

# Housing Market Digest

Canada, December 2021

## “Musical Whack-A-Mole”

Back in May, I wrote a Twitter thread in which I compared Canadian housing markets to an increasingly-brutal game of Musical Chairs:

<https://twitter.com/LooseCannonEcon/status/1395810375434752008>

(It has been interesting to see this get propagated as a meme, as other people have used the idea.)

There’s another good analogy, which Wikipedia describes as follows: “The term “Whac-A-Mole” (or “Whack-A-Mole”) is used colloquially to depict a situation characterized by a series of repetitious and futile tasks, where the successful completion of one just yields another popping up elsewhere”.

During the past 13 years, the federal government has been playing the game of Musical Whack-A-Mole, using increasingly-severe mortgage regulations to whack Canadians who are good candidates to buy homes. This further contributes to the stressfulness of the Musical Chairs game. The policies are futile, because they don’t address the real problem of insufficient housing supply in Canada – in fact, these policies are one of the factors that are worsening the supply problems.

One of the effects of this game is that as fewer people buy homes, there is more need for rentals. So, homes have become more valuable as investments and more people are buying as investors. If we see a new set of policies to reduce investment buying, that won’t fix the market either, it will just superficially change how the game looks.

## Interest Rates

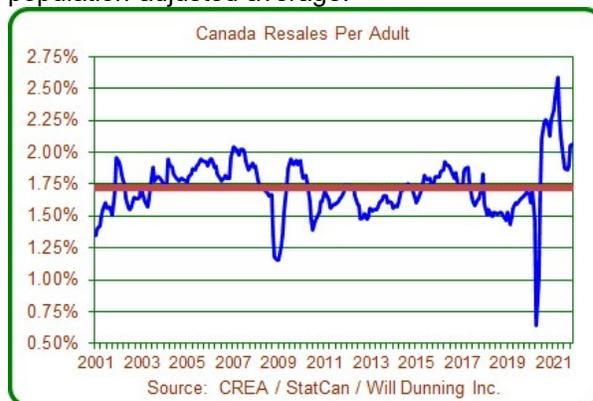
Bond yields have retreated in the past few days, and are currently where I think they should be (in the area of 1.25%). That doesn’t mean they’ll stay there. My opinion-estimate of a typical “special offer” rate for 5-year fixed rate mortgages (advertised by major lenders) remains at 2.7%, which I consider a neutral rate.

Since mid-year, I have been arguing that the Bank of Canada’s “policy rate” (the overnight rate) should be increased by at least a half point (from the current 0.25%). This would raise variable rates. My opinion-estimate for variable rates remains at 1.4%.



## Resale Markets

The sales rate increased slightly in November, to an annualized rate of 650,700. Recent increases in mortgage rates are a factor in this, as they create urgency to buy, to take advantage of pre-approved rates. On a population-adjusted basis, November sales were 20% above the long-term average (which I estimate as 543,000). Looking at the entire period since the start of 2018, total sales are fractionally (about 1.5%) above the long-term population-adjusted average.



Extremely low inventories are causing sales to be less than they might be, in many locations across the country. The national sales-to-new-listings ratio was 77% in November, far above my estimate that the balanced market threshold is 52%. CREA calculates that at the end of the month, the available inventory (active listings) was equivalent to just 1.75 months of sales, a new all-time record low. The long-term average (2003 to the present) is 5.0 months.

Sharp imbalances between supply and demand continue to cause prices to increase rapidly. As of November, there was a 20% year-over year

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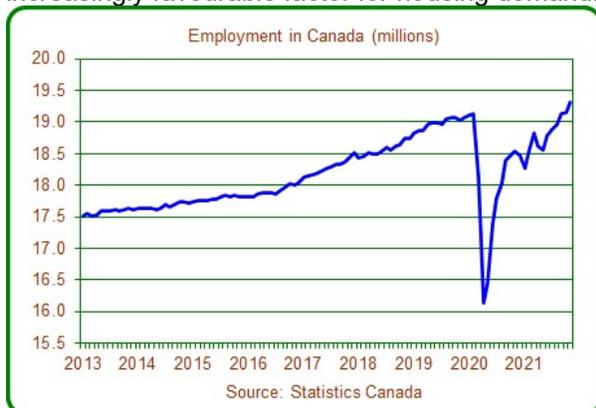
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increase for my alternative price index (a constant-weight average of the provincial average prices).



## Employment

Statistics Canada estimates a quite large amount of job growth for November (154,000). With the addition of this datapoint, estimated employment is now 1.0% above the pre-Covid level (February 2020). On this basis, employment is becoming an increasingly favourable factor for housing demand.



To get technical for a minute: Statistics Canada's Labour Force Survey doesn't measure the actual number of people employed. It calculates the percentage of us that have jobs, and then applies the percentages to the estimated population to calculate the number with jobs. But, StatsCan doesn't know for sure what the population is. In this period, there is uncertainty about the population (especially about how many people are entering and leaving Canada). Therefore, there is uncertainty about employment as well. At present, in this data StatsCan is assuming that the adult population (15 years and older) has grown by 305,000 during the past year. (By contrast, during the past 5 years, the adult population is estimated to have grown by 389,000 per year.) "True" population growth (and therefore actual employment) might currently be more than or less

than StatsCan is estimating, and the same is true for employment in Canada.

## Housing Starts

Housing starts leaped in November, to an annualized rate of 301,300. This interrupted a slowing trend that has been seen recently.



Apartment activity is volatile and accounted for the jump in November. Starts of family-friendly housing in urban areas (singles, semis, and towns, plus 2- and 3-bedroom apartments in low-rise and mid-rise forms, with adequate outdoor amenities) remain far too low (just 95,600 in November).



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