Could the War in Ukraine Have Any Impact on the Canadian Real Estate Market?

Description

Someday, when the history of the 21st century has been written and bound, historians will no doubt mark the Russo-Ukrainian war as a turning point in the relationship of media and European war — the first to be *digitized* extensively.

The fact that you can watch, from a shaky iPhone camera, the president of Ukraine implore his people to fight, or missiles fly toward a residential block, or even see the aftermath, almost in real time, of battles fought for Ukrainian strongholds, makes this war feel so close to home, even if an ocean and a patchwork of European nations separates Canadians from it.

But it *is* close to home. The Canadian economy is entangled in Ukraine and Russia as much as it's entangled in other nations in other parts of the world. That has inevitably made Canadians ask: can the war in Ukraine have any impact on the Canadian housing market?

TL;DR: yes, but it depends heavily on how it affects the economy in the long run, and if the Bank of Canada decides not to raise the prime rate higher. Let's take a deeper dive.

How the war could impact the market

The conversation around real estate and the war in Ukraine inevitably turns around one concern: interest rates.

The Bank of Canada has, for the most part, been resolute on their decision to hike rates in spite of the war in Eastern Europe. It's old news. On March 2, they raised the prime rate to 0.50%, which has since had ripple effects on mortgage rates around the country.

Canadians with variable mortgages are feeling the brunt of rate hikes, with those taking out new fixed-rate mortgages likely to feel it next.

We know the Bank of Canada has put interest rates on a "rising path." They plan to make adjustments over the year — some adjustments will be steep; others, a leisurely stroll. But with the war in Ukraine, some analysts speculate a reversal (or halt) in these rate hikes. Their reason — if the war batters the Canadian economy, it might be in the Bank of Canada's best interest to lower rates and stimulate growth, as they did at the beginning of the pandemic.

Right now, the war *has* battered our economy. Just look at gas. In some places, we're seeing an eye-popping price of $2 per litre. And if you think that's high, brace yourself: we're not even feeling the impact of summer driving on gas prices.

Then there's food. As we've noted before, Ukraine and Russia are major exporters of wheat, corn, and legumes. With one fighting for its home, and the other sanctioned from the West for invading, neither country is in a position to export these essential products. That means food prices will likely spike in the next three to six months, with meat inflating over the long term (cows and pigs have to eat, too).

Should these two factors slow down our economy, the Bank of Canada might have a new problem on hand: how to speed things up. In spite of inflation, they might have to keep borrowing rates low, if only to help Canadians overset the rising cost of living. That, in turn, could make the housing market frothier, as low rates tend to produce FOMO in homebuyers.

This all sounds speculative: Will it really happen?

Yes, it is speculative. As of today, the Bank of Canada has shown no indication they will reverse their decision to hike rates. And though food and gas are on the same path as interest rates — *up* — it hasn't sent the Canadian economy spiraling downward.

If anything, the Bank of Canada might flatten the steep path upward, raising the rate in a much slower-than-anticipated pace. For now, expect rates to keep climbing with demand slowly cooling over the year.

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