



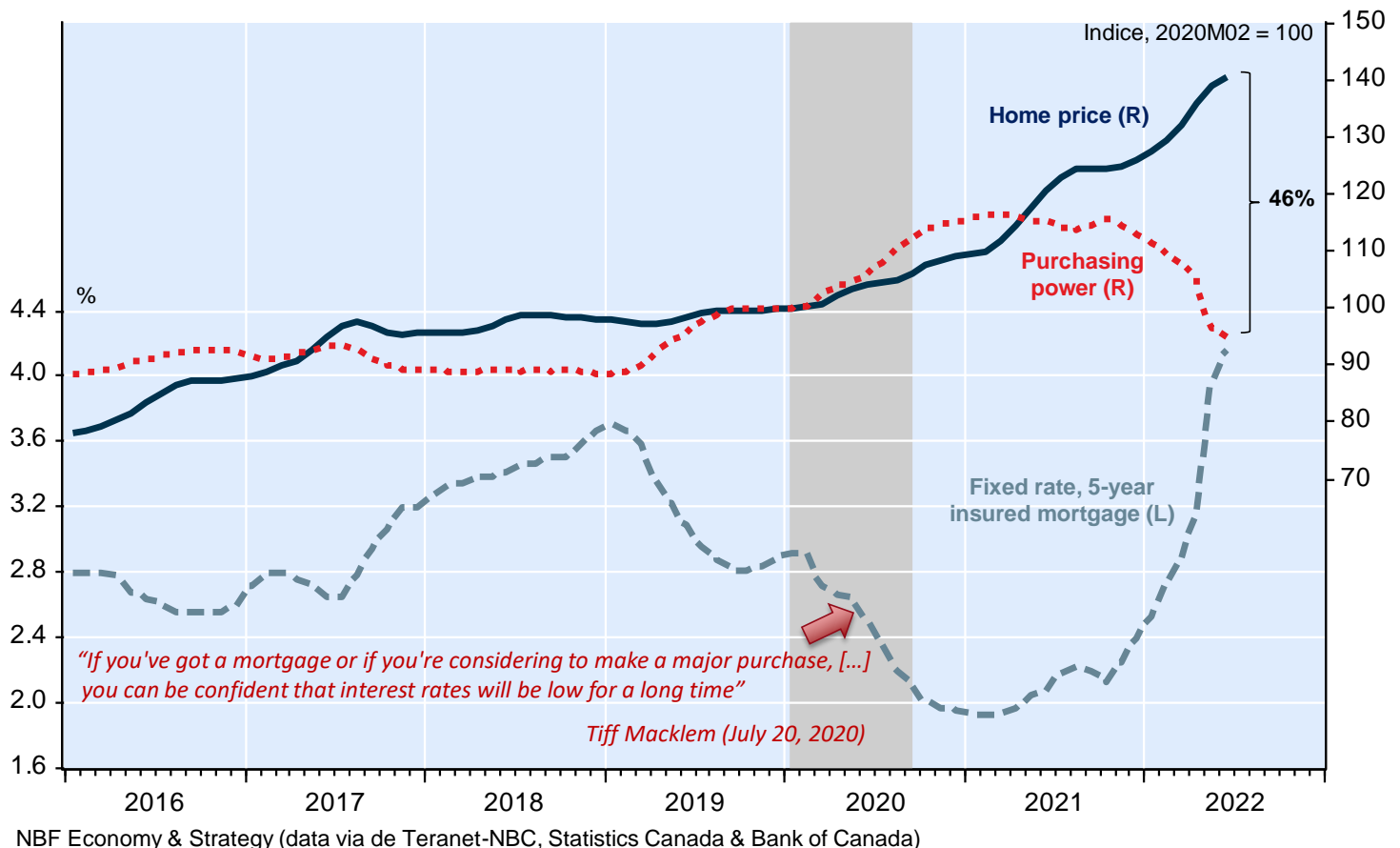
Canada Watch

By Daren King & Kyle Dahms

Home sales are falling across the country due to a significant erosion of household purchasing power. As today's hot chart shows, the rise in home prices from 2016 to mid-2021 has evolved more or less in line with the purchasing power of the median buyer using a 5-year fixed rate mortgage. Clearly, this is no longer the case. With the normalization of monetary policy, there is now a 46% gap between prices and purchasing power. Even if mortgage rates begin to stabilize at current levels, we expect home prices to start converging towards buyers' ability to buy (we expect a 10% decline by the end of 2023). Two years ago, Tiff Macklem assured Canadian households that interest rates would remain low for a long time¹, sending a signal that likely contributed to the housing boom. Now that the Bank of Canada is forced to raise rates to fight inflation, reversing its previous forward guidance will probably be a source of increased asset price volatility.

Canada: Growing gap between home prices and purchasing power

Fixed rate for a 5-year insured mortgage, Teranet-National Bank HPI & Purchasing Power, index 2020M02 = 100.



¹ [Release of the Monetary Policy Report, Press conference. July 15, 2020 \(36:40\)](#)

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