Can Canada Housing Finish Strong in 2018?

Description

Canada housing showed signs of a rebound, or at least stabilization, throughout the summer months. Prices have been static or up marginally year over year in major markets, but sales have still tumbled from the same time in 2017. A recent **Reuters** poll of 16 analysts taken in early September predicted a median price gain of 1.7% for 2018. This was lower than the previous survey taken in June. House prices are forecast to rise 2% in 2019 and 2.1% in 2020.

More uninspiring data came in from the Knight Frank Global House Price Index for the second quarter of 2018. Canada plunged to number 37 on the list after holding the fourth spot the same time last year. That drop puts Canada in the bottom half of the 57 countries surveyed for the report.

The report also pointed to other markets, namely Australia, New Zealand, and mainland China, that have experienced softer results due to the current economic climate. In early 2018, Australian household debt-to-income hit 200%, which was one of the highest reported in the developed world. Canada has similarly high household debt to income, which hit 170% in 2018. Major metropolitan areas in both countries have experienced enormous price increases and has led to policy makers searching for answers.

The scorching-hot housing market in early 2017 caused the Ontario government to introduce a foreign buyers' tax along with a 16-point plan to cool the market. There was also the new OSFI mortgage rules introduced in January 2018, which included a stress test for uninsured buyers. Mortgage Professionals Canada released a report that estimated 100,000 Canadians had been prevented from buying a home in 2018 due to this rule change.

There is some good news on the horizon for prospective buyers. The CMHC is set to loosen lending rules for self-employed Canadians. This is a forward-thinking move considering the proliferation of non-salaried and contract work in recent years. Alternative lenders and banks could also see a boost to results on the back of this change.

Home Capital Group (TSX:HCG) stock was down 13.4% in 2018 as of close on September 12. Net earnings were up to $29.6 million compared to a $111.1 million loss in the prior year. This occurred at the height of its underwriting crisis. Net income was down 14% quarter over quarter while originations moved up 6.1%.

Genworth MI Canada (TSX:MIC) continues to be a great option for income investors. Earnings have been powered by rising rates and the stock still offers a quarterly dividend of $0.47 per share, representing a 4.2% dividend yield.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) mortgage balances grew by 3% in the third quarter of 2018. This is compared to 12% growth it had posted in the prior year. Earnings in CIBC's retail business were up 14% but its mortgage book fell behind its peers for the first time in three years. Its results were still very strong, and although loan growth has slowed, rising rates have boosted margins for all major banks. CIBC is still a strong hold heading into the fall.

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