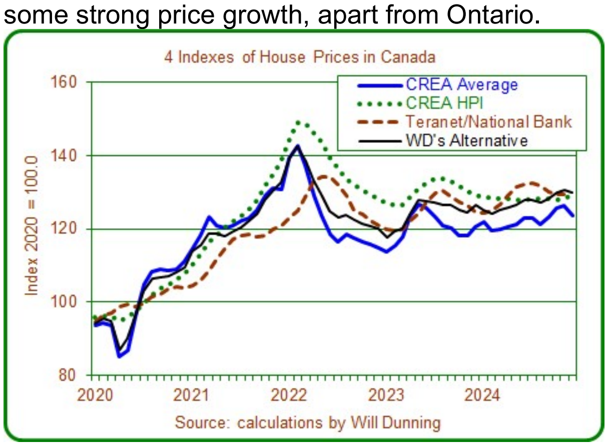
Housing Market Digest

Canada, January 2025

Resale Markets

Following two encouraging months (which were driven by sharp drops in interest rates), sales fell by 5.8% in December, to an annualized sales rate of 518,900. On a population-adjusted basis, sales were 11% below the long-term average. Data for December can be quite variable, depending on the early-winter weather. This year, intense storms might have been a factor (most of the reduction happened within Ontario.) We are probably now seeing the waning influence of drops in interest rates: temporary surges for sales last only a few months, followed by a partial setback. (The better affordability should cause the sales trend to be a bit higher than previously.) For the provinces, population-adjusted sales rates are close to or above the long-term averages except for Ontario (27% below), BC (14% below), and Nova Scotia (7% below).

The sales-to-new-listings ratio also retreated (from 59.3% in November to 56.9% in December, which is still comfortably above the balanced market threshold of 52%). The available price indicators for Canada show some growth (in the area of 2.5% year-over-year, except that CREA's HPI remains flat, probably because of smoothing of the data). The recent surge for sales did result in some strong price growth, apart from Ontario.



At the start of Covid, I gave myself permission to stop forecasting, and now I'm doing that again.

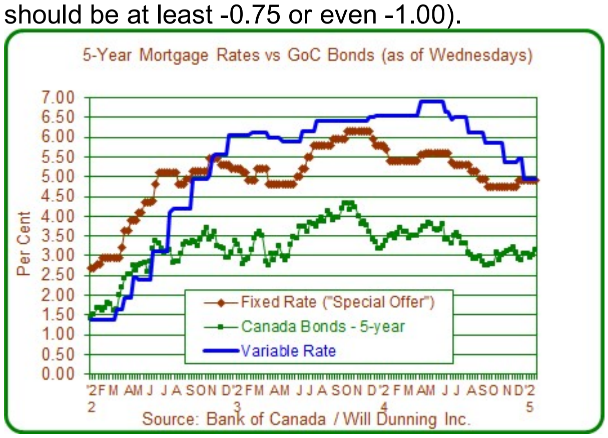
Apart from the obvious, here's what I'll be watching:

- We still aren't seeing the full consequences of interest rates that were very far above the neutral levels, and are still much too high.
- In particular, starting this summer and lasting into early 2027, there will be much larger volumes of mortgage renewals that result in large increases in monthly payments, and this will weigh increasingly heavily on consumer spending and associated employment.
- We still aren't seeing the impact of interest rates on housing starts (especially for apartments). When that downturn happens, there will be a gradual erosion (ultimately very large in total) of employment in construction and a similar impact in industries that provide goods and services to construction.

Interest Rates

Bond yields are a bit higher than a month ago. The spread between 5-year fixed rates and bond yields is now about right (about 1.75 points). I don't expect material reductions in bond yields, which would mean that fixed mortgage rates are likely to remain far above neutral. As I said last month, we need a reduction in the bond yield, to no higher than 1.5%, versus current yields above 3% - I can't see that happening, unless he blows up the North American economy. But, in that case interest rates won't matter.

Variable rates might fall a bit more - the Bank of Canada might lower its policy rate a few more times. Also, the spread between variable rates and the banks' prime rates is skinny (-0.50 point, it should be at least -0.75 or even -1.00).



Did Employment Really Increase by 91,000 in December?

No.

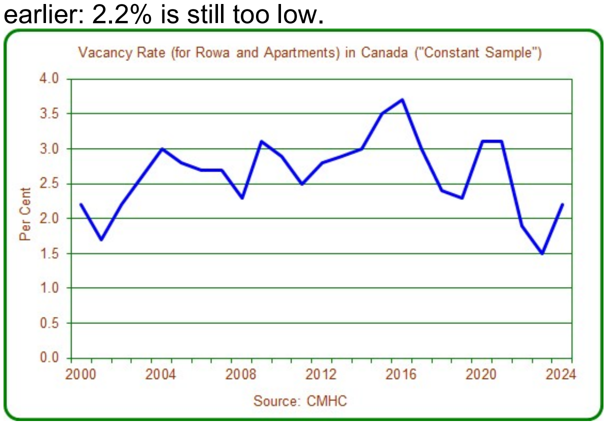
Two big issues in the estimates are:

- As I've discussed for several months, the estimates rely on assumptions about how quickly the adult population is growing. It appears that we are now experiencing a very rapid deceleration of population growth, and Statistics Canada hasn't adequately adjusted its assumptions (it assumed an increase of 67,100 during the month, or an annualized rate of 800,000, similar to the assumption of 74,200 a year ago and much higher than the assumption of 43,000 for December 2022).
- It appears there was a "sampling error". 48,800 of the employment growth (more than one-half of the total) was in the population aged 65 and older. The employment-to-population ratio jumped from 14.2% in November to 14.8% in December. Employment for the 65+ age group was estimated to increase by 4.5% in just one month, and that seems highly unlikely.

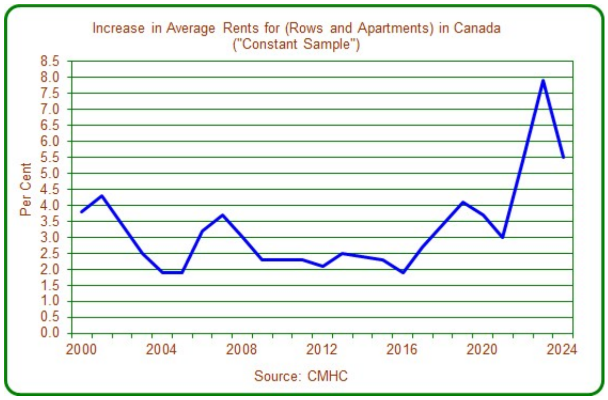
It's more likely that the "true" change in employment was in the range of 0 to 20,000, not 91,000. Statistics Canada could apply interim fixes to these issues, to generate more accurate estimates, but chooses not to.

Rental Market

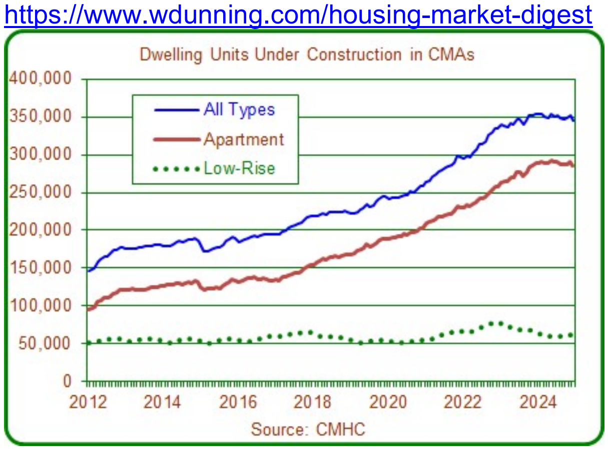
On December 17, CMHC released the data from its annual survey (data for October). I was surprised by the results: the national vacancy rate rose to 2.2% from the low rate of 1.5% a year earlier: 2.2% is still too low.



CMHC's estimate of constant sample rent increases (5.5%) was less than in 2023 (7.9%). Low vacancies continued to result in worsening challenges for tenants.



There is still a very large volume of housing (especially apartments) under construction. As that housing becomes available for occupancy, there is likely to be some combination of increased vacancies and reductions for rents attained by new buildings. On the other hand, in provinces with rent controls, for rentals that change occupancy (where the tenant was in place for at least three years), large increases are likely. I discuss the rental market for Toronto in more detail in a 2-page report, available on this page: https://www.wdunning.com/housing-market-digest



How to Reach Will Dunning Inc.

Email: wdunning1955@gmail.com

Web site: www.wdunning.com

Bluesky: @LooseCannonEcon

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