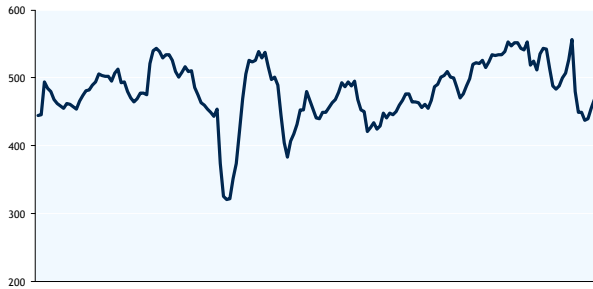


MONTHLY HOUSING MARKET UPDATE

September 17, 2018

Home resales in Canada

Thousand units, S.A.A.R.



Source: CREA, RBC Economics Research

Sales-to-new listings ratio in Canada

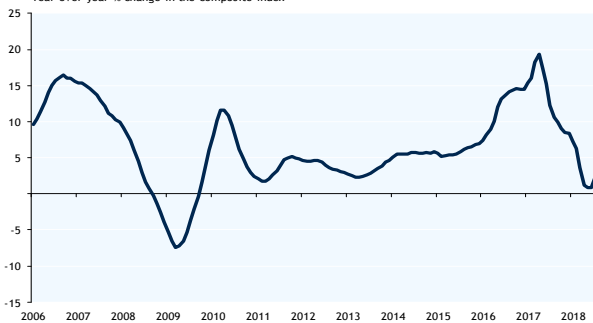
S.A., monthly



Source: CREA, RBC Economics Research

MLS Home Price Index - Canada

Year-over-year % change in the composite index



Source: CREA, RBC Economics Research

Small home resale gain in August to be the new norm

- The post-stress test picture is getting clearer for Canada's housing market and policy makers will be generally satisfied with the result. Home resales are settling in well below the frenzied levels that prevailed over the 2015 to early-2017 period, and price increases are poised to stay in the low single-digits for a while in the country's former hot spots.
- Home resales in Canada rebounded for a fourth-straight time in August though the pace slowed down to 0.9% month over month from an average of 3.2% in June and July. Our view is that this slower pace will be the new norm over the coming year as rising interest rates generate significant headwinds.
- The national benchmark price rose by 2.5% year-over-year, which was a slight acceleration from 2.2% in July.
- We see little risk of another run-up in the near term because the benchmark price has declined on a month-over-month basis in the past three months and the vast majority of local markets—including Vancouver and Toronto—are balanced.
- Vancouver, Calgary, Toronto, Ottawa and Montreal all posted modest resale gains in August. Sellers continued to hold the upper hand in Ottawa and Montreal, which kept prices under upward pressure in those two markets.

A new, slower phase of the recovery begins

This morning's statistics from the Canadian Real Estate Association clarified two things in our mind: 1) the market's downturn this winter and spring overshot the impact of the stress test; and 2) cooler conditions are here to stay (for the most part). The fact that home resales snapped back by 8.1% in the four months since reaching a seven-year low in April tells us that activity had fallen too far. This is typical following a major policy change that pulled some activity forward. The solid rebound in June and July marked the end of the transitory 'payback' for activity pulled forward into late-2017 (ahead of the January 1 implementation of the stress test). We interpret the moderation in the pace between July and August as a sign that the market is entering a new, slower phase of recovery. Going forward, activity will reflect only the 'permanent' effect of the stress test—which will keep some buyers out of the market for an extended period of time. Rising interest rates and affordability issues in key markets will significantly restrain further advances in the near term.

August snapshot

	Home resales	New listings	MLS HPI (Composite)	Sales-to-new listings ratio
Region	Y/Y %change	Y/Y %change	Y/Y %change	
Canada	-3.8	-1.9	2.5	0.57
Toronto	7.6	5.6	1.4	0.56
Montreal	11.2	1.0	5.9	0.70
Vancouver	-36.7	-9.0	4.1	0.46
Calgary	-6.5	0.5	-2.2	0.46



Activity increased in most local markets in August

Of course, the national picture is skewed by market developments in Toronto and Vancouver. August resales rose modestly in both markets (by 2.2% and 2.9%, respectively, on a month-over-month basis). In the case of Vancouver, this was the first monthly increase since December 2017. This market has been further challenged by another round of market-cooling measures implemented by the BC government in its February budget. Montreal (up 2.8%) and Ottawa (up 2.1%) also saw modest gains. Both have been among the strongest markets in Canada in the past year in part because affordability isn't much of an issue.

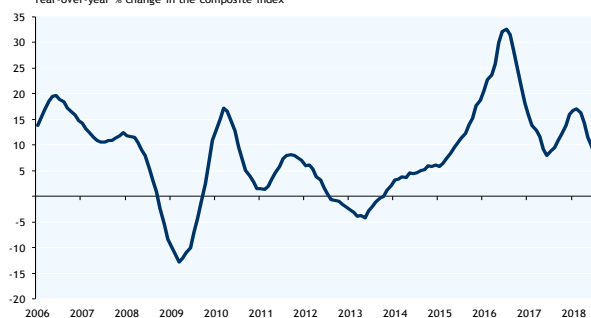
Cooler conditions to prevail...

Policy makers should be quite satisfied with the degree to which the Vancouver and Toronto markets cooled in the past year. Demand-supply conditions returned to balance and annual price gains significantly decelerated to low single-digits. We expect these cooler conditions to persist in the near term. Given their size, this means that overall conditions in Canada are poised to stay cool. We expect that rising interest rates will lower the market's temperature by a few degrees in Ottawa and Montreal.

...and so will modest price gains

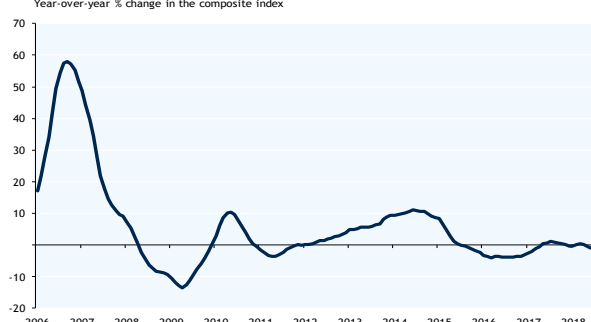
We're not worried that the year-over-year price acceleration at the national level in July and August could be signaling of an impending return of overheated conditions. We see limited scope for Vancouver and Toronto prices to contribute to further material gains. The Vancouver benchmark in fact has been under downward pressure for several months now. In Toronto, the benchmark edged down on a month-to-month basis over the past three months. With sellers still holding the upper hand, property values are poised to continue to appreciate at a healthy clip in Ottawa and Montreal though not enough to really move the needle at the national level. Our outlook for Canada-wide prices calls for a modest increase of just 1.8% on an annual basis in 2018. This would constitute a significant slow-down from gains of nearly 10% in each of the past two years.

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



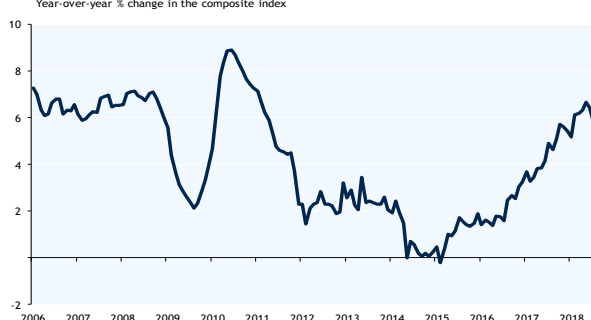
Source: CREA, RBC Economics Research

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

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