

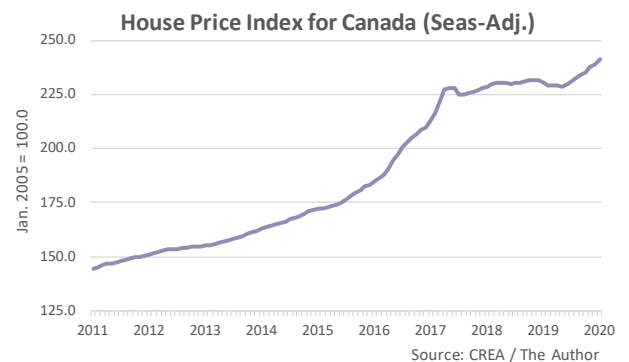
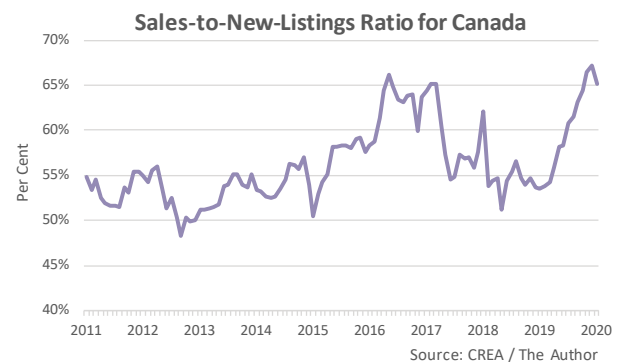
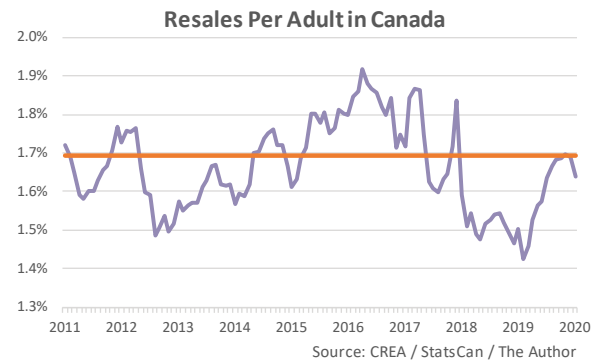
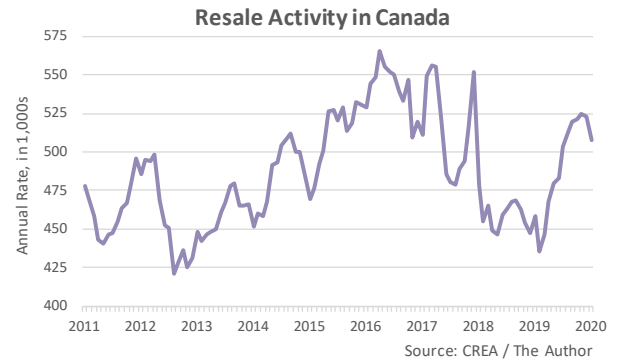
Resale Market

Many areas in Canada saw January sales that were far above year-ago levels. But, market conditions were very weak last year. Once CREA seasonally-adjusted the new data, it estimated that the sales rate was lower this January than it was during the fall. I don't attach a lot of importance to the resales data for January or December, because unusual weather can cause temporary distortions. That said, from these evolving data, I continue to conclude that the growth phase for sales has ended.

On a population-adjusted basis, the January sales rate was slightly below the long-term average. As I've commented repeatedly, the fundamentals are very positive (job creation has been robust since mid-2016, population growth is at the strongest rate in a generation, and mortgage interest rates were sharply lower in 2019 versus 2018): we should be seeing activity well above average, not at or below average. The mortgage stress tests continue to weigh heavily on home-buying.

The national sales-to-new-listings ratio ("SNLR") eased a bit in January, but was still very high (65% versus the 52% threshold for a "balanced market" - this is the level at which prices are expected to rise by 2% per year).

Prices continue to respond to the tightened conditions. The House Price Index from the Canadian Real Estate Association ("CREA") has now increased by 4.6% compared to a year ago, but during the past eight months there has been an annualized growth rate of 8.3%: as a result, the year-over-year growth rate will continue to rise.

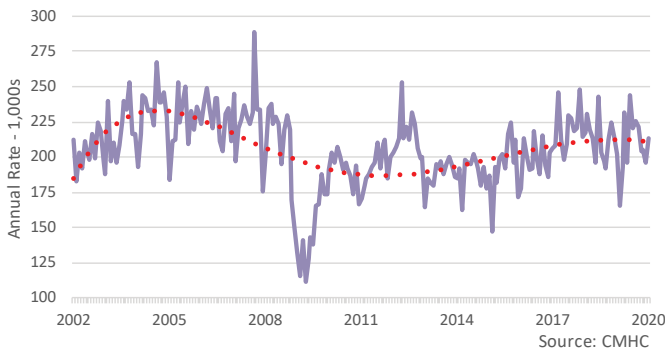


Housing Starts

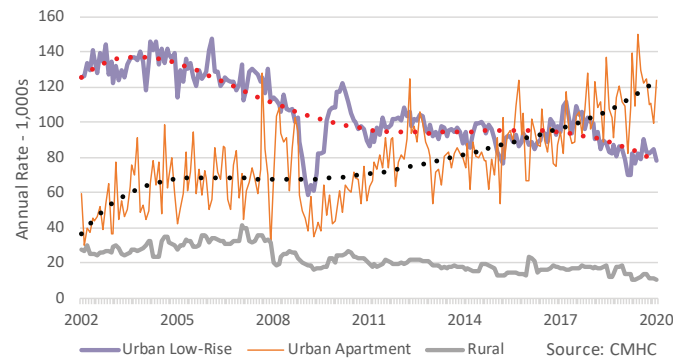
CMHC reported a rise in the starts rate for January, to 213,200. But, a friend noticed a potential issue in the data, and at his instigation I investigated. I think there was a technical problem that resulted in an over-estimate, and that the correct number was probably about 197,000. The reported number results in a flat trend for total housing starts. But, if my alternative estimate is correct, then the trend might be turning down. Either estimate is far below the current demographic requirement (245,000-250,000).

Most of the potential correction is for apartments (to about 112,000 versus the published estimate of 123,800). The adjustment for low-rises is smaller, to 75,000 versus the published 78,600: either of those numbers is far too low.

Housing Starts in Canada



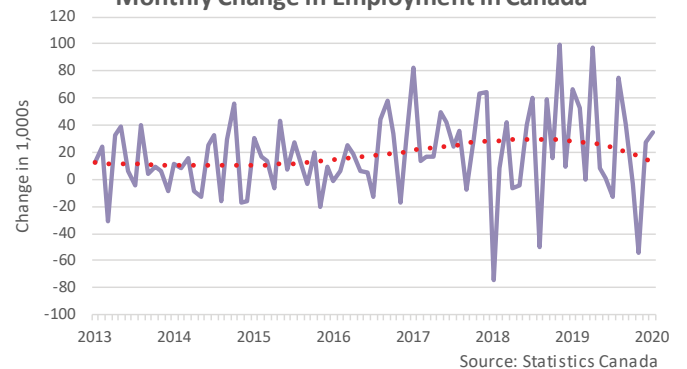
Housing Starts by Type of Dwelling in Canada



Employment Trends

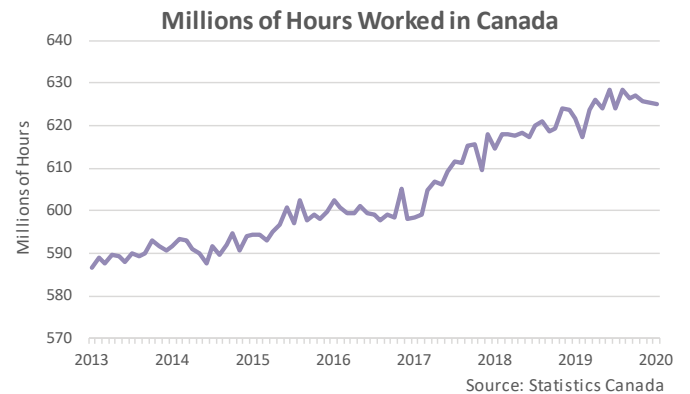
Since mid-2016, Canada has seen a very encouraging amount of job creation, but the estimates have become much less positive during the past year. The year-over-year growth rate is now 1.4%, which is fractionally slower than the 1.5% rate of population growth. Erratic data create uncertainty about the “true” state of affairs (this is data from a sample survey after all, and there is a margin-of-error). Changes in employment take time to affect housing activity.

Monthly Change in Employment in Canada



Employment Trends (Continued)

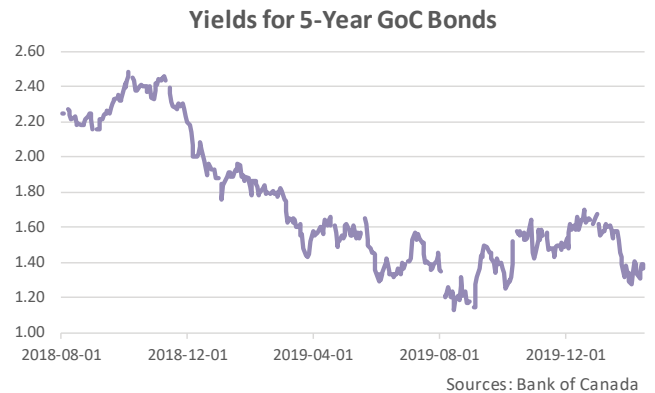
For now, the total growth that has happened during the past 3.5 years is strongly supportive. But, if the slowdown persists, then resale activity could be weakening later this year, and starts would be further reduced next year. Another challenging indicator is that total hours worked in Canada peaked during the summer and fall, and is now estimated to have declined slightly.



Interest Rates

Fear and uncertainty about the effects of the coronavirus have caused bond yields to fall (to less than 1.4% for 5-year GoC's, while I think the neutral range is 1.5-1.75%).

My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate from major lenders) is still 2.85% (since early November). The spread between mortgage rates and bond yields has therefore expanded, but at about 1.4-1.5 points it is still below the long-term average of 1.8 points. Variable rates are unchanged (my opinion-estimate remains at 2.95%).



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