

Housing Market Digest

Canada, April 2024

Another Thought on the Housing Shortage

Many of us know, but it's hard to accept, that the only action that can meaningfully improve the housing crisis during the next three years is to sharply reduce the rate of population growth.

On March 21, the federal government announced that it will reduce the number of non-permanent residents ("NPRs") who live in Canada by 440,000 during the next three years. A lot of NPRs will be converted to immigrants (they will be included in the target of 500,000 immigrants per year).

The policy will take effect late this year, and the impact on population growth will develop during 2025 to 2027. My quick estimate is that annual population growth might be in the area of 350,000. Most of that growth will be adults (working age or retired), not children. The population <20 years will likely fall, due to aging-out. On that basis, the household formation rate for the new population will be in the mid-50%.

| A Quick Estimate of Potential Annual Population Growth and Housing Requirements in Canada, 2025-2027 | |
|---|-----------------|
| Immigration Target | 500,000 |
| Change in Number of NPRs | -150,000 |
| Net Emigration | -35,000 |
| Births minus Deaths | 25,000-50,000 |
| Population Growth | 340,000-365,000 |
| Household Formation Rate | 55% |
| Housing Requirement | 187,000-200,750 |

During 2023, the number of dwelling completions was in the area of 260,000. But, due to the impact of high interest rates, the numbers are going to fall in each of the next 3-4 years. For 2024, it might be 240,000, and during 2025-2027, the annual average for completions might be a bit under 200,000. Therefore, the amount of new supply might be about equal to the requirement, and the housing shortage might not change by very much. My current estimate of the shortfall is 1.25-1.30 million dwelling units - I discussed that in pages 2-7 of the report I released on March 22:

<https://www.wdunning.com/recent-reports>

Strictly-speaking, the immigration targets are a range, not an exact number: from 442,000-550,000 for 2025 and 2026. So, the actual housing requirement could be a bit higher or a bit lower than estimated, and the housing shortage could expand or fall (a bit) during the next three years.

To depressurize Canadian housing markets, we need to (1) build at least 100,000 more units per year than the requirements that result from population growth (so, even with this new announcement, we need total starts exceeding 300,000 per year). I can't see that happening any time soon (especially given interest rates). Therefore (2) we need to also lower the immigration targets, to reduce the requirements.

Interest Rates

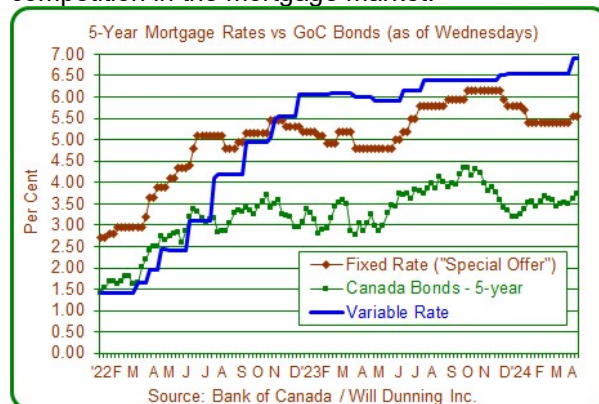
I've written a lot lately that due to high interest rates, the inflation rate won't reach 2% anytime soon (including on page 24 and 25 of my report "7 Short Essays"). The implication is that the Bank of Canada won't materially change its policies that affect interest rates (there might be some small reductions that won't make much difference).

Today, I can think of some developing supply-side issues that are going to keep inflation up (and might deter the BoC from reducing rates):

- Ukraine's attacks on Russian oil refineries might sustainably boost world prices for oil (plus, due to impacts on Russian agriculture, global food prices will be higher).
- The spread of avian flu into farm animals.
- Extreme weather events.
- The Baltimore bridge disaster is going to disrupt some supply chains.

Can those be fixed with high interest rates?

The RBC take-over of HSBC has affected my opinion-estimates of typical special offer mortgage rates (since HSBC's website was frequently a source for my estimates, and I don't see another major lender advertising similar rate discounts for non-insured mortgages). During the coming months there might be a real reduction of competition in the mortgage market.



Housing Market Digest

Canada, April 2024

Resale Activity

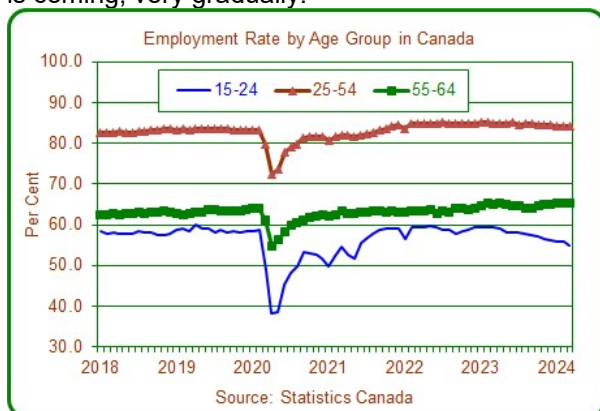
CREA reports that sales rose fractionally in March, to an annualized rate of 467,600. On a population-adjusted basis, this is 17% below average. I see no signs of an imminent upward turn.



Flows of new listings into the market and the inventory are still quite low, as few existing owners are interested in moving at present. The sales-to-new-listings ratio is 57%, slightly above the balanced market threshold (52%). Prices are still roughly flat. Overall, market trends are roughly flat.

Employment

During the past six months, Statistics Canada estimates have shown a drop in the employment-to-population ratio (from 62.0% in September to 61.4% in March). This is largely due to the extremely large in-movements by international students (which is reducing the share of the population that is working). I think it's more useful to look at the ratio for prime age adults (25 to 54). The very recent data (last three months) hints that a downturn is developing for the prime age group. This is still early days and we should view this data cautiously. But, I still believe that a downturn is coming, very gradually.



Housing Starts

Starts are lower than during 2021 and 2022, but the trend hasn't changed materially during the past year. The rate for March was 242,200.



CMHC has released new forecasts. In their pessimistic scenario, starts will be about 225,000 per year during the coming three years. (The "high growth" scenario is for about 240,000 per year). I think the downturn will be larger, to less than 200,000 per year during 2025 and 2026.

<https://www.cmhc-schl.gc.ca/professionals/housing-markets-data-and-research/market-reports/housing-market/housing-market-outlook>

How to Reach Will Dunning Inc.

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

Fooling the Bank of Canada

In its new [Monetary Policy Report](#), the BoC comments that it expects improved economic performance during the second half. This is influenced by an expectation that construction activity has been a drag on the economy but it will strengthen. This is influencing its policy decisions. As I've been discussing, the StatsCan data has incorrectly shown a drop for construction activity. The actual decline is coming, not a rebound.

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. 2024