

Canada's housing market: Is it really all that bad?

The housing market is under pressure in Canada and coupled with household debt problems, you can see why this factors into the central bank's reasoning for prolonging its pause



Source: Shutterstock

Higher interest rates and tighter mortgage rules have been feeding their way into the housing market and will continue to do so for a while. This has inevitably taken the steam off things and is arguably one of the main reasons the Bank of Canada (BoC) is happy to prolong its pause.

Three reasons why household finances are undergoing a tricky period

1. Homeowners are watching the value of, typically, their largest asset plateau – or even drop. It's also possible that some homeowners would like to sell their homes if they're at the risk of entering negative equity territory.
2. Mortgage repayment costs are creeping up as interest rates edge higher, and the fact that a lot of Canadian households are running high levels of debt isn't great news.

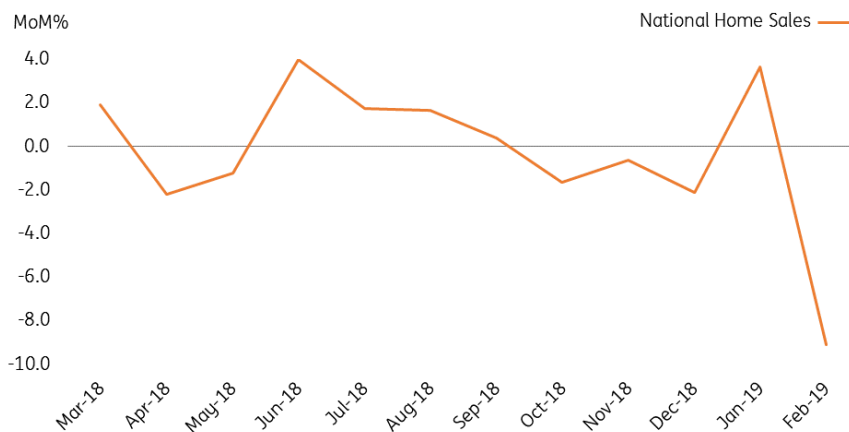
3. Nevertheless, it isn't an easy selling environment. Not only is it harder for prospective buyers to get a mortgage, but finding affordable homes is still an issue.

These factors don't bode well for housing demand.

Home sale figures support view it's becoming difficult to sell your home

Canada's real estate association (CREA) recently reported home sales sunk 9.1% month on month in February and hit the lowest level since November 2012. Although the colder climate might have suppressed the figure, it's unclear if the broad-based slowdown is solely a weather story.

Monthly decline was the largest since new mortgage regulations were introduced



Source: CREA

New mortgage regulations likely to hurt already vulnerable areas

Canada's new mortgage regulations were introduced in January 2018. In short, the new rules have made it tougher for those with 'fragile finances' to obtain a mortgage and (as a secondary effect) prompted a slowdown in the housing market.

The 2014 oil price shock took a lot of momentum out of Alberta's housing market and, coupled with the below-par trajectory for the energy sector; you can argue the implementation of a stress test will only make matters worse. Data collected last year confirmed this, where provincial sales reached the lowest level since 2010.

But there are some positives

GDP growth in January not only came as an upside surprise (+0.3% MoM) but also offered some upbeat news for real estate. As reported by Statistics Canada, the construction sector grew for the first time in eight months - with residential construction posting its second consecutive monthly gain. Now, although the sector tends to be quite volatile, as we wrote earlier in [our GDP preview](#), the recovery in building permits provides us with some reassurance when it comes to investment

in the housing market going forward.

Moreover, in the recently announced federal 2019 budget, first-time buyers were amongst the winners. The government has created an incentive for individuals to jump onto the property ladder by offering to absorb part of the associated costs, namely an \$885 million investment over five years. However, this won't come into effect until autumn.

As a result, home buyers might be tempted to delay their decisions, meaning, until then, our view on what's happening in the market will be clouded. This reinforces our previous argument that - if the BoC opts to hike in 2019 - it wouldn't arrive until the fourth quarter as the housing market is likely to appear weaker-than-expected in the near-term.

To follow, or not to follow (the Federal Reserve)?

A more unwelcome start to 2019 was Canada's percentage of household debt to income standing at 176.3%, which is the highest it has been since 1990. Given that - when the next downturn in the economy arrives - the persistence and depth of household debt levels will only enhance an already difficult environment, and remains a key vulnerability to the health of the economy.

The persistence and depth of household debt levels remains a key vulnerability to the health of the economy

It seems that, for now, policymakers are happy to sit back to see how the global trade backdrop, oil prices and household activity all evolve. And with the [Fed firmly in the dovish territory](#), it's possible that this could sway the central bank to follow suit and prolong its pause further.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.