Laurentian Bank Securities
ECONOMIC RESEARCH AND STRATEGY

The *Provincial Monitor* – Housing Market Observations

In this edition of the *Provincial Monitor,* we review housing market trends across the country. Our detailed provincial forecasts for 2017, 2018 and 2019 are available on pages 9, 10 and 11.

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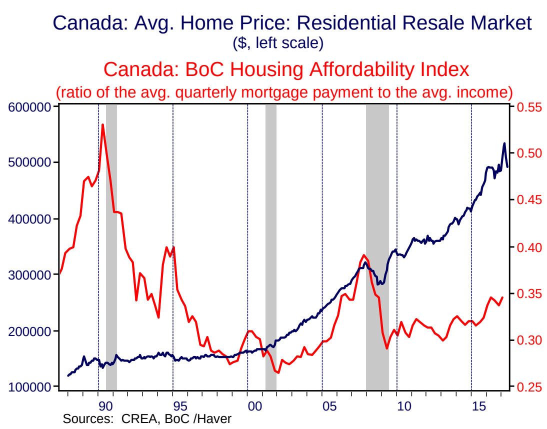
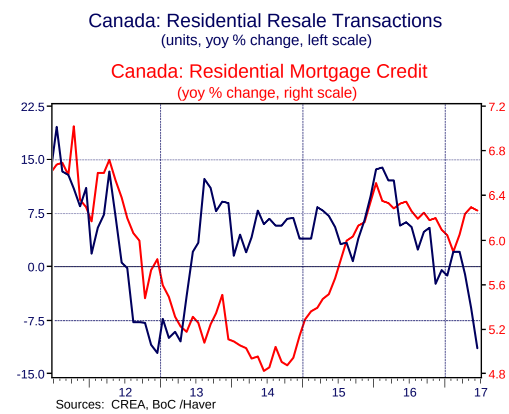
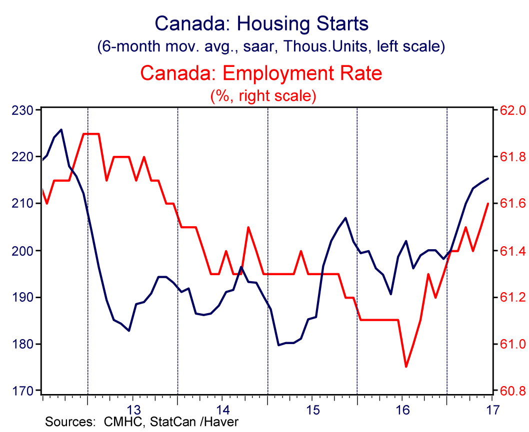
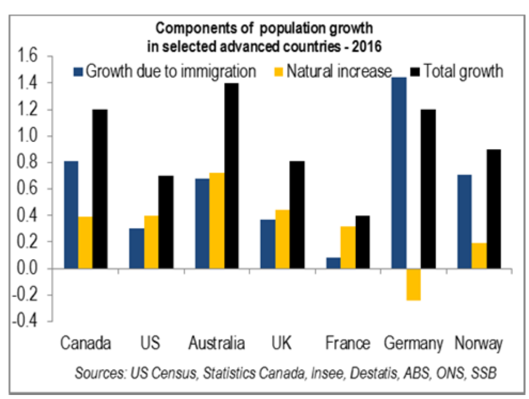








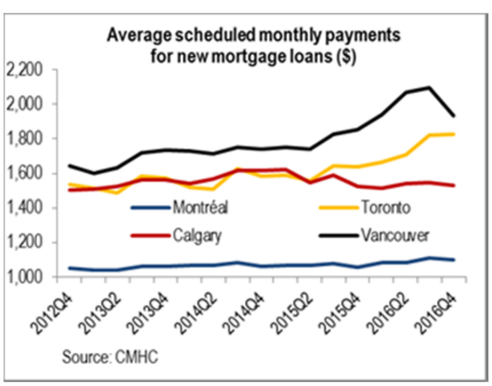
British Columbia: Extremely strong demand, affordability issues remain unresolved in Vancouver

One year after the introduction of the 15% foreign tax by the former BC Liberal government, the number of foreigners involved in Vancouver's resale market has fallen. This foreign tax measure prevented affordability to erode further. The sales-to-listings ratio is above 60% and continues to signal tight resale market conditions. It notably takes less than 20 days for a listed condo unit to be sold according to the *Vancouver Real Estate Board*.

The good news is that homebuilders have been responding appropriately. The level of housing starts remains in the fast lane so far in 2017, after a record year in 2016 (see chart). This will bring much-needed new supply on the market in the coming quarters. We are not worried by the strong pace of homebuilding observed since last year given the soaring number of jobs created. Total employment skyrocketed by almost 10% (122K) during the last two years in Vancouver (see chart); a pace of increase the coastal city never experienced before. As such, the absorption of new condo units reached an all-time high in 2017Q2.

Also, affordability has worsened further this summer following the Bank of Canada's 25 basis points policy rate hike. For a potential new homeowner in Vancouver, carrying an extra 25bps in mortgage rate implies a $1,200 increase on its annual mortgage payment, twice more than the impact in Montréal, Calgary and Ottawa. In our view, this modest increase in rates will continue to fuel the excessive demand already observed on the entry-level property market. Demand for these units is already exacerbated by Ottawa's tightening of mortgage rules announced last year. Indeed, the more stringent stress test regarding borrowers' ability to potentially deal with higher interest rates led some new mortgage applicants to downsize their purchases in order to access the property market and prevented some existing homeowners from upgrading into a more expensive housing market segment. All in all, several factors are contributing to squeeze supply at the low-end, entry-level condo market.

The ball is now in the camp of the new NDP government in Victoria, which took power earlier in mid-July, to try new policies and hopefully find efficient solutions. Since new measures targeting housing affordability could be announced this fall (and some of the existing measures could be eliminated), there is an unusually high level of uncertainty around our housing starts and resale transaction units' forecasts (available on page 11). During the spring election campaign, the NDP notably proposed a 2% speculative real estate tax applied to the value of residential properties. This tax is targeting those who are purchasing residential assets and leaving them empty. The new Housing Minister Selina Robinson recently told the media about her intention to improve housing affordability with the construction of 114 000 rental units over the next 10 years and the closing of loopholes to prevent flipping activities in the presale condo market. All in all, even though labour market fundamentals remain extremely robust, housing market activity in Vancouver is not immune to another cooling like the one seen in the fall of 2016.



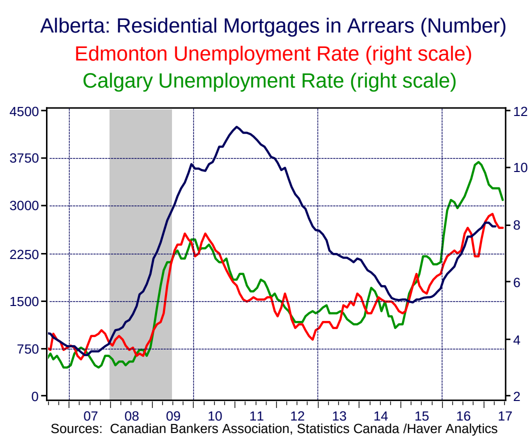
Alberta: Housing recovery underway but still plenty of supply

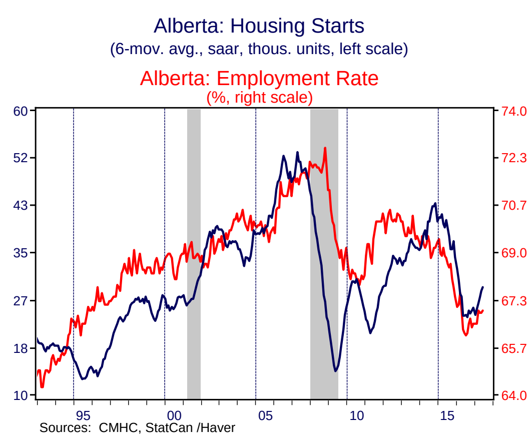
The slow consolidation of the global oil market has put the Alberta economy back on recovery mode. The situation remains challenging however, as Canadian oil producers, recently victim of falling crude oil prices, are being further squeezed by the appreciation of the Canadian dollar. We nevertheless expect a reversal of the situation as we forecast WTI crude oil prices to reach $US60 per barrel at the end of 2017 and $US67 at the end of 2018 with a stable Canadian dollar and interest rates. If our oil price forecast materializes, the housing outlook will likely improve at a moderate pace during the next two years.

Already, the beginning of a downtrend in unemployment which started in late 2016, especially among those who were unemployed for a long period (26 weeks +), has reduced the risk of potential distress housing sales. Notably, the number of residential mortgages in arrears (late payments of 90 days +) has started to decline (see chart). Also, the increase in full-time employment observed so far this year has boosted the level of housing market activity. As of mid-2017, housing starts and resale transactions were both up by double-digit numbers compared to their respective lows of 2016.

This being said, listings on the resale market are stuck near a 9-year high. As such, sales-to-listings ratios in Edmonton and Calgary are still near the lower end of the range prevailing since the oil shock, close to 0.45. This large number of homes available on the resale market has contributed to reducing the absorption rate of new – and more expensive – condo units in both cities since late 2016. This substantial amount of slack to absorb, combined with the absence of a pick-up in the average weekly earnings of Albertans, is likely to restrain the appreciation in home prices for several quarters.

If the timid positive momentum in the employment rate continues (see chart), we forecast the level of housing starts in the province to settle around 30K on an annualized basis by 2019; between the cyclical low of 22K observed in 2016Q1 and the 40K peak observed in 2014 before OPEC decided to flood the oil market.



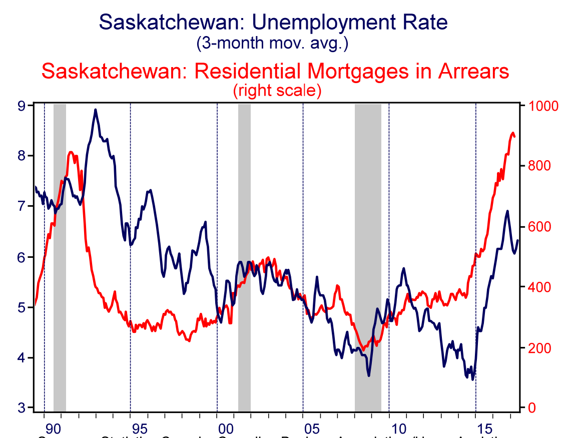


Saskatchewan: A buyer's market until 2018 at least

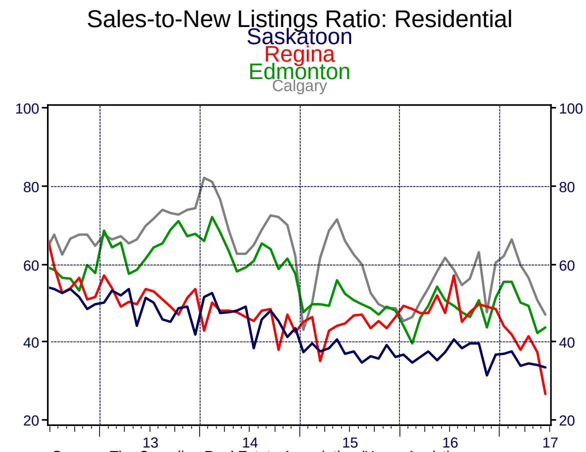
In contrast to Alberta, we are still waiting to see the beginning of a recovery in Saskatchewan's labour market. Full-time employment has stalled since the summer of 2016; still 1.5% below the level seen prior to the 2014-15 oil shock. The unemployment rate hovers around a 18-year high (see chart).

The challenging economic times for some households imply softer housing market conditions relative to those prevailing in Alberta. For instance, the sales-to-listing ratio in Regina and Saskatoon are both below 40%, clearly suggesting the presence of a buyer's market (see chart). The number of mortgages in arrears (late payments of 90 days +) in Saskatchewan is also above the peak observed after the 2008-09 global financial meltdown, another contrast with Alberta's situation.

We anticipate a challenging and long road to recovery for Saskatchewan's housing market. Besides the consolidation of the global oil market, a timid turnaround in the global potash market and continued improvement in other key industries, such as agriculture and manufacturing, are nevertheless expected to strengthen economic conditions in 2018 and 2019. This favourable economic momentum will eventually stimulate housing demand. Yet the level of housing starts will need to stay below the annualized pace of 5K units to facilitate a return to a balanced market.



Sources: Statistics Canada, Canadian Bankers Association /Haver Analytics



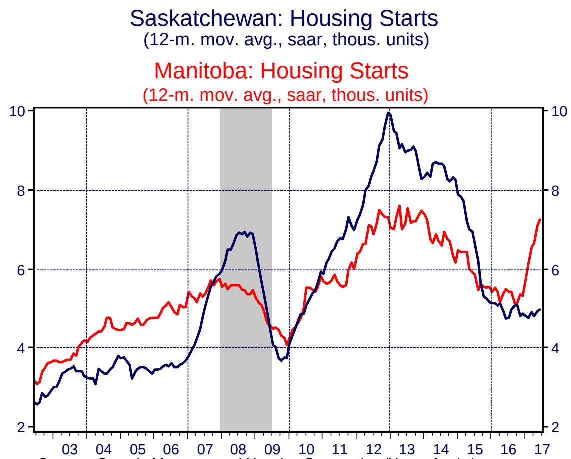
Source: The Canadian Real Estate Association /Haver Analytics

Manitoba: Steady course expected for Winnipeg's housing market

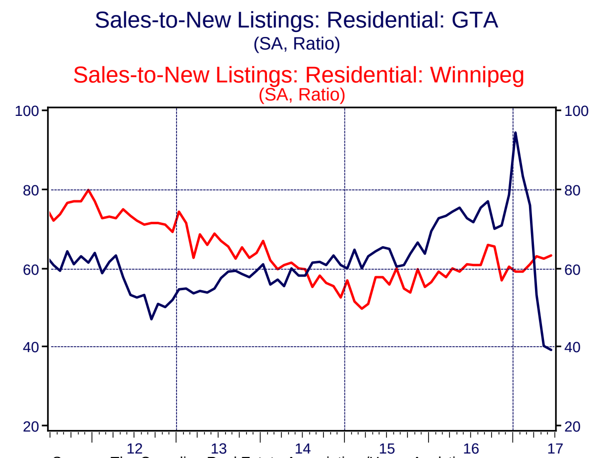
Winnipeg is one of the rare major urban centers in Canada where the average home price is still below $300K. Thus, the modest rise in mortgage rates triggered by the Bank of Canada's 25bps policy rate hike in July is not going to disturb much the borrowers' ability to carry their mortgage payments.

More generally, we are of the view that Manitoba is the steadiest housing market west of the Province of Quebec. The main driver behind the steady housing conditions is the Province's economic diversity. Some sectors of the economy are performing well this year such as manufacturing and agriculture. These sectors help compensate for low nickel prices which should lead to job cuts in the northern part of the Province later this fall and for Manitoba Hydro's plan to reduce its workforce by 15% (900 employees). However, the cuts at MH will be met through retirement and voluntary departure programs and will thus significantly mitigate the potential impact of job losses on housing market conditions in the Winnipeg area.

After three consecutive years of decline in housing starts in 2014, 2015 and 2016, the year 2017 is on track to be one of the strongest in homebuilding activity (see chart). The city of Winnipeg's densification continues, as multiple starts began to outpace single starts a few years ago. Yet, after strong issuance at the beginning of the year, building permits issued in Winnipeg have receded to normal levels in recent months. Thus, the pace of homebuilding is expected to ease in the coming quarters, contributing to maintain a balanced housing market.



Source: Canada Mortgage and Housing Corporation /Haver Analytics



Source: The Canadian Real Estate Association /Haver Analytics

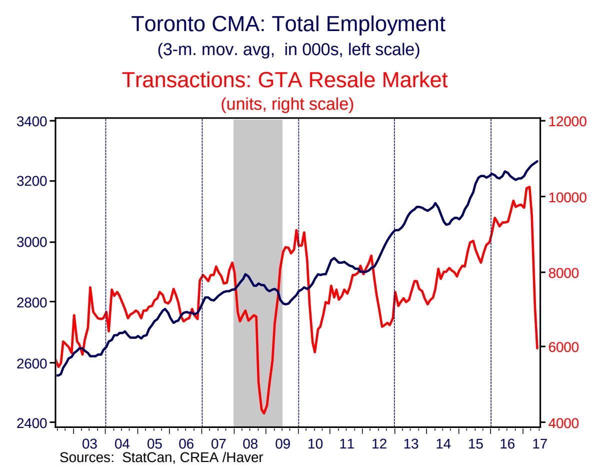
Ontario: Growing pent-up housing demand in the GTA and the surrounding areas

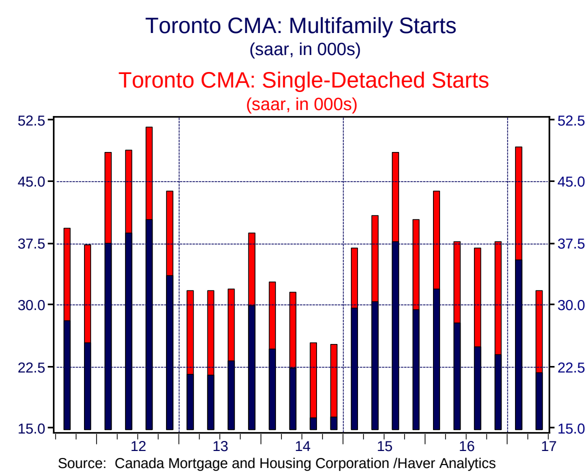
The cooling in the overheating GTA housing market, observed since the 15% non-resident speculation tax rate was announced in April, is a welcomed development. The number of listings on the resale market soared since April as many speculators are trying to sell at peak prices. This behaviour certainly suggests that homes have been overused as an investment vehicle.

Given the Ontario government's intervention on the real estate market, many potential buyers wanting to purchase a property to live in, are currently in a wait-and-see mode. As such, the level of resale transactions registered in June was at its lowest since the global financial crisis. Yet, employment in Toronto's CMA is at an all-time high; 16% higher than in 2008-09. This unusual discrepancy between employment and resale transactions should not last for long (see chart). Given the GTA's healthy labour market conditions and an annual household formation of about 40K, buyers waiting on the sidelines for a major downturn in prices, risk being disappointed. We expect that the resale market will begin its recovery between the fall and early 2018.

The targeted measures on housing announced by the Ontario government also contributed to a likely temporary reduction in the number of new condo units absorbed in the GTA during 2017Q2. The good news is that both the pace of units under construction and starts also fell during 2017Q2 (see chart), implying that the GTA's new housing market remains far from being in an overbuilt situation.

With more households unable to afford a home in the GTA, we expect further upward pressures on housing conditions in the surrounding regions as well as on the rental market. For instance, we wouldn't be surprised to eventually find out that the rental vacancy rate for traditional apartments in the GTA, pegged at an already low 1.3% in late 2016 by the *Canadian Mortgage and Housing Corporation*, falls below 1%; like in Vancouver.





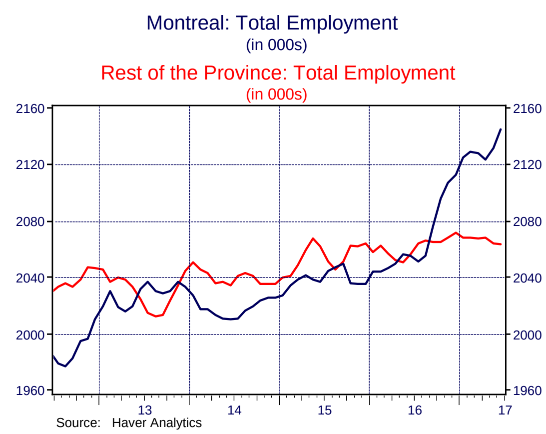
Quebec: Diminishing slack in Montreal's housing market

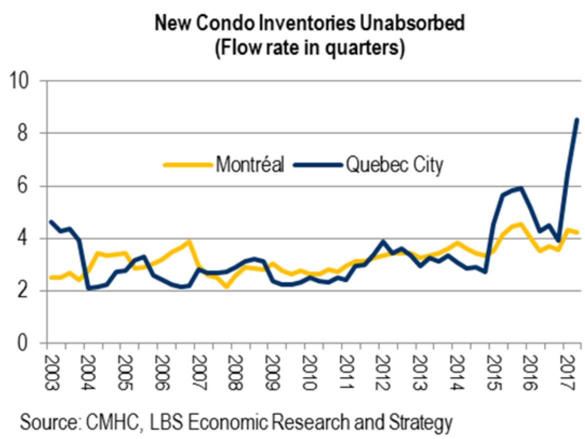
Since the summer of 2016, the entire job creation observed in the Province has been in the Montreal area (see chart). Total employment rose by about 100K compared to a year ago in the Montreal CMA, one of the best historical performances. Montreal's unemployment rate sits at an all-time low (6.3% in July).

Combined with a pace of homebuilding slightly below its recent trend, Montreal's solid labour market conditions have contributed to lower the number of unabsorbed new condo units during 2017Q2. The amount of slack in Montreal's condo market also declined due to double-digit growth registered in resale transactions so far this year. Combined with fewer listings, the condo market has been gradually moving away from a "buyer's market" towards a more balanced real estate market. The only segment currently considered tight in Montreal is the single-detached market, where the low level of unit starts and the increasing sales-to-new listings ratio have led to an above-average appreciation of 6% in the average home price between 2016Q2 and 2017Q2 according to statistics compiled by the *Fédération des Chambres Immobilères du Québec*.

Put simply, we are of the view that domestic labour market conditions remain the main driver behind the current positive momentum in Montreal's real estate market. Granted, the introduction of the 15% foreign tax in B.C. in August 2016 has contributed to move some of the foreign money into the Montreal housing market. In a study released in July 2017, CMHC found that 236 residential units were purchased by foreigners between January and April 2017; a 37% jump from the same period last year. This being said, the involvement of foreigners in 236 transactions is a drop in the bucket as it represents less than 2% of the 15.9K resale transactions made during the same period. Although we are beginning to see some evidence that the instauration of the speculative tax in Ontario has redirected some speculative activities towards Montreal, we estimate that a maximum of 3% of foreigners could be involved in resale market transactions going forward. This is a far cry from Vancouver, where about 13% of resale transactions involved foreigners prior to August 2016 when the province implemented the 15% foreign tax.

Finally, a word on the continued softness observed in Quebec City's condo market. Homebuilding is on the rise this year while total employment is stalling and absorption of new condo units is falling. The spillover effect of this larger-than-usual slack in the new condo market is putting additional softness on the resale market. The average resale condo price was down 2% from a year ago as of 2017Q2. Further adjustments of prices and the pace of homebuilding will be required to bring back this market into balance.

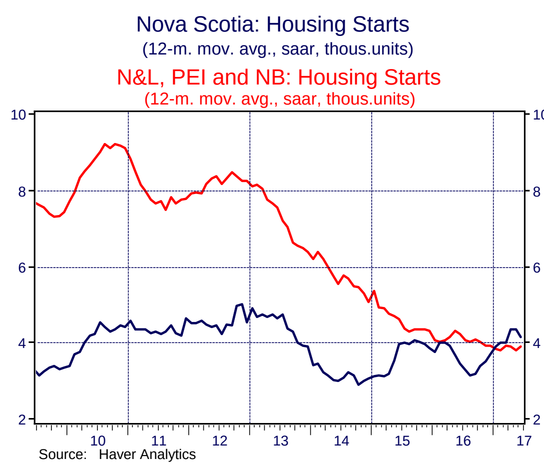


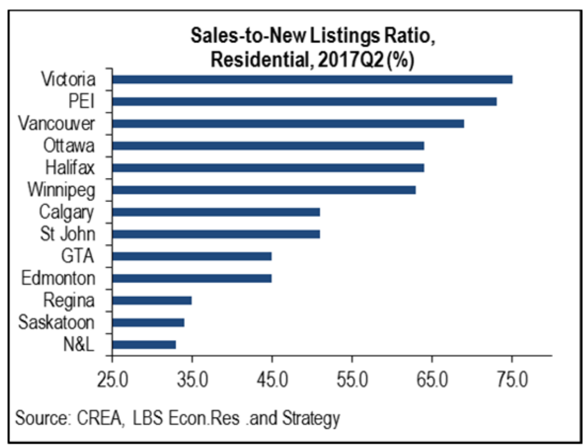


Atlantic Region: Halifax expected to lead the way

In the Atlantic region, the outperformer is likely to be Nova Scotia, particularly the vibrant Halifax region. We already know that the construction of combat ships for the federal government will keep the Halifax shipyard busy for quite some time, before it shifts to a higher gear when the second construction phase begins in 2020. Also, the weak Canadian dollar is leading the tourism industry to another banner year. More importantly for housing demand, the arrival of Syrian refugees and the end of the migration outflow to Alberta are underpinning Nova Scotia's population growth. The latter is rising at its fastest pace since the mid-1990s (+0.6% year-to-date in 2017). Particularly, the *Labour Force Survey* from Statistics Canada estimates Halifax's population growth at 1.5% on a year-over-year basis; a 15-year high. The upside risk to Nova Scotia's outlook is the final investment decision regarding the Goldboro liquefied natural gas project. This multibillion-dollar project could boost economic activity significantly during the construction phase which is expected to last several years, until commercial operations begin in 2021-22.

Unfortunately, the housing outlook is relatively less upbeat for the other Atlantic Provinces. In Newfoundland & Labrador, the economic and fiscal situation remains fragile despite the rebound in crude oil prices. Total employment in N&L is falling for a fourth consecutive year in 2017, contributing to bring down the level of housing starts to an all-time low and the level of resale transaction units to a decade low. Unfavorable demographics restrain the possibility of a rebound in N&L's market, as well as in New Brunswick. Notably, the number of workers aged 25-39 years old in these two provinces, a proxy for the pool of first-time homebuyers, has been declining at an annualized pace of about 2% lately. This contrasts with the Province of Nova Scotia, where this key cohort of workers has been expanding modestly.





Population (annual change in 000s)	2014	2015	2016	2017	2018	2019
Canada	389.1	304.0	437.8	405.9	410.4	415.0
N&L	0.9	0.3	1.5	-2.7	-2.1	-2.1
PEI	0.7	0.9	1.9	1.9	2.0	2.0
NS	-0.2	0.1	6.1	2.8	1.9	1.9
NB	-1.0	-0.6	2.5	2.3	1.5	0.8
Quebec	59.0	44.9	66.6	66.6	67.1	59.2
Ontario	128.9	111.9	185.9	181.8	155.8	157.5
Manitoba	15.4	15.0	22.1	18.5	17.4	17.6
Sask	16.3	11.0	18.4	19.6	21.1	21.4
Alberta	111.7	71.4	73.2	55.3	60.3	61.2
BC	56.2	47.7	58.7	57.0	57.7	58.4

Source: Statistics Canada, LBS Econ. Research and Strategy

Population (annual % change)	2014	2015	2016	2017	2018	2019
Canada	1.1	0.9	1.2	1.1	1.1	1.1
N&L	0.2	0.1	0.3	-0.5	-0.4	-0.4
PEI	0.5	0.6	1.3	1.3	1.3	1.3
NS	0.0	0.0	0.6	0.3	0.2	0.2
NB	-0.1	-0.1	0.3	0.3	0.2	0.1
Quebec	0.7	0.5	0.8	0.8	0.8	0.7
Ontario	1.0	0.8	1.3	1.3	1.1	1.1
Manitoba	1.2	1.2	1.7	1.4	1.3	1.3
Sask	1.5	1.0	1.6	1.7	1.8	1.8
Alberta	2.8	1.7	1.8	1.3	1.4	1.4
BC	1.2	1.0	1.2	1.2	1.2	1.2

Source: Statistics Canada, LBS Econ. Research and Strategy

Nominal GDP Growth	2014	2015	2016	2017	2018	2019
Canada	4.5	0.2	2.1	5.4	4.1	3.9
N&L	-1.3	-11.5	0.0	3.1	2.4	2.5
PEI	3.5	3.9	3.5	3.2	2.9	2.8
NS	1.7	2.4	2.9	3.3	3.3	3.7
NB	1.0	2.9	3.2	3.1	2.3	2.2
Quebec	1.9	2.6	2.9	4.1	3.4	3.2
Ontario	4.7	4.9	4.6	5.1	4.1	4.0
Manitoba	2.5	3.1	3.8	3.6	3.8	3.8
Sask	1.3	-5.7	-2.4	5.7	4.4	4.2
Alberta	8.9	-12.5	-6.2	8.9	5.4	4.7
BC	5.2	3.8	5.0	5.2	4.2	4.1

Source: Statistics Canada, LBS Econ. Research and Strategy

Real GDP Growth	2014	2015	2016	2017	2018	2019
Canada	2.6	0.9	1.4	2.7	2.0	1.9
N&L	-1.0	-2.0	1.9	-1.5	0.0	0.2
PEI	1.5	1.3	2.3	1.7	1.3	1.1
NS	0.8	1.0	1.0	1.6	1.5	1.8
NB	-0.1	2.3	1.3	1.0	0.6	0.5
Quebec	1.3	1.2	1.7	2.5	1.7	1.5
Ontario	2.7	2.5	2.7	2.8	2.2	2.0
Manitoba	1.5	2.2	2.3	1.9	1.9	1.9
Sask	2.4	-1.3	-0.7	2.1	2.3	2.2
Alberta	5.0	-3.6	-3.7	3.2	2.8	2.7
BC	3.3	3.3	3.2	2.9	2.2	2.1

Source: Statistics Canada, LBS Econ. Research and Strategy

Unemployment Rate						
	2014	2015	2016	2017	2018	2019
Canada	6.9	6.9	7.0	6.4	6.3	6.2
N&L	12.0	12.8	13.5	14.5	13.9	13.7
PEI	10.5	10.4	10.8	10.1	10.0	10.0
NS	8.9	8.6	8.3	8.3	8.1	7.9
NB	9.9	9.8	9.6	8.1	8.0	8.0
Quebec	7.8	7.7	7.0	6.1	6.0	6.0
Ontario	7.3	6.7	6.6	6.1	6.0	6.0
Manitoba	5.4	5.6	6.2	5.4	5.5	5.5
Sask	3.8	5.0	6.4	6.3	6.1	5.9
Alberta	4.7	6.0	8.2	7.7	6.8	6.3
BC	6.1	6.2	6.0	5.3	5.4	5.4

Source: Statistics Canada, LBS Econ. Research and Strategy

Employment (% annual change)						
	2014	2015	2016	2017	2018	2019
Canada	0.6	0.9	0.7	1.7	1.0	0.8
N&L	-1.9	-1.0	-1.4	-4.0	-1.5	-0.5
PEI	-0.4	-1.0	-2.3	3.1	0.2	0.2
NS	-1.1	0.1	-0.4	0.9	0.5	0.5
NB	-0.2	-0.4	-0.1	0.2	0.1	0.1
Quebec	-0.1	1.0	0.9	2.1	0.7	0.5
Ontario	0.8	0.7	1.1	1.3	1.0	0.8
Manitoba	0.1	1.5	-0.5	1.8	0.6	0.4
Sask	1.0	0.6	-0.9	0.2	0.9	0.9
Alberta	2.2	1.2	-1.6	1.1	1.3	1.2
BC	0.6	1.3	3.1	3.7	1.4	1.3

Source: Statistics Canada, LBS Econ. Research and Strategy

Employment (annual change in 000s)						
	2014	2015	2016	2017	2018	2019
Canada	110.1	152.7	133.9	312.0	179.1	148.6
N&L	-4.6	-2.4	-3.4	-9.3	-3.3	-1.1
PEI	-0.3	-0.8	-1.7	2.2	0.1	0.1
NS	-5.1	0.3	-1.8	4.0	2.3	2.3
NB	-0.7	-1.6	-0.4	0.7	0.4	0.4
Quebec	-2.2	40.0	38.4	86.8	29.6	21.3
Ontario	54.8	46.4	75.9	91.0	70.9	57.3
Manitoba	0.7	9.6	-3.0	11.4	3.9	2.6
Sask	5.6	3.2	-5.0	1.1	5.1	5.2
Alberta	48.3	28.0	-36.5	24.9	29.8	27.8
BC	13.7	29.8	71.4	88.0	34.5	32.5

Source: Statistics Canada, LBS Econ. Research and Strategy

Retail Sales Growth	2014	2015	2016	2017	2018	2019
Canada	5.1	2.6	5.1	5.7	4.4	4.2
N&L	3.6	0.6	0.2	1.1	1.3	1.1
PEI	3.6	2.8	7.7	5.4	3.6	6.5
NS	2.7	0.2	4.6	4.2	4.0	4.0
NB	3.6	2.1	1.8	5.6	3.8	3.4
Quebec	2.4	1.8	6.2	5.1	4.5	4.2
Ontario	5.8	5.5	7.1	6.0	4.7	4.4
Manitoba	4.4	1.6	4.2	4.3	3.9	4.0
Sask	5.0	-2.9	2.2	5.3	4.1	4.0
Alberta	7.9	-4.0	-1.2	6.5	4.6	4.2
BC	6.3	6.9	7.4	6.5	4.2	4.0

Source: Statistics Canada, LBS Econ. Research and Strategy

CPI Inflation	2014	2015	2016	2017	2018	2019
Canada	1.9	1.1	1.4	1.7	1.9	1.9
N&L	1.9	0.4	2.7	2.5	1.8	1.8
PEI	1.6	-0.6	1.2	1.9	1.7	1.7
NS	1.7	0.4	1.2	1.6	1.8	1.6
NB	1.5	0.5	2.2	2.3	1.8	1.8
Quebec	1.4	1.1	0.7	1.0	1.7	1.8
Ontario	2.3	1.2	1.8	1.7	1.9	1.9
Manitoba	1.8	1.2	1.3	1.7	2.1	2.1
Sask	2.4	1.6	1.1	1.8	1.9	1.7
Alberta	2.6	1.2	1.1	1.8	1.9	1.9
BC	1.0	1.1	1.9	2.0	1.9	1.9

Source: Statistics Canada, LBS Econ. Research and Strategy

Housing Starts (000s of units)	2014	2015	2016	2017	2018	2019
Canada	189.3	195.5	197.9	200.8	189.6	188.0
N&L	2.1	1.7	1.4	1.1	1.2	1.2
PEI	0.5	0.6	0.6	0.7	0.6	0.5
NS	3.1	3.8	3.8	3.9	3.7	3.6
NB	2.3	2.0	1.8	2.0	2.0	2.2
Quebec	38.8	37.9	38.9	40.5	37.0	36.0
Ontario	59.1	70.2	75.0	76.0	72.0	71.0
Manitoba	6.2	5.5	5.3	6.9	6.0	6.0
Sask	8.3	5.1	4.8	4.8	4.6	4.5
Alberta	40.6	37.3	24.5	27.9	28.5	30.0
BC	28.4	31.4	41.8	37.0	34.0	33.0

Source: CMHC, LBS Econ. Research and Strategy

Residential Transactions - Resale Market (000s of units)	2014	2015	2016	2017	2018	2019
Canada	476.9	502.6	534.7	510.9	523.2	534.3
N&L	4.2	4.2	4.1	3.6	3.6	3.6
PEI	1.4	1.7	2.0	2.0	1.9	1.9
NS	8.9	9.2	9.9	10.0	9.8	9.5
NB	6.3	6.7	7.4	7.8	7.6	7.5
Quebec	70.6	74.1	78.1	81.5	83.0	83.5
Ontario	202.5	221.7	242.7	221.0	228.0	235.0
Manitoba	13.8	14.0	14.6	14.7	14.6	14.5
Sask	13.7	12.2	11.6	11.3	12.2	12.8
Alberta	71.5	56.2	52.0	56.0	57.5	59.0
BC	84.1	102.5	112.2	103.0	105.0	107.0

Source: CREA, LBS Econ. Research and Strategy