

MONTHLY HOUSING MARKET UPDATE

August 15, 2019

Home resales in Canada

Thousand units, S.A.A.R.



Source: CREA, RBC Economics Research

Sales-to-new listings ratio in Canada

S.A., monthly



Source: CREA, RBC Economics Research

MLS Home Price Index - Canada

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

Market getting over the stress test

- **Home resale market warms up in July:** Overall activity in Canada was the strongest since December 2017. Resales picked up 3.5% from June on a seasonally-adjusted basis and 12.6% from a year ago. This is the clearest indication yet that the market is getting over the mortgage qualifying stress test introduced last year.
- **National benchmark price is rising again:** It climbed 0.2% above the year-ago level—the first increase in six months. Tighter demand-supply conditions are providing growing support for prices.
- **Increasingly synchronized recoveries across local markets:** The picture is generally improving in Western Canada with Vancouver recording its largest monthly sales gain (26%) in 26 years in July, and both Calgary and Edmonton posting modest advances. Activity and prices continued to accelerate moderately in Toronto. And trends remain positive in the rest of Central and Atlantic Canada for the most part.
- **Ottawa, Montreal getting hotter:** The persistence of very tight demand-supply conditions keep fueling property values higher and higher in both markets. Any further acceleration could become an issue if it sets off unwanted speculative dynamics.
- **Things could get complicated for policy-makers:** A few more months like July and the housing policy debate in Canada might take a sharp turn—toward a further *tightening* of rules. This is bound to be a hot topic in the upcoming federal election.

The correction is officially over

The July numbers released this morning by the Canadian Real Estate Association (CREA) effectively made it official: Canada's housing market correction is over and the recovery is on. Slumping markets out west—including Vancouver, Calgary and Edmonton—are now in early stages of a turnaround. Things are back on track in Toronto. Sellers, there, are even very close to calling the shots (with the sales-to-new listings ratio almost in sellers' territory). Most markets in Quebec and Atlantic Canada have kept going all along so the widespread gains they recorded in July were a continuation of a long-standing trend. Tight demand-supply conditions in Ottawa, Montreal, and to a lesser extent, Halifax maintain upward pressure on prices. Clearly, there's growing evidence across Canada that the market has adjusted to the mortgage stress test and other market-cooling measures—thanks in part to a drop in interest rates this year. Our view is

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	12.6	2.4	0.2	0.60
Toronto	23.5	3.8	4.4	0.59
Montreal	16.5	-0.1	7.3	0.77
Vancouver	22.6	-3.6	-9.4	0.54
Calgary	7.3	-7.4	-3.5	0.54



that home resale activity nation-wide will stay on a slight upward trajectory in the near term. Recent declines in mortgage rates along with a healthy labour market are supporting demand though growing economic uncertainty will give some buyers reasons to pause.

The next few months could be interesting policy-wise

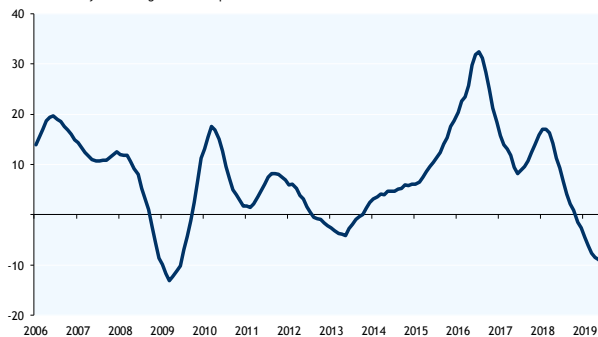
Under this slow-recovery scenario, we would expect little from policy-makers. Our sense is that they would be quite comfortable with such an outcome. Policy-makers will be wary of any developments that may lead to rapid acceleration in property values in Canada’s major cities, however. Toronto, of course, will be a particular focus. Its MLS Home Price Index (HPI) is picking up some steam again—rising by 4.4% y/y in July or almost double the 2.4% rate in February. But attention clearly will be paid to the situation in Ottawa and Montreal where the MLS HPI is rising the fastest in Canada (by 8.8% y/y and 7.2% in July, respectively). The specter of prices escalating at double-digit rates would not sit well with policy-makers. And neither would signs of prices beginning to rise again in Vancouver (where the MLS HPI was down -9.4% in July). Our view is that declining prices are, in effect, a deliberate policy goal to address affordability issues in the area.

Federal election potentially introduces a policy wildcard

So a few more strong months like July for the market and the housing policy debate might well shift toward discussing tighter rather than looser housing rules. Whether we get to this or not, the debate is bound to heat up this fall ahead of October’s federal election. We expect housing to be a hot topic. The outcome of election has the potential to change the housing policy course in Canada.

MLS Home Price Index - Vancouver

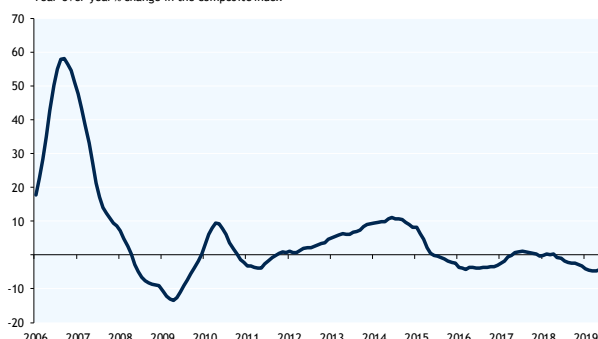
Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

MLS Home Price Index - Calgary

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

MLS Home Price Index - Toronto

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

MLS Home Price Index - Montreal

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

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