

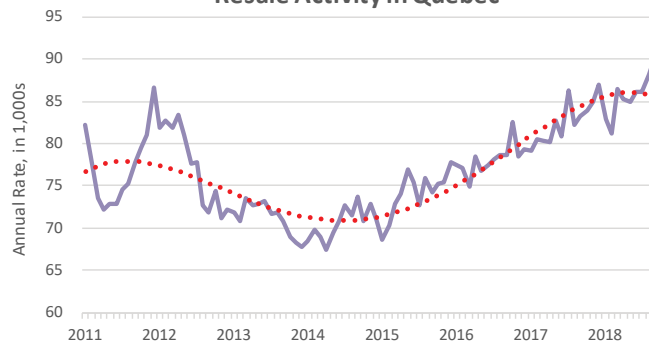
Resale Market

A large rise in resale activity for September creates uncertainty about the trend, but it does appear that the expansion of resale activity has ended. Employment data has become less positive for the housing market outlook, on top of the depressive effects of higher interest rates and the mortgage stress tests.

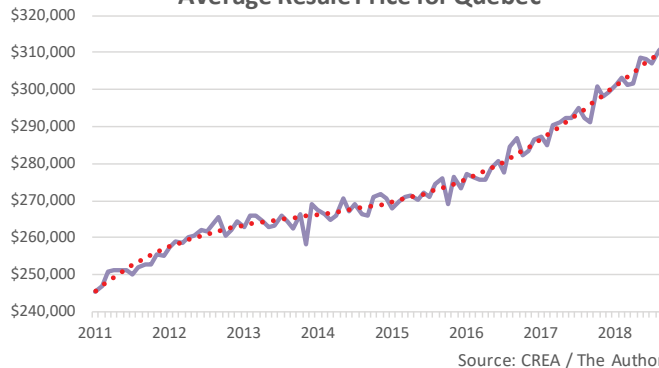
Very strong demand, combined with limited supply, is continuing to result in rapid price growth. During the past year, the trend line for the average price has jumped by about 6%.

The sales-to-new-listings ratio ("SNLR") has averaged just over 60% during the first nine months of this year. This 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), which explains the rapid price growth. 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 the increase).

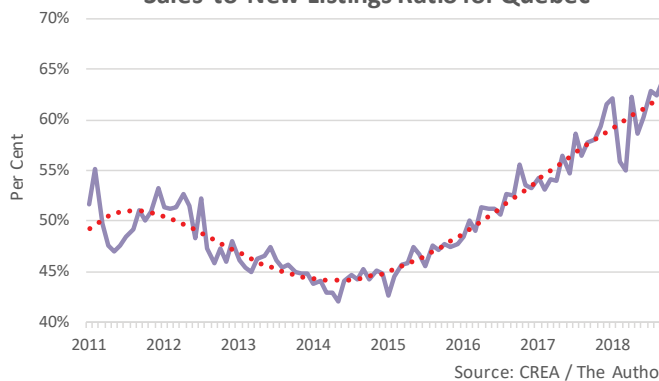
Resale Activity in Quebec



Average Resale Price for Quebec



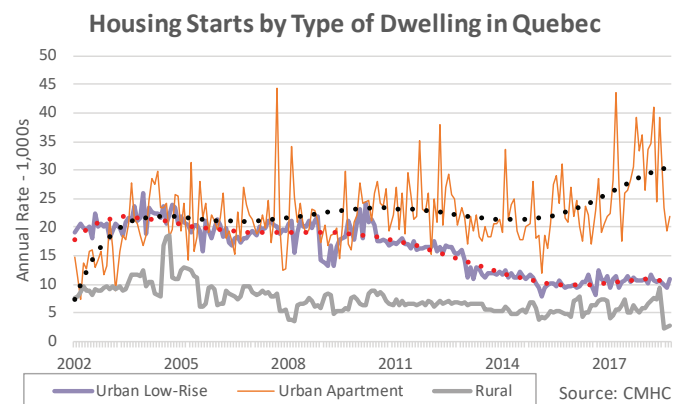
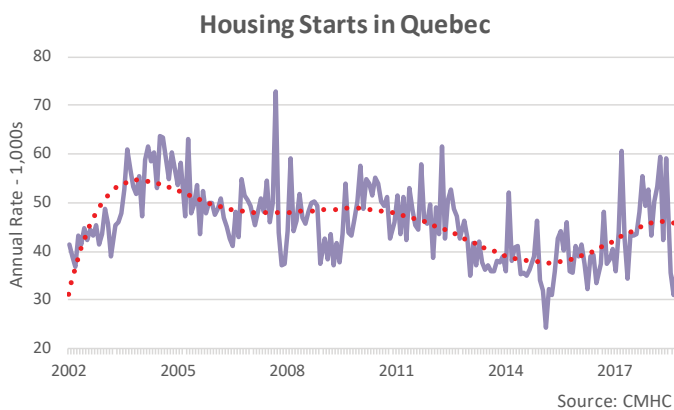
Sales-to-New-Listings Ratio for Quebec



Housing Starts

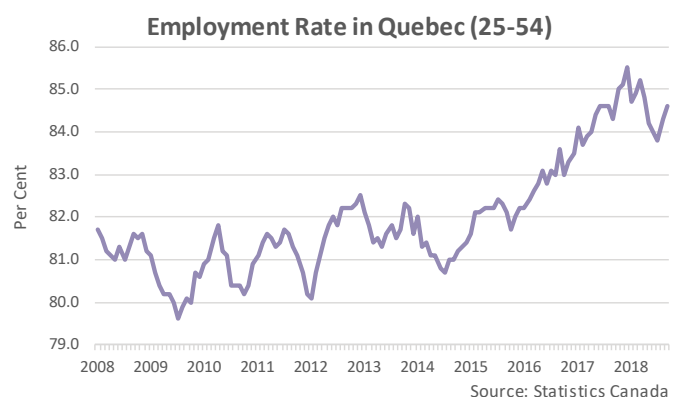
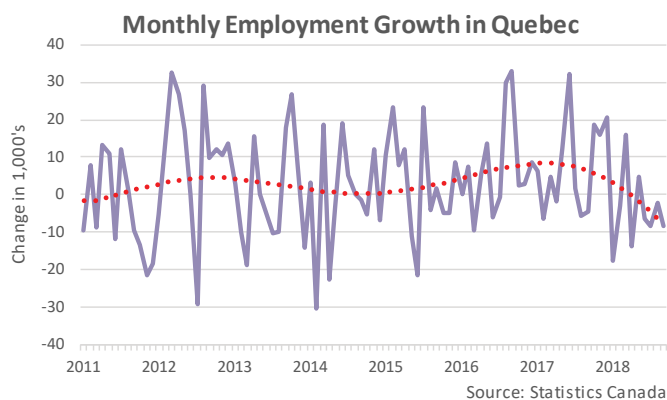
Housing starts general follow trends seen in the resale market, although with a delay. This is certainly occurring in Quebec, where the trend for housing starts has returned to a high level. Starts dropped sharply in the third quarter (by 19% compared to the average for 2016 and 2017), but so far this just looks like a random variation rather than a change in the trend.

The expansion of starts (and the recent pause) has been concentrated on apartments. Low-rise activity (singles, semi-detached, and town homes) in urban areas has been stable, but at a depressed level.



Employment Trends

The employment data indicates that there has been a sharp turn, from rapid growth during 2016 and 2017, to job losses this year. But, the data is generated by a sample survey and it contains random errors. This chart illustrates that the data is highly volatile and in consequence there is uncertainty about the true state of affairs. The trend line suggests that at present jobs are being lost at a rate of about 2% per year. If this is true, this is worrying news. So far, I am inclined to be very skeptical about this data.



Employment Trends (Continued)

My favorite economic indicator is the employment-to-population ratio (or the “employment rate”). Digging deeper, I’m watching the rate for “prime working age” adults (25 to 54). At the end of last year, this indicator was at a record level for Quebec. While it has retreated this year, it remains high in historic terms, which is a positive for housing demand. Again, the recent direction of the data is concerning, if the data is correct.

The prime age employment rate is also at a high level for all of Canada (and for the US). This justifies the rises that have recently happened for Canadian interest rates (and could push them a bit higher).

Interest Rates

Bond yields (5-year Government of Canada) have increased considerably during the past year and a half (this includes a further small rise during the past month).

However, reduced housing activity has caused lenders to limit the increases for their “special offer” mortgage interest rates. My opinion-estimate of a typical 5-year fixed rate at major lenders is now 3.5%. Thus, while the 5-year bond yield has increased by 1.4 points during the past year and a half, the mortgage rate has increased by just 0.8 points.

Five years ago, my “special offer” estimate was 3.6%, slightly higher than the current 3.5%.

My opinion-estimate for 5-year variable rates is now 3.05% (reflecting the increase today - October 25th), versus 2.6% five years ago.

Based on these estimates of typical interest rates, most people renewing mortgages this year are seeing little or no change in their borrowing costs.

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Yields for 5-Year GoC Bonds



Canada-US Exchange Rate

