Warning: Canada’s Housing Market Is About to Crash!

Description

According to a *Bloomberg* report, Canada’s housing market might experience a significant drop in prices in the near term. The Canada Mortgage and Housing Corp (CMHC) has a pessimistic outlook on Canada’s housing market due to the impact of the COVID-19 pandemic.

In May 2020, CMHC had forecast prices will fall between 9% and 18% in 2020 before it recovers in the first six months of 2021. CMHC’s average housing prices estimates for August stood at $586,000, while it forecast average prices to be around $460,292 in the first quarter of 2021.

This suggests housing prices might fall by a massive 21.5% in the next six months. While experts believed rising unemployment rates amid the pandemic to negatively impact housing demand, a low interest rate environment has offset this decline.

Housing sales were up 6.2% in Canada for the month of August, which was the fourth consecutive month of increase while benchmark prices were up 9.4% compared with August 2019.

However, Chief Economist Bob Dugan has warned home buyers that while he may be wrong on the timing of the trough, the overall trend will continue to remain weak, which will drive home prices lower eventually.

Canada’s housing market has appreciated by 90% since 2005

Canada’s economy has been fueled by significant growth in the country’s housing prices. Between 2005 and 2020, housing prices in Canada were up 90%, while this figure for Germany stands at a modest 32%.

In the first quarter of 2020, housing prices rose 3.4% in Canada, while it fell 3.3% in the United States. It is surprising to see the resiliency shown by the housing market given an extremely sluggish macro-environment. Further, the pandemic has also reduced the number of immigrants entering Canada, a factor that has been a key driver of housing demand in the last decade.

Will CIBC stock move lower?

If the housing market crashes in early 2021, there is a good chance shares of **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) will take a massive beating. While CM is one of the largest Canadian banks, it also has high exposure to Canada's housing market.

CIBC is well capitalized but is not immune to short-term volatility. In early 2020, the CIBC stock fell 42% to $67.52. While the stock has recovered, it's still trading 12% below its 52-week high.

Canada's high unemployment rates might further impact Canadian banks due to rising defaults, while low interest rates will hurt profit margins. Alternatively, falling interest rates will also increase liquidity for businesses and will help support a listless economy.

The Foolish takeaway

Similar to a stock market crash, it is difficult to predict a housing market crash. If the housing market does crash, you can expect shares of CIBC and peers to trade at lower multiples. However, this will also provide investors with an opportunity to buy a quality stock at a lower valuation.

The conditions are ripe for a significant correction, and you may revisit your portfolio, especially if you have exposure to Canada's housing space.

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araghunath