

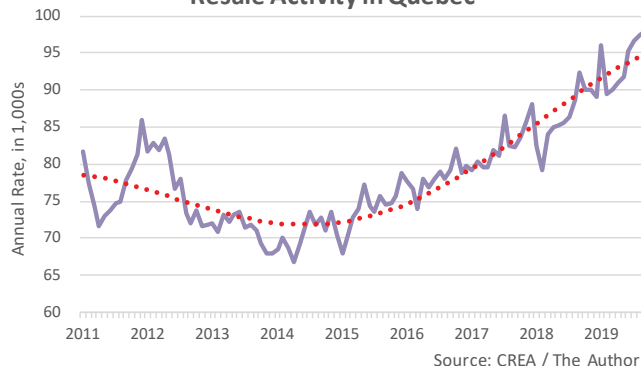
Resale Market

Resale activity continues to expand in Quebec. Three years of strong job creation (which is discussed below), an acceleration of population growth, and sharp reductions of mortgage interest rates are all very positive for housing demand. In addition, some observers suggest that provincial policies in BC and Ontario that are discouraging buying by foreigners may be diverting demand to Quebec. 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.

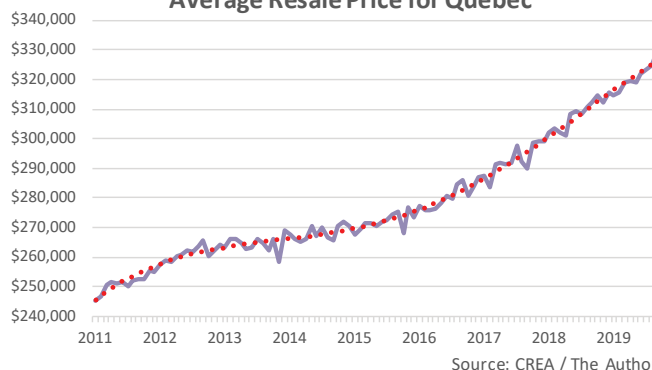
House price growth remains strong. For the third quarter of 2019, the average resale price was 5% higher than a year earlier. But, with pricing still much lower than in most other areas of Canada, home ownership remains highly affordable in Quebec.

The sales-to-new-listings ratio (“SNLR”) remains very high, exceeding 65% in the third 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 strong “sellers’ market” condition is likely to support further price growth for some time.

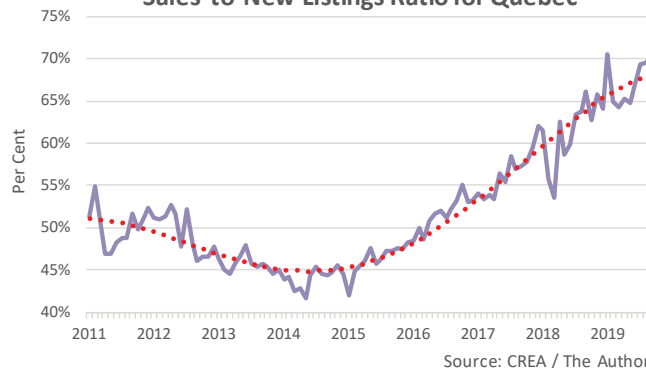
Resale Activity in Quebec



Average Resale Price for Quebec



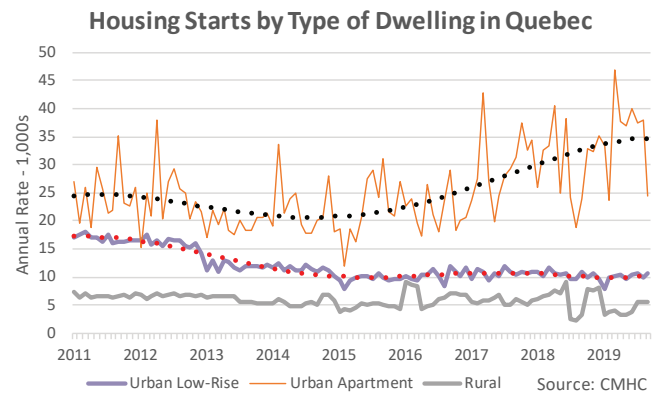
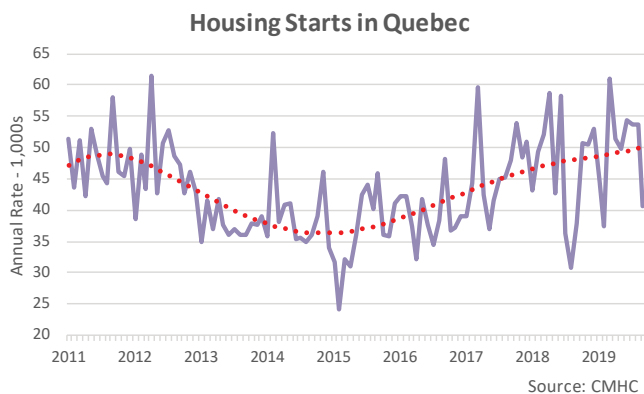
Sales-to-New-Listings Ratio for Quebec



Housing Starts

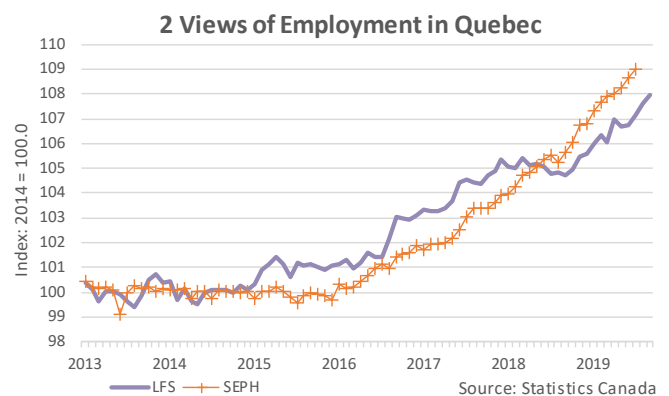
Housing starts have improved in Quebec, but not nearly as much as resale activity. Tight conditions in resale markets should be driving a larger expansion of starts.

Low-rise activity (singles, semi-detached, and town homes) remains very weak. The trend for apartments has increased strongly. Apartment activity in Quebec is largely (traditionally about 2/3rds and an even higher share this year) for rental purposes rather than for condominiums. With vacancy rates low and interest rates having turned down, apartment construction could hold up.



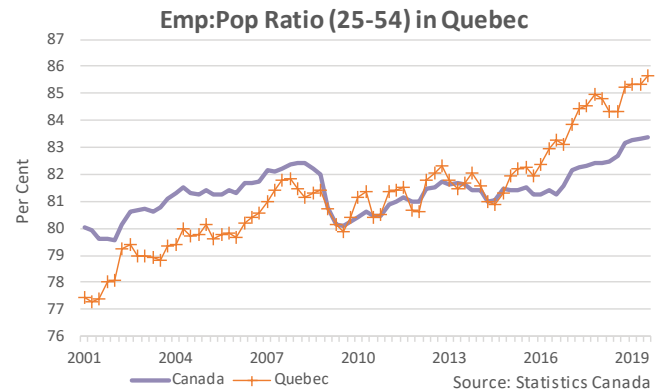
Employment Trends

Statistics Canada's two surveys of employment show that jobs are being created, but they are quite different in the amounts of growth they show. For the past three years, the Labour Force Survey ("LFS"), which is based on personal surveys, shows an average growth rate of 1.6% per year. The Survey of Employment Payrolls and Hours ("SEPH"), which surveys businesses, shows average growth of 2.2%. While the discrepancy creates uncertainty, it is clear that jobs are being created at a much more rapid rate than the population is growing (estimated at an average of 0.8% per year over the three years). The employment data is consistent with the recent very strong resale market activity and is positive for the market outlook.



Employment Trends (Continued)

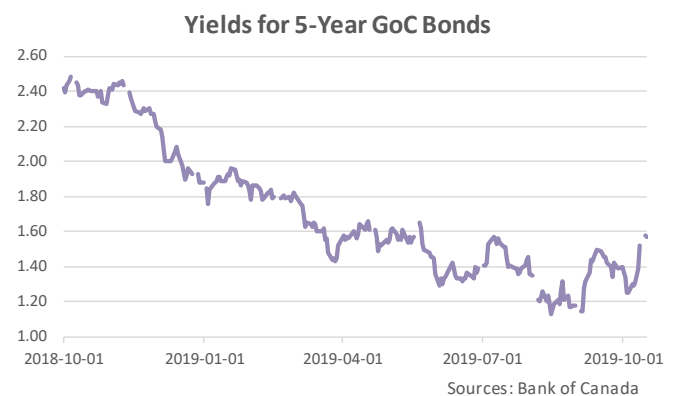
The employment-to-population ratio (the percentage of people who have jobs) for the “prime working ages” (25-54) is at a very high level. What’s more, until recently, the ratio for Quebec was lower than for all of Canada, but now the Quebec ratio is considerably higher. This has supported stronger population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



Interest Rates

Bond yields have been unusually volatile during the past four months, due to swings in expectations about the outlook (and fears about the consequences of erratic trade policies and political disfunction in the US). At present (October 16) the yield for 5-year Government of Canada bonds is in the area of 1.55%-1.6%, which is more-or-less where I think it should be given current economic conditions.

My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate from major lenders) has been unchanged (at 2.7%) for the past two months. The mortgage-bond spread is quite thin (about 1.1 points versus a long-term average in the area of 1.8 points). Therefore, we could to see some increases in mortgage rates during the next few days (or weeks).



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