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An analysis of the latest economic data

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Canadian Existing Home Sales — February

The Iceman Cometh

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Canadian existing home sales fell 9.1% in seasonally adjusted terms in February from the prior month, taking sales to their lowest level in adjusted terms since 2012. While the weak results prompted some to rail against tighter mortgage rules and other constraints, we would instead highlight the weather. In what is normally a seasonally soft month even in a tame winter, this was most patently not a tame winter month, further bludgeoning a sluggish market. Even with the steep monthly drop, sales were down an unsurprising 4.4% y/y, quite similar to the prior month's reading. And, we would note that the yearly drops were heavily concentrated in the West—specifically B.C. and Alberta. Combined sales in the other 8 provinces were actually up 2.8% y/y, with exactly half of the 26 biggest reporting cities in the country posting gains from year-ago levels.

No shock, but the weather-related weakness in February sales also hit some of the key metrics of market balance. For instance, the sales-to-new listings ratio fell more than 3 percentage points to 54.1%—and yet it is still a bit above its long-run average, and even CREA allowed that roughly 70% of cities are seeing balanced markets now. In a similar vein, the months' supply of inventory rose to its highest level in more than three years at 5.7 from a more typical 5.3 the prior month. Pricing power remains mostly at bay, with the benchmark MLS index dipping 0.1% y/y last month and the average transaction price falling 5.2% y/y, mostly on the deep drop in Vancouver sales. Note that the median city saw a modest rise in prices from year-ago levels last month, and fully three cities reported double-digit price gains (London, Windsor and Saguenay).

We won't delve into great detail on these figures; as one wise person put it, at this time of year, housing releases are more of a weather report than an economic report. This result mostly just tells us that the weather was lousy. Recall that last week also saw a deep slide in housing starts in February to a three-year low of 173,000 units. If this weakness in sales and starts persist in March and April, then we have a real economic story. But we suspect that there will be a notable bounce-back on both fronts in the spring.

Looking ahead, we will simply repeat almost verbatim what was said a month ago. There are at least two very important supportive factors for the market. First, and perhaps most crucially, is that it now appears that the upward march in interest rates has not only paused but could even reverse. With long-term bond yields dropping more than 80 bps from last fall's peak, the heat is truly off. Second, demand factors remain robust, as population growth shows little sign of abating, a powerful driver for Ontario in particular. Also, there is even a dash of light for Alberta, with global and Canadian oil prices rebounding smartly from last year's depths.

Existing Home Sales

Canada (% change)	— Sales —			Prices	
February	m/m [1]	y/y	y-t-d-2019	y/y	y-t-d-2019
Canada	-9.1	-4.4	-3.9	**-5.2**	**-5.3**
Ottawa	-19.7	3.0	8.5	**7.7**	**5.1**
Montreal	-7.6	7.7	10.4	**4.9**	**4.5**
Toronto	-12.6	-2.9	-1.7	**1.6**	**1.6**
Winnipeg	-6.0	7.3	9.3	**1.6**	**0.8**
Halifax	-4.6	-1.2	-0.3	**-4.0**	**0.0**
Regina	2.9	4.2	2.8	**0.0**	**-0.5**
Calgary	-2.3	-12.0	-14.3	**-6.2**	**-4.8**
Edmonton	-0.9	-9.9	-11.8	**-5.3**	**-5.7**
Vancouver	-4.4	-32.5	-35.6	**-11.5**	**-8.3**
MLS Home Price Index (national)				**-0.1**	**0.3**

[1] (seasonally adjusted) Source: Canadian Real Estate Association

Finally, even next week's Federal Budget may have some modest measures which could provide some support for sales in the year ahead.

The Bottom Line: The Canadian housing market cannot be readily summarized with both unusually harsh February weather at work as well as such extreme regional differences still at play. However, we continue to contend that prices, sales and building are likely to hold broadly stable nationally in 2019 amid the many moving parts for the market, even with the soft start to the year.