

Resale Market

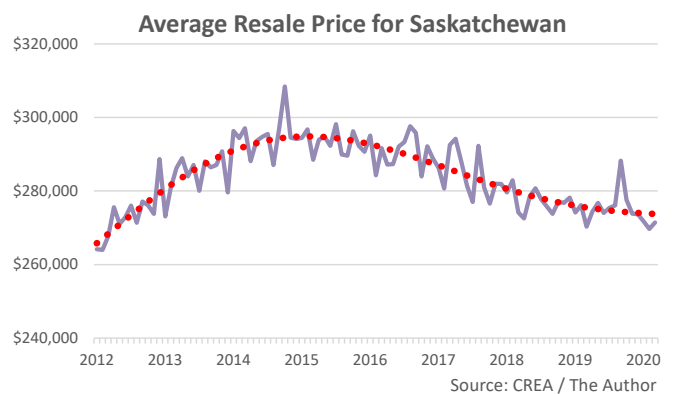
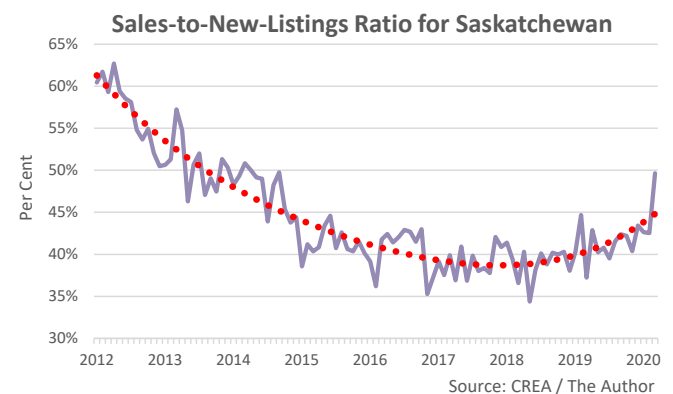
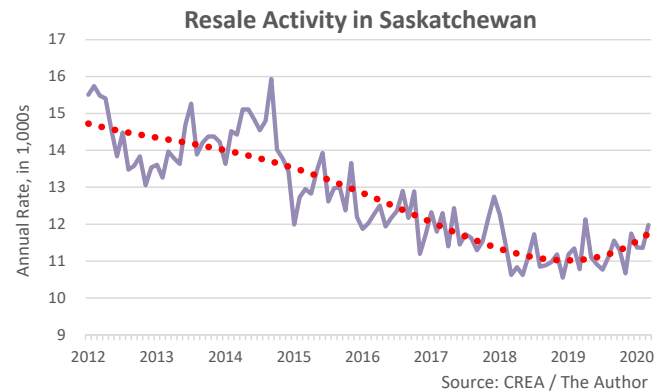
Recent data hints that Saskatchewan’s resale housing market might be starting a recovery from the greatly weakened conditions that have been seen over the past half-decade. For the first quarter of this year, the provincial sales rate was 2.9% higher than for the fourth quarter of last year.

The province’s sales data for March is quite unusual compared to the other provinces, where sharp reductions were seen. Moreover, across Canada, there have been reports that activity was quite strong during the first half of March, but then there were sharp downturns during the second half, as fears developed about personal safety, the federal and provincial governments urged us to stay at home, and businesses reduced their activities, which generated great fears about our incomes and employment.

At present, there is a great deal of uncertainty about the effects of the developing health emergency.

The sales-to-new-listings ratio (“SNLR”) has shown a market that is been quite out of equilibrium. For Saskatchewan, the “balanced market” SNLR is estimated at 51% (this is the level at which prices are expected to rise by 2% per year). The actual SNLRs have been notably below that threshold during the past five years. For the first quarter, the SNLR averaged 45% (up from 42% in the fourth quarter).

The imbalanced conditions have resulted in some price erosion. For the first quarter, the average selling price for the province (reported by the Canadian Real Estate Association, or “CREA”) was 0.9% lower compared to a year earlier.

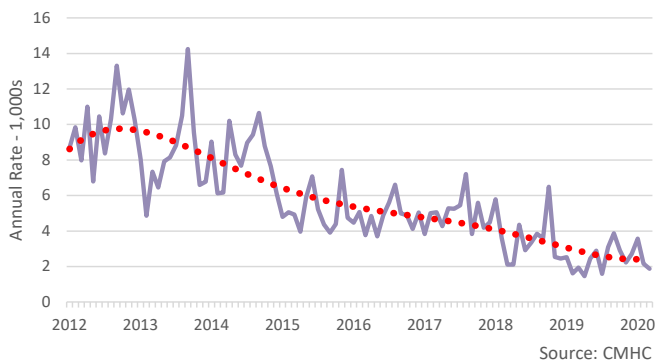


Housing Starts

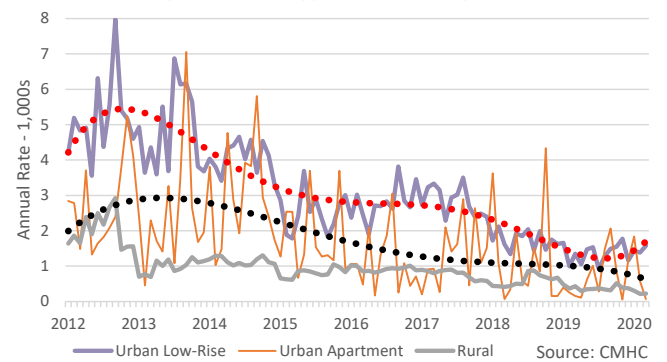
The quite soft conditions in the resale sector (as well as weak job creation) have meant that there is much less need for new housing construction. Housing starts have fallen very sharply in Saskatchewan (by about three-quarters compared to pre-2015 levels). The rate of housing starts in the first quarter (2,500) was 3% lower compared to the fourth quarter (2,600).

Starts have been reduced by large amounts for low-rise homes (single-detached, semi-detached, and town homes), apartments, and for rural areas. Recent data hints at a small improvement for low-rises, but for now I am viewing this as statistical noise.

Housing Starts in Saskatchewan



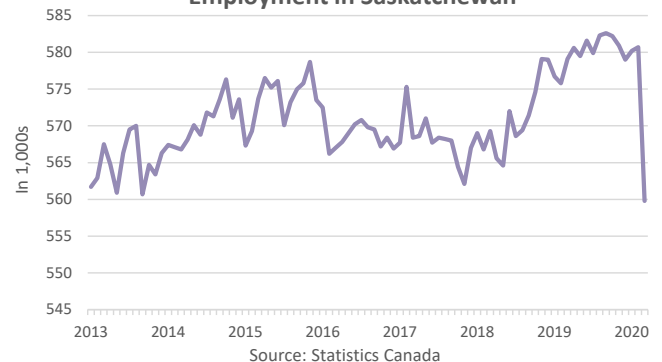
Housing Starts by Type of Dwelling in Sask'n



Employment Trends

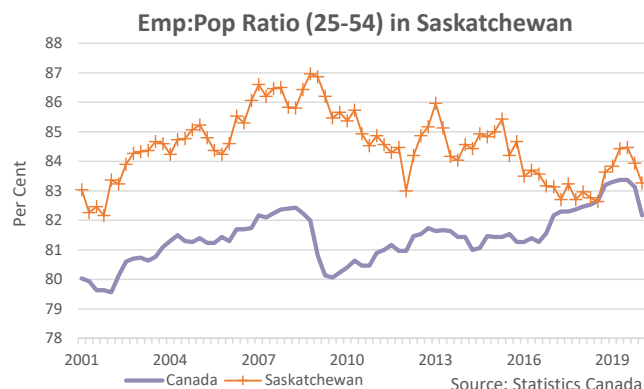
Statistics Canada's estimates indicated that Saskatchewan experienced job growth starting in late 2018 (this followed a long period of no growth). This economic turnaround contributed to the start of a housing market recovery. Then, the onset of Covid-19 and the need for social distancing caused a sharp reduction in March. StatsCan's estimate of employment for March was 21,000 (3.6%) lower than for February (for all of Canada, the drop was larger, at 5.3%). Housing data for March did not show any consequences of this for Saskatchewan, but there are likely to be negative effects from sharp rise in fears about personal safety and economic security.

Employment in Saskatchewan



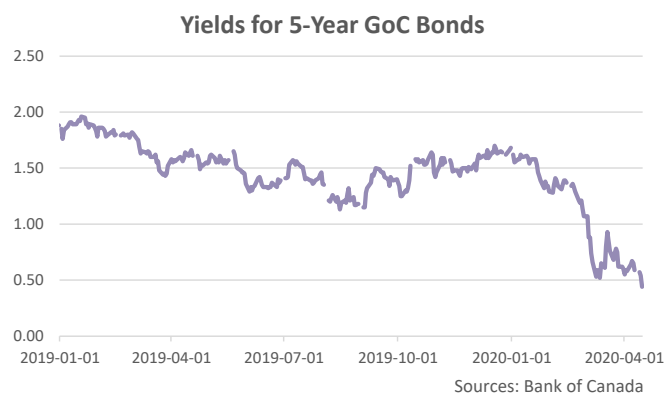
Employment Trends (Continued)

The next chart shows data on the percentage of “prime working age” adults who have jobs, for quarterly periods (in order to reduce “statistical noise” and make it easier to see longer term trends). This chart shows that during the past few years, the prime age employment rate for Saskatchewan has fallen (meaning that job creation did not keep up with population growth). The quarterly data does not show the effect of the sudden negative change that occurred in March.



Interest Rates

Changes in bond yields show that fears began to rise during late January and into February. Then, during late February and into March, escalating fears caused bond yields to fall rapidly. At this time (as of April 15), the yield for 5-year Government of Canada bonds (0.44%) has fallen by more than 1 point since year end (1.68%). Lending rates tend to move a bit later than bond yields. My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate from major lenders) is currently 2.7%. The spread between this typical mortgage rate versus bonds is currently about 2.25 points, which is well above the long-term average of 1.8 points.



It remains to be seen if bond yields will remain extremely low and then to what extent mortgage rates will follow the reductions for bond yields. Similarly, the Bank of Canada’s policy interest rate has been reduced by 1.5 points in a very short period of time, to just 0.25%, and it remains to be seen if variable rates will fully follow those reductions (my opinion-estimate of a typical special offer rate is at 2.65%, versus 2.9% at the end of last year).

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