MONTHLY HOUSING MARKET UPDATE

February 14, 2020

Weather, low supply affected home sales in January

- Home resales fell in most markets last month: The decline from December totaled 2.9% overall in Canada. It was the biggest drop in almost a year though the 507,500 (annualized) units sold were still 5% above the 10-year average.

- Weather was an issue out west (and in Newfoundland): Snow storms in BC’s Lower Mainland and frigid temperatures in Alberta disrupted activity. Sales plummeted 18.5% from December in Vancouver and dipped 2.8% in Edmonton. A mega storm also hampered activity in Newfoundland.

- Low supply was a restraint out east: New listings either dropped or stayed low in January in Hamilton, Kitchener-Waterloo, Ottawa-Gatineau, Montreal, Moncton, Saint John and Halifax. A 6.5% increase in the Toronto area only partly offset outsized declines in the previous four months.

- Demand-supply conditions still generally favour sellers: Ottawa, Montreal, Saint John and Halifax remain super tight markets in the early stages of 2020. Conditions eased somewhat in Toronto but sellers continue to keep a firm grip on the market. Buyers have things relatively easier in the Prairies where they benefit from ample inventories.

- Upswing in home prices gathered more steam: The Canada-wide MLS Home Price Index rose at its fastest rate in January (4.7% year-over-year) in nearly two years. The index accelerated markedly over the past three months, led by strong gains in Ottawa, Montreal, and increasingly, Toronto and Vancouver.

- Current trends point to continued market tightness: Strong population growth, low unemployment and rising wages will keep fueling housing demand in the year ahead. Unless more sellers come out of the woodwork very soon, pressure is likely to build further on property values in many of Canada’s largest markets.

January isn’t a good read of activity but it is for prices

It’s always tricky to gauge momentum in the housing market during the low season (December to February). Any blips—up or down—tend to get amplified by the low levels of activity. And this also being winter, any curves thrown by Mother Nature can easily distort the picture. So we don’t make much of the 2.9% m/m drop in home resales last month. There were a number of weather events—especially the ones in Vancouver—which caused some disruptions. The fact that supply—new and active listings—remained tight in several large markets is more significant. It tells us up-
ward price pressure isn’t about to let up. If anything, prices could well ac-
celerate further in Ottawa, Montreal, Saint John and Halifax where sellers
are firmly in control, and unlikely to lose it anytime soon. We’d expect
the same in Toronto and Vancouver despite the modest (and probably tempo-
rary) easing of demand-supply conditions in January given how strongly
demand has picked since summer. We’ll get a clearer view of underlying
sales momentum in a couple of months once the spring season kicks into
But the current read on market balances is a good indication of
where prices are headed in the near term—which is up in most regions of
the country.

Risk of overheating is rising in Ottawa, Montreal

Ottawa and Montreal have been Canada’s hottest markets in the past
year. They’ve also been the tightest. There are increasing signs that they
are at risk of overheating. The sales-to-new listings ratio rose above 0.80
since October in both markets. This usually indicates intense upward
pressure on property values. Indeed, the benchmark price shot up 13.8%
year-over-year in January in Ottawa and 9.8% in Montreal, ranking first
and second in Canada, respectively. In the last three months, the rate of
increase has been closer to 22% (annualized) in Ottawa and exceeded
13% in Montreal. Any further acceleration could set off undesirable specu-
lative dynamics.

More supply needed—quick

Outside of the Prairies where a soft economy is a restraining factor, the
outlook for housing demand continues to be solid. Population growth is
the strongest its been in 30 years, unemployment is near a generational
low and wages are picking up somewhat. More supply of new and existing
homes is needed now, and will continue to be required in the period
ahead to meet this quickly rising demand. Otherwise, housing costs risk
spiking in some of Canada’s largest markets, threatening affordability.

Now isn’t the time to boost demand further

Policy-makers should think long and hard before putting forth any
measures that ultimately would boost housing demand. Doing so would
end up pouring more fuel on the housing fire and undermining efforts to
address Canada’s household debt issue. Policy-makers should instead
focus on ensuring there’s sufficient supply coming to market in a timely
fashion.