



MONTHLY HOUSING MARKET UPDATE

August 15, 2017

Slumbering activity in Ontario in July extends the market correction in Canada; prices fall for the first time since 2013

- The cooling of Ontario’s housing market continued last month, causing Canada’s housing market to correct for a fourth-straight month.
- The correction appears to be easing, however. The 2.1% monthly drop in home resales nationwide marked a significant moderation from the 6.3% average rate of decline in the previous two months.
- Toronto resales fell by a further 5.4% m/m in July, extending the correction since the March peak to -44%. Activity also fell in Vancouver for a third-straight month by 1.7% .
- The national aggregate benchmark price fell month-over-month by 1.5% for the first time since late 2013. The year-over-year increase moderated further to 12.9% from a recent peak of 19.7% in April.
- Toronto’s benchmark price fell for the second consecutive month by 4.7%. Further monthly declines—albeit more modest—are likely in the near term.
- The number of homes newly listed for sale in Canada fell by 1.8% in July, which helped stabilize the sales-to-new listings ratio at 0.53—consistent with a balanced market.
- Housing market developments in July are consistent with our view that Canada’s market is in the process of moderating to a more sustainable level of activity. Much of the ongoing cooling is taking place in Ontario where recent policy changes by the provincial government have contributed to a welcome shift in market psychology toward more caution.

Very quiet month in Ontario

Ontario home buyers in July stayed on the sidelines as they continued to mull over their options in light of the Fair Housing Plan introduced in April. This resulted in the slowest activity recorded for a month of July since 2010 in the province, according to statistics released this morning by the Canadian Real Estate Association (CREA). Home resales were weak in the Greater Toronto Area (down 31% versus the 10-year average for the month) and in the vast majority of other markets in southern Ontario. Market psychology clearly has changed since April in the region. Gone is the earlier frenzy. It has been replaced by a great deal of caution—which is a healthy market development in our view.

Toronto’s correction now rivals the 2008 downturn

The dramatic drop in home resale activity in the GTA in the past four months certainly doesn’t look like a ‘soft landing’. On a seasonally adjusted basis, resales have plummeted by 44% since the March peak, which is quickly approaching the previous significant downturn in the area—the 48% plunge recorded between December 2007 and December 2008. Still, we don’t believe that a ‘crash landing’ is unfolding. Our view is that the GTA’s market correction is now overshooting.

July Snapshot

Region	Home resales	New listings	MLS HPI (Composite)	Sales-to-new listings ratio
	Y/Y %change	Y/Y %change	Y/Y %change	
Canada	-11.9	2.7	12.9	0.53
Toronto	-40.7	4.6	18.1	0.40
Montreal	14.5	-7.8	4.9	0.65
Vancouver	-8.8	0.1	8.7	0.62
Calgary	-5.0	10.0	1.1	0.50

Home resales in Canada



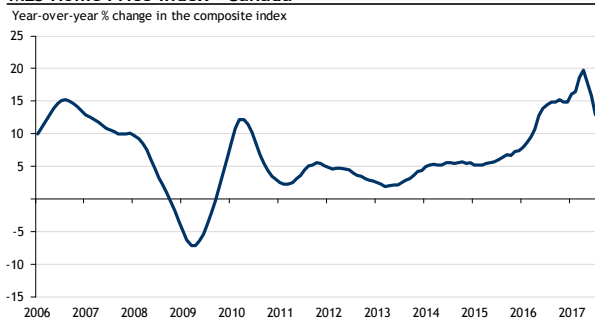
Source: CREA, RBC Economics Research

Sales-to-new listings ratio in Canada



Source: CREA, RBC Economics Research

MLS Home Price Index - Canada



Source: CREA, RBC Economics Research

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The current standoff between buyers and sellers is partly tactical—buyers want to see how low prices will get—and we expect the overshoot to get reversed once buyers conclude that prices won't spiral downward.

Prices drop in Toronto but are unlikely to collapse

To be sure, demand-supply conditions in the GTA swung significantly to the benefit of buyers in the past few months. The sales-to-new listings ratio fell to 0.40 from May to July—at the edge of a buyers' market—after reaching a cyclical peak of 0.94 in January. This sharp swing caused the area's benchmark price to fall steeply by 4.7% between June and July. Toronto's benchmark price in fact fell more in a single month than Vancouver's benchmark price did (-3.7%) during its entire down-cycle between August last year and January of this year. We believe that the extent of Toronto's price decline in July will prove to be an aberration. We point out that demand-supply conditions in the area aren't that weak—not quite a clear-cut buyers' market—and the fact that new listings are returning to more normal levels after surging to record levels this spring. We see little further downside to demand-supply conditions that would depress prices to the point of collapse. Rather, we expect a period of modest prices declines in the near term before stabilizing later this year or early next.

Vancouver: fears of market conditions overheating again may be overblown

July statistics provided further evidence that the Vancouver-area market isn't on a path of overheating again. Home resales fell for the third-straight month by 1.7%. The sales-to-new listings ratio also eased for the fourth time in the past five months, and now suggests that sellers are only slightly in command. The annual rate of increase in the area's benchmark price ticked higher to 8.7% for the first time since July last year when it reached a cyclical high of 32.5%. Nonetheless, we expect any further increase to be modest in the short term as the market stays close to balanced conditions.

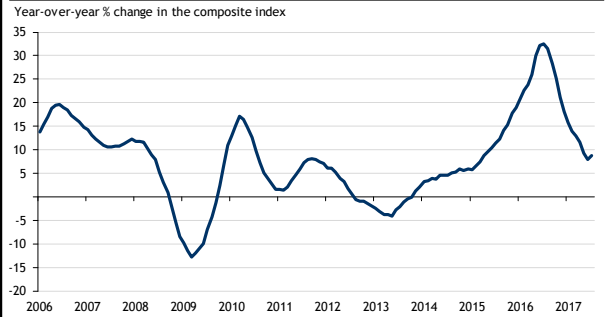
Montreal: the upswing continues

To date, the Montreal-area market hasn't really been affected by the cooling taking place in other major markets in Canada. That's in large part because it didn't overheat. July was another strong month in Montreal. Home resales rose 2.9% relative to June and a solid 15.6% from July 2016. In fact, the year-over-year increase was the strongest among Canada's largest markets. And with new listings declining in the month, demand-supply conditions tightened further. The sales-to-new listings ratio in area rose to 0.65 (from 0.53 a year ago), which points to increasing upward pressure on prices. So far, price increases have been moderate—the benchmark price was up by just 4.9% year-over-year in July—but on an accelerating trend. Given current market momentum, we expect that prices will continue to accelerate modestly in the near term.

July market developments are in line with our forecast of moderation

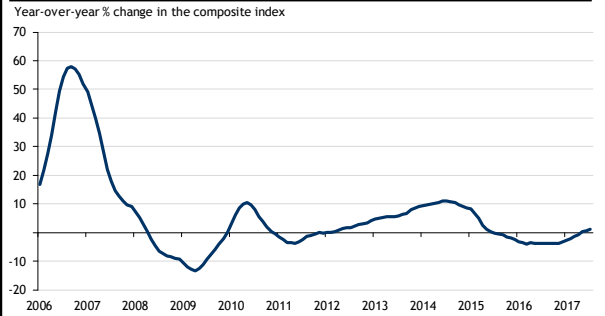
The further weakening of home resale activity and deceleration of price gains in Canada in July are consistent with our view that the market is in the process of cooling overall. We project home resales in Canada to ease by 3.7% to 515,500 units this year from a record 535,300 units in 2016, and price increases to moderate from 9.6% in 2016 to 7.8% in 2017. We believe that housing policy changes, poor affordability in some markets and rising interest rates will also dampen activity next year when we expect resales to drop by a further 5.3% and price gains to nearly stall at just 1.2%. Our [2017 mid-year housing market forecast update](#) report provides more details on our views on the outlook for Canadian and provincial markets.

MLS Home Price Index - Vancouver



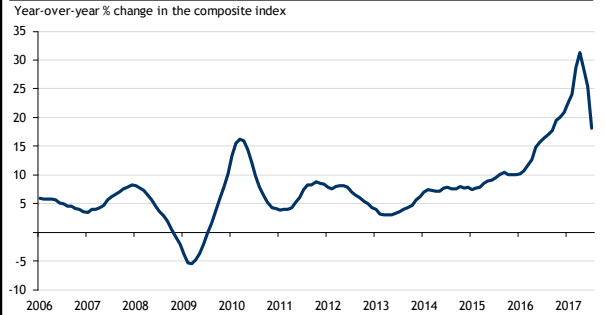
Source: CREA, RBC Economics Research

MLS Home Price Index - Calgary



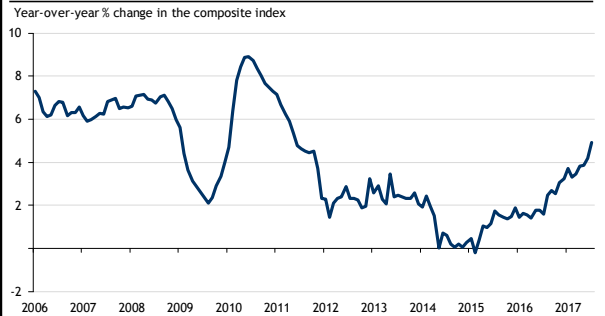
Source: CREA, RBC Economics Research

MLS Home Price Index - Toronto



Source: CREA, RBC Economics Research

MLS Home Price Index - Montreal



Source: CREA, RBC Economics Research

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