

CANADA

MACROECONOMIC BACKGROUND

The Canadian economy is the eighth largest in the world after the US, Japan, Germany, the UK, France, China and Italy. It accounts for about 2% of world output. Per capita GDP in PPP terms is estimated at US\$31,000. The performance of the Canadian economy is very closely linked with developments in the USA. Trade with the US accounts for 30% of Canada's GDP and it is therefore vulnerable to currency movements against the US\$. Economic growth has been robust since the late 1990s (excepting a dip in 2001). Inflation is modest but unemployment, at 7.2%, while falling, is still relatively high by international standards. Interest rates have fallen significantly in the last 4 years from 5.8% in 2000 to 2% in 2004.

DEMOGRAPHICS

The 2001 Census estimates the Canadian population at about 32 million. This accounts for about 0.5% of the world population. As in many other countries the rate of population growth is slowing and the population is ageing. Immigration is the main reason for growth. The rate of household formation is slowing from about 225,000 per year in the 1970s to around 150,000 in the late 1990s, but the proportion of single person households is also increasing offsetting this effect slightly. The average size of households fell from 3.9 persons in 1961 to 2.6 persons in 2001.

HOUSING MARKET

The 2001 Census estimates that the total residential dwelling stock in Canada is 12.5 million. UN data puts it slightly above this at 13.1 million. Owner occupation rates have increased steadily over time but markedly between 1996 and 2001 where the owner occupation rate increased from 63.6% to 65.8%. The ageing population is a factor here, as older people are more likely to be homeowners. However this is only part of the picture. Low mortgage rates, strong employment growth and access to higher loan to value loans have also played a part. The 2001 Census showed that owner occupation is quite divergent regionally ranging from 24% in Nunavut to 78% in Labrador. About 46% of Canadian owner-occupiers own their property outright and rented accommodation accounts for 34% of dwellings.

The combination of low mortgage rates, strong growth in personal incomes, confidence and robust employment growth have made the housing market one of the fastest growing sectors of the Canadian economy. New housebuilding has also been boosted by favourable economic conditions. There were 218,400 housing starts in 2003 most of which were apartments to reflect the changing size of households.

Housing demand is strong and this is reflected in transaction levels and house price growth. The number of home sales have risen year on year since 1999, with double digit percentage increases in 2001 and 2002. House prices in Canada, like much of the rest of the world, have been increasing strongly. The ten-year average rate of growth to 2004 was 2.7% but this belies the pick up since 2001 when prices have been rising at an annual rate of 5% or more. The average price of an existing dwelling in Canada in November 2004 was C\$216,300 (US\$167,000)

HOUSING FINANCE

The total value of outstanding residential mortgage loans in Canada was almost C\$520 billion (US\$400 billion) and the residential mortgage debt to GDP ratio was 42.6% in 2003. This ratio has remained broadly steady over the last 10 years. The total value of outstanding loans in Canada has grown by an annual average of 5.3% over the last ten years.

Mortgage rates have fallen by 3 percentage points in the last 10 years and work by CMHC (2004) estimate that this has made buying a house as affordable now as in the 1950s. Lower interest rates have also made it possible to borrow more. Borrowers have typically been allowed to borrow up to the point where combined mortgage and property tax components do not exceed 32% of gross monthly income. As incomes have increased and mortgage rates fallen, this has allowed greater access to funds. There are no good statistics on average LTV of new loans, but one survey put the average LTV at 47% (Scanlon and Whitehead, 2004). In addition, as house prices have increased, equity withdrawal has picked up. Recent survey evidence from CMHC suggests that borrowers are releasing equity for renovation, debt consolidation and investing in a house.

Competition among mortgage lenders has put additional downward pressure on mortgage rates but has also led to innovations on products such as flexible loans, discounted loans and penalty free prepayment terms. The typical mortgage is a 25-year repayment loan. The rate is generally fixed for a period of between six months to five years, after which a new interest rate is set. Canadians can change lenders at this point, shopping around for the best rate and conditions. There are generally no fees for mortgage initiation or for mortgage refinancing.

Securitisation has grown in Canada to become the third most important source of funds. In 1998 outstanding securitisation balances were C\$17.9 billion (US\$11.7 billion) by 2003 this reached C\$49.8 billion (US\$38.4 billion)

GOVERNMENT POLICY AND OBJECTIVES

There is a regulatory limit on LTV ratios of 75%, rising to 95% if there is mortgage insurance. Until 1990s this higher LTV limit was only available to first time buyers

There is no tax relief on mortgage interest or principal repayments. Principal residences are exempt from capital gains taxes but capital gains on other housing assets are taxable at 50%. The only form of federal assistance for home-buyers is through the Home Buyers' Plan, which was introduced in 1992. Canadians who meet certain eligibility conditions can withdraw up to C\$20,000 tax-free from their Registered Retirement Saving Plans (RRSPs) for house purchase. The money remains tax-exempt if it is repaid within 15 years. Since its inception in 1992, some 1.2 million people have participated in the programme, channelling C\$12.0 billion to the housing market.

SUMMARY DATA FOR CANADA 1994-2003

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Real GDP growth	2.0%	3.4%	1.8%	5.2%	5.5%	4.1%	4.2%	1.6%	2.8%	4.8%
Unemployment rate	7.6%	7.7%	7.2%	6.8%	7.6%	8.3%	9.1%	9.6%	9.4%	10.3%
Consumer Price inflation	2.7%	2.3%	2.5%	2.7%	1.7%	1.0%	1.6%	1.6%	2.2%	0.2%
Residential mortgage debt outstanding, C\$ billion	518.9	480.3	447.1	429.5	410.5	392.7	373.6	354.2	339.9	327.8
Residential debt /GDP Ratio	42.6%	41.5%	40.3%	39.9%	41.8%	42.9%	42.3%	42.3%	41.9%	42.5%
Residential mortgage debt per household C\$	43,702	40,989	38,670	37,625	36,437	35,320	34,058	32,739	31,889	31,219
No Households, millions	11.9	11.7	11.6	11.4	11.3	11.1	11.0	10.8	10.7	10.5
Home ownership rate	65.8	65.8	65.8	65.4	64.9	64.5	64.0	63.6	63.4	63.2
House price index (1997=100)	119.0	113.4	108.0	105.1	102.7	101.1	100.4	99.2	100.3	102.2
Annual house price growth	5.0%	5.0%	2.7%	2.4%	1.5%	0.8%	1.2%	-1.1%	-1.9%	-0.2%
Number of dwellings, 000s	12,856	12,660	12,478	11,908	11,767	11,629	11,499	11,358	11,227	11,072
Housing starts (000s)	218	205	163	152	150	137	147	125	111	154
Home sales (000s)	438,968	421,415	380,753	333,970	335,490	314,553	330,265	321,845	251,986	288,157
Mortgage interest rates	4.84%	5.17%	6.14%	7.85%	6.80%	6.50%	5.54%	6.18%	8.38%	7.8%
Mortgage commitments C\$ million	141,235	122,202	97,406	77,473	80,766	74,854	77,464	72,719	54,493	67,714
Exchange rate, US\$ per C\$1	0.77	0.64	0.63	0.67	0.69	0.65	0.70	0.73	0.73	0.71

Source: IMF, CHMC, Statistics Canada, Bank of Canada, UNCE
Notes

1. Mortgage rates are for 1 year fixed rate products
2. New Housing Price, Total House & Land
3. Household data estimated on recent trends

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References

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Bank of Canada
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