

Mortgage Market Overview

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May 30, 2013

My Agenda

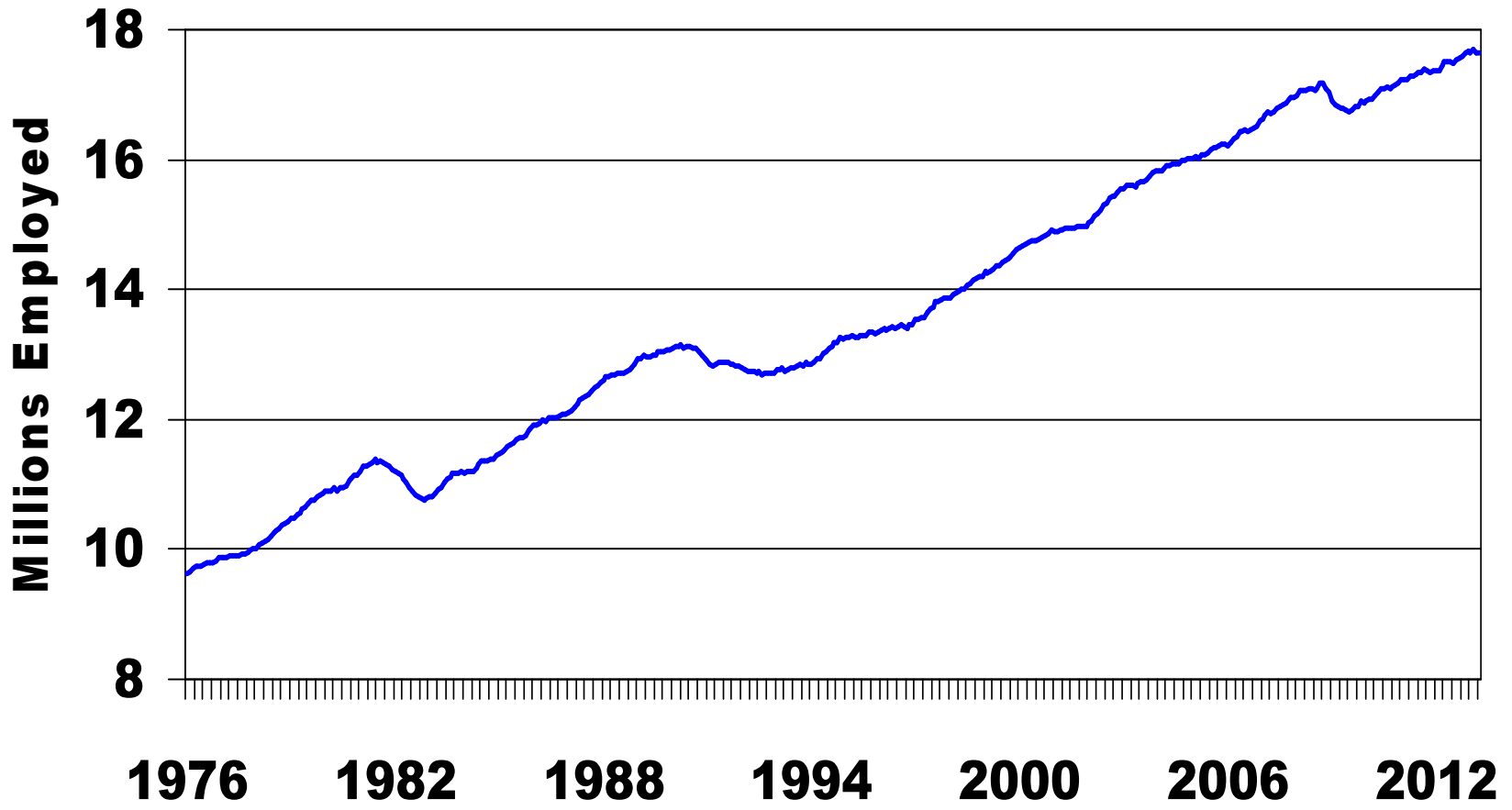
- Economic and housing market overview
 - Canada and 4 largest provinces
- CAAMP's May 2013 report on the mortgage market
 - Continued very positive behaviour
 - Greatest risk is government policy

The Economic Big Picture

- Recovery in US (jobs and house prices)
- Rolling crises in Europe
- Impacts on Canada
 - Our position in the world economy
 - Regional variations
- Importance of housing wealth
- Risks from the housing market
 - “pro-cyclical” regulation

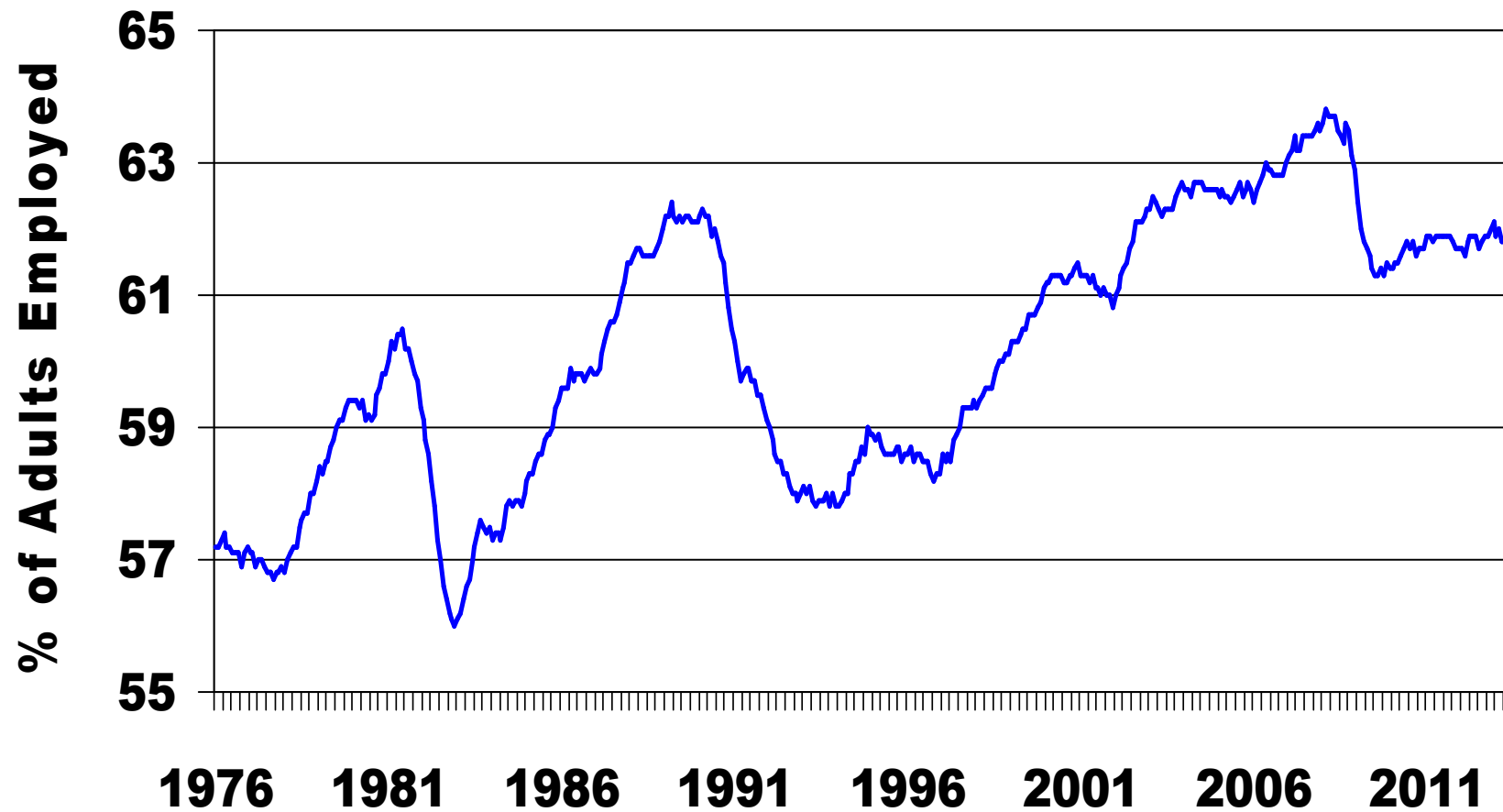
Economic and Housing Market Trends

Employment in Canada



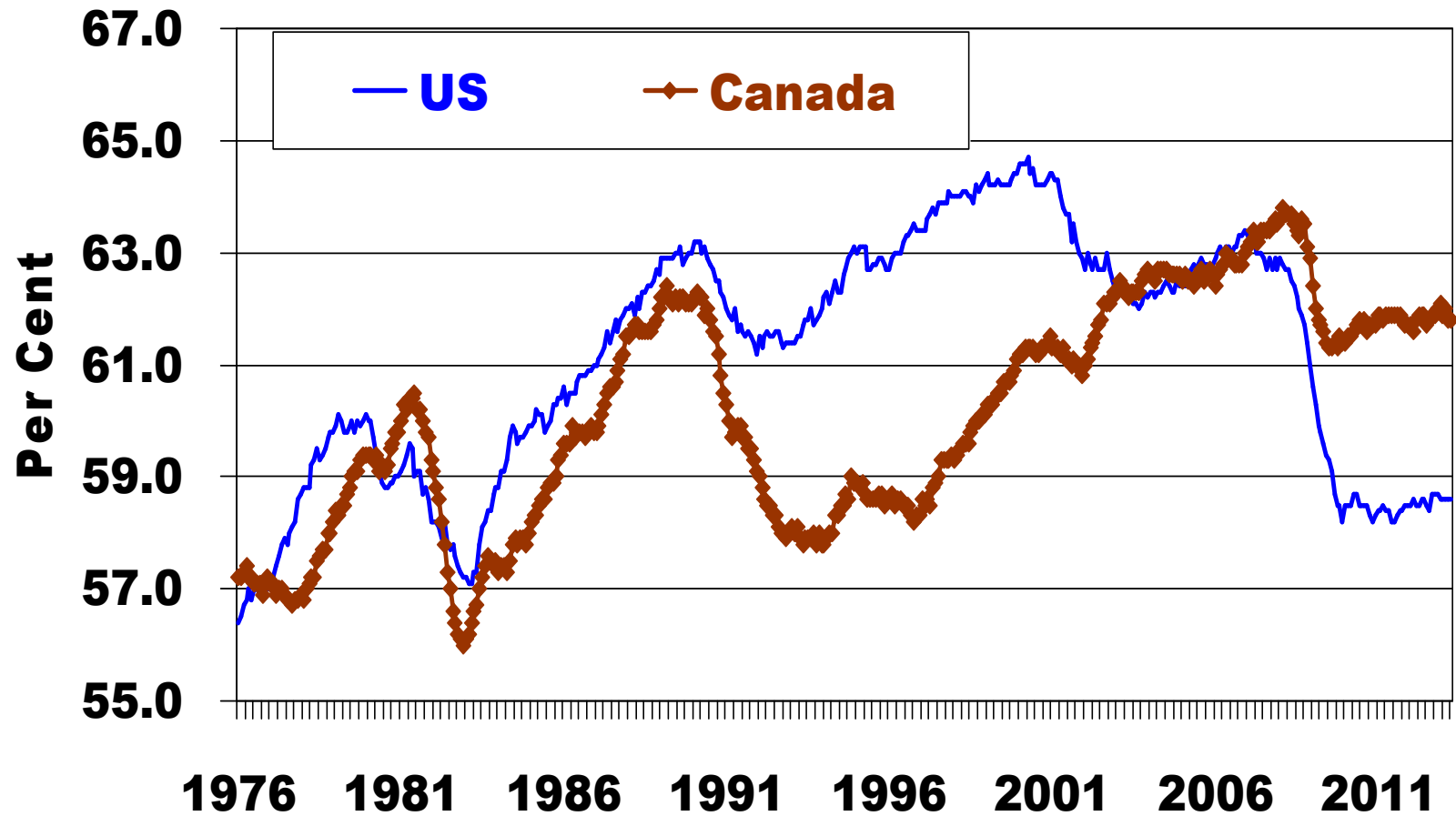
Source: Statistics Canada

“Employment Rate” for Canada



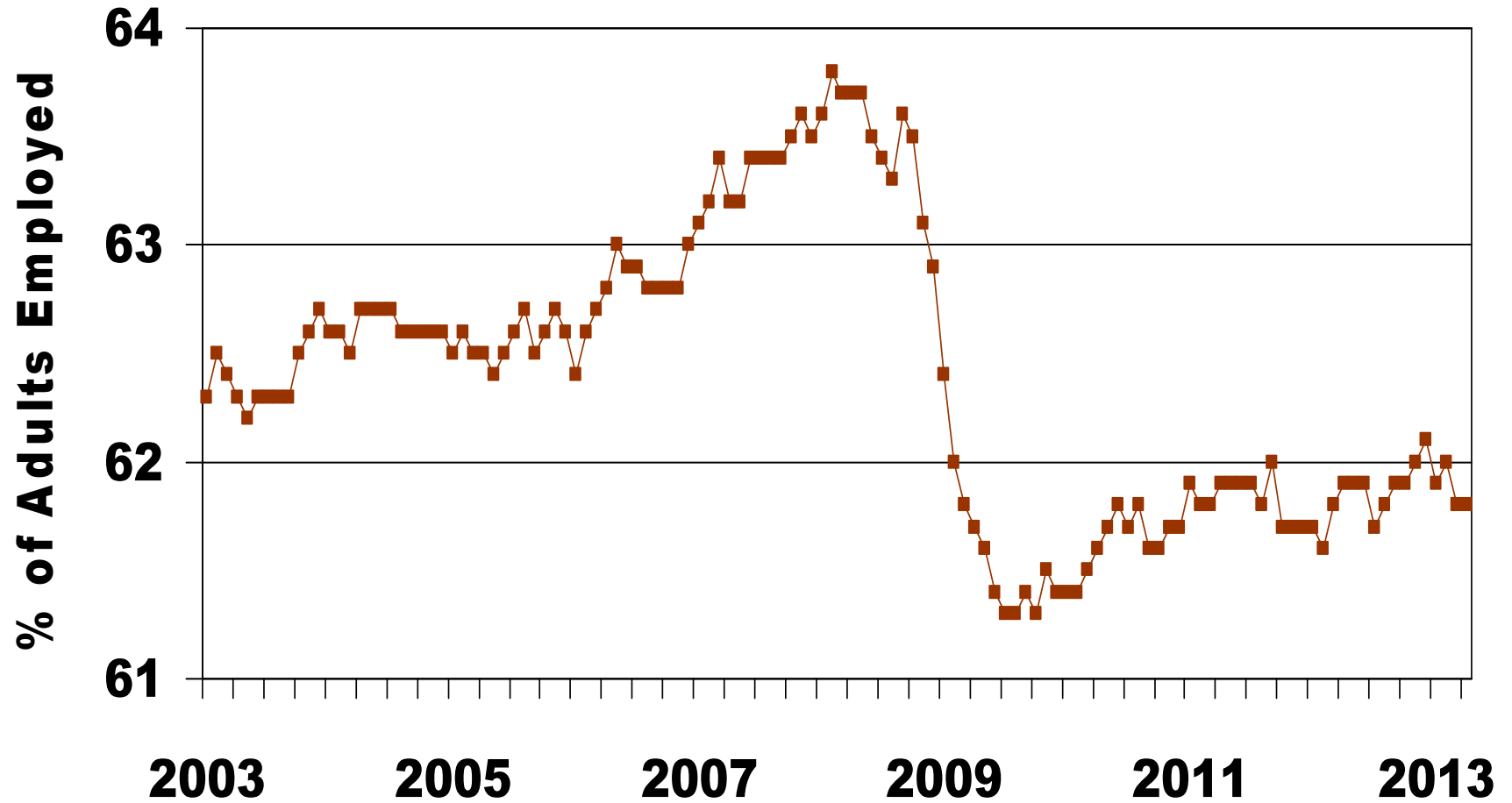
Source: Statistics Canada

US versus Canada Employment Rate



Source: US BLS / Statistics Canada

“Employment Rate” for Canada

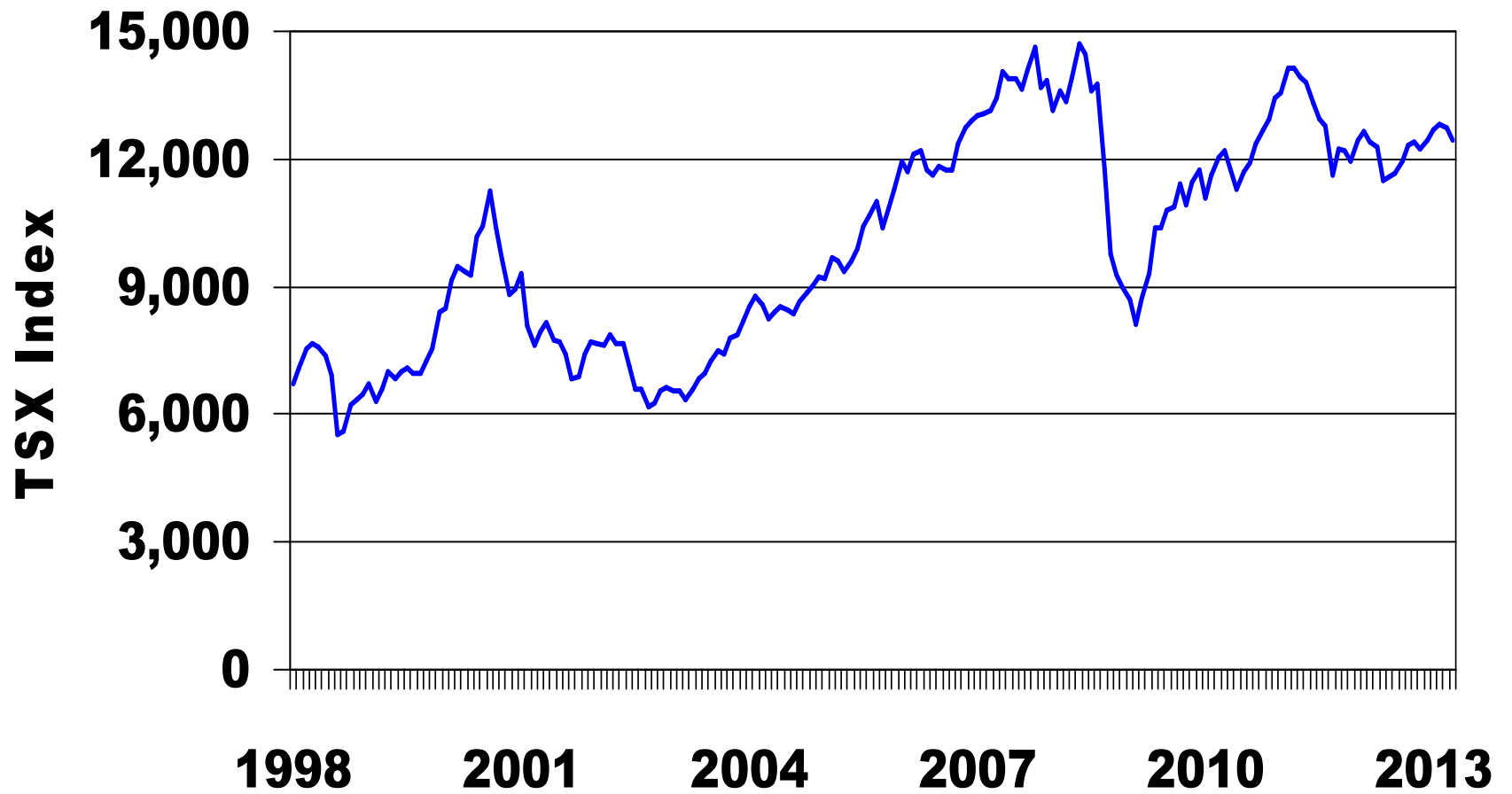


Source: Statistics Canada

Economic Drivers Are Mixed and Volatile

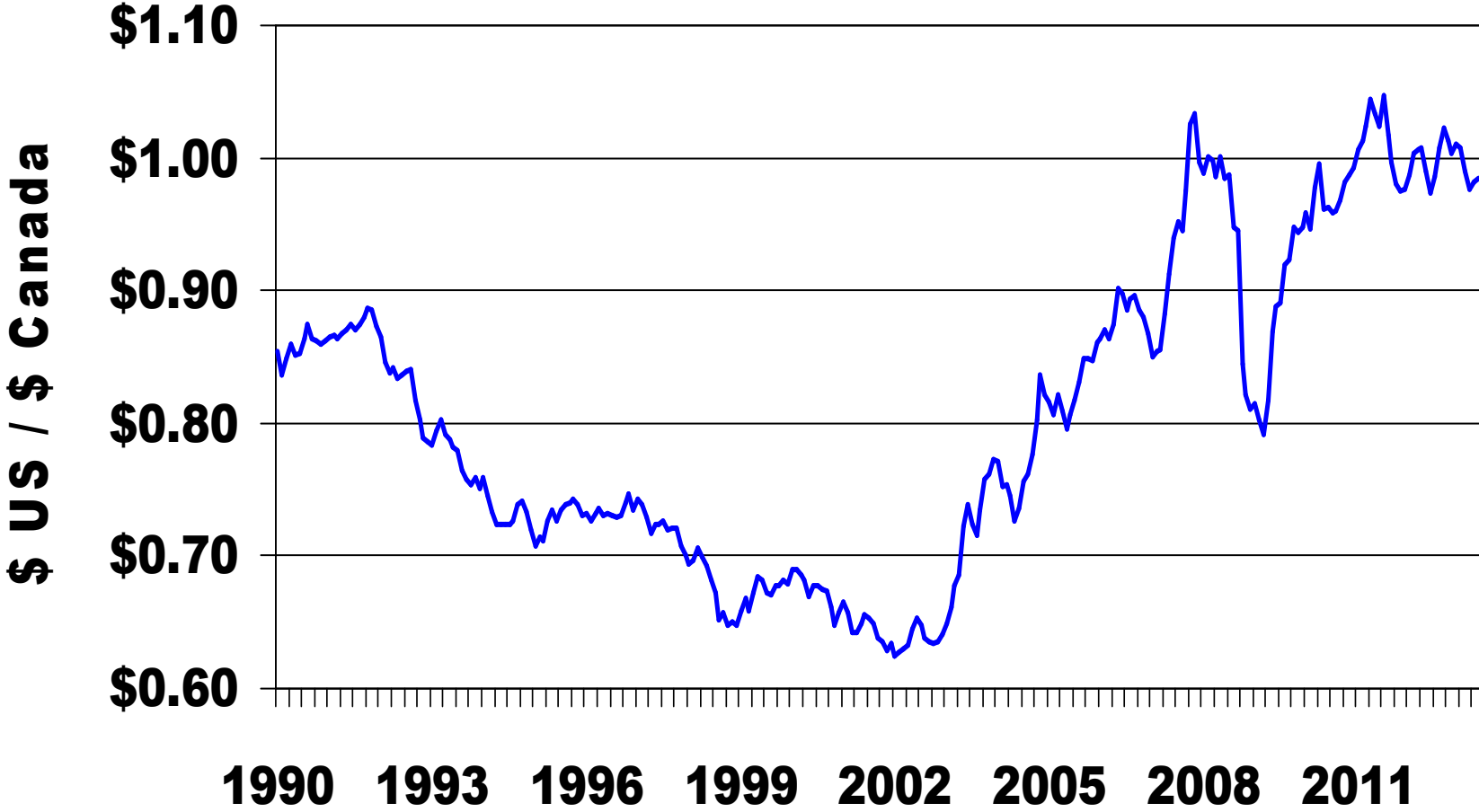
<u>Factor</u>	<u>Impact</u>
Wealth Effect – Housing	Turning from Positive to Neutral
Wealth Effect – Stocks	Highly Uncertain
Interest Rates	Strongly Positive
Canadian Dollar	Strongly Negative
Commodity Prices	Positive for Producers Negative for Consumers

Volatile Stock Markets



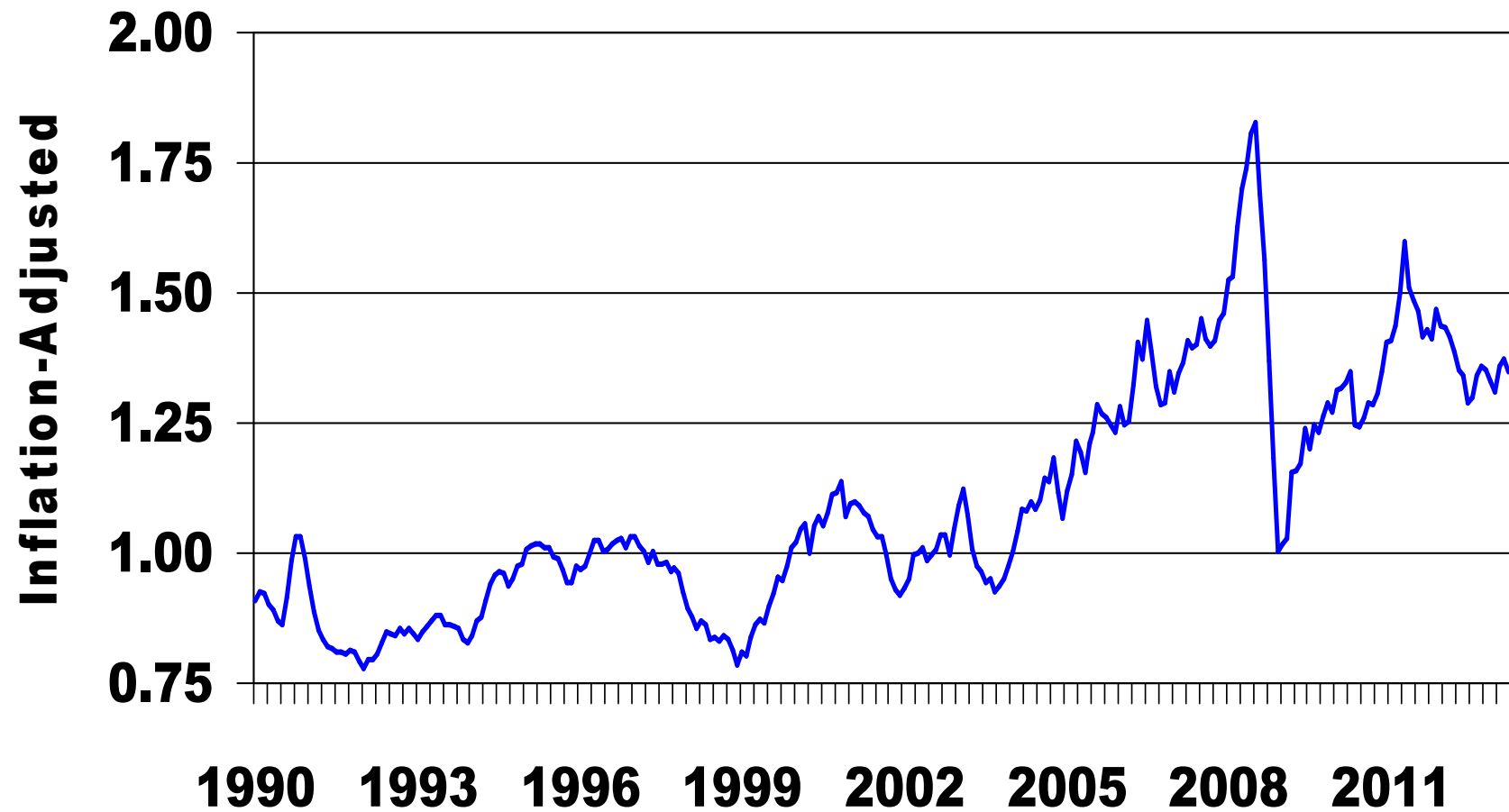
Source: Statistics Canada

Canadian Dollar Remains a Negative Factor



Source: Bank of Canada

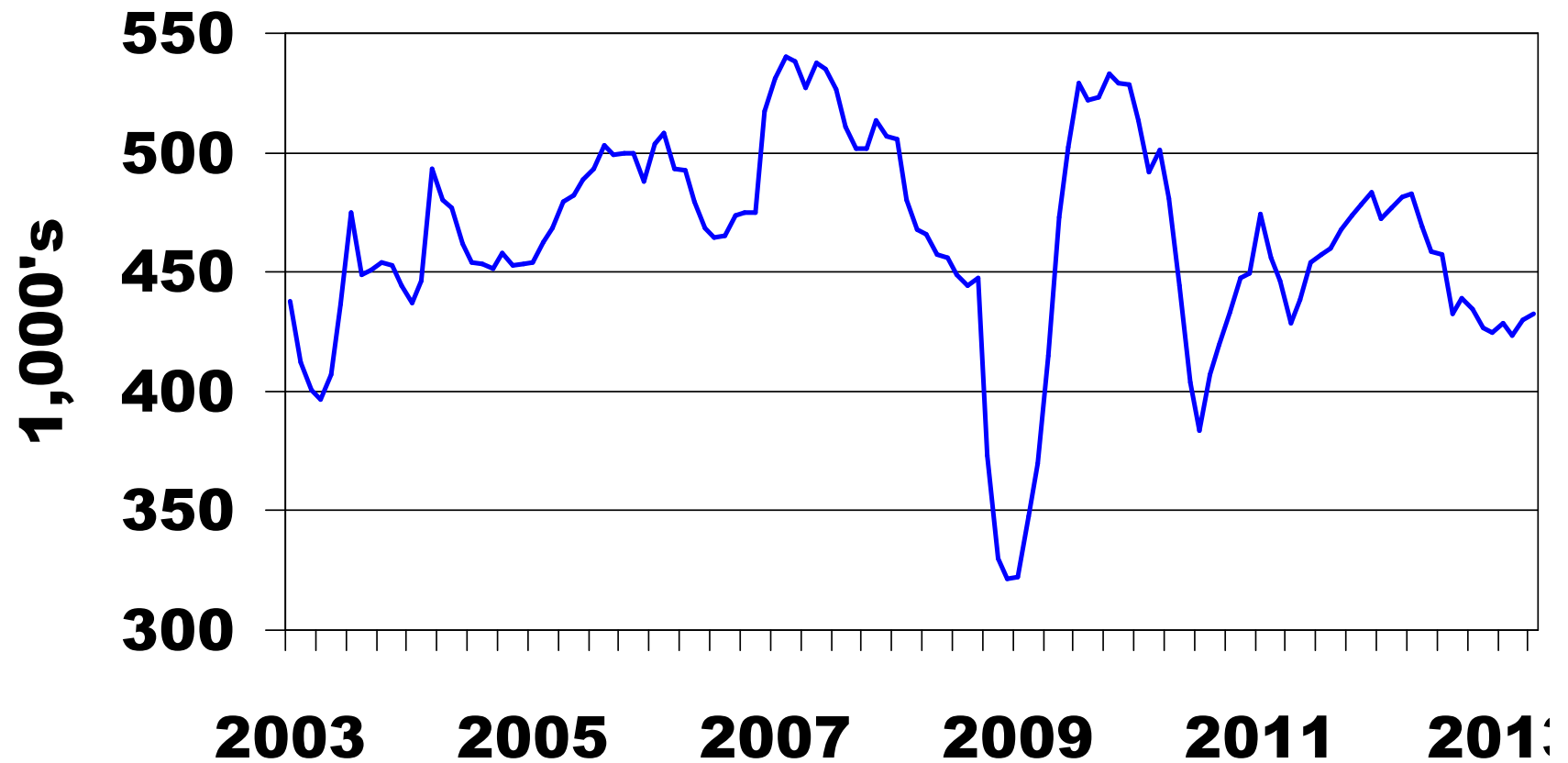
High Commodity Prices - Uncertainty



Source: Statistics Canada

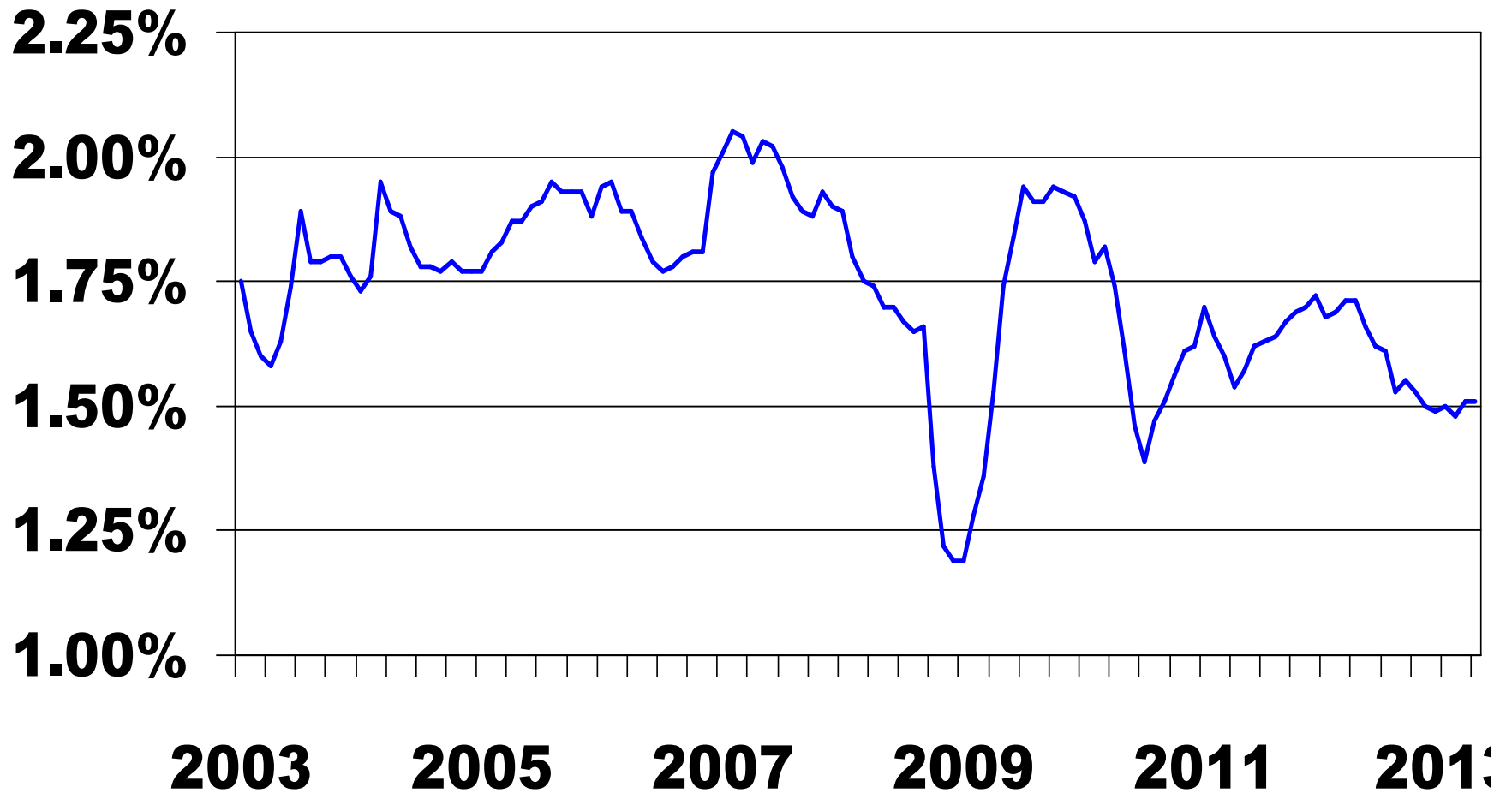
Canadian Housing Resales

9 Months of Weakened Activity



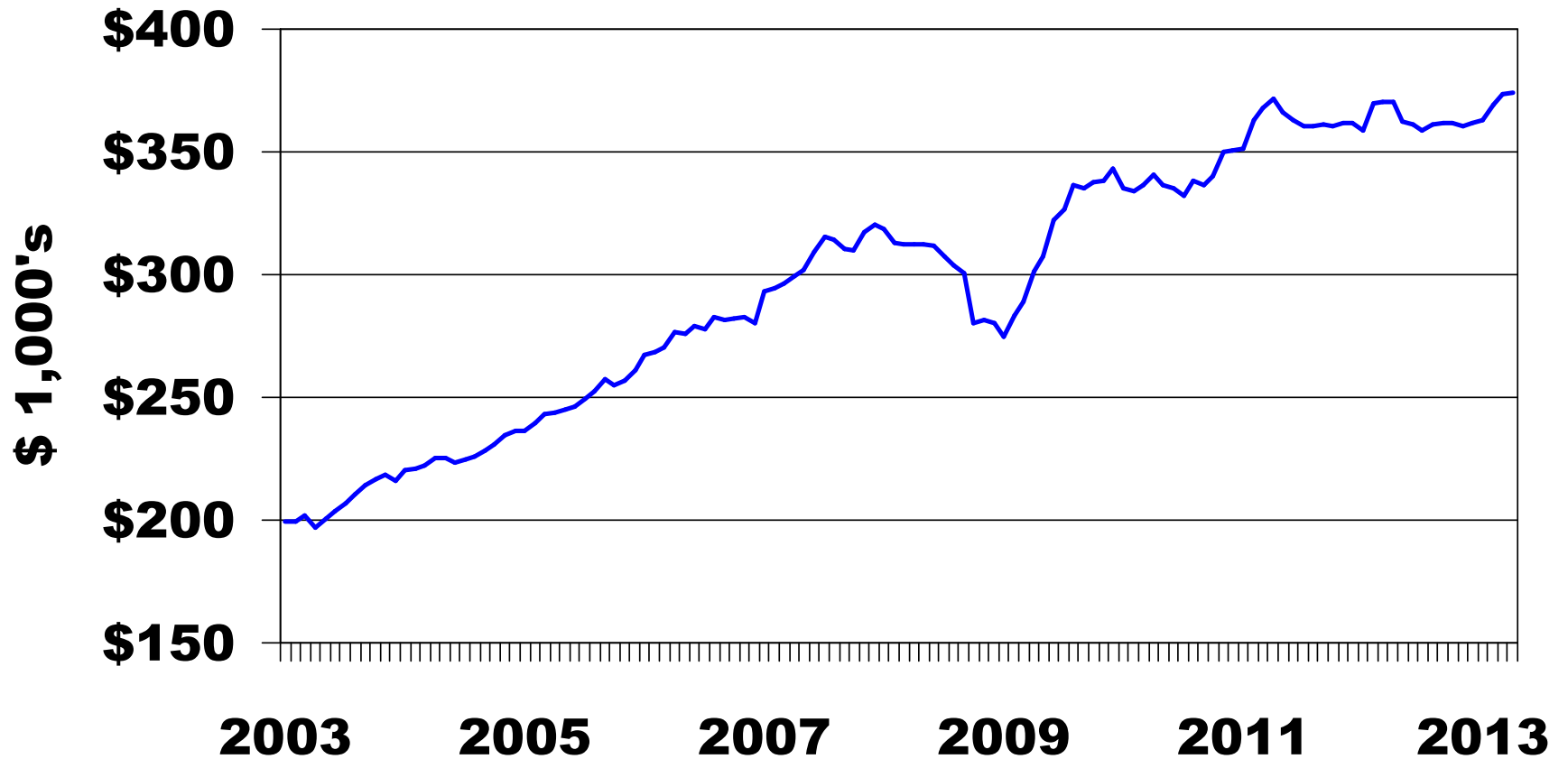
Source: CREA

Canadian Resale Activity – Per Adult



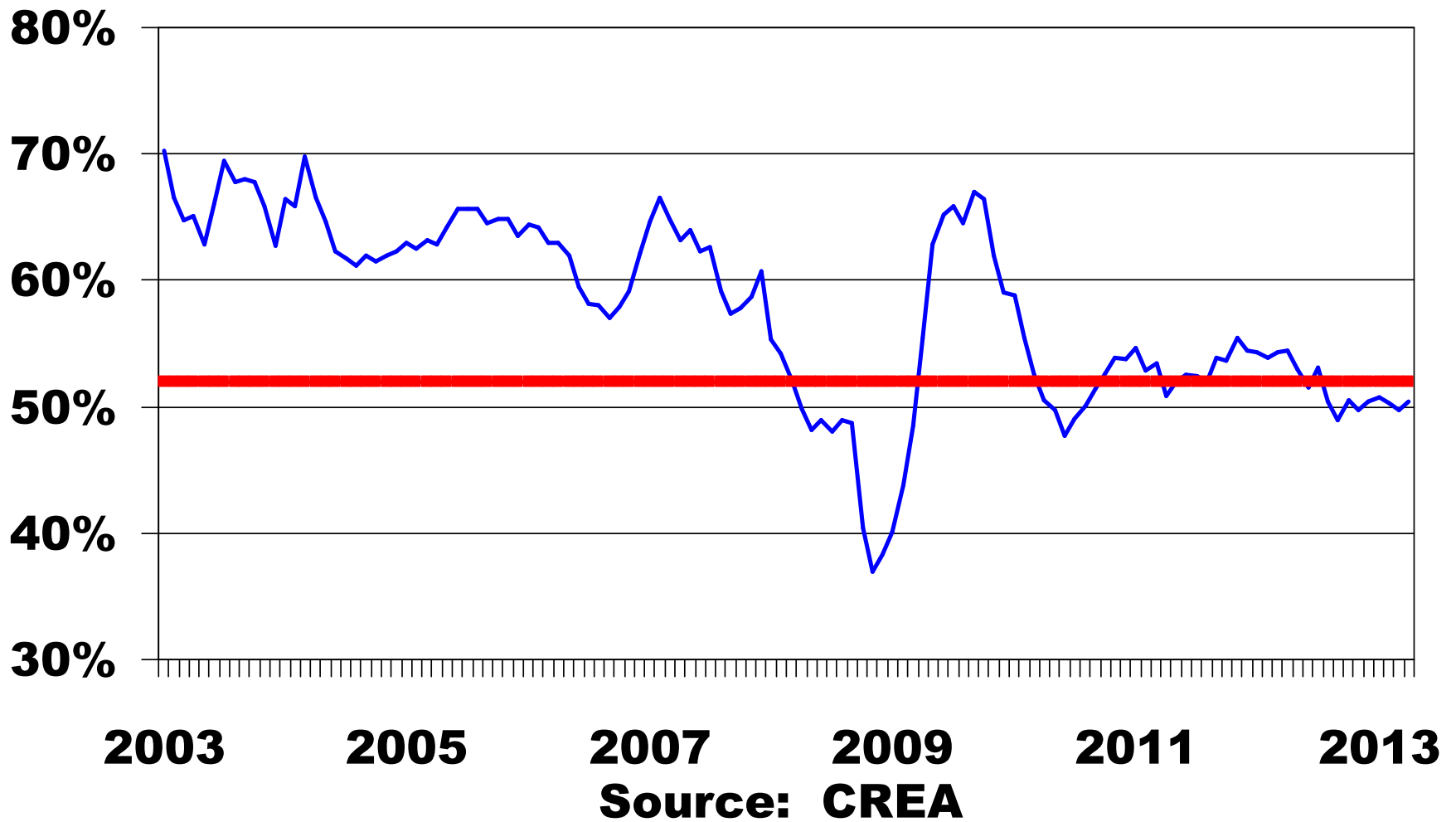
Source: CREA / StatsCan

“Wealth Effect” From House Values Probably Abating

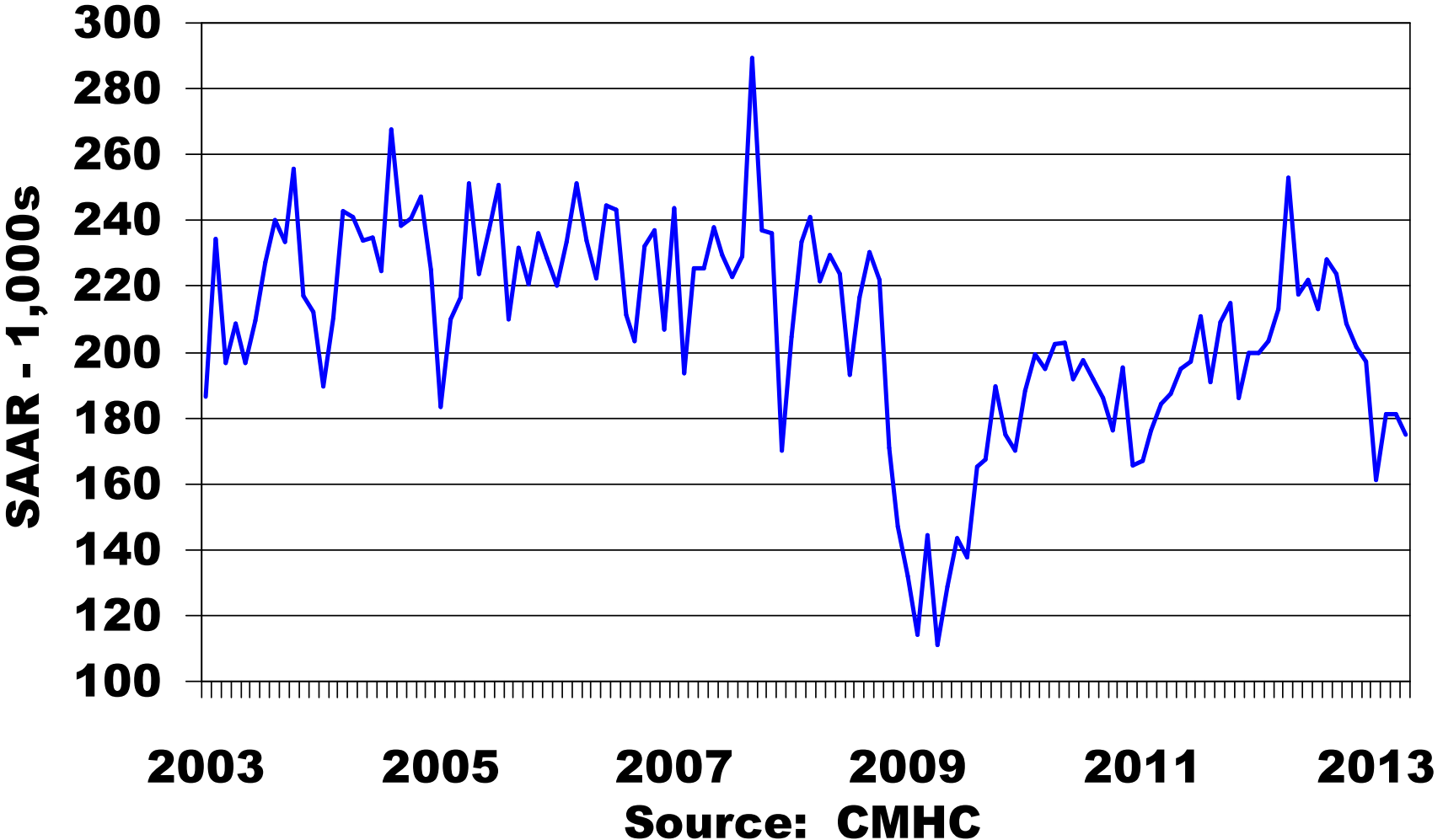


Source: CREA

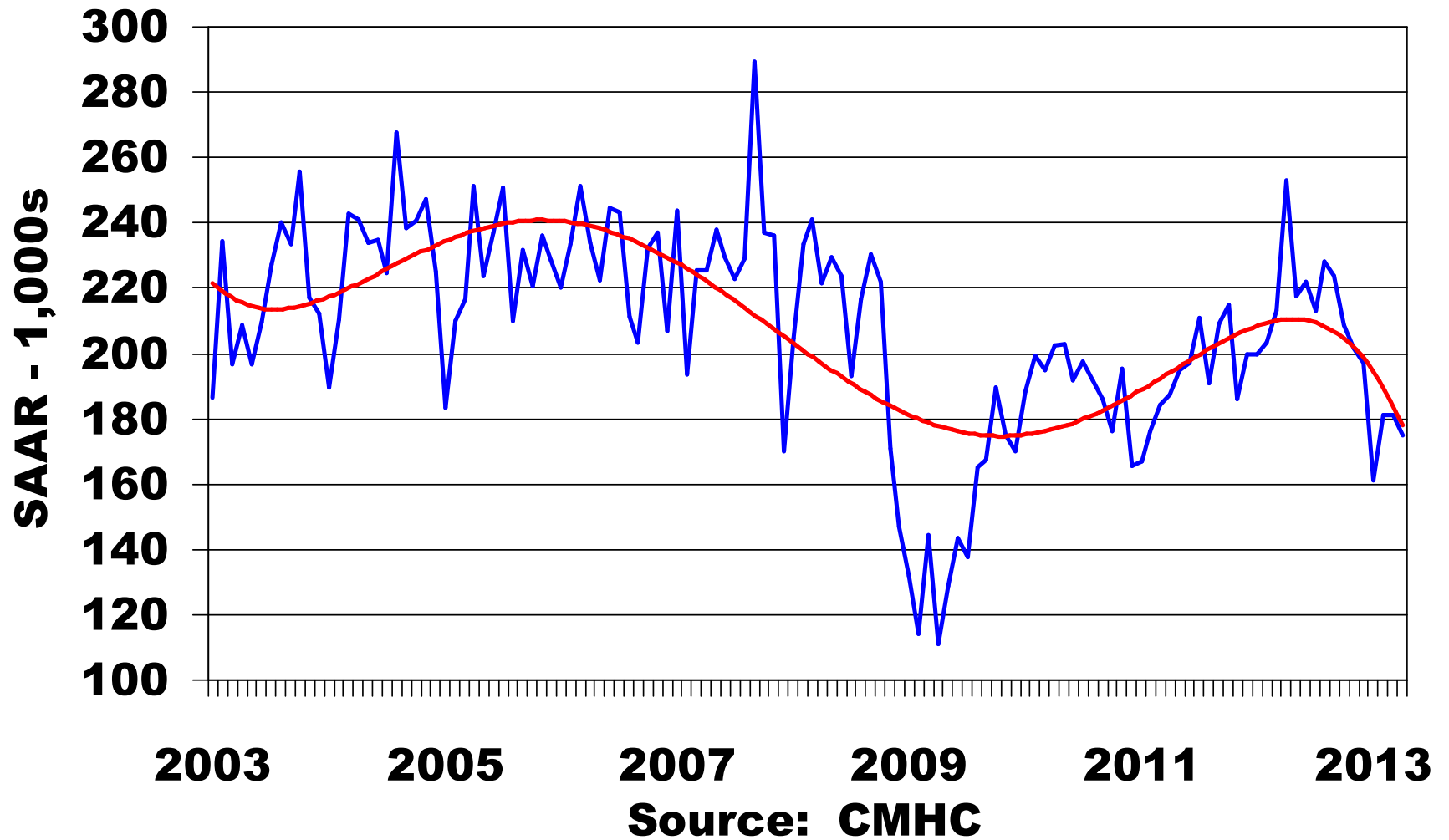
Sales-to-Listings Ratio Points to Stable Prices



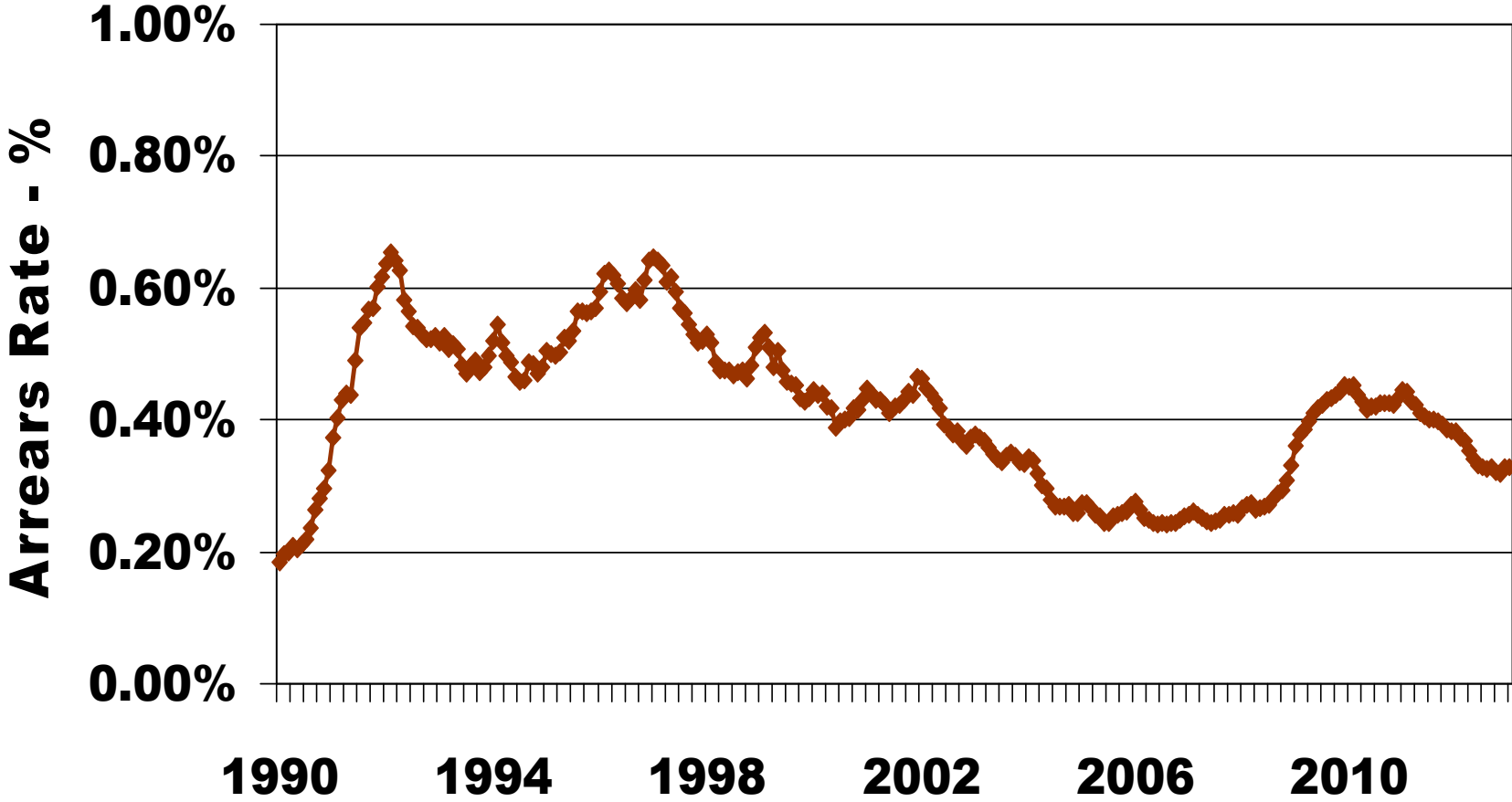
Housing Starts in Canada



Housing Starts Trend in Canada



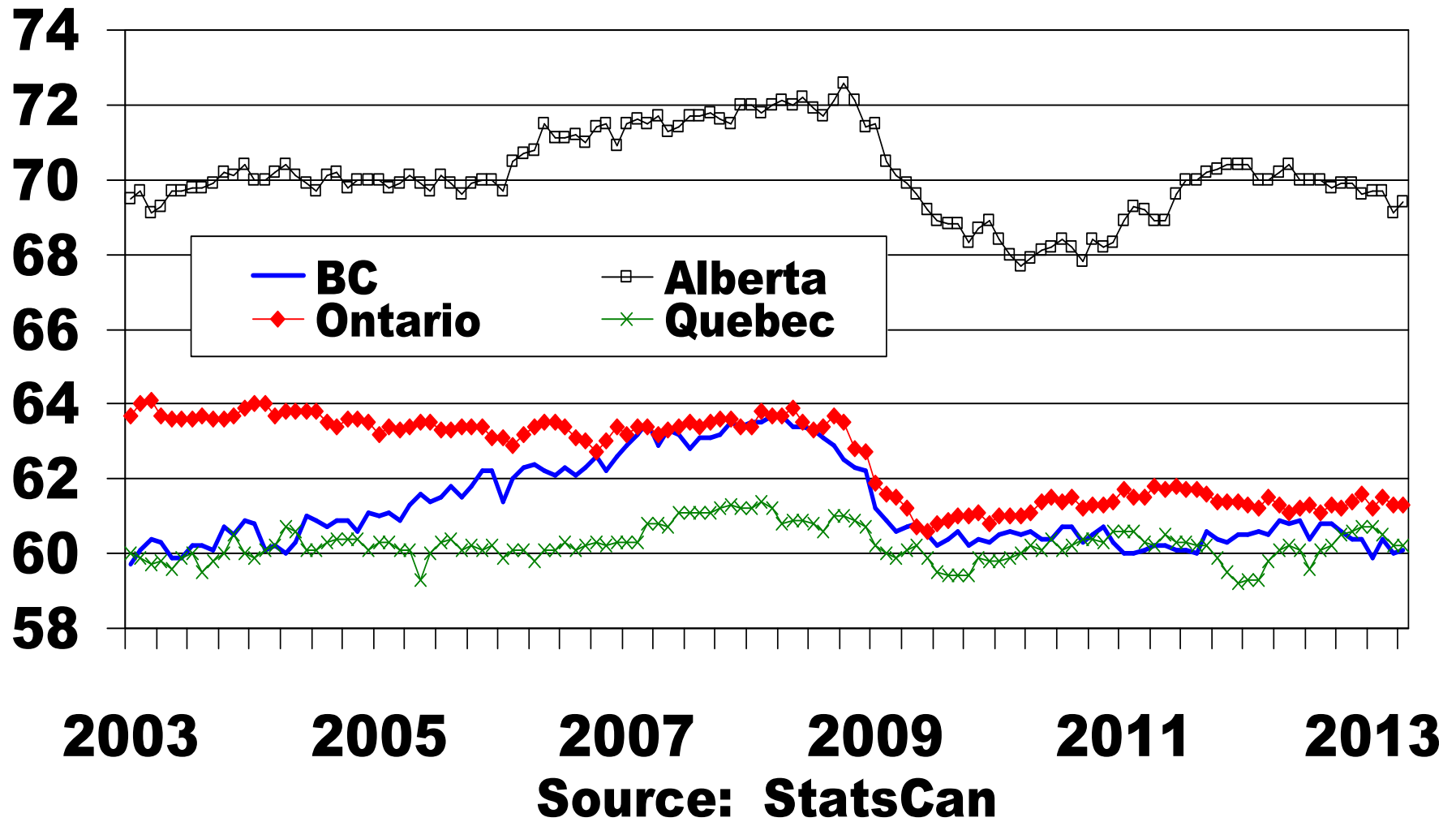
Canadian Arrears Rate – Substantial Recovery



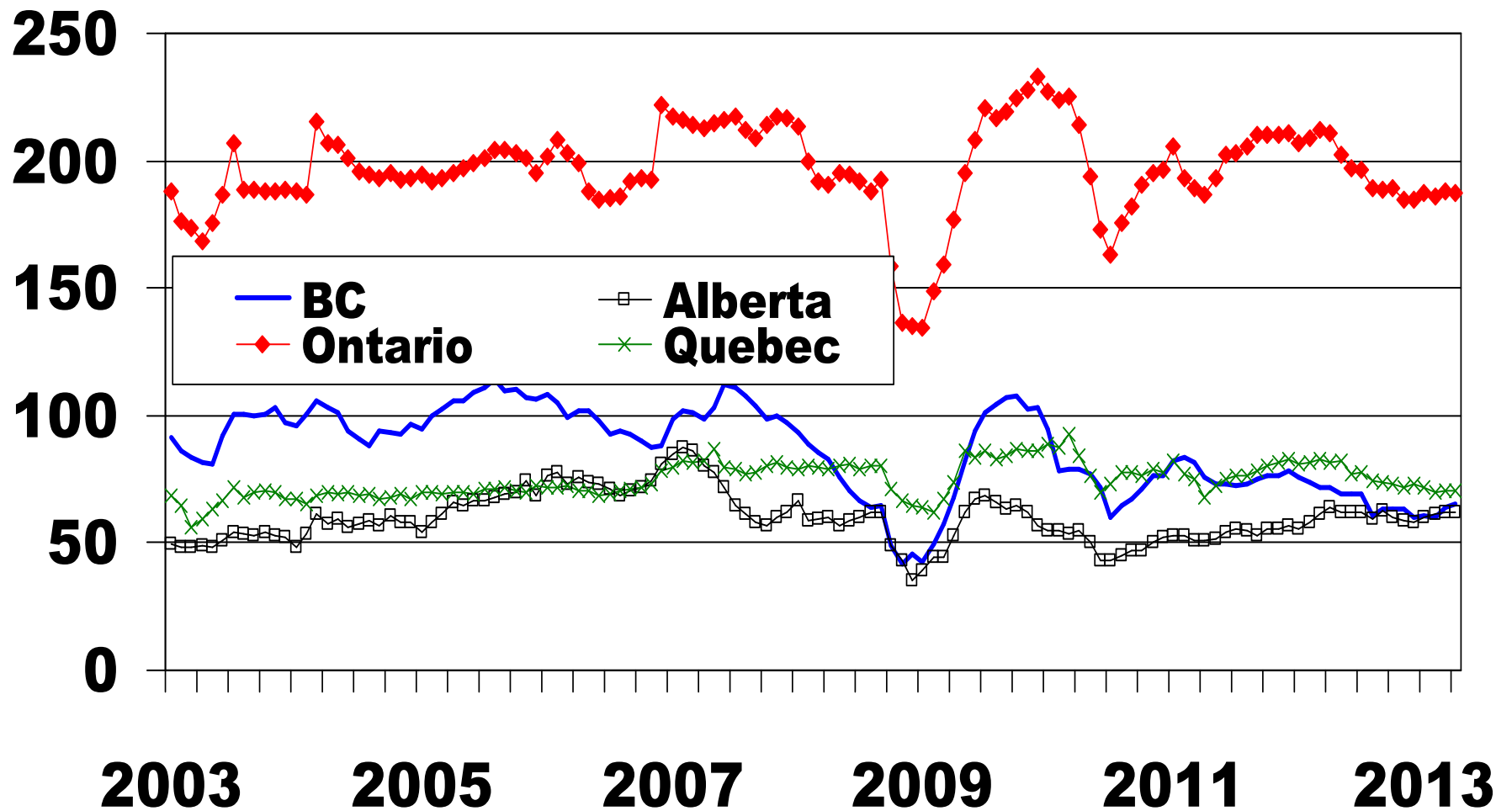
Source: Canadian Bankers Association

4 Provinces

Employment Rates in 4 Provinces

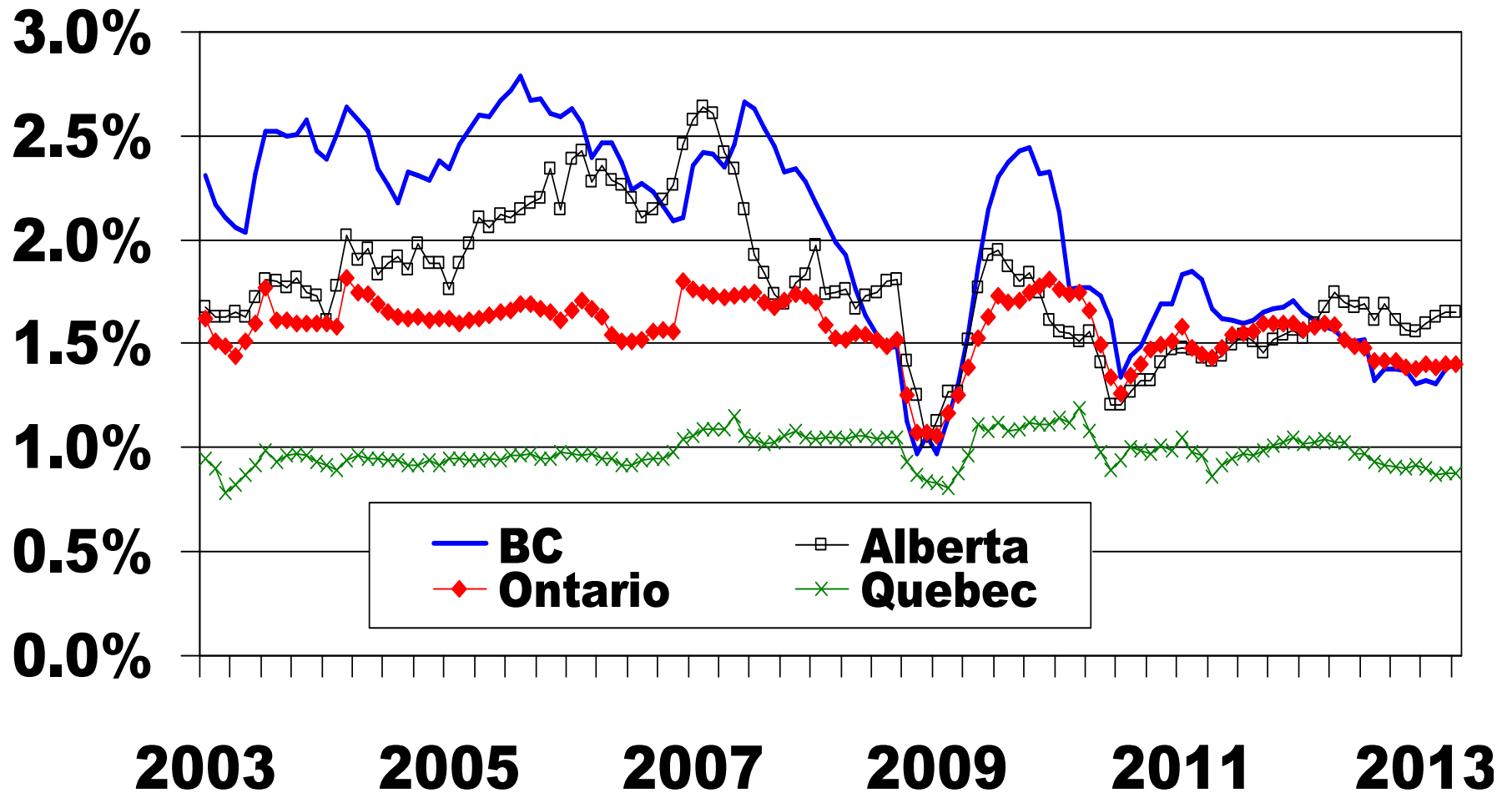


Resale Activity (1,000s) in 4 Provinces



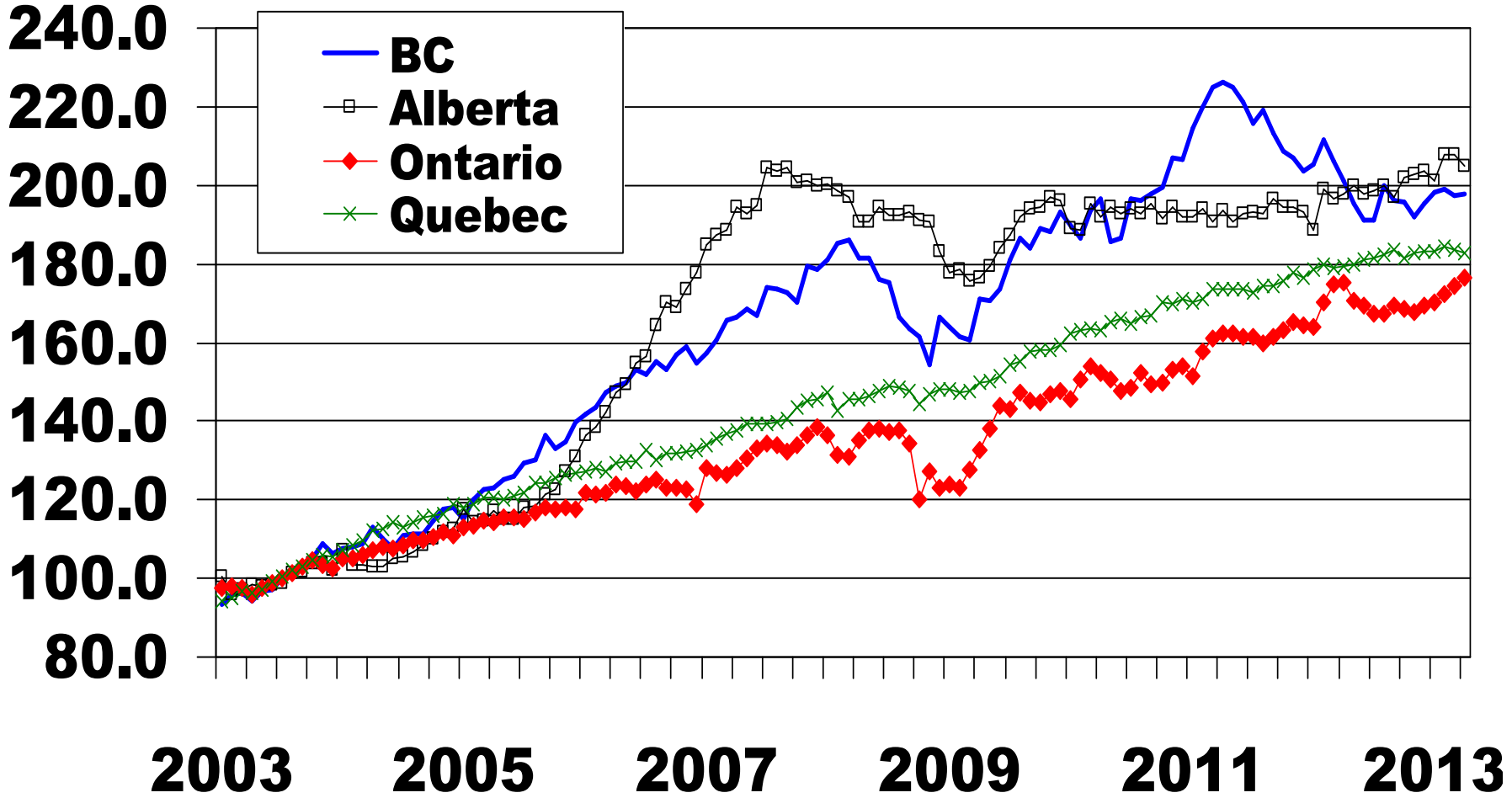
Source: CREA

Resale Activity (Per Adult) in 4 Provinces



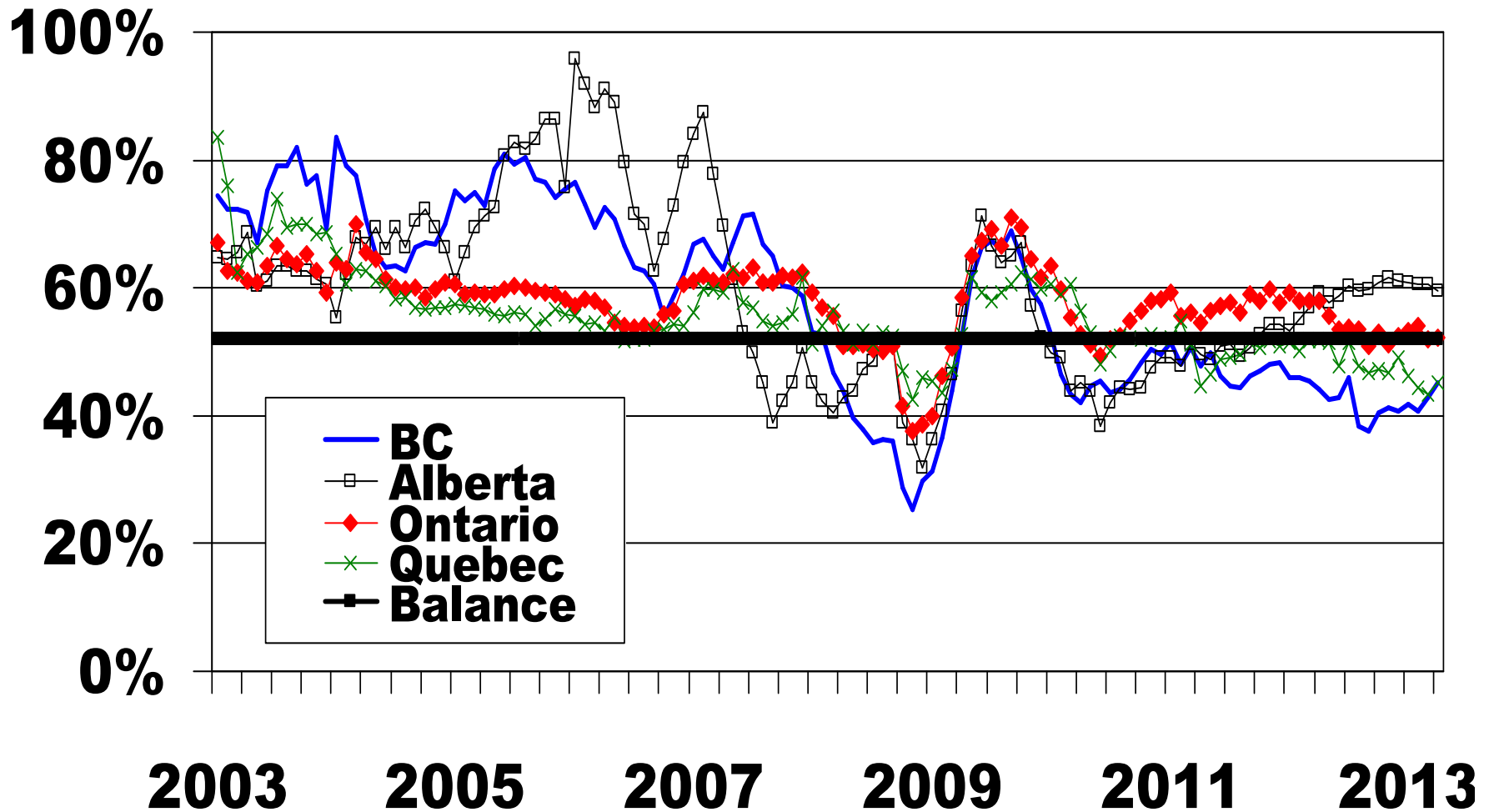
Source: CREA / StatsCan

Average Resale Prices (as an Index) in 4 Provinces



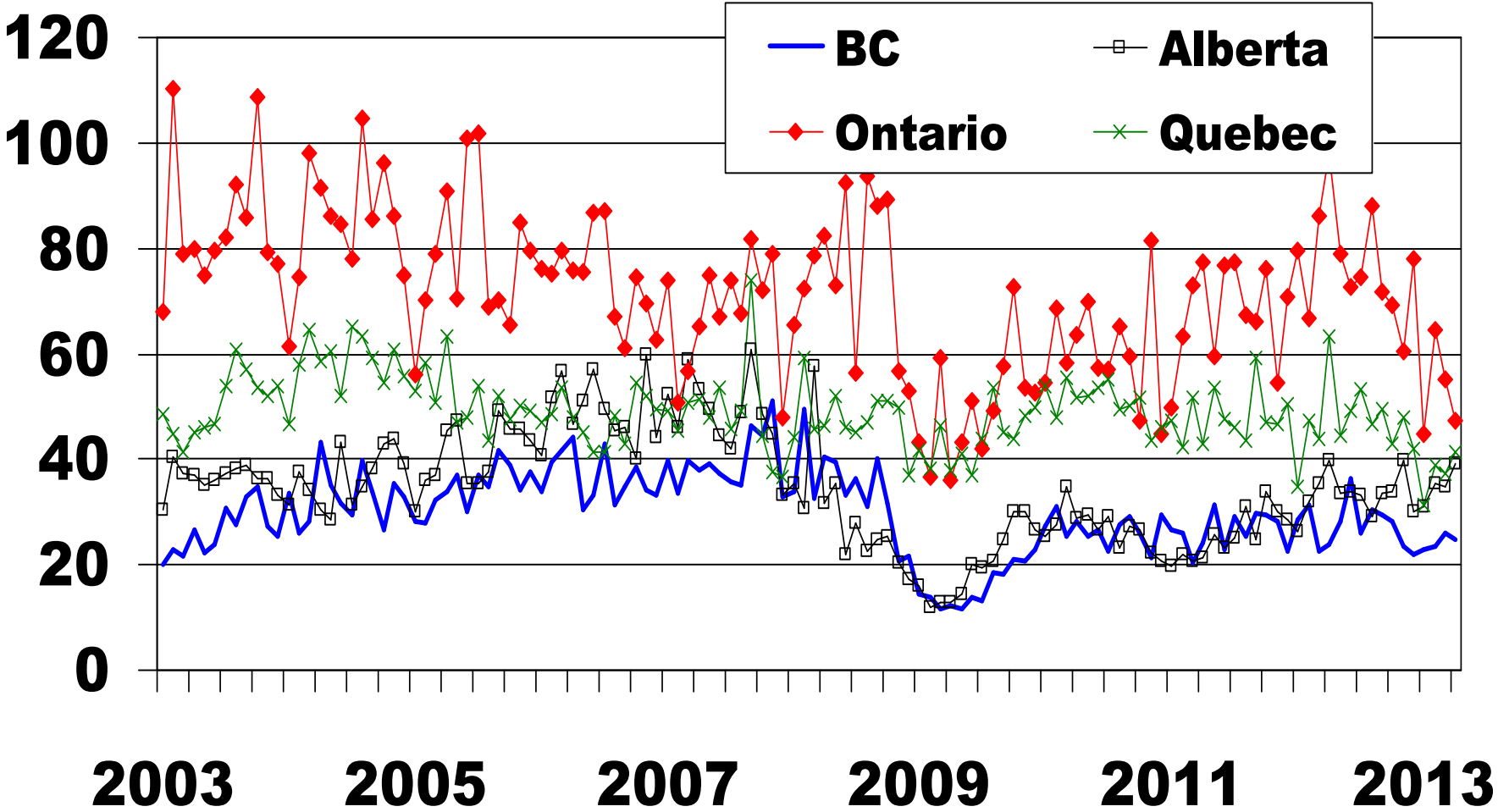
Source: CREA StatsCan

Sales-to-Listings Ratios in 4 Provinces



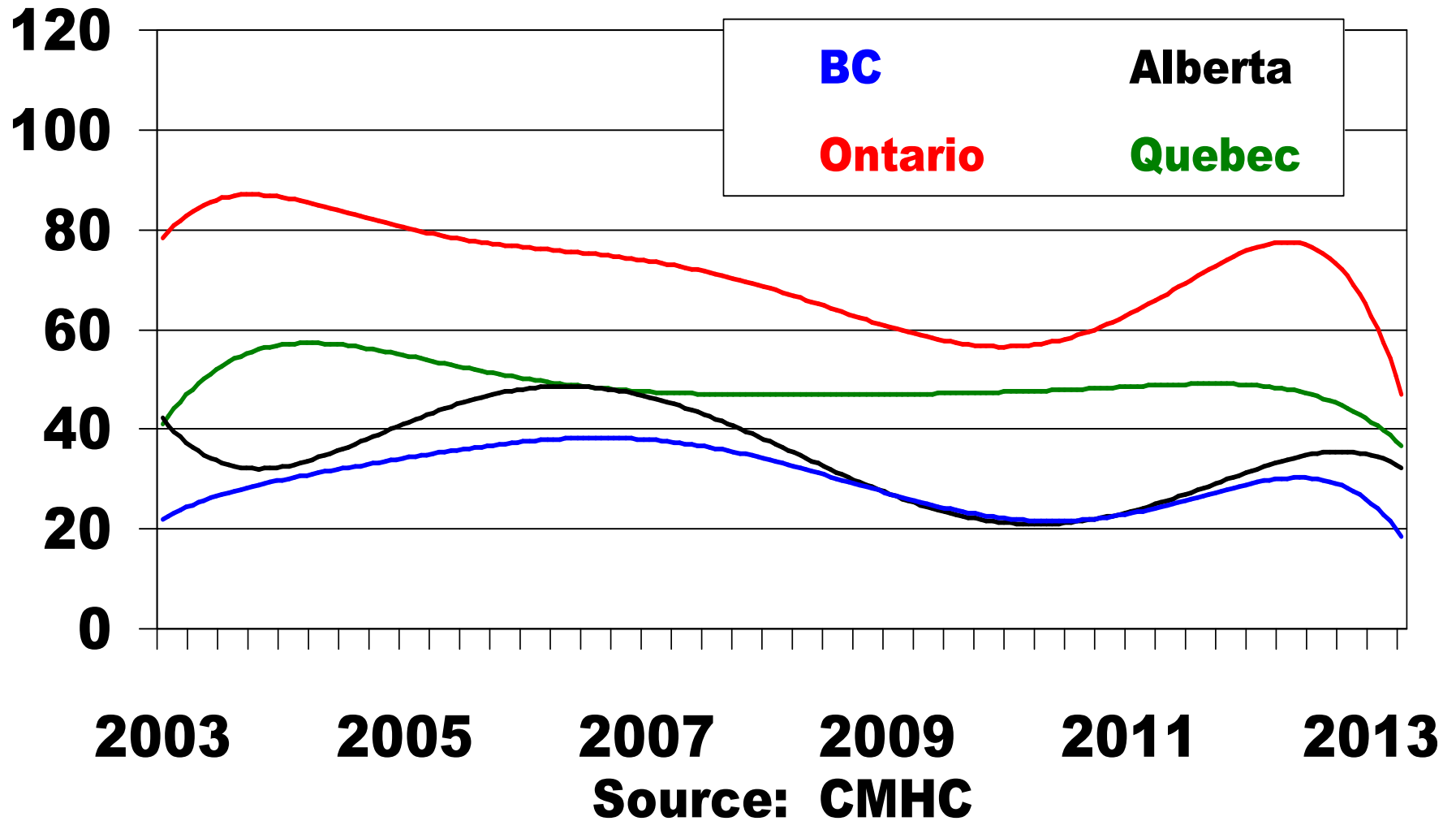
Source: CREA

Housing Starts (1,000s) in 4 Provinces

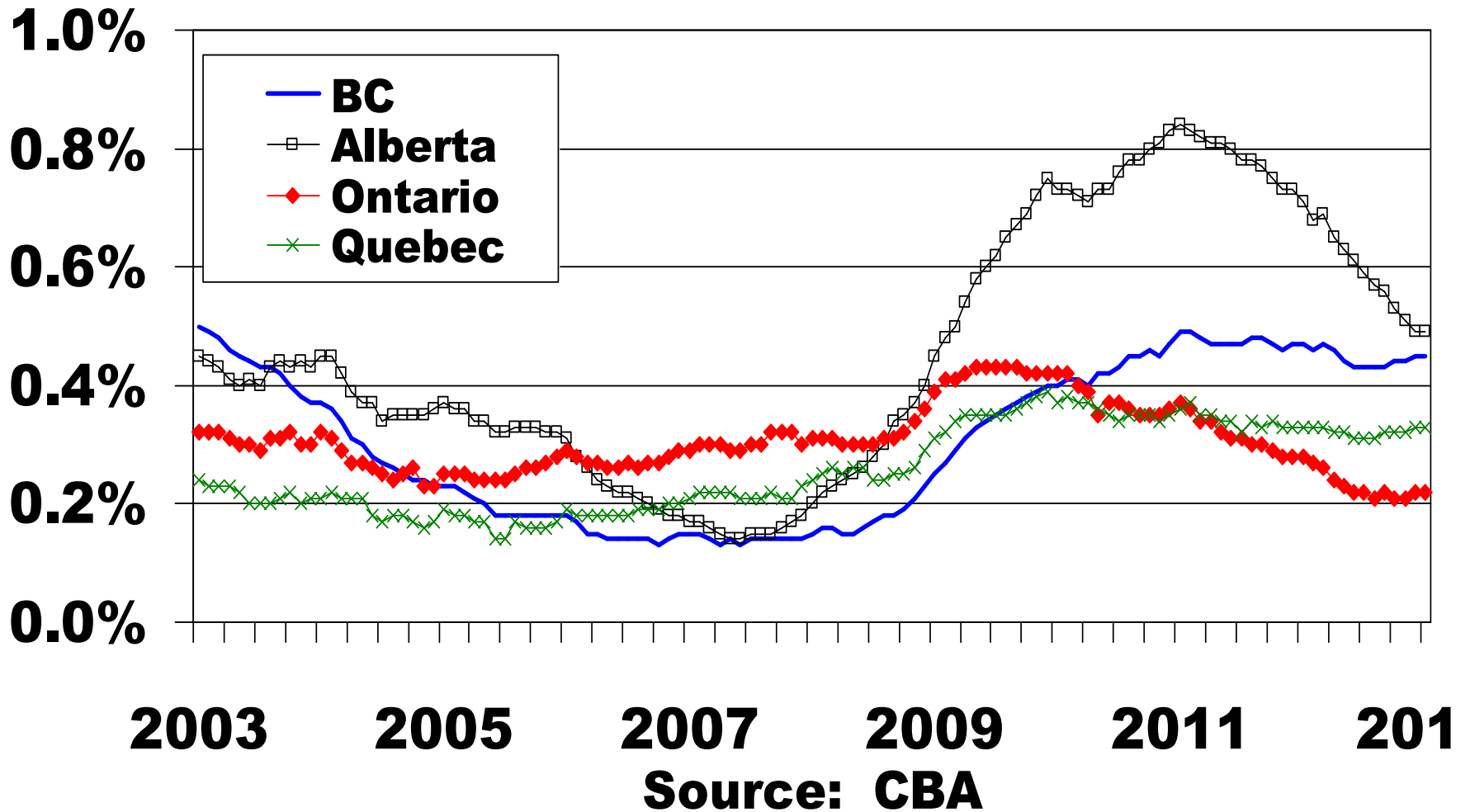


Source: CMHC

Housing Starts Trends in 4 Provinces



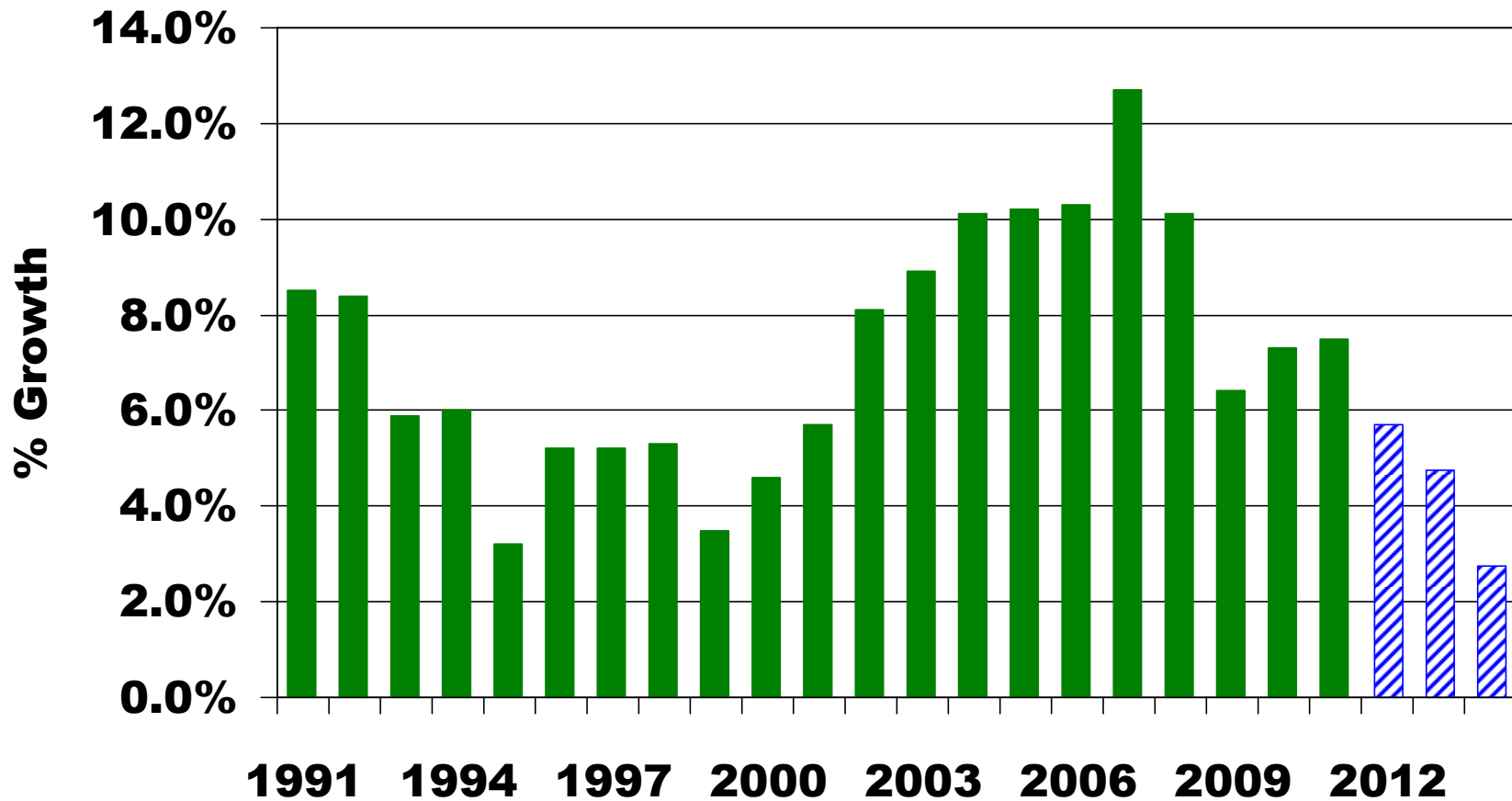
Mortgage Arrears Rates in 4 Provinces



“Change in the Canadian Mortgage Market”

May 2013

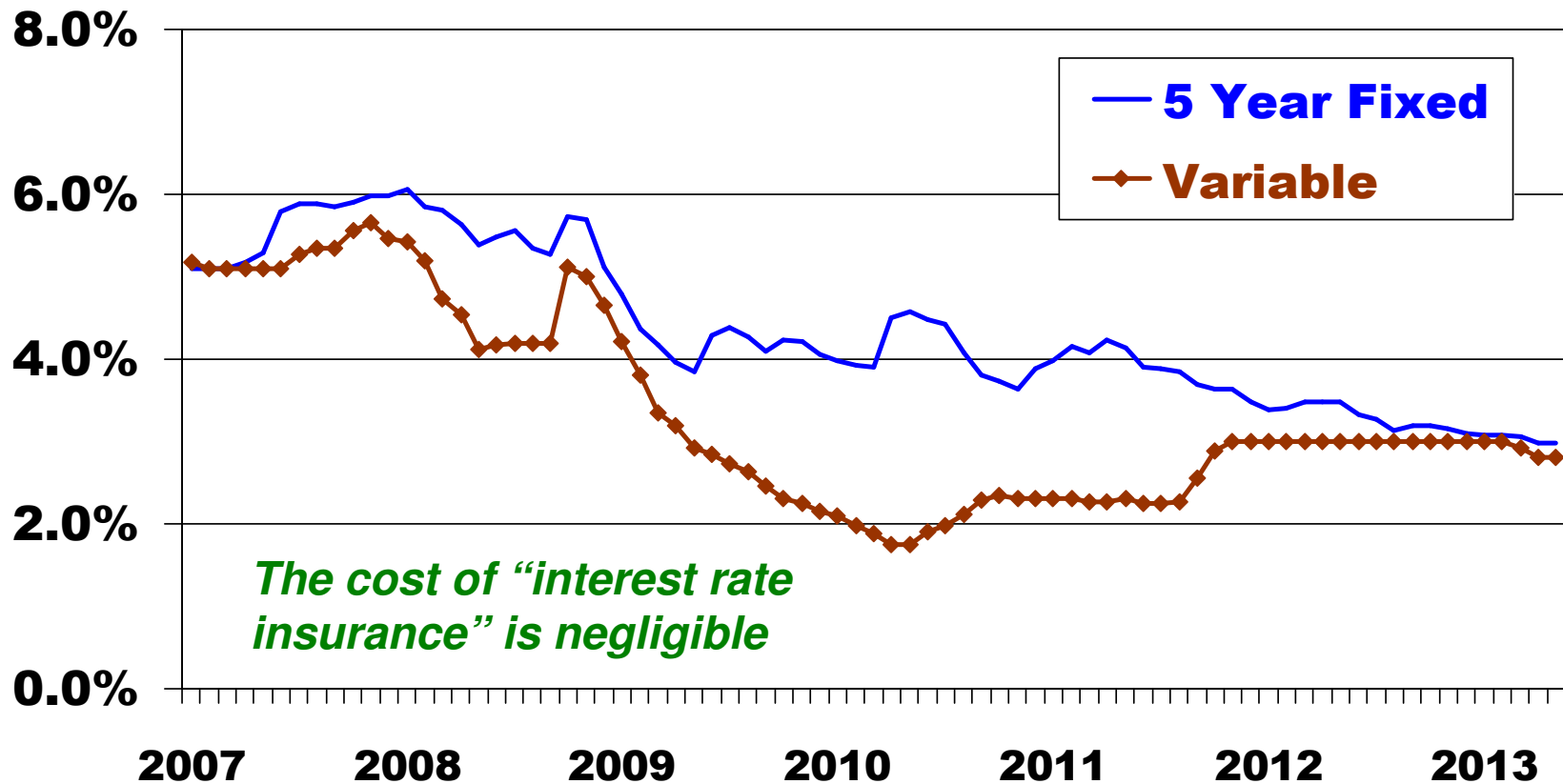
Annual Growth in Residential Mortgage Credit in Canada



Source: Bank of Canada / Will Dunning

Consumer Survey

Typical Mortgage Rates (After Advertised Discounts)



Source: Will Dunning Inc.

Fixed Rate Mortgages Still Most Popular

<i>Mortgage Type</i>	<i>Purchase During 2012/13</i>	<i>Renewal or Refinance During 2012/13</i>	<i>All Mortgages</i>
Fixed Rate	85%	82%	69%
Adjustable/ Variable	13%	13%	26%
Combination	3%	5%	5%

Amortization Periods

- Amortization periods over 25 years have 20% of all mortgages.
- 25% for new mortgages initiated during 2012/13, including:
 - 26-30 years – 22%
 - 31-35 years – 3%
- For originations during 2010/11, 39% were extended amortization

Voluntary Extra Payments

- During past year, 15% increased regular payment (total \$4 bn per year)
- Regular payments repay \$60 bn per year
- 15% made lump sum payment (\$10 bn);
- Plus, lump sums at time of full repayment = \$ 3bn
- 10% increased frequency
- Recent buyers (2010 to present) more likely to make extra efforts: 18% increased payments ; 17% made lump sums.
- *See table 2-6*

Borrowers Expect to Repay Early

	<i>Original Amortization Period</i>	<i>Current Expected Period</i>	<i>Expected Change</i>
All Mortgage Holders	22.9	21.6	-1.3
Purchase during 2012/13	22.1	17.2	-4.9
2010/12	25.2	20.0	-5.2

Acceleration of Repayment

- Over past 2 decades, actual amortization has been 1/3rd shorter than contracted
- Recent buyers likely to pay off in same time frame as their parents' generation

Broker Share Highest for New Mortgages

<i>Type of Activity During 2012/13</i>	<i>Broker Share</i>
New Mortgage	31%
Renewal	21%
All Mortgages	25%

Interest Rates

- Average across all mortgages – 3.52% (3.64% last year)
- For renewers: rate fell for 80%, rose for 15%, unchanged for 5%.
- Average change – minus 0.91%
- During 2012-13 discounts averaged 220 basis points (5-year terms, fixed rates)
- All have discount of at least 1.5 point

Housing Equity in Canada

- Average 67% equity
- 1% of owners may have negative equity
- > 83% have more than 25% equity
- 3.1 million owners have no housing debt

Equity Take-out

- 8% of all home owners took out equity
- Take-out averages \$48,000
- Total take-out of \$39 billion

Uses of Equity Take-out

<i>Purpose</i>	<i>Share of \$39 bn</i>
To consolidate or pay down debt	\$ 4.7 bn
To renovate my house/condo	\$ 17.5bn
To invest	\$ 5.6 bn
Education/purchases	\$ 8.6 bn
Other	\$ 2.5bn

The Policy-Induced Slowdown

- 9 months showing negative impacts in resale market
- Housing starts beginning to adjust
- Average starts at 205 K during 2011/12. As of April starts have fallen to 175 K
- Potential to reach 150 K by late 2014
- Reduced starts would cost 80,000 jobs
- Additional job losses due to lower resale activity
- Impact of slower house price growth on confidence and spending
- Possible impact of -150,000 jobs by mid 2015

Final Thoughts

- Canadians are comfortable with their mortgages and very well prepared for any rises in mortgage rates
- Deceleration of mortgage market growth
- In Canada, the biggest risk factor for the mortgage market is usually “loss of ability to pay”
- Now, the risk of a “policy-induced housing market downturn”

About Will Dunning

In addition to being Chief Economist for CAAMP, Will Dunning operates a consulting firm.

Services include:

- Custom research on economics and housing markets.
- Briefings and presentations.
- Continuing education for AMPs.

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