



## Careful What You Wish For The Economic Fallout of Housing Price Shocks

The desire of some well-meaning British Columbians for government to drive down the price of homes through demand-side policy may sound practical at first blush. However, when you consider the broad and deep economic toll that a negative shock to home prices would exact on both homeowners and renters, it quickly becomes apparent that such an approach is at best, a mug's game. BCREA Economics analysis\* shows that even a relatively modest negative price shock will produce significant consequences to the BC economy.

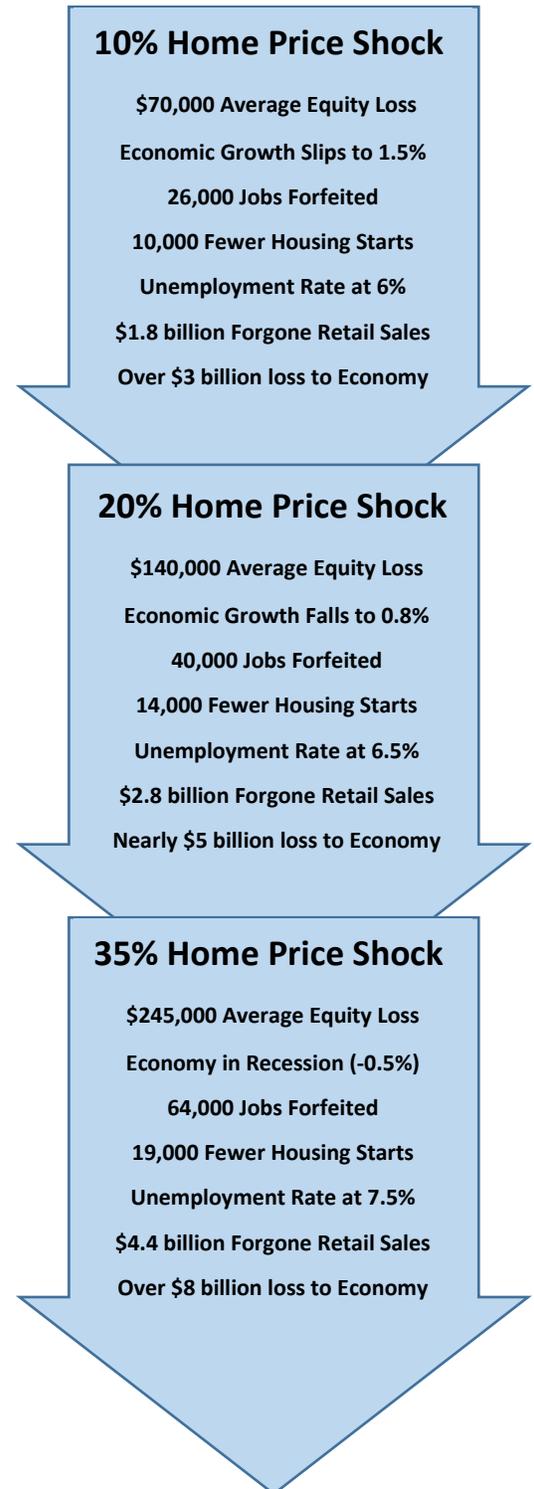
Nearly 70 per cent of British Columbian households own their home. A relatively minor 10 per cent negative shock to home prices would extinguish \$90 billion of their wealth, or \$70,000 of the average home owner's equity. While some may see this as a paper loss, it will have a significant impact on the economy, as declining household wealth reins in consumer spending. Retail sales would suffer, with an estimated \$1.8 billion in forgone revenue in the first year after the shock.

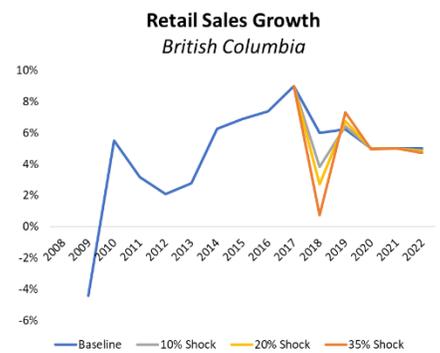
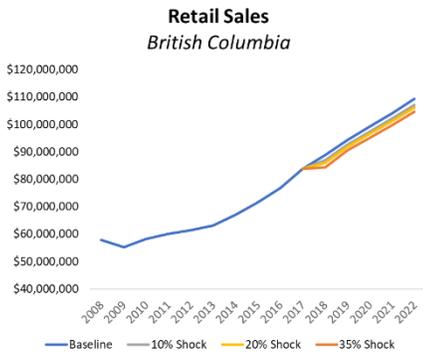
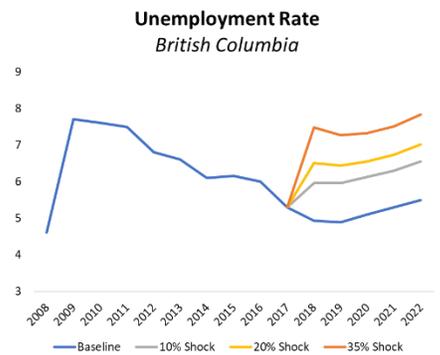
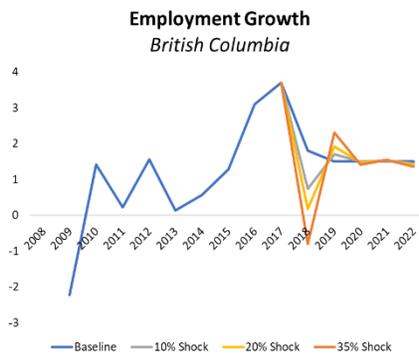
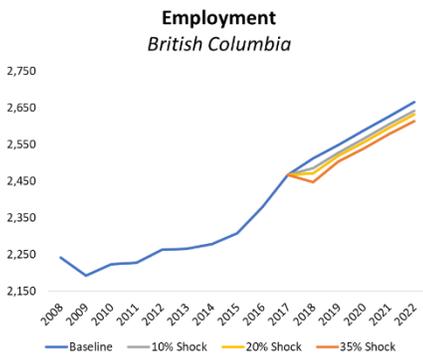
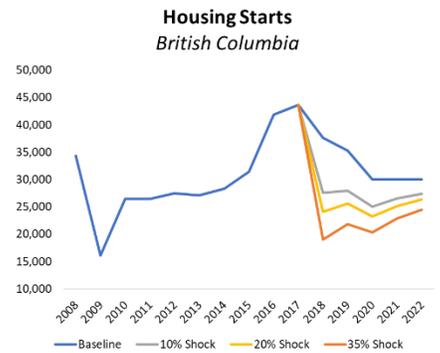
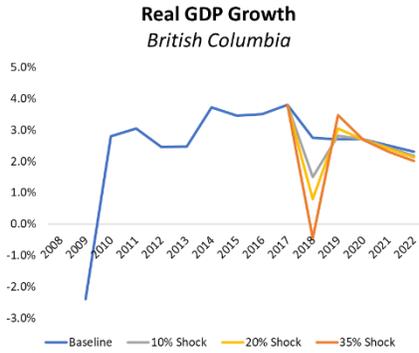
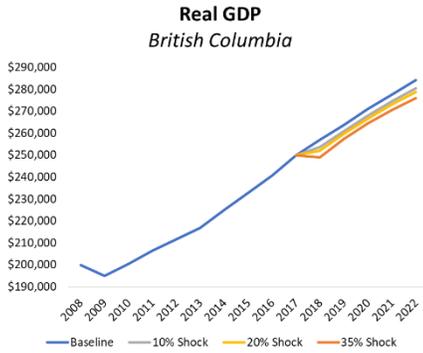
Home construction activity would fall dramatically. Home builders would cut back production 25 per cent; that's 10,000 fewer housing starts in the first year alone. A negative price shock would markedly slow the expansion of the housing stock, creating even more critical housing supply problems down the road.

Across the economy, a negative home price shock will slow growth. Tens of thousands of jobs will be forfeited. The unemployment rate will shoot up. A 10 per cent negative price shock will slow real GDP growth to 1.5 per cent from a baseline of 2.7 per cent. That's \$3 billion in lost activity. If home prices fell 35 per cent, a level some activists are championing, the BC economy would collapse into recession. The average home owner would have lost \$245,000 in equity, housing starts would fall by half, 64,000 jobs would be forfeited – sending the unemployment rate to 7.5 per cent with \$4.4 billion in forgone retail sales and a colossal \$8 billion loss to GDP in the first year.

This analysis does not account for the negative impact on provincial tax revenues, expanding deficits, ballooning debt and credit downgrade risks.

\*Based on simulations using BCREA's econometric model of the BC economy augmented by a housing Vector Autoregression model.





Cameron Muir, Chief Economist,  
cmuir@bcrea.bc.ca; 604.742.2780

Brendon Ogmundson, Economist,  
bogmundson@bcrea.bc.ca;  
604.742.2796

	First Year of Shock			
	Decline of Average Home Prices			
	Baseline	10%	20%	35%
Housing Starts (000s)	37,600	27,600	24,000	18,900
Retail Sales Growth (%)	6.0	3.8	2.7	0.7
Retail Sales Growth (\$ billions)	5.0	3.2	2.3	0.6
Unemployment Rate	4.9	6.0	6.5	7.5
Total Unemployment (000s)	130.4	158.5	171.7	198.1
Employment Growth (%)	1.8	0.7	0.2	-0.8
Employment Growth (000s of Jobs)	44	18.0	4.0	-20.0
Real GDP Growth (%)	2.7	1.5	0.8	-0.5

Impact Compared to Baseline (Year 1)	Decline of Average Home Prices		
	10%	20%	35%
Housing Starts (000s)	(10,000)	(13,600)	(18,700)
Retail Sales Growth (%)	(2.2)	(3.3)	(5.3)
Unemployment Rate	1.1	1.6	2.6
Employment (000s)	(26.2)	(40.0)	(64.3)
Real GDP	(1.2)	(1.9)	(3.1)