A Study of the Canadian Property Boom

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ABSTRACT

Canadian real estate has experienced unprecedented rapid growth since the early 2000s. People are buying homes out of concern and hope that prices may continue to rise. The immediate consequence of this trend is the changes in affordability for Canadian households. Increasing number of individuals have had to shoulder debt burdens that exceed their capacity to pay as a result of the price inflation. This has generated significant risk for the financial system and the strength of the economy. The vulnerabilities due to the housing market performance may undermine economic fundamentals and weaken the economy's ability to withstand disruptions.

In this paper, the present economic conditions are examined to understand the general health of the Canadian economy. A comparison between the housing market boom in Canada and the exuberance of the 2006 US housing is drawn to gauge the degree to which the former market performance is heated. In addition, an analysis of the key variables that has fed into the growth in home prices will be presented to address how these elements contributed to the price appreciation. The optimism around Canada's housing market is worrying and the impact could be debilitating to the country's economic well-being. In light of the novel Covid-19 pandemic and its effects on the economy, where home prices will go is ever-more relevant. The paper will discuss the vulnerabilities that undermine Canada's economic resilience and conclude that the present stability is unsustainable.

Thesis Supervisor: Roberto Rigobon
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Chapter 1: Introduction

The expansion of housing markets sounds at first like a beneficial phenomenon, but taking a deeper look at the issue can reveal the darker side of this coin. All over the world, as homeowners rejoice as their property values rise, economists debate whether or not these gains signify the onset of a crisis. In Canada, real estate prices have experienced substantial growth since 2003 and housing has evolved to play an important role in the Canadian economy and economic growth. In fact, Canada's economic health has grown increasingly tied to the housing market performance and this dependency has generated both prosperity and unease.

Housing serves one basic human necessity, which is the offering of a shelter that individuals cannot live without. Owning a home also gives individuals a sense of security both physically and financially. It is an asset that acts both as a home for individuals and a storage of wealth. In many cases, residential homes are often the largest portion of an individual's asset portfolio. In Canada, the euphoria of the housing boom has created new wealth for households. Many professions such as agents, construction workers, and lawyers are also beneficiaries of the price appreciation and continued investments in residential development. But the stark reality is, much of these home purchases transactions are financed through mortgages, not cash. The accumulation of household debt will add significant stress to the economy. Furthermore, Canadians have become increasingly concerned about the sustainability of the property boom. While the rise in real estate prices and the interactions between asset prices and other important economic indicators is complicated, it is possible to narrow down the largest contributors and their effects on the economy as a whole. This paper will examine some of the inner workings of the Canadian housing market looking at the demand and supply factors that led to the current price inflation. As well, comparisons with the most recent housing crash in America enables assessment the degree to which the Canadian housing market is a heated boom. The situation of the housing market has subsequently weakened the resilience of the Canadian economy in both personal and governmental levels. Resilience in this case meaning the flexibility of the economy to be able to withstand and respond unexpected negative shocks.

Chapter 2: Economy and Housing Market Review

The Canadian economy and growth have become increasingly reliant on the housing market. In 2019, 12 percent of the Canadian GDP came from the real estate sector. The overall price growth has been substantial and persistent.[1] Much of the strength and optimism in the housing market is concentrated in the major metropolitan areas of Canada. Between 2010 and 2016, home prices have soared by 60 percent to almost $1 million in Vancouver and 67 percent to over $700,000 in Toronto.[2] Housing affordability is less than friendly and many are forced to seek alternatives in the outskirts of urban centers with long commutes to achieve home ownership.

To better understand the circumstances of the housing market, this section will first review the current state of health of the Canadian economy and identify its strengths and weakness. As well, a comparison between indicators of Canada's housing price trends with those leading up to the US housing bubble illuminates the severity of existing housing boom.

2.1 Canadian Economy

Canada has a highly developed market economy. According to the most recent edition of the World Economic League Table, the Canadian nominal GDP of US$1.74 trillion places the country as the 10th largest economy in the world.[3] It is a high-income nation with an economy dominated by the service sector that employs up to three quarters of Canadians.[4] The breadth of careers in the service industry is diverse and vast. This includes a range of highly specialized and skilled professions in trades, health care, finance, education, entertainment, etc.[5] In addition, Canada is well endowed with natural resources including minerals, petroleum, natural gas, forests, etc. The modernization of the Canadian economy has cultivated one of the most sophisticated economies in the world that offers high standard of living.

In assessing the overall performance of the Canadian economy, the GUIDES framework will be used to study the nation's macroeconomic performance.[6]

G: GDP and Growth

The economy expanded by approximately 1.6% in 2019.[7] Canadian GDP on average between 1960 to 2019 is 670.66 USD and reached an all-time high of 1842.02 USD in 2013. There is a noticeable increase in domestic output between 1999 to 2008. Canada posted an average GDP annual growth rate of 2.9%.[8] With trade liberalization and limitless resources, former Prime Minister Stephen Harper hailed the nation as an "emerging energy superpower" that could

[1] https://tradingeconomics.com/canada/housing-index
[2] CMHC, 2018
[3] https://cebr.com/wp-content/uploads/2019/12/World-Economic-League-Table-Report-2020-Final.pdf
[4] https://www.cia.gov/library/publications/the-world-factbook/geos/ca.html
[5] https://thecanadaguide.com/basics/the-economy/
[6] Weinzierl, Schlefer, and Cullen, 2017
[7] https://www.conferenceboard.ca/topics/economics/canadian/can-otlk
[8] https://www.focus-economics.com/country-indicator/canada/gdp

accommodate the global energy demand.[9] Strong economic growth was also a result of China's rapid industrialization that created a voracious appetite for raw materials.[10] China's investments in infrastructure and insatiable appetite for resources drove up demand and prices for commodities such as metals. Canadian economy was a beneficiary of this boom and the demand helped the country recover quickly from the global economic downturn.

U: Unemployment and Utilization
Over the past few years, unemployment rate has been in the 5% range with a labor force participation rate floating around 65%. With respect to changes in wages, figure 2.1 below shows that despite fluctuations in employment growth, wages have remained relatively stable and unaffected. This is unfortunate for periods in which there are growth in jobs.

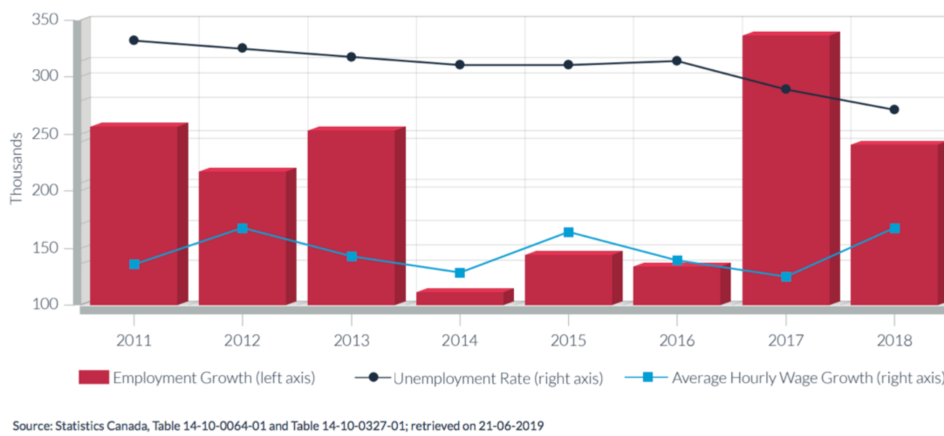

Figure 2.1: Employment Growth and Wages [11]

When looking at the Gini coefficient for insights into income inequality in Canada, it is rising modestly and has trended around 0.3 for the past 20 years.[12] However, the chorus of concerns primarily circles around Canada's most populous cities that have experienced the largest increase in inequality. This is of particular concern considering the fact that most Canadians reside in one of these metropolitan areas such as Toronto and Vancouver. Urbanization coupled with the polarization of the labor market as a result of technological advancements are some of the underlying factors behind this urban gap.

I: Inflation and Interest Rates
In 2019, inflation rate for the Canadian economy was 2.01%. Over the past decade, inflation mostly fluctuated at around 2%, peaking at 2.89% in 2011.[13] Interest rate has been trending below 2% over the past decade. Canada has maintained a low interest rate environment following the financial crisis in 2009 to spur growth and lending activities.

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[9] https://www.theglobeandmail.com/news/world/pm-brands-canada-an-energy-superpower/article1105875/
[10] https://www.macleans.ca/economy/economicanalysis/how-canadas-economy-went-from-boom-to-recession-so-fast/
[11] "Canada's State of Trade 2019." Global Affairs Canada, 2019, p. 42.
[12] https://uwaterloo.ca/canadian-index-wellbeing/what-we-do/domains-and-indicators/gini-coefficient-income-gap
[13] https://www.statista.com/statistics/271247/inflation-rate-in-canada/

D: Debts and Deficits

Canada posted government gross debt to GDP of 89.70 in 2018. This metric declined steadily from the mid 90's, reaching 66.9 in 2006. However, government debt has been rising since then and debt to GDP is expected to reach 90.0 at the end of 2020. The Canadian government has also been running a deficit over the past decade, drawing concerns on its sustainability and ability to service interest payments associated with this debt. In addition, increase in debt servicing costs could lead to displacement of government resources spent on public goods. Private debt to GDP has increased substantially, reaching 266.5 percent in 2018. Household debt has also been trending upwards, surpassing 100% of GDP in 2016 and making it one of the most vulnerable aspects in the economy. While the US has been deleveraging and household debt to GDP has dropped to 75.2% in 2019, Canada is facing persistently high levels of household debt, reaching101.67% in 2019.

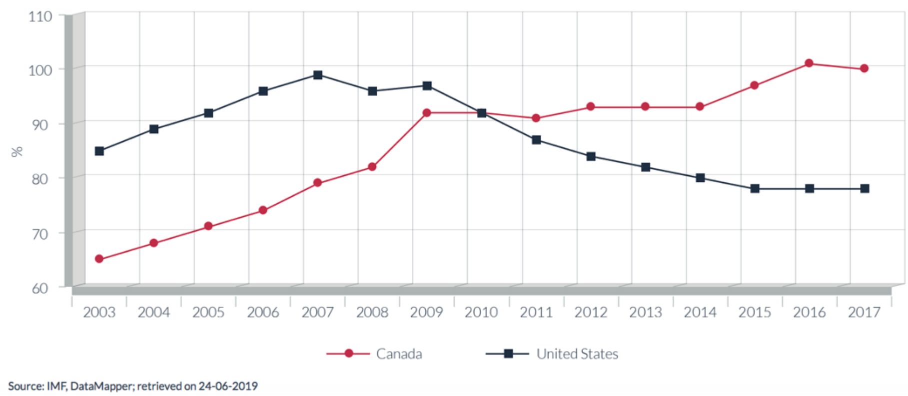

Figure 2.2: Household Debt as a percentage of GDP [14]

E: External Balances and Exchange Rates

The Canadian economy is highly dependent on trade and relies on exporting to its trading partners to generate revenue. Trade has yielded many benefits, such as increase in employment, productivity, and prosperity. In 2018, Canada's trade to GDP was 65.87%.[15] Given its abundance in natural resources, Canada is a major exporter these commodities. The US remains to be Canada's primary trade partner. In recent years, Canadian trade oriented toward Asia, primarily in the export of its natural resources.[16]

S: Savings and Investments

Household savings rate in Canada represents the proportion of disposal income that is left after spending. In 2019, savings rate climbed to 3%. However, household savings had dropped significantly in 2015 as a result of the low interest rate environment that favors borrowers over savers. It fell to 0.8% in the third quarter of 2018 and such alarmingly low levels has generated concerns that households could be vulnerable to economic shocks.[17] Domestic savings is also a source of funding for investments and low savings could undermine the economy's ability to

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[14] "Canada's State of Trade 2019." Global Affairs Canada, 2019, p. 46.

[15] https://www.macrotrends.net/countries/CAN/canada/trade-gdp-ratio

[16] https://www.fraserinstitute.org/studies/the-importance-of-international-trade-to-the-canadian-economy-an-overview

[17] https://www.bnnbloomberg.ca/canadians-aren-t-saving-much-of-their-paychecks-for-a-rainy-day-1.1176739

invest in necessary capital expenditures. Foreign Direct Investment does play an important role in the Canadian economy, often perceived as a stable source of capital to finance spending. As well, the Canadian economy relies heavily on foreign investments for future economic expansion. In the second quarter of 2019, foreign direct investment rose by CAD$23 billion, the largest inflow of FDI in four years.[18]

Concluding Remarks
The overall Canadian economic performance is healthy and well positioned for continued growth. Nevertheless, there are some less than optimistic factors that may undermine the sustainability of this optimism. The levels of public and private sector debt are alarming, considering the costs associated with serving these obligations that lie in the future. Savings in Canada are also worryingly low and raises the question of whether funding is available to finance future consumption and debt. These indicators suggest that with respect to debt, Canadians are walking on thin ice. Another factor to take into consideration is that the Canadian economic growth relies on export of its abundant natural resources. Such dependence is risky should a negative shock emerge in the global economy. With respect to these two fronts, the economy has vulnerabilities and the future stability of the financial system is uncertain.

2.2 Comparison with US Housing Crisis

2.2.1 US Housing Bubble and Subprime Mortgage Crisis

Starting from the early 2000s, the interest rates for mortgages were trending relatively low. After the economy bounced back from the technology bust, many Americans were left struggling to obtain credit for residential purchases. Against the backdrop of a healthy and strong economy, more and more individuals who experienced these challenges in obtaining loans were suddenly able to qualify for subprime mortgages. Federal government policies also helped remove barriers to accessing housing and supporting Americans in achieving the dream of owning a home. In order to stimulate economic growth, the Federal Reserve decided to substantially lower the Federal funds rate and thus resulting in the availability of more manageable rates for mortgages. The increase in accessibility to subprime mortgages coupled with US monetary authority's decision to maintain low rates enabled those, who, under normal circumstances, wouldn't have been approved or lacked financial capacity to afford such home, to qualify for subprime lending. In fact, it's estimated that 56 percent of homes purchased in that period were made by individuals who would not have qualified under normal lending requirements.[19] Many of these homeowners who obtained loans had poor credit and considered high risk of default. This fueled the rapid growth in American homeownership. Residential housing prices thus grew exponentially, driven by the pursuit of owning a home. From the perspective of lenders, they took on significantly higher risks. Loans were distributed to individuals with questionable credit and occasionally, very little assets. Capital liquidity as a result of the low interest rate environment incentivized risky investment behavior and decisions.

[18] https://tradingeconomics.com/canada/foreign-direct-investment
[19] https://www.investopedia.com/terms/h/housing_bubble.asp

The housing bubble peaked in the summer of 2005 and eventually collapsed in 2006. The dramatic fall in home prices paralyzed the economy. While the value of homes kept deteriorating, homeowners were facing increasing difficulty serving their mortgage obligations. Rising interest rates added additional pressure to individual finances. The challenge of meeting monthly payments was further compounded by the fact that market prices were less than accommodative for sellers. The growing struggles with the financial burden of homeownership and massive losses subsequently led homeowners to resort to default and face foreclosures. Many homes across the country were completely empty. Bank balance sheets took a huge hit as a result of the plummet in housing prices and innumerable foreclosures. In addition, they were unable to offload the real estate given the state of the market. Investors and banks also took on massive losses since the value of mortgage-backed securities plunged.

The bursting of the real estate bubble trickled into other aspects of the US economy. Unemployment increased, some institutions faced bankruptcy, and economic downturn crippled the rest of the economy. Fiscal measures were implemented to revive and stimulate the falling economy.

2.2.2 Comparison between US and Canada Property Booms

Canada walked away from the 2008-09 global financial recession relatively unscathed compared to other nations. The economy quickly recovered from the minor contraction and the overall long-term trend for real estate demonstrated unwavering strength. Homeowners continue to generate positive rent as a result of owning homes in the booming market and at the same time, new entrants are taking on alarming levels of debt. To examine the sustainability of this strong performance, it is valuable to compare current Canadian property situation with the US housing bubble of 2006. This will be meaningful in gauging the severity of Canadian housing prices in relation to how the US market performed before the crisis.

When looking at the data for housing prices, it is apparent that home prices have grown substantially. The International House Price Database prepared by the Federal Reserve Bank of Dallas provides a Housing Price Index that offers a snapshot of housing prices around the world. Figure 2.3 using the index provided shows that since 2005, Canadian housing prices have surpassed those of the US. The gap between these two nations has not narrowed since then, despite the slight dip in 2009. It is concerning that house price levels have well exceeded US real estate bubble peak. The trend seems to be somewhat flattening out in 2019, but it is evident that this is high.

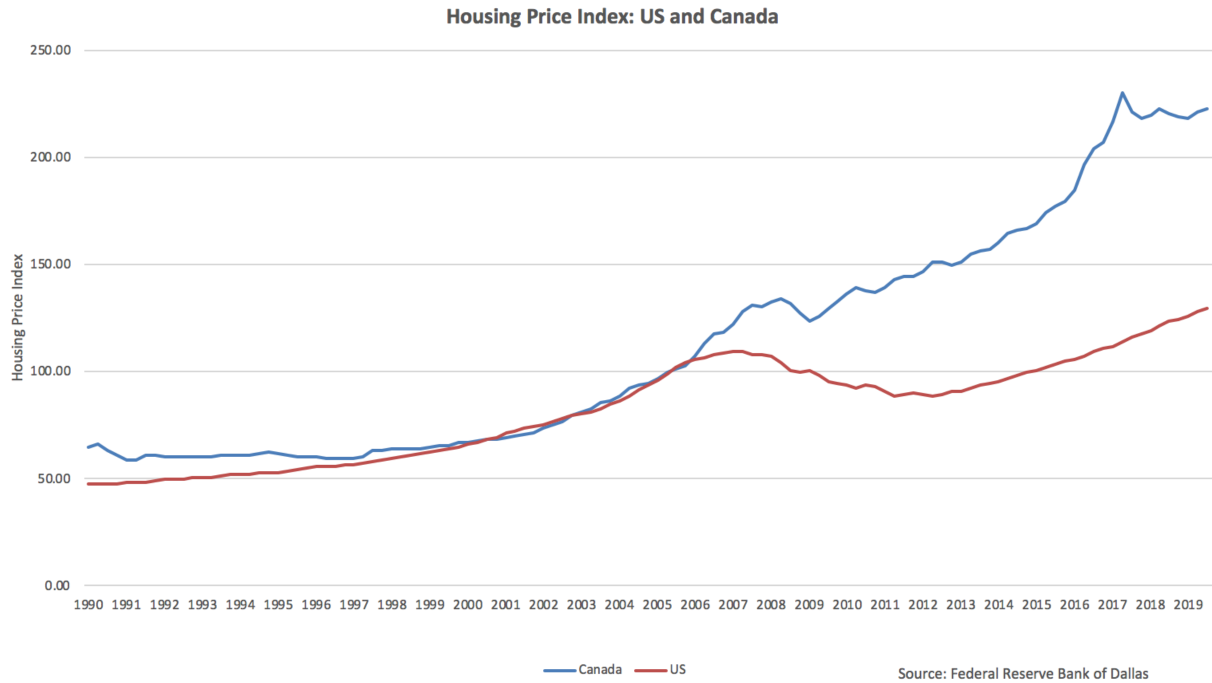

Figure 2.3: Housing Price Index Comparison between US and Canada [20]

Affordability is another barometer that can indicate the temperature of Canadian housing market. The ratio of home prices to both incomes and rent is one measure that is used by *The Economist* to quantify affordability. A higher ratio translates into lower affordability of the market.

Looking at these two indicators, there exists a startling disparity between the two nations and Canada has well exceeded the US peak in both instances. The US house prices to rents and house prices to income have fallen since the bursting of the bubble and though they're slowly climbing back up, the figures are still far from the levels of 2006. In contrast, Canada has demonstrated a relatively steady trajectory in house prices relative to rents and income. *The Economist* has also characterized the Canadian housing market as "severely overpriced". It is clear that Canadian housing unaffordability is pushing extreme levels. Some real estate agents have noted that home prices to income ratio is distorted since many new homebuyers who are new to the workforce often receive financial support from their families. In fact, 37% of the millennials surveyed in a 2017 HSBC study said that their parents play a key role in funding their housing costs. As well, 42% of new millennial homeowners noted that they've spent more than budgeted in their home purchase.[21] However, this still raises questions about the sustainability of Canadian prices, especially given the rising cost of homeownership relative to income.

Household debt to GDP refers to debt incurred by the resident households of the economy. This indicator offers insight on household indebtedness relative to GDP. Using data provided by the Federal Reserve Bank of St. Louis,[22] Canada and US have reversed positions in 2010 with Canadian households carrying noticeably higher level of debt compared to their American

[20] The authors acknowledge use of the dataset described in Mack and Martínez-García (2011)
[21] https://www.cbc.ca/news/business/hsbc-housing-survey-1.4002458
[22] https://fred.stlouisfed.org/series/HDTGPDCAQ163N

counterparts. The low interest rate environment in the Canadian economy contributed to the demand for mortgages to finance home purchases. Furthermore, in the recent years, the ratio has actually crossed 100 percent. This trend represents disturbing Canadian household financing decisions, raising questions with regards to the vulnerability of the economy to exogenous shocks. In particular, the negative consequences from unexpected shocks could be amplified and further debilitate the financial stability of the economy. During the financial crisis, debt-to-GDP was relatively reasonable and the economy was relatively impregnable to economic disturbances. However, debt holders are in a precarious position with dangerously high levels of debt with no signs of retreating.

In addition to the aggregate household debt to GDP, another concerning aspect of the housing trend is the debt service ratio. Below depicts the debt serving costs to income for both Canada and the US.

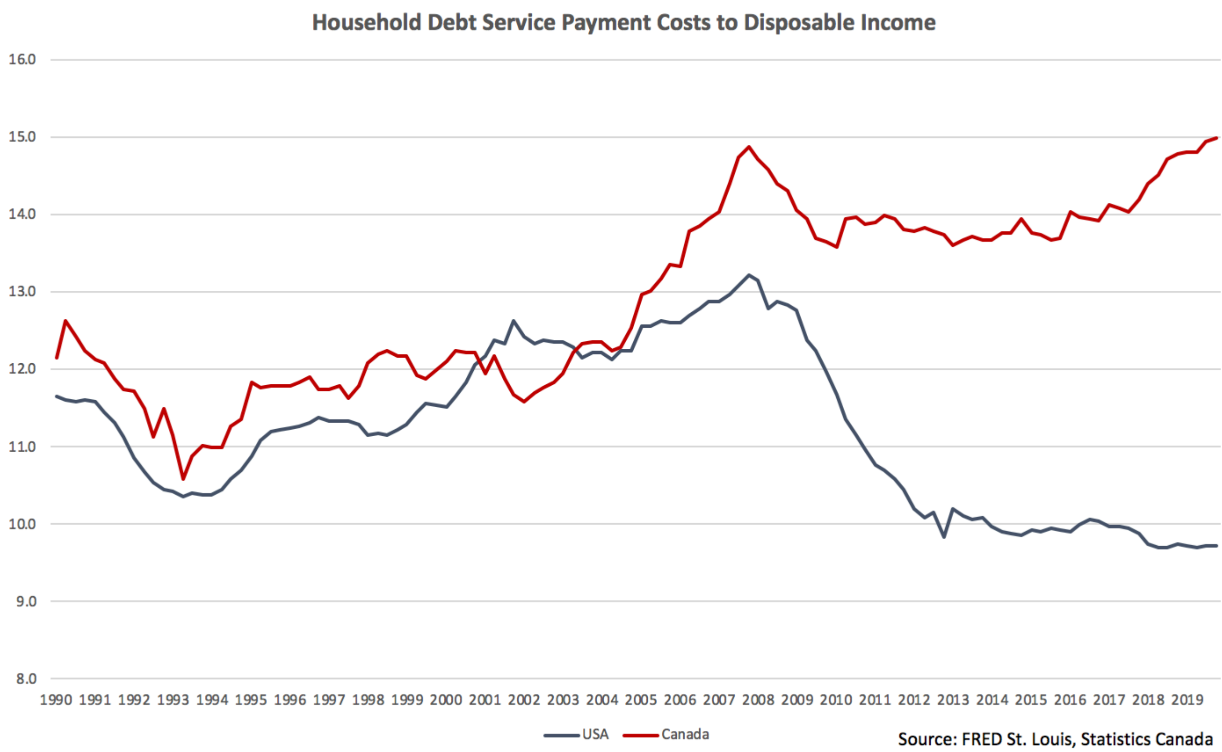

Figure 2.4: Household Debt Service Payment Costs to Disposable Income [23]

The proportion of disposable income dedicated toward financing debt has increased over the years. This accounts for interest and principal payments. While Americans have been focused on deleveraging post financial crisis, the Canadian debt service ratio has also surpassed the US 2006 peak.

[23] https://fred.stlouisfed.org/series/TDSP#, https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110006501

Another comparison between US and Canada property markets is the ownership transfer costs. This measure accounts for the broker commission expenses associated with housing transfer transactions.

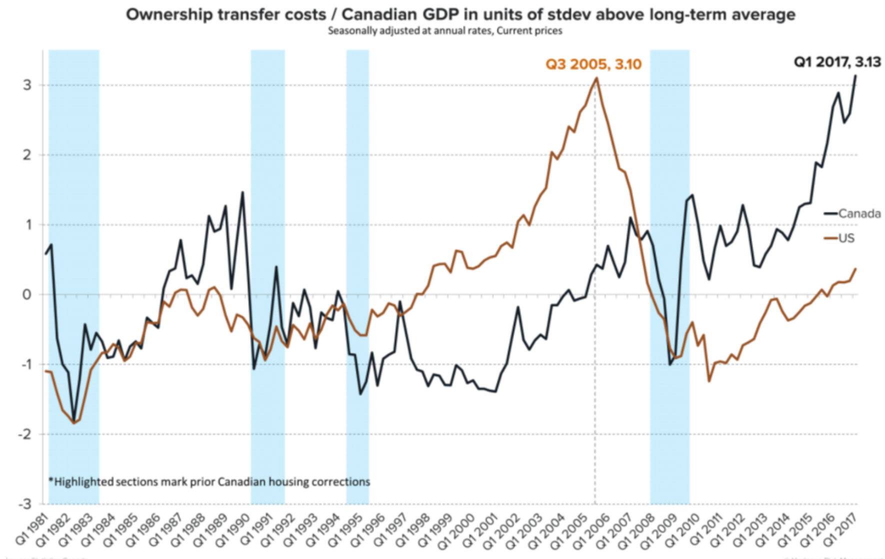

Figure 2.5: Ownership Transfer Costs [24]

According to this graph, Canada has reached levels similar to the height of the US real estate market. One piece of information to extract from this chart is that the Canadian market, as of 2017, was still quite heated and real estate activities were as active as the US in 2005.

Other characteristics that are worth noting is that home ownership rate Canada peaked at close to 70 percent. Ownership rate reached this level as well at the height of the real estate bubble. The rate has fallen slightly since then for Canada and is trending at around 66%.[25] However, it is considered amongst the highest in the world. Another aspect to consider is the impact of the real estate industry on GDP. For the Canadian economy, as of December 2019, real estate accounted for approximately 12 percent of GDP, the largest industry and one of the engines that drives GDP growth. The US faced a similar situation during the bubble, with real estate also being the key driver of economic growth.

The aforementioned indicators discussed bear a concerning resemblance to the state of the US real estate phenomenon prior to the crisis. A distinction that should be noted is that in many cases, Canada has actually eclipsed levels the US reached in 2005. These comparisons do not suggest that these two markets are identical. There are fundamental differences in the characteristics of these two housing markets. For instance, deluge of subprime mortgages was one primary culprit for the rise and downfall of US real estate. On the contrary, the quality of Canadian debt is comparatively higher and in general, low-grade debt is not a critical issue. In addition, another clear difference is that a large portion of the existing mortgages are insured by

[24] https://seekingalpha.com/article/4138386-next-minsky-moment-in-housing-and-where-might-happen
[25] https://tradingeconomics.com/canada/home-ownership-rate

the Canadian government through the Canada Mortgage and Housing Corporation. Thus, the major banks, investors, and other stakeholders are less exposed to the financial risks of foreclosures.

However, the discussion of the aftermath of the US housing crisis demonstrates the critical relationship between the housing market and the wider economic health. When real estate performance is strong and house prices rise, homeowners gain confidence and feel better-off financially. This enthusiasm would increase in consumption activities, increasing borrowing and spending. In contrast, weak real estate sales could be followed by a decline in real estate prices. This would consequently decrease the value of residential homes, creating a dent in household wealth. Whether homes are on the market or not, the loss is shared across all homeowners. As such, consumers would become more reluctant to engage in spending for goods and services. Purchasing decisions also became more conservative because an increasing proportion of earnings would be used to support residential obligations. Availability of loans for homebuyers may decrease. The impact from the contraction in the real estate market depresses consumer spending and in an economy that is driven by consumption, this could undermine the health of the economic system.

There exists a delicate balance between the two and mismanagement could lead to catastrophic consequences. The evaluation of the similarities above between the two markets enables one to understand Canada's position in relation an economy that experienced turbulence. It is also meaningful because it helps us better gauge the degree to which the Canadian market is overheated and whether this growth is sustainable. The US economy during 2008-2009 has demonstrated the "immense dangers of a mismanaged housing market."[26]

[26] https://www.economist.com/special-report/2020/01/16/housing-is-at-the-root-of-many-of-the-rich-worlds-problems

Chapter 3: Demand and Supply Factors

3.1 Demand Factors

There are some economic fundamentals during this period that have been supportive of the boom in housing demand, fueling the engines of the Canadian real estate boom.

Healthy Macroeconomic Environment

Positive growth of disposable personal income in Canada is one dimension that has contributed to the rise in housing prices. Improvements in income levels are prompting individuals to seek better housing. The availability of financial resources from solid income growth has helped households take on more debt and manage payments. As well, decisions to take on more debt reflect the comfort level of Canadian consumers and confidence in the overall macroeconomy.

In the aftermath of the global recession, fiscal and monetary authorities around the world were committed to maintaining post-crisis economic stability. In addition, real estate such as residential homes were perceived to be high-quality and safe assets. As such, the ensuing period of financial calm had generated interest in reallocating wealth and investing in houses. This has driven demand for homes as well as housing-related goods and services.

Another aspect to consider is that the strength of globalization post 2000 led to wealth creation. This meant that there was more capital floating around. Economically positive and strong environment meant that there was more money available for banks to distribute to borrowers. Subsequently, borrowers with more money on their hands were able to access more financing for big purchases such as residential homes.

Demographic

Changes in the population is associated with the movements in house prices. Population growth, primarily driven by strong immigration, has influenced the trend rise in prices. Canada is known to be one of the friendliest nations in the west for immigrants. As well, one of its many appeals is its positive attitude toward immigration. When looking at the education composition of its immigrants, one can see that they tend to be well-educated with 64% of these individuals having obtained a university degree or postsecondary certification.[27] Of the permanent resident immigrants in 2017, economic immigration was the most admitted class, exceeding other immigration types by a substantial amount.[28] As well, 60% of the accepted permanent residents are economic immigrants.[29] Economic class is assigned to the applicants and their family members who are likely to contribute to the Canadian economy. This translates into immigrants who are able to take on high-skilled specialized jobs that comes with high income levels. In addition, it also means that this cohort of immigrants has demonstrated ability to become

[27] https://www.statista.com/statistics/555224/number-of-landed-immigrants-in-canada-by-education-level/
[28] https://www.statista.com/statistics/554884/number-of-permanent-resident-immigrants-in-canada-by-entry-category/
[29] https://www.advisor.ca/news/economic/young-well-heeled-immigrants-drive-canadian-housing-boom/

economically and financially established. The top three countries of foreign-born individuals residing in Canada are India, China, and the Philippines.[30]

Urbanization resulting from shifts in demographics and their preferences also explains the rising prices. First, average family size in Canada has declined by approximately 20 percent, from around 3.5 in 1976 to under 3.0 in 2011.[31] Decreasing trend in family size has supported the rate of household formation. Second, location preferences of younger individuals and recent immigrants are increasing speed of urbanization, given the agglomeration economies of scale offered by urban areas. These subsequently drove the demand for homes in Canada's urban centers, pushing up prices.

Friendly Mortgage Rate

The credit friendly environment has helped power the housing market boom. Improvements in mortgage conditions, as a result of comparatively lower long-term interest rates and financial innovations, means that households are able to afford more debt. In addition, access to low rates provides opportunity for individuals to purchase more expensive homes.

The five-year fixed mortgage rate is Canada's most popular rate, particular for those who are first time homebuyers. It allows mortgagors to lock in an interest rate for several years with consistent monthly payments. In addition, it allows them to refinance or complete mortgage obligations prior to end of contract. Below is a graph of rates sourced from the Bank of Canada.

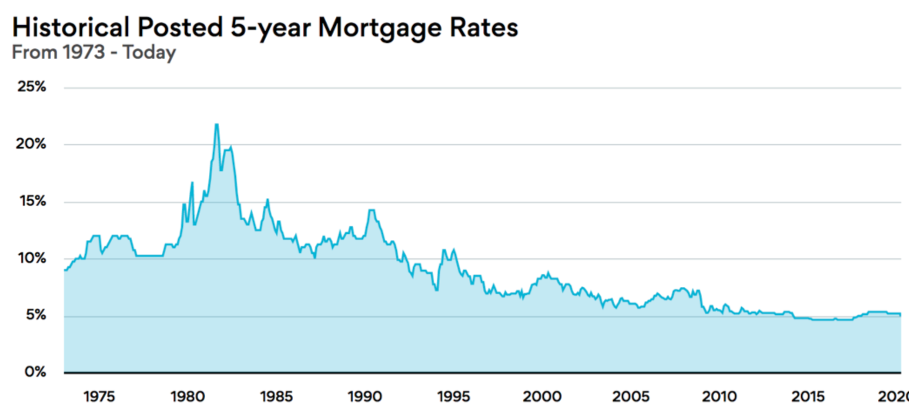

Figure 3.1: Canada Historical Posted 5-Year Mortgage Rates [32]

In November 2016, Canada hit its all-time record low for a non-teaser five-year fixed rate, reaching 1.91%. It is evident that years of friendly mortgage rates made homeownership and taking on debt more affordable. In addition to cheap rates, the availability of easy credit[33] helped borrowers gain access to additional financing, thus driving up Canadian residential housing prices.

[30] https://www.statista.com/statistics/556078/top-10-countries-of-birth-for-foreign-born-canadian-citizens/
[31] https://www.bankofcanada.ca/2015/08/long-term-evolution-house-prices/
[32] https://www.ratehub.ca/5-year-fixed-mortgage-rate-history
[33] MacBeth, 2018

Financial liberalization and developments in the mortgage market have also improved accessibility.[34] Innovations in this field has allowed credit risk to be better diversified. This has greatly benefited lenders and the management of their portfolios. As well, these mortgage developments opened opportunities to access debt to a broader audience. More individuals are able to obtain finance and achieve home ownership. Lenders are then able to take on a wider spectrum of risks with diversification.

Foreign Participation

One driver behind the growing unaffordability of Canada's real estate attributes to the throng of nonresidents buying up properties. Statistics Canada has defined nonresidents as individuals whose principal residence is outside of Canada. Nonresident participation for a property is when at least one of the owners is not a resident of Canada. According to a study from the Canada Mortgage and Housing Corporation, 68 percent of Vancouver respondents perceive foreign buyers as being highly influential on the housing market and pushing up home prices. In Toronto, 48 percent of the respondents share similar sentiments.[35] Capital inflow directed toward Canadian real estate has led to an unprecedented growth in housing demand. Much of this foreign influence is coming from countries such as China.

In 2015, for the Vancouver real estate market, Chinese homebuyers are responsible for 33 percent of total housing volume. In Toronto, these buyers accounted for 14 percent of the purchases. These are a total of approximately $6.7 billion of $47 billion in deals.[36]
In 2018, Juwai.com, a Chinese real-estate website, predicts the property spending spree to continue and that Chinese investors will invest approximately $750 billion in foreign real estate assets over the next decade.[37]

The insecurity of capital and investments from forces such as unexpected asset forfeiture and domestic political instability is a motivation for Chinese investors to migrate funds to international arenas. The unpredictability over the direction of domestic politics and policies incentivized Chinese individuals to store assets abroad and preserve their wealth. Uncertainty over the future value of domestic currency is a contributing factor as well. Major cities in Canada such as Vancouver and Toronto were some of the prime targets given the friendly and accommodating immigration policies. Real estate is perceived as a safe and stable asset by Chinese investors as opposed to other asset vehicles. "Home ownership is deeply rooted in the Chinese culture"[38] and unfortunately, this cannot be satisfied domestically since government policy does not permit citizens to own properties. And so, Canada is perceived as a safe haven for the security of assets, economic stability, and fulfillment of home ownership.

[34] https://www.bankofcanada.ca/2015/08/long-term-evolution-house-prices/
[35] https://business.financialpost.com/real-estate/perception-of-foreign-ownership-heavily-influences-housing-prices-cmhc
[36] https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=5ef50212-0fd5-41cb-9e7c-94ee145e6208&mime=pdf&co=nbf&id=peter.routledge@nbc.ca&source=mail
[37] https://www.wsj.com/articles/western-cities-want-to-slow-flood-of-chinese-home-buying-nothing-works-1528294587
[38] https://www.npr.org/2019/06/05/726531803/vancouver-has-been-transformed-by-chinese-immigrants

In order to curb demand for housing from foreigners, the city of Vancouver introduced Bill 28 which is a 15 percent tax on real estate for foreign buyers. This policy intended to control the prices and raise the barriers for nonresidents to participate in Canadian real estate. This subsequently shifted interest in real estate from Vancouver and led to a demand for properties in the city of Toronto.

3.2 Supply Factors

Supply side forces have been influential in the growth of housing prices. Supply side response to the housing demand is dependent on the availability of housing and the development of future homes are affected by geographic limitations and the existing policies. Studies have shown that in a well-functioning housing market, "the market price of housing [should be] close to the feasible cost of constructing it."[39] Discrepancy between the price and construction cost of building should reflect the regulatory burden of new development.[40] For Canada, such difference exists in the major metropolitan areas and it largely stems from the restrictions to housing construction. The study from the C.D. Howe Institutes estimates that homebuyers have had to paid an additional $229,000 per new home between 2007 and 2016 as a result of such housing market inefficiency.

Geography

Geographic constraints do play a role in the location and number of homes that can be built. Residential construction is constrained by factors such as mountains, wetlands, and other unsuitable terrains. In addition, demand for areas with friendly weather temperatures can drive up the value of land and increase housing development. A large part of Canada remains uninhabitable for humans due to the cold climate.[41] Though it's a huge country, its 37 million residents are primarily concentrated in the metropolitan areas in the southern parts of Canada. The scarcity of land with the growing housing demand has made homes increasingly unaffordable.

Policy and Regulation

Canadian policies have limited the supply of land available and curtailed construction of more affordable housing. Regulatory constraints such as zoning or land-use restrictions with requirements on meeting minimum lot sizes or maximum development density have led to rise in property prices. There are policies that regulate the types of dwellings that can be built. Furthermore, climate policies including the establishment of greenbelts surrounding urban land are another form of restriction on land-use. These Urban Growth Boundaries are barriers intended to manage and control urban sprawl, protecting peripheral green areas. Toronto, Vancouver, Ottawa, and Waterloo are examples of cities with such restriction to curbing urban growth.[42] These policies have boosted land values and subsequently residential prices.

[39] Dachis and Thivierge, 2018
[40] Dachis and Thivierge, 2018
[41] https://www.vox.com/2016/5/5/11584064/canada-population-map
[42] https://www.academia.edu/7207756/Managing_Metropolises_by_Negotiating_Mega-Urban_Growth_2013_

3.3 Concluding Remarks

The interaction between these factors from the demand and supply side have propped up Canada's high housing prices, making homebuying more unaffordable for many individuals. In fact, current trends suggest that housing has become more exclusive, available only to the few with sufficient financial resources to fund it. As well, the unfortunate consequence of this boom is that more households have had to take on more debt to achieve homeownership. When the tide turns, Canada's years of addiction to the housing market and its role in the health of the economy will be challenged. The next chapter will discuss the weakening of Canada's economic resilience as a result of housing's significant influence on the national economy.

Chapter 4: Implications

4.1 Households Resilience

On an individual level, being able to own a home is fundamental to the Canadian life and culture. It is both an asset to store wealth and a shelter of comfort. On one hand, the direct impact of rising housing prices is the displacement of low-income individuals whose earnings cannot afford to buy a home. On the other hand, the low interest rate regime has offered opportunities for a broader group of borrowers to access mortgage. With that, the growing concern associated with higher home prices is the impact of debt obligations on households. It is important to ensure that Canadians are able to enjoy other aspects of their lives, consume other goods and services, and maintain a reasonable standard of living. More notably, a healthy balance between meeting debt payments and other spending needs leads to a more sustainable future. However, rising housing price can challenge the way in which wealth is allocated for individuals. In other words, the excessive burden related to financing rising cost of housing can prevent homeowners from other expenditures. The erosion in purchasing power for other goods and services will impact the overall well-being of Canadian households.

In addition, homeowners are increasingly more financially vulnerable due to current trend in home prices. Indeed, employment stability and income growth can service the financial obligations for housing. But debt payments will become difficult to fulfill should a negative income shock such as job loss occur. These mortgages are already a significant portion of household spending and earnings instability would curb spending in other areas. If more individuals face unemployment and an economic downturn worsens, more households would then turn to default which would further exacerbate the economic contraction.

The above discussions address the concerns of personal finance robustness. Borrowing for homes has become ubiquitous and is seemingly innocuous and helpful in smoothing out spending over a period of time. However, the exorbitant levels of debt as a result of rising home prices questions whether household portfolios can withstand unfavorable policy changes and economic shocks. Becoming too dependent on mortgages and concentrating too much resources to meeting obligations is unsustainable in the long run. Financial resiliency, in light of the scale and impact of the recent economic recessions, is increasingly imperative. Canadians are sensitive to housing price movements and rely on the government to protect current levels. Should home prices drop in the future, current levels of debt expose households to large financial risks.

Another implication of rising house price to consider is the inevitable rise in inequality. This housing boom environment is a catalyst for turning Canada into a “class-based society”[43] in which only the rich are able to afford homes. First, wealth derived from housing is only available to those who are own homes. They are the recipients of economic rent. As well, this housing wealth is not equally allocated. According to Statistics Canada, in 2016, households in the top tier accounted for more than 60 percent of Canada’s total net worth. In contrast, those in the bottom 40 percent owned merely 2 percent of the net worth.[44] Those on the top are the

[43] https://www.canadianbusiness.com/economy/how-canadas-housing-boom-is-aggravating-income-inequality/
[44] https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1110004901

beneficiaries of soaring house prices. In addition, this appreciation also leads to rising rent, increasing the burden for the working class. The social divide from the acceleration in house prices is increasingly stark and worrying. Second, the agglomeration economies of scale also mean that less well-off individuals are unable to access these prestigious communities. They are forced to look into neighborhoods that are lower quality that lack access to public goods. Furthermore, they are farther from their work locations and would have to devote much time to commuting instead of using spending time with families. Overtime, these individuals would feel increasing bitterness toward those in the upper echelons of society. According to Robert Shiller, geographic division and exclusivity based on income level differences can fracture society, polarize the communities, and engender social conflicts.[45] In addition to the social frictions, unfriendly sentiments toward foreign property owners may develop and these sentiments are insidious and long-lasting. Without corrective policy measures, these social tensions could challenge household and societal stability and affect weaken their ability to cope with exogenous stresses.

4.2 Economic Resilience

A majority of homebuyers require borrowing to buy a new home and they have taken advantage of low interest rates to finance their purchases. The relationship amongst rates, debt, and home prices is relevant to looking at the policy implications of rising house prices. In particular, housing appreciation can undermine financial stability on three fronts. First, continuous growth in home prices has led to the accumulation of undue household debt. Second, economy's dependence on housing market performance poses significant risks to future growth. Third, monetary policy tools are limited in its ability to manage economic vulnerabilities.

4.2.1 Household Debt

Purchasing decisions that result in the exchange of future earnings for spending today can fuel the engines of economic growth. Increase in consumption will drive economic activities, supporting businesses and encouraging investments in capital and inventory. Subsequently, the economy would employ more workers to meet consumer demand. In this system, debt-driven spending can drive economic growth. However, as recent experience with the financial crisis as shown, household debt that is composed of primarily mortgages can expose an economy to many risks.

Liquidity is an important element of real estate. Along with a demand for housing, there must be sufficient money available for people to buy homes. Looking at credit cycles, there are four different stages: recovery, expansion, downturn, and repair. This cycle is a function of credit availability and how it reacts to contractions and expansions. Starting with the recovery phase, interest rates are slashed to stimulate the economy. Lenders are more vigilant about lending decisions and the overall credit growth is flat. At this time, the economy starts to normalize. The lowered rates will promote credit activities and household debt will begin to grow. The increase

[45] https://www.project-syndicate.org/commentary/real-estate-prices-housing-inequality-by-robert-j--shiller-2017-07?barrier=accesspaylog

in liquidity will enable asset prices to grow and banks will consequently start to lend. In the expansion phase of the credit cycle, credit activities accelerate. The overall economy is booming, with low unemployment and wage growth. Riding on the strength of the economy, the wealth expansion and accommodating interest rate levels will encourage borrowing. At this point, debt will increase and asset prices such as real estate will experience steep inclines. After the boom peaks, the economy would go through a downturn in which credit growth will begin to contract. Debt will grow at a slower rate and defaults will emerge. Asset prices become less appealing as economic performance fails to meet growth expectations. Towards the latter part of this phase, number of defaults rises sharply with prices fall significantly. Aggregate demand shrinks and lending activities slow down. The repair phase follows in which corrections and reallocations enter. Household debt falls and unemployment rate starts to decrease. Credit defaults nears the bottom while interest rates peak. Policy interventions will start considering cutting rates and implementing fiscal stimulus.

Current levels of household leverage are alarmingly high, reaching uncharted territories for this economy. In Canada, household debt is over $2 trillion as of 2018 and nearly three-quarters of this amount is tied to mortgages.[46] The low interest rate environment meant that debt became more affordable to carry. Household debt to disposal income is 173.68 percent in 2019.[47] Per dollar of disposal income, an average Canadian owes $1.74. This is an uncomfortably high ratio for this economy and the Bank of Canada sees this as a growing risk for the future financial stability.[48] In addition, when interest rates need to be raised to meet inflation targets, such policy move could have a material impact on the debt serving costs for households.

In an IMF study that looked at the macro-financial effects of household debt, it studied the impact of growth in household debt for different types of economies. This working paper confirmed that there exists a negative relationship between household debt and long-term GDP growth.[49] It is valid that debt can yield economic benefits in the short-term, in the form of spending that can boost aggregate demand. However, in the long-run, the costs associated with increasing debt will increase the probability of a financial crisis. In addition, mounting debt expenses will weaken consumption, especially when a negative shock disturbs the economy.

4.2.2 Growth Resilience

Real estate is the largest component of the Canadian GDP and this exposes the economy to external shocks to this sector. The fact that revenue is concentrated in one sector of the economy is concerning. According to Kean Birch of York University, Canada has slowly morphed into an asset-based economy in which growth is increasingly dependent on the appreciation of assets such as real estate.[50] There is a risk in reliance on house price inflation to build wealth and fuel economic growth. First, it relies on low interest rate to finance borrowing, pushing the debt-to-income ratio and benefiting from the asset price appreciation. Second, lack of diversification in

[46] https://www.bankofcanada.ca/2018/05/canada-economy-household-debt-how-big-the-problem/
[47] https://tradingeconomics.com/canada/households-debt-to-income
[48] https://www.bankofcanada.ca/2018/05/canada-economy-household-debt-how-big-the-problem/
[49] Alter, Feng, Valckx, 2018
[50] https://www.theglobeandmail.com/business/commentary/article-canada-has-taken-a-perilous-road-to-an-asset-based-economy/

economic growth is a vulnerability to consider. The economy will be more sensitive to the performance of the housing market and could easily take a hit should there be a downturn in this sector. In addition, government policies must also strive to protect this market, supporting the value and ensuring that wealth does not quickly evaporate for Canadians should a shock occur. Leaders would be more reluctant to implement measures that could topple this trend and with that, lack of policy action could indirectly contribute to rise in prices. Third, given the appreciation in value, the private sector may direct more financial resources into this space instead of investing in the development of new innovations and technologies. Investments in residential properties have "more than doubled over the past decade" whereas resources allocated toward machinery, equipment, and research and development has been reduced by more than half.[51] The residential construction sector along with the goods and services associated with this industry has also grown to become nearly as large as the energy and manufacturing sectors combined. Real estate has proven to be a profitable investment. However, it does not help with advancing the economy and strengthening its resilience. These financial resources are better used in the sectors that not only develop new innovations and discover new knowledge to spur progress, but also diversify the sources of growth for the Canadian economy.

4.2.3 Monetary Policy Resilience

The core of the Canadian monetary policy framework is the inflation-control target. The objective is to "preserve the value of money" and ensure that "inflation is low, stable, and predictable." [52]Inflation target is two percent, with a range between one and three percent. The recovery from the recession has been weak and slow. Monetary authorities have responded with accommodative policy measures to stimulate aggregate demand and boost the economy. During this protracted recovery, the low interest rates have helped individuals gain access to cheaper mortgages.

Monetary authorities are faced with limited abilities to manage the economy. First, one of the significant issues is the uncertainty of how sensitive consumers are to changes in the interest rate. It is difficult to gauge the extent to which an increase in interest rates will impact existing household debt and whether they are able to handle additional costs of borrowing. Current debt levels are also a significant risk to the financial system. It is inevitable that raising interest rates to maintain low and predictable inflation would soften demand for housing. The concern is that when households are unable to financially adapt to these changes and cease to service these debt responsibilities, the increase in supply of homes for sale would depress the value of the housing market. Falling house prices could have a catastrophic effect on the consumers and financial institutions, reducing aggregate demand and introducing negative shocks that could paralyze the overall economy.

Second, the protracted recovery and extended period of historically low interest rates limits the ability of monetary policy tools to mitigate negative shocks in the future. The accommodating credit conditions that reinforced the demand for housing served as a stimulus to spark economic

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[51] https://business.financialpost.com/investing/investing-pro/canada-needs-to-ditch-its-addiction-to-real-estate-and-start-investing-in-technology
[52] https://www.bankofcanada.ca/core-functions/monetary-policy/

growth. Should an exogenous shock disturb the Canadian economy, the central bank's action on the interest rates is one mechanism of its repertoire of measures that could thwart the contraction. Unfortunately, interest rates have been low and even though there have been incremental increases to interest rates, reaching just under two percent in 2019, there isn't sufficient buffer for future downward adjustments. From this perspective, monetary policy has become less flexible in confronting economic challenges. In fact, empirical evidence agrees with the notion that "monetary policy transmission is indeed weaker when interest rates are persistently low."[53] In addition, any future deviations in inflation from target would be difficult to address with interest rate adjustments due to potential negative impact on house price appreciation. Stephen Poloz, governor of the Bank of Canada, faces a delicate balance between preserving the value of the Canadian Dollar and not exacerbating the high levels of debt.[54]

As discussed above, the overhanging household debt and uncertain debt holder sensitivity to interest rate changes makes it difficult for the central bank to raise rates and build the necessary buffer in anticipation of future shocks. This raises the question of the robustness of monetary policy tools when a crisis emerges. The dynamic between the role of monetary policy and house price boom has created an economy that will become weaker and less resilient.

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[53] https://www.bis.org/publ/work628.pdf
[54] https://www.ft.com/content/6db647ca-0187-11ea-b7bc-f3fa4e77dd47

Chapter 5: Moving Forward

The Canadian economy, at the time of this writing, is bracing for the challenges posed by Covid-19, otherwise known as the Coronavirus. Amidst the fight for this global pandemic, it has become increasingly clear that this is both a health crisis and an economic one. The well-being and safety of the people are closely tied to the health of the economy and Covd-19 has thrown both of these elements into a whirlwind. First, the threat to the health of Canadians and the contagious nature of the virus have challenged the way in which people can be in public. Individuals are uncomfortable being in crowded places and returning to work is a difficult decision. Health facilities are also facing an influx of patients. Second, the global economic paralysis has and will continue to introduce disruptions both internationally and domestically, putting the Canadian economy at significant risk. Policies implemented to curb the spread of the virus have strived to pause demand-side activities. Social distancing measures have limited human activities and interactions in the public, unfortunately hurting many industries across several sectors.

While confronting the shocks from the pandemic, the Canadian economy has also been challenged by another assault that has dampened its economic performance. The collapse in oil price in the spring of 2020 triggered by the price war between Saudi Arabia and Russia has added significant stress to the sector that is one of Canada's key economic drivers. The oil industry accounted for 5.6 percent of GDP in 2019 and supports a wide range of professions.[55] This shock on two fronts of economy will led to a particularly painful recession in the short term. As well, the pessimism paints a gloomy picture of recovery.

In March, the Labour Force Survey from Statistics Canada published data on employment conditions that offers a preview into the effects of policy interventions to contain Covid-19 and the recent oil shock. 3.1 Million Canadians have had disruptions in the form of either job loss or reduced hours due to Covid-19.[56] Unemployment rose to 7.8 percent, an increase by 2.2 percent which is the largest one-month increase in four decades.[57] Employment dropped across all provinces with Alberta reporting the sharpest decline as a result of oil prices. The bulk of the rise in unemployment is due to temporary layoffs and these workers are expected to return to their respective jobs within six months.[58]

5.1 Implications on Housing Market

The slowdown of the economy and the grim outlook for the following months are drawing concerns on the housing market. First, the big question of whether the housing market will start to lose steam and prices will fall as the impact of Covid-19 settles in. Second, how this temporary impact affects the housing market and the economy in the long run.

[55] https://oilprice.com/Energy/Energy-General/Canadas-Oil-Patch-Struggles-To-Survive-The-Worst-Recession-Ever.html
[56] https://www150.statcan.gc.ca/n1/daily-quotidien/200409/dq200409a-eng.htm
[57] https://www150.statcan.gc.ca/n1/daily-quotidien/200409/dq200409a-eng.htm
[58] https://www150.statcan.gc.ca/n1/daily-quotidien/200409/dq200409a-eng.htm

5.1.1 Short-Run Effect

Canada will face weak economic fundamentals in the short run. Households and businesses are taking on significant financial damages and the halt to aggregate demand is expected to adversely impact the housing market performance.

Low Interest Rates

Bank of Canada quickly responded to the threat of Covid-19 on the economy, lowering policy interest rate three times in the month of March to support the contraction in economic activities. The monetary authority has implemented interventions to ease credit conditions and make credit available to assist businesses and households. This accommodative policy is a stimulus to aggregate demand that could minimize the impact of the economic crisis. However, the positive impact is minimal as consumers become more conservative with their purchase decisions and increase savings for the rainy days ahead. Large purchases such as buying a new home would be postponed. Households will prioritize their current spending needs and debt costs.

Unemployment

The increase in unemployment will impact the demand for housing. First, this is an income shock that will lighten consumer spending. Households would have to readjust and adapt to lower incomes and uncertainties regarding when activities will normalize will further limit their cash outflow. Consumers will also face restrictions in large purchases and this will depress the prices of the housing market. Second, the high debt-to-income ratio for Canadian households will be additional financial stress for those facing significant negative changes to income. Consumer debt performance will deteriorate in the short term. In fact, data shows that filings for bankruptcies and insolvency proposals are starting to pick up.[59] This trend could drive down demand and lower prices, undermining the strength of the housing market.

Foreign Demand

The restrictions and disruptions to travel from abroad have placed the Canadian economy in a precarious position. First, there is a loss in revenue from tourists visiting and spending on Canadian goods and services. This has had an impact on business revenues and the labor market. Second, the foreign participation that has spurred the demand for housing in Canada and supported the price appreciation will drop, leading to downward pressure on prices. Social distancing measures prevents individuals from visiting potential new homes. In addition, travel restrictions and suspension of immigration into Canada are additional barriers impeding foreigners from investment in Canadian homes. For instance, the Vancouver housing market is beginning to experience a decrease in the number of Chinese buyers.[60] As such, restrictions imposed on foreigners will decelerate housing price growth in the foreseeable future.

[59] https://www.moodysanalytics.com/-/media/article/2020/april-canada-housing-outlook.pdf
[60] https://blog.remax.ca/what-is-happening-in-the-vancouver-housing-market/

5.1.2 Long-Run Effects

The disturbances introduced by Covid-19 will likely be transitory and the Canadian economy is expected to normalize in the long-run. A few considerations will alter the current dynamics such that future changes could in turn be beneficial to the Canadian economy and offset the impact of the tumble in the housing market.

Immigration

In the post-Covid-19 world, the western economies are expected to isolate China, both politically and economically. Discriminatory measures that specifically targets China and its citizens are a definite possibility. This could entail policies that curtail Chinese tourists and even prohibit immigration. The narrative against China will likely linger after normalization given the severity of this health and economic turmoil. It will be hard for domestic citizens in Canada as well as other affected countries to forget this pain. And so, these government interventions designed to curb the flow of Chinese individuals into Canada will ultimately cool the demand for housing. As well, the impact of foreign ownership taxes on housing demand will be minimal in the future, given the prohibition of Chinese individuals from immigrating and investing in Canada.

In the cities of Vancouver and Toronto that have been hotspots for Chinese homebuyers, they must brace themselves for a hard landing. Prices will fall and the loss in home values in the future will hurt current homeowners. First, those who would like to sell may have to accept financial losses as a result of falling prices. The influx of homes available for sale will also drive prices downward. Second, a weakening housing market would hurt the overall economic performance, dampening aggregate demand. As mentioned in the previous sections on household debt and the debt cycle, the consequences of contraction will strain household ability to service debt obligations. Deterioration in credit performance will weaken the health of the economy, such as rising unemployment and economic contraction. This will reinforce the declining prices, resulting in a price correction.

Globalization Reshuffle

The coronavirus has also underscored the underlying risks of businesses relying on one nation for manufacturing and production. The significant interruptions experienced from the start of the year have threatened supply chain flow and the capability of companies to deliver goods to its customers. Companies will consequently begin to reflect and reorient their supply chain strategy. Businesses will look to diversify and limit their dependence on China. Canada could be a beneficiary of this reshuffle in globalization, given the close trade relation with the US. Having finalized USMCA and the stabilization of the bilateral relationship, US companies could look toward Canada as an ideal country to set up manufacturing facilities. The geographic proximity, cultural parallel, and political similarity makes Canada a suitable candidate for taking on a bigger role in the global supply chain. This could lead to the creation of more employment opportunities and increase number of businesses. With that, increase in income will lead to demand for homes. The tumble in house prices as a result of reduced foreign participation could be offset by the economic opportunities from this supply chain diversification. The pool of high-skilled talents makes Canada an ideal place for research and development, helping businesses pursue advanced technology exploration. The respect for similar global values such as Intellectual Property Protection would also benefit global firms. The prospects of Canada taking on a more influential role in the supply chain post-coronavirus would strengthen Canada's economic resilience. Economic growth could be diversified away from primarily real estate, minimizing the prominence of housing market on economic performance.

Chapter 6: Conclusion

The exuberance of the Canadian housing market has garnered much public attention and discussion. The important question is whether the sustainability of this boom and its impact on economic stability and growth. This paper intended to outline the demand and supply factors that resulted in the price appreciation and the important implications on Canada's economic resilience.

From the demand side, accommodating credit conditions, healthy macroeconomic performance in employment, demographic changes, and foreign participation helped spur the demand for homes in Canada. Supply side factors such as government policies and geographic limitations helped constrain the availability of homes which subsequently supported the price appreciation. These aspects that led to a rise in housing prices will challenge the robustness of the Canadian economy. It is evident that Canada has grown increasingly dependent on housing market performance. Per above discussion, both the individual and government levels are essentially taken hostage by the housing market. Monetary and fiscal authorities are incentivized and compelled to protect this trend. Household health is closely tied to performance of house prices. Unfortunately, the fact that housing market can exert such influence on policies will weaken the economy's ability to withstand and respond to adverse events. In effect, the true strength of the Canadian economy is questionable.

Final Thoughts

As the Canadian economy enters the new decade, the housing market is being confronted with a new set of challenges. The economic paralysis as a result of measures to control Covid-19 will likely weaken the economic fundamentals that drive the Canadian economy. Unfortunately, the emergence of these difficulties will severely challenge the sustainability of this market. Canadian policymakers have implemented policies and regulations to help curb the effect of the pandemic on households and borrowers, targeting mortgages and loan obligations. Policies to prop up the market may be beneficial in the immediate run. However, this is a global pandemic that could send the nation into a drastic economic downturn. The years of obsession over the housing market performance has left Canada ill-prepared for this upcoming storm.

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