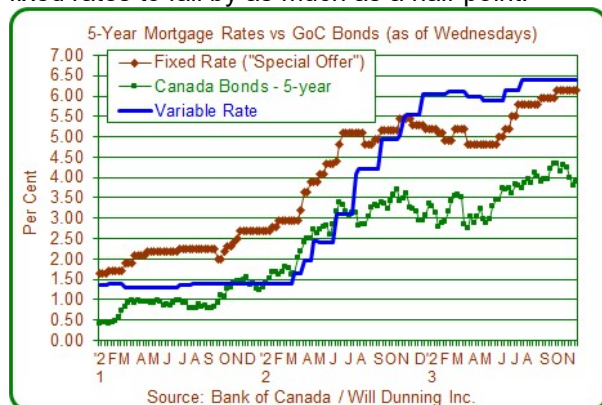


Housing Market Digest

Canada, November 2023

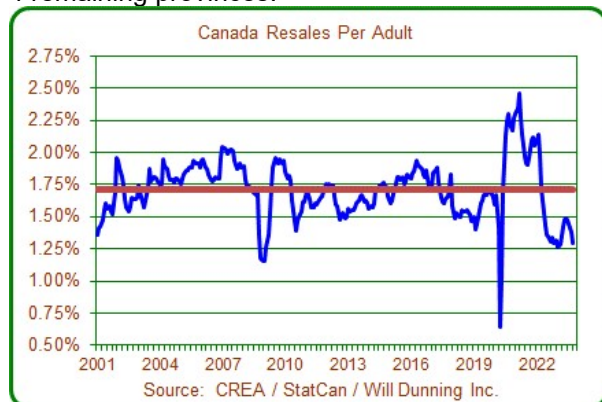
Mortgage Interest Rates

My opinion-estimates of typical rates (6.15% for 5-year fixed and 6.4% for variable rates) are unchanged. But, there has been a lot of movement for bond yields, as economic expectations have been volatile. The mortgage-bond spread is fat (about 2.25 points). If (and that's a big if) bond yields don't rise again, there is room for 5-year fixed rates to fall by as much as a half-point.



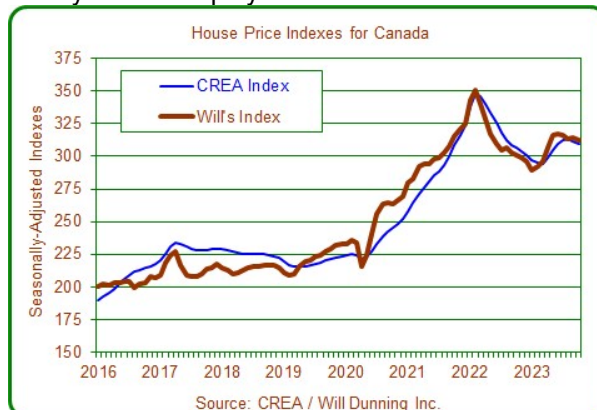
Resale Market

The sales rate has fallen for four consecutive months. The annualized rate for October was 424,900. On a population-adjusted basis, sales are now 24% below average – one of the lowest ever seen (apart from the early days of Covid). Population adjusted sales are weakest in Ontario (39% below average) and BC (36%). Sales are above average in Newfoundland (23%), Saskatchewan (11%), New Brunswick (6%), and Alberta (1%). Sales are at or below average in the 4 remaining provinces.



Sales-to-listings ratios continue to fall (for both new and active listings). Price data is hinting that there is now some erosion occurring. I can imagine a scenario in which “capitulation” occurs,

and we see sharper falls. But, that will depend mostly on the employment situation.



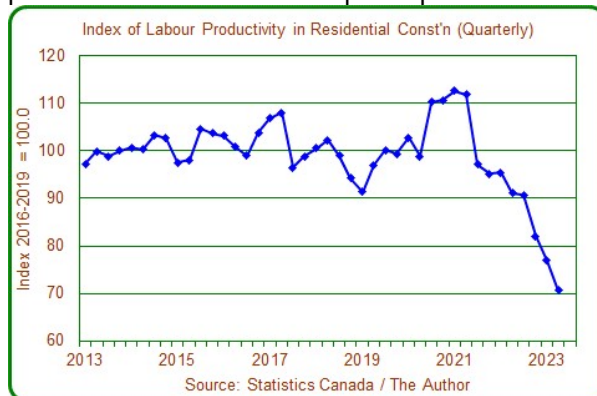
What's Happening in Construction?

I have commented here and elsewhere that the total size of the Canadian economy has grown more slowly than the population, with the consequence that inflation-adjusted GDP per capita has shrunk during the past year. I have also commented that Statistics Canada estimates show that construction output has contracted.

Recently, I realized that the construction data is probably wrong. For a long discussion of this, see the first item on this page:

<https://www.wdunning.com/recent-reports>

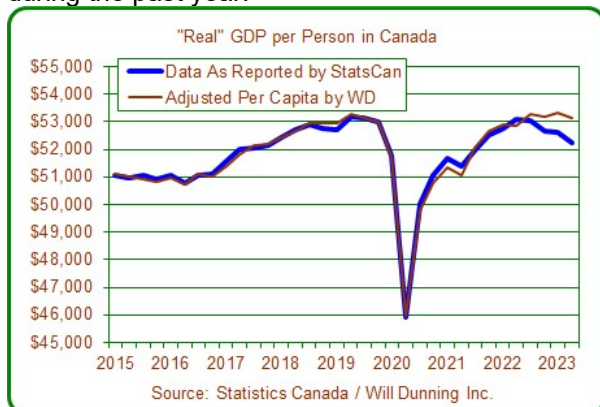
One of my arguments is that the estimates of production have gotten really out-of-sync with the data for employment in construction. As a reality check, I think it is revealing to look at what the data implies about productivity in construction. Using StatsCan data, I created a simple index. What this data shows is impossible: home builders and contractors are not paying 30% of their employees to sit around doing nothing. I trust the data on employment, and conclude that the problem is the data on work-put-in-place.



Housing Market Digest

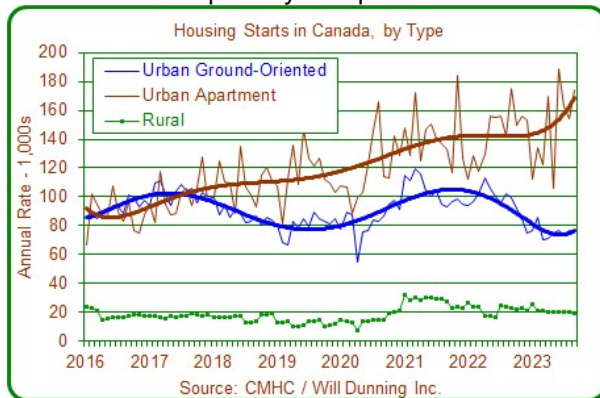
Canada, November 2023

If I'm right about this, then – since residential construction is an important part of the Canadian economy – GDP is currently being underestimated. This chart is an attempt to adjust the GDP data. The adjustments to the GDP estimates are tiny pre-Covid, but are now very large. It appears that GDP per capita has been roughly flat during the past year.



These adjustments create a different storyline about how the Canadian economy is performing (and where it's going), I have thoughts about how we (and especially the Bank of Canada) should view this – see pages 13/14 of my new report.

New home sales have undoubtedly fallen sharply (data for the Greater Toronto Area shows a severe drop – the reductions are likely less-bad in most other places). But, this has not yet translated into reduced construction activity, because there is still a very large amount of new housing under construction – especially for apartments.



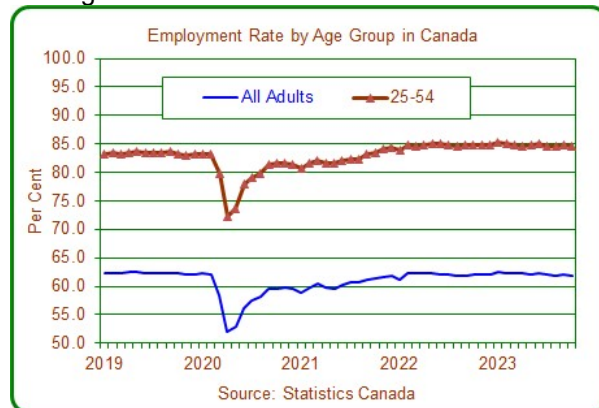
There are two reasons for this: there was a very fat supply pipeline of buildings that were substantially sold, and needed to start construction. This has supported continued high numbers of starts for apartments. Secondly, construction for apartments is quite lengthy. Eventually (I don't know when, but this is getting closer), starts of apartments will turn down. Then,

production in construction will begin to actually fall (as opposed to the bad data that suggests this has already happened). That downward phase for construction (including a lot of job losses) will be prolonged, lasting well into 2025.

The Bank of Canada has been fooled by that bad data. It argues that construction will soon start to turn up. The published data might show that happening, but the data will be wrong. The bad data is contributing to the BoC's thinking about interest rates (that it needs to keep rates high). But, if they had accurate data on construction, they might be able to conclude that current interest rates are going to cause a lot of (unnecessary) hardship during the coming two years.

Employment

There is other data that suggests the economy is not yet weakening. This continues to include the employment-to-population ratio. "Winter is coming".



Other News

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wdunning1955@gmail.com

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