

## Are You Staying Safe?

It is clear that Canada is now in a second wave of the Covid-19 epidemic, and the seven-day moving average has recently moved higher than was seen during the spring. This chart shows data up to October 16. Current data can be found here: <https://health-infobase.canada.ca/src/data/covidLive/covid19.csv>

At this time, there have been only moderate re-introductions of restrictions (including shutdowns of a few activities in a few locations within Ontario, which were announced on Friday the 9th and the 16th). It is impossible to make any assumptions about how the restrictions might evolve or what the implications might be for the housing market or the broader economy.

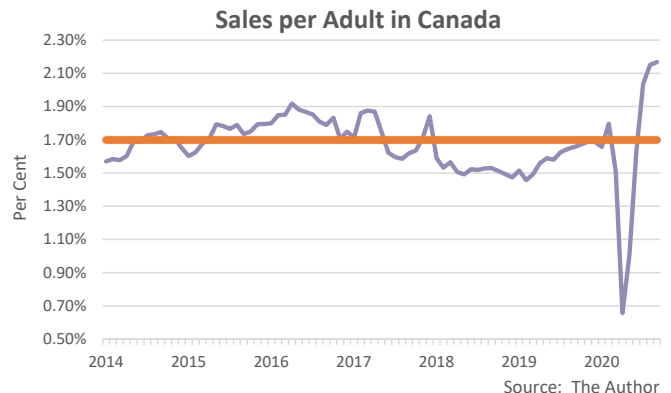
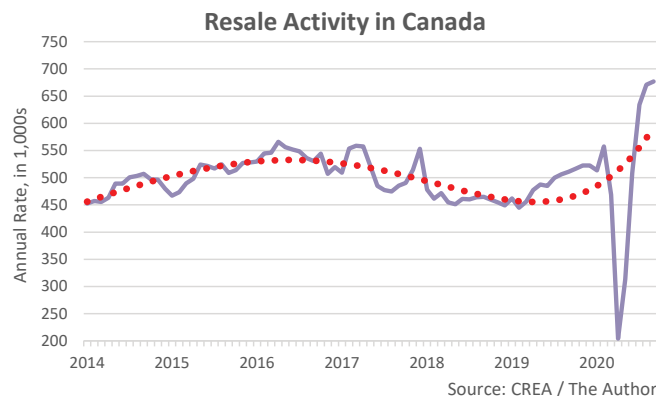
Mortgage deferrals are now expiring. The Canadian Bankers Association reported earlier that as of June 30, 16% of their members' residential mortgagors had taken a payment deferral. A more recent report indicates that as of August 31, 32% of those clients have resumed payments. This implies that about 11% of mortgages were still in deferral at the end of August. The CBA report can be found here:

<https://cba.ca/canadian-banks-are-standing-by-canadians>

There is a need, which will become increasingly urgent, for a national conversation about options to assist mortgage holders who are still suffering from impaired incomes.

## Resale Market

Resale activity has set new records for three consecutive months. For September, the sales rate was 677,000. For the period from April to September, the average sales rate was 501,000.



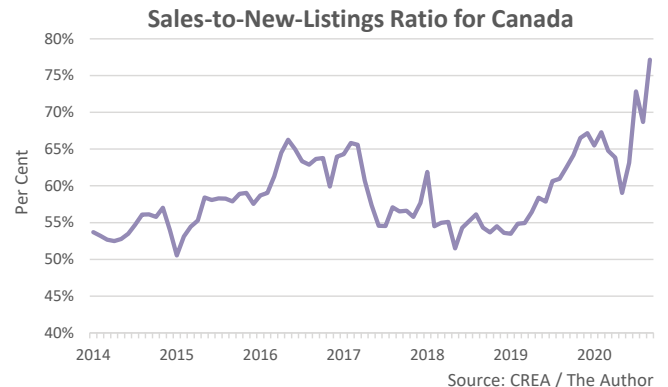
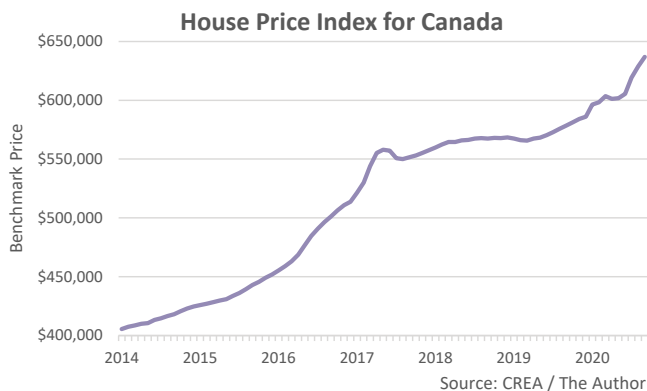
## Resale Market (Continued)

Taking sales rates over the past two decades and then making an adjustment for population growth, I calculate that the long-term average rate is about 530,000. On this basis, the sales rate for September was 28% above average, but for the period April to September, total sales were 5% below average.

Looking at the data in terms of sales per adult provides a slightly different view of the wild swings that have occurred during the past half-year.

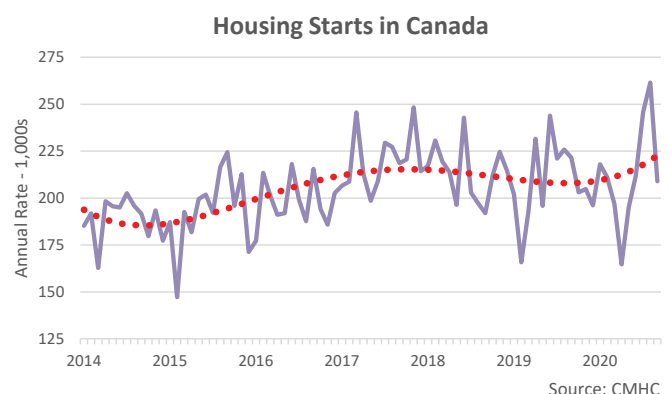
The flow of new listings into the market has also expanded, but not as strongly as sales. The national sales-to-new-listings ratio ("SNLR") is extremely high, at 77% in September (and an average of 67% during the past six months). These figures are far above the 52% threshold for a "balanced market" - this is the level at which prices are expected to rise by 2% per year.

The sharp imbalance between supply and demand is now resulting in rapid price growth. CREA's estimated "benchmark house price" for Canada has jumped by 5.9% in just the past four months, and is now 10.1% higher than a year ago.



## Housing Starts

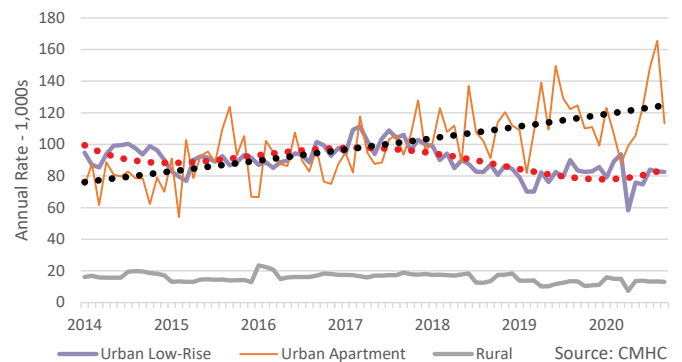
Housing starts remain strong, with the rate for September at 209,000. Starts continue to reflect pre-construction sales and investment decisions that occurred prior to the onset of Covid-19. Starts will eventually slow, to reflect reduced sales. Starts for apartments remain highly volatile, with the result that it is impossible to create a reliable trend line. For now, activity remains very strong.



## Housing (Continued)

Based on anecdotal reports, it is quite likely that new sales have slowed sharply, but it will take some time for that to translate into reduced starts. Activity for low-rises (single-detached, semi-detached, and town homes) and for rural areas, on the other hand, remains weak. In the current environment, consumer interest is shifting strongly towards low-rises and away from apartments. Trends for starts imply that during the coming year (and beyond) we will continue to see shortages in resale markets for low-rise homes and excess inventories for apartments.

Housing Starts by Type of Dwelling in Canada



## Employment Trends

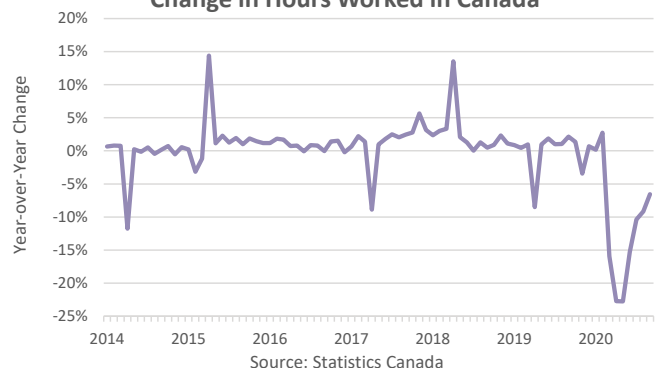
Employment continues to recover, with the fifth consecutive large rise in September. Statistics Canada estimates that employment fell by 3.0 million during March and April, but since then 2.3 million jobs have been regained. As of September, total employment is estimated to be 720,000 (or 3.7%) lower than in February.

At present, I prefer to watch employment in terms of total hours worked. The next chart below shows that while there has been some recovery, as of September, hours worked in Canada were 6.6% lower than a year ago. Repeating a prior comment, 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. Canada Mortgage and Housing Corporation is currently conducting its annual survey of rental markets across Canada. Unfortunately, CMHC expects that it won't release the results until January.

Employment in Canada



Change in Hours Worked in Canada



## Interest Rates

Bond yields remain extremely low and are showing only very small movements. During the past month, the average yield for 5-year Government of Canada bonds has been just 0.36%.

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 just 1.9%, by far the lowest-ever (and even lower rates can be negotiated). The spread between mortgage rates and bond yields has closed, and at 1.55 points is now below the long-term average of 1.8 points. However, it is similar to the average of 1.49 points for all of 2019. For variable rates, my opinion-estimate is now 1.8%.

Meanwhile, the mortgage stress tests continue to use a ridiculous test rate of 4.79%.

Yields for 5-Year GoC Bonds



Sources: Bank of Canada

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