FIRST QUARTER 2020

HOUSING MARKET DIGEST

QUEBEC

MORTGAGE PROFESSIONALS CANADA

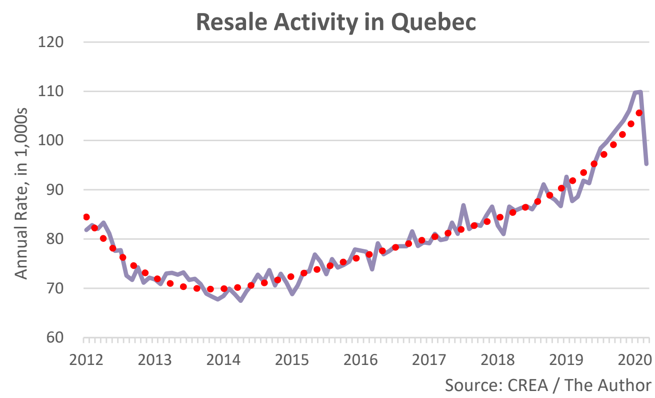
Resale Market

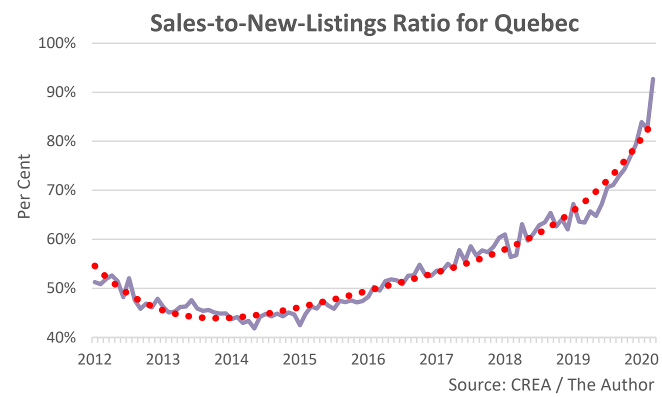
The province's resale activity has been extremely strong since early last year, to the extent that it can be labelled as over-heated. The data for March show a very sharp downturn, although the sales rate was still quite high in historic terms. Across Canada, there have been reports that activity was quite strong during the first half of March, but then there were sharp downturns during the second half, as fears developed about personal safety, the federal and provincial governments urged us to stay at home, and businesses reduced their activities, which generated great fears about our incomes and employment. It is quite likely that during the second half of March, the effective sales rate within Quebec was much lower. For the entire first quarter, the provincial sales rate was slightly (just 0.7%) higher than for the fourth quarter of last year.

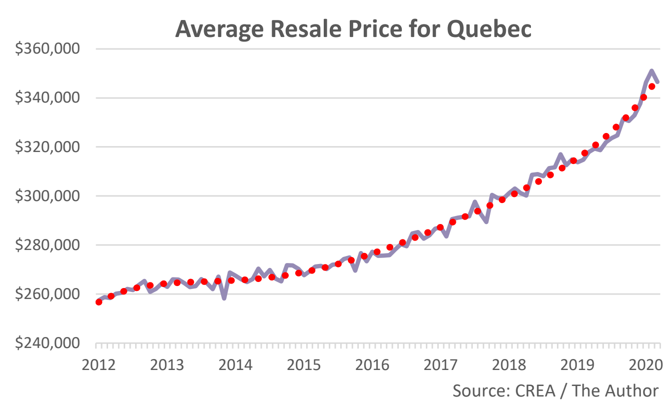
Economic fundamentals (rapid job creation and low interest rates) have been very favourable for housing demand and supported some strengthening of sales. But, one also has to wonder if there was some boost from a "speculative mindset", or if there was an increase in buying from outside of the province. At present, there is a great deal of uncertainty about the effects of the developing health emergency.

The sales-to-new-listings ratio ("SNLR") shows an extremely tight market. During the first quarter, the SNLR averaged 86%, up from 77% in the fourth quarter. This is very far above the threshold (estimated at 45%) for a "balanced market" (this is the level at which prices are expected to rise by 2% per year).

In response to the very tight conditions, prices are growing at an excessive rate. The average price reported by the Canadian Real Estate Association ("CREA") has increased by 10% versus the first quarter of 2019.







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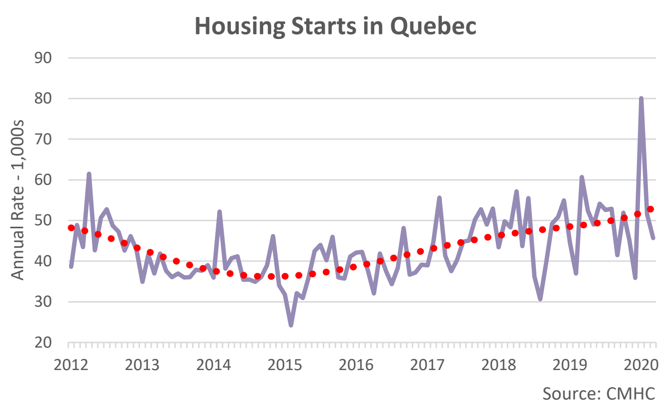
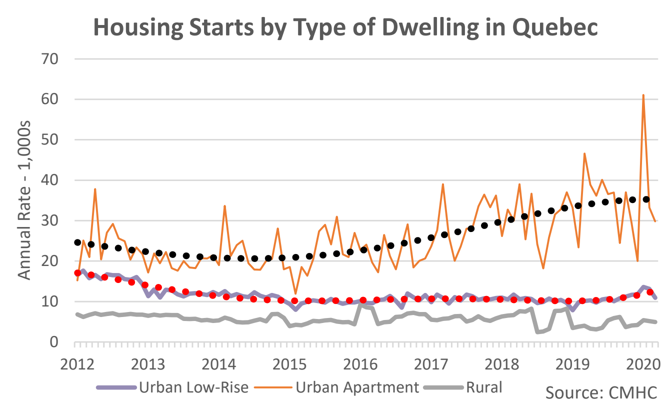
Housing Starts

Tight conditions in the resale sector has encouraged an expansion of housing starts. The rate of housing starts in the first quarter (59,100) was 33% higher than in the fourth quarter (44,300).

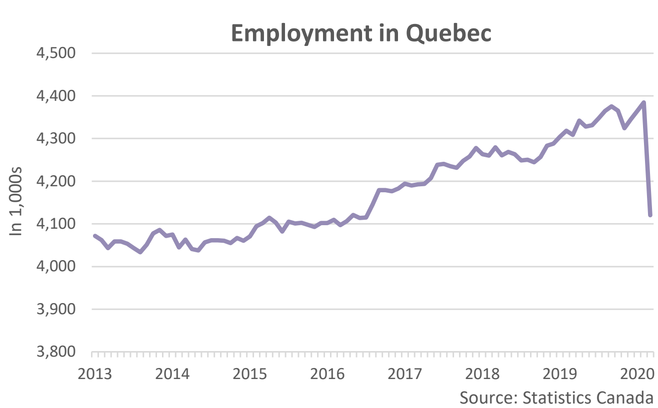
The expansion of starts has been due almost entirely to apartments. Starts of low-rise homes, on the other hand, remain very weak. Recent data hints at a small improvement for low-rises.

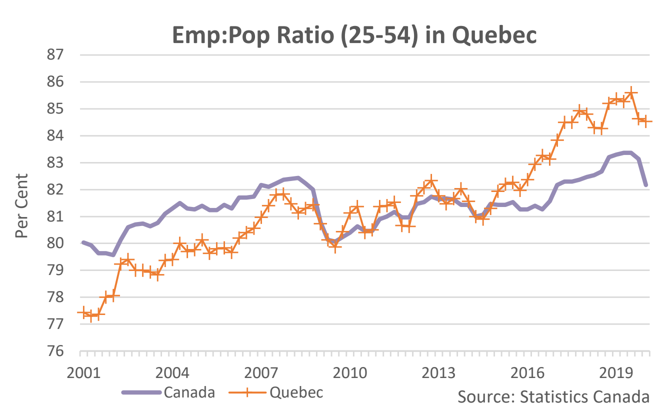




Employment Trends

The employment situation in Quebec continued to improve at the start of this year, but, the onset of Covid-19 and the need for social distancing caused a sharp reduction in March. StatsCan's estimate of employment for March was 264,000 (6.0%) lower than for February – across the regions, Quebec saw the largest percentage reduction (for all of Canada, the drop was 5.3%). A sharp rise in fears about personal safety and economic security has resulted in a very rapid downturn in home buying.





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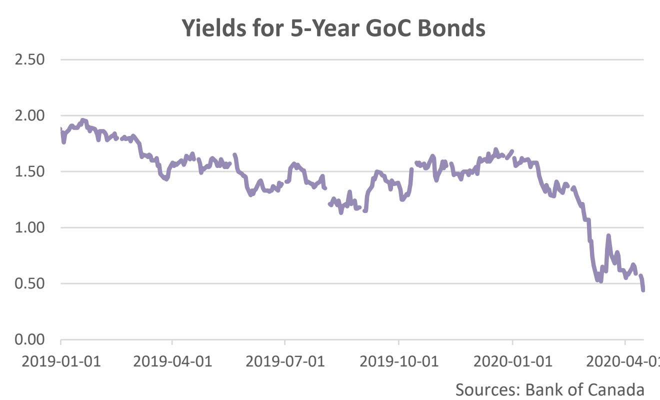
Employment Trends (Continued)

The next chart shows data on the percentage of "prime working age" adults who have jobs, for quarterly periods (in order to reduce "statistical noise" and make it easier to see longer term trends). Thus, this chart shows that the Quebec economy has been exceptionally strong in recent times. But, the quarterly data does not show the sudden negative change that occurred in March.

Interest Rates

Changes in bond yields show that fears began to rise during late January and into February. Then, during late February and into March, escalating fears caused bond yields to fall rapidly. At this time (as of April 15), the yield for 5-year Government of Canada bonds (0.44%) has fallen by more than 1 point since year end (1.68%). Lending rates tend to move a bit later than bond yields. My opinion-estimate of a typical advertised "special offer" mortgage interest rate (5-year fixed-rate from major lenders) is currently 2.7%. The spread between this typical mortgage rate versus bonds is currently about 2.25 points, which is well above the long-term average of 1.8 points.



It remains to be seen if bond yields will remain extremely low and then to what extent mortgage rates will follow the reductions for bond yields. Similarly, the Bank of Canada's policy interest rate has been reduced by 1.5 points in a very short period of time, to just 0.25%, and it remains to be seem if variable rates will fully follow those reductions (my opinion-estimate of a typical special offer rate is at 2.65%, versus 2.9% at the end of last year).

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