Why the Canada Housing Correction Could Be Short

Description

The Canada housing market has grabbed international headlines due to its meteoric rise since the start of the pandemic. In truth, the Canada housing market was already frothy coming into the new decade. Some experts expected that the pandemic would lead to a general cooling that would give prospective buyers some relief. However, the opposite occurred. Today, I want to discuss why a short-term correction may be in the cards in the months ahead.

Recent data shows a cooling in major markets

In late March, I'd discussed whether a Canada housing correction was imminent. Home sales dipped 12.5% around the country in April. However, this was still a record and up 256% from the previous year. National home prices were up nearly 42% from the same period in 2020.

The Canada Mortgage and Housing Corporation saw its predictions for a general cooling go up in smoke in 2020 and early 2021. It now projects that sales and prices will slow from the red-hot pace set during the COVID-19 pandemic. However, it stipulated that the country would need to return to business as usual in the months ahead.

Canada's vaccine rollout has picked up significantly in the spring, but we are unlikely to see a return to something that resembles normalcy until the end of summer or the beginning of the fall. Moreover, the pandemic has wreaked havoc on small businesses and key service sectors. The government will feel immense pressure when it attempts to draw back on benefits it has introduced.

The government is moving to draw down on speculation in Canada housing

Analysts and economists at Canada's top commercial banks have sounded warnings on the Canada housing market for months. Recently, the Bank of Canada has also stated that it is monitoring the situation. It did not take long for action to follow.

This month, the federal government announced that it would tighten stress test rules as Canadian household debt continued to increase to troubling levels. The Office of the Superintendent of Financial Institutions said that, effective June 1, the qualifying rate on uninsured mortgages would be set at two percentage points above the contract rate or 5.25%, whichever is greater.

In previous cycles, we have seen stress tests have a limited impact on driving the trajectory of the Canada housing market.

This pullback will be temporary

The Canada housing market is long overdue for a pullback, but it may be short lived. This will be good news for top TSX stocks like **Equitable Group** and **Home Capital**, two of the largest alternative lenders in the country. Shares of Equitable Group have climbed 34% in 2021 as of close on May 25. The stock has soared 123% from the prior year. Meanwhile, Home Capital stock is up 12% in 2021 and 89% year over year. Both companies have posted strong growth in mortgage originations and in earnings.

The Canada housing market will continue to benefit from low supply in major metropolitan areas. Post-pandemic conditions will also force historically low interest rates to hold in the foreseeable future. Moreover, Canada has its eyes on higher immigration targets in heading into the middle of the decade. This will keep demand sky high for one of the world's hottest real estate markets.

CATEGORY

1. Investing

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Investing

Date
2025/09/08
Date Created
2021/05/29
Author

aocallaghan