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TD Economics

Data Release: Canadian housing activity loses some steam in January, but still pretty hot

- Existing home sales fell 1.3% in January and are 4% below October 2016 levels suggesting that higher interest rates and the tighter mortgage regulation rules implemented in October may be weighing on existing home sales. The decline in activity was largely broad based across the country, with sales down in over half of markets but was led by Vancouver (-5.1%), Montreal (-2.5%) and Toronto (-1.6%).
- However, a lack of houses for sale may have been the bigger constraint to sales activity in January, as listings fell an outsized 6.7% in the month, pushing the sales-to-listings ratio to 67.7%, representing the tightest market conditions since 2002 according to that measure. As such, home price growth on a quality adjusted basis accelerated to 15% year-over-year, with double-digit home price growth across all housing types. Note, the average sale price grew by just 0.2% y/y in January, but that reflects Vancouver's (the most expensive market) declining share in overall national activity.
- Home price growth varied across the country. The hottest markets were Toronto (+23% y/y),Oakville (+26%), Fraser Valley (+25%) and Victoria (+22%). The weakest markets remained Calgary (-2.9%), Saskatoon (-0.9%) and Moncton (-0.2%). Home prices were rising at a more stable 3% to 4% in Montreal, Ottawa and Regina. Vancouver home prices were up a hardy 16% year-over-year, but continued what has been a marked deceleration since July 2016 when home prices were rising at 33%.

Key Implications

- Despite January's decline in activity, Canadian existing home sales are still well above their long-run average, underscoring our view that tighter mortgage regulations may temper housing demand in 2017, but are unlikely to derail it.
- Overall, the biggest factor expected to cool housing demand in 2017 will be higher mortgage rates. Mortgage rates have risen 30 basis points since their low in October of 2016. Combined with deteriorating affordability as home prices rise at more than four times income growth, the higher borrowing costs will start to bite into demand.
- As such, TD economics continues to believe that sales will fall by a modest 3% in 2017 and a further 4% in 2018 as rising rates becomes more entrenched. However, supply constraints are starting to become more broad based – with even the Vancouver and Toronto condo markets tightening up in recent months. As such, home price growth may decelerate, but perhaps not cool as much as previously anticipated, especially in the Ontario and BC markets where supply shortages are particularly evident.

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