



July 7, 2023

Housing market momentum diverges across Canada

The initial reaction to the Bank of Canada's June rate hike—and the prospect for a follow-up in July—has been mixed across local housing markets. Buyers promptly retreated in Toronto, Hamilton, Ottawa and Vancouver in June, but remained undeterred in the Fraser Valley, Calgary, Edmonton and Montreal, according to early reports from real estate boards. Strong price gains this spring in Toronto, Vancouver, and other parts of Ontario and British Columbia might have also spooked some buyers.

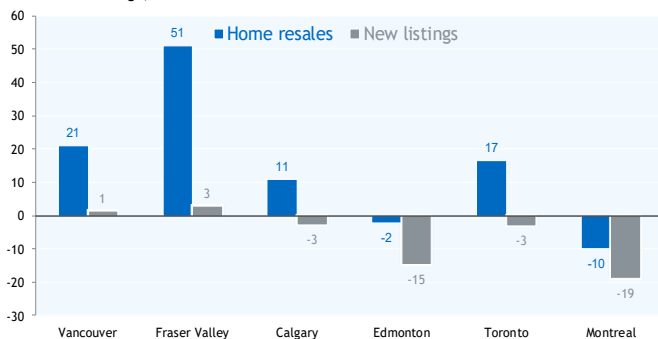
The good news is that supply is continuing to rise. We estimate that more homes became available for sale in every major market last month. That came on the heels for sizable broad-based increases in May. So far the growing supply hasn't done much to ease (recently re-emerged) upward price pressure. But if sustained, we would expect the pace of property appreciation to slow in the coming months.

We've been surprised by the speed with which some markets (e.g., Toronto and Vancouver) rebounded this spring. Our view had been—and in fact remains—that the initial stage of the recovery would be gradual in the face of massive ongoing affordability challenges. Buyers retreating in key markets in June could be sign that the future trajectory will be more measured.

Major market highlights: June 2023

Market activity

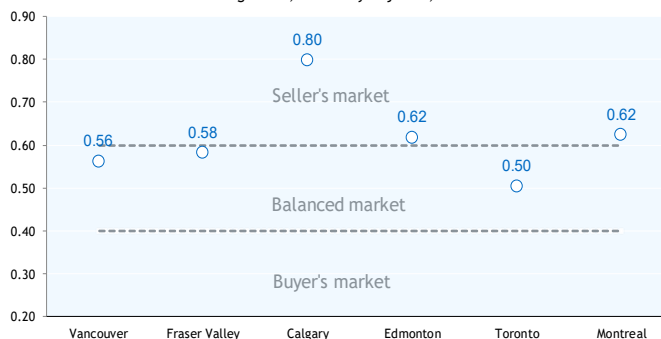
Annual % change, June 2023



Source: REBGV, FVREB, CREB, RAE, TRREB, QPAREB, RBC Economics

Demand-supply conditions

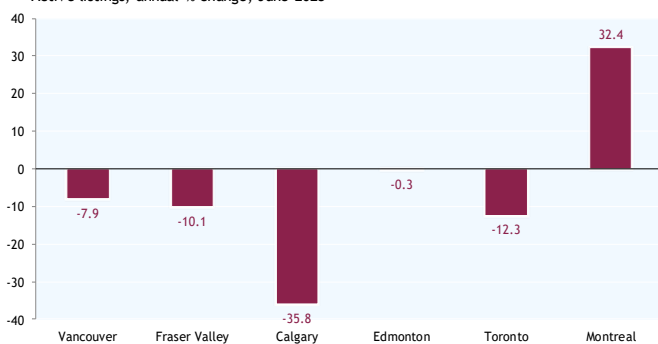
Estimated sales-to-new listings ratio, seasonally-adjusted, June 2023



Source: REBGV, FVREB, CREB, RAE, TRREB, QPAREB, RBC Economics

Inventories

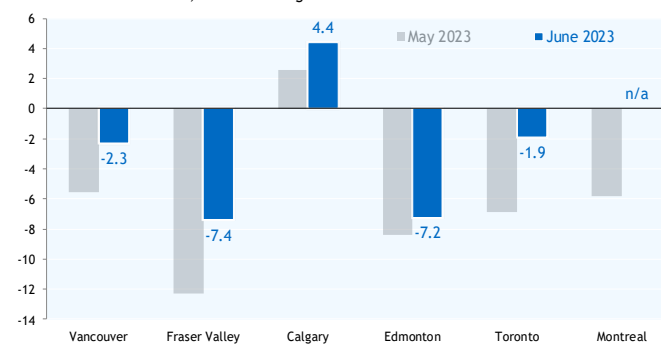
Active listings, annual % change, June 2023



Source: REBGV, FVREB, CREB, RAE, TRREB, QPAREB, RBC Economics

Home prices

MLS Home Price Index, annual % change

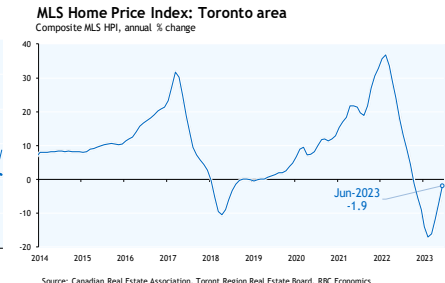
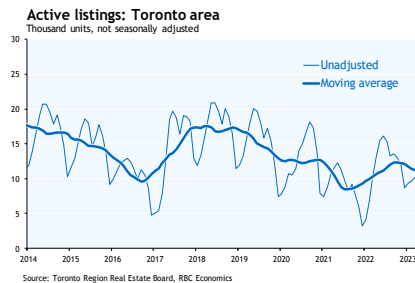
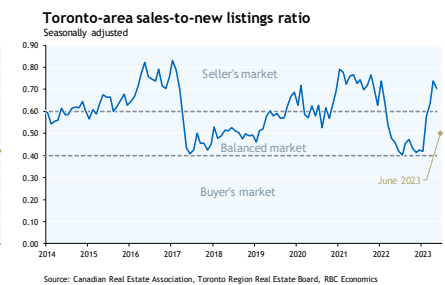
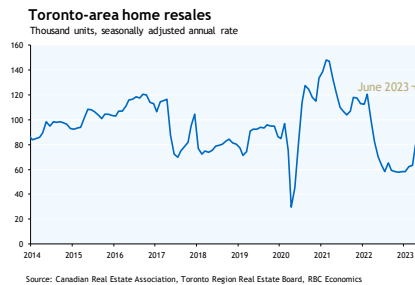


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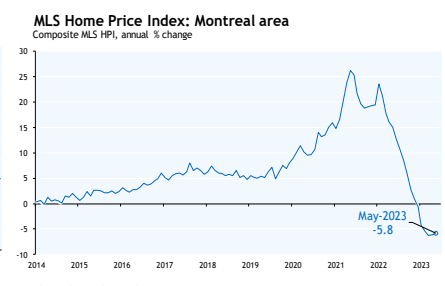
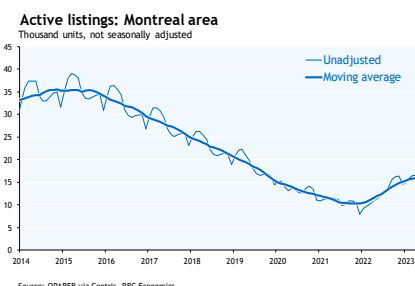
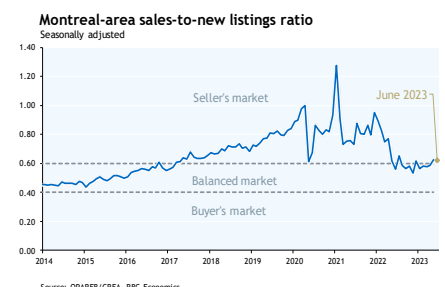
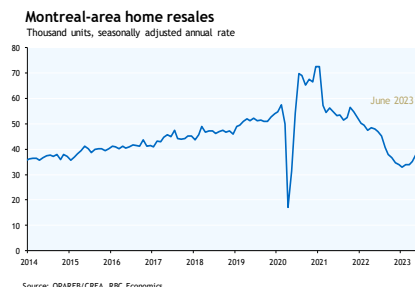
Toronto area—Spring rebound losing steam

The surprisingly quick rebound in activity this spring lost steam last month. After soaring 32% in April and May, home resales fell 6.9% m/m in June. Buyers backed off despite more properties becoming available for sale—marking a departure from the previous two months when rises in new listings significantly stimulated activity. The upshot of this is a sharp rebalancing of demand-supply conditions. For now, home prices continue to appreciate rapidly. The area's MLS HPI composite benchmark price climbed a solid 2.5% m/m to \$1.16 million in June. Since reaching a cyclical bottom in February, the benchmark price is up an astounding 8.9% or nearly \$96,000—reversing almost half of the decline in the previous year. But more balanced conditions point to a slower pace of appreciation in the months ahead. Higher interest rates are poised to keep homeownership affordability extremely challenging for buyers.



Montreal area—Recovery on track

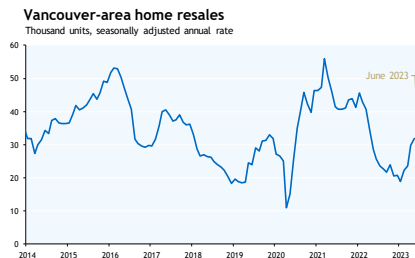
Upward momentum continued to build in June (from historically low levels earlier this year). We estimate home resales climbed approximately 11% m/m last month—accelerating from increases of 3.9% in April and 8.1% in May. A solid growth in supply facilitated these advances. New listings jumped 16% over the past three months, including an estimated 12% increase (seasonally adjusted) in June. Commensurate recoveries in both demand and supply this spring have left price pressure relatively muted. The median value for a single-detached home was unchanged between May and June, and fell just a touch for condo apartments. We think there's room for some appreciation in the period ahead but this is likely to be a gradual process. Despite the strengthening tone over recent months, the Montreal market remains soft with resales roughly 15% below pre-pandemic levels.



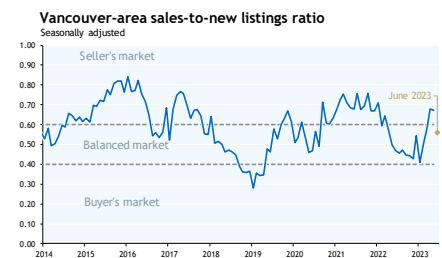


Vancouver area—In better alignment

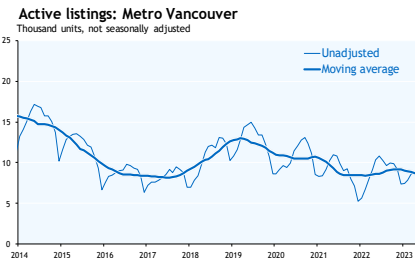
An influx of sellers moved supply in better alignment with demand in June. New listings rose for a third-straight month (up more than 15% m/m on a seasonally-adjusted basis by our own calculation). Meanwhile, purchase transactions were little changed from May (seasonally adjusted). Following four consecutive increases, this pause could be an indication the latest interest rate hike and this spring's price upturn are starting to rub buyers the wrong way. Property values gained more heat last month with the MLS HPI for Vancouver rising 1.3% from May—coming on top of the 3.1% cumulative increase in the previous two months. We think buyers will increasingly push back on further price appreciation in the period ahead. Despite improving slightly in the first quarter of this year, housing affordability remains at crisis levels in Vancouver. No doubt this poses huge challenges for many buyers.



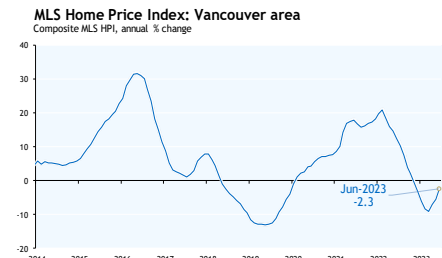
Source: Canadian Real Estate Association, Real Estate Board of Greater Vancouver, RBC Economics



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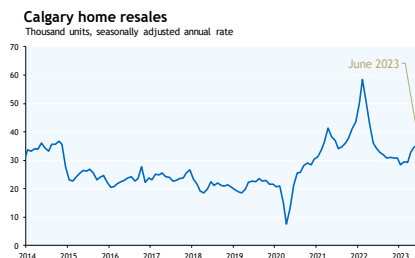
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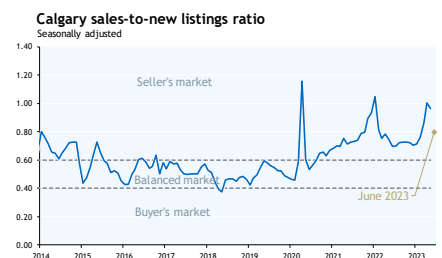
Source: Canadian Real Estate Association, Real Estate Board of Greater Vancouver, RBC Economics

Calgary—Eager buyers quickly absorb growing supply

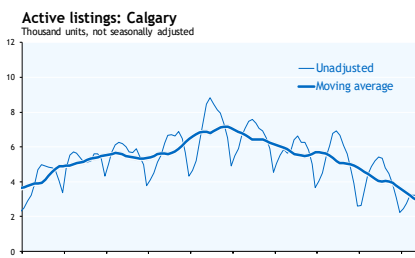
Significantly more homes have been put up for sale in the past two months in the Calgary area—helping to unlock some of the pent-up demand and drive up activity. Home resales jumped an estimated 9% m/m in June, on the heels of a solid 6.0% increase in May. Still, the increase in supply has come well short of demand, leaving the market heavily tilted in favour of sellers. This in turn is keeping prices on the incline at an accelerating rate (+4.4% y/y). Calgary's impressive population growth and relatively affordable position (compared to other major Canadian cities) will likely keep this trend going over the back half of the year.



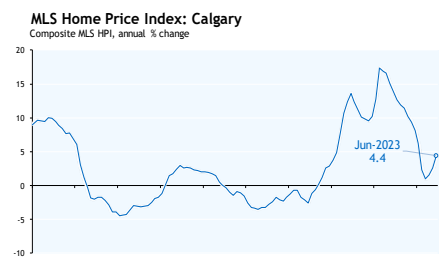
Source: Canadian Real Estate Association, Calgary Real Estate Board, RBC Economics



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