

Resale Market

Resale activity rose again in November, to 522,700. However, the increase from October was almost entirely due to a rebound in Toronto and surrounding areas: Ontario accounted for more than 80% of the gain in November. Most other areas saw flat sales compared to October. Thus, the November data does not show the anticipated rush to beat the stress test that is now (as of Jan. 1) required by the Office of the Superintendent of Financial Institutions (“OSFI”).



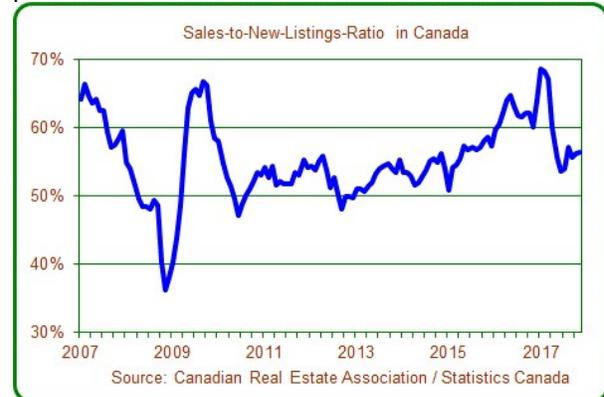
CREA’s House Price Index has been essentially flat since August). There was a small drop for November (0.2%). But, it’s normal for house prices to show reductions in November, of about 1%, as a seasonal event. It would be very useful for CREA to start publishing seasonally-adjusted data on its price index.



The sales-to-new-listings ratio (“SNLR”) was 56.4% in November, well above the balanced market threshold of 51%. This indicator points to a short-term outlook for stable prices (at worst).

As I commented last month, the combination of increased interest rates plus the duo of stress tests (for insured mortgages and the new OSFI requirement for non-insured mortgages) is quite

likely to cause a substantial reduction in home buying (in the range of 12-15%). That would push the SNLR downwards. For 2018, the national SNLR is likely to be at or below the balanced market level. Conditions will vary. Toronto and Vancouver will remain the most pressurized areas. Many medium-sized and smaller communities could slip from their current “balanced market” conditions into “buyers’ markets”, with risks of price reductions.



Employment Trends

The employment data for Canada has shown surprisingly large growth (427,000 year-over-year, or 2.4%, as of December). The data does not have the usual fingerprints of a data artifact. Moreover, Statistics Canada’s other survey (“SEPH”) shows similar growth, at 2.0% for the year up to October. Job creation has exceeded population growth (1.1%) during the past year, bringing an encouraging rebound of the employment rate. The sharp rise during the past two months contains some of the signs of over-estimation. All the same, Canada is in a period of rapid growth, which started in the summer of 2016.



For quite some time it has been anticipated that the weakened dollar would boost manufacturing activity. At long last, manufacturing has made a significant contribution to job creation in Canada (20% of the growth over the past year). But, this follows a long period of flatness. In inflation-adjusted terms, over the past 11 months, manufacturing activity has been about 4.5% higher than during 2012 to 2015. The recent data suggests that apart from the jump that happened a year ago, there hasn't been further improvement.



Interest Rates

Bond yields have moved up, largely in response to two months of strong employment data. With a surge on Thursday and Friday, the yield for 5-year GoCs is just under 2% (1.97%). My opinion-estimate of a typical "special offer" rate for 5-year fixed mortgages is still 3.4%. The spread between bonds and mortgages has gotten skinny (about 1.6 points versus a normal 1.8) and so mortgage rates could soon increase by as much as a quarter point. But, I still expect that the duo of stress tests will weaken the housing market and the broader economy, preventing a large, sustained rise in rates.



Housing Starts

Housing starts have increased. For all of 2017, the total will probably exceed 220,000, versus 198,000 in 2016 and 195,500 in 2015



The increased housing starts are mainly due to apartments. Sales of new condominiums have become very strong, as investors (and speculators) have been active. Once that supply is available to be occupied, it may prove to have been excessive. Meanwhile, low-rise activity is roughly flat, at a level that is way too low. This combination (too much apartment activity and too little low-rise) is creating future problems.



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Completed by Will Dunning, Chief Economist,
Mortgage Professionals Canada

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