

## HOUSING NEWS FLASH

November 15, 2022

## Contributors

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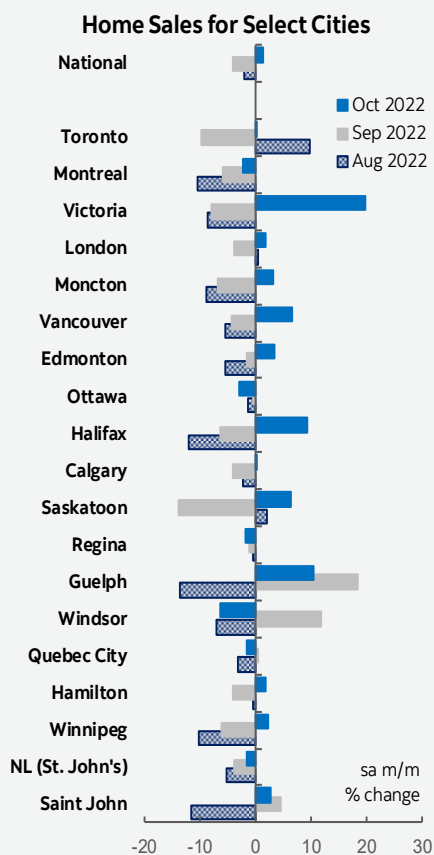
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Canada	Oct-22	Sep-22	Oct-22
	m/m <sup>1</sup>	m/m <sup>1</sup>	y/y <sup>2</sup>
Sales (% change)	1.3	-4.1	-36.0
New listings (% change)	2.2	-1.2	-1.3
Average price (% change)	-0.6	-1.3	-5.0
MLS HPI (% change)	-1.2	-1.4	-0.8
	Oct-22	Sep-22	Oct-21
Sales-to-new listings ratio (level) <sup>1</sup>	51.6	52.0	79.5
Months inventory (level) <sup>1</sup>	3.8	3.7	1.8

<sup>1</sup> seasonally adjusted <sup>2</sup> not seasonally adjusted



Sources for chart and table: Scotiabank Economics, CREA.

## Canadian Home Sales — October 2022

## CANADA HOUSING MARKET: THE BEGINNING OF THE END?

## SUMMARY

**Canadian home sales rose for the first time in eight months, up by 1.3% (sa m/m) in October. Listings followed suit, rising by 2.2% (sa m/m).** This eased the sales-to-new listings ratio, an indicator of how tight the market is, to 51.6%—below its long-term average of 55.1%, putting the national housing market in balanced territory. This easing and overall more balanced market conditions brought about another decline in the composite MLS Home Price Index (HPI), which edged down 1.2% (sa m/m) in October compared to September, a deceleration from September's 1.4% decline, continuing a trend of decelerations in price declines since June.

**While sales declined in almost half of the local markets we track, those were offset by double-digit gains in Guelph, Thunder Bay, Victoria and Charlottetown.** Despite the resulting national monthly increase, the level of sales remains below its pre-pandemic levels, with October's sales hovering around 12% below the month's 2010–2019 average.

**Listings increased in two-thirds of our local markets.** This could have assisted some of the sales as listings increased in half of the markets where sales did too. Listings had been declining up until this point, and October's increase leaves them 4% below the month's 2010–2019 average. The month's increase nonetheless helped prop up months of inventory, which continued to climb up from record lows, reaching 3.8 months in October—still below its long-term average of 5 months, but much higher than its all-time low of 1.7 months.

**Single-family homes led October's price declines—measured by the MLS Home Price Index (HPI)—while apartment prices proved stickier.** October's monthly decline in the composite MLS HPI represented a deceleration from the prior month. This deceleration was led by apartments and townhomes. Relative to a year ago, October was the first month since November 2019 where the MLS HPI recorded a decline, albeit a very small one (-0.4% nsa y/y). The 1.9% (nsa y/y) decline in single-family homes offset 5.9% (nsa y/y) and 3.9% (nsa y/y) gains in apartments and townhomes.

## IMPLICATIONS

After seven months of declines in home sales, triggered by the Bank of Canada hiking cycle alongside worsening economic conditions, October saw home sales edge up. Whether this marks the end of the welcome correction that has been underway is premature to call. However, this is in line with our expectations of a moderating pace of correction and an eventual uptick in demand. It will be interesting to see whether this month's result will trigger a return to the market by buyers—the same way that declines triggered a self-fulfilling wait-and-see approach as buyers expected further softness and price declines. If those buyers interpret October's result as the dip, then this could mark the beginning of the end of the housing market correction. This is of course all speculative, we should refrain from declaring beginnings and ends based on a single month's data point. However, this is one of the things we will be paying attention to in the upcoming months to assess the stage of the housing correction.

National home sales are now around 36% below their February 2022 level, right before the Bank of Canada started hiking its overnight rate. Despite October's uptick in activity, national sales levels continue to sit below their pre-pandemic long-term average. Other factors also contributed to this recent softness in the market, including the rising uncertainty and loss of purchasing power as prices rose and equity markets plummeted.

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Not to mention the fact that the level of activity seen in the housing market in 2021 was substantially above what historical trends implied, despite that year being the weakest in Canada's modern history in terms of population growth. The softness so far this year, therefore, is also partly the outcome of an advancement in purchases to 2021 that would've otherwise taken place in 2022.

This is expected to start reversing however as population growth picks up due to higher immigration targets and the rising share of newcomers to fulfill them (chart 1). It is unclear whether this motivated the uptick in activity in October in any meaningful way, but what is more clear is that in the longer term, this acceleration of immigration will reverse the recent easing of supply-demand imbalances in Canada's housing market if no progress is made on increasing the stock of housing supply.

In any case, prices continued to decline in October despite the rise in sales and are expected to continue to decline at least in the short term, even if it does turn out that sales will be on an upward trajectory moving forward if the above speculation proves true. This is because of the shift in the market's psychology since the beginning of the correction whereby buyers have regained some pricing power and sellers have partially adapted their profit expectations. Don't forget that the increase in sales in October after months of declines was also accompanied by an increase in listings, some of which are sellers accepting the new status quo and returning to the market with more reasonable (only relatively) asking prices. Therefore the beginning of the end of prices adjusting, if it were to happen, would lag that of sales.

Indeed, the recent declines in prices, measured by the MLS House Price Index (HPI), are following a similar trend to the declines in sales before they increased, getting progressively smaller each month. As explained in previous reports, focusing on monthly changes in the average selling price is misleading as it does not indicate a change in the value of the *average* home and is easily swayed by the composition of sales. Instead, we focus on the MLS House Price Index (HPI), a much more stable measure that accounts for differences in house type and size, which with October's decline stands (only) 10% below February 2022's level (when the Bank of Canada started hiking) and remains 37% above pre-pandemic levels, with variations across cities (chart 2). Chart 2 is a good reminder that things vary quite significantly across cities. In Calgary for example, prices continued to climb after the Bank of Canada started hiking, and after three months of small declines, prices started climbing again and are now above their February 2022 level. This shows up in chart 3, which plots October's prices relative to each city's peak (horizontal axis) against each city's peak relative to pre-pandemic prices (vertical axis)—and we can see Calgary's October's price is at peak level. Notwithstanding, chart 3 is intended to show that cities where prices have risen more during the pandemic and low-rates driven rally are also experiencing bigger price adjustments down from peaks.

Chart 1

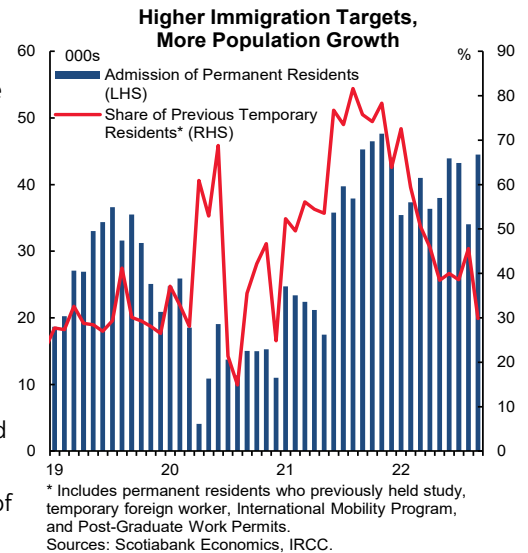


Chart 2

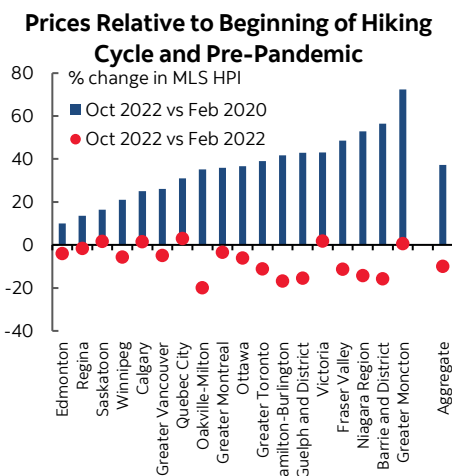
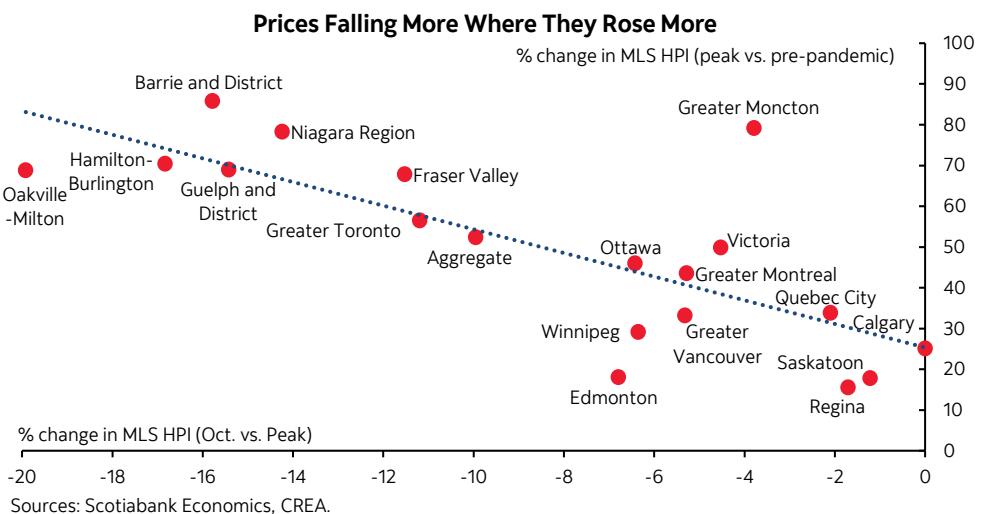


Chart 3



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## Scotiabank Housing Market Watch—October 2022

Rank <sup>1</sup>	Real Estate Board	Sales-to-New Listings Ratio						Unit Sales <sup>3</sup>			Avg. Sales Prices <sup>3</sup>			New Listings <sup>3</sup>		
		Last Month Rank	Monthly Change	Sales-to-New Listings Ratio	Std. Dev. from Long-Term Mean <sup>2</sup>	Market Type	24-month Evolution	Last month	Last 3 mos.	Last 12 mos.	Last month	Last 3 mos.	Last 12 mos.	Last month	Last 3 mos.	Last 12 mos.
--	National	--	--	51.6	-0.3	•	Balanced	1.3	-31.2	-20.8	-0.6	-1.8	10.1	2.2	0.0	-1.7
1	Saint John	2	↑ 1	80.1	2.0	•	Sellers'	2.7	-25.2	-16.3	-5.4	8.3	17.6	-12.9	-15.7	-9.4
2	NL (St. John's)	3	↑ 1	60.1	1.1	•	Sellers'	-1.5	-15.4	-2.2	0.6	5.8	6.8	-0.9	-11.8	-10.9
3	Calgary	4	↑ 1	72.3	0.9	•	Balanced	0.2	-12.4	11.3	1.2	4.0	6.4	0.4	-7.8	4.8
4	Lethbridge	5	↑ 1	68.4	0.7	•	Balanced	-7.9	-15.9	-8.2	-0.8	5.5	7.8	-8.3	-9.5	-1.5
5	Quebec City	7	↑ 2	73.0	0.7	•	Balanced	-1.6	-14.3	-10.9	2.6	5.1	8.4	-5.1	6.2	-3.8
6	Thunder Bay	10	↑ 4	70.3	0.5	•	Balanced	12.6	-4.6	-3.5	-2.3	3.1	13.8	5.7	15.6	9.0
7	Halifax	12	↑ 5	74.9	0.5	•	Balanced	9.2	-31.7	-25.5	3.1	7.1	19.4	-8.9	-14.4	-13.1
8	Regina	8	→ 0	67.8	0.4	•	Balanced	-1.9	3.4	0.2	4.4	-6.8	1.2	-3.7	-7.6	-4.7
9	Sudbury	1	↓ 8	57.6	0.4	•	Balanced	-20.5	-21.7	-14.1	-4.3	4.7	20.0	-0.7	-3.2	-0.6
10	Saskatoon	9	↓ 1	60.4	0.4	•	Balanced	6.3	-14.0	-9.4	-6.0	1.2	3.5	2.5	-8.6	-9.7
11	Moncton	6	↓ 5	57.1	0.3	•	Balanced	3.1	-32.8	-18.9	-3.0	10.1	25.5	11.5	-1.9	-2.5
12	PEI (Charlottetown)	13	↑ 1	58.2	0.1	•	Balanced	26.3	-23.0	-11.8	-9.8	8.3	14.0	11.8	-17.3	-0.8
13	Winnipeg	11	↓ 2	62.8	0.0	•	Balanced	2.2	-22.4	-15.8	-2.2	2.9	9.4	2.4	0.1	-4.9
14	Montreal	15	↑ 1	58.3	-0.2	•	Balanced	-2.4	-29.3	-18.8	-1.3	2.4	10.5	-5.4	8.5	-0.6
15	Peterborough	16	↑ 1	50.3	-0.4	•	Balanced	9.3	-30.3	-23.2	-2.1	-3.6	14.5	7.6	13.2	6.7
16	Edmonton	20	↑ 4	52.0	-0.5	•	Balanced	3.3	-16.6	1.8	0.3	-0.4	3.3	0.3	1.0	3.9
17	Kingston	14	↓ 3	42.9	-0.6	•	Balanced	-3.7	-26.0	-24.3	3.7	2.8	15.3	6.0	24.7	3.5
18	Guelph	22	↑ 4	57.3	-0.6	•	Balanced	10.5	-30.0	-24.4	-4.3	-3.8	16.1	4.0	13.0	8.1
19	KW*	17	↓ 2	52.3	-0.7	•	Balanced	-1.5	-27.8	-18.7	2.4	-4.4	14.7	3.6	1.4	12.8
20	St. Catharines	23	↑ 3	44.2	-0.7	•	Balanced	7.9	-42.3	-30.1	-2.7	-4.4	13.2	3.8	13.7	9.2
21	Ottawa	19	↓ 2	44.6	-0.8	•	Balanced	-2.9	-34.1	-21.6	-0.8	0.7	8.6	3.5	3.8	-2.1
22	London	24	↑ 2	44.7	-0.8	•	Balanced	1.8	-39.2	-24.7	-0.3	-0.3	15.1	0.5	11.3	11.9
23	Hamilton-Burlington	25	↑ 2	45.3	-0.9	•	Balanced	1.7	-34.5	-26.0	1.3	-2.9	14.4	2.0	13.5	5.6
24	Okanagan-Mainline (Kelowna)	18	↓ 6	38.0	-0.9	•	Balanced	-4.8	-35.3	-27.8	-8.2	8.1	14.9	11.1	7.9	7.6
25	Windsor	21	↓ 4	44.7	-0.9	•	Balanced	-6.4	-38.1	-15.3	1.2	-3.9	16.2	1.1	-3.3	16.4
26	Brantford	27	↑ 1	43.8	-1.0	•	Buyers'	-16.3	-38.1	-19.8	-0.1	-7.0	16.0	-16.1	13.5	15.5
27	Victoria	31	↑ 4	47.6	-1.1	•	Buyers'	19.7	-40.8	-30.1	-2.6	5.1	15.1	-2.1	14.5	-0.6
28	Vancouver	26	↓ 2	42.7	-1.1	•	Buyers'	6.5	-44.5	-27.5	-1.0	2.5	8.8	10.5	-12.7	-11.9
29	Barrie	30	↑ 1	42.2	-1.1	•	Buyers'	-1.7	-23.0	-29.8	-3.4	-4.3	17.1	-7.2	40.9	17.4
30	Fraser Valley (Abbotsford)	29	↓ 1	41.0	-1.2	•	Buyers'	1.0	-52.6	-37.8	-0.1	-4.9	11.4	3.4	-7.7	-8.6
31	Toronto	28	↓ 3	43.5	-1.3	•	Buyers'	0.2	-43.0	-32.5	0.0	-3.2	11.2	6.2	-10.2	-8.1

<sup>1</sup> Ordered from most- to least-tilted towards sellers. <sup>2</sup> A market is tilted towards sellers, and likely to witness upward pressure on prices, if its sales-to-new listings ratio greater than the long-term mean plus one standard deviation. A

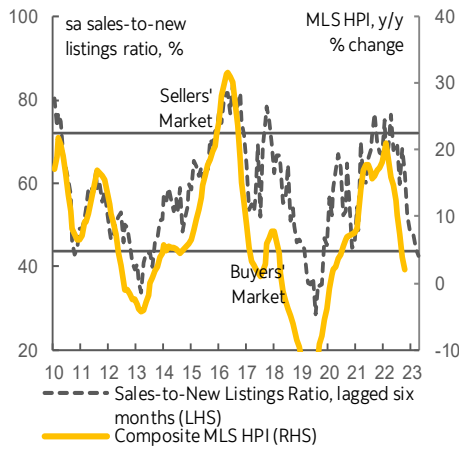
sales-to-new listings ratio below the long-term mean less than one deviation is considered a buyer's market and likely to see a flat or downward trend in prices over the next six months. We define the long-term average as the 1990–2020

mean. <sup>3</sup> Year-over-year percentage change. \* Kitchener-Waterloo. Sources: Scotiabank Economics, CREA.

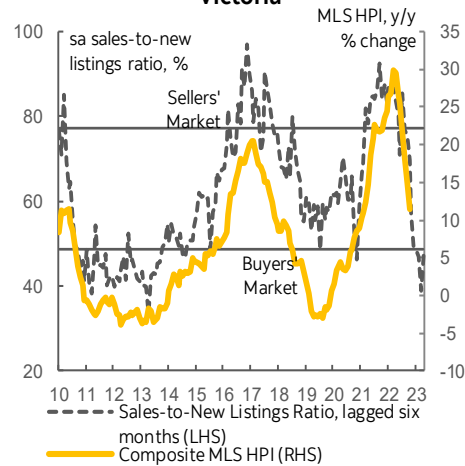
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## MLS Home Price Indices — Western Canada

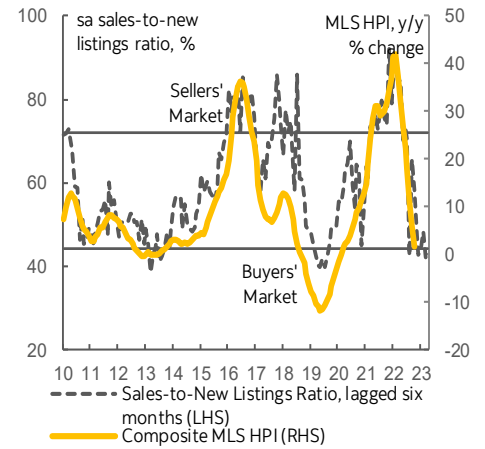
Greater Vancouver



Victoria



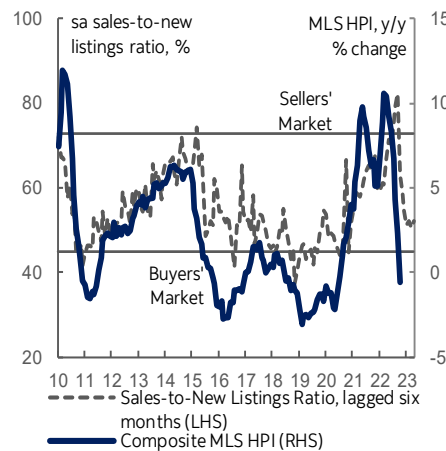
Fraser Valley



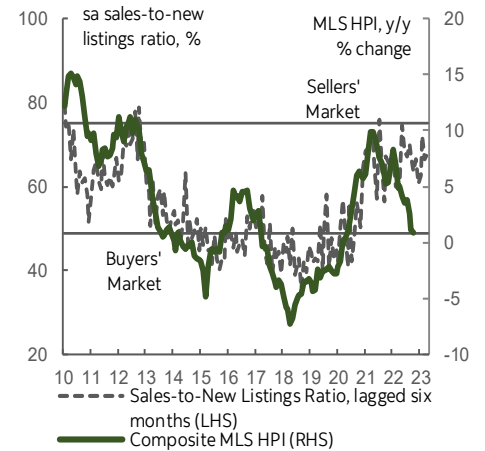
Calgary



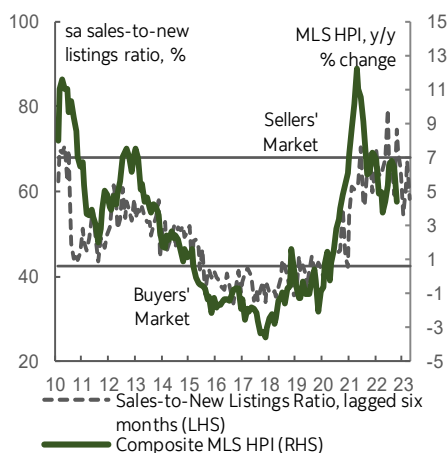
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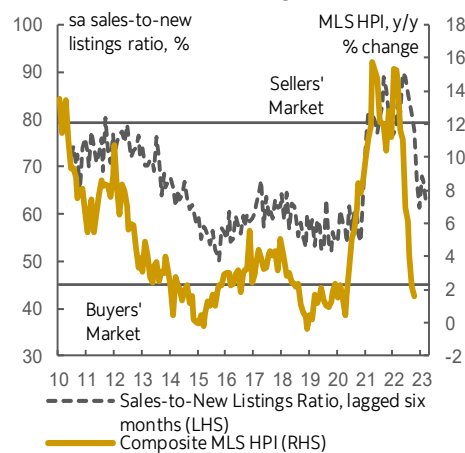
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Saskatoon



Winnipeg

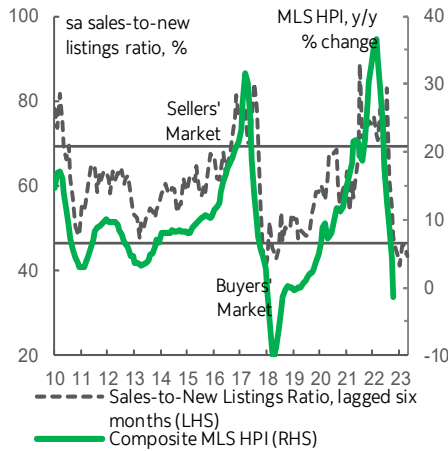


Sources: Scotiabank Economics, CREA.

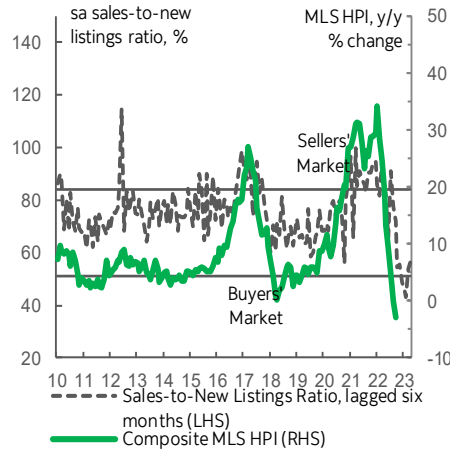
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## MLS Home Price Indices (cont.) — Eastern Canada

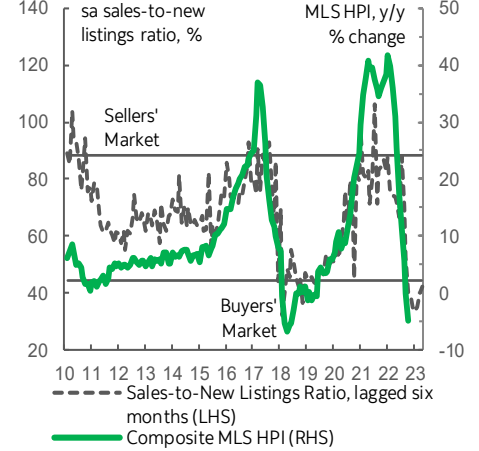
Greater Toronto



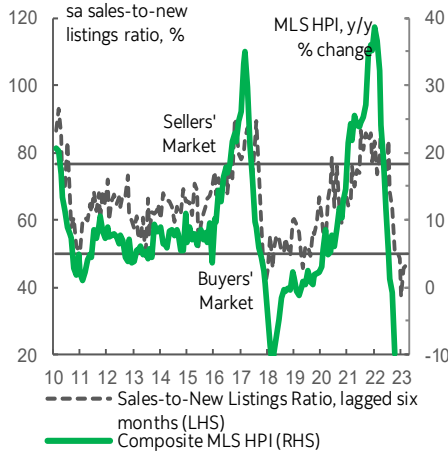
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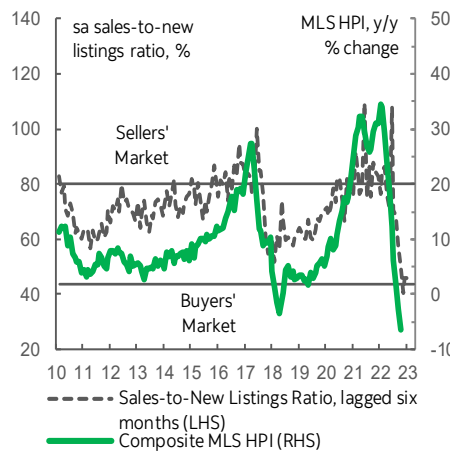
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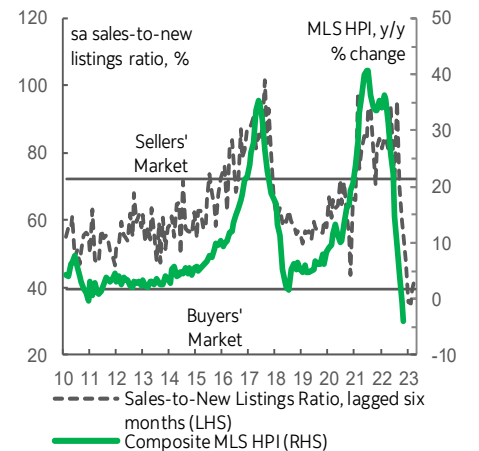
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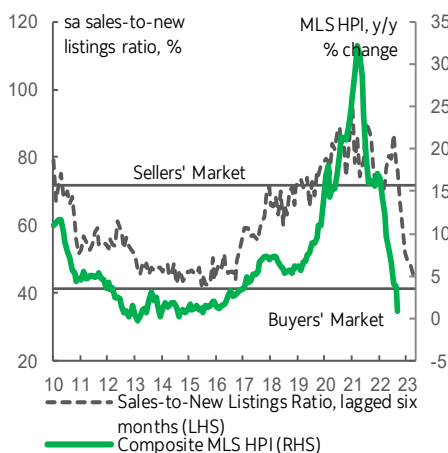
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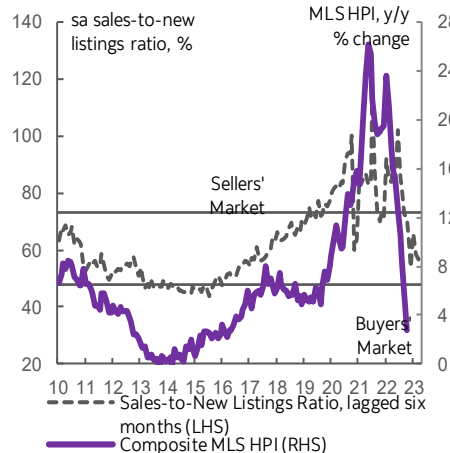
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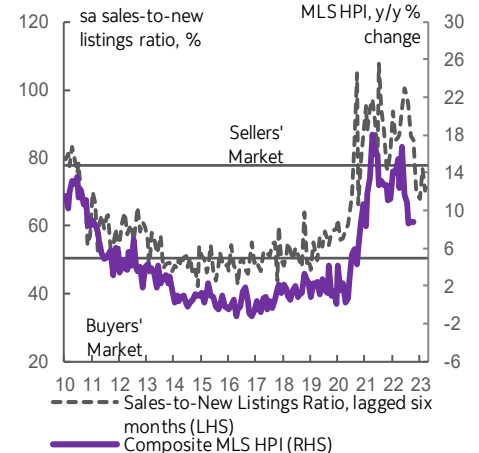
Ottawa



Greater Montreal

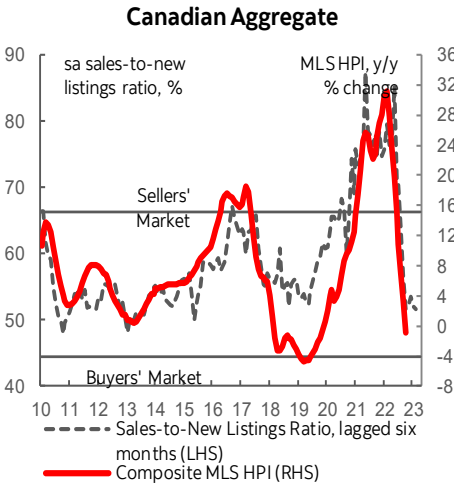
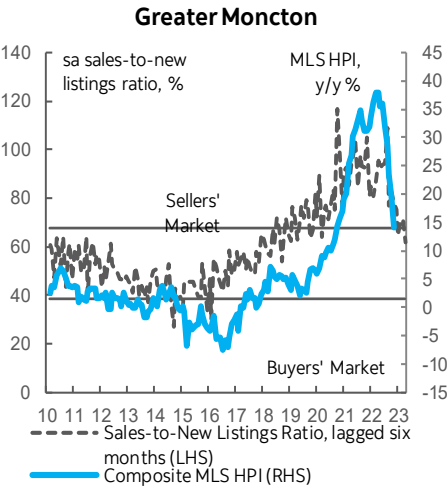


Quebec City



Sources: Scotiabank Economics, CREA.

MLS Home Price Indices (cont.) — Eastern Canada and Canadian Aggregate



Sources: Scotiabank Economics, CREA.

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