

Canadian Existing Home Sales — April

April Showers Make Home Buyers Cower

Douglas Porter, CFA, Chief Economist • douglas.porter@bmo.com • 416-359-4887

Canadian existing home sales fell 2.9% in April from the prior month (seasonally adjusted), bringing the 12-month cumulative decline to 13.9% y/y from last spring's piping hot levels. Sales are also now down a whopping 21.7% in adjusted terms from the record high just this past December, right before the new mortgage rules kicked in. Compounding the slide has been the back-up in borrowing costs, and April's tally was also likely dampened by particularly miserable weather (e.g. a mid-month ice storm in Central Canada). But we can't pin the underlying declining trend across much of the country on Mother Nature, with sales now down by 15% in the first four months of 2018 from last year's super-charged levels.



Notably, the sag in April sales was accompanied by **an even bigger pullback in new listings** (-4.8% m/m, s.a.), in a sign that potential sellers are unimpressed with the prices on offer. Still, new listings have dropped by less than sales over the past year, loosening the market significantly—especially in Toronto and the surrounding cities. Looking at the adjusted level of sales to new listings shows a middle-of-the-road reading nationally of 53.7% (a “normal” range is considered to be roughly 40%-to-60%; anything above is typically a seller's market, below a buyer's market). But there is a huge spread from top to bottom, with Calgary, Saskatoon and Newfoundland all reporting ratios below 40%. At the other end of the spectrum, Ottawa, Montreal, Victoria and Southwestern Ontario remain strong at well above 60%. Meantime, both Vancouver and Toronto are in the lower end of the normal band, after previously flaring far above the top end in recent years.

The mixed picture naturally extends to prices. **Headline prices were on the soft side** of expectations for the national figures. The average transaction price fell heavily, dropping 11.3% y/y. But we would hasten to add that this stat is almost meaningless, as only 2 of the 26 reporting cities had prices drop by this much (Toronto and Thunder Bay). The average price was skewed lower by the fact that sales fell so heavily in the country's two most expensive cities. Much closer to reality is the price change in the median city (+1.3% y/y), and the MLS HPI (+1.5% y/y). In other words, prices nationally are still nudging higher, albeit barely. Note that the HPI has decelerated steadily from the frothy heights of 18.9% y/y, hit exactly one year ago.

On balance, the results are a bit softer than expected and suggest that the market overall is still adapting to new regulations and higher rates, as well as various provincial measures. With longer-term bond yields still grinding higher yet, don't look for a quick turn in the market anytime soon. That's the national story, but of course there is quite a variety of regional differences. Digging in...

Existing Home Sales

Canada (% change)	Sales			Prices	
	m/m ¹	y/y	y-t-d-2018	y/y	y-t-d-2018
April					
Canada	-2.9	-13.9	-15.3	-11.3	-7.9
Vancouver	-1.9	-27.3	-17.7	1.1	5.1
Montreal	-3.2	9.6	7.8	-1.2	4.5
Halifax	-5.8	13.1	13.2	2.4	4.4
Ottawa	-9.8	9.8	7.0	2.0	3.9
Winnipeg	-2.9	-1.1	-7.2	1.2	2.1
Calgary	-6.1	-20.8	-17.4	-2.8	-1.0
Edmonton	0.9	-1.6	-4.1	-3.1	-1.0
Regina	16.7	-8.1	-7.6	-6.8	-5.4
Toronto	-1.2	-33.0	-34.4	-12.6	-12.3
MLS Home Price Index (national)				1.5	4.7

¹ (seasonally adjusted) Source: Canadian Real Estate Association

Toronto was arguably the softest market in the country in April, especially compared with the red-hot conditions of a year ago. Not only were sales down a honking 33% y/y (the second biggest drop among the 26 cities), but the average transactions price saw a nasty — and country-leading—12.6% y/y drop. The latter was biased lower by the shift away from pricier detached homes to condos, but even the HPI (which adjusts for a change in mix and quality) reported a 5.2% y/y drop. The good news for prices is that the latter has stabilized recently and even edged up 2.5% in the past six months. But that's a long, long way from the 30% gains of just a year ago. Of course, a big story in Toronto is the extreme split between detached homes (where prices are down 10% y/y) and condos (where prices are up 10% y/y). Note that with these moves, condo prices are now up by as much as detached homes over the past dozen years (both up by just over 7% annualized)—that simply wasn't "*supposed*" to happen, given densification and the shortage of single-detached homes alongside the surge in condo construction.

Vancouver is also seeing a sharp distinction between its condo market and detached homes, but in this case prices are still up for both. While single-family homes are up a moderate 5% y/y, condo apartment prices have jumped almost 24%. However, both are showing some signs of fatigue, with each cooling from even loftier gains earlier this year. And, given the 27% y/y droop in April sales volumes and a sales-to-new listings ratio now far from buyer's terrain, look for some further cooling in price gains ahead. That's especially so with the B.C. government adding new layers to cool the high end of the market (higher and extended foreign buyers' tax, speculation tax on vacant homes, etc.).

At the other end of the spectrum, **Montreal and Ottawa** remain among the strongest markets in the country. Bolstered by solid underlying economies, and largely unencumbered by provincial measures, these markets remain robust. In April, both saw sales gains of roughly 7% y/y, and roughly like-sized gains in the HPI (Ottawa a bit higher, Montreal a touch lower).

While the **Prairies generally remain ice cold**, that may soon begin to shift, especially with oil prices suddenly on a roll. Note that Western Canada Select, for example, has bounced almost 60% higher in Canadian dollar terms in just the past two months alone, hitting its highest level since November 2014 at over C\$70/bbl. Still, Calgary sales were down 20.8% y/y last month, and prices dipped slightly from a year ago. Edmonton and Regina also both recorded price and sales drops from a year ago, while Saskatoon also saw prices drop almost 5%. We'll be watching the next couple months very closely to see if the rebound in crude provides any relief; it most probably will.

We would be remiss if we didn't point out that while much of the country is dealing with a considerably cooler housing market this year, that hasn't been the case for the provinces of **Quebec and Nova Scotia**, where both sales and prices have posted solid gains so far in 2018.

General Disclosure

"BMO Capital Markets" is a trade name used by the BMO Financial Group for the wholesale banking businesses of Bank of Montreal and its subsidiaries BMO Nesbitt Burns Inc., BMO Capital Markets Limited in the U.K. and BMO Capital Markets Corp. in the U.S. BMO Nesbitt Burns Inc., BMO Capital Markets Limited and BMO Capital Markets Corp are affiliates. This document is issued and distributed in Hong Kong by Bank of Montreal ("BMO"). BMO is an authorized institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and a registered institution with the Securities and Futures Commission (CE No. AAK809) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). BMO does not represent that this document may be lawfully distributed, or that any financial products may be lawfully offered or dealt with, in compliance with any regulatory requirements in other jurisdictions, or pursuant to an exemption available thereunder. This document is directed only at entities or persons in jurisdictions or countries where access to and use of the information is not contrary to local laws or regulations. Their contents have not been reviewed by any regulatory authority. Bank of Montreal or its subsidiaries ("BMO Financial Group") has lending arrangements with, or provide other remunerated services to, many issuers covered by BMO Capital Markets. The opinions, estimates and projections contained in this report are those of BMO Capital Markets as of the date of this report and are subject to change without notice. BMO Capital Markets endeavours to ensure that the contents have been compiled or derived from sources that we believe are reliable and contain information and opinions that are accurate and complete. However, BMO Capital Markets makes no representation or warranty, express or implied, in respect thereof, takes no responsibility for any errors and omissions contained herein and accepts no liability whatsoever for any loss arising from any use of, or reliance on, this report or its contents. Information may be available to BMO Capital Markets or its affiliates that is not reflected in this report. The information in this report is not intended to be used as the primary basis of investment decisions, and because of individual client objectives, should not be construed as advice designed to meet the particular investment needs of any investor. This document is not to be construed as an offer to sell, a solicitation for or an offer to buy, any products or services referenced herein (including, without limitation, any commodities, securities or other financial instruments), nor shall such information be considered as investment advice or as a recommendation to enter into any transaction. Each investor should consider obtaining independent advice before making any financial decisions. This document is provided for general information only and does not take into account any investor's particular needs, financial status or investment objectives. BMO Capital Markets or its affiliates will buy from or sell to customers the securities of issuers mentioned in this report on a principal basis. BMO Capital Markets or its affiliates, officers, directors or employees have a long or short position in many of the securities discussed herein, related securities or in options, futures or other derivative instruments based thereon. The reader should assume that BMO Capital Markets or its affiliates may have a conflict of interest and should not rely solely on this report in evaluating whether or not to buy or sell securities of issuers discussed herein.

Dissemination of Research

Our publications are disseminated via email and may also be available via our web site <http://economics.bmocapitalmarkets.com>. Please contact your BMO Financial Group Representative for more information.

Conflict Statement

A general description of how BMO Financial Group identifies and manages conflicts of interest is contained in our public facing policy for managing conflicts of interest in connection with investment research which is available at http://researchglobal.bmocapitalmarkets.com/Public/Conflict_Statement_Public.aspx.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BMO Financial Group (NYSE, TSX: BMO) is an integrated financial services provider offering a range of retail banking, wealth management, and investment and corporate banking products. BMO serves Canadian retail clients through BMO Bank of Montreal and BMO Nesbitt Burns. In the United States, personal and commercial banking clients are served by BMO Harris Bank N.A., Member FDIC. Investment and corporate banking services are provided in Canada and the US through BMO Capital Markets. BMO Capital Markets is a trade name used by BMO Financial Group for the wholesale banking businesses of Bank of Montreal, BMO Harris Bank N.A., BMO Ireland PLC, and Bank of Montreal (China) Co. Ltd. and the institutional broker dealer businesses of BMO Capital Markets Corp. (Member SIPC), BMO Nesbitt Burns Securities Limited (Member SIPC) in the U.S., BMO Nesbitt Burns Inc. (Member Canadian Investor Protection Fund) in Canada, Europe and Asia, BMO Capital Markets Limited in Europe, Asia and Australia and BMO Advisors Private Limited in India.

"Nesbitt Burns" is a registered trademark of BMO Nesbitt Burns Inc., used under license. "BMO Capital Markets" is a trademark of Bank of Montreal, used under license. "BMO (M-Bar roundel symbol)" is a registered trademark of Bank of Montreal, used under license.

© Registered trademark of Bank of Montreal in the United States, Canada and elsewhere.

™ Trademark Bank of Montreal in the United States and Canada.

© COPYRIGHT 2018 BMO CAPITAL MARKETS CORP.

A member of BMO Financial Group