Housing Market Digest – Canada

November 2017

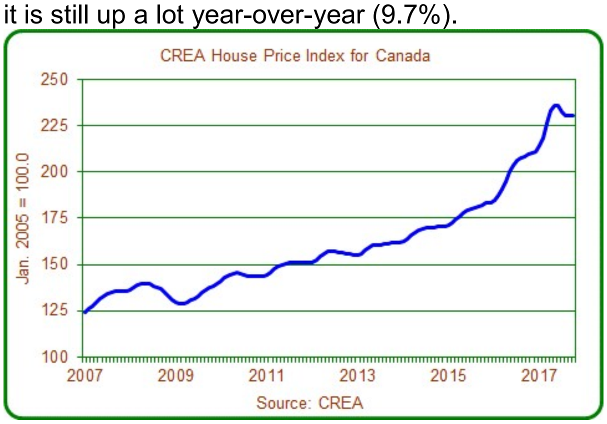
Annual Report on the Mortgage Market

Mortgage Professionals Canada has released its "Annual State of the Residential Mortgage Market in Canada" (scribed by yours truly). A path is available here: ***https://mortgageproscan.ca/en/post/consumer-survey***

Resale Market

Resale activity continued its recovery during October, to 499,400, due to partial rebounds in BC and Ontario. Activity is flat or failing in the other provinces.

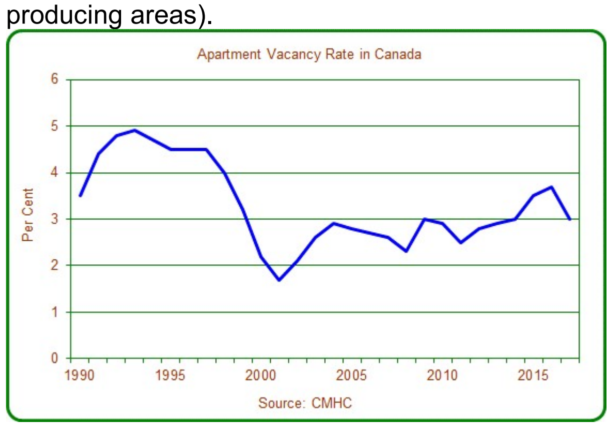
CREA's House Price Index has flattened, although it is still up a lot year-over-year (9.7%).



The sales-to-new-listings ratio ("SNLR") was 56.7% in October, well above the balanced market threshold of 51%. This indicator points to an outlook for stable prices (at worst). But, as I point out in the new report, we should expect that the combination of increased interest rates plus the duo of stress tests (for insured mortgages and the new OSFI requirement for non-insured mortgages), will cause a substantial reduction in home buying. That would push the SNLR downwards.

Rental Apartment Markets

CMHC reports that the vacancy rate for Canada fell this year. The drop brought the national rate back to 3%, roughly the level that was seen for a decade, until the collapse in the price of oil (which has brought much higher vacancies to oil-producing areas).



The "balanced market vacancy rate" varies by community. In research I did many years ago, I concluded that the benchmarks range from less than 2% to as much as 5%, and that local benchmark rates are related to the average size of buildings. Toronto, Vancouver, and Ottawa have thresholds at or below 2%.

Many places in Canada have vacancy rates well below their balanced market levels. A few (notably in the oil-producing areas) have excess vacancies. In consequence, rent increases accelerated: CMHC estimates that rents increased by 2.7% in the past year, versus 2.0% in 2016.

Commentary on vacancy rates usually focuses on supply of "purpose-built rentals". I think that total supply of housing is more important (since movement out of rentals into home ownership is an important factor in the rental market). Thus, the reason the vacancy rate fell this year is that total housing supply fell short of total housing demand (employment growth accelerated but completions did not keep up).

Apartment Vacancy Rates by Province		
Province/Territory	*2016*	*2017*
Newfoundland and Labrador	6.5	6.6
Prince Edward Island	2.1	1.2
Nova Scotia	3.0	2.6
New Brunswick	6.6	4.1
Quebec	4.4	3.4
Ontario	2.1	1.6
Manitoba	2.8	2.7
Saskatchewan	8.6	8.9
Alberta	8.4	7.6
British Columbia	1.3	1.3
Yukon Territories	**	**
Northwest Territories	4.2	3.5
Canada	3.7	3.0
Source: CMHC; ** indicates not published		

Employment Trends

On Dec.1, StatsCan released data showing a very large rise in employment for November (79,500, or 0.4% in just one month), which looks unlikely. Yet, this one doesn't have any of the usual fingerprints of a data artifact, and therefore I'm not disputing it. Year-over-year growth is 2.1%, which is much stronger than population growth (1.1%).

Updating a chart that I used a few months ago: for the "prime working ages" (25-54), the employment-to-population ratio has been close to the pre-recession level for almost a year. This is essentially "full employment", which should bring (a) accelerating growth of wages and therefore (b) more inflationary pressure, which (c) would justify the interest rate rises that have occurred during the past half-year. Yet, to this point, the growth rate for wages is just showing normal random variation, with no convincing evidence of "reflation". Last point: the 25-54 employment rate rose quite sharply (almost a point) in just three months. Even though the higher level has been sustained, that large change seems unlikely. It's possible that the shift has been caused by some structural change (in the conduct of the survey or the weighting of responses). I don't know.

Interest Rates

Bond yields (5-year GoC) slipped during October and November (although they have jumped in the first two days of December). The data in the chart (which is reported as of Wednesdays) shows that the typical, major lender "special offer" rate (3.4%) is now about 1.8 points above the 5-year GoC yield (1.62%), which is essentially the long-term average. This should mean that mortgage rates won't change unless bond yields move by a material amount.

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