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OECD warns about risks posed by hot housing prices

The OECD has flagged runaway real estate prices in Toronto and Vancouver as being one of the biggest risks to Canada's economy, and though the federal finance minister agreed that it was a major concern, he offered few details about how to rein in those markets before a possible crash.

"It's something that we're paying very close attention to and we'll continue to report back to Canadians as we have more to say," said Finance Minister Bill Morneau at a news conference Monday, called to present the Paris-based Organization for Economic Co-operation and Development's 2016 report on the Canadian economy.

"We're doing our analysis, so we don't have anything more to say at this time," he said in an interview.

The OECD is urging Canada to deploy more "macro-prudential measures" to calm these housing markets through strategies such as increasing capital requirements in regions where the house-price-toincome ratio is high.

"That means (home buyers have) got skin in the game, and that means if (your house) comes down in price at some point then you also lose part of that," said OECD secretary-general Angel Gurría.

The organization's report says Canada's low interest rates have encouraged increases in household credit use, with debt continuing to edge up from already high levels, though at a slower pace than last year.

The risk, the annual report says, is a very sharp fall in house prices triggered by a shock that could result in a large increase in unemployment causing a rise in mortgage defaults, putting pressure on financial stability — particularly squeezing middle-class families in these high-priced markets.

The report says the challenge is preventing housing markets from becoming overheated without further depressing slow activity in commodity-sensitive regions, another major risk to the Canadian economy.

Last week, Ottawa said it was conducting an in-depth examination of the country's real estate markets to determine whether more changes are needed.

"We're looking at the impact of demographic changes in cities, we're looking at the different labour markets in cities, we're looking at supply issues in cities and we're looking at the impact of foreign investment," Morneau said Monday.

The OECD says Canadian economic activity is shifting from energy to non-energy sectors in response to price signals, with exchange rate depreciation, the country's flexible labour markets and monetary and fiscal policy supporting the shift away from resource production.

Gurría applauded the federal government's focus on investment in physical infrastructure, social housing, education and innovation to deliver short-term stimulus and promote longer-term growth.

"In this respect, Canada is an example to other advanced countries," he said.

"Canada is testing how you get out of this mediocrity."

The OECD says Canadian productivity has been relatively weak in recent decades, in part reflecting insufficient competition in network sectors, barriers to internal trade and "lacklustre small business dynamism."