

MONTHLY HOUSING MARKET UPDATE

January 15, 2020

Home resales in Canada

Thousand units, seasonally adjusted and annualized



Source: CREA, RBC Economics

Sales-to-new listings ratio in Canada

Seasonally adjusted



Source: CREA, RBC Economics Research

MLS Home Price Index - Canada

Year-over-year % change in the composite index



Source: CREA, RBC Economics

Housing markets continued to tighten in December

- **Home sales dipped in the final month of 2019:** Unit sales declined on a monthly basis (-0.9%) for just the second time in 2019. Nonetheless, the fourth quarter of last year represented the strongest three-month period for resales since May 2017.
- **Lack of supply seems to be weighing on activity:** New listings fell for a fourth straight month in December. Aside from January 2018 when new stress tests kept would-be sellers on the sidelines, new listings haven't been this low in a decade.
- **Sellers are in the driver's seat:** With fewer homes being put on the market, the sales-to-new listings ratio climbed further in December, hitting its highest level since 2004. Sellers have the upper hand in most markets outside oil-producing provinces.
- **Home prices continued to accelerate:** Prices were up 3.4% from a year earlier, the fastest pace of growth since March 2018. Prices rose on a monthly basis in most markets tracked by the MLS HPI.
- **Demand-supply likely to remain tight in 2020:** With solid demand fundamentals (low interest rates, a solid labour market, and strong population growth) expected to remain in place, it will be tough for supply to keep up. Prices should rise further in 2020, exacerbating affordability challenges.
- **Sales and prices rose in 2019:** The 489,000 homes sold in 2019 was up 6.5% from a year earlier but remained 9.5% below 2016's record pace. The MLS Home Price Index crept 0.6% higher in 2019, marking a tenth consecutive annual gain but the slowest over that stretch.

Location, location, location? How about supply, supply, supply...

A pickup in home sales was the main story of 2019, but toward the end of the year it was supply that dominated the housing narrative. A pullback in new listings in the final four months of 2019 limited buyers' options and likely dampened the upward trend in resales that prevailed throughout last year. December saw the second-fewest new listings in the past decade, leaving the months of inventory on the market at its lowest level since 2007. Those who did list their homes clearly had the upper hand—the ratio of sales-to-new listings rose for a sixth straight month in December. By that measure, nation-wide market conditions haven't been this tight since 2004. More than 80% of markets in Ontario and BC, and many in Quebec, favour sellers (i.e. have a sales-to-new listings ratio of more than 0.6). Only in Canada's oil-producing provinces, where economic conditions have been softer, does market power tend to lean toward buyers.

December snapshot

Region	Home resales	New listings	MLS HPI (Composite)	Sales-to-new listings ratio
	Y/Y %change	Y/Y %change	Y/Y %change	
Canada	22.7	-3.2	3.4	0.67
Toronto	16.3	-18.0	7.3	0.70
Montreal	25.1	-3.7	9.4	0.91
Vancouver	87.0	14.5	-3.1	0.65
Calgary	10.9	0.8	-1.4	0.51



Slower resales concentrated in Ontario

Following nine consecutive monthly gains, Canada-wide resales pulled back in December, falling 0.9%. The decline was concentrated in Ontario where sales were down 4.4%, with areas outside of Toronto seeing the steepest declines. New listings in the province have been particularly low, suggesting lack of supply is restraining sales activity. New supply was also limited in Quebec, though that seems to be less of a barrier to market activity. Resales in the province rose nearly 2% in December, recording a fresh record high on a seasonally-adjusted basis. Activity also picked up further in BC, where a 2.5% increase in resales represented a sixth consecutive monthly gain. Conditions were a bit more mixed on the Prairies, though the largest markets in Alberta and Saskatchewan all recorded higher sales in the final month of 2019. For the country as a whole, an upward trend in home sales lost some momentum toward the end of last year. While activity is well above the lows seen around this time last year, resales remain some 7% off the highs seen in 2016 and 2017, according to CREA.

Hot markets outweigh cold in home price trends

With market conditions tilting further in sellers' favour, Canada-wide home prices rose for a seventh straight month in December. Prices were up 3.4% on a year-over-year basis, a rate that will only accelerate in the early months of 2020 thanks to easy year-ago comparisons. Monthly price gains have been particularly firm in Ottawa, Montreal, and BC markets in recent months. In terms of year-over-year gains, Ottawa is the country's hottest market (+12.5%) with Montreal not far behind (+9.4%). Even with sales slipping in the Toronto area, price growth continued to accelerate in December. And while prices in the Vancouver area remain below year-ago levels, that won't be the case for much longer. Meanwhile, prices continue to fall on a year-over-year basis on the Prairies, though with Calgary and Edmonton seeing some easing in the pace of decline.

A bit less momentum heading into 2020 but upward trends to persist

Notwithstanding some loss of momentum heading into the new year, we think home sales will remain on an upward trend in 2020. Solid labour markets in most provinces, strong population growth, and low interest rates—whether the Bank of Canada cuts its benchmark rate or not—should continue to support demand, and most markets appear to have adjusted to 2018's new stress tests. While higher prices and resales should be the norm, market conditions will remain diverse across the country. Scope for improvement is greatest in Alberta and Saskatchewan, and indications that the worst might be over for the energy sector raise the prospect that housing activity in those provinces will firm in 2020. In the country's hottest markets, supply is likely to be an important factor in how much further resales have to run, and the extent to which price growth continues to accelerate. As such, we continue to think policymakers would do well to focus on measures that address housing supply issues rather than stimulating demand.

MLS Home Price Index - Vancouver



Source: CREA, RBC Economics

MLS Home Price Index - Calgary



Source: CREA, RBC Economics

MLS Home Price Index - Toronto



Source: CREA, RBC Economics

MLS Home Price Index - Montreal



Source: CREA, RBC Economics

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