RBC ECONOMICS | RESEARCH

MONTHLY HOUSING MARKET UPDATE

September 15, 2017

Home resale activity finds its footing in August; price pressures continue to ease

- Canada's housing market isn't becoming unhinged. Data for August, in fact, provided hints that the ongoing correction may soon be over.
- Home resales picked up for the first time in five months in August.
- Demand-supply conditions tightened slightly—though remained balanced.
- For now, price appreciation continues to moderate on a year-over-year basis. This moderation is welcome.
- In Toronto, the sharp four-month slide in activity ended with resales rising by 14.3% from July. The slowing in the rate of price increases continued, however.
- In Vancouver, resales ticked higher following three months of declines, and prices accelerated slightly.
- Our view remains that Canada's market is in the process of transitioning to a more moderate level of activity in an environment marked by tighter policy, rising interest rates and poor affordability in certain regions.

Bottom of the resale cycle reached in Ontario?

To be sure, the correction in market activity since April has been steep in Ontario. But it now looks like the bottom may have been reached. Seasonally-adjusted statistics released this morning by the Canadian Real Estate Association (CREA) showed that home resales rebounded by 4.4% in August in the province. That's after sliding by 32% between April and July. The Toronto area led the way with resales climbing by 14% between July and August. By no means do last month's increases signal strong levels of activity—August resales were still down by 4.5% in Ontario relative to their 10-year average for the month and by almost 16% in Toronto. Rather, we view them as evidence of a correction overshoot in previous months. We expect further reversal of the overshoot in the near term as market participants increasingly regain confidence in the market.

Constructive price adjustments still ongoing

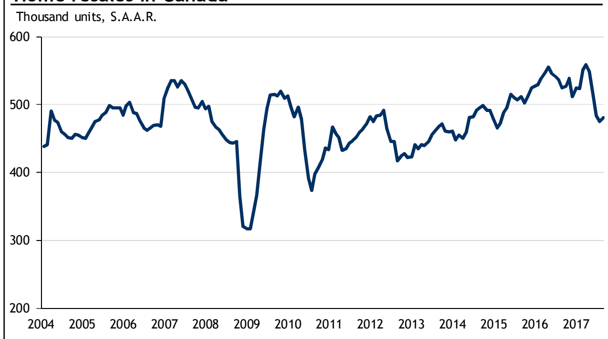
The Toronto-area benchmark price fell for a third-straight time in August on a month-over-month basis. It contributed to slow the year-over-year rate down further to 14.3% from 18.1% in July and a cyclical peak of 31% in April. This cooling in Toronto prices in the past four months is a big deal. This is exactly what policymakers hoped to achieve with policy measures taken to date—including those in Ontario's Fair Housing Plan. Our view is that it's been a positive development that lowers the market's vulnerability to an unexpected shock. But the scope for further cooling is limited in our opinion, as we believe that the market has largely adjusted to those policy changes. Demand-supply conditions tightened modestly in August after swing sharply in favour of buyers in the previous two months. We expect downward pressure on prices to ease gradually in the period ahead.

Vancouver-area market has a solid month in August

August snapshot

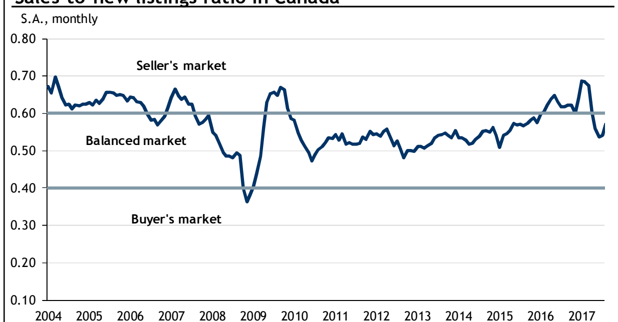
Region	Home resales Y/Y %change	New listings Y/Y %change	MLS HPI (Composite) Y/Y %change	Sales-to-new listings ratio
Canada	-9.9	-2.0	11.2	0.57
Toronto	-35.2	-7.1	14.3	0.52
Montreal	8.1	-3.7	4.6	0.63
Vancouver	21.3	-1.4	9.4	0.68
Calgary	2.5	11.3	0.8	0.50

Home resales in Canada



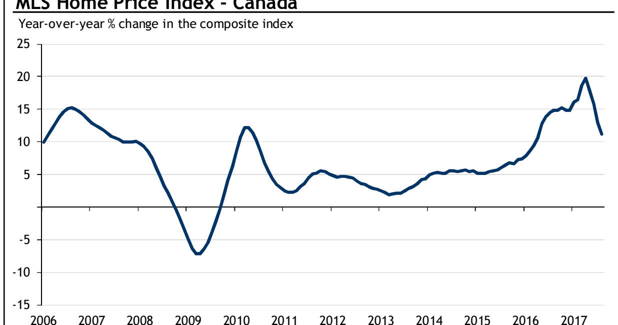
Source: CREA, RBC Economics Research

Sales-to-new listings ratio in Canada



Source: CREA, RBC Economics Research

MLS Home Price Index - Canada



Source: CREA, RBC Economics Research

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Vancouver-area home resales snapped their three-month weakening streak in August. Resales jumped 7.3% from July and exceeded the 10-year average for the month by almost 18%. This strength contributed to tip the demand-supply scale a little more in favour of sellers. That being said, the degree of market tightness at present pales in comparison to what it was at the peak of Vancouver's cycle in late 2015-early 2016. The sales-to-new listings ratio was then at a 10-year high of 0.84. It was 0.68 in August. The latest reading of the ratio is consistent with moderately strong upward pressure on prices—pretty much what the increase in Vancouver's benchmark price showed. The year-over-year rise in the benchmark accelerated to 9.4% in August from 8.7% in July. We expect further modest acceleration in the near term.

Montreal market still a good news story but takes a breather

Home resale activity continues to be brisk at historically high levels in the Montreal area. A slight slip in monthly momentum in August—resales inched 2.6% lower relative to July—was merely a bump on the road. Montreal's regional economy shows impressive signs of vigour lately, and this should continue to support the market in the short term. The strengthening of demand in the past year has tightened demand-supply conditions in the area. Sellers now wield a little more power over prices, which has pushed property values gradually higher. Montreal's benchmark price was up 4.6% year-over-year in August compared to 2.5% in August 2016. We see some scope for prices to rise some more in the near term, although future increases should remain well under control.

Outlook: further moderation in store

Recent data has been largely in line with our view that 2017 will mark a weakening in home resale activity in Canada. Our forecast calls for a decline of 3.7% from last year to 515,500 units. The data however points to some upside risk to the price forecast we published in June. We currently monitor a gain of 9.8% overall in Canada for the composite price compared to a 7.8% advance we projected in June. Our outlook for 2018 shows further weakening in home resales nationwide and a sharp deceleration in price increases as housing policy changes, poor affordability in some markets and rising interest rates dampen activity. We project resales to decline by 5.3% and the price benchmark to rise by just 1.2% next year.