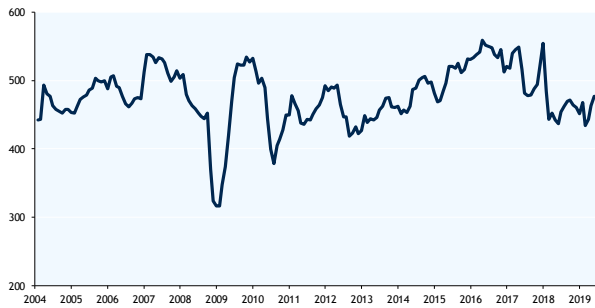


MONTHLY HOUSING MARKET UPDATE

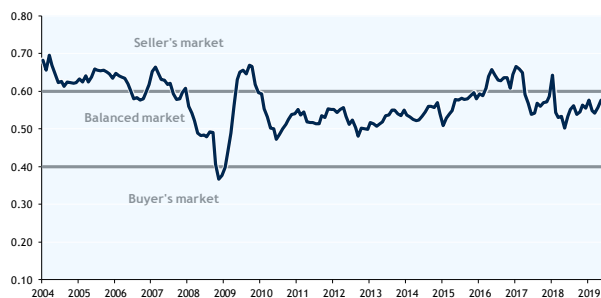
July 15, 2019

Home resales in Canada
Thousand units, S.A.A.R.



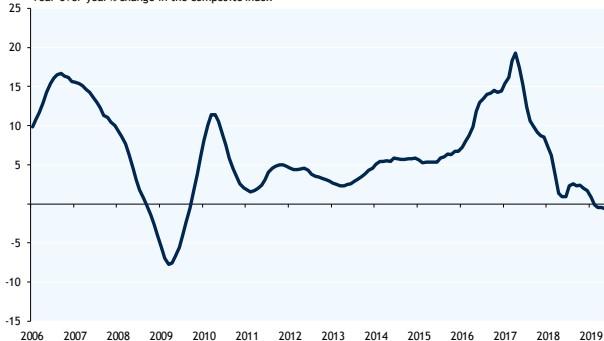
Source: CREA, RBC Economics Research

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

A stable market isn't a bad thing

- **Home resale market stays in a holding pattern in June:** Overall resale activity in Canada was essentially flat compared to May (down marginally by 0.2%) and June 2018 (up just 0.3%). This provided further evidence that the market has passed its cyclical bottom.
- **National benchmark price taking a vacation:** It's been tracking very close to year-ago levels for the past six months. In June it was down 0.3% y/y, slightly less than the 0.6% y/y decline recorded in May.
- **Two (or three) steps forward, one step back in Western Canada:** Vancouver, Victoria, Calgary and Edmonton rolled back part of previous months' sales increases. June levels were generally weak but well above recent cyclical lows, however. Downward price pressure intensified in Vancouver but let up slightly in Calgary and Edmonton.
- **Most markets in Central Canada still doing well:** Montreal saw further gains in resales and prices, and Toronto's slow recovery remained on track. Activity fell in Ottawa though the level was still strong and prices continued to accelerate.
- **A pleasing sight for policy-makers:** The last two months have painted the picture Canadian policy-makers want to see—generally soft but stable conditions in previously overheated markets, with prices continuing to correct in Vancouver where affordability remains a big issue.

Those hoping for a snapback in activity will be disappointed

The June market results published this morning by the Canadian Real Estate Association (CREA) looked a lot like those in May. And that's a good thing. It means that signs indicating we've passed the cyclical bottom have been sustained last month. The green shoots that emerged in Western Canada are still around. Toronto is still in a (slow) recovery mode. At the same time, minor setbacks in Vancouver, Calgary and Edmonton in June after encouraging gains (from low levels) in previous months are a reminder that the path forward is poised to be flat-ish for a while. We see little in the near term—not even recent drops in mortgage rates—to fire up the market significantly. We expect demand-suppressing policy measures, as well as stretched affordability in key markets to keep things relatively cool. This is sure to disappoint those hoping for a snapback in activity, especially out west. But it should be viewed as part of the solution to address issues of affordability and household debt in this country.

June snapshot

Region	Home resales Y/Y %change	New listings Y/Y %change	MLS HPI (Composite) Y/Y %change	Sales-to-new listings ratio
Canada	0.3	-4.4	-0.3	0.57
Toronto	9.6	-0.7	3.6	0.56
Montreal	7.0	-1.4	6.7	0.75
Vancouver	-15.0	-10.6	-9.6	0.41
Calgary	-4.6	-16.8	-3.9	0.54



Market conditions soft in Western Canada

Despite early signs of recovery emerging recently, market conditions remain quite soft in Western Canada. In June, home resales were 34% below the 10-year average in Vancouver, and 19% and 16% below in Regina and Calgary, respectively. Buyers are in control across most of the western region, keeping property values under downward pressure. The rate of decline in the MLS HPI, in fact, accelerated to -9.6% y/y in the Vancouver area, compared to -9.0% in May. Calgary (-4.0% y/y), Edmonton (-3.3%), Regina (-3.9%) and Saskatoon (-1.2%) also extended their price decline stretches. But in the case of Calgary, Edmonton and Saskatoon, this represented a further slowing in the pace of decline—which we believe augurs well for these markets to stabilize later this year. Vancouver prices, however, will take longer to stabilize given the many layers of policy actions currently being deployed to cool the market. Yet prices aren't at risk of spiraling out of control as demand and supply have become better aligned in the past couple of months.

Toronto-area market recovering further

Home resales rose 0.2% m/m in the area in June. That's on top of the 19% gain that took place in the prior three months—helping to narrow the gap with the 10-year average to just 4%. So the level of activity in Toronto isn't much below normal levels anymore. And this provides some mild support to property values. The increase in the area's MLS HPI accelerated to 3.6% y/y from up 3.1% in May.

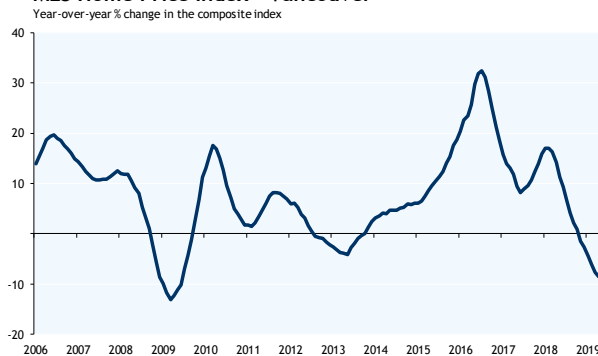
Ottawa buyers take a breather; upswing in full force in Montreal

June results once more confirmed Ottawa and Montreal among Canada's stronger markets. Tight demand-supply conditions produce solid—yet not excessive—property appreciation in both markets. Ottawa now boasts the fastest rising MLS HPI in Canada with a rate of 8.3% y/y with Montreal not far behind (up 6.7% y/y). Ottawa home resales fell 2.3% m/m for the first time in four months though this is unlikely to signal anything to worry about considering the strength in the area's economy. Resales rose 2.7% m/m in Montreal in June, further extending that market's upswing. Things are cooling down in Halifax, however. Activity pulled back for a second-straight month after reaching a seven-year high in April.

This year's drop in mortgage rates are unlikely to re-ignite the housing flame

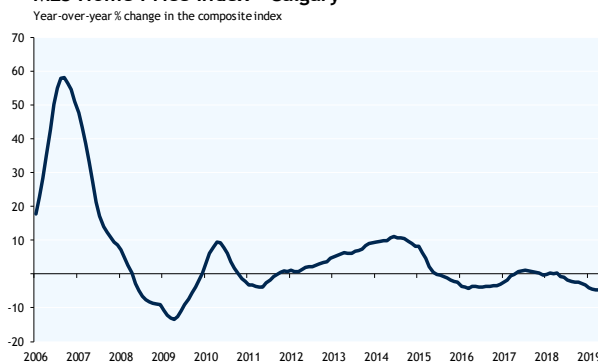
There's no doubt that mortgage rate declines since the start of this year have contributed to stabilize Canada's housing market. Yet we see little risks that these declines will bring the market to a boiling point again. That's largely because the mortgage stress test's qualifying rate has leveled off since March when it reached the Bank of Canada average five-year posted rate (5.34%). The stress test uses the higher of the customer rate plus 2 percentage points and the posted rate. So the drops in mortgage rates since March—and any further drops—won't help qualify more buyers. Moreover, we'd expect policy-makers to tighten rules further at any sign of potential overheating in Toronto or Vancouver. Our view is that policy-makers are tackling Canada's affordability issues by keeping these markets under tight control.

MLS Home Price Index - Vancouver



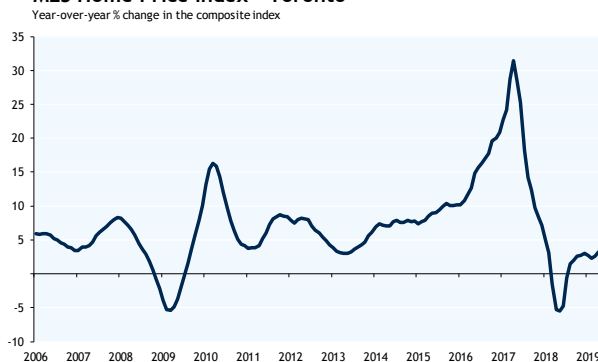
Source: CREA, RBC Economics Research

MLS Home Price Index - Calgary



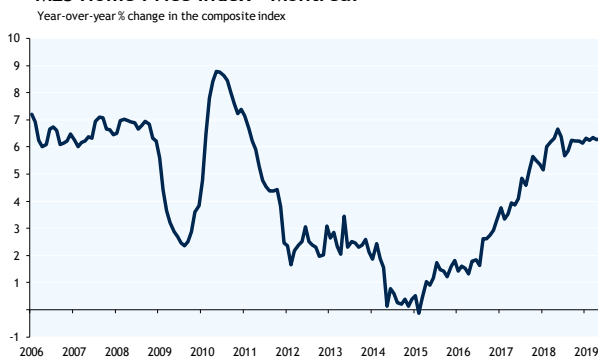
Source: CREA, RBC Economics Research

MLS Home Price Index - Toronto



Source: CREA, RBC Economics Research

MLS Home Price Index - Montreal



Source: CREA, RBC Economics Research

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