

FOURTH QUARTER 2020 HOUSING MARKET DIGEST ATLANTIC CANADA

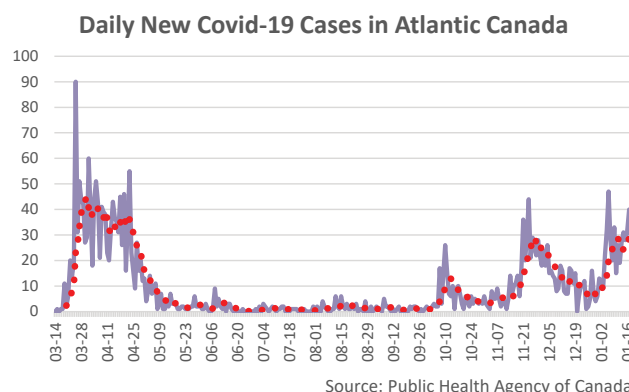


Staying Safe

The Atlantic Region remains successful at limiting the spread of Covid-19. The rate of new infections (expressed on a per million or per 100,000 basis) is less than one-tenth of the average for all of Canada. This chart shows data up to January 18. Current data can be found here:

<https://health-infobase.canada.ca/src/data/covidLive/covid19.csv>

New data are showing emerging economic effects from a resurgent spread of the virus. Hopefully, those consequences will be much less in the Atlantic region. That said, I am still unwilling to produce any forecasts on what might happen to the housing market or the broader economy, because we can't know how this will unfold.



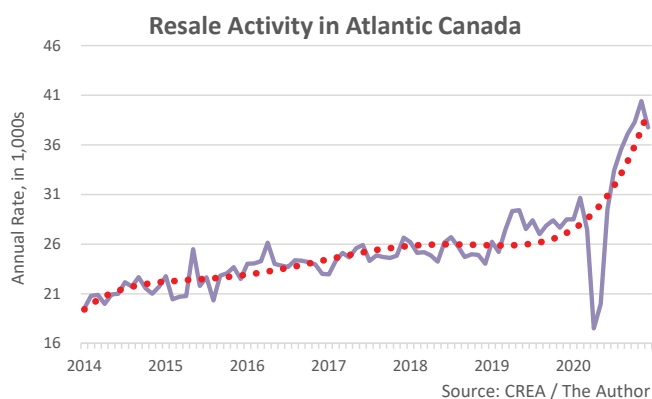
Source: Public Health Agency of Canada

Resale Market

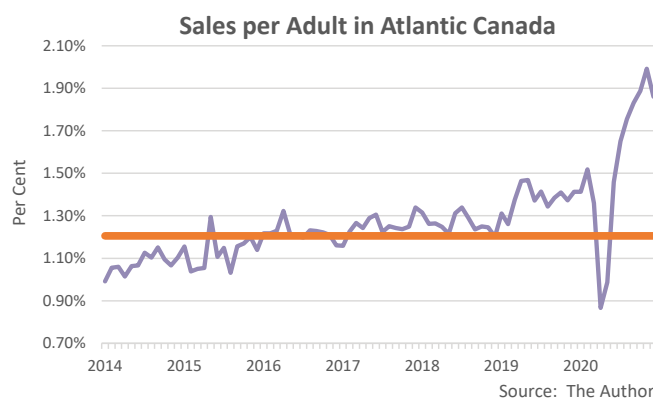
Resale activity remains very strong in the Atlantic region. For the fourth quarter, the annualized sales rate was 38,800, which was a new record for the region, on top of another extreme record that was set in the third quarter. For the entire year, sales totaled 31,357, which was a new annual record (13% above the prior record that was set in 2019).

Looking at sales rates over the past two decades and then making an adjustment for population growth, I calculate that the long-term average rate for 2020 would be about 24,400.

On this basis, the sales rate for 2020 was far (28%) above the long-term average. In part, strong housing demand in the Atlantic region is justified by robust job creation in recent years, on top of extremely low interest rates. But, it is also possible that there are some psychological factors (perhaps “extrapolative expectations”?) artificially boosting demand.



Source: CREA / The Author

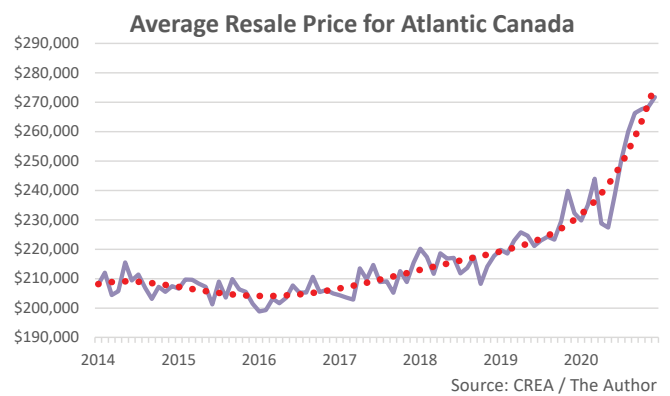
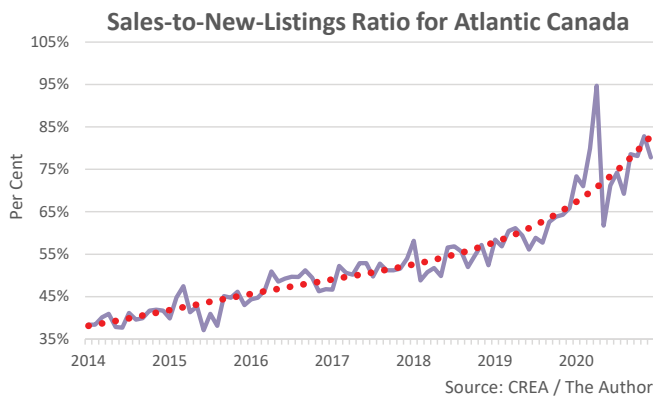


Source: The Author

Resale Market (Continued)

The flow of new listings into the market has failed to keep up with demand, which has caused the regional sales-to-new-listings ratio (“SNLR”) to increase sharply. The SNLR has averaged 77% during the past six months, far above the threshold for a “balanced market”, which may be in the range of 45-50% - this is the level at which prices are expected to rise by 2% per year.

The sharp imbalance between supply and demand is now resulting in rapid price growth. CREA data shows that the average resale price for the fourth quarter was 15% higher than a year ago.

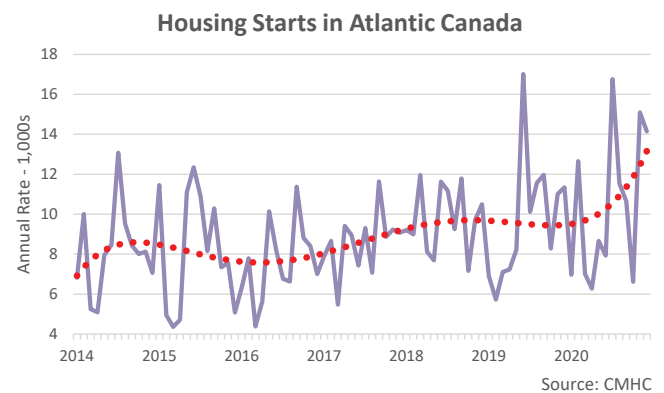


Housing Starts

Housing starts remain quite strong, although the rate for the fourth quarter (11,600) was a bit weaker than in the third quarter.

For the entire year, total starts (10,273) were a bit (5.4%) below the 20-year average. Starts were far (67%) below average in Newfoundland and Labrador, but above average in the other provinces.

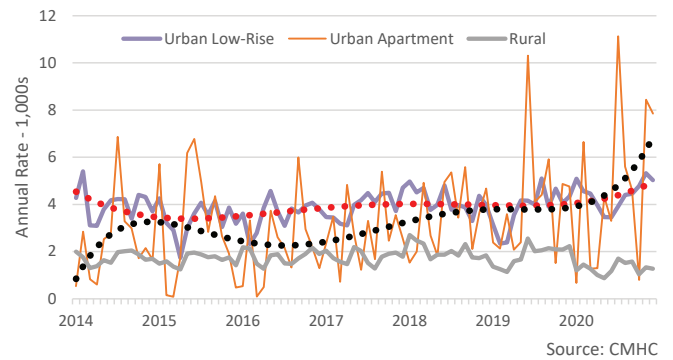
Starts within the region have been highly volatile from month to month, due to lumpy starts of apartments. The trend for apartments remains very strong.



Housing Starts (Continued)

For low-rises (single-detached, semi-detached, and town homes) activity may have shown a small improvement during the past half year. Starts remain weak in rural areas. Trends for starts continue to imply that during the coming year (and beyond) we will see shortages in resale markets for low-rise homes and excess inventories for apartments.

Housing Starts by Type of Dwelling in Atl. Canada

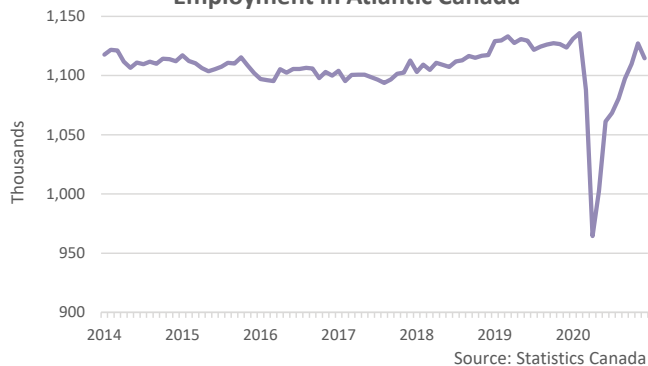


Employment Trends

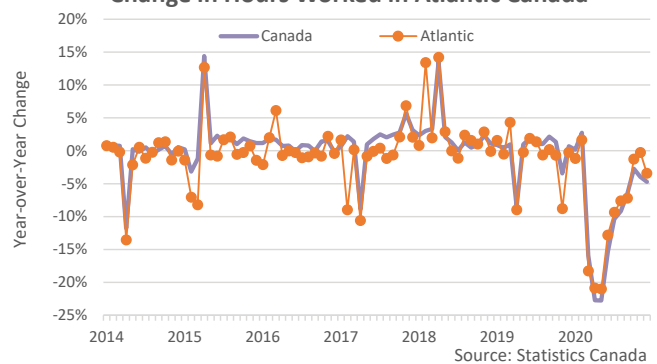
Just as the Atlantic Region has experienced the lowest amount of infections due to Covid-19 it has also seen a strong rebound for employment. Statistics Canada estimates that employment fell by 171,000 during March and April, but since then 150,000 jobs have been regained. As of December, total employment is estimated to be 21,000 (or 1.9%) lower than in February. For all of Canada, the current shortfall is larger, at 3.3%. The combination of a limited employment impact and exceptionally low interest rates has been strongly supportive for home buying activity in the region.

The next chart looks at employment in terms of numbers of hours worked. As of December, total hours for the Atlantic Region are 3.4% lower than a year ago. The reduction for all of Canada is larger, at 4.7%.

Employment in Atlantic Canada



Change in Hours Worked in Atlantic Canada



Rental Markets

CMHC will release the results from its October survey on January 28. Two years ago, the release occurred on November 28.



Interest Rates

In reaction to positive news about Covid-19 vaccines, bond yields rose slightly during November. Since then, there have been only minor variations. The yield for 5-year Government of Canada bonds has been in the area of 0.45%, just slightly higher than the record lows that were seen during the summer and early fall.

Mortgage interest rates remain extremely low. My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now 1.65% (even lower rates can be negotiated). The spread between mortgage rates and bond yields is just 1.2 points, which is below the long-term average of 1.8 points. For variable rates, my opinion-estimate is now 1.35%.

As commented previously, the rate used in the mortgage stress tests remains ridiculous, at 4.79%.

Yields for 5-Year GoC Bonds



Sources: Bank of Canada

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