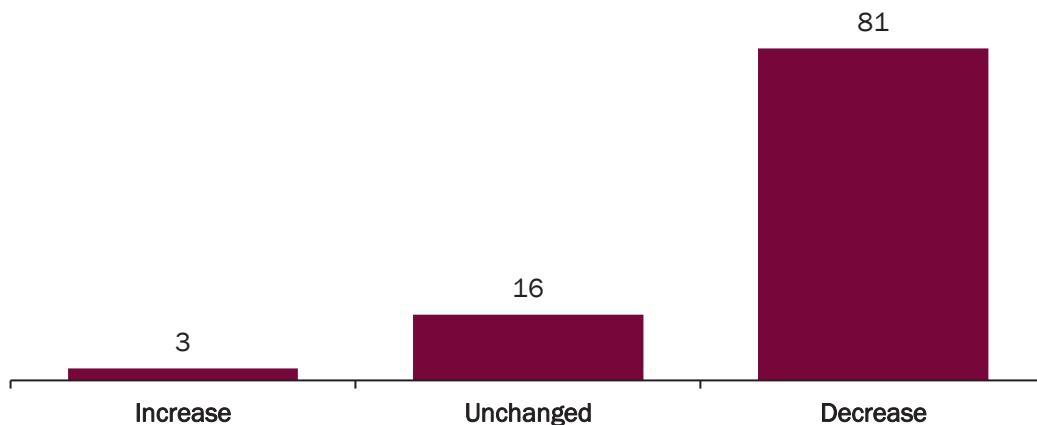


Is it just Canada?

Welcome to another edition of 'Is it just Canada, or is the rest of the world also going through a real estate crisis?' In this edition, I will be discussing the magnitude of the Canadian housing market in comparison to our next-door neighbour to see if there is true justification for panic.

The Canadian housing market has seen many periods of uncertainty, though it has been cooling off in recent months with prices and sales both falling. New home prices in Canada declined 0.1% in September—the first decrease since November 2019. Prices were up in 3 of the 27 census metropolitan areas (CMAs) surveyed, unchanged in [16](#) and down in [81](#).

Change in House Prices in Census Metropolitan Areas (CMAs)



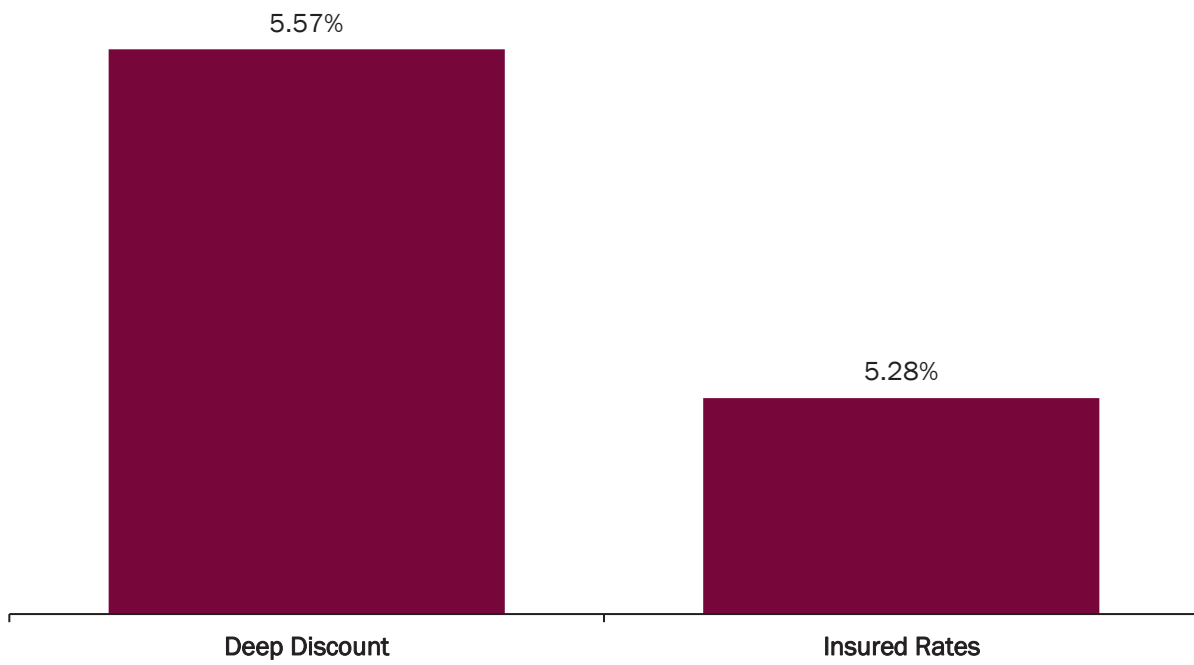
Simultaneously, the Bank of Canada has hiked interest rates multiple times as seen [below](#):

Date	Rate Change	Federal Funds Rate
07-Sep	0.75	3.25%
13-Jul	1	2.50%
01-Jun	0.5	1.75%
13-Apr	0.5	1.00%
02-Mar	0.25	0.50%

What do these high interest rates mean when it comes to housing? They negatively impact mortgage seekers as higher interest rates mean higher overall house prices and lower affordability.

¹ <https://www150.statcan.gc.ca/n1/daily-quotidien/221021/dq221021b-eng.htm?indid=3605-1&indgeo=0>

Discount Rates for 5-Year Fixed Mortgage



High interest rates, in combination with inflation, decrease the real value of homes in Canada:

12 Month % Change, US Consumer Price Index: Comparing Overall Inflation vs House Prices



So What is Canada's Situation?

Canada's Consumer Price Index dropped to 6.9% in September, which was higher than expected while core inflation continued to climb. Meanwhile, inflation continued to accelerate south of the border, with overall prices rising 8.2% in September and core inflation, which strips out more volatile items, up 6.6%—the fastest pace in four decades.

In combination with stricter mortgage rules, as the consumer price index rises with a relatively stagnant price of homes, the market is in a stalemate of high supply and low demand.

The US' Situation

The American housing market is also in a period of uncertainty. That doesn't mean Canadian readers can have a sigh of relief, as the US has different reasons. America has also had increased CPI in combination with higher interest rates.

FOMC Meeting Date	Rate Change	Federal; Funds Rate
21-Sep	0.75	3.25%
27-Jul	0.75	2.50%
16-Jun	0.75	1.75%
05-May	0.5	1.00%
17-Mar	0.5	0.50%

To point out the obvious, high interest rates are not in favour of the housing prices of the US as it can be seen in the data. High interest rates will likely continue, as many analysts and economists claim that higher interest rates have done little to keep inflation in check, so more increases will be needed.

Another major contributor to consider for the US housing market is their foreign exchange rates. The US dollar has been very strong compared to other foreign currencies, as it is compared below:

Foreign Exchange	SEPT. 28, 2022	SEPT. 28, 2021
EUR/USD	€1=\$0.97	€1=\$1.17
USD/JPY	\$1=¥144.18	\$1=JP¥111.54
USD/CHF	\$1=CHF0.98	\$1=CHF0.93
GBP/USD	\$1=£1.09	\$1=£1.37
USD/CAD	\$1=\$1.36	\$1=\$1.26

Looking at the consumer price index table, the CPI has also risen drastically and continues to increase:

12 Month % Change, US Consumer Price Index: Comparing Overall Inflation vs House Prices



So What is America's situation?

It is still too early to say definitely how the market will develop in the coming months, but most analysts are predicting further price declines. This is due to interest rates that keep increasing and a further increasing US dollar because of it.

Overall Thoughts

The current unpredictability of the housing market is certainly ominous for many homeowners *and* buyers. Given that the last 2-3 years have been incredibly unpredictable, it is tough to say which way the market might go. Yet, this issue isn't mutually exclusive to Canada and that there are reasons to why the housing market has been on a decline.

Overall, with inflation at its peak and resilient high interest rates, it appears Canadian homeowners and buyers are only in the beginning of the storm. On a rather more serious note, it is advisable to take a cautious approach and maintain long-term positions in the current market. However [looking at the change in house prices in CMAs](#), if you have the cash, this might finally be a good time to invest in a house in metropolitan area such as the GTA.