December 15, 2015

TD Economics

Data Release: No rest for Canadian housing in November

- Canadian existing home sales rose 1.8% in November and are now 10.9% higher than a year ago according to data by the Canadian Real Estate Association (CREA). CREA noted that sales hit their highest monthly level in over six years in November.
- Overall listings outpaced sales growth, rising 3.1%, with the existing home sales-to-listing ratio edging down to 57.3 in November from 58 in the previous month. Still, home price growth accelerated in the month. Average prices were up 10.2% y/y while the quality adjusted home price index was up 7.1% y/y. Price growth has picked up for all housing types, however price gains in the two-storey single-family segment (+8.8% y/y) remain the hottest. On the other side of the spectrum, apartment prices (most of which are condos), rose a lesser, but still sizeable, 5.2% year-over-year.
- Overall housing activity continued to be bolstered by the red-hot Toronto and Greater Vancouver markets where prices were up a blistering 10.3% and 17.8% year-over-year, respectively. Other markets around Toronto and Vancouver in Ontario and B.C. have also been building steam in recent months. However, excluding transactions within these two provinces, average existing home prices fell 4.7% from year ago levels. A lot of the weakness outside of these two markets was concentrated in Alberta and Saskatchewan where prices are on a downward trend.

Key Implications

- CREA put a lot of emphasis on the recent changes to qualifying rules for insured mortgages in this morning's press release. The federal government increased the required down payment on homes worth more than $500,000 last Friday. CREA believes that there will be a sharp jump in sales activity leading up to February 15, 2016 deadline, as buyers jump in to avoid the new rules. They note that the new rules will affect some markets more than others (Toronto and Vancouver), but may also have unintended consequences in markets that are already cooling (Calgary and Edmonton).
- Our view is similar to that of CREA. The new changes may create some volatility in the market over the near-term. But, past changes to insured mortgage qualifying rules have proven to be temporary in nature, with the market adjusting within a four to six quarter period. And, even then, the impact is expected to be modest. In general, the average priced home across Canada ($456,186) is less than the $500K threshold. Excluding Ontario and B.C., the average price across Canada is only $302,477. In addition, most insured mortgages in Canada are taken out on homes less than the $500,000 threshold for new rules. As such, these new regulations will likely only impact a very small segment of the market going forward. Please see TD Economics' commentary for full details.
- Heading into 2016, the interest rate and economic environment will likely be the biggest factors affecting Canadian housing market activity. Along with Federal Reserve tightening, Canadian 5-year government bond yields are expected to tick up 35 basis points over 2016. While this is still a modest rise in borrowing rates, it may be enough to take some of the steam out of Toronto and Vancouver, where demand has likely become even more sensitive to higher interest rates given lofty prices. Meanwhile, the Alberta housing market will continue to grapple with the economic consequences of low oil prices. The unemployment rate spiked to 7.0% in November, just shy of the 7.3% peak reached in the 2008/2009 recession and with oil prices hitting new lows recently, more near-term weakness is expected.

Diana Petramala, Economist
416-982-6420

@TD_Economics