

# CANADA'S HOUSING CORRECTION IS NOT OVER

---

*Presented to the Manitoba Association  
for Business Economics*

December 13, 2023

Tony Stillo, Director of Canada Economics

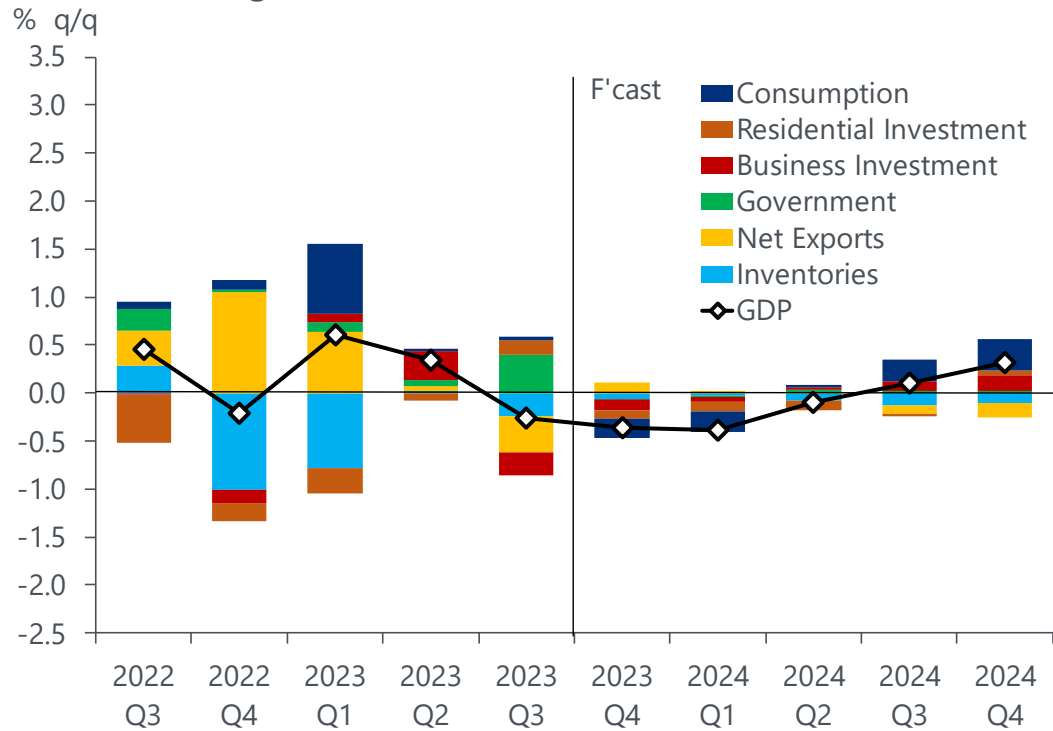


A stylized winter landscape illustration. The background is a light greyish-blue. In the foreground, there are rolling hills in shades of teal and dark blue. Several evergreen trees are scattered across the hills. A small house with a chimney and two windows is situated on a hill in the center. The sky is filled with various snowflake patterns in white and light blue, and several yellow stars of different sizes. A large, bright yellow star in the upper right quadrant has a beam of light extending towards the center. A dark blue rectangular box is positioned on the left side of the image, containing the text 'Canada economic outlook' in white. A thin blue horizontal line is located below the text in the box.

Canada economic outlook

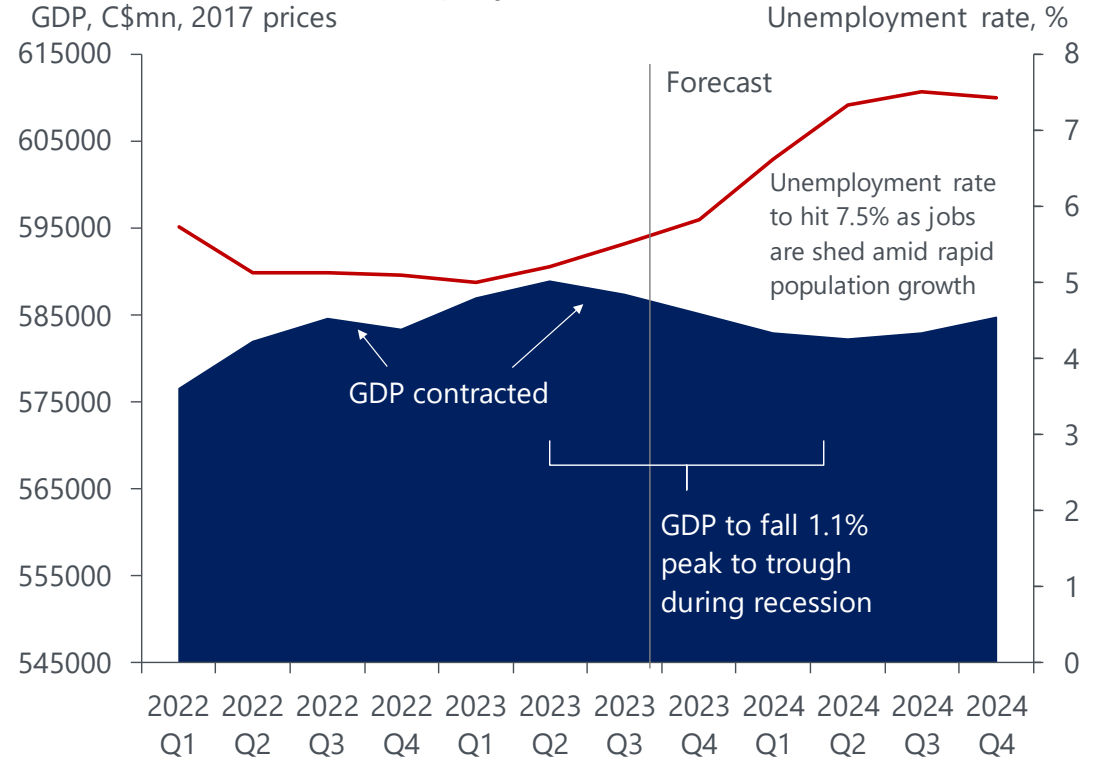
# Moderate recession now underway is expected to deepen

Canada: GDP growth



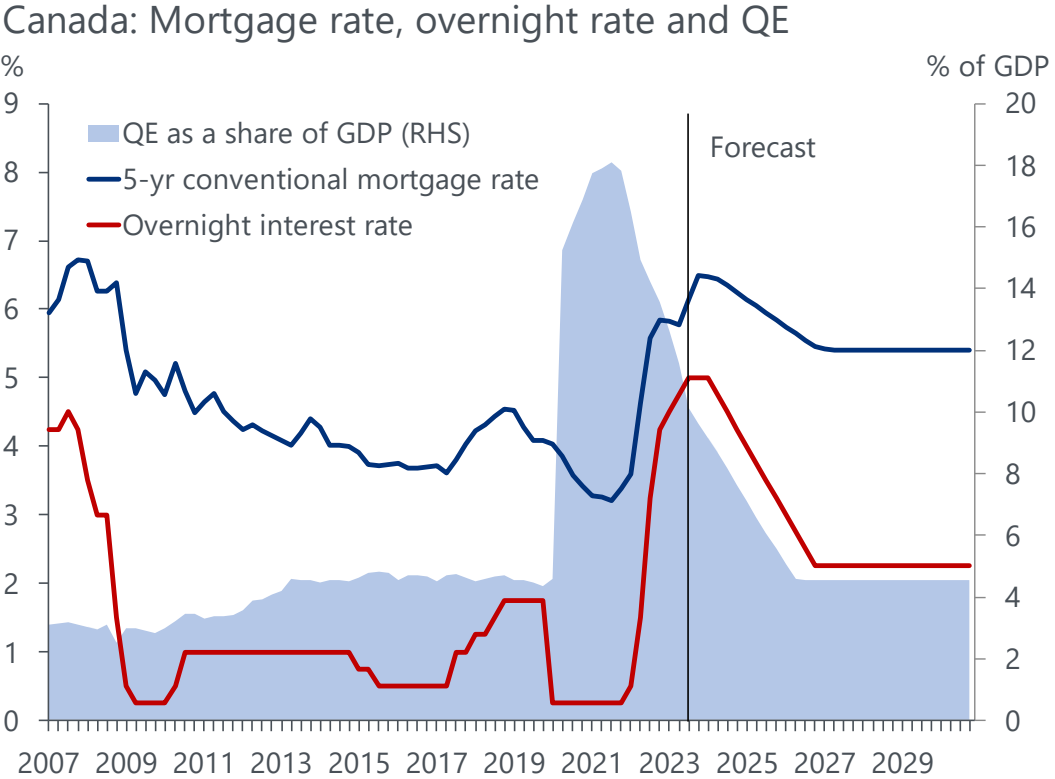
Source: Oxford Economics

Canada: GDP and unemployment rate



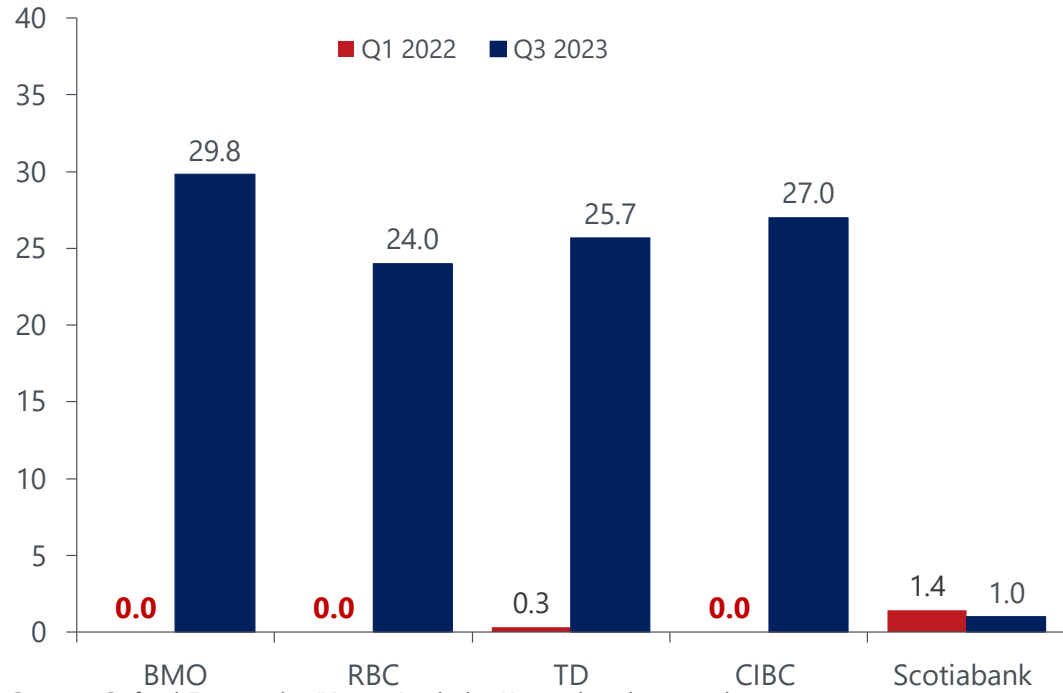
Source: Oxford Economics/Haver Analytics

# Full impact of higher interest rates is coming as refinancings mount



Source: Oxford Economics/ Haver Analytics

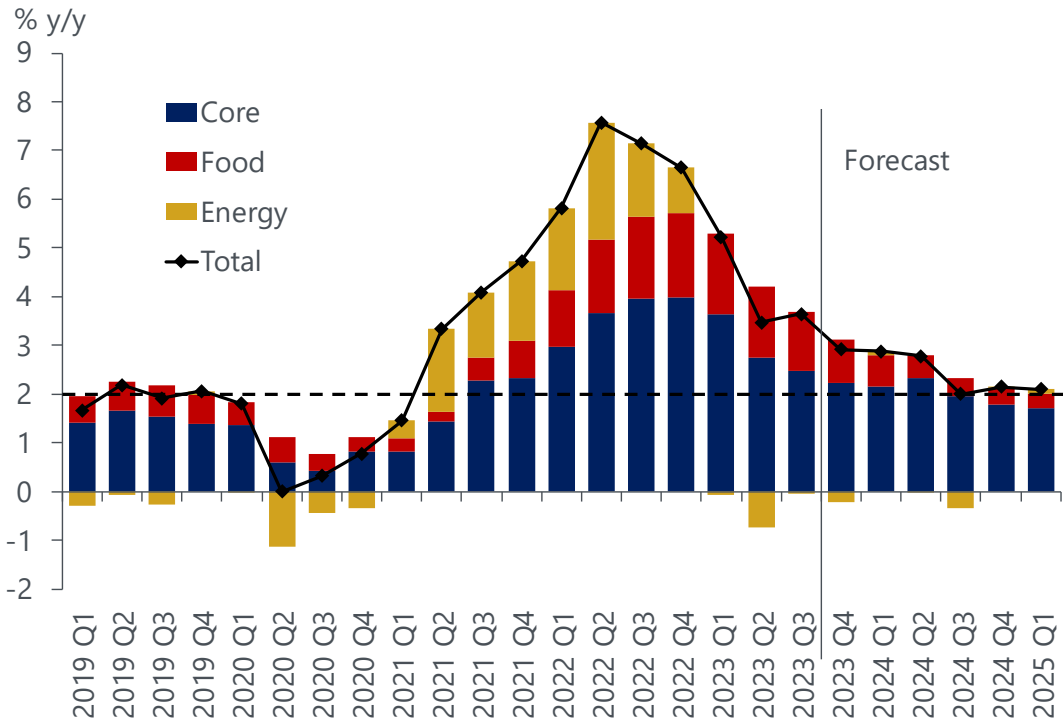
Canada: Residential mortgages by remaining amortization - 30 years and over



Source: Oxford Economics/Haver Analytics/Annual and quarterly reports to shareholders/supplemental financial information.

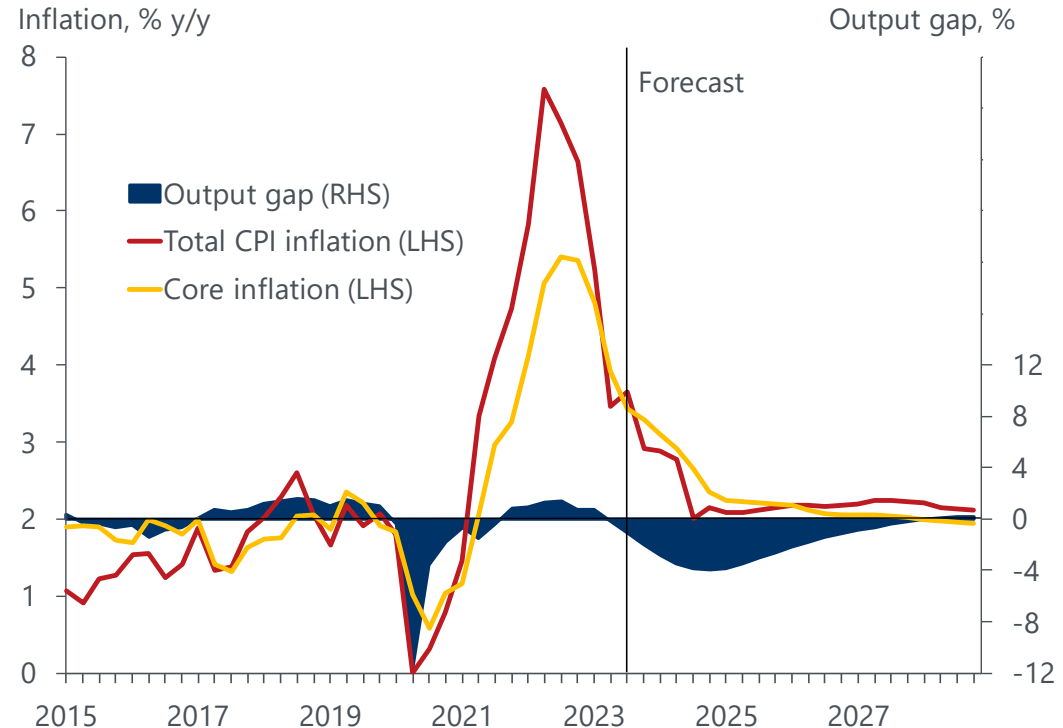
# Recession to help return inflation back to 2% target by late 2024

Canada: CPI inflation



Source: Oxford Economics/Haver Analytics

Canada: CPI inflation and the output gap



Source: Oxford Economics/ Haver Analytics

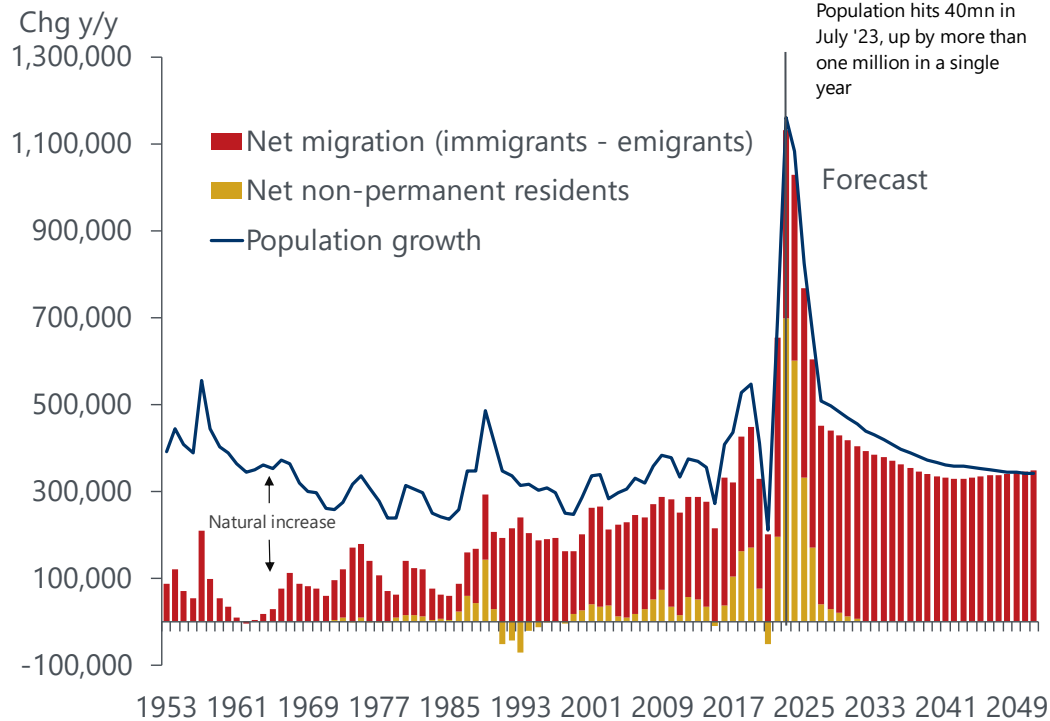




## Canada new population forecast

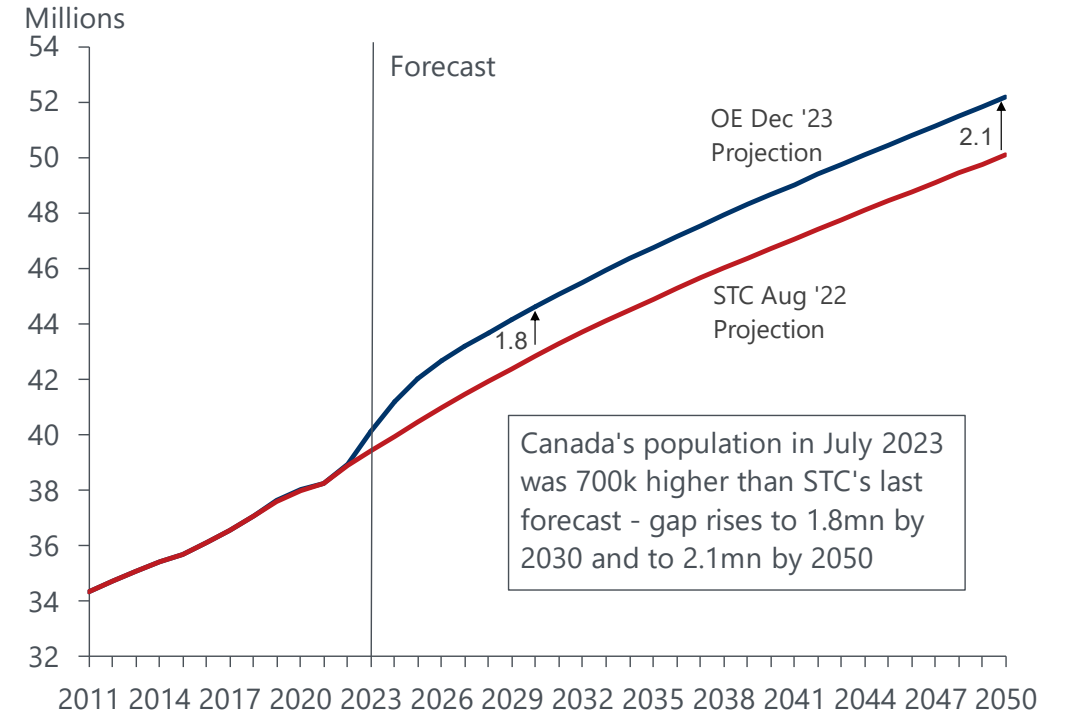
# Population boom will lift the economy, but only over time

Canada: Population annual growth sources\*



Source: Oxford Economics/Haver Analytics \*Figures are as of July 1st each year.

Canada: Population forecast comparison\*

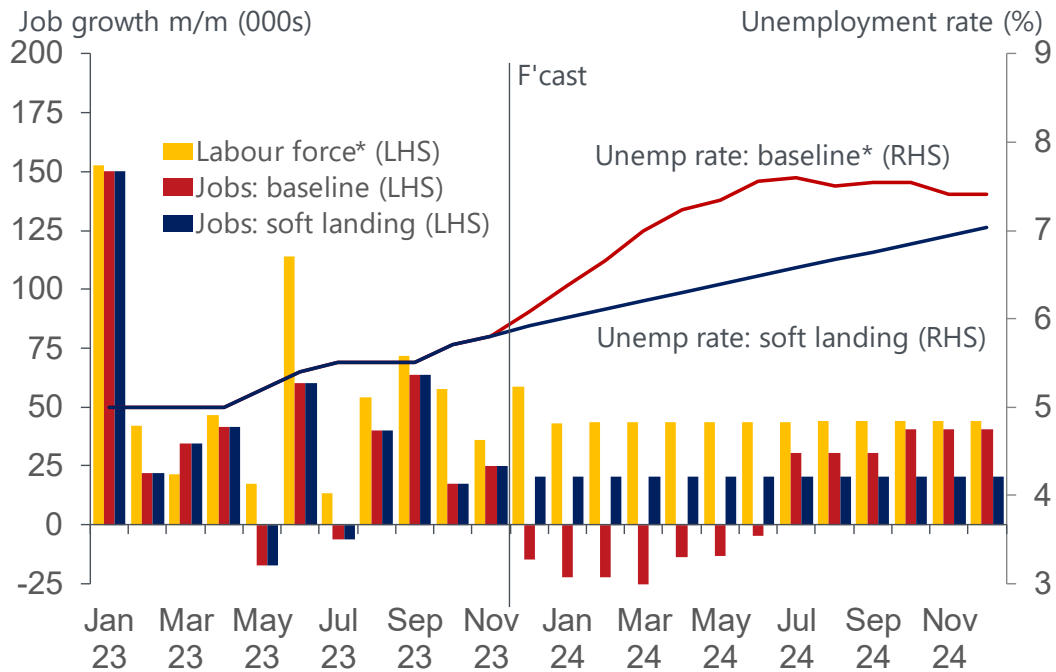


Source: Oxford Economics/Haver Analytics \*Figures are as of July 1st each year

# Larger population initially loosens the labour market

## ...economic boost to occur gradually as newcomers fully settle

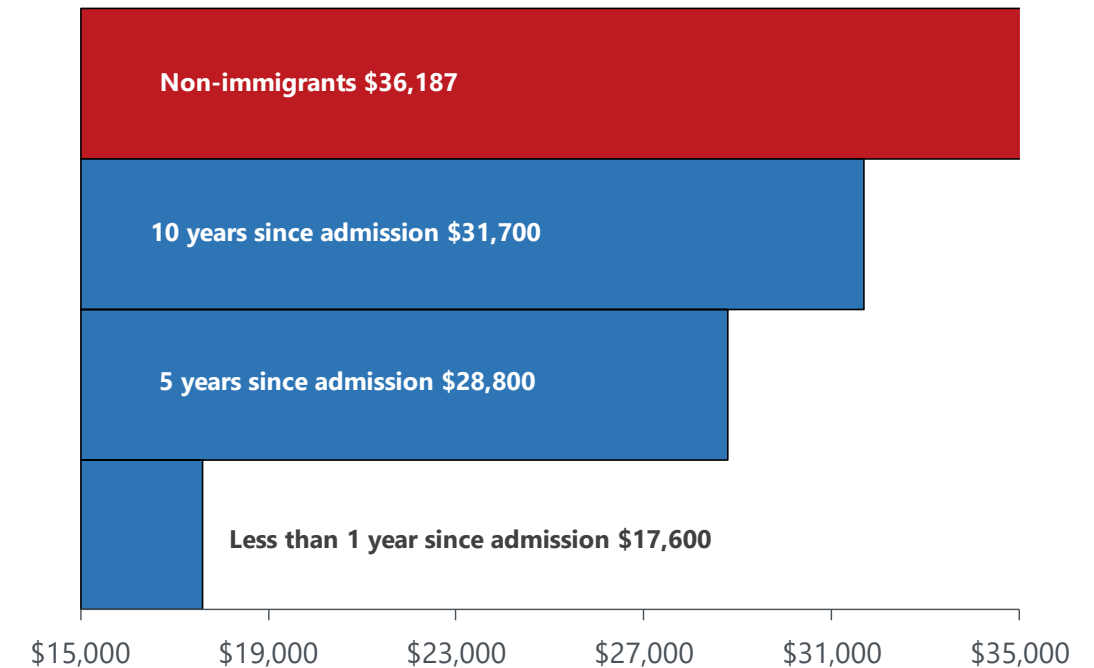
Canada: Labour market baseline vs. soft landing scenario



Source: Oxford Economics/Haver Analytics

\* Participation rate holds steady in soft landing but dips during 2024 in Dec '23 baseline

Canada: Median wages, salaries and commissions of immigrants vs non-immigrants (2016)

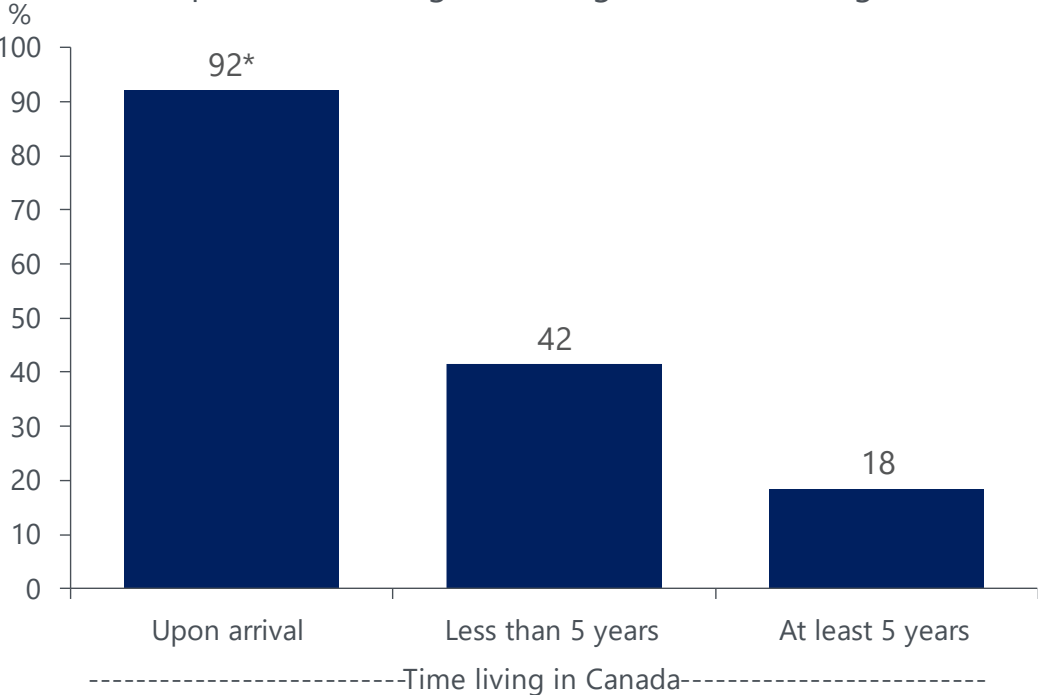


Source: Statistics Canada & 2016 Census



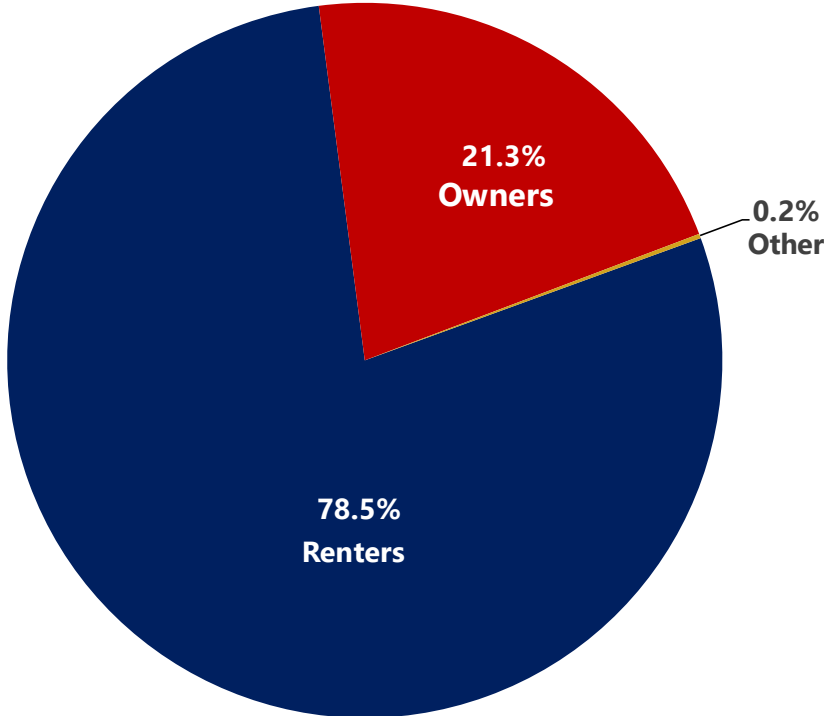
# Most newcomers initially rent, so are likely driving up rental costs due to tight supply

Canada: Proportion of immigrants living in rental housing



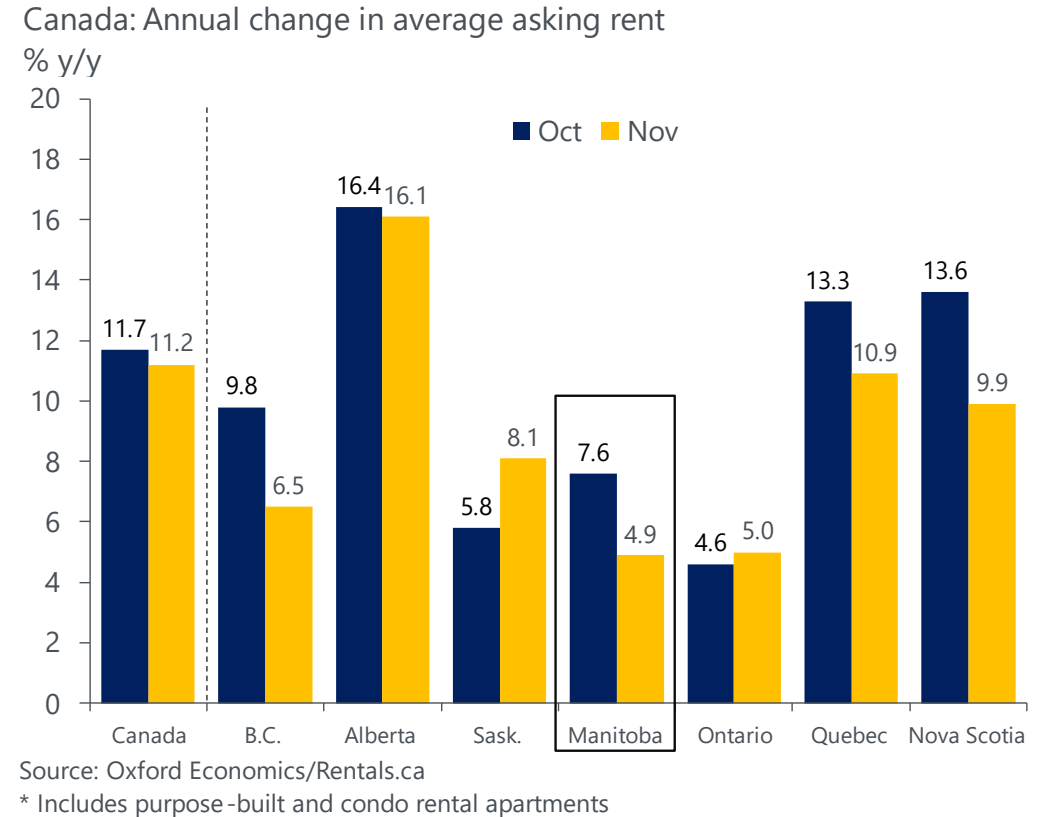
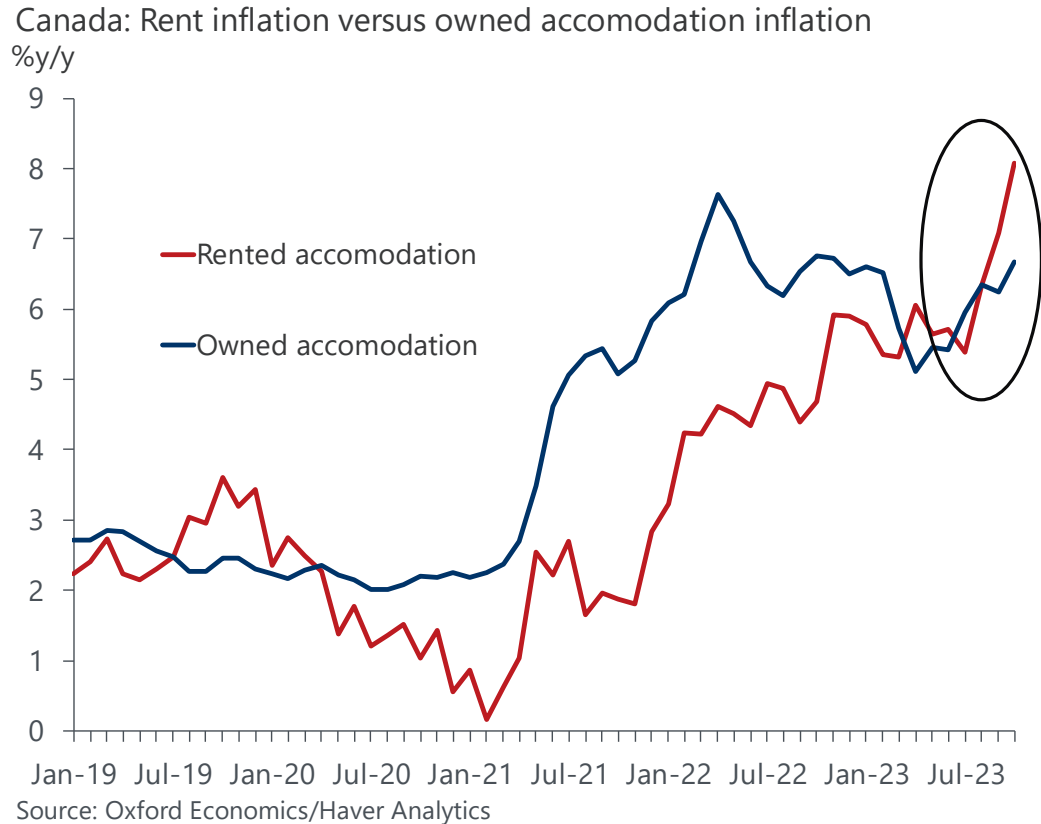
Source: Oxford Economics/Statistics Canada: 2021 Census and\* 2012 Longitudinal Survey of Immigrants to Canada, approximation based on home ownership statistics, may include other living arrangements

Canada: Non-permanent resident dwelling tenure, 2021



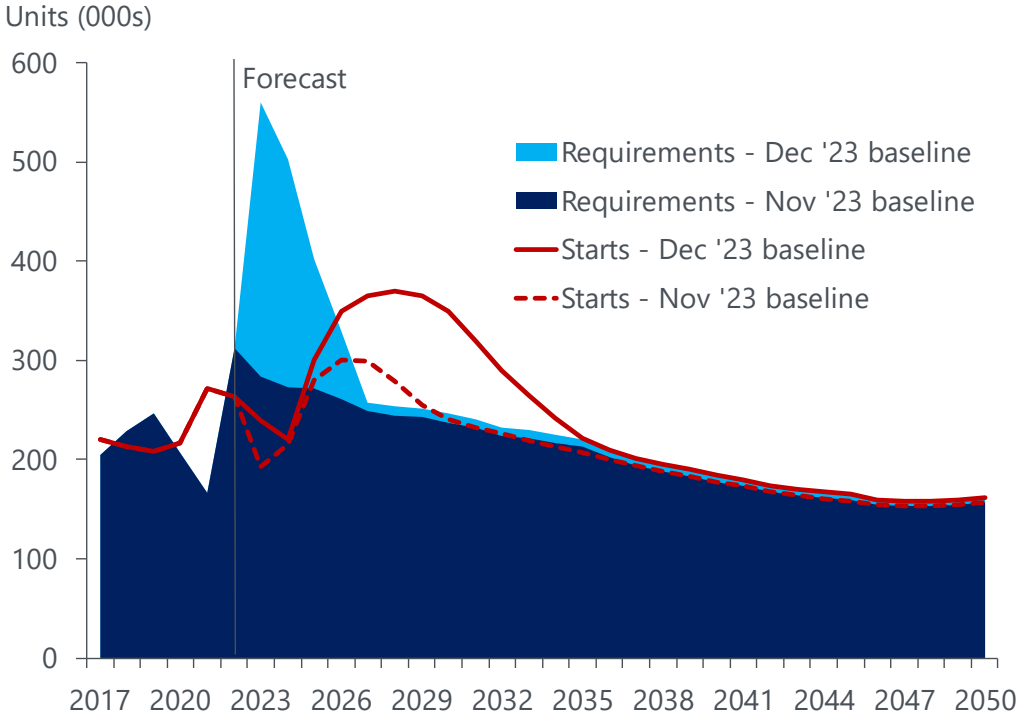
Source: Oxford Economics/Statistics Canada 2021 Census

# Rents continue to rise but at a slowing pace in most markets



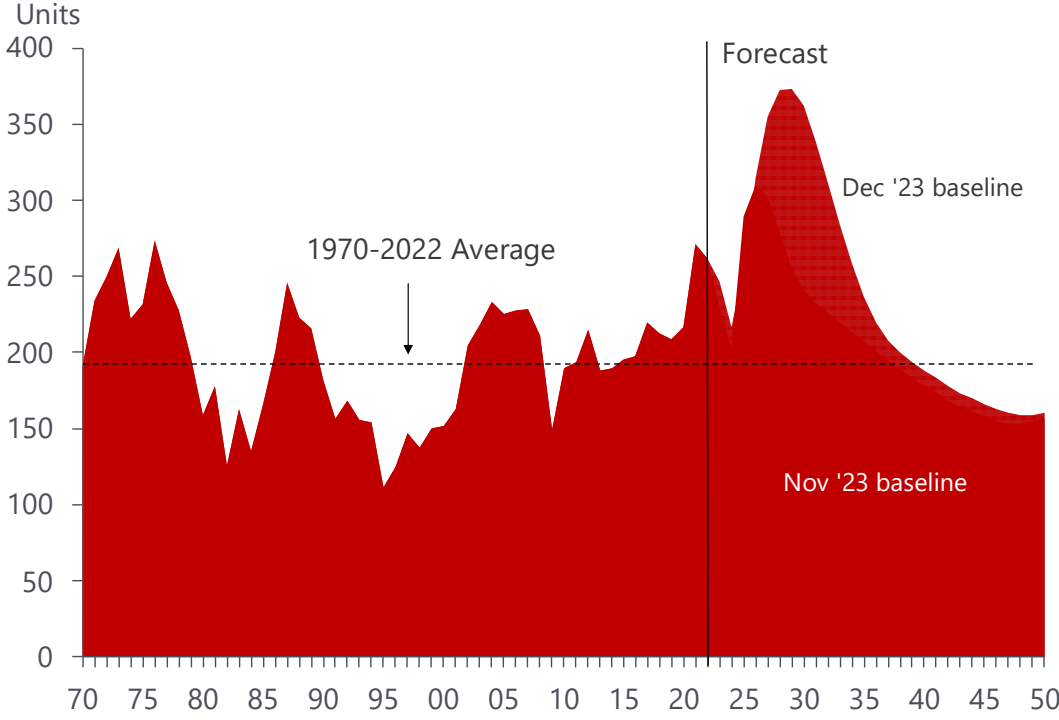
# Home building will take time to ramp up and satisfy the increased housing needs of a larger population

Canada: New housing requirements and housing starts



Source: Oxford Economics/Haver Analytics

Canada: Housing Starts



Source: Oxford Economics/Haver Analytics

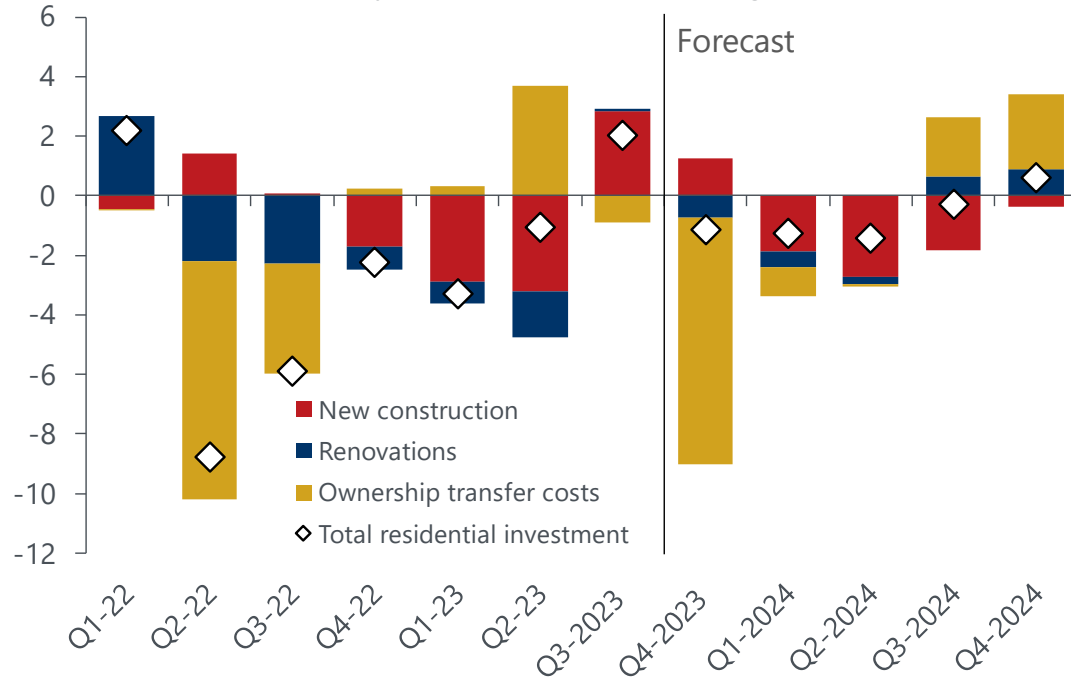


## Canada housing outlook

# Residential investment downturn to continue into 2024

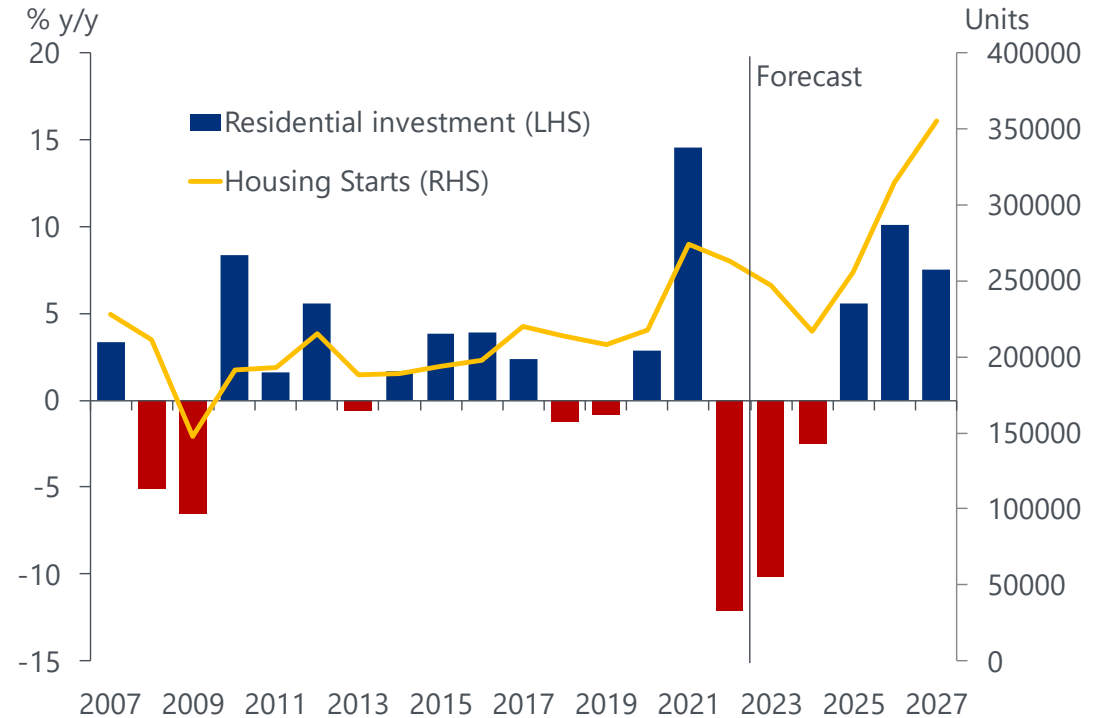
Canada: Contributors to residential investment growth

ppt contribution to quarterly real residential investment growth



Source: Oxford Economics/Haver Analytics

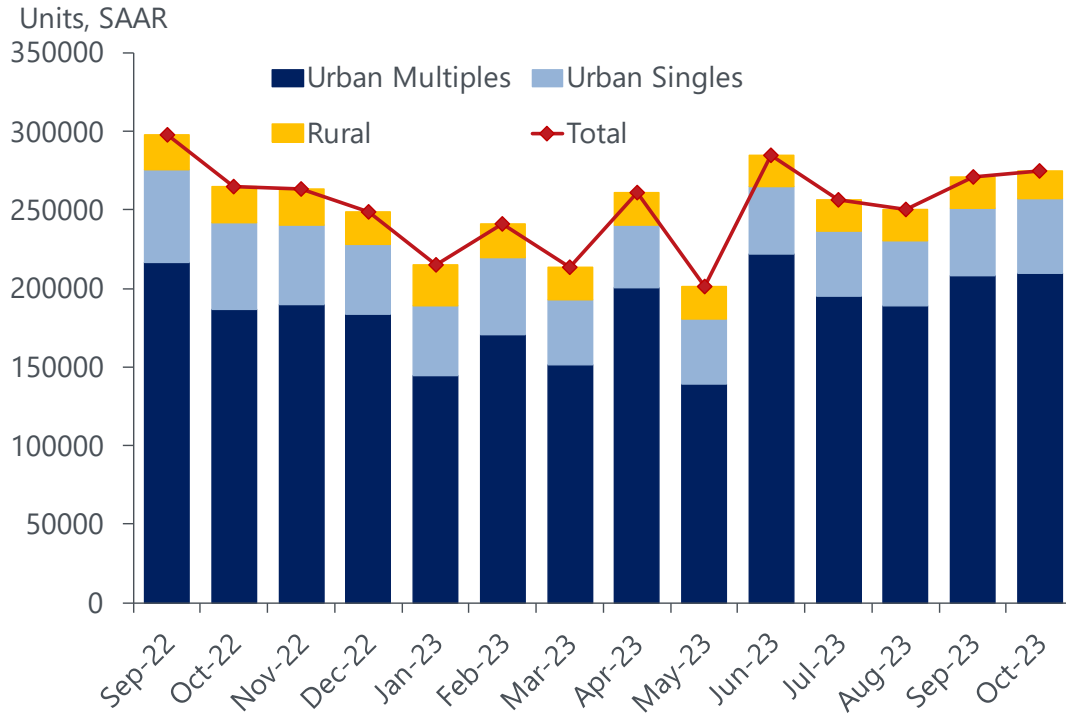
Canada: Residential investment and housing starts



Source: Oxford Economics/Haver Analytics

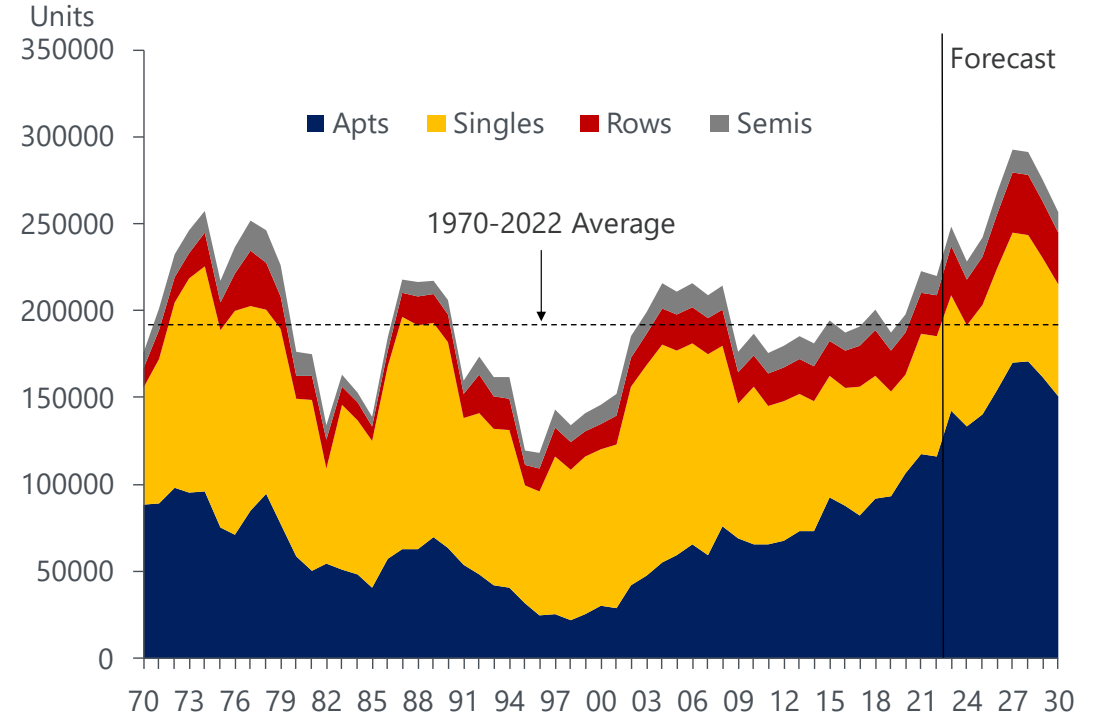
# Home building expected to weaken as recession deepens before picking up strongly in the medium term

Canada: Housing starts by type and geography



Source: Oxford Economics/Haver Analytics

Canada: Housing Completions

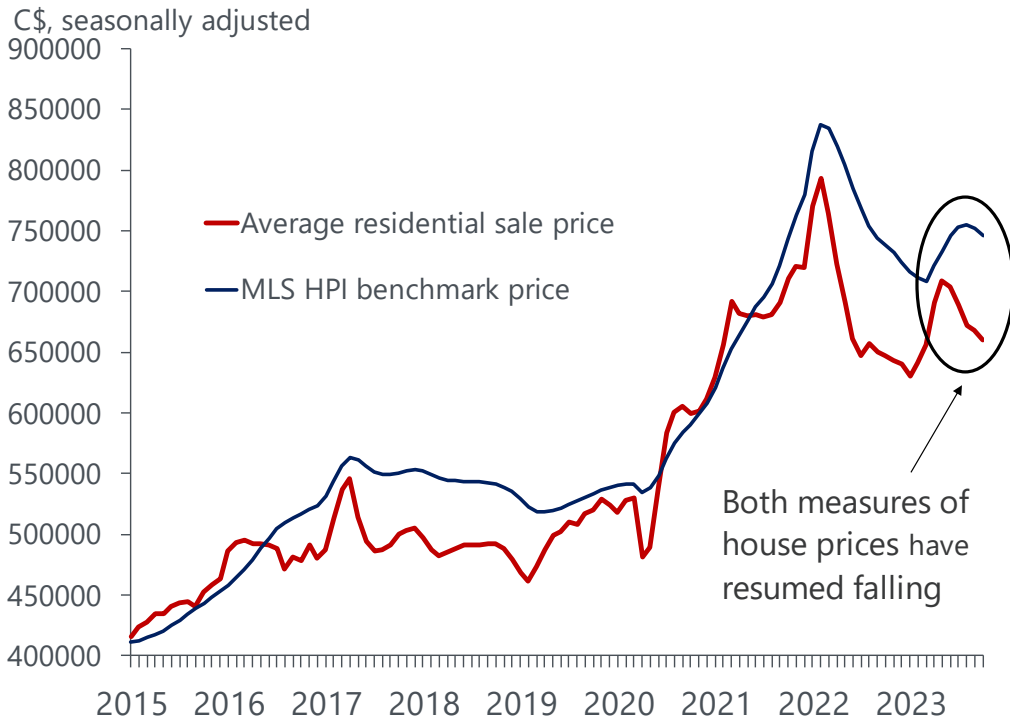


Source: Oxford Economics/Haver Analytics



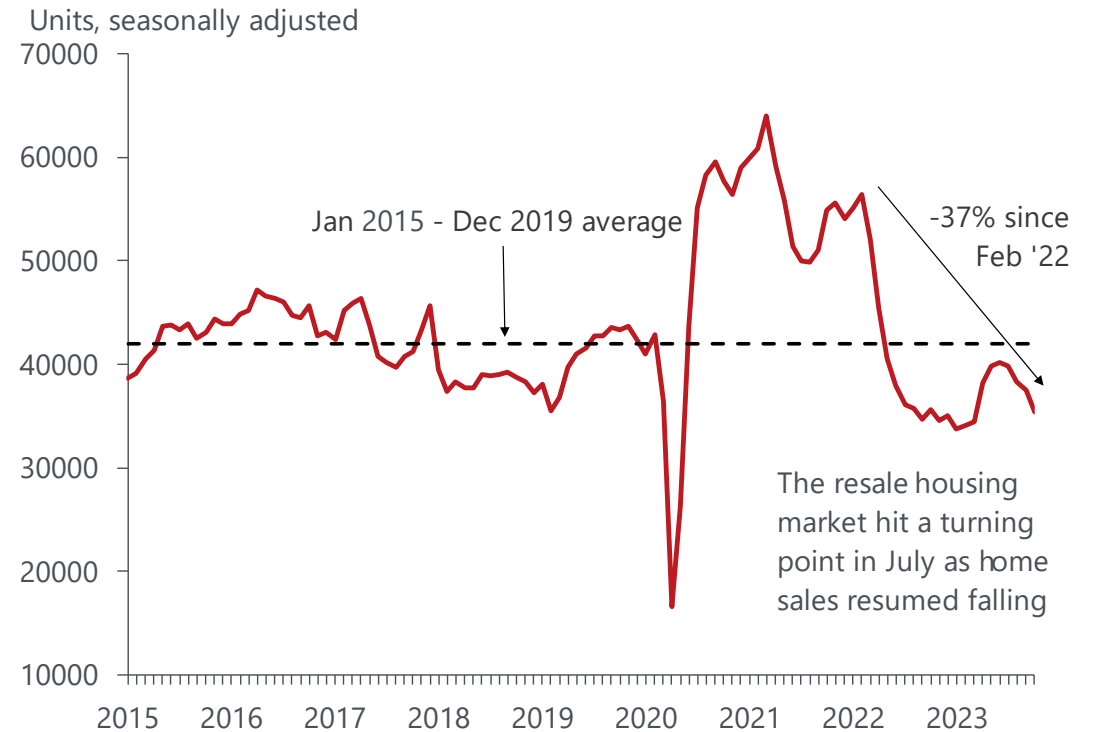
# Resale housing correction resumed after a brief spring revival

Canada: Monthly house prices



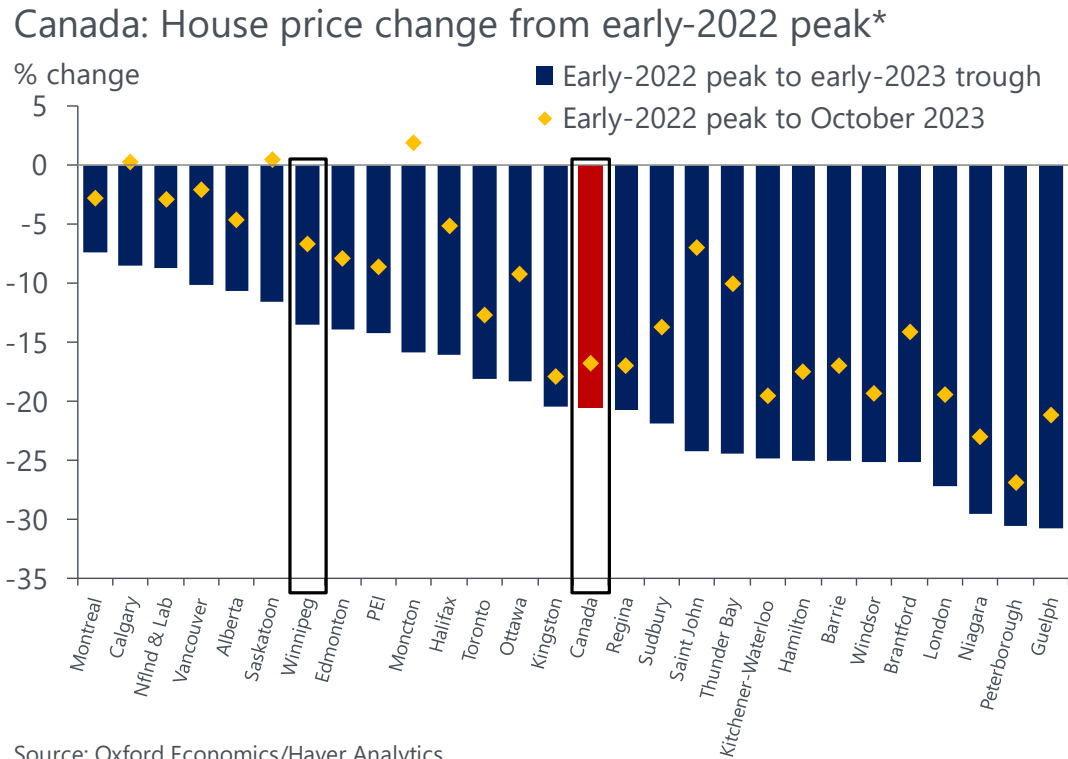
Source: Oxford Economics/Haver Analytics

Canada: Residential unit sales

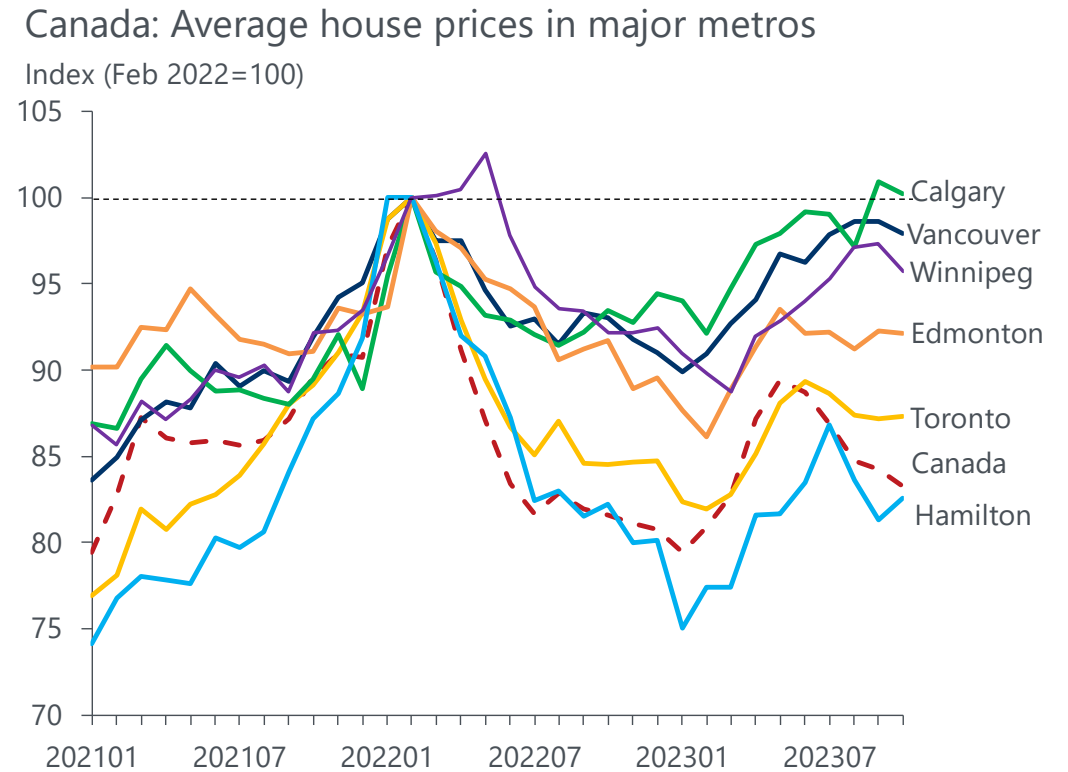


Source: Oxford Economics/Haver Analytics

# House prices remain below early 2022 peaks in most metros



Source: Oxford Economics/Haver Analytics  
 \*CREA average house price. Montreal and Quebec City are CREA benchmark house prices due to data availability. Peak and trough period varies by metro.

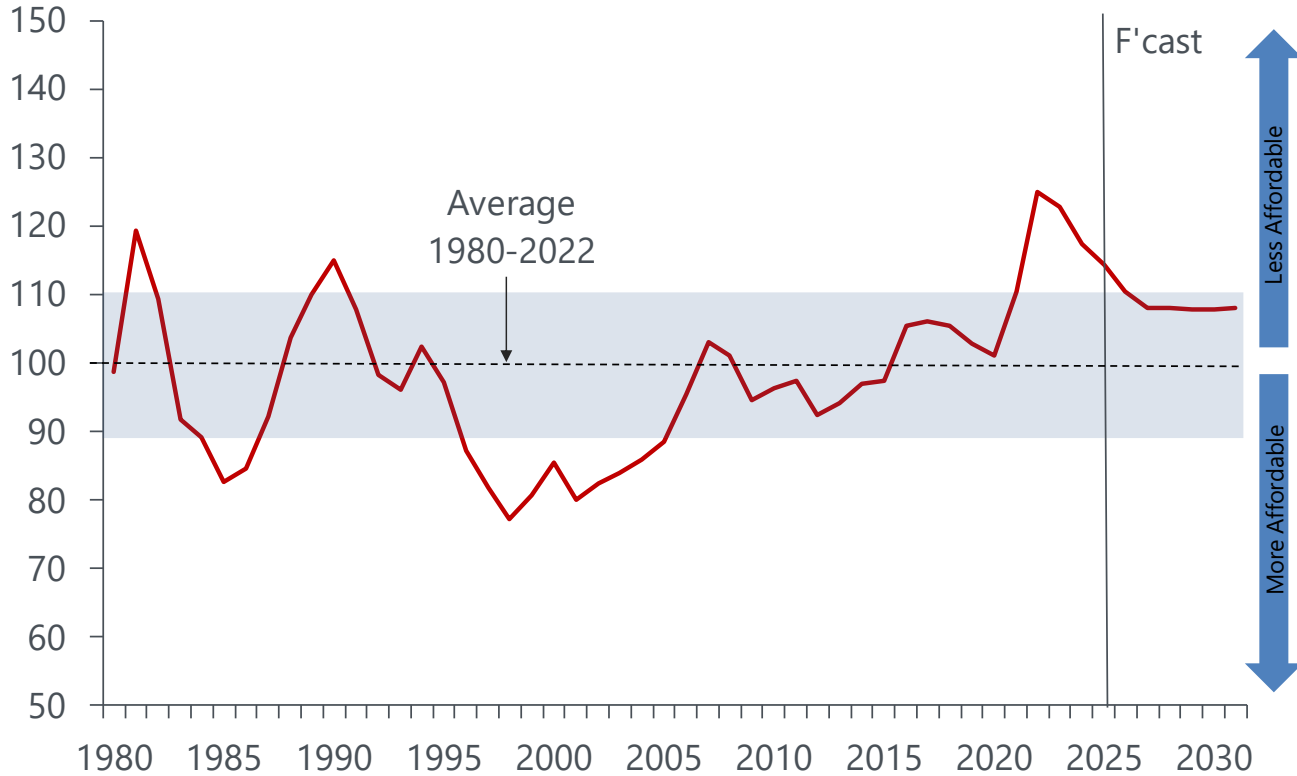


Source: Oxford Economics/Haver Analytics

# Our housing affordability index suggests prices have further to fall

## Housing Affordability Index (HAI): Canada

HAI (90 to 110 is affordable range)\*

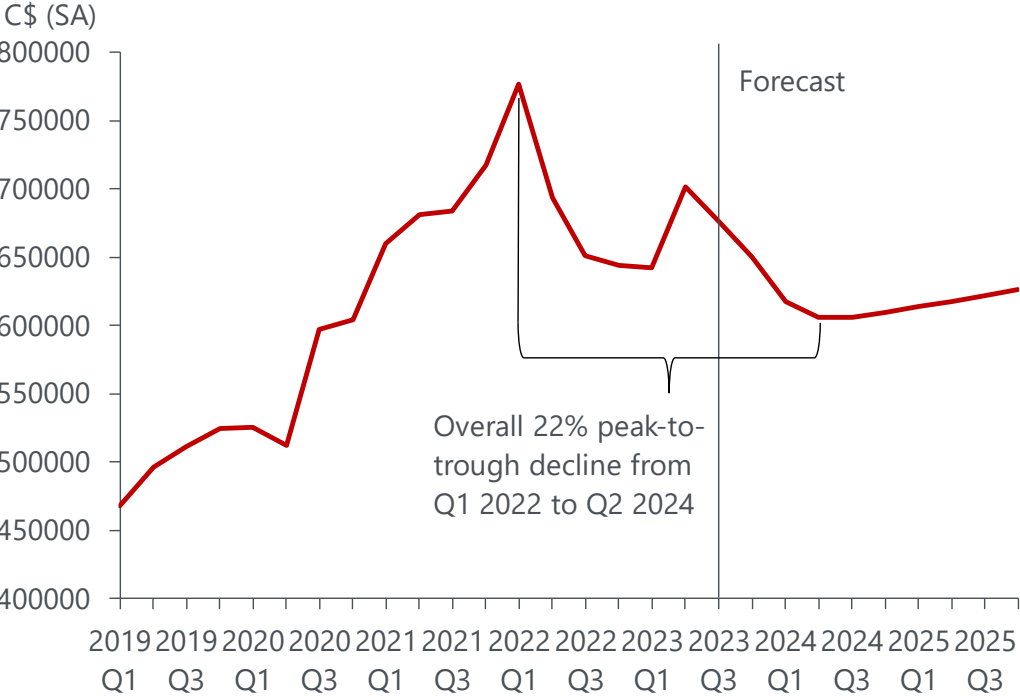


Source: Oxford Economics/Haver Analytics

\* CREA average house prices, median household income, 10%, 20% & 30% downpayments, 39% gross debt service ratio, 5-year mortgage rate and 25-year amortization period

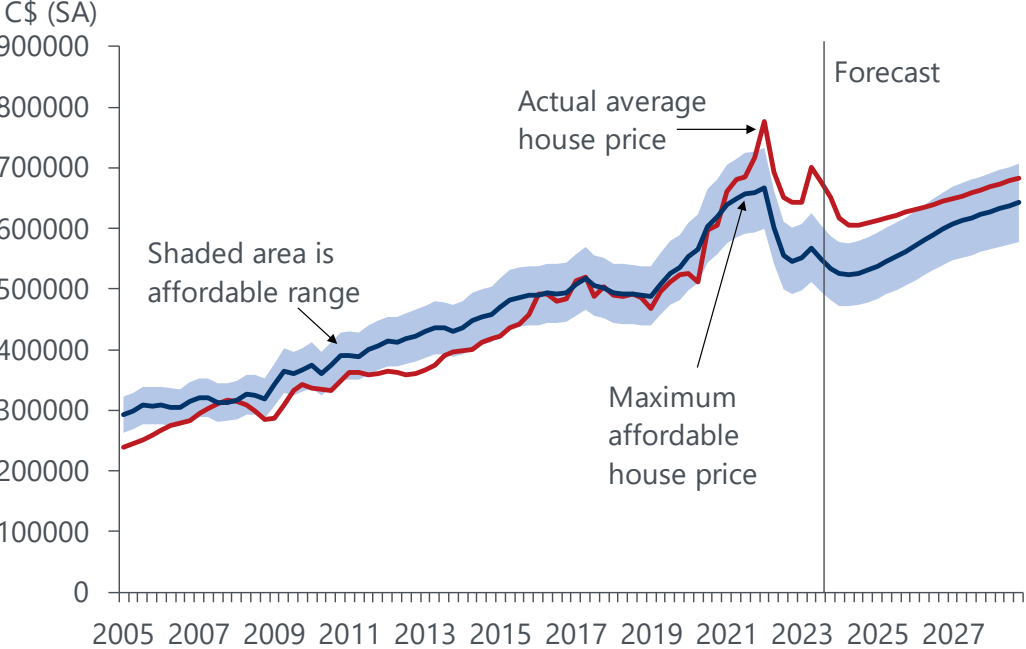
# House price correction is not over...deepening recession, high mortgage rates and record unaffordability will push prices lower

Canada: Average Residential Sale Price



Source: Oxford Economics/Haver Analytics

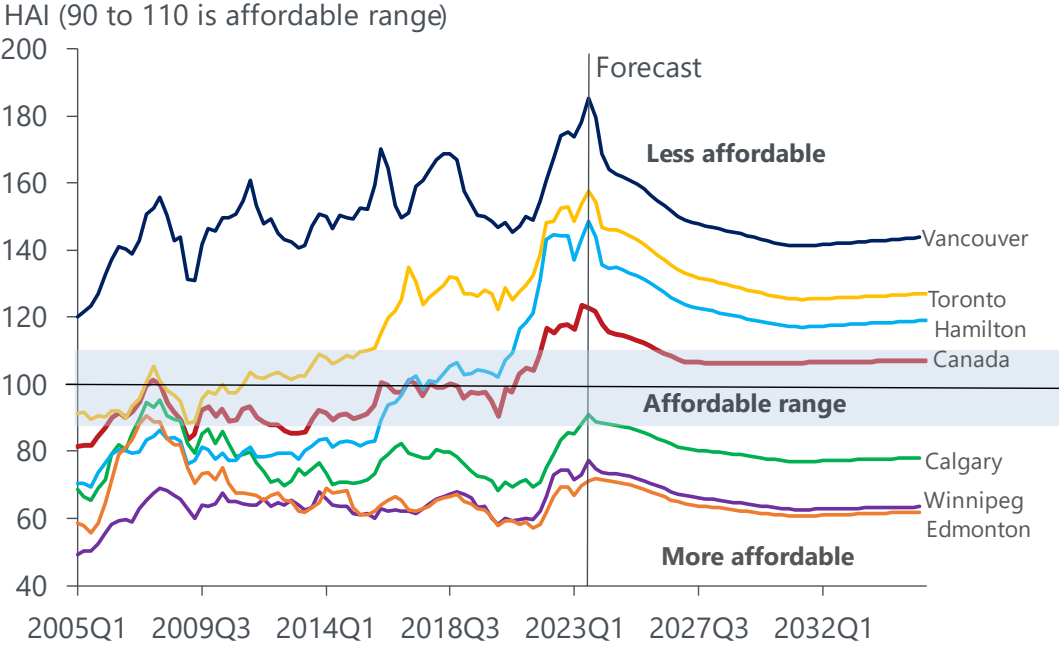
Canada: Maximum affordable house price



Source: Oxford Economics/Haver Analytics  
 \* MLS benchmark house price (NSA), median household income, 20% downpayment, 39% gross debt service ratio, 5-year mortgage rate and 25-year amortization period.

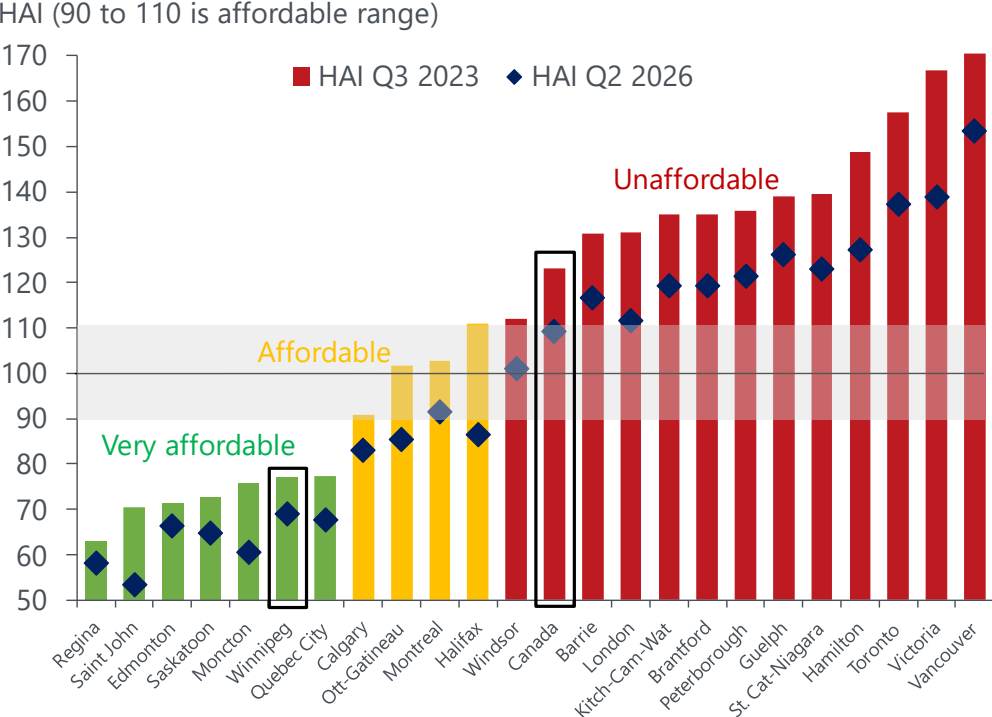
# Affordability will improve but the average house will remain out of reach in Toronto, Vancouver and surrounding regions

Canada: Housing Affordability Index in major metros (HAI)\*



Source: Oxford Economics/Haver Analytics  
 \* \* CREA average residential sale price, median household income, 20% downpayment, 39% gross debt service ratio, 5-year mortgage rate and 25-year amortization period.

Canada: Housing Affordability Index (HAI)



Source: Oxford Economics/Haver Analytics

A stylized winter landscape illustration. The background is a light greyish-blue. Scattered throughout are various snowflake shapes in white and light blue, and yellow starburst shapes of different sizes. In the center-right, a large yellow starburst has two yellow rays extending downwards and to the right. The foreground consists of rolling hills in shades of blue and teal. Several dark teal evergreen trees are scattered across the hills. In the center of the foreground, there is a simple white house with a dark roof and two windows. The overall style is flat and graphic.

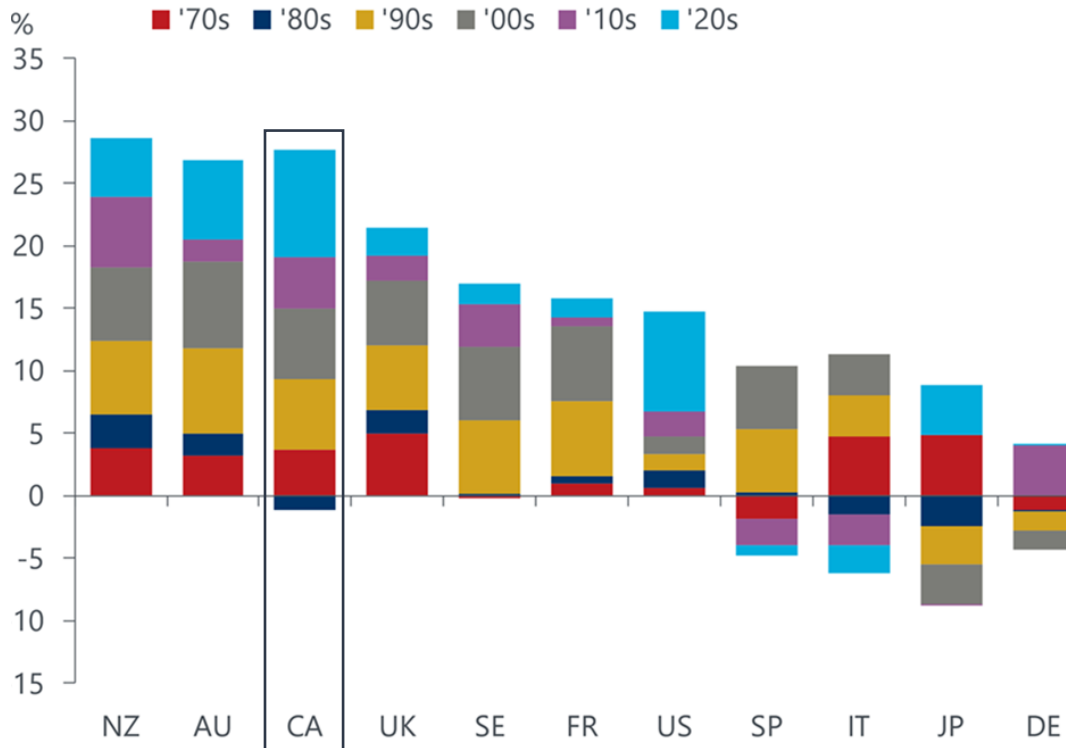
## Canada housing in the global context

---

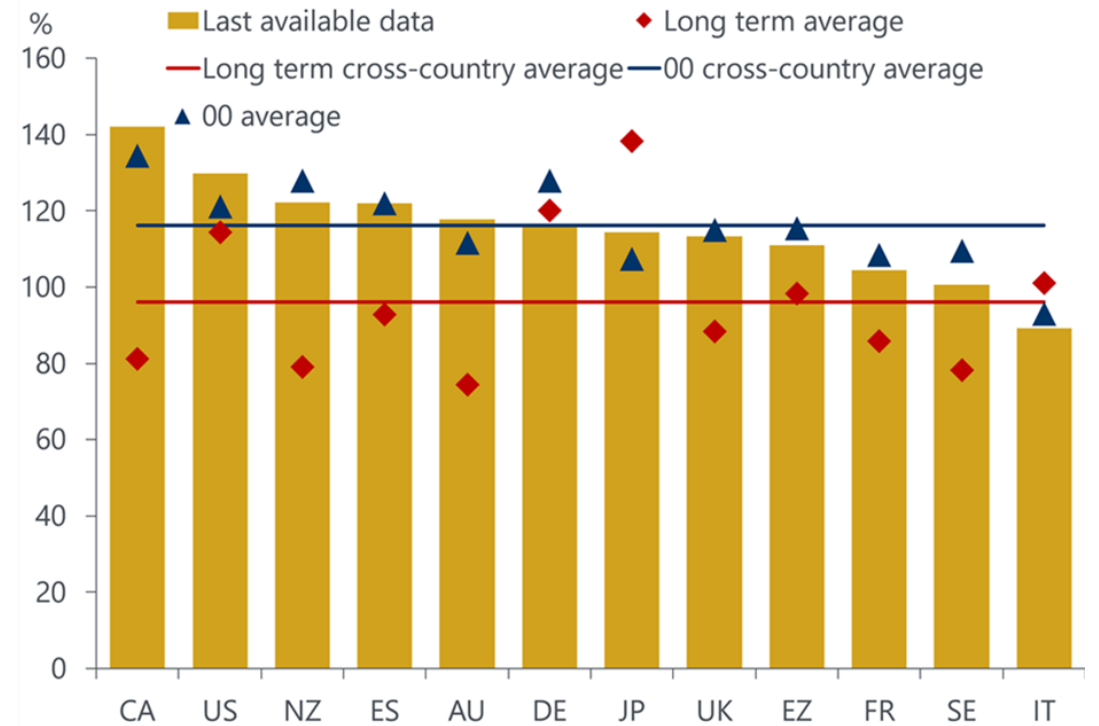


# Housing is unaffordable in many nations, but Canada tops the list

House price average y/y real growth per decade

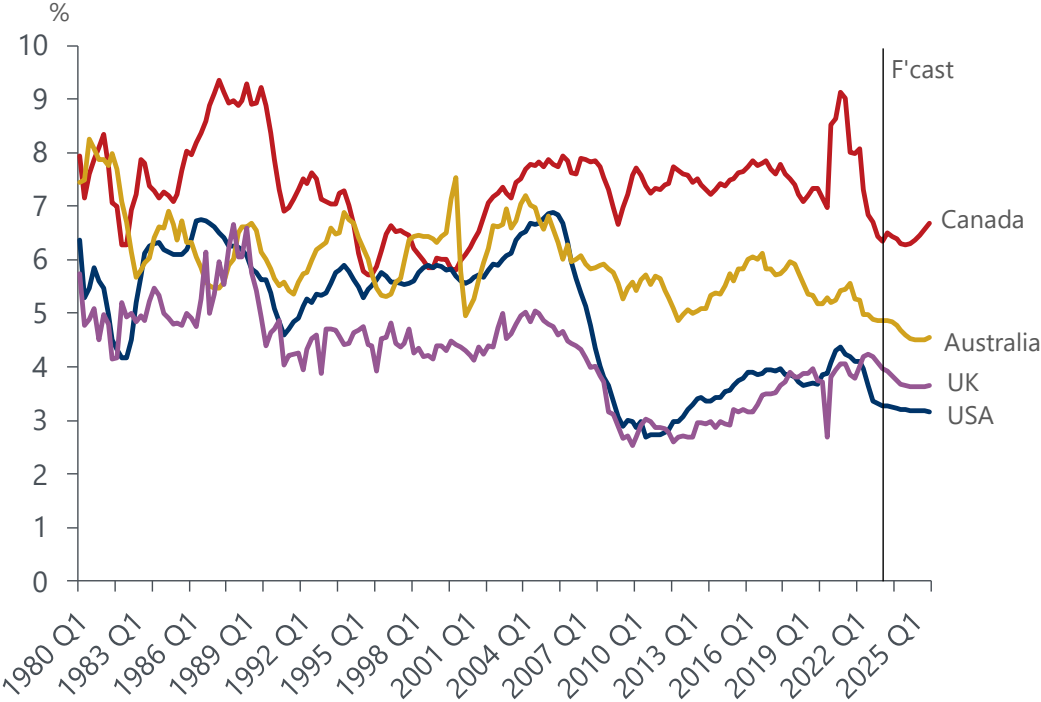


House price to income ratio



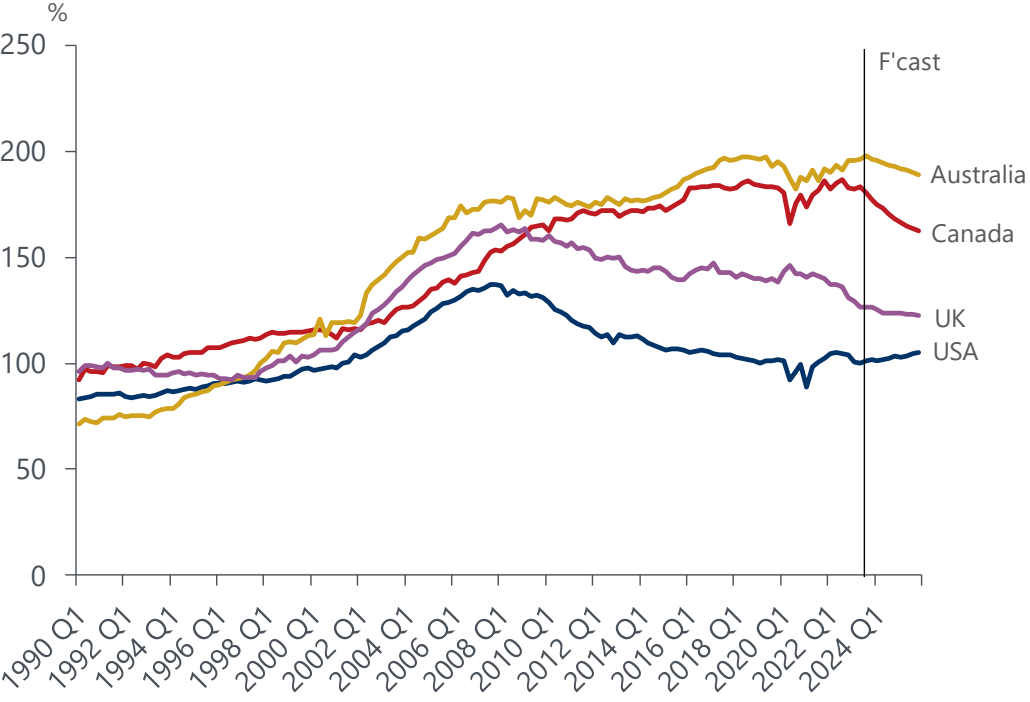
# Canada is more reliant on housing and its households carry more debt than most advanced economies

Advanced Economies: Residential investment % of GDP



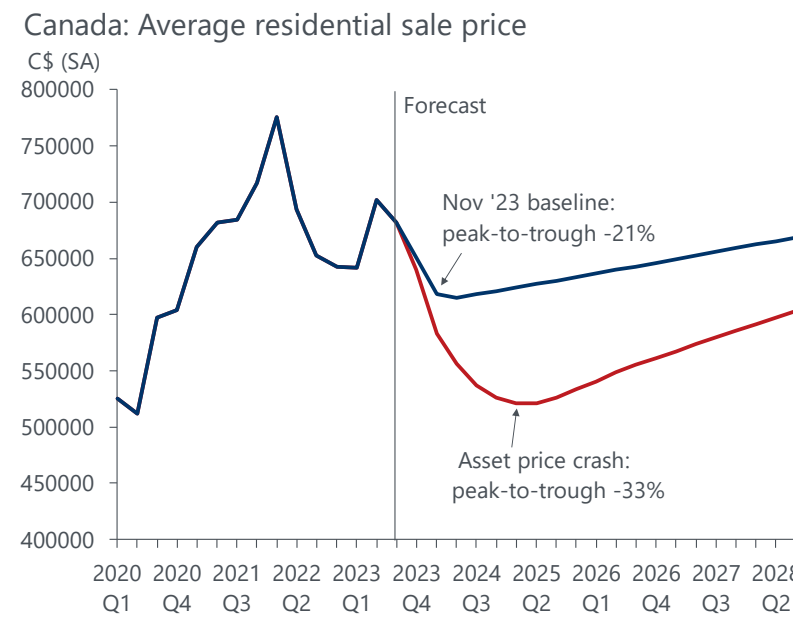
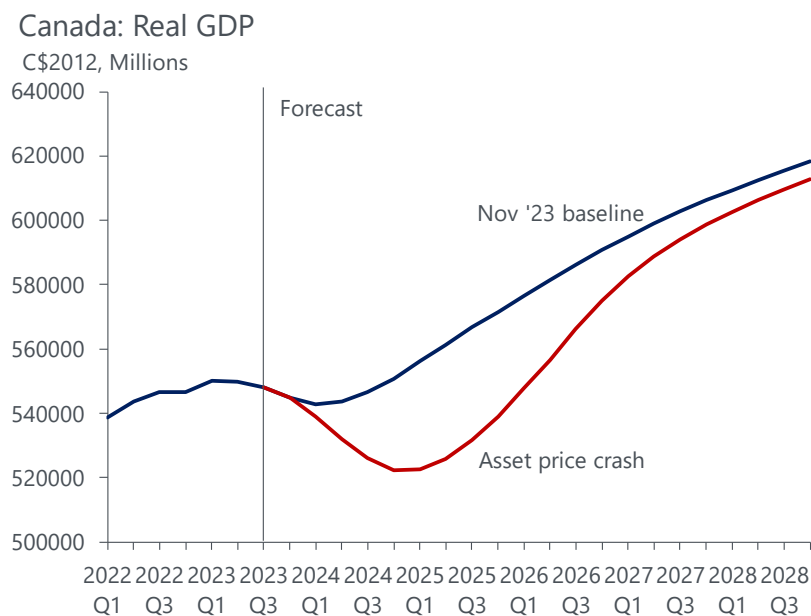
Source: Oxford Economics/Haver Analytics

Advanced Economies: household debt % of disposable income



Source: Oxford Economics/Haver Analytics

# Global asset price crash is a key downside risk, especially for Canada



- In our global asset price crash scenario, core inflation slows less sharply in the near term than expected, prompting further, aggressive central bank policy tightening.
  - The Bank of Canada hikes rates to 6.25%, 125bps higher than the 5.0% peak in our baseline forecast.
- Renewed global banking strains result, with concerns spreading to larger banks, as higher interest rates weigh heavily on financial and housing markets. Sharply lower equity prices hit business and consumer demand. House price falls exacerbate the impact and residential investment weakens. Credit conditions tighten substantially.
  - Canada's GDP plunges 3.4% in 2024, around 3ppts deeper than our baseline forecast.
  - Canadian house prices experience a sharper and more prolonged 33% peak-to-trough decline from Q1 2022 to Q1 2025.

---

Questions?



# Contacts

---

## EUROPE

### **Oxford (Headquarters)**

Tel: +44 (0)1865 268 900

### **London**

Tel: +44 (0)20 3910 8000

### **Belfast**

Tel: + 44 2892 635400

### **Milan**

Tel: +39 02 8295 2521

### **Frankfurt**

Tel: +49 69 96 758 658

### **Paris**

Tel: +33 (0)1 78 91 50 52

### **Stockholm**

Tel: +46 (0) 8 446 887 65

## AFRICA AND MIDDLE EAST

### **Cape Town**

Tel: +27(0)21 863-6200

### **Dubai**

Tel: +971 56 396 7998

## AMERICAS

### **New York**

Tel: +1 (646) 786 1879

### **Philadelphia**

Tel: +1 (646) 786 1879

### **Mexico City**

Tel: +52 155 5419-4173

### **Boston**

Tel: +1 (617) 780 2265

### **Chicago**

Tel: +1 (847) 993-3140

### **Los Angeles**

Tel: +1 (424) 303 3449

### **Toronto**

Tel: +1 (905) 361 6573

## ASIA PACIFIC

### **Singapore**

Tel: +65 6850 0110

### **Sydney**

Tel: +61 (0)2 8458 4200

### **Hong Kong**

Tel: +852 3974 8842

### **Tokyo**

Tel: +81-(0)3-4588-2798