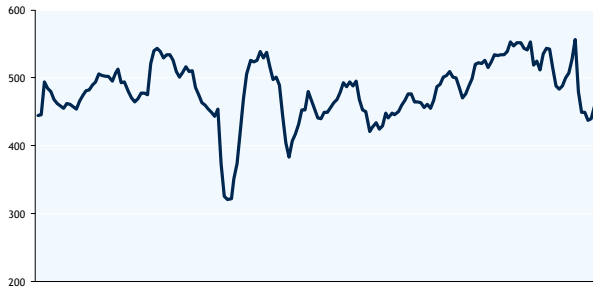


MONTHLY HOUSING MARKET UPDATE

July 16, 2018

Home resales in Canada

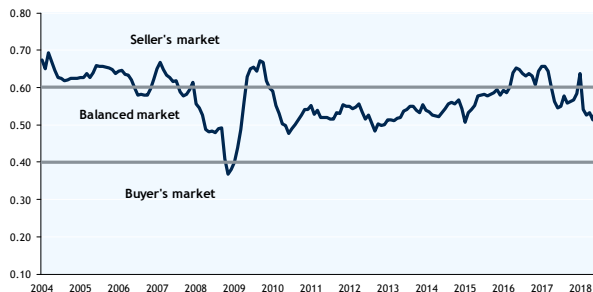
Thousand units, S.A.A.R.



Source: CREA, RBC Economics Research

Sales-to-new listings ratio in Canada

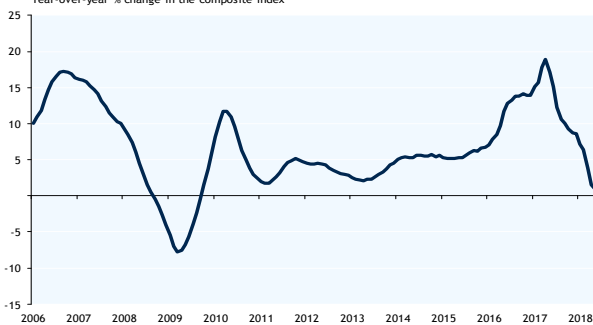
S.A., monthly



Source: CREA, RBC Economics Research

MLS Home Price Index - Canada

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

Canadian housing finally found its footing in June

- Following a longer-than-anticipated adjustment to tighter mortgage rules, many Canadian housing markets showed further signs of stabilization in June. Unit sales rose 4.1% from the previous month, the first substantial increase so far this year. Sales were up across the Prairies and Central Canada, while British Columbia continued to adjust to additional measures at the provincial level.
- A slow spring for resales seemed to leave sellers unsure about market conditions, with new listings falling 1.8% month-over-month. It was the slowest June for new listings since 2009.
- Opposite moves in resales and new listings led to slight firming in demand-supply conditions. At a national level the sales-to-new listings ratio remains firmly in balanced territory, though conditions are closer to favouring sellers in Central Canada. Markets in Western Canada are generally more balanced, or slightly in favour of buyers.
- The national benchmark price was up just 0.9% from a year earlier, close to May's pace. After the sharp deceleration over the last year, it looks like year-over-year price growth is starting to stabilize at a slow rate. Prices remained below year-ago levels in several markets in Alberta, Saskatchewan and Ontario.
- Signs of stabilization in many local housing markets should please policymakers who likely got a bit more cooling than they bargained for out of new mortgage rules that took effect on January 1. Rising interest rates, including another hike from the Bank of Canada last week, and stretched affordability will likely cap any recovery over the second half of the year. But we think this more subdued sales pace and flatter price growth is a positive development for the longer term health of the housing market.

Homebuyers are finally adjusting to stricter mortgage rules...

It has been a longer-than-expected adjustment process, but a second consecutive increase in monthly home sales indicates the market is finally adapting to regulatory changes this year that made it more difficult for some buyers to qualify for a mortgage. The statistics released this morning by the Canadian Real Estate Association showed resales in Canada rose 4.1% between May and June. But even with that sizeable monthly increase, seasonally adjusted annualized sales of 457,500 represent the slowest month of June since 2012. Trends remained mixed at the local level, though a majority of markets recorded an increase in resales. Ontario, and more specifically the Greater Toronto Area, saw a particularly strong pickup in activity. British Columbia, on the other hand, recorded a sixth consecutive drop in sales as further cooling measures at the provincial level have added to headwinds from mortgage rules and rising interest rates.

June snapshot

	Home resales	New listings	MLS HPI (Composite)	Sales-to-new listings ratio
Region	Y/Y %change	Y/Y %change	Y/Y %change	
Canada	-10.7	-8.8	0.9	0.54
Toronto	1.4	-18.8	-4.8	0.55
Montreal	3.3	-4.4	6.5	0.61
Vancouver	-37.6	-7.7	9.5	0.44
Calgary	-10.4	0.1	-1.1	0.43



...but sellers didn't get the memo

A slow spring market seemed to keep some would-be sellers on the sidelines, even as activity started to pick up in June. New listings were down 1.8% from May, marking the second decline in three months. The dip in listings was widespread across provinces. That led to some tightening in demand-supply conditions as measured by the sales-to-new listings ratio. The ratio remained firmly in balanced territory at the national level, though that masked diverging conditions in local markets. Higher resales in Ontario had conditions moving closer to favouring sellers in June, particularly in markets outside the Greater Toronto Area. Conditions in Quebec are also relatively tight. Supply and demand were more balanced in British Columbia as additional cooling measures in this year's provincial budget took a bit more heat out of persistently strong markets. Meanwhile conditions continue to generally favour buyers in energy-producing provinces, where the policy-induced slowdown was hardly needed.

Price growth is stabilizing at a more reasonable rate...

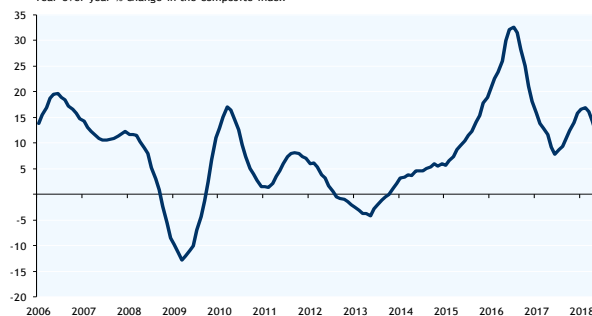
A return to more balanced market conditions has helped price growth slow significantly from last year's double-digit pace. The MLS benchmark price was up just 0.9% from last June, with the year-over-year rate having slowed each month since April 2017's record pace. With monthly price movements starting to level off, June might represent the near-term bottom for annual price gains. At a local level, price growth moderated further in British Columbia but remained in the double digits in several major markets which continue to offer some of the worst affordability conditions in Canada. Price growth is showing little sign of perking up in the Prairies. Trends are starting to stabilize in the Greater Toronto Area, where the benchmark price was still below year-ago levels but has moved higher in recent months. Finally, price growth remained relatively firm in Montreal where pricing trends have mirrored tightening in demand-supply conditions.

...with more balanced conditions likely to remain in place

June's resale data showed a number of local markets are finally adjusting to stricter mortgage rules for many uninsured borrowers. In the past we've seen these types of policy changes simply suppress activity for several months before conditions heat up again. But we don't think that will be the case this time around. Rules around qualifying rates now blanket a large share of the mortgage market—would-be buyers will find it increasingly difficult to get around stress tests. And we think rising interest rates will provide a more persistent headwind to housing activity. Last week's rate hike by the Bank of Canada was their fourth since last July and we are with markets in expecting another increase this year. The period when homebuyers could count on flat or lower borrowing costs has come to an end. We still expect resales will firm slightly over the second half of this year, though rising rates and poor affordability mean June's jump in resales isn't likely to be repeated. Our forecast assumes home sales will come in at 456,700 units for 2018 as a whole, down more than 10% from last year's pace. We think price growth will stabilize over the second half of this year, leaving benchmark prices up just 1.8% from 2017.

MLS Home Price Index - Vancouver

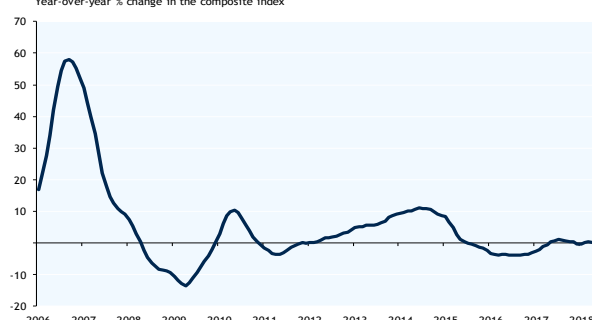
Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

MLS Home Price Index - Calgary

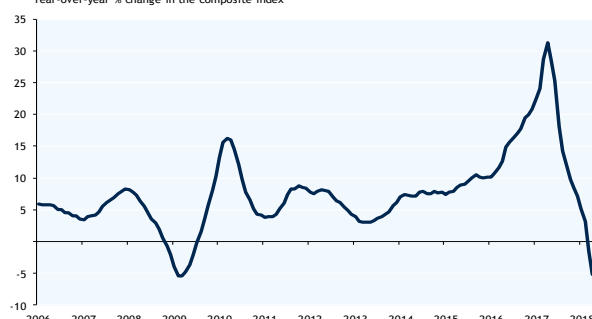
Year-over-year % change in the composite index



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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