TD Economics

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Data Release: Spring buying season came early this year, as sales and listings rebound in February

- Existing home sales jumped 5.2% in February, retracing more than all of the loses since the implementation of new mortgage regulations in October 2016. In fact, sales are just shy of the record level reached in April of 2016.
- Listings also bounced back, partly offsetting the outsized drop in the prior month, but are still well below their long-run average unlike sales activity. As such, the market tightened further in February, with the sales-to-new listings ratio edging up to 69 in February, the highest level since 2002 and keeping the market well entrenched in seller's territory.
- The gain in sales was pretty broad based across most major markets, with the exception of some Atlantic regions. The supply constraints are also appearing to be fairly broad based, especially in Vancouver, were listings dropped to the lowest level since 2003. Apart from Atlantic Canada, the only two major not near or in seller's territory are Saskatoon and Regina.
- Despite tightening market conditions, a shift away from sales in Vancouver to more affordable regions across Canada kept the average sales price growing at a modest 3.5% year-over-year pace. On a quality adjusted basis, home prices were up almost 16% y/y, marking the fastest growth on record since the index was created in 2005. However, the few markets booming were mostly in Ontario, including Greater Toronto Area (+24%) and Guelph (29%) and Milton (+18%). While still moving at a double-digit pace, price growth in Vancouver edged down to 14% y/y, which is the slowest pace since early 2015. Home prices were rising more modestly, up 3% to 4% in all other markets, with the exception of Calgary (-1.9%) and Saskatoon (-1.2%) where the legacy of low oil prices continues to weigh on housing.

Key Implications

- The Canadian housing market has shown considerable strength in the last few months, but also a lot of volatility. Some of the wild swings in the metrics, with new listings particularly changeable, was likely due to changing seasonal patterns. February was an abnormally warm month across the country, but with winter weather back this month, some of the recent trends may stabilize.
- Still, looking beyond the monthly volatility, there are a number of trends across the country to note. With their economies starting to turn the corner, markets in Alberta and Saskatchewan have likely bottomed and will likely continue to improve gradually over 2017 and 2018. The combination of mortgage regulations and a foreign buyers tax is likely to keep the Vancouver market on a more sustainable upward path, while some of its surrounding areas that did not implement the tax continue to boom.
- Last but not least, there is no denying that markets in Ontario are heating up to a pace that is too-hot and certainly unsustainable. While TD Economics still doesn't believe we're in a bubble territory, we do think that the market has the potential to increasingly approach one. In light of mortgage rates remaining low and mortgage regulation changes having negligible impact on home demand, there appears to be no visible brake that would stop this train in this year. As such, we have upgraded our view on GTA and Ontario home prices for 2017, expecting home values to rise by a further 17% y/y this year. Having said that, the longer this last, the more risky the market becomes – something that could potentially lead to a harder landing in the future.

- The key element missing from the bubble story is debt. Today's release of the National Balance Sheet Accounts noted that household debt was growing at a relatively sustainable 5.0% y/y, and there has been a growing wedge between strong home sales and mortgage credit growth. So while mortgage rules have not slowed the market, they appear to have kept debt growth in check.

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