

MONTHLY HOUSING MARKET UPDATE

December 16, 2013

Home resales remain largely stable in Canada in November

Home resale activity continued to be within a constructive range in Canada in November, remaining essentially flat from October and still up notably from a fairly weak level in November 2012. The latest batch of statistics released today by the Canadian Real Estate Association (CREA) is consistent with our view that the vigorous rebound in home resales since spring has largely run its course and that activity will stabilize near recent levels in the short term.

Following a seven-month stretch of monthly gains from March to September, and a 3.3% decline between September and October, November 2013 resales came in just 0.1% below the October tally. Resales in Canada still tracked higher than year-ago levels; however, the rate of increase moderated to 5.9% (from a recent high of 18.2% in September). The level of activity in November was essentially on par with the 10-year average (exceeding it marginally by 0.7%), thereby indicating that the market is sustaining a pace that is neither too hot nor too cold. On a year-to-date basis, home resales were effectively flat (edging 0.2% higher) from the same period last year, reflecting a very slow start to 2013.

At the national level and in the vast majority of local markets, demand-supply conditions continued to be balanced for the most part despite a 1.8% rise in new listings overall in Canada between October and November. Nonetheless, earlier tightening of market conditions in a number of markets (including Calgary and Toronto) this summer led to further acceleration in home price increases in November. The composite MLS HPI rose 4.1% from November 2012, representing the strongest annual gain since July 2012. Calgary and Toronto contributed most to this annual increase.

Faster-rising prices, while still reasonably contained at this stage, represent a risk to housing affordability if the current trend persists too long. We believe, however, that upward pressure will diminish in the period ahead as the earlier strength in homebuyer demand continues to partly unwind and that supply of homes (consisting increasingly of condos) available for sale continues to grow. We suspect that the run-up in resales during the summer and early fall included purchases made by many buyers who advanced their decision to buy in order to lock-in lower mortgage rates. We expect that some further modest pullback may occur in the months ahead as payback for sales that may have been advanced.

The highlights from CREA's November report were:

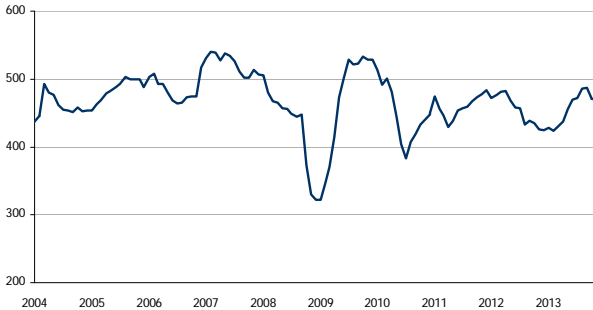
- Home resales edged 0.1% higher between October and November 2013 (on a seasonally-adjusted basis), following a 3.3% drop the previous month. Resales rose by 5.9% (unadjusted) relative to November 2012, following year-over-year advances of 8.3% in October and 18.2% in September. The November level was 0.7% above the 10-year average.
- Local markets were evenly split between those that posted month-to-month increases and declines in resales. For example, Regina (9.7%),

November Snapshot

	Home resales	New listings	MLS HPI (Composite)	Sales-to-new listings ratio
Region	Y/Y %change	Y/Y %change	Y/Y %change	
Canada	5.9	0.0	4.1	0.53
Toronto	10.3	-5.0	5.7	0.58
Montreal	-3.2	-3.4	2.7	0.48
Vancouver	37.9	17.7	1.0	0.53
Calgary	18.7	10.0	8.8	0.72

Home resales in Canada

Thousand units, S.A.A.R.



Source: CREA, RBC Economics Research

Sales-to-new listings ratio in Canada

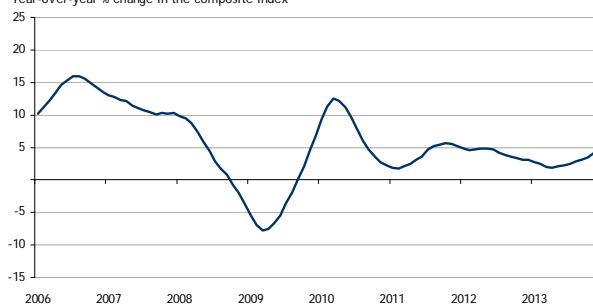
S.A., monthly



Source: CREA, RBC Economics Research

MLS Home Price Index - Canada

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

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Vancouver (4.1%), Saskatoon (1.6%), Montreal (1.3%) and Calgary (0.2%) showed gains, while Toronto (-2.2%), Ottawa (-2.0%), Edmonton (-0.9%) and Winnipeg (-0.4%) experienced modest drops. Relative to a year ago, resales were up in the vast majority of local markets, and most significantly so in the western part of the country.

- Nationally, new listings rose by 1.8% between October and November, and were unchanged relative to November 2012.
- Balanced demand-supply conditions continue to prevail across Canada, with CREA indicating that the sales-to-new listings ratio stood within the 0.40 to 0.60 range typically associated with market balance in three out of five local markets. Once again, Calgary and Edmonton were among the few markets where the ratio suggested that sellers had the upper hand in setting prices. The sales-to-new listings ratio eased at the national level from 0.55 in October to 0.53 in November. The majority of markets experienced small declines in the ratio in November. The number of months worth of total inventory – the other measure of market balance in CREA’s report this morning – was unchanged nationally at 6.0.
- The annual rate of increase in the national composite MLS Home Price Index (HPI) accelerated for the seventh consecutive month in November to 4.1% from 3.5% in October and a two-year low of 1.9% in April. This 4.1% rate in November was the fastest since July 2012. Stronger gains in Calgary (8.8%) and Toronto (5.7%) were the main drivers of the acceleration. For the first time in nearly one and half year, Vancouver (1.0%) and the Lower Mainland (0.6%) recorded slight positive annual price gains. Saskatoon (3.9%), Montreal (2.7%) and Ottawa (0.5%) continued to show modest year-over-year increases, while Victoria (-2.6%), Fraser Valley (-0.4%), Vancouver Island (-0.3%) and Regina (-0.2%) still experienced mostly slight declines.

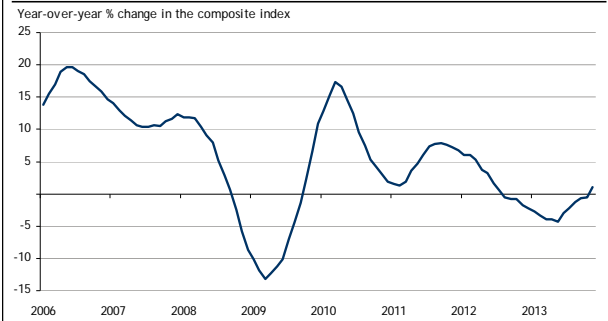
Commentary

With 11 months of data in, it is now becoming clearer that 2013 home resales in Canada will be quite flat relative to 2012, despite the significant swings that occurred during the year. We expect a little more than 453,000 units will be sold overall in 2013, essentially equalling the 2012 tally. Our projection for 2014 is similarly flat on an annual basis (we forecast 454,000 units sold), with in-year swings bound to occur once again. Contrary to what we saw in 2013, however, we believe that 2014 is more likely to start strongly and finish on a softer note, reflecting the pressures on homebuyer demand that we expect will build from rising longer-term interest rates and somewhat strained affordability.

While we anticipate the Bank of Canada to leave its overnight rate unchanged in 2014, we project bond yields – the main driver of fixed mortgage rates – to drift gently upward throughout the year. Against this restraining effect, homebuyer demand will continue to find support from positive employment trends and steady population growth (and still historically low levels of interest rates).

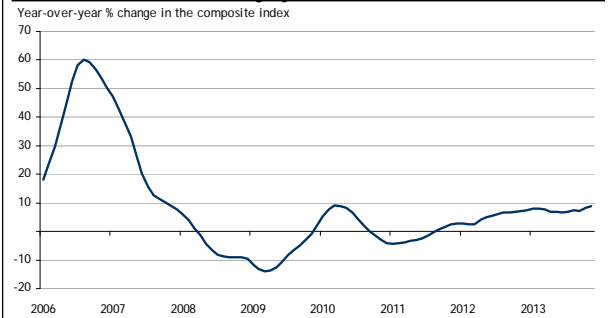
On the supply side, the high number of condo units currently under construction in Canada’s largest markets will pose a risk; however, the evidence to date suggests that these units are being mostly absorbed and, therefore, are unlikely to have a destabilizing effect in the short term. We expect that the combination of flattening demand later next year and strong supply of newly completed condo units will rein in price increases in 2014. We project home prices to increase by less than 1% nationally next year.

MLS Home Price Index - Vancouver



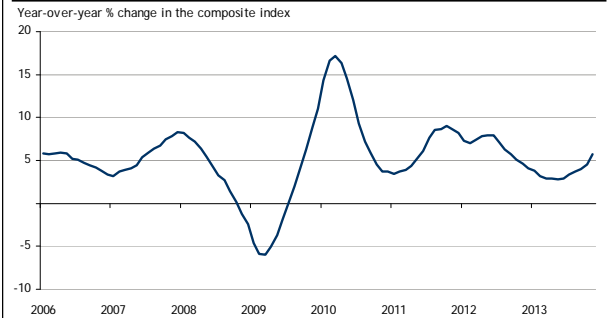
Source: CREA, RBC Economics Research

MLS Home Price Index - Calgary



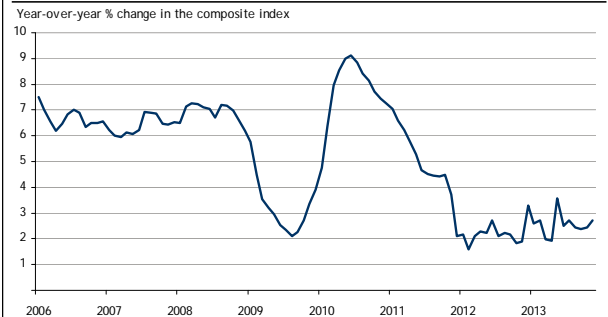
Source: CREA, RBC Economics Research

MLS Home Price Index - Toronto



Source: CREA, RBC Economics Research

MLS Home Price Index - Montreal



Source: CREA, RBC Economics Research

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