



## CURRENT ANALYSIS

November 15, 2011

## Canada's housing market forecast update

In our previous outlook report on the Canadian housing market published in July, we reiterated our view that the most likely scenario was one of stable home resale activity and prices in the coming year. This was concluded on the grounds that economic growth in Canada will be sustained and that the current exceptionally low interest rates will be unwound gradually. We argued that continued increases in employment – and associated household revenue gains – and rising interest rates would constitute major forces acting in opposite directions, the net effect of which was expected to have a negligible impact on the demand for housing.

Developments in global financial markets since July have somewhat altered the economic landscape but, perhaps surprisingly, not the bottom line for Canada's housing market. We still believe that the most likely outcome is one of stable resales and prices in 2012. While the global financial market turmoil has prompted us to revise our economic growth projection lower in September (taking 2012 down to 2.5% from 3.1%), we now expect interest rates to remain low for a longer period of time (until the middle of 2012 in the case of Bank of Canada's overnight rate). Again, we see the effect of these changes on housing demand largely being a wash: relative to our previous forecast, the extra boost from lower interest rates will compensate for the extra drag from slightly slower household income growth and more fragile consumer confidence.

**Tables 1 and 2** show updated base case forecasts for home resales and prices in light of events in recent months and data released since July. The changes from our previous forecasts are generally small, however, and do not alter the broad storyline discussed in our July report. We now expect home resales to total approximately 453,000 units in 2011 in Canada (up from 451,000 forecasted previously) and 455,000 units in 2012 (up from 451,000), constituting annual increases of 1.4% and 0.4%, respectively. We continue to expect British Columbia to show a small decline next year (-3.3%); Manitoba, Ontario, Quebec and the Atlantic Provinces to remain essentially flat; and Alberta and Saskatchewan to post modest increases. In terms of prices, the gains expected this year now generally appear to be a little stronger than previously projected (5.3% overall in Canada versus 4.9% previously) but are still unlikely to move very much next year (now projected to rise 0.5% overall versus 0.1% previously) – with modest increases next year in the Prairie and Atlantic Provinces offsetting a small decline in British Columbia.

Downside risks remain substantial given the volatility in global financial markets and heightened global economic uncertainty. In our July report, we drew attention to the fact that the market has had a significant run in the past decade or so, that affordability is on a deteriorating path and that household indebtedness is high, and these factors make the Canadian housing market susceptible to a downward correction in the face of a negative shock. This susceptibility certainly is no lesser now.

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Table 1 - Base case scenario for home resales - in units

	2007	2008	2009	2010	2011f	2012f
Canada*	521,100	431,800	465,100	446,900	453,000	454,600
	<i>7.9</i>	<i>-17.1</i>	<i>7.7</i>	<i>-3.9</i>	<i>1.4</i>	<i>0.4</i>
British Columbia	102,800	68,900	85,000	74,600	76,200	73,700
	<i>6.3</i>	<i>-33.0</i>	<i>23.4</i>	<i>-12.2</i>	<i>2.1</i>	<i>-3.3</i>
Alberta	71,000	56,000	57,500	49,700	53,600	57,200
	<i>-4.1</i>	<i>-21.1</i>	<i>2.7</i>	<i>-13.6</i>	<i>7.8</i>	<i>6.7</i>
Saskatchewan	12,500	10,500	11,100	10,900	11,700	11,900
	<i>31.6</i>	<i>-16.0</i>	<i>5.7</i>	<i>-1.8</i>	<i>7.3</i>	<i>1.7</i>
Manitoba	13,900	13,500	13,100	13,200	13,700	13,800
	<i>6.9</i>	<i>-2.9</i>	<i>-3.0</i>	<i>0.8</i>	<i>3.8</i>	<i>0.7</i>
Ontario	213,400	181,000	195,800	195,600	198,500	198,400
	<i>9.5</i>	<i>-15.2</i>	<i>8.2</i>	<i>-0.1</i>	<i>1.5</i>	<i>-0.1</i>
Quebec	80,600	76,800	79,100	80,000	76,400	76,600
	<i>12.6</i>	<i>-4.7</i>	<i>3.0</i>	<i>1.1</i>	<i>-4.5</i>	<i>0.3</i>
Atlantic Canada	26,300	24,500	22,800	22,500	22,600	22,500
	<i>14.8</i>	<i>-6.8</i>	<i>-6.9</i>	<i>-1.3</i>	<i>0.4</i>	<i>-0.4</i>

\* Includes sales in the Territories.

Annual percent changes are in italics.

Source: Canadian Real Estate Association, RBC Economics Research

Table 2 - Base case scenario for home prices - annual average value of a detached bungalow

	2007	2008	2009	2010	2011f	2012f
Canada*	290,000	304,300	302,000	326,800	344,100	345,900
	<i>11.5</i>	<i>4.9</i>	<i>-0.8</i>	<i>8.2</i>	<i>5.3</i>	<i>0.5</i>
British Columbia	474,700	507,500	494,400	554,200	603,300	593,200
	<i>11.8</i>	<i>6.9</i>	<i>-2.6</i>	<i>12.1</i>	<i>8.9</i>	<i>-1.7</i>
Alberta	376,400	354,200	330,500	338,900	340,700	352,500
	<i>30.5</i>	<i>-5.9</i>	<i>-6.7</i>	<i>2.5</i>	<i>0.5</i>	<i>3.5</i>
Saskatchewan	240,100	299,100	293,600	311,900	322,200	332,800
	<i>46.0</i>	<i>24.6</i>	<i>-1.8</i>	<i>6.2</i>	<i>3.3</i>	<i>3.3</i>
Manitoba	201,600	217,200	227,000	250,500	264,600	270,700
	<i>7.6</i>	<i>7.7</i>	<i>4.5</i>	<i>10.4</i>	<i>5.6</i>	<i>2.3</i>
Ontario	303,300	319,500	316,300	340,500	357,100	358,900
	<i>6.8</i>	<i>5.3</i>	<i>-1.0</i>	<i>7.7</i>	<i>4.9</i>	<i>0.5</i>
Quebec	182,900	193,100	201,600	220,100	228,900	230,600
	<i>5.8</i>	<i>5.6</i>	<i>4.4</i>	<i>9.2</i>	<i>4.0</i>	<i>0.7</i>
Atlantic Canada	167,300	180,000	188,300	196,900	209,100	212,300
	<i>9.8</i>	<i>7.6</i>	<i>4.6</i>	<i>4.6</i>	<i>6.2</i>	<i>1.5</i>

\* Weighted average, using provincial population as weights.

Annual percent changes are in italics.

Source: Royal LePage, RBC Economics Research

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