

MONTHLY HOUSING MARKET UPDATE

August 15, 2022

Home resales in Canada

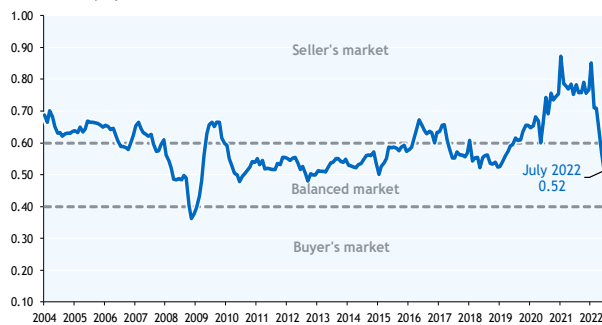
Thousand units, seasonally adjusted and annualized



Source: Canadian Real Estate Association, RBC Economics

Sales-to-new listings ratio in Canada

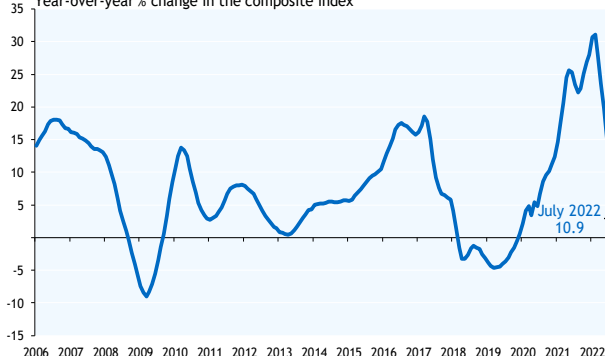
Seasonally adjusted



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

Bottom still a ways away for Canada's housing market

The pandemic may not be over but the pandemic-era housing market boom certainly is. Since the Bank of Canada began hiking its policy rate in March, home resales have fallen 31% and (benchmark) prices almost 6% nationwide, including monthly declines of 5.3% and 1.7%, respectively, in July. Most of Ontario and British Columbia have seen even greater drops. And the bottom is likely many months away still as our central bank has more work to do—we expect a further 100 basis-point rate increase to 3.5% by the fall. With the balance of power having dramatically shifted in their favour, buyers will be in a position to continue extracting price concessions from sellers for some time to come.

Ontario and BC: from hot spots to... downturn epicentre

Formerly overheating markets in Ontario and parts of the BC Lower Mainland have been the epicentre of the downturn to date. Cambridge (-17%), Kitchener-Waterloo (-16%), Brantford (-14%), London (-14%) and Guelph (-10%) have experienced the biggest declines in the composite MLS Home Price Index since the February peak. In dollar terms, the loss in value is striking, varying from \$95,000 (Guelph) to \$166,000 (Cambridge). Prices are also under heavy pressure in the Greater Toronto Area where the composite MLS HPI is down 7% (or \$89,000) in the past five months. The Fraser Valley is leading the correction in British Columbia with the composite benchmark price falling 5.6% (or \$65,000) since March, slightly more than twice the decline in the Vancouver area.

Cracks in other regions of the country...

In Quebec, gradually moderating activity is now taking the edge off prices. The composite MLS HPI fell slightly in the past two months in both Montreal and Quebec City, suggesting peak prices are likely behind us. It's a similar story in parts of Alberta, Manitoba and Nova Scotia where the softening in prices began two or three months ago. We think these provide growing evidence a generalized downturn is underway in Canada.

...though market balance persists

Still, markets outside Ontario and British Columbia generally face a milder correction. As buyers in relatively affordable markets are less sensitive to interest rate hikes, we expect demand to be more resilient. The fact that

July 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	-5.3	-29.3	-5.3	6.2	-1.7	10.9	0.52
Toronto	-7.3	-47.7	-2.7	-4.0	-1.9	12.9	0.41
Montreal	-0.7	-18.3	-11.8	21.8	-1.2	10.6	0.63
Vancouver	-9.0	-43.6	-4.8	-9.9	-1.3	10.3	0.46
Calgary	-4.2	-5.5	-5.1	-4.0	-0.1	12.7	0.71
Edmonton	-8.1	-10.3	-2.0	7.5	-0.9	6.7	0.51
Ottawa	-3.8	-35.7	-1.2	-4.6	-1.1	6.6	0.50



home resales have so far remained above pre-pandemic levels in the Prairie Provinces and most of Atlantic Canada is a case in point. While likely to soften modestly, demand-supply conditions are well anchored in balanced territory in these regions.

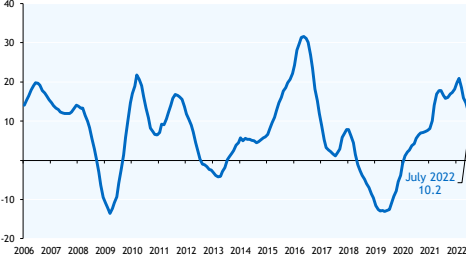
Activity to cool further nationwide

The Bank of Canada’s outsized 100 basis-point rate hike delivered on July 13 threw ice-cold water on the market—disqualifying some buyers from obtaining a mortgage and shrinking the size of a mortgage others can qualify for. Our expectation for an additional 100 basis-point rate increase over the next two rate announcements in September and October will no doubt keep chilling things. We project home resales to fall 23% in Canada this year and a further 15% next year.

Bottom next spring?

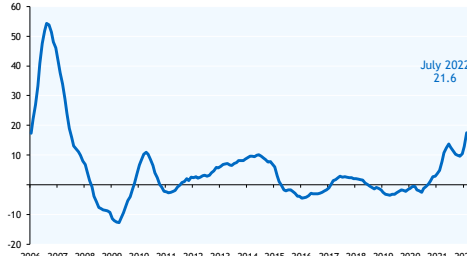
We believe the market will adjust to higher interest rates by early 2023. Any recovery will likely take a few months to tighten demand-supply conditions, placing the bottom for prices around spring time (overall for Canada). We expect benchmark prices will be down approximately 12% from the recent peak nationwide. On a provincial basis, we think Ontario and British Columbia could record peak-to-trough declines exceeding 14%, and see Alberta and Saskatchewan at the other end of the scale with drops of less than 3%.

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



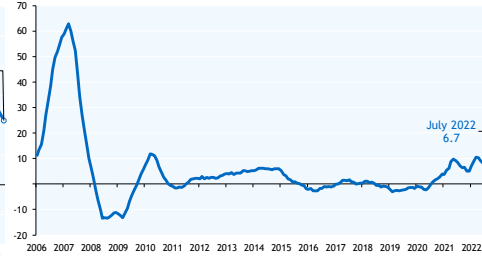
Source: Canadian Real Estate Association, RBC Economics

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



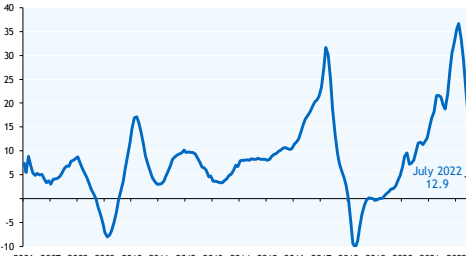
Source: Canadian Real Estate Association, RBC Economics

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



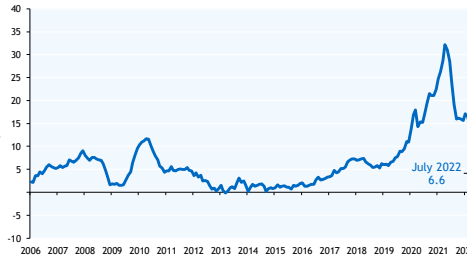
Source: Canadian Real Estate Association, RBC Economics

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

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