ECONOMIC NEWS

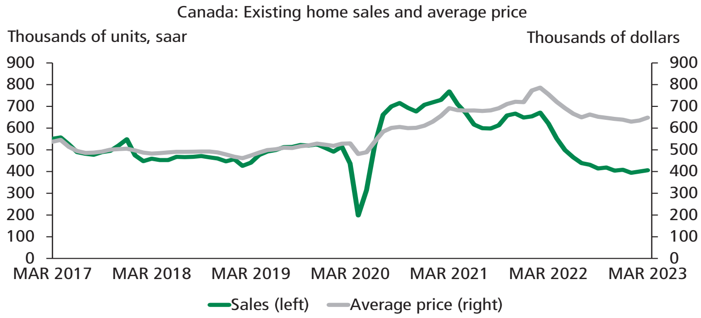
Canada: Two Months of Sales Gains Are Starting to Look like a Trend

By Randall Bartlett, Senior Director of Canadian Economics

HIGHLIGHTS

- Existing homes sales rose 1.4% in March on a seasonally-adjusted basis, following a 1.5% advance in February. This is the first back-to-back monthly gain in sales since the housing market correction began, and the fourth increase in the past six months. And while home sales were 34% below the March 2022 level, this is a dramatic improvement from the 40% year-over-year decline posted in February.
- British Columbia led the increase in March home sales, posting a relatively broad-based 10% advance. The Greater Toronto Area (1.6%) led the more modest gain in Ontario (1.1%). Manitoba (1.2%) and Quebec also chalked up gains (0.8%). In contrast, the energy-producing Western provinces and the Atlantic provinces all posted declines in March sales.
- Meanwhile, the average sale price of an existing home rose by 2.0% to $648K in March—the second consecutive monthly gain. The average sale price was down over 16% from the peak reached in February 2022 and 14% below the March 2022 level.
- Looking to the composite benchmark price, which adjusts for market composition, the purchase price of a home was up 0.2%, following 12 consecutive monthly declines, but down nearly 15% from a year ago.
- The number of new listings fell again in March, dropping 5.8%. When paired with the increase in sales, the sales-to-new listings ratio rose to 63.5 from 59.0 in February, returning the Canadian housing market to sellers' territory for the first time since April 2022.

GRAPH
The Canadian Housing Market Correction May Be Nearing Its End



Sources: Canadian Real Estate Association and Desjardins Economic Studies

COMMENTS

While two consecutive monthly increases in seasonally-adjusted home sales don't make a trend, gains in four of the past six months is certainly starting to look like one. Surging population growth and a tight labour market have no doubt played a role in supporting the stabilization of the housing market. But high borrowing costs remain a headwind, particularly for first time homebuyers. Home prices also remain elevated despite having come down from their pandemic peak, ranging between roughly 25% and 30% above the December 2019 level nationally, depending on the measure used. And with listings falling and housing starts likely to move lower still, this suggests a lack of supply should propel prices higher going forward.

IMPLICATIONS

With the Bank of Canada having announced its latest rate decision on Wednesday, this particular release won't mean much for monetary policy. However, it does point to Canadian real GDP that is humming along at a healthy pace in Q1 2023 (we're estimating 2.8% annually) and will likely post another positive print in Q2. That said, with inflation coming down and credit conditions having tightened, the Bank may choose to look past a stabilization in housing market activity. As such, we expect the Bank of Canada to remain on hold until at least the end of the year before beginning to cut interest rates.