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A WORD FROM THE ECONOMIST

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CONSUMER CONFIDENCE AND REAL ESTATE MARKET PERFORMANCE GO HAND-IN-HAND

The job market, mortgage interest rates and the migration balance are often considered to be the main determinants of real estate market performance. However, economists and market analysts also often use consumer confidence, particularly its sub-index relating to real estate, to support their arguments about a market's performance.

One can question whether consumer confidence is a determinant of real estate market performance or whether it is simply influenced by the same factors. Whatever the case may be, these two variables appear closely related.

What is consumer confidence?

Consumer confidence is a reflection of consumers' perceptions about current and future economic conditions. There are a few confidence indexes in Canada that aim to measure these perceptions using a monthly survey among households from different provinces across the country. The QFREB chooses to follow the Conference Board of Canada's Index of Consumer Confidence, which uses a survey that is composed of four questions regarding households' views about the labour market and its outlook, their personal finances and their feelings about making a major purchase. This last aspect is particularly relevant for forecasting the evolution of the real estate market, as households are asked to answer the following question: "In your opinion, is now a good time for an average person to make a major purchase, such as a home or a car?". We are interested in the proportion of consumers who answered "yes" to this question.

Here is an overview of the results of the consumer confidence survey across Canada for 2017.

From coast to coast: a divide between East and West

The first two questions in the survey seek to measure the financial situation of families in relation to what it was six months earlier and what it will be in six months from now.

Québec is in the middle of the pack in terms of the proportion of respondents who say their financial situation has improved: the Atlantic provinces and Ontario show a bit more optimism while the Western provinces have the lowest proportions.

The correlation of the variables shown in the graph is rather weak, at 0.18 when the periods are the same and at 0.24 when the confidence variable is advanced by two months, which is still a weak correlation. This means that the confidence sub-index and price growth do not move together, or at least very little.

It is normal for consumer confidence to be reflected more significantly in property sales, as its impact is probably limited to the demand for properties, whereas price fluctuations are the result of the dynamic between property supply and demand.

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Conclusion: when real estate goes well, confidence goes well… and vice versa

Consumer confidence, and more specifically the sub-index related to the real estate market, is an interesting variable to watch as it seems closely linked to the real estate market. Consumer confidence evolves in the same way as the real estate market, but it is not a leading indicator. The possibility of causality, which can be unidirectional or bidirectional, should not be ruled out. Would consumer confidence stimulate an increase in sales or is it the good performance of the real estate market that inspires a sense of confidence in real estate among respondents?

While its correlation with the evolution of Centris® sales is only moderate, and a causal link cannot be concluded, consumer confidence remains a variable on which economists and analysts will continue to rely to qualify the performance of the real estate market. In any case, they will not be wrong in saying that the real estate market is doing well (or poorly) and that, in addition, a large proportion of consumers believe (or not) that the time is right to make a major purchase. Consumer confidence will therefore confirm that good real estate market performance is no accident when the confidence level is doing well.

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