The Teranet home price index for Canada’s 11 largest cities rose 4.4% (year-over-year) in February, decelerating slightly from the 4.7% increase in January. This marks the fourth straight month of decelerating home price growth. The composite six index (which covers the cities of Vancouver, Toronto, Calgary, Montreal, Ottawa-Gatineau and Halifax) was up 4.6%, following a 4.8% gain in January. On a month-over-month basis, both the overall and composite six index were up 0.1%, increasing for the second consecutive month.

On a year-over-year basis higher prices were recorded in 7 of the 11 cities included in the index, with notable price gains recorded in Hamilton (+8%), Toronto (+7.3%), Vancouver (+5.7%) and Calgary (+5.6%). Price declines were recorded in Montreal (-2.4%), Ottawa (-1.2%) and Winnipeg (-1.0%). Home prices remained unchanged from year-ago levels in Québec City.

Month-over-month price declines were fairly widespread with 8 of 11 cities recording lower prices. However, the headline figure was buoyed by strength in Vancouver (+1.5%), Victoria (+0.5%) and Hamilton (+0.3%).

Key Implications

- The four-month trend of slowing price growth is consistent with our expectations of a moderation in home price growth over the next two years. That said, the national outlook masks a growing regional divide between the oil-producing and non-oil producing regions.

- This month, the deceleration in home price growth for commodity-driven housing markets was well anticipated. The effects of significantly lower oil prices had already turned up in resale activity, with sales in Calgary and Edmonton down more than 40% and 30% respectively, from October to January. As resale activity slows, prices usually follow. Calgary had been on a decelerating streak since November. Today’s data release indicates that cracks are also beginning to appear in Edmonton. These trends are expected to continue, with commodity-driven markets (including St. John’s) likely to experience price corrections of up to 10% peak-to-trough through the year.

- Elsewhere, economic conditions are expected to remain more favourable for housing activity due to a rising U.S. economy, a low Canadian dollar and lower-for-longer interest rates. That said, the impact of lower rates on the housing market is likely to be modest due to a lack of pend-up demand and deteriorating affordability in a few major markets. Meanwhile, an increasing trend in listings is likely to keep home price growth in check for most major markets. For more information see our recent Regional Housing Report.

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