Housing Market Digest

Canada, September 2024

I Wasn't Expecting That

Since 2012, I have been comparing resale activity in Canada and the US, and used the data to draw conclusions that on-going escalation of mortgage regulations has unduly impaired home buying (with a further consequence that new construction has also been impaired, adding as much as 200,000 dwelling units to the housing shortage).

Canada has about 11% of the US population. Two major policy changes have been the elimination of 30-year amortization periods for insured mortgages (July 2012) and the OSGI mortgage stress test (start of 2018). Since then, home sales in Canada have been less than 11% of the US figures most of the time, and often by substantial amounts. I have concluded that sales in Canada have been about 10% less than they should have been.

But, during the past year and a quarter, the ratio of Canada versus US sales has been above 11%, at an average of 11.4%.

Does this mean that the regulations are no longer an issue?

I'm not saying that. There is a critical assumption in this analysis, that other factors that affect home sales (especially interest rates and the employment situation) move in similar ways in Canada and the US. In that situation, changes in the ratio would be due to non-market factors (especially regulations). But, if those major market factors differ, that might be affecting the ratio. For example, during the first two years after the start of Covid, the Canadian employment situation (measured by the employment-to-population ratio for the age group 25 to 54, as shown in the next two charts) was considerably stronger compared to the US. This change in the economic comparison contributed to the elevated sales ratio during mid-2020 to early 2022 (an average of 10.9%). Then, the comparative employment situation became closer to normal, and the sales ratio fell to an average of 9.4% during the 12-month period that started in April 2022 (in my interpretation, this implies that mortgage regulations were once again visible as the issue). The subsequent rise in the sales ratio (averaging 11.4% from the spring of 2023 to the present) needs to be explained, and I'll get there soon.

During the past few months, the employment situation in Canada versus the US has become weak in historic terms. This could be expected to cause sales activity in Canada to weaken relative to the US, but that hasn't happened yet. However, the downturn for the employment-to-population ratio is still very recent and it might be too soon to see a housing market impact. Alternatively, there might be something else happening.

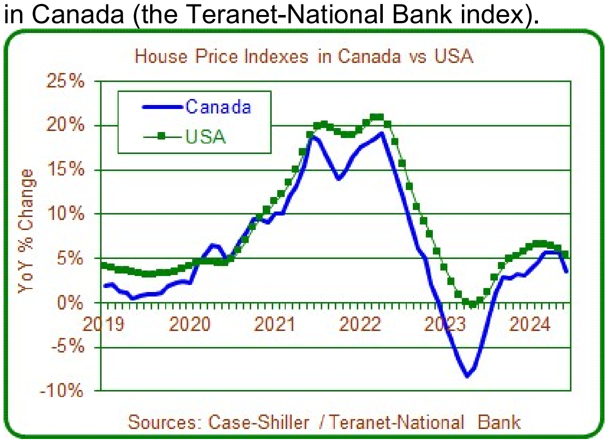
The something else is changes in affordability, due to movements in interest rates and home prices in Canada compared to the US.

During 2020 until late 2022, the gap between the benchmark mortgage interest rates in Canada and the US averaged 0.80 points. But, during the last two years, it has widened, to an average of 1.34 points.

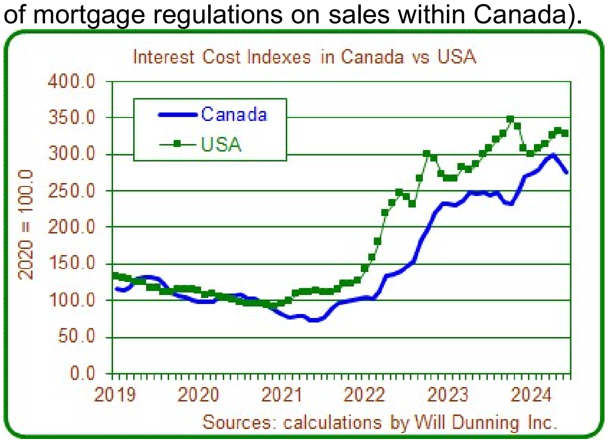
Housing Market Digest

Canada, September 2024

During the past three years, home prices have increased more rapidly in the US (24.5% in total according to the Case-Shiller index) versus 12.5% in Canada (the Teranet-National Bank index).



The rises for mortgage interest rates have made affordability a lot worse in both Canada and the US. But, the combination of larger rises in mortgage rates and prices means there has been a more substantial worsening in the US. The next chart provides a very simple comparison of how relative affordability has changed recently. The greater deterioration of affordability in the US explains why the ratio of Canadian home sales versus the US is currently elevated (in consequence, this is obscuring the current impact of mortgage regulations on sales within Canada).



Affordability in Canada is still a lot worse than in the US, but one conclusion here is that the gap is now less bad than it was a few years ago.

Current Resale Market Conditions

Interest rates have not yet fallen enough to affect sales activity or pricing at the national level. For August, the annualized sales rate of 468,900 was 18% below the long-term population-adjusted average. The sales-to-new-listings ratio (53% in August) remains close to the balanced market threshold (52%). Nationally, price indicators are flat. However, there are variations across the country. Population-adjusted sales are below average in 6 provinces, and are weakest within the two most expensive provinces. Compared to five years ago, prices have increased most rapidly in the Atlantic region and Quebec. The slowest price growth is on the Prairies.

Resale Market Indicators for 2024 Year-to-Date

	Sales per Adult vs Long-term Average	*% Price Change vs 2019 Average*
Canada	-18%	35%
BC	-32%	39%
AB	4%	26%
SK	11%	14%
MB	-5%	25%
ON	-31%	41%
QU	-4%	61%
NB	5%	81%
NS	-12%	71%
PEI	-8%	62%
NFLD	22%	29%

Source: calculations by Will Dunning Inc., using data from CREA

How to Reach Will Dunning Inc.

Email: wdunning1955@gmail.com
Web site: www.wdunning.com
Twitter: @LooseCannonEcon
Want to say thanks?
https://buymeacoffee.com/wdunning

Disclaimer of Liability