

rbc.com/economics

MONTHLY HOUSING MARKET UPDATE

November 15, 2019

Home resales in Canada

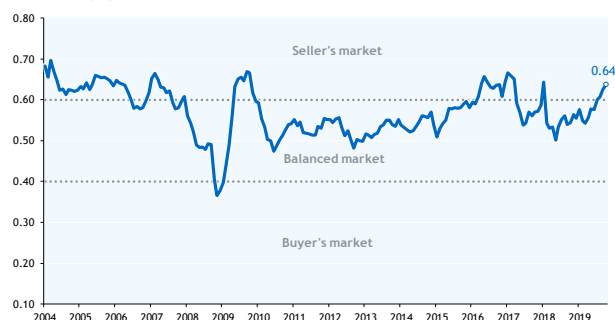
Thousand units, seasonally adjusted and annualized



Source: CREA, RBC Economics Research

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 Research

Home prices pick up steam amid tighter inventories in October

- **Value of homes sold rising a little faster in Canada:** The national Home Price Index (HPI) increased at the rate of 1.8% year-over-year in October, up from 1.3% in September. While still manageable, the pace has quickened noticeably over the past four months.
- **Buyers were held back:** After growing for seven consecutive months, home resales in Canada were effectively unchanged at 515,600 units (seasonally adjusted and annualized) in October compared to September. This level is 7.3% above the 10-year average.
- **Second-straight drop in new listings shrinks buying options:** Sellers put 1.8% fewer properties up for sale in October, further tightening inventories. The sales-to-new listings ratio rose to 0.64 nationwide—a level usually associated with strong pricing power for sellers. Active listings represented just 4.4 months of inventory, the lowest since March 2017.
- **Inventories are thin in Ottawa, Montreal and Halifax, and getting thinner in Vancouver and Toronto:** Tight supply restrained resale activity in Toronto, Montreal and Halifax last month, though Ottawa and Vancouver recorded further gains. Demand-supply conditions are comparatively softer in the Prairies where the market recovery is progressing more slowly—with Edmonton showing renewed signs of softening.
- **The market is in a better place than it was at the start of 2019:** We expect most major markets to sustain positive momentum in the year ahead, supported by low mortgage rates, solid labour markets and strong population growth.

Supply issues were in evidence in October

The main story now emerging in Canada's housing market is supply not keeping pace with re-invigorated demand. In fact, low inventories in many local markets appear to be holding buyers back who are faced with fewer and fewer options. We suspect this was the case in Toronto, Montreal and Halifax in October where home resales fell amid a drop in listings (both new and active). Overall in Canada, the Canadian Real Estate Association reported flat home resales along with a 1.8% decline in new listings last month. Activity picked up in Vancouver, Calgary and Ottawa which provided an offset.

October snapshot

	Home resales	New listings	MLS HPI (Composite)	Sales-to-new listings ratio
Region	Y/Y %change	Y/Y %change	Y/Y %change	
Canada	12.9	-5.8	1.8	0.64
Toronto	13.3	-9.6	5.8	0.61
Montreal	13.6	-1.9	7.6	0.81
Vancouver	45.0	-16.8	-6.4	0.63
Calgary	10.1	-2.8	-2.3	0.56



Balance tilting in favour of sellers...

Declining for-sale inventories have tightened demand-supply conditions. The sales-to-new listings ratio—a measure of market tightness—rose to 0.64 nationwide in October, matching the highest point in more than two years. This is well above the 0.60 threshold that has historically given sellers substantial pricing power. Active listings have been drawn down to their thinnest level (4.4 months' worth of sales) since March 2017. That date, by the way, was the peak of the housing cycle, when the Toronto market was clearly overheated. Ottawa (and Gatineau), Montreal and Halifax continue to be the tightest markets in Canada at the moment. But Saint John, Toronto, Vancouver and Victoria are those showing the strongest trends over the past few months. So there's solid or growing support for home prices across most of the country, which should keep the national HPI on an accelerating path in the near term.

...except in the Prairies where the recovery is still tenuous at best

The tough challenges facing the energy and agricultural sectors continue to weigh on Prairie markets. Despite rising in October, Calgary home resales have been largely stagnant since May. Activity has softened over the past few months in Edmonton, and the recovery is still uneven in Regina and Saskatoon. Prices have barely stabilized (in Calgary and Saskatoon) or remain stuck on a downward trajectory (in Edmonton and Regina).

Generally positive outlook for 2020

With less than two months to go, 2019 will go down as a turning point for Canada's housing market, marking the end of the biggest correction since the Great Recession. While some concerns persist—especially in the Prairies—our housing market is in better shape now. Overall homebuyer demand is back to more normal levels, demand-supply conditions if anything are somewhat tight, and prices are generally increasing at a moderate rate. Affordability continues to be a major issue in Vancouver and Toronto but we've seen some minor improvement in the past year. We expect low interest rates, strong labour markets and rapid population growth to keep the recovery going in 2020. Any expansion of the first-time homebuyer incentive—as promised by the Liberals during the federal election campaign—at the margin could stoke the market further.

MLS Home Price Index - Vancouver

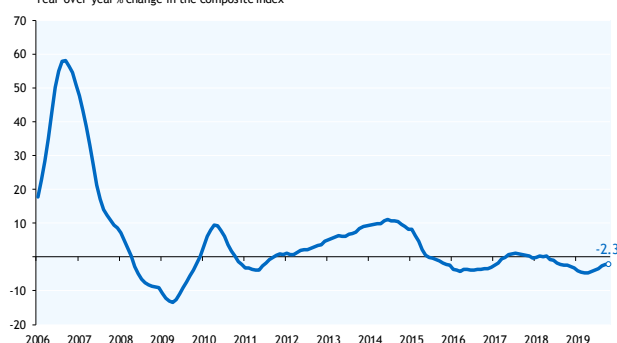
Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

MLS Home Price Index - Calgary

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

MLS Home Price Index - Toronto

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

MLS Home Price Index - Montreal

Year-over-year % change in the composite index



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.