

Housing Market Digest

Canada, January 2024

More Questionable Data on Employment

On occasion, Statistics Canada (in its Labour Force Survey) publishes estimates on employment that look unbelievable to me: in the data I see a certain fingerprint that tells me this is probably the consequence of “sample rotation” – each month 1/6th of the sample leaves and is replaced. If the people leaving have different characteristics than the people entering, that can artificially distort the estimates. I think this happened in the new data for December. The data showed no change in the number of employed people, but, the estimated population increased by 74,200 during the month. In consequence, the employment-to-population ratio fell from 61.8% to 61.6% in just one month. If true, this is a serious weakening of the employment situation.

The fingerprint I watch for is what happened to labour force participation. It also fell by the same amount (0.2 point) in December. Any change in the participation rate that is larger than 0.1 point is suspicious to me (unless there is a real event that might have caused it – such as lockdowns associated with a global pandemic).



This tells me that the data for December is probably the result of sample rotation, rather than a “true” change. My guess is that in all likelihood, the “true” change was a rise of 30,000-40,000 for employment – a very different picture than the published estimate of no change.

During the fall of 2022, I attempted to discuss this with the responsible people at Statistics Canada. At the time, they acknowledged that they are aware of sample rotation as an issue. They said “panel rotation effects are one of the elements the [sic] are checked for in our internal review and certification of each month’s results”. But, they don’t publish that research and they never tell us what it implies about the reliability of the data. It

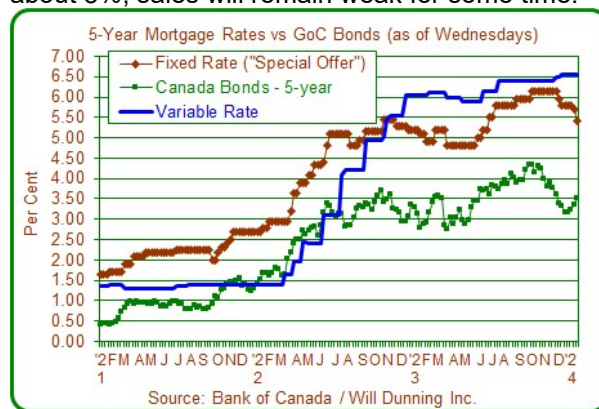
would be really useful if Statistics Canada regularly advised us publicly of what they were finding in those reviews.

The key point here is that this data might be creating a distorted picture of what is happening in the economy (suggesting a weakening that hasn’t actually happened - yet). There is a chance that this new error will be reversed in the future, which at that time would create an over-estimate of what is happening to employment. Both of those sets of errors could influence decisions, including the interest rate policies of the Bank of Canada.

Mortgage Interest Rates

Mortgage interest rates have belatedly followed the drop in bond yields. My current opinion-estimate of the typical rate for 5-year fixed mortgages (5.4%) is now about 2 points above the yield for 5-year Government of Canada bonds (in the area of 3.5%). Today, the spread is closer to normal.

The drop for fixed rates might give a bit of support to sales, but given that the neutral rate is probably about 3%, sales will remain weak for some time.



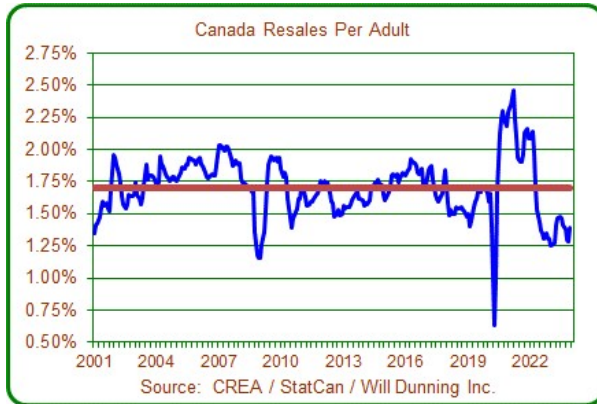
Resale Market

The sales rate improved in December. But, the annualized rate of 457,600 was still quite weak in historic terms, at 18% below the long-term population-adjusted average. For the entire year, the sales rate was 20% below average.

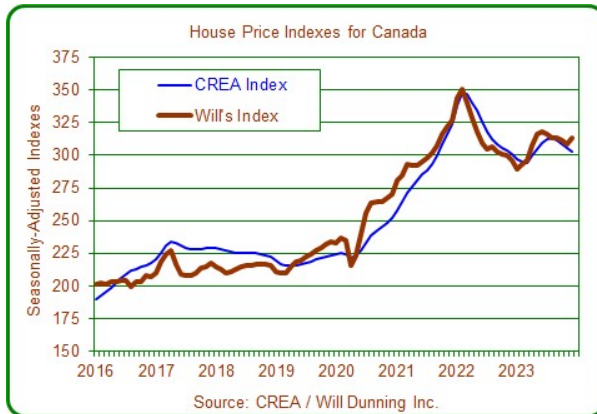
Resale market data for Decembers doesn’t tell us very much, because variations in the weather can be influential. Most of the increase in the sales rate for December was in Ontario, where the weather was quite mild.

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Listings were reduced slightly during the month (for both new and active listings). Consequently, the sales-to-new-listings ratio rose to 58%, which is above the balanced market threshold (52%). Average prices increased non-trivially in most provinces, causing my alternative price index to increase in December.



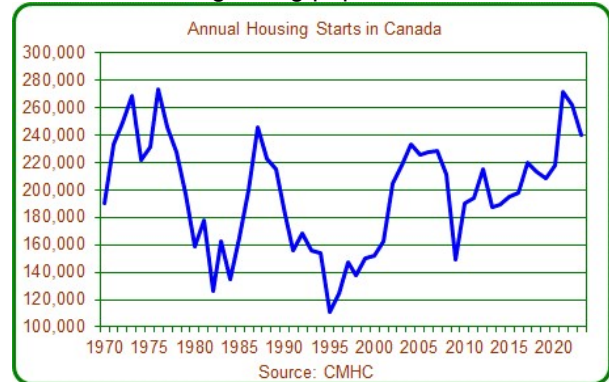
For now, I'm viewing the improvements in data for December as statistical noise, not as any indication that trends have turned positively.

Housing Starts

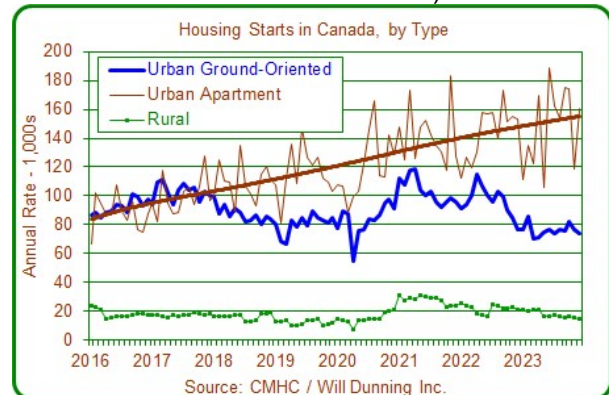
Starts in December reversed the dip seen in November, with the sales rate at 249,300.



For the entire year, total starts (240,267) were 8% less than in 2022 and 11% lower than in 2021. This is very far below the volume needed to meet the needs of our growing population.



Construction activity is weak for low-rise dwellings (for 2023, the total was 22% lower than in 2022). On the other hand, apartment starts are still supported by decisions made when interest rates were much lower. As I've said before, I don't know when apartment activity will begin the inevitable downturn, but it's coming. I expect that for this year, total housing starts will be below 200,000 units, and I expect that weakness to continue into 2025 (I am much more bearish on the housing outlook than most other economists).



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