MONTHLY HOUSING MARKET UPDATE

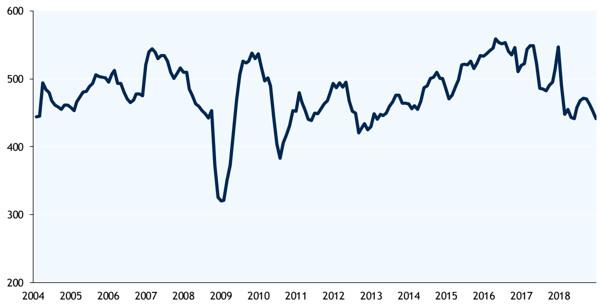
January 15, 2019

Canada's housing market ended 2018 on a weak note

- **Resales slumped back to a six-year low in December:** Most local markets were still dealing with a case of the blues last month in the face of higher interest rates and earlier tightening of mortgage lending rules. Resales fell for a fourth-straight time by 2.5% nation-wide—entirely rolling back the mini-rally that took place in the summer.
- **Vancouver is in full-blown correction mode**: Under downward pressure since the start of 2018, activity in the area has plummeted by 18% since October. Buyers are in command and prices are declining. The benchmark price fell sequentially for a sixth-consecutive month, generating the biggest drop (-6.5%) over that period since 2008.
- **Toronto market was stable in December**: Both home resales and the aggregate benchmark price were unchanged. The rate of price increase accelerated marginally to 3.0% y/y from 2.7% in November.
- **Sellers wanted in Ottawa and Montreal**: Properties for sale have been short of strong demand for a while now and a drop in new listings further tightened things up in December. This latest decline may have been a factor holding activity back in both areas last month.
- **Adjustment period to extend well into 2019 and possibly beyond**: Renewed market softness in the last couple of months clearly highlight the challenges that higher interest rates, the mortgage stress test and local housing policy measures in BC pose to homebuyers. We see little that would lift this cloud in the near term. We expect only marginal gains in both resales and prices overall in Canada over the coming year.

Home resales in Canada

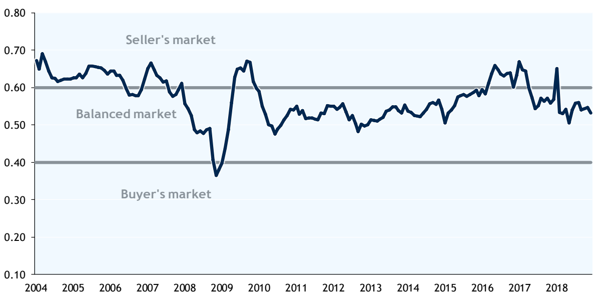
Thousand units, S.A.A.R.



Source: CREA, RBC Economics Research

Sales-to-new listings ratio in Canada

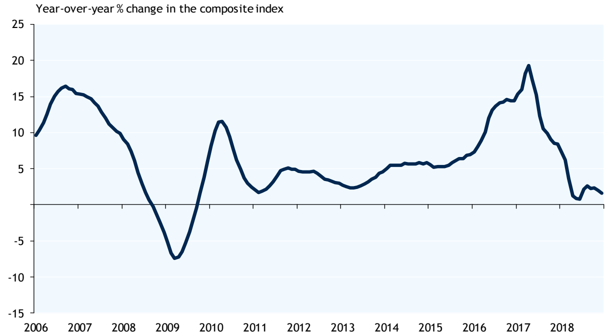
S.A., monthly



Source: CREA, RBC Economics Research

MLS Home Price Index - Canada

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

This is what a Canadian housing market downturn looks like

With the release of the December statistics this morning, the Canadian Real Estate Association made it official: 2018 was the softest year for Canada's housing market since 2012. Home resales fell 11.1% to 458,400 units last year. This followed a 4.7% decline in 2017. Yet conditions haven't loosened to the point of unhinging prices. Benchmark prices continue to trend slightly higher in most local markets. And where prices are currently declining like Vancouver and Calgary, the pace of easing is measured. In many ways, this is the outcome policy makers were hoping to achieve—overheating conditions in key markets reverse and prices stabilize. Some degree of price depreciation in Vancouver and Toronto—Canada's most expensive markets—no doubt would be even welcome by many. With interest rates likely to rise further and pressure on homebuyers to remain

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	-19.0	-13.0	1.6	0.53
Toronto	-23.3	-31.9	3.0	0.49
Montreal	2.5	-3.7	6.0	0.73
Vancouver	-47.1	-25.7	-2.7	0.37
Calgary	-24.2	-12.7	-3.2	0.47

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

intense across Canada in the short term, there's still a risk of a harsher market outcome. Nonetheless, we believe that the odds of a US-style housing collapse are low as long as our economy continues to grow and the job market stays strong.

Vancouver on watch
The evolution of Vancouver's market bears watching closely because the recent bout of weakness suggests that the correction has further to run. Prices are poised to depreciate more—potentially a lot more considering the degree to which they are still unaffordable to average buyers. Local and provincial policy makers have put forth a suite of policy measures to address the affordability issue, including an increase in the foreign buyer tax last year and the imposition of an empty unit tax in Vancouver.

Light at the end of the tunnel in Toronto?
A flat month all-round in Toronto in December could be an early sign that the market is about to come out of the dark. Our view is that any recovery will be a slow, drawn-out process at best. The lack of affordability remains a significant issue in the area that will continue to weigh on homebuyer demand.

Montreal and Ottawa still look solid despite December setbacks
Activity eased in Montreal and Ottawa last month relative to November. This was only a small setback at the end of another strong year for both markets, however. Both recorded their highest sales ever in 2018. Prices rose solidly as sellers remained firmly in the driver's seat throughout the entire year—a situation that persisted in December.

Not much better—nor worse—to expect in 2019
We expect soft sales to persist over the coming year as rising interest rates, the mortgage stress test, market-cooling measures in BC and stretched affordability continue to exert significant restraint on homebuyer demand. Our view is that these factors will keep home resale relatively flat in Canada in 2019 with a gain of less than 2%. These factors will also significantly constrain buyers' purchasing budgets. We project Canada-wide prices to increase just barely by 0.4% this year following a 2.5% gain in 2018 and an average rise of more than 10% in the previous two years.