

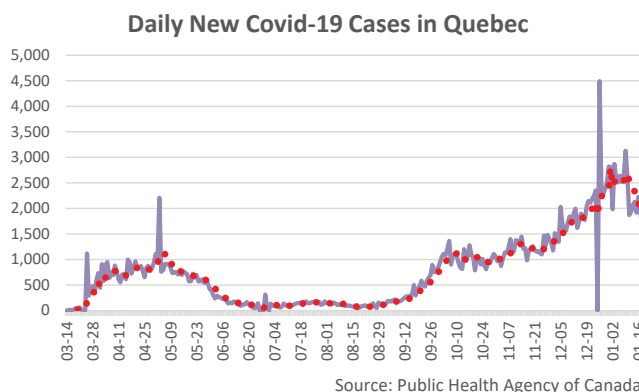
# FOURTH QUARTER 2020 HOUSING MARKET DIGEST QUEBEC



## Turning the Corner?

During the past few days, the rate of new Covid-19 infections has retreated in Quebec, but it remains quite high (expressed on a per million or per 100,000 basis, the province's current 7-day average is almost 30% above the national average). This chart shows data up to January 18. Current data can be found here: <https://health-infobase.canada.ca/src/data/covidLive/covid19.csv>

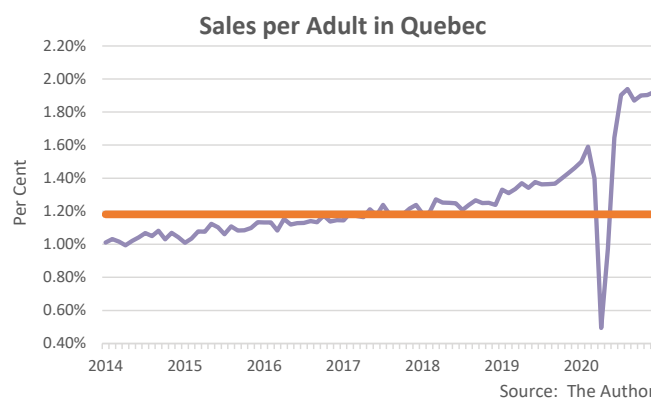
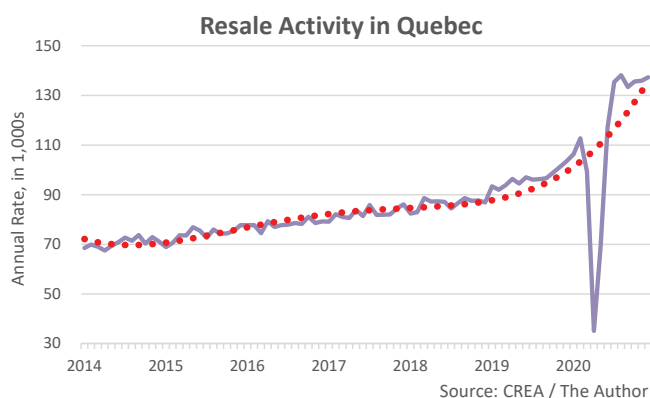
We are now seeing economic data from November and it is hinting at further weakening, even before considering what happened during December. That said, I am still unwilling to produce any forecasts on what might happen to the housing market or the broader economy, because we can't know how this will unfold.



## Resale Market

Apart from a sharp drop during the early months of the pandemic, Quebec's resale housing markets have shown increasing strength for some time. For the fourth quarter, the annualized sales rate was 136,000. New records were set in both the third and fourth quarters of 2020, at levels that were far above prior records. For the entire year, sales totaled 112,971, which was a new annual record (17% above the prior record that was set in 2019).

Looking at sales rates over the past two decades and then making an adjustment for population growth, I calculate that the long-term average rate for 2020 would be about 84,000.

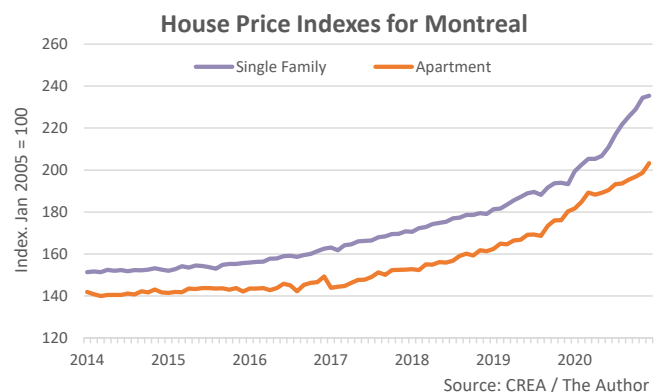
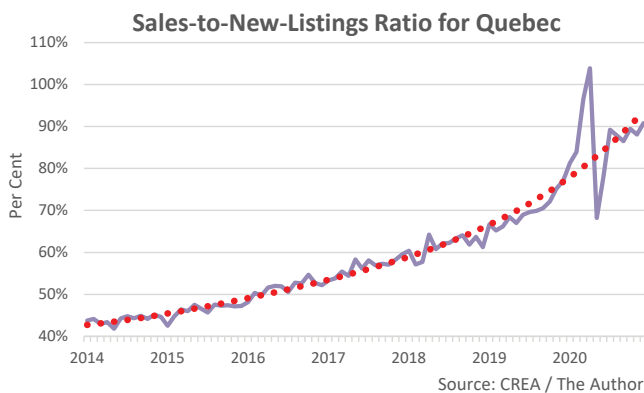


## Resale Market (Continued)

On this basis, the sales rate for 2020 was very far (34%) above the long-term average. In part, strong housing demand in Quebec is justified by robust job creation in recent years, on top of extremely low interest rates. But, it is also possible that there are some psychological factors (perhaps “extrapolative expectations”?) artificially boosting demand.

The flow of new listings into the market has slowed at the same time as demand has increased. In consequence, the provincial sales-to-new-listings ratio (“SNLR”) has become increasingly extreme during the past three years. The provincial SNLR has averaged 89% 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.

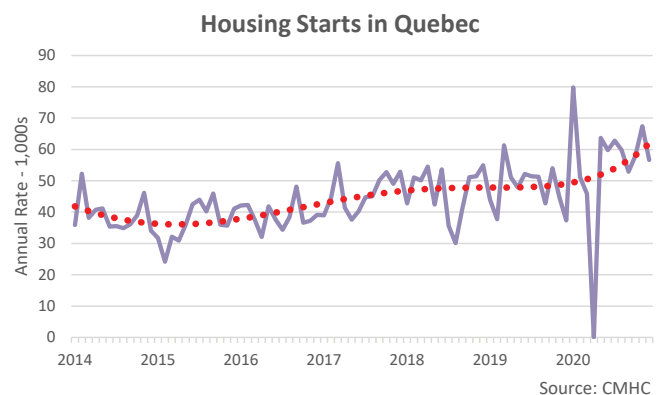
The worsening imbalance between supply and demand is resulting in accelerating prices. CREA's house price index for the Montreal CMA has increased by 10.1% during the past six months (expressed as an annualized rate, this is 21%). In many areas across Canada, data is showing movement away from apartments, towards low-rise homes. For Montreal, the price index for single-detached homes has increased by 11.6% during the past six months. For apartments the growth rate is slower, but at 6.8% over the past six months, it is still very rapid.



## Housing Starts

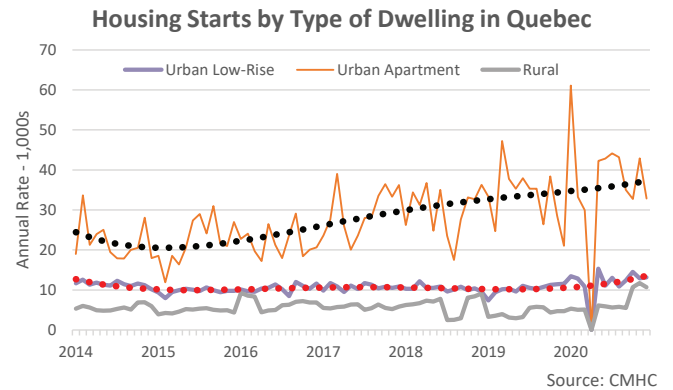
Very strong conditions in resale markets have encouraged increased housing starts. During the fourth quarter, the rate was exceptionally high, at 60,000.

For the entire year, starts in Quebec totaled 54,066, which is 18% above the average for the past 20 years.



## Housing Starts (Continued)

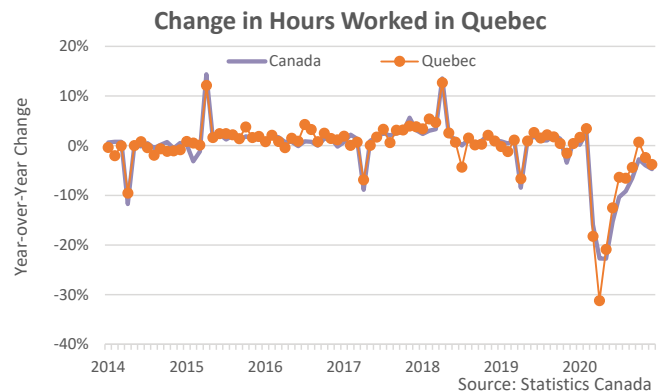
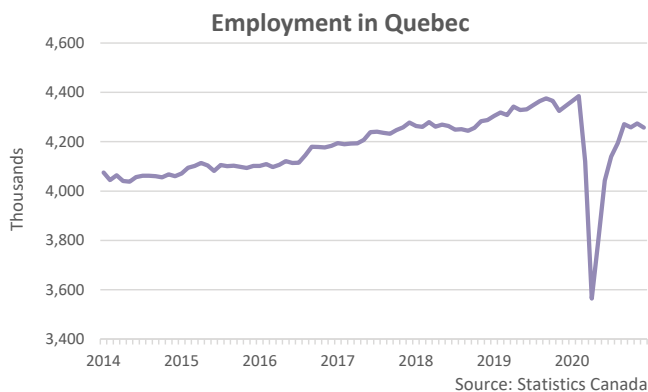
The strength for housing starts is concentrated in the apartment sector. Low-rise activity (single-detached, semi-detached, and town homes) remains weak. Trends for starts continue to imply that during the coming year (and beyond) we will see shortages in resale markets for low-rise homes and there is a risk of excessive inventories for apartments.



## Employment Trends

The recovery of employment in Quebec has been interrupted, as there was negligible change during the fourth quarter. Statistics Canada estimates that employment fell by 820,000 during March and April, but since then 693,000 jobs have been regained. As of December, total employment is estimated to be 128,000 (or 2.8%) lower than in February. For all of Canada, the current shortfall is larger, at 3.3%.

The next chart looks at employment in terms of numbers of hours worked. As of December, total hours for Quebec are 3.8% lower than a year ago. The reduction for all of Canada is larger, at 4.7%.

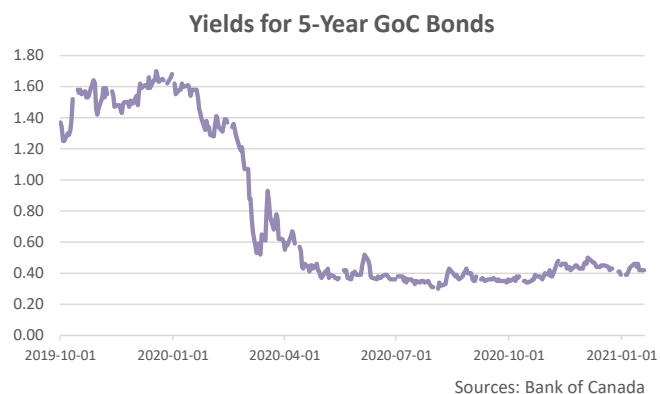


## Interest Rates

In reaction to positive news about Covid-19 vaccines, bond yields rose slightly during November. Since then, there have been only minor variations. The yield for 5-year Government of Canada bonds has been in the area of 0.45%, just slightly higher than the record lows that were seen during the summer and early fall.

Mortgage interest rates remain extremely low. My opinion-estimate of a typical advertised “special offer” mortgage interest rate (5-year fixed-rate, advertised by major lenders) is now 1.65% (even lower rates can be negotiated). The spread between mortgage rates and bond yields is just 1.2 points, which is below the long-term average of 1.8 points. For variable rates, my opinion-estimate is now 1.35%.

As commented previously, the rate used in the mortgage stress tests remains ridiculous, at 4.79%.



## Rental Markets

CMHC will release the results from its October survey on January 28. Two years ago, the release occurred on November 28.

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