MONTHLY HOUSING MARKET UPDATE

January 15, 2015

Sharp drops in Alberta lead home resales down in Canada in December

Early reports hinting at significantly slower home resale activity in Alberta were confirmed this morning with statistics from the Canadian Real Estate Association (CREA) showing a plunge in resales in Calgary (-24.6%) and Edmonton (-24.4%) between November and December 2014. Declines were not limited to these two markets, however, as the vast majority of markets across the country also took a step back, albeit in a more measured way. Among Canada's larger markets, resales slipped by 4.6% in the Toronto area, by 1.9% in Montreal and by 1.8% in Vancouver. Overall, home resales in Canada fell by 5.8% from November, representing the steepest monthly decline in four and a half years.

It must be kept in mind that this cooling followed a period of fairly strong activity since spring of last year. December resales were still 7.9% above year-ago levels and 6.6% above the 10-year average for the month. Even in Calgary (down less dramatically by 4.3% year over year) and Edmonton (down 6.0%), resales last month were only 2.3% and 1.9% weaker than the respective 10-year averages for December, hardly evidence of a profound slump.

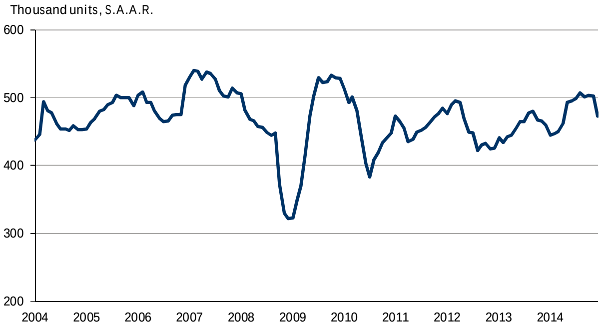
The sizable monthly decline in resales contributed to an easing in demand-supply conditions in Canada, a development that was further abetted by an increase in new listings. Nonetheless, conditions remained generally balanced—even in Calgary and Edmonton—because of the strength that characterized the market going into December.

The implication of still-balanced demand-supply conditions for home prices is that upward pressure continued to dominate. In fact, the annual increase in the MLS Home Price Index (HPI) composite for Canada accelerated marginally in December. Across Canada, annual price gains still were strongest in Calgary, although there are early signs that the pace might moderate in the period ahead.

Key numbers from CREA's December report:

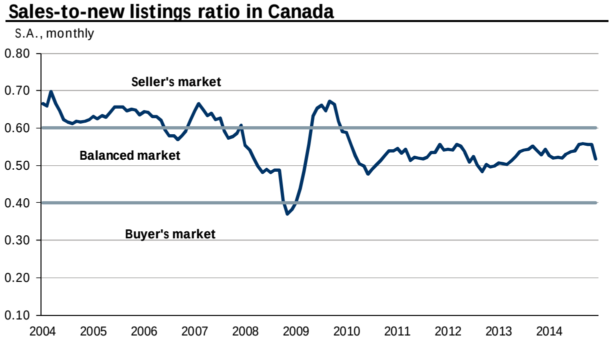
- At the national level, home resales fell by 5.8% between November and December 2014 to 472,400 units (on a seasonally-adjusted and annualized basis), following a decline of 0.2% the previous month (revised from no change as reported initially). Relative to a year ago, December resales were up 7.9% (unadjusted).
- The cooling in resale activity was most pronounced in Western Canada with Edmonton (-26.4%), Calgary (-24.6%), Regina (-12.3%), Saskatoon (-12.2%) and Winnipeg (-11.7%) recording outsized monthly declines. However, many other markets saw a drop as well, including Toronto (-4.6%), Montreal (-1.9%) and Vancouver (-1.8%). By contrast, resales remained up in the majority of local markets on a year-over-year basis, although Calgary and Edmonton swung into negative territory.
- New listings rose by 1.1% overall in Canada in December relative to

Home resales in Canada



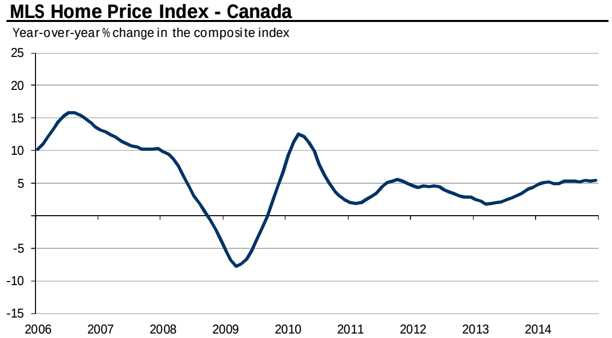
Source: CREA, RBC Economics Research

Sales-to-new listings ratio in Canada



Source: CREA, RBC Economics Research

MLS Home Price Index - Canada



Source: CREA, RBC Economics Research

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December Snapshot

Region	Home resales Y/Y %change	New listings Y/Y %change	MLS HPI (Composite) Y/Y %change	Sales-to-new listings ratio
Canada	7.9	11.7	5.4	0.52
Toronto	9.0	8.4	7.9	0.59
Montreal	8.6	4.5	0.3	0.48
Vancouver	9.2	-0.3	5.8	0.59
Calgary	-4.3	38.8	8.8	0.48

November, and by 11.7% relative to December 2013. There was a third-consecutive sizable increase in Calgary (4.1%). More modest gains were registered in Toronto (1.0%), Vancouver (1.2%) and Montreal (1.4%).

- The sales-to-new listings ratio—a measure of demand-supply balance—eased substantially to the lowest level (0.52) since April 2014 at the national level, falling from 0.56 in November. Despite this easing, the ratio remained slightly above 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 Calgary and Edmonton. A sharp drop in Regina (to 0.33) suggests that conditions now heavily favour buyers in that market.
- Total inventory expressed in number of months' worth of sales rose to 6.5 in December from 5.8 in the previous two months.
- The annual rate of increase in the national composite MLS HPI accelerated marginally to 5.4% in December from 5.3% in November and a three-year high of 5.5% in October. Despite the recent recalibration in demand-supply conditions, Calgary (8.8%) still led the country in annual price gains in December (although this represented further slowing from a seven-year high of 10.8% reached in June 2014). Solid increases also were registered in Toronto (7.9%, up from 7.7% in November) and Vancouver (5.8%, up from 5.7% in the prior month). Regina was the only major market showing a decline (3.5%).

Commentary

December's sharp downswing likely suggests that the late stages of 2014 marked a turning point for the market following surprising vigour since spring last year. The magnitude of the drop in December could well raise fear that a severe downturn might be developing; however, it is important to keep in mind that December is the low point of the year in terms of market activity and that month-to-month movements (up or down) can be exaggerated by seasonal factors. Although we believe that the market likely has begun its transition toward lower, more sustainable levels, we suspect that the December statistics probably overstated the underlying moderating trends.

Our base-case scenario for Canada's housing market continues to be that an expected rise in interest rates and increasingly strained affordability will bring about a moderation of overall activity in the Canadian market.

We have updated our housing forecasts to reflect recent changes to our outlook for the national and provincial economies, interest rates and oil prices (see our **Canadian Housing Forecast report** released today). These changes include substantial downward revisions to oil price assumptions, a realignment of provincial economic growth and more measured increases in longer-term interest rates.

Significantly lower assumed oil prices (US$65 per barrel in 2015 and US$74 in 2016, WTI basis) alter the provincial composition of forecasted housing market activity across Canada but have limited impact overall. We have downgraded our projections for Alberta and Saskatchewan. We expect resales to fall by 6.5% in Alberta and by 5.8% in Saskatchewan this year. At the same time, however, we have boosted projections in net oil-consuming provinces, including Ontario, Quebec and BC.

Overall, we forecast home resales in Canada to slow marginally by 0.1% in 2015 to 481,200 units and home prices to rise by 2.5%, which would mark substantial slowing from a 4.4% advance in 2014.