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TD Economics

Data Release: Mix of policy changes help bring calm to the market

- Canadian existing home sales fell 6.2% m/m in May and are now 1.6% below year ago levels. New listings rose 0.3%, following a 10% gain in the preceding month, leading the sales-to-new listings ratio lower to 56.3% (from 60.2% in April) and marking a return to balanced territory – typically defined as a ration between 40% and 60%.
- The average home price dipped 5.2% in the month, and was up just 4.3% year-over-year. Home prices on a quality adjusted basis were up by a more robust 17.9% y/y with growth in condo prices (+20.5%) outpacing single-family home prices (+17.1%) for the first time since 2010.
- The weakness in national sales activity in May was mostly due to a 25% decline in existing home sales in the GTA market, where sales are now down almost 30% from their peak levels in March. Listings in the GTA have also been rebounding, pushing the market towards one where buyers have more bargaining power. The sales-to-new listings ratio dipped to 41%, but the active listings inventory, while the highest in a year at 2.3 months' of sales, remains at nearly half of the historical norms. The average home price in the GTA fell 7.3% in the month, bringing the year-over-year appreciation down to 14.2%. Still much of the decline was related to compositional changes, with the quality adjusted home prices up 2.1% on the month and up 28% year-over-year. Existing home sales also fell more broadly across Southern Ontario.
- The weakness in sales was largely spread across the country, with most other regional markets also coming off of a strong start to the year. The recovery in Vancouver existing home sales stalled in the month (-0.6% m/m). The exceptions were Montreal and Quebec City where sales reached new records in May.
- While most markets are still amply supplied, the improvement in demand over the first four months of 2017 has helped mop up some of that supply and months' of inventory have been edging lower, leading to moderate lift improvements in home price growth up. On a quality adjusted basis, Calgary home prices were up year-over-year for the first time in two years (+0.2%). Home prices were rising by around 4% in both Ottawa and Montreal, breaking what had been a multiyear trend of sub-2% growth.
- The quality adjusted home price growth in Vancouver decelerated sharply over the last year from a peak of 33% to 8.8% y/y in May, its slowest rate in two years. However, the market has tightened in recent months and is once again in seller's territory, which will likely put some upward pressure on prices going forward.

Key Implications

- The Ontario government's move to cool housing worked and we believe that both April and May have kicked off what is expected to be a soft landing in the GTA, Hamilton and other Greater Golden Horseshoe (GGH) markets. While similar policy measures proved to be temporary in B.C., prospects for higher interest rates later this year will limit the bounce back across the GGH and may see the GVA recovery fizzle out.
- Canada's soft landing story hinges on the themes playing out across Ontario and BC. May's data does bring some evidence that foreign investment could be shifting into other markets, such as Montreal and Quebec City. Both of these markets bucked the national trend this month. Better balanced conditions, along with improving economic conditions, will allow other most markets outside of the Ontario and BC to enjoy moderate growth in both domestic demand and price growth even as interest rates rise gradually.
- Overall, average home prices are expected to grow moderately this year, before falling by just 2% next year. However, this decline is fully due to the home price decline in Ontario/GTA as well as the compositional shifts as activity rebalances away from higher priced markets.

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