

House Price Expectations in Canada: Evidence from a Randomized Information Experiment

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Context and key messages

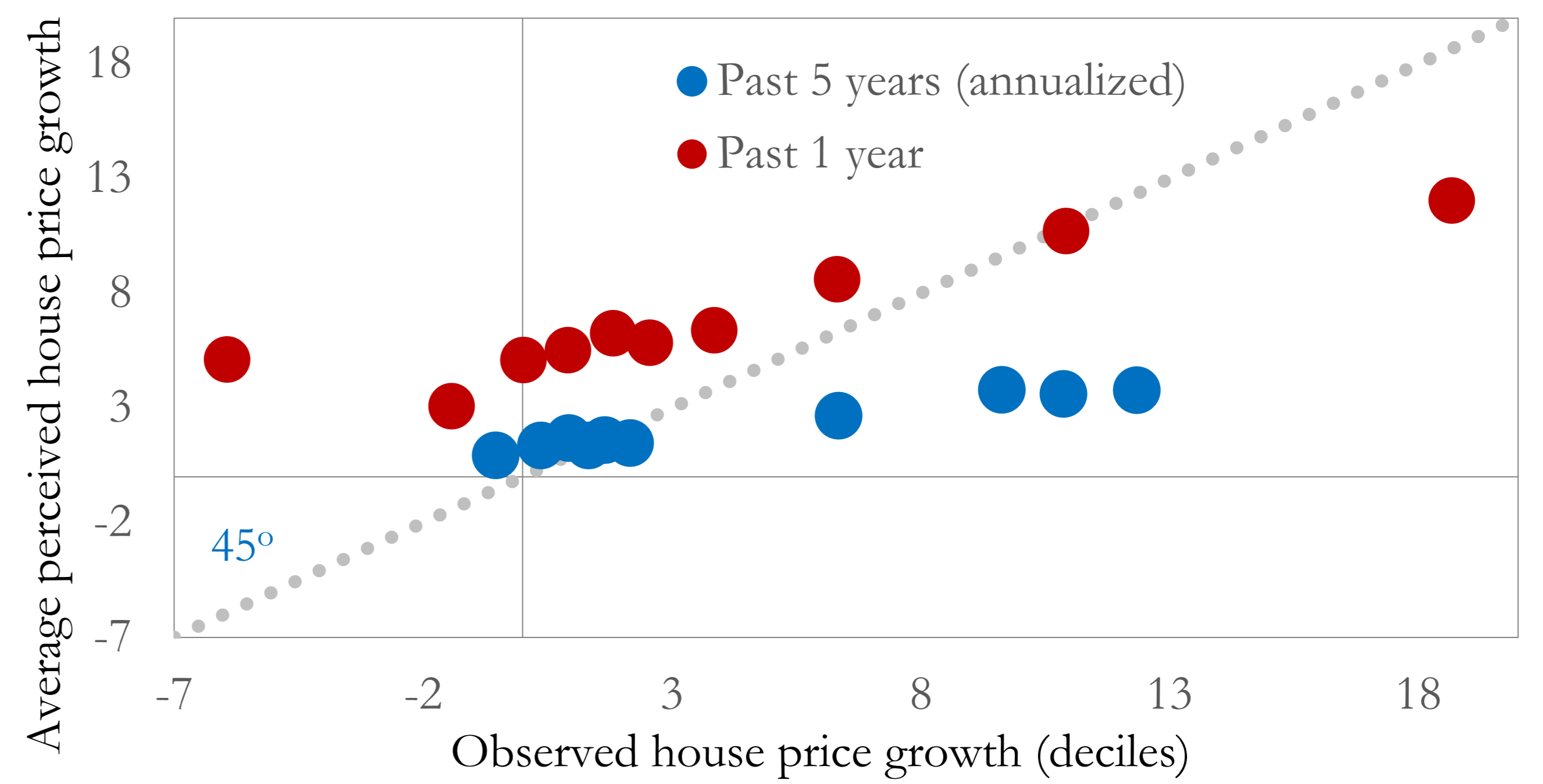
In recent years, house prices in certain Canadian housing markets have displayed signs of “froth.” House price expectations play an important role in observed housing market dynamics.

Question: To what extent do households extrapolate past house price changes into their expectations of future house price changes?

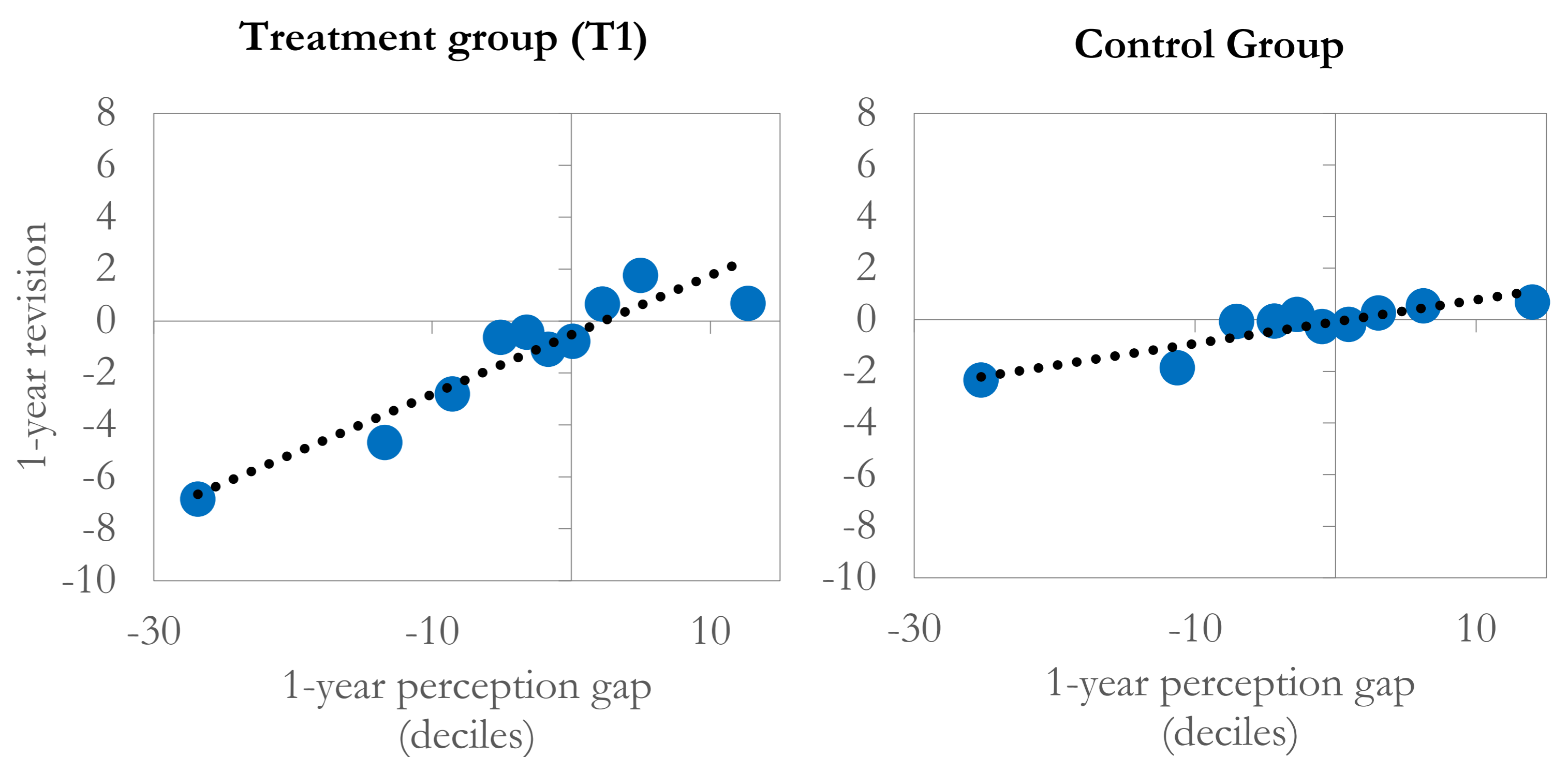
Households are presented with information about actual house price changes:

- For year-ahead expectations, they extrapolate to a degree consistent with the observed persistence in house price growth
 - But, they tend to underestimate the strength of persistence.
- They also extrapolate the information into five-year expectations.
 - But, house price growth has historically reverted back to its mean at that horizon.
- Policy-makers concerned about boom-bust cycles in house prices should monitor house price expectations, **especially at longer horizons**

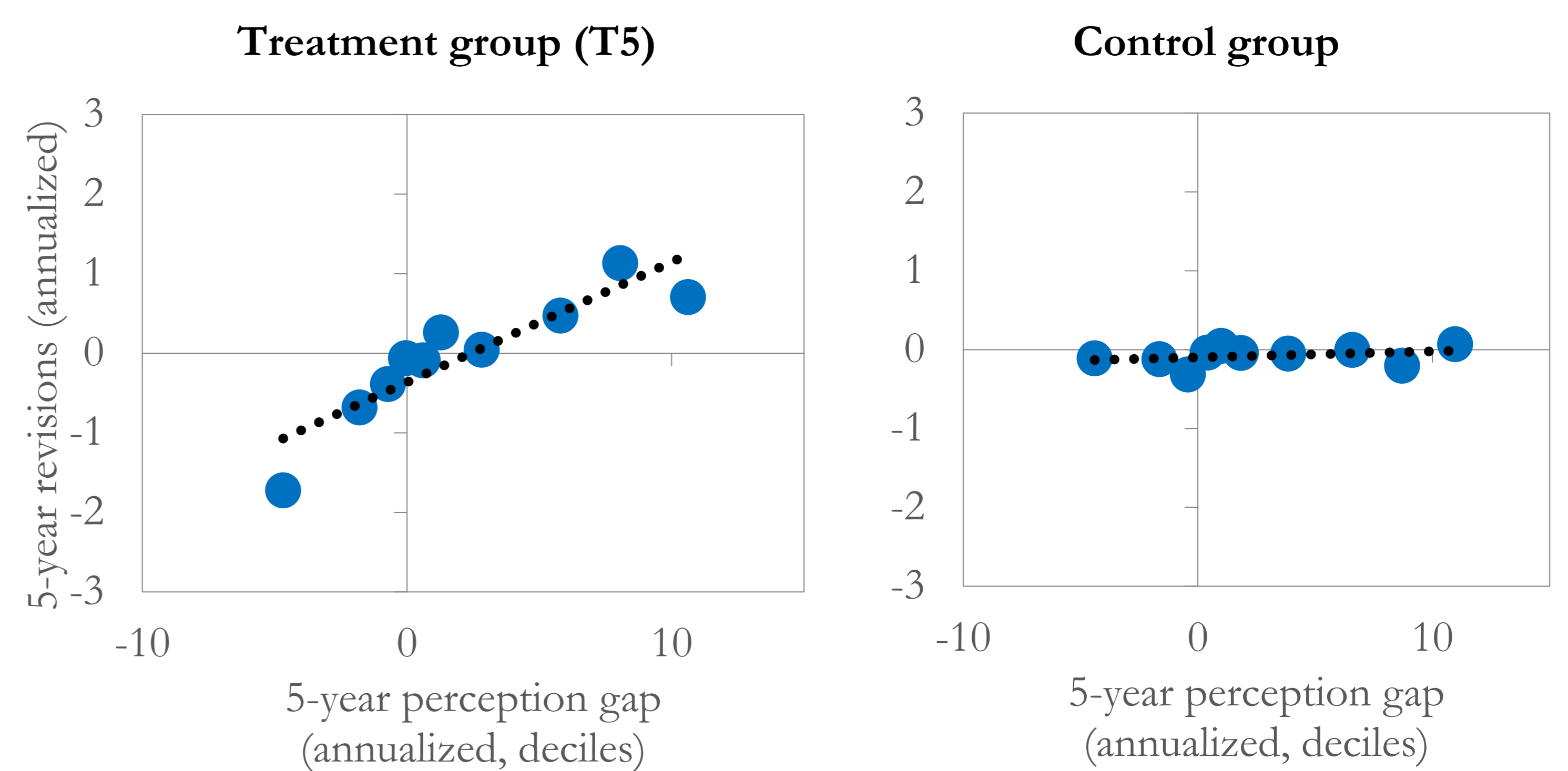
Relationship between perceived and observed house price growth



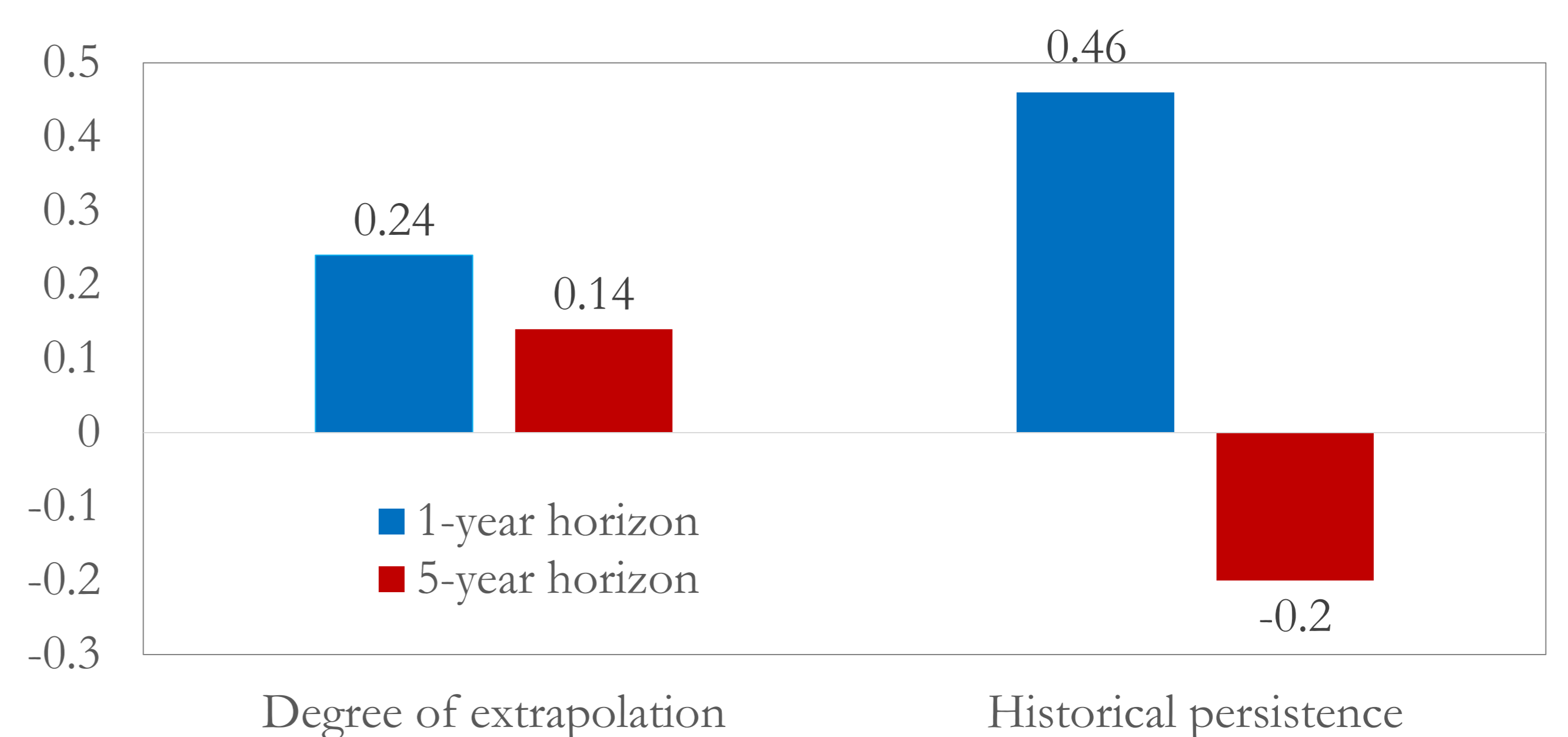
Relationship between one-year revisions and one-year perception gaps



Relationship between five-year revisions and five-year perception gaps



Comparison of updating behaviour with historical persistence of house price growth



Data

The data comes from an **information experiment embedded in an online survey**.

It is a **nationally representative sample of over 2,000 Canadians aged 18 years or older**.

The survey assesses how house price expectations are formed and updated.

It also contains comprehensive information about households: education; income; marital status, etc.

- And, **respondents' postal codes**.

Experiment design

