

## Making Sense of the Housing Market in a Fluctuating Economy: 2023 Predictions



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When it comes to making major decisions, from buying a house to maximizing your RRSPs, taking a long position in the stock market or looking for a new job, most of us turn to economists and their predictions to decipher what the future holds.

Telling the future is always done with a fine tooth comb.

We understand how the actions of the Bank of Canada and the federal government impact individuals' budgets. In fact, this month, it was noted that mortgage debt servicing takes up 67% of Canadian's monthly income.

So, it is with the goal of simplification and transparency that we, in collaboration with our advising economist Francis Gosselin PhD, C. Dir, have put together nesto's quarterly report - Making Sense of the Housing Market in a Fluctuating Economy: 2023 Predictions - which we hope will guide you this spring season.

Francis has gathered data from 15 credible sources across the Canadian landscape and consolidated and demystified these predictions to tell you what tomorrow may look like.

This 2023 state of the economy & forecast report is the first in a series of quarterly publications undertaken by nesto's advising economist. Every 3 months, he will revisit his previous predictions to assess their accuracy and update our expectations.

We looked at major indicators that economists regularly comment on real estate prices, the policy rate, inflation, employment, housing activity, GDP growth, the exchange rate and overall Federal Reserve policy.

### 1. Changes in housing prices and activity: Productive tension between immigration and housing starts

After the pandemic years of strong increases, many have become excited that a period of higher rates and slower economic activity could bring down Canadian property prices.

The consensus is that prices will bottom out sometime in 2023 before recovering relatively quickly.

RBC economist [Robert Hogue](#) predicted in September 2022 a 14% decline in Canada as a whole and 16% in Ontario and British Columbia.

In January 2023, TD's chief economist, [Beata Caranci](#), went so far as to predict a 20-25% decline in prices in the first quarter of 2023. However, the TD team [reversed itself earlier this year](#), predicting "balance" and a return to growth in the second half of the year.

The National Bank team and its chief economist, [Stéfane Marion](#), are more moderate, expecting prices to fall by a maximum of 15% during the year. They rightly point out that real estate prices rose faster in Canada during the pandemic, for a cumulative increase of 56% over three years, while in the United States over the same period, the increase was more than 48%.

However, significant disparities persist from region to region. [Brendon Ogmundson](#), Chief Economist of the British Columbia Real Estate Association, points out that expected levels of immigration in the West are putting additional pressure on these markets, which could mitigate the deflationary effects of the rate hike.

For TD, the sales-to-new listings ratio is expected to remain in "balanced" territory throughout 2023 and 2024, suggesting slower growth than seen over the past 3 years.

However, [CMHC reports](#) that we are instead witnessing a 13% decrease in housing starts nationally. It is, therefore, highly likely that, from the beginning to the end of 2023, average prices will have fallen and then risen again for a rather stable net result during this year.



**Francis Gosselin/nesto:** Would-be home buyers willing and able to purchase risk missing the best entry point dollar-wise if they try to wait for prices to drop further; the bottom range of prices is near, if not here already. The amount of Canadians that are still willing and able to qualify for a mortgage, coupled with the continued lack of home supply, is keeping home price values in most modest markets relatively stable. If interest rates were to decrease, or if immigration targets are to be met, we foresee home prices running up again and the return of a seller's market where homebuyers need to take on additional risk to enter the market. A more meaningful effort is required at all levels of government to make an impactful increase in home supply.

## 2. Policy rate: Divergent strategies

After a dramatic increase in the policy rate, most economists agree that the overnight rate should be stable or decrease by the end of 2023.

BMO Chief Economist Douglas Porter, quoting Bank of Canada Deputy Governor Paul Beaudry, believes an increase in the FED's rate of close to 100 basis points is not out of the question. At the same time, Canada could "follow a slightly different inflation normalization path than our peers."

TD's Chief Economist Beata Caranci analyzes the Canadian situation, noting that the many government transfers "that have pushed after-tax household incomes well above inflation" may limit the impact of Bank of Canada policies.

She also points to government price controls, such as for child care and energy, as a reason why the current decline in inflation is not really due to cyclical market forces.

While Caranci says all indications are that the Bank of Canada will not raise the policy rate again, uncertainty and new rules from the Office of the Superintendent of Financial Institutions may argue for further increases this year.

**Francis Gosselin/nesto:** We believe that while there could be a reduction in the prime rate towards the end of 2023, and strongly believe there will be no further increases. With supply chain restrictions dissipating and oil prices decreasing, we expect the inflation rate to decline as performance periods (month-over-month vs. quarter-over-quarter vs year-over-year) is re-evaluated, leading the Bank of Canada to consider rate cuts by year-end. This would help not only first-time home buyers enter the market but will also give homeowners more confidence to sell, allowing for a reprieve from the current lack of housing inventory facing Canada. However, we should note that the possibility of rate cuts could be delayed if the BoC doesn't see a meaningful decrease in inflation during the current pause.

## 3. The enemy to kill: Inflation

Following the January 25 BoC announcement of a "pause" in its monetary tightening cycle, many economists agree that the Bank of Canada's is working.

RBC notes that while foreign causes (such as supply chain due to China's zero-Covid policy) have abated, inflationary pressures are now largely domestic. Rapidly rising mortgage borrowing costs are helping to keep certain aspects of inflation elevated, an effect expected to gradually fade as 2023 progresses.

Derek Holt, Head of Capital Markets Economics at Scotiabank, offers a less accommodating reading. He is particularly interested in the core measures of inflation (this excludes food and energy), which have not advanced much since the spring of 2022. Holt anticipates that if the pace of GDP growth remains above its target 1, further intervention by the Bank of Canada may be necessary.



**Francis Gosselin/nesto:** We believe the Bank of Canada (BoC) should continue to pause and monitor the impact of their 8 consecutive BoC rate increases. To date, many fluctuating rates (variable-rate mortgages and HELOC) borrowers have had their spending power significantly reduced, with some even having to cut out discretionary spending completely. The next group of borrowers to feel this pressure are the fixed-rate mortgage holders coming due for renewal in 2023 and 2024. Many may see their payments increase due to the risk of payment shock as they renew at higher rates than those they are currently carrying, even though their loan balance will be lower.

## 4. A relentlessly surging labour market in a slow-growth economy

Despite signs of a slowdown and fears of a recession on the horizon, the Canadian labor market continues to surprise forecasters and nay-sayers alike. Echoing the U.S. market in its strength through job creation and historically low unemployment rates, though the two countries measure unemployment slightly differently.

Sal Guatieri, Senior Economist at BMO Capital Markets, anticipates that despite unfavorable indicators, the unemployment rate will not exceed 5% in the U.S. and 6% in Canada in 2023. Rising interest rates increase the cost of borrowing and make capital investments (machinery, automation) unaffordable, putting pressure on wages.

Employers are concerned about preserving their employees through this tight labor market. The ratio of the labor force to the total population has been declining by about 0.1% per year since 2005 and will continue until 2030, according to Statistics Canada. On a national scale, this represents an endemic deficit of about 300,000 people over the next 7 years.

Guatieri refers to the confidence of business leaders, who anticipate a recession will be either entirely avoided or relatively short-lived and mild. In other words, he sees GDP growth hovering around zero.

BDC's Chief Economist, Pierre Cl  roux, expects the Canadian economy to grow by 0.5% in 2023.

**Francis Gosselin/nesto:** We believe the economy may keep adding more jobs, though the pace may be slower for the rest of the year. Between the endemic deficit to the labor force expected over the decade, and the ongoing tightness in the labour market, we expect that real wages will keep rising, providing for more housing affordability as interest rates normalize. However, as inflationary measures turn around surging rates, growth in both capital investments and labor market could produce solid GDP growth over the longer term.

In 3 months, we'll review our current predictions, see which held true, and work on our next round of thought. Stay tuned!

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**About the author:** Francis holds a Ph.D. in economics from the University of Strasbourg. For the last 15 years, he has led and been part of teams that have worked with multinational companies and public organizations throughout the world in the development of their strategic plans, innovation processes and change management. He has spearheaded the economic research units, publishing and strategic development teams in several consulting firms including SAGE and Acronym. An expert generalist, his professional experiences range from finance, to media, to real estate, education & agribusiness. Francis is a well-known economic columnist and commentator, public speaker & facilitator. As a strategy and policy forecaster, he sits on several boards and advisory committees.



## 2023 predictions at a glance:

	Robert Hogue (RBC)	Beata Caranci (TD)	Stéfane Marion (BNC)	Francis G x nesto
Real estate prices and variations	↓ 14-16%	↓ 20-25%	↓ 15%	→ No change (supply & demand)
TL;DR: We believe there will be no change in supply and demand for the housing market through 2023.				





	Douglas Porter (BMO)	Beata Caranci (TD)	Derek Holt (Scotiabank)	Francis G x nesto
Interest Rates	→ No change (divergent strategies with US)	→ No change	↗ Further increase not unlikely	→ No change
TL;DR: We believe that the Bank of Canada will continue to pause its rate through 2023.				

	Robert Hogue (RBC)	Derek Holt (Scotiabank)	Beata Caranci (TD)	Francis G x nesto
Inflation	↓ Return to the target range by the end of 2023	↗ Inflation remains above target for the foreseeable future	→ Core inflation (2.8%) returning to target in Q4 of 2023.	↓ Return to the target range by the end of 2023
TL;DR: We think there will be a return to the target range by the end of 2023.				

	Sal Guatieri (BMO)	Douglas Porter (BMO)	Beata Caranci (TD)	Francis G x nesto
Employment	↓ Unemployment below 5% US, below 6% CA	→ Unchanged at 5% til year end (CA)	↗ Ending 2023 at 5.9%	→ At or slightly above 5%
TL;DR: Employment will be at or slightly above 5%.				



## 2023 predictions at a glance:

	Pierre Cl��roux (BDC)	Robert Hogue (RBC)	Beata Caranci (TD)	Francis G x nesto
<b>GDP Growth</b>	 + 0.5% in 2023	 + 0.5% for 2023	 0.1% ending 2023	 + 1% in 2023
<b>TL;DR:</b> We are predicting a 1.0% growth of GDP in 2023				

## Final Thoughts:

With house prices bottoming out, home supply decreasing, and inflation on the mend – would be home buyers in 2023 should act quickly to take advantage of the current Bank of Canada rate pause as well as a more tamed market. For those homeowners coming up for renewals in 2023 or 2024, prepare your finances now.

### How we chose the economists:

nesto's selection of economists cited within this whitepaper came from extensive research on various perspectives across top banks and financial institutions. To arrive at our conclusions, nesto's consulting economist drew objective results on others' stances and where the market outlook stands as of writing. We know there are many qualified experts speaking on these core topics, but to be succinct, we had to be selective in the opinions shown. If you are an economist, we are always open to your views for future iterations.

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