Housing Market Digest

Canada, May 2024

Employment

Statistics Canada reported a large rise in employment for April – 90,400). Year-over year growth is also impressive (376,600, or 1.9%). However, it is important to remember that the data are estimates, and they can be wrong.

There are two main sources of potential errors in this data. I often discuss that changes in the sample can distort the estimates (if the people who join the sample have different characteristics than the people leaving). The clue I look for is large changes in the “labour force participation rate” The recent data looks reasonably well-behaved.

But, the second possible error might now be in play. The Labour Force Survey doesn’t actually count the number of people employed: it is a sample survey and it estimates percentages (the per cent who are employed, as well as the per cent who are unemployed). Then, the percentages are applied to the estimate of the population, to calculate the numbers employed or unemployed.

But, Statistics Canada doesn’t actually have up-to-date data on the population, and so it creates estimates. Those estimates are influenced by data produced by a different group within StatsCan, which estimates population from “administrative files” (they aren’t actually counts of the population, and those estimates can be wrong). Plus, those estimates are out of date (the LFS population estimates for April are based on the administrative estimates that have an effective date of January 1).

So, there is potential for the population estimates in the LFS to be wrong, and therefore to result in incorrect estimates of employment growth.

I look for this by comparing the LFS data to StatsCan’s other employment survey (Survey of Employment, Payrolls and Hours - that data is generated from reports made by companies). In general, I expect the SEPH data to be more accurate than LFS. Unfortunately, the SEPH data comes out more slowly (the most recent data is for February, versus April for the LFS).

There are also conceptual differences. The LFS includes self-employed people, while SEPH excludes them. To deal with this, there is LFS data that also excludes self-employed people. This chart compares the two datasets. As of February: the SEPH data shows year-over-year growth of 0.8% while the LFS data shows 2.1% for the same period.

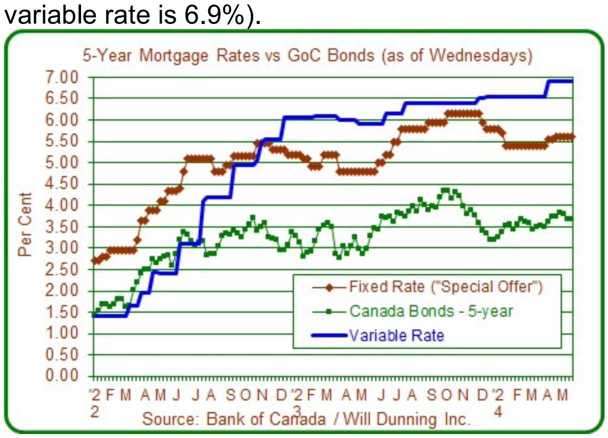
The two surveys portray the employment situation in quite different ways. During 2022, SEPH showed faster job growth than the LFS. Subsequently, the LFS has shown faster growth. The differences have been especially pronounced since the middle of last year, as SEPH is now showing very slow job growth.

A possible interpretation is that in the LFS the rate of population growth might have been under-estimated during 2022; subsequently, it might have been over-estimated. The LFS data is highly influential in our understanding of the evolving economy. Are we being misled?

After each Census, Statistics Canada revises its population estimates, and then the LFS employment estimates get revised. But, we won’t see those revisions until 2028 or 2029.

Interest Rates

Bond yields have been relatively stable recently, and mortgage rates haven’t moved materially (my opinion estimate for 5-year fixed rates is 5.6%; the variable rate is 6.9%).



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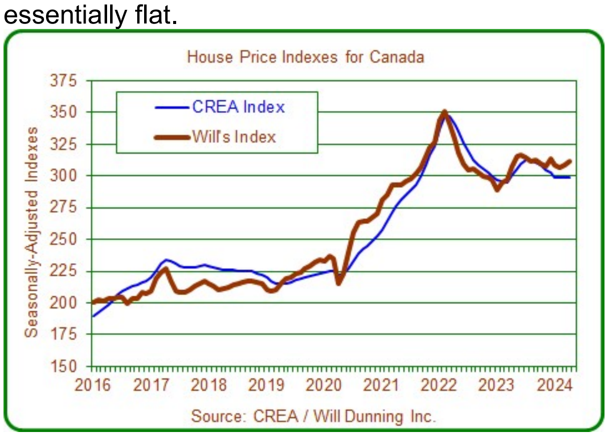
Resale Activity

Sales fell during April, to an annualized rate of 452,900. On a population-adjusted basis, this is 20% below average.

While sales were reduced during the month the numbers of listings crept upwards, but still remained below historic figures (for both flows of new listings into the market and the inventories of active listings). New listings are 12% below the long-term population adjusted average (versus the 20% gap for sales).

The sales-to-new-listings ratio was 53% in April. The 12-month moving average is 56%: both measures are quite close to the balanced market threshold (52%). I still see the price trend as essentially flat.

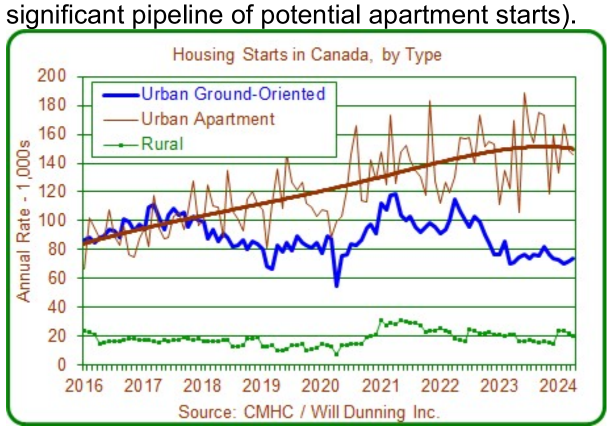


The sales-to-active listings ratio was 18% in April, still above the balanced market threshold that I estimate at 15%.

Housing Starts

Trends for housing starts are showing very little change.

Low-rise activity remains weak. The downturn has still not started for apartments (and the data on building permit issuance show that there is still a significant pipeline of potential apartment starts).



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