Can Canada Housing Rally in Spring?

Description

Canadian GDP shrank 0.1% in the month of January, and declining real estate activity played a big part in the drop. Canada has relied on a dynamic real estate market in the years following the 2007-2008 financial crisis, but institutions like **Bank of Montreal** are now warning that a decade of stagnation could follow. Selling prices in Toronto experienced the largest year-over-year decline since 1991 in March.

In late 2017, real estate industry experts projected that new OFSI mortgage rules would cool the market in the beginning of this year, but that the market would re-balance in the spring and summer months. Should investors expect this prediction to shake out?

The latest Business Outlook Survey (BOS) conducted by the Bank of Canada from mid-February to March suggests that businesses are still optimistic about the Canadian economy. Annual inflation jumped to 2.2% in February, which represented the fastest pace in three years. The Canadian economy also added 32,000 jobs in March, keeping the unemployment rate at a four-decade low. The labour force produced 68,300 full-time jobs.

All of these factors will heighten the possibility of an interest rate increase at the next Bank of Canada meeting in April. The benchmark interest rate currently sits at 1.25%. Canadian households and consumers have reportedly been squeezed by rate tightening, and a second hike in 2018 is likely to increase that pressure. It could also bite into growth potential for lenders.

Equitable Group Inc. (TSX:EQB) plunged 23.7% in 2018 as of close on April 11. The alternative lender is expected to release its first-quarter results on May 10. **Home Capital Group Inc.** (TSX:HCG) has dropped 14.8% in 2018 thus far. It is also expected to release its Q1 2018 results in early May. Both companies have projected that loan growth will be hindered by the new mortgage rules.

A recent report from the Conference Board of Canada said that major Canadian banks would face difficulties in 2018 in part due to softening demand for loans and mortgages. As expected, regulations and rising interest rates are expected to generate downward pressure in the next decade. An upcoming Ontario election has the chance to shake up this projection if Progressive Conservative leader Doug Ford follows through on his vow to eliminate the recently instituted foreign buyers' tax.

Still, the election is not set to take place until June 7. Any significant bounce back for the real estate sector is unlikely to materialize in the spring, as potential home buyers remain anxious about the broader market. The market will also await a decision from the Bank of Canada on a possible rate increase, which could set the tone for the remainder of 2018.

Alternative lending stocks Equitable Group and Home Capital are probably in for continued volatility ahead of Q1 results. The widespread slowdown in major Canadian markets is likely to negatively affect year-over-year earnings for both. The first quarter of 2017 represented the near height of the Canada housing mania.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:EQB (EQB)
2. TSX:HCG (Home Capital Group)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/08/18
Date Created
2018/04/12
Author
aocallaghan