**MONTHLY HOUSING MARKET UPDATE**

**August 16, 2021**

Lack of sellers holds back Canada’s housing market

Home resales continued to transition toward more normal levels in July, after reaching extreme—and clearly unsustainable—levels earlier this year. A number of factors are now coming together to slow the pace down. The easing of pandemic restrictions is providing potential buyers new things to do and budget for; owning a home has become less affordable; and the latest tightening in mortgage stress test is proving a bigger constraint for some. Still, the main factor is easily the lack of supply. New listings fell markedly again last month, leaving buyers with even fewer options to choose from. Despite the moderation in activity, demand-supply conditions remain exceptionally tight in the vast majority of markets across the country. This generally provides solid support for prices though bidding wars aren’t as frenzied as they were just a few months ago. Buyers increasingly resist upping the ante—likely limited by budget constraints or concerned the market has passed its peak.

Property values closer to topping up

While peak activity was reached in the first quarter, we have yet to see peak prices. The composite MLS Home Price Index (HPI) for Canada continued to rise in July both on a month-to-month (up 0.6%) and year-over-year (up 22.2%) basis. But the monthly pace has slowed significantly in the past five months, and July marked the first easing of the annual rate in 15 months. These suggest a cyclical top could be getting closer. Our view is national aggregate prices will flatten early next year when supply-demand conditions are better balanced. This could happen sooner in some local markets.

Montreal and Ottawa prices losing momentum

Indeed, prices softened in Montreal and Ottawa last month. Buyers in both markets now face more challenging affordability conditions following two years of rapid price escalation. Edmonton, Saskatoon and Winnipeg also recorded flat or small monthly declines in the MLS HPI. Property values however continued to trend higher in Toronto, Vancouver and Calgary, as well as in a majority of smaller markets in Ontario, British Columbia and Atlantic Canada. Yet the monthly pace of increase has generally moderated. This was especially the case in smaller Ontario markets (including the Niagara region, Barrie and Woodstock-Ingersoll) where the frenzy was...
dizzying earlier this year. We see further moderation in store. Atlantic Canada could be an exception as relatively good affordability continues to draw in buyers from both inside and outside the region.

**All eyes on supply**
While we expect demand to cool somewhat in the period ahead, more supply will be needed to rebalance the market and truly stabilize prices. We expect to see more sellers to come out of the woodwork this fall as pandemic disruptions further ease. Completion of units under construction will also gradually boost supply in some markets later this year or early next. Yet there remains a great deal of uncertainty about the supply response. The fourth wave could keep potential sellers on the sidelines, and supply chain disruptions could delay construction timelines. For buyers hoping for a price break, more patience might be required.

**July market highlights**
- **Home resales eased for a fourth-straight month:** They fell 3.5% from June in Canada to a still-strong 584,200 units (seasonally adjusted and annualized). A large majority of local markets recorded a decline, led by Saskatoon (-14.9% m/m), Quebec City (-13.9%) and Edmonton (-11.4%). Activity softened only modestly in Vancouver (-0.4%) and Toronto (-2.0%), and rose in Victoria (up 4.1%), Montreal (up 2.5%) and Ottawa (up 0.6%).
- **Homes newly listed for sales fell even more:** New listings dropped 8.8% nationwide, and in all but a handful of local markets. Montreal (-18.7% m/m), Quebec City (-18.2%) and Vancouver (-16.1%) posted the largest monthly declines. Winnipeg (up 7.9% m/m) and Saskatoon (up 4.6%) were among the few that recorded an increase.
- **Sellers have the stronger hand in virtually every market:** Demand-supply conditions in Canada firmed up in July with the sales-to-new listings ratio rising to 0.74 from 0.70 in June. The ratio depicted a seller’s market in every local market but Edmonton and Saskatoon (both in balanced market territory).
- **Home prices still rising but at a slower rate:** Canada’s composite MLS Home Price Index increased 0.6% in July to $730,800. The index was up 22.2% from a year ago, marking the first moderation in 15 months. The rate of increase was 24.4% in June. The index has slowed markedly in the past five months on a monthly basis, suggesting prices may be topping up.