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TD Economics

Data Release: It's going to be a hot summer

- Canadian existing home sales fell for a second consecutive month in June (-0.9% m/m), backing off their April peaks. Still, home sales were up 5.2% from year ago levels.
- Listings rose 2.2%, helped by a rebound in Fort McMurray listings from nil, nudging the sales-to-listings ratio down to 63% in June from 65% in May. Even still, the Canadian resale market remained in seller's territory, with a sales-to-listings ratio between 40 and 60 indicating a balanced market.
- Relatively tight market conditions pushed the average home price up 11.2% year-over-year with the quality adjusted price index growing by an even hotter 13.6% as price pressures broaden across most housing types. Prices for all house types are growing at or near a double-digit pace.
- Much of June's drop in sales was largely driven by Vancouver (-5.3% m/m) where sales have fallen since March and Toronto (-1.2% m/m). However, these markets still remain tight with an average sales-to-listings ratio of 73 in June, helping keep home prices lofty. The average home price rose by 16% y/y in Toronto and 11% in Vancouver from a year ago in June, but by 8.4% on average across the rest of the country. Even then, there is significant dispersion of market performance across the country. Home prices are growing strongly in other B.C. and Ontario markets but only at a sub-2% pace elsewhere.
- Existing home sales in most commodity dependent markets have stabilized, but prices remain subdued with the exception of Regina where the MLS home price index was up 4% year-over-year in June. In contrast, home prices in Calgary were down 4% year-over-year.

Key Implications

- The Canadian housing market appears to be backing off lofty peak levels reached in May, but remains quite hot with activity still concentrated in B.C. and Ontario. Overall, we expect housing market activity to remain lofty for most of this year with prices on track for a 12% year-over-year gain this year.
- The U.K.'s vote to leave the European Union may prove a boon to Canadian housing given the implications of lower-for-longer interest rates. The market uncertainty that has resulted has led us to delay our expectations for the next U.S. Federal Reserve hike, which will keep Canadian longer-term rates low as well. In addition, Canada real estate has become somewhat of a safe haven, and money flowing out of the UK may find its way into Canadian real estate markets.
- Looking forward further, home prices in Toronto and smaller more affordable markets may have more room to run, given the improvements in affordability related to a drop in mortgage rates and still hefty pent-up demand. In contrast, Vancouver home prices are fairly bid up and the market looks to have peaked. Supply is also starting to respond to hot conditions, which will help take some steam out of prices.
- We still expect some further softness in housing activity across commodity-dependent housing markets given an elevated unemployment rate in most markets, but the stabilization in housing activity over 2016 suggests the peak-to-trough home price correction may be less severe than originally expected, or about half of the 10% we had projected before.

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