

# Housing Market Digest

Canada, March 2024

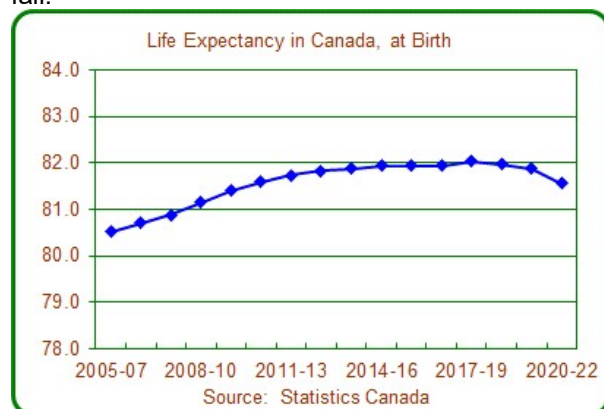
## “Learning to Live with Covid”

Four years ago, I was really worried. Some of my scenarios were quite dire. Mostly, they didn't happen: there were no disruptions to water, electricity, natural gas, and gasoline. There were some (manageable) disruptions to food supplies, and food is now a lot more expensive.

Something I didn't expect was that governments (federal and provincial in Canada, and in other countries) increasingly are choosing to fail at their most basic job - keeping people safe.

As part of that they are failing to communicate (1) about the risks of Covid and its secondary effects, (2) about how to stay safe, including masking, (3) failing to invest in safe air and not encouraging people and businesses to do it, (4) failing on sick leave, (5) failing to educate medical professionals about long-Covid, and (6) increasingly hiding data about Covid and its consequences.

The provinces long ago stopped producing reliable data on Covid. Statistics Canada was publishing data on “excess deaths”, but they stopped in December - this was one of the key data sets that gave us reminders that Covid is still dangerous. We still have data on “mortality rates” and “life expectancy”, but they don't grab the attention of people: the data comes out only once a year, and there are very long delays. The most recent data is the average for 2020 to 2022. This data shows that life expectancy in Canada has fallen: comparing 2020-2022 versus 2017-2019, expectancy at birth has dropped by about a half-year. It's reasonable to think that it is continuing to fall.



Anecdotally, we can see that there is a gradual rise in numbers of people who are less able to work (and some who can't work at all) due to post-Covid disability. This is kind-of important in the

discussions about what's best for the economy. But, in Canada, I haven't been able to identify any time-series data on how many people are unable to work due to disability. The US and UK produce that data, and it is skyrocketing.

I am really pessimistic about the next 5 to 10 years, about our health, about the economy, and about our ability to support ourselves and live independently. We must collectively get our act together (through actions of our governments and our individual actions).

This short Twitter thread really nails why messaging from public health officials has become so dangerous. In essence, the rate at which Covid is doing damage is too slow to create a sense of emergency. But, damage is accumulating. We are moving towards a really bad place.

<https://twitter.com/brownefc/status/1763903451581280461>

This very long thread is worth the time: <https://twitter.com/jeffgilchrist/status/1769075076467441907>

## Mortgage Interest Rates

There is too much focus on the Bank of Canada's Policy Rate. Other interest rates also matter. Personally, I think the 5-year fixed mortgage rate is more impactful (especially now that most renewals are with 5-year fixed rates at far-above-neutral). The Bank of Canada influences fixed mortgage rates through its market operations.

During the Early phase of the Covid era (“we need to support and protect the economy”), the BoC used Quantitative Easing (buying financial instruments, mostly Government of Canada bonds) to keep interest rates much lower than they would have been otherwise.

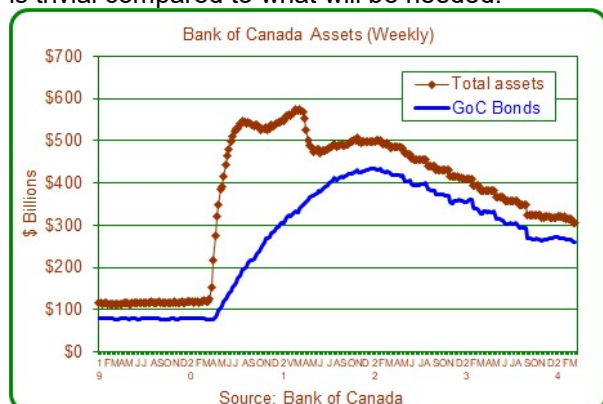
During this current Middle phase of the Covid era (“we don't care about the immense long-term damage that will be done to the economy and to people”), Quantitative Tightening (selling-off its very large inventory of GoC bonds) is being used to keep fixed mortgage rates a lot higher than they could be.

In the First-Next phase of the Covid era (“Oops”), policy will move towards neutral (neither buying nor selling GoCs). I don't know when the First-Next phase will start, or how quickly it will develop.

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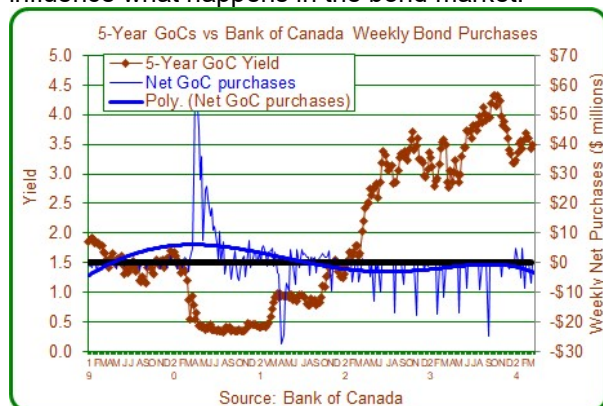
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I am hoping that it starts soon and progresses quickly. This chart hints, the BoC might have recently started to be slow down with respect to its sales of Government of Canada bonds, but it's early days, and so far the downshift of bond yields is trivial compared to what will be needed.



(I haven't started to think about what will be the Second-Next phase of the Covid era.)

This chart is an attempt to illustrate that the BoC's bond purchases/sales have affected bond yields (in turn affecting fixed rate mortgages). During 2020, net buying (the thin blue line of weekly data and the thick blue trend line) were above 0 (which is shown by the thick black line), and bond yields fell. When the BoC sells its bond holdings (the blue lines are below the black line) yields have tended to rise. Note the sharp, short-lived sell-off during the spring of 2021 that pushed yields up. As well, further sell-offs during early 2022 into late 2023 brought further rises in bond yields. To be clear, these market operations aren't the only determinant of bond yields, but they do strongly influence what happens in the bond market.

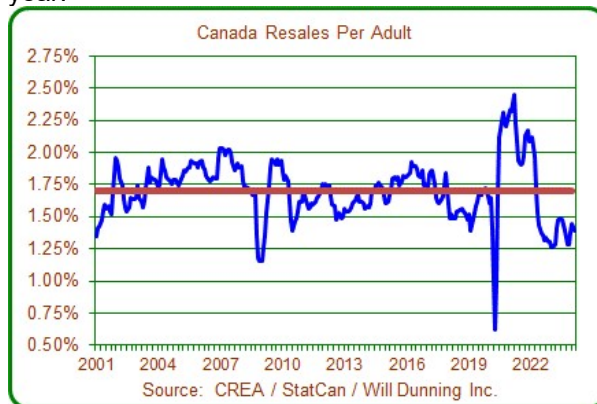


## Housing Activity

Boring. There are month-to-month variations in the housing data, but the trends are flat.

- Resale volumes are roughly flat, although far below the long-term population-adjusted average (by 18% for February).
- Flows of new listings into the market and inventories of active listings remain too low.
- Price trends appear to be roughly flat in a lot of places.
- Housing starts are highly variable, but the trend appears to be roughly flat.
- For building permit approvals, the trend is likewise showing little change.
- Employment in residential construction remains at a very high level.
- As well, the overall employment situation (measured by the employment-to-population ratio for people aged 25 to 54) is still robust.
- Construction activity remains at a very high level - notwithstanding the bad data on Investment in Construction that is being published by Statistics Canada. I have something to say about this in a new report ("6 Short Essays") that I will be self-publishing in a few days.

I still think housing is going to get a lot more interesting as this year progresses and into next year.



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