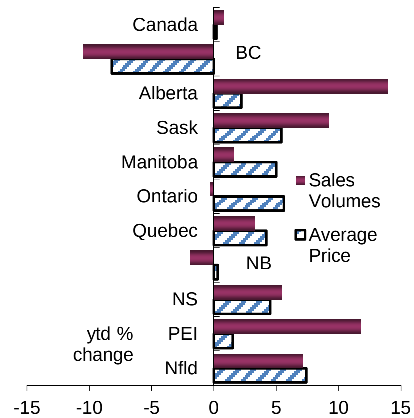
Focus On Canada's Housing Market

Canada's national housing market is shifting toward a more sustainable path, though significant differences in regional conditions continue.

Canada's housing market so far appears to have achieved a soft landing, with cooler but fairly steady sales and pricing through the fall. Nationally, sales in October were down about 10% from strong spring levels, but are only marginally below the average pace of the past decade. Early reports for November point to more of the same.

The moderation in activity mirrors a modest softening in labour market conditions over the summer, and piggybacks on repeated warnings from policymakers to moderate the pace of household debt accumulation. At the same time, high and rising home prices combined with consecutive rounds of tightening in mortgage insurance rules in recent years have contributed to a deterioration in housing affordability, most notably for first-time buyers. The latest round of regulatory changes that took effect in early July, including the lowering of the maximum amortization period from 30 to 25 years, has contributed to the softening but does not appear to have sharply accelerated the decline. Meanwhile, anecdotal reports point to a lower level of investor and/or foreign demand.

Chart 1 - Activity By Province

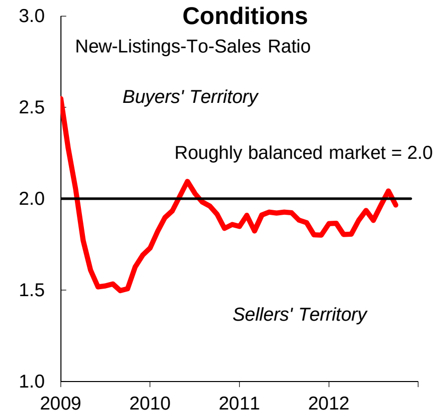


Source: CREA, Scotiabank Economics

Regional trends continue to diverge (chart 1). Home sales in Alberta and Saskatchewan have strengthened this year, underpinned by a relatively stronger economic and labour market performance, with sales volumes in both provinces up about 10% over 2011. In contrast in B.C., which faces the greatest housing affordability challenges, sales have dropped about 10% this year. Most other regional markets are relatively stable.

From a supply perspective, a decline in new listings in October pulled down the ratio of new listings to sales to 1.97 (chart 2), while the number of months of inventory edged up to 6.5. Both indicators are consistent with a balanced market, though a few major centres, primarily in B.C., have shifted in favour of buyers. This in turn has tempered pricing. The national average home price in October was essentially flat on a m/m and y/y basis.

Chart 2 - National Market Conditions



Source: CREA, Scotiabank Economics

We expect housing demand to remain on the softer side for now, as households become more cautious about adding further to their already high debt loads. This could put some further downward pressure on sales volumes as well as prices, especially in markets that have already shifted into buyers' territory (e.g. Vancouver) or in certain market segments that are potentially oversupplied (e.g. condominiums in Toronto). However, with the Canadian economy continuing to post healthy job growth, and sellers proving responsive to the underlying shift in market conditions, a sharp decline in prices nationally is unlikely.

The pace of construction activity, which tends to lag resale market trends, also appears set to shift to a more moderate trajectory in the year ahead. We expect the slowdown in homebuilding will be concentrated in multi-unit condominium construction, where sales in several major centres have softened notably in recent months and where pipeline supply is growing rapidly. Housing starts in 2013 are forecast to drop to around 180,000 units, in line with underlying demographic requirements, from an estimated 215,000 units this year.