

## WEEKLY COMMENTARY

# The Housing Market Is Shifting Gears Again, but Affordability Remains a Long Way Off

By Marc Desormeaux, Principal Economist

After multiple quarters of economic outperformance in Canada, recent housing market data are painting an increasingly downbeat picture. What does this tell us about the effects of monetary tightening, where we are in the economic cycle, and where we could be heading?

The home resale market has clearly soured since the Bank of Canada resumed interest rate hikes. Nationally, home sales growth has slowed significantly since April's spike, culminating in the first outright decline since the January 2023 rate increase. We've also seen new listings surge. We won't know for a few months whether that reflects investors timing the market or mortgage holders trying to wash their hands of higher debt servicing costs. Yet the 21% Canada-wide jump in listings that began in April is the fastest three-month rise ever recorded outside the pandemic, suggesting a shift in market sentiment. And although recent sales weakness has been concentrated in higher-priced Ontario and BC markets, the uptrend in listings is happening across the country.

These trends should persist to some degree in the coming months. While we think the Bank of Canada is done hiking rates, the full impact of the latest increases—and last summer's more aggressive tightening—still hasn't been felt. Softer employment growth should keep a lid on potential sales gains, even as the Bank eventually cuts rates in 2024.

Residential construction activity also appears to be cooling. Employment in the sector has now fallen in four of the past six months—including the worst monthly contraction outside of the pandemic in July 2023. New homebuilding has not been as soft in 2023 as we might normally expect after a year-plus of lacklustre existing home sales. However, a look under the

hood reveals more weakness than the headlines imply. Much of the resilience in housing starts stems from robust multi-unit construction in Ontario and BC, while building in most of the rest of the country is clearly trending downward.

We've long forecast a significant slowdown in residential construction activity, a view reinforced by the Canadian Home Builders' Association [survey](#) released this month. Labour shortages, high borrowing costs, elevated material prices and softening economic activity are all expected to weigh on new building going forward.

Although these data suggest the Bank of Canada's efforts to control inflation—and ultimately improve the cost of living—are working, we're less sanguine about long-run affordability. The decline in new building activity is hardly good news amid decades-high population growth and a housing supply shortfall. In fact, we recently [estimated](#) that housing starts would have to increase immediately by almost 50% versus our baseline scenario just to offset 2023–24 price gains from rising federal immigration.

The latest homebuilding figures don't look conducive to meaningful affordability improvements. Still-strong multi-unit starts in Ontario and BC mirror a trend towards more rental construction—with ownership now out of reach for many Canadians. [We've also highlighted](#) that condos are becoming smaller but often more expensive than other dwelling types on a per-square foot basis. Meanwhile, outside Ontario and BC, inventories are low relative to the five years before the pandemic at a time when starts are falling. That's a sharp reversal of the pre-COVID trend in the western oil-producing provinces, which

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had been grappling with a glut of unabsorbed units following the 2014–15 commodity price correction.

Sharply higher interest rates increasingly appear to be having the desired effect of controlling price pressures, but housing affordability still remains a long way off. Against that backdrop, Canada's federal, provincial and municipal governments all have a responsibility to reduce the barriers to building and get more shovels in the ground. Only then can we ensure Canada remains an affordable and prosperous place to live—through the coming downturn and over the long run.

# What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics, Tiago Figueiredo, Associate – Macro Strategy, Marc Desormeaux, Principal Economist, Maëlle Boulais-Préseau, Economist, and Francis Généreux, Principal Economist

## TUESDAY, August 22 - 10:00

July	ann. rate
Consensus	4,150,000
Desjardins	4,180,000
<b>June</b>	<b>4,160,000</b>

## WEDNESDAY, August 23 - 10:00

July	ann. rate
Consensus	707,000
Desjardins	715,000
<b>June</b>	<b>697,000</b>

## THURSDAY, August 24 - 8:30

July	m/m
Consensus	-4.0%
Desjardins	-6.7%
<b>June</b>	<b>4.6%</b>

## WEDNESDAY, August 23 - 8:30

June 2023	m/m
Consensus	0.0%
Desjardins	-0.6%
<b>May 2023</b>	<b>0.2%</b>

## WEDNESDAY, AUGUST 23 - 4:00

August	
Consensus	48.5
<b>July</b>	<b>48.6</b>

## UNITED STATES

**Existing home sales (July)** – After picking up just 0.2% in May, existing home sales resumed their downward trend in June, falling 3.3% and bringing the annualized figure to 4,160,000 units, the lowest it’s been since January. However, it was likely up again slightly in July, as suggested by pending sales, which have increased by 0.3%, and preliminary regional data for existing home sales.

**New home sales (July)** – After many solid monthly increases since the fall, June saw the biggest drop in new home sales since February. Despite high mortgage rates, which have soared past 7%, new home sales may have gone up again in July, if the recent trend in building permits for single-family homes is any indication. We could see sales up above the 700,000 unit mark.

**Durable goods orders (July)** – June’s 4.6% increase in new durable goods orders was primarily driven by a 69.4% surge in nondefense aircraft orders. After such a sharp rise, the sector likely saw a big drop-off in July, as corroborated by figures from Boeing. Despite expectations for strong growth in defense aircraft and parts and the automotive sector, orders are likely to have plummeted more than 18% for the transportation sector as a whole. Excluding transportation, we’re forecasting an increase of 0.4%, which is slightly lower than the average growth seen in the previous two months. We’re anticipating a 6.7% contraction in durable goods orders overall.

## CANADA


**Retail sales (June)** – After two consecutive monthly gains, retail sales likely fell in June. We’re forecasting a 0.6% decline in the month, which is weaker than Statistics Canada’s flash estimate for a flat print. Slower auto sales likely drove the contraction in June, as the reading is anticipated to be stronger when looking at core retail sales. We think that elevated gas prices probably helped to keep headline retail sales from falling even more in June. Looking to July, we expect Statistics Canada’s flash estimate will point to roughly unchanged retail sales.

## OVERSEAS

**Eurozone: PMI (August – preliminary)** – The eurozone composite PMI’s fall to 48.6 brought it to its lowest level so far in 2023. The 5.5-point drop from its April peak suggests the economy is losing momentum and that further quarterly contractions in real GDP are a strong possibility. August’s print will tell us if the negative trend is here to stay.


# Economic Indicators

## Week of August 21 to 25, 2023

Date	Time	Indicator	Period	Consensus		Previous reading
<b>UNITED STATES</b>						
<b>MONDAY 21</b>	---	---				
<b>TUESDAY 22</b>	10:00	Existing home sales (ann. rate)	July	4,150,000	4,180,000	4,160,000
	14:30	Speech by Federal Reserve Bank of Chicago President A. Goolsbee				
<b>WEDNESDAY 23</b>	10:00	New home sales (ann. rate)	July	707,000	715,000	697,000
<b>THURSDAY 24</b>	8:30	Initial unemployment claims	Aug. 14–18	240,000	243,000	239,000
	8:30	Durable goods orders (m/m)	July	-4.0%	-6.7%	4.6%
<b>FRIDAY 25</b>	10:00	University of Michigan consumer sentiment index – final	Aug.	71.2	71.2	71.2
	10:05	Speech by Federal Reserve Chair J. Powell				

## CANADA

<b>MONDAY 21</b>	---	---				
<b>TUESDAY 22</b>	---	---				
<b>WEDNESDAY 23</b>	8:30	Retail sales				
		Total (m/m)	June	0.0%	-0.6%	0.2%
		Excluding automobiles (m/m)	June	0.4%	0.4%	0.0%
<b>THURSDAY 24</b>	---	---				
<b>FRIDAY 25</b>	---	---				

NOTE: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT - 4 hours).  Desjardins Economic Studies forecast.

# Economic Indicators

## Week of August 21 to 25, 2023

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
<b>OVERSEAS</b>								
<b>MONDAY 21</b>								
Germany	2:00	Producer price index	July	-0.3%	5.2%	-0.3%	0.1%	
<b>TUESDAY 22</b>								
Eurozone	4:00	Current account (€B)	June	n/a		9.1		
Italy	4:30	Current account (€M)	June	n/a		1,403		
Japan	20:30	Composite PMI – preliminary	Aug.	n/a		52.2		
Japan	20:30	Manufacturing PMI – preliminary	Aug.	n/a		49.6		
Japan	20:30	Services PMI – preliminary	Aug.	n/a		53.8		
<b>WEDNESDAY 23</b>								
South Korea	---	Bank of Korea meeting	Aug.	3.50%		3.50%		
France	3:15	Composite PMI – preliminary	Aug.	47.5		46.6		
France	3:15	Manufacturing PMI – preliminary	Aug.	45.1		45.1		
France	3:15	Services PMI – preliminary	Aug.	47.5		47.1		
Germany	3:30	Composite PMI – preliminary	Aug.	47.8		48.5		
Germany	3:30	Manufacturing PMI – preliminary	Aug.	38.6		38.8		
Germany	3:30	Services PMI – preliminary	Aug.	51.5		52.3		
Eurozone	4:00	Composite PMI – preliminary	Aug.	48.5		48.6		
Eurozone	4:00	Manufacturing PMI – preliminary	Aug.	42.6		42.7		
Eurozone	4:00	Services PMI – preliminary	Aug.	50.5		50.9		
United Kingdom	4:30	Composite PMI – preliminary	Aug.	50.3		50.8		
United Kingdom	4:30	Manufacturing PMI – preliminary	Aug.	45.0		45.3		
United Kingdom	4:30	Services PMI – preliminary	Aug.	50.8		51.5		
Eurozone	10:00	Consumer confidence – preliminary	Aug.	-14.3		-15.1		
<b>THURSDAY 24</b>								
France	2:45	Business confidence	Aug.	100		100		
France	2:45	Production outlook	Aug.	n/a		-9		
Japan	19:30	Tokyo Consumer Price Index	Aug.		3.0%		3.2%	
<b>FRIDAY 25</b>								
Germany	2:00	Real GDP – final	Q2	0.0%	-0.2%	0.0%	-0.2%	
Germany	4:00	ifo Business Climate Index	Aug.	86.7		87.3		
Germany	4:00	ifo Current Assessment Index	Aug.	90.0		91.3		
Germany	4:00	ifo Expectations Index	Aug.	83.5		83.5		

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Times shown are Eastern Daylight Time (GMT - 4 hours).