

## MONTHLY HOUSING MARKET UPDATE

August 15, 2018

### Home resales in Canada

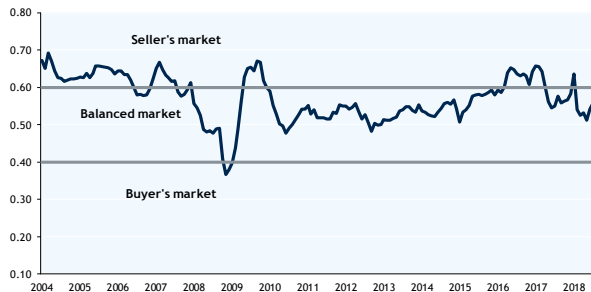
Thousand units, S.A.A.R.



Source: CREA, RBC Economics Research

### Sales-to-new listings ratio in Canada

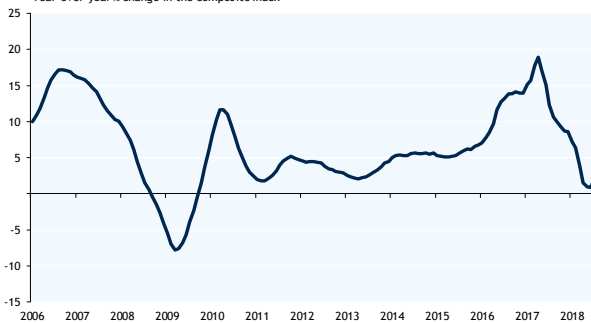
S.A., monthly



Source: CREA, RBC Economics Research

### MLS Home Price Index - Canada

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

## Toronto gain drove resales higher in Canada in July

- The Greater Toronto Area was the main housing story in Canada in July. It posted a solid 7.7% monthly resales gain and accounted for more than two-thirds of the 1.9% increase recorded at the national level. Activity was flat in Vancouver and Montreal.
- The GTA stood out in July thanks in part to more homes put up for sale. This wasn't the case in the majority of markets across the country, though. New listings fell markedly in Vancouver, Calgary and Edmonton, and to a lesser extent in Ottawa and Montreal. New listings dropped by 1.2% nationally.
- The national benchmark price appreciated at a faster rate (2.1% y/y) for the first time in 15 months. This primarily reflected a substantial easing in the pace of decline in the GTA—where prices are now close to flat year-over-year.
- We see little risk that prices will accelerate much further in the near term. Except in a few areas (including Ottawa and Montreal where sellers have a slight upper hand), demand-supply conditions are balanced in the majority of markets in Canada, which does not support rapid price growth. Vancouver prices are in fact decelerating at present.
- While potential sellers might still be dragging their feet at this point, we believe that Canada's housing market is making progress at adjusting to the new stress test. We expect resales to recover further and more broadly on a regional basis over the second half of this year. This recovery will be only partial, however. The stress test has pushed some buyers out the market and rising interest rates will exert a substantial restraining effect.

### More sales where more homes were put up for sale

July market results published this morning by the Canadian Real Estate Association were a bit of a mixed bag. Those hoping to see a broad-based pick-up in activity were likely disappointed. Resales did rise nationally on a month-over-month basis for a third-straight time in July to 463,300 units though more than two-thirds of the increase occurred in single market—the GTA. Activity was at a standstill in Vancouver, Edmonton and Montreal, and fell in Calgary. That said, buyers may not have been the cause for the lack of traction in most markets last month. In many cases, it looks like it was a drop in sellers. Widespread declines in new listings across Canada made it harder for buyers to find a suitable home. Where new listings rose—like in the GTA, Hamilton, Windsor and Regina—resales picked up. We believe that would-be sellers will warm up to the market as more compelling evidence of a recovery emerges.

### July snapshot

	Home resales	New listings	MLS HPI (Composite)	Sales-to-new listings ratio
Region	Y/Y %change	Y/Y %change	Y/Y %change	
Canada	-1.3	-2.6	2.1	0.56
Toronto	17.6	-2.1	-0.6	0.54
Montreal	4.1	-1.9	5.8	0.70
Vancouver	-30.0	-9.0	6.7	0.47
Calgary	-5.8	-0.2	-1.7	0.46



**Past an inflection point**

It took longer than we thought but it now appears that Canada’s housing market reached a cyclical bottom earlier this summer and is now in recovery mode. As always, local markets aren’t perfectly synchronized. For example, Vancouver resales are still being weighed down by policy measures introduced this spring by the BC government. And confidence has yet to rebuild meaningfully in Calgary and Edmonton. Still, with the GTA turning a corner, and Ottawa, Montreal and Halifax continuing to trend upwardly, we believe that there will be a critical mass of local markets boosting Canada-wide activity in the period ahead.

**Second-half’s recovery won’t erase big resales drop for the year...**

The modest recovery we anticipate over the coming months won’t make up for the extensive drop in resales that occurred over the first half of 2018. Thus we project resales to fall by 11.5% in Canada for the year as a whole. This would represent the second-consecutive annual decline—something we haven’t seen since the early 1990s at the national level.

**...especially in Ontario and British Columbia**

Ontario and British Columbia will account for most of this drop. We project resales to fall by 15.5% in Ontario and 20.5% in British Columbia in 2018, reflecting the sharp weakening that occurred over the first half of the year.

**Modest prices gains in the cards**

We don’t think that the price acceleration at the national level in July is a sign of an impending return of overheated conditions. We see limited scope for GTA prices—the main contributor to the acceleration—to sustain further material gains. The sharp easing in the rate of decline in the GTA in July was more about what happened a year ago (when prices fell significantly m/m) than the result of current vigour. In fact, the Toronto benchmark price slid down slightly on a month-to-month basis over the past two months. Our outlook for prices calls for a modest increase on an annual basis at the national level in 2018 with the aggregate benchmark for Canada rising by just 1.8%. This would constitute a significant slowdown from gains of nearly 10% in each of the past two years.

For a more detailed discussion of our housing outlook, see our [Canadian Housing Market Forecast](#) report released earlier today.

**MLS Home Price Index - Vancouver**

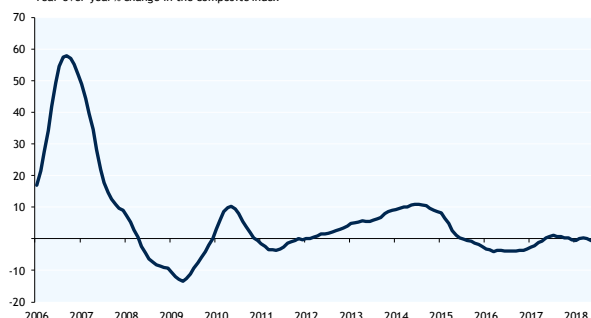
Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

**MLS Home Price Index - Calgary**

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

**MLS Home Price Index - Toronto**

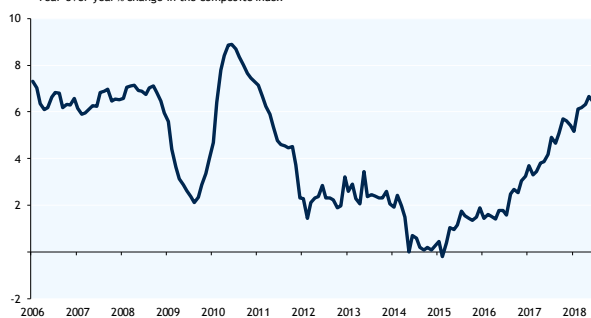
Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

**MLS Home Price Index - Montreal**

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

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