

# Housing Market Digest

Canada, November 2024

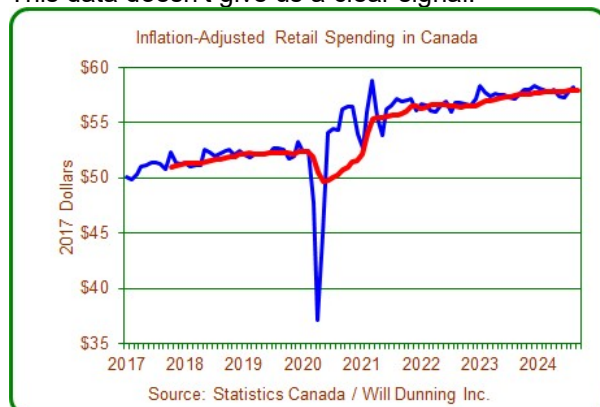
## Other News

For a while, I have looked at some economic indicators on a per capita basis. At this time, I think that data isn't useful. We've had unusually rapid population growth during the past two years, mostly people who aren't-very-active economically and can't spend as much (foreign students, refugees, and temporary workers, sometimes, unfortunately, in exploitative situations). That population growth is biasing-down the per capita estimates, creating a misleading impression about what is happening for the more-typical population.



If the federal government does succeed in reducing the rate of population growth, then that would start to bias the per capita data (and the interpretations) in the opposite direction.

At this time, it's probably best just to look at the as-published data. For retail trade (in inflation-adjusted dollars), the trend line (here, I'm using a 10-month moving average) is creeping upwards. This data doesn't give us a clear signal.



The bias created by population growth is reducing per person GDP, and other indicators, including the employment-to-population ratio. As population growth slows sharply during the coming two years, that will tend to bias these data in the opposite direction (upwards).

## Patting Myself on My Back

For years, I have argued that the mortgage stress tests are badly mis-designed, because they are based on two major conceptual errors:

- The greatest risk for mortgage default isn't an unaffordable rise in the payment, it is loss of ability-to-pay: job loss, change in health (illness, disability, death, family breakdown, etc.) I learned this in the early 1980s while I was at CMHC, from people in the mortgage insurance group. There is research that confirms this is still true. I did a quick summary here: <https://www.wdunning.com/files/ugd/ddda71b47248fb0ea24d3d8982cb9c7255fdcf.pdf> (starting on page 5, and there is a discussion of implications on page 14),
- The stress testing doesn't consider that income growth will also contribute to outcomes at mortgage renewal.
- Relatedly, if there is a non-trivial increase in mortgage interest rates, it would probably also be true that the economy has been quite strong and it is very likely that income growth will have been even stronger than usual. That happened.



Quite a lot of commentary has concluded from this data that the mortgage stress tests have worked. I disagree: people who bought in 2017 and took uninsured mortgages weren't subject to the OSFI stress test. Most of them borrowed at rates under 3%, and they are coping with interest rates that are now considerably higher.

While stress testing is important, basing it only on a scenario for increases in interest rates is a policy error. Home buying has unduly been suppressed, which has:

- Prevented Canadians from achieving housing outcomes that would meet their reasonable needs, and would be within their financial capabilities.

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- Impaired the supply of new housing, worsening the housing crisis and consequently raising risks for the broader economy and the financial system.

Once again, I'm wishing that responsible staff at the Department of Finance (and the Minister) would consider and publicly respond to these issues. The federal government has taken some small steps to making the mortgage stress tests less onerous. But, it needs to deal with the fundamental flaws.

## Ugh

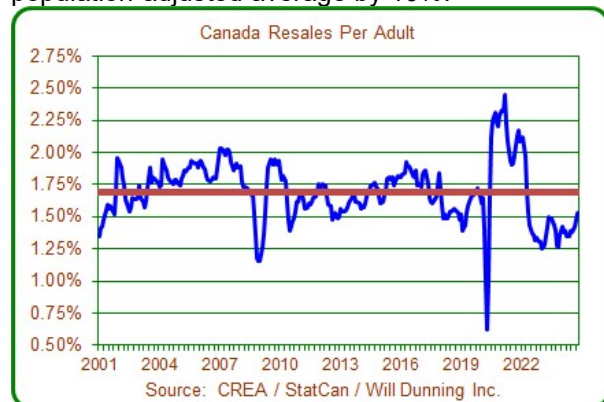
He won't be able to implement all of his sociopathic ideas. But, his backers will be pleased with the outcomes.

- The autocrats in the former Soviet countries want to see social chaos and economic failure in the Nato countries.
- The billionaires want massive deregulation, which will boost profits as a share in the US economy, at the expense of labour, consumers, the environment (not just greenhouse gases, but also emissions of dangerous chemicals), and more infectious disease.

It has been shown that power can be won by stoking anger. Can that make people better-off?

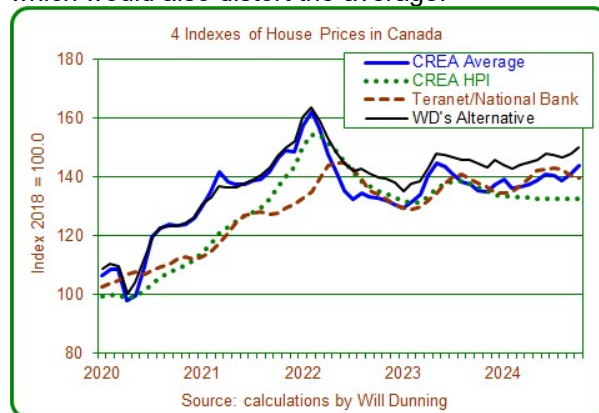
## Resale Markets

During October, resale activity finally showed a material effect from the interest rate reductions. The annualized sales rate (519,500) was the highest in over two years, and was 7.8% higher than in September. But, sales are still below the population-adjusted average by 10%.



The sales-to-new listings ratio also jumped (to 58% for the month, which is above the balanced market threshold of 52%).

The average price increased by 2.2% versus September. Some areas may be seeing growth. But, the increase is partly due to composition: in October, a larger share of sales occurred in the most expensive markets, which has distorted the average. Moreover, it is possible that a higher share of sales was for single-detached homes, which would also distort the average.



Reductions of interest rates have a larger impact in the short-term than in the medium-term. Therefore, the sales rate might partially retreat early next year. The outlook also depends on the employment situation, and that is now softening. Two points:

- Statistics Canada reported a small amount of job growth for October (14,500), but in the background, there was an assumption of very large population growth (85,000). Actual population growth was likely a lot less than the assumption, and it is possible that the "true" change in employment was a negative number. (I discussed the issue in more detail last month.)
- The employment-to-population ratio continues a gradual fall for prime-age adults.

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