

Canada's housing market outlook: The bottom of the downturn is in sight

March 6, 2023

The Canadian housing market correction has yet to run its course but it's gradually letting up. We think activity will hit bottom sometime this spring. Prices will level out a few months later—provided the Bank of Canada is done raising interest rates. All told, our forecast calls for a 15% peak-to-trough decline in the national RPS Home Price Index. Roughly half of that is still to come.

What happens next will disappoint housing bulls. We see the recovery phase starting slowly later this year as affordability issues and a weaker economy continue to hold back buyers. The pace should progressively pick up in 2024 once the economy clears its soft patch, inflation returns to target and the Bank of Canada reverses part of the massive rate increases it's imposed since March 2020.

Booming immigration will fuel demand through the medium term (and possibly beyond), raising the odds of deep supply shortages in the future if homebuilding fails to pick up materially.

Activity can't get much quieter

A precipitous slide in home resales has ended a two year market frenzy that kicked off in March 2020. But this slowdown has significantly moderated since the fall. The primary reason: activity is now deeply depressed in most markets, and unless the economy craters (not our base case), there's little downside left. Accounting for the growth in housing stock, nationwide resales are the quietest they've been since the 2008-2009 global financial crisis (excluding the lockdown period in the spring of 2020). We believe a bottom will form in the coming months. Some markets might be ahead of the pack (e.g. in Ontario and possibly Atlantic Canada), while others (e.g. in the Prairies and Quebec) might lag somewhat.

Bank of Canada may be done hiking rates, but it's not about to cut

Another reason: the Bank of Canada's rate hiking cycle is now likely on hold. We think January's 25 basis-point hike will be the final strike in a historic campaign that drove the policy rate up by a staggering 425 basis points, taking it to 4.5% in less than a year. Market sentiment should get a boost when participants come to that conclusion. Any downward drift in longer-term bond yields—which is RBC's call over the next year—is also likely to be viewed as a positive sign of a turnaround. But these factors will help stabilize the market, not prop it up. We see the interest rate environment remaining restrictive for a while and the Bank of Canada abstaining from cutting rates until 2024.

Affordability issues to ease, but only gradually

This means the sharp deterioration in housing affordability since 2021 won't unwind quickly. Buyers will continue to face steep challenges, especially in B.C., Ontario and other expensive markets where ownership costs have ballooned during the pandemic. Lingering affordability issues will stand in the way of a quick market rebound and a material easing in buyers' budget constraints.

Prices have further to drop in the near term

We expect home prices to continue declining in the coming months as a result. The national RPS HPI is likely to fall another 8% by the third quarter from fourth quarter levels—with markets in B.C. and Ontario still bearing the biggest downside risk. Our peak-to-trough price forecasts range from -19% in

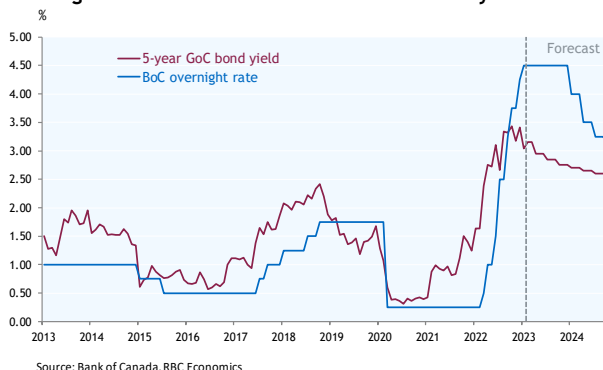
Canadian home resales are at recession levels

Home resales (seasonally adjusted and annualized) as a % of the housing stock, Canada



Source: Canadian Real Estate Association, Statistics Canada, RBC Economics

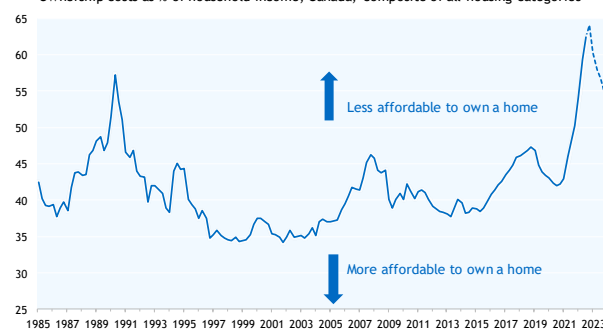
Longer-term interest rates to drift lower this year



Source: Bank of Canada, RBC Economics

Affordability issues to continue to pinch buyers

Ownership costs as % of household income, Canada, composite of all housing categories



Source: RPS, Statistics Canada, Bank of Canada, RBC Economics



Ontario and -16% in B.C. to -6% in Alberta and -5% in Newfoundland and Labrador.

Other price measures (e.g. MLS HPI and MLS average sales price) have already exceeded our national peak-to-trough forecast of -15%. That's largely because these measures are more volatile than the RPS HPI. They soared higher during the dramatic run-up earlier in the pandemic and responded more quickly to the downturn—as has typically been the case in prior cycles.

Solid market fundamentals despite it all

The dramatic swing in the market since March 2022 is a cyclical event marking the transition out of highly unusual circumstances—a global pandemic and exceptionally low interest rates. Structurally the market is sound. Inventories are still historically low (albeit rising modestly) and there are no signs of overbuilding virtually anywhere in the country. Canada's population has grown the most in generations over the past year, and booming immigration will keep that going over the medium term. We believe solid fundamentals will come to the fore in 2024 once the market has adjusted to higher interest rates.

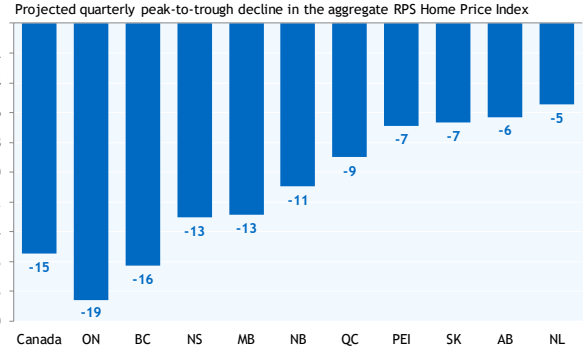
Homebuilding the key to longer-term balance

Could things heat up to an uncomfortable degree again in the future? We certainly wouldn't rule it out. It'll all come down to the supply response. And on that front, the recent track record for construction has been underwhelming. While homebuilding has picked up in Canada over the past three years—housing completions rose from less than 190,000 units in 2019 to roughly 220,000 units in 2021 and 2022—it was nowhere near enough to meet supercharged demand. We estimate that our housing stock must expand by at least 270,000 units per year by 2025 just to accommodate the growth in households, let alone address the housing affordability crisis in many Canadian cities. Needless to say, homebuilding needs to ramp up considerably from this point on. It's unclear, though, whether the construction industry has the capacity to do so in the face of significant labour shortages.

Peak-to-trough national price declines during market downturns
% change by price measure, Canada, quarterly

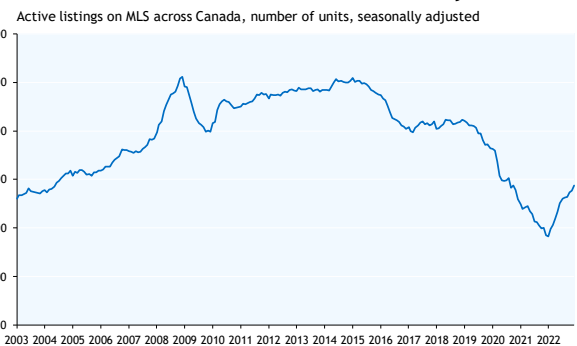
	RPS/Royal Lepage aggregate HPI	MLS HPI aggregate composite	Teranet composite HPI	MLS average price of homes sold
1981-82	-9.7	n/a	n/a	-9.8
1990-91	-6.7	n/a	n/a	-8.1
2008-09	-3.5	-9.0	-7.4	-10.8
2017-18	-1.1	-3.6	-1.3	-11.0
2022-23 forecast	-15.5			
2022 peak to date	-7.1	-14.6	-5.8	-17.0

Price decline to be deeper in Ontario and BC



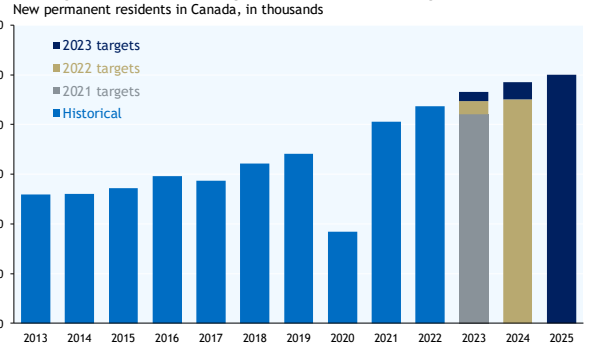
Source: RPS, RBC Economics

Homes for sale inventories are still historically low



Source: Canadian Real Estate Association, RBC Economics

Immigration wave will pressure our housing stock



Source: Statistics Canada, IRCC, RBC Economics



Home resales forecast (units)

	2015	2016	2017	2018	2019	2020	2021	2022	2023f	2024f
Canada*	508,300	540,900	515,600	461,200	491,100	552,800	666,400	498,300	412,400	505,100
	<i>5.3</i>	<i>6.4</i>	<i>-4.7</i>	<i>-10.6</i>	<i>6.5</i>	<i>12.6</i>	<i>20.5</i>	<i>-25.2</i>	<i>-17.2</i>	<i>22.5</i>
British Columbia	102,600	112,200	103,800	78,500	77,300	93,900	124,800	80,900	62,700	77,000
	<i>22.0</i>	<i>9.4</i>	<i>-7.5</i>	<i>-24.4</i>	<i>-1.5</i>	<i>21.5</i>	<i>32.9</i>	<i>-35.2</i>	<i>-22.5</i>	<i>22.8</i>
Alberta	60,100	55,600	57,800	53,500	53,500	55,800	85,600	84,100	64,500	65,700
	<i>-21.0</i>	<i>-7.5</i>	<i>4.0</i>	<i>-7.4</i>	<i>0.0</i>	<i>4.3</i>	<i>53.4</i>	<i>-1.8</i>	<i>-23.3</i>	<i>1.9</i>
Saskatchewan	12,900	12,200	12,000	11,100	11,300	14,100	17,500	15,400	12,900	13,300
	<i>-11.0</i>	<i>-5.4</i>	<i>-1.6</i>	<i>-7.5</i>	<i>1.8</i>	<i>24.8</i>	<i>24.1</i>	<i>-12.0</i>	<i>-16.2</i>	<i>3.1</i>
Manitoba	14,000	14,500	14,400	13,500	14,700	16,800	19,700	15,700	13,600	15,000
	<i>2.2</i>	<i>3.6</i>	<i>-0.7</i>	<i>-6.3</i>	<i>8.9</i>	<i>14.3</i>	<i>17.3</i>	<i>-20.3</i>	<i>-13.4</i>	<i>10.3</i>
Ontario	221,900	243,300	219,300	192,200	209,500	227,900	270,100	182,900	157,400	211,000
	<i>9.7</i>	<i>9.6</i>	<i>-9.9</i>	<i>-12.4</i>	<i>9.0</i>	<i>8.8</i>	<i>18.5</i>	<i>-32.3</i>	<i>-13.9</i>	<i>34.1</i>
Quebec	74,100	78,100	82,500	86,500	96,300	112,200	109,500	87,200	73,800	91,900
	<i>5.0</i>	<i>5.4</i>	<i>5.6</i>	<i>4.8</i>	<i>11.3</i>	<i>16.5</i>	<i>-2.4</i>	<i>-20.4</i>	<i>-15.4</i>	<i>24.5</i>
New Brunswick	7,000	7,900	8,300	8,400	9,500	10,800	13,200	10,500	9,000	10,300
	<i>6.1</i>	<i>12.9</i>	<i>5.1</i>	<i>1.2</i>	<i>13.1</i>	<i>13.7</i>	<i>22.2</i>	<i>-20.5</i>	<i>-14.3</i>	<i>14.4</i>
Nova Scotia	9,300	10,100	10,600	11,100	12,300	14,000	15,900	12,500	11,400	13,300
	<i>2.2</i>	<i>8.6</i>	<i>5.0</i>	<i>4.7</i>	<i>10.8</i>	<i>13.8</i>	<i>13.6</i>	<i>-21.4</i>	<i>-8.8</i>	<i>16.7</i>
Prince Edward Island	1,700	2,100	2,200	2,100	1,900	2,100	2,400	2,000	1,700	2,300
	<i>21.4</i>	<i>23.5</i>	<i>4.8</i>	<i>-4.5</i>	<i>-9.5</i>	<i>10.5</i>	<i>14.3</i>	<i>-16.7</i>	<i>-15.0</i>	<i>35.3</i>
Newfoundland & Labrador	4,200	4,200	3,900	3,700	4,100	4,700	6,800	6,300	4,600	4,500
	<i>2.4</i>	<i>0.0</i>	<i>-7.1</i>	<i>-5.1</i>	<i>10.8</i>	<i>14.6</i>	<i>44.7</i>	<i>-7.4</i>	<i>-27.0</i>	<i>-2.2</i>

* Includes sales in the Territories.

Annual percent changes are in italics.

Source: Canadian Real Estate Association, RBC Economics

Home price forecast

Aggregate price	2015	2016	2017	2018	2019	2020	2021	2022	2023f	2024f
Canada	435,700	482,900	534,600	547,000	555,300	607,700	724,900	817,500	721,500	737,100
	<i>5.7</i>	<i>10.8</i>	<i>10.7</i>	<i>2.3</i>	<i>1.5</i>	<i>9.4</i>	<i>19.3</i>	<i>12.8</i>	<i>-11.7</i>	<i>2.2</i>
British Columbia	606,100	713,000	770,500	811,200	780,500	843,100	994,500	1,134,500	997,100	1,003,100
	<i>7.9</i>	<i>17.6</i>	<i>8.1</i>	<i>5.3</i>	<i>-3.8</i>	<i>8.0</i>	<i>18.0</i>	<i>14.1</i>	<i>-12.1</i>	<i>0.6</i>
Alberta	432,800	425,900	429,600	428,600	421,100	421,000	444,000	479,600	458,500	471,900
	<i>1.4</i>	<i>-1.6</i>	<i>0.9</i>	<i>-0.2</i>	<i>-1.7</i>	<i>0.0</i>	<i>5.5</i>	<i>8.0</i>	<i>-4.4</i>	<i>2.9</i>
Saskatchewan	330,800	331,100	328,200	324,800	320,300	322,300	336,100	348,000	330,600	336,500
	<i>0.1</i>	<i>0.1</i>	<i>-0.9</i>	<i>-1.0</i>	<i>-1.4</i>	<i>0.6</i>	<i>4.3</i>	<i>3.5</i>	<i>-5.0</i>	<i>1.8</i>
Manitoba	282,600	288,200	296,500	298,700	304,100	313,500	346,200	376,900	340,400	345,800
	<i>1.2</i>	<i>2.0</i>	<i>2.9</i>	<i>0.7</i>	<i>1.8</i>	<i>3.1</i>	<i>10.4</i>	<i>8.9</i>	<i>-9.7</i>	<i>1.6</i>
Ontario	447,800	506,500	589,900	597,000	621,100	695,400	852,000	961,000	829,400	853,100
	<i>7.3</i>	<i>13.1</i>	<i>16.5</i>	<i>1.2</i>	<i>4.0</i>	<i>12.0</i>	<i>22.5</i>	<i>12.8</i>	<i>-13.7</i>	<i>2.9</i>
Quebec	303,100	313,300	324,800	337,600	356,000	392,500	465,100	524,500	489,900	497,500
	<i>1.5</i>	<i>3.4</i>	<i>3.7</i>	<i>3.9</i>	<i>5.5</i>	<i>10.3</i>	<i>18.5</i>	<i>12.8</i>	<i>-6.6</i>	<i>1.6</i>
New Brunswick	198,100	205,700	206,100	212,800	216,000	220,900	262,700	324,300	301,200	307,200
	<i>0.8</i>	<i>3.8</i>	<i>0.2</i>	<i>3.3</i>	<i>1.5</i>	<i>2.3</i>	<i>18.9</i>	<i>23.4</i>	<i>-7.1</i>	<i>2.0</i>
Nova Scotia	254,200	260,000	270,400	274,100	281,100	304,100	381,400	466,200	421,200	428,800
	<i>1.2</i>	<i>2.3</i>	<i>4.0</i>	<i>1.4</i>	<i>2.6</i>	<i>8.2</i>	<i>25.4</i>	<i>22.2</i>	<i>-9.7</i>	<i>1.8</i>
Prince Edward Island	204,400	214,800	239,500	266,000	277,500	314,100	366,000	416,200	399,600	404,800
	<i>4.0</i>	<i>5.1</i>	<i>11.5</i>	<i>11.1</i>	<i>4.3</i>	<i>13.2</i>	<i>16.5</i>	<i>13.7</i>	<i>-4.0</i>	<i>1.3</i>
Newfoundland & Labrador	298,800	298,400	294,600	284,600	272,600	272,000	290,700	321,800	313,400	314,200
	<i>1.3</i>	<i>-0.1</i>	<i>-1.3</i>	<i>-3.4</i>	<i>-4.2</i>	<i>-0.2</i>	<i>6.9</i>	<i>10.7</i>	<i>-2.6</i>	<i>0.3</i>

Annual percent changes are in italics.

Source: RPS, Statistics Canada, RBC Economics

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