MONTHLY HOUSING MARKET UPDATE

December 16, 2019

Low inventories heat up prices in November

- **Buying options got scarcer in Canada**: For the third month in a row, there were fewer sellers listing their home for sale in November. Active inventories fell to their lowest level since 2007. Clearly, supply is thin nationwide.

- **Demand remains solid with home resales rising again**: Resale activity climbed for the ninth consecutive month to 521,000 units on an annualized basis. The supply challenges haven’t deterred buyers though they have slowed down the pace of increase in the past couple of months to just 0.5% (m/m) from an average of 2.5% in the previous seven months.

- **Upward pressure is building for home values**: Very tight demand-supply conditions—the sales-to-new listings ratio surged to 0.66, a hair below the cyclical high of 0.67 in early-2017—are driving up home prices at an accelerating rate. The national Home Price Index (HPI) rose 2.6% from a year ago in November, up from 1.8% in October. While still manageable at this stage, the pace has quickened noticeably over the past five months.

- **Sellers are in control in Ottawa, Montreal and Halifax, and gaining heft in Vancouver and Toronto**: Ottawa is leading the country with the fastest-growing HPI (up 11.5% y/y) and Montreal (up 8.8%) isn’t far behind. Demand-supply conditions are still comparatively soft in the Prairies where the market recovery is progressing more slowly.

- **Outlook for 2020 is promising**: Low interest rates, solid labour markets and strong population growth will maintain strong support for demand in most major markets though accelerating prices will worsen affordability issues.

Supply issues were evident again in November

November brought further evidence that supply—more specifically, the lack thereof—is becoming the main housing story in Canada. Statistics published this morning by the Canadian Real Estate Association showed that new listings fell for the third-straight month, and that the number of months’ inventory reached its lowest level in more than 12 years nationwide. Inventories were particularly thin in Halifax, Montreal, Ottawa and large parts of southern Ontario (including Kitchener-Waterloo, London and Hamilton), and shrinking rapidly in Victoria, Vancouver and the Greater Toronto Area. Pockets of abundant supply remained in the Prairies, however. The region’s frustratingly slow economic recovery has yet to spur homebuyer demand in a meaningful way to draw inventories down.

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**November snapshot**

<table>
<thead>
<tr>
<th>Region</th>
<th>Home resales</th>
<th>New listings</th>
<th>MLS HPI (Composite)</th>
<th>Sales-to-new listings ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>11.3</td>
<td>-6.7</td>
<td>2.6</td>
<td>0.66</td>
</tr>
<tr>
<td>Toronto</td>
<td>13.4</td>
<td>-17.9</td>
<td>6.6</td>
<td>0.68</td>
</tr>
<tr>
<td>Montreal</td>
<td>13.3</td>
<td>-4.3</td>
<td>8.8</td>
<td>0.83</td>
</tr>
<tr>
<td>Vancouver</td>
<td>55.9</td>
<td>-13.6</td>
<td>-4.6</td>
<td>0.68</td>
</tr>
<tr>
<td>Calgary</td>
<td>-1.9</td>
<td>-4.4</td>
<td>-2.3</td>
<td>0.51</td>
</tr>
</tbody>
</table>

Source: CREA, RBC Economics.
Resale market recovery slowing down
After rebounding strongly in the spring and summer, home resale activity in Canada has grown at a slower pace in the past couple of months. A maturing of the GTA’s recovery, stalling momentum in the Prairies and the restraining effect of tighter inventories across several markets (including Ottawa and Montreal) have largely contributed to this slowing. The 1.6% monthly gain in Toronto-area resales was less than half the average rate of increase recorded in the six months ending in September. And Calgary’s 8.1% drop in November reversed all the gains made since April. The Vancouver area has been a major exception, though. Activity, there, continues to ramp up with home resales rising a solid 5.2% from October and 56% from November 2018.

Faster-rising home prices across most markets
With tight (and, in some cases, very tight) demand-supply conditions in a majority of local markets, it’s not surprising to see home prices appreciating at a quicker pace in Canada. For now, the rate of increase in the HPI—at 2.6% year-over-year in November—is manageable. But it’s been running hotter and hotter in the past five months, averaging 8.4% on an annualized basis. We see no signs of cooling in the near term. The heat is most intense in Ottawa, Montreal and Halifax, where the supply of homes for sale is coming well short of strong demand. Toronto prices are heating up too. The area’s HPI is now running 6.8% above its year-ago level. That’s up from 3.6% just five months ago. The Vancouver-area price index is still down from a year ago (-4.6%) but the rate of decline is diminishing rapidly. In fact, price levels have risen over the past four months, indicating the cyclical bottom has been reached. This is not yet the case in Calgary and other Prairie markets, however, where prices continue to drift lower amid persistently soft market conditions.

Positive momentum to carry into 2020
Canada’s housing market will enter 2020 with some momentum. We expect low interest rates, strong labour markets and rapid population growth to keep demand on a recovery path. Yet it’s the availability of supply that will ultimately determine how much home resale activity will grow next year. The persistence of low inventories in many markets is poised to maintain the heat on property values, and we expect prices to climb further—especially in Toronto and Vancouver. This suggests housing affordability tensions will re-intensify after a year of slight improvement. No doubt policymakers will be mindful of any such development when considering potential changes to housing policy.