

# Housing Market Digest

Canada, October 2023

## Other News

I have changed my email address:  
[wdunning1955@gmail.com](mailto:wdunning1955@gmail.com)

I wrote some words about the impacts of federal mortgage policies on middle class Canadians and on the broader economy. The Globe and Mail kindly published them here:

<https://www.theglobeandmail.com/investing/personal-finance/household-finances/article-playing-whac-a-mole-in-the-housing-market/>

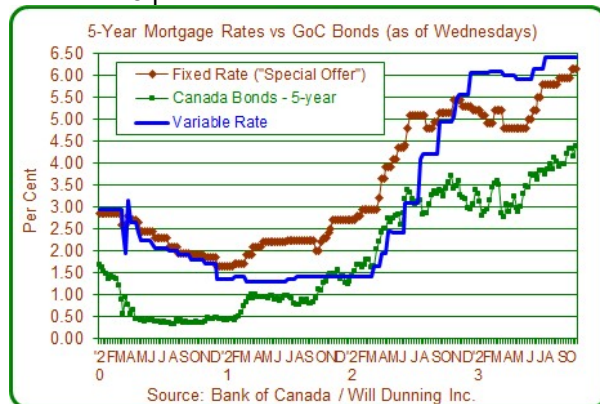
Another round of Whac-A-Mole is currently playing out, as OSFI is making it more difficult for lenders and borrowers to deal with payment difficulties by extending amortization periods. Which is a greater risk to the financial system (a) temporary extensions of amortization periods or (b) causing mortgage foreclosures that don't need to happen?

The Bank of Canada wants to create misery. OSFI is helping out.

I also wrote a think piece on inflation and interest rates, which is the first item on this page:  
<https://www.wdunning.com/recent-reports>

## Mortgage Interest Rates

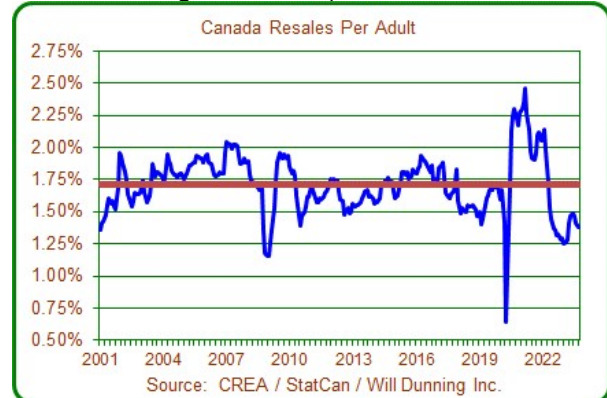
I have raised my opinion-estimate of the typical 5-year fixed rate, to 6.15% from 5.95% a month ago. The spread versus bond yields is now normal, at close to 1.8 points.



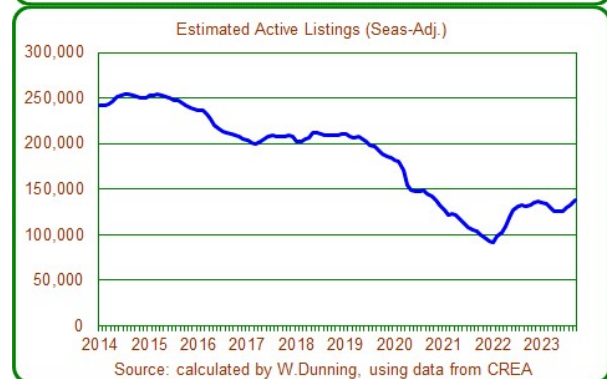
## Resale Market

Sales peaked in June. With three consecutive monthly drops since then, the sales rate for September (452,000) is down by 6% from the peak. On a population-adjusted basis, sales are now 19% below average. Sales are flat or falling in

all provinces except Alberta (where rising oil prices must be raising confidence).



Listings continue to creep upwards from the very low levels seen two years ago (more so for new listings than active).



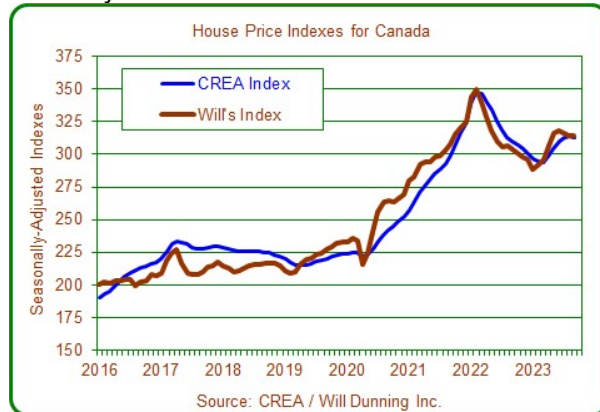
The sales-to-listings ratios are falling. The new listings ratio (51% in September, versus a peak of 68% in April) is now at its balanced market threshold (52%). But, the active listings ratio (29%) is still far above its threshold (estimated at 15%).

Both of the price indexes I use are currently (more-or-less) flat for all of Canada. I expect further weakening of the state-of-balance during the coming months, and I see a likelihood that prices will soon begin a downward turn. If that happens, then during the following two years there

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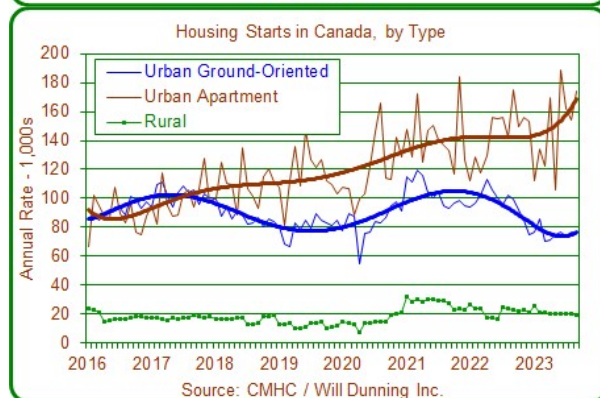
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would be negative consequences for the broader economy.



## Housing Starts

The storyline for starts hasn't materially changed (the rate was 270,500 for September).



I continue to expect that starts will fall to below a 200,000 rate during the first half of next year (as apartment construction begins to reflect higher interest rates).

In its discussions of the economic outlook, the Bank of Canada is counting on a recovery of investment-in-housing during the second half of next year (leading a broader economic recovery).

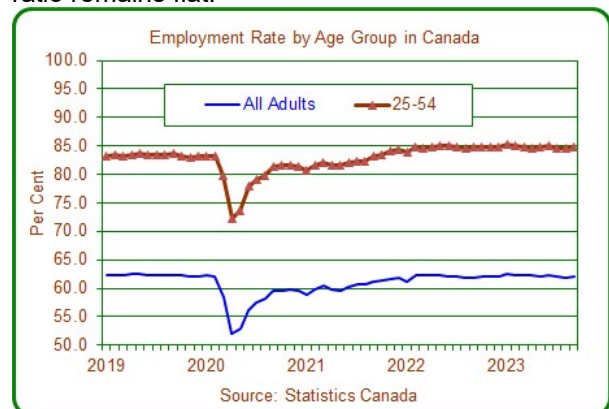
That isn't going to happen. A sharp drop in new home sales will result in a gradual slowing of on-site activity (and construction employment) that will last through all of 2024 (renovation activity will also slide). This isn't the only issue. High interest rates are going to cause severe financial strains that will force some companies to downsize (or even close), reducing the capacity of the industry. This will make it harder for the industry to respond to the future recovery of demand:

- Revenues from projects now under development will be reduced by defaults on closings as well as by reduced pricing for inventory that held been held unsold.
- Interest rates have unexpectedly raised development costs.

The recovery of residential construction (and the economy) is farther in the future than is expected.

## Employment

While employment continues to expand (estimated growth of 64,000 for September), it is just keeping up with population growth (assumed to be 82,000 for the month). The employment-to-population ratio remains flat.



## How to Reach Will Dunning Inc.

Email: [wdunning1955@gmail.com](mailto:wdunning1955@gmail.com)  
Web site: [www.wdunning.com](http://www.wdunning.com)  
Twitter: [@LooseCannonEcon](https://twitter.com/LooseCannonEcon)

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