ECONOMIC NEWS

Canada: Real estate slowdown remains uncertain

COMMENTS

Last October, in response to an ongoing lively housing market, Canada's Finance Minister introduced a new series of measures to limit mortgage credit. These measures are in addition to those already gradually implemented in recent years, with the result that credit conditions have firmed up somewhat since 2008. Last summer, British Columbia's government also implemented measures to curb foreign investment in the Vancouver area, among other things. Have we finally achieved the right dose of restrictive measures, and are we on the verge of a slowdown in the real estate market?

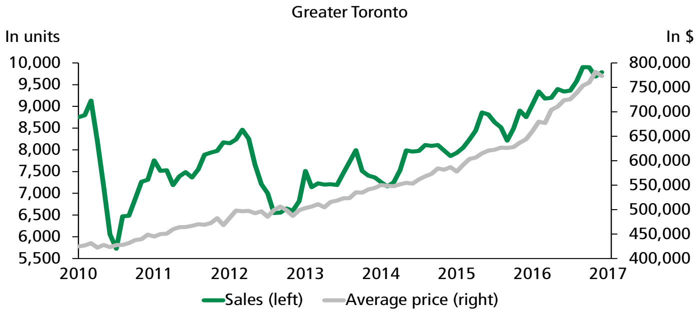
As the data released yesterday shows, sales of existing properties fell a total of 0.7% Canada-wide in the last three months of 2016. They fell 1.2% in the Greater Toronto area, and 0.8% in Greater Vancouver. Elsewhere in Canada, they are off 0.5%. However, the average price rose 0.5% across Canada in the last three months of 2016, going up 2.6% in Greater Toronto and advancing 9.2% in Greater Vancouver. In other words, it is not yet certain how well the new restrictions are working.

As the graphs show, sales and average prices are still clearly trending up in Toronto. Sales and average prices have come down in Vancouver since the start of 2016, however, due to a natural loss of market momentum and the impacts of federal and provincial restrictions. That being said, the rise in the average price since August's low is worrisome.

IMPLICATIONS

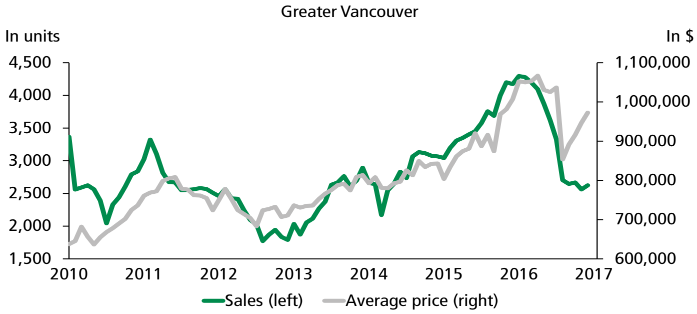
The housing market slowdown that is especially hoped for in the Toronto and Vancouver areas is not yet certain. Under these conditions, governments will have to remain vigilant and we cannot rule out the possibility that further restrictions will be introduced if the housing market remains lively. Note that the issue is overly high household debt loads and the risk this poses in the event of a substantial interest rate increase.

GRAPH 1
Toronto continues to trend up



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

GRAPH 2
The average price has gone fairly high in Vancouver



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