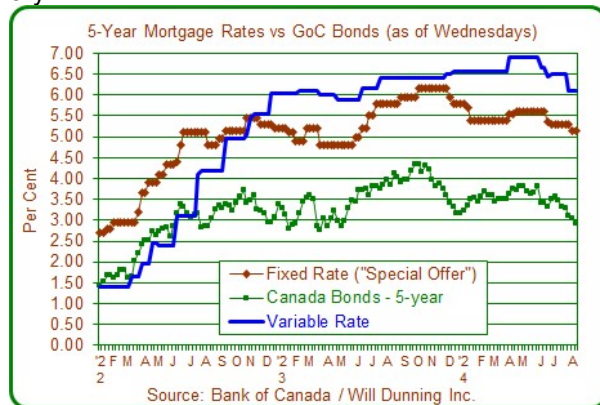


Housing Market Digest

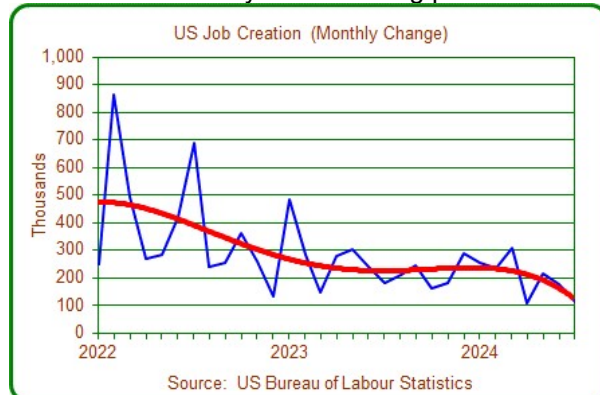
Canada, August 2024

Interest Rates

Bond yields have made a pronounced downward move during the past two months. The yield for 5-year GoC's is now in the area of 3.0%, versus a prior trend of about 3.5%. Mortgage rates have only partially followed, so far. If bonds yields don't rebound, there is room for about a ¼ point drop for 5-year fixed rates.



The drop in bond yields is largely due to some disappointing estimates of job creation in the US. But, it's too soon to call this a trend – in particular, the hurricane season started very early this year, and that might be weighing on the US employment numbers. So, one possible scenario would have stronger US numbers during the fall, or it might be that the US economy is at a turning point.

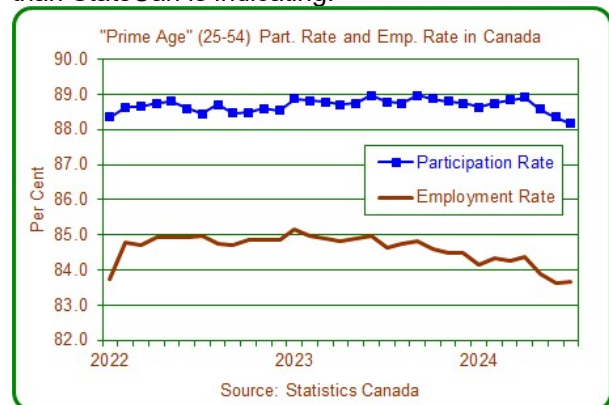


There has been a bit of discussion about the "Sahm rule" – based on changes in the unemployment rate, there is an argument that a recession may now be developing in the US. Two comments. Firstly, I think that the employment-to-population ratio is better than the unemployment rate as an indicator of the state of the job market, and it is showing very little change. So, the Sahm rule might be sending a false signal. (I have made the suggestion to her.) Secondly, Dunning's rule says when you find an economic relationship that is useful and reliable, it will stop working.

Employment

Statistics Canada's Labour Force Survey shows a pronounced weakening. The employment-to-population ratio has fallen by 1.1 points during the past year, and the downturn appears to be accelerating during the last three months.

Yet, one of my themes is that the employment data can be inaccurate, due to distortions caused by "sample rotation". I watch for that mainly by comparing changes in the employment rate versus the labour force participation rate. When they move by large amounts in the same direction, I assume that the data is probably wrong. In this chart, there are multiple points where this can be seen (including Jan 2023, June 2023, Jan/Feb 2024, and the last three months). My takeaway is that the employment situation may have weakened during the past year but by much less than StatsCan is indicating.



One last point. I still expect that employment will weaken, due to two main causes: the impact of rising housing costs on discretionary consumer spending, and reduced construction due to high interest rates. Both of those are just getting started and will develop quite gradually during the coming two years (possibly longer). Employment in construction is still at a peak, but might be getting closer to a turning point.



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Resale Activity

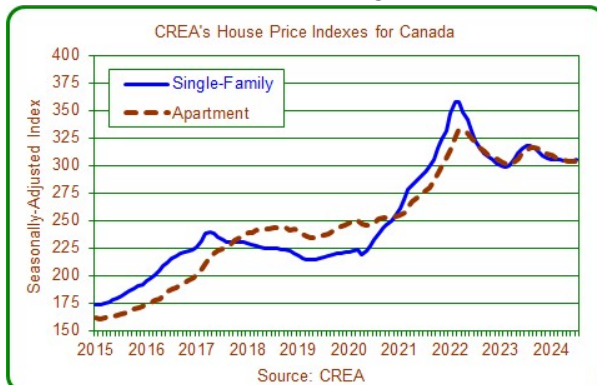
Some people thought that tiny reductions in mortgage interest rates would create a turning point for the housing market. There's no sign of that in the data for July, as the sales rate fell slightly, to an annualized rate of 463,500. There has been no change in the trend during the past year. For July, the population-adjusted sales rate was 19% below the long-term average.



Listings are slowly creeping upwards. The sales-to-new-listings ratio (53% in July) remains close to its balanced market threshold (52%).

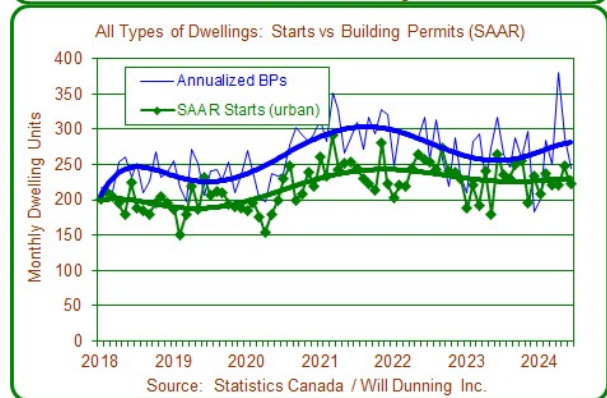
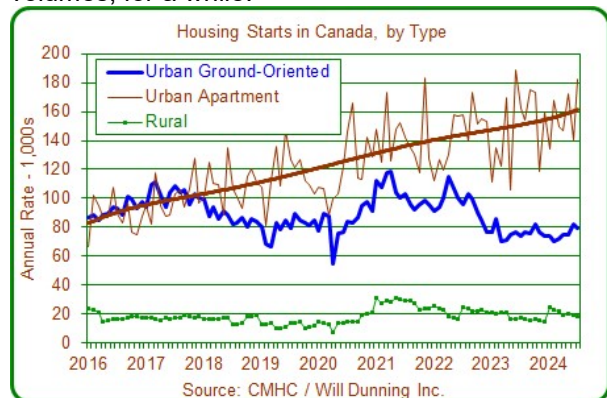


Price trends are flat. For Toronto, I have been arguing that there is a lot more downward price risk for apartments than for low-rise homes. I think the same can be said for all of Canada.



Construction of New Housing

During the past month, there has been chatter about the starts for the first half of this year, versus the first half of last year. What I see in the data is that there has been a downturn for low-rise homes, but starts for apartments remain very strong, due to decisions and commitments that were made when interest rates were at exceptionally low levels. There should be a downturn eventually, but the timing is unclear: building permit data point to continued high volumes, for a while.



How to Reach Will Dunning Inc.

Email: wdunning1955@gmail.com
Web site: www.wdunning.com
Twitter: [@LooseCannonEcon](https://twitter.com/LooseCannonEcon)
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