

SPOTLIGHT ON HOUSING

The Residential Sector Has Been Shaken by the Fallout from the Pandemic

Although the resale market and residential construction continued their acceleration in Quebec at the beginning of the year, the necessary social distancing measures to combat COVID-19 have temporarily ground activity to a halt. Property sales numbers tumbled in March, with April looking much bleaker. Prices have held up thus far, as many markets are still very hot due to the limited supply of properties for sale. What does the future hold? Despite a gradual lifting of containment measures that will continue in the coming weeks, it could take time before we see a return to a strong economic foundation. The housing market will recover from the shock of the pandemic, but the exceptional run of recent years appears to now be over.

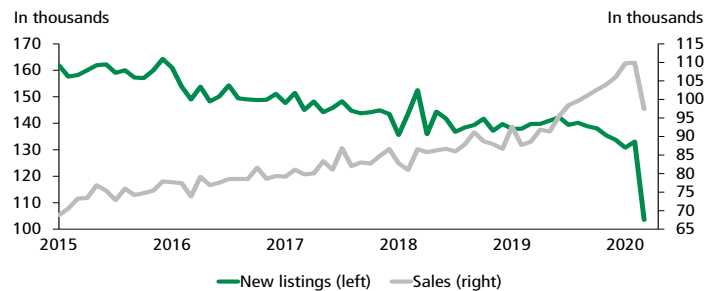
March Results: End of the Ride

March began with strong growth in prices and sales. Then, the containment rules that extended to all non-essential businesses as of March 25 in Quebec, and shortly thereafter in Ontario, paralyzed both buyers and sellers. That was enough to drive down not only the number of sales, but also the number of properties for sale (graph 1). Almost all provinces and the main markets in Quebec saw activity decrease in March compared to the month before (graphs 2 and 3 on page 2). However, sales levels held well above those of March 2019. Considering that fewer sellers put their properties up for sale, Quebec's residential market remained in the shortage zone, while nearing equilibrium but staying far from a surplus situation.

April figures will be even more negative, however. According to the Canadian Real Estate Association, sales during the first week of the month were half of what they usually are this time of year in the country as a whole. This may be more negative for Quebec, especially since consumer confidence is particularly shaken and the deterioration of the labour market¹ is more pronounced than in other provinces (graphs 4 and 5 on page 2). Despite some targeted sectors being slated to reopen starting in mid-April, with others gradually following suit, the residential sector is expected to bottom out this month. That will be the

GRAPH 1

Property sales fell in Quebec, just like the supply of new properties for sale



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

case for sales, at least, which will pick up after the temporary shutdown.

Future Price Trajectory

What will happen to prices? The pause in the market, which drove down both the number of purchases and the supply of properties for sale this spring, has had little effect on average prices. Prices either increased slightly or decreased in various metropolitan areas of Quebec and Ontario between February

¹ For more details, consult our three publications: [Canada's Labour Market in a Temporary Tailspin](#), *Economic Viewpoint*, April 6, 2020, 3 p.; [What Will Happen to Quebec's Unemployment Rate in the Coming Months?](#), *Economic Viewpoint*, April 7, 2020, 3 p.; [The Unemployment Rate Climbed to 8.1% in Quebec and 7.6% in Ontario, with Huge Job Losses in March](#), *Economic News Quebec and Ontario*, April 9, 2020, 1 p.

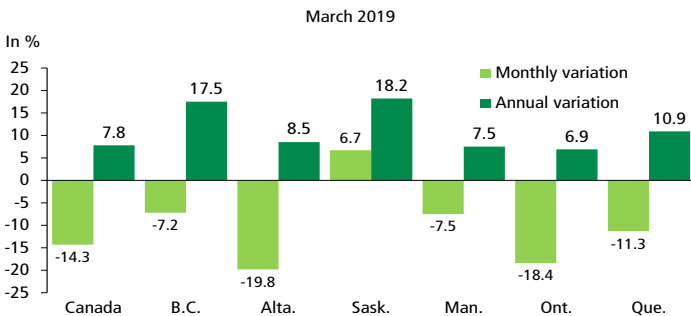
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

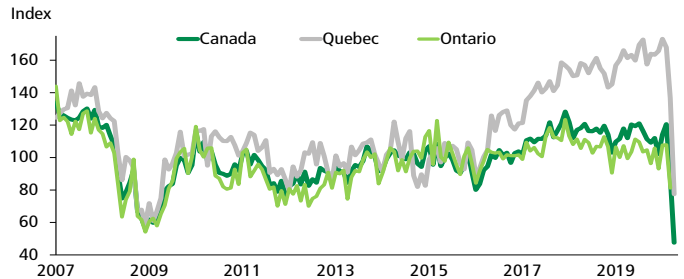
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GRAPH 2
Property sales slumped in nearly all provinces, but are still higher than last year



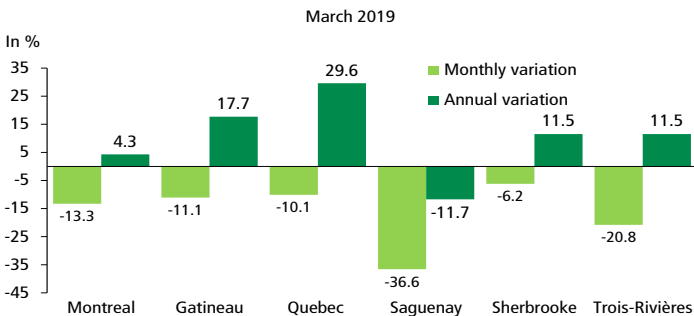
Sources: Canadian Real Estate Association and Desjardins, Economic Studies

GRAPH 4
Dramatic drop in consumer confidence, especially in Quebec



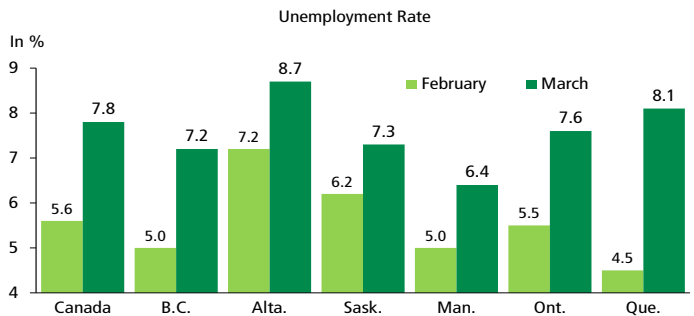
Sources: Conference Board of Canada and Desjardins, Economic Studies

GRAPH 3
Property sales were down in all CMA's in Quebec, but are higher than the year before, except in Saguenay



CMA: Census Metropolitan Areas
Sources: Canadian Real Estate Association and Desjardins, Economic Studies

GRAPH 5
Quebec's unemployment rate rose quickly



Sources: Statistics Canada and Desjardins, Economic Studies

and March. However, average prices have remained well above those from the same period last year. The annual increase was 9.2% for Quebec and 14.7% for Ontario in March.

The true test of developments in prices should come in May, when most of the containment measures will likely have been lifted. Many owners struggling financially as a result of lost employment income might put their homes up for sale, increasing the supply available on the market. The mortgage payment deferral of three to six months offered by some financial institutions and the federal government's financial support measures should, however, limit the increase in the number of households forced to sell.

If buyers are hesitant due to the economic uncertainty, the market could first switch to equilibrium and then surplus, if there is still insufficient demand. For the time being, sellers' and buyers' future behaviour is still too unclear to call. Average prices should, at the very least, stabilize over the coming months in Quebec, with a slight drop also possible.

Residential Construction

Home construction was ordered to stop on March 25 and resumed on April 10 with a return to work. March housing starts naturally declined from the month before, but numbers remained fairly high at 45,607 units (annualized). The statistics for April should also be affected by the closing context for more than half of the month. Construction was very lively before the pandemic exploded. Despite the temporary shutdown of construction sites, the level of activity will recover quickly. The next few weeks will be a race against time. It will be impossible to deliver all units on time, but those with a closer delivery date will be given priority and completed first.

Economic Context Is Key

What should we expect in the months to come? Everything will depend on how quickly the economy recovers from the shock and how well employment and consumer confidence bounce back. The unemployment rate could temporarily push past the 10% mark in April and come back down afterwards. We do not anticipate a return to highly favourable economic conditions, with an unemployment rate of 4.5%, before the end of next year.

The residential real estate market is not expected to hum with the same pre-crisis buzz. The dramatic slowdown in activity will, however, be temporary and will peak in April, subsequently giving way to a recovery. The Bank of Canada's key interest rate cut by 150 basis points in March is positive for borrowers. Given the current uncertainty, this will not make much of a difference for the housing market in the for now. Keeping mortgage rates low will, however, be an asset down the road. The degree of consumer confidence will be a determining factor for the residential sector in the coming months.

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