

# FIRST QUARTER 2021 HOUSING MARKET DIGEST QUEBEC

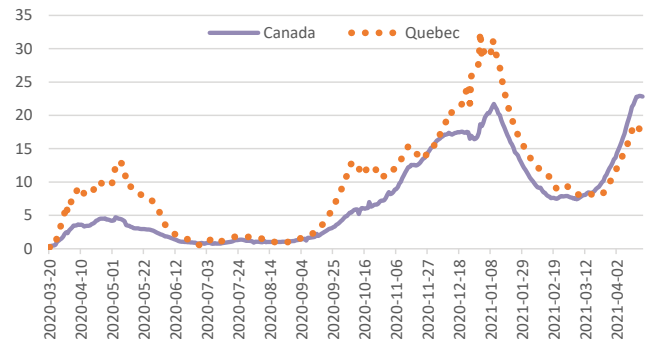


## Are You Staying Safe?

The province of Quebec is experiencing a high rate of Covid-19 infections. As is illustrated in this chart, the population adjusted rate (the 7-day average) is 17 per 100,000 people. This is slightly better than the rate of 22 for all of Canada. This chart shows data up to April 19. Current data can be found here:

<https://health-infobase.canada.ca/src/data/covidLive/covid19.csv>

Daily Covid-19 Cases in Quebec vs Canada (per 100,000)



Source: Public Health Agency of Canada

## Resale Market

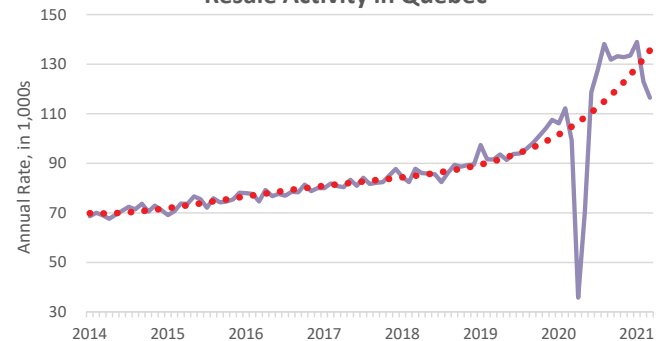
Prior to Covid-19, Quebec was experiencing quite strong home buying. Since then, a combination of low interest rates and excellent affordability, with a robust employment situation is resulting in even stronger activity.

The sales rate for the first quarter (126,100) was slightly below the records set in the third and fourth quarters last year, but remains very high in historic terms.

Looking at sales rates over the past two decades and then making an adjustment for population growth, I calculate that an average rate is now about 85,000. On this population-adjusted basis, the province's sales rate for the first quarter was 49% above the long-term average.

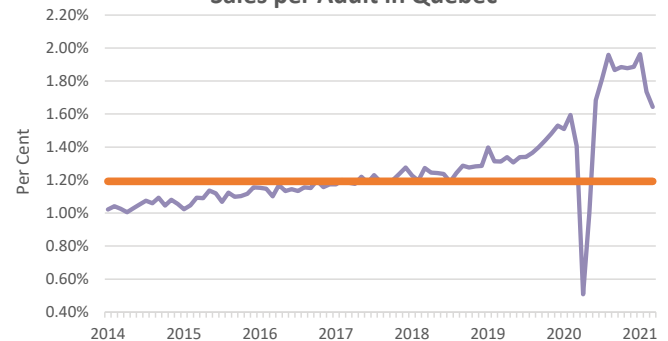
This demand increment is similar to the entire country (for all of Canada, the sales rate in the first quarter was 47% above the long-term average). It is possible that sales within Quebec are being constrained by inadequate supply.

Resale Activity in Quebec



Source: CREA / The Author

Sales per Adult in Quebec



Source: The Author

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## Resale Market (Continued)

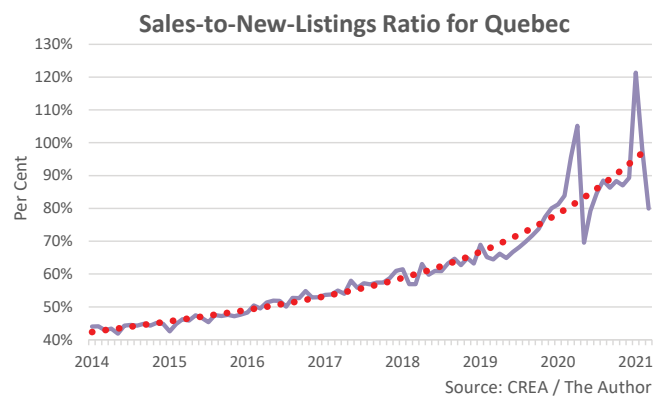
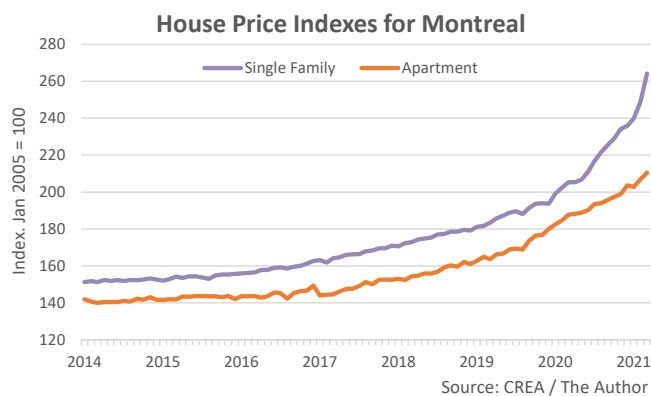
Looking at the entire period since January 2018, total sales in Quebec have been significantly (55,000, or 20%) above the population-adjusted average.

The flow of new listings into the market isn't keeping up with demand, which has caused the province's sales-to-new-listings ratio ("SNLR") to increase to an extremely high level.

The SNLR has averaged 94% during the past six months (tied for second highest in the country) and far above the threshold for a "balanced market", which for Quebec may be in the range of 45% - this is the level at which prices are expected to rise by 2% per year.

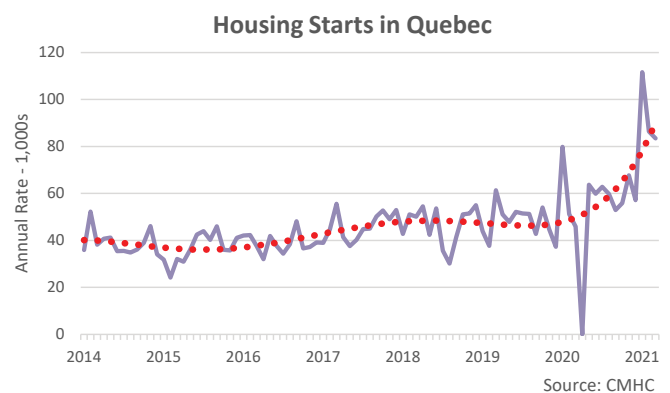
The sharp imbalance between supply and demand is now resulting in rapid price growth. CREA's house price indexes for Montreal indicate that for the first quarter prices for single-detached homes were 24% higher than a year ago, and for apartments the increase is 12%.

If more supply was available, sales would very likely be stronger than they currently are, and price growth would be less extreme.



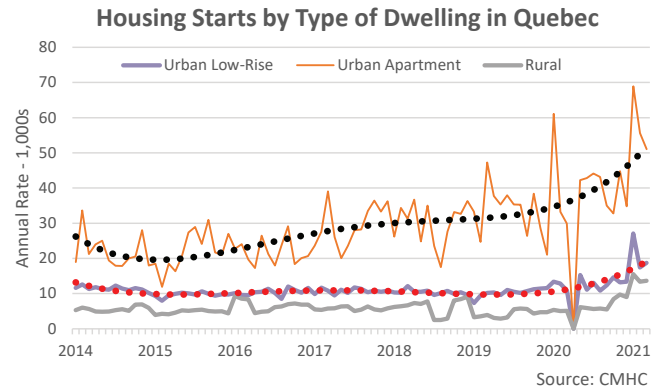
## Housing Starts

Housing starts have leapt in Quebec, to an annualized rate of 84,400 in the first quarter. The sharp rise is largely due to a very large volume of apartment starts.



## Housing Starts (Continued)

Recent data hints at some improvement for low-rise starts in urban areas, but from a very low level.

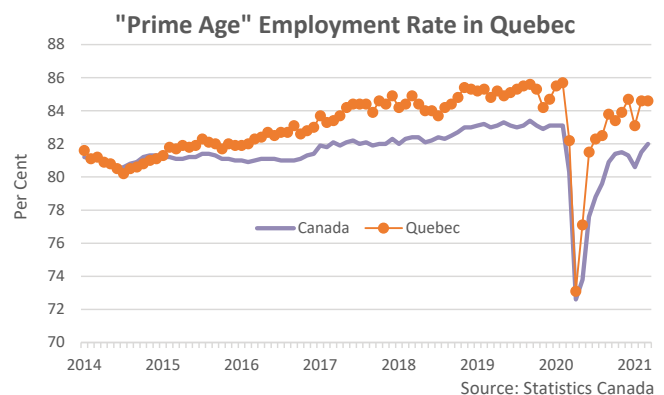
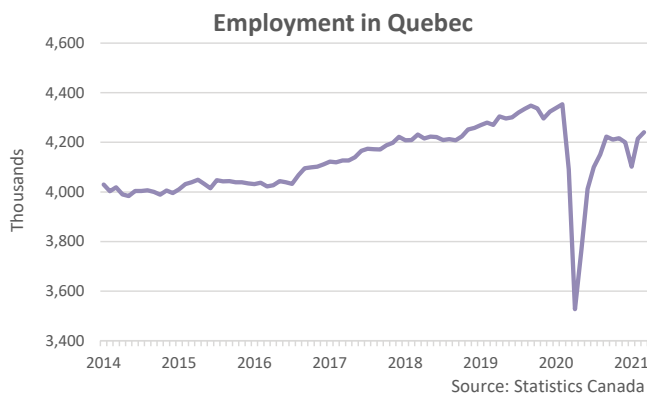


## Employment Trends

Employment estimates from Statistics Canada suggest that employment in Quebec is still slightly (2.3%) lower than in January 2020. For all of Canada, employment is estimated to be 1.4% lower than in January 2020.

The next chart looks at the percentage of adults in the “prime working age” (25 to 54) who have jobs. Due to variations in the estimates, there is uncertainty about the true state of affairs for the “prime age” employment situation.

The employment rate in Quebec appears to be slightly lower than the pre-Covid period. But, the current employment situation compares favorably to slightly earlier periods. Therefore, employment is still supportive for housing demand.



## Interest Rates

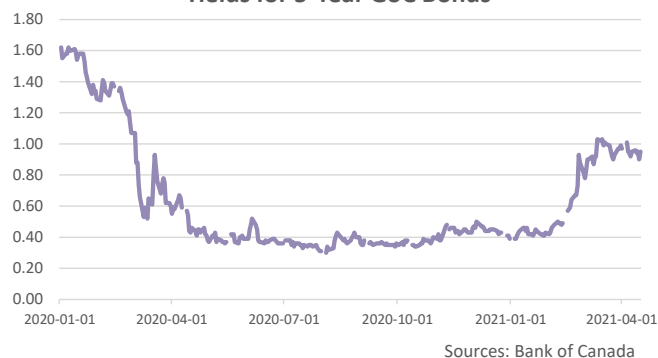
Interest rates rose sharply during late February into early March, but have shown little change since then. The yield for 5-year Government of Canada bonds has been just below 1.0% during the past four weeks, which is about 0.6 points higher than during the second half of last year.

Mortgage interest rates have now followed, rising by a similar amount. My opinion-estimate of a typical “special offer” mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now 2.2% versus 1.65% at the end of last year.

For variable rates, my opinion-estimate is 1.3%.

During most of last year, rates were similar for fixed rate and variable rate mortgages. Variable rates are now considerably cheaper.

Yields for 5-Year GoC Bonds



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