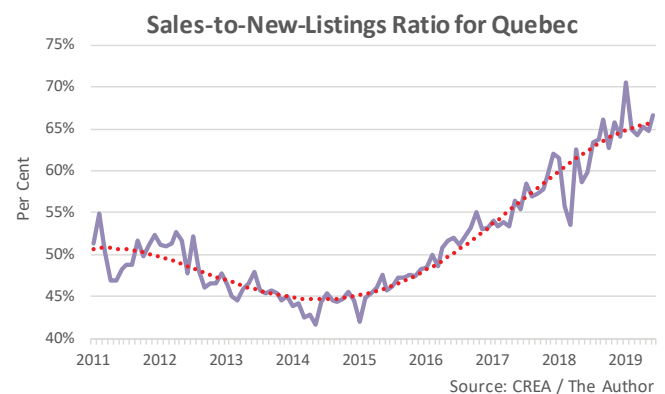
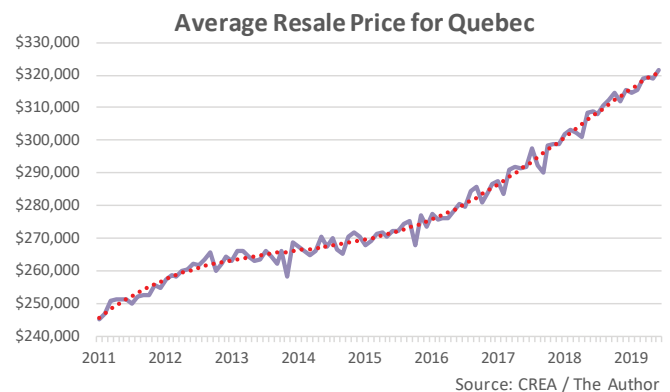
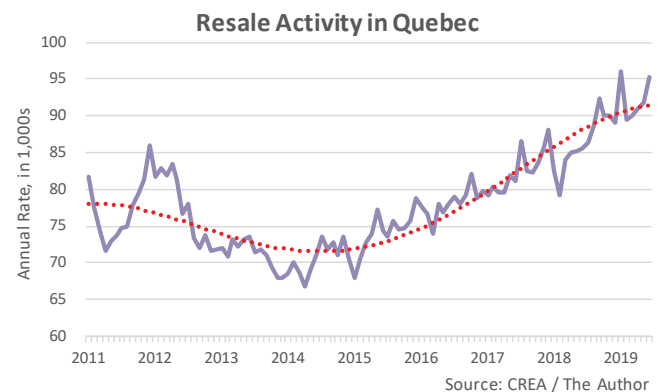


## Resale Market

Resale activity continues to trend upwards in Quebec, although volatility in the data makes it hard to determine the trend: recent data hints that the rate of growth may be tapering. 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. 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 4.5% 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, at 65% 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 data hints that the rising trend for the SNLR has ended. Even so, the strong “sellers’ market” condition is likely to support further price growth for some time.

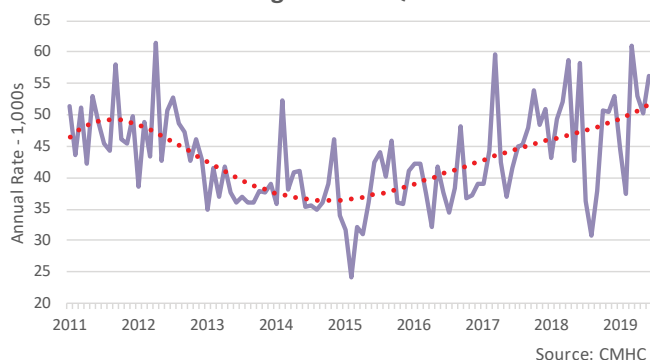


## Housing Starts

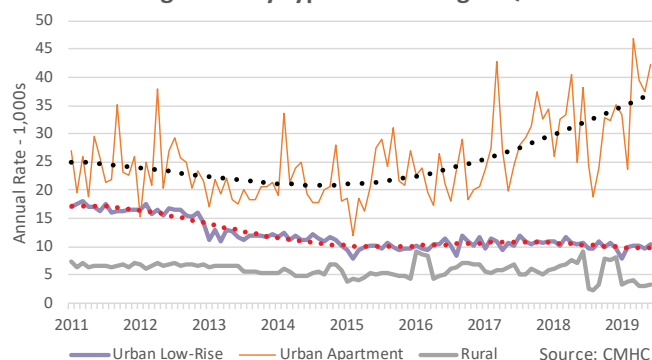
Housing starts have improved in Quebec, but not nearly as much as resale activity. Tight conditions in resale markets should be driving a larger expansion of starts.

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 (about 2/3rds) for rental purposes rather than for condominiums. With vacancy rates low and interest rates having turned down, apartment construction could hold up (unlike most other regions, for which I expect that apartment starts will trend downwards during the second half of this year).

Housing Starts in Quebec



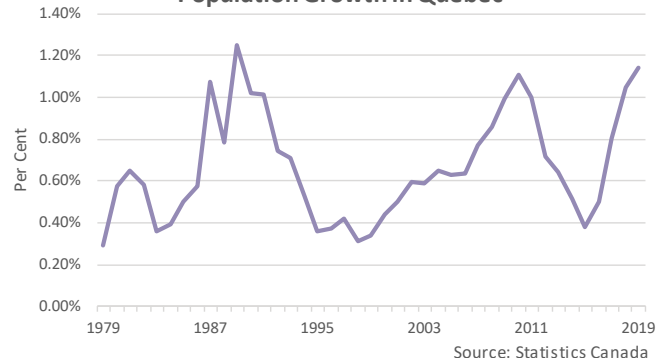
Housing Starts by Type of Dwelling in Quebec



## Population Growth

The population of Quebec is currently growing at a rate that is quite rapid in historic terms. In order to avoid future housing shortages (in both the ownership and rental sectors) a strong supply response needs to be sustained.

Population Growth in Quebec



## 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. The Labour Force Survey ("LFS"), which is based on personal surveys, shows growth of just 1.1% per year for the past two years, while the Survey of Employment Payrolls and Hours ("SEPH"), which surveys businesses, shows 2.9% growth.

## Employment Trends (Continued)

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. The SEPH data is consistent with the recent very strong resale market activity and is positive for the market outlook. 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 considerably higher. This has supported stronger population growth, which in turn has boosted housing demand.

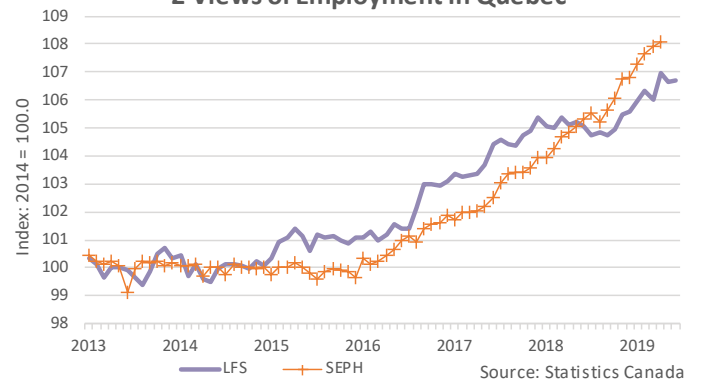
## Interest Rates

Bond yields fell sharply during the late spring, but have now partially reversed that drop. As of mid-July, the yield for 5-year Government of Canada bonds is in the area of 1.5%. My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate, from major lenders) has been reduced six times this year (from 3.75% at the start of the year to a current 2.8%). Because housing activity has slowed for all of Canada, demand for mortgages has been reduced and the mortgage market has become much more competitive: the spread between 5-year fixed-rate mortgages versus 5-year bonds is now just 1.3 points (versus a long-term average of 1.8). At this point, we should expect that mortgage rates have bottomed.

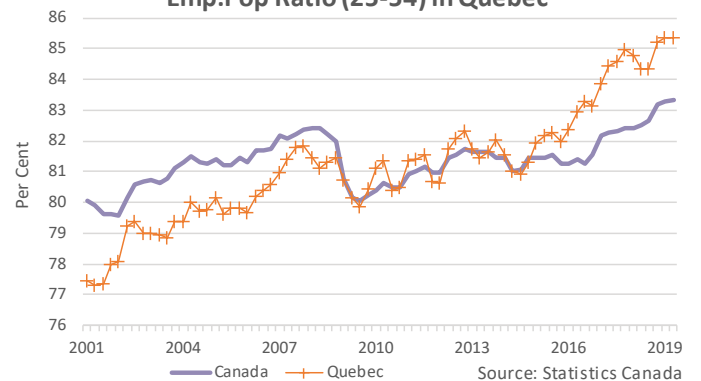
## Disclaimer of Liability

*This report has been compiled using data and sources that are believed to be reliable. Mortgage Professionals Canada Inc. accepts no responsibility for any data or conclusions contained herein. Completed by Will Dunning, July 16, 2019. Copyright: Mortgage Professionals Canada 2019*

**2 Views of Employment in Quebec**



**Emp:Pop Ratio (25-54) in Quebec**



**Yields for 5-Year GoC Bonds**

