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Posthaste: The coming recession will be a tale of housing versus commodities

How hard each province is hit will depend on their relative exposures to these markets, says economist

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Provinces with more exposure to higher interest rates via sectors such as housing will fare worse during an expected recession this year, an economist at Desjardins said. PHOTO BY ASHLEY FRASER/POSTMEDIA; JEFF MCINTOSH/THE CANADIAN PRESS

How hard each province is hit by this year's expected recession will depend on their relative exposures to the housing and commodities markets, says one economist.

“Housing and other interest-rate-sensitive sectors will feel the coming economic downturn most acutely, whereas commodity producers will be less vulnerable,” Marc Desormeaux, principal economist at Desjardins Group, said in a report on Jan. 23. “We think this contrast will become starker in 2024.”

Montreal-based Desormeaux said Ontario and British Columbia — home to Canada’s two biggest housing markets — will take the largest economic hit, with each contracting 0.1 per cent in 2024, compared with growth in commodity-focused Alberta, Saskatchewan and Newfoundland and Labrador of 0.9 per cent, 0.7 per cent and 1.7 per cent, respectively.

Real estate accounted for about 20 per cent of total gross domestic product, according to Statistics Canada, but the sector has been struggling under the weight of higher interest rates.

Home sales fell 11.2 per cent in 2023 from 2022, according to the Canadian Real Estate Association, as higher interest rates cut into activity. CREA in its most recent housing report said “price declines have been predominantly located in Ontario markets … and to a lesser extent British Columbia.”

With real estate activity accounting for almost 13 per cent GDP in Ontario and almost 20 per cent in B.C., it’s no wonder Desormeaux predicts a tougher road ahead for those provinces until interest rates start to fall — something economists are forecasting for the middle of this year.

Meanwhile, the strong outlook for commodities, particularly oil, potash and uranium, are expected to provide economic cushions for Alberta, Saskatchewan and Newfoundland and Labrador.

Toronto home sales rose at the end of the year due to lower mortgage rates, but that “could be a double-edged sword,” Desormeaux said, as it augurs worsening affordability in a province with the biggest shortage of housing.

Furthermore, housing starts are expected to fall in 2024, household consumption is slumping — “unusual outside a recession” — and the savings rate is declining, so various economic headwinds are building.

But the economist is most worried about the effects of high rates in B.C.

“B.C. remains Canada’s most housing-oriented provincial economy, and its households are the most indebted,” he said, adding that a struggling labour market and weakening retail sales are showing signs of the strain from higher interest rates.

Desormeaux’s outlook is sunnier for Alberta. The commodity-dependent economy is looking at stronger-than-expected growth based on increasing oil output. Desjardins is forecasting an average oil price of US$80 per barrel with the nearly finished Trans Mountain pipeline expansion expected to “support Alberta prices.”

Commodities will also smooth things out in Saskatchewan and Newfoundland and Labrador.

Uranium production in Saskatchewan is expected to keep rising and oil production will outpace 2023 levels. A $7.5-billion investment in BHP Group Ltd.’s Jansen potash mine is also expected to boost the economy. In Newfoundland and Labrador, where oil production accounts for 20 per cent of output, Suncor Energy Inc.’s Terra Nova offshore oilfield has returned to production after being out of commission since 2019.

But the expected good times in those three provinces don’t mean Canada will avoid an economic contraction.

“We also still think almost all regions of Canada will experience slowdowns in 2024 in response to sharply higher borrowing costs and weaker expansions among our trading partners,” Desormeaux said. “Later this year, rate cuts should help the economy rebound.”