

# Mortgage Market Overview

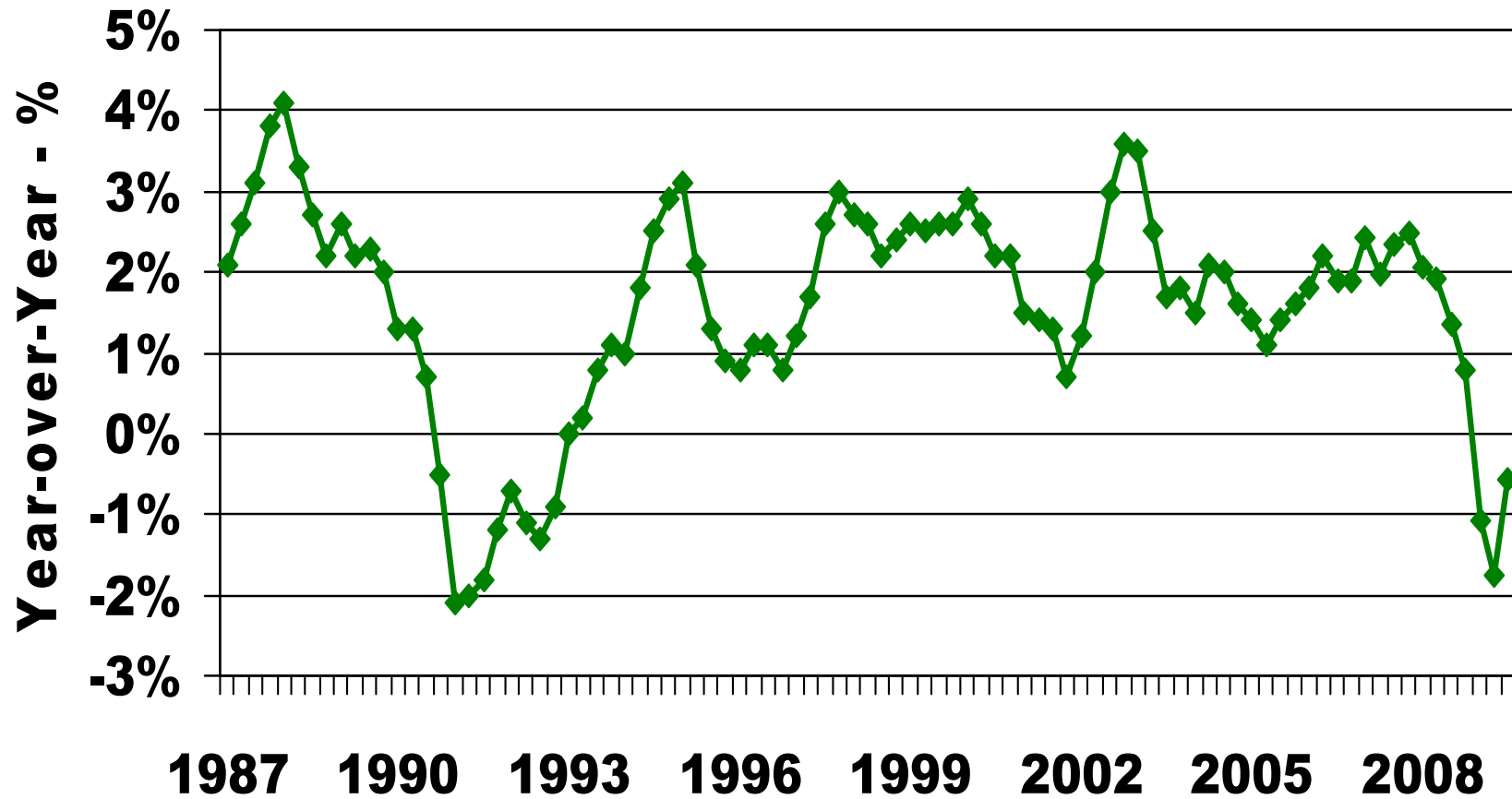
Will Dunning  
CAAMP Chief Economist  
November 21, 2009

# My Agenda

- Housing market overview
- November 2009 report on the State of the Mortgage Market
- Consumers' expectations about housing markets

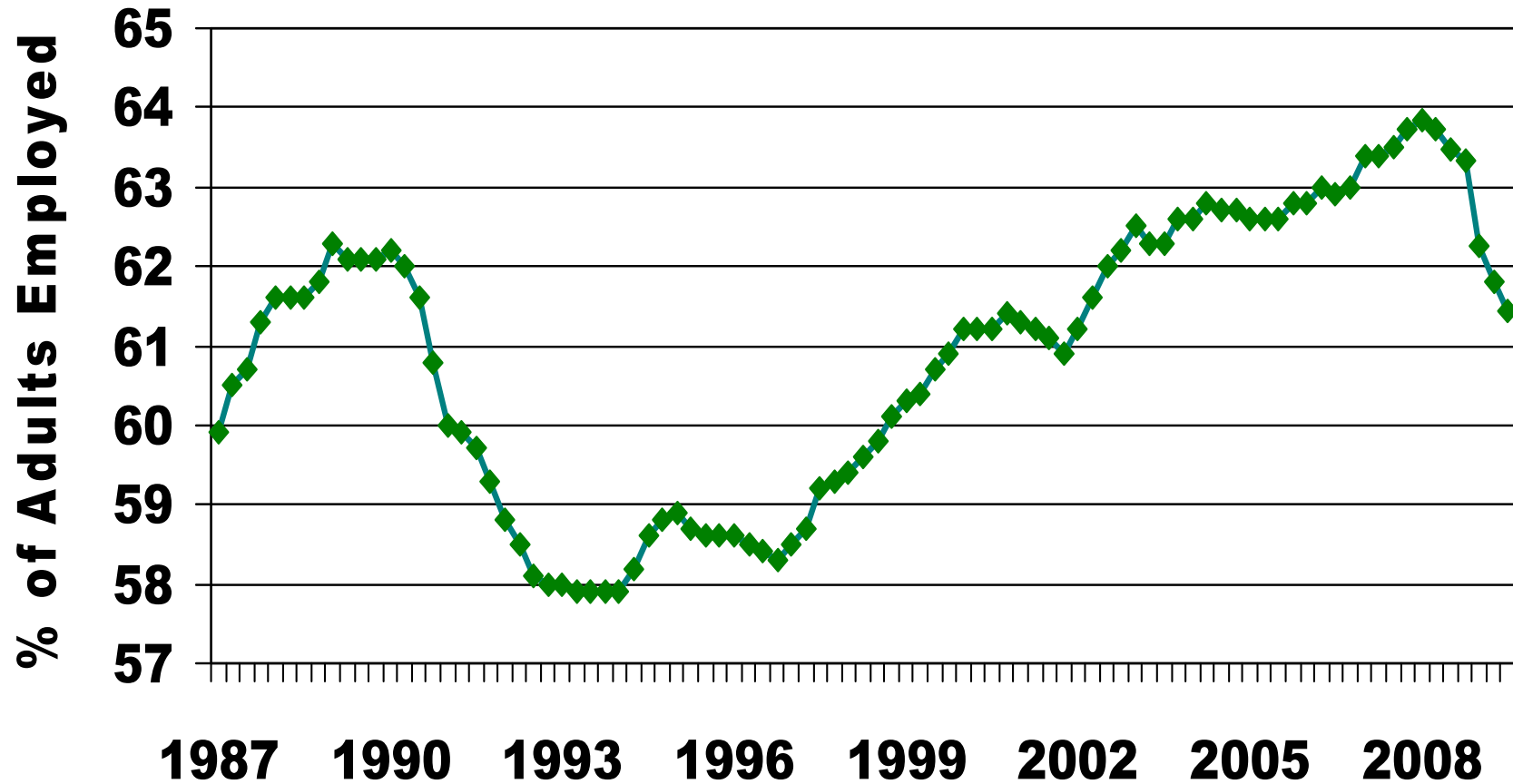
# Economic and Housing Market Trends

# Job Creation in Canada



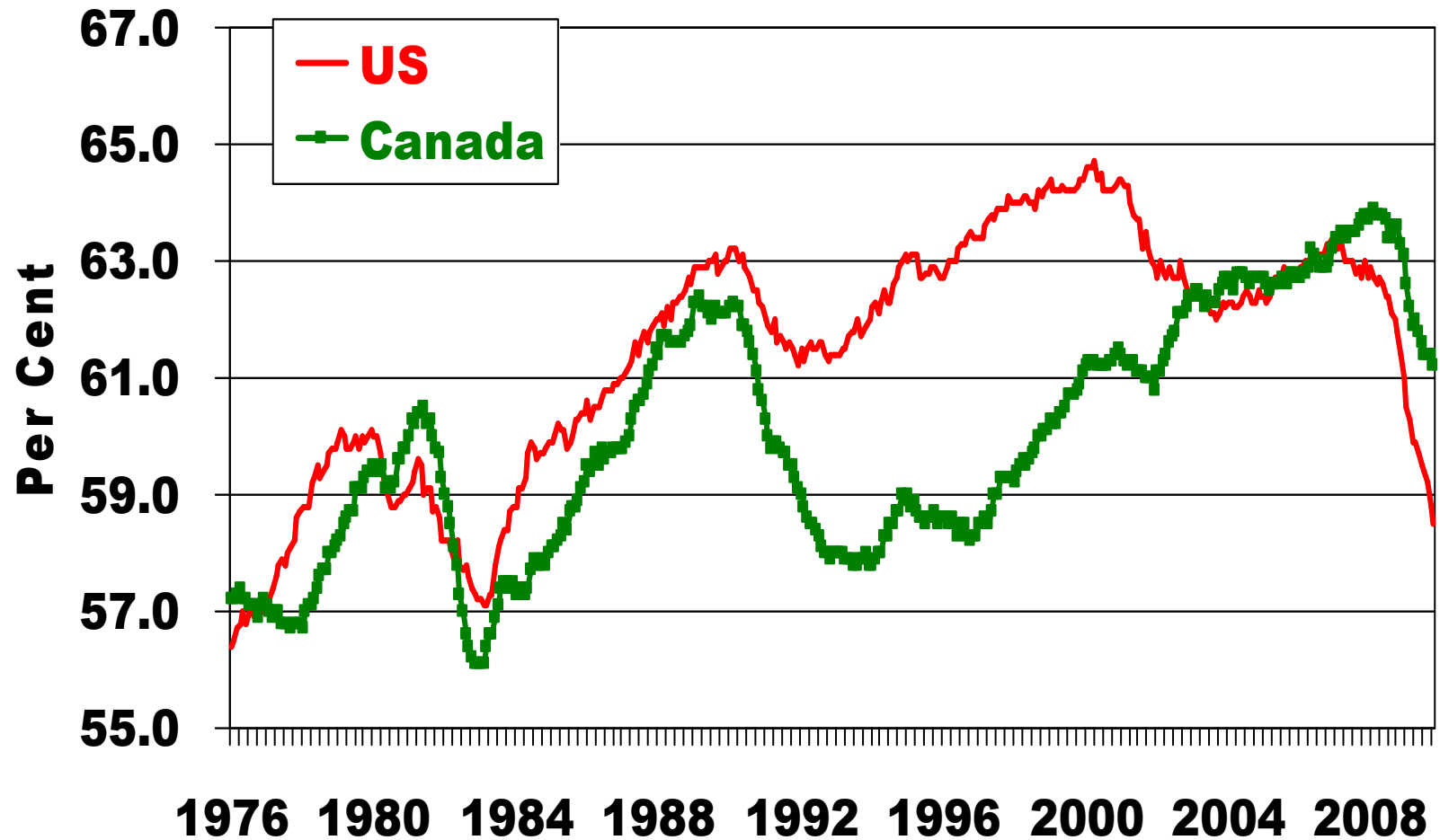
Source: Statistics Canada

# “Employment Rate” Provides Another Perspective



Source: Statistics Canada

# US versus Canada Employment Rate

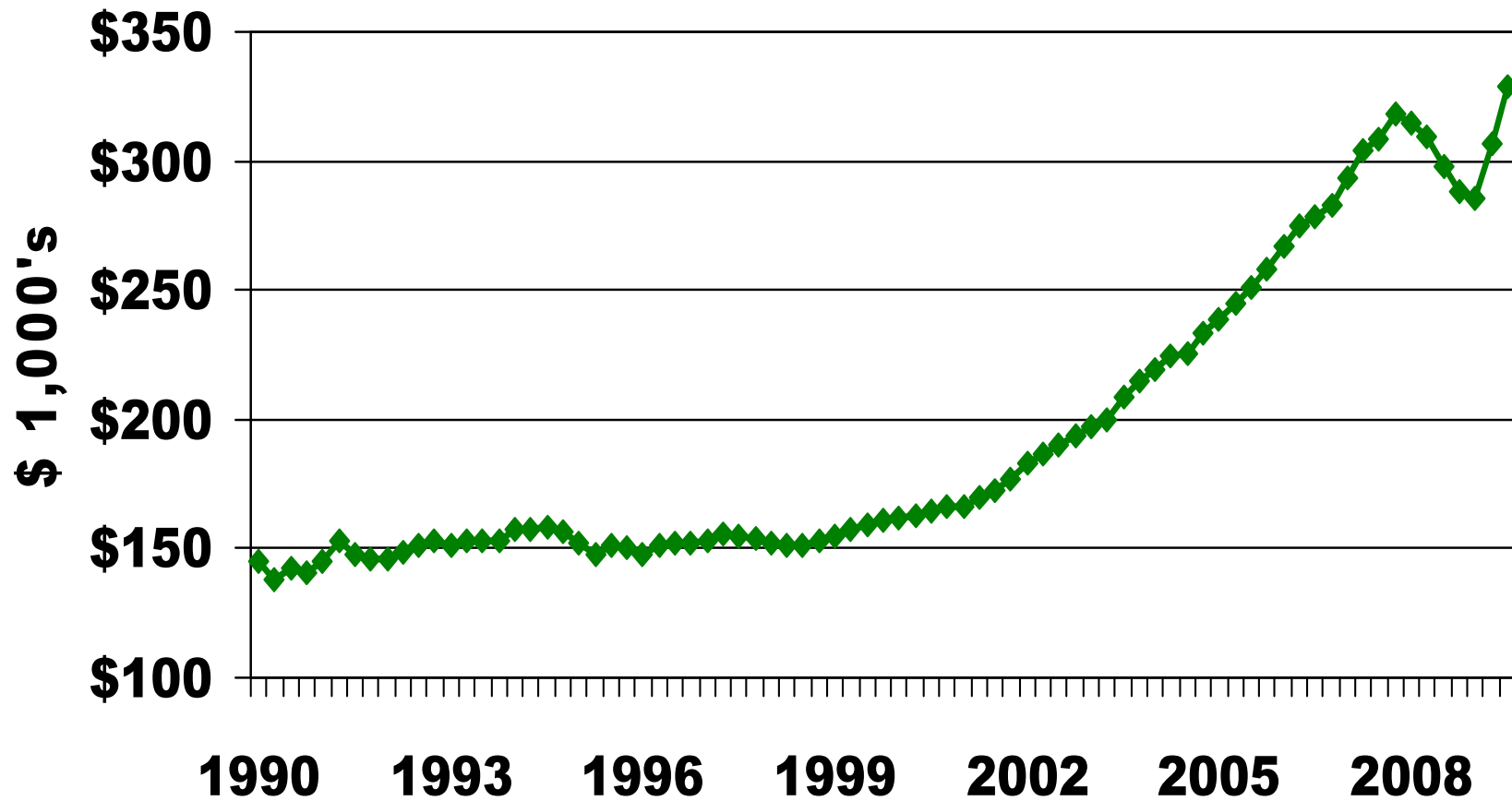


Source: US BLS / Statistics Canada

# Economic Drivers Are Mixed and Volatile

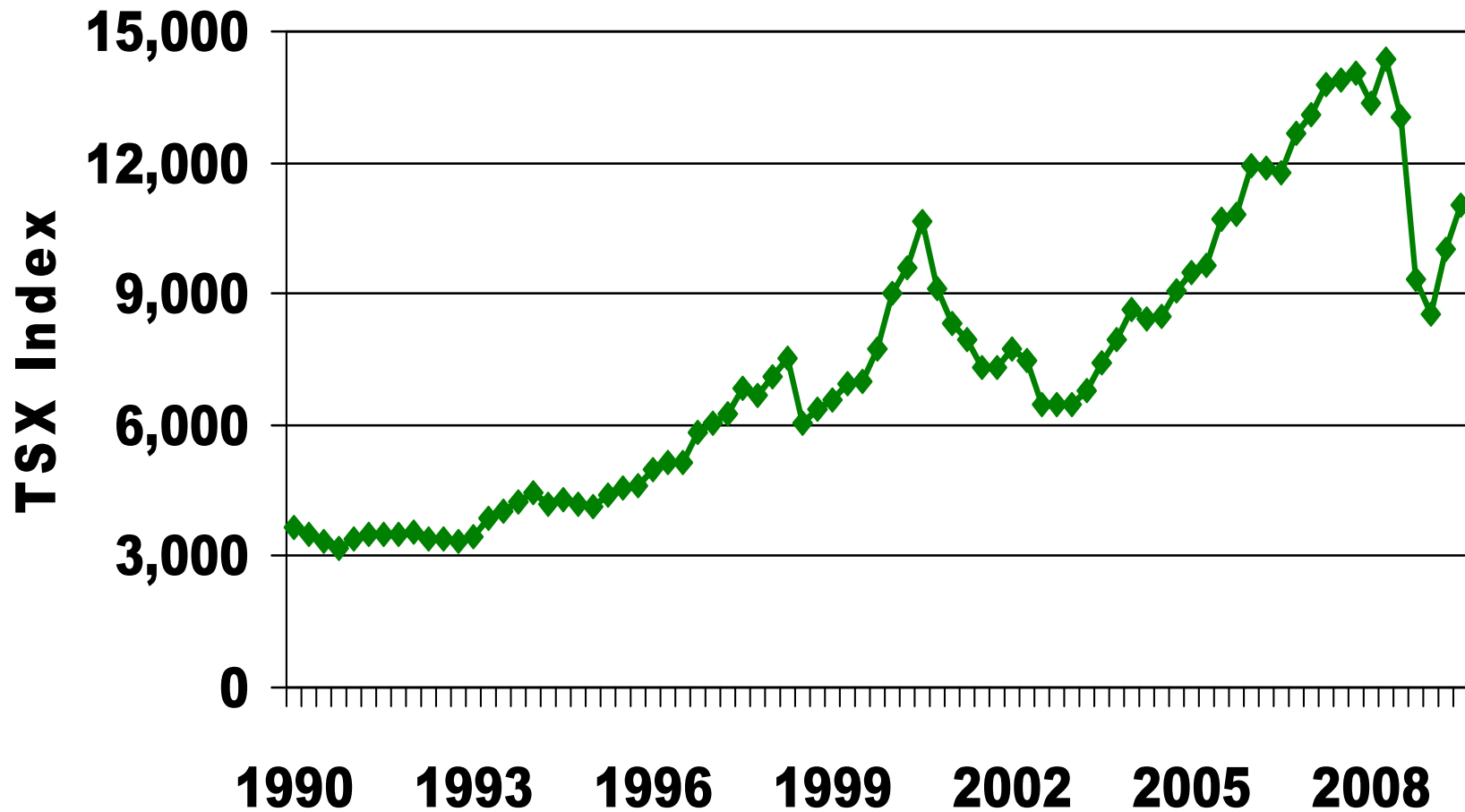
<b><u>Factor</u></b>	<b><u>Impact</u></b>
Wealth Effect – Housing	Returning to Positive
Wealth Effect – Stocks	Less Scary
Interest Rates	Strongly Positive
Canadian Dollar	Strongly Negative
Commodity Prices	Positive for Producers Negative for Consumers

# Enormous “Wealth Effect” From House Values



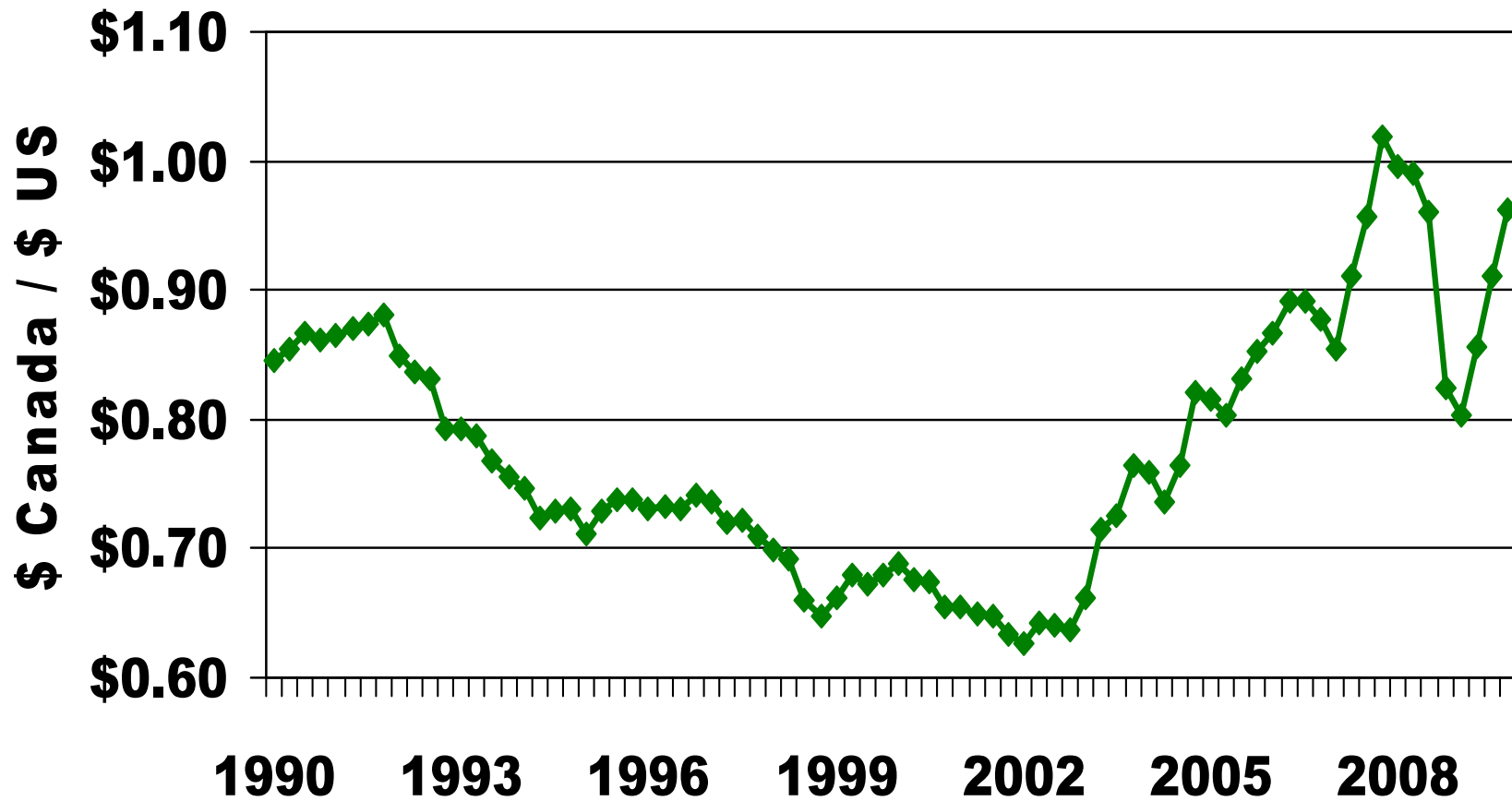
Source: CREA

# Volatatile Stock Markets



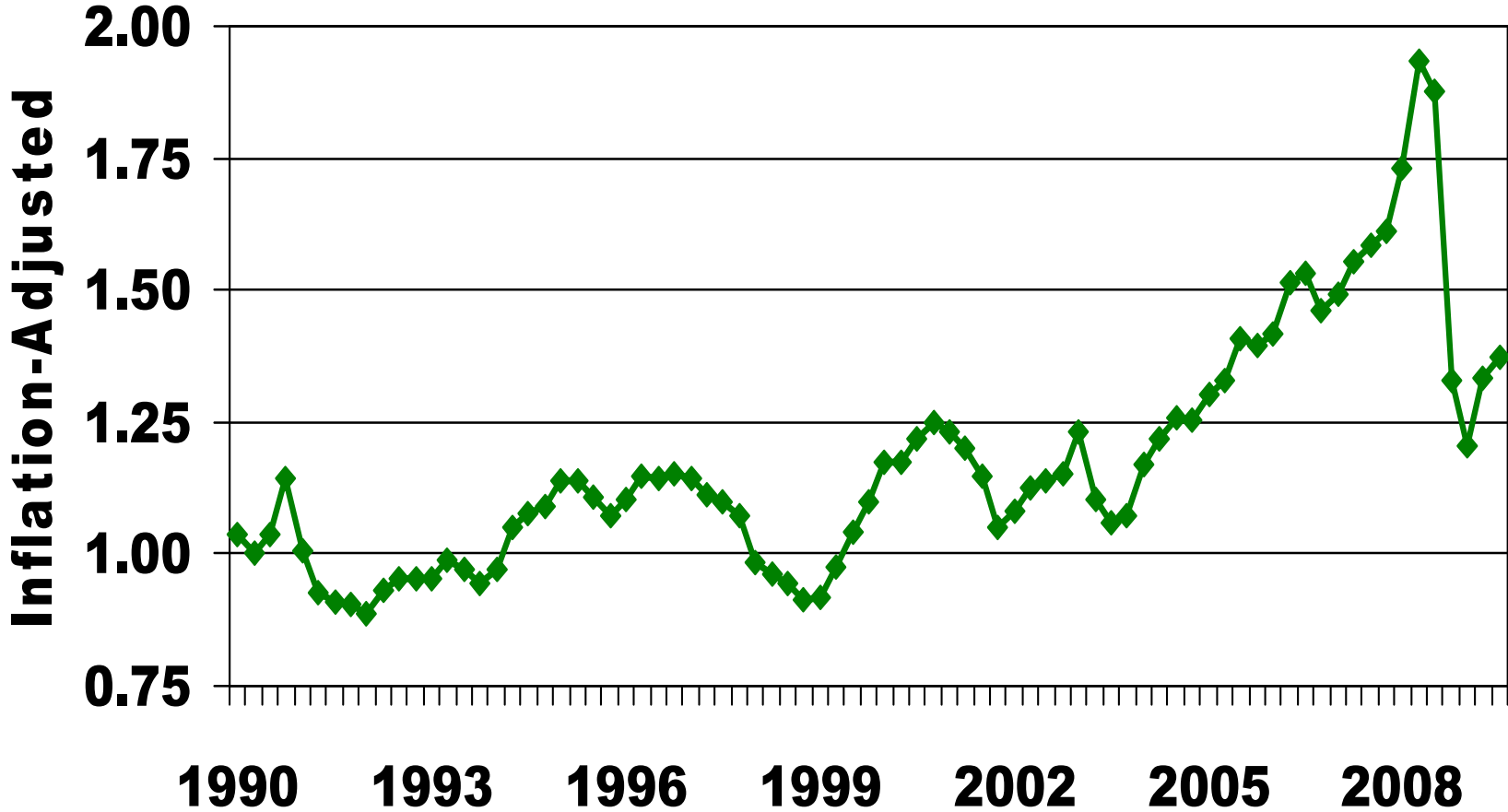
**Source: Statistics Canada**

# Canadian Dollar is a Huge Negative Factor



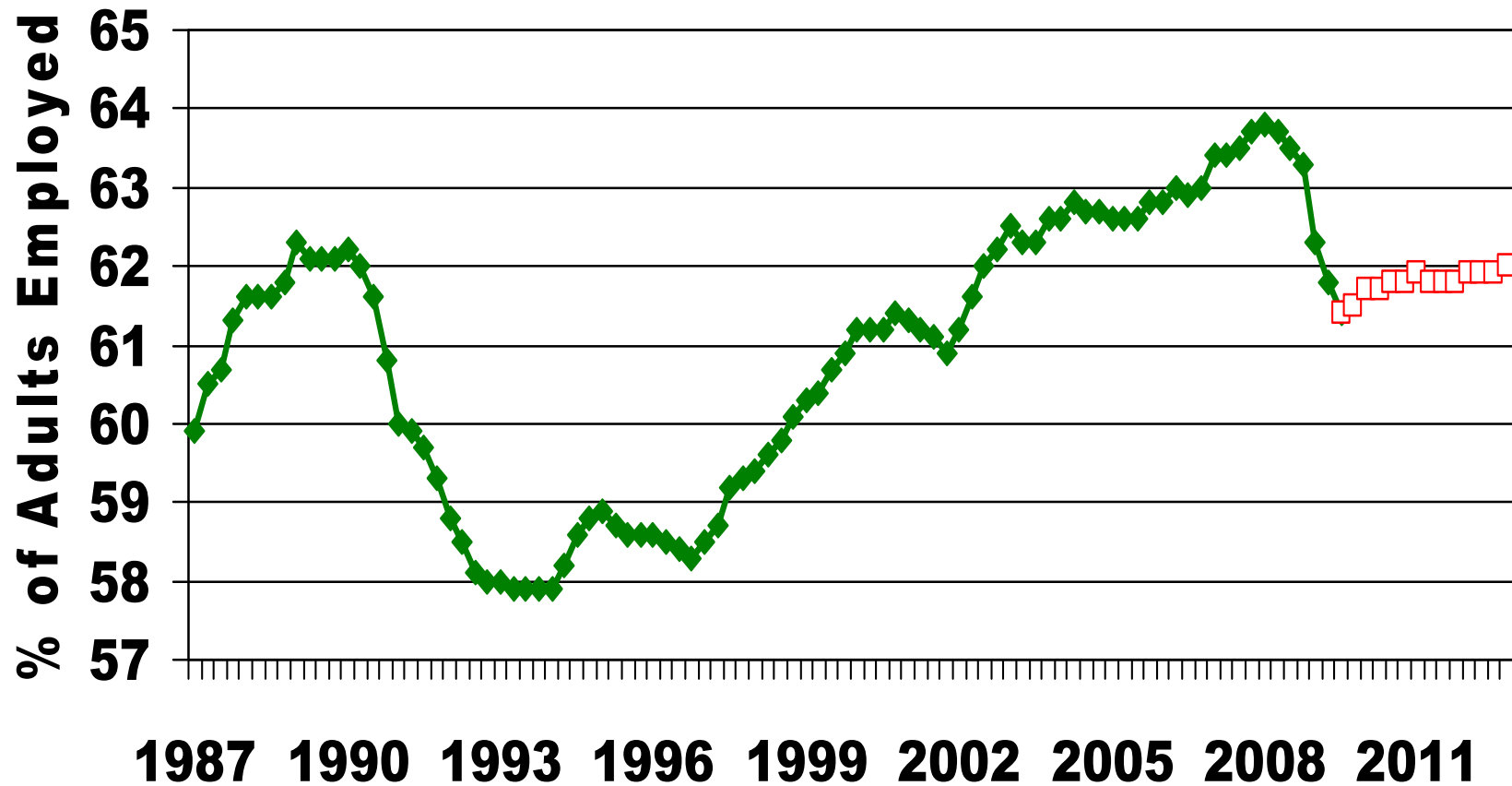
Source: Bank of Canada

# High Commodity Prices Benefit the West



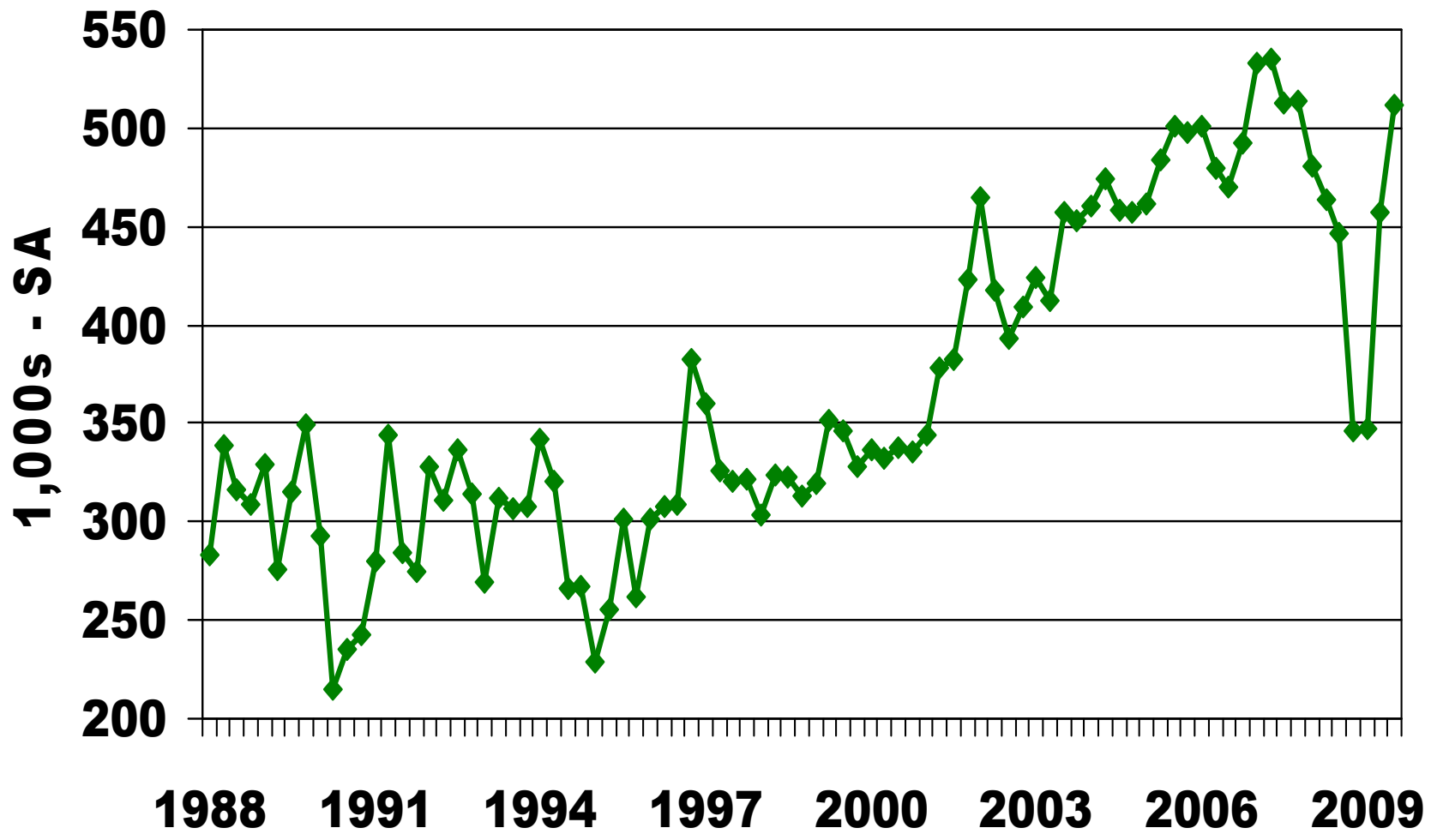
Source: Statistics Canada

# Employment Rate Forecast Suggests Moderate Recovery



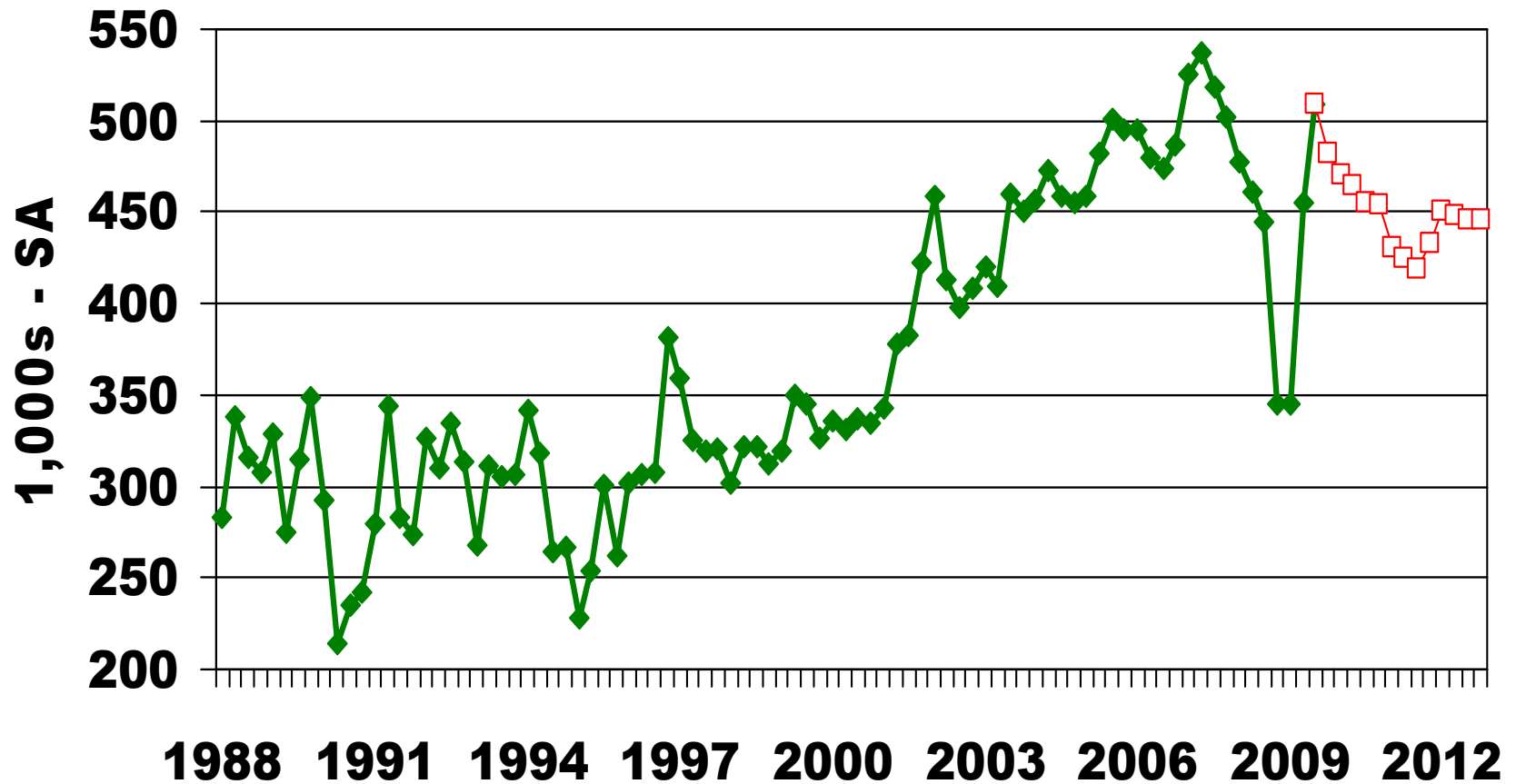
**Source: Statistics Canada / Will Dunning Inc.**

# Canadian Resales Rebound



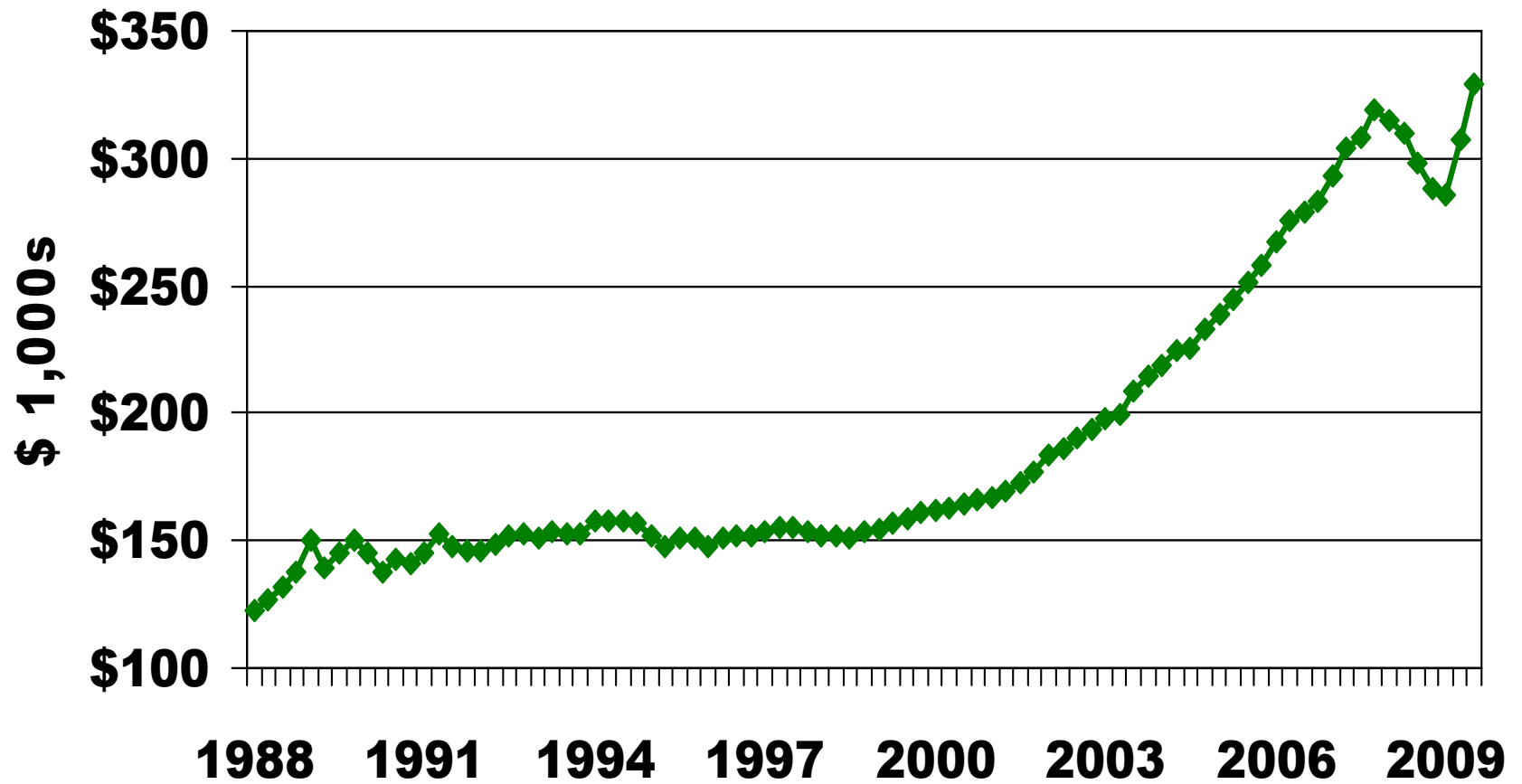
Source: CREA

# Canadian Resale Activity May Weaken in 2010/11



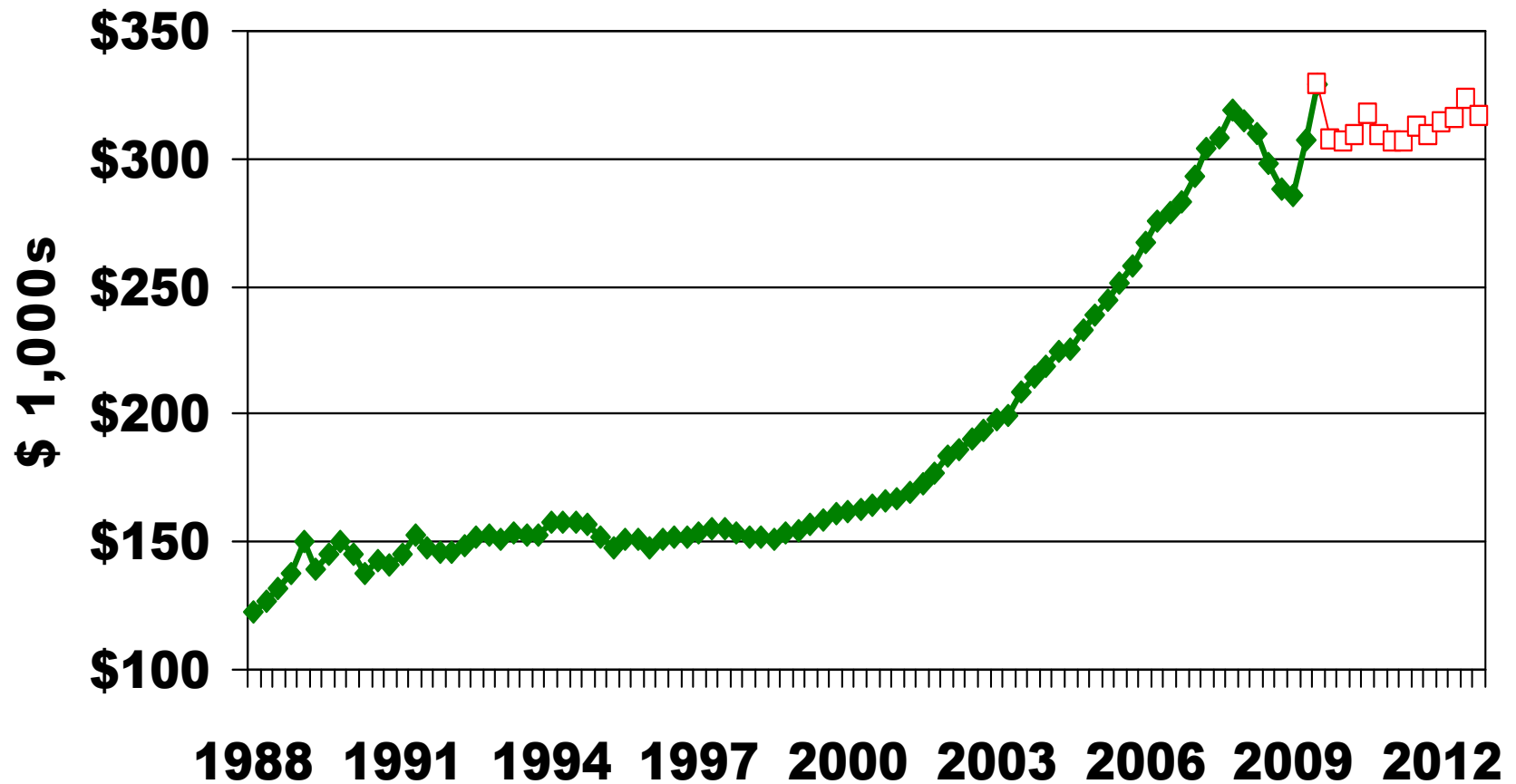
Source: CREA / Will Dunning Inc.

# Canadian House Prices – Quick Flip



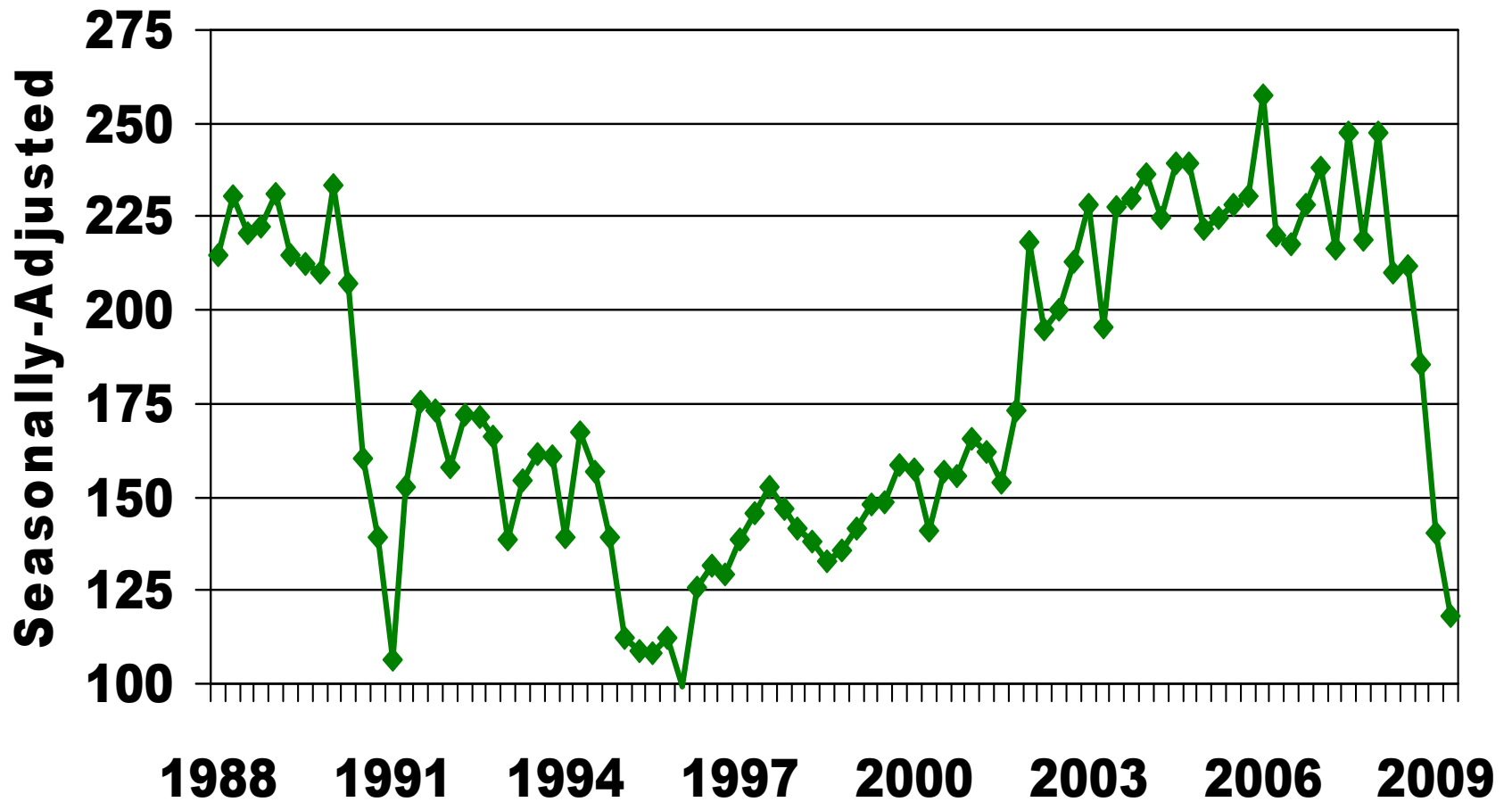
Source: CREA

# Modest Growth Forecast for Canadian House Prices



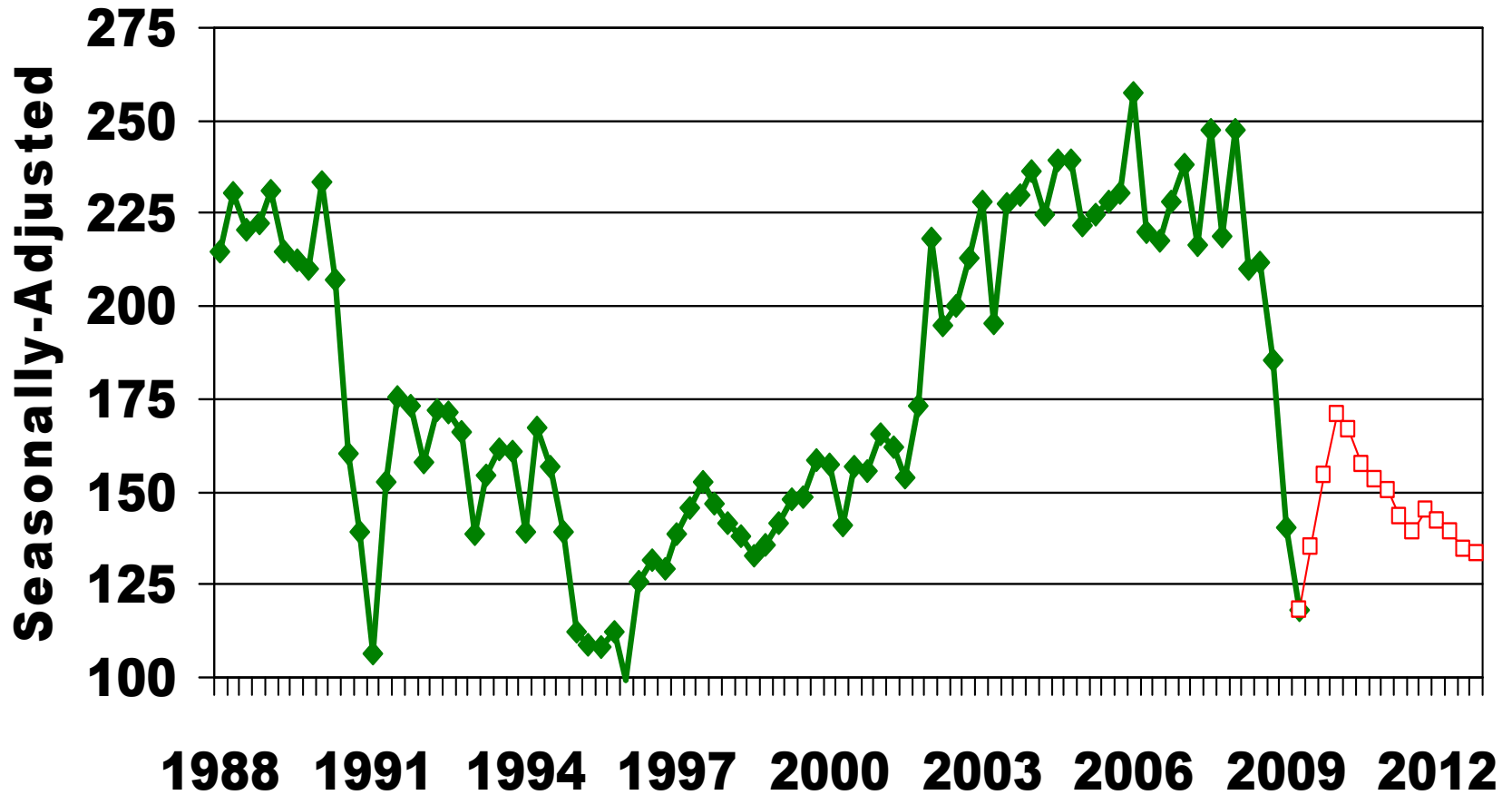
**Source: CREA / Will Dunning Inc.**

# Canadian Housing Starts



Source: CMHC

# Short-Term Bounce Forecast for Canadian Housing Starts

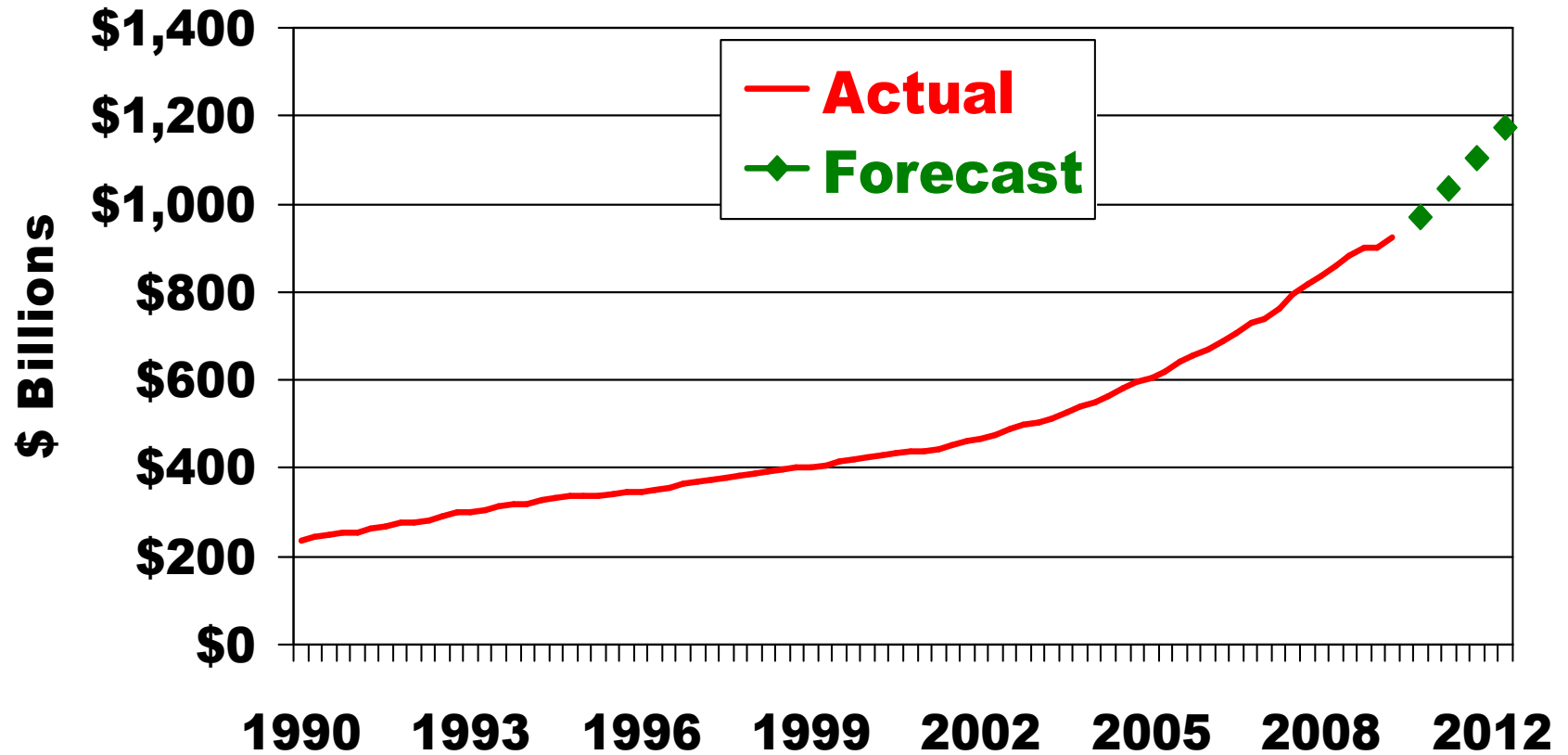


Source: CMHC / Will Dunning Inc.

# The State of the Residential Mortgage Market in Canada

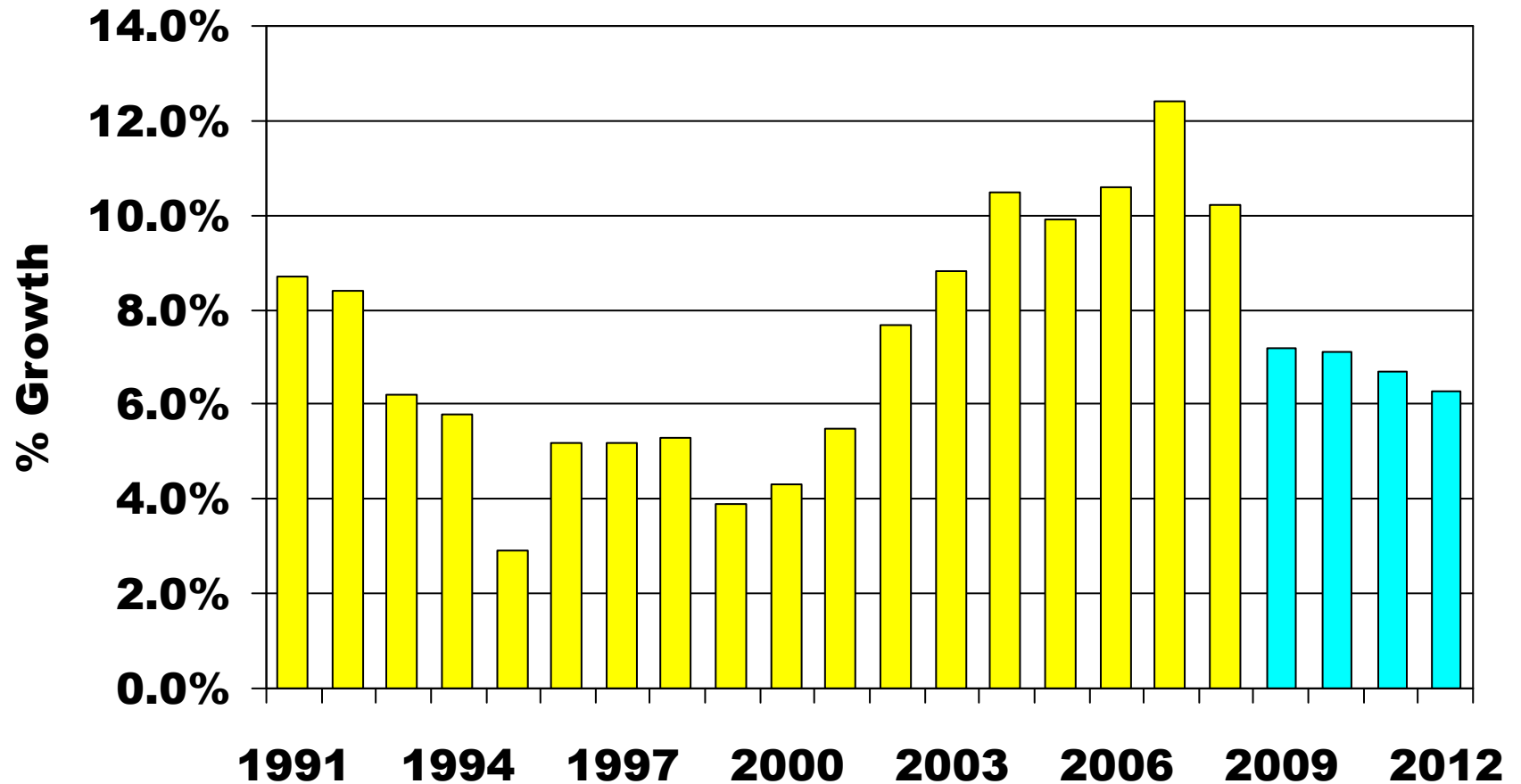
November 2009

# Rapid Growth of Residential Mortgage Credit in Canada



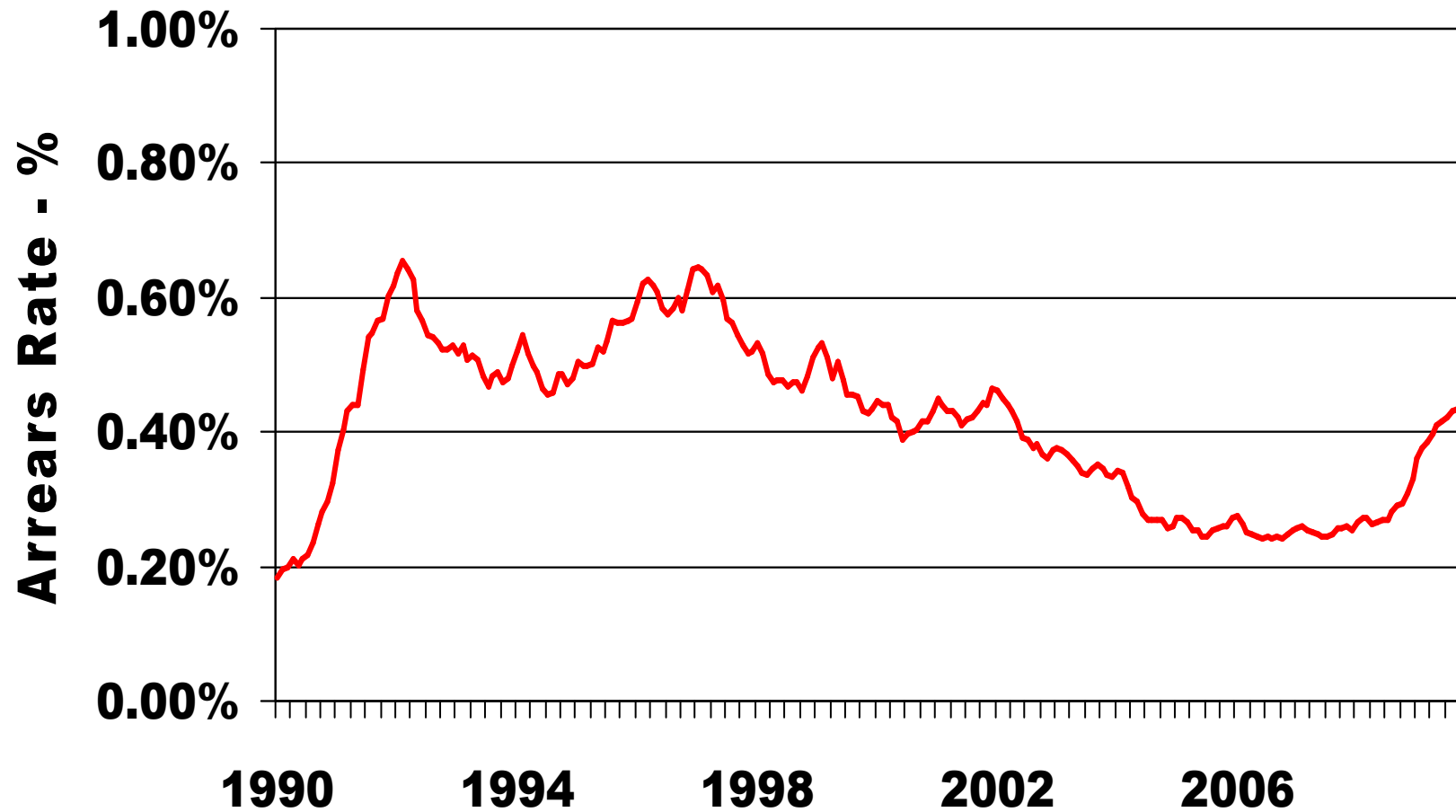
**Sources: Bank of Canada / Will Dunning Inc.**

# Annual Growth in Residential Mortgage Credit in Canada



Source: Bank of Canada / Will Dunning

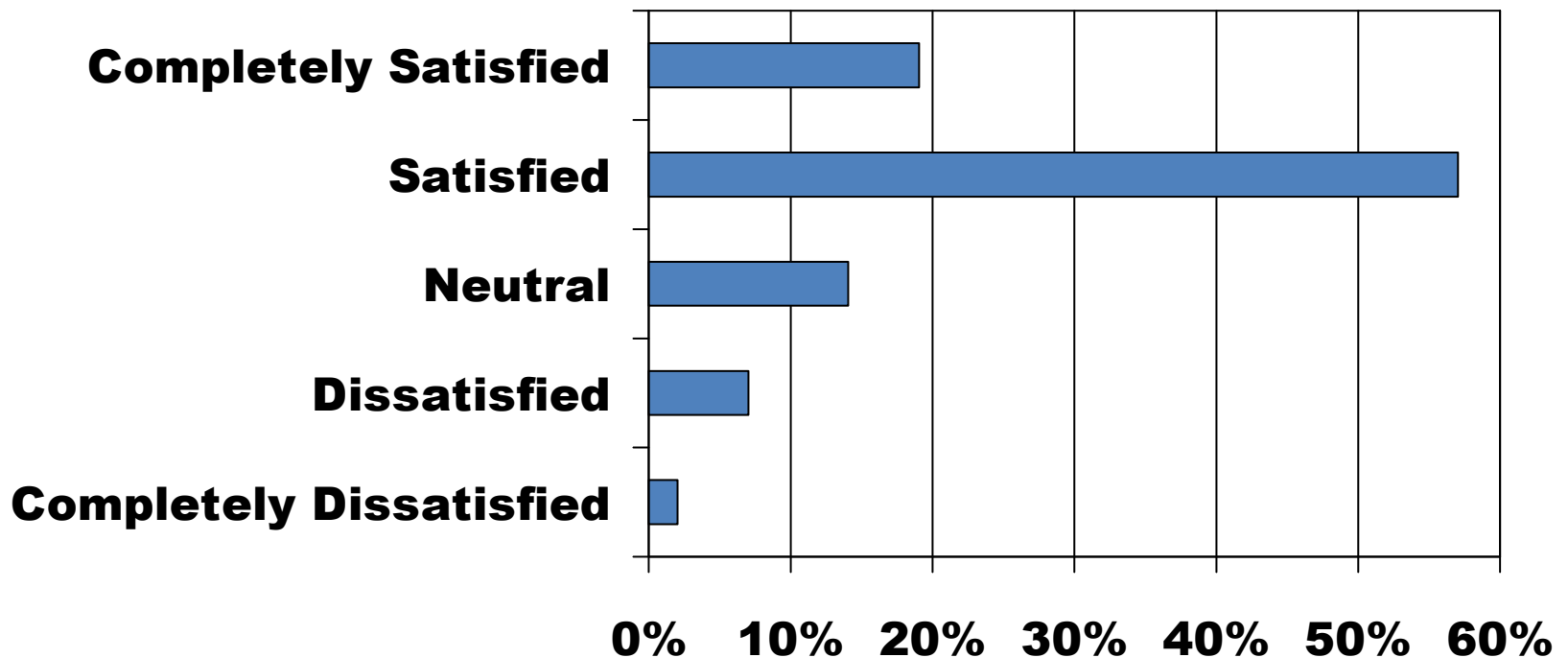
## Arrears Rate Has Increased (September is Most Recent)



**Source: Canadian Bankers Association**

# Consumer Attitudes and Choices

# Consumers' Satisfaction With Their Mortgage Experiences



**Average satisfaction score of 7.7**

# Variations in Satisfaction

- Highest for older ages groups
- Highest for adjustable/variable rate mortgages (average of 8.2 out of 10 versus 7.7 for all)

# Most Mortgage Borrowers do Limited Shopping

<b>Number of Quotes</b>	<b>% of Borrowers</b>
0 or 1	47%
2	28%
3	17%
4 or more	9%
Average	1.91

# Fixed Rate Mortgages Still Most Popular

<b>Number of Quotes</b>	<b>% of Borrowers</b>
Fixed Rate	68%
Adjustable/Variable	27%
Combination	6%

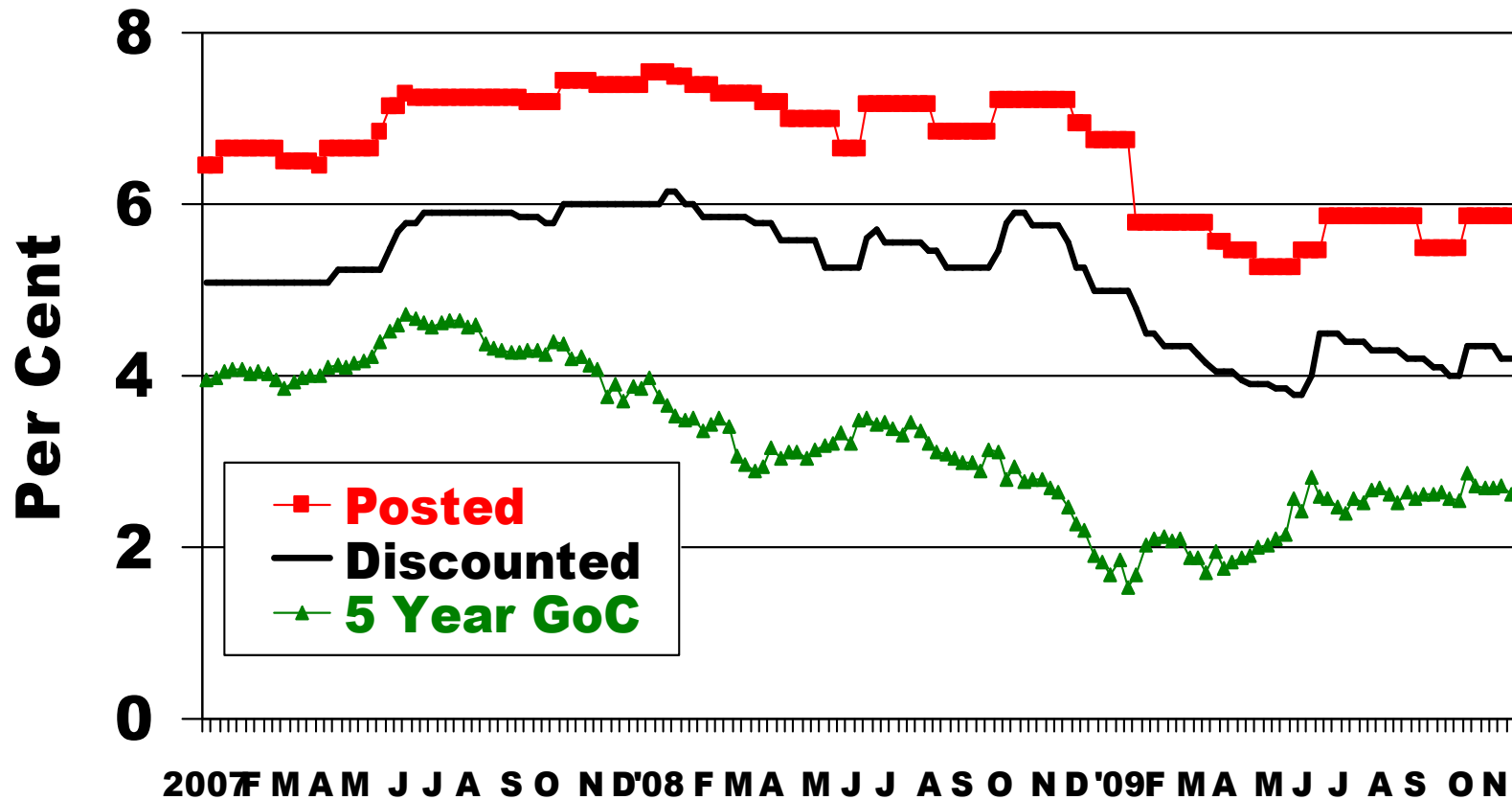
# Broker Share Highest for New Mortgages

<b>Type of Activity in <u>Past 12 Months</u></b>	<b><u>Broker Share</u></b>
New Mortgage on New Purchase	38%
New Mortgage on Property Already Owned	11%
Renewal on Schedule	16%
Early Renewal	17%

# Interest Rates

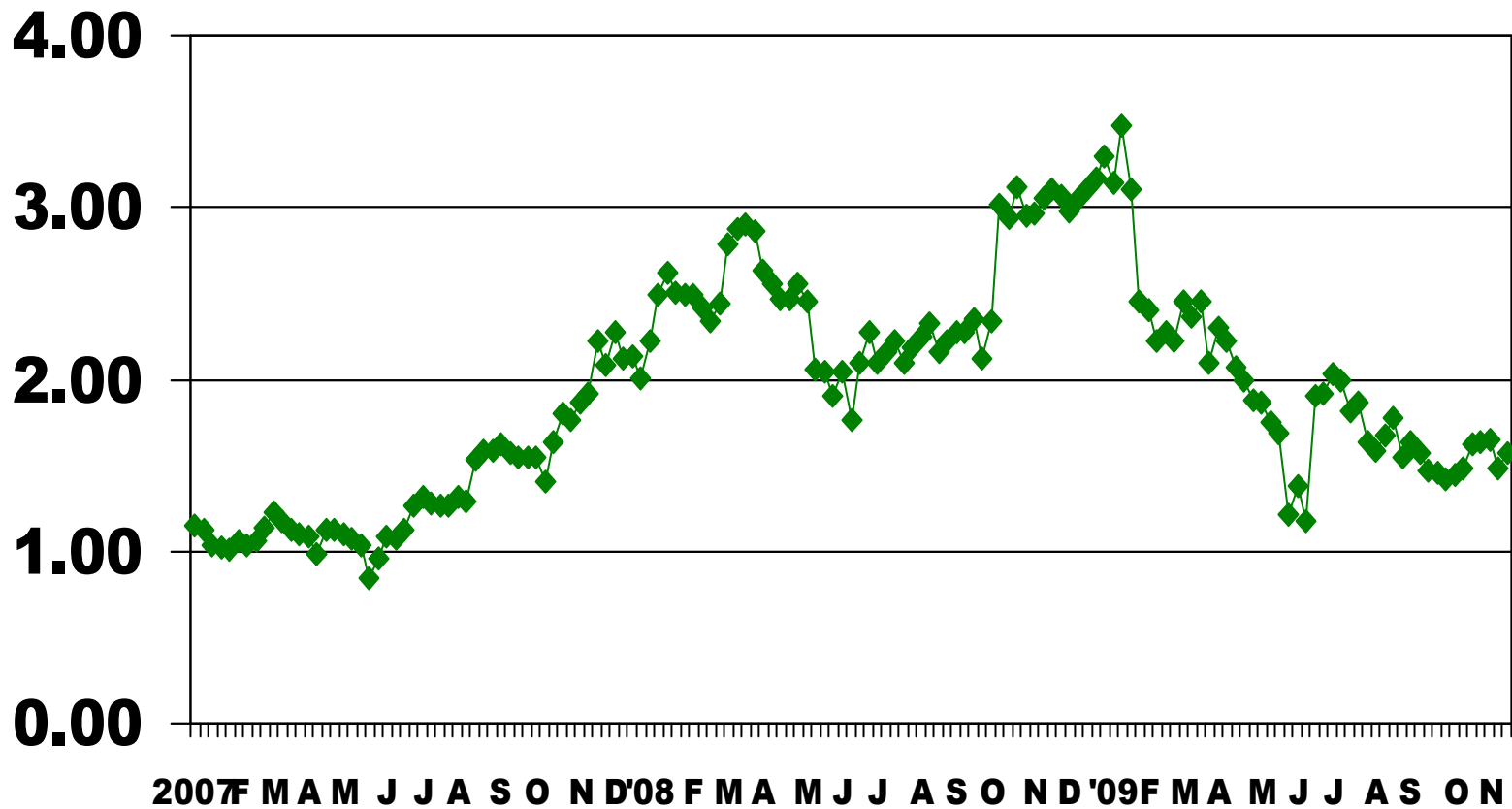
- Average across all mortgages - 4.55%
  - Lowest for variable – 3.03%; 5.15% for fixed
- Mortgages negotiated past 6 months - 4.23%
- For renewers: rate fell for 73%, rose for 15%, unchanged for 12%.
- Average change – minus 1.12%
- During past 12 months discounts averaged 123 basis points (5-year terms)

# Mortgage Rates Versus GoC Bonds (5-Year)



**Source: Bank of Canada / Will Dunning Inc.**

# Spread Between Bonds and (Discounted) Mortgages



**Source: Bank of Canada / Will Dunning Inc.**

# Amortization Periods

- Amortization periods over 25 years have 18% of market.
- 44% for new mortgages initiated in past year, including:
  - 26-30 years – 18%
  - 31-35 years – 21%
  - 36-40 years – 5%

# Housing Equity in Canada

- Estimated at \$1.98 trillion (based on \$2.69 trillion in values versus \$706 billion in mortgages)
- Average 74% equity
- 1% of mortgage holders may have negative equity
- > 95% have more than 5% equity

# Equity Take-out

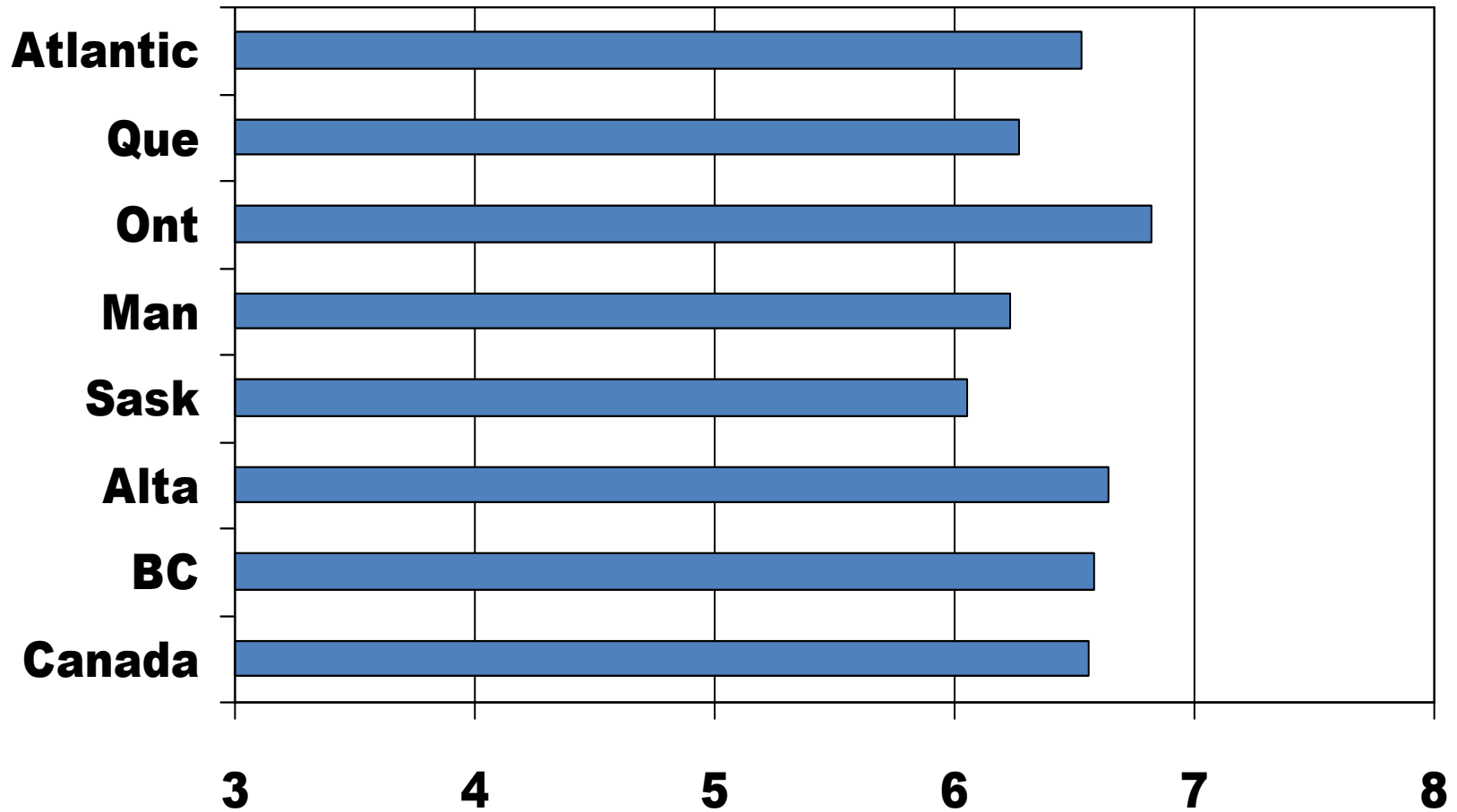
- 18% of all mortgage holders took out equity
- Take-out averages \$41,000
- Total take-out of \$41 billion (vs \$46 year ago)
- Equal to 4% of total personal disposable income

# Uses of Equity Take-out

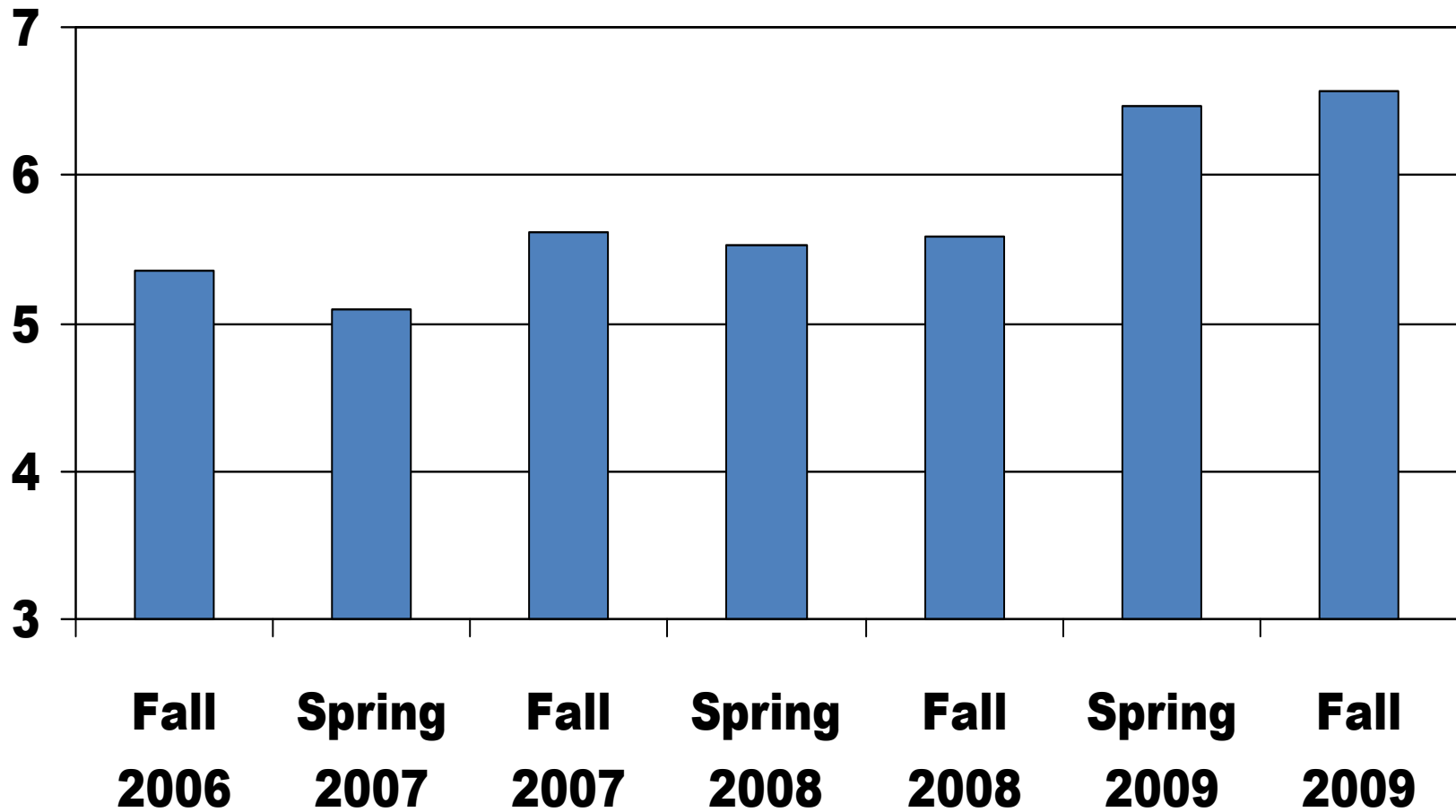
<b>Purpose</b>	<b>Share of \$41 bn</b>
To consolidate or pay down debt	\$ 17 bn
To renovate my house/condo	\$ 12 bn
To invest	\$ 6 bn
To make a purchase	\$ 3 bn
Other	\$ 3 bn

# Consumers' Expectations

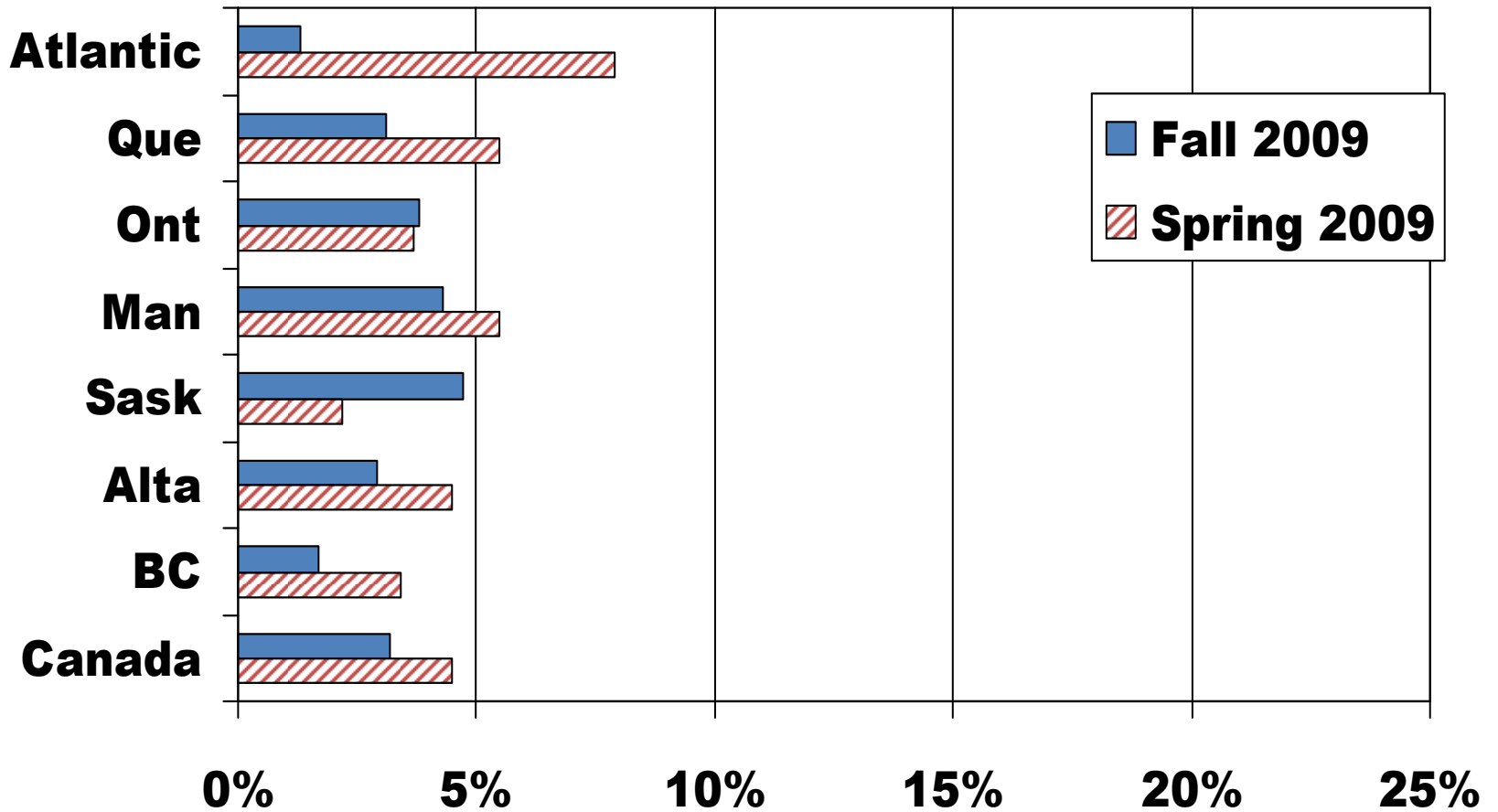
# “Is Now a Good Time to Buy?” (Average on a 10-point scale)



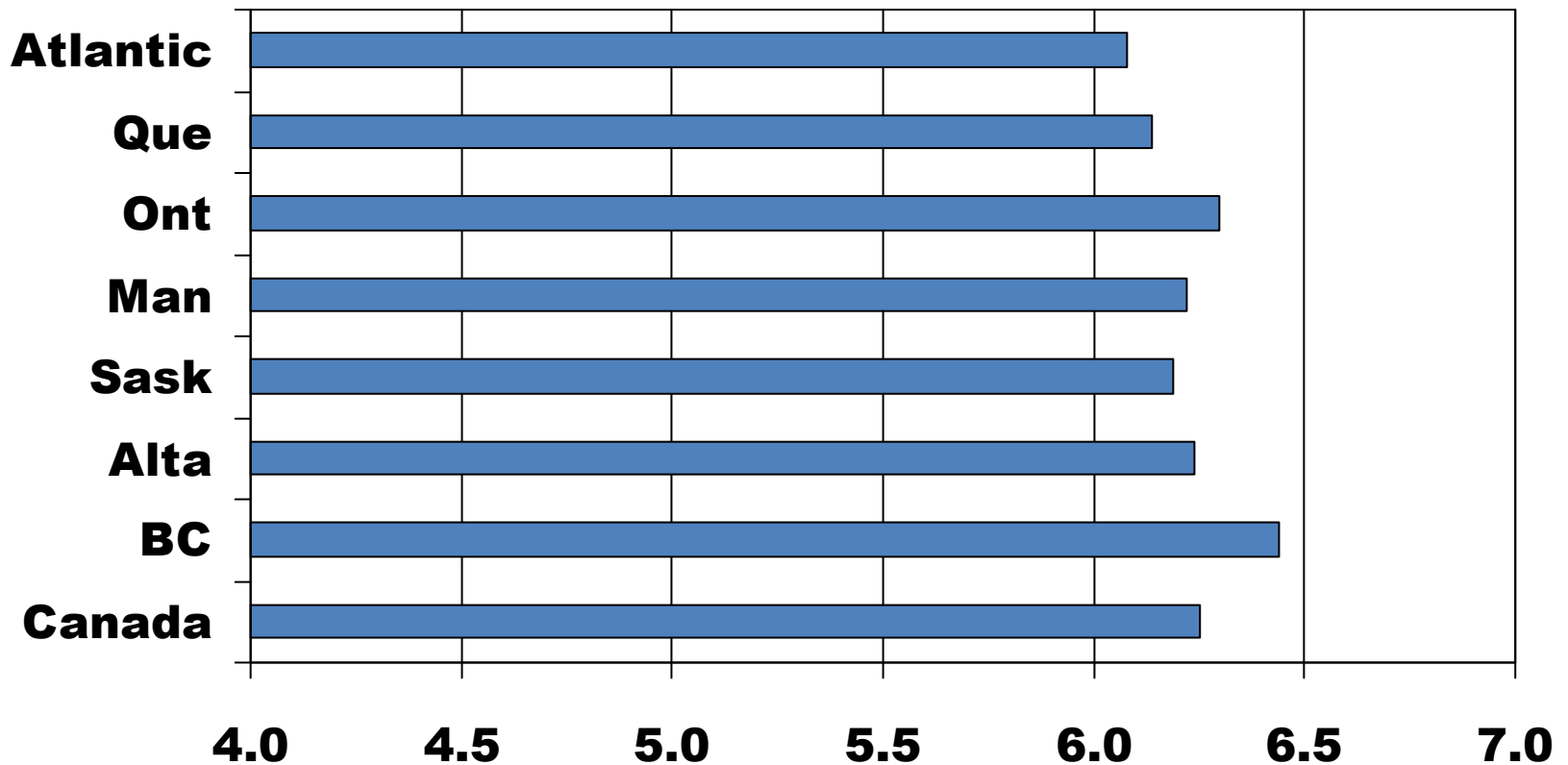
# Attitudes to Buying Very Strong (10-point scale)



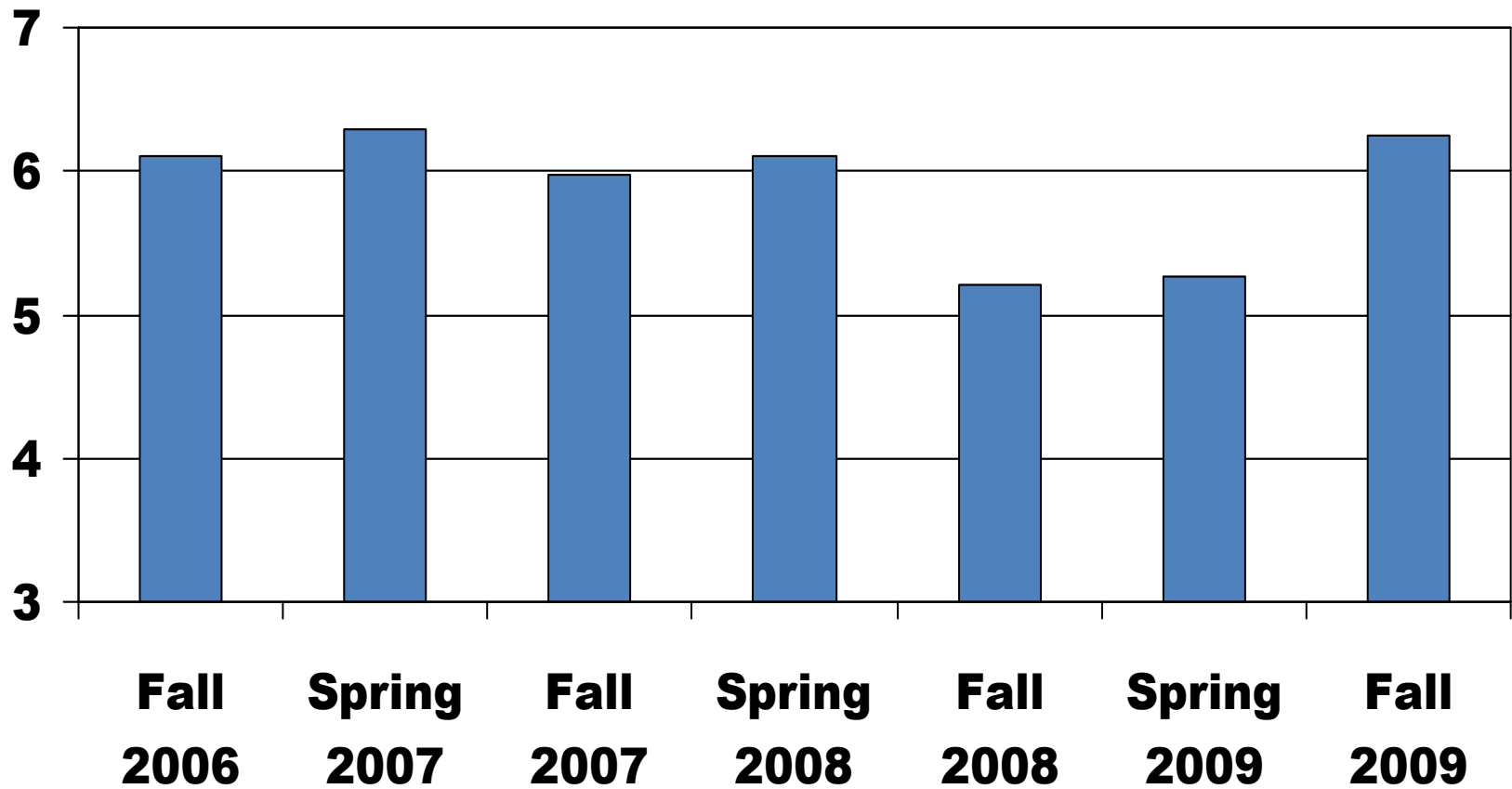
# But, Expectations of Buying are Low (9 or 10 on a 10-point scale)



# “Will House Prices Rise?” (10-point scale)



# Strong Recovery of Price Expectations (10-point scale)



# Consumers' Expectations for Interest Rates

- 6% expect decreases, 36% expect increases.
- Majority (58%) is neutral
- Few expect large increases (or decreases)
- Consumers expectations seem consistent with recent market trends

# Final Thoughts

- Confidence is recovering, but impacts on housing markets are uncertain
- Mortgage market growth may slow, but still exceed 6%
- Two-thirds of mortgage activity is renewals and refinances; one-third is new mortgages
- Equity take-out significant