

Housing Market Digest

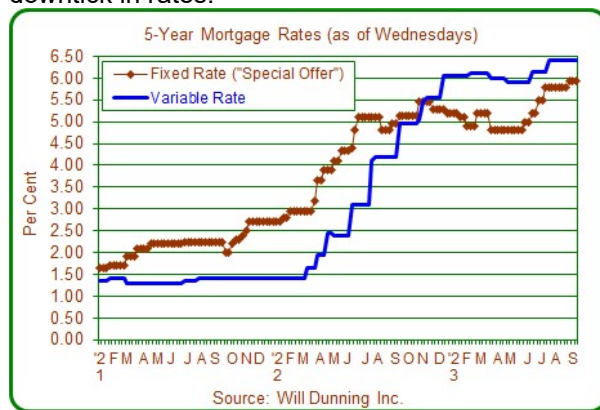
Canada, September 2023

Other News

In the Toronto edition for this month, I have summarized some of my long-held views about rental housing supplies, in particular suggesting that we should explore the possibility of resurrecting a tax policy ("MURB") from the 1970s.

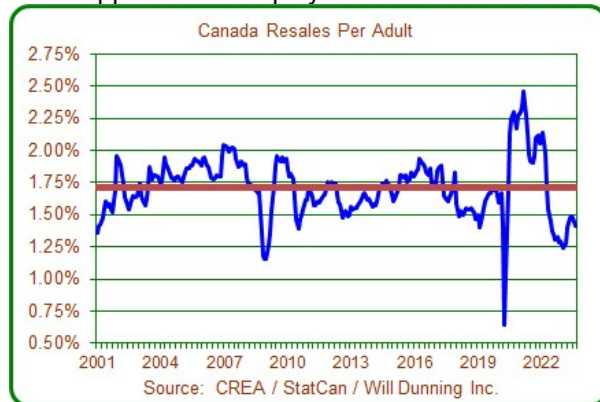
Mortgage Interest Rates

I have raised my opinion-estimate of the typical 5-year fixed rate, to 5.95% from the prior 5.8%. The spread versus bond yields is now close to 2 points, which creates a possibility of a small downtick in rates.



Resale Market

Sales fell in August, to an annualized rate of 460,100 (from the July rate of 480,000). August sales were 18% below the long-term population-adjusted average. This is very early days in discovering the impacts of the interest rate increases that happened during June and July – interest rate locks, at the lower rates seen during the spring, supported sales during the summer. That support has now played-out.



The sales trends are weakest in Ontario and BC, and now Quebec might be turning. Conditions are stronger on the Prairies and in Atlantic Canada.

Inventories have crept upwards, but are still tight, whether measured as the flows of new listings into the market or inventories of active listings.



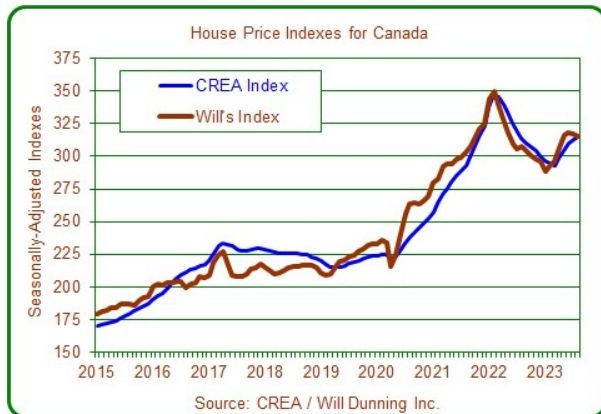
The sales-to-listings ratios tell two different stories. The new listings ratio (56% in August) is now getting close to its balanced market threshold (52%). But, the active listings ratio (29%) is still far above its threshold (estimated at 15%). On a statistical basis, the new listings ratio does a slightly better job of predicting price movements.

The data says we should expect prices to rise, but I'm skeptical of my own analysis. At this moment, I'm comfortable to say only that upward pressure on prices is dissipating. But, it's too soon to predict a fall in the national price trend in the near future. I expect to see some price reductions in the locations with the highest prices (and the greatest sensitivity to interest rates).

A small drop in the national average price in August was mostly due to Ontario, with small contributions in BC, Nova Scotia, and PEI. Average prices were flat or increased elsewhere.

Housing Market Digest

Canada, September 2023

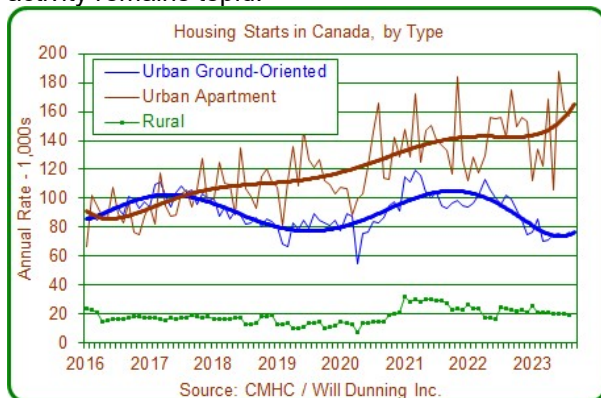


Housing Starts

The trend for starts remains healthy, with the annualized rate at 252,800 in August.



Once again, apartment starts remain strong, reflecting sales and commitments that occurred when interest rates were much lower. Low-rise activity remains tepid.



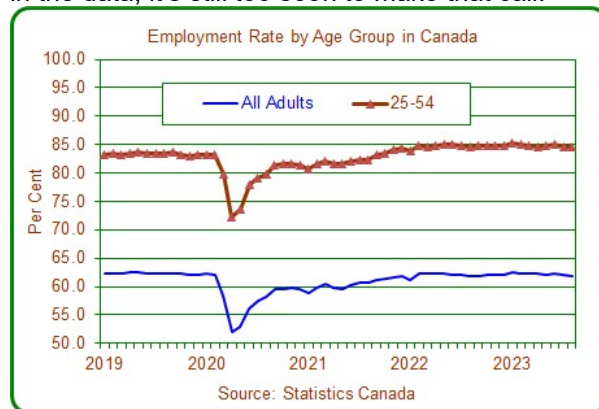
I expect that starts will fall to below a 200,000 rate during the first half of next year. People continue to say that we need 650,000 starts per year (or similar numbers). That estimate (from a report by CMHC) is way too high – I discussed my issues with the estimate in the July 2022 HMD for Canada. The two issues are: firstly, the report can

be read as saying that interest rates will remain elevated and at those interest rates prices must be reduced, and we need to produce more housing to force that price drop – I have trouble with that logic. Secondly, if we produced that much housing, we would have a huge vacancy problem. https://www.wdunning.com/files/ugd/ddda71_01b7fcc0769e4fac84cb745e0c40035a.pdf

Regardless of debate about the number, we need to see much larger starts (well above 300,000), to address existing shortages and to accommodate the growing needs of our population: the Bank of Canada's interest rate policy guarantees that housing shortages are going to get even worse.

Employment

Statistics Canada's reported a moderate rate of job creation for August, at 39,900. However, this was much smaller than the assumed growth rate for the adult population (102,900 in just one month). In consequence, the employment-to-population ratio fell. Recent data hints that an economic downturn may now be developing. But, given uncertainty about month-to-month variations in the data, it's still too soon to make that call.



How to Reach Will Dunning Inc.

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

Disclaimer of Liability

This report has been compiled using data and sources that are believed to be reliable. Will Dunning Inc. accepts no responsibility for any data or conclusions contained herein.

Copyright: Will Dunning Inc. 2023