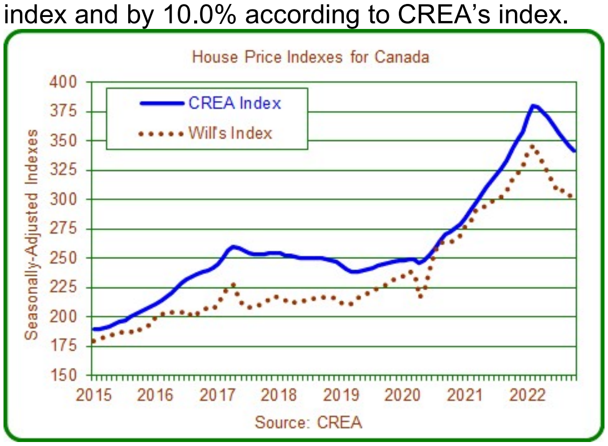
Housing Market Digest

Canada, November 2022

Resale Market

The headline is that resales rose by 1.3% in October versus September. Opinions are mixed on how this should be interpreted. But really, sales were essentially unchanged, at a depressed level. The annualized rate of 424,600 was 23% below the long-term population-adjusted average. Conditions vary across the country. To generalize, sales (and pricing) are strongest in the resource-producing regions (the Prairies and Atlantic Canada, influenced in part by what is happening in commodity markets) and weaker elsewhere.

Available data hints that prices are eroding a bit, but certainly less sharply than we saw during the spring. Compared to February, prices are now down by 12.9% according to my alternative price index and by 10.0% according to CREA's index.



There is downward momentum for resale pricing in a lot of places across Canada. For October versus February, average prices are down by more than 10% in more than one-half of major areas and by more than 20% in more than one-third of places. There are a few places where price trends are more-or-less flat, or even rising.

It might look like the effects of high interest rates are most pronounced in Toronto and Vancouver, but many other places are now seeing substantial slowdowns: price declines began later, and developed more slowly, but many of these places are now clearly in transition.

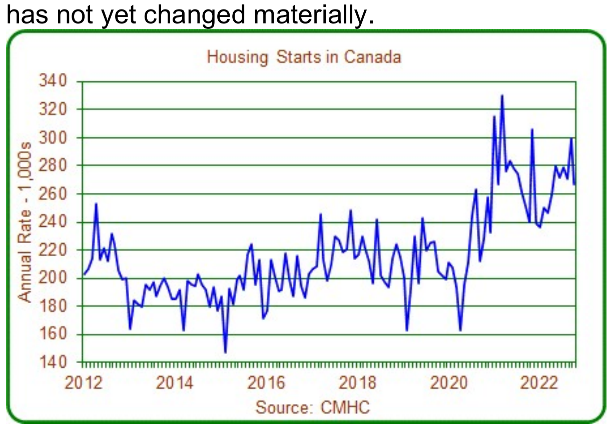
During the coming months, losses of home equity will begin to weigh on consumer confidence, and economic consequences will develop during the first half of next year. In addition, reduced resale market activity will increasingly result in job losses, and later next year reduced housing construction will start to have negative economic consequences.

Due to our extremely high mortgage indebtedness, the Canadian economy is now much more interest rate sensitive than is the US. With the Bank of Canada essentially mimicking US moves, our economy will be much more affected. The Bank of Canada indicates that employment is too high. It's possible that job losses in Canada as the result of these elevated interest rates will be as much as one-half million jobs by the middle of next year.

Is that what the BoC and the federal government want?

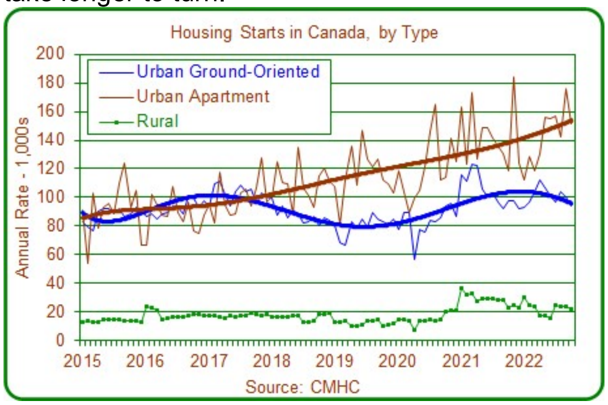
New Construction Housing Market

Housing starts data are demonstrating that it takes time for interest rates to affect the economy. As of October (an annualized rate of 267,000) the trend has not yet changed materially.



But, this activity continues to reflect decisions that were made months ago. We don't have national data on pre-construction sales of new homes, but the data for the Greater Toronto area show a huge collapse (see the first chart on the next page – the last datapoint is for September). Reduced sales will result in reduced starts for low-rise homes during the first half of 2023, and for apartments, the downturn will be delayed even longer.

Low-rise activity might (and I emphasize might) be starting to turn, but apartment construction has much longer pre-construction processes and will take longer to turn.

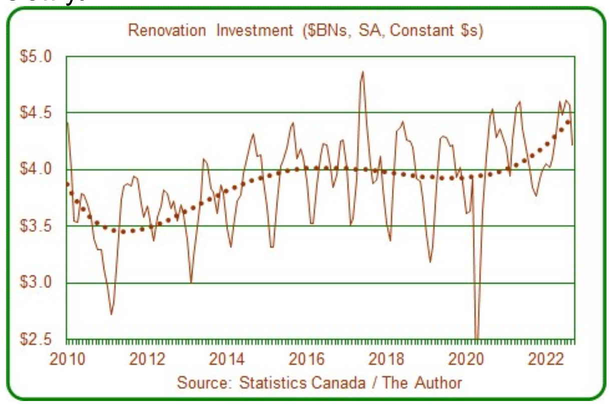


I casually look at resale listings for a few places where a lot of activity is "move-aways" from Toronto. In those places, I am seeing something new: non-trivial amounts of listings of newly-built homes. Inventory hangover is starting to be a drag in those places.

As I have said multiple times, one of the consequences of these high interest rates is that five years from now the housing supply crisis will be even worse than it is now. An additional factor is that recently announced increases for immigration targets will mean that housing requirements are going to increase. We now need in excess of 300,000 starts per year for a decade, just to produce a very slow improvement in the supply situation. I can't see that happening. What I can foresee is even worse disappointment and frustration among young people (and their parents).

Renovation

It also appears that residential renovation activity has not yet been impacted by higher interest rates (as of September). In this chart, I have created a set of back-of-the-envelope estimates of "real" activity using various Statistics Canada data – if StatsCan was to create and publish this data, their estimates might look slightly different. But, I expect that the conclusion would still be that residential renovation activity is still quite strong. By the middle of next year, this chart might look different. This data is for work-put-in-place, and so it is influenced by projects that started several months ago. Once there is a slowdown in commencement of new renovation projects, investment will follow, slowly.



Interest Rates and the Economy

In the Toronto edition of this report, there is a bit more discussion about economic conditions and interest rates, and my continued belief that current policies won't materially affect inflation (which is largely due to supply side issues, as well as businesses taking advantage of inadequate competition). Also, the Bank of Canadas justifies its policies on a fear that we could develop imbedded expectations of higher inflation. Canadians are struggling to keep up, they are not driving this inflation.

How to Reach Will Dunning Inc.

Email:	wdunning@sympatico.ca
Web site:	www.wdunning.com
Twitter:	@LooseCannonEcon

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