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Home prices are falling, and Canada is losing its secret weapon for stoking GDP growth

TIM KILADZE || JUNE 10, 2025



A condo development in North Vancouver, B.C., in 2024. For years, houses were treated like investable assets, akin to stocks, and there was little talk about how vital the sector had become to the economy. DARRYL DYCK/THE CANADIAN PRESS

Steel and aluminum tariffs just doubled, oil prices have hovered near multiyear lows and Canada's auto sector faces an existential threat. With so much going wrong, the economy could use a quick fix to stimulate some growth.

The problem: The sector that Canadian policy makers often turn to for a sugar high, housing, has only the faintest heartbeat.

And that's with falling interest rates, which make mortgages more affordable.

“Nothing’s coming through,” Toronto-Dominion Bank chief economist Beata Caranci said in a recent interview with The Globe and Mail. “Even with 100 basis points of cuts, sales are going in reverse.”

For years, houses were treated like investable assets, akin to stocks, and conversations about the market often revolved around what prices meant for buyers and sellers. There was very little talk about how vital the sector had become to the economy.

But in the midst of a trade war, the sector’s systemic role is coming to light. As home prices and rents exploded, housing became our economy’s secret weapon.

“The housing market has always been Canada’s go-to when you want to stoke growth,” Ms. Caranci said. Higher prices generated more sales, which led to more purchases of housing furnishings and more renovations. “You would get this 1, 2, 3 economic push,” she said.

Why an increase in mortgage-free young people is a worrisome sign

In 2024, residential housing averaged 7.6 per cent of Canada’s gross domestic product, up from 4.3 per cent in 2000. In the United States, the equivalent figure was 4.1 per cent last year.

The trouble isn’t simply that fewer people are buying homes, subduing growth. A weak housing market could actually make GDP shrink. If house prices keep falling, the 1,2,3 push works in the other direction, becoming a pain that compounds.

StorageVault is one of Canada’s publicly traded storage companies, but it has struggled for the past few years. In its most recent quarterly financial report, the company said “a significant portion of storage customers” use its facilities while moving from one residence to another, or when a residence is being renovated. Those categories are both struggling.

Home sales, for one, fell 13.3 per cent in the Greater Toronto Area in May from the same month in 2024 and the MLS Home Price Index for the region dropped 4.5 per cent over the same period. (StorageVault is based in Toronto.)

So far, it’s hard to tell if the current housing downturn will be short-lived.

Unemployment is rising, hitting 7 per cent in May, the highest since 2016 – outside of a spike early in the COVID-19 pandemic – and job losses are a dominant factor in missing mortgage payments.

On the bright side, recent data shows consumer spending hasn’t dropped yet, with the likes of furniture orders holding in. (It will likely take a few months to figure out if this is just tariff front-running or not.) And home prices kept rising in 2016 when unemployment was also this high.

But it's a challenging environment, and it'll be tough for housing to cushion the trade war pain in the same way that it offset economic trauma early in the COVID-19 pandemic. In 2021, when Canada endured rolling lockdowns and curfews, residential investment – which comprises new construction, renovations and ownership transfer costs, such as real estate commissions and land transfer taxes – jumped to roughly 10 per cent of GDP.

“At a high level, weak consumer confidence continues to weigh on sales activity, while borrowing costs are still not low enough to improve affordability and/or rekindle investor demand,” economists at the Bank of Montreal wrote in a note to clients in May.

And it's very likely that interest rates – and mortgage rates – won't fall to pandemic lows. “Interest rates aren't going back to anywhere close to their lows,” TD's deputy chief economist Derek Burleton said in an interview.

A five-year fixed mortgage currently costs around 4 per cent annually, compared to rates of around 2 per cent early in the pandemic.

If there's a silver lining in any of this, it's that not having the housing sugar high to juice growth this time might help in the long run. The housing sector's reliability masked so many problems, which meant Canada did not have to come to grips with some structural problems. “Our exports have been subpar,” Charles St-Arnaud, chief economist at Alberta Central, said in an interview. “Business investment has been subpar.”

As house prices soared, he explained, households became Canada's main borrowers, with household indebtedness rising from about 100 per cent of disposable income in the 1990s to about 174 per cent currently.

In other words, Canada shifted more investment into houses and not into the broader economy, which would have created better-paying jobs. That is partly why, Mr. St-Arnaud argues, the cost-of-living crisis is so severe.

It won't be easy to rework the economy. Pivoting away from a housing addiction is like turning an oil tanker around in the open ocean. But he's encouraged that we finally have political capital to make tough decisions, such as dropping interprovincial trade barriers.

“Donald Trump is probably a blessing in disguise,” Mr. St-Arnaud said.