Data Release: Canadian resale housing market improves modestly in February

- Following three disappointing months, the Canadian housing market showed signs of improvement in February. Existing home sales inched up 1.0% in February, up 2.7% from last year. But the level remained 5% below the 10-year average. Listings fell in the month, pushing the sales-to-listings ratio back up to 52.5, from 50.2 in the month prior. A sales-to-listings ratio between 40 and 60 indicates a balanced market.

- Average existing home price growth re-accelerated in the month, rising 6.3% year-over-year, up from 3.1% in January. The Canadian real estate association also produces a quality adjusted price index, which tracks changes in prices for homes of similar size and type. The quality adjusted home price index remained stable at 5% year-over-year, suggesting the acceleration in the average existing home price reflects a shift in sales towards more expensive markets.

- There was a sharp divergence in regional housing markets in February. Major urban markets in British Columbia and Ontario accounted for the bulk of the increase in existing home sales in the month. Sales were down in most other markets, led by the Atlantic provinces. On a quality adjusted basis, year-over-year gains in home prices remained strongest in Vancouver(+6.4%), Toronto (7.8%) and Calgary (+5.9%).

- Average existing home sales in both Calgary and Edmonton are down 34.5% and 16.7%, respectively, from year ago levels. While Calgary home prices have held up on a quality adjusted basis, the average price of homes sold in February was down 3.6% from year ago levels, indicating that the income hit from the drop in oil prices since the summer has had the most negative impact on demand for more expensive homes. Average existing home prices were flat on an year-over-year basis.

Key Implications

- This morning's data release painted a picture of an overall Canadian housing market that is neither too hot, nor too cold. As was largely expected, the 60% plunge in oil prices since the summer has hit commodity-dependent markets quite hard, while major cities in Ontario and British Columbia are benefitting from a new low in interest rates. With both markets relatively tight, home price gains, especially for single-family homes, will likely maintain some momentum over the next few months.

- While low interest rates may continue to provide a modest boost to housing demand over the near-term, the impact is likely to fade as 2015 unfolds. Average existing home prices in commodity driven markets, such as Alberta, Saskatchewan and Newfoundland, are likely to weaken further as the year progresses. Meanwhile, the combination of an increase in the unemployment rate in February, elevated household indebtedness and a deterioration in affordability in Canada’s key markets will keep a lid on overall housing activity for most of 2015.

- Overall, TD economics continues to forecast a moderation in the Canadian existing home market, with sales likely to remain relatively flat in 2015 and 2016 and existing home price growth expected to decelerate to a 1 to 2% year-over-year pace. A stable housing market means the bank of Canada will be in no rush to raise or lower interest rates over the near-term.
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