



MONTHLY HOUSING MARKET UPDATE

March 17, 2014

Home resales mostly stable, prices accelerate further in Canada in February

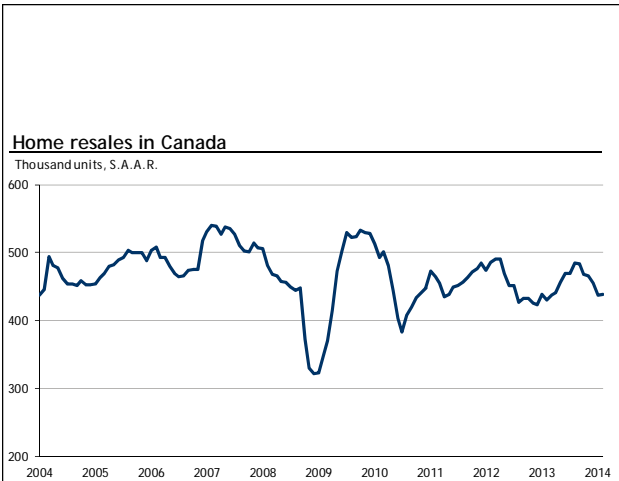
Home resale activity in Canada was largely flat between January and February 2014, inching higher by a small 0.3%, according to data released this morning by the Canadian Real Estate Association (CREA). This halted a string of five monthly declines since September 2013 that included notable weather-induced slowdown in December and January. The flat reading in February at fairly modest levels may also reflect harsh weather conditions that continued to prevail across many regions of the country.

Overall, demand and supply remained in balance in Canada. The vast majority of local markets were in balanced territory in February, with Calgary and Edmonton still among the few areas where supply appears to be tight relative to demand. A strong increase in listings brought the Toronto market back into better balance last month after this market flirted with a short-supply situation in earlier months. The opposite occurred in Vancouver, however, as listings fell and resales rose modestly in February, resulting in market conditions reaching the threshold indicating greater pricing power for sellers.

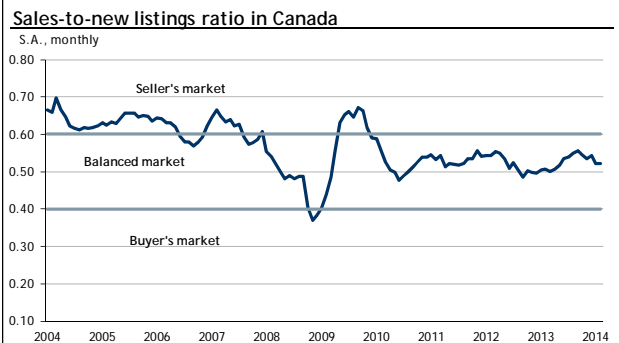
To us, the more noteworthy element of this morning's report is that home prices continued to increase at a faster rate despite balanced market conditions. The year-over-year gain in the MLS HPI was 5.1% in February, up from 4.8% in January and 2.9% six months ago. Any further acceleration in the coming months could pinch housing affordability. In recent years, affordability in Canada generally trended sideways; however, this trend could deteriorate if home prices outpace personal income growth (which averaged a little more than 4% overall in Canada in the past two years) and mortgage rates do not come down to provide some offset. At this stage, we continue to expect that upward pressure on prices will ease in the period ahead on the basis that supply of homes (consisting increasingly of condos) available for sale will become more plentiful as 2014 unfolds.

Key numbers from CREA's February report:

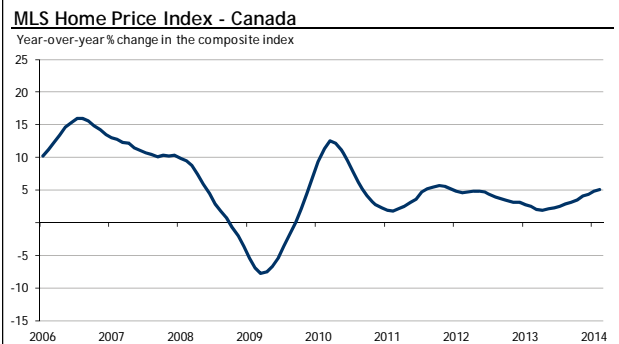
- Home resales rose 0.3% between January and February 2014 to 438,900 units (on a seasonally-adjusted and annualized basis), following a 3.8% drop the previous month. February resales were up 1.9% (unadjusted) from a year ago.
- Local markets were evenly split between those that registered month-to-month increases and declines in resales. Among those posting a gain were Regina (+4.9%), Toronto (+2.4%), Ottawa (+2.0%), Vancouver (+1.5%) and Calgary (+0.5%). Markets that saw a decline included Edmonton (-9.2%), Saskatoon (-6.3%), Montreal (-1.4%)



Source: CREA, RBC Economics Research



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February Snapshot

Region	Home resales Y/Y %change	New listings Y/Y %change	MLS HPI (Composite) Y/Y %change	Sales-to-new listings ratio
Canada	1.9	-1.0	5.1	0.52
Toronto	-0.5	-1.4	7.3	0.56
Montreal	-2.2	2.3	2.6	0.43
Vancouver	41.1	-3.0	3.2	0.60
Calgary	14.1	0.9	9.1	0.73

and Winnipeg (-1.0%). Relative to a year ago, resales were up in the majority of markets. Edmonton (-13.8%) and Montreal (-2.2%) were among the few that bucked the trend.

- Nationally, new listings edged 0.6% higher between January and February, but were down 1.0% relative to February 2013.
- The sales-to-new listings ratio was essentially unchanged at 0.52 in February – still near the middle of the 0.40 to 0.60 range typically associated with market balance. Balanced demand-supply conditions generally continue to prevail across Canada’s local markets. Calgary and Edmonton were among the few markets where the ratio suggested that sellers had the upper hand in setting prices. A sharp 5.5% monthly drop in new listings in the Vancouver area contributed to this market’s sales-to-new listings ratio surging to 0.60 (0.598 to be exact) in February from 0.56 in January. The other measure of market balance in CREA’s report – the number of months worth of total inventory – showed a slight decline nationally in February to 6.4 from 6.5 in January, indicating a marginal tightening of market conditions.
- The annual rate of increase in the national composite MLS Home Price Index (HPI) accelerated for the tenth consecutive month in February to 5.1% from 4.8% in January, and a two-year low of 1.9% in April. The latest reading was the strongest since December 2011. The main contributors of the acceleration continued to be the Calgary and Toronto areas, which led all other major markets with annual gains of 9.1% and 7.3%, respectively. The MLS HPI in Vancouver was unchanged at 3.2%, while it accelerated to 2.6% in Montreal and dropped to 0.3% in Ottawa.

Commentary

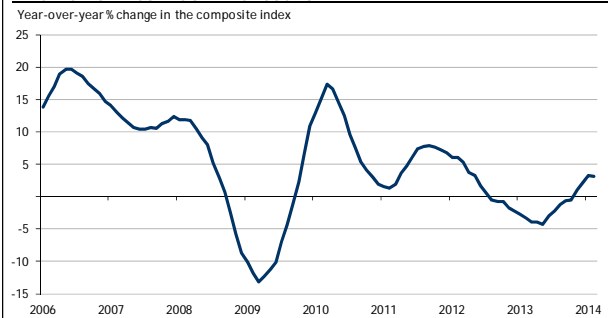
Given that inclement weather likely was a factor dampening activity once again in February, we believe that there is good potential for the market to experience a greater-than-usual burst of activity this spring (assuming spring will come eventually). This burst may be fuelled further by recent modest reductions in mortgage rates. That being said, we expect any market rally to be fairly contained and short-lived. Once the reversal of the weather related slowdown has run its course, we expect the market to resume an average ‘cruising speed’ that will be neither too hot nor too cold, and such that total 2014 resales in Canada will be only modestly stronger than in 2013. Our outlook for 2014 calls for resales to rise by just 0.6% to 461,000 units in Canada, with most of the strength coming from Western Canada (due to the region’s comparatively brighter economic and demographic growth prospects).

As we indicated previously, the issue of affordability is likely to become a more prominent element of risk in 2014, especially if the recent re-acceleration in home price increases across several markets is sustained. Undue pressure could emerge in certain parts of the country (including Toronto) and such pressure even could be amplified by any mortgage rate increases. While we anticipate the Bank of Canada to leave its overnight rate unchanged in 2014, we project bond yields – the main driver of fixed mortgage rates – to drift gently upward starting later this year.

On the supply side, the focus of attention will remain on the high number of condo units currently under construction in Canada’s largest markets and the possible effect on homes available for sale upon their completion. At this stage, the evidence suggests that completed units are being mostly absorbed and, therefore, are unlikely to have a destabilizing effect in the short term.

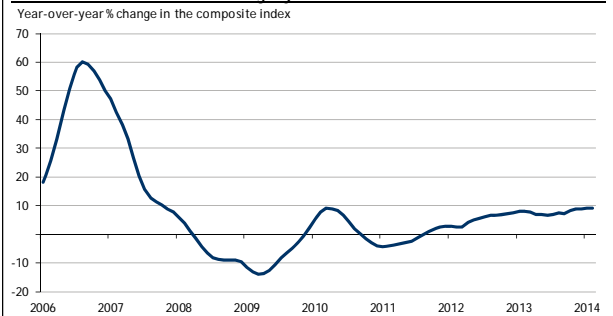
We expect, nonetheless, that affordability pressures and growing supply of newly completed condo units will slow the pace of price increases later in 2014. We project annual home prices to rise by 1.5% nationally in 2014.

MLS Home Price Index - Vancouver



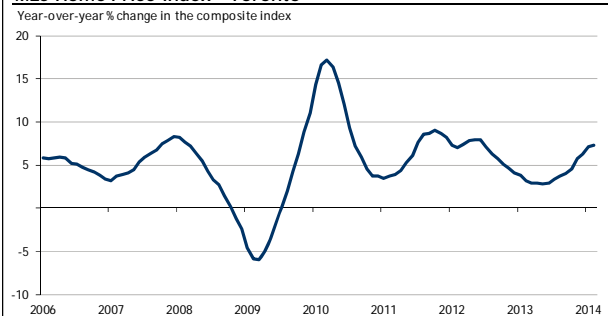
Source: CREA, RBC Economics Research

MLS Home Price Index - Calgary



Source: CREA, RBC Economics Research

MLS Home Price Index - Toronto



Source: CREA, RBC Economics Research

MLS Home Price Index - Montreal



Source: CREA, RBC Economics Research



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