

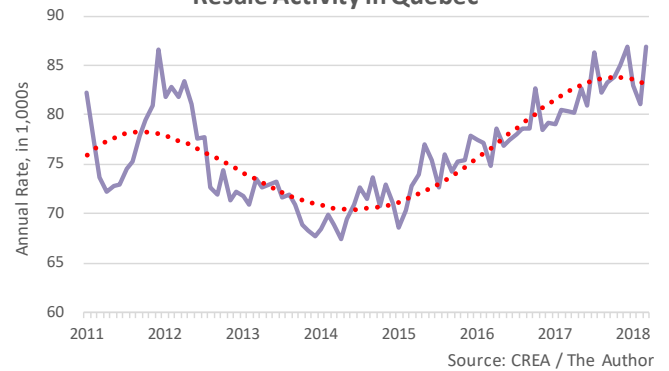
Resale Market

Resale activity has been quite robust in Quebec. However, the trend line hints that the sales rate has stopped rising. During the first quarter, the annualized sales rate was 84,000, which was 1.3% above the total for 2017. Two major factors have contributed to this deceleration. Higher interest rates are weighing on affordability. Equally important is the duo of mortgage stress tests. In most other areas of Canada, these factors have caused the sales trends to turn down (nationally, first quarter sales were 10.7% lower than for all of 2017). Activity is strongest in the Montreal area. This reflects a strong economy. It is also possible that policies deterring foreign buying (in Ontario and British Columbia) are causing some shifting to Montreal.

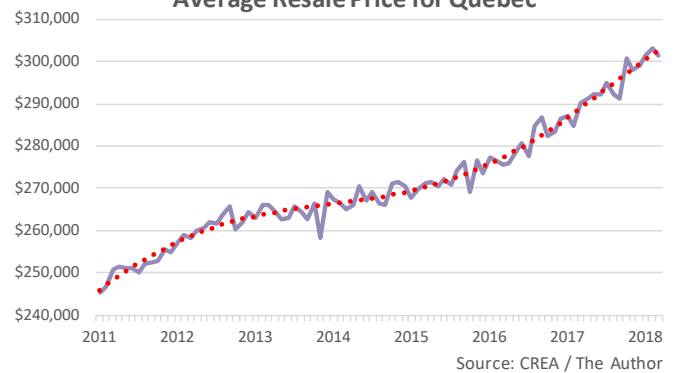
Stronger demand has resulted in more rapid price growth (up by an average of 4.5% per year during the past two years). The recent data hints that the rate of increase might be slowing.

While sales have increased, the supply of listings has not. In consequence, the sales-to-new-listings ratio (“SNLR”) has increased sharply. At 58% during the first quarter, it is far above the estimated threshold (estimated at 45%) for a “balanced market” (this is the level at which prices are expected to rise by 2% per year). Supply shortages have resulted in rapid price growth. The recent drop in the ratio, if it persists, should prevent further acceleration of price growth.

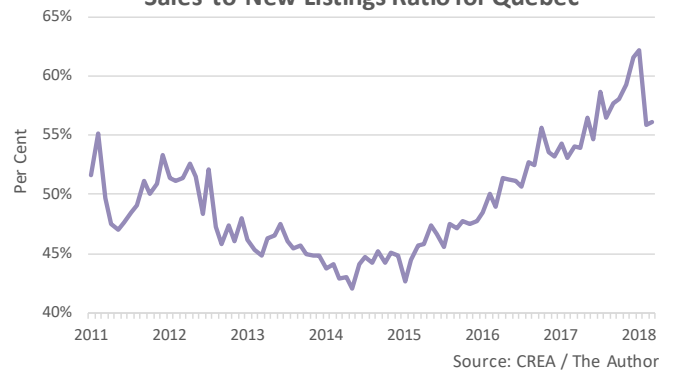
Resale Activity in Quebec



Average Resale Price for Quebec



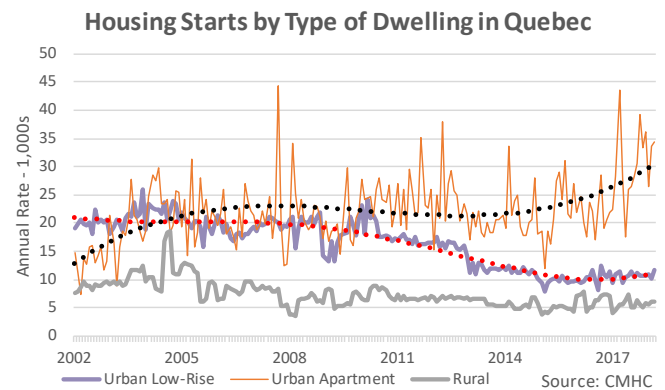
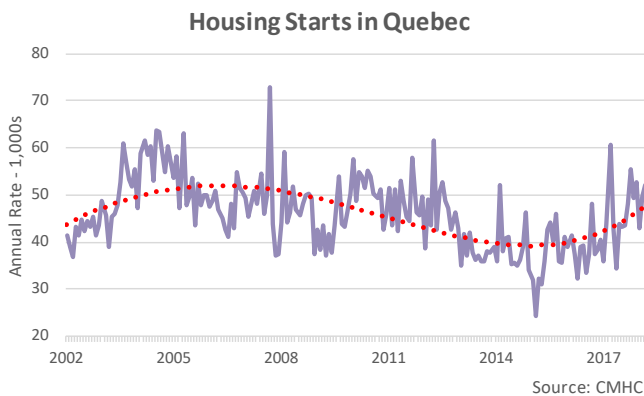
Sales-to-New-Listings Ratio for Quebec



Housing Starts

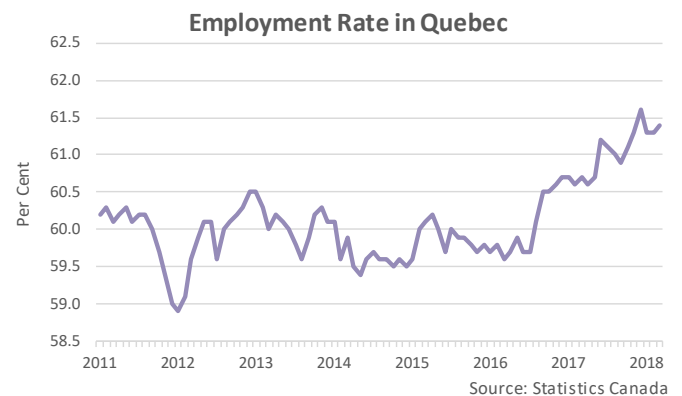
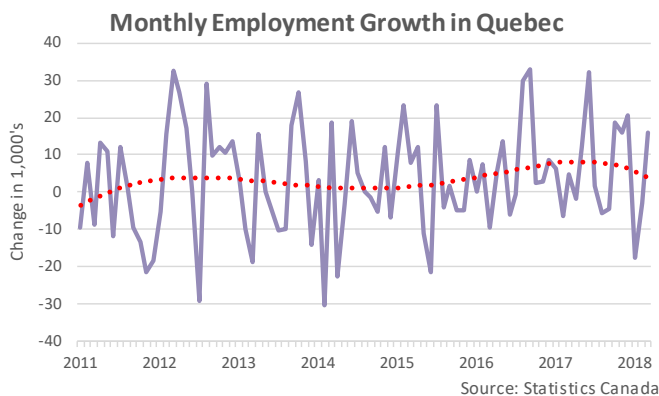
Housing starts have increased in Quebec, but the improvement has not matched the increased strength of resale activity. Housing starts lag behind the resale market, since they result from new home sales that occurred earlier. Therefore, the trend for starts should increase further this year.

There has been a substantial change in the mix of housing starts in Quebec. Low-rise starts (singles, semi-detached, and town homes) are very weak, and a substantial expansion is required, to allow families to pursue their needs. Apartment activity, on the other hand, is extremely strong.



Employment Trends

Since mid-2016, Quebec has seen an increased rate of job creation. The recent data from Statistics Canada data suggests that the rate of job creation has tapered (although it remains strong in historic terms).



Employment Trends (Continued)

Recently, job creation has been faster than population growth, which has produced a substantial rise for the employment-to-population ratio. By this measure, the Quebec economy is now at or close to record strength. This has supported the considerable increase of housing demand.

Looking forward, it seems unlikely that the employment rate will resume its upward trend, due to higher interest rates. A flat employment rate (meaning that the rate of job creation matches population growth) would be a favourable situation, which would support continued health in the housing market.

Interest Rates

Bond yields (5-year Government of Canada) have been roughly flat since early January, albeit with some small movements that have reflected volatile policies and politics in the US.

My opinion-estimate of a typical “special offer” rate for 5-year fixed rate mortgages (major lenders) is 3.2% (lower rates can be negotiated). The spread versus 5-year Government of Canada bonds is just 1.0-1.1 points, versus an average of 1.83 points over the past decade. The compression of housing activity is resulting in more competition among lenders.

The Canadian dollar has strengthened versus the US (rather, the US dollar is weakening against major currencies). While it takes very long periods of time for the exchange rate to have significant effects on our economy, recent movements in the dollar will be mildly depressive..

Yields for 5-Year GoC Bonds



Sources: Bank of Canada

Canada-US Exchange Rate



Sources: Bank of Canada

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