Scotiabank

GLOBAL ECONOMICS

HOUSING NEWS FLASH

December 15, 2022

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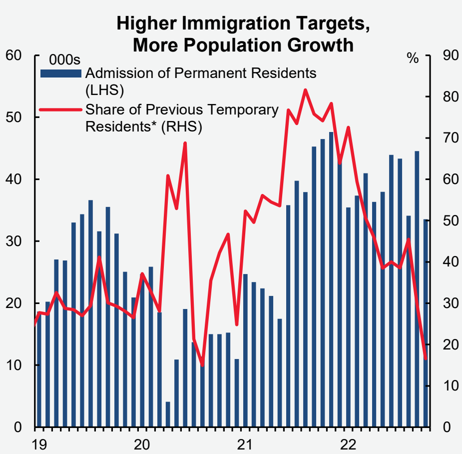
Canada	Nov-22	Oct-22	Nov-22
	m/m[1]	m/m[1]	y/y[2]
Sales (% change)	-3.3	1.3	-38.9
New listings (% change)	-1.3	2.2	-6.1
Average price (% change)	-0.8	-0.6	-12.0
MLS HPI (% change)	-1.4	-1.3	-4.2
	Nov-22	Oct-22	Nov-21
Sales-to-new listings ratio (level)	49.9	50.9	76.6
Months inventory (level)[1]	4.2	3.9	1.8

[1] seasonally adjusted [2] not seasonally adjusted

Chart 1



* Includes permanent residents who previously held study, temporary foreign worker, International Mobility Program, and Post-Graduate Work Permits.
Sources: Scotiabank Economics, IRCC.

Note: Due to technical issues we are unable to update the Home Sales for Select Cities chart on this page, the Scotiabank Housing Market Watch table on page 3 and the charts that follow on pages 4-6. We apologize for any inconvenience.

Canadian Home Sales — November 2022

CANADA HOUSING MARKET: NO SURPRISES UNDER THE TREE

SUMMARY

Canadian home sales fell by 3.3% (sa m/m) in November alongside a 1.3% (sa m/m) decline in listings. The larger decline in sales relative to listings further eased the sales-to-new listings ratio, an indicator of how tight the market is, to 49.9%—below its long-term average of 55.1%, putting the national housing market in balanced territory. It also helped prop up months of inventory, which continued to climb up from record lows, reaching 4.2 months in November—a significant improvement from its all-time low of 1.7 months earlier this year, but still a full month below its long-term average.

This continued easing and overall more balanced market conditions brought about another decline in the composite MLS Home Price Index (HPI), which edged down 1.4% (sa m/m) in November. Single-family homes continued to lead price declines—measured by the MLS Home Price Index (HPI)—while apartment prices proved stickier. The MLS HPI for single-family homes fell by 1.6% (sa m/m), compared to only 0.5% decline for apartments. Relative to a year ago, the composite MLS HPI was 4.2% (nsa y/y) lower, and sits 11.5% below February 2022 peak.

IMPLICATIONS

Home sales activity slowed down again in November, resuming a trend of declining sales after a pause in October following seven months of consecutive declines after the Bank of Canada began its hiking cycle alongside worsening economic conditions. Last month we noted that it would be premature to announce the beginning of the end of the welcome correction that has been underway based on a single month's data point. Same logic applies this month—changes from one month to another can be driven by many factors. This month's decline in sales, for example, was accompanied by, or perhaps followed from, a decline in listings, just like last month's increase in listings might have facilitated some of the pickup in sales.

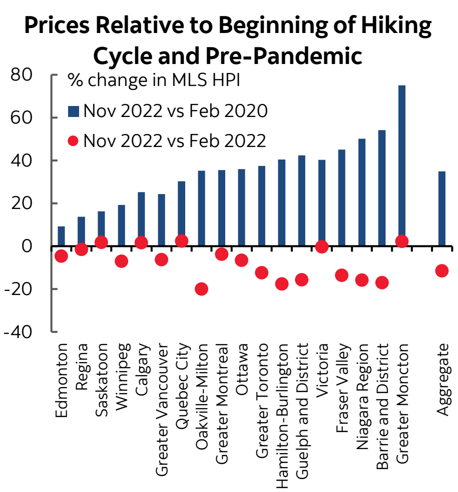
Nonetheless, a more zoomed-out look at housing activity over the last few months continues to point toward a moderating pace of correction as November's decline was smaller than September's, an ongoing theme since sales started declining in March.

National home sales are now around 38% below their February 2022 level, right before the Bank of Canada started hiking its overnight rate, and below their pre-pandemic long-term average. Other factors also contributed to this recent softness in the market, including the rising uncertainty, erosion of housing affordability and loss of purchasing power as prices rose faster than incomes and equity markets plummeted. Not to mention the fact that some normalization of housing market activity was expected from the elevated pace in 2021 despite that year having been the weakest in Canada's modern history in terms of population growth, which was effectively zero. 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 this year and next.

This is expected to start reversing however as population growth picks up due to higher immigration targets announced by the federal government last month with a continued focus on economic class admissions and the rising share of newcomers to fulfill them (chart 1), which translates onto higher population growth and demand. This means any recent improvement in supply-demand imbalances in Canada's housing market will be reversed if no progress is made on increasing the stock of housing supply.

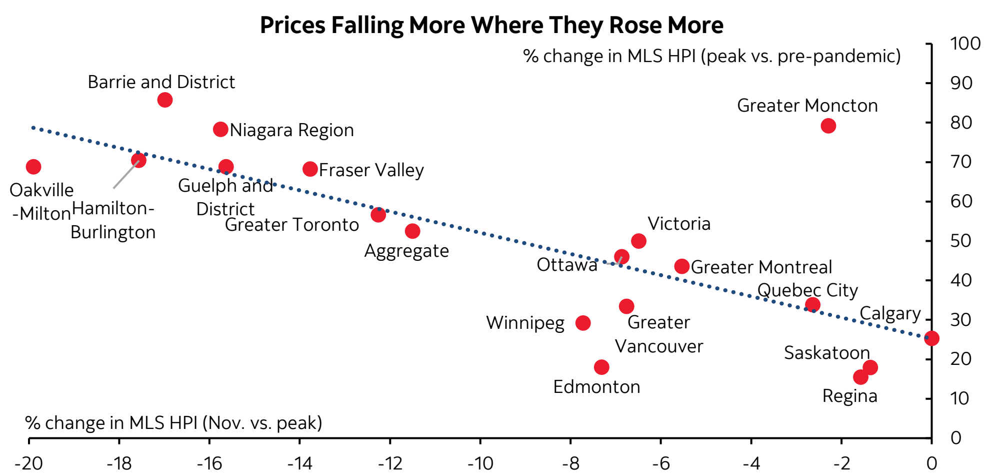
Prices continued to decline in November in a similar fashion to the decline in sales, getting progressively smaller each month—that is, again, from a zoomed-out point of view. Prices, as measured by the MLS House Price Index (HPI), are expected to continue to decline at least in the short term. As explained in previous reports, we focus on the MLS HPI instead of the average selling price as the latter is easily swayed by the composition of sales. With November's decline, the MLS HPI stands (only) 11.5% below February 2022's level (when the Bank of Canada started hiking) and remains 35% above pre-pandemic levels, with variations across cities. 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 November's prices relative to each city's peak reached in early 2022 (horizontal axis) against each city's peak relative to pre-pandemic prices (vertical axis)—and we can see Calgary's November's price is at peak level. Chart 3 is intended to show that cities where prices have risen more during the pandemic are also experiencing bigger price adjustments down from peaks.

Chart 2



Sources: Scotiabank Economics, CREA.

Chart 3



Sources: Scotiabank Economics, CREA.