Home resales stabilize in Central Canada in March; national prices still easing

- Existing home sales eked out their first monthly increase in three months across Canada in March, rising 1.3% from February. This came on the heels of a significant drop of more than 19% in the previous two months.
- The March increase may be an early sign that the initial effect of the new stress test is beginning to fade though not everywhere in Canada at this stage.
- Gains in Manitoba, Ontario and Quebec were mainly behind the increase at the national level. Activity declined further in almost all other provincial markets.
- The national benchmark price decelerated to its slowest annual pace (4.6%) in more than four years primarily reflecting an ongoing price correction in the Toronto area where the annual change is negative for the first time since 2009.
- More sellers put their properties up for sale in Canada in March, which is keeping demand and supply in balance in most markets across the country.
- The uptick in national resales in March is consistent with our view that Canada’s housing market is now beginning to move past the payback period for activity pulled forward ahead of the new stress test on January 1, 2018. The way forward is likely to be uneven though. New market-cooling measures announced in the BC budget are poised to lengthen the adjustment process in that province.

First signs of spring in March…

Canada’s housing market isn’t becoming unhinged. Statistics released today by the Canadian Real Estate Association showed that after sliding by more than 19% in January and February, home resales eked out a small monthly gain of 1.3% in March. This may be early evidence that Canada’s housing market is now beginning to move past the payback period for activity pulled forward ahead of the new stress test on January 1, 2018. The way forward is likely to be uneven though. New market-cooling measures announced in the BC budget are poised to lengthen the adjustment process in that province.

…in Central Canada

This leveling off is not occurring in all regions of the country at this stage though. The March sales uptick was concentrated in Manitoba, Ontario and Quebec. Markets in British Columbia, Alberta, Saskatchewan and most of Atlantic Canada saw activity weaken further last month. In the case of British Columbia, additional market-cooling measures announced in the February 2018 provincial budget likely played a role. It’s quite probable that some buyers and sellers in the Vancouver

March snapshot

<table>
<thead>
<tr>
<th>Region</th>
<th>Home resales Y/Y %change</th>
<th>New listings Y/Y %change</th>
<th>MLS HPI (Composite) Y/Y %change</th>
<th>Sales-to-new listings ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>-22.7</td>
<td>-6.5</td>
<td>4.6</td>
<td>0.53</td>
</tr>
<tr>
<td>Toronto</td>
<td>-40.2</td>
<td>-12.8</td>
<td>-1.5</td>
<td>0.45</td>
</tr>
<tr>
<td>Montreal</td>
<td>9.6</td>
<td>2.4</td>
<td>6.2</td>
<td>0.65</td>
</tr>
<tr>
<td>Vancouver</td>
<td>-28.8</td>
<td>-5.9</td>
<td>10.1</td>
<td>0.47</td>
</tr>
<tr>
<td>Calgary</td>
<td>-27.3</td>
<td>3.5</td>
<td>0.3</td>
<td>0.44</td>
</tr>
</tbody>
</table>
and Victoria areas moved to the sidelines in reaction to the uncertainty caused by these measures. In Vancouver, for example, both home resales (-8.6%) and new listings (-5.3%) fell in March relative to February. The new measures—which include an increase in the foreign-buyer tax from 15% to 20% and the introduction of a provincial property tax on unoccupied properties owned by non-residents (including Canadians from other provinces)—are likely to lengthen the adjustment process underway in British Columbia.

**Sellers gradually returning from the sidelines**
Another sign that Canada’s market is stabilizing is that more sellers felt confident to list their properties for sale in March. After plummeting by 21% nationwide in January, new listings rose for a second-straight time last month by 3.3% relative to February. Increases were widespread across the country including in Montreal, Toronto, Calgary and Edmonton. Levels of new listings were still generally on the low side in March but we see their increase as near-term positive for activity. This means that there are more options to draw buyers who earlier fled to the sidelines back into the market. This also signals that more move-up buyers may be entering the market.

**Annual variation in Toronto’s benchmark price dips into the negative**
Pricing conditions in the Toronto area continued to dominate the national picture in March. For the first time since 2009, the year-over-year change in Toronto’s benchmark price was negative last month (-1.5%). This was the main driver for the national benchmark decelerating further to 4.6% in March from 7.1% in February and a cyclical peak of 18.2% recorded last April. The year-over-year decline in Toronto should be seen as a positive development given the intense affordability issues prevailing in that market. This is in fact what policy interventions were designed to do. Our view is that Toronto-area prices will bottom out later this spring. Home prices moved in all directions across the country in March. They continued to rise very strongly in Vancouver (up 16.2% year-over-year) and Victoria (up 14.6%); they remained on an accelerating trend in Ottawa (up 7.7%) and Montreal (up 6.2%); they were flat in Edmonton (-0.5%); and they fell in Calgary (-1.2%), Saskatoon (-3.4%) and Regina (-4.6%).

**Upcoming months to be quite revealing**
The rest of the spring season is poised to be quite revealing about the underlying state of Canada’s housing market. As the temporary displacement effect from the stress test gradually wears off, we will uncover the extent to which the new mortgage regulations will exert a more permanent effect. Our view is that the new regulations as well as the measures announced in British Columbia and our expectation for further interest rate increases will result in more subdued housing market activity this year, and much more moderate price increases overall in Canada. Our forecast is for resales to decline 3.7% to 497,400 units in 2018. We project price gains to be limited to just 2% at the national level, down significantly from nearly 11% in 2017.