MONTHLY COMMENTARY

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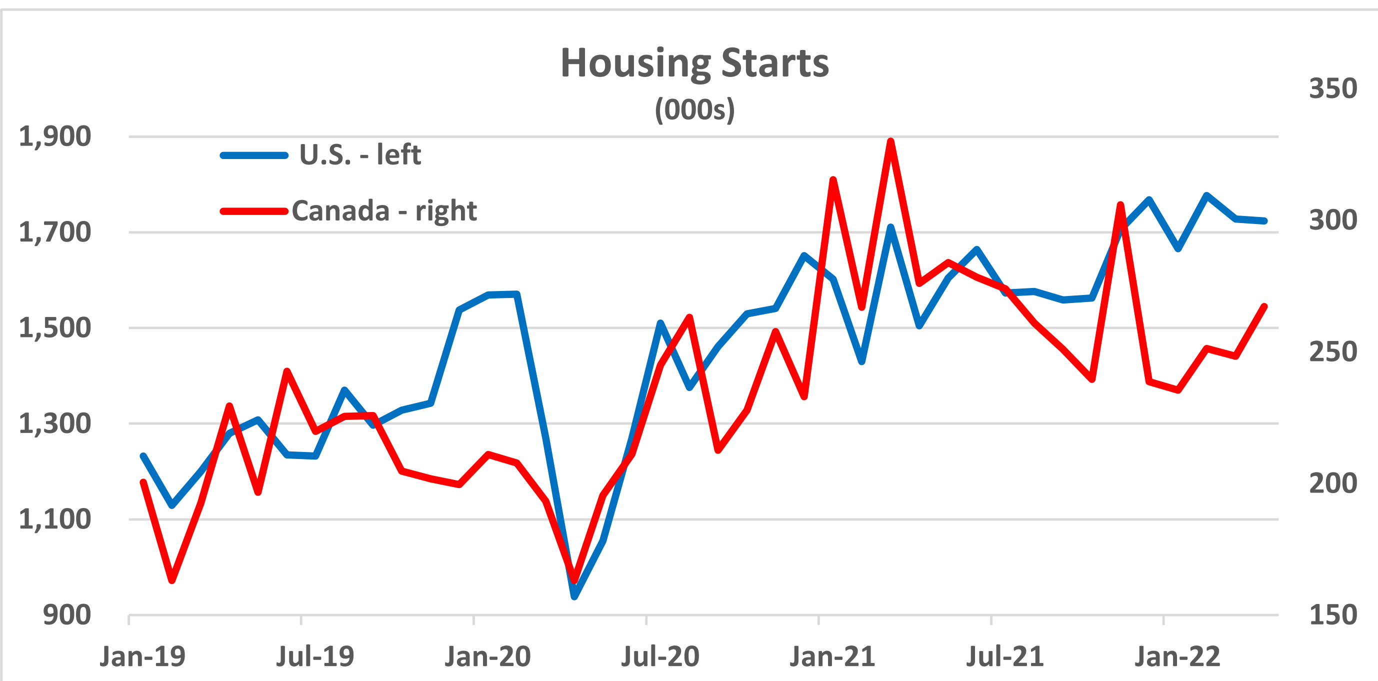
North American housing strengthens



Source: U.S. Census Bureau; Statistics Canada

MARKET FOCUS

Canada's housing starts improve

The Canada Mortgage and Housing Corporation announced that housing starts climbed 7.6% in April to a 267,330-unit annualized pace. The pandemic-induced low of 163,031-unit pace recorded in April 2020 was the weakest since February 2015 (147,197). As can be seen in the accompanying graph, the rebound from the April 2020 level has seen some material volatility. Not surprisingly, the uneven reopening of the domestic economy produced some significant swings in construction activity. At the same time, price pressures have seen a steady rise. The annual gain in Statistics Canada's new housing price index was essentially flat in the 12 months that preceded the pandemic. The average annual growth rate over the most recent 12-month period (May 2021 to April 2022) is now reported as 11.4%. Some preliminary anecdotal evidence suggests that the recent Bank of Canada interest rate hikes have had

some dampening influence on the domestic housing market. However, it is widely expected that a number of additional interest rate increases to tighten monetary policy will be seen over the balance of 2022, and it is unclear how this will influence the supply of new housing even with some reduction in demand.

U.S. housing prices surge

Like Canada, the pandemic had an early, sharply negative influence on housing activity in the United States. Housing starts fell below the one million (annualized) mark in April 2020. This established the weakest level seen since February 2015. The subsequent recovery allowed starts to rise to a 1,777,000-unit pace in February 2022. This is now the strongest level seen since June 2006, before the onset of the financial crisis. Accompanying these gains, U.S. housing prices have moved in the same direction. New houses recorded an annual 8.5% ***decline*** in the median price in April 2020. Over the past 12 months (April 2021 to March 2022), this figure has moved to an average gain of 19.4%. Existing homes have exhibited a similar pattern. The annual gain in the median price of an existing house stood at 1.9% in May 2020. This figure has averaged 16.2% over the past 12 months (March 2021 to April 2022). As in Canada, a shift to dramatically tighter monetary is occurring in the U.S. The impact on the housing market will only be revealed in time.

LONGER VIEW

Inflation has been a concern whether you are an investor or a consumer. Following the beginning of "return-to-normal" in 2021, the world suddenly found itself not having enough people and products to satisfy demand. As consumers bid prices up, inflation measures jumped coming from literally everything in the basket. Initially, central banks expect this rise to be only transitionary. The situation got even more complicated as "war-flation" was introduced this year amid Russia's invasion into Ukraine. Both Russia and Ukraine are major exporters of natural gas, oil, metals, wheat and more. Prices of commodities rose significantly within a very short time. Central banks have no choice but to fight inflation with an aggressive path to rate increases. We had expected the central banks to hike just enough to avoid recession; that assumption may need to be changed as inflation has become a harder battle to fight. We now expect central banks to be willing to hike aggressively into a mild recession and then pause or reverse. This means this hike cycle will have pace but no duration. Fast pace unfortunately creates volatility in the market, but lack of duration would mean long-term average interest rates remain relatively low and will be supportive to both bonds and equity over the medium-to-long term.

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