

Contributors

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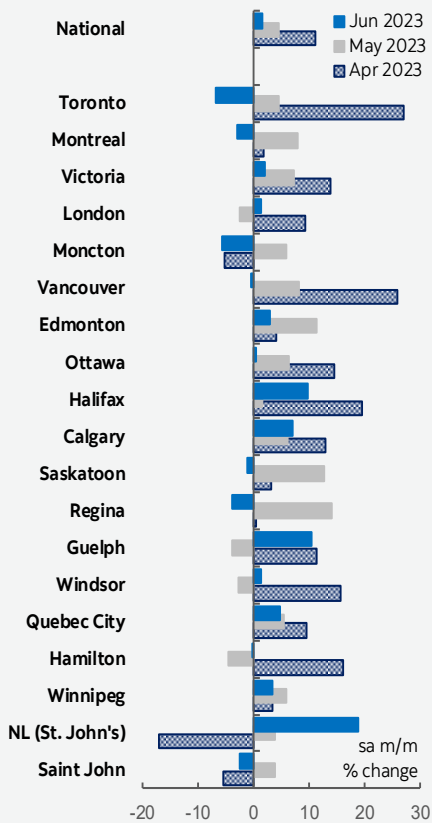
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Canada	Jun-23	May-23	Jun-23
	m/m ¹	m/m ¹	y/y ²
Sales (% change)	1.5	4.6	4.7
New listings (% change)	5.9	7.6	-11.1
Average price (% change)	-0.7	2.7	2.4
MLS HPI (% change)	2.0	2.0	-4.5

	Jun-23	May-23	Jun-22
Sales-to-new listings ratio (level) ¹	63.6	66.4	51.7
Months inventory (level) ¹	3.1	3.1	3.3

¹seasonally adjusted ²not seasonally adjusted

Home Sales for Select Cities



Sources for chart and table: Scotiabank Economics, CREA.

Canadian Home Sales — June 2023

CANADA HOUSING MARKET: HOUSING MARKET REALITY CHECK

SUMMARY

Canadian home sales increased by 1.5% (sa m/m) in June, a slower pace than the previous two months. Listings surpassed sales for the second month in a row, increasing by 5.9%. This brought a welcome easing in the sales-to-new listings ratio, an indicator of how tight the market is. The ratio stands at 63.6% as of May, down from its recent April peak of 68.3%, but still above its long-term average of 55.2%. This puts the national housing market back in balanced territory after returning to sellers' territory in April. Months of inventory were unchanged at 3.1 months—almost two months below its long-term average, a reversal of the improvements from its record lows since the fall of 2021.

The increase in sales reflected more regional differences than last month while the increase in listings was fairly widespread across the local markets we track. Pullbacks in sales in some of Canada's major markets, including Toronto and Vancouver, partly offset staggering increases north of 19% and up to 40% in Fraser Valley, St. John's, Thunder Bay, Peterborough and Sudbury. On the other hand, listings increased in 26 of the 31 local markets we track. In fact, of the 18 markets that saw sales increase in June, 17 had listings increase as well—indicating immediate absorption of new supply arriving to the market given pent-up demand. Despite the increase in listings, 8 markets were in sellers' territory in June compared to 7 in May.

Prices, as measured by the MLS Home Price Index (HPI), increased by 2% (sa m/m) in June, same as May and April. This would be the third significant monthly increase in a row following a year of declines in response to higher interest rates and economic conditions. Apartments saw the most acceleration in monthly price gains—the HPI for the segment increased by 2.3% (sa m/m), up from 1.5% in May, a pace not seen since March 2022 at the cusp of the market before the BoC started hiking. As a result, June's increase was led by apartments, followed by single-family homes (2.2%), and townhomes (1.9%). Worth noting that the townhomes segment also represented an acceleration of 0.3 pps relative to May, while the single-family homes segment decelerated by 0.3 pps. This could explain why the average sales price measure, the total dollar value of the sales divided by the total number of units sold in a single month, declined in June, as more sales shifted to smaller cheaper units. The HPI, which controls the composition of sales, is a more reliable measure of underlying price movements. With this month's results, the MLS HPI is drifting further from its pre-pandemic levels, now sitting at 38% above, reducing the correction from its February 2022 peak to only 10.4% (the trough reached in March 2023 was 15% below the peak).

IMPLICATIONS

As expected, the Bank of Canada's June hike while leaving the door open for another in July had the intended consequence of slowing down the resurgence of rally-like activity in the housing market, at least for the month of June.

Sales still increased for the month, but by a slower pace than in May and April, when sales recorded a staggering double-digit increase, following smaller gains in February and March. These gains all occurred while listings significantly retreated before starting to play catch up in the last two months, outpacing the gains in sales. Even as they did, however, tight market conditions persisted given previous declines in the face of a pickup in activity, paving the way for continued price pressures.

As discussed last month, at least part of the recent strength in the housing market had been driven by buyers who had amassed larger down payments during the slowdown and were ready to jump back into the market once rates stabilized, encouraged by the

widespread conviction at the time that the BoC is done hiking and cuts are imminent, and given earlier market pricing of cuts which translated into a reduction in fixed rates.

June's hike occurred in the first week of the month, so it had time to influence buyers' decisions and the month's results via higher borrowing costs. While variable rates increased directly with the prime rate, variable rate mortgages account for the smallest share of mortgage originations today after peaking early last year. The bigger impact seems to be coming from the increase in short-term fixed rates, which increased in June due to the direct impact of a higher policy rate but also due to the BoC's hawkish communications that left the door open for a July hike while pushing on imminent rate cuts. Short-term fixed mortgage products have been gaining popularity as of late reflecting a shift in buyers' preference towards more certainty in uncertain times (charts 1 and 2).

This uncertainty effect, in any case, is likely the biggest driver of the pull back in housing sales activity in June. At the end of the day, the June hike was relatively marginal. Those who could afford at May rates might have been able to stomach the June increase as buyers at the margin have already been priced out. But by signalling that the pause may be over and leaving the door open for further hikes, uncertainty about future outcomes of rates, inflation, and economic activity likely dawned on potential buyers, while also helping thwart speculative activity—the latter more sensitive to the change in narrative as it implies higher borrowing costs for longer and lower profitability.

The combined effects have produced the expected and desired outcome of taming a rally in a market that had little capacity to accommodate it and for a central bank that could ill afford to have the most rate sensitive part of the economy roar back when it is trying to slow growth and bring inflation back to target. Of course, they also meant that more Canadians who already have to grapple with higher prices had to also endure higher mortgage payments and borrowing costs, and others had to postpone or let go of their home ownership plans. But this is a situation that is likely to arise regardless of rate hikes as long as no meaningful progress is made to increase the housing stock to accommodate current and incoming demand. The resulting imbalance and tightness in market conditions would produce the same impact of inflating home prices and therefore mortgage payments and reducing affordability for first-time home buyers.

Chart 1

Mortgage Originations

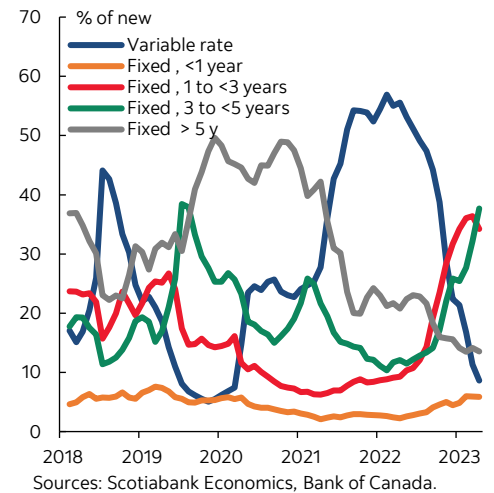
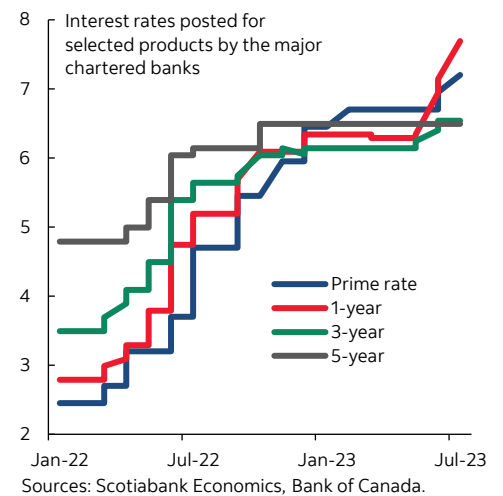


Chart 2

Mortgage Rates

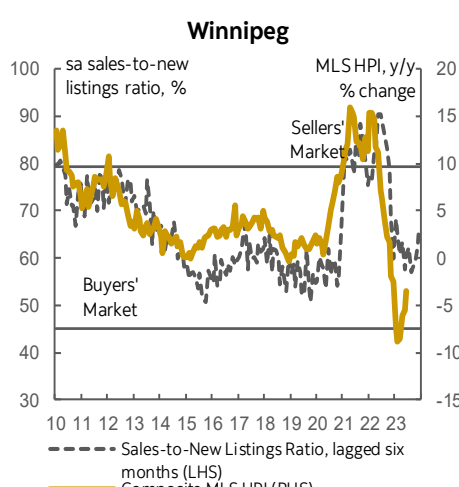
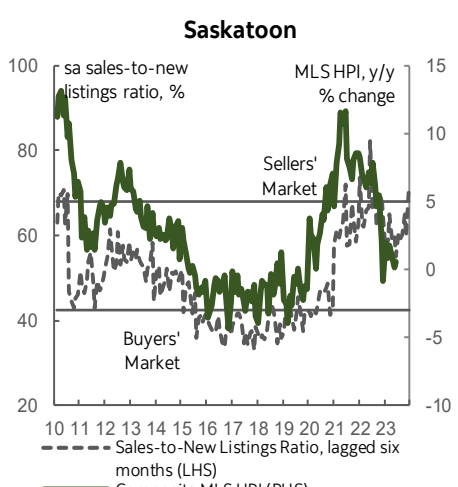
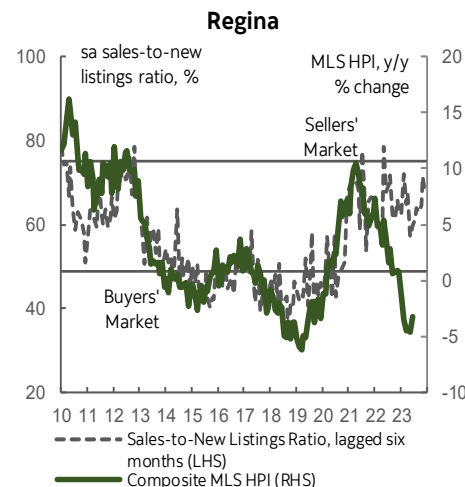
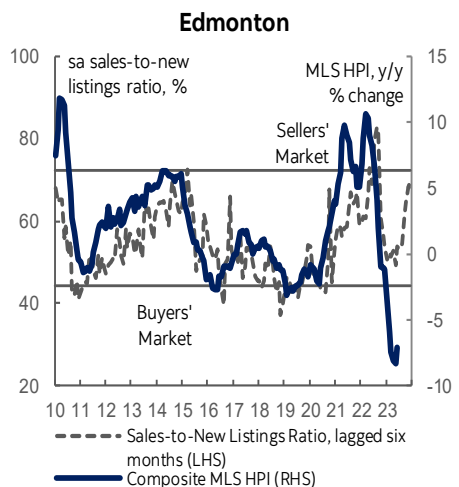
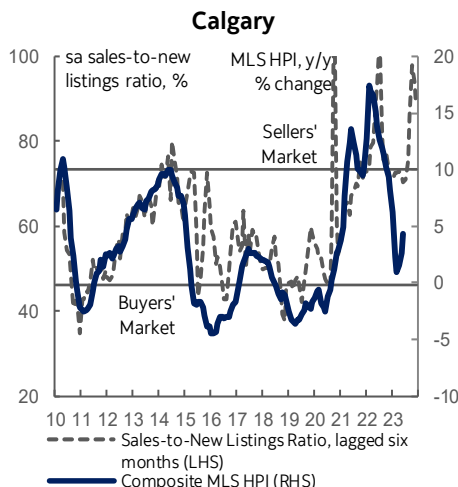
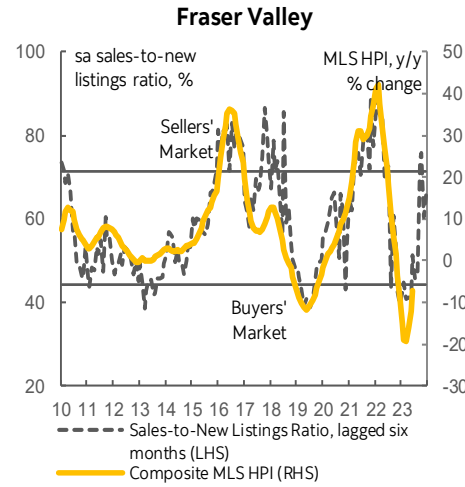
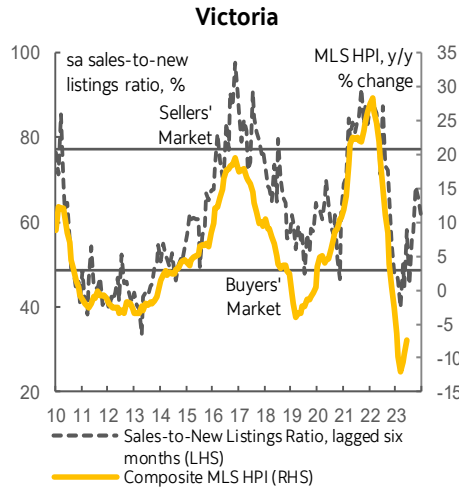


Scotiabank Housing Market Watch—June 2023

Rank ¹	Real Estate Board	Sales-to-New Listings Ratio						Unit Sales ³			Avg. Sales Prices ³			New Listings ³		
		Last Month Rank	Monthly Change	Sales-to- New Listings Ratio	Std. Dev. from Long-Term Mean ²	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	--	--	63.6	0.7	•	Balanced	1.5	-5.1	-26.7	-0.7	-1.6	-5.8	5.9	-16.8	-11.5
1	Calgary	1	0	88.2	2.0	•	Sellers'	7.1	-6.7	-21.3	1.5	5.0	2.1	13.8	-18.2	-21.2
2	Moncton	3	1	83.4	2.0	•	Sellers'	-5.7	-16.4	-23.1	5.9	-1.6	-0.5	-7.8	-27.9	-12.7
3	Sudbury	14	11	79.3	1.7	•	Sellers'	37.0	-23.5	-26.4	1.5	-1.0	-3.0	7.7	-25.1	-17.1
4	Lethbridge	4	0	79.5	1.5	•	Sellers'	-6.8	-12.3	-20.4	1.1	3.1	3.7	-6.7	-21.2	-15.6
5	Quebec City	6	1	80.2	1.1	•	Sellers'	4.8	-6.5	-17.3	0.7	4.0	4.4	1.8	-10.2	-2.8
6	Saint John	2	4	68.4	1.1	•	Sellers'	-2.4	-27.9	-29.7	1.1	2.3	3.0	21.9	-27.1	-20.6
7	NL (St. John's)	18	11	59.7	1.0	•	Sellers'	19.0	-27.0	-18.5	3.1	-3.1	3.3	2.3	-7.9	-10.3
8	Halifax	7	1	88.2	1.0	•	Sellers'	9.8	-18.5	-27.0	1.3	1.5	0.4	6.5	-24.8	-19.3
9	Ottawa	8	1	69.8	0.9	•	Balanced	0.5	-2.3	-27.0	1.6	-5.9	-5.3	0.6	-15.8	-7.2
10	Saskatoon	5	5	66.3	0.9	•	Balanced	-1.1	-5.2	-15.1	0.2	1.4	0.1	5.2	-8.0	-9.5
11	Edmonton	12	1	69.9	0.8	•	Balanced	3.0	-14.4	-23.2	-1.1	-3.2	-4.1	0.4	-20.9	-10.5
12	Thunder Bay	28	16	72.6	0.7	•	Balanced	23.6	-13.9	-11.7	2.7	-4.8	-4.6	4.6	-3.4	2.9
13	Fraser Valley (Abbotsford)	20	7	66.3	0.6	•	Balanced	18.8	21.9	-37.2	4.0	-0.3	-10.9	8.0	-15.6	-22.6
14	KW*	13	1	69.2	0.5	•	Balanced	11.8	-8.9	-29.0	1.7	-4.0	-10.0	16.5	-35.4	-22.2
15	Regina	11	4	67.1	0.4	•	Balanced	-3.8	-13.5	-12.6	2.3	-4.5	-6.3	2.1	-18.2	-11.7
16	Guelph	16	0	73.3	0.4	•	Balanced	10.5	5.6	-23.1	3.7	-7.0	-10.9	15.4	-26.1	-12.0
17	Okanagan-Mainline (Kelowna)	22	5	58.9	0.3	•	Balanced	9.6	-3.2	-31.7	-1.1	-4.3	-2.4	6.1	-14.9	-4.5
18	London	17	1	60.3	0.2	•	Balanced	1.4	-4.1	-30.2	2.7	-7.4	-9.9	7.6	-26.1	-10.0
19	Winnipeg	27	8	66.5	0.2	•	Balanced	3.4	-15.7	-20.5	1.0	-7.0	-3.2	-2.7	-8.6	0.0
20	PEI (Charlottetown)	10	10	61.4	0.2	•	Balanced	-7.3	-2.1	-21.4	-0.3	-7.4	2.8	15.1	-10.6	-7.4
21	Hamilton-Burlington	19	2	64.5	0.2	•	Balanced	-0.3	5.3	-24.9	2.2	-8.1	-10.6	4.7	-26.2	-11.5
22	Montreal	23	1	62.1	0.1	•	Balanced	-2.9	-15.3	-26.8	-0.3	-4.7	-2.0	-2.3	-13.6	-4.5
23	Vancouver	15	8	59.2	0.1	•	Balanced	-0.5	5.1	-35.3	-0.4	1.2	-1.4	11.8	-13.8	-19.7
24	Windsor	26	2	56.3	0.0	•	Balanced	1.3	-10.5	-33.8	0.1	-8.9	-11.4	1.4	-23.2	-10.4
25	Victoria	21	4	62.1	0.0	•	Balanced	2.0	-2.9	-28.2	-1.4	-6.3	-4.4	7.9	-14.6	-2.1
26	St. Catharines	25	1	53.9	-0.1	•	Balanced	0.0	-0.7	-31.1	7.9	-8.8	-11.2	4.7	-16.1	-2.4
27	Peterborough	31	4	53.0	-0.3	•	Balanced	26.1	-3.2	-24.5	7.4	-8.4	-12.5	25.5	-4.1	0.1
28	Toronto	9	19	54.3	-0.3	•	Balanced	-6.9	10.4	-32.5	1.6	-2.3	-7.0	14.3	-20.6	-20.3
29	Barrie	30	1	58.6	-0.3	•	Balanced	6.2	6.2	-22.3	6.1	-10.7	-11.7	12.4	-34.0	-6.7
30	Brantford	24	6	55.1	-0.3	•	Balanced	-1.7	-4.2	-29.0	3.3	-10.0	-14.7	11.4	-18.6	-4.7
31	Kingston	29	2	43.8	-0.5	•	Balanced	-13.2	-12.3	-23.9	3.3	-5.7	-4.9	-2.7	-7.2	9.2

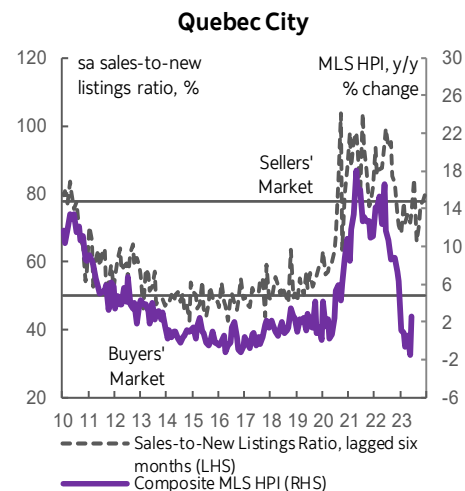
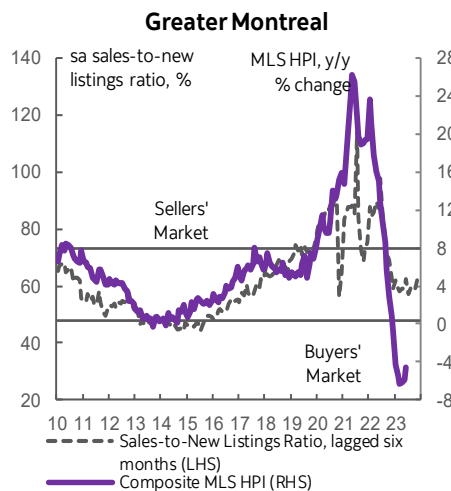
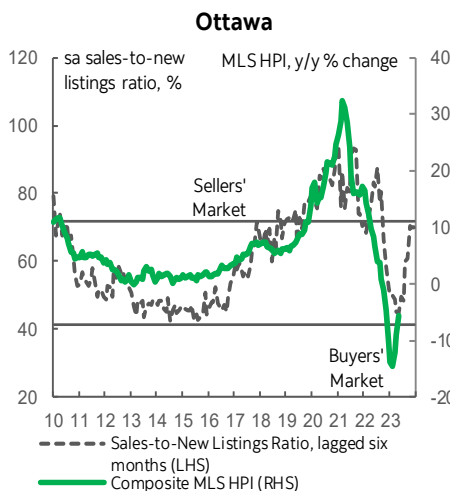
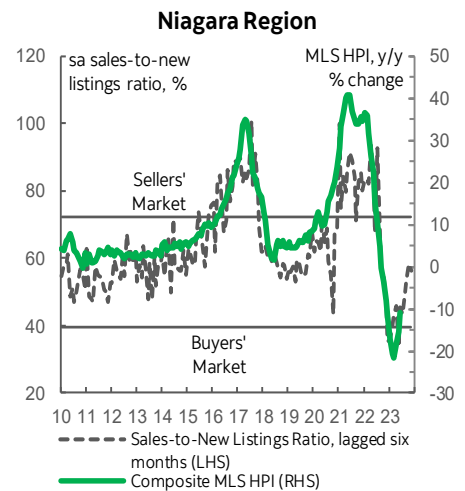
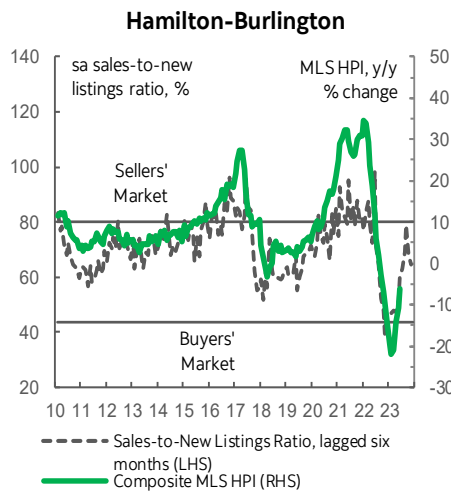
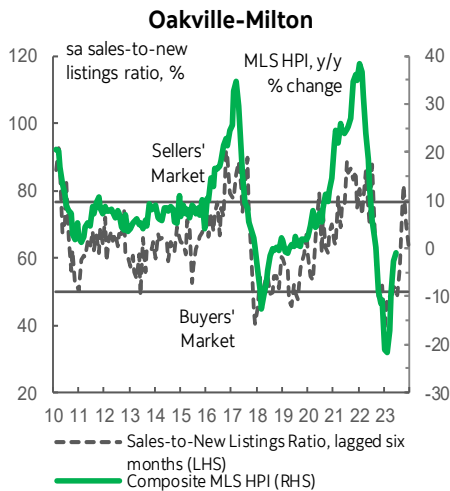
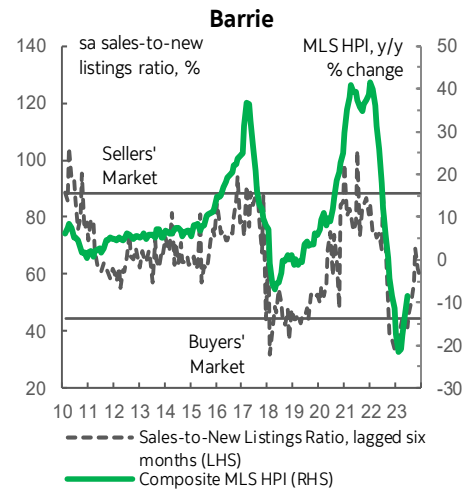
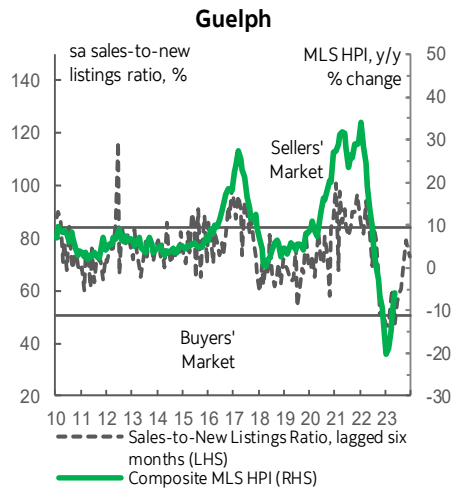
¹ Ordered from most- to least-tilted towards sellers. ² A market is tilted towards sellers, and likely to witness upward pressure on prices, if its sales-to-new listings ratio greater than the long-term mean plus one standard deviation. A sales-to-new listings ratio below the long-term mean less than 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. ³ Year-over-year percentage change. * Kitchener-Waterloo. Sources: Scotiabank Economics, CREA.

MLS Home Price Indices — Western Canada



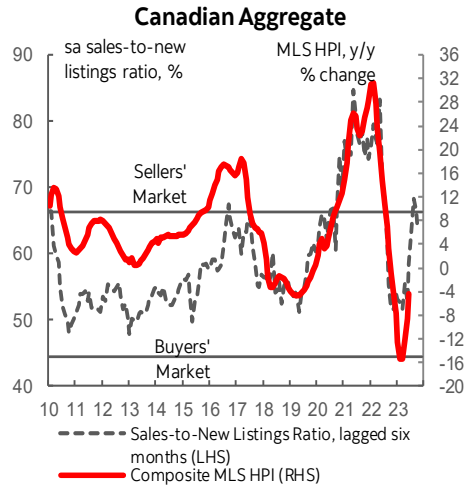
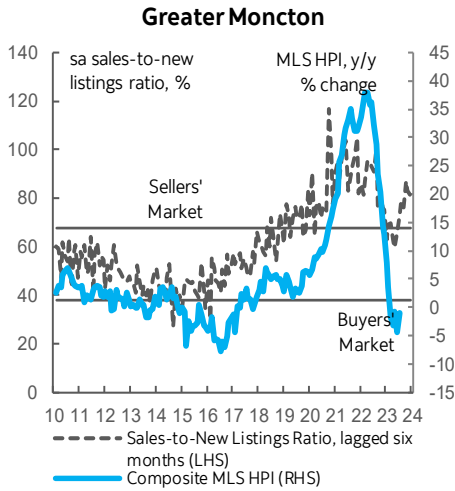
Sources: Scotiabank Economics, CREA.

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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