

## CANADIAN HOUSING FORECAST UPDATE

February 9, 2015

The steep drop in oil prices since last summer continued to reshape the economic and financial landscape for Canada's housing market recently. In the first week of February, we made changes to our economic and interest rate forecasts, which have prompted us to revise the housing market projections for Canada and the provinces for 2015 and 2016 that we issued on [January 15](#).

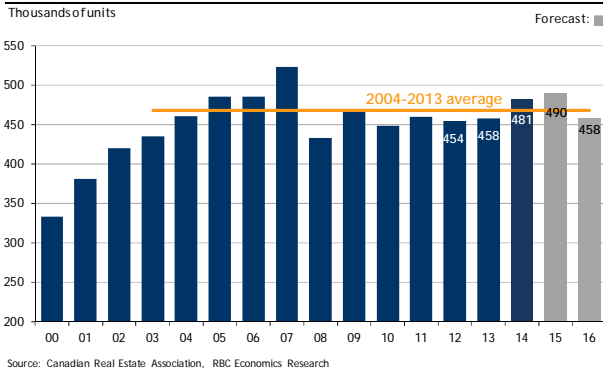
These changes include:

- downgrade to our oil price assumptions for 2015 and 2016 – we now assume WTI to average US\$53 per barrel in 2015 (down from US\$65 in the previous housing forecast report) and US\$77 in 2016 (up slightly from US\$74 previously);
- the surprise interest rate cut by the Bank of Canada and resulting downward revision to our interest rate forecasts this year and next—we expect another 25 basis point cut by the Bank in the near term and historically low bond yields to rise more gradually than we assumed previously;
- substantial depreciation in the Canadian dollar (versus the US dollar) and resulting downward revision to our Canadian dollar forecast—now projected to end 2015 at US\$0.75/C\$ (compared to US\$0.85 in January) and 2016 at US\$0.78 (versus US\$0.82 assumed previously); and
- re-allocation of economic growth across the country, whereby we marked down our growth expectations substantially for Alberta and, to a lesser extent, for Newfoundland and Labrador and Saskatchewan, and boosted our real GDP forecasts for net oil consuming provinces. On net, Canadian real GDP growth was lowered slightly to 2.4% from 2.7% previously.

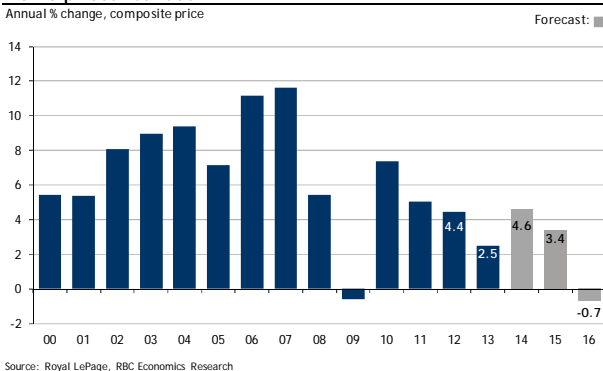
We believe that overall home resales and prices in Canada will benefit in 2015 from these revisions—with a lower expected path for interest rates providing much of the lift—however, performance at the provincial level will be much more differentiated than in our January forecast, with stronger projected gains in Ontario, BC, Manitoba and Quebec contrasting starkly with more material downturns in Alberta, Saskatchewan and parts of Atlantic Canada.

Our revised forecast shows a slight increase of 1.7% in home resales overall in Canada to 489,500 units in 2015, despite notable declines in Alberta (-16%) and, to a lesser extent, Saskatchewan (-9%) and the Atlantic region (-1.0%). For Canada, this represents an upward revision from flat resales forecasted previously. This revision mainly reflects the lower anticipated trajectory for interest rates, which we believe will continue to

### Home resales: Canada



### Home prices: Canada



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Forecast assumptions			
	%		
	2014	2015f	2016f
BoC overnight rate (year-end)	1.00	0.50	2.00
5-year bond yield (year-end)	1.34	1.80	2.80
Population growth (y/y)	1.1	1.0	1.0
Oil prices (WTI, avg. US\$/bbl)	93	53	77
Unemployment rate			
Canada	6.9	6.4	6.3
British Columbia	6.0	5.6	5.5
Alberta	4.7	5.7	5.3
Saskatchewan	3.7	4.5	4.3
Manitoba	5.4	5.0	4.9
Ontario	7.2	6.4	6.1
Quebec	7.7	7.3	7.1
Atlantic	9.9	9.8	9.8

stimulate homebuyer demand in net oil-consuming provinces in 2015. On the other hand, the downgraded oil price assumptions for 2015 are seen to weigh more significantly on economic growth and housing demand in Alberta, Saskatchewan, and Newfoundland and Labrador.

Our forecast shows a modest increase of 3.4% in home prices nationwide in 2015 (revised higher from 2.5% previously), although this will primarily reflect more solid property appreciation in BC (5.6%) and Ontario (5.2%). We expect slight price declines in Alberta (-0.5%) and Saskatchewan (-3.2%). Prices gains are projected to be subdued in all other provinces this year.

The housing outlook for 2016 remains challenging. While starting from lower bases, we continue to anticipate a rise in interest rates, which would contribute to deterioration in housing affordability and weigh on housing demand. Our base-case scenario calls for a 6.4% drop in home resales nationally to 458,100 units next year, with declines registered in all provinces. It also calls for prices to edge lower by 0.7% overall, with larger drops taking place in Alberta (-2.6%) and BC (-1.4%).

Downside risks to our base case housing scenario are material, especially considering the high volatility in global oil markets; however, there are upside risks as well that could emanate from several sources, including stronger-than-expected economic growth. Our January 15 [Canadian Housing Forecast report](#) provides a more detailed discussion of risks facing Canada's market.

## Home resales forecast (units)

	2008	2009	2010	2011	2012	2013	2014	2015f	2016f
Canada*	433,100	466,200	447,900	459,500	454,300	457,600	481,200	489,500	458,100
	<i>-17.1</i>	<i>7.6</i>	<i>-3.9</i>	<i>2.6</i>	<i>-1.1</i>	<i>0.7</i>	<i>5.2</i>	<i>1.7</i>	<i>-6.4</i>
British Columbia	68,900	85,000	74,600	76,700	67,600	72,900	84,000	92,800	84,300
	<i>-33.0</i>	<i>23.4</i>	<i>-12.2</i>	<i>2.8</i>	<i>-11.9</i>	<i>7.8</i>	<i>15.2</i>	<i>10.5</i>	<i>-9.2</i>
Alberta	56,000	57,500	49,700	53,800	60,400	66,100	71,800	60,500	59,300
	<i>-21.1</i>	<i>2.7</i>	<i>-13.6</i>	<i>8.2</i>	<i>12.3</i>	<i>9.4</i>	<i>8.6</i>	<i>-15.7</i>	<i>-2.0</i>
Saskatchewan	10,500	11,100	10,900	13,100	13,900	13,500	13,900	12,700	12,400
	<i>-16.0</i>	<i>5.7</i>	<i>-1.8</i>	<i>20.2</i>	<i>6.1</i>	<i>-2.9</i>	<i>3.0</i>	<i>-8.6</i>	<i>-2.4</i>
Manitoba	13,400	13,100	13,100	13,900	13,900	13,700	13,800	13,900	13,500
	<i>-3.6</i>	<i>-2.2</i>	<i>0.0</i>	<i>6.1</i>	<i>0.0</i>	<i>-1.4</i>	<i>0.7</i>	<i>0.7</i>	<i>-2.9</i>
Ontario	182,300	197,000	196,700	201,500	197,600	198,500	206,000	215,700	198,700
	<i>-15.1</i>	<i>8.1</i>	<i>-0.2</i>	<i>2.4</i>	<i>-1.9</i>	<i>0.5</i>	<i>3.8</i>	<i>4.7</i>	<i>-7.9</i>
Quebec	76,800	79,100	80,000	77,200	77,400	71,200	70,700	73,100	69,600
	<i>-4.7</i>	<i>3.0</i>	<i>1.1</i>	<i>-3.5</i>	<i>0.3</i>	<i>-8.0</i>	<i>-0.7</i>	<i>3.4</i>	<i>-4.8</i>
Atlantic Canada	24,500	22,800	22,500	22,900	23,100	21,200	20,600	20,400	19,900
	<i>-6.8</i>	<i>-6.9</i>	<i>-1.3</i>	<i>1.8</i>	<i>0.9</i>	<i>-8.2</i>	<i>-2.8</i>	<i>-1.0</i>	<i>-2.5</i>

\* Includes sales in the Territories.

*Annual percent changes are in italics.*

Source: Canadian Real Estate Association, RBC Economics Research

## Home price forecast

Composite price	2008	2009	2010	2011	2012	2013	2014f	2015f	2016f
Canada*	299,600	297,800	319,800	336,000	350,900	359,500	376,000	388,600	385,900
	<i>5.5</i>	<i>-0.6</i>	<i>7.4</i>	<i>5.1</i>	<i>4.4</i>	<i>2.5</i>	<i>4.6</i>	<i>3.4</i>	<i>-0.7</i>
British Columbia	457,100	447,000	493,000	525,100	528,200	524,100	545,600	576,200	568,100
	<i>7.6</i>	<i>-2.2</i>	<i>10.3</i>	<i>6.5</i>	<i>0.6</i>	<i>-0.8</i>	<i>4.1</i>	<i>5.6</i>	<i>-1.4</i>
Alberta	346,800	324,400	330,500	330,100	339,600	353,000	372,300	370,600	360,800
	<i>-6.3</i>	<i>-6.5</i>	<i>1.9</i>	<i>-0.1</i>	<i>2.9</i>	<i>3.9</i>	<i>5.5</i>	<i>-0.5</i>	<i>-2.6</i>
Saskatchewan	295,300	288,800	307,700	321,600	341,400	355,100	355,700	344,200	342,500
	<i>24.6</i>	<i>-2.2</i>	<i>6.5</i>	<i>4.5</i>	<i>6.2</i>	<i>4.0</i>	<i>0.2</i>	<i>-3.2</i>	<i>-0.5</i>
Manitoba	220,600	232,800	254,900	268,700	286,000	299,800	305,200	312,400	315,600
	<i>9.8</i>	<i>5.5</i>	<i>9.5</i>	<i>5.4</i>	<i>6.4</i>	<i>4.8</i>	<i>1.8</i>	<i>2.4</i>	<i>1.0</i>
Ontario	314,900	313,100	337,400	355,600	379,000	393,400	418,900	440,600	438,800
	<i>6.1</i>	<i>-0.6</i>	<i>7.8</i>	<i>5.4</i>	<i>6.6</i>	<i>3.8</i>	<i>6.5</i>	<i>5.2</i>	<i>-0.4</i>
Quebec	210,000	216,800	231,900	245,200	255,300	259,500	267,900	274,200	273,200
	<i>6.1</i>	<i>3.2</i>	<i>7.0</i>	<i>5.7</i>	<i>4.1</i>	<i>1.6</i>	<i>3.2</i>	<i>2.4</i>	<i>-0.4</i>
Atlantic Canada	187,200	194,200	203,600	213,300	223,200	227,800	231,000	233,900	233,800
	<i>8.5</i>	<i>3.7</i>	<i>4.8</i>	<i>4.8</i>	<i>4.6</i>	<i>2.1</i>	<i>1.4</i>	<i>1.3</i>	<i>0.0</i>

\* Weighted average, using provincial population as weights.

*Annual percent changes are in italics.*

Source: Royal LePage, Statistics Canada, RBC Economics Research

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