HOUSING MARKET DIGEST CANADA

MORTGAGE PROFESSIONALS CANADA

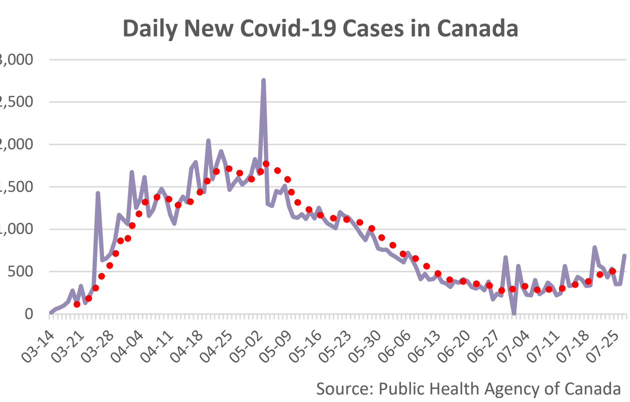
Encouraging Signs?

Key economic indicators (housing and employment) are showing further improvement.Encouragingly, the numbers of new confirmed Covid-19 cases remain quite low, although the trend line (7-day moving average) has inched up during the past two weeks (the recent increase has occurred mainly in Alberta). This chart shows data up to July 27. Current data can be found here: https://health-infobase.canada.ca/src/data/covidLive/covid19.csv

I read this chart to say that we can feel a lot more relaxed, but that we need to stay vigilant. I also read it to say that it is still impossible to know what will happen with the pandemic. Therefore, we should not be confident about our ability to predict what will happen to the economy, or the housing market. In addition, as I've been saying, government (and lenders) will make policy changes in response to evolving conditions. With unpredictable conditions, those policy responses and their effects are also unpredictable.

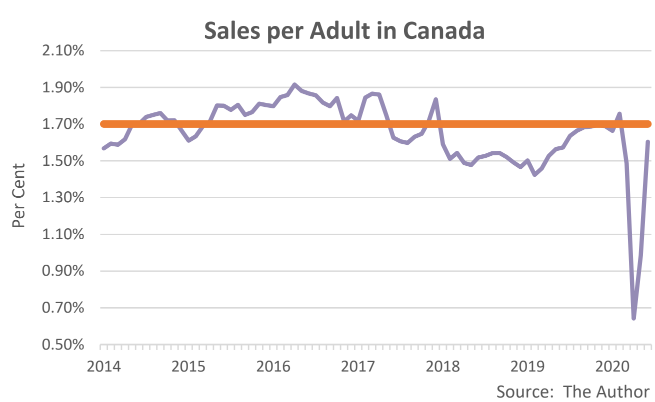
The Canadian Bankers Association reports that as of June 30, 16% of their members' residential mortgagors have taken a payment deferral: https://cba.ca/canadian-banks-are-standing-by-canadians

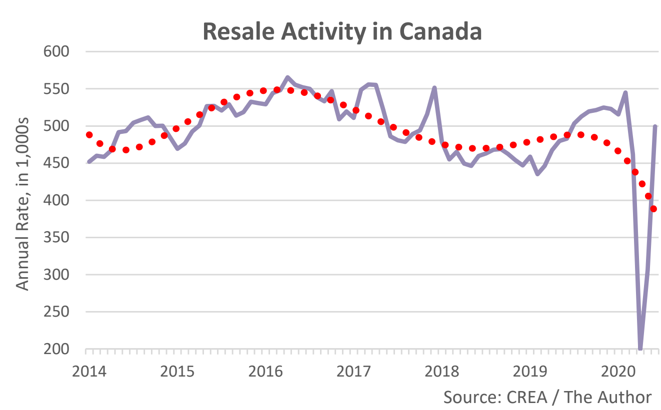
But, some of those borrowers may now have started making payments. It would be really useful to see stats on how many mortgagors are still not making payments.



Resale Market

Resale activity jumped sharply in both May and June. The sales rate for all of June was quite healthy, at 500,000. But, for the entire second quarter, the average rate was just 335,000. People will interpret this data differently.





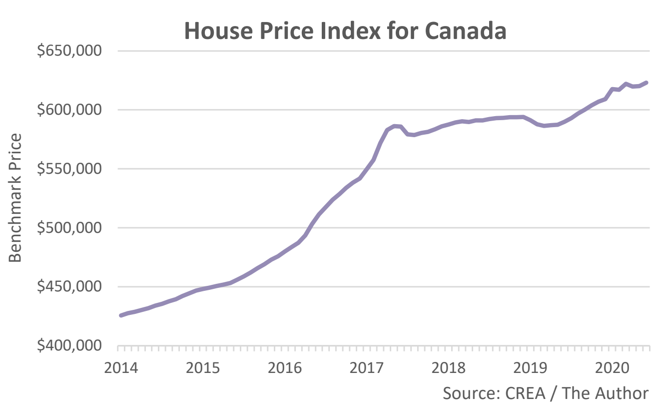
Resale Market (Continued)

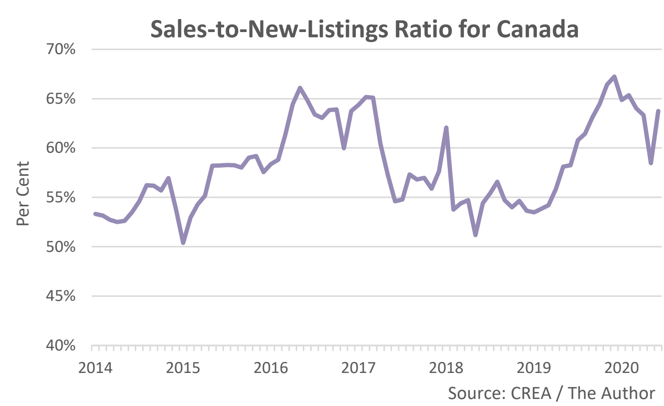
Some will focus on the data for June and see a very robust recovery. Some will look at the entire quarter and see a sharply impaired housing market. I look at the data and see continued uncertainty about how this might unfold.

Looking at the data in terms of sales per adult, the rate for June was just 6% below the long-term average (calculated for 2001 to the present, and shown by the flat line). For the entire second quarter, the sales rate was 37% below the long-term average.

The flow of new listings into the market has also recovered (partially). The national sales-to-new-listings ratio ("SNLR") was 63.7% in June (and 62% for the entire second quarter). The SNLR remains well above the 52% threshold for a "balanced market" - this is the level at which prices are expected to rise by 2% per year.

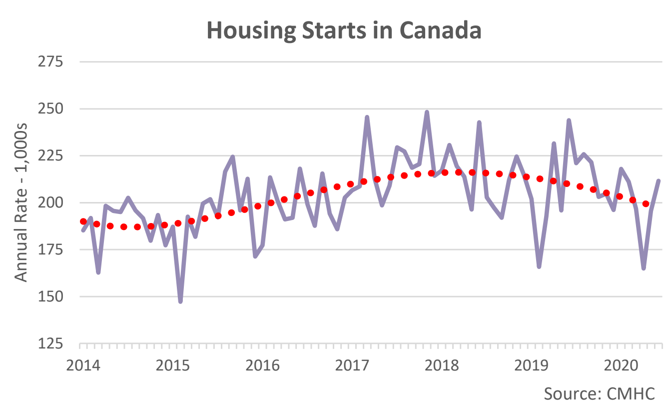
Based on the past statistical relationships, the elevated SNLR should in theory be resulting in continued robust price growth. But CREA's house price index shows only small movements during the past few months. Compared to a year ago, the index for June is up by 5.6% (reflecting strong gains during 2019).





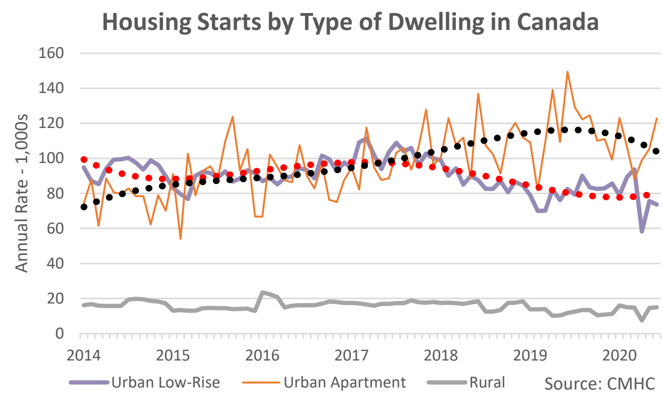
Housing Starts

Housing starts remain quite healthy, with the rate for June at 211,600. As I have commented previously, I expect trends for starts to change much more gradually than for resales, because construction still depends largely on decisions that were made pre-Covid-19.



Housing Starts (Continued)

The evolving data continues to show that starts for apartments are trending downwards, from a very high level. For low-rise homes (single-detached, semi-detached, and town homes) the data hints at some improvement, but from a level that has been far too low during the past decade. Rural starts are also quite weak.

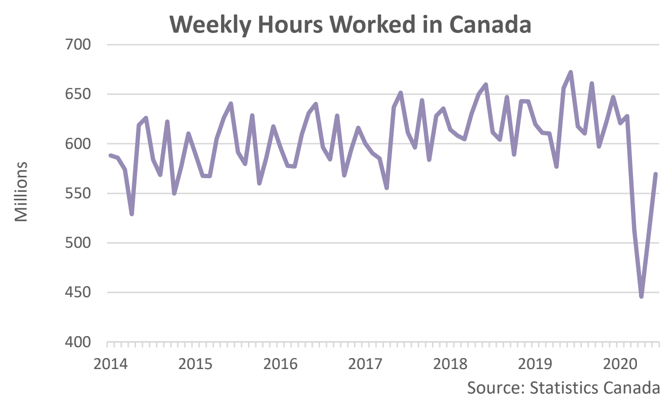


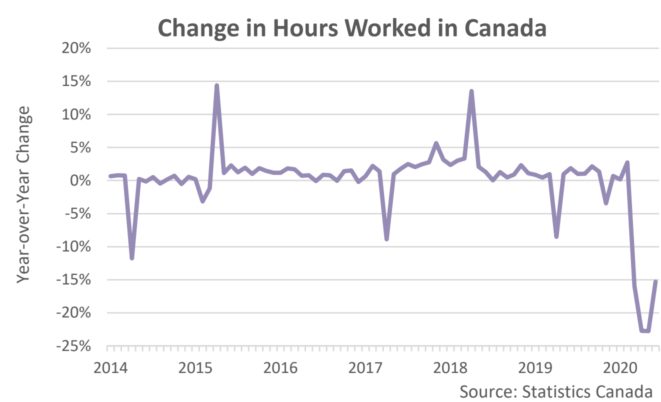
Employment Trends

Statistics Canada estimates that employment rose by more than 950,000 in June, as many of us have been able to return to work. But, the level of employment in June was still 1.76 million (9.2%) lower than in February.

At present, I prefer to watch employment in terms of total hours worked. The first chart below shows that while there has been a strong rebound, total hours are still depressed (the data in this chart is not seasonally-adjusted, and the resulting month-to-month gyrations make it a bit hard to read). The second chart shows that this June, total hours worked were still 15% lower than a year ago.

Repeating a prior comment, the worst impacts 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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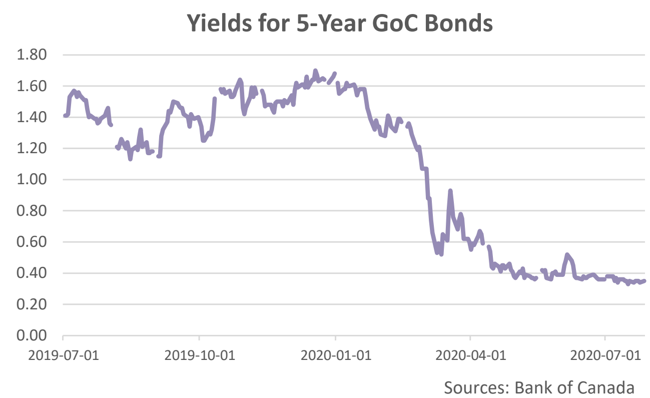
Interest Rates

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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