

# SECOND QUARTER 2020 HOUSING MARKET DIGEST QUEBEC



## Encouraging Signs?

Key economic indicators (housing and employment) were badly depressed but are now showing substantial improvement.

For the province of Quebec, the data on new confirmed Covid-19 cases remains low, although the trend (shown here as the 7-day moving average) has crept upwards during the past two weeks. This chart shows data up to July 27. Current data can be found here: <https://health-infobase.canada.ca/src/data/covidLive/covid19.csv>

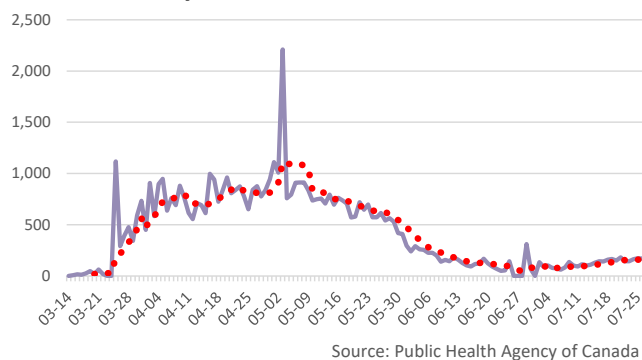
For all of Canada, the trend has inched upwards during the past two weeks, but remains quite low. The data tells us that we can feel a lot more relaxed, but that we need to stay vigilant. There is still a great deal of uncertainty about how this emergency will unfold, and therefore, we should not be confident about our ability to predict what will happen to the economy or the housing market.

## Resale Market

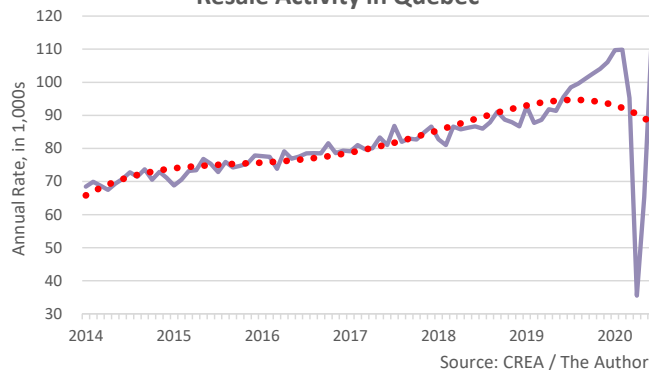
Resale activity is a bit difficult to interpret at present. The sales rate for all of June was the highest ever, at an annualized rate of about 113,000. But, for the entire second quarter, the average rate was just 71,000. How should we interpret this data? Some people will focus on the data for June and see a very robust recovery. Some will look at the entire quarter and see a sharply impaired housing market. I look at the data and see continued uncertainty about how this might unfold.

Looking at the data in terms of sales per adult, the rate for June was also an all-time record, and 36% above the long-term average (calculated for 2001 to the present, and shown by the flat line).

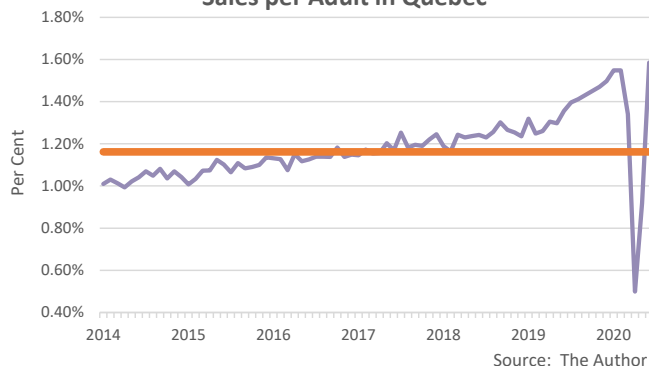
Daily New Covid-19 Cases in Quebec



Resale Activity in Quebec



Sales per Adult in Quebec



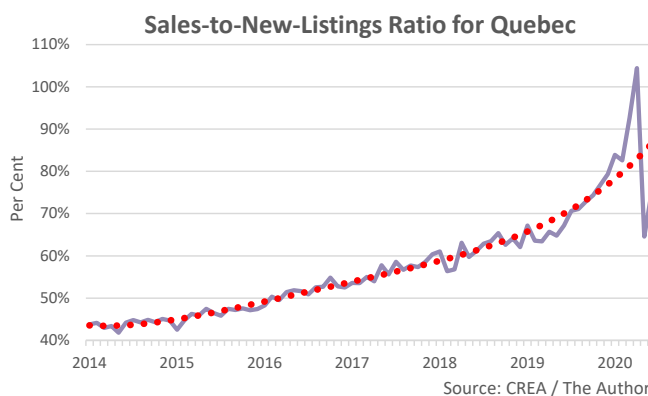
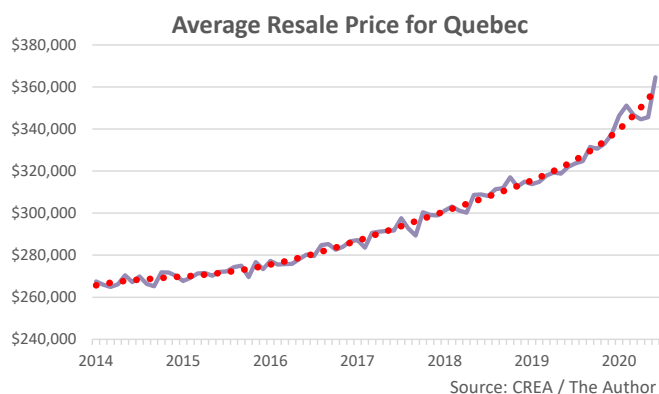
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## Resale Market (Continued)

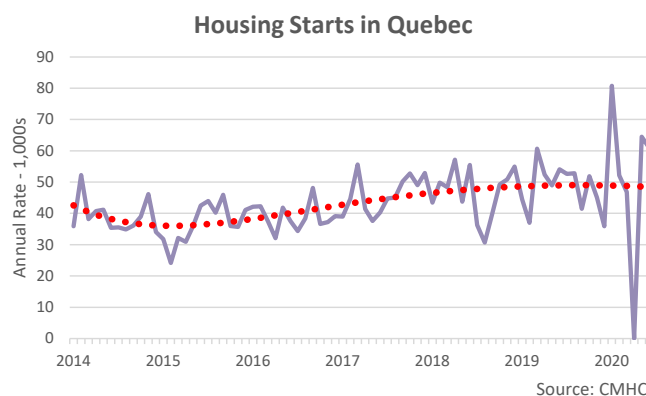
For the entire second quarter, the sales rate was 14% below the long-term average. (On this measure, Quebec is performing much better than for all of Canada, for which the per adult sales rate was 37% below average during the second quarter.) The flow of new listings into the market is still not keeping up with demand. The provincial sales-to-new-listings ratio ("SNLR") was 75% in June (and for the entire second quarter). The regional SNLR is very far above the 45% threshold for a "balanced market" - this is the level at which prices are expected to rise by 2% per year.

While there is some uncertainty about the price trend within the province (due to erratic month-to-month changes) it appears that the tight market conditions may be resulting in continued rapid price growth. Regardless of uncertainty about the very-recent trend, the average price for the second quarter is 11% higher compared to a year ago.



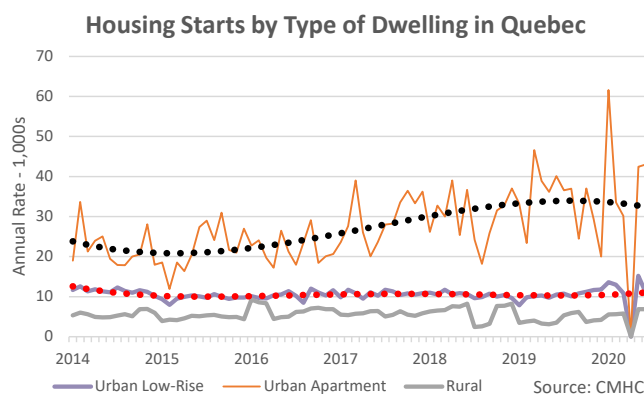
## Housing Starts

A shutdown of the construction industry during April has resulted in volatile data. For the second quarter, the starts rate (about 45,800) was slightly lower than the rate for all of 2019 (just under 48,000). The second quarter starts rate is, however, very close to the long-term average (about 45,200 per year during 2001 to 2019). Any effects of Covid-19 would most likely be gradual, because new starts continue to be determined largely by decisions that were made earlier.



## Housing Starts

Housing starts within Quebec continue to be dominated by apartments. Low-rise activity (single-detached, semi-detached, and town homes) remains weak.

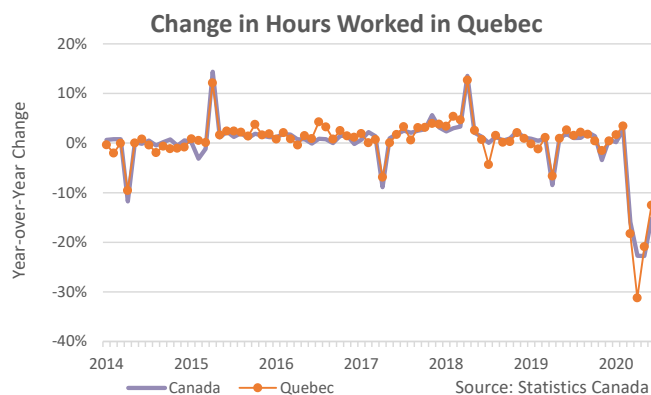
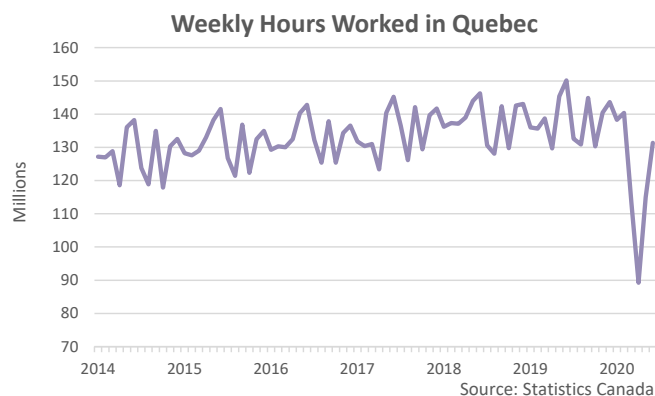


## Employment Trends

Statistics Canada estimates that employment rose by almost 250,000 in June, as more people have been able to return to work. But, the level of employment in June was still 340,000 (7.8%) lower than in February.

At present, I prefer to watch employment in terms of total hours worked. The first chart below shows data that is not seasonally-adjusted, and the large month-to-month gyrations make it hard to read. The second chart shows that this June, total hours worked were 12.5% lower than a year ago. The downturn (and the subsequent partial recovery) has not been materially different within the province than in all of Canada.

The worst employment impacts of Covid-19 have been seen in low wage service industries and for younger age groups. This implies that the damage within the housing market will be greater for the rental sector than for home buying.



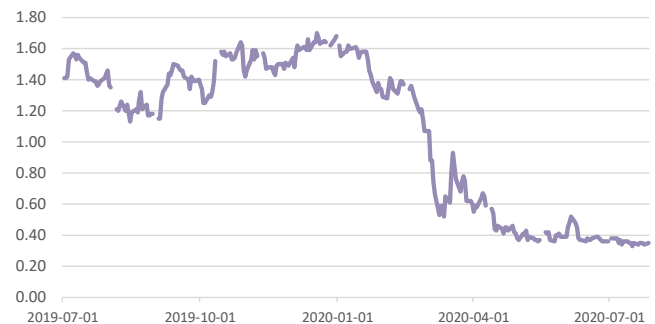
## Interest Rates

Bond yields are currently making unusually small movements, and are at extremely low levels. So far in July, the average yield for 5-year Government of Canada bonds is just 0.35%. Mortgage interest rates have largely adjusted to the plunge in bond yields.

My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now just 2.1%, by far the lowest-ever (and even lower rates can be negotiated). The spread between mortgage rates and bond yields has closed, and is similar to the long-term average of 1.8 points (although it is still higher than the average of 1.49 points for all of 2019). For variable rates, my opinion-estimate is now 2.0%.

Meanwhile, the mortgage stress tests continue to use a ridiculous test rate of 4.94%.

Yields for 5-Year GoC Bonds



Sources: Bank of Canada

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