MONTHLY HOUSING MARKET UPDATE

August 14, 2015

Home resales continue to be a tale of 'two cities' in Canada in July

Lower interest rates are percolating through Canada's housing market, emboldening resale activity in the frothy Toronto and Vancouver markets and helping to offset slow activity in energy sensitive regions. Statistics released this morning by the Canadian Real Estate Association (CREA) indicated home resales rose from a year-ago to post the second highest level for a July on record (49,523 units) in Canada (on an unadjusted basis); although activity lost some steam relative to June 2015 with seasonally-adjusted resales easing by 0.4%. Vancouver and Toronto continued to sizzle with sellers still gaining the upper hand in both supply-constrained markets, resulting in home prices bouncing higher in both regions. The MLS composite Home Price Index (HPI) for Vancouver recorded an annual price gain of 11.2% while Toronto prices advanced 9.4% from a year ago, thereby marking the fastest rates of increase for both areas since January 2010.

A gradual recovery in oil sensitive markets became more evident in July with home resales rising relative to June in Calgary and Edmonton (after pausing in Calgary and taking a step back in Edmonton in the previous month). A jump in new listings in both regions accompanied the sales advance, helping to ease the demand-supply conditions, notably for Calgary, where market conditions remain tilted in favour of sellers. Downward price pressures still remained contained in Calgary with the MLS HPI remaining unchanged on a month-to-month basis; however, annual price growth slowed to only 0.1% from 0.5% in June.

Balanced market conditions continued to prevail in most other markets, although resale activity was mixed. Monthly declines were recorded in a handful of local markets (including Hamilton, Regina, Halifax, Saint John and Victoria) while advances were posted in others (including Ottawa, Winnipeg and Saskatoon). Relative to a year ago, activity eased in a wide majority of markets, with the predominant exceptions of Toronto and Vancouver. As a result, home price gains outside of these regions remained relatively subdued.

Key numbers from CREA's June report:

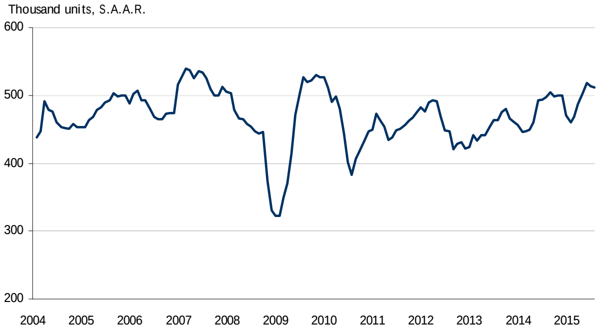
- Home resales edged modestly lower in Canada between July and June 2015, falling by 0.4% to 511,700 units (on a seasonally-adjusted and annualized basis), thereby building upon a 1.0% drop recorded in June. The two months of back-to-back easing did little to retrace four consecutive months of solid increases recorded over the January to May period, however. Relative to a year ago, July resales were up 3.4% (unadjusted), down from 11.0% in June that had marked the strongest annual gain since June 2014.

- Momentum stalled in the Toronto market in July with monthly resale activity easing for the first time since January (-1.1%), thereby contributing to the slower pace of overall sales in Canada in July. Several other local markets also saw resale activity decline including Hamilton (-9.4%), Halifax (-5.6%), Regina (-6.6%) and Saint John (-4.8%). After slipping in the previous two months, home resales picked up slightly in Vancouver (+0.7%), matching the increase recorded in Calgary (+0.7%) and was accompanied by monthly gains also recorded in Ottawa (+5.4%), Winnipeg (+3.6%), Edmonton (+2.8%) and Saskatoon (+0.2%). Relative to July 2014, activity declined in several markets with some exceptions including Vancouver (+29.8%), Toronto (+7.4%) and Victoria (+18.0%).

July Snapshot

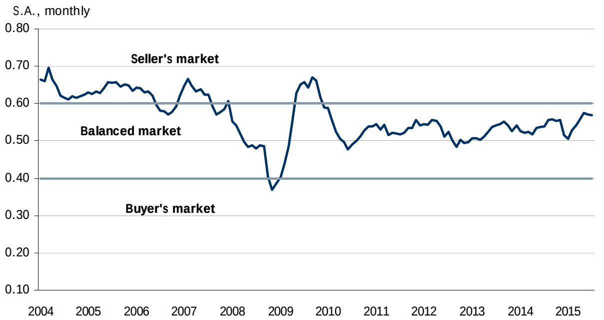
Region	Home resales Y/Y %change	New listings Y/Y %change	MLS HPI (Composite) Y/Y %change	Sales-to-new listings ratio
Canada	3.4	-2.4	5.9	0.57
Toronto	7.4	-3.2	9.4	0.66
Montreal	1.2	-0.9	1.7	0.48
Vancouver	29.8	3.1	11.2	0.70
Calgary	-19.3	-15.2	0.1	0.64

Home resales in Canada



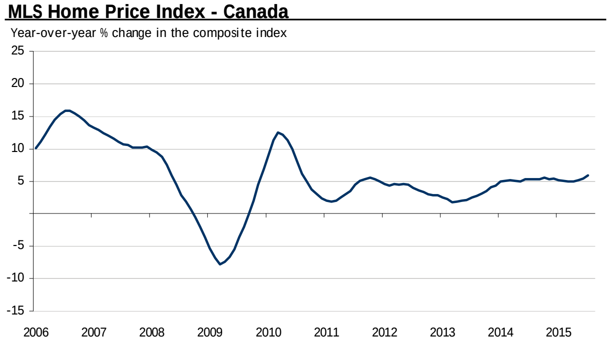
Source: CREA, RBC Economics Research

Sales-to-new listings ratio in Canada



Source: CREA, RBC Economics Research

MLS Home Price Index - Canada



Source: CREA, RBC Economics Research

Laura Cooper
Economist
(416) 974-8593
laura.cooper@rbc.com

- New listings inched up for the first time in July since April at the national level, increasing by 0.2% relative to June. The majority of local markets recorded a boost in new listings in July relative to June, including Vancouver, Calgary, Edmonton and Saskatoon. Toronto saw a decline in new listings as did Saint John, Regina, Hamilton and Halifax. Compared to a year ago, new listings were down 2.4% in Canada with a mixed picture across the country.

- The sales-to-new listings ratio—a measure of demand-supply balance—remained unchanged in July after inching down to 0.57 in June. The measure remains near the upper boundary of the 0.40 to 0.60 band typically associated with market balance which has resulted in continued upward pressure on prices. With that said, as has been the case in previous reports, the pressure is concentrated in the Toronto and Vancouver markets, where the respective ratios remain above the 0.60 threshold (0.66 and 0.70, respectively). A bump in new listings in July contributed to Calgary's ratio slipping in the month, although the market remained in seller's territory for the fourth consecutive month, suggesting downward price pressure could ease in the local market in the coming months.

- Total inventory expressed in number of months' worth of sales was unchanged for the third consecutive month at 5.6 in July, thereby representing a leaner inventory that the recent high of 6.5 months' recorded in January 2015.

- The annual rate of increase in the national composite MLS HPI accelerated to 5.9% in July from 5.4% in June and 5.2% in May. This rate breached the 4.9% to 5.4% range that has prevailed since the beginning of 2014 and marked the fastest pace of price growth since August 2010. At the local level, Toronto and Vancouver continue to be outliers with price growth far exceeding those in other markets. The MLS HPI in Vancouver accelerated to 11.2% on a year-over-year basis in July from 10.3% in June to mark the fastest pace in the region since June 2010. The annual increase in Toronto was 9.4% (compared to 8.9% in the previous two months) and also represented the strongest pace since June 2010. A price deceleration persisted in Calgary in July, although annual price growth remained in positive territory at 0.1% (compared to 0.5% in June). Annual home price gains were also recorded in Victoria and Montreal, but continued to decline in Regina and Moncton.

Commentary

The tale of the two cities – Vancouver and Toronto – continued to dominate the national housing picture in Canada in July with more mixed activity prevailing in the vast majority of other markets. The resumption of an upward sales trend in some oil sensitive regions (Calgary, Edmonton) is encouraging with a jump in new listings in these regions also pointing to some stabilization in these markets. These markets remain vulnerable, however, particularly if the recent resumption of downward price pressure on oil prices prompts another leg down in activity in the energy sector; however, our forecast assumes that a gradual recovery in these housing markets is likely to become more firmly entrenched leading into 2016.

The resilience of Canada's housing market was in full force in July with robust sales in the country's hottest markets – Toronto and Vancouver – helping to prop up the national market. Activity remained elevated in Toronto in July despite easing on a month-over-month basis; however, the persistence of tight inventory continued to fuel housing affordability concerns. The ratio of sales to new listings rose to a multi-year high of 0.66 in the region, thereby marking a level only modestly below Vancouver at 0.70. Housing affordability pressures will likely play a more dominant role in restraining sales activity in these markets in the medium-term, however, this is being offset by the exceptionally accommodative borrowing environment against a backdrop of solid labour market performance.

For 2015 as a whole, we remain of the view that a gradual recovery in housing markets exposed to the energy sector will be insufficient to fully offset the sharp declines in activity recorded earlier this year. With that said, this weakness is expected to be more than offset by solids gains in British Columbia, Ontario and Quebec, reflecting the strong levels of sales recorded so far this year. Our forecast calls for home resales in Canada to march higher in 2015, rising by 5.0% to 505, 400 units with Ontario and British Columbia leading the pack. On the price side, we expect housing valuations to rise 4.6% nationally in 2015, thereby marking only modest deceleration from the 4.8% recorded in 2014.

A full, updated forecast for both 2015 and 2016 will be released shortly.