



Housing and Mortgage Market Review: Quarterly Report – *January 2024*

Falling inflation sets stage for Canadian housing market recovery in 2024

Highlights:

- With inflation now clearly in a decelerating trend, markets are expecting the Bank of Canada to cut the overnight rate by a full percentage point in 2024
- Home sales remained under pressure in Q4, but the year ended on a positive note with a strong increase in December
- Canada's population grew by a record 430,000 in Q4 and has now risen by 1.2 million people in the past year

Housing and Mortgage Market Review

Falling inflation sets stage for Canadian housing market recovery in 2024

Inflation in Canada continues to march lower, albeit with some volatility along the way. December saw a slight uptick to an annualized 3.4% from 3.1% in November, but the trend is still clearly to the downside.

There are also now very tangible signs of a slowdown in the economy. Q3 GDP registered a surprisingly weak -1.1% annualized reading, while the unemployment rate nationally has steadily risen from 5.0% in Q2 to 5.8% at the end of 2023.

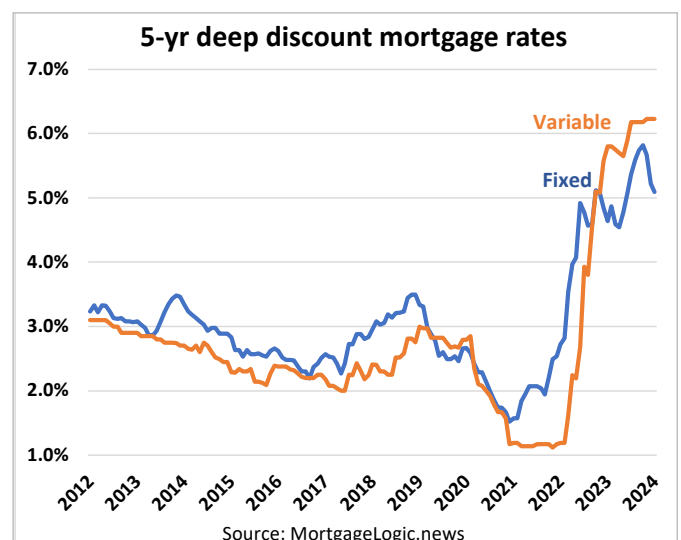
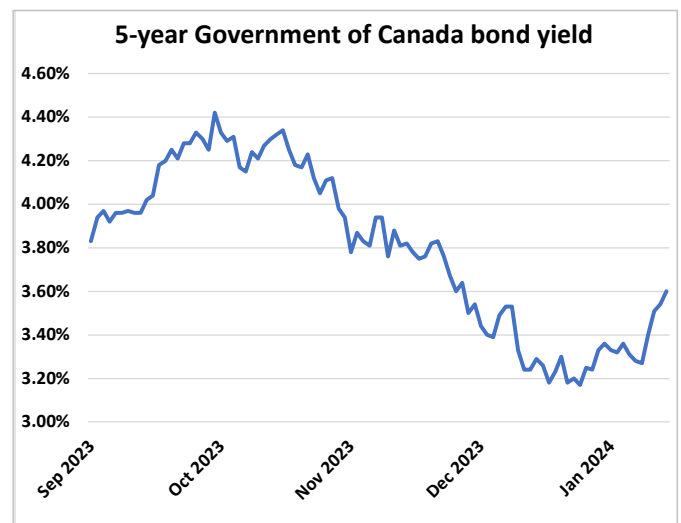
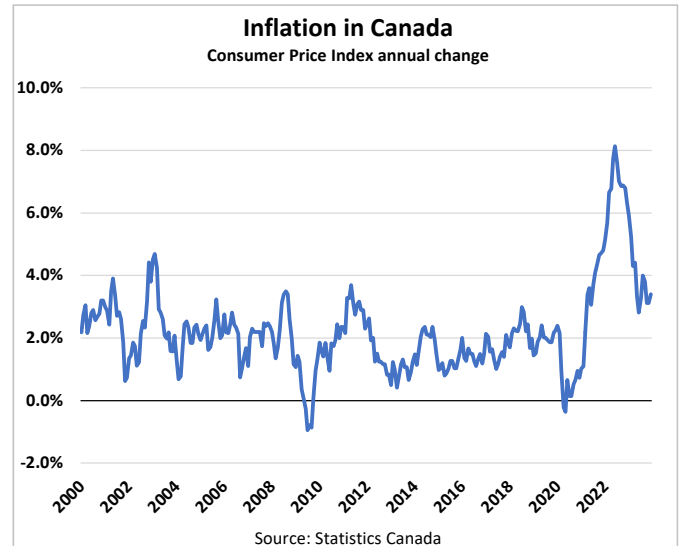
With risks of a reacceleration of inflation fading, the path to rate cuts in 2024 is now clear. As of the time of writing, markets are expecting four quarter-point rate cuts beginning in April, which would bring the Bank of Canada overnight rate to 4% by the end of the year.

The high probability of rate cuts this spring has bolstered consumer confidence with regards to real estate back. The Bloomberg-Nanos Real Estate Outlook Index, which measures the share of survey respondents who expect house prices to rise over the next year, has risen sharply in recent weeks from a low of 37 in early November to 45 as of January. More optimism around housing should translate into stronger demand heading into the spring as prospective buyers, who may have previously been sidelined over fears of additional rate hikes, have now been given an “all clear” from the Bank of Canada to re-engage.

Mortgage rates continue to drop

Bond markets have priced in rising odds of rate cuts in 2024, with the bellwether 5-year—a major driver of fixed mortgage-rate pricing—having fallen roughly 80 basis points, or 0.8%, from the October highs.

That paved the way for a decline in fixed mortgage rates, which have fallen roughly 70 bps over that same time. But with bond yields having risen sharply in recent weeks, there's now a floor under mortgage rates for the time being.



Housing and Mortgage Market Review

Falling inflation sets stage for Canadian housing market recovery in 2024

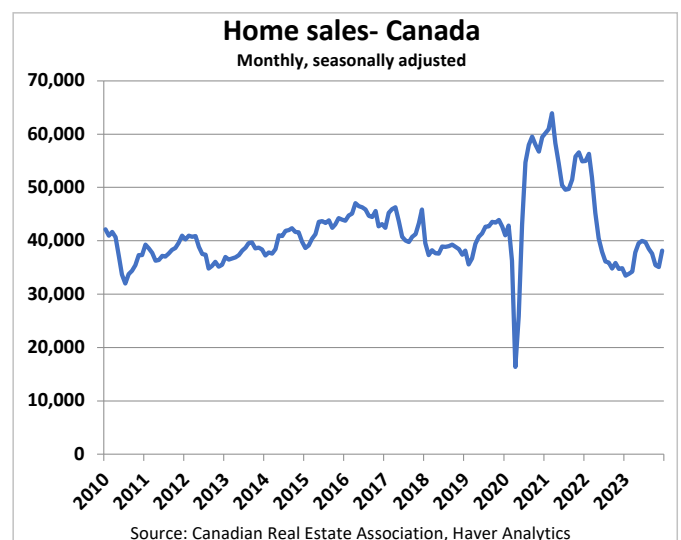
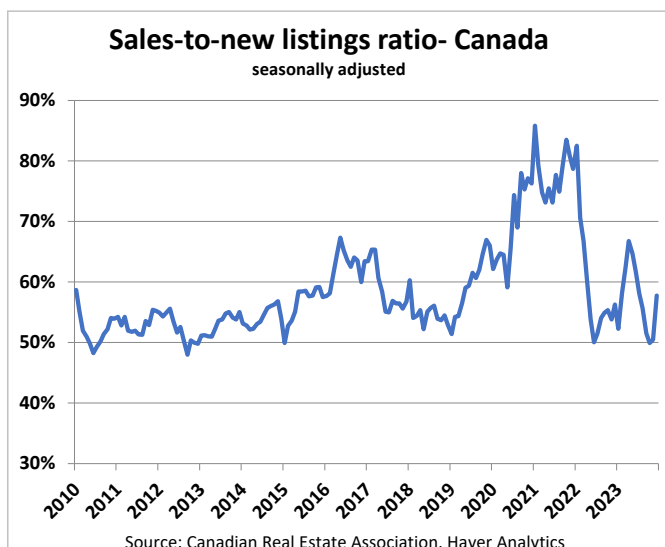
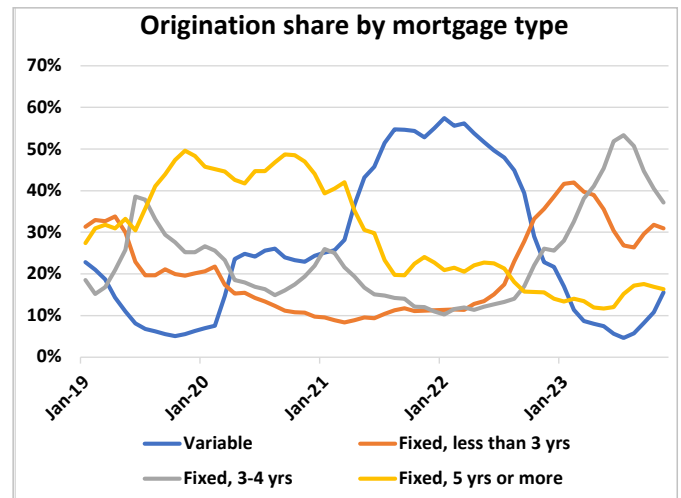
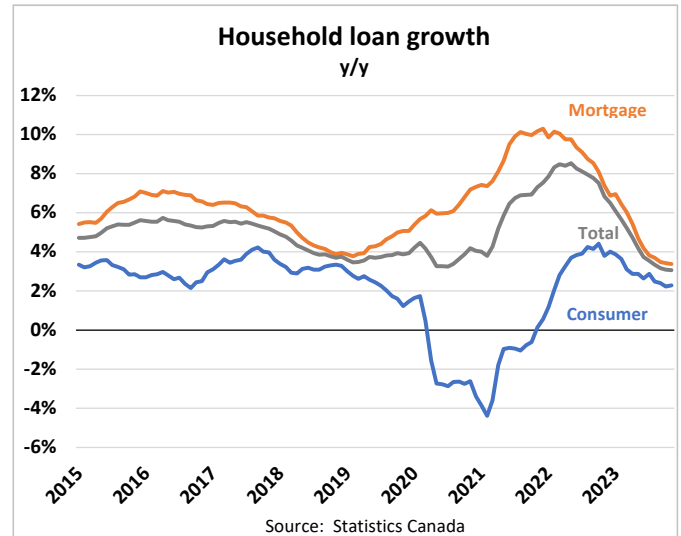
Mortgage growth remains tepid, with outstanding balances up just 0.25% in November and up 3.4% over the past year—the lowest rate of annual growth since 2001.

Mortgage originations were down 9% year-over-year in November, but there was a notable uptick in variable rate loans to 16% of the total. The share of variable-rate originations will likely push above 25% in the coming months as borrowers increasingly position for Bank of Canada rate cuts later this year.

Home sales slip in Q4, but end the year on a positive note

Home sales nationally slipped 6.2% in the fourth quarter, pulled lower by steep declines in BC (-14.8%) and Quebec (-6.9%). However, there was good news as sales ended the year with an 8.7% monthly increase in December, the best monthly showing since April 2023.

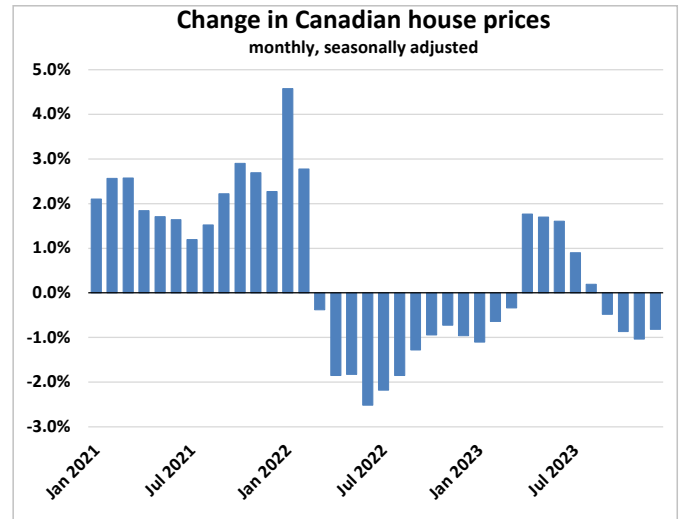
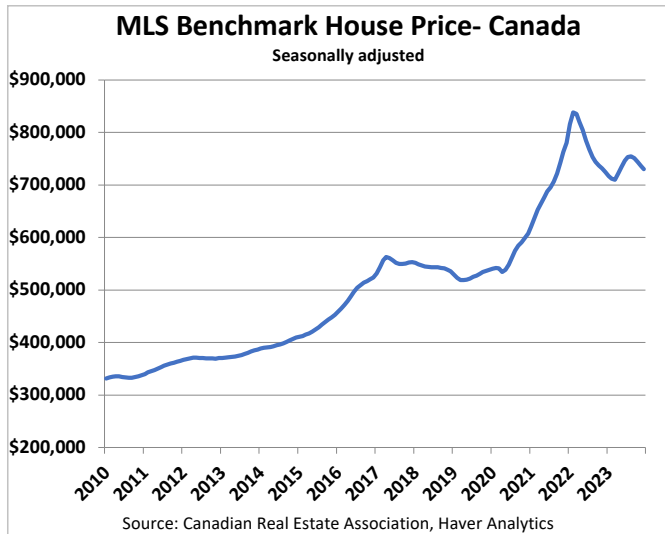
The sales-to-new listings ratio nationally jumped in December to 58% from 50% previously, and it puts the market well into balanced territory. If it holds here for a couple of months, we should expect prices to stabilize heading into the spring selling season.



Housing and Mortgage Market Review

Falling inflation sets stage for Canadian housing market recovery in 2024

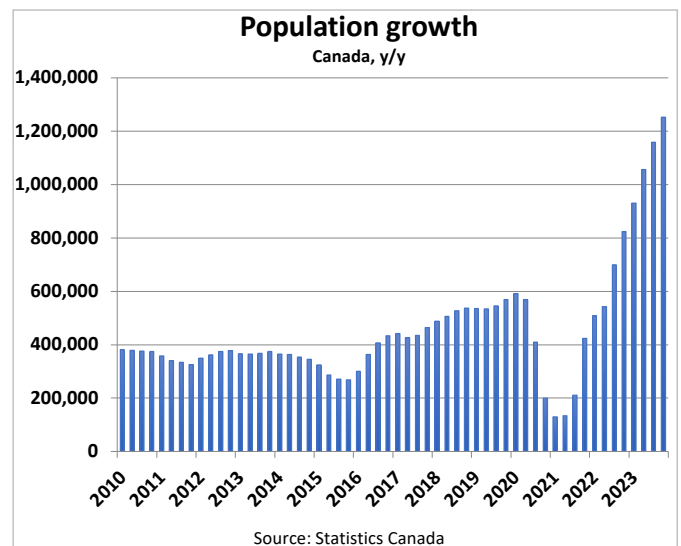
The MLS House Price Index registered a 0.8% monthly decline in December and ended the quarter down 3.8%. That leaves prices 13% below all-time highs, but with substantial regional variation. For example, prices across Ontario are off nearly 16% while in Alberta they remain at all-time highs.



Affordability remains a challenge, but with prices drifting lower, rates now on the decline, and with strong income growth in the 5-6% range, we should expect a sharp improvement as we move through the year.

Another record for population growth

Canada's population grew by a record 430,000 in the fourth quarter alone and has now risen by 1.2 million people, or 3.2%, in the past year. That rate of growth is nearly five times the OECD average.



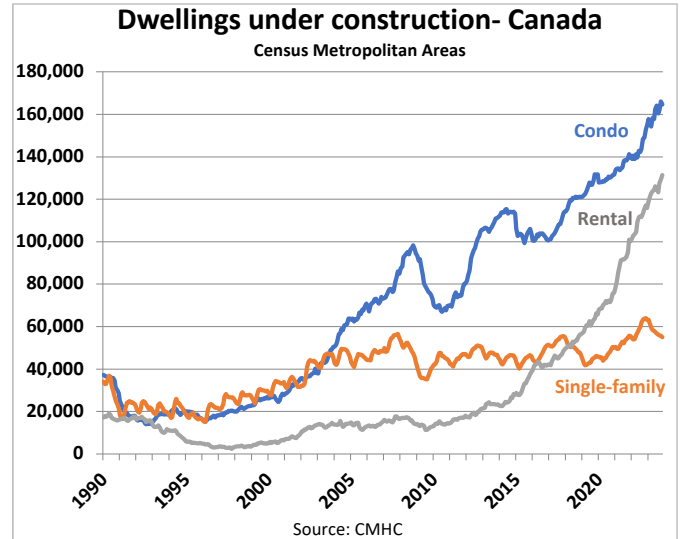
Housing and Mortgage Market Review

Falling inflation sets stage for Canadian housing market recovery in 2024

At the same time, housing starts fell 4.6% in the fourth quarter in a sign that new supply is not keeping up with population growth. There is still a record number of dwellings in the construction pipeline, but that supply is increasingly skewing towards rentals and condos, while single-family construction dwindles. If these dual trends of record population growth and declining new supply of single-family homes persists, it raises the very real risk of a supply crisis in the coming years once demand begins to normalize.

What it all means

Elevated mortgage rates and challenging affordability dynamics weighed on demand in Q4, but home sales did end the year on a positive note in December. With rates set to decline, and with population growth continuing to set records, the market looks set to remain in balanced territory this year. Improving affordability from falling mortgage rates and strong wage gains this year should help reinvigorate mortgage demand in 2024.



**Any forecasts contained in this report are accurate as of the date indicated.*