

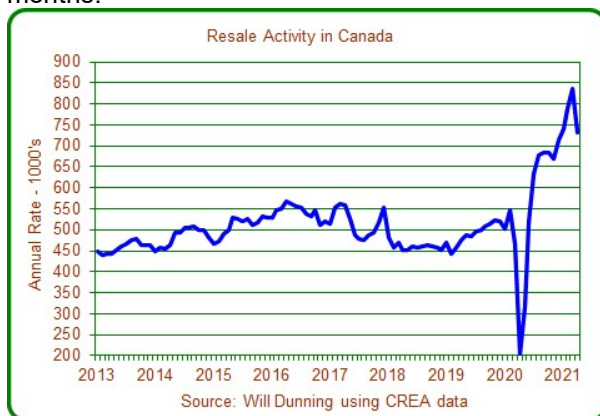
# Housing Market Digest

Canada, May 2021

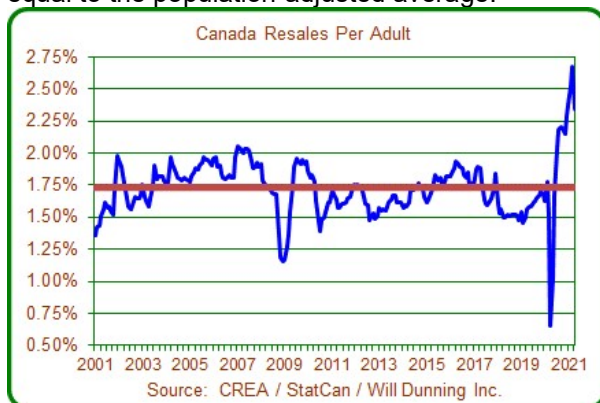
*In a simple economic theory, rising house prices should encourage more construction of new homes. Recent data hints that this is happening. We desperately need much more construction of low-rise homes (singles, semis, and town homes). It doesn't matter very much whether new housing is occupied by owners or renters, or who owns it. What matters the most is how much housing can be occupied.*

## Resale Markets

Sales slowed in April, but at an annualized rate of 732,000, markets remain very strong across the country. Rising interest rates during February and March created urgency to buy, to take advantage of time-limited rate guarantees. That is now fading. I expect that we're also seeing price resistance, as well as satiation of the Covid-19 induced desire to make housing changes. In short, we'll likely see further drops in the sales rate in the next few months.



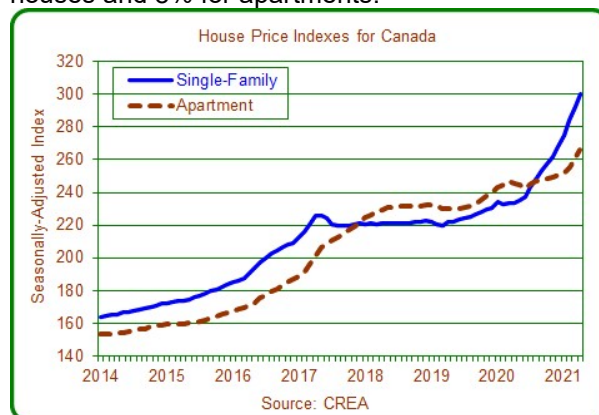
Expressed on a per adult basis, the sales rate in April was 35% above the long-term (2001 to the present) average. Sales were well below average for some time after the OSFI stress test took effect at the start of 2018. For the entire period since Jan. 2018, total sales have been almost exactly equal to the population-adjusted average.



Flows of new listings into local housing markets have increased, but not as strongly as sales. For April, new listings were 6% above the long-term population-adjusted average. The sales-to-new-

listings ratio (75% for April) remains far above the balanced threshold of 52%: this is the level at which I would expect prices to rise by 2% per year.

Prices are rising at extraordinary rates across the country. CREA's House Price Index shows 23% growth during the past year. For single-family homes, the rise is 28%, versus 21% for town houses and 8% for apartments.



## What I'm Not Concluding from This

The fact that total resale activity since the start of 2018 is almost exactly equal to the long-term average (population-adjusted) might cause people to think that the effects of the mortgage stress tests have been reversed.

I'm not saying that: given what's happened to interest rates and support from a very strong employment situation before the onset of Covid-19, total sales over the past 3 or 4 years should have been far above average. This hasn't happened because the mortgage policies have had a pervasive depressing effect.

I have discussed the mortgage stress tests elsewhere, including the Toronto edition of *Housing Market Digest* and a twitter thread: <https://twitter.com/LooseCannonEcon/status/1395810375434752008>

My new report provides estimates for the housing supply situation across Canada. This research indicates that since 2006, housing production has been less than is required by our growing population, for almost all of the large cities in

Canada, and especially for low density homes. It's the first item on this page:

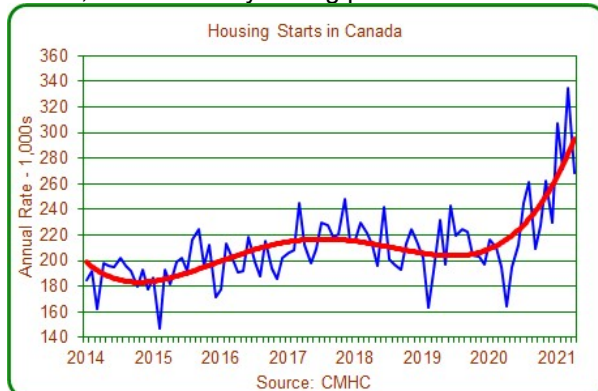
<https://www.wdunning.com/recent-reports>

One of my key messages is that a series of mortgage regulations (since the summer of 2012) has not just suppressed demand. They have also suppressed supplies of new housing, contributing to the mess we're in now.

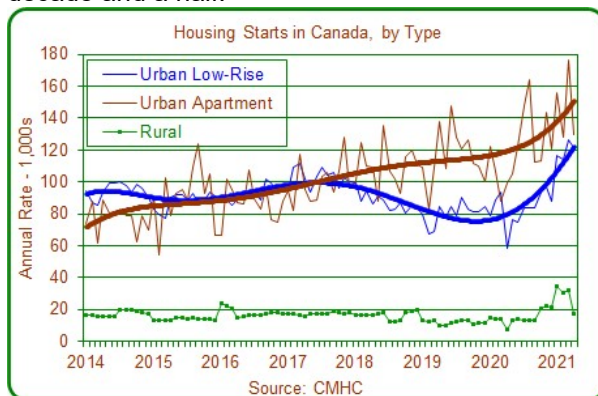
In April, I wrote a letter to the Minister of Finance, recommending a test rate of 3.76%, which is the maximum monthly average actual rate seen in Canada since 2013. That letter is now the second item on my Recent Reports page.

### Housing Starts

Starts have increased sharply during the past year. The annualized rate for April was 268,600. This is down from the extremely high 334,800 in March, but still a very strong performance.



Looking at the details, starts of low-rise dwellings are finally providing some good news. Further growth is badly needed, to start reducing the enormous deficit that has accrued during the past decade and a half.

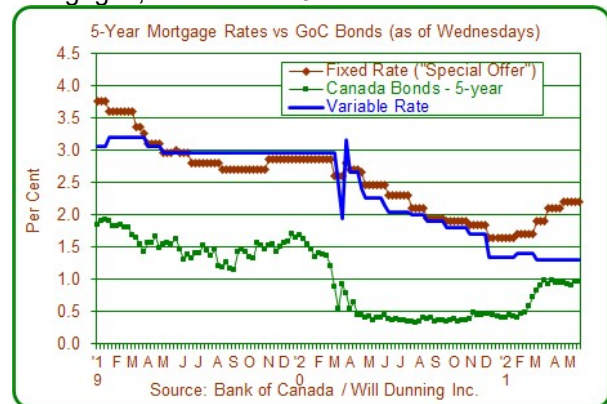


### Interest Rates

Bond yields increased during February into early March, but have been roughly flat since then. The

yield for 5-year Government of Canada bonds is just below 1%.

Correspondingly, mortgage rates have increased: my opinion-estimate of a typical "special offer" rate for 5-year fixed rate mortgages (advertised by major lenders) is 2.2%. For variable rate mortgages, the rate is 1.3%.



Tightening mortgage lending rules will not solve the problem of inadequate supply – they will make it worse.

The Bank of Canada should allow interest rates to normalize. A 1.25% yield for 5-year Government of Canada bonds would result in mortgage rates in the area of 2.5-2.75%. A half point rise in the Bank of Canada Overnight rate would also be appropriate.

### Other News

I have provided consulting services to Mortgage Professionals Canada since 2005. I've had a huge amount of fun working on the interesting projects that they requested, and I am very grateful to them for their interest and support. I have decided that it's time to move on. I'm looking for opportunities to provide research and advice to new clients.

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