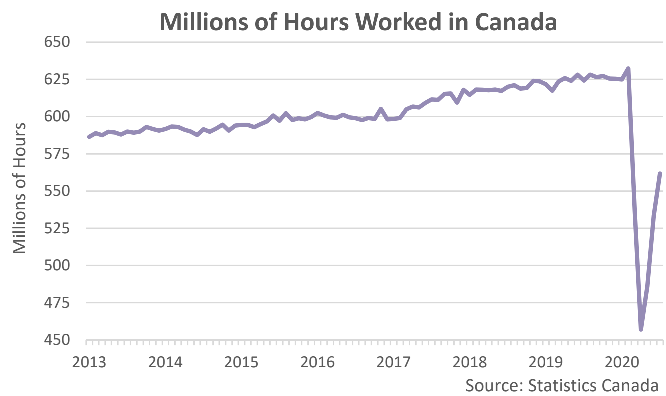
The lag between decisions and actual starts is quite long for apartments. Accordingly, the jump in July's starts was mostly for apartments. Low-rise activity (single-detached, semi-detached, and town homes) remains very weak and the trend is now flat or falling. Rural starts are also weak.



Employment Trends

Employment continues to recover. Statistics Canada estimates that employment rose by more than 400,000 in July. But, the level of employment in July was still 1.34 million (7.0%) lower than in February.

Data on total hours worked shows a slightly weaker recovery: as of July, total hours (on a seasonally-adjusted basis) were 11% lower than in February. So far, 60% of the loss has been regained.



Rentals Markets

It is widely agreed that Covid-19 has had its worst economic impacts on young-adult age groups and lower-income occupations, which means that rental markets will be hit much harder than the ownership sector. As I write this (on August 17), a report is circulating which calculates that, as of June, rents in Canada are 9.4% lower compared to a year ago (this is based on asking rents shown on a popular website). We should note that this is the change in asking rents for available units. Changes for continuing occupancies are no doubt very different. I'm not inclined to rely on this data. Due to the methodology, there is a chance that the calculations have been distorted by a change in "composition" (the locations and types of properties being listed). It is possible that there are more listings of lower-rent properties (for example, while it used to be easy to lease them by word-of-mouth or site signage, it might now be necessary to promote them more widely). There is an alternative dataset, via the rent component of Statistics Canada's Consumer Price Index.

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Rentals Markets (Continued)

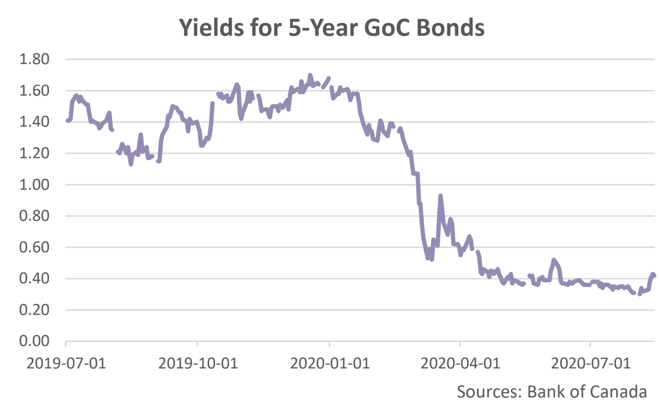
This data tells a very different story, calculating that as of June rents for occupied units have increased by 1.8% versus a year ago. (This data for occupied units is conceptually very different than the data on asking rents for available units – it is possible that both of the estimates are correct, that asking rents are falling but that continuing rents are rising.)

Unfortunately, there is uncertainty about the reliability of the StatsCan data. Until recently, the methodology omitted rent changes that occur when there is a change of occupant, which is when we expect the biggest changes – up or down – in rents. As a result, the StatsCan data has historically under-estimated rent growth in Canada. The methodology has been changed recently, so that it can in theory include changes that result from tenant movements, and this data might become more reliable in future.

To be accurate, changes in rents should be calculated using "constant samples", which CMHC does in its annual survey of rental markets across Canada. Unfortunately, CMHC does the survey only once per year (each October). This would be a really good time for CMHC to start doing its rental market survey on a quarterly basis.

Interest Rates

Bond yields have increased slightly during the last few days, but the current yield in the area of 0.4% remains extremely low. My opinion-estimate of a typical advertised "special offer" mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now just 1.95%, by far the lowest-ever. The spread between mortgage rates and bond yields is now actually below average, at 1.55 points versus the long-term average of 1.8 points. But, the spread is now similar to the average of 1.49 points for all of 2019.



The diminished spread indicates that the mortgage market remains very competitive in favour of borrowers. For variable rates, my opinion-estimate is now 1.9%. The interest rate for the mortgage stress tests has been reduced, but only slightly, and at 4.79% it is still ridiculously high (almost 3 points above actual market interest rates).

Disclaimer of Liability

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