MONTHLY HOUSING MARKET UPDATE

June 15, 2018

Housing market activity remained weak in May as spring season fails to lift off

- Canada’s housing market is taking longer than we anticipated to shake off the stress-test lull in activity. Home resales were still weak in May, slipping marginally by 0.1% from April. Vancouver, Toronto and Montreal recorded flat or very slightly rising activity.
- More properties were put on the market in May with new listing rising 5.1% from April, which may support stronger activity in the coming months.
- Demand-supply conditions remain balanced overall in Canada though they softened slightly last month. The softening was more pronounced in Western Canada, where markets such as Calgary, Edmonton, Regina and Saskatoon are currently more favourable to buyers.
- Prices are now rising at their slowest pace in almost nine years. The national benchmark price was up by only 1.0% year-over-year in May. Benchmark prices were below year-ago levels in Toronto, Regina, Saskatoon, Edmonton and Calgary.
- The trio of new mortgage regulation, higher interest rates and additional market-cooling measures in British Columbia is proving to be a tougher challenge than we anticipated. Still, we don’t see any evidence that Canada’s market is becoming unhinged at this point. We continue to believe that recent developments are mostly positive for the longer-term health of the market despite the ongoing ‘landing’ being a little rougher than we previously thought.

It’s official: homebuyers took a pass at the spring season

We held the view until now that the transitory effect of the stress test implemented on January 1 would start to wane by the spring. Well, there was no indication of any material rebound in home resale activity through May. The statistics released this morning by the Canadian Real Estate Association showed that resales in Canada remained stuck at a six-year low of 436,500 units on a seasonally-adjusted and annualized basis in May. This represented the fifth monthly decline in a row. Clearly, the stress test, along with higher mortgage rates and new market-cooling measures in British Columbia continue to keep homebuyers on the sidelines. Not even a material rise in new listings (up 5.1%) enticed them back into play. Activity was at a standstill last month in all three of Canada’s largest markets—Vancouver, Toronto and Montreal.

<table>
<thead>
<tr>
<th>Region</th>
<th>Home resales Y/Y %change</th>
<th>New listings Y/Y %change</th>
<th>MLS HPI (Composite) Y/Y %change</th>
<th>Sales-to-new listings ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>-16.2</td>
<td>-5.9</td>
<td>1.0</td>
<td>0.51</td>
</tr>
<tr>
<td>Toronto</td>
<td>-23.2</td>
<td>-26.4</td>
<td>-5.4</td>
<td>0.46</td>
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<tr>
<td>Montreal</td>
<td>4.9</td>
<td>2.5</td>
<td>6.6</td>
<td>0.64</td>
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<tr>
<td>Vancouver</td>
<td>-34.7</td>
<td>6.0</td>
<td>11.5</td>
<td>0.43</td>
</tr>
<tr>
<td>Calgary</td>
<td>-17.5</td>
<td>12.2</td>
<td>-0.5</td>
<td>0.37</td>
</tr>
</tbody>
</table>

May snapshot
Policy-makers will look fondly at current trends...

It’s impossible to look at recent trends without thinking of where the market was a little more than a year ago when there were clear signs of overheating in some of the country’s largest markets. Policy-makers should be generally pleased with how things have turned out following the significant measures that were implemented in the past year. For the most part, any froth that existed before is gone; markets have swung back to balance; and prices are now rising at a much more subdued pace. Perhaps more importantly, these developments helped to ease household debt vulnerabilities in Canada. While most markets have yet to settle in and affordability is still a gut-wrenching issue in key areas, the recent trends dialed down earlier worries about the Toronto and Vancouver area markets. Meanwhile, up-trending markets such as Ottawa and Montreal keep chugging along and pose little concern at this point.

…except in certain markets in Alberta and Saskatchewan for instance

Policy-makers expected from the get-go that their actions would entail unintended consequences. Indeed, the further weakening of market conditions in softer markets in Alberta and Saskatchewan is a case in point. The stress test and rising mortgage rates made the recovery in these regions even more elusive so far this year. Activity in Calgary, Edmonton, Regina and Saskatoon in May was still near historically low levels and prices remained under downward pressure. Policy measures no doubt delayed these markets’ recovery.

Market’s ‘landing’ this year looks a little rougher than we expected

The absence of a rebound in activity this spring means that home resales in Canada are tracking lower than we assumed in our April forecast. There is therefore definite downside risk to the 4.3% drop that we project for 2018 at the national level. In fact, we might need to double that figure in our upcoming forecast update. Nonetheless, the balance between demand and supply remains largely as we anticipated—balanced—and price gains are decelerating roughly in line with our forecast. So at this stage, our the projected 1.8% annual price increase for 2018 nationwide still looks achievable.

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