Canada Housing Market Crash Is for Real: How Could It Affect You?

Description

The prolonged COVID-19 pandemic continues to hammer businesses, the jobs market, and the broader market. In its recent report, Canada Mortgage and Housing Corporation (CMHC) painted a grim picture of the Canadian housing market with dismal expectations — pointing toward the possibility of a crash.

The Canadian government's housing authority suspended its housing market assessment report for several months after February 2020 due to the unavailability of enough housing market data to analyze and forecast. The latest report is mainly based on preliminary data for the quarter ended in July 2020. Before discussing how the housing market crash could potentially affect millions of Canadians, let's take a closer look at some key highlights of CMHC's latest report.

Canadian housing market crash

According to CMHC's third-quarter report, the overall Canadian housing market continues to be in a moderate vulnerability zone. The vulnerability of many regions like Ottawa, Moncton, and Halifax has increased significantly between February to September this year — mainly due to overvaluation and price acceleration. The pandemic has badly affected the jobs market and the real personal disposable income of millions of Canadians — leading to a countrywide rise in housing market overvaluation.

Notably, these overvaluation estimates take personal disposable income, population, interest rates, and some other housing market fundamentals into account.

What could worsen the housing collapse

CMHC's Q3 report also acknowledges a clear devastating impact of COVID-19 related shutdowns on the economy that could potentially lead to a recession in the near term. Due to the pandemic, several industries — such as autos, airlines, entertainment, and hospitality and travel — are struggling to survive. At the moment, there's no immediate respite in sight for these industries as the second waveof the pandemic is making their challenges even bigger.

These factors could very well lead to a recession much sooner than expected and could make the housing market situation worse.

You must do this to protect yourself

If you have direct exposure to the housing market or if you own stocks of companies that have big exposure to it, you must act before it's too late. The first step to protecting yourself from a potential housing market collapse would be to diversify your investment portfolio so that it doesn't heavily rely on sectors that could be under immense pressure with the crash.

For example, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) are known for their large exposure to the housing market. A nationwide housing collapse could trigger a massive sell-off in the shares of these banks. In the recent quarter, the core banking segment of these two banks performed terribly.

RBC registered, and 18% year-over-year (YoY) decline to $ 1.4 billion in its net income from personal and commercial banking segment. At the same time, TD Bank's net income from US and Canadian retail segments in the last quarter fell by 48% and 33% YoY, respectively.

This could be one reason why the shares of these banks are still trading on the negative territory on a year-to-date basis. While Royal Bank of Canada stock has lost 5% in 2020, Toronto-Dominion Bank has seen 13% value erosion. I find it a little surprising that some Bay Street analysts are still slightly positive on these two banks. Analysts' consensus price target for the next 12-months reflects roughly 6% upside in the shares of TD Bank and RBC. I don't expect their shares to rise much unless their core banking operations showcase a major and consistent recovery in the coming quarters.

Foolish takeaway

Weak economic outlook and the high unemployment rate can turn current moderate housing market vulnerabilities into a big housing bubble. That's why if you own any stocks of companies with exposure to the housing market, you should add some fundamentally good and cheap stocks in your portfolio now.

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Author
jparashar