MORTGAGE PROFESSIONALS CANADA

Rapidly Evolving Expectations in the Housing Market

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1.0 Introduction

This is the second report (out of an expected four) that explores changes in consumer attitudes and expectations about housing and mortgages, during the COVID-19 emergency.

The first edition was based on a consumer survey that was conducted during June 29 to July 13, and the report was published on August 6.[1]

For this second edition, the consumer survey occurred from August 7 to 24. This survey included 1,000 Canadians: 702 were homeowners with mortgages, 233 were renters and 65 were others (usually people who live with their parents).

As was discussed in the first edition, in this rapidly changing environment, any economic forecasting is even more uncertain than it usually is, because of extreme uncertainty about the key factors that will drive consumer decisions.

As an alternative to forecasting, in these reports, we are creating some new data on shifting attitudes and expectations about the housing market. This information will help us interpret evolving market conditions and, possibly, provide clues about future changes.

Extreme volatility

During March and April, economic indicators plunged by unprecedented amounts. Subsequent months have seen unprecedented rises. In some cases (especially for retail spending) the most recent data shows that activity has returned to the pre-pandemic level. For others, most notably employment and GDP, activity has recovered only part of the losses, and the data continue to show severe impairment. For example, during March and April, employment in Canada fell by 3.0 million jobs. As of August, the level of employment is still 1.1 million jobs (5.7 percent) lower than in February. Total hours worked are 8.6 percent lower than in February.[2]

Housing market indicators have also been highly interesting. As can be seen in the chart (next page), resale market activity (as reported by the Canadian Real Estate Association (CREA)) fell very sharply in April (to an annualized rate of 200,000), but recovered somewhat during May (307,000) and then more substantially in June (506,000). For July, sales were at an all-time record of 637,000. (As is discussed below, a further large rise is likely for August.)

By contrast, looking at sales over the past 20 years, and then making an adjustment for population growth, the long-term average sales rate is about 530,000.[3]

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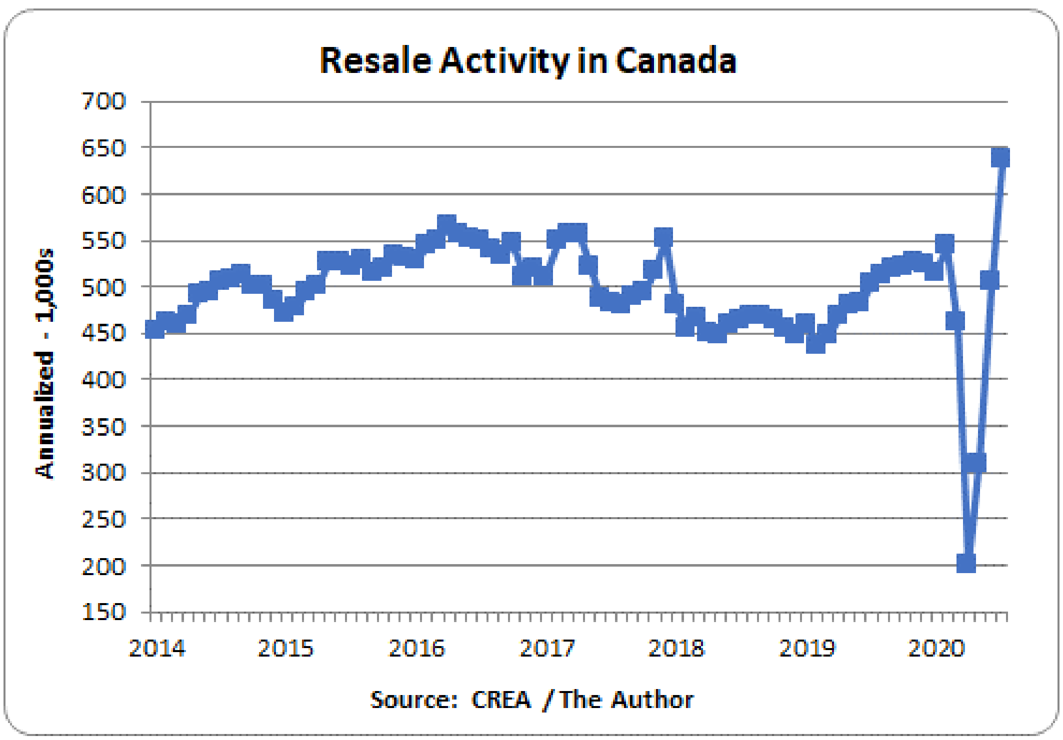
[1] The first edition report can be found here: https://mortgageproscan.ca/docs/default-source/consumer-reports/rapidly-evolving-expectations-in-the-housing-market---report-1-august-2020-en.pdf

[2] These calculations are based on seasonally adjusted data from Statistics Canada's Labour Force Survey.

[3] Calculated for 2001 to the present.

Opinions will differ on how this data should be interpreted. Some people focus on the July data (with sales about 20 percent above the long-term population-adjusted average) and conclude that activity is unjustified during an emergency (the result of the extremely low mortgage interest rates that are now available). Others look at the average number of sales for the pandemic period (412,000 from April to July), which is 22 percent below the population-adjusted average, and conclude that home-buying has been sharply reduced, that the July data represents only a partial recovery of sales that did not happen from April to June.

It is expected that CREA will publish data for August on September 15. At the time of writing (September 4) partial data was available for some local real estate boards across Canada (representing about 60 percent of the country). From this partial data, it appears that the sales rate for August will show a further very large increase, to an annualized rate between 725,000 to 750,000 sales. However, with this data, the average sales for April to August might be 475,000 to 480,000, which would remain below the long-term average (perhaps by 10 percent).



One of the reasons we look at economic trends is that, most of the time, the recent past gives us reasonably reliable clues about what might happen in the near future. That is not the case in these extremely abnormal times: For each month since February, the newly released data on sales has failed very badly at foretelling what would happen in the following month.

That said, the data from the first wave of this consumer survey showed that many Canadians experienced deteriorations in their personal economic circumstances (which affected their attitudes about the housing market). The new data from the second wave shows that there has been some recovery, but the recovery has only been partial. This consumer data is broadly consistent with data for employment and for home sales.

Repeating a note from the first edition of this report:

- Our prior consumer surveys have usually looked broadly at the population. In this survey, we have chosen to focus on two groups within the population: non-homeowners who think that they might buy a home during the coming three years, and mortgage holders (who, depending on their situations, might have difficulty making their payments during this emergency period).
- Because of the narrow sample used here, readers should be aware that none of the findings applies to the entire population—they are specific to the two groups that were surveyed. For this reason, readers should not compare this data with our prior research. Where possible, we are contrasting these new estimates with prior data for the same population subsets.

This report has four major sections that report on consumer opinions and expectations.

How COVID-19 has affected employment and incomes

Within the population that we surveyed, the data indicates that 59 percent now have incomes that are the same or higher than prior to COVID-19. This is an improvement from the first wave, when the share was lower, at 54 percent. The data continues to show that incomes have been impaired for a substantial minority (22 percent) of Canadians. The remainder of the people surveyed indicated that they weren't working previously (14 percent) or indicated that they have experienced some other impact (six percent).

The survey asked about expectations for changes in personal situations (with regard to employment). The commentary focuses on people who have experienced some impairment of their income: Half of these people are optimistic that there will be some improvement in the coming months, one-quarter expect no change and one-quarter expect worsening.

Expectations about buying homes

We have been surprised by responses showing higher expectations about buying homes in the near future (among non-homeowners, the expectation of buying in the next year has doubled, from seven percent at the end of last year to 14 percent in the first wave of the survey and even higher (16 percent) in the second wave. There has also been a rise in expectations about buying for people who already own their home.

As discussed in the body of this report, these heightened expectations could reflect the sharp reductions in mortgage interest rates, as well as desires to move to situations where social distancing is easier. But, as is also discussed, an increased desire to buy homes won't necessarily result in more actual purchases.

All of this said, the survey data indicates that—so far, at least—the increased desire to buy homes is only partially due to COVID-19.

Attitudes and expectations on topics related to housing markets and mortgages

For a decade, our consumer surveys have investigated opinions on some housing-related and mortgage-related issues. The new data indicates that, in general, opinions have not become more negative during this emergency period:

- Mortgage holders are actually showing reduced levels of regret about their mortgages.
- Homeowners have not become more worried about their ability to weather a downturn in the housing market; however, they show a small reduction in confidence about the hypothetical impact of higher interest rates.
- There is still a high degree of confidence that real estate is a good long-term investment.
- There is still a strong opinion that mortgages are "good debt."
- Not surprisingly, there has been a downshift in confidence about the economic outlook, and there has not been a material improvement in the second wave of the survey. However, it might be surprising that the degree of confidence is almost exactly at the neutral level.
- There is now more confidence that this is a good time to buy a home or condominium.
- There was a big downshift in expectations about the growth of house prices in the first wave of the survey, but there was a substantial rebound in the second wave. In both waves, the average score given was above the neutral level, meaning that there are expectations that prices will continue to rise, but not as rapidly as in the past.
- Concerning interest rates: Every time we have asked, the responses have shown an expectation that rates will rise. This time is not an exception, although the new data from both of the two survey waves indicate that the expected amount of increase might be the smallest we've ever seen.
- Anxiety levels about the personal economic effects of COVID-19 is higher for non-owners than for owners. This is because non-owners tend to be younger and/or have lower incomes, and these groups have been hit harder by the economic fallout.
- Canadians continue to see home ownership as primarily a place to live, and secondarily as an investment. In the COVID-19 period, the opinion has not budged: at 75 percent "a place to live" in the first wave and a very similar 76 percent in the second wave. Canadians see their homes as three-quarters a place to live and one-quarter as an investment.
- Very few Canadians regret becoming homeowners, and that opinion has not changed in the COVID-19 period.

Opinions about the mortgage deferral program

A large majority of mortgage holders (74 percent) expect that they will have "no difficulty" making their payments, and a further 20 percent expect "some difficulty." This leaves six percent who expect a higher degree of difficulty. These figures show a very small improvement compared to the first wave (when 72 percent expected no difficulty).

Opinions about the mortgage deferral program are mixed.

- The share of mortgage holders who see the program as supportive (54 percent) is almost double the share that believes it takes advantage of consumers (29 percent). Very few (just four percent) believe that the program should not be allowed and 14 percent have no opinion.
- The survey asked for opinions about what is motivating the banks to allow deferrals, from a list of five options. Slightly more than half (56 percent) selected one of the altruistic motives and 29 percent chose the selfish motive. Fifteen percent chose the option that banks are only doing what the government wanted them to do.

As is detailed in section 5 of this report, these responses were very similar in the two waves of this survey.

About Mortgage Professionals Canada

Mortgage Professionals Canada (MPC) is the national mortgage industry association representing over 12,000 individuals and 1,000 companies, including mortgage brokerages, lenders, insurers and industry service providers. Our members make up the largest and most respected network of mortgage professionals in Canada. MPC represents members' interests to government, regulators, media and consumers. Together with our members, the association is dedicated to maintaining a high standard of industry ethics, consumer protection and best practices.

The association ensures an effective and efficient mortgage marketplace by:

- Promoting consumer awareness of the benefits of dealing with the mortgage broker channel.
- Advocating for member interests on legislative and regulatory issues.
- Developing, monitoring and promoting responsible mortgage industry standards and conduct.
- Providing timely and relevant information to members and mortgage consumers.

About the Author

Will Dunning is an economist, and has specialized in the analysis and forecasting of housing markets since 1982. In addition to acting as the Chief Economist for MPC, he operates an economic analysis consulting firm, Will Dunning Inc.

About Bond Brand Loyalty

Bond Brand Loyalty is a Canadian-owned global customer experience and engagement agency that specializes in building brand loyalty for the world's most influential and valuable brands. It builds measurable, authentic, and long-lasting relationships through a combination of services that includes marketing research, loyalty solutions, customer experience measurement, marketing and management, customer analytics, live brand experiences, and proprietary technology platforms.

Disclaimer

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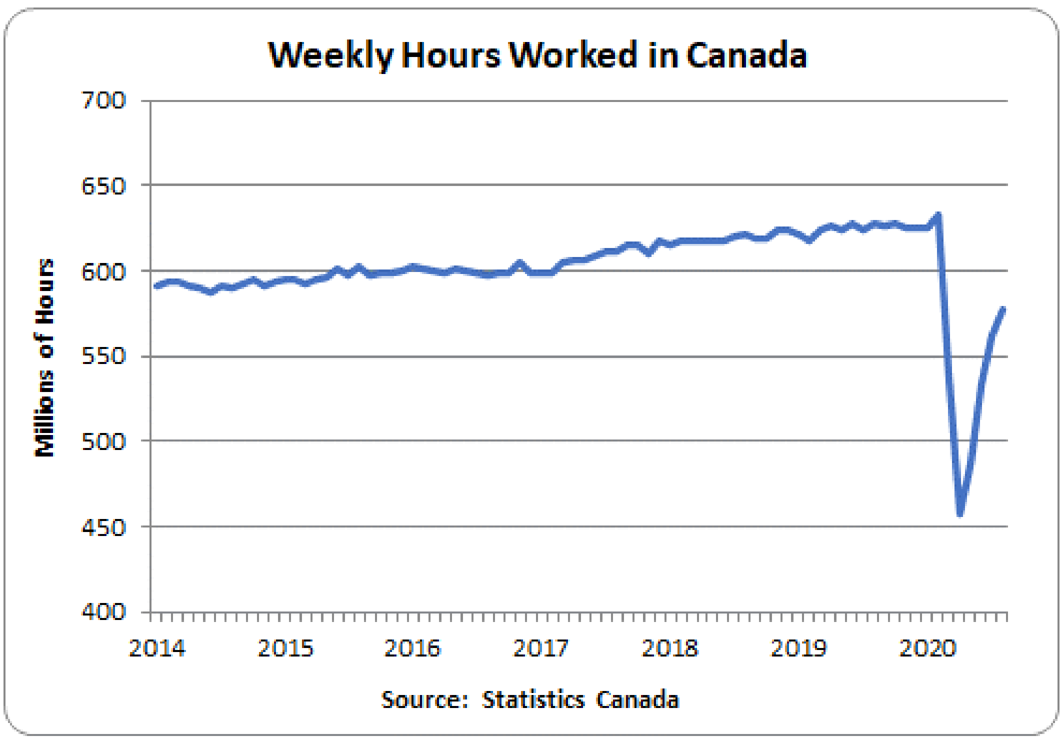
The opinions and conclusions in this report are those of the author and do not necessarily reflect those of Mortgage Professionals Canada or Bond Brand Loyalty.

2.0 Changing Employment Situations

The COVID-19 emergency has affected the Canadian economy very sharply, although evolving data is showing signs of a developing recovery.

In terms of supporting housing demand (for both ownership and renting), the employment situation plays a key role. The employment situation can be portrayed using several different statistics. The chart below uses total hours worked in Canada, as estimated by Statistics Canada's monthly Labour Force Survey. According to these estimates, by April, total weekly hours worked were 28 percent lower than in February. By August, an on-going recovery left total hours 55 million (8.6 percent) lower than in February. As of August, 69 percent of the drop in hours has been recovered. Total hours worked have increased in each of the past four months, but the rate of recovery has slowed: In August, total hours increased by 16 million, versus 28 million in May, 48 million in June, and 28 million in July.



Our survey asked Canadians how their (and, if applicable, their partner's) "employment situation changed as a result of COVID-19." Nine options, plus an "Other" category were provided. The table below summarizes the results for respondents plus their partners. At the bottom of the table, the response options have been collected into major groupings.[4]

[4] Within the subtotals: "Similar (or more) income" combines "Earning a similar amount of money as before," "Was laid off, but I'm back, working for the same money," and "Was laid off, but I'm back, working for more money."

The first wave of the survey showed that homeowners were affected less severely than renters and others (people who don't own or rent, such as living with parents). The second wave indicated that there has been some recovery, as the share that report similar or increased income rose from 54 percent in the first wave to 59 percent in the second wave. It is still the case that non-owners are seeing greater negative effects than owners (for owners, 60 percent report similar or increased incomes, while the share is lower for renters, at 55 percent, and others, at 54 percent). Looking at the data on impaired incomes, the share among home-owners (19 percent) is lower than for renters (25 percent) and others (26 percent).

Table 2-1
Changes in Employment Situations Due to COVID-19

Change in Situation	*Owners*		*Renters*		*Others*		*Total*	
	1st Wave	2nd Wave	1st Wave	2nd Wave	1st Wave	2nd Wave	1st Wave	2nd Wave
Was not working before COVID-19	16%	16%	15%	11%	8%	10%	16%	14%
Earning a similar amount of money as before	55%	57%	40%	49%	42%	48%	51%	55%
Working a similar amount, but for less money	4%	6%	5%	5%	3%	3%	4%	5%
Working less hours now, and making less money	8%	7%	8%	10%	4%	7%	8%	7%
Laid off temporarily	6%	4%	7%	6%	9%	8%	7%	5%
Laid off permanently	1%	1%	3%	3%	5%	4%	2%	2%
Was laid off, but I'm back, working for less money	1%	1%	2%	2%	2%	4%	1%	1%
Was laid off, but I'm back, working for the same money	1%	3%	7%	4%	3%	5%	3%	3%
Was laid off, but I'm back, working for more money	0%	1%	1%	2%	0%	1%	1%	1%
Other	7%	6%	11%	8%	25%	10%	9%	6%
Subtotals								
Similar (or more) income	57%	60%	48%	55%	45%	54%	54%	59%
Impaired Income	20%	19%	26%	25%	22%	26%	21%	20%
Not Working Before COVID-19	16%	16%	15%	11%	8%	10%	16%	14%
Other	7%	6%	11%	8%	25%	10%	9%	6%
Total	100%	100%	100%	100%	100%	100%	100%	100%

Source: Mortgage Professionals Canada survey, 2020 1st and 2nd waves; estimates by the author.
Totals might not add due to rounding.

This survey data is broadly consistent with other research that has been published on changes in the employment situation, which shows that employment impacts have been worst for the groups that typically rent (younger ages and in industries that have low wages).

"Impaired Income" includes five of the options, in order from "Working a similar amount, but for less money" to "Was laid off, but I'm back, working for less money."

We also asked about "your expectations with respect to how your employment situation might change over the coming months." The next table shows the responses (the data includes responses about the expected change for the respondents' partners, where applicable). Comparing the responses across the three tenures, renters and others are more optimistic than owners, as more than 40 percent of renters expect improvement ("significant" or "some"), about 40 percent of others expect improvement, but less than 30 percent of owners expect improvement. Since renters and others have experienced greater negative effects (as was shown in Table 2-1), it makes sense and is encouraging that many renters and others are optimistic about their own situations.

Comparing the two waves of the survey, the responses indicate that there has been a slight reduction in optimism for each of the three tenure groups. For owners, the "optimistic" share fell from 29 percent in the first wave to 27 percent in the second wave, for renters the change was from 46 percent to 42 percent and for others the change was from 41 percent to 38 percent. Combining the three tenures, the total "optimistic" share fell from 33 percent to 31 percent. As can be seen in the third row of data, the shares that expect little or no change increased slightly for each of the groups and for the combined total. The shares that expect worsening ("somewhat" or "significant") showed very little change.

Drawing a final conclusion from Table 2-2 might provide a bit of a litmus test for people's innate optimism or pessimism.

- Some people might conclude that these results show that expectations about employment situations are positive overall (33 percent expect improvements versus 13 percent who expect worsening).
- Others will be concerned that, in the current serious difficulty, only one-third of us expect improvement, almost half expect no substantive improvement and more than 10 percent expect further worsening.
- Others will focus on changes between the two waves. Some will see the diminution in the degree of positivity as bad news. Others will see the stability of the negative expectations (in total, 13 percent expected "worsening" in both waves) as neutral or even good news.

Table 2-2
Expectations About Changes in Employment Situations

Expectations	*Owners*		*Renters*		*Others*		*Total*	
	1st Wave	2nd Wave	1st Wave	2nd Wave	1st Wave	2nd Wave	1st Wave	2nd Wave
I am optimistic there will be significant improvement	12%	10%	22%	17%	22%	19%	15%	12%
I am optimistic there will be some improvement	17%	16%	24%	25%	19%	20%	19%	19%
I expect little or no change	44%	47%	34%	37%	35%	36%	42%	44%
I am worried the situation will somewhat worsen	11%	10%	9%	10%	6%	9%	10%	10%
I am worried the situation will worsen significantly	3%	4%	5%	3%	5%	3%	4%	4%
Not applicable	12%	12%	7%	8%	12%	13%	11%	12%

Total	100%	100%	100%	100%	100%	100%	100%	100%
Source: Mortgage Professionals Canada survey, 2020 1st and 2nd waves; estimates by the author. Totals might not add due to rounding.								

A deeper dive into the data looks at expectations about changes in employment situations versus the current effects of COVID-19 on employment and incomes (but only for the second wave of the survey). Perhaps the most important finding in this table is in the second column of data. The responses show that among people whose incomes have been impaired due to COVID-19, half (50 percent) are optimistic about their employment situations, about one-quarter (22 percent) expect little or no change, and about one-quarter (27 percent) are worried about worsening.

This is another litmus test: Is this cup half empty or half full?

Table 2-3
Expectations About Changes in Employment Situations, by Current Impact of COVID-19

Expectations	*Impact of COVID-19 on Employment and Income*				*Total*
	Similar (or more) income	*Impaired Income*	*Not Working Before COVID-19*	*Other*	
I am optimistic there will be significant improvement	12%	16%	8%	13%	12%
I am optimistic there will be some improvement	17%	34%	5%	13%	19%
I expect little or no change	58%	22%	25%	25%	44%
I am worried the situation will somewhat worsen	9%	17%	2%	3%	10%
I am worried the situation will worsen significantly	2%	9%	2%	3%	4%
Not applicable	2%	2%	58%	45%	12%
Total	100%	100%	100%	100%	100%

Source: Mortgage Professionals Canada survey, 2020 2nd wave; estimates by the author.
Totals might not add due to rounding.

3.0 Expectations About Home Buying

This survey has investigated expectations about home buying.

The new data indicates that there has been an increase in the percentage of Canadians who expect to buy a home in the coming year (the first row of data in the next table) and in the following two years (the second row).

In both of the two waves of the 2020 survey, the percentage of non-owners who expect to buy a home in the coming year has doubled (or more), from seven percent in the two prior surveys to 14 percent in the first wave and 16 percent in the second wave. Similarly, there has been a large drop in the percentage who expect to never buy a home (the third last row of data).[5]

The data also shows an increase (although the rise is much less substantial) in the share of owners (who have mortgages) who expect to buy.

As was discussed in the report on the first wave of the survey, interpreting the new data is challenging.

- It is possible that the evolving emergency has caused more non-owners to decide that they want to buy homes (for example, to move out of an apartment building, where social distancing is challenging, to a lower-density environment).
- At the same time, lower interest rates are making ownership more affordable, and rates were even lower when the second wave of the survey was conducted.
- We also need to bear in mind that not everyone who expects to buy has realistic prospects of actually buying. Also, some people, when they research their options, may decide not to buy. Or, they might discover that because of the mortgage stress tests, they would be unable to obtain the financing they would require.
- Therefore, not all of these people who expect to buy homes will actually buy within the time frames that they have indicated.
- Furthermore, this is data from a sample survey, and these surveys occasionally produce "out-riders" (inaccurate estimates).

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5 In this new survey, our final dataset includes non-homeowners only if they expect to buy during the coming five years. But, in conducting the survey we did contact a broader sample of non-owners, in order to ask them if they expect to buy (those non-owners who do not expect to buy within the next five years were then removed from the rest of the survey). The data shown in this table for non-owners is based on all of the non-owners who were asked this screening question. On that basis, we believe that the data reasonably reveals that there has been a substantial rise in home-buying interest among non-homeowning Canadians.

Table 3-1
Consumer Responses on Expectations of Buying a Home,
By Date of Survey

Period of Expected Purchase	*Non-Owners*				*Homeowners (with Mortgages)*			
	Fall 2018	*Yearend 2019*	*2020 – 1st Wave*	*2nd Wave*	*Fall 2018*	*Yearend 2019*	*2020 – 1st Wave*	*2nd Wave*
In the next year	7%	7%	14%	16%	8%	7%	9%	10%
In the next 2 years	16%	19%	23%	25%	10%	11%	14%	12%
In the next 5 years	27%	22%	27%	24%	23%	25%	23%	21%
In the next 10 years	19%	15%	15%	10%	16%	15%	15%	18%
Sometime after the next 10 years	7%	6%	7%	7%	22%	20%	19%	20%
Never	26%	32%	14%	19%	20%	23%	19%	19%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Subtotal - Next 5 Years	49%	47%	64%	65%	41%	43%	47%	43%

Source: Mortgage Professionals Canada survey, fall 2018, Yearend 2019, and 2020 1st and 2nd waves; estimates by the author.

People who indicated that they expect to buy within the next three years were asked: "Which of the following is the main reason you are considering buying?" (seven options plus "Other" were provided). As is shown in the next table, among homeowners the most common reason selected is "My current home is no longer suitable (i.e. size, location)." Among renters, the most common reason is "I want to live in a nicer home" and for other people (who neither own nor rent, which usually means they live with parents) two responses were tied for first place: "Low interest rates make this a good time to buy" and "Other."

For people selecting "Other" as the response, there was an option to provide the reason. Among the non-owner/non-renter respondents ("Others"), the most common responses related to wanting to leave the parental home. Among renters, the "Other" responses were mostly about not wanting to rent or wanting to own. For current homeowners, there was just a handful of "Other" responses.

Comparing the responses for the two waves, several shifts can be seen:

- For each of the three tenure groups, low interest rates have become more important as the reason for wanting to buy. Each week, I create an opinion/estimate on typical rates for five-year fixed-rate mortgages advertised by major lenders. At the time of the first wave of this survey (late June/early July), the estimate was 2.3 percent. For the second wave, the estimate was 1.95 percent. This is, by far, the lowest rate ever recorded. The previous record low was 2.5 percent during the summer of 2016.
- For the two groups of non-owners, there was a downshift in the opinion that this is a good time to get a deal, which is consistent with the considerable market strengthening (and increased upward pressure on prices) that has been seen recently.
- The idea that "my current home is no longer suitable" has become less prevalent among homeowners, but more prevalent for non-owners.

Table 3-2 *Reasons for Wanting to Buy a Home, by Current Housing Tenure*						
	Owners		*Renters*		*Others*	
	1st Wave	2nd Wave	1st Wave	2nd Wave	1st Wave	2nd Wave
1. Low interest rates make this a good time to buy	10%	16%	12%	18%	12%	25%
2. The current situation makes this a good time to get a deal	11%	12%	14%	9%	15%	11%
3. My current home is no longer suitable (i.e. size, location)	38%	31%	14%	19%	12%	22%
4. I want to live in a nicer home	13%	16%	28%	27%	16%	11%
5. I want to live somewhere less expensive	9%	4%	11%	9%	4%	6%
6. I can no longer afford my current home	3%	4%	2%	1%	0%	0%
7. I want to be closer to friends and family	5%	6%	3%	3%	8%	2%
Other	10%	11%	17%	13%	33%	25%
Total	100%	16%	100%	18%	100%	25%
Source: Mortgage Professionals Canada survey, 2020 1st and 2nd waves; estimates by the author.						

For those who indicated that the reason was that their current home is no longer suitable, we asked about reasons the dwelling isn't suitable. People could select any (one or more) of the reasons, from a list of eight, plus "Other."

In the table below, the results are summarized in two ways. The first block (the first two columns of data) summarizes the responses as percentages of those who see their dwelling as unsuitable. The second block shows the responses as percentages of the total sample (of people who expect to move in the next three years).

In designing this part of the survey, we were wondering to what extent people found their current dwelling unsuitable for reasons related to COVID-19. That consideration resulted in some of the response options that were offered (especially the options that are numbered 1, 5, 6, and 7 in the next table). The responses suggest that, to this point, COVID-19 has had some effect on desires to move. Among homeowners who expect to move, 17 percent chose one of the Covid-related reasons as the main reason for wanting to move. For non-owners, the share was 14 percent.

Table 3-3 *Reasons Current Dwelling is Not Suitable*				
	As % of "Not Suitable"		*As % of All Who Expect to Buy in Next 3 Years*	
	Owners	*Non-Owners*	*Owners*	*Non-Owners*
1. Spending more time at home means I need more space	27%	41%	8%	8%
2. I don't need all of the space I have now	33%	2%	10%	0%
3. I need to be closer to where I work	6%	14%	2%	3%
4. I no longer need to be as close to where I work	6%	5%	2%	1%
5. I want to live somewhere where social distancing is easier (i.e. no elevators, fewer or no roommates, less crowded sidewalks and stores, etc.)	17%	12%	5%	2%
6. When quarantined, the property doesn't support my mental health or provide enough outdoor space (i.e., a garden, balcony, terrace, etc.)	19%	29%	6%	6%
7. The space isn't conducive to the inclusion of a dedicated work area and can't be or isn't easily modified	15%	38%	5%	7%
8. I want to rely less on public transit	8%	5%	3%	1%
Other	19%	24%	6%	5%
Subtotal – One or More of Reason 1, 5, 6, or 7.	54%	71%	17%	14%
Source: Mortgage Professionals Canada survey, 2020 2nd wave; estimates by the author.				

The survey asked people who expect to buy a home at any time: "What impact did COVID have on this decision?" As is shown in the next table, among people who currently own their homes, three-quarters see their decision as unaffected by COVID-19. On the other hand, among non-owners, a large share indicate that they have to delay their home purchase. As was shown earlier, the impacts of COVID-19 on employment and incomes has been worse for non-owners than for owners. A small share of prospective buyers indicated that COVID-19 has caused them to accelerate their purchase.

Table 3-4 *Impact of COVID-19 on Expectations About Home Buying, by Current Housing Tenure*			
	Owners	Renters	Others
There was no impact	75%	41%	42%
I am planning to purchase sooner than I originally would have	7%	16%	9%
I had to delay my purchase	18%	42%	49%
Total	100%	100%	100%
Source: Mortgage Professionals Canada survey, 2020 2nd wave; estimates by the author.			

The survey also asked current homeowners about their plans to sell their current home. Not surprisingly, expectations about selling are very similar to their plans about buying. A follow-up question asked if COVID-19 has affected those plans. A majority (61 percent) indicated there was no impact. Just 10 percent indicated that they are "planning to sell sooner than I originally would have" and 28 percent are delaying the sale of their home.

In both of the two waves of this survey, large numbers of homeowners indicated that COVID-19 was causing them to delay home purchases and sales. But, the share who expect to delay a sale (28 percent) is larger than the number who expect to delay a purchase (18 percent). This suggests that there could be inadequate flows of listings into the market. In addition, the survey data (shown in Table 3-1) indicates that there is increased interest in buying by people who aren't yet homeowners. This combination of restricted supply with potentially elevated interest in buying could cause a tightening of the overall "balance" in the market, increasing pressures for prices to rise.

That said, the responses reflect the circumstances that currently exist. The data do not necessarily provide any reliable predictions, because we will see further substantive shifts in conditions and therefore in expectations and actions by consumers. In particular, it might be that non-owners are currently overly optimistic about their prospects for buying homes.

Even more importantly, future decisions to buy and sell homes will be highly influenced by changing employment situations, by how much need there is for income supports and whether adequate supports can be provided.

In addition, it will matter a great deal whether mortgage deferrals will be needed for longer than is currently anticipated and whether deferral periods can be extended if needed.

At this time, there appears to be some reluctance on the part of mortgage lenders and regulators to allow for longer deferral periods. In particular, the federal regulator announced on August 31 that new deferrals approved by lenders in September will only qualify for three months of relief from additional capital requirements. After October 1, any new deferrals will not qualify for any capital relief.[6] As such, we expect that as of next month there will be very few, if any, new deferral participants or extensions of existing deferrals.

In short, a key issue for the future evolution of the housing market is whether there will be large numbers of homeowners who are forced to sell their homes, or have their homes repossessed, due to economic hardship.

[6] The OSFI announcement can be found here: https://www.osfi-bsif.gc.ca/Eng/osfi-bsif/med/Pages/20200828_nr.aspx

4.0 Consumer Sentiment

Attitudes to topical questions

This special report repeats a line of questioning that has been used since 2010, investigating attitudes on issues related to housing markets and mortgages. The survey respondents have been offered various statements and asked to indicate the extent to which they agree or disagree with each, on a 10-point scale. A response of 10 would indicate complete agreement and a response of 1 would indicate complete disagreement. Average responses of 5.5 out of 10 would indicate neutrality.

As was discussed in the introductory section, this edition of the survey has targeted two subsets of the population, rather than being structured as a "general population" sample. Therefore, the results found here should not be compared to prior surveys. However, to permit some comparisons, the first table below does include re-estimates, for the same subsets of the population, from the most recent prior survey (yearend 2019).

The first subset of the population includes homeowners who have mortgages. The second subset includes tenants and other non-owners (such as living with parents) who expect to buy a home within the next three years.

We are, of course, keenly interested to see whether the current results differ from the pre-COVID-19 results, and whether the second wave of this survey showed any changes compared to the first wave. These estimates indicate:

- There is moderately strong agreement that "low interest rates have meant that a lot of Canadians became homeowners over the past few years who should probably not be homeowners." Among homeowners, there has been only a trivial change in the level of agreement with this statement. For the non-owners, there was a sizable drop in agreement in the first wave, but then a partial rebound in the second wave. Their average score of 6.67 out of 10 is above the neutral figure of 5.5.
- On the other hand, and as we have seen in prior surveys, mortgage holders have low levels of regret about the size of mortgages that they took on. The level of regret fell in the first wave of this survey and again in the second wave. The figure for the second wave (3.37 out of 10) is tied (with the fall of 2018) for the lowest level seen in the history of these consumer surveys.
- As we have commented in prior years, the combination of these two questions poses a paradox: On a collective basis, consumers believe their own choices have been responsible, but collectively they believe that other people are being irresponsible. This inconsistency suggests that these beliefs about "other people" are shaped by messages in the media and from pundits more than by actual behaviour.

- In this wave of the survey, a small minority (just seven percent) indicated that they have elevated levels of regret (8 to 10 on the 10-point scale) about the size of their mortgages, while 60 percent indicated quite low levels of regret (1 to 3).
- Canadians' confidence about their ability to weather a downturn in the housing market (through reduced home prices) has not weakened. For the homeowners, the average score is unchanged (6.91 out of 10 in the first wave and 6.94 in the second wave). For non-owners, there was a small improvement, from 6.59 at the end of last year to 6.75 in the first wave and 6.83 in the second wave.
- In the new data, just eight percent of responses indicate quite low levels of confidence (ratings of just 1 to 3 on the 10-point scale). Forty-six percent indicated high confidence (8 to 10) and 46 percent were in the mid-range (4 to 7).
- For a similar proposition "I/My family would be well positioned to handle a potential increase in mortgage interest rates," the responses are slightly less positive, and have softened compared to the end of 2019. For homeowners, the average response fell from 6.39 out of 10 at the end of 2019 to 6.11 in the first wave and 6.17 in the second wave. These scores remain slightly above the neutral score of 5.5. For non-owners there was a larger drop in the first wave, from 5.94 to 5.34, but then there was a partial recovery, to 5.63 in the second wave. These scores remain close to the neutral level.
- Looking at the detailed responses (in the new edition of this survey), a small minority (17 percent of homeowners and 20 percent of the renters and others) gave low ratings (1 to 3 on the 10-point scale) indicating some anxiety about the impact of higher interest rates. On the other hand, larger minorities (35 percent of homeowners and 25 percent of renters and others) gave high ratings (8 to 10), indicating limited anxiety. The remainders (48 percent for owners and 55 percent for renters and others) gave mid-range ratings of 4 to 7.
- Canadians continue to agree strongly with the proposition that real estate is a good long-term investment, and on this point the scores have not fallen in the COVID-19 period. The average rating among homeowners was unchanged in the first wave (at a quite high 7.45) and was fractionally higher in the second wave (7.53). Scores have increased among non-owners (from 7.17 at the end of 2019 to 7.39 in the first wave and 7.49 in the second wave).
- Very few (just four percent) disagreed strongly with this proposition (scores of 1 to 3) while 58 percent agreed quite strongly (scores of 8 to 10). Mid-range responses were given by 39 percent.
- The level of confidence about the economy fell in the first wave (but was still very close to the neutral figure of 5.5). There were only fractional changes in the average scores for the second wave of the survey. Opinions vary quite widely: Within the new data, 22 percent of responses were quite pessimistic (scores of 1 to 3 out of 10), and another 22 percent were strongly optimistic (scores of 8 to 10). Fifty-seven percent of responses were mid-range (4 to 7).
- There is still substantial agreement that mortgages are "good debt." The current figures are slightly higher compared to the end of last year. Only four percent of those surveyed disagreed strongly with this statement (1 to 3 out of 10), while 55 percent agreed strongly (scores of 8 to 10) and 41 percent were mid-range (4 to 7).

- A new question in this edition of the survey asked about how COVID-19 has affected anxiety about finances. For homeowners, the impact has been less substantial (average rating of 5.12 in the first wave and 5.14 in the second wave) than for non-owners (average of 6.25 in the first wave and 5.86 in the second wave). The data from the second wave does show that there has been some lessening of anxiety among non-owners.
- The detailed data show that 24 percent of the respondents have high levels of anxiety (scores of 8 to 10). Among homeowners, 22 percent have high anxiety. For non-owners, the share is somewhat higher, at 30 percent (this is down from 40 percent in the first wave of the survey). Relatedly, among homeowners, 33 percent indicated that they had a low anxiety level (scores of 1 to 3 out of 10), but among non-owners just 22 percent indicated low levels of anxiety. Moderate levels of anxiety (scores of 4 to 7) were indicated by 46 percent of owners and 49 percent of non-owners.

Table 4-1
Summary of Responses to Topical Questions by Housing Tenure
(Average Scores on a Scale of 1 to 10)

	Homeowners			*Non-Owners (Expect to Buy)*		
	Yearend 2019	*2020 – 1st Wave*	*2nd Wave*	*Yearend 2019*	*2020 – 1st Wave*	*2nd Wave*
Low interest rates have meant that a lot of Canadians became homeowners over the past few years who should probably not be homeowners	6.62	6.65	6.79	6.89	6.44	6.67
I regret taking on the size of mortgage I did	3.81	3.54	3.37	NA	NA	NA
I/My family would be well-positioned to weather a potential downturn in home prices	6.91	6.91	6.94	6.59	6.75	6.83
I/My family would be well positioned to handle a potential increase in mortgage interest rates	6.39	6.11	6.17	5.94	5.34	5.63
Real estate in Canada is a good long-term investment	7.45	7.45	7.53	7.17	7.39	7.49
I am optimistic about the economy in the coming 12 months	6.20	5.53	5.58	6.07	5.50	5.40
I would classify mortgages as "good debt"	7.40	7.31	7.50	6.90	6.81	7.02
As the result of COVID-19, I am anxious about my/my family's financial situation over the next few months	NA	5.12	5.14	NA	6.25	5.86

Source: Mortgage Professionals Canada survey, Yearend 2019 and 2020 1st and 2nd waves; estimates by the author.

A second look at the survey data reviews the current responses, segmented by how COVID-19 has affected employment and incomes. For that purpose, the consumers' reported impacts have been combined into four groups:

- Similar or increased incomes (586 responses out of the total sample of 1,000).
- Impaired incomes: currently laid off or income is lower than previously (219 responses)
- Was not working before COVID-19 (135 responses).
- Response of "Other" impact (60).

The survey data indicates:

- For the first proposition (about the effects of low interest rates), comparing people with stable or increased incomes versus people with impaired incomes, there are only trivial differences of opinion.
- Levels of regret about sizes of mortgages are substantially higher for those with impaired incomes than for the other groups (although the average level of regret is still well below the neutral score of 5.5).
- Similarly, those whose incomes have been impaired by COVID-19 are less confident about their ability to weather a downturn in home values (although the average score remains above the neutral figure of 5.5). Sentiments are weaker concerning ability to handle higher interest rates (at 5.36 for those with impaired incomes).
- Attitudes about real estate as a long-term investment are only slightly less positive for those with impaired incomes compared to those whose incomes have not been reduced.
- Expectations about the economic outlook are quite similar for the first two groups.
- Attitudes about mortgages as "good debt" are slightly less positive for those with impaired incomes.
- As we should expect, anxiety about financial situations is considerably higher for those with impaired incomes. For those with impaired incomes, a large minority (43 percent) rates their level of anxiety as high (in the range of 8 to 10 out of 10). Just 11 percent rate their anxiety as low (1 to 3 out of 10) and 46 percent indicate moderate anxiety (4 to 7 out of 10). By contrast, for those who reported similar or higher incomes, 18 percent gave a high rating for their anxiety, 32 percent gave a low rating and 50 percent gave a moderate rating.

Table 4-2
Summary of Responses to Topical Questions by Change in Employment Situation, Summer 2020
(Average Scores on a Scale of 1 to 10)

	Similar (or More) Income	*Impaired Income*	*Not Working Before COVID-19*	*Other*
Low interest rates have meant that a lot of Canadians became homeowners over the past few years who should probably not be homeowners	6.89	6.76	6.42	6.13
I regret taking on the size of mortgage I did	3.29	4.17	2.91	2.74
I/My family would be well-positioned to weather a potential downturn in home prices	7.06	6.37	7.08	7.02
I/My family would be well positioned to handle a potential increase in mortgage interest rates	6.35	5.36	5.82	5.52
Real estate in Canada is a good long-term investment	7.53	7.28	7.69	7.88
I am optimistic about the economy in the coming 12 months	5.40	5.40	5.99	6.10
I would classify mortgages as "good debt"	7.33	7.02	7.89	7.58

As the result of COVID-19, I am anxious about my/my family's financial situation over the next few months	5.04	6.86	4.40	5.10
Source: Mortgage Professionals Canada survey, 2020 2nd wave; estimates by the author.				

Expectations

This edition of the survey repeated some of the prior questions about consumers' expectations. Again, the responses are given on a 10-point scale.

- For the question of whether this is a good time to buy a home or condominium in their own community, the new responses were more positive compared to yearend 2019. For homeowners, there was a slight rise in the first wave of this survey, with a further slight rise in the second wave. For non-owners who expect to buy, there was a large shift in the first wave, from a slightly negative position (an average score of 5.23 at yearend, which was below the 5.5 neutral score) to a relatively strong average of 6.28. In the second wave, there was a slight reduction, but at an average rating of 6.19, this score remains far above the yearend level.
- For non-owners, the survey includes only people who expect to buy within the next three years, and therefore we should expect to see positive opinions on whether this is a good time to buy. Therefore, the current scores for this group aren't surprising. What is perhaps surprising is that, at yearend, opinions within this group were so low: In some areas of the country, market conditions were feverish late last year and early this year, which may have generated the slightly negative attitude. It is possible that the intensified market conditions seen recently contributed to the small reduction that was seen in the second wave of the survey.
- In the summer 2020 survey we added two slightly different questions.
- Concerning whether this is a good or bad time to **sell** a home, owners provided a slightly below-neutral average score of 5.41 in the first wave, but there was a substantial rise in the second wave (to 6.19). This may be due to tightened conditions seen during July (which have continued into August). Non-owners gave lower average ratings in both waves. But, they also significantly raised their ratings in the second wave (from 5.09 to 5.80).
- In response to whether this is a good time to **buy an investment property**, responses were just slightly above neutral for both owners and non-owners, in both waves of the survey.
- Expectations about growth of house prices downshifted sharply in the first wave, but then there was a substantial rebound in the second wave (this is consistent with the rapid changes in market conditions). For homeowners and non-owners who expect to buy, the average scores have remained above the neutral level of 5.5. For non-owners, the expectation in the second wave was similar to what was seen at the end of last year (a time of considerable strength in the housing market). For owners, the second wave expectation is slightly lower than at yearend.
- There has been a lot of discussion about the outlook for house prices. This has included a forecast from the federal government's housing agency, Canada Mortgage and Housing Corporation, which predicted drops in the range of nine percent to 18 percent by next spring. That forecast and the prominent media coverage that occurred may have

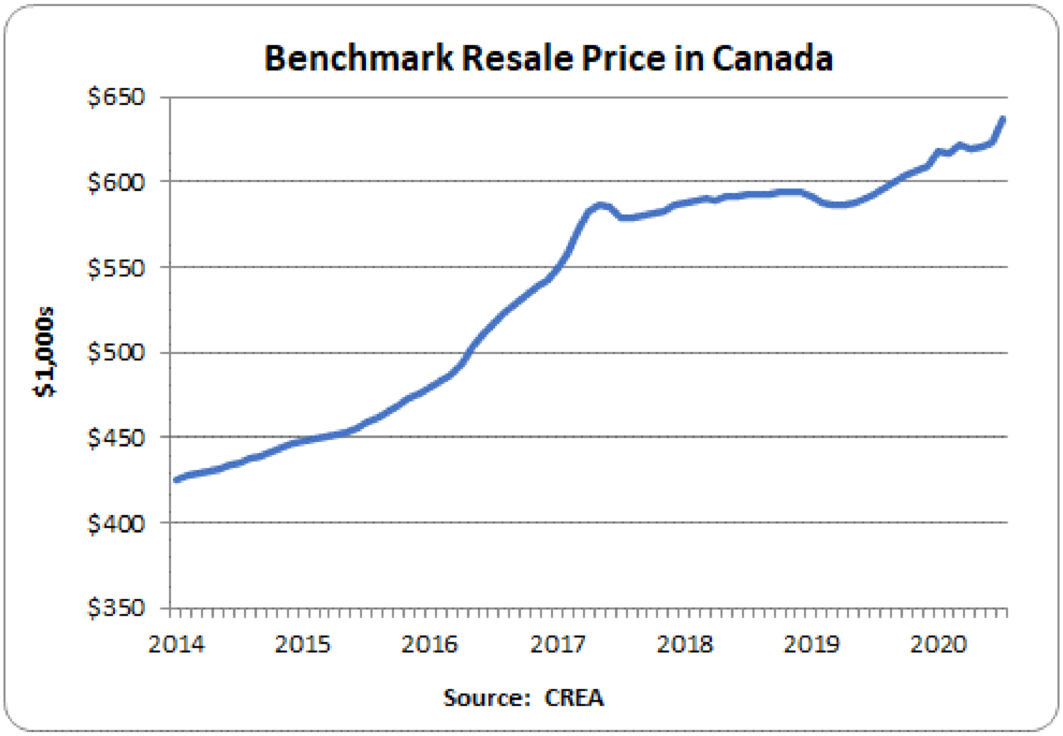
influenced the survey results in the first wave. That influence has likely waned and recent events become more prominent in consumers' thinking. The graph below uses estimates produced by CREA (for typical home prices, the last data point is for July). In July, very strong sales, combined with limited supply, resulted in price jumps in many communities and a large rise in the estimated benchmark price. The emerging data for August hinted quite strongly that there will be another large rise in prices (the data is expected to be published at mid-month).

- This report is commenting on consumer expectations about price growth, and does not express any opinion about what might actually happen. The future housing market will be the result of factors that are unpredictable, including the path of the pandemic, the extent of economic recovery (and differences across groups of the population) and future policy responses (including income supports and the mortgage deferral program). It is possible to imagine many different scenarios (including the very negative scenario from CMHC, as well as forecasts that are much more optimistic). This economist chooses not to forecast in this highly uncertain environment.
- The two waves of this survey show a downshift in expectations about interest rates, although the average scores remain above the neutral level. In prior editions of the survey, the responses have always shown an expectation of rising rates (the lowest average score in the prior editions was 6.16). This data historically has not predicted what actually happened to interest rates. As commented earlier, due to the sampling approach used in this edition of the survey, we shouldn't compare current results to prior surveys. That said, it appears quite likely that the average score in the current survey (an overall average of 5.91) might be the lowest ever recorded by this survey. Expectations were very similar in the two waves of the summer 2020 survey.

Table 4-3
Summary of Consumer Responses on Expectations by Housing Tenure
(Average Scores on a Scale of 1 to 10)

	Homeowners			*Non-Owners (Expect to Buy)*		
	Yearend 2019	*2020 – 1st Wave*	*2nd Wave*	*Yearend 2019*	*2020 – 1st Wave*	*2nd Wave*
Now is a good or bad time to buy a home/condominium in my community	5.82	6.05	6.18	5.23	6.28	6.19
Now is a good or bad time to <u>sell</u> a home/condominium in my community	NA	5.41	6.19	NA	5.09	5.80
Now is a good time to buy a home/condominium in my community <u>as an investment property</u>	NA	5.66	5.70	NA	5.79	5.98
Expectations for a rise in housing prices in my community (the coming year)	6.71	5.94	6.46	6.93	6.20	6.91

Expectations for a rise in mortgage interest rates (the coming year)	6.25	5.83	5.83	6.61	6.14	6.11
Source: Mortgage Professionals Canada survey, Yearend 2019 and 2020 1st and 2nd waves; estimates by the author.						



Housing as an Investment

These surveys have occasionally investigated to what extent people see their housing as a place to live versus as an investment. The respondents give two numbers (the percentage "a place to live" and the percentage "an investment," and the two numbers must add to 100). At different times, this has been asked of varying subsets of the survey samples (sometimes all owners, sometimes mortgage holders only). This time, we asked the entire sample (although, once again, the reader should note that we used a targeted sample rather than a general population sample).

The two waves of this new survey yielded the same result as the yearend 2019 survey, finding that Canadians see their housing as about three-quarters a place to live (75 percent in the first wave and 76 percent in the second) and one-quarter as an investment (25 percent and 24 percent respectively). I don't know if there is a correct percentage, but this strikes me as a healthy attitude.[7]

Also, as has occurred in the past, analysis that looks at different groupings of the population found only very small statistical variations: This opinion that homeownership is three-quarters a place to live is consistent across the provinces, age groups of the population, for owners versus renters, for different levels of household incomes (and even looking at whether COVID-19 has affected employment situations). In particular, the responses are the same for people who expect to buy a home in the next three years as for people who do not expect to buy. This data has hinted in the past and continues to hint that buying decisions (being made by people who will occupy the dwellings themselves) are not being excessively driven by an "investment motive" or a "speculative mindset."

Happiness with Decision to Buy a Home

Since the spring of 2014, homeowners have been asked whether they are happy with their decision to buy their home. This question once again finds a very high degree of satisfaction with purchase decisions. Three optional responses were available:

- By far, homeowners are happy with the decision to buy their home (the 90 percent figure for the first wave and 92 percent for the second wave are essentially the same as the yearend figure of 91 percent).
- A very small minority (two or three percent) indicated that "I regret my decision—I wish I did not choose to own a home."
- In addition, small percentages indicated "I regret my decision—I wish I had purchased a different home/property."
- For the most recent buyers, satisfaction levels are the same as for all homeowners.

Table 4-4
Happiness with Decision to Buy a Home, by Period of Purchase

Survey Date	*Yearend 2019*		*2020 – 1st Wave*		*2nd Wave*	
Period of Purchase	*2015-2019*	*All Periods*	*2015-2020*	*All Periods*	*2015-2020*	*All Periods*
I am happy with my decision	90%	91%	90%	90%	91%	92%
I regret my decision—I wish I did not choose to own a home	4%	3%	3%	3%	2%	2%
I regret my decision—I wish I had purchased a different home/property	6%	6%	7%	8%	7%	7%
Total	100%	100%	100%	100%	100%	100%

Source: Mortgage Professionals Canada survey, Yearend 2019 and 2020 1st and 2nd waves; analysis by the author. Totals might not add due to rounding.

[7] The first time we asked this question, homeowners replied that they saw their housing as 70 percent a place to live (and 30 percent as an investment). The "place to live" percentage has crept upward since then.

5.0 The Mortgage Deferral Program

Encouragingly, the data from the second wave of this survey indicated that there has been a small decrease in the number of respondents who expect to have difficulties making their mortgage payments.

The survey asked mortgage holders: "Thinking only of the impact of COVID-19, what level of difficulty do you expect to have in making your regular mortgage payments during the coming months?" The table below summarizes the responses for the second wave, segmented by periods when the homes were purchased. The final column of this table repeats the data from the first wave (but showing only the total result, not segmented by purchase period).

The data showed that the share who expect "no difficulty" (74 percent) has improved fractionally compared to the first wave (72 percent). Corresponding to this, there was a small drop in the share who expect "some difficulty" (to 20 percent in the second wave from 23 percent in the first wave). There was a tiny increase (from four to five percent) in the share who expect "a lot of difficulty." There has been no change in the last two categories: Both waves of this survey showed extremely small shares of mortgage borrowers are most challenged (being able to make only partial or infrequent payments or not being able to make any payments).

The detailed data in the first three columns of the table show that the degrees of difficulty are highly similar across the purchase periods.

Table 5-1
Expected Difficulty in Making Mortgage Payments,
By Period of Purchase

	2nd Wave				*1st Wave*
Period of Purchase	*Before 2010*	*2010-2014*	*2015-2020*	*All Periods*	*All Periods*
I/we will have no problem making our regular payments	73%	73%	74%	74%	72%
I/we will make our regular payments, but there may be some difficulty	21%	19%	20%	20%	23%
I/we will make our regular payments, with a lot of difficulty	5%	4%	5%	5%	4%
I/we will only be able to make partial or infrequent payments	0%	3%	0%	1%	1%
I/we will not be able to make any payments	0%	0%	1%	0%	0%
Total	100%	100%	100%	100%	100%

Source: Mortgage Professionals Canada survey, 2020 – 1st and 2nd waves; analysis by the author. Totals might not add due to rounding.

A different look at the responses found that for first-time buyers, expected difficulties were slightly greater than for repeat buyers (people who have owned more than one home).

Table 5-2 *Expected Difficulty in Making Mortgage Payments,* *First-Time versus Repeat Buyers*		
Period of Purchase	*First-Time Buyers*	*Repeat Buyers*
I/we will have no problem making our regular payments	72%	75%
I/we will make our regular payments, but there may be some difficulty	21%	20%
I/we will make our regular payments, with a lot of difficulty	6%	4%
I/we will only be able to make partial or infrequent payments	1%	0%
I/we will not be able to make any payments	1%	0%
Total	100%	100%
Source: Mortgage Professionals Canada survey, 2020 – 2nd wave; analysis by the author. Totals might not add due to rounding.		

Looking at these responses relative to how COVID-19 has affected employment situations, the next table shows that:

- For people who have similar or higher incomes than previously, a substantial majority (81 percent) expect no difficulty and a further 15 percent expect "some" difficulty. A very small minority (just four percent) expect their difficulty may be worse than "some."
- But, for people who whose incomes have been impaired to some degree, a lower share (just 44 percent) expect no difficulty, 40 percent expect some difficulty and a noteworthy minority (16 percent) expect greater difficulty.

Table 5-3 *Expected Difficulty in Making Mortgage Payments,* *By Impact of COVID-19 on Employment or Income*				
Period of Purchase	*Similar (or More) Income*	*Impaired Income*	*Not Working Before COVID-19*	*Other*
I/we will have no problem making our regular payments	81%	44%	83%	76%
I/we will make our regular payments, but there may be some difficulty	15%	40%	15%	21%
I/we will make our regular payments, with a lot of difficulty	3%	14%	3%	0%
I/we will only be able to make partial or infrequent payments	0%	1%	0%	3%
I/we will not be able to make any payments	0%	1%	0%	0%
Total	100%	100%	100%	100%
Source: Mortgage Professionals Canada survey, 2020 – 2nd wave; analysis by the author. Totals might not add due to rounding.				

In response to COVID-19, mortgage borrowers (with the agreement of their lender) have been allowed to defer their mortgage payments for up to six months, if they were facing financial difficulties. The missed payments and accrued interest must be made up later.

As was commented on the first report, the Canadian Bankers Association has reported that, based on data from 13 of its members as of June 30, 760,000 Canadians had deferred mortgages or skipped payments. This accounted for about 16 percent of the mortgages in the banks' portfolios.[8] The banks represent about three-quarters of outstanding residential mortgages in Canada. It is unknown how many deferrals have occurred at other lenders.

Since then, there has been scattered reporting that shows that there have been reductions in the numbers of mortgage that are still in deferral. The available data suggests that the number of mortgages that are still in deferral has been reduced by at least one-quarter. Unofficial commentary suggests that the banks are expecting that one to five percent of mortgages might go into arrears after deferral periods end.

Our survey investigated consumer opinions about the mortgage deferral program.

According to the survey data, 80 percent of mortgage holders were aware of the mortgage deferral option "before today." (This was unchanged from the first wave of the survey).

[8] Source: https://cba.ca/canadian-banks-are-standing-by-canadians

Two questions investigated mortgage holders' opinions about the deferral program.[9]

We asked "how do you feel about this program?" (Four response options were available.) Responses showed very little change compared to the first wave.

- 54 percent chose "this option provides support to consumers during a difficult period." (Unchanged from the first wave.)
- 29 percent chose "this option takes advantage of consumers when they are vulnerable." (Compared to 28 percent in the first wave.)
- Four percent chose "this option should not be allowed." (This was three percent in the first wave.)
- 14 percent chose "don't know or no opinion." (This was 15 percent in the first wave).

We asked: "Which of these statements best describes the motivation of banks for providing this option?" (Five optional responses were provided). Again, responses showed very little change.

- 20 percent chose "the banks want to help people stay in their homes to support them, and to avoid market disruption." (Versus 18 percent in the first wave.)
- Three percent chose "the banks are making a financial sacrifice for the good of the country." (Down from four percent in the first wave.)
- 34 percent chose "the banks are taking a short-term revenue loss instead of forcing defaults. This action protects both impacted Canadians and the banks' own financial positions." (Versus 32 percent in the first wave.)
- 29 percent chose "the banks are only thinking of themselves—they're offering the options to make more profits on deferred interest." (Unchanged from the first wave.)
- 15 percent chose "the banks are only doing this because the government pressured them to do it." (Versus 17 percent in the first wave.)

The impending cliff for mortgage deferrals

Government policymakers have dealt urgently with economic issues related to the COVID-19 emergency, including:

- How to support Canadians in safely returning to work?
- What income supports should be provided to Canadians whose employment has been disrupted?

[9] For both questions, the response options were presented in random order.

A second tier of policy issues relates to supporting Canadians who have been less able to afford their housing costs, including their mortgage payments.

For a large number of Canadian mortgage holders, the deferral periods will be ending soon. We don't know how many will be in this situation in the coming months and, more importantly, we don't know how many of them will be unable to make their full payments. As was noted earlier, unofficial commentary suggests that the major banks expect that one to five percent of mortgage holders may be in difficulty when the deferral periods end.

In my semi-annual reports on the mortgage market for MPC, I have commented at length that the greatest risk for mortgages is a loss or reduction of income (rather than changes in interest rates). Furthermore, in a modern economy, one of the greatest risks is a reduction in house prices that badly impairs consumer confidence and thereby badly impairs the broader economy.

We are therefore facing an economic risk that at the end of mortgage deferrals there could be large numbers of Canadians unable to meet their mortgage obligations. This could force them to sell their homes (and sometimes result in repossession of homes by the lenders), resulting in an excess of homes available for sale, which causes prices to fall and impairs the economy.

CMHC, the federal housing agency, has forecast that by next spring house prices in Canada could fall by nine to 18 percent from the pre-pandemic level. At this time, prices have not fallen (in fact, they are currently rising quite rapidly in some areas). But, it is not impossible that the ending of mortgage deferrals and/or income supports could cause a very sharp downward turn in housing markets across Canada.

At this time, this I consider it impossible to decide on any housing market forecasts, because of uncertainty for key factors. This includes the unpredictable course of the pandemic itself. Of at least equal importance is the uncertainty about future government policies and therefore about their impacts on the housing market.

In order to support good policymaking, and to obtain the widest possible consensus on what those policies should be, it would be useful to have a lot more discussion in public:

- The federal government and the major lenders should publish research on mortgages that are in deferral and on the ability of the borrowers to resume their payments. There is a need for data-based scenarios on what might happen to mortgage defaults under a variety of policy options, and then how these policies would affect the housing market and the broader economy.
- The federal government needs to make a statement that its policy actions will aim to prevent the economic damage that would result from sharp reductions in house prices. Or, alternatively, it needs to say that does not intend to act on this issue.

I understand that there is a strong counter-argument that a government policy to prevent house price declines would be risky in itself, as there is a "moral hazard" associated with any policy that protects people against losses. My personal opinion is that the economic risk from a sharp drop in Canadians' housing wealth (which, history shows us, would impose a serious drag on the economy, for a half-decade or even longer) is much worse than the risk that the housing market could be unduly strengthened, especially because the mortgage regulation system that we have in Canada makes it difficult for people to make bad home buying decisions.