MONTHLY HOUSING MARKET UPDATE

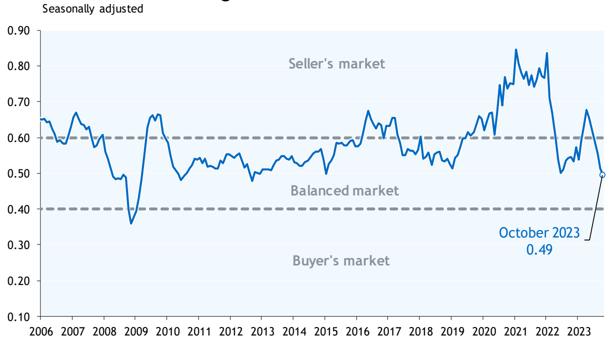
November 15, 2023

Ontario leads Canada's housing market cooldown

Home resales in Canada
Thousand units, seasonally adjusted and annualized

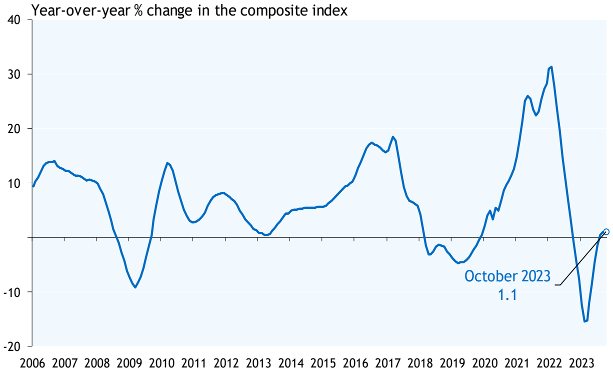
Source: Canadian Real Estate Association, RBC Economics

Sales-to-new listings ratio in Canada
Seasonally adjusted



Source: Canadian Real Estate Association, RBC Economics

MLS Home Price Index - Canada
Year-over-year % change in the composite index



Source: Canadian Real Estate Association, RBC Economics

Higher interest rates are increasingly cooling housing markets across the country. There's no region feeling it more than Ontario at this stage. Home resales in the province fell for the fifth straight month in October, reaching the lowest levels since the Great Financial Crisis (excluding the pandemic shutdown period). Demand-supply conditions in nearly half local markets (including the Greater Toronto Area, Hamilton, Niagara, Barrie and Kingston) now favour buyers outright. And inventories are building fast, especially relative to weak sales. This is all weighing on prices. The aggregate MLS Home Price Index for Ontario fell in the last three months—and doing so at an accelerating pace (-1.4% m/m in October).

Market softness is widespread

The temperature is dipping in other parts of Canada too, albeit to a lesser degree. Even super-hot Alberta is showing early signs of softening with resales falling 8.3% m/m in October. For now, prices continue to rise in the majority of provinces (including Alberta, Saskatchewan, Quebec and most Atlantic provinces), though British Columbia recorded its first decline (-0.1% m/m) in seven months.

Spring rebound has largely reversed in Canada

Nationwide, resales have dropped nearly 12% over the past four months (including a 5.0% m/m decline in October), reversing three-quarters of the spring rebound. This, along with a growing number of homes put up for sale since spring, has entirely unwound the tightness in demand-supply conditions that prevailed earlier this year. And buyers are taking advantage of their stronger bargaining position. They've successfully extracted price concessions from sellers in the past two months. The national aggregate MLS HPI fell 0.4 % m/m in September and a larger 0.8% in October. We expect this downtrend to continue in the coming months.

Supply-side watch: still few signs of trouble

While new listings have trended higher since spring, their levels generally remain well within pre-pandemic range. And there's been little evidence that the rise is accelerating. In fact, new listings actually fell in Canada (-2.3% m/m) and most major markets in October. With interest payments soaring for Canadians with variable-rate mortgages and renewing fixed-rate mortgages, the financial squeeze could prompt a growing number of existing owners to sell their property. This would pose a risk to the market

October market snapshot

	Home resales (% change)		New listings (% change)		MLS Home Price Index (% change)		Sales-to-new listings ratio
	M/M	Y/Y	M/M	Y/Y	M/M	Y/Y	
Canada	-5.6	0.9	-2.3	16.0	-0.8	1.1	0.49
Toronto	-5.0	-6.3	-2.9	38.6	-1.7	1.4	0.35
Montreal	-10.6	-2.4	0.9	9.6	0.0	3.3	0.55
Vancouver	-10.2	4.1	-1.8	12.8	-0.1	4.4	0.44
Calgary	-9.2	13.3	-0.5	21.0	1.1	9.3	0.72
Edmonton	-9.0	19.9	-2.4	0.8	0.3	0.5	0.62
Ottawa	-11.6	-3.8	-6.0	7.1	0.2	1.8	0.46

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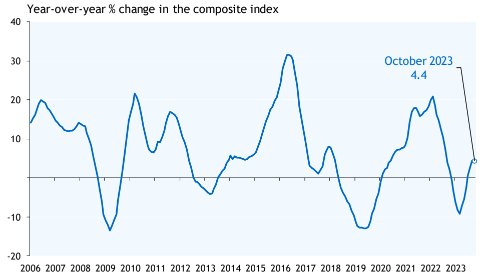
if a wave of sellers ensued.

Market likely stay quiet into next year

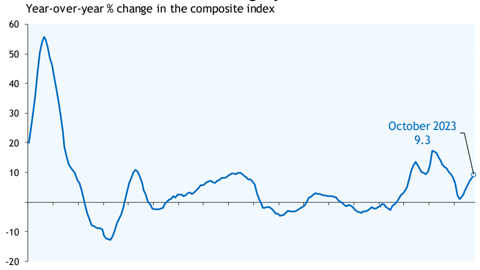
Transaction activity has been very quiet this fall across most of Canada. High interest rates, major affordability challenges and mounting economic uncertainty have kept homebuyer demand muted, especially in high-priced markets in Ontario and BC. We see this trend continuing into next year. With the prospect of higher interest costs bringing more sellers to market, buyers could gain even more pricing power in the months ahead. This would set the stage for further price erosion in Ontario and BC. The weakness could potentially spread to other regions as well. Any meaningful turnaround in the market will have to wait until interest rates are reduced. RBC expects the first cut in the Bank of Canada's policy rate will be around mid-2024 though sees longer-term bond yields drifting lower ahead of that point.

MLS Home Price Index - Vancouver
Year-over-year % change in the composite index



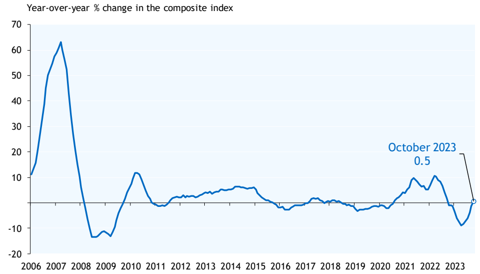
Source: Canadian Real Estate Association, RBC Economics

MLS Home Price Index - Calgary
Year-over-year % change in the composite index



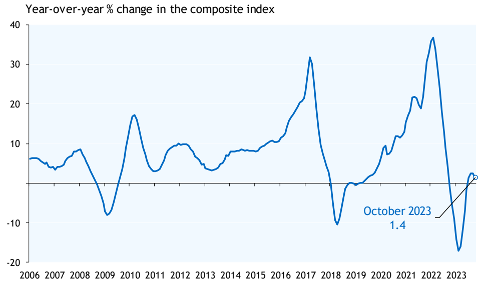
Source: Canadian Real Estate Association, RBC Economics

MLS Home Price Index - Edmonton
Year-over-year % change in the composite index



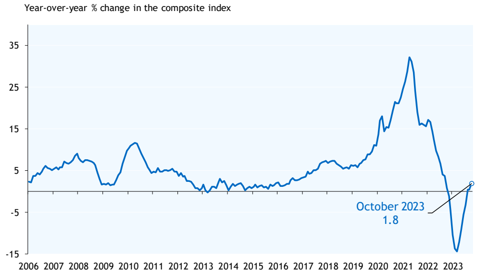
Source: Canadian Real Estate Association, RBC Economics

MLS Home Price Index - Toronto
Year-over-year % change in the composite index



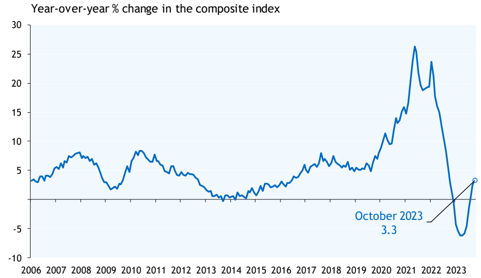
Source: Canadian Real Estate Association, RBC Economics

MLS Home Price Index - Ottawa
Year-over-year % change in the composite index



Source: Canadian Real Estate Association, RBC Economics

MLS Home Price Index - Montreal
Year-over-year % change in the composite index



Source: Canadian Real Estate Association, RBC Economics