

Canadian Housing Market: Outlook and Implications

Robert Kavcic

Senior Economist and Director,
BMO Capital Markets
robert.kavcic@bmo.com

BMO



GLOBAL
RISK
INSTITUTE

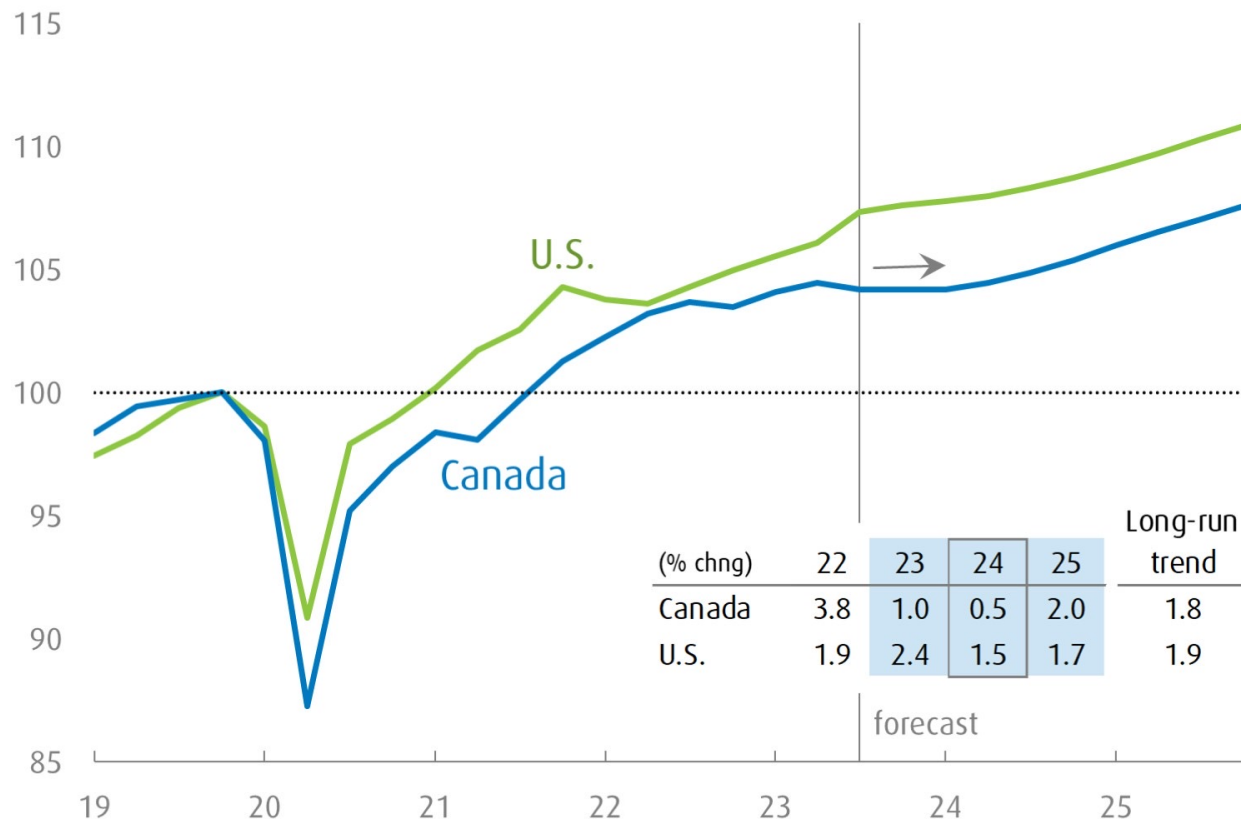
BMO Capital Markets

A presentation of BMO Economics
<https://economics.bmo.com>

Economic outlook: Resilient but still at risk

(2019Q4 = 100)

Real GDP



Reasons for resilience:

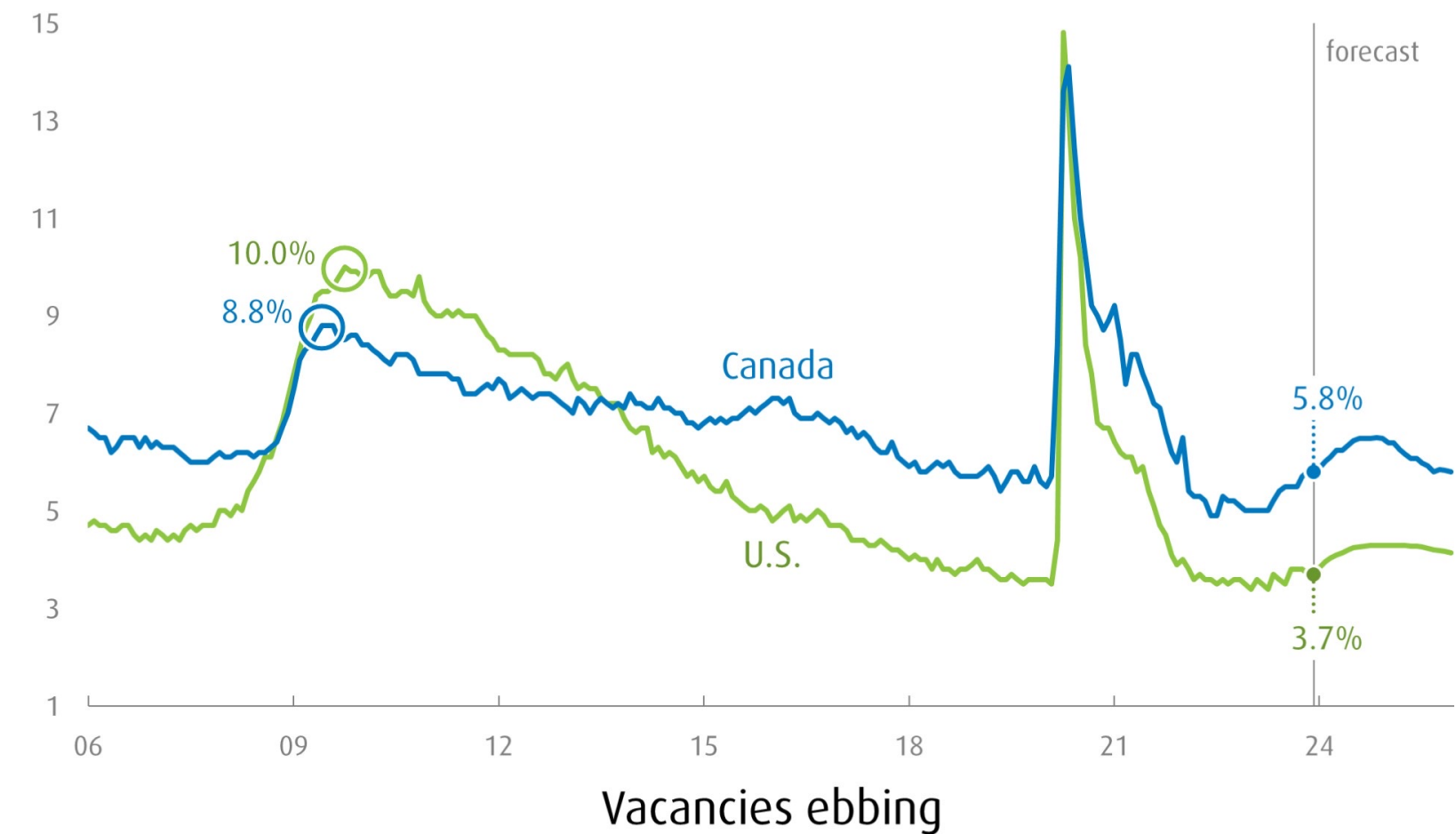
- Excess labour demand
- Savings cushion
- Population growth (Canada)

Reasons for concern:

- Household leverage
- Aggressive tightening cycle
- Lags in monetary policy impact

Job markets to soften

Unemployment rate (percent)



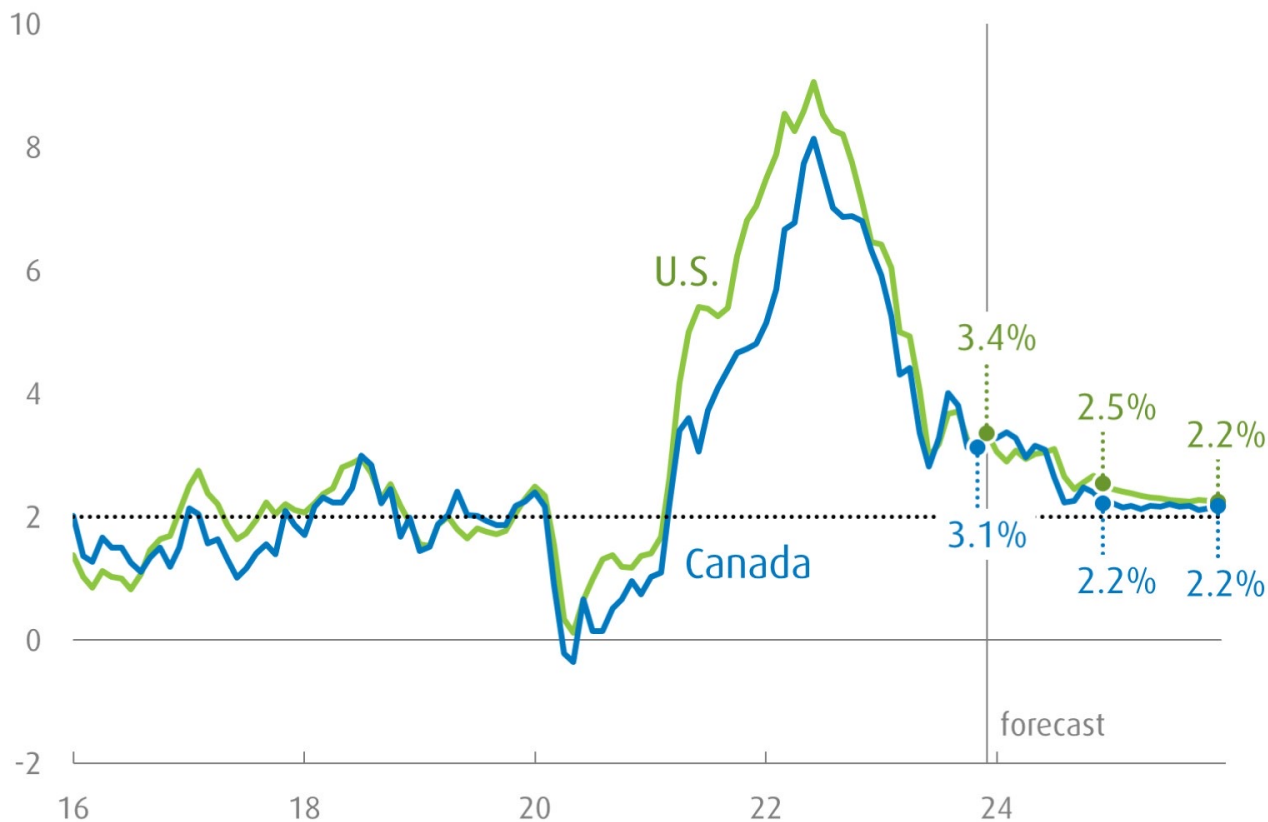
	Current	Pre-COVID ¹
Spain	11.9	13.6
Greece	9.4	16.3
Sweden	7.9	7.8
Italy	7.5	9.5
France	7.3	7.8
Portugal	6.6	6.6
Canada	5.8	5.7
Ireland	4.9	4.8
U.K.	4.3	4.0
Australia	3.9	5.1
U.S.	3.7	3.5
Germany	3.1	3.3
Japan	2.5	2.4

¹ February 2020

Inflation battle ongoing

(y/y % chng)

Consumer price index



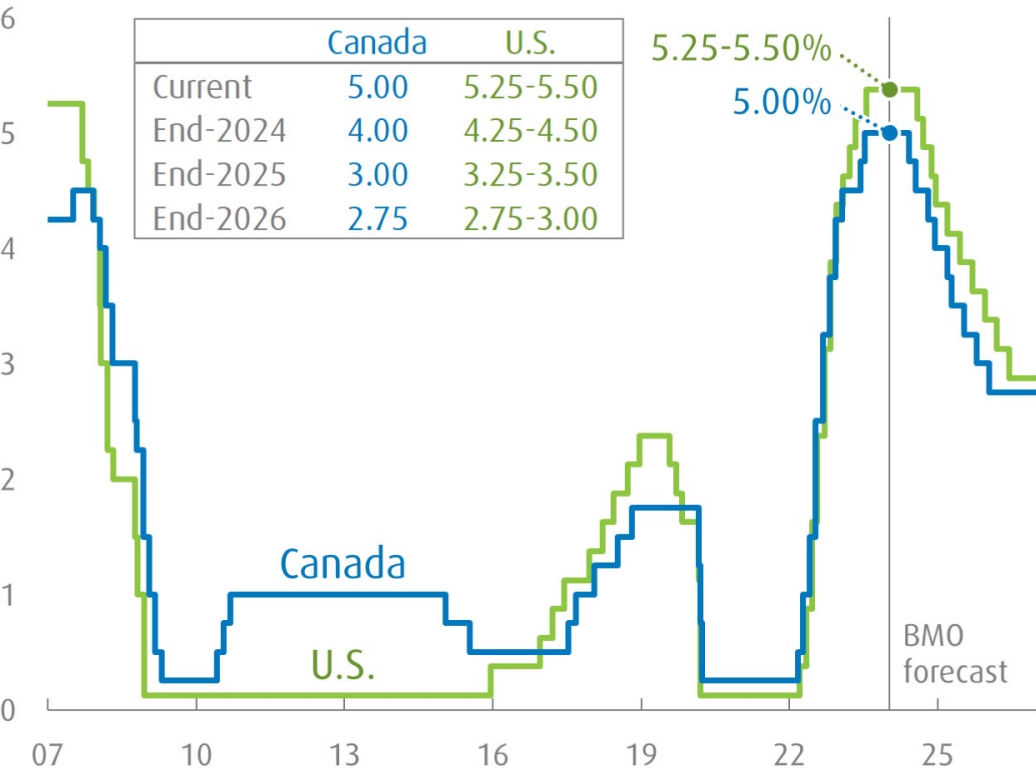
Tracking the progress:

- ✓ Demand for goods
- ✓ Supply-chain snarls
- Housing/asset prices
- Resource and agriculture prices
- Demand for services
- ✗ Wage pressure
- ✗ Psychology

Rate cuts in view

(% : as of January 12, 2024)

Overnight rate



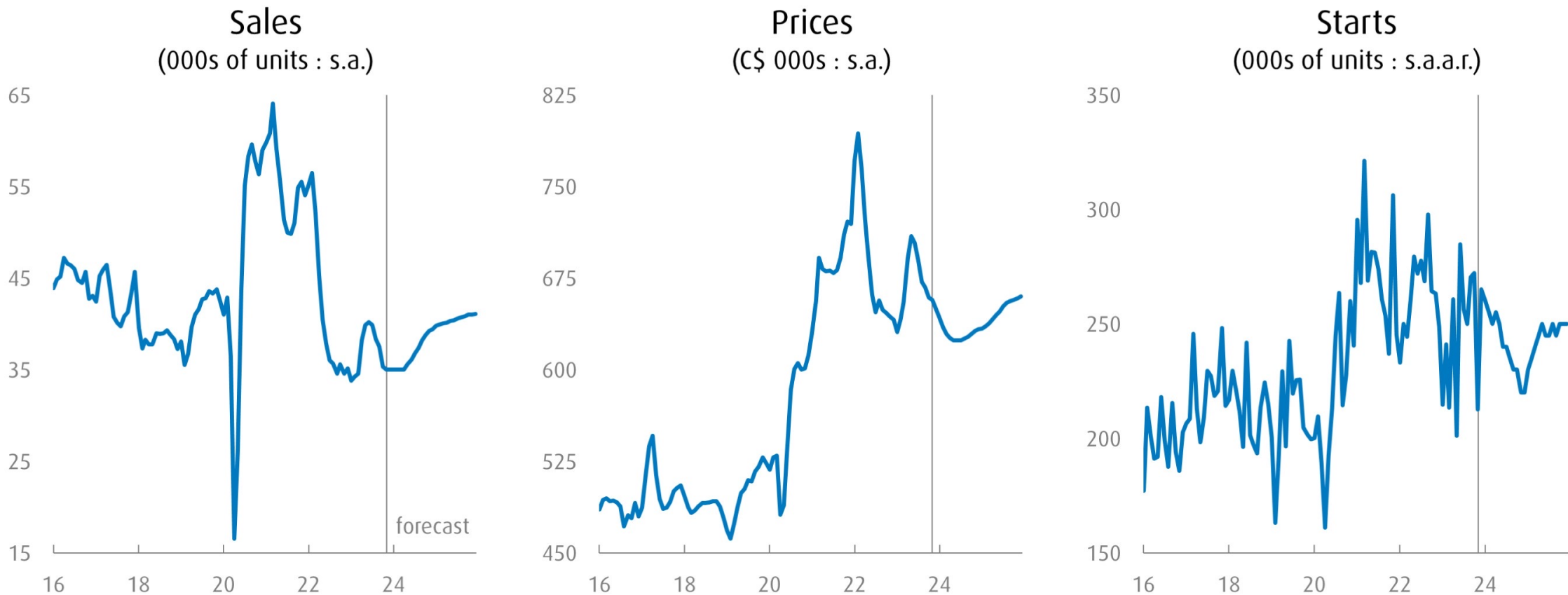
10-year bonds



Neutral rates likely higher than past decade

Housing outlook in a nutshell

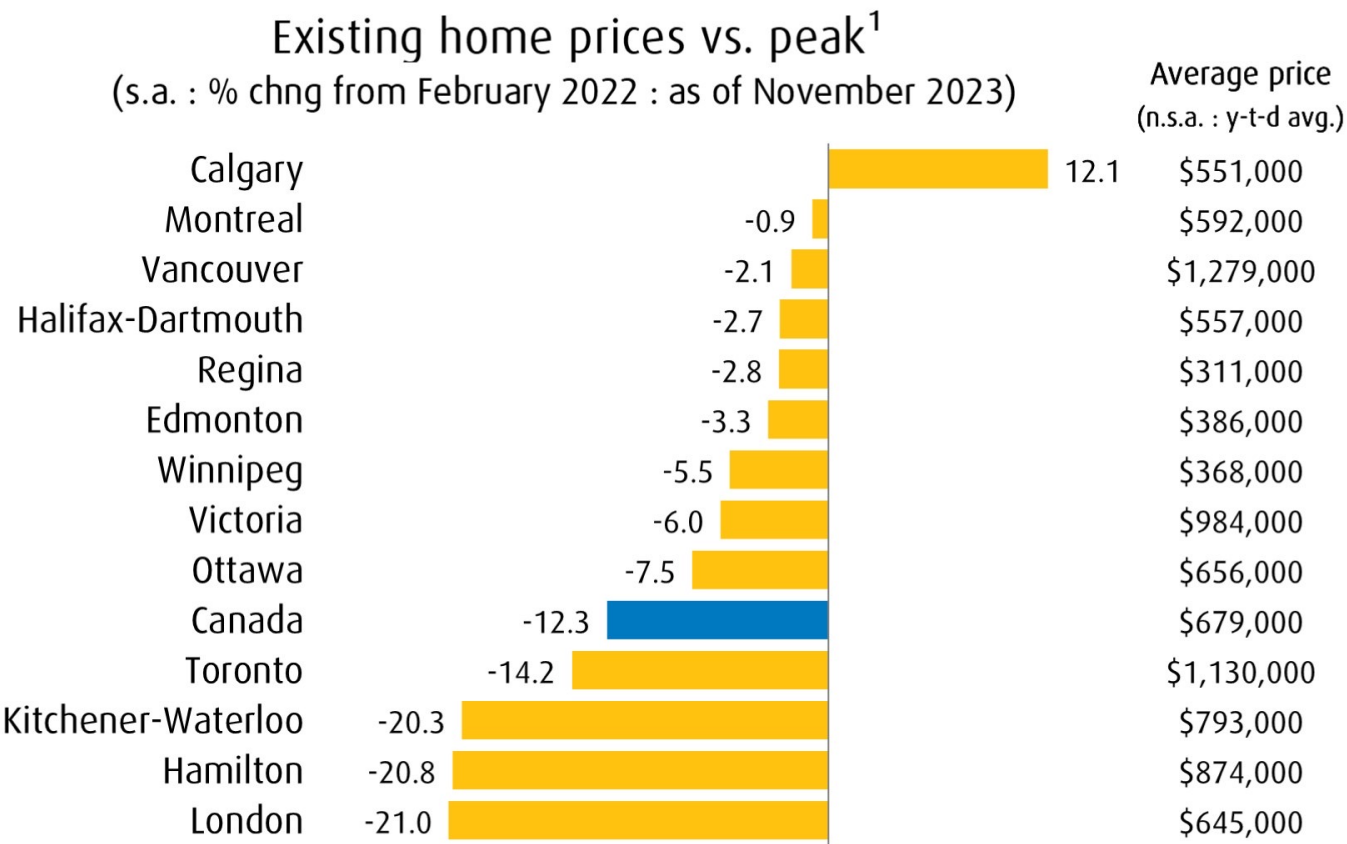
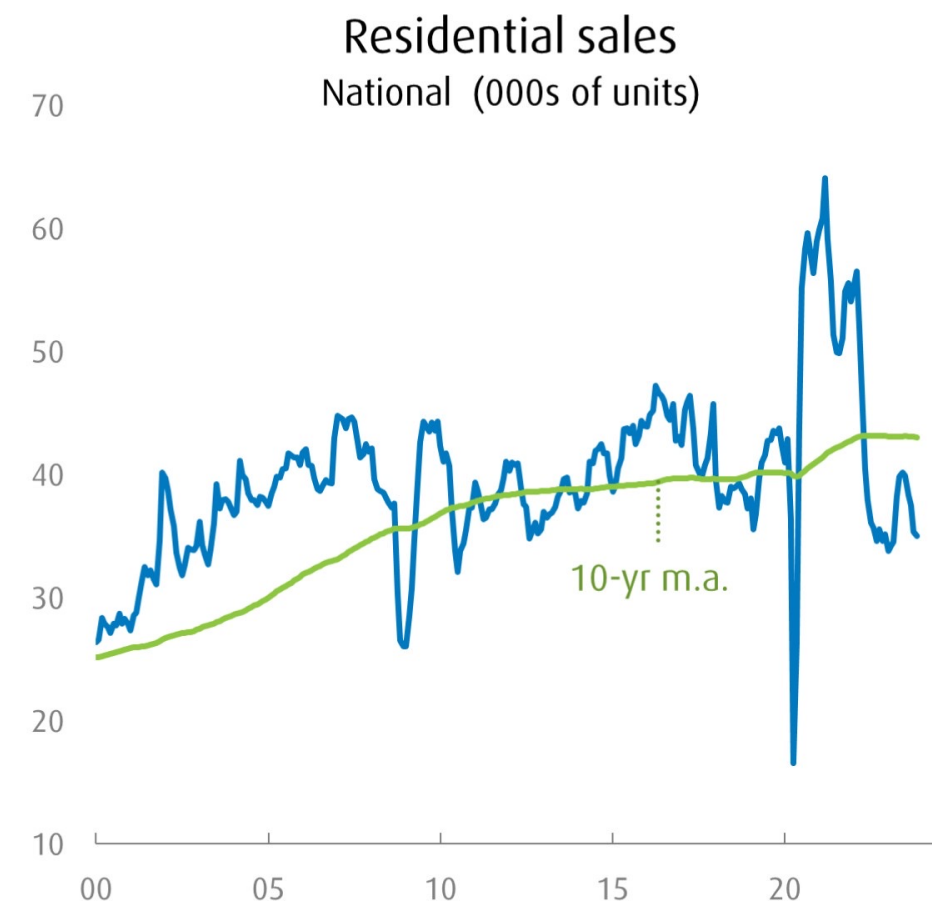
Canada – Housing



BoC pause may not trigger another rally

Demand shock #1: Interest rates and FOMO

Canada – Homes

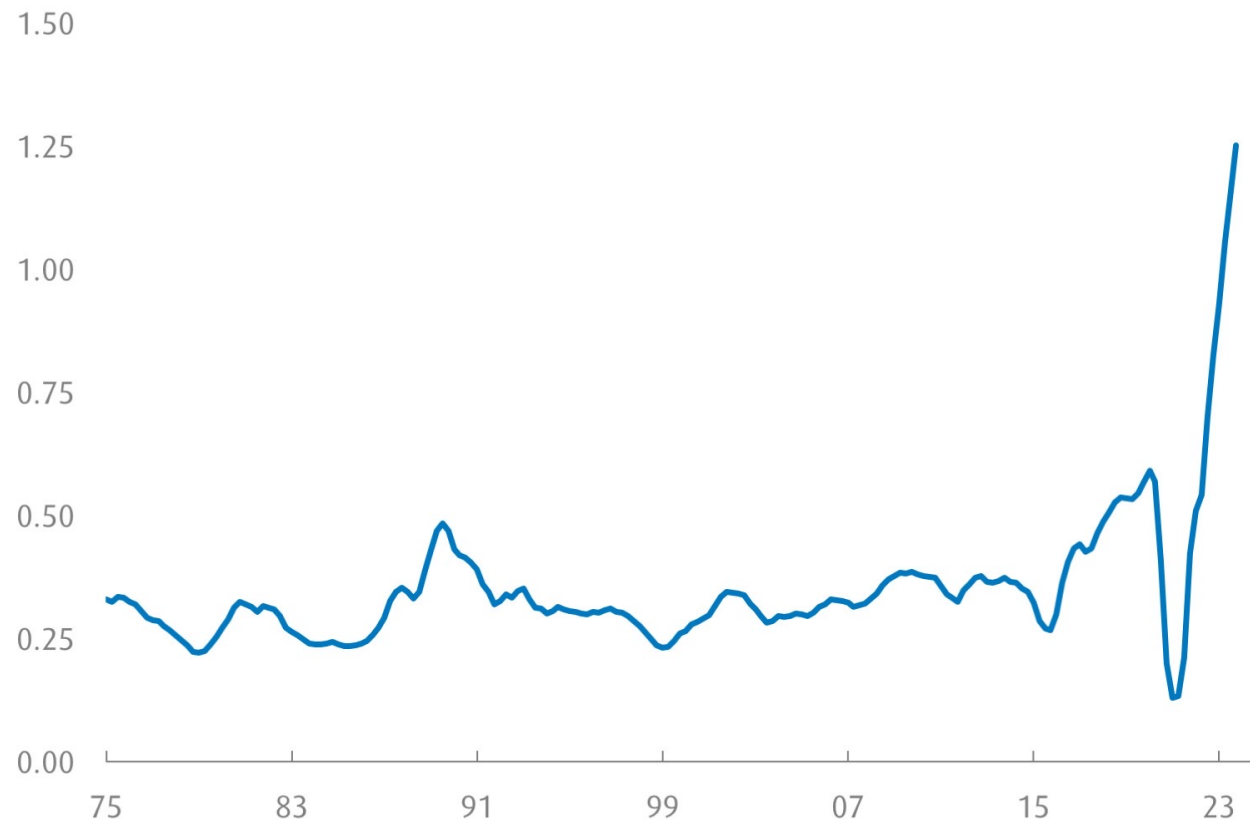


¹ MLS HPI composite benchmark

Demand shock #2: Population

Canada (mlns of persons : y/y chng)

Population



Demographic drivers:

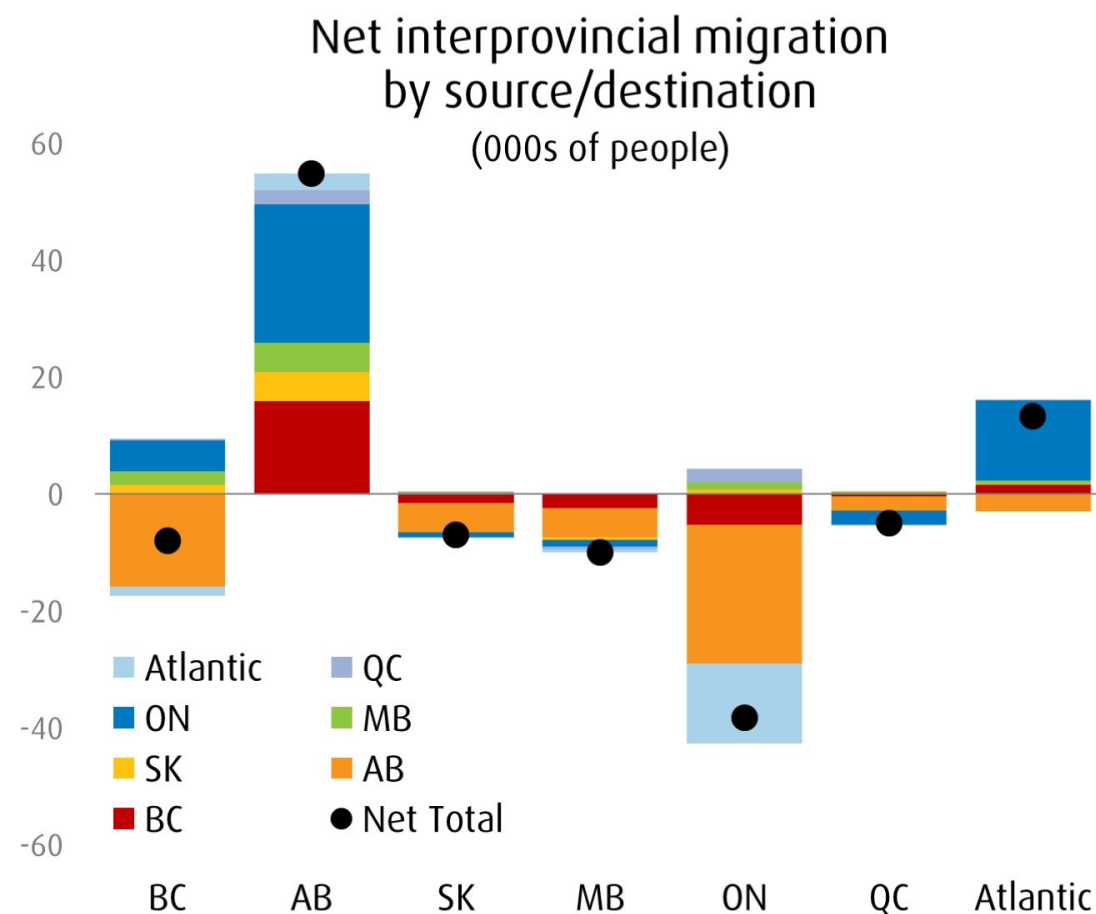
- ✓ Immigration target
- ✓ Nonpermanent residents
- ✓ Millennial aging

Impact felt across Canada

Go West, or East

Canada – Latest available

Contributions to population growth (ppts)				
	International	Interprovincial	Net births	Total ¹
Canada	2.6	0.0	0.1	2.7
B.C.	3.2	0.0	-0.1	3.1
Alberta	2.7	1.0	0.3	4.1
Saskatchewan	3.0	-0.6	0.2	2.6
Manitoba	3.5	-0.6	0.4	3.2
Ontario	3.5	-0.3	0.1	3.3
Quebec	2.1	-0.1	0.0	2.0
Atlantic	2.7	0.8	-0.3	3.3



¹ May not add up due to rounding

Supply isn't the 'solution'

Canada – Homes in all areas¹ (s.a. : 000s of units)



¹ 2023 estimated based on CMA data • ² (4-qtr m.s.)

Do we need more houses?

Millennials creating households

Immigration targets push 500k per year

Nonpermanent residents stress rentals

But...

Record units already under construction

Industry is at full capacity

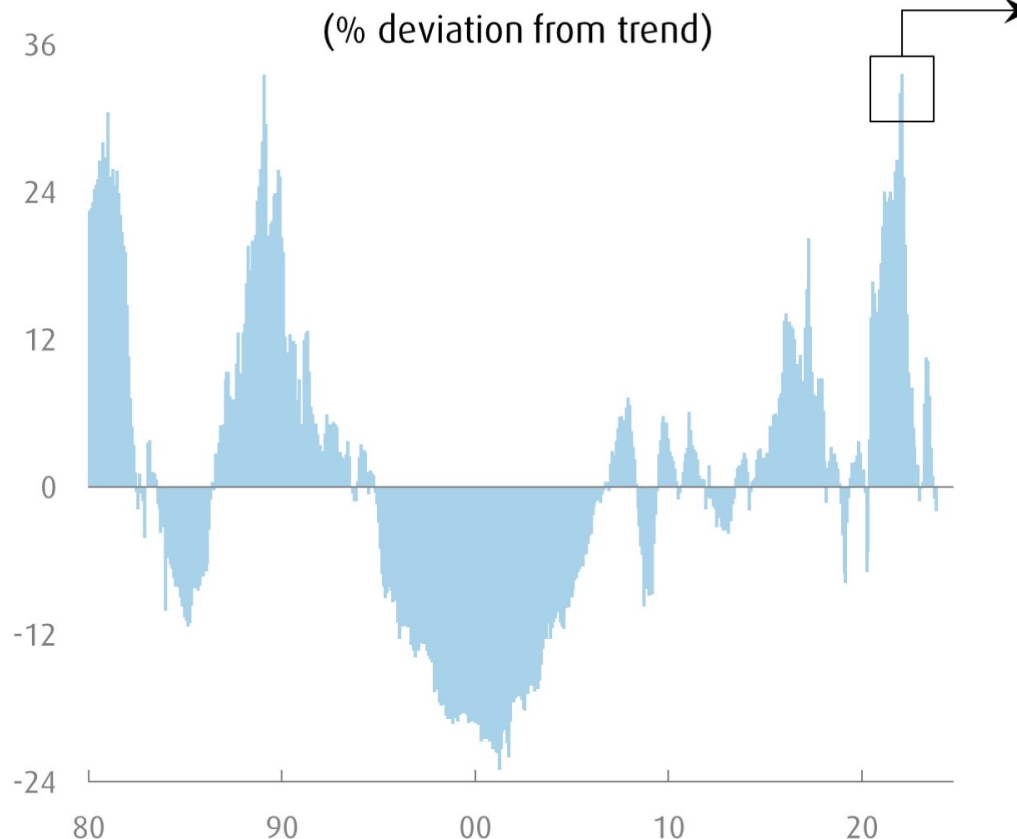
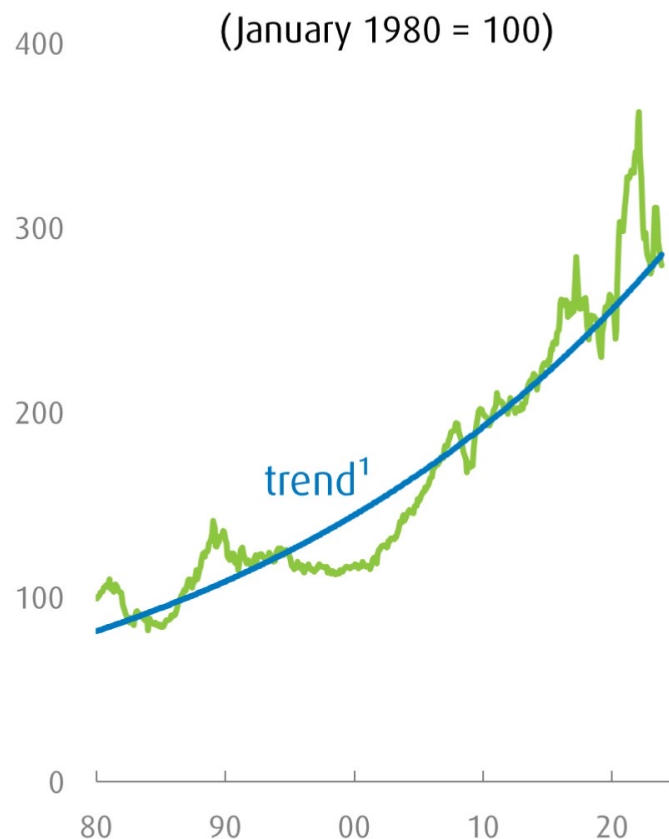
NIMBY

Investor demand has cooled

Ambitious targets can't be met

Cleaning up the real estate froth

Canada – Real home price



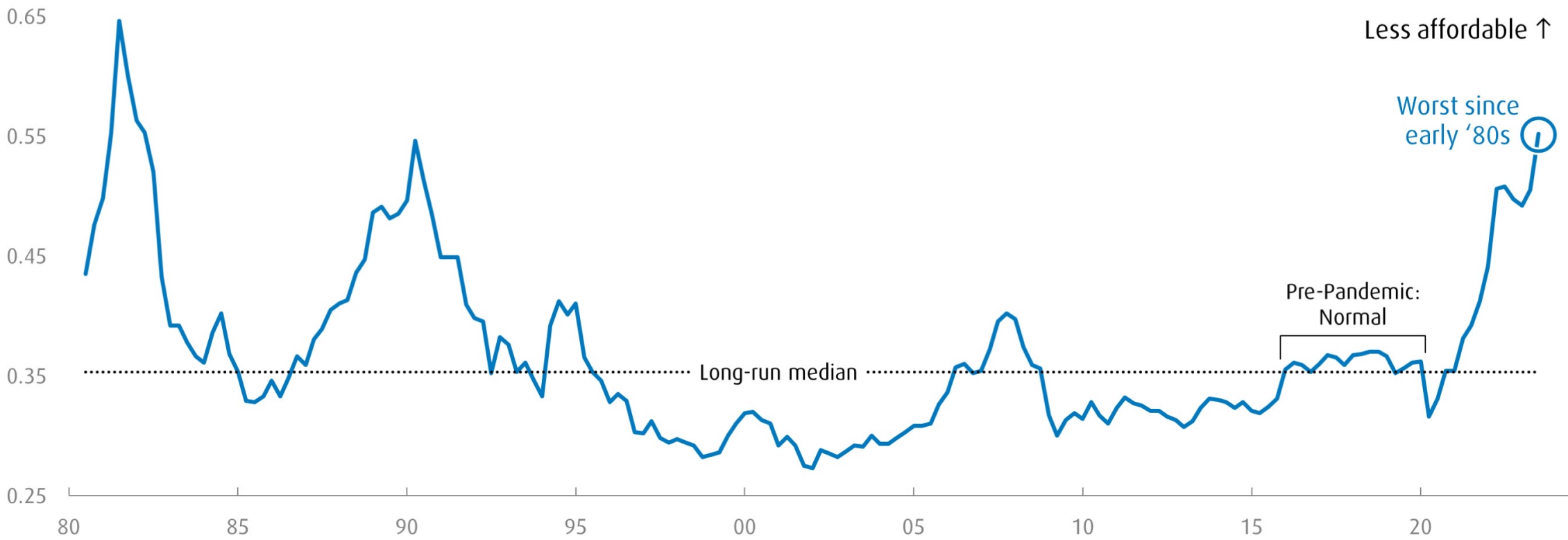
Deviation (%)		
	2022 peak	Latest (Nov. '23)
BC	23.8	-2.7
AB	1.4	-13.1
SK	-2.2	-15.5
MB	15.4	-5.4
ON	54.1	11.3
GTA	47.0	9.1
Exurbs ²	75.4	24.0
Cottage ³	65.1	-2.5
QC	33.5	15.2
Atlantic	24.4	16.7

¹ Exponential growth trend since 1980 • ² Barrie, Guelph, Hamilton, Kitchener-Waterloo, London, Niagara, Orillia, St. Catharines, Windsor • ³ Bancroft, Kawarthas, Muskoka-Haliburton, South Georgian Bay

Affordability still stretched

Canada

Housing 'Un-affordability' Index¹

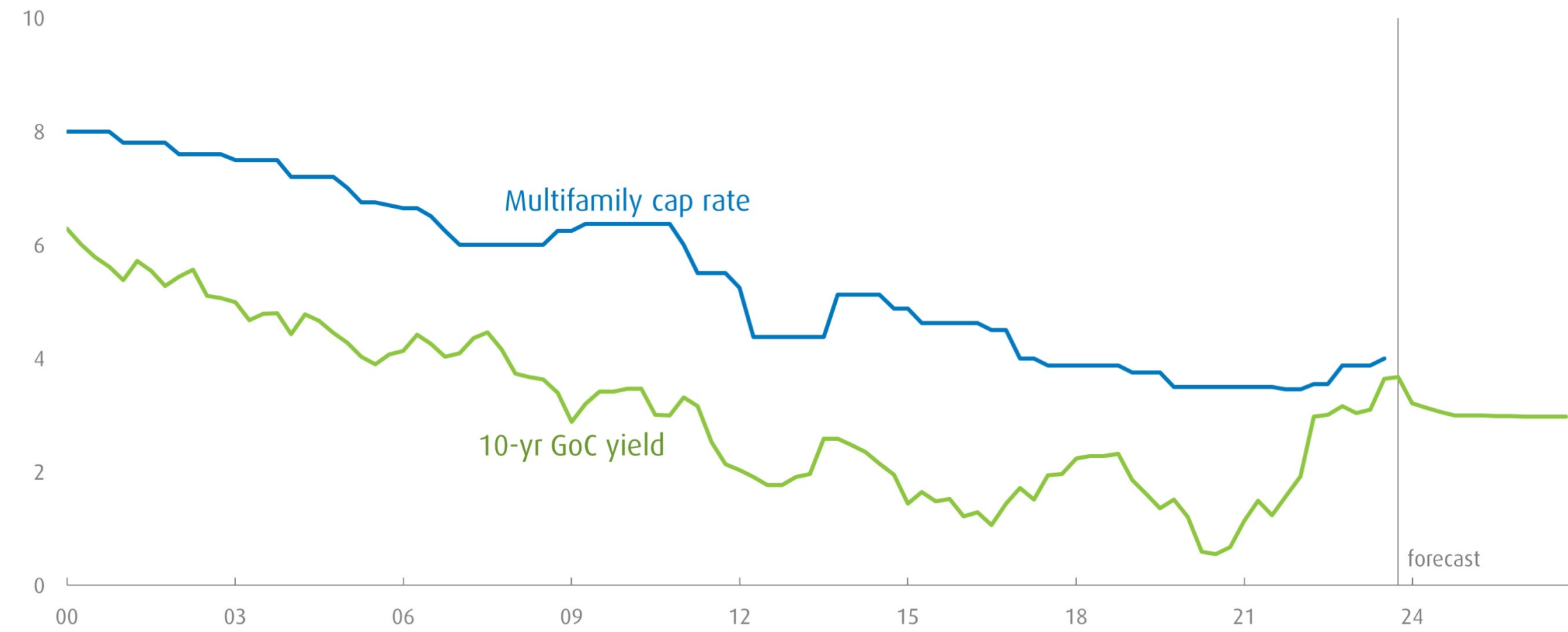


Mortgage service costs far above long-run norm

¹ (share of household disposable income spent on mortgage payments and utility fees)

Investors' assessment

Toronto (percent)



Takeaways



Economy:

Mild contraction/stagnation ongoing

Adjustment to higher interest rates continues

Rates cuts will lend support into 2025

Housing:

Correction continues in many markets

Easing rates could set a floor in 2024

Policymakers: There's a demand curve too!

Real home prices and population growth

1999-2022 (avg. ann. % chng)

Real home price growth vs. population growth

