Home resale activity was brisk in Canada in May; markets in Alberta continue to recover

The peak home-selling season was in full swing across the majority of markets in Canada in May. The Canadian Real Estate Association (CREA) this morning reported that home resales rose 3.1% to their highest level in May since December 2009. In fact, the May tally (55,619 units, unadjusted for seasonality) was the second best on record for the month. Gains relative to April were widespread on a local basis. Hard-hit Calgary and Edmonton registered fourth-straight monthly advances, and Saskatoon a third-consecutive increase, while Regina saw its first rise in three months—activity in these four markets still remained substantially below year-ago levels, however. Halifax came out of its deep freeze (resales surged 12.6% from April) after four months of declines. Canada’s two housing ‘hot spots’ still showed substantial vigour: the Toronto-area market recorded its strongest May ever and the Vancouver area its best in eight years, although Vancouver resales fell slightly by 0.6% from April on a seasonally-adjusted basis. Overall, CREA noted that home resales in Canada stood 5.7% above the 10-year average for the month of May.

Demand-supply conditions remained balanced in half of local markets according to CREA, with nearly one-third showing conditions favourable to sellers. Vancouver and Toronto continue to be sellers’ markets and where home prices are rising fastest in Canada. The annual increase in the MLS HPI was 9.4% in Vancouver and 8.9% in Toronto, both marking acceleration from rates in April (8.5% and 8.4%, respectively), and both significantly stronger than the national pace of 5.2% (which compared to 5.0% in April). It is interesting to note that market conditions are favouring sellers again in Calgary after swinging sharply—but briefly—in favour of buyers earlier this year.

Key numbers from CREA’s May report:

- Home resales in Canada increased by 3.1% between April and May 2015 to 521,400 units (on a seasonally-adjusted and annualized basis), following an advance of 3.4% in April (revised from 2.3% initially). Relative to a year ago, resales were up 2.7% (unadjusted), which represented a slowing from the 9.7% registered in April.
- For the second consecutive month, the majority of local markets posted monthly resale increases in May, including Halifax (up 12.6%), Saskatoon (10.9%), Calgary (7.3%), Edmonton (6.6%) and Ottawa (6.6%). Toronto (up 2.8%) and Montreal (2.2%) posted modest rises. Saint John (down 4.7%) and Vancouver (down 0.6%) were among the few that experienced declines. Despite showing signs of recovering in recent months, resale activity remained significantly below year-ago levels in Calgary (down 28.3%), Edmonton (down 10.6%) and Saskatoon (down 11.2%). Elsewhere, however, the majority of markets operated at higher levels than in May 2014 with Victoria (up 26.6%), Vancouver (up 24.4%) and to a lesser extent Montreal (up 8.7%) and Ottawa (up 7.7%) showing the biggest gains. Toronto resales were up 5.7% year over year.
- New listings continued to be quite stable on a national basis, inching just 0.2% lower in May. Relative to a year ago, new listings fell 4.9% in Canada, thereby representing the first annual decline in six months. While Calgary saw its first monthly increase in five months (up 2.1% from April), new listings still reflected the substantial retrenchment that occurred in previous months in this

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The sales-to-new listings ratio—a measure of demand-supply balance—rose for the fourth-consecutive month to 0.58 in May from 0.56 in April and a recent low of 0.50 in January 2015. The latest reading inched closer to the upper boundary of the 0.40 to 0.60 range typically associated with market balance, thereby indicating that while price pressure remains generally contained in Canada, it has been intensifying in recent months. Most of the pressure continues to be concentrated in the Vancouver and Toronto markets, where the ratio in both areas (and significantly so in the case of Vancouver) surpass the 0.60 threshold. Thanks to sharp declines in new listings and a recovery in resales in the past few months, Calgary’s ratio has returned above 0.60, which suggests that downward price pressure is likely to ease in the period ahead.

Total inventory expressed in number of months’ worth of sales edged lower to 5.6 in May from 5.8 in April and 6.5 in January.

The annual rate of increase in the national composite MLS HPI accelerated slightly to 5.2% in May from 5.0% in the previous three months, although it remains within the range of 4.9% to 5.4% that has prevailed since the beginning of 2014. The national picture masks stark differences across local markets whereby areas such as Vancouver and Toronto far outpace the national average. The MLS HPI in Vancouver rose by 9.4% year-over-year in May (compared to 8.5% in April), the fastest rate in the area in almost five years. In Toronto the index accelerated to 8.9% (from 8.4% in April), which represents a 43-month high. The annual rate continued to decelerate in Calgary to 1.2% from 2.2% in April; however, the index rose on a monthly basis for the first time in six months. The index remained essentially flat in Montreal and Ottawa, and continued to decline in Regina and Moncton.

Commentary

This morning’s report still points to a three-way split between ‘hot’, ‘cold’ and ‘subdued’ markets, although it showed signs that cold markets are beginning to warm up. Among other things, it was encouraging to see a surge in activity in Halifax and further (modest) gains in Montreal and Ottawa, which suggest that these markets are finally turning a corner. Perhaps even more encouraging were developments in Alberta and Saskatchewan where confidence appears to be returning. Successive monthly gains in resales, significant reductions in the number of new listings and, as of May, evidence that prices are picking up again in Calgary lead us to believe that the healing process has begun in those markets. Thus, the good news is that conditions are improving among Canada’s softer markets.

Possibly the more worrying news is that conditions among Canada’s ‘hot’ markets are getting hotter. Both Vancouver and Toronto are sellers’ markets where already-elevated property values continue to appreciate at an accelerating rate. While the strength of these markets is supported by favourable fundamental factors (e.g. steady solid population growth and an improving economy), the erosion of affordability that ensues from rapidly rising home prices increases risks. In particular, ownership costs in Vancouver and Toronto would be quite sensitive to any rise in interest rates.

Despite the evolving risk profile, our forecast for home resales and prices is unchanged in light of today’s report. We project home resales to rise by 1.5% overall in Canada in 2015 to 488,500 units nationally for the year, which would be the second-highest result on record. On a provincial basis, we forecast resales to rise sharply in British Columbia by 17.9% and more modestly in Ontario by 3.2%, Quebec by 2.8% and Atlantic Canada by 1.5% and Manitoba by 1.4%. We expect significant declines in Alberta (down 20.8%) and Saskatchewan (down 12.9%).

Our home price forecasts show a modestly slower rate of increase in 2015 at the national level (3.8%) compared to 2014 (4.5%) with substantial variations across provinces. We project prices to increase solidly by 7.6% in British Columbia and 6.5% in Ontario, and weak gains in Quebec (1.2%), Atlantic Canada (1.2%) and Manitoba (0.3%). We expect outright price declines in Saskatchewan (-3.5%) and Alberta (-0.3%).

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