



NATIONAL BANK

FINANCIAL MARKETS

A division of National Bank of Canada

TERANET-NATIONAL BANK HOUSE PRICE INDEX

Economics and Strategy

October 13, 2016

House prices up 0.8% in September

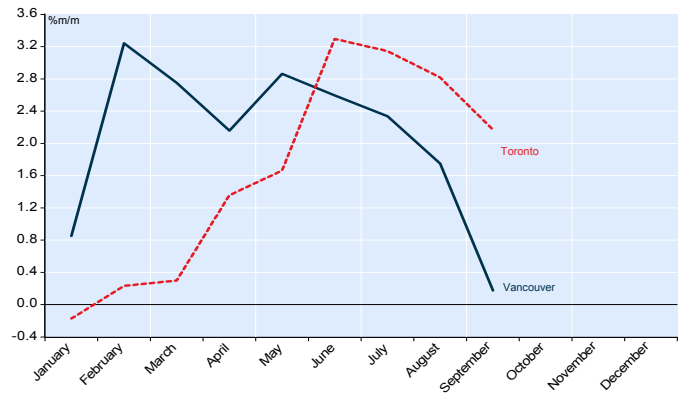
m/m growth: Latest: +0.8% prior month: +1.5%
y/y growth: Latest: +11.7% prior month: +11.4%

FACTS: The Teranet–National Bank National Composite House Price Index™ rose 0.8% in September, thanks to monthly gains in six of the eleven regions covered. It was the second largest rise for a month of September since the index began in 1999. Gains exceeded that of the Composite index in three markets: Toronto (+2.2%), Hamilton (+1.4%) and Victoria (+1.1%). There were also gains in Calgary (+0.3%), Vancouver (+0.2%) and Winnipeg (+0.1%). Prices were stable in Halifax, and declined in Edmonton (-0.4%), Ottawa-Gatineau (-0.6%), Montreal and Quebec City (-0.8%). On a y/y basis, the national index was up 11.7%, the largest 12-month gain since June 2010. It was driven by Vancouver (+24.0%), Victoria (+17.9%), Toronto (+16.4%) and Hamilton (+13.1%). The 12-month increases were much smaller in Winnipeg (+4.6%), Ottawa-Gatineau (+0.9%) and Montreal (+0.2%). Prices were down from a year earlier in Edmonton (-0.7%), Halifax (-0.9%), Quebec City (-2.0%) and Calgary (-4.9%). See charts on next page.

OPINION: In Vancouver, after seven large monthly house price increases in a row, prices were virtually flat in September (top chart). This is consistent with the recent loosening in the home resale market, as sales dropped each month since their record level last February for a cumulative decline of 44% (middle chart). Prices in Vancouver have not fell so far because market conditions have just started to loosen from the tightest conditions on records. We see home price deflation starting soon (10% expected over twelve months). Toronto is now the red hot market. Home sales broke records in each of the last three months. But the historically low supply (in terms of the number of homes listed for sale) is also contributing to market conditions that are the tightest on records (bottom chart). With such a combination of high demand and low supply, monthly house price growth surged to 2.9% on average over the last four months. While the latest measure (maximum debt-service-to-income ratio for insured 5-year fixed-rate mortgage tested against posted mortgage rate) might reduce demand, the low supply still argues against a significant price decline in the Queen City.

Marc Pinsonneault

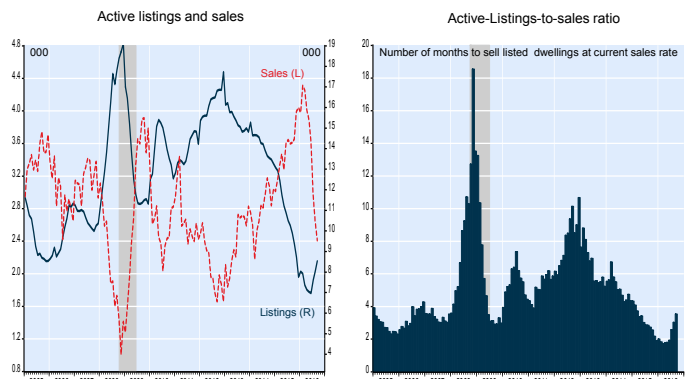
Vancouver and Toronto: Monthly house price growth so far in 2016



NBF Economics and Strategy (Teranet-National Bank House Price Index)

Vancouver: Home resale market conditions

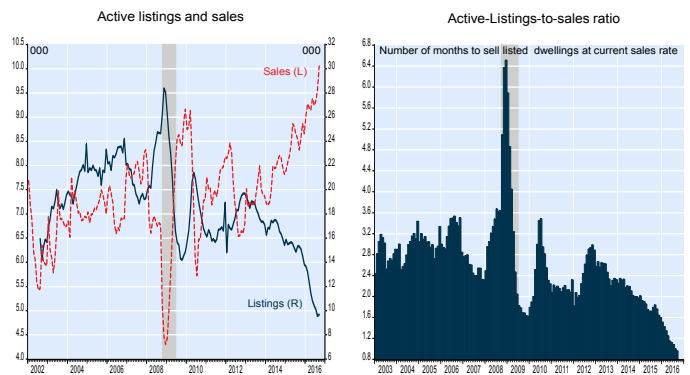
Active listings and sales, seasonally adjusted by NBF; last observation: September



NBF Economics and Strategy (data from Real Estate Board of Greater Vancouver)

Toronto: Home resale market conditions

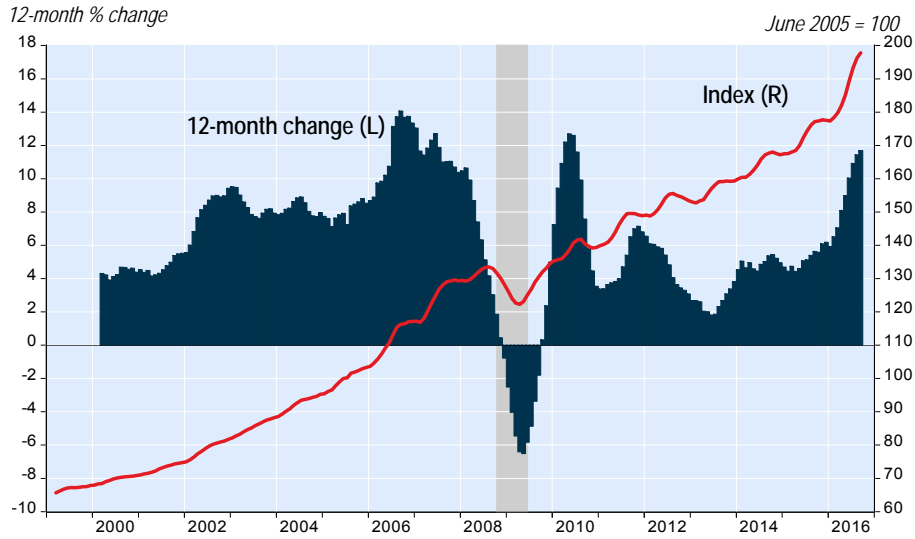
Active listings and sales, seasonally adjusted by NBF; last observation: September



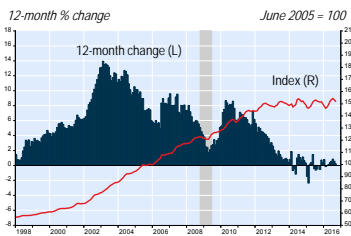
NBF Economics and Strategy (data from Toronto Real Estate Board and CREA)

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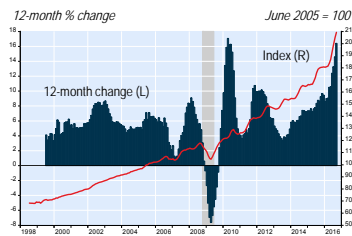
Teranet-National Bank National Composite House Price Index™



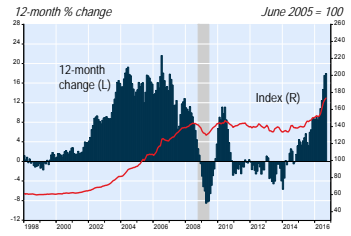
Montreal (14.0%)



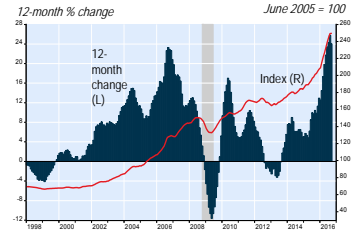
Toronto (34.6%)



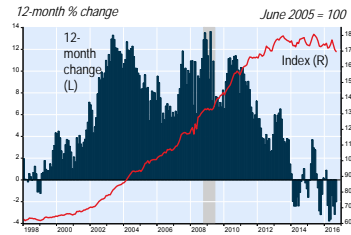
Victoria (3.2%)



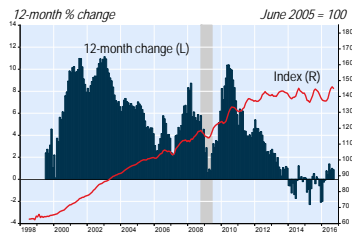
Vancouver (19.5%)



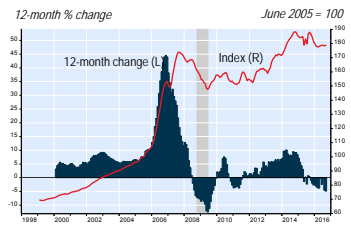
Quebec City (2.1%)



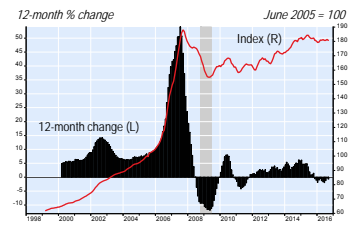
Ottawa-Gatineau (5.7%)



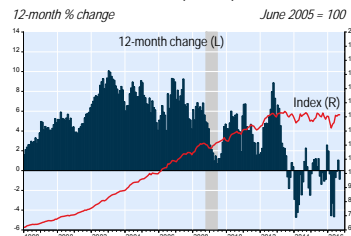
Calgary (8.3%)



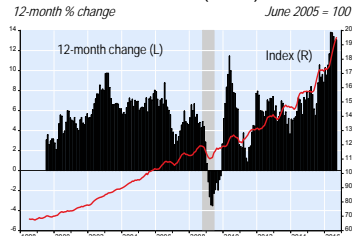
Edmonton (5.2%)



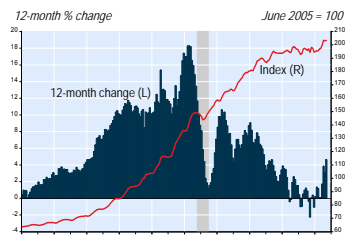
Halifax (1.5%)



Hamilton (3.7%)



Winnipeg (2.2%)



Weights in the National Composite Index are in parentheses

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ECONOMICS AND STRATEGY

Montreal Office
514-879-2529

Stéfane Marion
Chief Economist & Strategist
stefane.marion@nbc.ca

Paul-André Pinsonnault
Senior Fixed Income Economist
paulandre.pinsonnault@nbc.ca

Krishen Rangasamy
Senior Economist
krishen.rangasamy@nbc.ca

Marc Pinsonneault
Senior Economist
marc.pinsonneault@nbc.ca

Matthieu Arseneau
Senior Economist
matthieu.arseneau@nbc.ca

Angelo Katsoras
Geopolitical Analyst
angelo.katsoras@nbc.ca

Toronto Office
416-869-8598

Warren Lovely
MD, Public Sector Research and Strategy
warren.lovely@nbc.ca

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