Canadian Outlook

The Canadian dollar futures - Share Market - Real Estate by City

What Lies Ahead

Armstrong Economics
March 22, 2016

ArmstrongEconomics
researching the past to predict the future

In cooperation with

PrincetonEconomicsIntl.COM

Armstrong Economics
300 Delaware Avenue, Suite #210
Wilmington, DE 19803

DISCLAIMER

The information contained in this report is NOT intended for speculation on any financial market referred to within this report. Armstrong Economics makes no such warrantee regarding its opinions or forecasts in reference to the markets or economies discussed in this report. Anyone seeking consultation on economic future trends in a personal nature must do so under written contract.

This is neither a solicitation nor an offer to Buy or Sell any cash or derivative (such as futures, options, swaps, etc.) financial instrument on any of the described underlying markets. No representation is being made that any financial result will or is likely to achieve profits or losses similar to those discussed. The past performance of any trading system or methodology discussed here is not necessarily indicative of future results.

Futures, Options, and Currencies trading all have large potential rewards, but also large potential risk. You must be aware of the risks and be willing to accept them in order to invest in these complex markets. Don't trade with money you can't afford to lose and NEVER trade anything blindly. You must strive to understand the markets and to act upon your conviction when well researched.

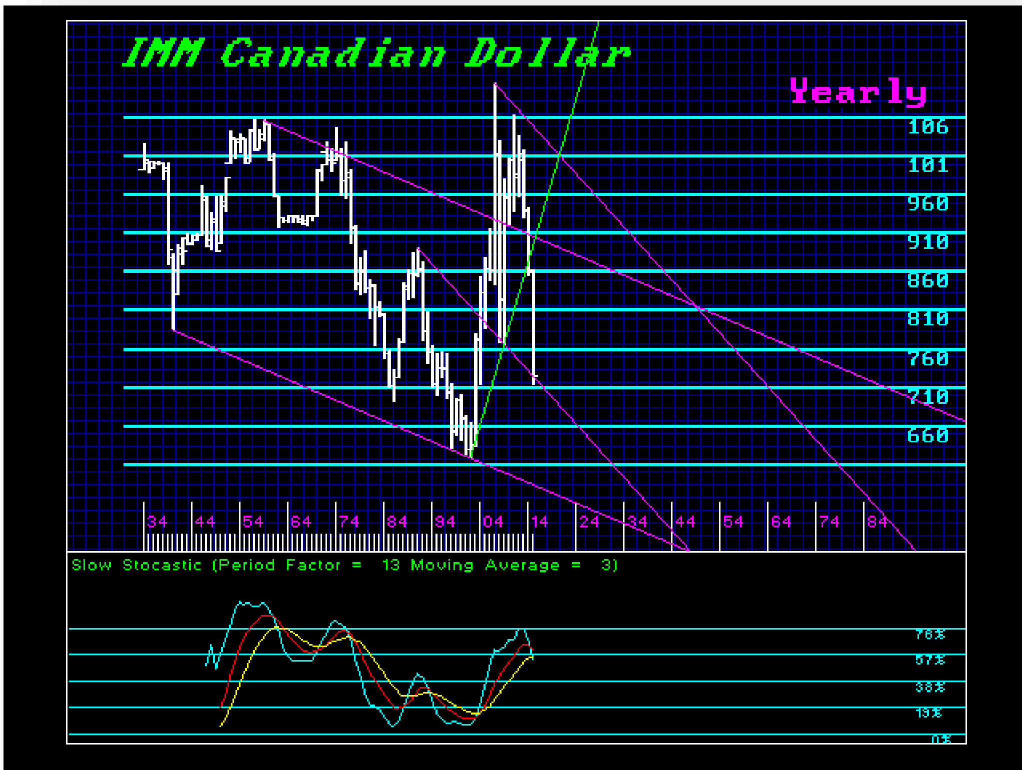
Indeed, events can materialize rapidly and thus past performance of any trading system or methodology is not necessarily indicative of future results particularly when you understand we are going through an economic evolution process and that includes the rise and fall of various governments globally on an economic basis.

CFTC Rule 4.41 – Any simulated or hypothetical performance results have certain inherent limitations. While prices may appear within a given trading range, there is no guarantee that there will be enough liquidity (volume) to ensure that such trades could be actually executed. Hypothetical results thus can differ greatly from actual performance records, and do not represent actual trading since such trades have not actually been executed, these results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated or hypothetical trading programs in general are also subject to the fact that they are designed with the benefit of hindsight and back testing. Such representations in theory could be altered by Acts of God or Sovereign Debt Defaults.

It should not be assumed that the methods, techniques, or indicators presented in this publication will be profitable or that they will not result in losses since this cannot be a full representation of all considerations and the evolution of economic and market development. Past results of any individual or trading strategy published are not indicative of future returns since all things cannot be considered for discussion purposes. In addition, the indicators, strategies, columns, articles and discussions (collectively, the "Information") are provided for informational and educational purposes only and should not be construed as investment advice or a solicitation for money to manage since money management is not conducted. Therefore, by no means is this publication to be construed as a solicitation of any order to buy or sell. Accordingly, you should not rely solely on the Information in making any investment. Rather, you should use the Information only as a starting point for doing additional independent research in order to allow you to form your own opinion regarding investments. You should always check with your licensed financial advisor and tax advisor to determine the suitability of any such investment.

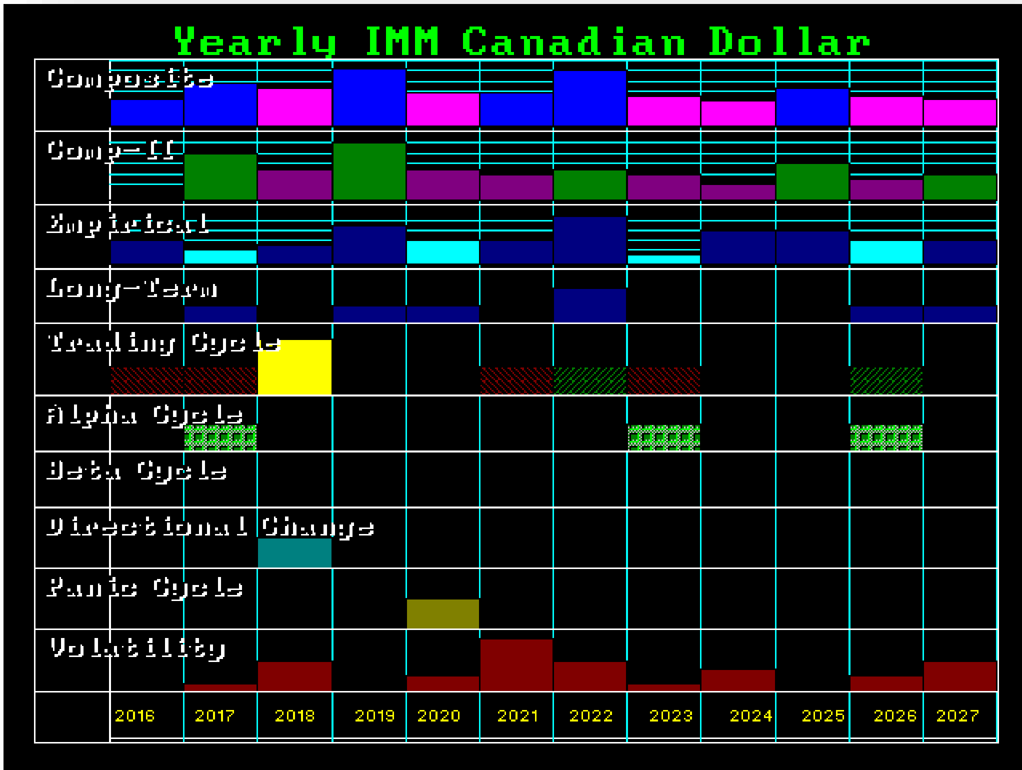
Contents

Canadian Dollar Futures



Canadian dollar futures went through a major slingshot after bottoming in 2002 at the 0.6170 level. The duration of the slingshot move was five years in total, reaching a peak in 2007 at 1.1043. From that 2007 high, Canadian dollar futures has elected only one Yearly Bearish Reversal, leaving 0.7135, 0.7088 and 0.6152 as key support on an annual closing basis. So far into 2016, the C$ has fallen to 0.6809. There is little doubt that 2017 could produce an important temporary low. However, if we see 2016 hold as a low with a reaction rally back up into 2017, then with a Directional Change year coming into play in 2018 on our timing models. It would be at that time when everything would reverse moving into 2019-2020. A continued decline into 2017 would imply a low with a potential rally into the 2019-2020 time frame. Thus, we will have to play this one close to the vest and by the book.

The wild swing we have seen in the Canadian dollar futures reflects the turbulence within the global economy overall. Confidence has eroded tremendously and this accounts for the tremendous price volatility. Our critical resistance to watch will be 0.7773. A closing for 2016 above that level would reflect a rally into 2017. A closing below 0.7135 would imply a resumption of the decline into 2017.



Our cyclically based standard deviation envelope for 2016 is defined as 1.0359 to 0.6170. Breaking outside this envelope on a closing basis often signals a sharp move will follow in the direction of that closing.

Combining this with our Reversal System provides a powerful tool to ascertain a change in immediate trend. Our opening support number for 2016 was 0.6361. This suggested that an opening above that level would first imply a bounce in a counter-trend reaction to the upside. We opened 2016 at 0.7216 so there should have been an immediate pause in the decline.

When we look at this market on the yearly level of our model, it appears to be in a neutral position at this time as long as we hold above 0.6315. Employing our What-If Models, we see the next Bullish Reversal on the yearly level standing at 0.7773. However, our model also indicated that a closing for 2016 **BELOW** 0.8245 would warn that any rally should still be negative and a resumption of the decline is likely thereafter. Our Yearly Energy Models are starting to turn back up, warning that further follow-through to the downside is limited as the market has closed lower at this juncture. However, the center-point moving average indicator is turning bearish. The oscillators are all in a bearish position. This is a reflection of the broader long-term perspective.

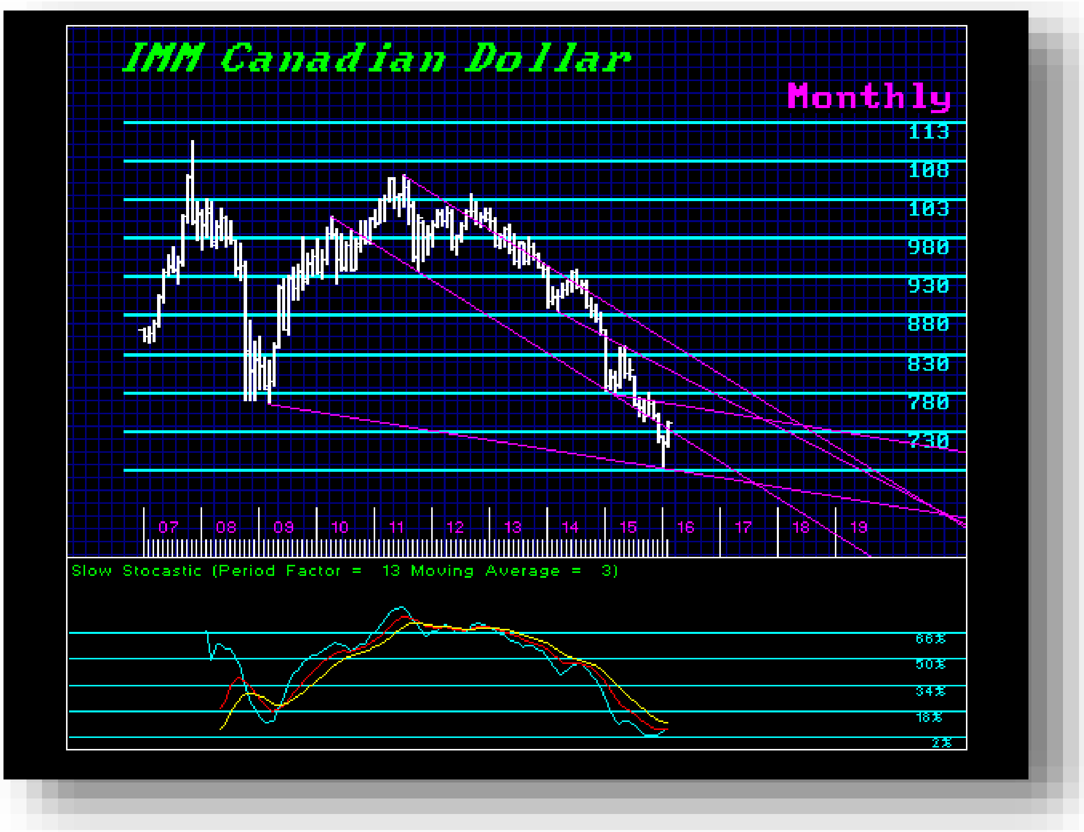
Based upon our Technical Projection Model, we see resistance forming above at 0.7278, 0.7303, 0.7306, 0.7314, and 0.8018 on the Yearly level. Key underlying support will form below at 0.7217 down to 0.7189.

RISK MANAGEMENT MODELS

Our risk models show a window on the monthly time level reflecting that there is a 7.27% risk on the upside, and a clear downside risk factor at 7.32%. From a risk perspective, resistance on a closing basis stands at 96.07, whereas the risk on the downside begins at 62.40. This reflects the wide trading range that if we remain within, then there is no serious change in trend.

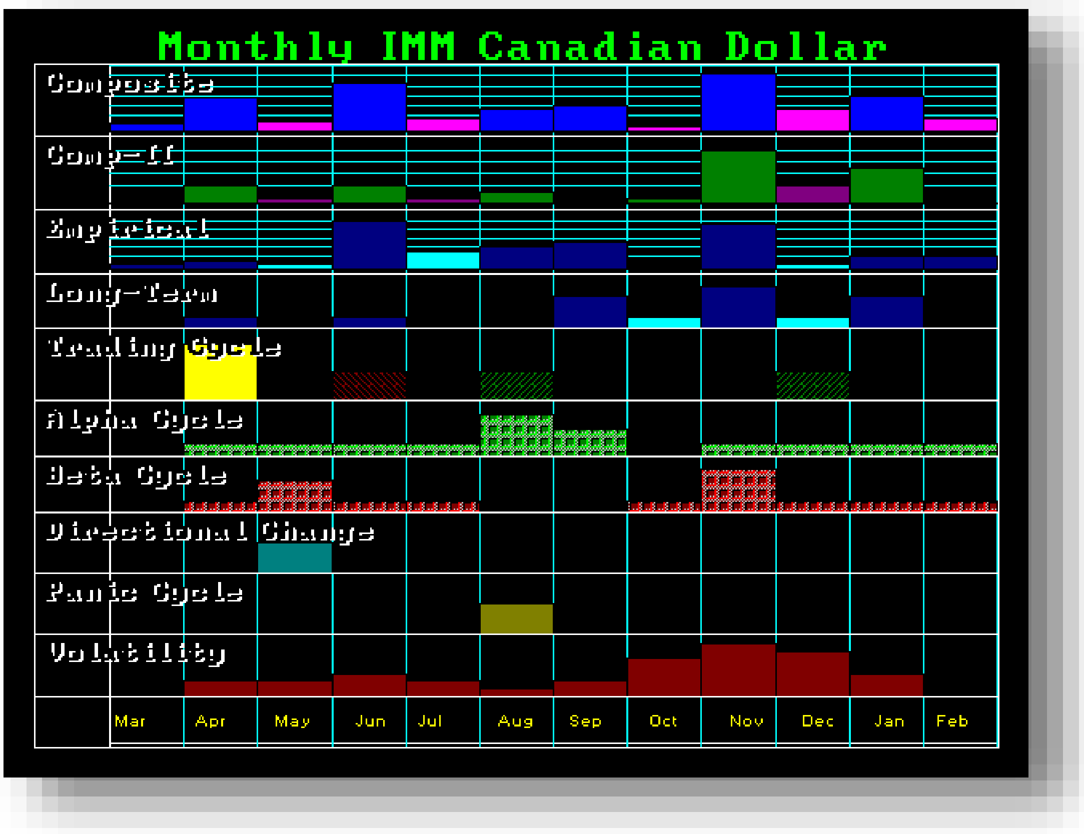
YEARLY ANALYSIS

The key Yearly Bearish Reversal to watch remains at 0.7135. This is the critical area to watch for support on a broader-term perspective. If this is penetrated on a yearly closing basis, then a serious bear market becomes possible into 2017. When we look at target support for a final low in the C$ against the Greenback, this is showing 0.5760 followed by 0.4943 looking into 2017. Looking beyond that time frame into the end of this business cycle, we see support at that time by 2020 down at 0.5705 and 0.3723. Keep in mind that a strong Greenback is necessary to break the back of the U.S. economy, and this would likely inspire a move to a new monetary system at the earliest by 2018, but perhaps more likely looking into 2019-2020.



MONTHLY TIMING ANALYSIS

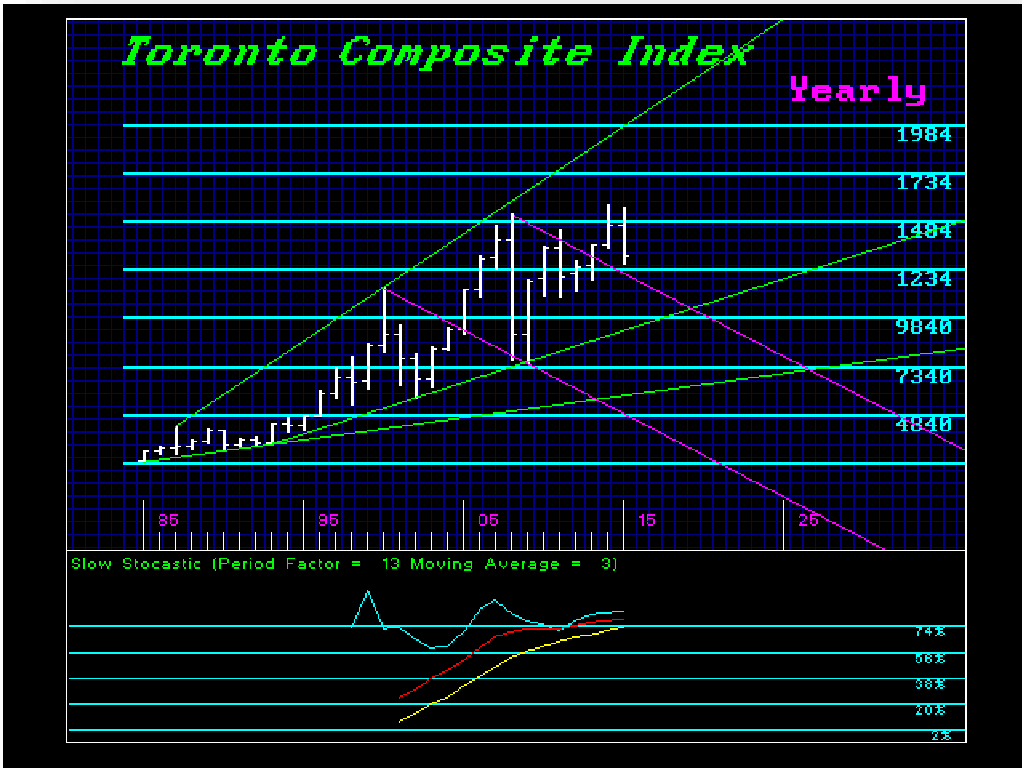
Looking at timing, May is a target for a Directional Change. Our turning points ahead appear to be April, June, August/September, with a major turning point arriving in November. Considering all factors, there is a possibility of a rally moving into March with the opposite trend thereafter into June. If the rally extends beyond March, then we would expect a May high. Otherwise, if a March high is not exceeded, then a decline into May should materialize. Thereafter, each target should produce the opposite of the previous.



Focusing an important timing model, the Directional Change Model target is May. This model often picks the high or low, but can also elect a breakout to a new higher trading zone or a breakdown to a new lower trading level.

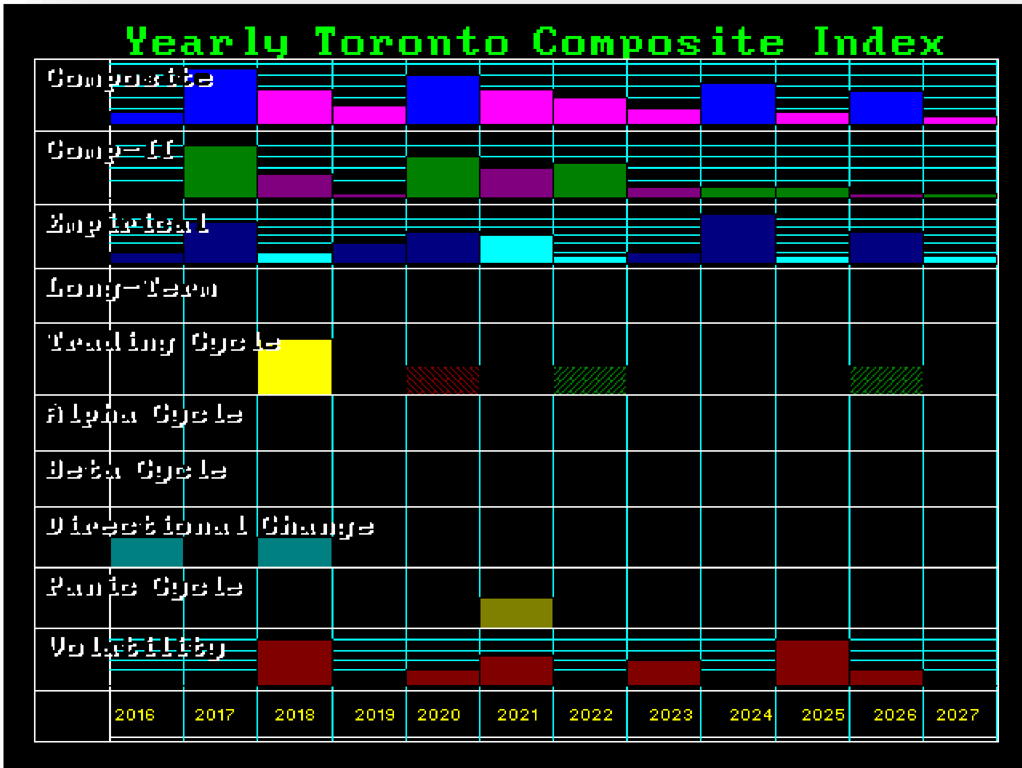
Searching the volatility models suggest we should see a rise in price movement between October and December. Keep in mind that this is the same time frame for the U.S. political election and that is by no means yet decided. Our Panic Cycle target will be in August. Clearly, we need a month-end closing above .7791 to signal that a sustainable recovery is possible even for a brief period. The major resistance that would imply a reversal of fortune requires a closing above .8836. We also have resistance forming at the Quarterly Bullish Reversal standing at .8605 level.

Canadian Share Market



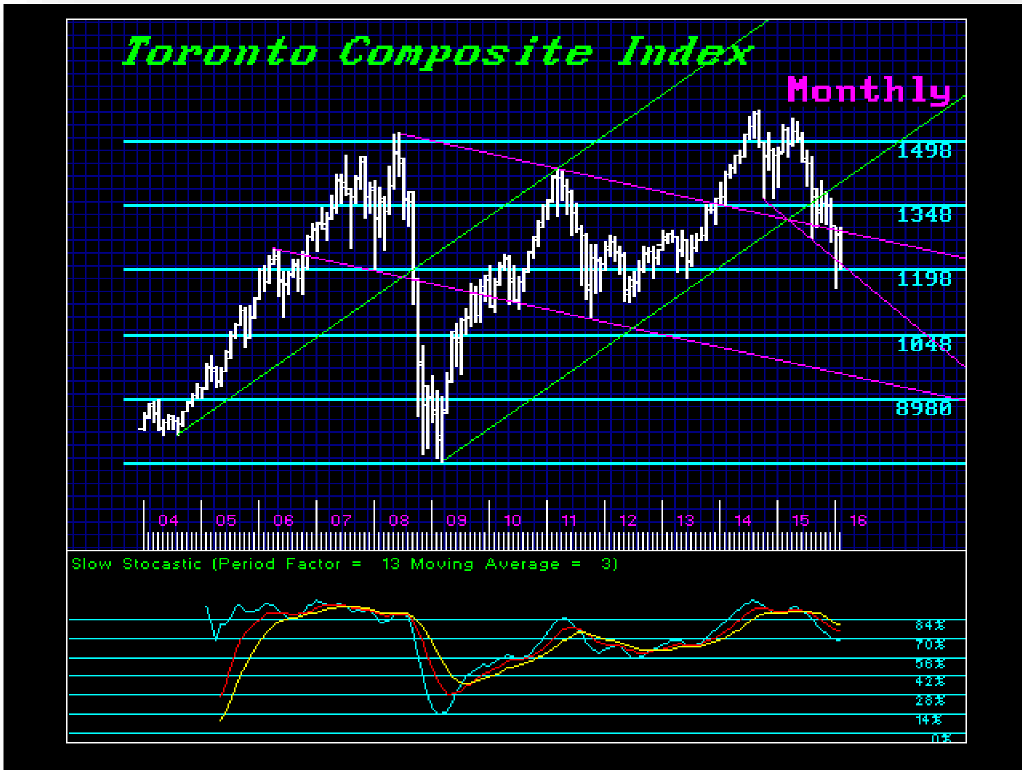
Toronto Composite Index (S&PTSX) Cash closed 2015 below the low of 2014and settled at 1301.00. This market established is major high during September 2014 at 15685.1 which was marginally above the 2008 high. Canada remains impacted by the deflation in commodities that has engulfed the world after the rising boom in China. Most cling to the idea that China will come back. That is not likely until after 2020, and even then the consumption of commodities it once represented will not reappear in the future to that extent.

This market has been in a bearish consolidation phase for the past 10 months. Some caution is necessary since the last reaction high of April 2015 at 15524.8 was important given we did obtain a sell signal from that event. We see that the trend should change come March so pay attention to events ahead. For now, this market is in an uptrend posture looking at the weekly level on a short-term basis. Nevertheless, we need a monthly closing above 13520 to imply that this can be sustained at least short-term.



Looking at our computer timing array on the yearly models, we see a Directional Change in 2016 with the main turning point due in 2017. This tends to imply that a final low in 2017 would complete a three-year reaction from the 2014 high, which suggests a rally thereafter into 2020. The commodities may rebound at that time and a recovery to new highs would be likely for the Canadian share market.

Resistance for 2016 stands at 13645. We have not elected any yearly sell signals, suggesting a more profound change in trend. We would need a closing for 2016 beneath 10845 to imply such an event. As long as that holds for the year-end closing, then we are dealing with only a reaction within a broader bull market movement. Our long-term models hint that the major high is probably not due until 2023/2024, which will be the peak in the next business cycle. More reasonably, we are looking for the next major high to come in during 2020. Focusing on 2020, a projection for a high at that point in time would be 20785 for a minimum target and the maximum being 27000. Keep in mind that the latter target would probably reflect a change in the monetary system. Either way, we should exceed the 2014 high of 15685 by at least 25%.



RISK MANAGEMENT MODELS

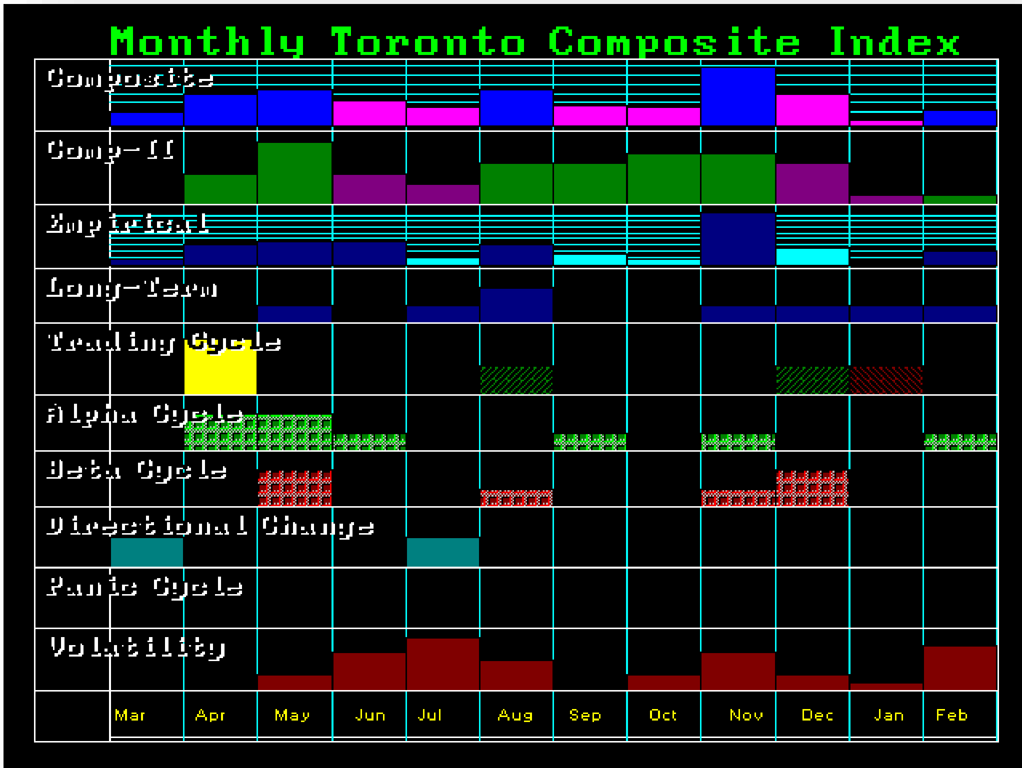
Our risk models show a window on the monthly time level at 7.11% on the upside, and a clear downside risk factor at 1.11%. From a risk perspective, resistance on a closing basis stands at 15685.1 whereas the risk on the downside begins at 11904.5. This means that support is climbing rapidly and increasing the risk of breaking back down.

YEARLY ANALYSIS

So far, we have a two year reaction in play from the key high of 2014. The key Yearly Bearish Reversal to watch remains at 10840.0. This is the critical area to watch for support on a broader-term perspective. If this is penetrated on a yearly closing basis, then a serious bear market becomes possible. An annual closing back above 14340.0 is necessary to potentially reverse the immediate declining trend.

TECHNICAL PRICE OUTLOOK

Our critical opening pivot point for 2016 was 13314.3. We opened below that number at 12920 and have reached 13447 so far in 2016 moving into March. Our Monthly Bullish Reversal stands at 13520 so we need to see March close above that to sustain any immediate hope of moving up beyond March.

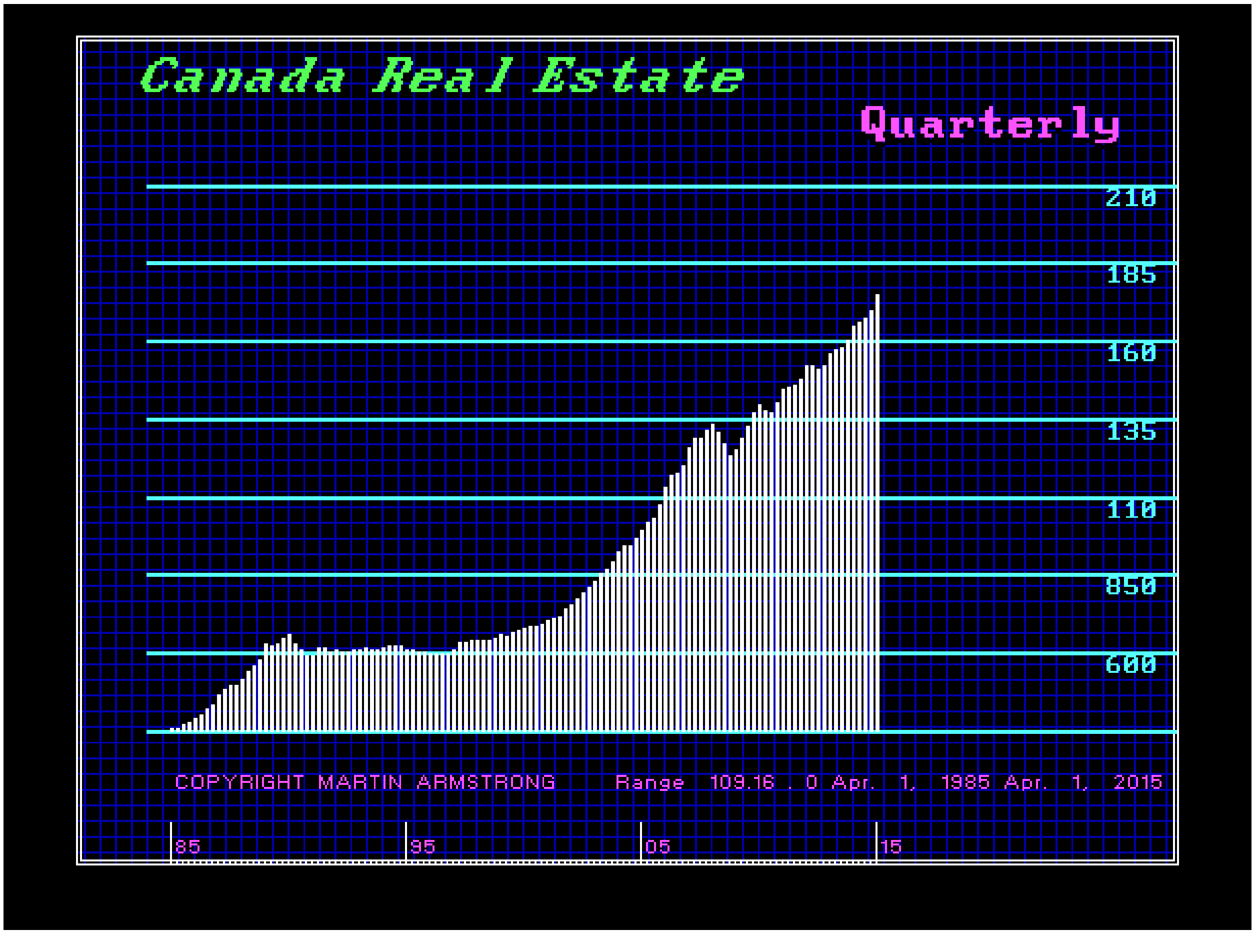


MONTHLY TIMING ANALYSIS

Looking at timing, I see the key targets on the Turning Point Model, defined as highs or lows on an intraday or closing basis, for March, May and August with Directional Changes due in March and July. Volatility should rise going into July and then we should see November provide a rather important target for a turning point.

The low here has been in January 2016. A minimum counter-trend reaction is two months so a possible March turning point remains open. A closing back below 12600 will warn that the reaction is complete and a retest of the low is in order. We really need March to close above 13520 to see a continued rally at least into April/May.

Canadian Real Estate

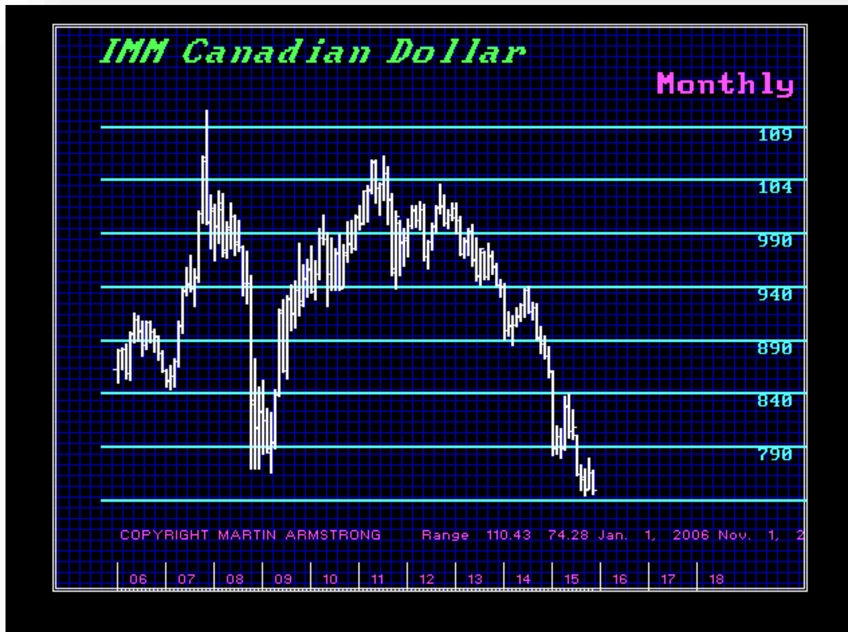


The story of Canadian real estate this year is one of shifting economic fortunes and changing real estate trends intermixed with the decline in the currency value. The decline in oil prices has caused a sharp slowdown in the Calgary economy, the Edmonton economy also is trending downward, and the long-term impact on the local real estate market remains negative. The low energy prices and declining commodity prices in general combined with the fall in the Canadian dollar futures has taken its toll on Canada from a foreign and domestic perspective.

The economic power thus shifted back to the east as commodities in general declined. Property prices appear to have reached a frothy peak in Toronto and a near-term decline in the 5-10% area in home prices should be expected.

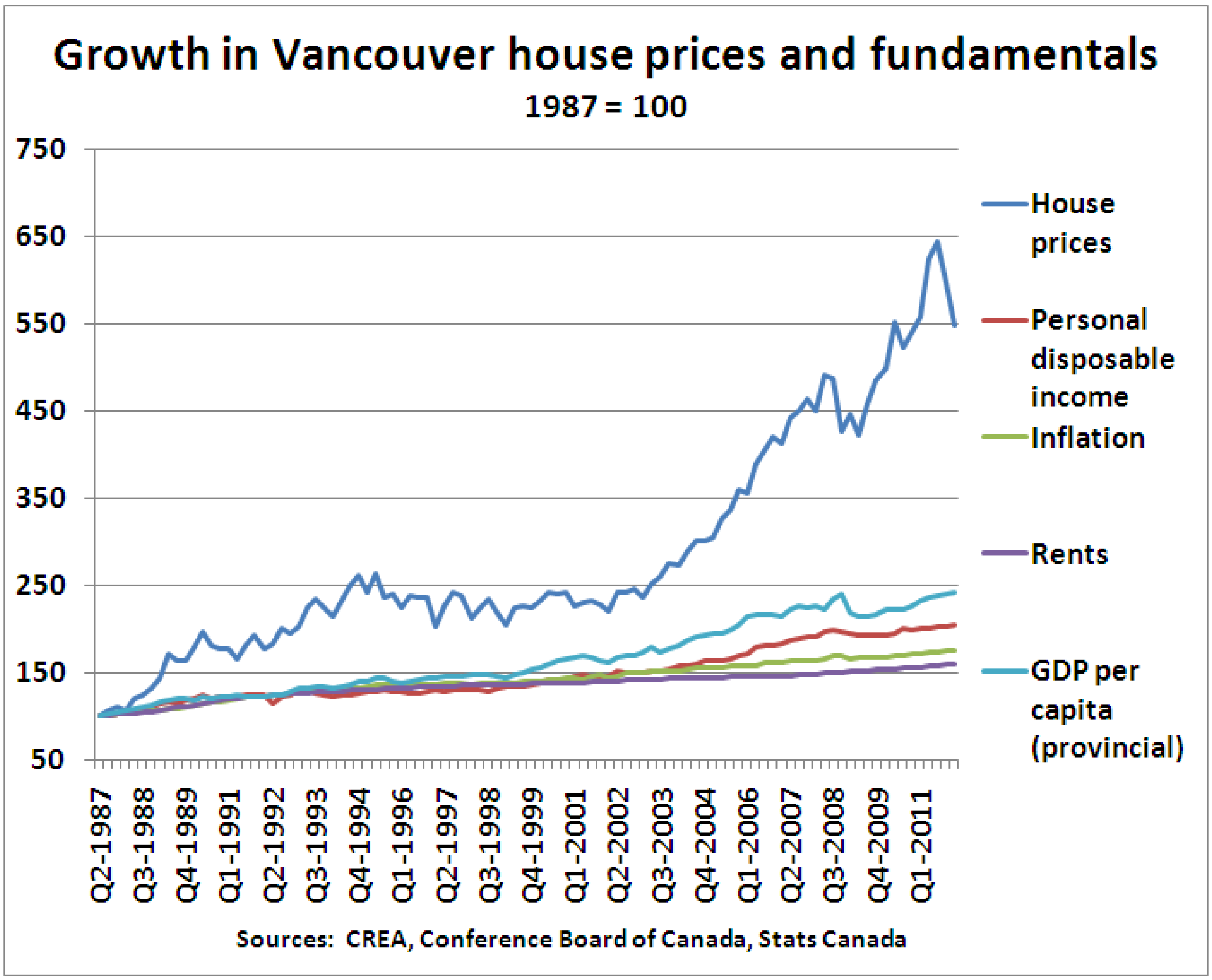
With the decline in the Canadian dollar futures, real estate is likely to produce at least a 25% loss for foreign investors in Canada. The single-family home prices in Toronto and Vancouver will bear the brunt of any correction, just as we see the decline in London outpaces the decline outside of London.

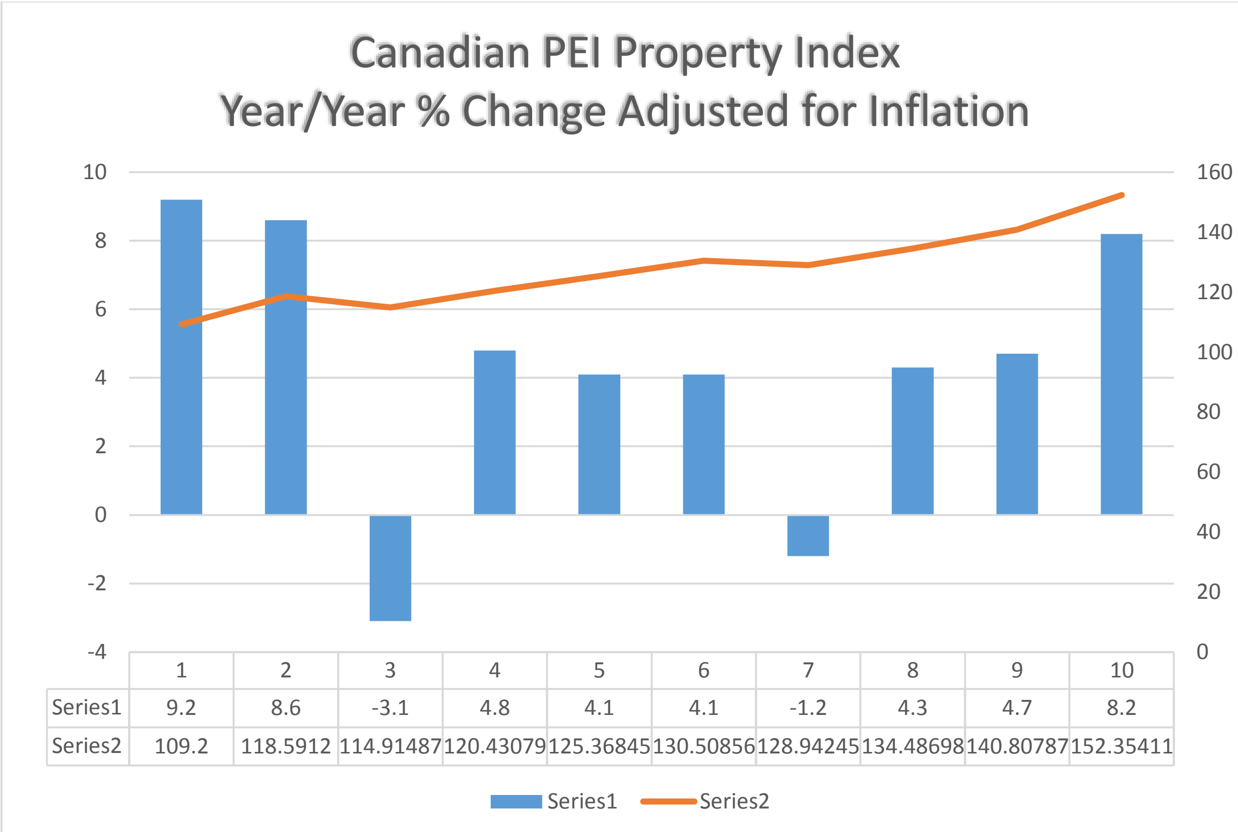
There have been major strides taken in China to stem the outflow of capital and this will also help to turn the Vancouver market downward in price. The Toronto market has been driven more from Europe than Asia, and here the trend has simply reached a bubble top. Real estate had been a primary bright spot for the economy as the decline in the currency made it look cheap to external investors. However, construction activity was flat in September and agent and mortgage broker activity pulled back 1.7% from August levels. This implies that the market did peak also in line with the 2015.75 turning point on the ECM.



Foreign owners made up a bigger share of the condominium markets in Toronto and Vancouver over the last year, according to the nation's housing agency. Clearly, foreign owners of condos comprised 3.5% of the market in Vancouver and 3.3% in Toronto, according to a report from Canada Mortgage & Housing Corp. which surveyed property managers. That had risen from 2.3% in Vancouver last year and 2.4% in Toronto. When focusing on just the core sector of the cities where foreign capital tends to concentrate, foreign buyers made up 5.4% of Vancouver condo purchases in 2015 versus 3.4% last year and 5.8% of Toronto condo purchases versus 4.3% in 2014. The declining Canadian dollar futures helped to attract foreign capital fleeing China and Europe.

Canadian politicians have been under pressure, as in London and Singapore, to start monitoring offshore money inflows. Locals always blame rises in property always on foreign investors. The average price for a detached home rose 9% to C$1.02 million ($760,000) in Toronto in November from a year ago, while Vancouver home prices soared 18% to C$752,500.

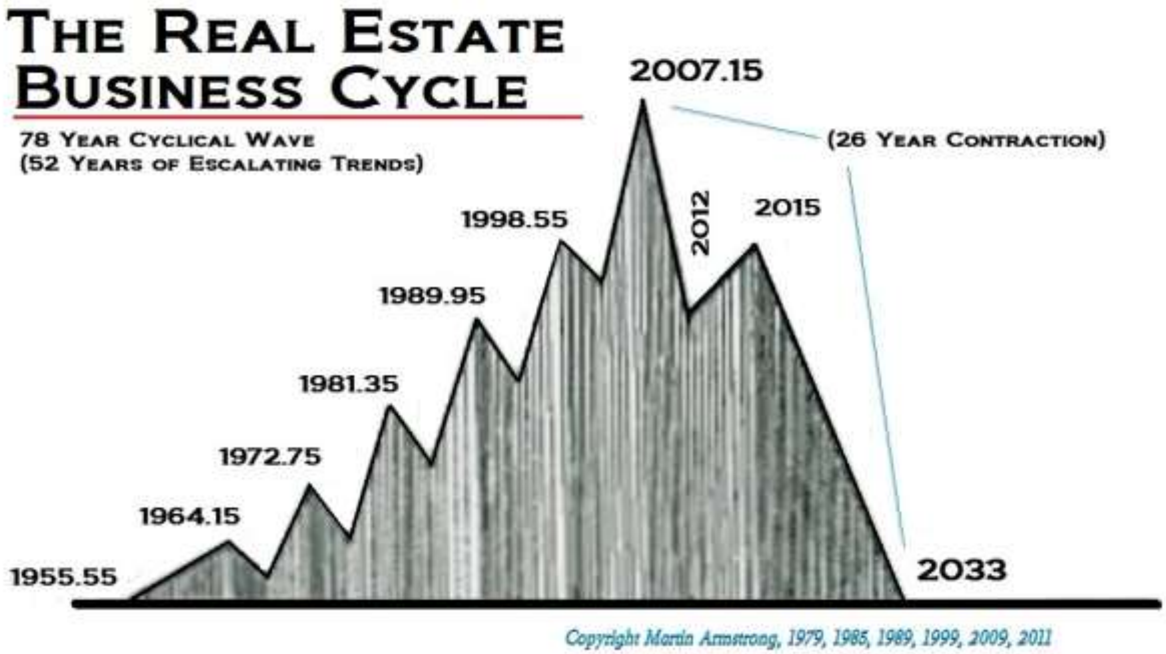




So far, the agency's data is limited to condominiums and based only on a survey of property managers. Offshore buyers can keep their location and identity secret, which has helped the foreign investor.

Canadian real estate has two problems. First there is the decline in the currency and secondly there is the trend toward either raising interest rates or not moving negative in the United States at this early stage. Canada does not have the deep mortgage market that the USA does, so its cycle tends to be a bit more volatile compared to a 30 year mortgage market.

Because of the decline in the $C, properties will lose international value. Eventually, as the currency declines, Canadian real estate will appear to be cheap to the foreign investor. Canadians are the largest buyer of property in the USA, whereas the Chinese have been the largest buyer of high-end properties in the USA. Nevertheless, U.S. dollar based assets will be the hedge for Canadians going into 2017.



The broader real estate market peaked in 2007 in real terms. The overall decline we have witnessed following that peak has been generally felt within the average market. The reaction rally we saw going into 2015 was focused in two main categories. First, the rally was in the high-end property market. This was driven by capital seeking to get off the "grid" in fear of banks and governments.

The second category has been international capital flows. Here we have capital which has been pouring into North America from Europe as well as from China in particular. This has been well illustrated by the property market in Vancouver, and the high condo prices in New York as well as Miami.

Our model in "real terms" is now pointing down into 2033. What does that actually mean? Will property housing collapse in price? Or will the decline in the purchasing power of the currency outpace the real estate rise in values? This is certainly more of the second outcome than the first. However, average home values outside of the key target areas for foreign capital will decline in real terms. This will be caused by taxes on the one hand and the problem with property that has always existed from ancient times – you cannot pick it up a leave in times of war or economic chaos.

In 2015, the average residential–detached sales price for major Canadian markets varied and was driven by a foreign capital influx. This was made quite clear with Vancouver coming in at over $1.6 million, which does not include the high–end market. Toronto's average was over $1 million excluding the high–end properties coming in as Canada's second most pricey market. The markets such as Winnipeg and Halifax, came in with the lowest average residential–detached sales prices, which averaged $293,992 and $295,606, respectively according to national data.

The Canadian Real Estate Association (CREA) in its year–end market release indicated Greater Vancouver prices were up 11% as were prices in the Fraser Valley. Toronto made double digits at 10% and Hamilton–Burlington came close at 9%. Calgary and Regina prices declined 2%, while Winnipeg held steady. Montreal and Victoria were up a little at 4% and 5%. Keep in mind that this is in nominal Canadian terms, which reflect the decline in the Canadian dollar futures rather than new highs in international value terms.

The B.C. and Ontario markets are clearly driven by foreign capital investment inflows. This accounts for the sharp rise in Vancouver and Toronto. This has helped to negate the changes to mortgage regulations announced in December that were aimed at cooling these housing markets. Buyers there had been expected to bring forward their purchase decisions before new regulations took effect in February 2016, but they faced a growing shortage of supply. On the other hand, there is ample supply in other markets.

Generally, residential-detached and single-family homes experienced the best performance in 2015, whereas condominiums have declined on average about 10% as speculation declined for 2007. Therefore, this rally has been significantly different from the rally into 2015. Consequently, the high-end and residential-detached or single-family homes have outperformed the condo market on this leg up in real estate for 2015.

The federal government raised the minimum down payment for higher-priced homes in Canada on February 1st, 2016. Homebuyers are currently required to put down a minimum of 5% to qualify for Canada Mortgage and Housing Corporation insurance. When providing a mortgage worth more than 80% of the home's value, this 5% is required. Since February, CMHC will require a 10% payment on the portion of any mortgage it insures over $500,000. The 5% rule remains the same for the portion up to $500,000. This is targeting Vancouver and Toronto where housing prices have soared.

Canada tried to stem the tide of Chinese entering Vancouver as thousands of temporary foreign workers were faced with having to leave Canada because of changes to the federal jobs program in April 2015.

Many wealthy immigrant would-be Canadians immediately took advantage of a loophole in Quebec that allowed them easy access to Vancouver. Quebec always maintained a separate structure in defense of their French background.

Ottawa announced back in 2013 that it was ending Canada's Investor Immigrant Program. However, many were still arriving in Vancouver after applying to a similar program in Quebec that has maintained its own immigration program under the Canada-Quebec Accord. The immigrants quickly discovered that they could receive their visas from Quebec, but they do not stay in Quebec and quickly migrate to Vancouver. The data illustrates that 90% of those arrivals actually end up living elsewhere outside of Quebec quickly moving to Vancouver. The wealthy immigrants, mostly from China, hand over $800,000 in the form of a no-interest loan to the Quebec government to gain their visa.

Quebec gets the benefits from that loan, which lasts for five years if they can pay it back. This is becoming increasingly questionable. This has been a highly lucrative program for Quebec and has enabled it to reach record debt levels.

These immigrants are not actually producing a drain on public resources in Quebec nor in Vancouver since they likely need to be very rich just to get in with this loophole. This has helped to spike the Vancouver real estate market while Quebec remained about $100,000 below the national average. Quebec reaps the monetary benefits of its program while BC deals with the after-effects. The question becomes, what happens when Quebec can no longer live off of free loans?

Quebec carries the heaviest debt per person of any Canadian province. There are 2.2 million Quebecers — 36% of the population — who do not pay provincial taxes at all. In comparison, only 4.1% have earnings of $100,000 or more a year. Quebec spends more to keep its debt rolling than it does on education.

Calgary

In the case of Calgary, the real estate market is showing strong evidence that a decline is underway. The city has had one of the strongest performing urban economies in Canada for most of the past 10 years. Calgary has grown faster than any other major city in the country. Calgary has had the second highest average annual and second highest total real GDP growth over the past 10 years (2005–2014).

The vacancy rate has climb for office space to nearly 12%. Nevertheless, Calgary has had the highest personal income and the greatest purchasing power. The city has had a lower cost of living than either Toronto or Vancouver. Still, the peak appears to be in place and a downturn is in motion for the near-term.

We can see from the chart that this market has not been as straight up as in Toronto and Vancouver. Calgary has for the most part avoided the excessive overvaluation driven by a flood of foreign capital coming into the market. Our timing models do show a decline is likely in nominal terms into 2017. There may be a rally thereafter into 2019, but this may be driven at that time by the strong influx of capital especially from Europe.

Halifax

The Nova Scotia market for the past several years has seen an ever increasing inventory in real estate that finally peaked in 2015. Condo inventory began to decline in mid-2015 from the May high, but the overall residential-detached or single-family home numbers continued to rise into September. The recent shift to lower listings since and 2015.75 (September 30th) and increased buyer activity have certainly aided this event, and that buyer activity spiked most likely due to the changes in mortgages raising the minimum deposit from 5% to 10%. Average prices, nonetheless, have begun a decline but it appears to be first time home buyers who were rushing to buy before February 1st.


Halifax Residential Real Estate Index
Expressed in Canadian Dollar
Quarterly


Halifax Residential Real Estate Index
Quarterly
Composite
Composite II
Empirical
Long Term
Trading Cycle
Direction Change
Panic Cycle
Internal Volatility
Overnight Volatility
Jan-2016
Apr-2016
Jul-2016
Oct-2016
Jan-2017
Apr-2017
Jul-2017
Oct-2017
Jan-2018
Apr-2018
Jul-2018
Oct-2018

Montreal

Quebec is notorious for being one of the worst fiscally managed governments in the world. Then Quebec debt burden is reflected in the fact that the annual payments of $11 billion on debt ($30 million per day) now exceed the total cost of elementary and high school education. The debt costs are crowding out all other spending and this is a fiscal crisis that has had a tremendous impact on prices in real estate. As home sales in Toronto and Vancouver have soared, the real estate sector in Canada's second-largest city remains in a state of depression with prices almost $100,000 less than the national average.

People do not seem interested in buying in a province that everyone knows is economically on the brink of collapse. Montreal's million-dollar homes surged in price about 25% during the first 10 months of 2015. This is again money trying to get off the grid and is in line with the rally we saw in the high-end market as a hedge against government on a global scale.

As far as first–time homebuyers, Montreal remains one of the country's best big–city bargains but this is reflected in the high taxes and lower economic business opportunities. The average sales price is less than $350,000 in Montreal for a comparable place located in Toronto at just under $625,000 and nearly $900,000 in Vancouver. This is about $100,000 lower than the national average in Canada, according to the CMHC.

Clearly, the debt burden in Quebec is a time bomb as the province has been the worst fiscally managed probably in all of North America. Then there is the political instability as the economy turns down, where we see blame place on the rest of Canada and a separatist movement regaining support. Flare–ups in the sovereignty debate or the election of the Parti Quebecois have traditionally suppressed real estate prices in Quebec.

The loophole of free loans of $800,000 for immigrants to enter Canada has only helped prolong the crisis giving false hope that somehow the government is holding on. But this will send a shockwave to Vancouver for that is where the Chinese immigrants quickly migrate after getting into Quebec – the place nobody seems to want to stay.

Quebec's language policies that restrict who can attend English-language schools are also a disincentive for companies to set up shop and attract employees willing to relocate. The province's historical preference for renting is also a factor, although the trend to ownership has been rising with the growth of the condo market.

Toronto

There has been a risk of a real estate bubble in Toronto caused by foreign capital inflows and the decline in the value of the Canadian dollar futures that makes property appear much cheaper to foreign buyers. The source of the bubble is not purely domestic demand and the currency is rarely taken into account by domestic analysts. From a pure currency perspective, the decline in the Canadian dollar futures from the high in November 2007 at 110.43 to 71.43 in December 2015, was a 35.3% decline. That means that property needed to rise by 35.3% just to break–even in terms of international value. The average Canadian does not see that currency advantage. This only attracts foreign investors.

Saskatoon and Regina suffer from both overvaluation and overbuilding, as prices remain high and building continues in the face of low oil prices. We are not looking at housing prices being sustained by economic conditions, but by foreign capital inflows of money trying to get off the grid and out of banks.

Therefore, given that in Toronto the rapid price acceleration in the past year has been driven by foreign capital inflows, this trend has created the impression domestically that prices that are just too high for detached homes, but also especially in the condo market. Sales of condos in the fourth quarter in Toronto were 5,596, which was an increase of 12.6%. This does not reflects economics, but currency which has led to the price of condos rising about 4%.

The foreign buyers have sparked an acceleration in building of Toronto condos in the final quarter of 2015. The rise in housing prices in Toronto has not been matched by a rise in disposable incomes, which is why domestic analysts are warning of a bubble.

Vancouver

The Vancouver real estate market from a domestic viewpoint is seen to be in less of a bubble risk compared to Toronto. Despite having the highest home prices in Canada, Vancouver has been seen at only a moderate risk of overvaluation of real estate prices due to the city's low vacancy rates and the predominance of high net worth buyers. Since this trend is due to the major influx of immigrants from China, we must look at the fact that many get into Canada through providing interest free loans to the Quebec government of $800,000. This creates a debt bubble in Quebec with potential contagion impacts for Vancouver.

Vancouver is the third least affordable city in a study of 367 markets and nine countries around the world, and construction constraints are to blame for rising home prices there and in other Canadian cities. It has only been surpassed by Hong Kong and Sydney Australia according to Demographia which ranks cities globally.

While we see the correction in property values, keep in mind that we are likely to see nominal prices rise after 2017 which will have nothing to do with the underlying economy. The crisis remains driven by the currency value and the decline in the Canadian dollar futures by 35% that is attracting foreign investors. As the world economy turns down hard in Europe and Asia, property values may yet look attractive to provide a base in terms of nominal values in contract to international values in real terms. The change to the mortgage regulations announced in December had no real impact since much of the property sold to wealthy Chinese are in cash or big deposits.

Winnipeg

Total housing starts in the Winnipeg peaked in 2013 and 2015 was down about 7.6% from 2014. Employment growth in the Winnipeg increased moderately going into 2015 which help to support the real estate market to some extent. Job growth will most likely now enter a declining phase into 2018 to 2020.

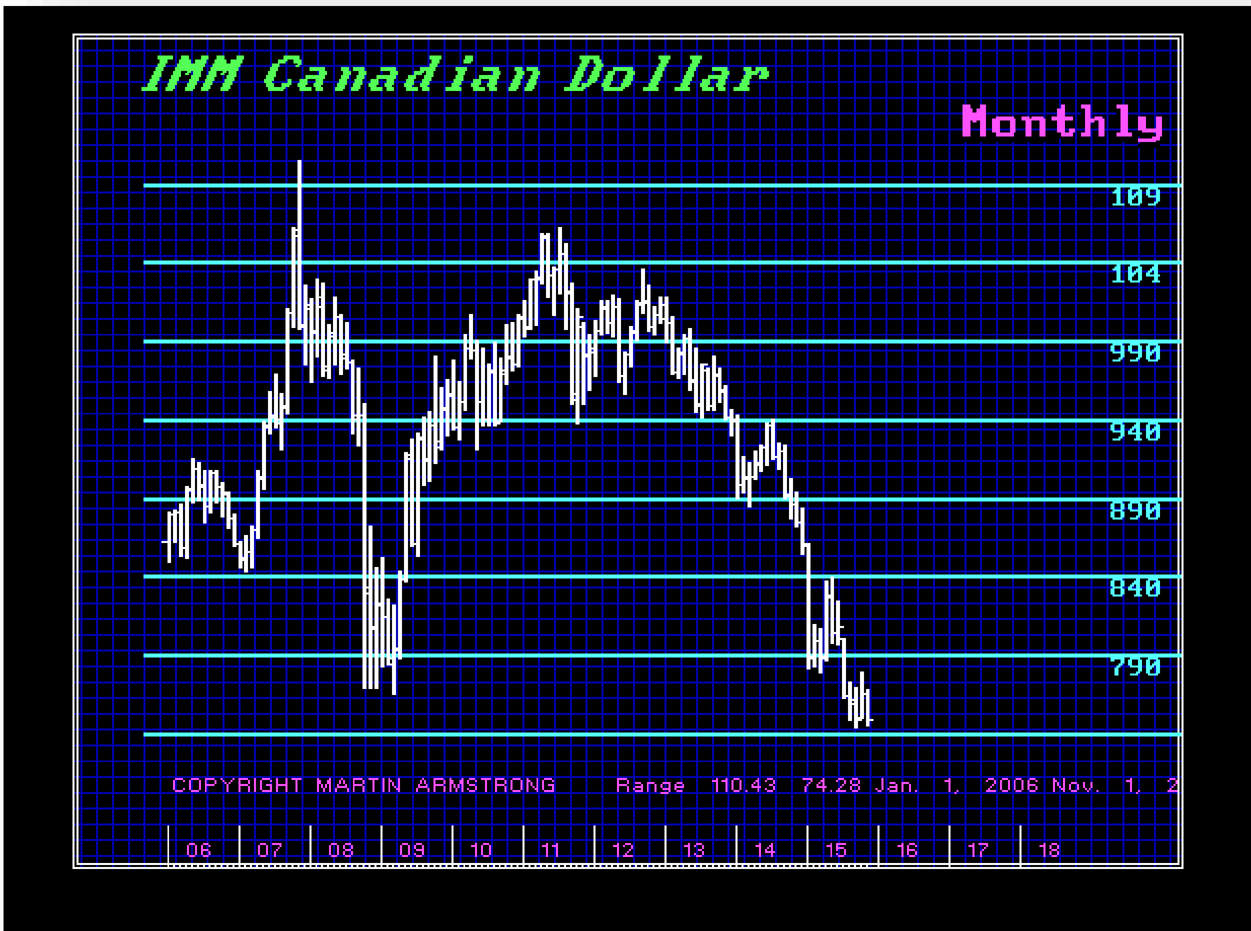
A low Canadian dollar futures has helped to some degree in bringing in foreign capital. Some people have tended to sell their properties in Toronto and Vancouver moving to retire to cheaper areas. Net migration to the area is declining, however from here onward. Nonetheless, Winnipeg saw an increase of 17% in 2014, but we would expect the net migration to the area remaining at near historical highs.

While housing demand will decline due to slower job growth and lower migration. Supply is still expected to expand in the multifamily sector where units

and condos already under construction are completed increasing supply. Winnipeg's single-detached market saw a rapid decline in new production of 16% post-September 30th, 2015. This is in line with what we saw in London, England.

The construction of single-detached homes will remain well below levels of the four year construction boom that led to the 2013 high. Given that we see the negative trend in employment growth ahead, there should be little underlying support for housing prices on a domestic economic perspective.

Conclusion



The Canadian real estate market is doomed from a domestic perspective of trying to analyze the trend based upon economic conditions. We are entering a phase when capital tries to get off the grid with respect to government taxation and fiscal mismanagement. Candian property offers the safe haven perspective for foreign capital trying to flee Europe and Asia.

We must understand that the driving force here has been currency. The areas that have tended to peak early like Winnipeg in 2013, should fair better in the years ahead. The risk in Vancouver will be the fallout from a Quebec default on its debt owed to immigants who quickly moved to Vancouver. Given they had to lend Quebec $800,000 interest free for five years to get their visa, we should not remain that optimistic for the years ahead insofar as attracting more foreign capital.

Since 2007 when the Canadian dollar futures peaked against the US dollar, property has been up only about 28% in Vancouver whereas the currency has declined 35%. Therefore, on a net international basis, the foreign investment has helped to keep Canadian properties high, but there has still been a decline in terms of international value.

AVERAGE RESALE PRICES *CMA = Census metropolitan area* *f = forecast*

	MONTREAL (CMA)	TORONTO (GTA)	VANCOUVER (GVA)	QUEBEC (PROVINCE)	CANADA
1980	$49,419	$73,656	$100,065	$48,715	$67,024
1990	110,045	235,983	226,385	100,811	142,000
2000	125,499	243,249	295,978	106,505	164,374
2010	293,014	432,264	675,853	242,257	338,861
2011	308,852	466,352	779,730	254,707	362,556
2012	321,059	498,973	730,063	264,096	363,606
2013	323,970	524,089	767,765	267,646	382,804
2014	331,073	566,491	812,653	271,227	408,329
2015 f	338,500	612,000	887,600	275,000	437,700
2016 f	345,500	636,500	914,100	277,100	443,300
2017 f	353,000	650,000	933,200	n/a	449,600

SOURCES: CMHC, Quebec Federation of Real Estate Boards; Canadian Real Estate Association THE CANADIAN PRESS