FIRST QUARTER 2019

HOUSING MARKET DIGEST

QUEBEC

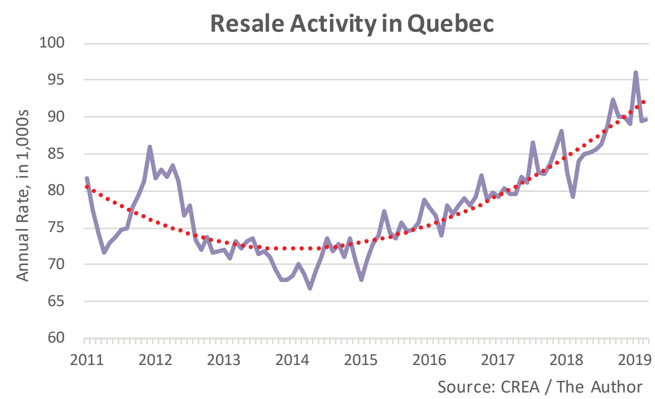
MORTGAGE PROFESSIONALS CANADA

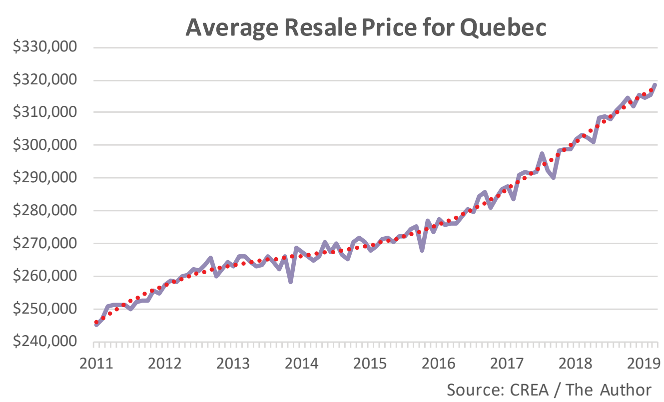
Resale Market

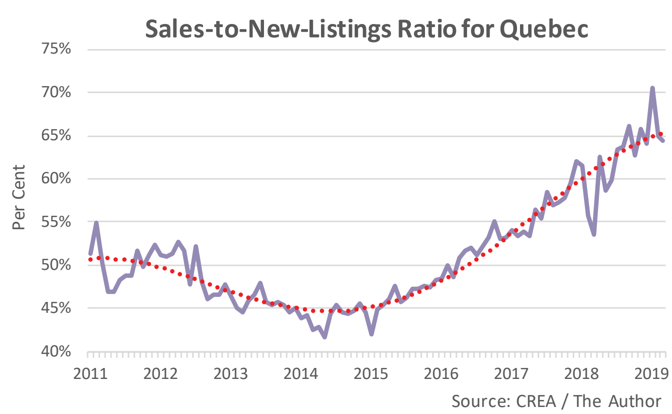
Resale activity remains very strong in Quebec, although the data for the past 8 or 9 months hints that the rising trend may be at or close to an end. Home buying has been amply supported by strong job creation (which is discussed below) and an acceleration of population growth (during the past two years, growth has averaged 1.07% per year, versus an average rate of 0.71% per year for 1986 to the present). Given this combination of data, it is unclear to what extent the mortgage stress tests are impairing home buying within Quebec – across the other regions of Canada, the data makes it very clear that sales activity has been constrained to well below potential.

House price growth remains strong. For the first quarter of 2019, the average resale price was 4.7% higher than a year earlier. Home ownership remains highly affordable in Quebec.

The sales-to-new-listings ratio ("SNLR") remains very high, at 67% in the first quarter, which is far above the threshold (estimated at 45%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). The recent data hints that the rising trend for the SNLR may be approaching an end. Even so, the strong "sellers' market" condition is likely to support further price growth for some time.

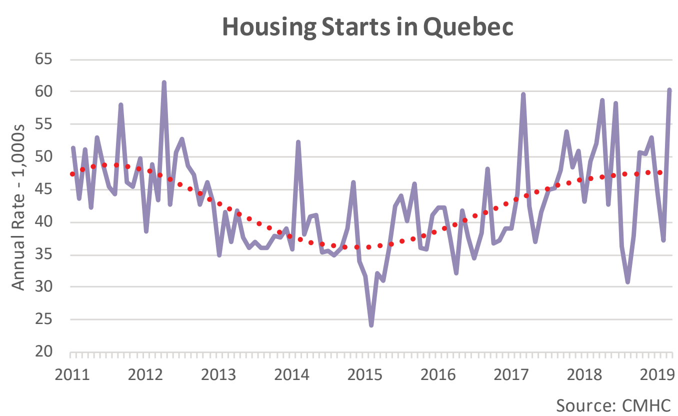


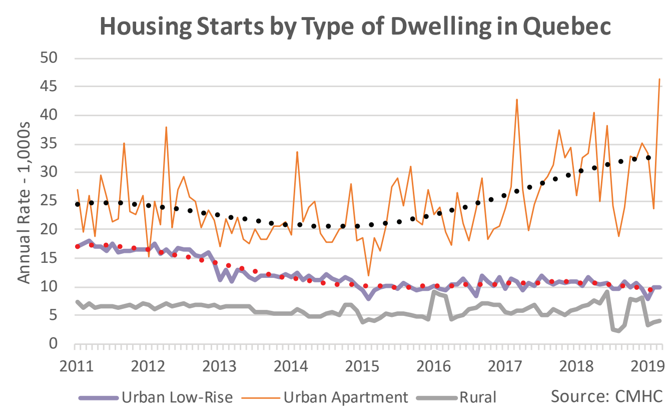




Housing Starts

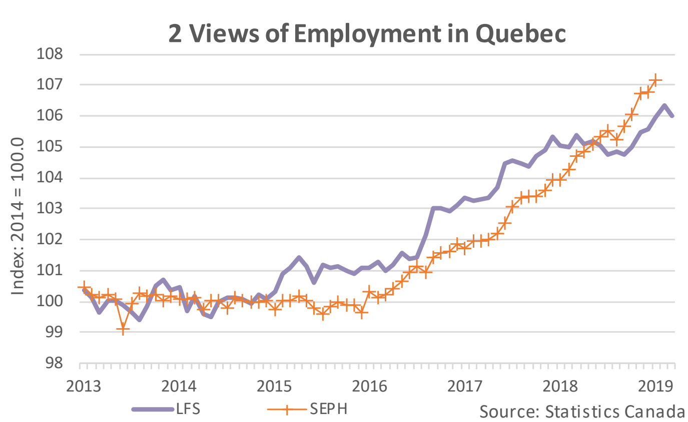
Housing starts have improved in Quebec, but not nearly as much as resale activity. And, the data increasingly suggests that starts have plateaued. Low-rise activity (singles, semi-detached, and town homes) has been very weak. The trend for apartments has increased strongly, although recent data hints that the growth phase is ending. Apartment activity in Quebec is largely (about 2/3rds) for rental purposes rather than for condominiums. With vacancy rates low, apartment construction could hold up (unlike most other regions, for which I expect that apartment starts will trend downwards throughout this year).

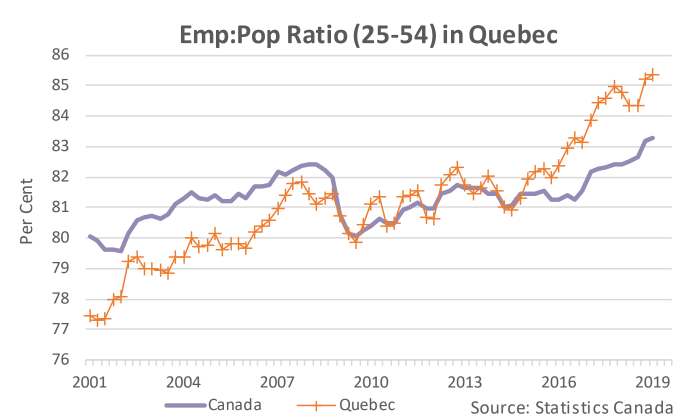




Employment Trends

Statistics Canada's surveys of employment show strong improvement in the employment situation during the past three years. But, they are inconsistent for the past year. The Labour Force Survey ("LFS"), which is based on personal surveys, shows growth of just 0.6% for the past year, while the Survey of Employment Payrolls and Hours ("SEPH"), which surveys businesses, shows 3.1% growth. Both of these surveys are capable of generating errors. The inconsistency of the estimates creates uncertainty about the outlook for the economy and the extent to which it will support future housing demand. Given the design of the surveys, I believe that the SEPH data is likely to be more accurate.





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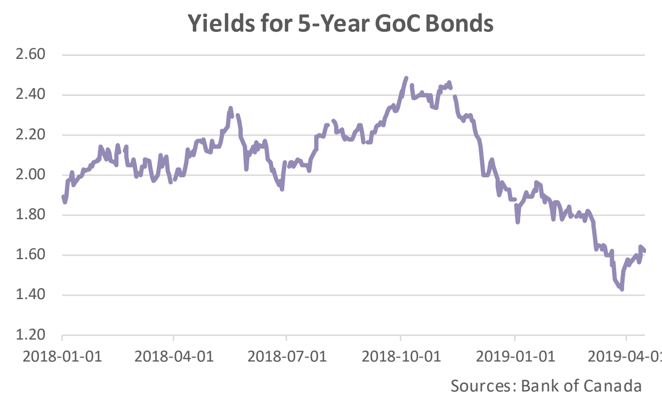
Employment Trends (Continued)

The employment-to-population ratio (the percentage of people who have jobs) for the "prime working ages" (25-54) is at a very high level. What's more, a decade ago, the ratio for Quebec was lower than for all of Canada, but now the Quebec ratio is higher. This has supported stronger population growth, which in turn has boosted housing demand.

Interest Rates

Bond yields might have "overshot" early this year (fallen by too much given evolving economic conditions). Thus, the 5-year yield has partially retraced some of the recent drop. But, at a current 1.6%, the yield is still about 0.8 points above the trough that was seen during 2015 and 2016.



I have reduced my opinion-estimate of a typical "special offer" mortgage interest rate (from major lenders) for the third time this year, to 3.1% (versus 3.75% at the start of the year). Movements in mortgage rates are lagging behind the changes in bond yields. The spread between typical mortgage rates and bond yields is now skinny (1.5 points versus a long-term average of 1.8). I won't be surprised if 5-year fixed rates are a bit higher during the second half of this year (say 3.25% to 3.5%).

Comments on Federal Mortgage Policies

The Canada edition of Housing Market Digest (April 2019) includes some thoughts on the federal government's proposed First-time Home Buyers Incentive (the shared equity mortgage). The main take-away is that CMHC's own estimates suggest that it expects a very small impact, which will only partially offset the damage done by the mortgage stress tests (perhaps 1/10th).

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