MONTHLY HOUSING MARKET UPDATE

February 15, 2017

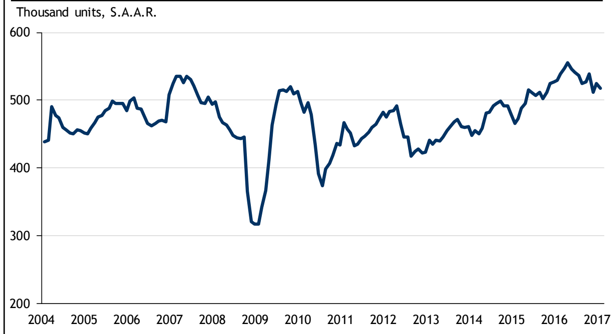
Home resales eased in Canada at the start to 2017; price pressures intensify in southern Ontario

- Home resale activity continued to trend lower in Canada in January. Price increases are leveling out, albeit at high rates.
- Statistics released today by the Canadian Real Estate Association (CREA) showed that January home resales in Canada eased by 2.2% from December on a seasonally-adjusted basis. Since the April 2016 peak, resales have fallen by 6.8% in Canada; yet, they were still up by 1.9% (not seasonally adjusted) relative to January 2016.
- The month-to-month easing in January was widespread across the country with virtually all major markets—including Vancouver (-5.1%), Calgary (-1.0%), Toronto (-1.6%) and Montreal (-2.5%)—recording declines.
- Although January (representing a month of low housing activity) is not the best month to assess market influences, the breadth of the softening in activity would be consistent with our expectations that the recent tightening of mortgage insurance rules will dampen homebuyer demand across Canada.
- Nationwide, home prices accelerated marginally in January. The annual rate of increase in the national composite MLS Home Price Index (HPI) edged upwardly to 15.0% from 14.8% in December, although it remained within its range since mid-2016.
- It continues to be the case that upward price pressures are highly concentrated in pockets of Southern Ontario—including the Toronto area, Hamilton, Kitchener-Waterloo, London and the Niagara region—and British Columbia—including Victoria and Vancouver Island—where the supply of homes available for sale is exceedingly short of demand.
- In fact, new listings fell substantially in many markets within these pockets in January. Victoria (-20.4%), the Toronto area (-17.4%) and Hamilton (-17.0%), for instance, saw precipitous month-to-month declines.
- By contrast, price pressures have eased considerably in the past six months in the Vancouver area—the annual rate of increase for the area's MLS HPI in January (+15.6%) fell by more than half since August (+32.6%). A surge in new listings in January (+24.4% m/m) more than reversed an outsized decline in December and contributed to rebalance the market.
- Outside of Southern Ontario and parts of British Columbia, there is little evidence of markets overheating with sales-to-new listings ratios generally consistent with balanced demand-supply conditions. That being said, a minority of markets such as Saskatoon and Calgary continue to show signs of softness amid challenging economic backdrops in their respective province.
- Although a 'soft landing' that would moderate home price appreciation at the national level is still possible to occur on its own, the rapid rise in home prices in Southern Ontario—and the risks it poses for market stability—may prompt

January Snapshot

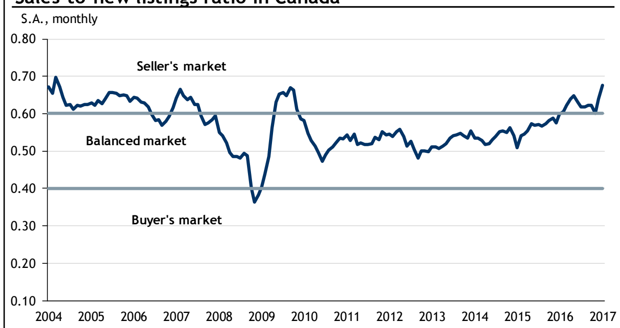
Region	Home resales Y/Y %change	New listings Y/Y %change	MLS HPI (Composite) Y/Y %change	Sales-to-new listings ratio
Canada	1.9	-10.5	15.0	0.68
Toronto	11.0	-18.1	22.6	0.94
Montreal	4.2	-10.0	3.0	0.60
Vancouver	-39.7	-7.1	15.6	0.53
Calgary	14.5	-12.2	-2.8	0.61

Home resales in Canada



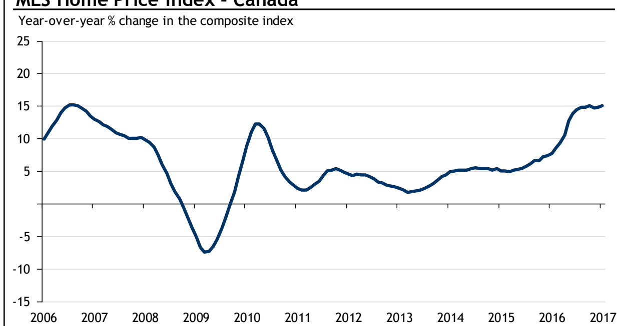
Source: CREA, RBC Economics Research

Sales-to-new listings ratio in Canada



Source: CREA, RBC Economics Research

MLS Home Price Index - Canada



Source: CREA, RBC Economics Research

Robert Hogue
Senior Economist
(416) 974-6192
robert.hogue@rbc.com

policymakers to intervene and engineer a cooldown. We project home resales to fall by 10.9% and benchmark prices to rise by 2.1% in Canada in 2017.

Policymakers likely to see positive elements

With much of the attention focused on signs that the latest round of regulatory tightening is having the intended cooling effect on Canada's housing market—and more specifically on the country's 'hot markets' of Vancouver and Toronto—policymakers are likely to find something to be pleased about in the statistics released this morning. The month-to-month decline in January home resales and continuation of the easing trend since spring last year in Canada no doubt will be viewed positively. The fact that activity slowed down in both the Vancouver and Toronto areas likely will be considered steps in the right direction. The added fact that virtually all major markets experienced some softening in market activity relative to December may be seen as evidence that policy played a role.

Supply constraints are significant is several markets

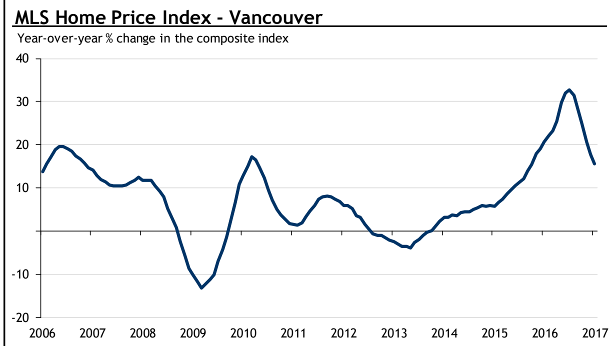
While we believe that recent policy tightening will exert a dampening effect on homebuyer demand (especially from first-time buyers), we note that declines in the supply of homes available for sale potentially exerted an even greater restraining effect on resale activity in recent months. The sharp drops in new listings in Toronto and other Southern Ontario markets in January clearly must have played a prominent role in restraining activity in these markets. Reasons for the decline in listings are not well understood, although deteriorating affordability in Southern Ontario may have been a disincentive to sell (would-be sellers may find it hard to find another home that they can afford). Much less ambiguous is the fact that diminishing home listings contribute strongly to tighter demand-supply conditions in these markets, which in turn propel prices higher at accelerating rates.

Policymakers likely to be concerned about price surges in Southern Ontario

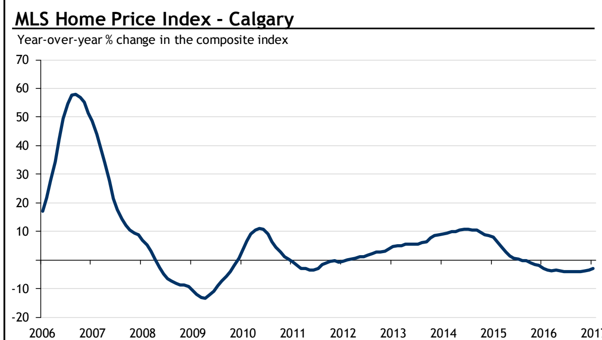
Surging prices in Toronto and other Southern Ontario markets—with no signs of abating in view—and the risks they present to the stability of the market are unlikely to be ignored by policymakers at both the federal and provincial levels. In particular, the powerful combination of persistently-strong demand and a dearth of homes available for sale in the Toronto market has catapulted the area's MLS HPI by 22.6% in the past year, the strongest annual increase on records since 2005. Considering the intense affordability strains already challenging buyers in the area, it is likely that any further price acceleration would boost the odds of some kind of policy intervention to cool the market down—just as '30%-plus' price increases in Metro Vancouver compelled the BC government to act in August. Such measures could emerge in upcoming budgets both federally and provincially in Ontario.

Keeping our forecast for 2017 unchanged

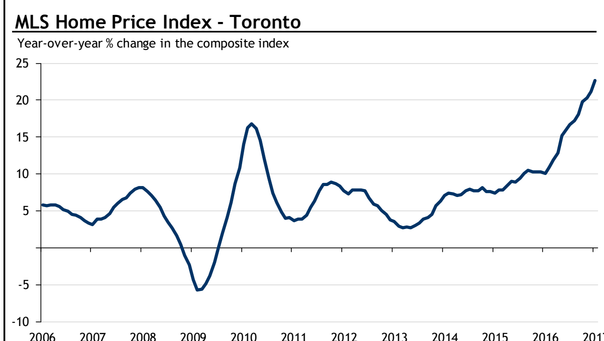
The data released today generally supports our view that home resales are on a softening trend Canada. While, to date, this softening trend has yet to moderate price increases in Canada, we continue to believe that such will occur later this year, possibly resulting from some policy intervention. We have left our housing forecast unchanged from last month. We project home resales in Canada to fall by 10.9% to 477,400 units in 2017, and benchmark prices to increase by 2.1%. Regionally, we expect resale declines in all provinces, including an outsized drop of 23.5% in British Columbia.



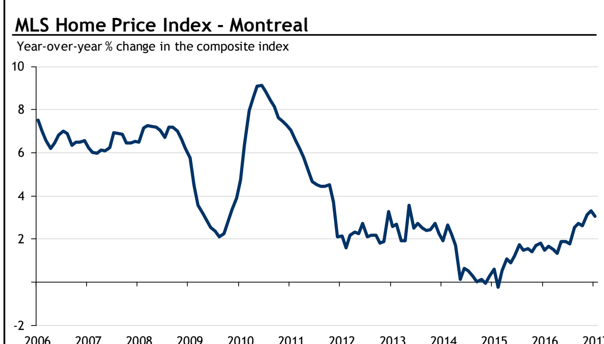
Source: CREA, RBC Economics Research



Source: CREA, RBC Economics Research



Source: CREA, RBC Economics Research



Source: CREA, RBC Economics Research