This Big Bank Sees Housing Prices Taking a Big Hit in 2021

Description

Canada's housing market remarkably broke records in 2020. When everybody expected the feared and seemingly fabled housing market crash to occur, the housing market has rallied amid the pandemic. While it may make some investors think that the housing price decline predicted by experts is no longer in the picture, one big bank sees the opposite happening in 2021.

National Bank of Canada (TSX:NA) recently notified its investors that the financial institution is preparing itself for falling home prices in the near future. A part of the Big Six Banks, NBC notified investors that it revised its outlook on the housing market based on data it analyzed up to October 31.

The bank presented different forecast scenarios and how they could affect housing prices in 2021. Take a closer look at its predictions on housing prices in 2021 and how you should consider preparing for it.

The base case prediction

The base case presented by NBC predicts a modest 5.2% decline in housing prices over the next 12 months. The bank sees unemployment rates at 8.9% in the same period, with the GDP making a 3% climb. The base case scenario presents a surprisingly low decline in housing prices than the predictions made by the Canada Mortgage and Housing Corporation (CMHC).

Optimistic forecast

The bank also has an optimistic scenario and how it could see a slightly lower decline. The bank's optimistic scenario entails that the GDP grows by 3.7% and unemployment settles down at 8.4% in the next 12 months. Under these conditions, NBC predicts a housing price decline of 1.5% in 2021.

Worst-case scenario forecast

NBC's worst-case scenario for the housing price decline entails a slight decrease of 0.4% in the GDP along with unemployment rates climbing to 10.4% in the next 12 months. In this scenario, the bank predicts a 9.9% decline in housing prices.

National Bank of Canada's worst-case scenario for housing prices in 2021 resembles the predictions made by other financial institutions and non-vested risk firms. These are numbers for the national decline. It means that overvalued markets are likely to suffer the most. Undervalued markets may also see a decline but can fare better than the overvalued markets.

Preparing for the housing price decline could entail reconsidering real estate investments and moving to more reliable assets. The National Bank of Canada is the sixth-largest bank in the country. It does not have an immense international presence. In fact, 62% of its revenue comes from Quebec alone. However, the financial institution has expanded its operations to the rest of Canada in recent years.

As a relatively smaller bank, National Bank can implement changes and adopt new strategies faster than the rest of the Big Six Banks. It is also the best growth stock in the banking sector. It is trading for $72.40 per share with a juicy 3.88% dividend yield at writing.

Foolish takeaway

The possibility of a housing price decline and a second market crash is real. However, we might not see either of them until 2021. If you fear a significant housing price decline and its effects on your capital, I would suggest reallocating your funds.

Consider investing in stocks that can weather the short- to medium-term volatility well and provide you with significant long-term returns. I think that the National Bank of Canada could be an outstanding investment for this purpose.

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