On November 17, 2016, the Canada Mortgage and Housing Corporation (CMHC) revealed the results of a "stress testing" exercise it performed covering 2017 to 2021.[1] Stress testing involves searching out extreme scenarios that have a very remote chance of occurring and planning for them. CMHC tested its mortgage loan insurance and securitization businesses against several extreme scenarios including:

- Global economic deflation (severe and prolonged economic depression)
- Sustained low oil price shock (price of oil falls to US$20 per barrel in 2017)
- High-magnitude earthquake in major urban centre
- Reverse stress test (sudden increase in interest rates leading to higher borrowing costs)
- U.S. style housing correction (30% decline in house prices)

CMHC says its stress testing shows it will be able to withstand even the most extreme economic scenarios. For example, a severe global economic depression could cut Canadian housing prices by 25% and push unemployment to 13.5%, but CMHC says it could withstand the $3 billion loss it would suffer under that scenario.

The change in housing prices under each hypothetical scenario is shown in the table below:

For the 2017-2021 Period	Base Case	Global Deflation	Oil Price Shock	Earthquake	Reverse Stress Test	US Style Housing Correction
Peak unemployment rate	6.6%	13.5%	8.8%	8.4%	11.3%	12%
Change in housing prices	9.0%	-25.0%	-7.8%	-0.6%	-30.0%	-30.0%

CMHC cautioned that the scenarios tested shouldn't be considered a prediction or a forecast.

For details on the results of each scenario, please click here.

For a backgrounder on CMHC's stress testing, please click here.

[1] CMHC Stress Testing Confirms Ability to Withstand Extreme Scenarios. November 17, 2016. https://www.cmhc-schl.gc.ca/en/corp/nero/nere/2016/2016-11-17-0700.cfm