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Dear clients,

The cooling of the Canadian housing market is undeniable. Sales and prices have been moderating across the country for the past few months and that trend appeared again in the June figures from the Canadian Real Estate Association.

June sales dropped 5.6% compared to May and plunged almost 24% from a year earlier. However, sales in June 2021 set an all-time record for the month.

The national average price for a home dipped 1.8% year-over-year to $665,850. With the biggest and busiest markets – Toronto and Vancouver – taken out of the calculation the national average price comes in at $551,000.

Supply constraints are also easing with a 4% increase in new listings from May to June. The sales-to-new listings ratio eased back to 51.7%, its lowest level since January 2015 and below the long-term average of 55%.

The cost of borrowing has overtaken supply as the dominant factor affecting housing markets at the moment and that was before the Bank of Canada's surprise, interest rate hike last week. The 100 basis-point boost puts the Bank's trend-setting Policy Rate at 2.50%.

The out-sized increase is seen by many market watchers as an attention getting move as the Bank tries to rein-in galloping inflation.

COVID variants. Inflation. Interest rates. And now, recession. It seems as though we are being exposed to a new crisis with every cycle of the moon. No wonder consumer confidence is, at best, ambivalent.

The latest round of chatter from the nation's economists says Canada will likely see an economic downturn toward the end of this year. It has happened before as the central bank fought to control inflation.

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But the news is not all bad. The Canadian economy is strong. Unemployment is at a historic low and GDP growth is the best in the G7. Even the key items driving inflation have an upside. High fuel prices are boosting Canada's important energy sector and high food prices are bolstering the country's agriculture industry.

None the less, the economists point out that, inflation is eating away at the spending power that was accumulated during the pandemic. Sharply rising interest rates have already cooled the demand for housing and softened real estate prices, while increasing the burden on debt-laden Canadians.

The current debt-to-income ratio shows the average Canadian household owes $1.83 for every dollar of disposable income.

The expectation is, GDP will contract through the middle quarters of next year.

Generally, though, the economists seem to agree that any possible recession will be relatively moderate and short. And they continue to use the phrase "soft landing" when talking about the economy returning to normal. And once inflation is in check the Bank of Canada will be able to start reducing interest rates.

If you have any questions, please do not hesitate to reach out.