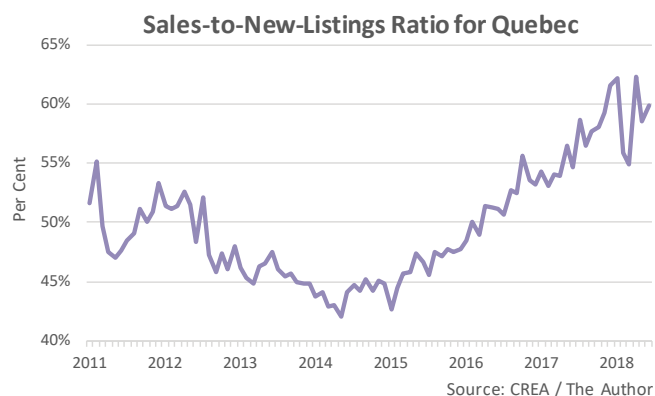
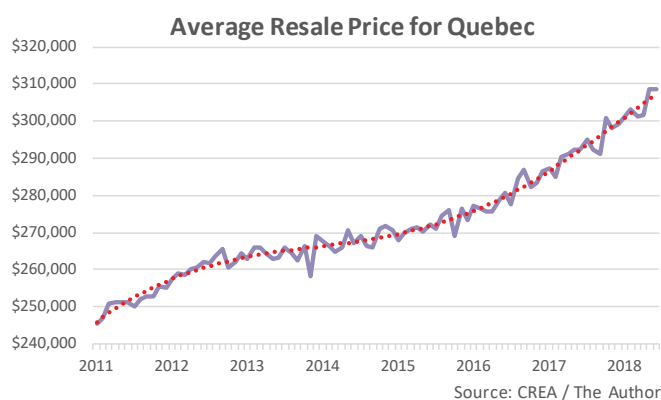
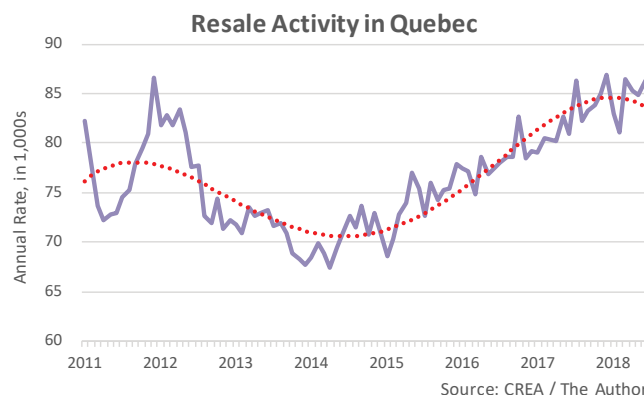


Resale Market

Resale activity expanded strongly during 2015 to 2017. The data for 2018 has been volatile and creates uncertainty about the “true” trend. It does appear that the growth phase has been interrupted. The average sales rate for the first half of 2018 is 2.3% above the total for 2017. Given how strong the Quebec economy has been in recent times, the deceleration of resale activity should not have occurred –this has to be attributed to the duo of mortgage stress tests.

Very strong demand, combined with limited supply, has resulted in very rapid price growth during the past two and a half years (at an average annual rate of about 5%).

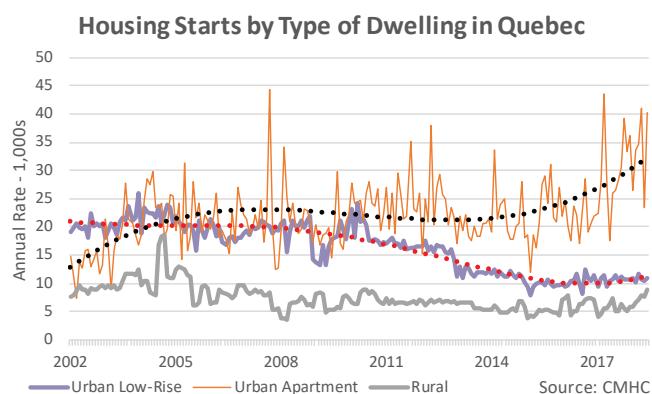
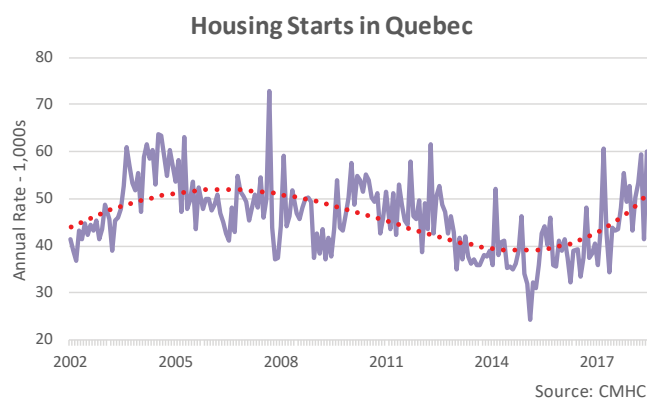
The sales-to-new-listings ratio (“SNLR”) has averaged about 59% during the first half of this year, which is far above the threshold (45%) for a “balanced market” (this is the level at which prices are expected to rise by 2% per year). Even if the sales trend turns down during the coming months, resale markets in Quebec will likely remain far out of balance and there will be continued pressure for prices to rise (although there could be some slowing of those rates of increase).



Housing Starts

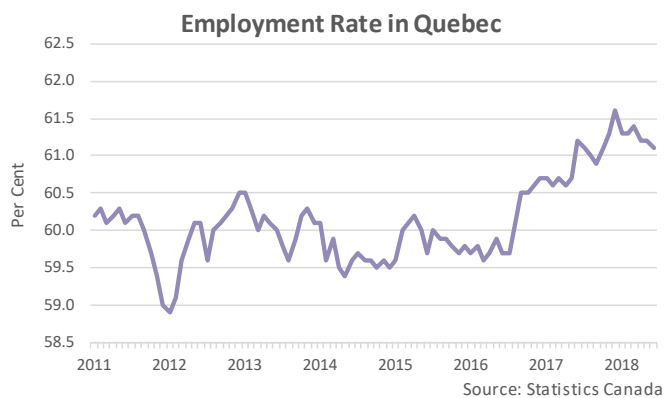
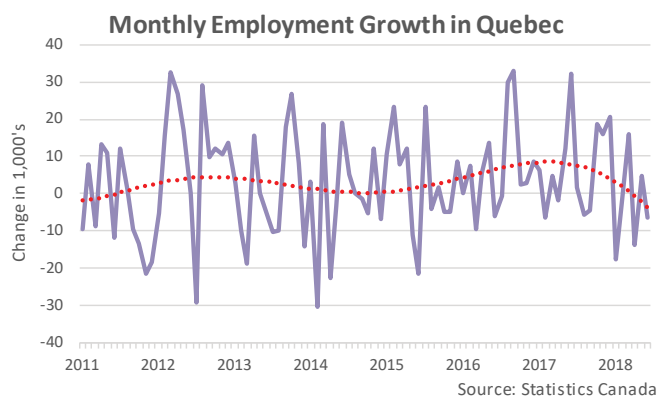
Housing starts general follow trends seen in the resale market, although with a delay. This is certainly occurring in Quebec, where the trend for housing starts has returned to a high level. The average starts rate for this year (51,300) is 11% above the long-term average in this chart.

The expansion to date has been limited to apartments, as low-rise activity (singles, semi-detached, and town homes) remains far below prior levels.



Employment Trends

The employment data suggests that job creation has slowed sharply in Quebec, as the trend line has rapidly dropped from a high level to below zero (which would mean that Quebec is currently losing jobs). However, this data is from a sample survey and it is occasionally wrong: it is possible that job creation was previously over-estimated and that the recent weakness is the result (at least in part) of reversal of previous errors.



Employment Trends (Continued)

The employment-to-population ratio (the share of adults who have jobs) has recently been at very high levels in Quebec. Again, it is possible that there was some over-estimation last year. Even with recent reductions, this key economic indicator highlights that the Quebec economy is strong.

Looking farther ahead, there are currently some downward economic pressures, all of which will play out only gradually. These include higher interest rates and escalating threats about a trade war. To the extent that the mortgage stress tests impair housing markets, there will also be an effect on future economic growth.

Interest Rates

Bond yields (5-year Government of Canada) have been roughly flat since early January, although there have been variations as expectations have shifted about the economic prospects.

In consequence, mortgage rates (my opinion-estimate of a typical “special offer” rate for 5-year fixed rate mortgages at major lenders) has changed little this year. The current rate (3.3%) is about 1.25 points above the yield for 5-year GoC bonds, 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 trended downwards versus the \$US this year.

Yields for 5-Year GoC Bonds



Canada-US Exchange Rate



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