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TD Economics

Data Release: Regional divide in Canadian housing widens

- The Teranet Home Price Index has given us our first peak into Canadian housing activity in April. The index which tracks 11 major cities across Canada rose 4.4% year-over-year in April, following a 4.7% gain in March.
- Most cities saw a modest deceleration in home price growth in the month. However, prices continued to grow at a relatively hot pace in Toronto (+7.3% y/y) and Hamilton (+7.6% y/y). Vancouver, Victoria and Edmonton were in the middle of the pack with annual price gains of 4.8%, 4.2% and 4.7%, respectively. Calgary (+3%) home prices were up year-on-year, but growth has come well below the average 9% pace set in 2014. Home prices in Quebec City are rebounding from a contraction last year, and were up 3.7% year-over-year in April.
- Home price growth was much more muted elsewhere. Prices were up 0.5% in Winnipeg and 0.4% in Montreal relative to a year ago. Prices in Halifax rose 1.2% from year-ago levels, but following a 1.7% contraction in 2014. The home price index in Halifax is still 3% below the peak reached in May of 2013. Ottawa home prices were down 2.3% from year ago levels.

Key Implications

- The Teranet Home Price Index drives home the point that housing really is a regional story. Canadian average existing home prices are on track to clock in at 5% to 6% in 2015, largely driven by Toronto and Vancouver. In contrast, Calgary home prices are expected to continue to weaken following a sharp 30% decline in existing home sales since the beginning of the year.
- As the much anticipated spring market unfolds, Toronto and Vancouver home prices are expected to remain hot while other markets will likely catch the home-buying fever. The 5-year fixed mortgage rate bottomed in April and will likely continue to provide stimulus to the housing market through the summer months. For one, affordability in many regions is at an all-time best. But, more importantly, there may be a rush to jump into the market before borrowing rates go up. Longer-term government bond yields have already started to return to 2014 levels, which could push mortgage rates higher later this year.
- We continue to count on a slowing in home price growth, but likely not until we see sustained higher interest rates. More strength now will likely mean the impact of higher interest rates will be larger when they do eventually come.

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