# MONTHLY HOUSING MARKET UPDATE

July 17, 2017

## 'Brutal' return to normal in Ontario chills Canada's housing market for a third-straight month in June

- A third-consecutive drop in home resale activity in Canada in June primarily reflected a sharp 11.7% decline in Ontario. Resales fell by 6.7% nationally last month.
- The aggregate benchmark price was flat but the annual rate of increase moderated for a second-straight month to 15.8%.
- Demand-supply conditions eased further in June; yet they remained balanced overall in Canada.
- After surging in the previous four months, the number of homes put out for sale in June fell slightly from May.
- Recent policy changes in Ontario brought a welcome chill to previously red-hot markets in the province's Greater Golden Horseshoe region, including Toronto. We expect cooler activity to persist through the remainder of this year.

**Activity continued to plunge in Ontario...**

Adjustments to Ontario's Fair Housing Plan introduced in April still clearly dominated the housing picture in Canada in June. The Canadian Real Estate Association (CREA) reported this morning that home resales plunged by 11.7% month over month in the province, which came on the heels of a steep 15.0% fall in May. The Toronto-area market led the latest monthly decline once again, recording a 15.1% drop. Since reaching an all-time high in March (on a seasonally-adjusted basis), home resales have plummeted by almost 42% in the Greater Toronto Area (GTA). This represented the steepest three-month drop in more than 27 years. Other previously red-hot markets in Ontario such as Hamilton and Barrie also experienced significant corrections in the past three months, including in June.

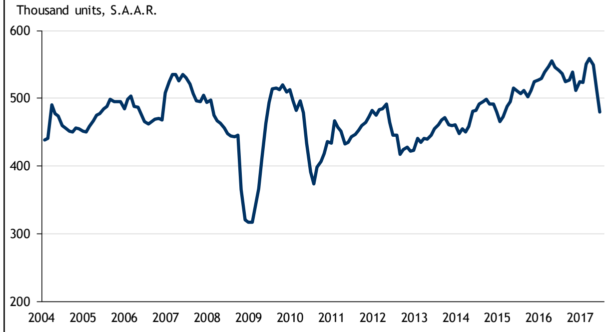
**...but the rush to list properties may be easing**

We are encouraged to note that new listings eased slightly last month in Ontario after reaching unprecedented levels in April and May. We take this as a sign that supply-side adjustments to the new housing measures will remain under control. After swinging dramatically from a scorching hot seller's market to one that is on the fringe of becoming a buyer's market, demand-supply conditions changed little in the Toronto-area market in June.

**Benchmark price under downward pressure in Toronto**

The persistence of conditions more favourable to buyers last month led to the first month-over-month decline (-0.7%) in Toronto's benchmark price in almost three years in June. On a year-over-year basis, the rate of increase in the benchmark moderated for the second-straight month to 25.3% from a high of 31.3% in April. There are signs that moderate downward price pressure also is building in other southern Ontario markets. Average home prices declined month-over-month in the majority of those markets in June, including Hamilton, Kitchener-Waterloo and Guelph. We expect prices to ease further in the near term in southern Ontario.

**Home resales in Canada**

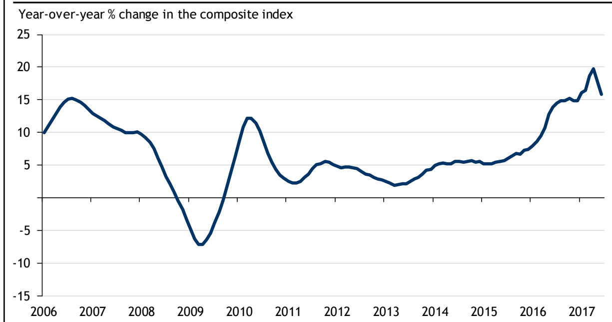



Source: CREA, RBC Economics Research

**Sales-to-new listings ratio in Canada**


Source: CREA, RBC Economics Research

**MLS Home Price Index - Canada**




Source: CREA, RBC Economics Research

### June Snapshot

| Region | Home resales Y/Y %change | New listings Y/Y %change | MLS HPI (Composite) Y/Y %change | Sales-to-new listings ratio |
|---|---|---|---|---|
| Canada | -11.4 | 6.9 | 15.8 | 0.53 |
| Toronto | -37.7 | 15.5 | 25.3 | 0.39 |
| Montreal | 9.2 | -0.6 | 4.1 | 0.60 |
| Vancouver | -12.2 | -3.1 | 7.9 | 0.65 |
| Calgary | 2.7 | 26.3 | 0.6 | 0.47 |

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**Ontario activity was only slightly below normal levels for June**

As dramatic as the plunge in resale activity has been in the past three months in Ontario, its significance should not be overstated. June resales were only 3.3% weaker than the 10-year average for the month. The extent of the plunge spoke more about the exceptionally high level of activity earlier this year than an overly weak state of affairs in June. We consider market developments to date in Ontario as positive to sustain longer-term stability. We'd start to worry if we see rapid sales declines continue for another two or three months or signs of panic emerging from sellers.

**Weakness was widespread across Canada**

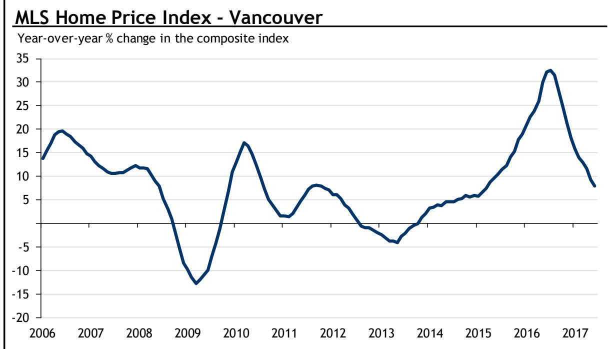
Resales softened in the majority of markets across Canada in June, with 70% of all local markets in the country experiencing a monthly decline. In some cases like Montreal, Quebec City, Moncton and Halifax, this followed a string of solid monthly gains. In other cases such as Calgary and Saskatoon, the decline extended either recent or long-standing softening trends. Regina recorded the most significant decline (-27.3%), while Winnipeg, Ottawa and Saint John were among the few markets posting an increase.

**Vancouver market head fake?**

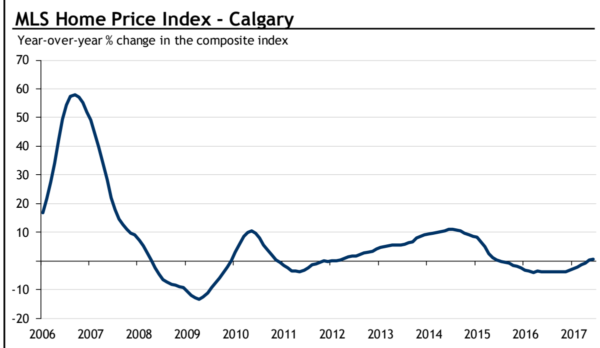
Concerns about a return to overheated conditions in the Vancouver-area market may have been overblown. Activity fell for a second-straight month in June, which reversed part of the strong rebound that took place in March and April of this year. That rebound was widely interpreted as signaling the wearing off of cooling measures implemented last year by the provincial government. Back-to-back monthly declines in May and June, however, raise the possibility that this rebound may have been a head fake. Our view is that the recent firming in activity will be largely sustained. We expect further gradual recovery will take place during the remainder of this year.

**We've updated our forecast: a 'soft landing' is still our base case**

The revised forecast we published earlier this month is little changed at the national level from our March forecast. We continue to expect a soft landing driven by policy changes, poor affordability in some markets and rising interest rates. We project home resales in Canada to ease by 3.7% to 515,300 units this year from a record 535,300 units in 2016, and price increases to moderate from 9.6% in 2016 to 7.8% in 2017. We've made a few notable changes at the provincial level, however. We reduced our resale forecast for Ontario in light of significant provincial government policy changes announced in April. On the other hand, we boosted our forecast for the BC market to reflect a quicker-than-expected rebound this spring from the earlier policy-induced cooling. Our 2017 mid-year housing market forecast update report provides more details on our views on the outlook for Canadian and provincial markets.




Source: CREA, RBC Economics Research

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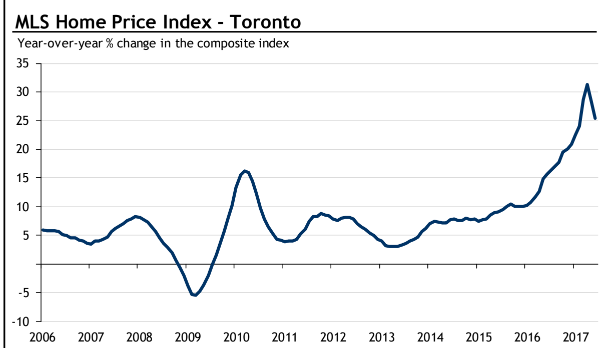


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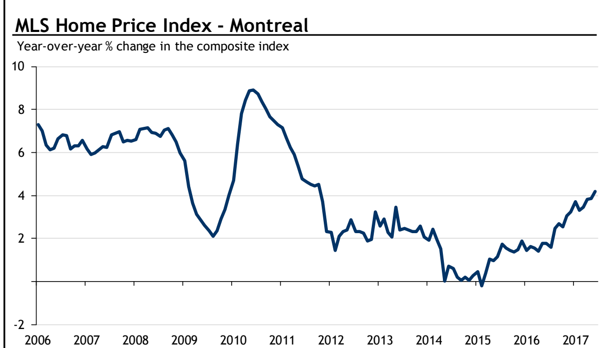


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