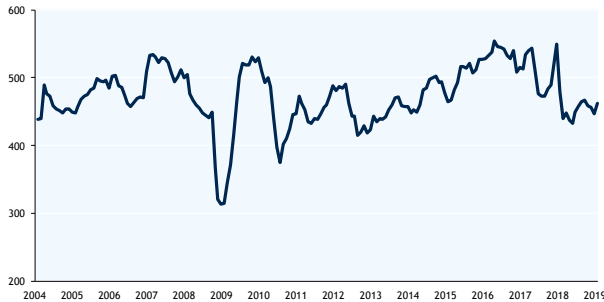


MONTHLY HOUSING MARKET UPDATE

February 15, 2019

Home resales in Canada

Thousand units, S.A.A.R.



Source: CREA, RBC Economics Research

Sales-to-new listings ratio in Canada

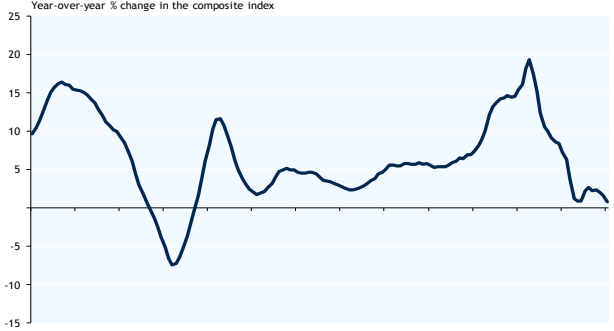
S.A., monthly



Source: CREA, RBC Economics Research

MLS Home Price Index - Canada

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

A step in the right direction for Canadian home sales

- **Resales picked up to start the year:** After declining throughout the fourth quarter of 2018, home sales rose a solid 3.6% in January. But activity was mixed across local markets, with only half seeing an increase in activity month-over-month.
- **Vancouver's slowdown stalled in January:** A modest 1.2% increase in resales was a welcome improvement after sizeable declines in November and December. But it's too early to say the market has found its footing and prices are trending lower.
- **Toronto market appears to have stabilized:** Resales rose over the last two months and were up slightly relative to a year ago. Market conditions are more balanced than we've seen in years.
- **Ottawa and Montreal are the new hotspots:** Both saw an unexpected decline in sales in December but more than made up for it in January. Resales were up by double digits from a year earlier and prices continue to trend higher.
- **Energy sector woes showing up in Alberta:** Resales declined in many of the province's local markets and prices in Edmonton and Calgary are falling.
- **Adjustment to higher rates and stress tests continues:** Those factors took a bite out of resales last year resulting in much more subdued price growth. A positive start to 2019 doesn't mean the adjustment is complete—we expect very modest growth in sales and prices this year.

Canadian housing looking a bit better to start 2019

This morning's statistics indicate a positive start to the year for Canadian housing. At the national level, resales rose 3.6% to 462,000 annualized units in January. That retraced a good portion of the 4.3% cumulative decline seen in the final three months of last year. Year-over-year price growth continued to slow, even as supply/demand conditions are leaning slightly toward sellers. Not all markets are created equal, though. Western Canada is underperforming amid renewed difficulties in the energy sector and an ongoing correction in Vancouver housing. Toronto seems to have stabilized at a lower level while major markets to its east, Ottawa and Montreal, are in the midst of a nice upswing. Markets are adjusting to regulatory tightening and rising interest rates at their own pace, with relative affordability and the strength of the local economy key factors behind renewed divergence in Canadian housing.

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	-4.0	8.0	0.8	0.57
Toronto	-0.2	10.1	2.7	0.53
Montreal	14.5	1.4	6.3	0.85
Vancouver	-39.3	27.5	-4.5	0.36
Calgary	-17.0	2.9	-3.9	0.45



Vancouver prices remain under downward pressure

Another leg down in resales toward the end of last year raised concerns that policymakers had overdone it in attempting to slow one of the country's hottest housing markets. Resales posted their largest month-over-month increase in more than a year in January, though that's not saying much. Sales were still down 40% from a year earlier. We think it's too early to say resales have found their bottom, and it certainly looks like the correction in prices has more room to run. With an increase in new listings in January, market conditions are firmly in favour of buyers. Prices were down 4.5% from a year earlier—the most significant slowdown in a decade—and it looks like that trend will continue in the coming months.

Toronto has found its footing

Toronto—Canada's other previously-overheating market—has found its footing in recent months. Sales edged higher again in January and were up slightly from a year ago when new stress tests took effect. While regulatory changes have taken a bite out of demand, the market seems to have adjusted over the second half of last year. A stable but more subdued pace of home sales is keeping the market balanced from a supply/demand perspective. That has left prices roughly flat in recent months, and up only slightly from last January.

Montreal and Ottawa back to positive trend

We said last month that slower resales in Montreal and Ottawa were only a small setback at the end of a strong year for both markets. That was validated in January as both saw a sizeable jump in resales to start the year. Relative affordability in these markets has helped homebuyers take stress tests in stride—resales were up by double digits from a year ago when new mortgage regulations took effect. Strong demand is putting buyers in the driver's seat in both Ottawa and Montreal, with prices up 6-7% from a year earlier and showing no signs of slowing.

Alberta markets slowing amid energy sector challenges

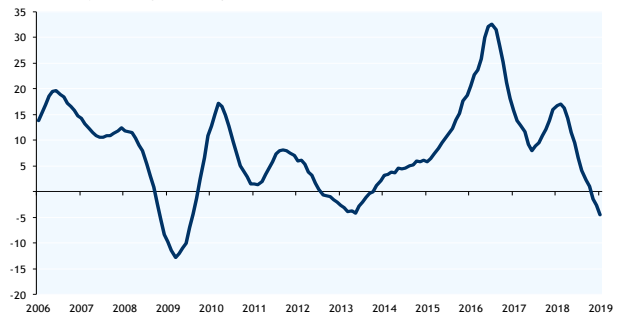
With lower oil prices once again weighing on the energy sector, Alberta's housing market is facing renewed downward pressure. Provincial resales hit an eight-year low in January with most cities seeing a month-over-month decline. Prices in Calgary and Edmonton, down 3-4% from a year ago, continue to trend lower.

Expect another slow year for housing in 2019

At the national level, 2018 saw a substantial correction in resales and a much more modest increase in prices than in years past. With the drivers of that correction—stress tests, higher interest rates, and additional measures at the local level in some markets—remaining in place, it's hard to see conditions looking much different this year. We think Canadian home sales will remain subdued in 2019, rising less than 2% from 2018's five-year low. Prices are expected to edge only slightly higher.

MLS Home Price Index - Vancouver

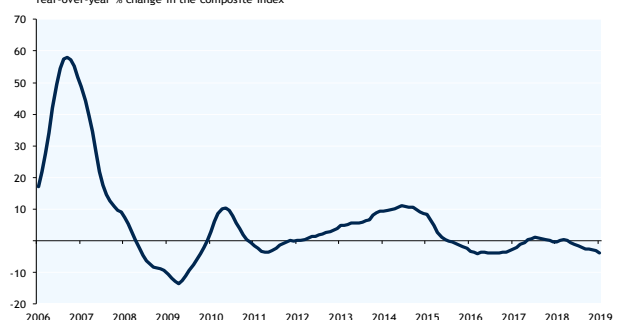
Year-over-year % change in the composite index



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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