



CANADIAN HOUSING MARKET FORECAST

October 2017

Soft landing to continue in 2018

We're still in the early phase of a prolonged cooling process of Canada's housing market. We expect that rising interest rates will drive the next phase in 2018—and quite possibly beyond. This factor will come to prominence after suites of policy measures brought forward by federal authorities and provincial governments in British Columbia and Ontario cooled some of the country's overheated markets this year. We believe that higher rates will strain affordability—already stretched in major markets—and, ultimately, restrain homebuyer demand. There is potential for further tightening in housing policy although we have not factored this into our forecast formally at this point. We project resale activity to fall for a second consecutive year in Canada in 2018, and prices to rise at a significantly slower pace.

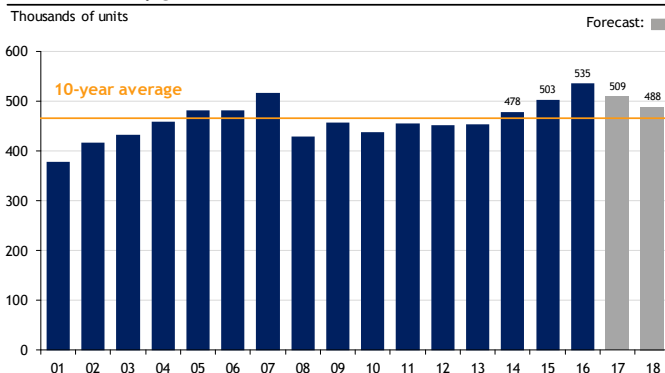
Canada

We expect the Bank of Canada to hike its overnight rate by another 100 basis points to 2% by the end of 2018. Including the 50 basis-point increase already implemented since mid-July, the projected cumulative rise of 150 basis points would constitute the most significant monetary policy tightening in Canada since 2007. And pressures arising from longer-term rates—which we forecast to climb in tandem with short-term rates—are poised to build even more intensely. We project the 5-year Canada bond yield to reach 2.7% by the end of 2018 or roughly 160 basis points higher than where it was at the start of 2017. This would represent biggest increase over a two-year period since early 1995.

Our forecast calls for home resales to decline by 4.2% in 2018 following a 4.8% drop in 2017. These would only partially reverse the solid increases that occurred between 2014 and 2016, which propelled the number of transactions to an all-time high of 535,200 units in 2016. At 488,000 units next year, our projected sales level would still represent brisk activity. It would stand well above the 10-year average of 471,700 units.

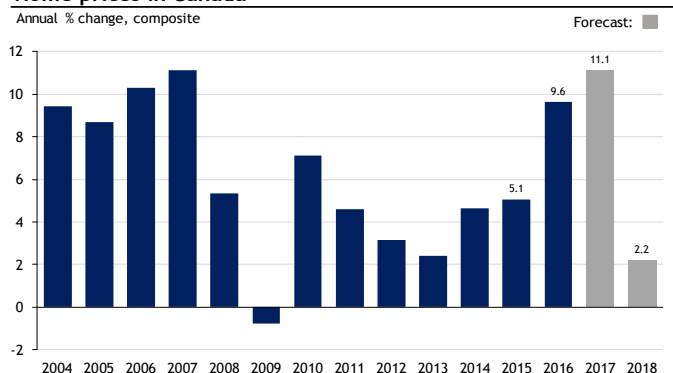
Despite generally softening activity, we expect demand-supply conditions to be balanced in the majority of local markets next year. This would maintain some degree of support for home prices albeit considerably less than what the super-tight conditions provided in the early stages of 2017. Accordingly, we project a sharp deceleration in price increases from 11.1% in 2017 to just 2.2% in 2018 nationwide. These constitute upward revisions from our June forecasts of 7.8% and 1.2%, respectively. Recent data showed that the inflection point for prices occurred a little later than we anticipated previously. We therefore delayed the timing of the price moderation cycle.

Home resales: Canada



Source: Canadian Real Estate Association, RBC Economics Research

Home prices in Canada



Source: Brookfield RPS, Royal LePage, CREA, RBC Economics Research

Robert Hogue

Senior Economist | 416-974-6192 | robert.hogue@rbc.com

Provinces

British Columbia: We project home resales to decline by 8.0% to 93,100 units and prices to rise by only 1.5% next year. Our view is that the BC market will be particularly sensitive to higher borrowing rates, as they will take a further toll on already-strained housing affordability in markets such as Vancouver and Victoria. Policy measures—including a 15% tax on purchases by foreign nationals in Metro Vancouver—implemented last year contributed to cool activity markedly in the province in 2017. We forecast that these factors will cause home resales to fall by 9.8% this year. Yet demand-supply conditions remain surprisingly tight in the province at this stage. That’s because policy measures also prompted many would-be sellers to hold off listing their properties for sale earlier this year. Nonetheless, we expect gradual erosion in those market conditions, which will temper price increases next year.

Alberta: Rising interest rates will generate some bumps on the road but our view is that they won’t derail the market recovery in Alberta. In fact, we expect Alberta to be one of only two provinces showing an increase in home resales in 2018 (up 1.4% to 56,100 units). This would come on the heels of a projected 5.9% gain in 2017. Our forecast calls for modest price appreciation (2.3%) to continue next year.

Saskatchewan: Saskatchewan is the other province where we expect resales to grow next year, although the level of activity (forecasted to be 10,900 units) will continue to be depressed. Our projected 1.9% advance would constitute the first annual gain after three years of substantial declines in the province. We expect buyers to remain in the driver’s seat and prices to be effectively flat for a second-straight year in 2018.

Manitoba: The market is poised to lose a little bit of steam after sustaining record-high resale levels this year. We project home resales to ease slightly by 2.1% to 14,300 units in 2018—still strong historically. This wouldn’t disrupt the long-standing balance between demand and supply in the province. We expect moderate upward price pressure to persist. Our forecast calls for a price rise of 3.2% next year.

Ontario: The near-term outlook for Ontario’s housing market is dominated by the effects of the Fair Housing Plan introduced by the provincial government in April 2017. While we believe that the market over-corrected somewhat following to the plan, we expect that most of the decline in resales since April will be sustained. In our view, the plan eradicated a significant speculative element that is unlikely to return soon. Rising interest rates and stretched affordability will become increasingly restraining forces on homebuyer demand next year. We forecast home resales to fall by 4.6% to 210,700 units in 2018 on the heels of a material 9.0% decline this year. Importantly, we expect cooler market conditions to offer significantly less support for prices going forward. We project home prices to edge higher by just 1.1% in 2018, which would represent a sharp deceleration from the 18.9% surge that we now forecast in 2017.

Quebec: We expect the increase in interest rates next year to take some of the shine off the Quebec market after what’s likely to be a banner year in 2017. Our forecast calls for home resales to drop modestly by 3.0% from a record high of 82,200 units in 2017 to 79,700 units in 2018. It also calls for a moderation in home price increases from 4.2% to 2.8% over this interval, as demand-supply conditions ease a little. We expect homebuyer demand to continue to be supported by a vibrant provincial economy and solid labour market.

Atlantic Canada: Similarly, interest rates will be the central story in most of Atlantic Canada next year. We expect rising rates to be the main factor slowing home resales down in the region. For the most part, this slowing would come from historically high levels of activity in 2017—especially in New Brunswick and Prince Edward Island. Therefore, this would constitute a ‘soft landing’. We expect demand-supply conditions to remain generally balanced, which would keep prices on a slight upward track. We project low single-digit price increases in most provinces. Newfoundland is poised to be an exception, however. We expect tough economic times to continue to weigh significantly on homebuyer demand in the province and prolong the deep market slump next year. With buyers firmly in command of pricing, we project Newfoundland home prices to fall outright by 2.6% in 2017.

Forecast assumptions

%, unless specified otherwise

	2016	2017f	2018f
BoC overnight rate (year-end)	0.50	1.00	2.00
5-year bond yield (year-end)	1.15	2.00	2.70
Population growth (y/y)	1.2	1.2	1.2
Oil prices (WTI, avg. US\$/bbl)	43	51	53
Unemployment rate			
Canada	7.0	6.4	6.2
British Columbia	6.0	5.4	5.6
Alberta	8.1	7.8	6.9
Saskatchewan	6.3	6.3	5.9
Manitoba	6.1	5.4	5.3
Ontario	6.5	6.2	5.8
Quebec	7.1	6.1	5.9
Atlantic	10.0	9.8	9.8

Home resales forecast (units)

	2009	2010	2011	2012	2013	2014	2015	2016	2017f	2018f
Canada*	456,800 <i>6.6</i>	437,200 <i>-4.3</i>	456,000 <i>4.3</i>	451,000 <i>-1.1</i>	454,000 <i>0.7</i>	477,700 <i>5.2</i>	503,400 <i>5.4</i>	535,200 <i>6.3</i>	509,300 <i>-4.8</i>	488,000 <i>-4.2</i>
British Columbia	85,000 <i>23.4</i>	74,600 <i>-12.2</i>	76,700 <i>2.8</i>	67,600 <i>-11.9</i>	72,900 <i>7.8</i>	84,100 <i>15.4</i>	102,500 <i>21.9</i>	112,200 <i>9.5</i>	101,200 <i>-9.8</i>	93,100 <i>-8.0</i>
Alberta	57,900 <i>2.5</i>	50,000 <i>-13.6</i>	54,200 <i>8.4</i>	60,600 <i>11.8</i>	66,100 <i>9.1</i>	71,800 <i>8.6</i>	56,500 <i>-21.3</i>	52,200 <i>-7.6</i>	55,300 <i>5.9</i>	56,100 <i>1.4</i>
Saskatchewan	11,000 <i>5.8</i>	10,800 <i>-1.8</i>	13,000 <i>20.4</i>	13,700 <i>5.4</i>	13,400 <i>-2.2</i>	13,700 <i>2.2</i>	12,300 <i>-10.2</i>	11,300 <i>-8.1</i>	10,700 <i>-5.3</i>	10,900 <i>1.9</i>
Manitoba	13,100 <i>-2.2</i>	13,100 <i>0.0</i>	13,900 <i>6.1</i>	13,900 <i>0.0</i>	13,700 <i>-1.4</i>	13,800 <i>0.7</i>	14,000 <i>1.4</i>	14,600 <i>4.3</i>	14,600 <i>0.0</i>	14,300 <i>-2.1</i>
Ontario	187,500 <i>5.5</i>	185,800 <i>-0.9</i>	197,700 <i>6.4</i>	194,600 <i>-1.6</i>	195,000 <i>0.2</i>	202,500 <i>3.8</i>	221,700 <i>9.5</i>	242,700 <i>9.5</i>	220,800 <i>-9.0</i>	210,700 <i>-4.6</i>
Quebec	79,100 <i>3.0</i>	80,000 <i>1.1</i>	77,200 <i>-3.5</i>	77,400 <i>0.3</i>	71,200 <i>-8.0</i>	70,600 <i>-0.8</i>	74,100 <i>5.0</i>	78,100 <i>5.4</i>	82,200 <i>5.2</i>	79,700 <i>-3.0</i>
New Brunswick	7,000 <i>-7.9</i>	6,700 <i>-4.3</i>	6,600 <i>-1.5</i>	6,400 <i>-3.0</i>	6,300 <i>-1.6</i>	6,300 <i>0.0</i>	6,700 <i>6.3</i>	7,400 <i>10.4</i>	8,100 <i>9.5</i>	7,800 <i>-3.7</i>
Nova Scotia	9,900 <i>-7.5</i>	10,000 <i>1.0</i>	10,300 <i>3.0</i>	10,400 <i>1.0</i>	9,100 <i>-12.5</i>	8,900 <i>-2.2</i>	9,200 <i>3.4</i>	9,900 <i>7.6</i>	10,100 <i>2.0</i>	9,600 <i>-5.0</i>
Prince Edward Island	1,400 <i>-6.7</i>	1,500 <i>7.1</i>	1,500 <i>0.0</i>	1,500 <i>0.0</i>	1,400 <i>-6.7</i>	1,400 <i>0.0</i>	1,700 <i>21.4</i>	2,000 <i>17.6</i>	2,000 <i>0.0</i>	1,900 <i>-5.0</i>
Newfoundland & Labrador	4,500 <i>-6.3</i>	4,300 <i>-4.4</i>	4,500 <i>4.7</i>	4,400 <i>-2.2</i>	4,300 <i>-2.3</i>	4,200 <i>-2.3</i>	4,200 <i>0.0</i>	4,100 <i>-2.4</i>	3,700 <i>-9.8</i>	3,300 <i>-10.8</i>

* Includes sales in the Territories.

Annual percent changes are in italics.

Source: Canadian Real Estate Association, RBC Economics Research

Home price forecast

Aggregate price	2009	2010	2011	2012	2013	2014	2015	2016	2017f	2018f
Canada	309,000 <i>-0.8</i>	331,000 <i>7.1</i>	346,200 <i>4.6</i>	357,100 <i>3.1</i>	366,300 <i>2.6</i>	383,300 <i>4.6</i>	402,700 <i>5.1</i>	441,500 <i>9.6</i>	490,600 <i>11.1</i>	501,400 <i>2.2</i>
British Columbia	470,400 <i>-4.6</i>	504,800 <i>7.3</i>	533,000 <i>5.6</i>	528,400 <i>-0.9</i>	528,300 <i>0.0</i>	563,500 <i>6.7</i>	607,400 <i>7.8</i>	716,500 <i>18.0</i>	763,200 <i>6.5</i>	801,100 <i>5.0</i>
Alberta	359,400 <i>-5.7</i>	370,800 <i>3.2</i>	376,200 <i>1.5</i>	384,800 <i>2.3</i>	398,700 <i>3.6</i>	418,700 <i>5.0</i>	424,800 <i>1.5</i>	419,100 <i>-1.3</i>	430,100 <i>2.6</i>	440,100 <i>2.3</i>
Saskatchewan	258,600 <i>-1.7</i>	276,200 <i>6.8</i>	284,500 <i>3.0</i>	303,100 <i>6.5</i>	317,300 <i>4.7</i>	321,700 <i>1.4</i>	319,900 <i>-0.6</i>	322,900 <i>0.9</i>	323,100 <i>0.1</i>	323,500 <i>0.1</i>
Manitoba	202,900 <i>3.8</i>	221,000 <i>8.9</i>	235,800 <i>6.7</i>	251,700 <i>6.7</i>	260,300 <i>3.4</i>	269,500 <i>3.5</i>	273,300 <i>1.4</i>	276,900 <i>1.3</i>	290,300 <i>4.8</i>	299,700 <i>3.2</i>
Ontario	308,400 <i>0.5</i>	334,700 <i>8.5</i>	350,800 <i>4.8</i>	368,400 <i>5.0</i>	381,800 <i>3.6</i>	401,600 <i>5.2</i>	430,400 <i>7.2</i>	486,600 <i>13.1</i>	578,500 <i>18.9</i>	584,600 <i>1.1</i>
Quebec	238,500 <i>4.4</i>	256,000 <i>7.3</i>	271,700 <i>6.1</i>	278,900 <i>2.6</i>	283,100 <i>1.5</i>	288,200 <i>1.8</i>	292,600 <i>1.5</i>	303,200 <i>3.6</i>	315,900 <i>4.2</i>	324,700 <i>2.8</i>
New Brunswick	167,300 <i>1.3</i>	173,200 <i>3.5</i>	178,600 <i>3.1</i>	182,000 <i>1.9</i>	184,600 <i>1.4</i>	188,200 <i>2.0</i>	188,000 <i>-0.1</i>	196,000 <i>4.3</i>	193,500 <i>-1.3</i>	195,400 <i>1.0</i>
Nova Scotia	195,300 <i>2.1</i>	203,000 <i>3.9</i>	209,700 <i>3.3</i>	218,000 <i>4.0</i>	219,000 <i>0.5</i>	222,000 <i>1.4</i>	224,600 <i>1.2</i>	232,000 <i>3.3</i>	244,000 <i>5.2</i>	249,500 <i>2.3</i>
Prince Edward Island	178,000 <i>5.1</i>	182,800 <i>2.7</i>	186,400 <i>2.0</i>	185,500 <i>-0.5</i>	189,700 <i>2.3</i>	188,300 <i>-0.7</i>	196,600 <i>4.4</i>	205,100 <i>4.3</i>	215,700 <i>5.2</i>	218,900 <i>1.5</i>
Newfoundland & Labrador	206,200 <i>14.6</i>	226,300 <i>9.7</i>	236,700 <i>4.6</i>	252,000 <i>6.5</i>	269,900 <i>7.1</i>	276,800 <i>2.6</i>	281,100 <i>1.6</i>	281,200 <i>0.0</i>	287,100 <i>2.1</i>	279,500 <i>-2.6</i>

Annual percent changes are in italics.

Source: Brookfield RPS, Royal LePage, Statistics Canada, RBC Economics Research

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