

Rounding the Corner?

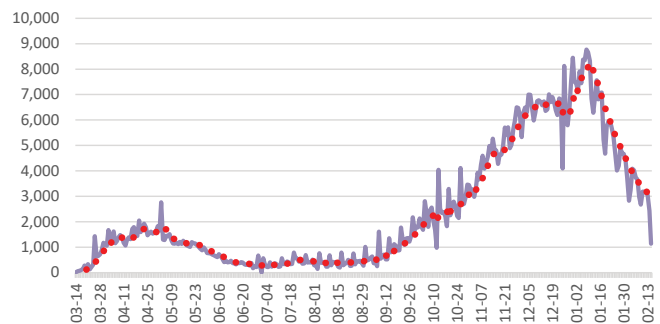
The rate of new Covid-19 infections has improved quite rapidly. It should be noted that in this chart (which shows data up to February 15), data is missing from some of the provinces for the last three days. That said, it looks like the trend (the 7-day moving average shown by the red dotted line) is about 60% below the peak that was seen in early January.

Current data can be found here:

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

Emerging economic indicators (apart from the housing market) are mixed, but in general are hinting that the recovery has stalled. Some, but not all, of the losses seen last spring have been recovered.

Daily New Covid-19 Cases in Canada

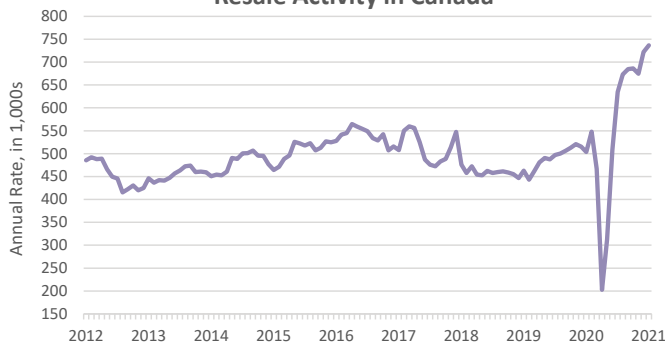


Source: Public Health Agency of Canada

Resale Market

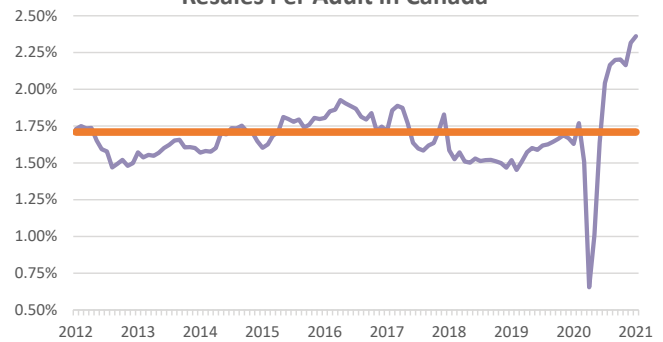
Resale activity set another new monthly record in January (an annualized sales rate of 736,500). Looking at sales rates over the past two decades and then making an adjustment for population growth, I calculate that the long-term average rate today would be about 533,000. On this basis, the sales rate for January was 38% above average. In fact, the population-adjusted sales rate for this January was 16% above the prior record, which had been set in January 2007. Covid-19 has caused a lot of us to think about our living arrangements. Exceptionally low interest rates are making it possible to make changes. Among renters and others (mostly people who live with their parents) the share who want to buy during the coming year is four times what was seen at the end of 2019. Among people who already own their home, there has been a smaller rise in expectations about buying. The consequence is that the number of homes that are being listed for sale is falling far short of the demand.

Resale Activity in Canada



Source: CREA / The Author

Resales Per Adult in Canada



Source: CREA / StatsCan / The Author

Resale Market (Continued)

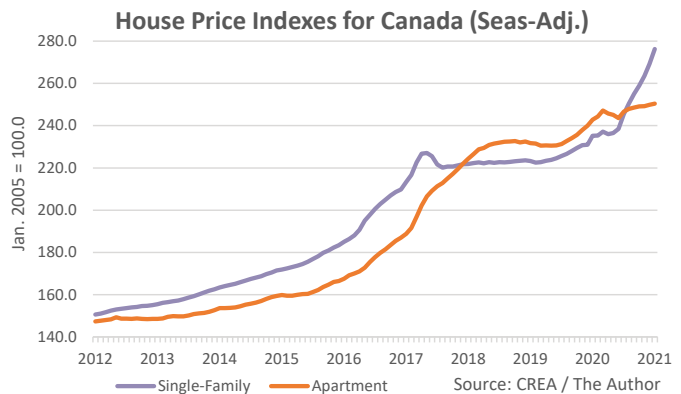
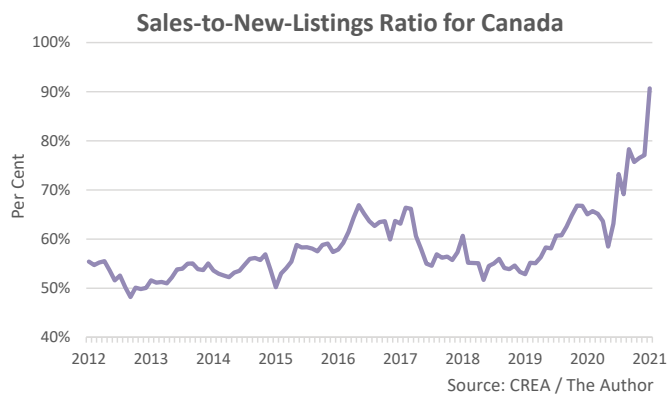
This has been explored in the series of five reports for Mortgage Professionals Canada. The fifth report was released on February 9. The reports can be found here:

<https://mortgageproscan.ca/membership/resources/covid-19-consumer-reports>

With inadequate flows of new listings into resale housing markets, the national sales-to-new-listings ratio (“SNLR”) is extremely high, at 91% in January, far above the 52% threshold for a “balanced market” - this is the level at which prices are expected to rise by 2% per year. Prices are increasing very rapidly. CREA’s house price index for Canada has increased by 13% during the past eight months (expressed as an annualized rate, this is 20%). In many communities, there has been movement away from apartments, towards low-rise homes.

The price index for single-detached homes has increased by 17% during the past eight months but for apartments the increase is 2.2%. The new report also comments on mortgage deferrals, most of which have expired. Based on data from the Canadian Bankers Association, less than 1% of its members’ mortgages were still in deferral as of yearend. At this time there is no evidence of substantial payment difficulties, but this is still early days. The most recent report from the CBA can be found here:

<https://cba.ca/canadian-banks-are-standing-by-canadians>



Housing Starts

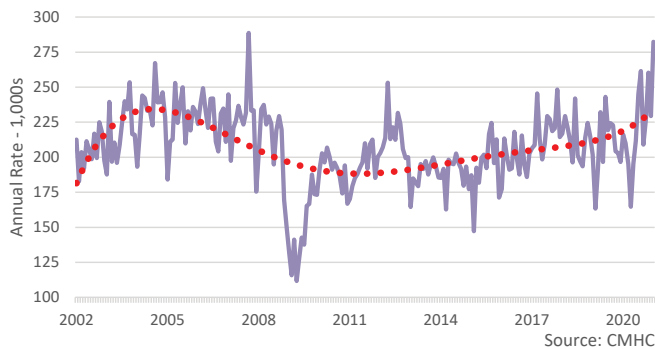
Housing starts leapt in January, to an annualized rate of 282,400, which is one of the highest rates ever recorded. However, most of the rise was in Quebec (a 75% rise versus December, while for the rest of Canada the rise was 6%). That data looks like an “artifact” of seasonal-adjustment. Apart from that, starts are trending upwards.

Housing Starts (Continued)

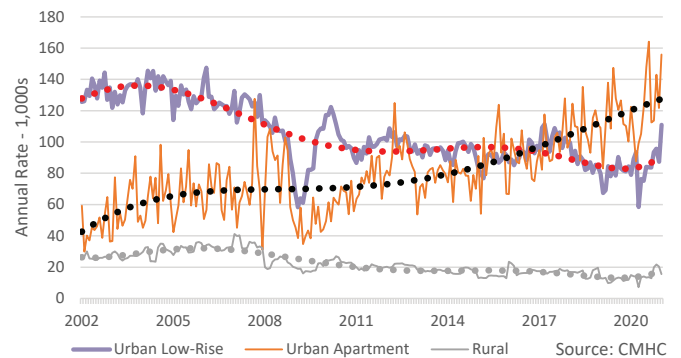
Trends are rising for both low-rise homes and apartments. For low-rises, activity has improved slightly during the past few months, from extremely low levels: new starts remain far below what has been required historically. Apartment starts continue to reflect decisions that were made prior to Covid-19.

A decade of under-production of low-rise housing is resulting in severe shortages in many areas of the country, which is now translating into extreme price growth in many areas. This should result in some improvement in starts for new low-rise homes during this year.

Housing Starts in Canada



Housing Starts by Type of Dwelling in Canada



Employment Trends

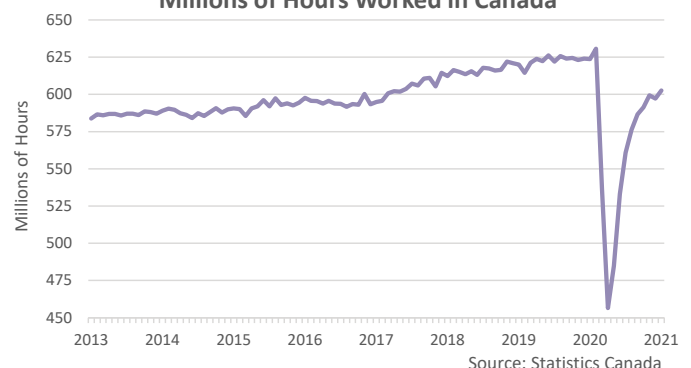
The employment data for January contained mixed messages. Employment fell for the second consecutive month, with a large drop of 213,000. Employment in Canada is now 4.5% lower than last February.

However, most of January's job losses were in part-time work. Total hours worked actually rose in January (but are still 4.5% lower than last February).

Employment in Canada



Millions of Hours Worked in Canada



Interest Rates

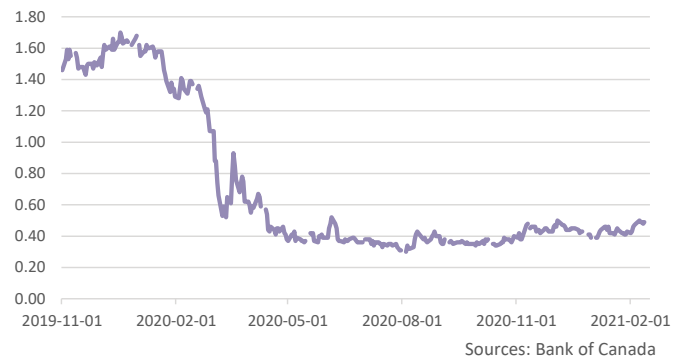
Bond yields have crept upwards since the end of October. The current yield for 5-year Government of Canada bonds (in the area of 0.55% as of February 16) remains extremely low.

Mortgage interest rates have only partly followed the rise 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 1.70% (even lower rates can be negotiated). The spread between mortgage rates and bond yields is just 1.15 points, which is far below the long-term average of 1.8 points. For variable rates, my opinion-estimate is now 1.4%.

As commented previously, the rate used in the mortgage stress tests remains ridiculous, at 4.79%. The Bank of Canada publishes data on contracted mortgage rates (since 2013). The highest monthly average rate (5-years fixed) shown in that data set is 3.76%. That data can be found here:

<https://www.bankofcanada.ca/rates/banking-and-financial-statistics/interest-rates-for-new-and-existing-household-lending/#download>

Yields for 5-Year GoC Bonds



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