# 3 Reasons Why Canada's Housing Meltdown Won't Happen Anytime Soon

## Description

For some time a number of pundits have claimed that Canada's housing market is overheated and headed for an epic meltdown. Even investment guru and CEO of **Fairfax Financial Holdings Ltd.** Prem Watsa has weighed in, claiming that Canada's housing bubble is eerily similar to the one that existed in the U.S. in the run-up to the subprime debt crisis that devastated the U.S. financial system.



Then there is the record level of household debt that many, including Bank of Canada governor Stephen Poloz, believe makes the housing sector vulnerable to external economic shocks.

Nonetheless, there are signs that Canada's housing market is not as susceptible as some analysts and policy makers would have Canadians believe. In fact, the likelihood of a housing meltdown remains remote, even though the average house price for June 2016 gained 11% compared with the year before.

Let me explain.

**Now what?**

Firstly, much of the frothiness is restricted to the markets of Vancouver and Toronto with many other regional markets reflecting much more modest gains or even cooling in value.

Both Alberta and Saskatchewan are already experiencing a mild correction- the average house price for June dropped by 1.4% and 1.6%, respectively compared with 2015. This can be attributed to the current economic slump in the energy patch triggered by the protracted weakness of oil prices, which brought the massive oil boom in western Canada to a grinding halt.

Meanwhile, the gains in Quebec and New Brunswick were relatively modest with the average price rising by 3.2% and 3.4%, respectively, whereas in Nova Scotia prices remained flat.

Secondly, the market dynamics of Toronto and Vancouver will support higher prices for some time to come.

Housing demand in both cities continues to surge because both are characterized as global gateway cities; they attract immense amounts of internal and external immigration. And this process is being accelerated by the economic slump in the energy patch as higher unemployment and declining incomes force households to move elsewhere.

According to a report from **National Bank of Canada** (TSX:NA), the working age population in Toronto and Vancouver is growing at a rate that is about 70% greater than the national average. This can be explained by the concentration of jobs and higher wages in those two cities.

Meanwhile, housing supplies remain constrained because of a shortage of land and dwellings, which–in conjunction with surging demand–is working to keep prices high and will act as a backstop during times of economic distress.

Finally, there are signs that low interest rates are here to stay for at least the foreseeable future.

One of the biggest concerns among policy makers and economists is that a rate hike would be an adequate shock to trigger a housing correction that would cascade into a major bust.

Nonetheless, for this to occur a significant increase in interest rates would be required, and this just isn't going to happen in the current economic environment.



You see, the global economy is trapped in a deflationary cycle where even massive money printing and negative interest rates are failing to spark economic growth; as a result, inflation is well below the modest targets set by central banks.

**So what?**

The likelihood of a housing bust remains remote for the foreseeable future, and this is good news for Canada's banks because they are heavily exposed to the housing market. Even if a modest cooling were to occur, which is already taking place in some parts of Canada, the impact on the banks would be modest.

Not only have the most domestically exposed banks, such as **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) and National Bank, reduced much of the danger posed through high levels of mortgage insurance and conservative loan-to-valuation ratios, they remain focused on reducing risk through tighter underwriting standards.

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