

Housing Market Digest

Canada, May 2022

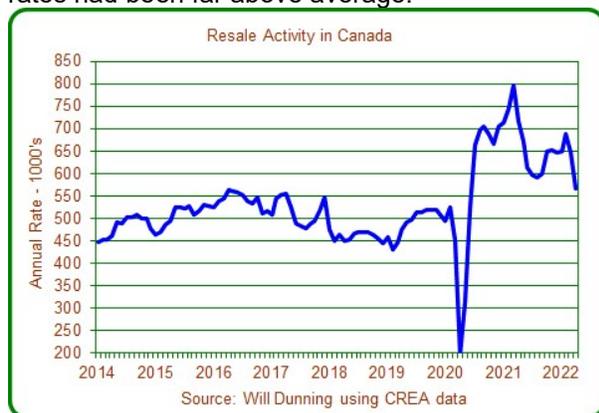
Resale Markets

Have you seen any of the videos on “murmuration” by flocks of starlings?

<https://www.youtube.com/watch?v=uV54oa0SyMc>

There is a lot of synchronization of decision-making by individuals, and individual decisions can result in sudden changes in the direction of the flock. This is pretty much what happens in the housing market – although in both environments, the synchronization isn't perfect.

During the past two months, there has been a sharp change-in-direction in home buying – and especially in April. For April, the sales rate of 566,000 was almost exactly equal to the long-term population-adjusted average. Previously, the sales rates had been far above average.



Looking across the country, the sharpest turns have been in the “move-from” places, followed by the “move-to” places (especially within Ontario).

This is still very early in the adjustment process: sales in April hadn't fully digested the rises in interest rates that occurred previously, and there have been further increases in rates since late March (another 1.4 points). I expect that there will be further substantial reductions in sales rates during the coming months.

In my new report on housing shortages, there is a brief discussion on “balanced market thresholds” (starting on Page 22). In most places, sales-to-new-listings ratios fell in April, but remain well above the thresholds for balance. The national average was 66.5% in April (well above the 52% estimated threshold). Toronto and surrounding areas are exceptions, as the SNLRs are now close to (or even below) the local thresholds.

Correspondingly, there are sharp variations in price movements, with the data hinting very

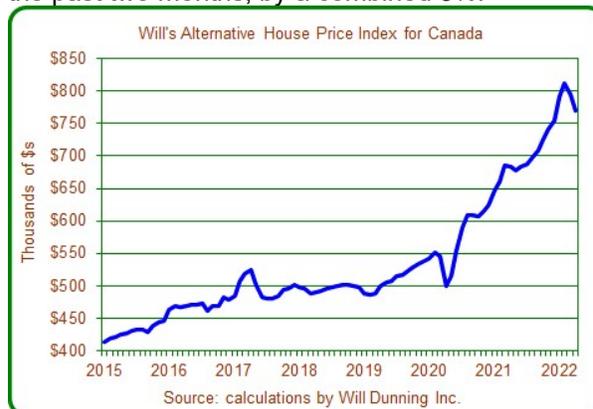
strongly that drops are happening within much of Ontario, but there is less movement elsewhere.

Nationally, the average price fell by 3.8% versus March. That drop was due to Ontario (-6.3%). Prices were stable or rising in the other provinces. Year-over-year, the national average price is still up, by 7.5% as of April

There are two concepts of resale listings: new listings versus active (the inventory in the market, measured at month end). CREA doesn't publish data on active listings, but it can be calculated from their data on months of inventory. This data indicates that there is very limited choice available in most places. Inventories have now shown a turning point, and are likely to expand during the coming months. There is a long way to go.



About pricing – most of the time, I prefer to use indexes rather than averages, to reduce the distortions that are caused by changes in composition (the locations and types of properties sold). But, as I said last month, at turning points, indexes can be slow to spot the turns, and at this time, I think it's better to rely on averages. My alternative index (based on a weighted average for the provinces) indicates that prices have fallen in the past two months, by a combined 5%.



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Interest Rates

Repeating a comment from last month: I'm not convinced that this bout of inflation can be cured by interest rates: it is largely the result of supply and distribution problems caused by the pandemic plus geopolitical turmoil, which has contributed to higher costs for oil products and natural gas. There has also been an assist from increased costs for housing, which is mainly due to the increased interest rates in combination with higher selling prices.

I'm expecting that by this fall, the decisions facing the Bank of Canada will have become even more challenging. In all likelihood, the inflation rate will remain far above its comfort level; meanwhile, economic indicators will be turning negative: high interest rates (notably yields for 5-year Government of Canada bonds and 5-year fixed rate mortgage rates) will weigh heavily on local housing markets, with economic consequences.

I was in high school when we had this "stagflation" combination in the 1970s. That was a challenging time.

If financial markets haven't produced lower interest rates by the end of the summer, will the BoC bring back Quantitative Easing at its October 26 policy meeting? If it does raise its policy ("Overnight") rate by another half point on June 1, will that be reversed on October 26?



Also, I expect that later this year more people will be commenting that the mortgage stress tests are contributing to the economic downturn. Will the Minister of Finance direct CMHC and OSFI to lower the qualifying interest rates that are mandated by their policies?

I have been arguing for a while that the stress tests are one of the factors that are constraining

housing supply in Canada. Am I the only person who believes this?

Higher interest rates will impair housing starts, although with lags. It will be at least six months until we can draw conclusions on the impacts for ground-oriented starts and at least a year and a half for apartments. These higher interest rates will result in worse supply shortages in future.

Other News

On May 13, I published a report on housing shortages across Canada, and the next day I added a 1-pager of Highlights. These two documents can be found on this page:

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

The best explainer I've seen on Long Covid is from Fortune magazine:

<https://fortune.com/2022/05/08/surviving-pandemic-half-the-battle-long-covid-growing-public-health-crisis-could-affect-a-billion-in-just-a-few-years/>

Canadian politicians and public health officials need to do much better at discussing this.

Official data from the UK estimates that 1.8 million people (2.8% of its population) have Long Covid (and the numbers are rising). See Table 12 and 4 from here. Where is the Canadian data on this?

<https://www.ons.gov.uk/file?uri=%2fpeoplepopulationandcommunity%2fhealthandsocialcare%2fconditionsanddiseases%2fdatasets%2falldatarelatingtoprevalenceofongoingsymptomsfollowingcoronaviruscovid19infectionintheuk%2f6may2022/ongoingsymptomsfollowingcovid1920220506accessible.xlsx>

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