

Canadian Home Sales — February

HOMEBUYERS STILL ON THE SIDELINES

- National home sales retreated for a second consecutive month in February, falling 6.5% m/m (seasonally adjusted) following a 13.8% plunge the month prior. On a year-over-year basis, sales were down 16.9%.
- Similar to January, sales fell in roughly three quarters of local markets last month, with some of the largest declines in and around Greater Vancouver and Greater Toronto.
- The number of new listings rebounded 8.1% m/m last month, pulling the national sales-to-new listings ratio back into balanced territory at 55.0. A ratio of between 40 and 60 is generally consistent with balanced market conditions. The number of months of inventory, an alternative measure of market balance, climbed to 5.3 in February, in line with its long-term trend of 5.2.
- The aggregate MLS Home Price Index rose 1.3% in February after edged up 0.3% m/m in January, while the 12-month increase eased to 6.9% y/y, its slowest yearly gain since October 2015. In contrast, the national average price declined 5% y/y, as buyers continued to shift their purchases toward more affordable segments of the market such as townhomes and condominiums, notably in Vancouver and Toronto.

National home sales weakened dramatically in the opening months of 2018, posting one of the largest back-to-back monthly declines on record. However, the pullback follows record sales in late 2017 as buyers rushed to close deals ahead of the new tougher stress-test rules that took effect January 1st, and leaves overall sales only 6% below the 10-year average (chart 1). As expected, the retreat has been sharpest in and around Greater Vancouver and Greater Toronto more impacted by the new rules due to their strained affordability and larger share of uninsured mortgages. Further volatility may be in store in the coming months as buyers and sellers continue to adjust to the new mortgage guidelines, in addition to recently announced housing policy measures by the BC government. Meanwhile, national average benchmark home prices (HPI) are edging higher again, reflecting continued strong price appreciation in BC and some firming in prices in the Greater Golden Horseshoe.

We continue to expect the combination of new federal and provincial policy measures and higher interest rates will lead to some moderation in national sales activity this year. However, overall housing demand fundamentals, including low unemployment, strengthening wage gains, ageing millennials, and increased immigration, remain supportive. National average home prices are forecast to edge up modestly in 2018, with the majority of local markets in balanced territory.

In a separate release, Statistics Canada reported that the ratio of household credit market debt to disposable income inched down to 170.4% in Q4 from a record high of 170.5% in Q3 alongside a moderation in household credit growth, a trend that has continued into early 2018 as housing activity cooled. Overall household leverage continued on a general downward track, with the ratio of household debt to total assets dipping slightly from 16.7% to 16.6%, well below its peak level of 19.3% in 2009 (chart 2).

CONTACTS

Adrienne Warren
416.866.4315
Scotiabank Economics
adrienne.warren@scotiabank.com

Chart 1 - National Home Sales

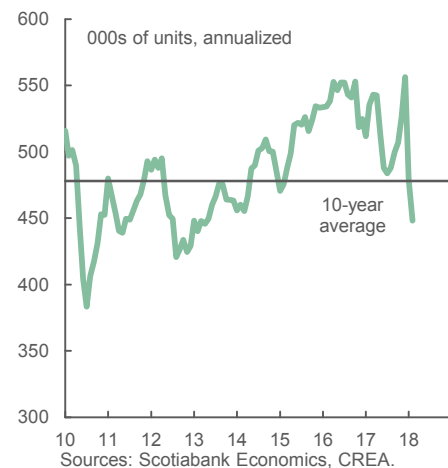
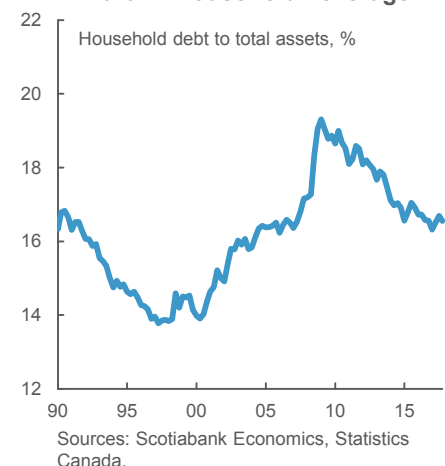


Chart 2 - Household Leverage



This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a "call to action" or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.