2 Reasons Canada Housing Will Keep Investors on Their Toes in 2020

Description

Canadian home prices suffered their sharpest retreat outside of a recession this past November, according to data from the Teranet-**National Bank** Composite House Price Index. This represented the fourth straight monthly deceleration after the sector had reported record gains earlier in the year.

The seeming return to form was one of the reasons I suggested investors should put faith in Canada housing ahead of 2020.

Investors should still feel good about the housing market as we look ahead to the New Year. Let's explore some of the reasons why housing is unlikely to slip back into contraction.

Clashing forecasts

The Canada Mortgage and Housing Corporation recently projected that the housing market would continue its rebound in 2020 and 2021. It forecasts that home prices will challenge the all-time highs set at the peak in the winter and spring of 2017.

However, other sources have been less optimistic. The debt assessment firm Fitch Ratings recently projected that the country will see house price growth of 1% in 2020, which would mean that house prices would decline in real terms after accounting for inflation. Fitch predicts that stretched affordability in major metropolitan areas like Toronto and Vancouver, combined with overburdened borrowers and tighter lending rules, will lead to worsening conditions.

Royal Lepage, on the other hand, projects a 3.1% price increase in the cost of two-story detached homes in 2020. Another positive forecast came from Capital Economics, a London-based research consultancy firm, which projects that house price growth will run at an annual rate of 6% by March of next year.

A rate cut on the way?

In late November I'd explained why I thought a housing crash was very unlikely in the near term. High rates of immigration combined with low supply are two reasons I expect sales and prices to remain in healthy territory.

This is not a positive environment for buyers who desire affordability, but the industry at large should continue to thrive. There may be more fuel to add to the fire in early 2020, this time in the form of easing monetary policy.

The Bank of Canada held off on a rate cut in 2020, even as the U.S. Federal Reserve moved forward on three rate cuts of its own. Analysts had expected that the BoC would move on a rate cut early next year, but new forecasts are pushing it back further.

Of course, things can change quickly in the New Year. Markets are healthy right now and investors are jubilant about the pending U.S.-China trade deal. A change in fortunes could see the BoC quickly reverse course. However, for the time being, investors should bet on the status quo when it comes to the benchmark rate.

Housing stocks on a roll

Alternative lending stocks were some of the hardest hit when the housing sector was plunged into crisis in 2017. They have enjoyed a sharp turnaround in 2018 and 2019. **Equitable Group** stock has climbed 90% in 2019 as of early afternoon trading on December 19. **Home Capital Group**, a company that was on the verge of collapse a little over two years ago, has seen its stock soar 126% so far this year. Both companies have seen strong loan growth year over year.

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