

Contributors

**Farah Omran**

Economist  
Scotiabank Economics

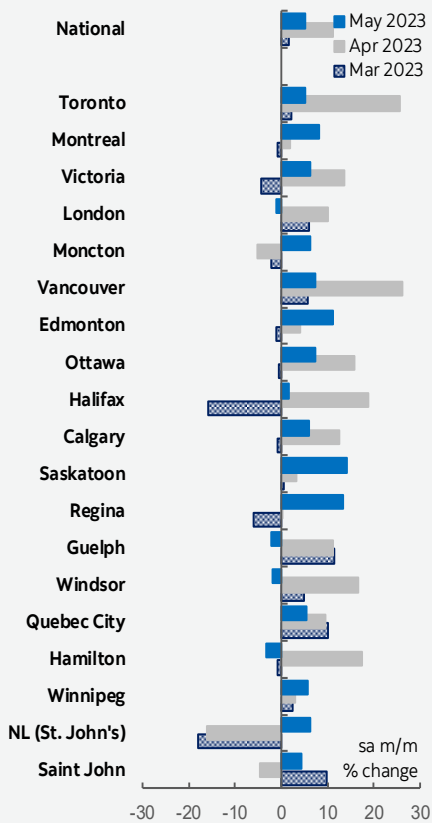
416.866.4315

[farah.omran@scotiabank.com](mailto:farah.omran@scotiabank.com)

Canada	May-23	Apr-23	May-23
	m/m <sup>1</sup>	m/m <sup>1</sup>	y/y <sup>2</sup>
Sales (% change)	5.1	11.3	1.4
New listings (% change)	6.8	2.8	-13.6
Average price (% change)	2.7	5.8	-0.5
MLS HPI (% change)	2.1	2.0	-8.5
	May-23	Apr-23	May-22
Sales-to-new listings ratio (level) <sup>1</sup>	67.9	69.0	56.2
Months inventory (level) <sup>1</sup>	3.1	3.3	2.9

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

Home Sales for Select Cities



Sources for chart and table: Scotiabank Economics, CREA.

Canadian Home Sales — May 2023

CANADA HOUSING MARKET: BACK TO THE PEAK WE GO

SUMMARY

Canadian home sales increased again in May, rising by 5.1% (sa m/m), accompanied by a slightly larger increase of 6.8% in listings. This left the sales-to-new listings ratio, an indicator of how tight the market is, relatively unchanged from April when it had reached 69%, reflecting a sharp and rapid tightening in market conditions following a period of normalization near its long-term average of 55%, down from record highs during the pandemic. The ratio stands at 67.9% as of May, a level that implies the national housing market is in sellers' territory, which it returned to in April after a few months' reprieve in the balanced territory range. Months of inventory also continued reversing the improvements from its record lows since the fall of 2021, declining for the fourth month in a row and reaching 3.1 months—almost two months below its long-term average.

The increases in sales and listings were fairly widespread across the local markets we track. Sales and listings increased in 24 of the 31 local markets we track, with 20 of these markets seeing both increase at the same time—indicating immediate absorption of new supply arriving to the market given pent-up demand. While it did little to ease pressures at the national level, the increase in listings this month did return some markets to balanced territory, with now only 7 markets in sellers' territory, compared to 12 in March.

Prices, as measured by the MLS Home Price Index (HPI), increased by 2.1% (sa m/m) in May. This would be the second significant monthly increase in a row following 12 months of declines, with March's increase revised down to a small decline, from 0.6% to -0.2%, and April's increase revised up from 1.6% to 2%. Two consecutive increases of 2% in the HPI are not to be taken lightly! May's increase was again led by single-family homes (2.6%), while the townhome and apartment segments both appreciated by 1.5%. Apartments saw the most acceleration in monthly price gains, having ticked up from 0.8% in April. With this month's results, the MLS HPI is drifting further from its pre-pandemic levels, now sitting at 36% above, reducing the correction from its February 2022 peak to only 12% (the trough reached in March 2023 was 15% below the peak).

IMPLICATIONS

As expected, the recent strength in Canada's housing market continued through May. National home sales in May extended the longest stretch of consecutive increases since the housing market began its correction stage in February 2022, starting with small upticks in February and March of this year, followed by a staggering double-digit increase in April. This coincided with a similar, slightly larger, increase in listings, which did little to offset previous declines and bring more balance to the market. The result was a second monthly increase in the MLS Home Price Index (HPI) of magnitudes seen during the height of the housing market rally.

We have been expecting a stabilization in housing activity and an eventual uptick in demand and prices, driven by pent-up demand and strong immigration combined with limited supply. However, the magnitude and speed in which this seems to be happening surpass our previous expectations. While this points to resiliency and strong household finances, it also poses additional challenges for the Bank of Canada as it tries to slow down the economy and bring inflation back to its 2% target.

Indeed, the continued strength in May, which was evident leading up to the Bank of Canada's decision last week given early data releases from the country's major real estate markets (see [here](#)), suggested housing-related activity may stop being the drag on growth it had been for much of last year. This, among other things, called for the hike that we saw last week—the impact of which on the housing market is too soon to observe in the data.

June 15, 2023

At least part of the recent strength in the housing market has been driven by buyers who came back to the market once rates stabilized and given earlier market pricing of cuts which translated into a reduction in fixed rates. These buyers had amassed larger down payments during the slowdown, and were therefore equipped to join the market once signs of the end of the correction emerged, encouraged by the widespread conviction at the time that the Bank is done hiking and cuts are imminent. By hiking last week, the Bank raised borrowing costs, directly through higher variable mortgage rates and indirectly via communications leading up to the decision where we've seen market pricing and therefore fixed rates go up. The Bank also signalled that the pause may be over by leaving the door open for further hikes, which would help thwart the speculative activity that has been counting on rates stabilizing and declining sooner than what is now clearly the case. Combined, this would both help slow down the reheating in the housing market, which is necessary in this inflation fighting environment as the Bank can ill afford to have the most rate sensitive part of the economy (housing) roar back when they are trying to slow growth and bring inflation back to target, and help dampen housing affordability and stability concerns.

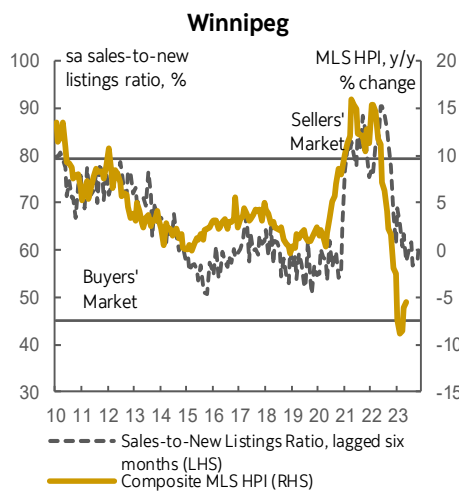
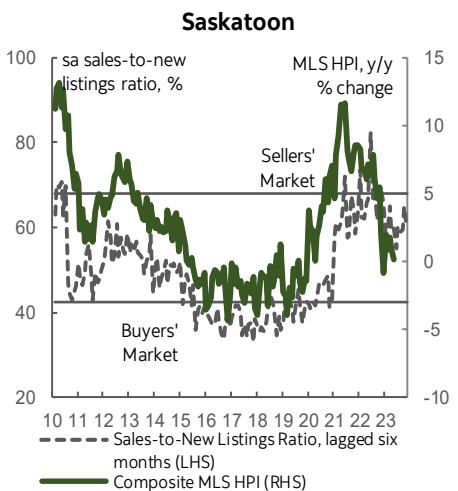
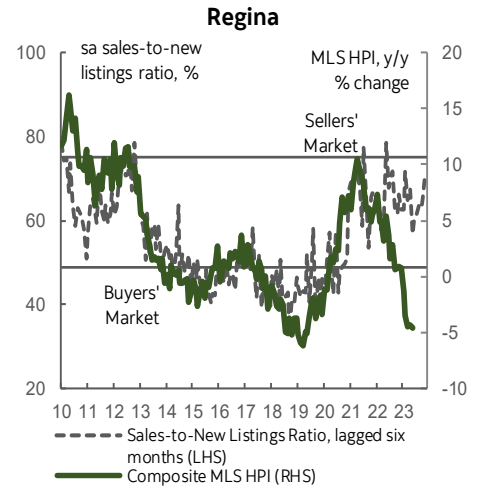
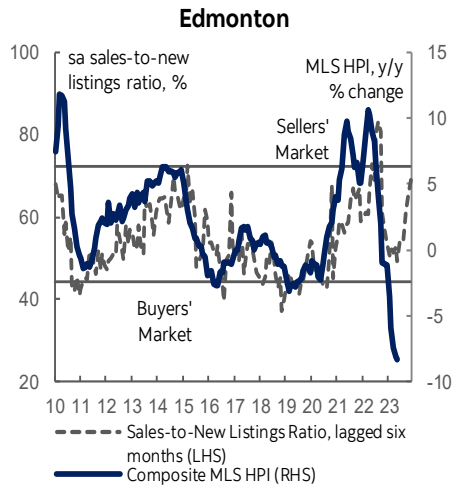
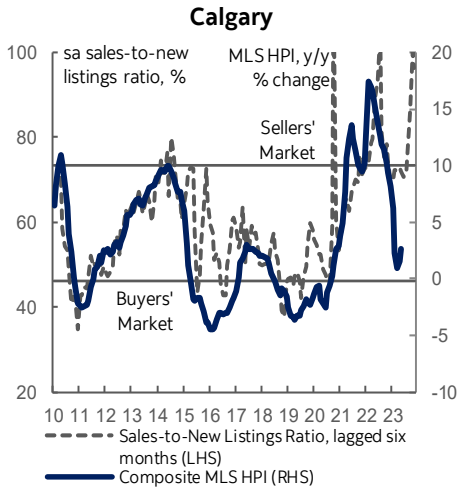
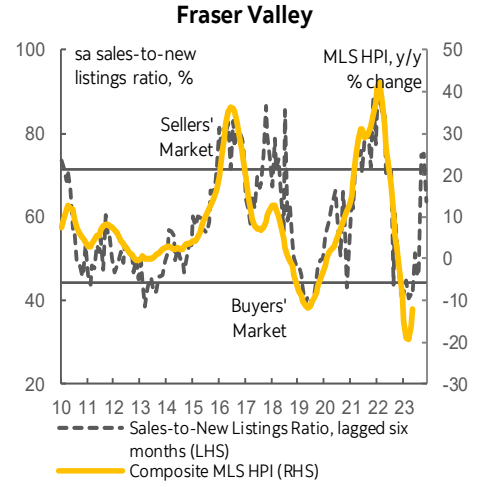
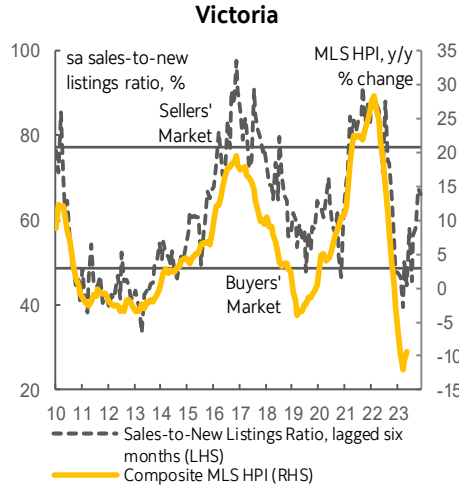
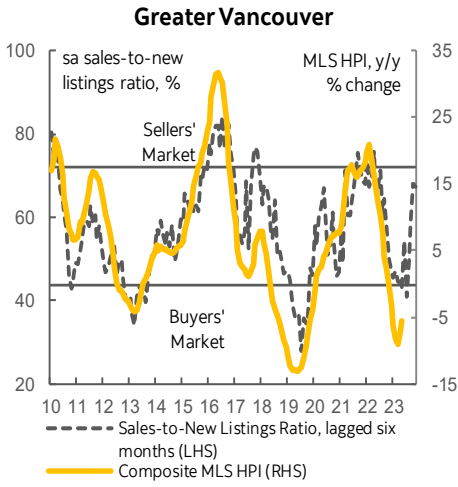
This matters since without a concurrent meaningful increase in supply, continued strength on the demand side would reintroduce imbalances to the market and show up as meaningful increases in prices instead, further delaying the needed improvement in housing affordability conditions. Despite May's increase, new listings were still 18% below their 2000–2019 average for the month of May, while the sales increases of the last 4 months brought them in line with the 10-year average for the month.

Scotiabank Housing Market Watch—May 2023

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	--	--	67.9	1.1	•	Sellers'	5.1	-18.6	-28.9	2.7	-6.5	-5.6	6.8	-22.2	-9.3
1	Calgary	1	0	96.4	2.6	•	Sellers'	6.0	-24.3	-22.5	0.7	2.3	1.9	10.0	-29.6	-20.6
2	Saint John	2	0	88.3	2.4	•	Sellers'	4.4	-29.0	-26.5	-0.6	-0.6	3.2	2.2	-32.5	-19.4
3	Moncton	4	1	80.1	1.8	•	Sellers'	6.3	-14.2	-21.4	5.3	-6.9	-0.1	9.2	-20.2	-4.2
4	Lethbridge	6	2	80.5	1.5	•	Sellers'	10.5	-21.4	-21.5	8.2	1.6	3.5	9.4	-21.8	-12.0
5	Saskatoon	20	15	71.4	1.3	•	Sellers'	14.2	-12.5	-15.8	3.7	1.4	0.4	-4.5	-10.0	-6.1
6	Toronto	7	1	70.5	1.1	•	Sellers'	5.2	-10.7	-36.5	3.5	-8.2	-6.9	10.1	-33.9	-19.9
7	Ottawa	11	4	72.8	1.1	•	Sellers'	7.5	-19.2	-30.2	0.6	-10.3	-4.6	6.5	-18.0	-5.2
8	Quebec City	12	4	77.9	1.0	•	Balanced	5.3	-12.6	-16.9	0.8	3.1	4.7	3.9	-8.2	0.1
9	KW*	5	4	75.7	0.9	•	Balanced	0.5	-23.4	-31.3	2.8	-11.7	-10.1	11.3	-41.2	-15.7
10	Halifax	14	4	85.8	0.9	•	Balanced	1.8	-28.3	-26.5	0.5	-3.7	1.0	-1.7	-26.3	-17.5
11	Sudbury	3	8	65.7	0.9	•	Balanced	-11.8	-34.5	-27.2	5.9	-7.4	-2.6	14.1	-29.2	-13.5
12	PEI (Charlottetown)	26	14	78.7	0.8	•	Balanced	22.3	-12.1	-22.6	-0.6	-5.3	5.6	-8.7	-9.5	-5.2
13	Edmonton	18	5	68.9	0.7	•	Balanced	11.2	-28.5	-23.4	2.0	-5.5	-3.7	5.7	-22.4	-8.4
14	Regina	22	8	71.3	0.7	•	Balanced	13.4	-14.7	-11.1	0.5	-6.5	-6.2	3.9	-18.3	-8.8
15	Guelph	13	2	78.8	0.7	•	Balanced	-2.1	-13.2	-28.7	6.2	-14.5	-10.3	-0.3	-33.0	-9.8
16	Vancouver	15	1	67.3	0.7	•	Balanced	7.5	-18.3	-38.8	3.0	-2.0	-1.7	8.6	-25.3	-20.6
17	London	9	8	65.8	0.6	•	Balanced	-1.1	-18.2	-34.2	2.2	-14.5	-9.6	10.3	-30.0	-5.9
18	Fraser Valley (Abbotsford)	8	10	63.8	0.5	•	Balanced	1.7	-13.4	-43.0	7.1	-9.5	-11.1	19.6	-31.5	-22.1
19	Hamilton-Burlington	10	9	70.0	0.5	•	Balanced	-3.2	-14.3	-29.4	-0.6	-13.4	-9.7	11.5	-31.7	-6.4
20	NL (St. John's)	24	4	52.6	0.4	•	Balanced	6.4	-31.0	-17.9	-7.5	-1.5	4.4	0.4	-11.6	-9.6
21	Okanagan-Mainline (Kelowna)	19	2	58.4	0.3	•	Balanced	6.4	-22.0	-36.5	4.6	-7.3	-1.4	10.9	-18.2	-0.6
22	Victoria	21	1	66.0	0.2	•	Balanced	6.2	-16.3	-31.8	1.7	-8.7	-2.8	8.3	-15.9	0.0
23	Brantford	17	6	64.7	0.2	•	Balanced	6.0	-16.9	-32.2	4.7	-18.2	-14.3	17.5	-27.5	-2.8
24	St. Catharines	23	1	59.1	0.2	•	Balanced	13.4	-17.9	-36.4	0.7	-14.6	-11.1	14.0	-21.1	1.4
25	Montreal	28	3	62.5	0.1	•	Balanced	8.1	-21.1	-26.8	2.1	-5.5	-0.8	1.6	-10.3	-1.0
26	Windsor	27	1	57.4	0.1	•	Balanced	-1.8	-23.0	-34.8	5.0	-15.2	-10.4	-5.0	-20.7	-3.4
27	Kingston	29	2	51.3	0.0	•	Balanced	11.0	-15.2	-25.6	-0.9	-11.6	-4.1	4.4	-3.8	14.2
28	Winnipeg	30	2	61.7	0.0	•	Balanced	5.8	-21.1	-19.5	0.8	-9.4	-2.2	-0.5	-0.1	5.1
29	Barrie	25	4	64.7	-0.1	•	Balanced	-7.8	-10.0	-26.9	-1.2	-16.1	-11.0	-0.4	-36.2	1.2
30	Peterborough	31	1	55.4	-0.1	•	Balanced	22.0	-28.2	-30.0	-7.2	-14.1	-12.0	8.9	-19.1	-0.4
31	Thunder Bay	16	15	61.7	-0.1	•	Balanced	-1.4	-19.9	-10.5	1.4	-8.9	-3.5	16.9	-7.6	5.5

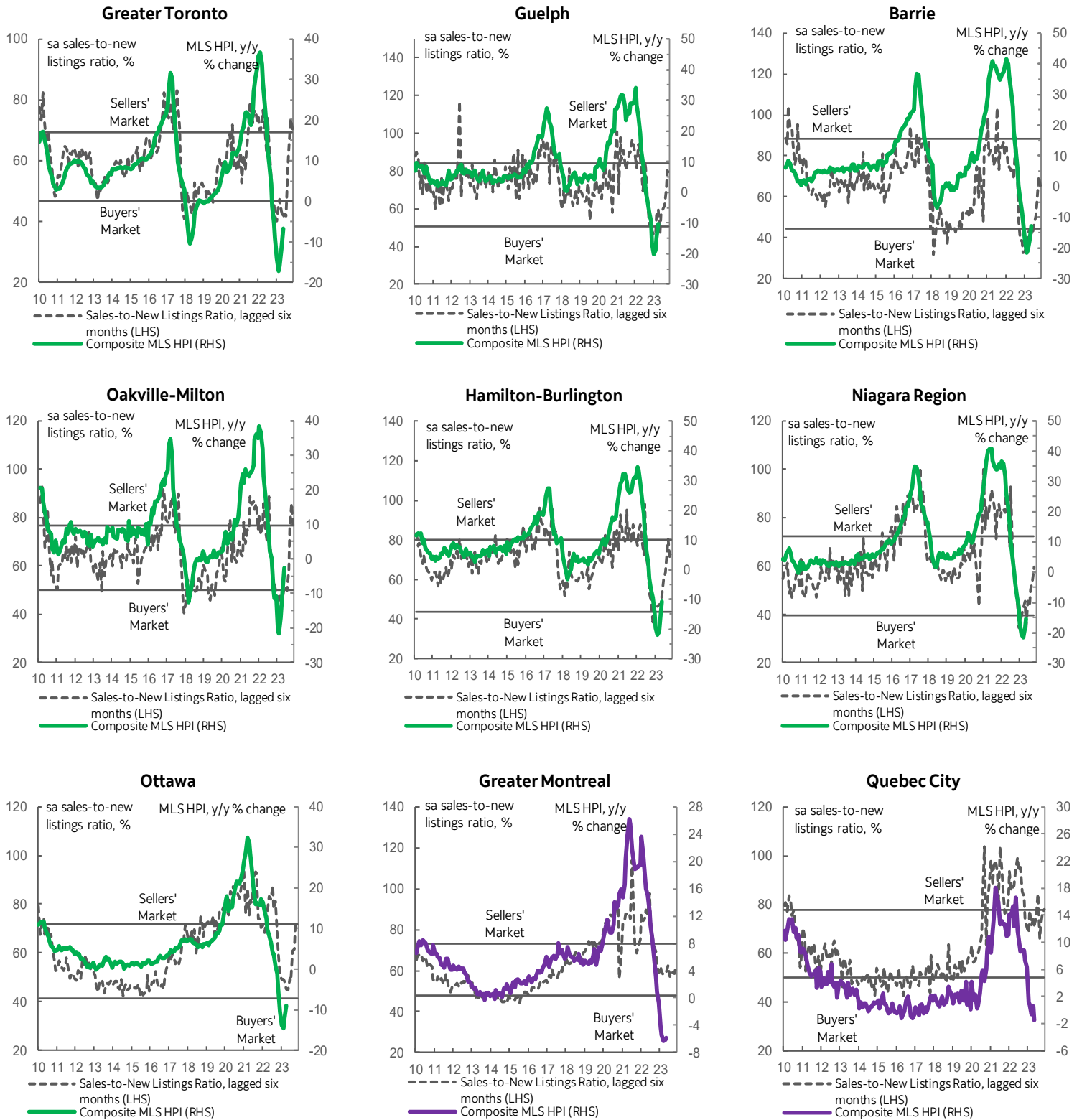
<sup>1</sup> Ordered from most- to least-tilted towards sellers. <sup>2</sup> A market is tilted towards sellers, and likely to witness upward pressure on prices, if its sales-to-new listings ratio greater than the long-term mean plus one standard deviation. A sales-to-new listings ratio below the long-term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

MLS Home Price Indices — Western Canada



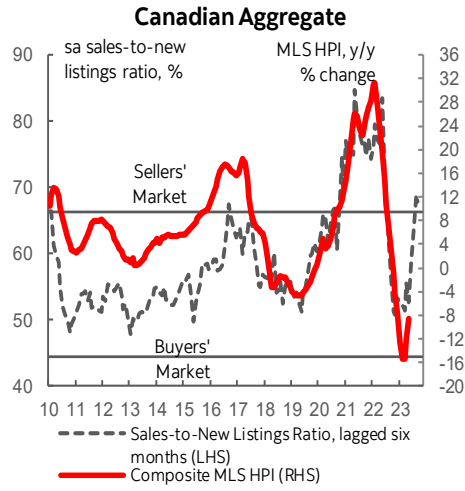
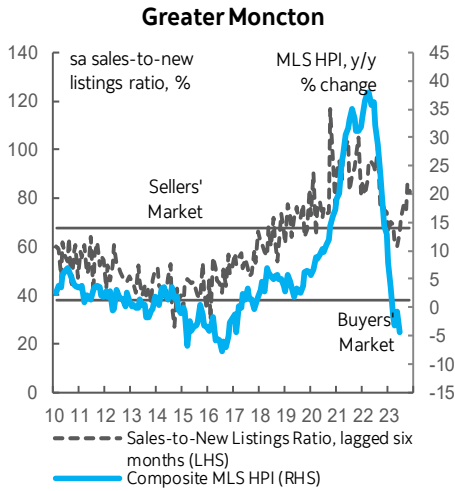
Sources: Scotiabank Economics, CREA.

MLS Home Price Indices (cont.) — Eastern Canada



Sources: Scotiabank Economics, CREA.

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



Sources: Scotiabank Economics, CREA.

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