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).

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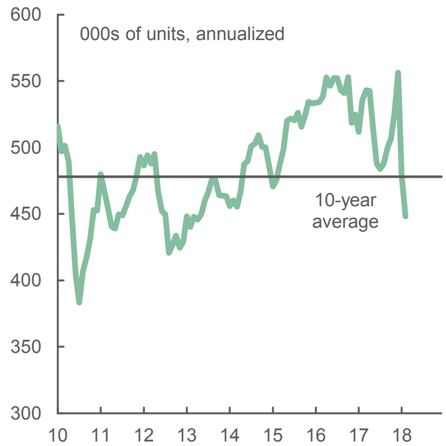
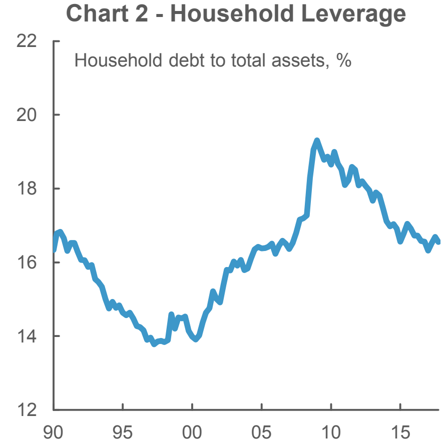
Chart 1 - National Home Sales



Sources: Scotiabank Economics, CREA.

Chart 2 - Household Leverage



Sources: Scotiabank Economics, Statistics Canada.