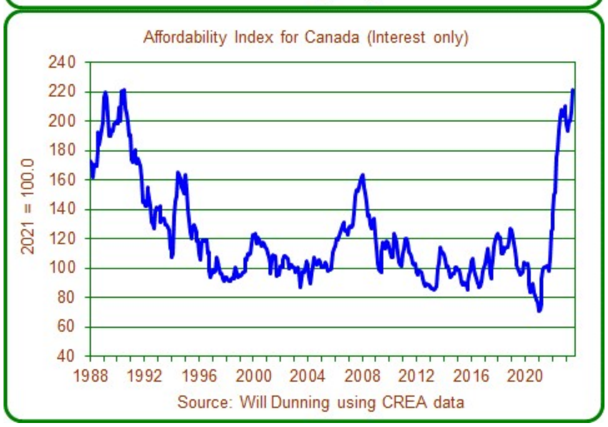
Housing Market Digest

Canada, July 2023

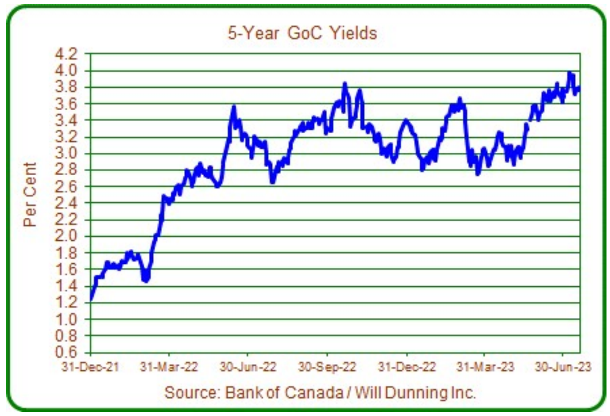
Dreadful Affordability

Whether affordability is measured using the total mortgage payment or the interest-only component, it is extremely bad (I think that the theoretically-correct measure is interest-only, but people need to also give consideration to how much total payment they can handle). The last figures shown (for June) are based on the average interest rate for the month (5.23%), but with recent increases, the typical discounted rate today is 5.8%. In other words, affordability today is even more dreadful than the charts indicate.



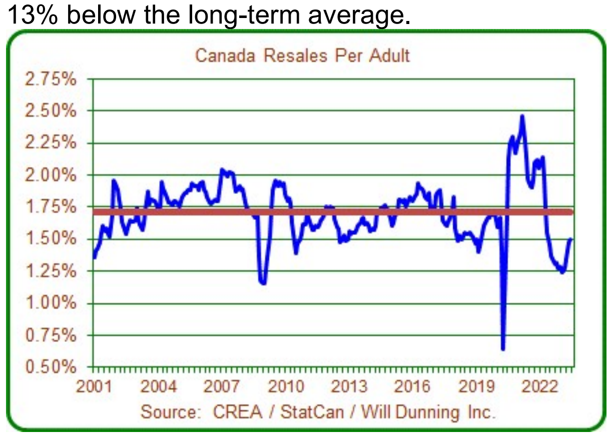
Interest Rates

Bond yields increased early in July, which resulted in a further rise in mortgage interest rates. Yields have retreated (a bit) during the past week. If the retreat is sustained, there is room for a small reduction in fixed-rate mortgage rates. But, I doubt that this would provide support to home buying. Unless bond yields fall by at least another half-point (and mortgage rates follow), I think we should expect a very weak housing market during the fall. It is possible that sales will be sustained for a few more weeks, as people rush to take advantage of rate locks, at the rates that were being offered during April and May.



Resale Market

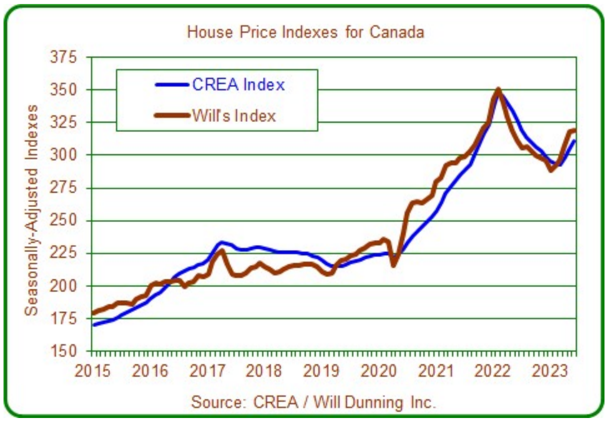
The sales rate was essentially unchanged in June, at an annualized rate of 485,400. On a population-adjusted basis, sales remain somewhat weak, at 13% below the long-term average.



There was a large rise in the rate at which new listings entered the market, but the population-adjusted rate for new listings is still 27% below the long-term average. The sales-to-new-listings ratio was at 63.6% in June, which remains above the balanced market threshold of 52%.

Once again, there is ambiguity in the price data. The average selling price rose fell slightly versus the prior month (by 0.7%). But, this was slightly affected by a change in composition (reduced sales in Toronto). My alternative price index rose by 0.5% in June. CREA's index rose by 2.0% versus May (see the chart on the next page).

I see a possibility that sales will erode sharply during the second half of the year and new listings could continue to expand. This combination could result in more price erosion – unless there is a sharp drop in mortgage interest rates.



Employment

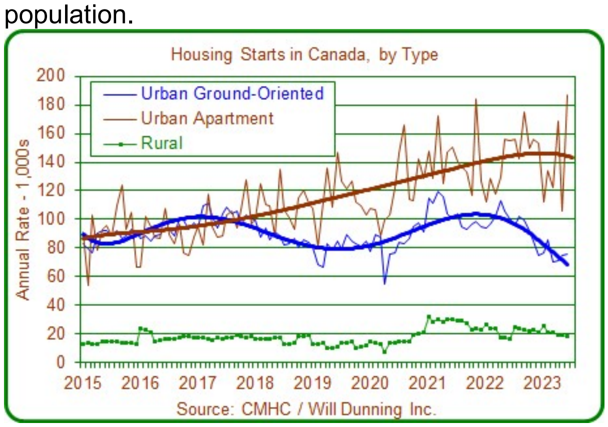
The estimates of employment have increased sharply during the past year (by 470,000), or 2.39%. This is slightly stronger than the rise that Statistics Canada is assuming for the adult population (2.22%). Consequently, the employment-to-population ratio is showing very little change. Similarly, there is little change in average weekly hours worked per adult (in June, the figure was 0.8% below the average for Junes from 2015 to 2019). As I've commented previously, I think it's still too early to see effects from elevated interest rates.

New Construction

Starts leaped in June (to an annualized rate of 281,400, which is the sixth highest monthly figure of the period since 1990). But this was just a partial offset for a large drop in May.

During the first half of this year, the average rate of starts (235,000) was 11% lower than for all of last year (263,300). Urban low-rise starts are down by 22%, whereas apartment starts are down by just 4% and rural starts are down by 5%. (I haven't mentioned this previously – there is a discontinuity in the rural data at the start of 2021. I'm guessing that this was caused by a change in which communities are included in the sample that is used by CMHC. The jump in the data suggests to me that rural starts were either under estimated previously or over-estimated now.)

Apartment starts continue to reflect decisions and commitments that occurred when interest rates were much lower. I expect a large drop in apartment starts next year, and low-rise starts might erode a bit more. For 2024, the total starts rate is likely to be below 200,000, versus the more than 300,000 that is required by our growing population.



How to Reach Will Dunning Inc.

Email: wdunning@sympatico.ca
Web site: www.wdunning.com
Twitter: @LooseCannonEcon

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