2 Key Factors That Could Determine the Course of Canada Housing in 2018

Description

New reports from the Canada Mortgage and Housing Corporation (CMHC) have raised alarms about the state of Canada housing as we head into the final two months of 2017. CMHC has said that several key markets, including Vancouver, Toronto, and Hamilton, are in a “red zone.” The corporation targeted these areas as “highly vulnerable” due to factors such as overheating, price acceleration, overbuilding, and overvaluation.

The Canadian housing market has been embroiled in drama since early 2017, and even a sizable correction since April has not alleviated concerns with regards to a potential bubble. Let’s take a look at three factors that could make or break Canada housing next year.

New OSFI mortgage regulations

The Office of the Superintendent of Financial Institutions (OSFI) published its set of new mortgage rules in October. The rules will come into effect on January 1, 2018. The new rule that has attracted the most attention is the stress test added for uninsured buyers: purchasers must be able to submit a down payment of 20% or more.

Previously, buyers would be able to avoid a stress test as well as a CMHC insurance premium. This new stipulation could dramatically cut into the purchasing power of new buyers, and lenders are taking notice. Alternative lenders **Equitable Group Inc.** (TSX:EQB) and **Home Capital Group Inc.** (TSX:HCG) released statements saying that the rules would likely slow down loan growth. The new rules could, however, aid in mortgage retention.

Mortgage experts have, however, pointed out a potential loophole in the new rules. In the published rules, the OSFI did not regulate the length of amortization in the qualifying calculation, which could allow more breathing room for lenders to qualify buyers.

It is well worth keeping an eye on early indicators when 2018 kicks off.

Bank of Canada turns dovish on interest rates

On October 25, the Bank of Canada announced that it would stay its hand and keep the benchmark interest rate at 1%. In the announcement, the central bank cited the impact of higher interest rates on indebted households as one of the key developments it would monitor going forward.

A survey of from MNP Ltd. revealed that four in 10 of the 2,005 Canadians polled said that they were concerned further interest rate increases would put them in financial trouble. The majority of those polled also stated that they would adjust spending habits to prepare for a higher rate environment.

The Bank of Canada expects GDP growth to drop to 2.1% in 2018 and 1.5% in 2019. High household debt, higher borrowing rates, and a cooling housing market are all expected to contribute to this decline. But, the central bank also listed low borrowing rates as a factor that would keep the economy on a sustainable growth path.

GDP, which came in flat in July, was dragged down by a 1% drop in credit intermediation, residential construction that declined 0.9%, and real estate agency activity that fell 1.5%. With its sizable contribution to economic activity in Canada, it is likely that the central bank will continue to exercise a great deal of caution moving forward.

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