

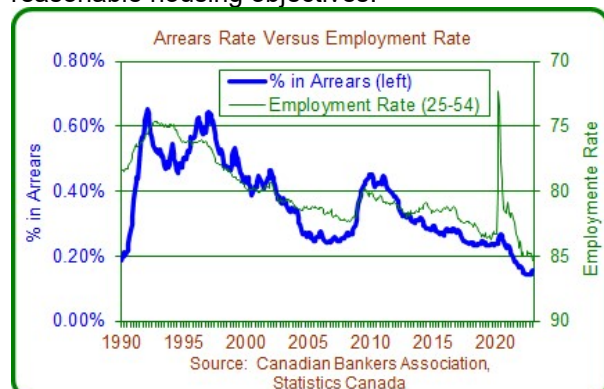
Housing Market Digest

Canada, April 2023

Mortgage Arrears

Data from the Canadian Bankers Association shows that the rate of mortgage arrears has increased by a very small amount, from a record low of 0.14% in August to 0.16% as of January (this is for the major banks only, and so does not include alternative lenders, who might have higher arrears rates). This very small increase is despite the sharp rise for mortgage interest rates: data from the Bank of Canada shows that for uninsured mortgages, the average interest rate for outstanding mortgages was 4.2% in January, versus 2.3% a year ago.

The emerging data continues to show that the prime driver of mortgage distress is changes in employment situations. Changes in mortgage payments have much smaller effects. In other words, the mortgage stress tests are examining the wrong risk, and in consequence are unduly preventing Canadians from achieving their reasonable housing objectives.

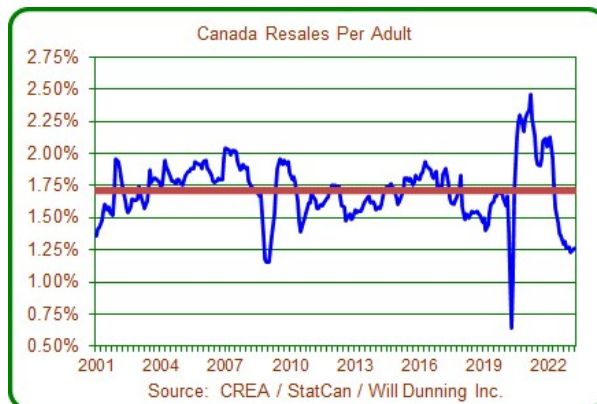


I made this argument in detail in the submission that I sent to the Office of the Superintendent of Financial Institutions (“OSFI”), which is the first item on this page:

<https://www.wdunning.com/recent-reports>

Resale Market

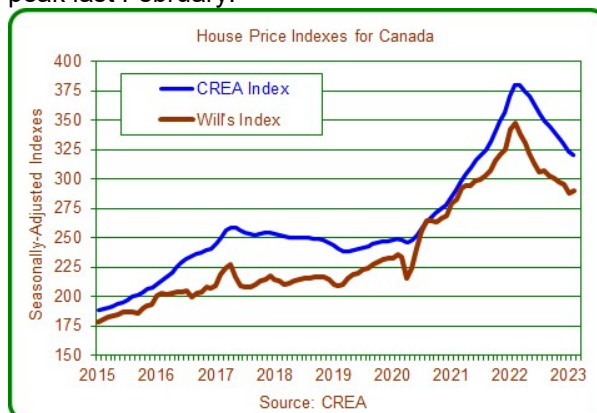
I just watched an interview with an economist (from one of the major banks), who commented that resales and pricing have increased for two consecutive months, and he sees this as the early stages of a rebound. I’m not able to go there. I see very small (and directionless) variations during the past half-year, in a market that remains badly weakened. For March, the annualized sales rate was 406,000. On a population-adjusted basis, the long-term average is now 544,000. March sales were 27% below that long-term average.



The flow of new listings into the market has slowed even more (on a population-adjusted basis, new listings are 39% below average). The sales-to-new-listings ratio increased to 63.5%, and is now far above the 52% threshold for a balanced market. As I discussed in the Toronto edition, I think that the listings data should be interpreted as revealing that among existing home owners there is very little interest in moving.



As of March, CREA’s price index and my alternative index are both down by 16% from the peak last February.



Looking forward, I’m agnostic. I’m inclined to think that the employment situation will soon start to weaken. If that occurs, it would likely bring further downward pressures on sales and pricing.

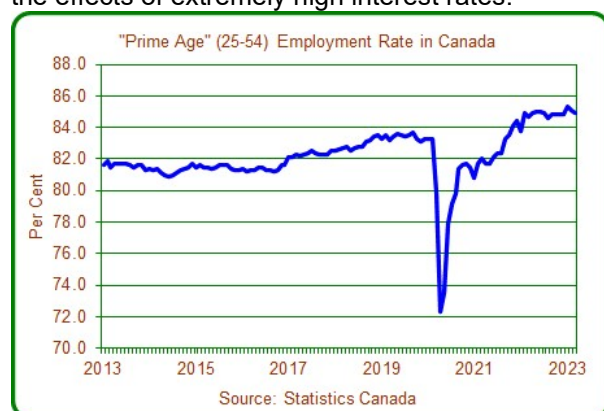
Housing Market Digest

Canada, April 2023

On the other hand, it is possible that the Bank of Canada could change direction on its interest rate policy, which could drive a real rebound – but, that seems very unlikely.

Employment

The estimates of employment have increased sharply in recent months, but the population has also grown extremely rapidly. In consequence, my preferred indicator has been roughly flat during the past year, and remains at a very high level. The continued strength of employment is – for now – creating a lot of pressures within the housing system, which is partly (but only partly) offsetting the effects of extremely high interest rates.



Interest Rates

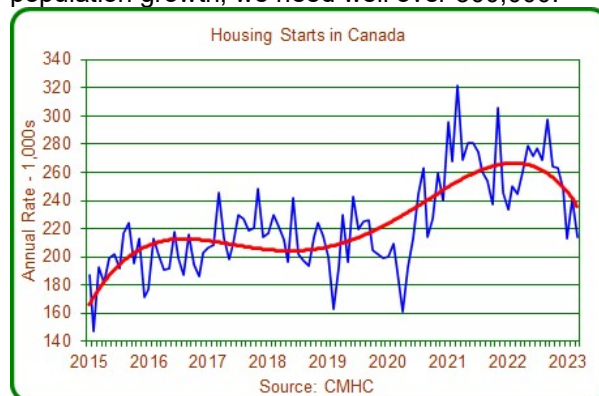
Mortgage interest rates remain very far above the level that I consider neutral (less than 3%). Given recent movements in bond yields, I can't see any reductions in mortgage rates in the near future.



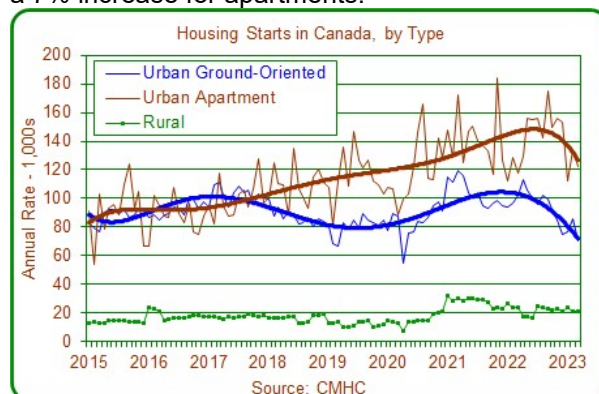
Housing Starts

Starts have slowed slightly. During the first three months of this year, total starts (all types of dwellings) were 2% lower than a year ago. The

seasonally-adjusted annualized rate was just over 220,000. Given the current (and expected) rate of population growth, we need well over 300,000.



Low-rise activity (singles, semis, and town homes) was 27% lower versus a year ago, while there was a 7% increase for apartments.



Other News

On April 5, the Globe & Mail published my op-ed (it's behind a paywall):

<https://www.theglobeandmail.com/investing/personal-finance/household-finances/article-the-federal-governments-mortgage-regulations-are-unfairly-trapping/>

How to Reach Will Dunning Inc.

Email: wdunning@sympatico.ca
Web site: www.wdunning.com
Twitter: [@LooseCannonEcon](https://twitter.com/LooseCannonEcon)

Disclaimer of Liability

This report has been compiled using data and sources that are believed to be reliable. Will Dunning Inc. accepts no responsibility for any data or conclusions contained herein.

Copyright: Will Dunning Inc. 2023