MONTHLY HOUSING MARKET UPDATE

September 16, 2019

Market recovery in full swing in August

- **Home resales rise for a six-straight month**: The cumulative gain since the February trough is 16.6% and rising. In August, resales were up 1.4% from July on a seasonally-adjusted basis. This further tightened demand-supply conditions (ever so slightly) at the national level with the sales-to-new listings ratio (0.60 in August) at the threshold of a sellers' market.

- **National benchmark price picks up momentum**: Its y/y rate of increase accelerated from 0.2% in July to 0.9% in August. The benchmark rose at an annualized rate of 7.5% over the past three months.

- **August was a good month for the majority of local markets**: There were further signs of early-stage recovery in Vancouver, Calgary and Edmonton (though prices were still down year-over-year). Activity approached more normal levels and prices continued to accelerate modestly in Toronto. Ottawa and Montreal set new record highs for the month (once again). And conditions remain reasonably positive in most of Atlantic Canada.

- **Ottawa prices escalating at close to a double-digit rate**: The national capital, along with Montreal, have been the two hottest housing markets in the country this year. Very tight demand-supply conditions will continue to drive property values higher in the near term.

- **Market outlook improves**: The drop in mortgage rates this year along with still-solid job prospects and strong population growth are setting the stage for the housing market rebound to continue into next year. We have boosted our forecast for home resales and prices this year and next.

An impressive six-month rally

Make that six—the number of consecutive monthly increases in home resales in Canada. And two—the number of months during which the national benchmark price now has exceeded its year-ago level. This morning’s report from the Canadian Real Estate Association (CREA) showed that home resales in Canada have surged 16.6% in the past six months, including a 1.4% m/m gain in August. This should put to rest concerns of a protracted housing correction. The market is now clearly past its cyclical bottom and recovering smartly, although the turnaround is more tentative in western markets. Still, the rally isn’t signaling the imminent return of overheated conditions. It speaks as much about the depths reached earli-

### August snapshot

<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>5.0</td>
<td>-1.7</td>
<td>0.9</td>
<td>0.60</td>
</tr>
<tr>
<td>Toronto</td>
<td>12.8</td>
<td>-3.1</td>
<td>4.9</td>
<td>0.59</td>
</tr>
<tr>
<td>Montreal</td>
<td>10.2</td>
<td>-4.2</td>
<td>7.5</td>
<td>0.79</td>
</tr>
<tr>
<td>Vancouver</td>
<td>15.0</td>
<td>-3.2</td>
<td>-8.3</td>
<td>0.51</td>
</tr>
<tr>
<td>Calgary</td>
<td>5.4</td>
<td>-7.4</td>
<td>-2.7</td>
<td>0.56</td>
</tr>
</tbody>
</table>

Source: CREA, RBC Economics Research
er this year (when resales were at a seven-year low in February) as the recovery's vigour. Vancouver is a case in point. While it led the rally with activity surging nearly 50% since February (including a 2.6% gain in August), resales remained 14% below their 10-year average and the MLS Home Price Index (HPI) was still down 8.3% from a year ago. Activity in Toronto also has rebounded a strong 28% from a low base six months ago but this only brought things back to the 10-year average. Toronto's MLS HPI is gathering a bit of steam, though (now up 4.9% y/y compared to 2.4% in February). In Calgary and Edmonton, the resale rally (up 19% and 12% in the past six months, respectively) so far has only managed to stabilize the rate of price declines (-2.7% y/y in Calgary and -2.6% in Edmonton in August).

Market temperature getting hotter in Ottawa and Montreal
If there's little risk of overheating at the national level at this stage, a couple of markets continue to be more susceptible. Ottawa and Montreal boast the tightest demand-supply conditions (with sales-to-new listings ratio of 0.78 and 0.79, respectively, in August) and fastest-rising prices (MLS HPI up 9.4% and 7.5% y/y, respectively). Double-digit rates of appreciation could be in sight, especially in Ottawa. The risk is that further acceleration might set off unwanted speculative dynamics.

Raising our forecast
With the recovery proceeding more quickly than previously anticipated and a lower profile for interest rates now expected in the period ahead, we have boosted our forecast for both home resales and prices in Canada. We now project resales to increase by 4.6% in 2019 and 5.8% in 2020 (up from 0.0% and 4.5%, respectively, previously) and prices to rise by 0.8% in 2019 and 3.5% in 2020 (from -0.6% and 1.6% previously). The lower expected interest rate profile has effectively turned what was earlier seen as a headwind for the housing market into a modest tailwind. Strong population growth and a solid labour market will continue to be constructive factors fueling home buyer demand. The federal election next month could potentially introduce a policy wildcard. Housing—and especially housing affordability—will be a hotly debated topic where all parties will do their best to score points with prospective home buyers (many of them millennials).