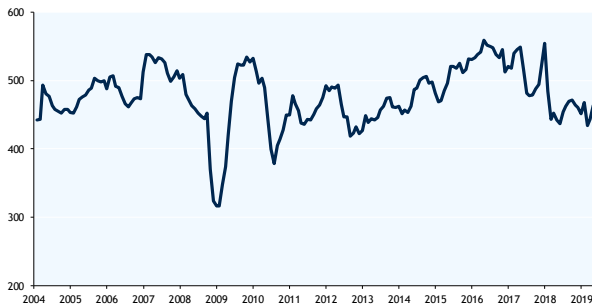


MONTHLY HOUSING MARKET UPDATE

June 14, 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

More green shoots popping up in Canada's housing market

- **Home resales rose for a third-straight month in May:** The month-over-month increase was 1.9% overall in Canada—providing further evidence that the market is turning a corner. Relative to a year ago, resales are up 6.7%.
- **Signs of a cyclical bottom are emerging in BC and Alberta:** There were encouraging bursts of activity in Vancouver, Victoria, Calgary and, to a lesser extent, Edmonton. The recovery process continued in Toronto where resales increased for a third-straight month.
- **The national benchmark price is still drifting lower:** It was down 0.6% from a year ago in May, just slightly faster than the rate of decline recorded in April (0.5%).
- **Price weakness is concentrated in Western Canada:** Vancouver's benchmark price fell the most (down 8.9% y/y in May) among the major markets. Both Calgary and Edmonton showed slightly slower rates of declines compared to April. Prices are increasing across Eastern Canada, including in the Toronto area where they rose at a fairly steady pace of 3.1%.
- **The market is on the right track:** Overall, the May numbers paint the picture 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.

Spring comes to Western Canada

They may not be completely out of the woods yet but markets in British Columbia and Alberta finally got going in May. Statistics released this morning by the Canadian Real Estate Association (CREA) showed impressive bursts of resale activity in Vancouver (up 24% from April), Victoria (up 10%) and Calgary (up 6.8%). Edmonton also recorded a respectable 3.5% m/m advance. These are the green shoots we have long been waiting for—early signs that the cyclical bottom has been reached in that region of the country. Market conditions are still soft, though. Property values remain under downward pressure for now with the MLS Home Price Index down from a year ago in May in Vancouver (-8.9%), Calgary (-4.3%) and Edmonton (-3.7%). That said, the rate of decline moderated in Calgary and Edmonton which is a further sign that these markets are stabilizing.

May snapshot

Region	Home resales Y/Y %change	New listings Y/Y %change	MLS HPI (Composite) Y/Y %change	Sales-to-new listings ratio
Canada	6.7	-4.1	-0.6	0.57
Toronto	18.9	0.8	3.1	0.57
Montreal	6.4	-2.5	6.3	0.72
Vancouver	-7.6	-8.0	-8.9	0.43
Calgary	10.9	-21.3	-4.3	0.58



Recovery process still ongoing in the Toronto area

Home resales rose for a third-straight month to a 17-month high of 88,500 units in May (on a seasonally-adjusted and annualized basis). And this occurred despite a 1.4% m/m decline in new listings that limited options to buyers. Demand-supply conditions tightened slightly but remained balanced. This maintained prices on a modest upward trajectory—the area’s MLS HPI was up 3.1% y/y in May, down only marginally from 3.2% in April. The rising trend is reaching all housing categories, including single-detached homes.

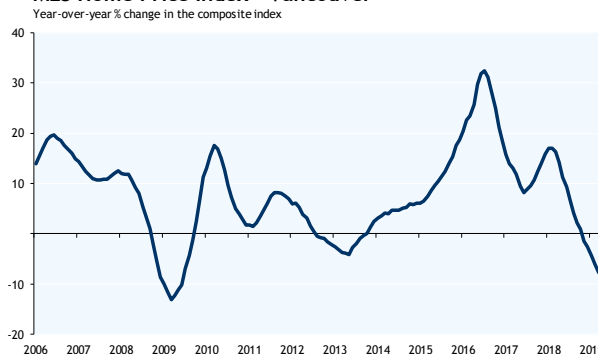
No cracks showing in Montreal and Ottawa yet

The story in Montreal and Ottawa is as compelling as ever. Both markets extended long-running winning streaks, recording small increases in home resales last month and seeing further solid—yet not excessive—property appreciation. Sellers remain firmly in control of the pricing equation. Activity in Halifax—another member of Canada’s most vibrant market club—pulled back in May following a super-strong advance in April. This was just a minor blip in an otherwise impressive run since 2015.

The tone of the housing conversation will change

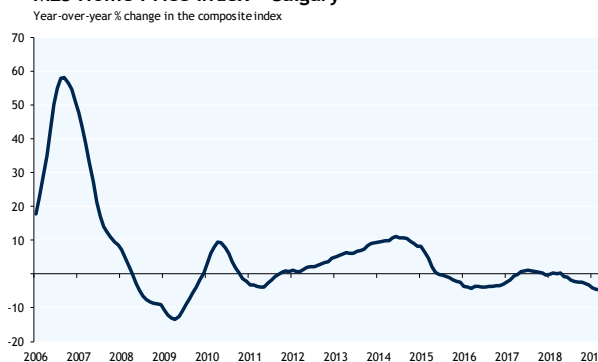
Green shoots emerging in Western Canada, the ongoing recovery in the Toronto area and solid conditions holding up in Ottawa, Montreal and (for the most part) Halifax likely won’t end calls to roll back some of the policy moves (B-20 included). But they should change the tone of the housing conversation in Canada. Casting the story as an accident in the making seems increasingly disconnected from reality. While policy action has been harsh to many (from buyers to folks working in housing-related industries), more considerations should be given to the benefits of cooler conditions in previously overheated markets. And until better housing supply becomes readily available in these markets, demand-suppressing measures will be required to tackle the issue of affordability.

MLS Home Price Index - Vancouver



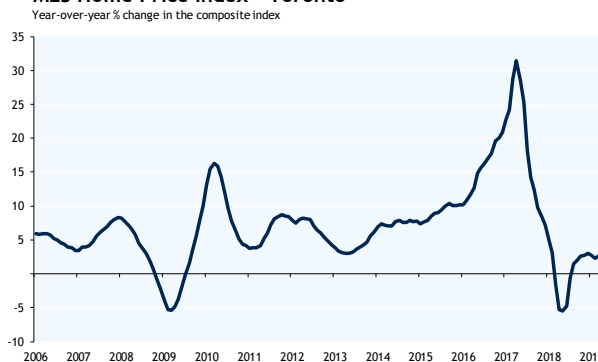
Source: CREA, RBC Economics Research

MLS Home Price Index - Calgary



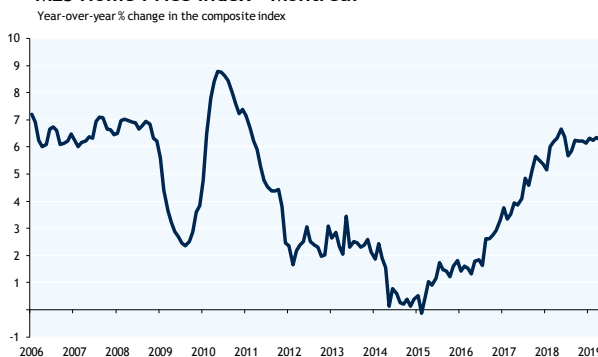
Source: CREA, RBC Economics Research

MLS Home Price Index - Toronto



Source: CREA, RBC Economics Research

MLS Home Price Index - Montreal



Source: CREA, RBC Economics Research

The material contained in this report is the property of Royal Bank of Canada and may not be reproduced in any way, in whole or in part, without express authorization of the copyright holder in writing. The statements and statistics contained herein have been prepared by RBC Economics Research based on information from sources considered to be reliable. We make no representation or warranty, express or implied, as to its accuracy or completeness. This publication is for the information of investors and business persons and does not constitute an offer to sell or a solicitation to buy securities.