Will COVID-19 Trigger a Massive Housing Market Crash in 2020?

Description

The coronavirus pandemic is profoundly re-configuring people's lives. When SARS was raging in 2003, social distancing was never a protective measure. But with the human-to-human transmission of COVID-19, it has become vital to prevent its spread.

Canada's economy took a big hit during the SARS epidemic. Despite fears of a housing market crash then, housing sales did not suffer. On the contrary, there was an increase in sales volume. The average sales price maintained its trajectory. However, the extensive damage of coronavirus in 2020 is raising market jitters.

The 2003 epidemic

Unlike the SARS epidemic, which affected 26 countries, the novel coronavirus is upsetting the world. It has already exceeded the death toll of SARS and is causing global economic fallout. Aside from the fierce blow to the stock market, many are afraid of the damage COVID-19 can inflict on the housing market in Canada.

Canada's economy did not slow down in 2002. The country's gross domestic product (GDP) even grew from $758 billion to over $1 trillion in 2004. There was no damage to the housing market. Housing sales grew 5.5% from 74,759 units in 2002 to 78,898 units in 2003.

Toxic combination

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is facing another acid test should a housing market crash come in 2020. You can't help but zero in on the bank that has the highest exposure to mortgage loans.

Since CIBC is less diversified compared with industry peers, the ghost of 2008 is back. The housing market in Canada was a casualty in the 2008 financial crisis, when national average home prices began tumbling. Activities in the sector dropped sharply in 2008 to early 2009 due to the global recession.

The head of domestic banking at CIBC, Laura Dottori-Attanasio, said the bank is aware of its precarious situation. Elevated household debt and rising unemployment is a toxic combination. Stress is building among consumers, and less than 50% of Canadians could be living from paycheck to paycheck.

Dottori-Attanasio, however, is assuring investors that CIBC has the situation under control. The confidence is there, despite about $20 billion payment deferrals in the mortgage, credit cards, loans, and credit lines during the pandemic.

CIBC's CEO Victor Dodig also announced that there are no plans to cut dividends as a result of the COVID-19 pandemic. Investors in the fifth-largest bank in Canada can expect to be paid dividends. As of this writing, this bank stock is trading at $77.80 and offering a 7.48% dividend. Its year-to-date loss is 26.7%.

No imminent collapse

The market dynamics could change in 2020, given the more destructive nature of COVID-19. But some investors see the property markets to be an enticing alternative outside the stock market. Interest rates are at the all-time low. It's easy for those who can afford to obtain a variable rate mortgage or credit line.

At least in the short term, there is no imminent collapse in Canada's housing market. Canadian banks, including CIBC, have adequate buffers to survive another recession.

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