JUNE 2020

HOUSING MARKET DIGEST

CANADA

MORTGAGE PROFESSIONALS CANADA

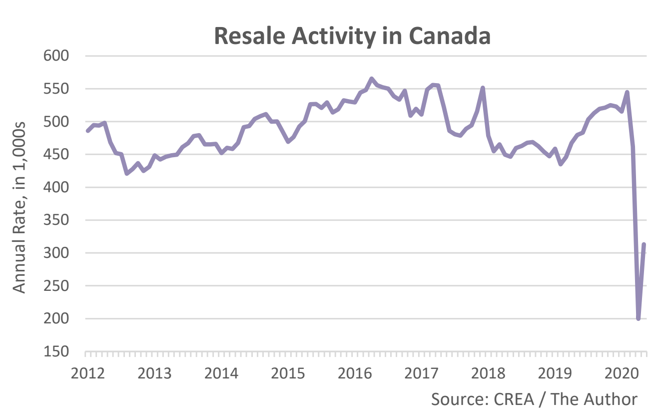
The key indicators (housing and employment) that interest me showed substantial recovery during May compared to April, but they are still deeply depressed compared to the before-times. In normal times, the main reason that current economic trends are interesting is because they do a reasonable job of predicting what might happen in the near-future. That is definitely not the case now: what happened during February, March, and April did not predict what would happen in each of the following months. I am very reluctant to draw any conclusions from the May data about what might happen during the summer, let alone the fall. I've said elsewhere that any forecasts we see today mainly tell us about the biases and assumptions of the forecasters. CMHC has released a forecast that expects the average resale house price to fall by 9% to 18% during the coming year. The only conclusion I will draw from this is that CMHC must be making very pessimistic assumptions about what will happen to the broader economy during the coming year. To its credit, CMHC did say repeatedly within its report that there is considerable uncertainty about the forecasts. Others are publishing forecasts, and there is a very wide range of expectations.

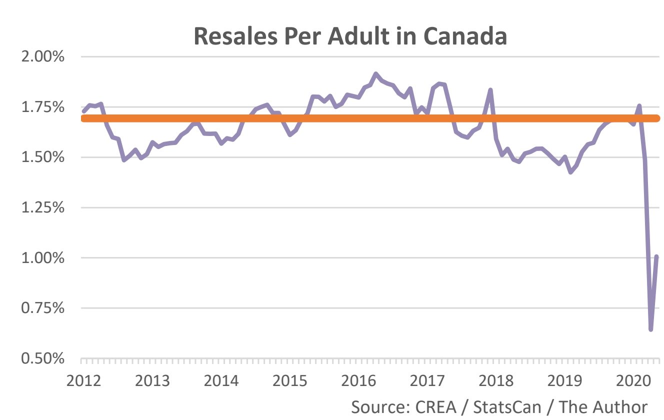
My personal stance has been that because it is impossible to know what will happen with the pandemic, we should not have any confidence about our ability to predict what will happen to the economy, or the housing market. Moreover, government (and lenders) will make policy changes in response to evolving conditions. With unpredictable conditions, those policy responses and their effects are also unpredictable. I have decided against publishing any forecasts.

Resale Market

Resale activity jumped sharply in May (up by 57% versus April) but the annualized sales rate of 313,000 is still extremely low in historic terms.

When sales are expressed on a population-adjusted basis, the story is similar. May sales on a per adult basis were 41% below the long-term average (which is shown by the flat line). The flow of new listings into the market is also depressed. The national sales-to-new-listings ratio ("SNLR") has fallen during recent months. The figure for May (58.8%) is still above the 52% threshold for a "balanced market" - this is the level at which prices are expected to rise by 2% per year.





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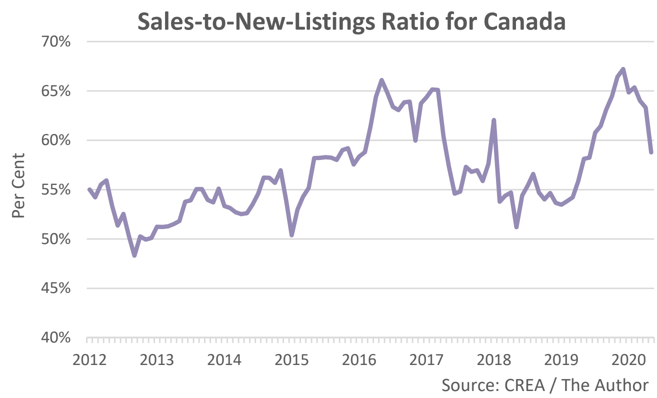
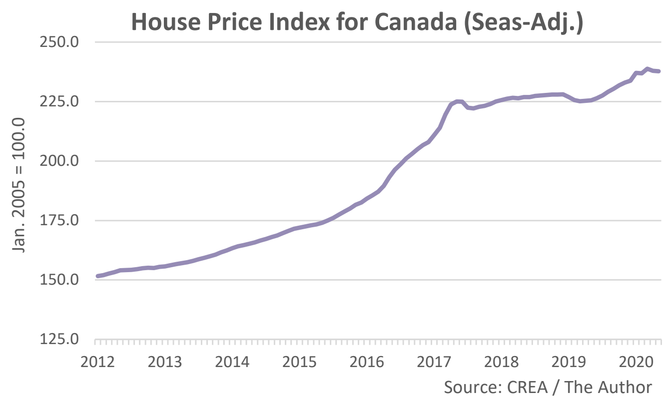
Resale Market (Continued)

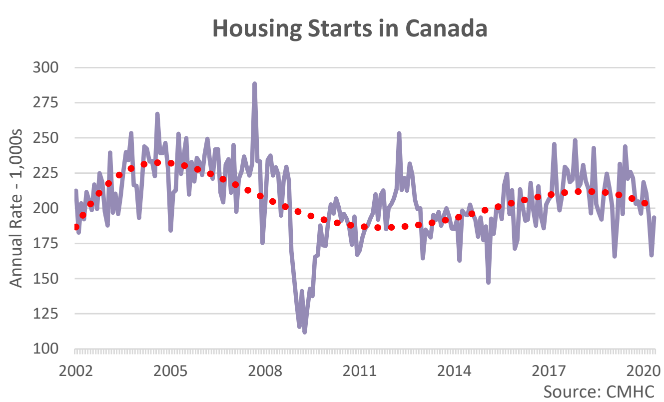
Based on the past statistical relationships, this should in theory result in continued robust price growth. But, in the circumstances, I'm not inclined to trust past relationships as indicative for the future. In these very volatile market conditions, it must be very challenging to estimate house price indexes. The CREA index shows very small reductions for April and May (and the index for May is 5.4% higher than a year ago).

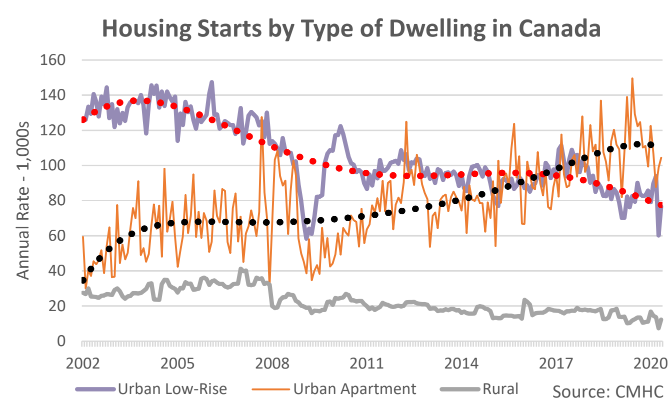




Housing Starts

Housing starts increased in May versus April. But, the seasonally-adjusted annual rate of 193,500 remains slightly below the prior trend. The rise in May was largely because CMHC resumed data collection in Quebec (the survey was not conducted in Quebec during April). As I commented last month, 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. Starts for apartments might now be turning down. This is due to reduced pre-construction sales during 2018 and 2019. Low-rise activity (single-detached, semi-detached, and town homes) is unambiguously very weak. Rural starts are also quite weak.





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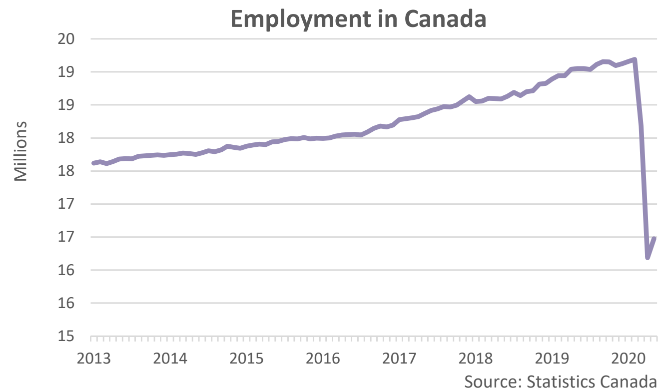
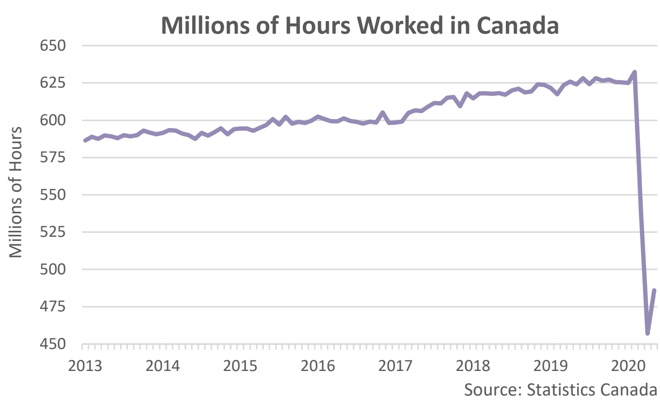
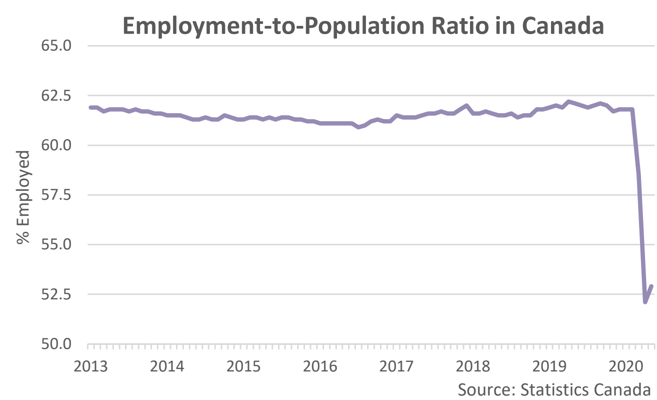
Employment Trends

Statistics Canada estimates that employment rose by 290,000 in May. Normally, this would be startlingly good news, but it comes after a drop of 3 million (the May report was also good news in that the "consensus" expectation had been for a further drop of a half million). The rise reported for May was largely in Quebec, which had the sharpest closures during March and April, and was seeing some re-opening. Even with the rise, employment in May was still 14% lower than in January. The second chart shows that there has been an even larger hit in terms of total hours worked (a 22% reduction). The third chart shows that the share of adults who have jobs remains far below prior levels.



Repeating a comment from last month: labour market analysts point out that 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. However, fear and uncertainty about future employment and incomes, as well as fears about physical safety, is still weighing heavily on home buying.





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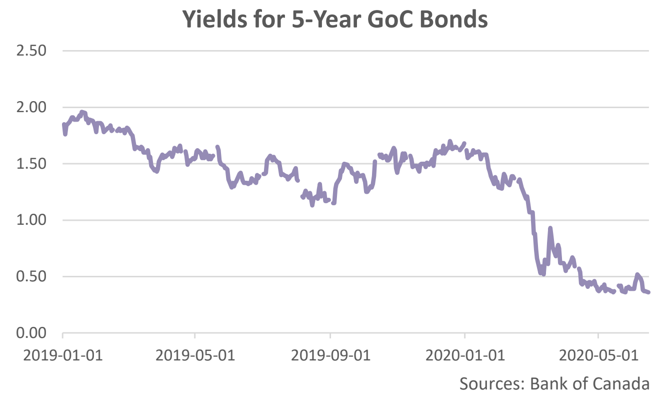
Interest Rates

Bond yields have changed little during the past month, and remain extremely low. The yield for 5-year Government of Canada bonds is just 0.36% as of June 15.

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 the lowest-ever, at 2.3%, and even lower rates can be negotiated. The spread between mortgage rates and bond yields has closed, and is now below 2.0 points. This is slightly higher than the long-term average of 1.8 points, but it is still elevated compared to the average of 1.49 points for all of 2019. For variable rates, my opinion-estimate is now 2.05%.



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