

MONTHLY HOUSING MARKET UPDATE

December 17, 2018

Home resales in Canada

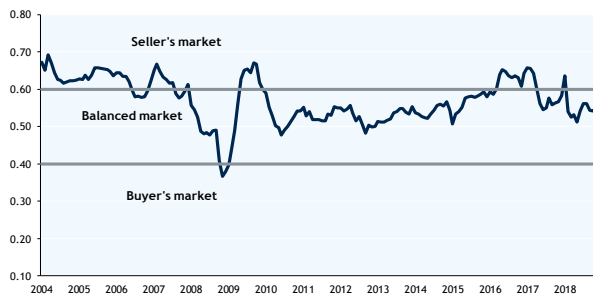
Thousand units, S.A.A.R.



Source: CREA, RBC Economics Research

Sales-to-new listings ratio in Canada

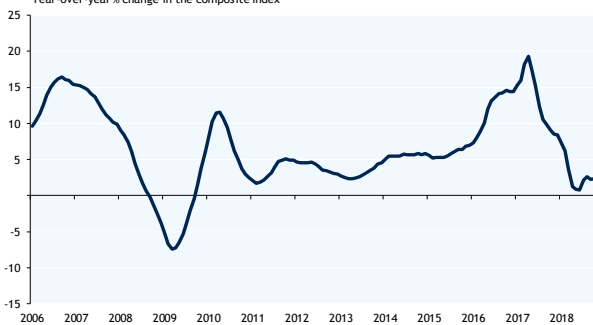
S.A., monthly



Source: CREA, RBC Economics Research

MLS Home Price Index - Canada

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

Slow November for Canada's housing market

- **Sales stutter across the country:** Nearly two-thirds of local markets recorded a month-to-month decline in home resales in November. This translated into a third-consecutive drop of 2.3% overall in Canada.
- **The stress test and higher interest rates still a big deal:** Both buyers and sellers remained somewhat downbeat in the face of the earlier tightening of mortgage qualification rules and elevated homeownership costs in key markets.
- **Home prices soften in western Canada:** Benchmark prices continue to trend lower in many western markets, including Vancouver, Calgary, Edmonton and Regina. Prices are rising modestly at best in the central and eastern regions of the country. The aggregate benchmark for Canada was up 2.0% year-over-year in November, marking a slight deceleration from 2.3% in the previous two months.
- **Demand and supply generally remain in balance:** But market conditions now favour buyers in Vancouver. A dearth of properties for sale put sellers in command in Montreal and Ottawa.
- **Market dreariness is here to stay for a while:** We see little that could revive the market's spark in the near term. We expect further interest rate hikes from the Bank of Canada in 2019, which will keep demand cool. Our outlook calls for only marginal gains in both resales and prices overall in Canada over the coming year.

This is shaping up to be a pretty soft fall season

The 2.3% monthly drop in national resales in November reported by the Canadian Real Estate Association this morning in effect confirmed that the Canadian housing market is short on energy at this stage. With only one month to go, it looks like the market will end 2018 on a similar note that it started it on—soft. Vancouver and Toronto recorded three straight declines in monthly activity. The benchmark price is now down year-over-year in Vancouver (-1.3%) for the first time since late-2013. The Toronto benchmark remained above water for a fourth consecutive month but in the low single-digits (+2.7%). Recent turmoil in the energy sector isn't helping markets in Alberta and Saskatchewan where activity and prices generally continued to be under downward pressure in November. We're hard pressed to find any stronger momentum in Winnipeg and Halifax is now showing signs of tapering off after a fairly solid year until the fall.

November snapshot

Region	Home resales Y/Y %change	New listings Y/Y %change	MLS HPI (Composite) Y/Y %change	Sales-to-new listings ratio
Canada	-12.6	-10.7	2.0	0.55
Toronto	-15.2	-26.6	2.7	0.49
Montreal	6.1	-5.5	6.2	0.72
Vancouver	-42.3	-15.7	-1.3	0.39
Calgary	-16.3	-8.0	-2.9	0.47



Montreal and Ottawa still holding up well

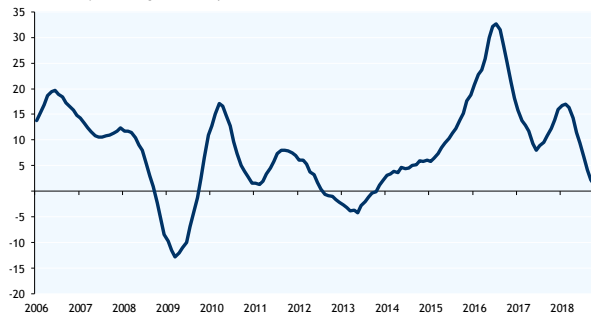
The two stronger markets in Canada throughout 2018 have been Montreal and Ottawa, and this was still largely the case in November. Resales rose further by a modest 0.6% from October in Montreal and stayed relatively flat (-0.6%) at a high level in Ottawa. Demand-supply conditions strongly favour sellers in both markets, which is pressuring prices upward. Montreal’s benchmark climbed 6.2% from a year ago in November and Ottawa’s benchmark was up by 6.6%.

2019 likely to disappoint those hoping for a material bounce back

If anything, the latest market numbers will continue to please policy makers who deployed substantial efforts to cool the country’s ‘hot markets’ down in recent years. There are no signs of overheating anywhere in Canada as we enter 2019. In fact, we’re hard pressed to find any heat in most markets, including Vancouver and Toronto. We expect low temperatures to persist over the coming year as rising interest rates, the mortgage stress test, market-cooling measures in BC and stretched affordability continue to exert significant restraint on homebuyer demand. Our view is that these factors will keep home resale relatively flat in Canada in 2019 with a gain of less than 2%. These factors will also significantly constrain buyers’ purchasing budgets. We project Canada-wide prices to increase just barely by 0.4% next year following a 2.5% gain this year and an average rise of more than 10% in the past two years.

MLS Home Price Index - Vancouver

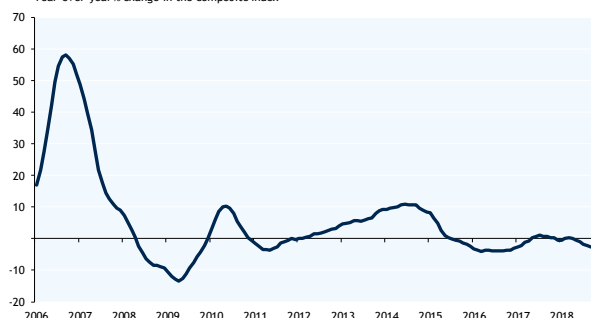
Year-over-year % change in the composite index



Source: CREAA, RBC Economics Research

MLS Home Price Index - Calgary

Year-over-year % change in the composite index



Source: CREAA, RBC Economics Research

MLS Home Price Index - Toronto

Year-over-year % change in the composite index



Source: CREAA, RBC Economics Research

MLS Home Price Index - Montreal

Year-over-year % change in the composite index



Source: CREAA, RBC Economics Research

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