Canada's Housing Price Surge: A Demand-Driven Crisis

Over the past several years, **housing prices in Canada have surged to unprecedented levels**, with a significant acceleration over the last five years. **Demand-side pressures**, particularly driven by **rapid population growth**, have played the dominant role in this price surge. **Supply-side factors**, including rising input costs and insufficient housing completions, have contributed but are not sufficient to explain the magnitude of the increase.

Population-Adjusted Projections suggest that if population growth had been kept to a **1% annual rate**, in line with historical trends, housing prices would have risen at a **much slower and more sustainable pace**. Policymakers need to recognize that **both demand and supply factors must be addressed** to stabilize the housing market and ensure long-term affordability for Canadians.

Key Highlights

- **Rapid Population growth** through increased immigration and temporary residents has driven much of the demand, placing significant pressure on housing prices, particularly in urban areas.
- **Housing completions** have increased, they remain **insufficient to meet demand**, creating a supply-demand imbalance.
- **Input costs, although rising, have not been the primary factor** behind housing price inflation.
- **Population-Adjusted Projections** show that slower population growth would have alleviated some of the extreme price increases seen in recent years.
- While focusing on supply-side remedies can help, **addressing the broader demand pressures is crucial**. Ignoring this is akin to treating the symptoms without addressing the underlying cause.

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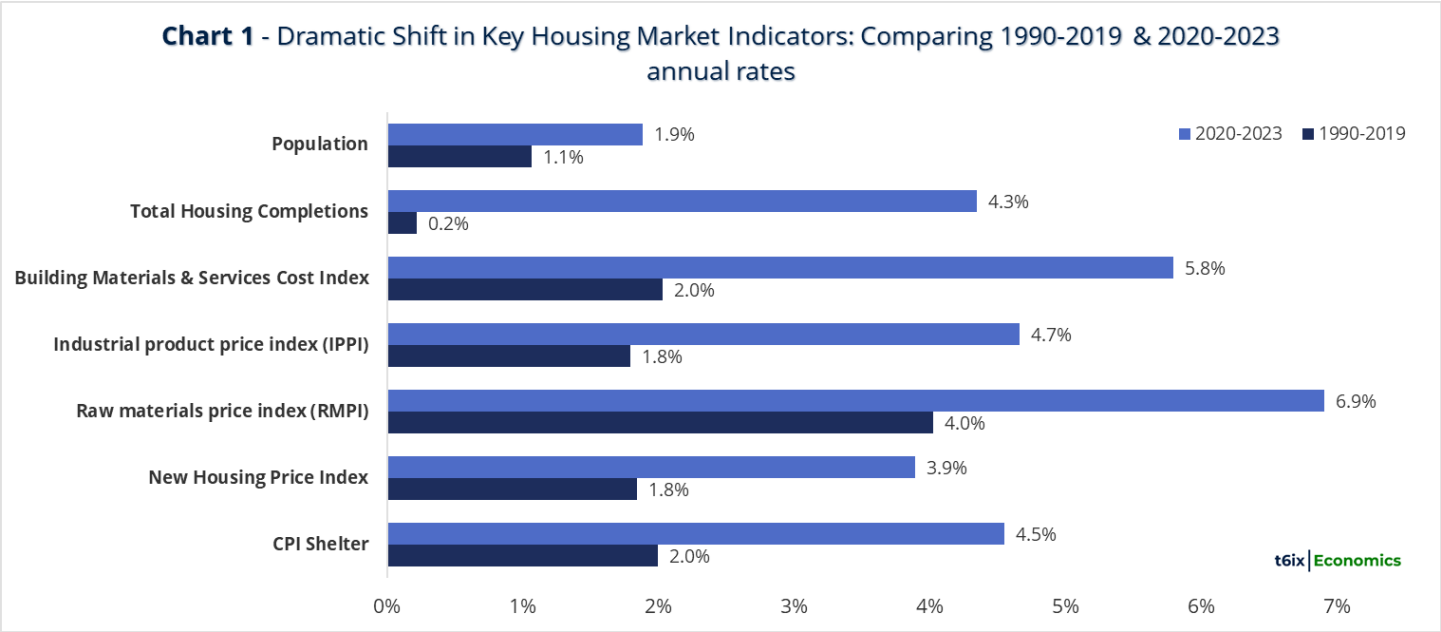
Data Highlights (Chart 1)

- **Shelter costs have more than doubled** in recent years. The CPI Shelter Index grew at an annualized rate of **4.5%** from 2020 to 2023, more than double the **2.0%** growth seen from 1990 to 2019.
- **Housing prices have surged**. The **New Housing Price Index** (NHPI) increased at an annualized rate of **3.9%** during 2020-2023, **more than twice** the **1.8%** observed between 1990 and 2019.
- **Population growth remains a key driver** of demand, averaging 1.9% per year from 2020 to 2023, **nearly double the long-term average of 1%**. Excluding 2020, growth surged to **2.6%** per year, intensifying demand that continues to outpace supply.
- **Housing completions have surged** but remain insufficient. Completions grew at an annualized rate of 5.4% from 2020 to 2023, a sharp contrast to the 0.2% growth seen from 1990 to 2019, but still lag behind demand.
- **Rising material and construction costs** are contributing to higher housing prices, with **Raw Materials** and **Building & Services costs** increasing at **6.9%** and **5.8%** annualized rates, respectively, from 2020 to 2023.



Source: t6ix Economics calculations, Statistics Canada, CMHC. See Box 1 for details on *Building Materials & Services Cost Index*.

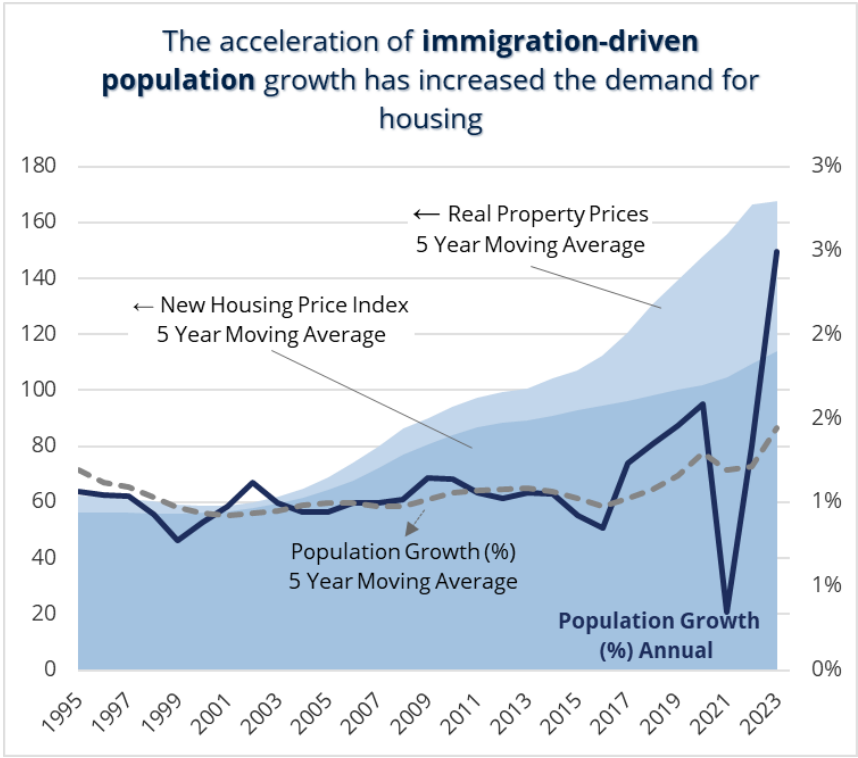
1. Housing Prices and Population Growth: Unprecedented Demand Pressure

The primary driver of Canada's sharp rise in housing prices has been **rapid population growth**. Between **2020 and 2024**, Canada's population increased by **5.3%**, largely due to immigration and temporary residents. This equates to approximately **3 million new residents** over four years—an influx equal to the previous **13 years of population growth**.

This unprecedented population growth has exerted significant pressure on housing markets, driving up both the **New Housing Price Index (NHPI)** and **Real Property Prices**. From **2020 to 2023**, population growth averaged **1.9% annually**, nearly double the long-term average of **1%**. This surge has translated directly into higher housing demand, especially in urban centers where demand pressures are most concentrated.

Data underscores a close correlation between **population growth and housing price inflation**. The NHPI, for example, rose by an annualized rate of **3.9%** during 2020-2023, more than double the **1.8%** observed from 1990-2019. Real Property Prices also showed a similar trend, escalating rapidly alongside population growth **(Chart 2)**.

Chart 2



Source: t6ix Economics calculations, Statistics Canada.

2. Supply-Side Response: Housing Completions Alone Cannot Address the Crisis

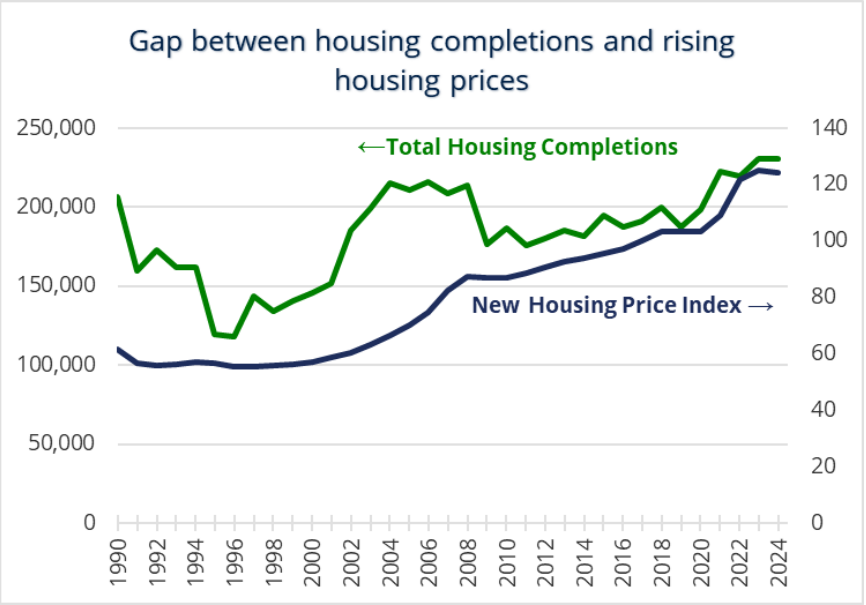
Despite an increase in housing completions, they have not matched the rapid population growth, creating a **supply-demand imbalance** that has intensified housing price inflation. Data reveals that while housing completions increased by an average annualized rate of

5.4% from 2020 to 2023, it pales in comparison to the population growth rate of **1.9%**, which is nearly double the historical average **(Chart 3)**.

While increasing housing supply is essential, **it is not a silver bullet for addressing the affordability challenge**. It's tempting to focus solely on supply and claim that more housing completions will solve the crisis, but the data shows otherwise. Even during periods of increased housing completions, prices have continued to rise because **demand—fueled by population growth—has consistently outpaced supply**. Simply building more homes will not resolve the housing crisis. Without meaningfully addressing demand-side pressures, the gap between housing supply and demand will persist, and prices will continue to rise.

The numbers highlight this reality: even during years when housing completions surged, the demand generated by population growth consistently outpaced supply, making affordability a moving target. Without addressing these demand pressures, focusing solely on increasing supply is akin to attempting to **fill a bucket with a growing leak**. Housing prices are unlikely to stabilize without a balanced approach that considers both supply-side and demand-side factors.

Chart 3



Source: Statistics Canada, CMHC, t6ix Economics.

3. Rising Input Costs and Their Limited Impact on Housing Prices

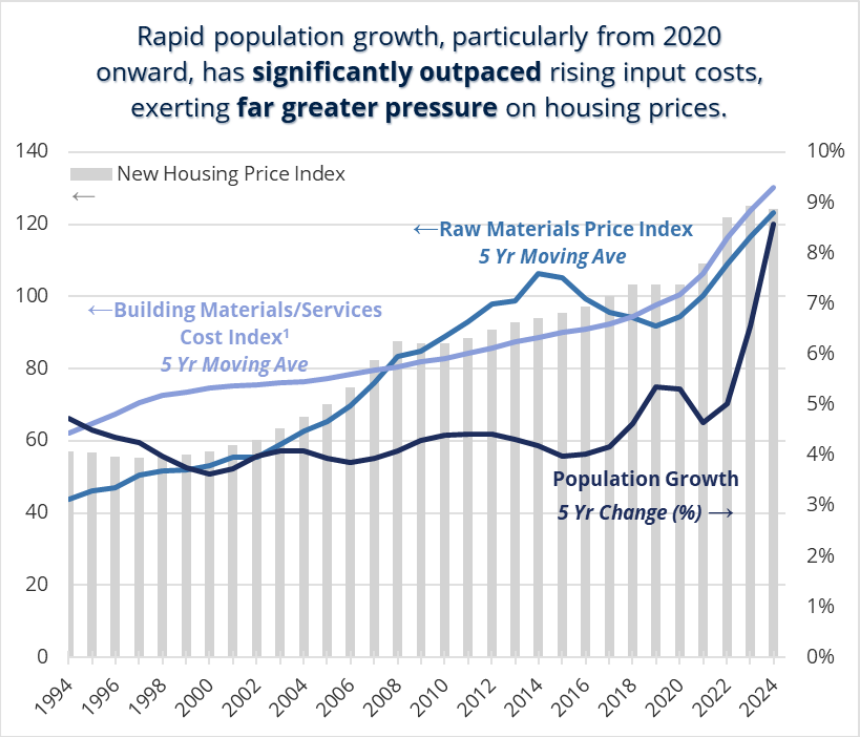
A commonly cited factor behind rising housing prices is the increase in **input costs**, including materials and construction services. However, while input costs have certainly risen, **data shows that their impact on housing prices has been limited compared to demand-driven pressures (Chart 4).**

From **2014 to 2020**, building material costs increased modestly, by around **2% per year**. The COVID-19

pandemic then introduced significant volatility, particularly in **2020 and 2021**. During this period, global supply chain disruptions, material shortages, and rising commodity prices drove sharp increases in the cost of essential building materials like lumber, steel, and concrete. Global demand for these materials soared, while supply was constrained by factory closures, transportation delays, and labor shortages in the construction sector.

For instance, **lumber prices quadrupled in 2020** due to severe supply chain disruptions, and both steel and concrete prices surged amidst global shortages. Yet, despite these sharp spikes, **housing price inflation remained largely disconnected from these fluctuations**. By **2022**, input costs began to stabilize, with the Building Materials & Services Cost Index experiencing a **6% decline—the largest drop in 30 years**—and a further **0.7% decline in 2023**. Even with these declines in material costs, housing prices continued their upward trend, demonstrating that **demand pressures, not supply-side costs, are the primary driver of sustained housing price increases**.

Chart 4



Note 1: See Box 1.
Source: t6ix Economics calculations, Statistics Canada.

Decoupling of Input Costs and Housing Prices

This **decoupling of material costs and housing prices** underscores that while material price volatility contributed to short-term fluctuations, **demand pressures—not supply-side factors—were responsible for sustained increases in housing prices**. From **2020 to 2024**, the 5-year increase in population averaged **6%**,

peaking at **8.6% in 2024**—a rate substantially higher than the long-term average of **4% (Chart 4)**. This surge in population has led to a dramatic rise in housing demand, pushing prices far beyond what input costs alone could explain. Simply put, the supply side—measured by raw material and construction costs—cannot keep up with the **demand-side pressures** driving up prices.

The Role of Input Costs in Price Inflation

Input costs like lumber, steel, and other construction materials have indeed contributed to the cost of building new homes. However, they are not the primary driver of long-term housing price inflation. For example, the **Raw Materials Price Index (RMPI)** rose by over **50%** during two key periods—**1999-2003** and **2009-2013**—yet the **New Housing Price Index (NHPI)** did not experience a comparable surge. This trend reinforces that **input cost increases alone are insufficient to explain the recent housing price explosion**.

Focusing solely on input costs without addressing the **underlying demand pressures would miss the broader dynamics driving housing price inflation**. The unrelenting demand for homes, driven by rapid population growth, remains the dominant force behind rising prices.

Box 1

Building Materials & Services Cost Index

To accurately capture housing-related input costs, a modified **Building Materials & Services Cost Index** was developed. This index includes:

- **Total, Industrial Product Price Index (IPPI)**
- **Lumber and other wood products**
- **Primary ferrous and non-ferrous metal products**
- **Fabricated metal products and construction materials**
- **Cement, glass, and other non-metallic mineral products**
- **Retail Services Price Index** for "Building material and garden equipment and supplies dealers"

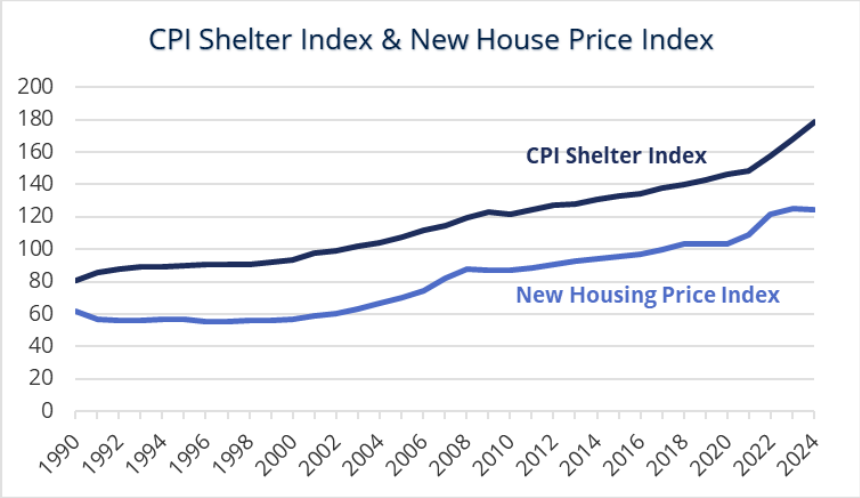
This tailored index provides a more detailed view of housing-related input costs, focusing on a comprehensive range of construction materials without overstating their impact on housing prices.

4. The Relationship Between Housing Prices and Shelter Costs

As housing prices rise, so too do **shelter costs**, as indicated by the **CPI Shelter Index**. This index captures housing-related expenses, including rent and mortgage

payments, which have become increasingly burdensome for Canadian households. The CPI Shelter Index increased at an annualized rate of **4.5%** from 2020-2023, more than double the **2.0%** growth rate observed between 1990-2019 (**Chart 5**).

Chart 5



Source: Statistics Canada, t6ix Economics.

The close relationship between the CPI Shelter and the New House Price Index (NHPI) highlights the broader **affordability challenge** facing Canadians. As housing prices increase, so do the costs of rent and mortgages, making housing more difficult to afford for both current homeowners and potential buyers.

The surge in the CPI Shelter reflects the **widespread financial strain** faced by households due to rising housing costs, which shows how price inflation directly impacts overall affordability.

5. What If Population Growth Had Remained Steady?

To fully grasp the impact of population growth on housing prices, it's helpful to consider a **Population-Adjusted Projection**. Based on our estimates, if population growth had been closer to the long-term historical average of **1% annually**, the housing market would likely have experienced more moderate price increases.

The adjusted scenario shows that **housing costs would be around 15% lower today** if population growth had remained steady, allowing for a better balance between housing supply and demand **(Table 1)**.

Table 1

	Actual Growth (2020-2024)	1% *Annual* Population Growth Scenario (2020-2024)	Difference
CPI Shelter Index	21.9%	6.6%	**+15.3%**
New Housing Price Index	20.2%	6.1%	**+14.1%**
***Total* Population Growth**	8.6%	4.1%	**+4.5%**

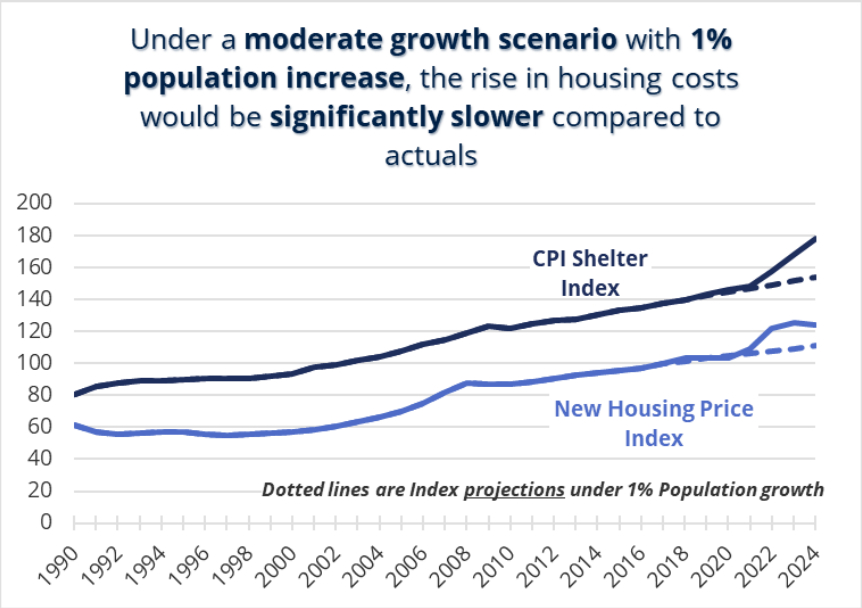
Source: t6ix Economics calculations, Statistics Canada.

In a Population adjusted scenario **(Table 1)**:

- **Population growth** would have been **4.1%**, significantly lower than the actual **8.6%** seen from 2020 to 2024.
- **CPI Shelter** costs would have increased by **6.6%** instead of the actual **21.9%** rise.
- The **New Housing Price Index (NHPI)** would have risen by **6.1%**, compared to the actual **20.2%** increase.

The Population-Adjusted projection underscores the importance of **demand-side management** as a key element of housing affordability policy. By moderating population growth, particularly through **immigration and temporary resident policies**, policymakers can help prevent the extreme price increases that have strained affordability in recent years **(Chart 6)**.

Chart 6



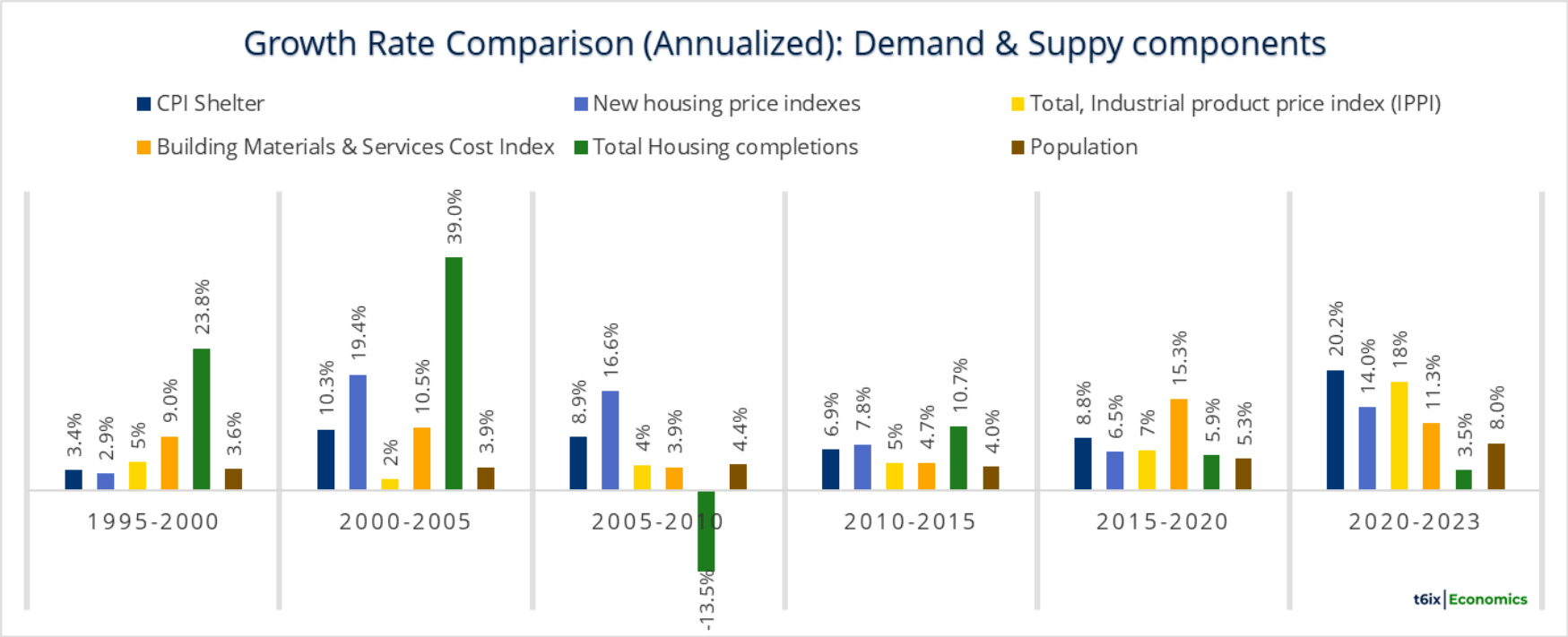
Source: t6ix Economics calculations, Statistics Canada.

6. Comparing Growth Rates Across Key Variables

An analysis of the annualized growth rates of various indicators, including **CPI Shelter**, **NHPI**, **RMPI**, **Building Materials & Services Cost Index**, **Housing Completions**, and **Population Growth**, highlights significant discrepancies that underscore the primacy of demand-side pressures **(Chart 7)**.

This faster growth in **housing prices** compared to input costs indicates that rising material costs alone do not explain the price surge. Similarly, the slower growth in **housing completions** reflects that supply-side measures have been insufficient to keep up with demand pressures.

Chart 7



Source: t6ix Economics calculations, Statistics Canada, CMHC.

The growth rates of **housing prices (NHPI)** and **shelter costs (CPI Shelter)** have significantly outpaced the growth rates of input costs, housing completions, and even population growth **(Chart 7)**. This indicates that, while **population growth** has been a major driver of rising prices, the **insufficient housing supply** and the **slow pace of completions** have compounded the problem.

This comparison of growth rates underscores the need to manage both **supply and demand** when addressing the housing market's challenges. A narrow focus on either input costs or housing completions alone would miss the broader picture: **demand pressures** have been the dominant force driving housing price inflation.

Conclusion: Demand, Not Just Supply, Is the Key Driver of Rising Housing Prices

The data clearly shows that **demand-side pressures**, particularly driven by **rapid population growth**, have been the primary factor behind rising housing prices in Canada. While **supply-side constraints**, such as rising input costs and insufficient housing completions, have contributed to the issue, they are **not the main cause** of the price increases seen in recent years.

Why Focusing on Supply Alone Won't Work

Focusing solely on increasing housing supply is like trying to **quench a wildfire with a garden hose**. While adding supply may help, the real problem is the overwhelming **demand** driven by rapid population growth. Without addressing these **demand-side pressures**, even the best supply-side efforts will be outpaced, and prices will continue to rise. Simply put, supply growth alone is **not enough**.

The Role of Immigration

Immigration has been a **cornerstone of Canada's economic policy, contributing significantly to the labor force, innovation, and cultural diversity**. However, the rapid influx of new residents, especially in the last five years, has placed immense pressure on the housing market. **Immigration accounted for over 75% of Canada's population growth** during this period, a rate that has outstripped the housing market's ability to supply adequate homes. This **mismatch between population growth and housing supply** is one of the primary reasons for the dramatic rise in housing prices.

Supply-Side Solutions: Necessary but Not Sufficient

As previous sections have shown, **housing completions** have not kept up with the surge in demand. Even if supply-side efforts are accelerated—through zoning reforms, labor availability, or reduced material costs—the scale of demand means that supply growth alone cannot solve the problem. Focusing on supply without addressing broader demand dynamics is like trying to **bail out a sinking boat without plugging the leak**—that leak is **population growth**, particularly in urban centers where demand is concentrated.

Zoning Reforms and Urban Density

Policymakers have increasingly turned to **zoning reforms and efforts to increase urban density** to alleviate the housing supply shortage. In cities like Toronto and Vancouver, restrictive zoning laws have limited multi-unit housing development, exacerbating the supply shortage. While reforms could help increase housing supply, their impact is likely to be gradual. Without addressing **demand-side pressures**, even large supply increases may not significantly reduce prices.

The Path Forward: Balancing Demand and Supply

The continued focus on **managing demand**—through **thoughtful immigration and population growth policies**—will be critical to ensuring that housing prices stabilize and affordability improves for Canadians. Without addressing these **demand-side pressures**, supply-side measures alone will struggle to bring prices under control.

The evidence is clear: while input costs and housing supply challenges have contributed to Canada's housing price surge, the **primary driver** has been **demand-side pressure**, particularly from population growth. For housing prices to stabilize and for long-term affordability to improve, policymakers must adopt a **balanced approach** that manages both **supply and demand**.

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