ECONOMIC NEWS

Canada: Bounce back or dead cat bounce in August?

By Randall Bartlett, Senior Director of Canadian Economics

HIGHLIGHTS

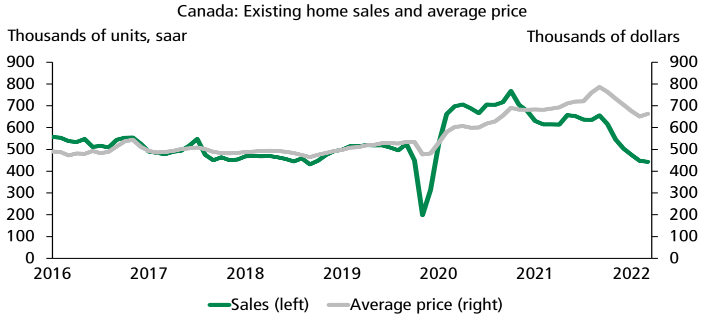
- Existing homes sales edged down 1% in August on a seasonally-adjusted basis – the sixth consecutive monthly decline. Sales in August were 24.7% below the year-ago levels, up from the 29% drop in July.
- Sales were down in roughly half of Canadian markets. The Greater Toronto Area (GTA) edged higher in the month, while other regions in Ontario were more mixed. This was offset by declines in Greater Vancouver, Calgary, Edmonton, Winnipeg, and Halifax-Dartmouth.
- Meanwhile, the average sale price of an existing home advanced by 1.9% in August to $663K on a seasonally-adjusted basis, following five monthly declines in a row. Looking to the composite benchmark price, which adjusts for market composition, the purchase price of a home was down 1.6% from July 2022 but still up 7.1% over August of last year.
- The number of new listings fell 5.4% over July, pushing the sales-to-new listings ratio up to 54.5% - the first increase since January 2022 but still in what's considered to be balanced territory.

COMMENTS

There was a little something for both housing bulls and bears in the August existing home data. At the national level, the first positive monthly move in the average home price and the slowest pace of falling monthly sales since February provides some room for optimism.

However, a quick look at the details suggests we should curb our enthusiasm. Much of the good news on the sales front was concentrated in the GTA. Meanwhile, the composite benchmark price, which is much more indicative of market conditions, continues to slide. The decline in listings and muted increase in months of inventory in August suggest the market is still tight but there is a long way to go to return to pre-COVID market dynamics.

GRAPH
Canadian housing market takes a breather but don't hold your breath



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

IMPLICATIONS

The unusual nature of the August existing home data makes it difficult to read the tea leaves. However, we believe this is more likely to be a dead cat bounce than a bounce back in the Canadian housing market. With rates continuing to ratchet up since August and more hikes likely in the hopper given recent data, this will continue to push residential investment to contract and weigh on the Canadian economy. We are of the view that this is likely to push the Canadian economy into recession in the first half of 2023 (see our *Economic Viewpoint* on the topic).