

MONTHLY HOUSING MARKET UPDATE

April 15, 2020

Home resales in Canada

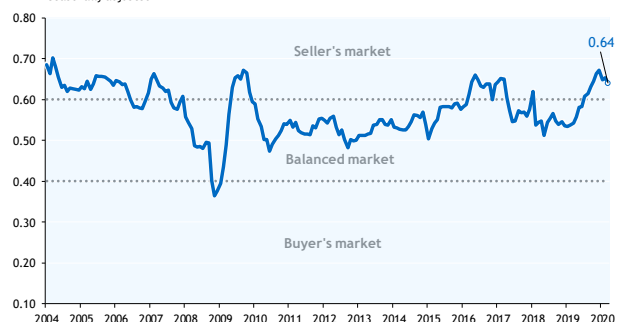
Thousand units, seasonally adjusted and annualized



Source: CREA, RBC Economics

Sales-to-new listings ratio in Canada

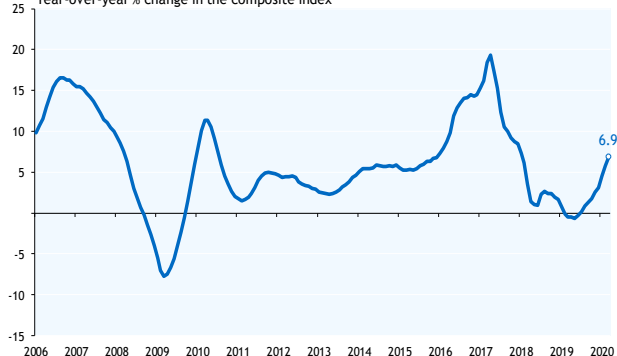
Seasonally adjusted



Source: CREA, RBC Economics

MLS Home Price Index - Canada

Year-over-year % change in the composite index



Source: CREA, RBC Economics

Pandemic throws housing market off course

- As feared, home resales plummeted across-the-board in March:** Activity fell 14.3% from February nationwide as governments rolled out COVID-19 containment measures. All major markets but one (Regina) showed a monthly drop. Calgary (-26%) and Toronto (-21%) led the decline. Earlier local reports indicated transactions fizzled in the latter half of March after what had been a strong first half.
- April is shaping up to be even quieter:** A sneak peak at the first week of April results showed resales running at about half normal levels across Canada. We expect activity to wind down even further as the month progresses.
- Supply falls in tandem:** The dramatic turn of events prompted many would-be sellers to stay on the sidelines. New listings fell 12.5% from February across the country. This left demand-supply conditions tight overall in March with buyers in Montreal, Ottawa-Gatineau and Halifax still facing unusually low inventories.
- Property values are generally holding up:** Canada's MLS Home Price Index further accelerated to a y/y rate of 6.9% from 5.9% in February. Ottawa (+15.5%), Montreal (+11.3%) and Toronto (+11.1%) posted double-digit increases. Pockets of price weakness persisted in the Prairies.
- It's all about the pandemic and containment measures near term:** We expect both buyers and sellers to lay low while extraordinary containment measures are in place. This will maintain a certain balance in most markets and help home prices stay afloat.
- Length and depth of recession will shape the market recovery:** Unprecedented government support and rock-bottom interest rates will help re-activate the market once containment measures are lifted. The type of recovery we'll get, however, will depend on the extent and persistence of labour market damage.

Everything changed mid-March

March 2020 will go down in history as the month Canada's housing market passed its most dramatic inflection point. After a strong start—in part fueled by the Bank of Canada cutting interest rates early in the month—activity fell precipitously in the latter half of the month as provincial governments rolled out strict social distancing measures. While the real estate industry wasn't shut down outright in most provinces (generally listed as an essential service), social distancing guidelines severely disrupted the way it conducts business. Under these extraordinary circumstances, many

March market snapshot

Region	Home resales	New listings	MLS HPI (Composite)	Sales-to-new listings ratio
	Y/Y %change	Y/Y %change	Y/Y %change	
Canada	7.8	-9.1	6.9	0.64
Toronto	11.5	3.1	11.1	0.56
Montreal	4.3	-22.4	11.3	0.96
Vancouver	46.8	-10.7	2.1	0.56
Calgary	-9.8	-18.8	-0.8	0.54



buyers and sellers opted to shift to, or stay on the sidelines. Both resales (14.3%) and new listings (-12.5%) plummeted last month from February levels. This was just the beginning.

Expect larger declines in April

The Canadian Real Estate Association unusually gave a sneak preview of results for the first week of April. These showed home resales and new listings running at about half normal levels. We believe many of the transactions taking place early this month reflected deals in the works for several weeks. We expect activity to quiet down even further as the deal pipeline dries up. Real-time results reported by the Calgary Real Estate Board indicate resales fell 63% y/y and new listings by 62% month-to-date in April. This could give a rough indication of what's in store for other markets across Canada.

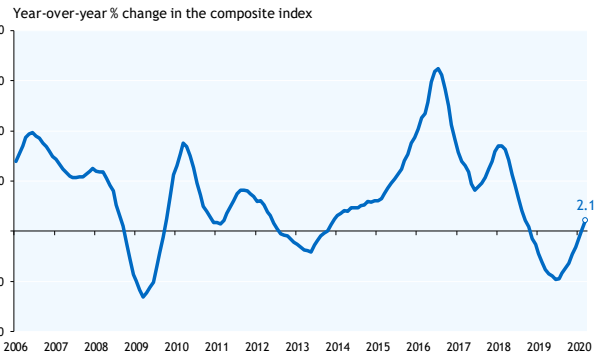
This will be a temporary shock

We expect stronger activity to resume once social distancing orders are relaxed though there's great uncertainty as to when this will happen. Our baseline assumption is sometime in June. Exceptionally low interest rates will help spur the recovery. The strength of this recovery, however, will crucially depend on the damage suffered by the labour market. We expect the unemployment rate to surge into double-digits in all provinces this month before easing gradually thereafter. The longer unemployment stays high, the slower the housing market recovery will be. Our current view is the recovery will stretch into 2021 in most markets.

Odds of a major price drop are still low

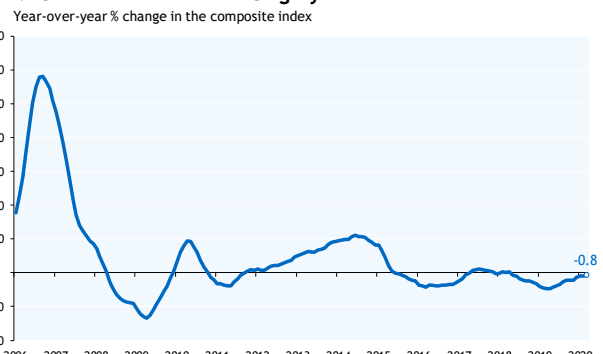
Despite the rough patch ahead, we expect property values to generally hold up. We believe the initial position of strength—current tight demand-supply conditions in most major markets—will provide some cushion against a correction. Our base case scenario has the recent acceleration in home prices in Toronto, Vancouver, Ottawa and Montreal tapering off in the period ahead. The price outlook isn't as rosy in the prairies, however, where softer market conditions and the plunge in crude oil prices are poised to further drive prices lower.

MLS Home Price Index - Vancouver



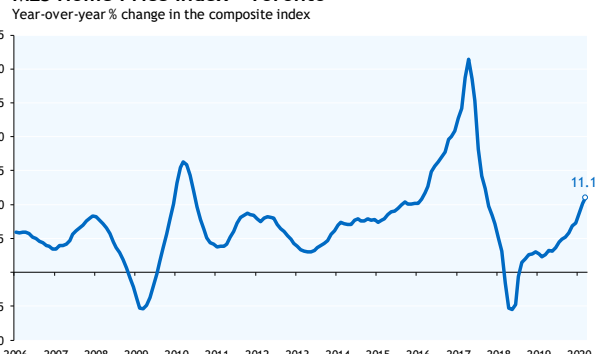
Source: CREA, RBC Economics

MLS Home Price Index - Calgary



Source: CREA, RBC Economics

MLS Home Price Index - Toronto



Source: CREA, RBC Economics

MLS Home Price Index - Montreal



Source: CREA, RBC Economics

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