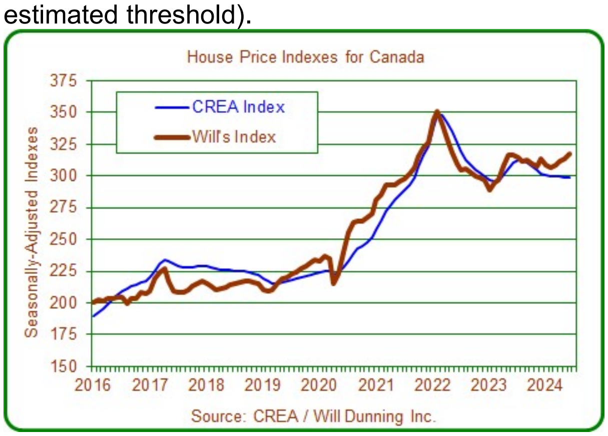
Housing Market Digest

Canada, July 2024

Resale Activity

Sales improved in June, to an annualized rate of 467,000. This was a 3.7% rise versus May, but was still lower than a year ago (by 3.2%). Once again, some people are seeing this as a turning point (ostensibly due to the ¼ point reduction for the Bank of Canada's policy rate as well as variable mortgage rates). As I argued last month, I think this is inconsequential. More likely the change in the inclusion rate for capital gains taxes (which took effect June 25th) probably prompted some sales of investment and vacation properties, making this a one-time event. The increase in monthly sales (versus May) was in the area of 1,000 to 1,500 - it seems to me that the impact of the tax change was microscopically small as far as the housing market is concerned. On a population-adjusted basis, June sales were 18% below the long-term average (which is now 569,500).

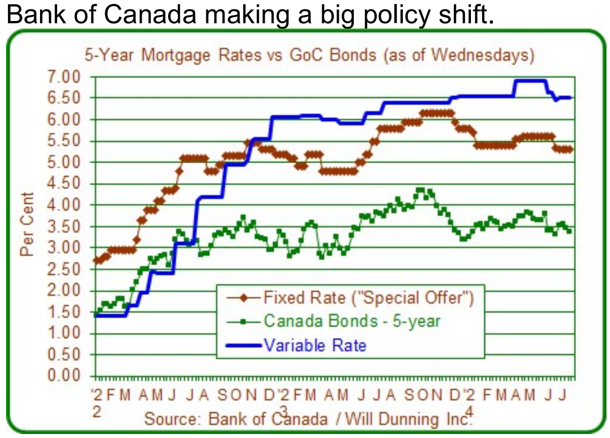
Listings continue to creep upwards (for both flows of new listings into the market and inventories of active listings in the market). Nationally, the sales-to-new-listings ratio remains close to its balanced market threshold (in June it was 54%, versus the 52% threshold). The ratios are above the balanced market thresholds in most areas, apart from Ontario (where it is very low) and BC (at the estimated threshold).



Price trends remain uncertain. CREA's House Price Index is currently flat. My alternative index (which is based on a fixed-weight average for the provinces) is ambiguous. The national average price is down by 1.9% year-over-year. But, year-over-year price changes are robust in most provinces apart from Ontario (down by 2.5%) and BC (a small rise of 0.8%).

Mortgage Rates

There have been small changes for interest rates, with my opinion-estimate for 5-year fixed rates down by about a quarter point, to 5.3%. As I argued in detail last month, interest rates need to fall by a large amount, and soon. Meanwhile mortgage renewals and continued weak housing sales (and especially future housing construction) are resulting in a gradual escalation of risks for the broader economy. For variable rates, the spread versus prime is small (-0.45 points). There is a possibility of a market adjustment, but not enough to make a difference. The outlook depends on the Bank of Canada making a big policy shift.

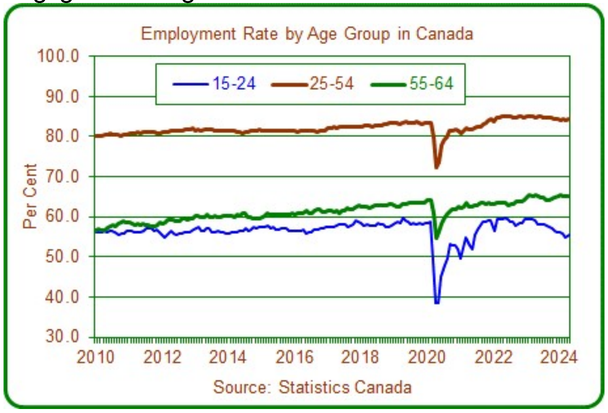


Employment

Data from Statistics Canada's Labour Force Survey indicates that the employment situation has weakened during the past year. The employment-to-population ratio (the share of adults aged 15 and over who have jobs) has fallen from a peak of 62.2% a year ago to the current 61.1%. During the past year, employment has increased by 1.7% (which would be very healthy in normal circumstances), but in this dataset, Statistics Canada is assuming that the adult population grew by 3.4%.

But, most of the drop in the employment rate is for young adults aged 15 to 24 (from 58.0% a year ago to the current 54.8%). A lot of the population growth is for young adults, often people entering

Canada on study permits. This may largely explain the drop in the employment rate. For “prime age” adults (25 to 54), the drop is less severe (from 85% to 83.6%, and most of that reduction has happened during the past six months). For pre-retirement adults (55 to 64), there has been negligible change.

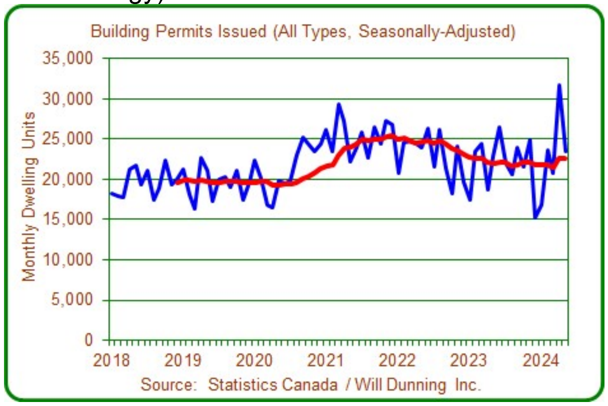


Apart from the 15 to 24 age group, the employment situation remains quite healthy (while the employment rate has fallen, it is still quite high in historic terms). My interpretation is that we aren’t yet seeing the effects of elevated interest rates, largely because construction has not yet begun the large downturn that I think is coming, and because mortgage renewals are very slowly weighing on the economy. Real economic impacts will continue to accrue slowly for a while. About a year from now, the pace of weakening could intensify).

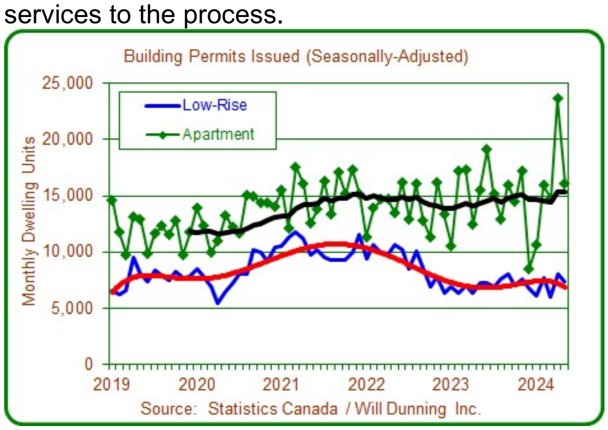
Construction of New Housing

The available data contains a lot of randomness and it is difficult to be certain about the trends. I see the trend for starts as roughly flat over the past year, at a level (in the area of 250,000 annualized) that is high in historic terms, although lower than the peak seen during 2021 and 2022, and far below the quantity that is required due to population growth.

Data on building permits issued also shows that the trend is flat at a high level (Statistics Canada does not seasonally adjust this data – these two charts show my estimates, created with a crude methodology).



For both housing starts and building permits, the data shows that activity is weak for low-rise forms, but remains very strong for apartments. I continue to expect substantial reductions for apartments, but in terms of timing, who knows? At this time, the volume of housing under construction is supporting a very high level of employment in construction and industries that provide goods and services to the process.



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