

# CMHC ASSESSMENT AND OUTLOOK FOR CANADA'S HOUSING MARKET

On October 26, Canada Mortgage and Housing Corporation (CMHC) released its quarterly Housing Market Outlook, at a time when many factors that influence Canada's economy and demographics are in flux. The result is a national picture that reflects three distinct regional disparities: strong price growth in British Columbia and Ontario; weaknesses in oil-dependent provinces of Newfoundland and Labrador, Saskatchewan and Alberta; and stabilization of prices around levels supported by market fundamentals in other provinces, with some evidence of imbalances.

"This makes for a complex picture in the housing market," says CMHC Chief Economist Bob Dugan. "That is why CMHC has, for the first time, released its Housing Market Assessment (HMA) and Housing Market Outlook (HMO) at the same time. This enables CMHC to provide a more complete story for housing markets and promote housing and financial stability. With the assessment, we alert Canadians to imbalances and vulnerabilities in our housing markets. With the outlook, we provide a range of possible outcomes to help Canadian homebuyers and industry make better decisions."

According to the HMA, Canada now shows strong evidence of problematic conditions. Meanwhile, the HMO highlights important regional differences

in housing activity, which will gradually dissipate through 2017 and 2018.

At the national level, housing starts and Multiple Listing Service® (MLS®) sales are expected to decline slightly in 2017, before stabilizing in 2018 to levels more consistent with economic fundamentals and demographic changes. The HMO estimates the range of housing starts to be between 172,700 and 183,100 units in 2018.

CMHC's forecast for MLS® sales is an increase from 2015 levels, ranging from 517,000 to 533,400 units in 2016. In 2017 and 2018, resales should decline to levels warranted by factors such as disposable income, household formation, mortgage rates, and levels of new and active listings. These are some of the key factors that help to determine the level and growth of market activity.

## A SNAPSHOT OF THE MARKET

HMO forecasts are based on CMHC's extensive body of housing-market information and its own analysis. They also go hand in glove with CMHC's HMA, which is designed to alert Canadians to imbalances and vulnerabilities in our housing markets. The assessment looks at markets across Canada for evidence of four types of 'problematic conditions:' **overheating**, when sales greatly outpace new listings in the market for existing homes;



CMHC Chief Economist Bob Dugan

**sustained acceleration** in house prices; **overvaluation** of house prices above what can be supported by market fundamentals; and **overbuilding**.

This quarter's assessment was sobering: CMHC found strong evidence of problematic conditions for Canada overall, compared with moderate evidence in the previous quarter. Meanwhile, overvaluation remains a prevalent concern in several major housing markets including Toronto, Montréal and Vancouver, and overbuilding is also a concern in several centres. While this is not welcome news to the industry, Dugan cautions that evidence of problematic



conditions does not add up to a housing bubble: “The public has been given an impression that any market that has prices rising for a long time has to burst. Instead, what we are expecting is for a deceleration of resale price rises in 2017 and 2018. Most cases of overvaluation in major markets are resolved gradually.”

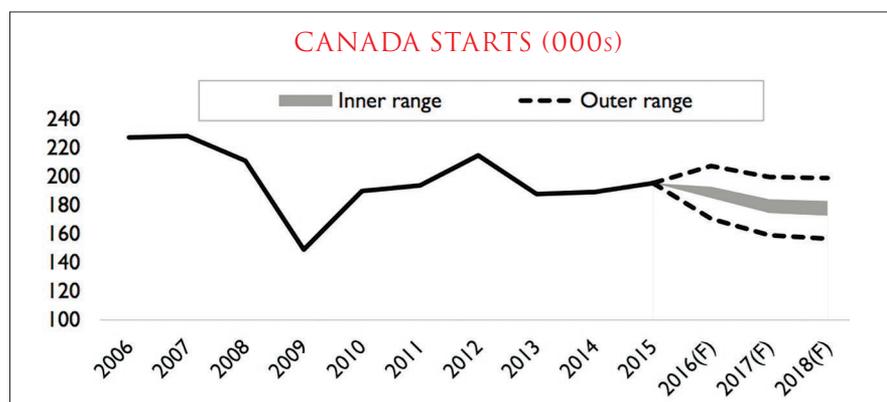
### REGIONAL VARIATION

The nationwide trends are informed by a variety of broad market factors, such as a predicted modest increase in Gross Domestic Product (GDP) in Canada over 2015 this year and next, on demographic trends that CMHC has modelled, including a decline in the pace of household formation. But these trends are sometimes exacerbated or countered by regional conditions.

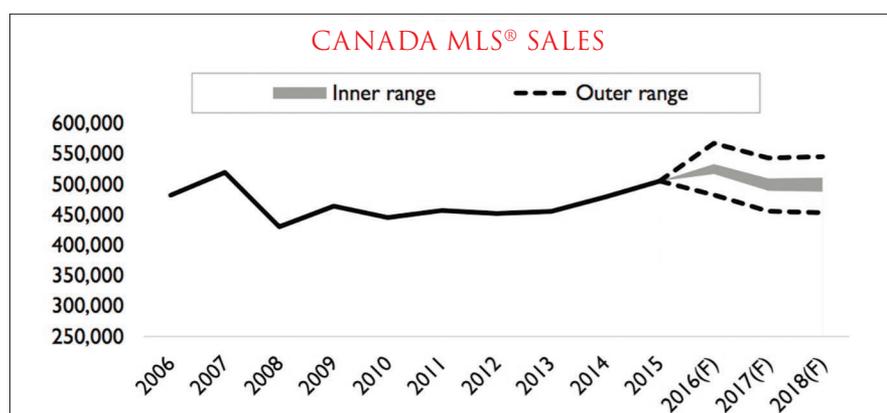
For example, predicted growth in the population, employment rate and economy of British Columbia should translate into increased demand for housing. In Metro Vancouver, in particular, there is moderate evidence of overheating and price acceleration. Price growth is expected to slow, which should help to alleviate some of the market imbalances. But there is also a wild card: the introduction of a tax on home purchases by foreign entities in August could dampen sales and price pressures – but such a measure is relatively untested in Canada, and the results should be monitored closely.

In contrast, Ontario can expect modest but slowing economic growth, and a boost in housing demand through an influx of immigrants. However, the province’s picture is clouded by economic uncertainty, particularly about global growth and its effect on non-energy exports, and rising debt loads. Overall, CMHC expects resales and multi-unit starts to remain high, while sales of single detached homes will be dampened. Ontario home prices are expected to continue growing strongly for now, but this should moderate by 2018.

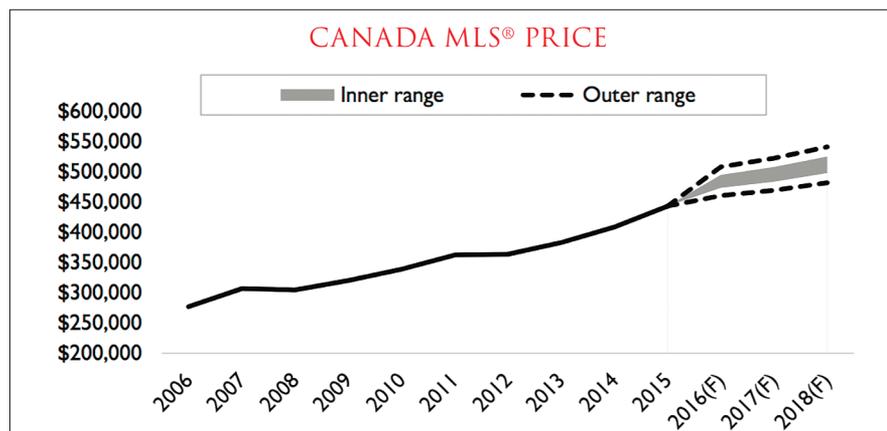
Factors and forecasts across each of the provinces are detailed in the HMO, with estimates for single-detached starts,



Source: CMHC, (F) Forecasts by CMHC



Source: CREA, (F) Forecasts by CMHC



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multi-unit starts, resales and prices. Most of the provincial outlooks are less challenging than in British Columbia and Ontario, which include Canada’s two most dynamic urban housing markets. For further detail, the HMA details conditions in 15 of Canada’s Census Metropolitan Areas (CMAs), from Victoria to St. John’s.

### KEEPING WATCH

While CMHC’s HMA and HMO are based on comprehensive data and robust modelling, Dugan cautions that it is also important to understand that uncertain trends in some of the factors cloud the outlook somewhat. Since CMHC’s previous outlook, risks in these factors have been growing, which could mean

## COMPARISONS BETWEEN THE JULY 2016 AND OCTOBER 2016 REPORTS

	Overheating		Price Acceleration		Overvaluation		Overbuilding		Overall Assessment	
	July 2016	Oct. 2016	July 2016	Oct. 2016	July 2016	Oct. 2016	July 2016	Oct. 2016	July 2016	Oct. 2016
Canada	Weak	Weak	Weak	Moderate	Strong	Strong	Weak	Weak	Moderate	Strong
Victoria	Moderate	Moderate	Weak	Moderate	Weak	Weak	Weak	Weak	Weak	Weak
Vancouver	Moderate	Moderate	Moderate	Moderate	Strong	Strong	Weak	Weak	Strong	Strong
Edmonton	Weak	Weak	Weak	Weak	Moderate	Moderate	Weak	Weak	Moderate	Moderate
Calgary	Weak	Weak	Weak	Weak	Moderate	Moderate	Moderate	Moderate	Strong	Strong
Saskatoon	Weak	Weak	Weak	Weak	Strong	Moderate	Strong	Strong	Strong	Strong
Regina	Weak	Weak	Weak	Weak	Moderate	Moderate	Strong	Strong	Strong	Strong
Winnipeg	Weak	Weak	Weak	Weak	Weak	Weak	Moderate	Moderate	Moderate	Moderate
Hamilton	Moderate	Moderate	Weak	Moderate	Strong	Strong	Weak	Weak	Moderate	Strong
Toronto	Weak	Moderate	Moderate	Moderate	Strong	Strong	Weak	Weak	Strong	Strong
Ottawa	Weak	Weak	Weak	Weak	Weak	Weak	Moderate	Moderate	Weak	Weak
Montréal	Weak	Weak	Weak	Weak	Moderate	Moderate	Weak	Weak	Moderate	Moderate
Québec	Weak	Weak	Weak	Weak	Strong	Strong	Weak	Weak	Moderate	Moderate
Moncton	Weak	Weak	Weak	Weak	Weak	Weak	Moderate	Moderate	Weak	Weak
Halifax	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak	Weak
St. John's	Weak	Weak	Weak	Weak	Weak	Weak	Moderate	Moderate	Weak	Weak

**Evidence of problematic conditions**    Weak    Moderate    Strong

**NOTE 1:** Colour codes indicate the level of evidence of problematic conditions. The HMA reflects a comprehensive framework that not only tests for the presence or incidence of signals of potentially problematic conditions, but also considers the intensity of signals (that is, how far the indicator is from its historical average) and the persistence of signals over time. Generally, low intensity and persistence are associated with a lower potential of upcoming problematic conditions. As the number of persistent signals increases, the evidence of a problematic condition developing increases.

**NOTE 2:** Results at the CMA level are not segmented by housing type or neighbourhood. They represent an assessment of the entire CMA. However, specific CMA reports provide further detailed analysis of these markets.

**NOTE 3:** The colour scale extends to red only for those factors that have multiple indicators signaling significant incidence, intensity and persistence of potentially problematic conditions. As a result, only overvaluation and overbuilding can receive a red rating, since they are assessed using more than one indicator.

**NOTE 4:** To ensure the framework is as current as possible, on a regular basis, we undertake a model selection process whereby our house price models for overvaluation are tested for statistical significance at the national and CMA level. The result of this process may change the number of indicators of a problematic condition from the previous assessment.

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additional pressure in some markets. “A large part of Canada’s housing market, notably in Alberta and Newfoundland and Labrador, depend on the level of investment activity in the oil and gas sectors, which in turn depend on oil prices,” says Dugan. “Our view of oil prices is based on the September 2016 Industry Consensus, and it suggests a range of \$40 to \$62 US per barrel by the end of 2017. But that could be thrown off by unpredictable factors such as trade disputes or weather events.”

Several other important factors lend uncertainty to the estimates: for example, Canadian debt-to-income ratio is at a

historical high, making households more vulnerable to a sudden change in interest rates. Another unknown is the federal government’s recent changes to eligibility rules and criteria for insured mortgages, which involves ‘stress testing’ high-ratio mortgages and requiring borrowers to meet higher debt-servicing limits. While CMHC estimates that 5-10% of prospective homebuyers will be affected by these changes – requiring them to delay or scale back their purchases – the actual effects are difficult to determine, particularly at the provincial and municipal levels.

Nevertheless, Dugan asserts that, “While there are vulnerabilities in several of Canada’s housing markets, changes in factors such as oil prices and trade with the US can either help our market or harm it,” he says. “The main thing for industry professionals and companies is to stay informed and to understand the risks in their regions.” He urges analysts, builders, lenders, investors, policymakers and, indeed, all participants in the housing industry to read the HMO and HMA, available free of charge from CMHC’s website ([www.cmhc.ca](http://www.cmhc.ca)). Detailed market-analysis publications are also available at [www.cmhc.ca/housingmarketinformation](http://www.cmhc.ca/housingmarketinformation).