

HOUSING NOTE

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Chart 1

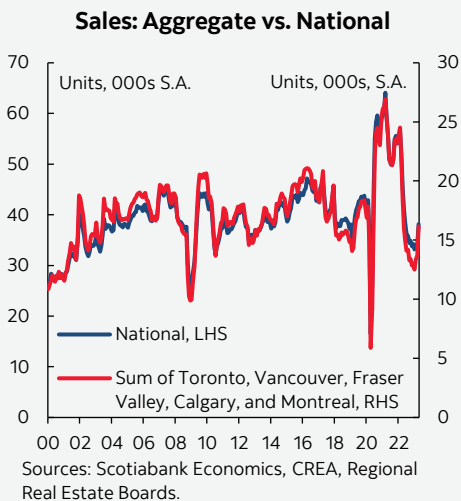
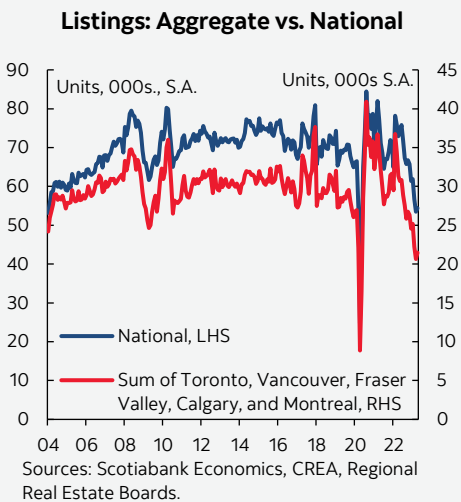


Chart 2



Regional Results Point to a Strong Housing Market in May

ASSESSING THE NATIONAL MARKET'S MAY PERFORMANCE AHEAD OF THE BANK OF CANADA'S RATE DECISION

Canada's housing market has been showing signs of gathering steam over the last couple of months. April's sales activity surpassed expectations as it recorded a staggering double-digit increase following two smaller monthly increases in February and March. National data are published with a short lag to the data reported for the country's major real estate markets. We do not formally report on these "early" data on a regular basis, but are doing so now given the importance we believe housing market developments should play in the Bank of Canada's June 7 decision. Please refer to [Derek Holt's Global Week Ahead](#) for a full rundown of the factors underlying our view that the Bank of Canada will raise rates this week.

From a housing perspective, the acceleration observed in April, and compounded in May, suggested housing-related activity may stop being the drag on growth it had been for much of last year. The Bank of Canada can ill afford for the most interest-sensitive segment of our economy to roar ahead when it is actively trying to cool the economy and inflation.

Regional releases for the month of May from Toronto, Vancouver, Calgary, Fraser Valley (the market that has been driving much of the recent national strength), and Montreal point to a continued acceleration in the housing market. These markets provide an approximation of the national market's May performance as movements at the national level have largely tracked the aggregate performance of these regional markets over history (charts 1, 2 and 3).

Here, where only not seasonally adjusted (NSA) year-over-year changes were reported by a regional board, we estimate the seasonally adjusted (SA) month-over-month changes by applying the same year-over-year growth to last year's SA data. In principle, the year-over-year growth should be relatively similar whether seasonally adjusted or not as it would be referencing the same time of year and season. Indeed, when charting SA and NSA y/y % for the different regions, the two move closely together (chart 4 shows the different growth rates for Vancouver and Toronto sales as an example).

Regional May results are reported in table 1.

Table 1: Canada—Sales & New Listings, May 2023

Location	Sales (%)		Listings (%)		Sales-New Listings Ratio Implied S.A., %
	S.A. m/m	N.S.A. y/y	S.A. m/m	N.S.A. y/y	
Vancouver	12.4	15.7	21.4	-11.5	64.7
Fraser Valley	1.4	25.8	62.2	2.7	51.1
Calgary	11.8	1.9	33.0	-15.0	87.5
Toronto	5.2	24.7	22.7	-18.7	66.5
Montreal	19.3	-8.2	8.1	-11.1	64.0
<b>Aggregate</b>	<b>9.6</b>		<b>23.4</b>		<b>66.9</b>

Sources: Scotiabank Economics, CREA, Regional Real Estate Boards.

Home sales seem to have increased in all the reported major regional markets in May, pointing to an aggregate performance in May that is almost 10% stronger than in April. Given how closely the national market tracks the aggregate of these regional markets, this points to incoming strength at the national level when the national data are released mid June. The good news is that it seems the return of buyers to the market over the past couple of months has triggered a return of some sellers to the market as well. New listings

had been dropping dramatically as sales picked up steam, and they recorded only a small increase of 1.6% in April when sales had recorded a double-digit increase. May’s regional results however point to a much larger increase in listings of 23%.

April’s level of listings was 26% below the month’s 2000–19 average. The estimated aggregate monthly increase in May points to an implied aggregate that is 13% below the month’s 2000–19 average—still low but an improvement from April.

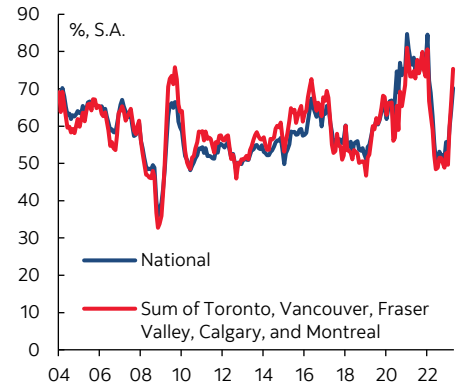
There is less of a standardization in the regional reporting of prices as different regional boards report different price measures (average sales price, MLS home price index, MLS benchmark price index), therefore these are not reported in the table. However, it is the case that regardless of the chosen price measure, all markets reported monthly increases in their respective price measures—indicating a monthly price gain at the national level, consistent with persistent tightness in the market despite May’s increase in listings, as listings remain low in the face of pent-up demand and strong immigration and population growth.

Nonetheless, the larger increase in listings relative to sales suggests a bit of easing in the sales-to-new listings ratio to 66.9%, down from an aggregate of 75.4% in April (this is the sum of sales across the reported regional markets divided by the sum of their new listings, the national sales-to-new listings ratio in April was 70.2%). This is still above the ratio’s long-term average of 55%, however, and points to continued pressure on prices at least in the short-run. But if this trend of increasing listings and an easing sales-to-new listings ratios proves to be true and sustainable at the national level, it could mean less pressure on prices than otherwise would be as demand picks up.

If the national data for the month of May is in line with the regional aggregate estimated here, the housing market would be acting as a strong driver of economic growth in Q2 via residential investment and consumption of goods and services related to housing. Combined with April’s flash guidance from Statistics Canada and strength in higher frequency data so far this quarter, this points to significant upside risk to the Bank of Canada’s forecast of 1% Q/Q in 2023Q2, which is based on an assumption that the rebound of the housing market won’t occur until the second half of 2023. This supports the case for an additional hike by the Bank of Canada to thwart the impact of a premature recovery in the housing market on excess demand and inflationary pressures, not to mention stability concerns.

Chart 3

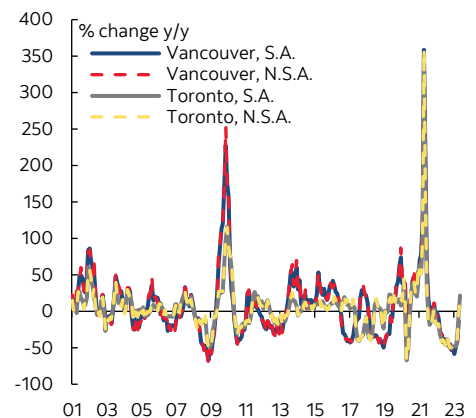
**Sales-New Listings Ratio: Aggregate vs. National**



Sources: Scotiabank Economics, CREA, Regional Real Estate Boards.

Chart 4

**Sales: S.A. vs. N.S.A.**



Sources: Scotiabank Economics, CREA, Regional Real Estate Boards.

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