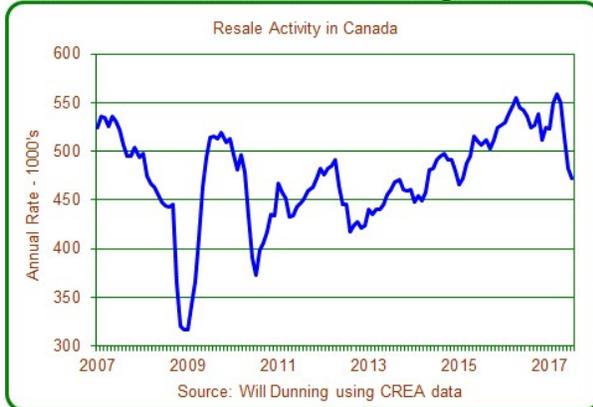
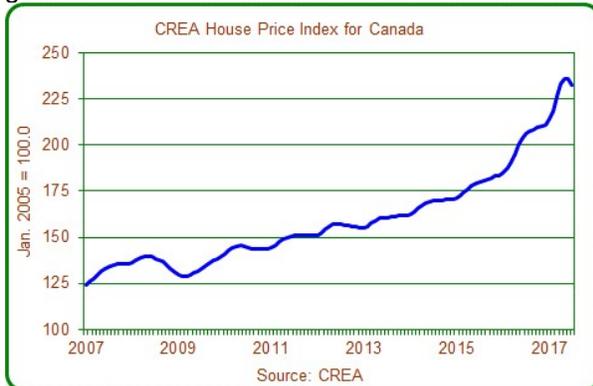


Resale Market

Resale activity slipped a bit further in July, to an annualized sales rate of 472,700. Apart from Quebec, the recent trends for sales are flat or falling in all provinces. The largest drops have been seen in Toronto and surrounding areas.



CREA's House Price Index turned down in August, bringing the year-over-year change to 12.9% (from the peak of 19.7% that was seen in April). This turning point has been dominated by Toronto, where CREA's HPI fell by 4.6% in July versus June. Price trends are turning in surrounding areas. On the other hand, prices are strengthening in British Columbia, but are showing moderate growth in most other areas.



Based on current conditions, the sales-to-new-listings ratio ("SNLR") points to a further drop in the year-over-year rate of price growth, to less than 5% by year end.

The outlook is highly unpredictable at present, as recent activity in Toronto and environs has much more to do with consumers' psychology and expectations than with the economic fundamentals (which are still favourable). Negative expectations can become self-fulfilling.

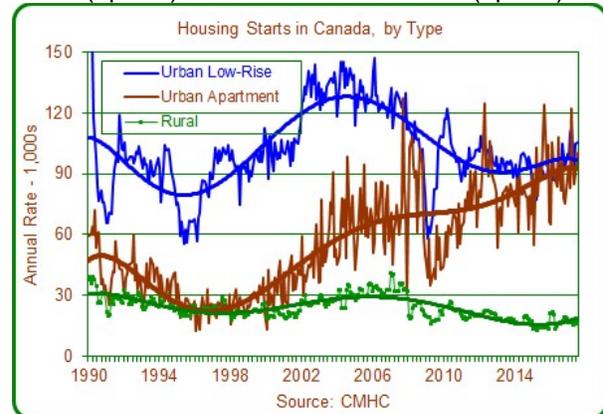


Housing Starts

During the past two years, housing starts have been at an average rate of 204,800, an 8% improvement from the 188,900 seen during the prior two years.



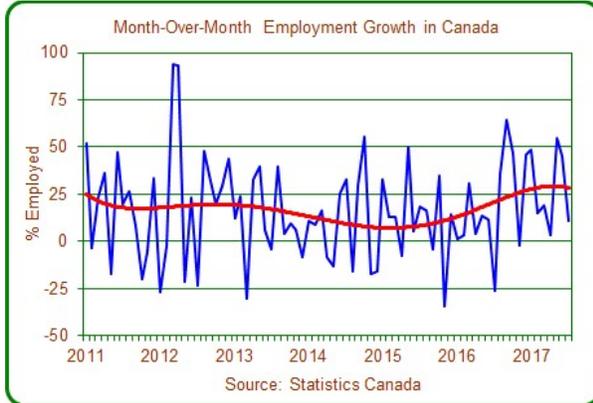
This is mainly due to apartments (up 15%), with only a minor improvement for low-rises in urban areas (up 4%) and starts in rural areas (up 2%).



Starts have increased strongly in Ontario (29%), BC (24%), and Quebec (8%), but have fallen in Atlantic Canada (-9%), Saskatchewan (-36%), and Alberta (-29%). Activity is unchanged in Manitoba.

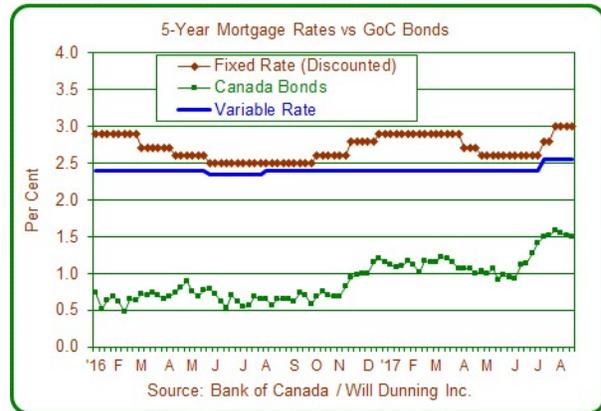
Employment Trends

Statistics Canada’s Labour Force Survey (“LFS”) indicated a moderate rate of growth for July (just 10,900 jobs) but this follows a period during which the estimates were showing accelerating growth. The year-over-year growth rate for employment is now at 2.1%, versus 1.0% for population growth. The estimates indicate that the strongest job growth is in British Columbia (3.6% year-over-year), followed by Quebec (3.0%). If this data is reasonably correct, it is positive for housing demand.

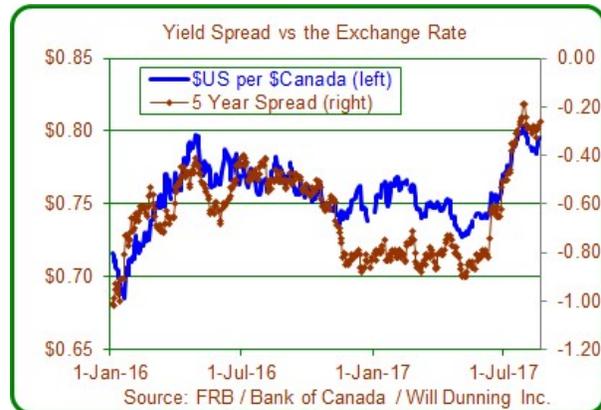


Interest Rates

Following a sharp rise during June and July, bond yields have paused (and in fact retreated a bit). During August, the yield for 5-year GoCs has been in the area of 1.5-1.55%. This is up by about three-quarters of a point from the average seen during 2015 and 2016 (0.79%). My opinion-estimate for a typical 5-year fixed rate from major lenders is 3.0%. The spread is a bit skinny (1.5 points versus a normal 1.8) and there is potential for further increases in mortgage rates.



As I have commented before, movements in the Canadian dollar are closely related to the spread between Canadian and US bonds. With the recent compression of the yield spread, the dollar has strengthened. This, combined with the rise in interest rates, is a newly-negative factor for the economic outlook.



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