

THIRD QUARTER 2020 HOUSING MARKET DIGEST QUEBEC

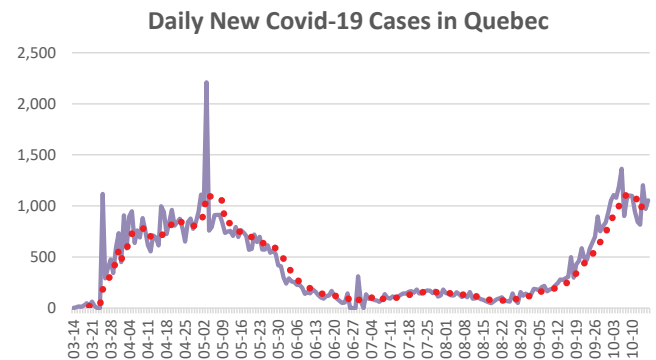


Staying Safe?

It is clear that Canada is now in a second wave of the Covid-19 epidemic, and the seven-day moving average of new cases has recently moved higher than was seen during the spring. Within Alberta, the recent per capita rate of new cases has been close to the national average. It remains to be seen what effects this wave will have for the housing market and the broader economy. This chart shows data up to October 16. Current data can be found here: <https://health-infobase.canada.ca/src/data/covidLive/covid19.csv>

Data from the Canadian Bankers Association implies that about 11% of mortgages were still in deferral at the end of August (down from 16% at the end of June). The CBA report can be found here: <https://cba.ca/canadian-banks-are-standing-by-canadians>

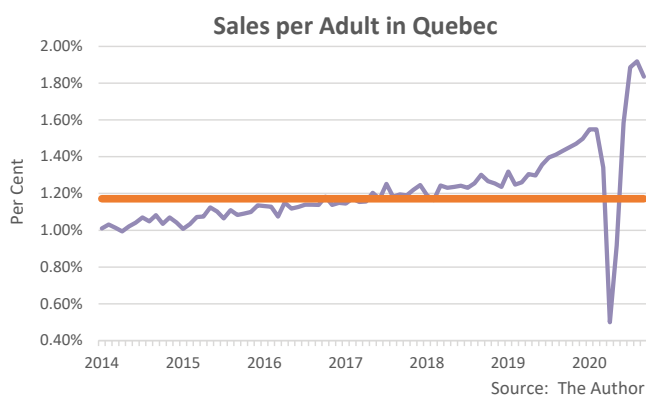
Deferrals will now begin to end in large numbers, creating a risk that there could be a large rise in mortgage arrears in Canada. There is an urgent need for a national conversation about options to assist mortgage borrowers who are still suffering from impaired incomes.



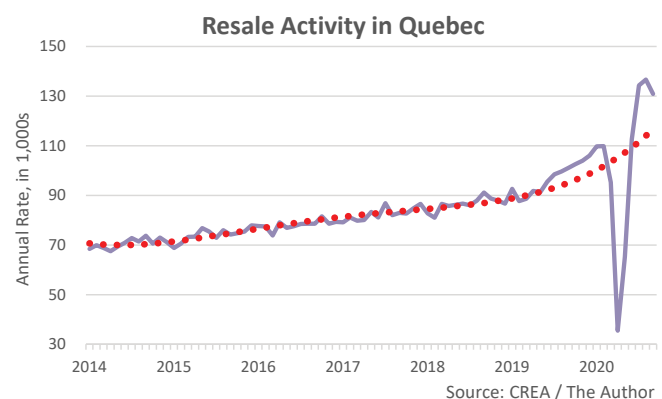
Source: Public Health Agency of Canada

Resale Market

Great strength was seen in the province's resale activity prior to the pandemic, and recent data shows that following a sharp drop in the spring, strength has resumed. For the third quarter, the annualized sales rate was 134,000, which was by far a new record for the province. The recent surge has more than fully offset the very weak activity that was seen during the second quarter, and combined sales for the second plus third quarters were 23% above average (in this calculation, the average sales rate has been adjusted for growth of the population).



Source: The Author



Source: CREA / The Author

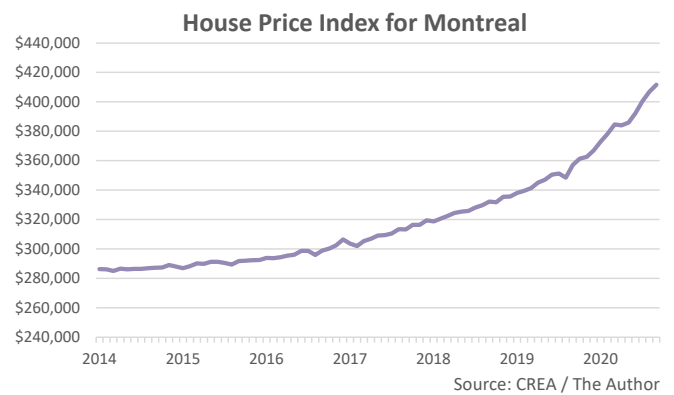
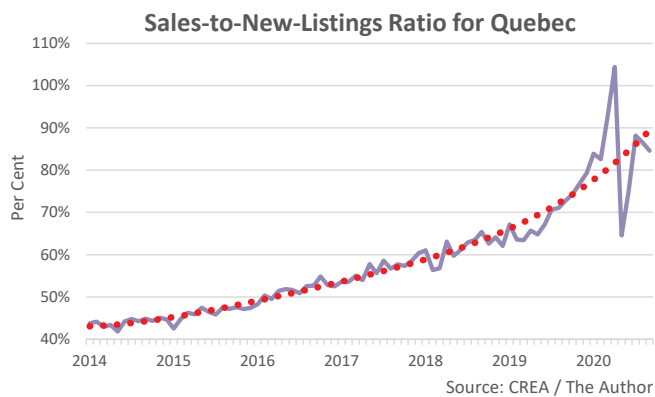
Resale Market (Continued)

The provincial performance has been much stronger than for all of Canada (combined second and third quarter sales in Canada were 5% below the population-adjusted average).

Looking at the data in terms of sales per adult, activity in the third quarter was 61% above the long-term average. Extremely low interest rates and the re-opening of the economy have been very supportive for home buying.

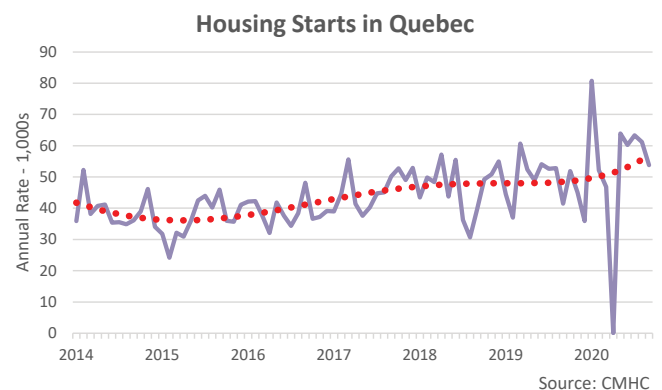
The flow of new listings into the market has failed to keep up with demand, which has caused the provincial sales-to-new-listings ratio ("SNLR") to increase sharply. The SNLR has averaged 84% during the past six months, far above the threshold for a "balanced market", which may be in the range of 45% - this is the level at which prices are expected to rise by 2% per year.

The sharp imbalance between supply and demand is now resulting in rapid price growth. CREA's estimate of a typical "benchmark" house price for Montreal CMA for the third quarter was 15% higher than a year ago.



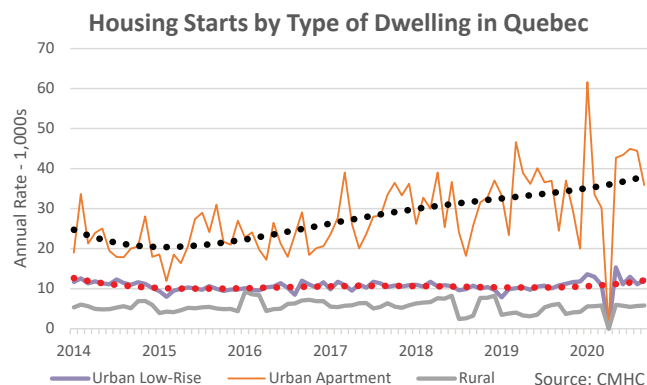
Housing Starts

Housing starts strengthened during the third quarter, to a rate of 59,100, which is the strongest quarterly rate of the past decade. The rise in starts in the third quarter (and the upward trend seen during the past half-decade) was entirely due to apartments.



Housing Starts (Continued)

For low-rises (single-detached, semi-detached, and town homes) activity has varied from month-to-month, but there has been no discernible trend upwards or downwards for some time. Starts remain weak in rural areas. Trends for starts continue to imply that during the coming year (and beyond) we will see shortages in resale markets for low-rise homes and there is a risk of excessive inventories for apartments.

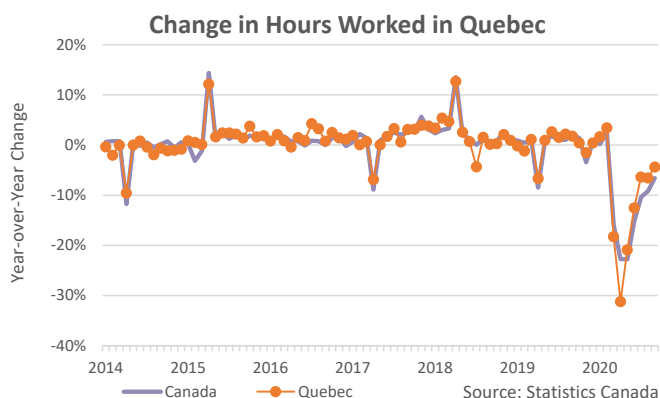
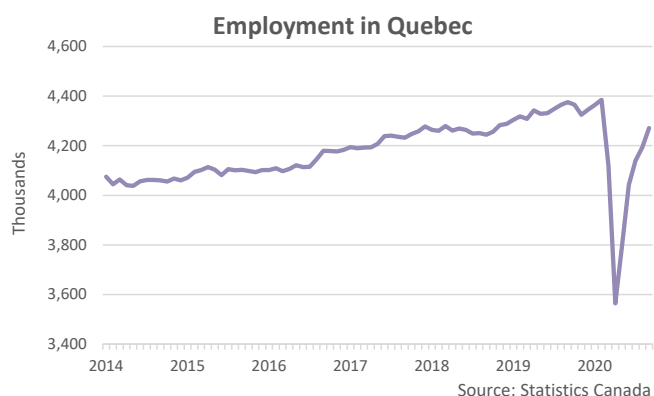


Employment Trends

Employment continues to recover, with the fifth consecutive large rise in September. Statistics Canada estimates that employment fell by 820,000 during March and April, but since then 707,000 jobs have been regained. As of September, total employment is estimated to be 114,000 (or 2.6%) lower than in February. For all of Canada, the current shortfall is 3.7%.

At present, I prefer to watch employment in terms of total hours worked. The next chart shows that while there has been a strong rebound, as of September, hours worked in Quebec were 4.4% lower than a year ago (for all of Canada, the figure is 6.6%).

The worst impacts 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. Canada Mortgage and Housing Corporation is currently conducting its annual survey of rental markets across Canada. Unfortunately, CMHC expects that it won't release the results until January.



Interest Rates

Bond yields remain extremely low and are showing only very small movements. During the past month, the average yield for 5-year Government of Canada bonds has been just 0.36%.

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 1.9%, by far the lowest-ever (and even lower rates can be negotiated). The spread between mortgage rates and bond yields has closed, and at 1.55 points is now below the long-term average of 1.8 points. However, it is similar to the average of 1.49 points for all of 2019. For variable rates, my opinion-estimate is now 1.8%.

Meanwhile, the mortgage stress tests continue to use a ridiculous test rate of 4.79%.

Yields for 5-Year GoC Bonds



Sources: Bank of Canada

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, October 17, 2020. Copyright: Mortgage Professionals Canada 2020.