

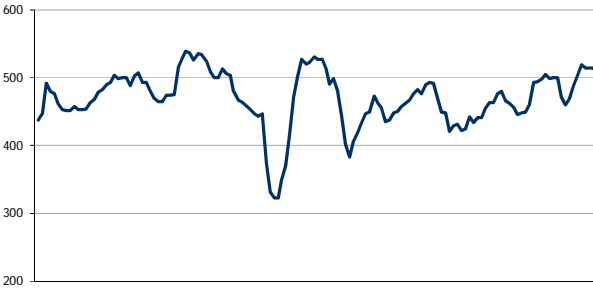


# MONTHLY HOUSING MARKET UPDATE

October 15, 2015

## Home resales in Canada

Thousand units, S. A. A. R.



Source: CREA, RBC Economics Research

## Sales-to-new listings ratio in Canada

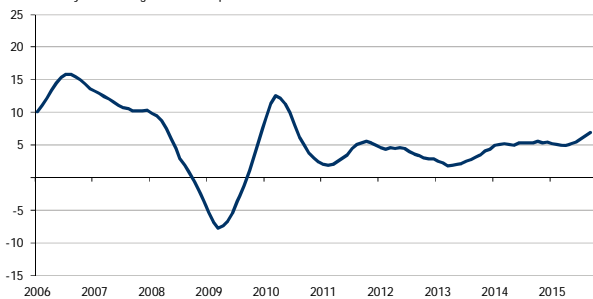
S. A., monthly



Source: CREA, RBC Economics Research

## MLS Home Price Index - Canada

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

## Home resales in Canada ease in September; prices accelerate further

Home resale activity remained quite brisk overall in Canada in September but eased a little from levels in August. Statistics released this morning by the Canadian Real Estate Association (CREA) showed that home resales fell by 2.1% m/m nationwide in September, with declines registered in the majority of local markets, including Toronto, Vancouver and Calgary. Meanwhile, home prices continued their upward climb at an accelerating pace, reflecting still-tight demand-supply conditions in Canada's hot markets. CREA's MLS Home Price Index (HPI) composite for Canada rose at the fastest rate (6.9% y/y) since July 2010 on the strength of double-digit advances in British Columbia and the Greater Toronto Area. Outside of these markets, pricing conditions remained quite tame. Calgary even saw its first (very slight) y/y decline since August 2011.

The context behind the easing in resales in September varied considerably across local markets. For Toronto and Vancouver, the modest m/m declines occurred from near-record levels amid increasing signs of overheating markets. In the case of Calgary, however, the monthly drop in resales; 1) was more substantial (-7.5%) than in either Toronto (-3.5%) or Vancouver (-3.8%); 2) came from levels well below the 10-year average for the area; and 3) followed renewed weakness in global oil prices which no doubt delivered another blow to buyer confidence. In short, the September decline in resales is likely a positive development in Toronto and Vancouver—Canada's hot markets—and a source of concern in Calgary (and other markets in Alberta).

Elsewhere around the country, home resales fell noticeably in Edmonton and Winnipeg but rebounded very strongly in Halifax (albeit from depressed levels). Activity continued to recover modestly in Montreal and Ottawa.

### Key numbers from CREA's September report:

- Home resales declined by 2.1% in Canada between August and September 2015 (on a seasonally-adjusted basis), following a small 0.2% dip in August. Relative to a year-ago, resales were up slightly by 0.7% (unadjusted), which constituted a marked slowdown from a 4.1% increase recorded in August and a recent peak of 11.3% recorded in June.
- A majority of local markets saw a m/m drop in resales in September, including Calgary (-7.5%), Edmonton (-4.3%), Winnipeg (-4.2%), Vancouver (-3.8%) and Toronto (-3.5%). A number of markets registered gains, including Halifax (+39.3%), Montreal (+1.1%) and Ottawa (+0.9%). September resales were up from a year ago in the vast majority of markets in oil-consuming provinces, led by Victoria (+21.0%), Vancouver (+15.4%) and Ottawa (+9.7%). Resales in markets in oil-producing provinces were down substantially, however, with Calgary leading the way with a drop of 34.2%.
- New listings fell 2.1% m/m in Canada in September, after being flat in August and rising modestly by 0.5% in July. New listings dropped noticeably in Victoria (-13.1%) and Vancouver (-4.9%), and to a lesser extent in Montreal

### September Snapshot

	Home resales	New listings	MLS HPI (Composite)	Sales-to-new listings ratio
Region	Y/Y %change	Y/Y %change	Y/Y %change	
Canada	0.7	-2.8	6.9	0.57
Toronto	1.9	2.5	10.5	0.61
Montreal	4.4	-6.1	1.6	0.52
Vancouver	15.4	-7.4	13.7	0.73
Calgary	-34.2	-8.7	-0.1	0.54

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(-2.4%), Edmonton (-1.5%) and Toronto (-1.3%). New listings rose 3.7% m/m in Calgary. Relative to a year ago, new listings were down in the majority of markets, although Edmonton (+23.5%) bucked the trend.

- The sales-to-new listings ratio—a measure of demand-supply balance—remained unchanged in September for the fourth consecutive month at 0.57. The measure remains near the upper boundary of the 0.40 to 0.60 band typically associated with market balance, thereby indicating that upward price pressure is present despite being contained at the national level. The ratio remained elevated in Vancouver and Toronto, rising slightly to 0.73 in the former market and easing to 0.61 in the latter. Calgary saw a sharp 6.5 percentage point decline in the ratio; however at 0.54, it remained within balanced territory.
- Total inventory expressed in number of months' worth of sales ticked marginally higher to 5.7 from 5.6 in the four preceding months, and still well below the recent peak of 6.5 recorded in January 2015.
- The composite MLS HPI continued to increase at an accelerating pace overall in Canada with a y/y rise of 6.9% in September, up from 6.4% in August and this year's low of 5.0% registered during the February to April interval. The acceleration continued to reflect strong appreciation in markets in British Columbia—with gains of 13.7% in Vancouver, 12.4% in the Lower Mainland and 9.0% in the Fraser Valley—and in the Toronto area (up 10.5%). Within these markets, prices for single-detached homes rose at approximately twice the rate of condo apartment prices. The situation for home prices was quite different in other markets across Canada, where the MLS HPI was up mildly at best (e.g., 1.6% in Montreal and 0.3% in Ottawa) or down from a year ago (e.g. -4.1% in Regina, -0.3% in Saskatoon and -0.1% in Calgary).

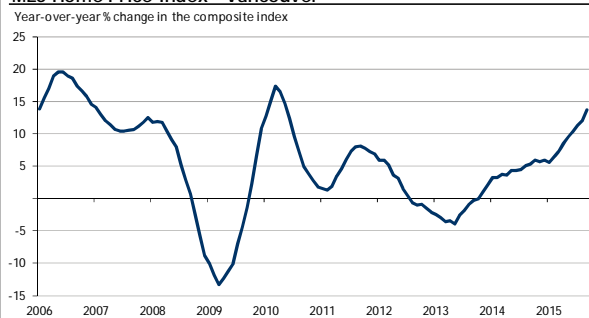
**Commentary**

Today's housing market statistics broadly reinforce the overarching theme that we have seen so far this year: Vancouver and Toronto continue to witness very strong activity while conditions in other local markets still range between recovering slowly to struggling. At the margin, this and the previous couple of reports show a broadening of the heat in British Columbia to a number of markets other than Vancouver. Given the contrasting economic and demographic prospects across provinces, this split in the local housing market is likely to persist in the near term.

This means that Canada's housing market faces opposing risks in the near term: potentially too much heat in Vancouver and Toronto, and too little in Calgary and other markets in oil-producing provinces. We expect that self-correcting mechanisms (e.g. deteriorating affordability, rising supply of newly built homes) eventually will emerge in high-priced markets such as Vancouver and Toronto, and steer these markets toward demand-supply balance; however, with sellers still so clearly in command at this stage, further price acceleration is likely to occur in the coming months. At the other end of the spectrum, we expect that the substantial uncertainty weighing on homebuyer demand in Alberta and other oil-producing provinces will eventually clear once oil prices begin to recover; however, such a development too may not be imminent, thereby causing further slowing in home resale activity in the coming months. In other words, opposing risks across regions of the country are unlikely to abate in the near future in Canada.

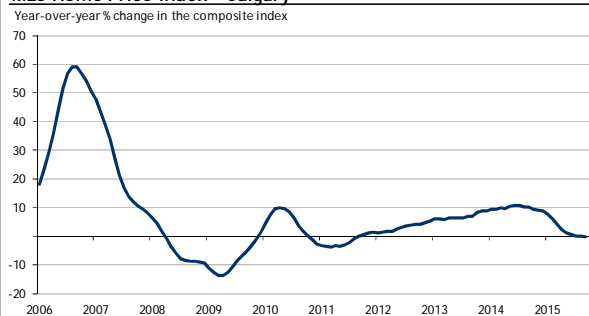
We forecast home resales in Canada to rise by 5.0% to 505,400 units in 2015, which would constitute the second-highest level on record. Our projection for the national market masks a sharp contrast at the provincial level, however, with strong gains in British Columbia and Ontario more than offsetting large declines in Alberta and Saskatchewan. We expect home resales in Canada to remain quite elevated in 2016, although easing off slightly by 0.7% from 2015 levels amid intensifying affordability pressures.

**MLS Home Price Index - Vancouver**



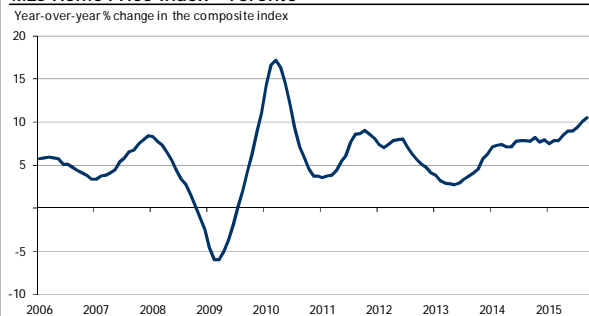
Source: CREA, RBC Economics Research

**MLS Home Price Index - Calgary**



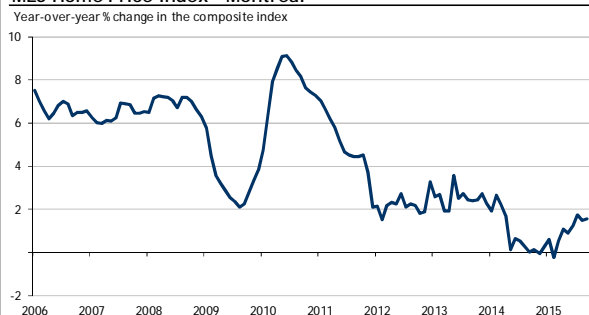
Source: CREA, RBC Economics Research

**MLS Home Price Index - Toronto**



Source: CREA, RBC Economics Research

**MLS Home Price Index - Montreal**



Source: CREA, RBC Economics Research

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