

# Housing Market Digest

Canada, May 2023

## The Downturn in Housing Construction

Elevated interest rates are causing a gradual slowdown in housing construction. To date, this is chiefly for new low-rise homes, but the data is starting to hint at weaker renovation activity. For apartments, the slowdown will commence later.

Various datasets are available, but all of them have limitations. In order to be most timely, what I would really like is data on new home sales, but that's available only for the Greater Toronto Area. The Toronto data shows that during the past three months (up to March) sales have fallen by three-quarters. If we had national data, the drop would probably be considerably less severe.

Next in line is building permits (which signals what might happen to housing construction in the near future). That data shows that during the most recent 3-month period (up to March), new units approved are 9% lower versus a year ago. Permits for low-rise homes are down by 34%. Apartments are up by 9%. Permits for renovations and conversions are down by 15% (measured by actual dollars, not inflation-adjusted). This data largely reflects decisions made previously, and so we should expect further reductions.

Next is housing starts. This data shows that during the past three months, starts have been 5% lower than a year ago. Low-rise starts in urban areas are down by 27%, while apartment starts have actually increased by 13%. It will take some time for the downturn in sales of new low-rise homes and apartments to fully show up in starts.

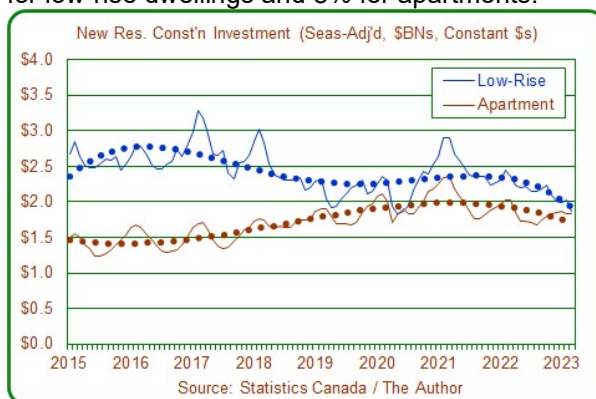
Statistics Canada produces data on "investment" in residential construction. But, at seems to me that there are a lot of issues in the methodology and assumptions (especially about inflation of costs) and I'm not sure that we should trust this data. That said, I am showing some charts that show the start of economic consequences.

One issue in this data is that StatsCan uses the wrong categories of housing types (like CMHC, they show singles versus multiples, but they should really show low-rises versus apartments). In these charts, I have created my own estimates, based on what has been published.

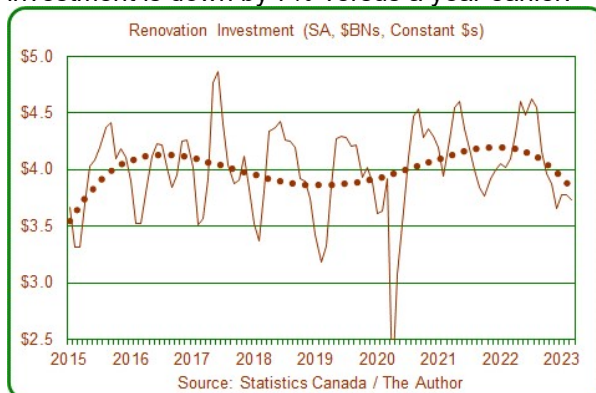
The first chart uses the StatsCan estimates. It indicates that during the past three months (up to March) construction activity (inflation-adjusted) is down by 11% versus a year ago.



Investment in new dwellings has fallen a bit more rapidly (by 13%). I calculate that the drop is 17% for low-rise dwellings and 8% for apartments.



For renovation, during the past three months, investment is down by 7% versus a year earlier.



Residential construction is a very important generator of jobs in Canada. Employment impacts will soon start to emerge, and if the "investment" trend develops the way that I expect, by late next year, employment related to residential construction might have fallen by about one-quarter million.

## Interest Rates

While bond yields have surged during the past week, my opinion-estimate for 5-year fixed

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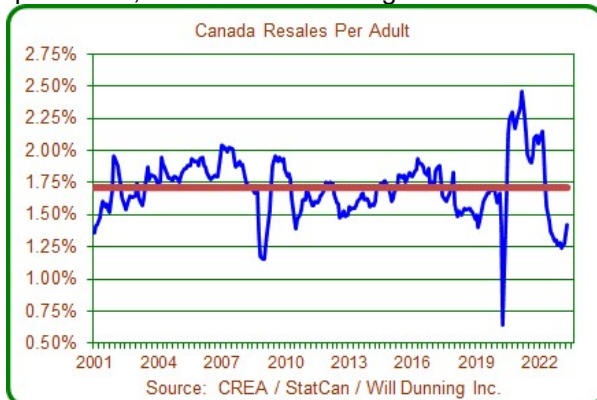
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mortgage rates is unchanged (4.8%). For variable rates, there was a small reduction at the end of April (to 5.9%).

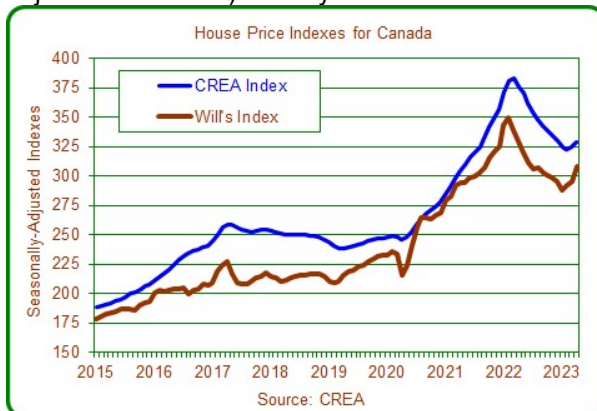


## Resale Market

I was surprised by the April data. The annualized sales rate jumped to 458,000, versus an average of 408,000 for the prior six months. On a population-adjusted basis, April sales were still quite weak, at 17% below average.



The average selling price jumped, by 5.7% versus March. This is partly due to changes in composition (locations and types of homes sold). My alternative price index (which attempts to adjust for locations) rose by 4.2%.



The April data elicited some quite bullish commentary. As I discuss in the Toronto edition, I'm not able to go there.

## Population Growth

Statistics Canada has reported very large rates of population growth during the past year, totalling over 1 million in the 12 months up to January 1.



While employment is growing rapidly, it isn't quite keeping up with population growth, which means that the employment to population ratio is now eroding (it is still at a very high level).



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