FOURTH QUARTER 2018

HOUSING MARKET DIGEST

QUEBEC

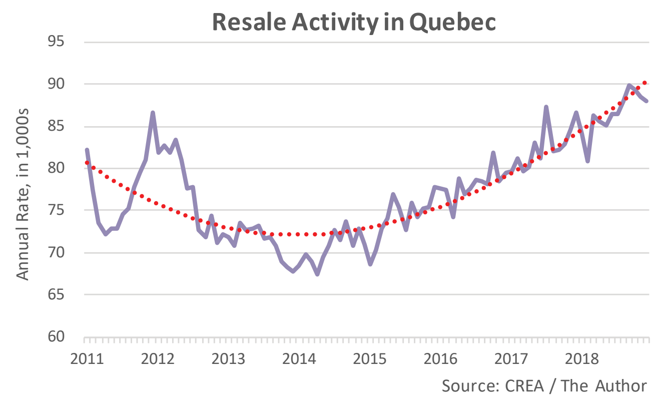
MORTGAGE PROFESSIONALS CANADA

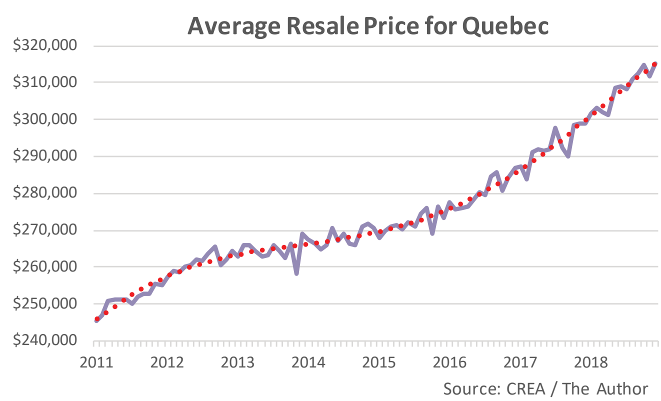
Resale Market

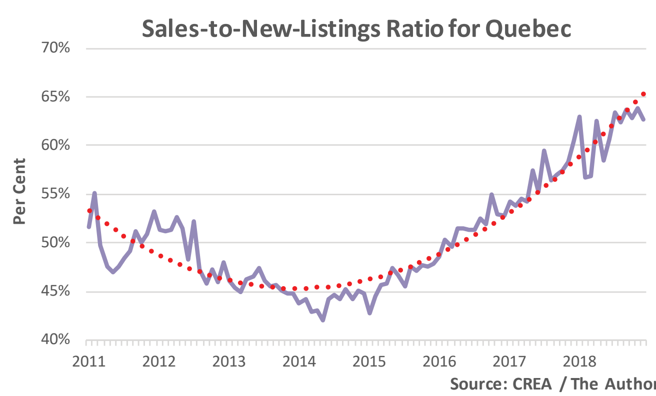
Resale activity remains very strong in Quebec, despite the potentially negative effects of higher interest rates and the mortgage stress tests. Total sales for 2018 (86,557) were 4.9% higher than in 2017 (for all of Canada, sales fell by 11%). Positive momentum in the provincial economy, and no doubt rising expectations about the market, are encouraging more buying. Sales trends are currently flat or falling in all other regions.

The average resale price in Quebec is showing continued strong growth (once again, this strength is not repeated in the other regions). As of December, the average price is up by 5.5% year-over-year.

Flows of new listings into the resale market have been reduced. The sales-to-new-listings ratio ("SNLR") is at a very high level (averaging 61% for the year). This is far above the threshold (45%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year). On current trends, it should be expected that prices would continue to rise rapidly. Yet, the current state of the market depends a great deal on boisterous attitudes and those attitudes could change.



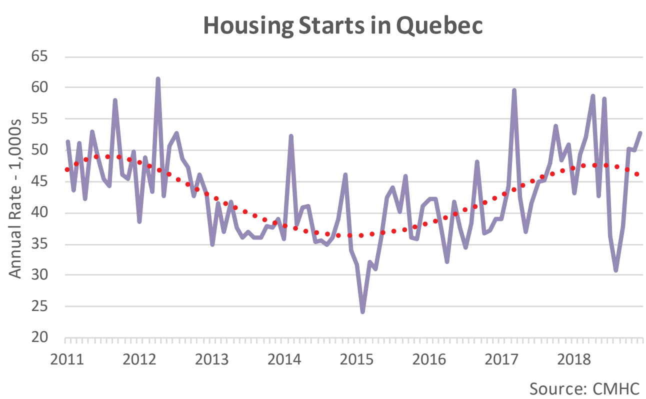


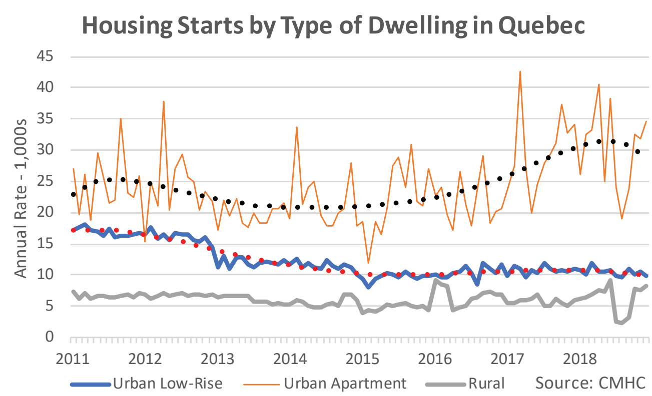


Housing Starts

The trend for housing starts has fallen, from a high level, due to a lull during July to September. Recent data shows a resumption of rapid activity. Low-rise activity (singles, semi-detached, and town homes) in urban areas remains very weak. The recent strength has been entirely due to a surge in apartment construction (of which about two-thirds is for rentals and one-third is condominiums, many of which will ultimately be offered for rent). Vacancy rates remain low (a provincial average of 2.3% as of October) and rents are rising, which is encouraging continued investor interest.

There is now a very large inventory of apartments under construction: as those buildings become available for occupancy, expectations could downshift, leading to reductions of apartment starts during 2019 and 2020. By the end of 2019, therefore, the trend for total starts could be down by 10-15% from the current level.





Employment Trends

Statistics Canada's reports on the employment situation have been surprising. Looking at trends in the data, employment is flat compared to a year ago: 0.0% growth as of December (according to the Labour Force Survey, or "LFS"). Since the population of adults is growing (estimated at 0.9%) the lack of job growth is quite disappointing. If the data is correct, it would have discouraging implications for the housing market. A year earlier, the reported growth rate for employment was 2.2%.

StatsCan's other survey (the Survey of Employment, Payrolls and Hours, or "SEPH"), tells a much different story, with job growth estimated at 2.5% (but as of October).

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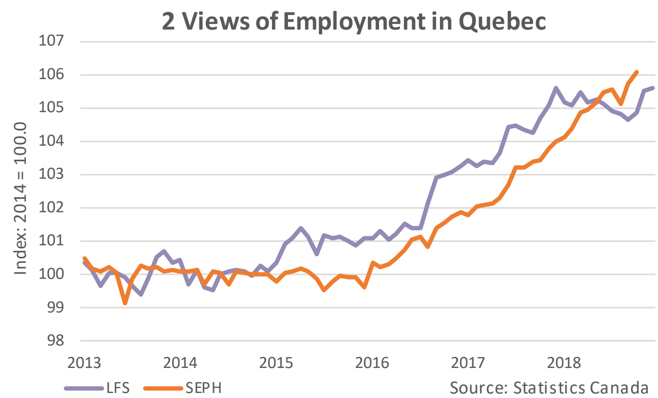
Employment Trends (Continued)

In this chart, I have converted the two datasets into "indexes", to make them easier to compare.

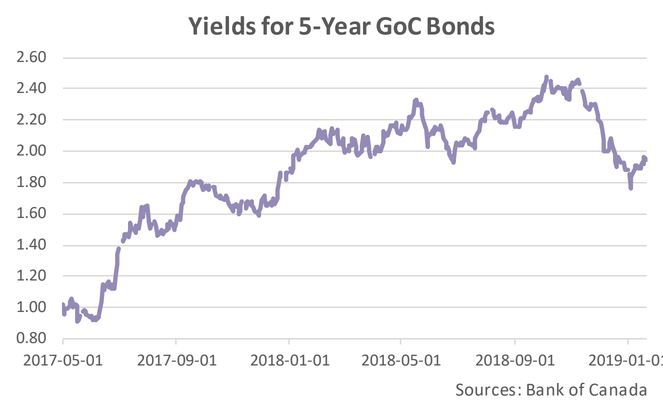
I believe that the SEPH data is probably more reliable than LFS. It appears that the LFS over-estimated job growth prior to 2018, but has recently been under-estimating growth. The much stronger picture portrayed by the SEPH data is encouraging about the housing outlook for Quebec. The issues are discussed in more detail in the new edition of the "Annual State of the Residential Mortgage Market in Canada" (in the section "Outlook for the Mortgage Market").



Interest Rates

It appears that the sharp drop in bond yields has ended. Attitudes remain volatile in financial markets. I would not be surprised to see moderate increases in bond yields during the next two months, as economic fears may have become overdone. Further, reckless fiscal policies in the US will continue to result in enormous borrowing requirements, and rising political risks in the US could reduce interest in bonds.

Mortgage rates did not follow the drops in bond yields. My opinion-estimate of a typical "special offer" mortgage interest rate (from major lenders) has been reduced to 3.60% (as of January 21). This is, as usual, far below the 5-year "posted rate" of 5.34%). The spread between bonds and mortgages is now about 1.65 points, slightly below the historic average of 1.8 points. Looking ahead, therefore, changes in mortgage rates might become more closely related to changing bond yields. My opinion-estimate for 5-year variable rates increased (today) to 3.20%. This is 0.75 points below prime.



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