

# Canada at risk of housing correction, Moody's warns

By Janet McFarland

April 11, 2017 – *The Globe and Mail*

Canada is one of four countries that have become most vulnerable to a possible housing correction, according to an analysis from Moody's Investors Service.

The debt rating agency said Canada, Australia, New Zealand and Sweden are most exposed to a correction because of their rapid increases in house prices. A correction would have an impact on national economic growth in the four economies, Moody's warned.

"Should such a downturn occur, GDP growth would slow," Moody's said in a report Tuesday.

Canada and the three other countries were singled out in the Moody's report because they have experienced the largest increases in house prices and household debt levels over the last three years among all advanced economies.

Moody's said a correction would not likely have a significant impact on any of the countries' strong triple-A debt ratings. Unless there were other long-lasting economic shocks at the same time, a housing downturn should be mitigated by strong banking systems and conservative business models that will limit liability risks, Moody's said.

The report comes less than a week after the Toronto Real Estate Board reported a 33-percent increase in home prices in the Greater Toronto Area in March, pushing the average price of all homes – including detached houses and condominiums – to a record \$916,567. TREB said the GTA hasn't seen a higher rate of growth in overall home prices since 1989, just before the city's last major real estate crash.

Many real estate experts, economists and politicians have warned Toronto is experiencing a housing bubble that could correct sharply. Federal Finance Minister Bill

Morneau has expressed concerns about the rapid price increases, and has called for a meeting with Ontario Premier Kathleen Wynne and Toronto Mayor John Tory to discuss the city's real estate market. A date has not been scheduled yet.

Ms. Wynne is scheduled to meet Wednesday in Toronto with mayors of cities in the GTA and Hamilton to discuss policy options to curb house price increases.

"We know affordability is a real and growing concern. Reducing the pressure felt by Ontarians, as well as providing more affordable options for people to choose from, is a priority for us and we're serious about taking action," Ms. Wynne said in a statement released by her office on Tuesday.

The premier said that an expanded refund for first time home buyers was providing short-term relief as the Ontario government collects more detailed data to understand what is driving the housing market. Ms. Wynne has promised a comprehensive plan will be released soon to make housing more affordable.

The Moody's report likens real estate price increases in Canada and the other three countries to the gains seen in the United States, Spain and Ireland in the years leading up to their housing peaks in the mid-2000s, prior to major market corrections.

Moody's said the rate of increase in household debt has been lower in Canada, Australia, New Zealand and Sweden than the pace seen in the countries that saw major corrections last decade. But the four countries had higher starting levels of household debt than the levels seen in the United States or Spain even at the peak of their housing markets.

While Australians face the greatest risks in a housing correction because of elevated household debt levels, people in Canada and New Zealand have higher liquid financial assets to provide some cushion if a correction hits, reducing the risk “of a sharp retrenchment in consumption.”

The report also warns that Canada and New Zealand are most reliant on residential construction as a major contributor to annual

economic growth, with Canada’s house-building sector accounting for 7.6 per cent of annual gross domestic product, similar to New Zealand’s 7.5-per-cent contribution.

“In Canada and New Zealand, a housing downturn would involve sizable spillovers to the broader economy through the supply chain and impact on employment and consumption,” the report said.