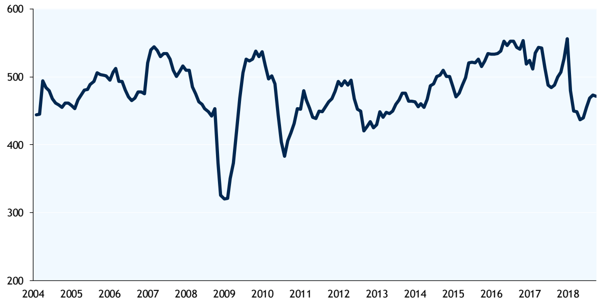
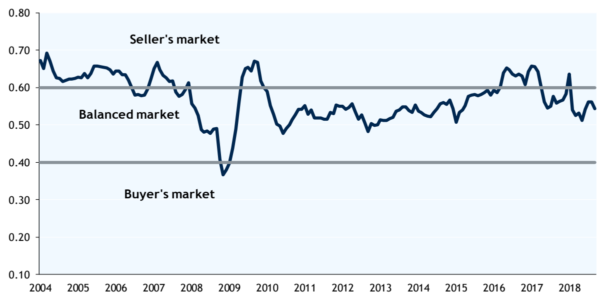
MONTHLY HOUSING MARKET UPDATE

October 15, 2018



Source: CREA, RBC Economics Research



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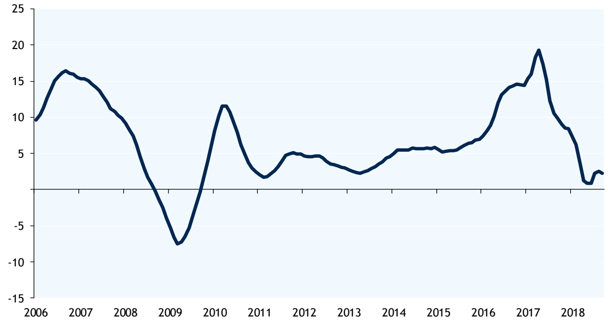

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Slower housing trends prevail in September

- Canada's housing market was pretty much as expected in September with resale activity remaining little changed from August (down 0.4%) and benchmark prices rising in the low single-digits (2.3%) relative to a year ago. This is in line with our view that the market has now entered a slower phase of recovery in the face of rising interest rates.
- A 3.0% monthly rise in new listings gave more options to buyers though it didn't disrupt demand-supply conditions—the majority of local markets remained balanced.
- Vancouver and Toronto saw slight monthly declines in resales in September, as well as modest annual price increases (up 2.2% and 2.0% year-over-year, respectively). Both markets are likely to stay under pressure because they are highly sensitive to interest rate increases.
- Montreal's impressive run continued with resales climbing 1.9% between August and September. Along with Ottawa, Montreal is among the tightest markets in Canada right now—yet prices aren't getting out of hand.
- The cooling of Canada's market—especially Vancouver and Toronto—remains on track. We expect overall activity to stay more or less in a holding pattern over the coming year and price gains to be limited.

Market recovery's stalling wasn't a surprise

There were no real surprises in this morning's statistics from the Canadian Real Estate Association. Home resales' four month-old recovery stalled in September and the annual rate of price appreciation inched marginally lower to 2.3% from 2.5% in August. We believe that rising interest rates, the mortgage stress test, market-cooling measures in this year's BC budget and affordability issues in key markets constitute significant restraining factors at this stage. We expect these factors to keep overall market conditions cool over the next little while.

More options for buyers

Not that long ago, a lack of supply was often an issue limiting activity, especially in Vancouver and Toronto. Not anymore. In September, new listings rose 4.4% m/m in Vancouver and 5.2% in Toronto. Yet, resales fell by 1.5% and 0.5%, respectively. The upshot for buyers is that they're seeing more options in the marketplace. In Toronto, this easing in demand-supply conditions reversed part of the tightening that occurred over the summer—

September snapshot

Region	Home resales Y/Y %change	New listings Y/Y %change	MLS HPI (Composite) Y/Y %change	Sales-to-new listings ratio
Canada	-8.9	-3.2	2.3	0.54
Toronto	1.2	-3.3	2.0	0.51
Montreal	7.8	-7.1	6.1	0.74
Vancouver	-43.3	-2.2	2.2	0.42
Calgary	-12.9	-5.5	-2.6	0.47

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though balance prevailed. In Vancouver, the easing has brought the market closer to buyers' market position. This explains why Vancouver's benchmark price has been under significant downward pressure lately, including in September.

Softer activity was broadly based

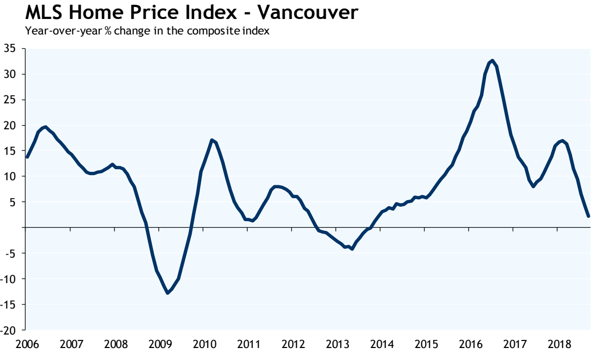
Vancouver and Toronto were far from alone in experiencing a monthly drop in home resales in September. Edmonton (down 3.7%), Calgary (down 1.7%), Saskatoon (down 1.9%) and Winnipeg (down 0.9%) also posted declines in the month. Clearly, pressures from the mortgage stress test and higher interest rates exert a widespread impact across Canada.

Montreal emerges as one of Canada's strongest markets

While not entirely immune to the factors slowing the majority of markets down, Montreal continues to carry impressive momentum at this time. Resales in the area rose 1.9% m/m in September, which brought the gain relative to a year ago to 7.8%—second only to Hamilton's 7.9% advance. And this was realized despite new listings declining 2.8% in the month. Montreal, along with Ottawa, is now among the tightest markets in Canada. Montreal's sales-to-new listings ratio of 0.74 in September places sellers squarely in the driver's seat. This will continue to support the current upward trend in prices in the near term.

Cooler conditions likely to persist in 2019

There was little to displease policy makers in the September data. The cooling of Canada's market—especially Vancouver and Toronto—remains on track. 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).



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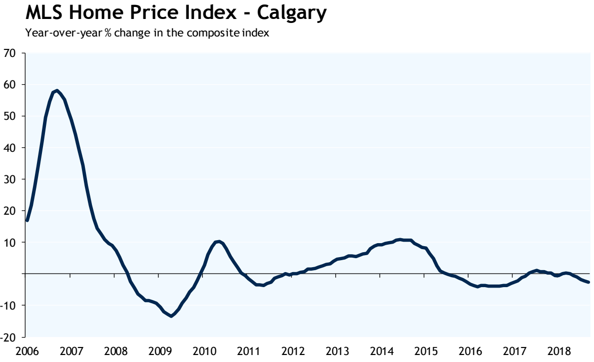

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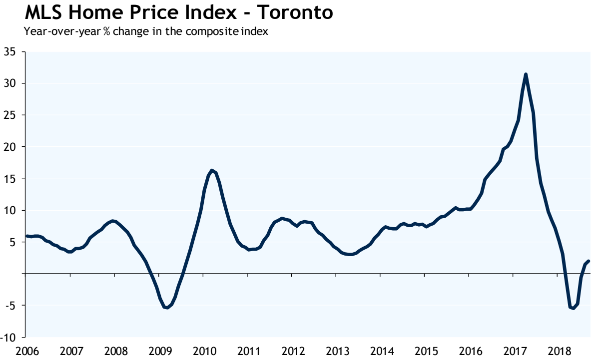

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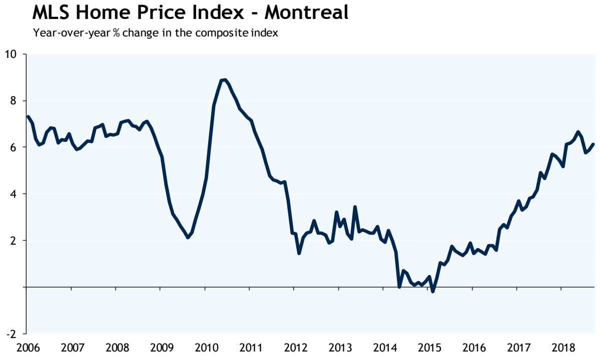

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