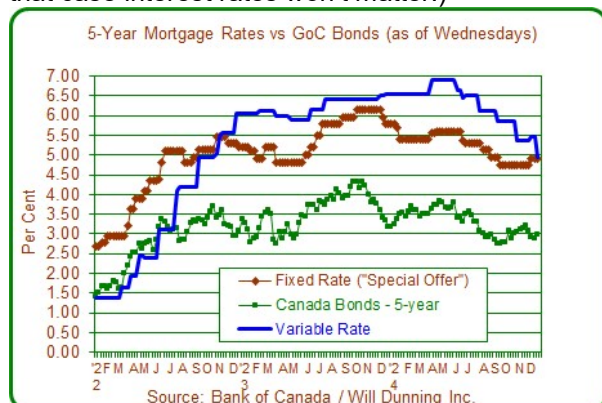


Housing Market Digest

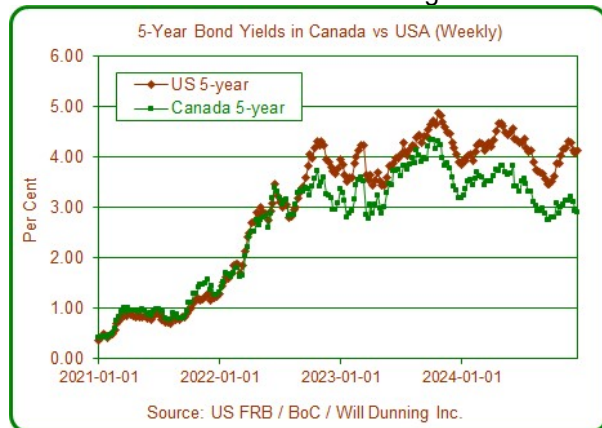
Canada, December 2024

Interest Rates

I think the most important interest rate in Canada is the yield for 5-year Government of Canada bonds. To get a neutral 5-year fixed mortgage rate (about 3%) we need a reduction in the bond yield (to no higher than 1.5%, versus current yields of about 3% - I can't see that happening, unless he blows up the North American economy. But, in that case interest rates won't matter.)



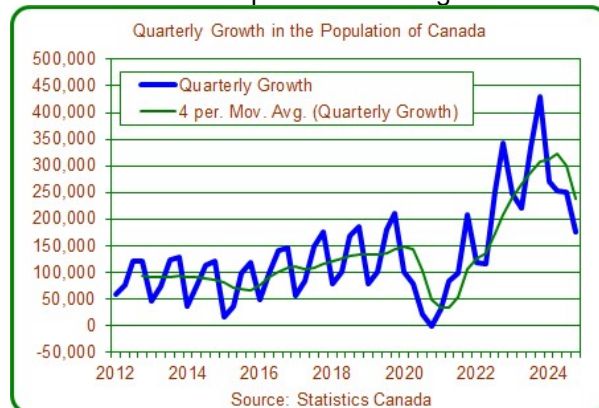
The spread between Canada and US bonds has widened recently (to about 1.25 point). That has caused a bit of depreciation of the Canadian dollar. The Canadian economy is much more interest-rate-sensitive than the US: during 2022, Canadian interest rates should not have increased by the same amount as in the US – this has caused economic risks to be much greater here.



Population Growth is Slowing

StatsCan has released its estimate of population (as of October 1). During the 3-month period, the population grew by an estimated 176,699, to 41,465,298. By contrast, during the same period a year earlier the estimated growth was much larger, at 430,297. The recent changes to federal immigration policies (notably temporary permits for

foreign workers and students) are now bringing a turnaround from the prior excessive growth.



Uncertainty About the Employment Situation

I'm aware of three things that can go wrong in the employment estimates that are produced by Statistics Canada's Labour Force Survey:

- Use of a sample survey results in random errors (in the estimates of the rates – the unemployment rate, the employment-to-population ratio, and the participation rate).
- Those rates are applied to assumptions about growth of the population, to produce the numbers (growth of employment, etc.)
- Incorrect assumptions can be made about weights (the distribution of the population by age group and by sex).

It's possible that all three of those errors were present in the estimates for November. And, it is possibly that there was actually little or no job growth during October and November (in contrast to the estimates that showed a combined total growth of 65,000).

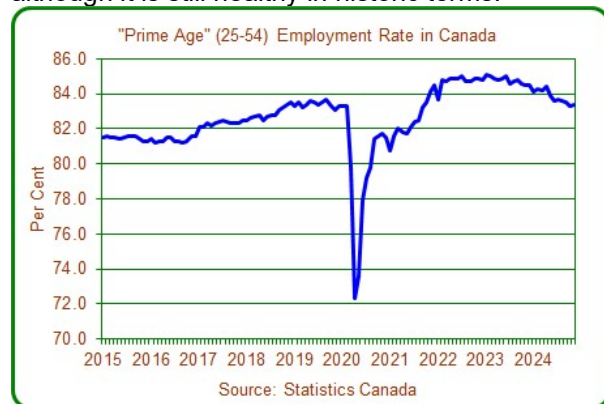
While Statistics Canada showed great confidence in its estimate that employment rose by 50,500 in November, it is certainly incorrect, because of its assumption that the adult population grew by 80,100 (this was the highest growth assumption ever for a November, and it was certainly much too high - as noted earlier, population growth is now decelerating quite rapidly). Also, the sharp drop in arrivals of new foreign students probably caused a weighting error (an over-assumption about growth of the population of young adults). In addition, there was a too-large change in the estimated labour force participation rate (a rise of 0.3 points), which hints that there was a large "sampling error" in November. This probably caused an erroneous rise in the estimate of the

Housing Market Digest

Canada, December 2024

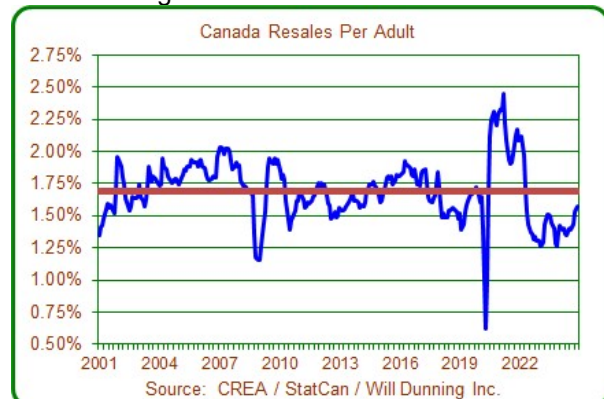
unemployment rate (also 0.3 points). This is data that should be ignored (with regrets). There are interim fixes that StatsCan could be using in situations like this. They need to get on it.

At this time, the least-bad indicator for the employment situation is probably the employment-to-population ratio for the "prime age" group (25 to 54). This data indicates that there has been a substantial deterioration during the past year, although it is still healthy in historic terms.



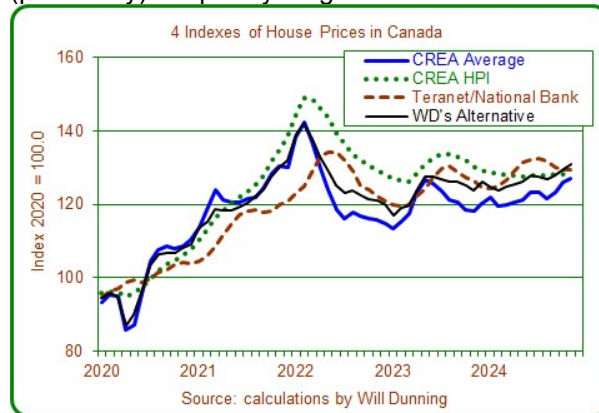
Resale Markets

During November, resale activity showed a further material effect from the interest rate reductions. The annualized sales rate (535,100) was 2.8% higher than in October and 29% higher versus a year ago. But, sales are still below the population-adjusted average by 7%. The recent improvement in sales is due to the substantial drop for interest rates. That effect is almost always temporary, and we might see another retreat in sales in the coming months. Population-adjusted sales rates are weakest in Ontario and BC, but are close to or above average in lower-cost markets.



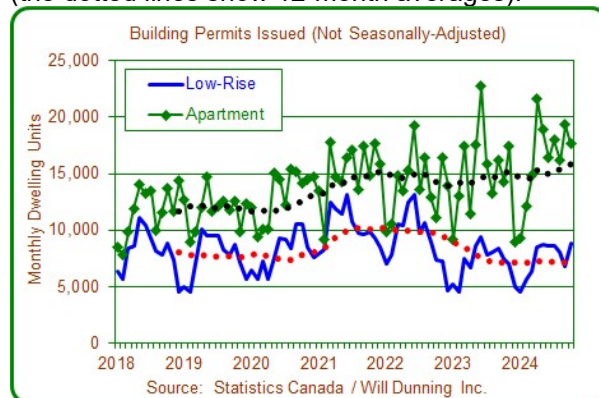
The sales-to-new-listings ratio also increased (to 59% for the month, which is increasingly above the balanced market threshold of 52%).

The national average selling price has increased for three consecutive months, by a total of 4.3%. Average prices have increased in all provinces. This might be (partly) temporary, related to a (potentially) temporary surge of sales.



Building Permits

Permit approvals for apartments remain quite robust (with local variations). I find this surprising (the dotted lines show 12-month averages).



How to Reach Will Dunning Inc.

Email: wdunning1955@gmail.com
Web site: www.wdunning.com
Bluesky: [@LooseCannonEcon](https://bsky.app/profile/LooseCannonEcon)
Want to say thanks?
<https://buymeacoffee.com/wdunning>

Disclaimer of Liability

This report has been compiled using data and sources that are believed to be reliable. Will Dunning Inc. accepts no responsibility for any data or conclusions contained herein.

Copyright: Will Dunning Inc. 2024