Canada’s housing market stays soft in October

- The mortgage stress test and higher interest rates no doubt were still top-of-mind for homebuyers in October. Already-soft home resales edged down further by 1.6% from September. The annual rate of increase in benchmark prices was unchanged at 2.3%.

- More than half of local markets saw a monthly decline in resale activity, including Toronto, Montreal, Halifax, Calgary and Edmonton. Vancouver and Winnipeg bucked the trend with modest increases, though in the case of Vancouver the number of transactions remained near five-year lows.

- After rising in the previous two months, new listings fell 1.1% across Canada, which kept the majority of local markets in balance. Montreal was among the few markets where sellers had the upper hand in setting prices.

- Vancouver’s benchmark price was up only 1.0% from a year ago, a five-year low point. More buying options have emerged for fewer buyers in the past year—especially in the detached home segment.

- In October, annual price increases were strongest in Victoria (8.5%), Hamilton (6.8%), Ottawa (6.6%) and Montreal (6.3%). The increase in Toronto’s benchmark price accelerated slightly to a rate of 2.6% from 2.0% in September.

- Our view is that the prevailing softness in Canada’s housing market is the new norm—at least for a while. We expect overall activity to stay in a holding pattern over the coming year and price gains to be limited.

One (small) step back...
Clearly there isn’t much to re-ignite the flame of Canada’s housing market out there at this stage with many buyers still wrestling with the mortgage stress test and rising interest rates. So the news from the Canadian Real Estate Association this morning that home resales took a relatively small step back in October shouldn’t be a big surprise. Nor should it be worrisome because this is part and parcel of a cooler market. The 1.6% month-to-month drop in activity recorded in October easily fits our range-bound outlook for the overall Canadian market over the coming year.

...across a majority of local markets
The fact that most local markets shared the resale dip is the result of the widespread impact that the stress test and rising interest rates have from

<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>-3.7</td>
<td>1.7</td>
<td>2.3</td>
<td>0.54</td>
</tr>
<tr>
<td>Toronto</td>
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<td>-3.2</td>
<td>2.6</td>
<td>0.52</td>
</tr>
<tr>
<td>Montreal</td>
<td>11.3</td>
<td>-2.0</td>
<td>6.3</td>
<td>0.71</td>
</tr>
<tr>
<td>Vancouver</td>
<td>-35.1</td>
<td>8.4</td>
<td>1.0</td>
<td>0.42</td>
</tr>
<tr>
<td>Calgary</td>
<td>-9.2</td>
<td>-5.7</td>
<td>-2.6</td>
<td>0.49</td>
</tr>
</tbody>
</table>
coast to coast. Activity softened in Victoria (which recorded a 1.4% decline) in the west, Halifax (down 13.7%) in the east, and points in between that included Calgary (down 2.4%), Edmonton (down 8.2%) and Toronto (down 1.1%). Even Ottawa (down 0.7%) and Montreal (down 2.9%)—among the few ‘hotter’ markets in Canada at the present—saw resales edged lower last month. Vancouver (up 2.0%) was among a minority of markets where resales picked up, although the number of transactions remained near a five-year low.

**Stable price picture nationally...**
Demand-supply conditions generally continued to be balanced in October. This maintained a relatively stable environment for prices overall. The national benchmark price rose at an annual rate of 2.3%, which was unchanged from September. We see little that would alter this rate materially over the coming months.

...**masked stark regional differences**
The pricing situation varies substantially across local markets, however. Downward pressure built considerably since summer in Vancouver, especially in the detached home segment where supply now exceeds demand. The annual rate of increase in the area’s benchmark slowed down to a trickle (1.0%) in October and is poised to traverse into negative territory in coming months. In Toronto, the benchmark accelerated slightly to a rate of 2.6% last month from 2.0% in September. Our view is that there’s limited scope for further acceleration in the near term given the balance in the market. Price gains are now strongest in Victoria (up 8.5%), Hamilton (6.8%), Ottawa (6.6%) and Montreal (6.3%).

**Holding pattern in 2019**
We expect overall activity to stay more or less in a holding pattern over the coming year as rising interest rates, the mortgage stress test, market-cooling measures in BC and stretched affordability continue to exert significant restraint on homebuyer demand. Our view is that these factors will limit the home resale recovery to a small 2.8% gain in Canada in 2019, reversing just a fraction of the 10.2% decline we project for 2018. Perhaps more importantly, these factors will also significantly constrain buyers’ purchasing budgets. We project Canada-wide prices to increase just barely by 0.8% next year following a 3.1% gain this year (and an average rise of more than 10% in the past two years).