TD Economics

Canadian Housing Outlook

When the Trickle Becomes a Flood

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- The Canadian 5-year bond yield has declined over 100 bps since early May, while the Bank of Canada has cut its policy rate 3 times (with two more likely on tap this year). In short, the interest rate environment has significantly improved. Housing market activity is stirring, yet Canadian sales gains have, thus far, trailed what could typically be expected given this rush of rate relief.

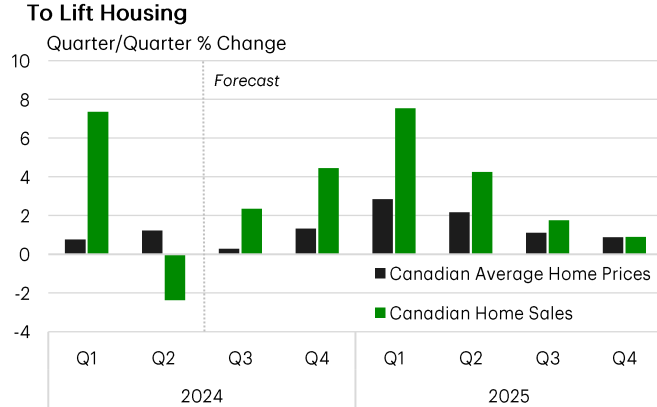
- We chalk up the surprisingly subdued performance to two factors. The first is the continued strained affordability backdrop. Despite their recent decline, rates remain at levels last seen about 15 years ago. And, the second factor relates to the transparent messaging from central bankers that interest rates are set to fall even further. This is keeping potential buyers temporarily sidelined as they wait for additional cuts. The flat trend in Canadian average home prices since the summer means they haven't really been penalized for that choice.

- This relative stillness will likely only last so long. Indeed, conditions are in place for a solid pickup in resale activity. Alongside a further steady decline in the BoC's overnight rate, economic growth is likely to regain some traction going forward, and the federal government will roll out meaningful changes to mortgage rules that will support homebuying at the end of the year. Now, first-time homebuyers (and those that purchase new builds) can access 30-year amortizations (instead of 25), thereby lowering their monthly mortgage obligation. Also, the cap on which a buyer can qualify for an insured mortgage has been raised from $1 million to $1.5 million. This means that, for example, a purchaser who buys a detached home in Toronto valued at $1.2 million (the median price in August) could put down about $95k as a downpayment, instead of needing $240k as before.

- The federal measures should help unlock powerful gains in Canadian sales and average home prices across Canada in the first half of 2025 (Chart 1). However, part of this story will be that some activity that would've taken place this year is pushed into 2025, as buyers wait for the new rules to commence before purchasing.

- Regionally, federal measures are likely to stimulate housing markets the most in B.C. and Ontario, as these two provinces have the largest share of homes valued at between $1-$1.5 million. Average home price growth in these markets should also benefit from the strongest

Chart 1: Lower Rates, Better Economy, Federal Measures To Lift Housing



Source: CREA, TD Economics.

sales gains in the country moving forward, with pent-up demand driving a recovery in activity from low levels. That said, price growth will be restrained by loose supply/demand conditions in both regions in the near term and affordability backdrops that will remain historically challenging thereafter. In Ontario, we also anticipate some drag on average home prices coming from the GTA's oversupplied condo market (see here).

- We're retaining our view that price growth will outperform in the Prairies over the forecast horizon, lifted by tight markets, historically strong population growth, solid affordability conditions, and economic outperformance. Elsewhere, relatively tight supply/demand balances should keep prices on the rise in Quebec and the Atlantic, although notable affordability deteriorations will prevent even stronger gains. Interprovincial migration has also begun to slow in the Atlantic, weighing on what is likely a key source of ownership demand in the region.

- In terms of risks to our forecast, there is considerable uncertainty around the impact of the new federal policies. It could be the case that housing reacts more aggressively that what we've penciled in, especially in a falling rate environment. There's also a lot of unknowns around how effective the federal government will be in slowing population growth. For instance, we think it could slacken to under 1% on an annual average basis in 2026, whereas the Bank of Canada's population projections imbed a much stronger gain. On the downside, restrictive policy rates on both sides of the border could cause overall economic growth and job markets to be weaker-than-expected. The U.S. election is another wildcard for the U.S. and Canadian economies.

Exhibits

Home Sales and Price Outlook *Average Annual Growth, %*						
Provinces	Home Sales			Home Prices		
	2024F	2025F	2026F	2024F	2025F	2026F
National	5.4	16.6	4.4	1.3	6.9	3.6
Newfoundland & Labrador	2.2	7.7	4.5	8.1	4.9	2.1
Prince Edward Island	2.8	5.0	3.6	2.0	3.6	2.4
Nova Scotia	5.3	13.1	3.8	5.1	3.7	2.4
New Brunswick	3.2	9.8	3.2	9.0	4.6	3.1
Québec	13.9	9.5	1.7	6.3	5.5	3.1
Ontario	1.5	23.9	5.9	-0.4	4.6	3.1
Manitoba	9.4	7.6	2.9	5.9	6.0	3.3
Saskatchewan	6.7	11.0	4.5	5.1	6.2	4.3
Alberta	9.9	8.5	2.5	9.8	7.0	3.6
British Columbia	-0.1	23.2	6.4	1.4	3.7	2.8

Source: CREA, CMHC, TD Economics. Forecasts by TD Economics as of September 2024.

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