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What happened to Canadian house prices during previous recessions might surprise you

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The bond market's yield curve is still screaming recession. It's enough to evoke images of a cloaked skeleton slashing real estate prices with a scythe.

For those unfamiliar with a yield curve, it's basically a graph that shows government bond yields over different periods of time. Right now it shows that long-term bond investors are willing to accept significantly lower interest rates than short-term investors.

This abnormal phenomenon, referred to as inversion, has fairly reliably predicted recessions for decades. South of the border, the economy we rely on for more than $1-trillion in bilateral trade just saw its 10-year and two-year yields ominously invert – by the most in four decades.

Recession is inauspicious for real estate. After all, when people lose their jobs it gets a mite bit tougher to pay a mortgage. Sometimes the only solution is to dump their home. Get enough people doing that and housing prices get spanked.

But plunging values and recessions don't go hand in hand, or at least they haven't in the last five recessions.

What history shows

Using C.D. Howe's recession chronology and average prices from the Canadian Real Estate Association, the data show that home prices have held up surprisingly well once recessions begin.

The average decline during a recession was not a decline at all. Home prices actually rose by 1.8 per cent on average, from the start of recession to the end.

If you measure to the price trough following the end of each recession, home prices were still positive on average, rising 0.76 per cent in nominal terms.

That certainly runs counter to common thinking, which is that recessions entail nasty price risk.

That's not to say real estate is a great investment during a recession. In real inflation-adjusted terms, home prices often fall during recessions.

That can mean dead money for investors, sometimes for years. Speculators learned that the hard way from 1989 to 2003.

Albeit, Canada also had a less bullish supply-demand outlook back then. And while debt loads were far lower in the 1990s, interest rates were higher. Prime rate hit 14.75 per cent in 1990. Relative to incomes, payment affordability back then was just as bad, according to the latest Bank of Canada Housing Affordability Index.

Looking ahead

They say most people buy payments, not houses. So as long as unemployment doesn't skyrocket, interest rates will largely determine how housing fares – if we get the recession economists predict this year.

Both those aren't the only factors driving values. Prices in popular markets are once again getting support from supply shortages, non-stop immigration and income growth. Scotiabank Economics predicts wages will average 5 per cent higher this year, one percentage point more than inflation.

And no one should forget the latent buyers. Some folks have been waiting on the sidelines one-to three years to buy, hoping prices would drop and/or scared that prices would drop.

In some markets, they've watched median prices nosedive anywhere from 20 to 50 per cent for the first time ever. A sale on real estate can turn into a fire sale pretty quick, but for many – especially those who don't fancy themselves as market timers – a sale is a sale.

It's no wonder that early February data from HouseSigma show Greater Toronto and Vancouver prices bouncing for a second straight month, after going sideways for half a year.

Now, don't get me wrong. I'm no Nostradamus and I'm not here to call a bottom. For all anyone knows, housing has another 5 to 10 per cent downside, maybe more.

What I do know is that money is made during selloffs and selloffs don't last with supportive long-term fundamentals. Bottoms are only known in hindsight and savvy buyers buy early – before the crowd realizes the bottom is in.

The new mortgage rules expected later this year will weigh on prices, perhaps making 2024 a better time to buy. But real estate timing is tough and people adapt to credit tightening within a few years regardless.

As for today's real estate bottom fishers, they think they're savvy in buying now. They know that despite near-record lows in unemployment, recessions always start when unemployment is low. Smart long-term real estate buyers know how this usually plays out, so they don't fear the recession reaper.

If you're risk-tolerant, financially strong and want to buy a home for the next five-plus years, neither should you.

Mortgage rates mostly going nowhere fast

Most of Canada's lowest nationally-advertised rates didn't move an iota this week.

That's kind of a win for mortgage shoppers given the surge in bond yields that followed the blockbuster U.S. employment data last week.

The two exceptions were default-insured four- and five-year fixed rates. They rose 15 and 5 basis points, respectively. Big deal.

Over in the floating-rate market, there are lots of crickets. Borrowers don't want to pay over a point more to go variable, even if it's just for the next 12 months. That's roughly how long it'll take for the prime rate to start dropping, according to the latest implied rates in the overnight index swap market.

As of just a few weeks ago, markets were pricing in the first BoC rate cut this fall. Such are the erratic changes you can expect in the OIS market. No one ever said markets were perfect rate predictors.

The good news is, markets are usually right about direction, and if they're right this time, the next rate change from the Bank of Canada should help borrowers, not hurt.

Lowest nationally available mortgage rates

TERM	UNINSURED	PROVIDER	INSURED	PROVIDER
1-year fixed	5.74%	Ratehub	4.64%	QuestMortgage
2-year fixed	5.54%	QuestMortgage	4.64%	QuestMortgage
3-year fixed	5.04%	HSBC	4.64%	QuestMortgage
4-year fixed	5.14%	QuestMortgage	4.59%	Nesto
5-year fixed	4.89%	HSBC	4.44%	Ratehub
10-year fixed	5.94%	HSBC	5.14%	Nesto
Variable	6.10%	HSBC	5.50%	True North Mortgage
5-year hybrid	5.50%	HSBC	6.06%	Scotia eHOME
HELOC*	6.70%	HSBC	n/a	n/a

Source: Robert McLister; data as of Feb. 9 * Home equity line of credit

Rates are as of Feb. 9, 2023 from providers that advertise rates online and lend in at least nine provinces. Insured rates apply to those buying with less than a 20 per cent down payment, or those switching a pre-existing insured mortgage to a new lender. Uninsured rates apply to refinances and purchases over $1-million and may include applicable lender rate premiums. For providers whose rates vary by province, their highest rate is shown.