

QUARTER 2: Canada Guaranty Housing Market Review

APRIL – JUNE 2010

The global economy continues to place stress on the North American recovery as concerns for European markets weighs heavily on the minds of investors. The mindset of central banks worldwide is one of cautious optimism with recovery being viewed as a long process versus a quick movement to pre-recessionary employment, production and economic output.

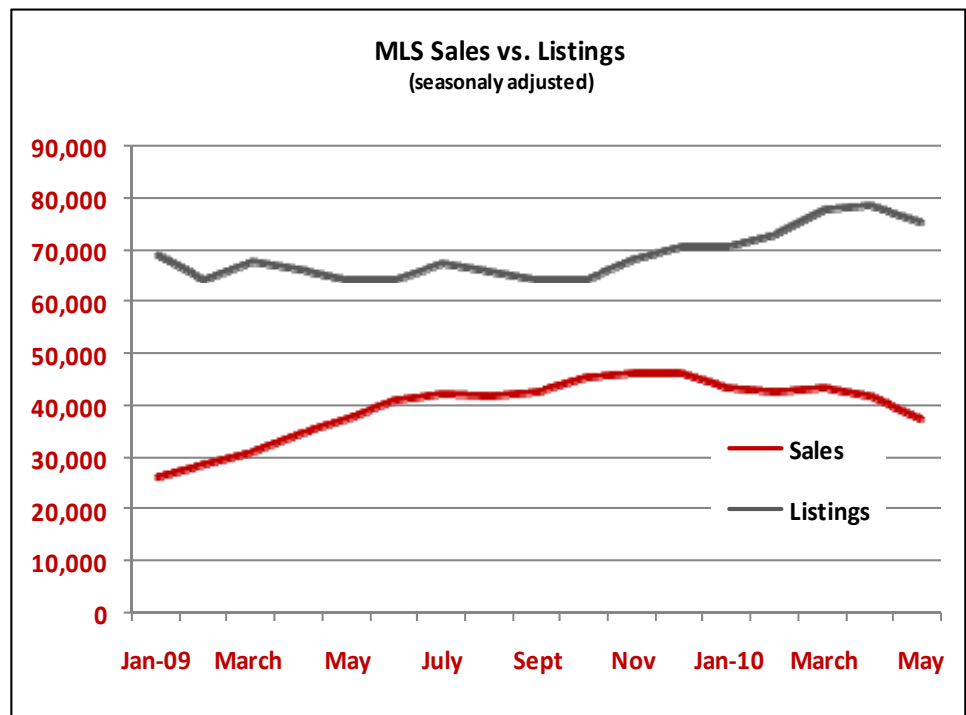
Canada’s recovery, while appearing heated in early 2010, slowed in the second quarter. A decrease in consumer spending, increasing interest rates and a slight drop in consumer confidence led to declining auto, home and retail sales and corresponded to a moderated national GDP.

The combination of a strong Canadian dollar and moderate demand lowered manufacturing output, which resulted in a drop in unemployment below the 8.0% rate for the first time since July 2009.

The second quarter of 2010 demonstrated signs of growth (national average home price) although modest consumer spending slowed activity rates posted earlier in the year.

Driven by increasing interest rates, slowing economic growth, and the retreat of the first time buyer, sales in the second quarter fell 13.3% versus the period from January to March 2010. This was complimented by the decrease in listings, also witnessed during that period.

The end of the first quarter posted a rate of 1.8 sales for each active MLS listing and, although sales decreased, the ratio of sales-to-listings increased only slightly to 2.1 in the second quarter.

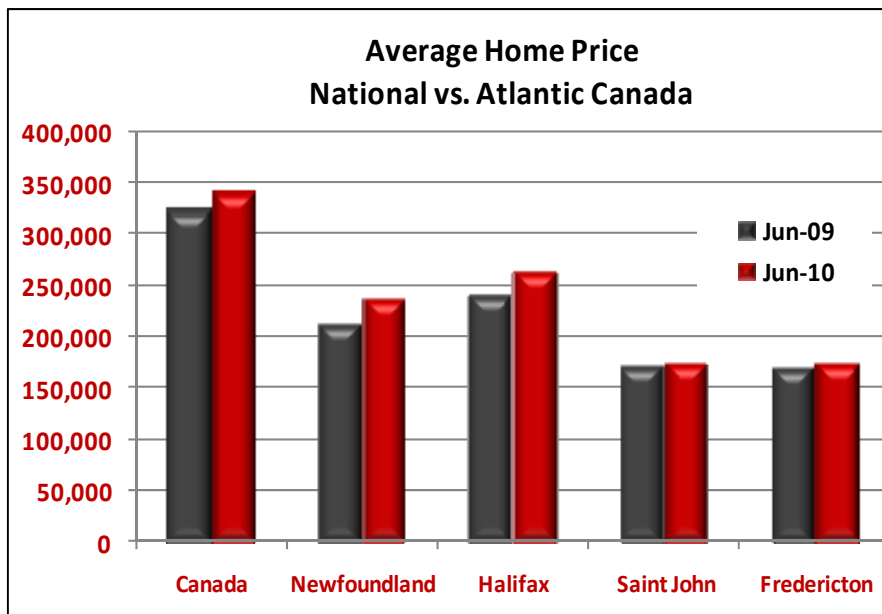


Source: CREA



Increasing 4.9% versus June 2009, the average Canadian home price trended upward to \$342,662 in June.

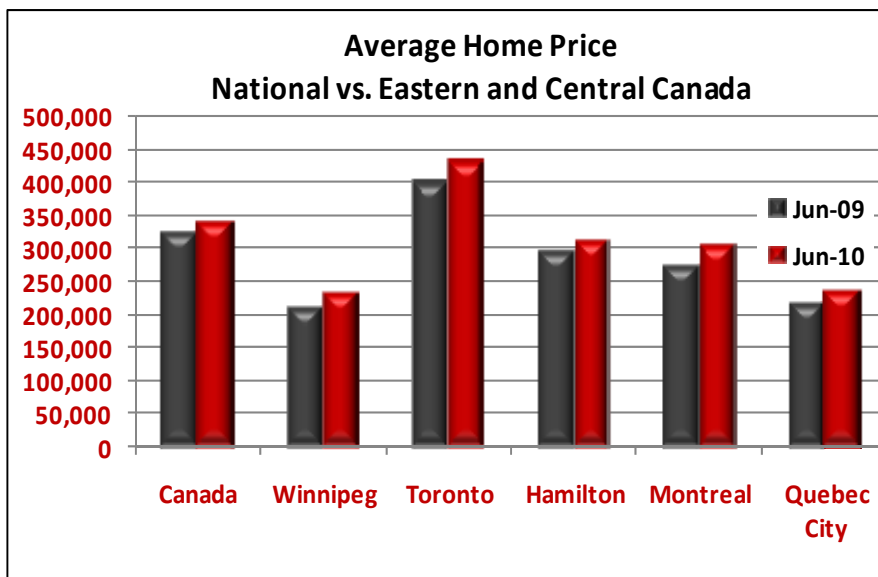
With the exception of PEI, the Atlantic provinces continued to see year-over-year price appreciation in moderated terms throughout mid-2010. Newfoundland again led the pack with a 12.1% price increase (average price \$237,489), followed by New Brunswick and Nova Scotia who had modest increases of over 4.0%. Due to balanced supply and demand, together with reasonable affordability, the Atlantic provinces completed the second quarter with an average home price of \$197,459, a 5.0% increase over June 2009.



Source: CREA

Overall price appreciation from June 2009 was notable in several eastern and central markets, with Toronto posting a year-over-year price increase of 7.7% (\$435,064), Winnipeg 9.9% (\$233,567) and Montreal leading the pack with 11.2% appreciation to end the second quarter with an average home price of \$307,403.

The influential Toronto market led the country in the decline of sales activity for the month of June. This was in part due to slowing consumer spending and interest rate stress, but has been compounded in the Ontario market by declining affordability. As prices escalated in late 2009 and early 2010, the recessionary-driven increase of affordability was eroded and has eliminated some buyers from the market.



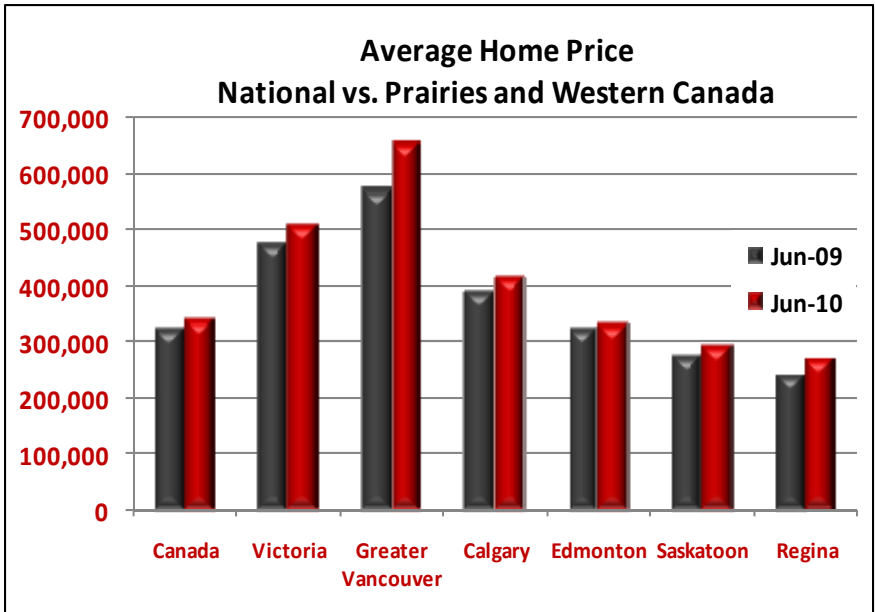
Source: CREA



British Columbia witnessed a price increase of 8.2% over June 2009 to end the second quarter with an average home price of \$499,908. Analogous with Toronto, the large metro markets of British Columbia are once again witness to affordability concerns, which are decreasing buyer participation and creating lower sales as we move into latter 2010.

With minimal employment growth and lingering concerns of slow economic recovery, Alberta has seen slower price appreciation than other provinces, posting only a 4.0% increase over June 2009. While British Columbia and

Saskatchewan struggle with eroding affordability, Alberta has a small advantage with potential buyers as affordability remains manageable and consistent.

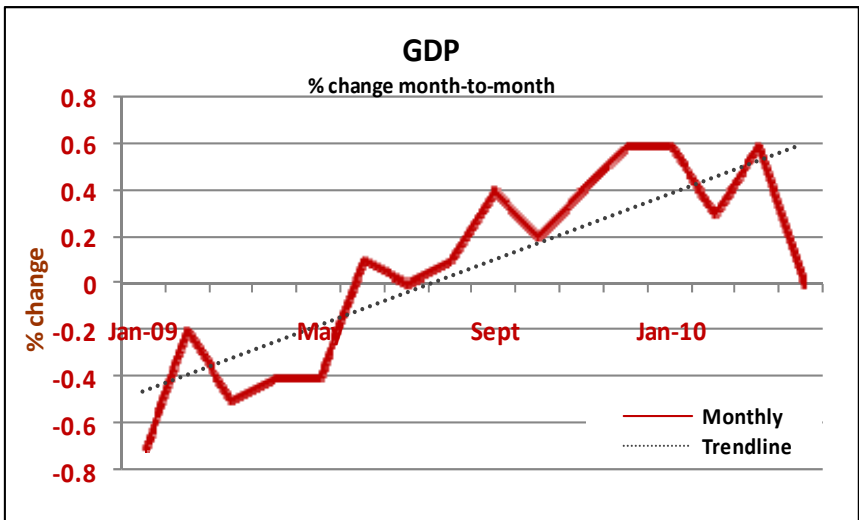


Source: CREA

In April, GDP remained flat after completing seven months of consecutive growth.

Led by a decrease in consumer activity, retail trade decreased 1.7% due to lower auto and clothing sales. This was complemented by decreases in manufacturing, tourism and utilities that continued to decrease with lower demand in the spring and summer months.

On the positive side, the sectors of wholesale trade, mining, oil and potash extraction increased in April, providing a lift to national production and overall GDP results.

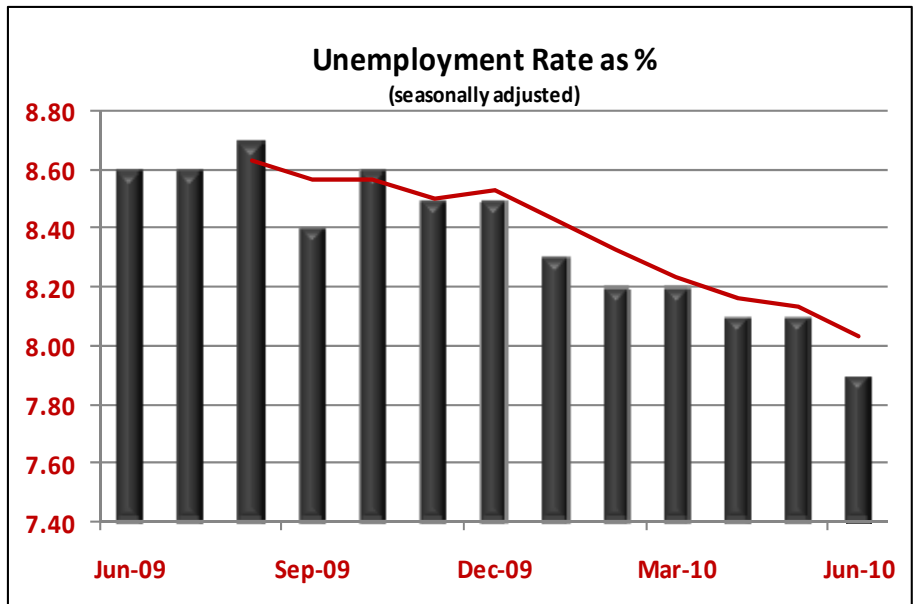


Source: Statistics Canada



After months of slow but steady gains, the unemployment rate showed a considerable decrease in June with a drop of 0.2% and settling at 7.9%. A creation of 93,000 positions allowed the rate to drop below 8.0% for the first time since January 2009.

With another 60,000 positions added in June, Ontario completed six consecutive months of gains, thereby posting an unemployment rate of 8.3%. Balancing these gains was the continued strength of Quebec, which led national employment with 30,000 new positions added in June and an overall unemployment rate of 7.8%.

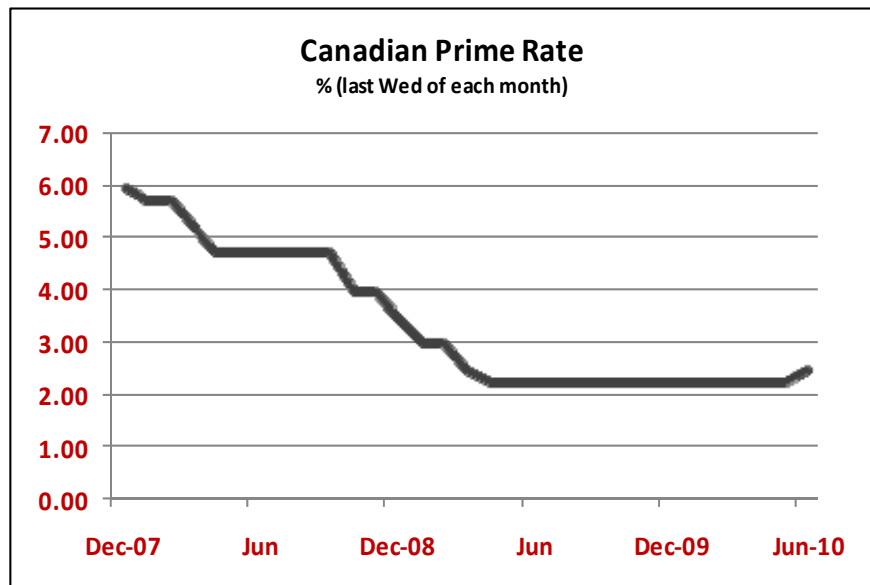


Source: Statistics Canada

Alberta remains notable during the post-recession period of recovery. Currently holding the lowest national recovery rate of 0.8% since July 2009, the province posted a small gain of 15,000 positions in June.

Following the mandate created at the outset of the global recession, the Bank of Canada has maintained low interest rates throughout 2009 and early 2010.

In matching the tone of cautious optimism, the Bank of Canada posted the first rate increase in June, lifting the bank rate to 0.5%. This increase consequently raised the bank prime rate to 2.5%.



Source: Bank of Canada



APPENDIX

Canadian Home Prices, year-to-date		
Market	Average Price YTD 2010 (\$)	Y-Y % change
Newfoundland	231,414	15.3%
Prince Edward Island	143,963	-0.7%
Nova Scotia	212,261	6.7%
New Brunswick	160,921	2.6%
Quebec	245,060	9.4%
Ontario	346,577	12.1%
Manitoba	223,437	11.1%
Saskatchewan	242,522	4.2%
Alberta	256,361	6.2%
British Columbia	504,281	12.5%

Source: CREA

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