



MONTHLY HOUSING MARKET UPDATE

November 15, 2017

It was all about continuity in October for Canada's housing market

- The Fall home-buying season is uneven across Canada but activity continues to recover overall.
- October was quite a busy month in Vancouver and Montreal, and saw a third-straight monthly gain in home resales in Toronto.
- Calgary and several other Prairie markets remained stuck in a soft patch.
- Price pressures eased further at the national level, primarily reflecting cooler conditions in Toronto.
- There continues to be limited downside risks to prices in the near term because the majority of local markets—including Toronto—are in balance.
- More stringent qualifying criteria facing borrowers of uninsured mortgages by January 1, 2018, is poised to affect the outlook for the coming months.

The recent story holds: cooler, balanced conditions dominate

There were no big surprises in this morning's statistical report from the Canadian Real Estate Association. It showed that market developments in October continued to unfold along the same lines as in the previous couple of months. Resale activity nation-wide was still down from a year ago but recovered further on a month-over-month basis. Gains in Toronto, Montreal and Vancouver led to a 0.9% increase from September at the national level. Easing upward price pressures in Toronto led to further moderation in price appreciation in Canada overall. The annual rate of increase in the national benchmark price slowed to 9.7% in October from 10.5% in September and a cyclical peak of 19.7% in April, 2017. Vancouver-area prices, on the other hand, accelerated further to 12.4%, as demand continues to exceed supply. Though not surprising, persistent softness in Calgary and several other markets in the Prairies was a disappointment nonetheless.

The picture to become foggier

Strengthening resale activity in October for the most part reflects an underlying pick-up in demand. This is especially the case in southern Ontario where many would-be buyers are returning to the market after rushing to the sidelines in the months that followed the introduction of provincial government's Fair Housing Plan in April. But part of the October strengthening may also reflect the bringing forward of activity ahead of the tightening of rules for uninsured mortgages coming into effect by January 1, 2018. This latter factor is poised to play a larger role as we get closer to the New Year. At this stage, it's difficult to gauge the short-term impact of the new rules because mortgage market dynamics can be complex (see our [analysis of the upcoming OSFI guideline changes](#)). The potential transition hit is significant, though. One certainty in all this is that the housing market picture will get foggier in the coming months. We might have to wait until spring for this fog to clear.

More reasons to expect a cooler market in 2018

This latest round of mortgage rule tightening adds a new twist to the outlook for

Home resales in Canada

Thousand units, S.A.A.R.



Source: CREA, RBC Economics Research

Sales-to-new listings ratio in Canada

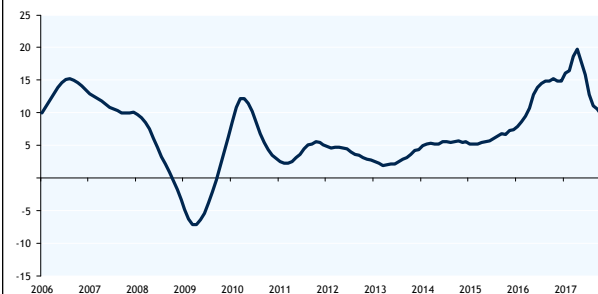
S.A., monthly



Source: CREA, RBC Economics Research

MLS Home Price Index - Canada

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

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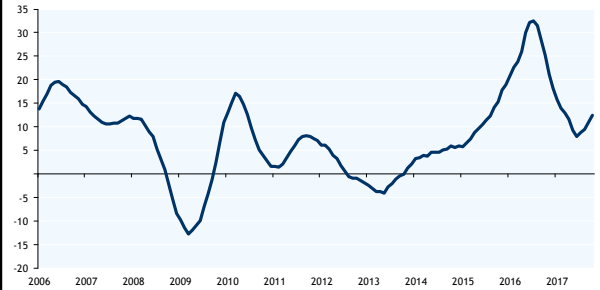
October snapshot

Region	Home resales	New listings	MLS HPI (Composite)	Sales-to-new listings ratio
	Y/Y %change	Y/Y %change	Y/Y %change	
Canada	-4.3	6.4	9.7	0.57
Toronto	-27.1	11.4	9.7	0.46
Montreal	6.1	0.0	5.7	0.63
Vancouver	34.5	14.0	12.4	0.69
Calgary	-10.3	7.0	0.2	0.53

Canada's housing market. It's likely to create some short-term volatility by displacing activity over the next several months: first triggering a temporary run-up between now and the end of 2017, followed by a dip in activity in the opening months of 2018. When all is said and done, though, we expect the new rules to dampen homebuyer demand across Canada. This lends further support to our view that Canada's housing market will cool next year. Tighter mortgage rules will intensify downward pressures arising from rising interest rates and poor affordability in several key markets. Our forecast calls for home resales to decline by 4.2% to 488,000 units in 2018 following a 4.8% drop in 2017. It also calls for a sharp deceleration of prices from 11.1% in 2017 to just 2.2% in 2018 nationwide.

MLS Home Price Index - Vancouver

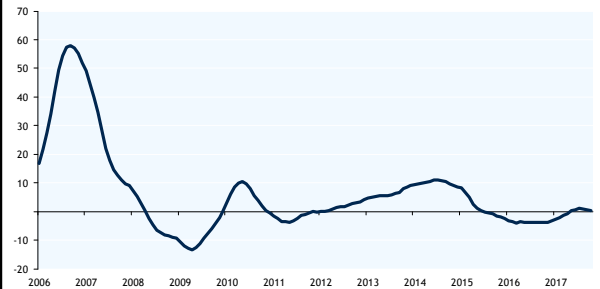
Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

MLS Home Price Index - Calgary

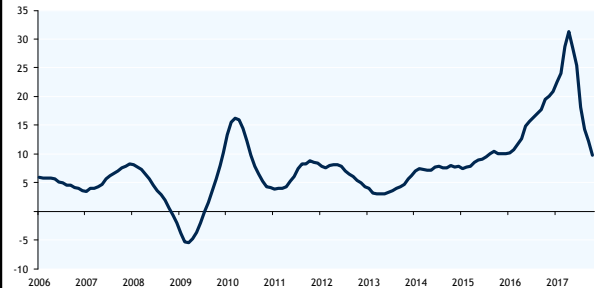
Year-over-year % change in the composite index



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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