

## MONTHLY HOUSING MARKET UPDATE

February 17, 2015

### Downturns in Alberta and Saskatchewan drag home resales down in Canada in January

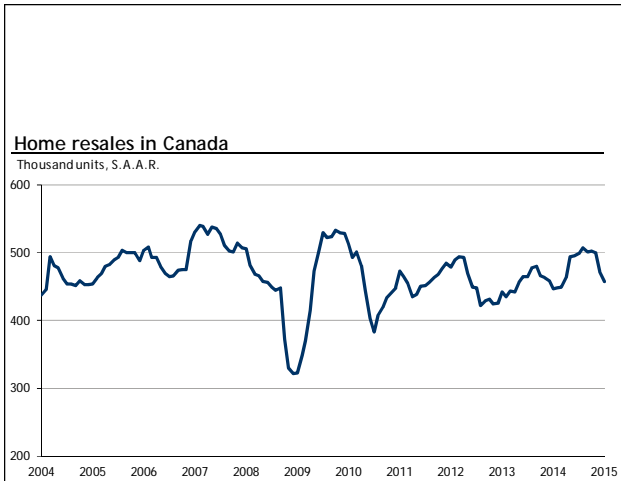
The turbulence rocking existing home markets in Alberta and Saskatchewan did not let up one bit in January. Home resales plunged further in these provinces last month, down 17.8% m/m in Alberta and 19.3% in Saskatchewan, following declines of 20.4% and 3.6% in December, respectively, according to statistics published this morning by the Canadian Real Estate Association (CREA). Such weakness dragged down the total for the entire Canadian market, which fell 3.1% from December to 457,400 units (annualized). This was the fourth monthly decline in the past five months at the national level (including a sizable drop of 5.6% in December). January resales for Canada slipped below the 10-year average (469,200 units annualized).

Excluding Alberta and Saskatchewan, home resales were essentially flat in January (down 0.1%) in the rest of Canada with gains recorded in Winnipeg, Vancouver, Ottawa and (just barely) Toronto offset by declines in Hamilton, Montreal, Quebec City and Halifax.

Despite the significant headwinds that held back activity, home prices continued to rise at the national level last month, although this mainly reflected solid advances in British Columbia (including Vancouver) and, to a lesser extent, part of Ontario (including Toronto). Prices showed signs of weakening on a m/m basis in Calgary (although they remain strongly higher compared to a year ago), as this market swung sharply from conditions favouring sellers just months ago to conditions now favouring buyers. A similar swing occurred in Saskatchewan and prices also have come under downward pressure. Demand-supply conditions remained generally balanced in other local markets with the exception of Vancouver where sellers hold the upper hand.

Key numbers from CREA's January report:

- Home resales fell by 3.1% in Canada between December 2014 and January 2015 to 457,400 units (on a seasonally-adjusted and annualized basis), following a decline of 5.6% the previous month (revised from -5.8% as reported initially). Relative to a year ago, January resales were down 2.0% (unadjusted).
- Most of the drop in activity occurred in Alberta and Saskatchewan where resales fell by 23.9% m/m in Calgary, 17.6% in Saskatoon, 9.8% in Edmonton and 7.1% in Regina, although Montreal also saw a decline (-2.3%). There was partial offset from gains in Winnipeg (+15.3%), Vancouver (+5.7%) and Toronto (+0.1%). The substantial weakness in Alberta and Saskatchewan was also evident in a year-over-year basis with outsized drops recorded in Calgary (-35.5%), Edmonton (-22.7%) and Saskatoon (-24.0%) from January 2014. Vancouver, Toronto and parts of Atlantic Canada continued to show higher resales results than a year ago.
- New listings rose by 0.7% overall in Canada in January relative to



Home resales in Canada

Thousand units, S. A. A. R.

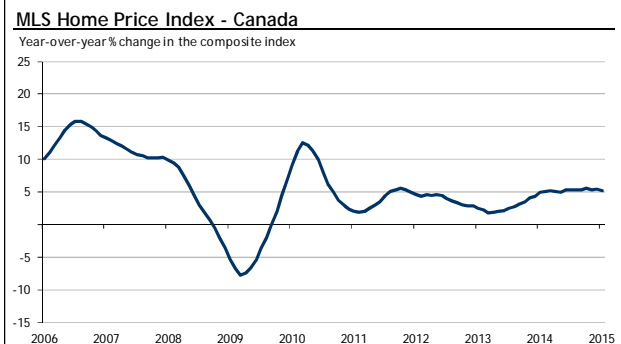
Source: CREA, RBC Economics Research



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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#### January Snapshot

Region	Home resales Y/Y %change	New listings Y/Y %change	MLS HPI (Composite) Y/Y %change	Sales-to-new listings ratio
Canada	-2.0	4.5	5.2	0.50
Toronto	5.3	8.8	7.5	0.58
Montreal	-5.8	1.2	0.6	0.43
Vancouver	8.0	-11.1	5.5	0.68
Calgary	-35.5	30.2	7.8	0.38

December, and by 4.5% relative to January 2014. New listings fell for the first time in four months in Calgary (-3.9%) but continued to rise in the majority of other markets, including Toronto (up 1.9%).

- The sales-to-new listings ratio—a measure of demand-supply balance—eased further from 0.52 in December to 0.50 in January overall in Canada, the lowest level since December 2012. Despite this easing, the ratio remained at the mid-point of the 0.40 to 0.60 range typically associated with market balance. Balanced demand-supply conditions continued to prevail in the vast majority of local markets (including Edmonton), although they swung in favour of buyers in Calgary. Vancouver remains among the few markets where conditions favour sellers.
- Total inventory expressed in number of months' worth of sales rose for the second consecutive month to 6.5 in January from 6.2 in December (revised from 6.5% as initially reported).
- The annual rate of increase in the national composite MLS HPI decelerated slightly to 5.2% in January from 5.4% in December and a three-year high of 5.5% in October. The MLS HPI in Calgary came under downward pressure; however, the annual increase in January still led the country with a 7.8% gain (down from 8.8% in December). Solid increases also were registered in Toronto (7.5%, down from 7.9% in December) and Vancouver (5.5%, down from 5.8% in the prior month). Regina and Moncton showed declines.

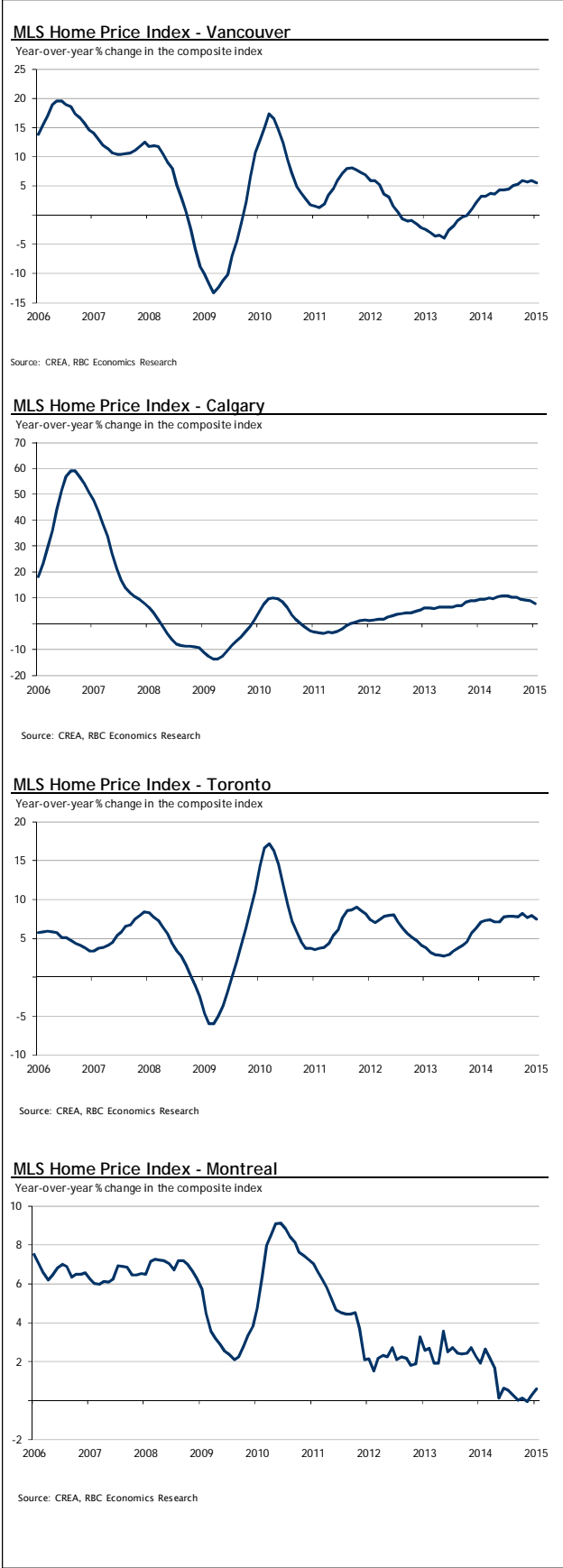
**Commentary**

With dramatic back-to-back declines in home resale activity in Alberta and Saskatchewan, there is little doubt that the plunge in oil prices has shaken up confidence in oil-producing provinces. At this stage, however, we see little indication that such weakness is threatening to affect other markets in Canada. In fact, we believe that lower gasoline prices, the recent interest rate cut and improved economic prospects for net oil-consuming provinces provide some upside to most of Canada's housing markets this year.

These factors prompted us to revise our housing market outlook once again earlier this month (see [Canadian Housing Forecast Update](#) published February 9, 2015).

Our revised forecast shows a slight increase of 1.7% in home resales overall in Canada to 489,500 units in 2015, despite notable declines in Alberta (-16%) and, to a lesser extent, Saskatchewan (-9%) and the Atlantic region (-1.0%). For Canada, this represents an upward revision from flat resales forecasted previously. This revision mainly reflects a lower anticipated trajectory for interest rates, which we believe will continue to stimulate homebuyer demand in net oil-consuming provinces in 2015. On the other hand, the downgraded oil price assumptions for 2015 are seen to weigh more significantly on economic growth and housing demand in Alberta, Saskatchewan, and Newfoundland and Labrador.

Our forecast shows a modest increase of 3.4% in home prices nationwide in 2015 (revised higher from 2.5% previously), although this will primarily reflect more solid property appreciation in BC (5.6%) and Ontario (5.2%). We expect slight price declines in Alberta (-0.5%) and Saskatchewan (-3.2%). Price gains are projected to be subdued in all other provinces this year.



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