MORTGAGE PROFESSIONALS CANADA

Housing Market Digest – Quebec

Third Quarter 2017

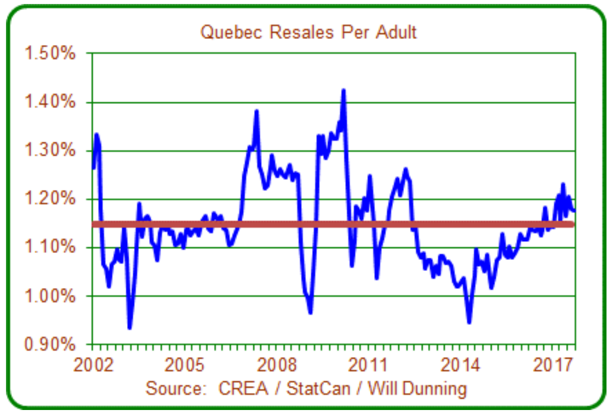
A New Risk for Housing Markets

The Office of the Superintendent of Financial Institutions (“OSFI”) now requires that all residential mortgages by federally-regulated lenders must be “stress-tested”, at two percentage points above the contract interest rate (or the 5-year posted rate, if that is higher). In combination with the requirements for mortgage insurance, about 90% of all new mortgages will be tested. This can be expected to reduce housing activity by 10-15%. It is on top of the impact from recent rises for mortgage interest rates (another 5-10% drop in activity). The combined 15-25% drop in housing activity will affect the broader economy. In two years, employment (for all of Canada) could be 150,000-250,000 lower than it would otherwise be. There is a risk that house prices will fall in some communities. In a modern economy, a sustained drop in house prices is one of the most dangerous things that can happen: as happened in the US a decade ago, falling house prices can turn into widespread economic decline.

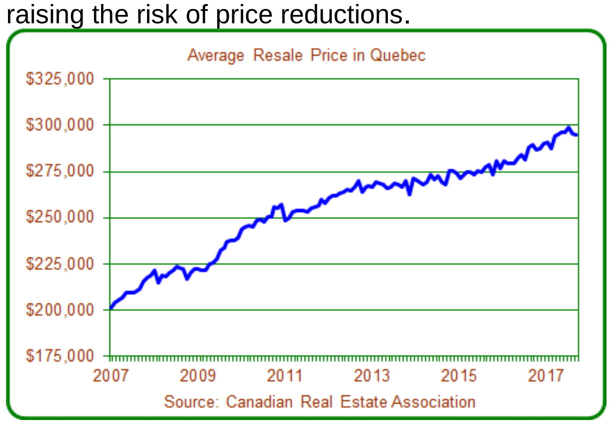
Resale Market

Resale activity expanded during 2015 and 2016, reflecting stronger growth of jobs and population. That expansion phase may now be ending.

We should, in general, expect that resale activity will trend upwards over time, because the population is growing and the housing inventory is expanding. Therefore, it is useful to look at sales on a per capita basis. In Quebec, this data shows that activity is currently just slightly above the average level (which is shown by the flat brown line), following from a period of below-normal sales.

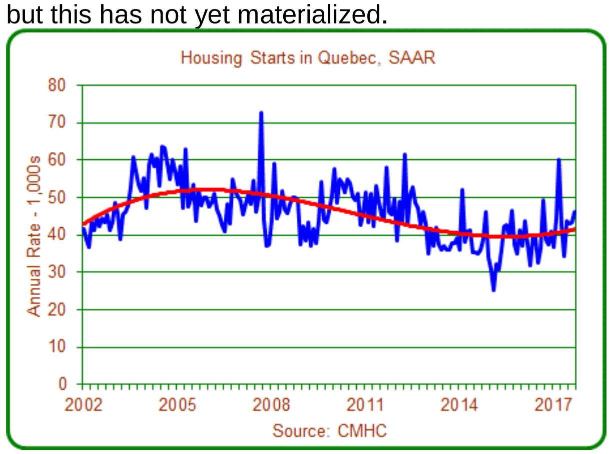


The sales-to-new-listings ratio (“SNLR”) is currently 57%, far above the balanced market threshold (which appears to be 40% for Quebec). This has resulted in just a small acceleration of price growth, to about 4%. (During the prior four years, growth was just 2% per year). But, OSFI’s stress test policy can be expected to reduce sales, raising the risk of price reductions.



Housing Starts

Recent improvements in the resale market should be encouraging more housing starts in Quebec, but this has not yet materialized.

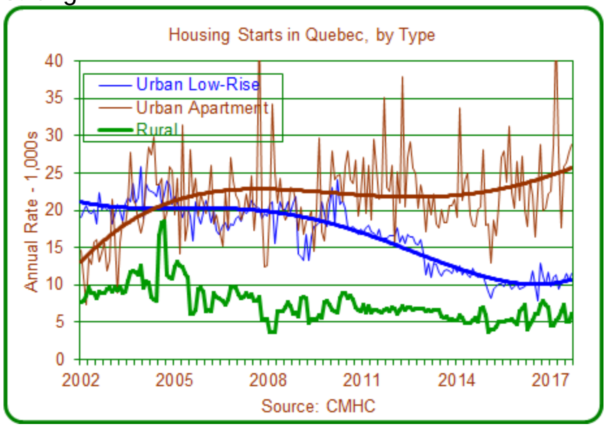


MORTGAGE PROFESSIONALS CANADA

Housing Market Digest – Quebec

Third Quarter 2017

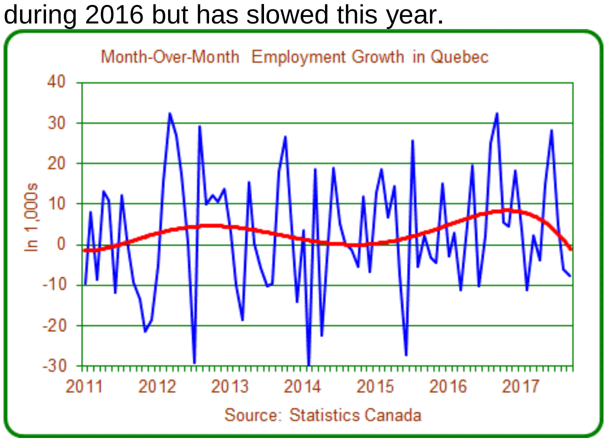
The mix of housing construction by type of dwelling has shifted sharply. Low-rise activity is very low in historic terms. Apartment activity is strong.



Construction activity is likely to slow in the wake of OSFI, although this will take time, as starts result from sales that occurred in the past. The lags are longest for apartments. The magnitude of the economic impacts won't be visible for some time. (This is the main reason that it will take two years for the employment effects to occur.)

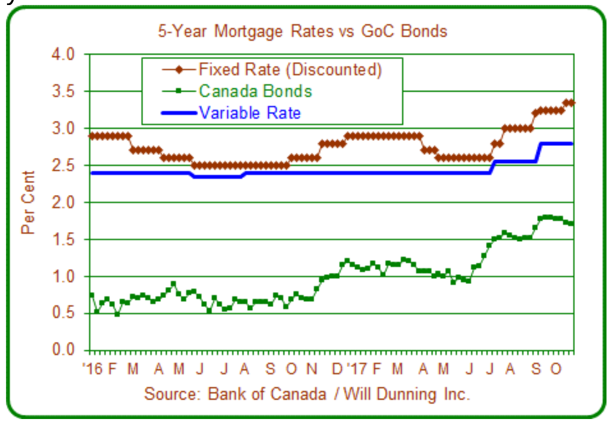
Employment Trends

The monthly estimates of job growth show very wide variations from month-to-month, and these short-term changes are always suspect. Looking at trends over longer periods of time indicates that in Quebec the rate of job creation was quite strong during 2016 but has slowed this year.

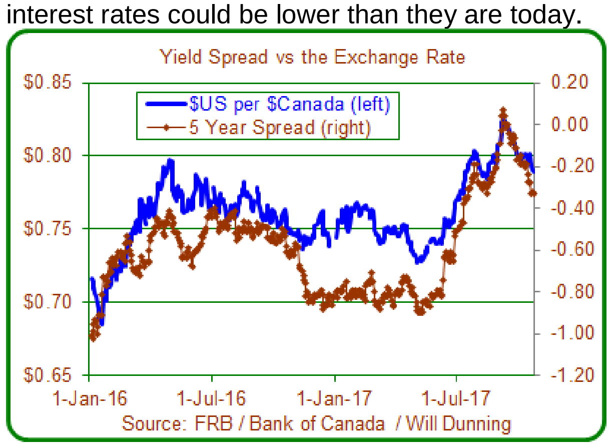


Interest Rates

Bond yields (5-year GoC) have eased slightly during the past month. They are now 0.9 point higher than the average for 2015/16. Increases for mortgage rates have more-or-less followed bond yields.



A month ago, 5-year bond yields in Canada and the US were about equal. More recently, the spread has turned negative once again, which has contributed to a weaker dollar. But, the dollar is still relatively strong compared to the past few years. That plus higher interest rates and the OSFI stress test are significant factors that will increasingly weigh on the Canadian economy. Consequently, it is possible that by next spring our interest rates could be lower than they are today.



Disclaimer of Liability

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

Completed by Will Dunning, Chief Economist, Mortgage Professionals Canada