Housing Market Update: CMHC Forecasts a Big Drop in Prices

Description

The Canada Mortgage and Housing Corporation (CMHC) made grim predictions about a housing market decline as a result of COVID-19 on the economy. The agency forecast in May 2020 that the housing prices will fall between 9% and 18% within the year before recovering in the first half of the next year.

The average pricing estimates by CMHC for August were $586,000. It predicted that the average prices could be as low as $460,292 during the first quarter of fiscal 2021. The suggestion is a far steeper forecast of a 21.5% decline in the next six months.

The housing market situation right now

Experts predicted that the high unemployment rates due to the pandemic would cause a significant decline in demand for housing. However, the low interest rate environment has entirely offset the negative impact, and housing market activity has increased in the last few months.

Sales were up 6.2% in Canada during August, marking the fourth straight month of increasing housing activity. The benchmark prices in August 2020 were 9.4% higher than the same period last year.

While the housing market seems to defy all logic, CMHC Chief Economist Bob Dugan warned home buyers that the overall market trend would remain weak even if he is wrong about when the housing price decline will hit its bottom. He insists that the home prices will go down – it's only a matter of time.

Housing price trends in the last 15 years

Canada's economy relies a lot on its housing market. Housing prices in Canada have increased by 90% in the last 15 years. This is the highest growth in housing prices worldwide. The second-highest rate of increase in the same period has been Germany with a modest 32%.

The average housing prices in the United States fell by 3.3% during the first quarter of 2020. Canada's average housing prices appreciated 3.4%. Canada's housing market is showing surprising resilience during a weak global economy. The increase in prices comes despite the fact that Canada's immigration rate has drastically declined. It is one of the key drivers of Canada's housing demand and will gradually affect on the economy.

The effect of a significant drop

If Canada's housing market sees a drastic reduction in demand and lowered housing prices, it could spell bad news for the entire economy. However, certain stocks on the **TSX** could suffer more than most due to a housing decline. Shares of the **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) could drastically tumble if the housing market crashes.

CIBC has a higher exposure to Canada's housing market than its closest peers among Canada's Big Five banks. It is a well-capitalized financial institution. However, it is still prone to short-term weakness. The bank declined around 40% between February and March 2020. The stock has recovered almost to reach its pre-pandemic prices at writing. Still, it is over 12% below its 52-week high.

The high unemployment rates and the low-interest-rate environment can drastically impact its profit margins. If unemployment rates see an improvement, it could see some additional liquidity due to falling interest rates.

Foolish takeaway

It is impossible to predict when a housing market crash will happen accurately. However, investors should be prepared for the time this market crash arrives. CIBC is a high-quality stock that could take a beating amid a housing price decline. I suggest scooping up the bank's shares for its long-term reliability because the prices will likely become quite attractive.

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