

First signs of housing-market slowdown

By Marc Pinsonneault

There are two signs that data from land registries reflect the slowdown in home sales activity that started in the second half of March. The first is the 22% y/y decline in the number of sales pairs (see Note on methodology next page) from which May indexes were derived. This was the largest y/y decline since April 2013 and a clear break in the upward trend that was taking place earlier (left chart). There were declines in sales pairs in all the 11 metropolitan areas. The second sign is the slowdown in the seasonally adjusted raw Composite index, which rose only 0.2% in May after three months of gains topping 0.8%. The raw index declined or was unchanged in five of the eleven constituent metropolitan areas. In our view, declines in home prices lie ahead. The Canadian unemployment rate went from 5.6% in February to 13.7% in May, and is expected to remain elevated at least up to the end of next year. In this context, demand for housing may decrease due to a reduction in immigration and would-be first-time homebuyers not being able to qualify for a mortgage loan. At the opposite, supply may be fuelled by homeowners unable to meet mortgage payments and for that reason will look to sell their home.

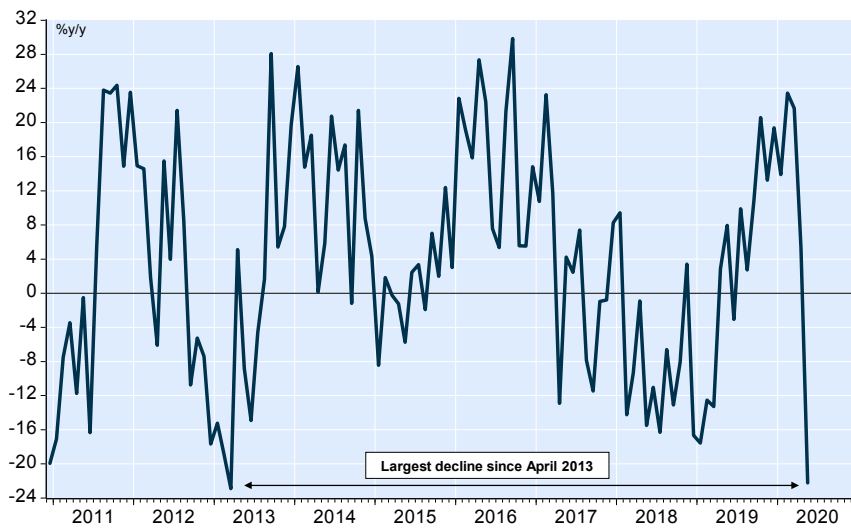
HIGHLIGHTS:

- The Teranet-National Bank Composite National House Price Index™ advanced 1.1% in May, a rise equal to the average for May over the 10 previous years.
- On a monthly basis, there was a gain in 8 of the 11 markets covered: Ottawa-Gatineau (+2.2%), Toronto (+2.1%), Halifax (+1.8%), Hamilton (+1.6%), Edmonton (+0.9%), Montreal (+0.7%), Winnipeg (+0.7%) and Quebec City (+0.6%). The index for Vancouver was flat on the month, while Calgary (-0.2%) and Victoria (-0.5%) were down from the previous month.
- From May 2019 to May 2020, the Composite index rose 6.0%, led by Ottawa-Gatineau (+13.8%), Halifax (+10.5%), Toronto (+9.7%) Montreal (+9.7%) and Hamilton (+8.3%). Lagging the countrywide average were Victoria (+3.4%), Winnipeg (+3.4%) and Vancouver (+0.7%). Deflating over the 12 months were Quebec City (-0.2%), Calgary (-1.3%) and Edmonton (-1.7%).

See charts and table on pages 2 and 3

Number of sales pairs used to derive the 11 HPIs

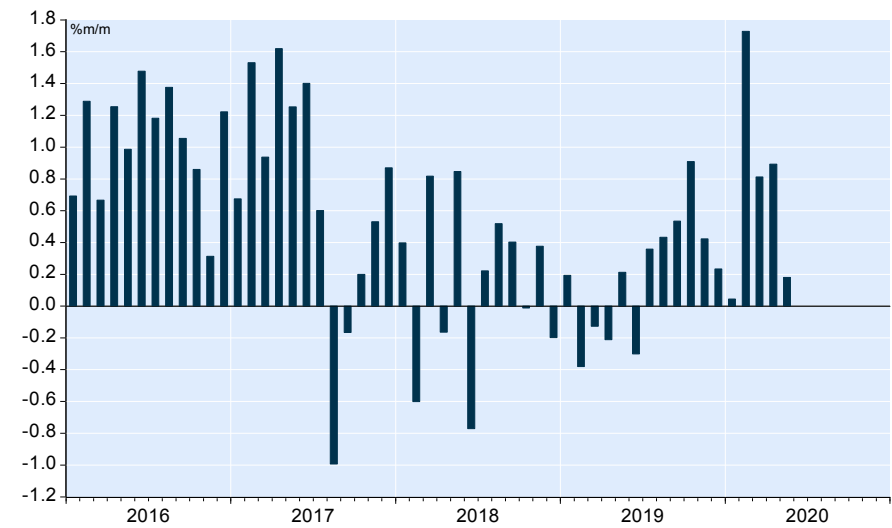
Last observation: May 2020.



NBF Economics and Strategy (data via Teranet-National Bank HPI)

The raw Composite index slowed down in May

Monthly change in seasonally adjusted raw Composite index



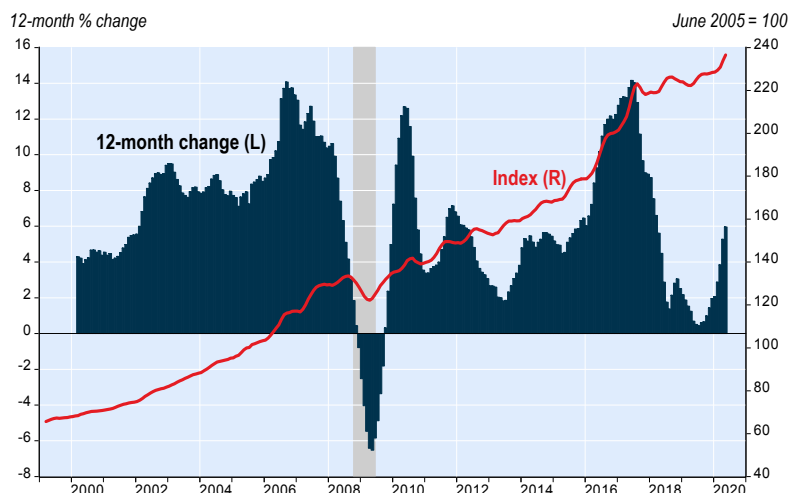
NBF Economics and Strategy (data via Teranet-National Bank HPI, seasonally adjusted by NBF)

NOTE ON METHODOLOGY:

The Teranet-National Bank House Price Index is based on the repeat sales methodology. The index is built from the price increase observed between two sales of the same property.

The indexes of the 11 metropolitan markets comprising the Teranet-National Bank Composite House Price Index™ are smoothed. Each month, the (unsmoothed) indexes are estimated for each of the last three months. The average monthly growth rate of these indexes becomes the growth rate of the smoothed index for the last month. This procedure allows evening-out month-to-month fluctuations.

Teranet-National Bank National Composite House Price Index™

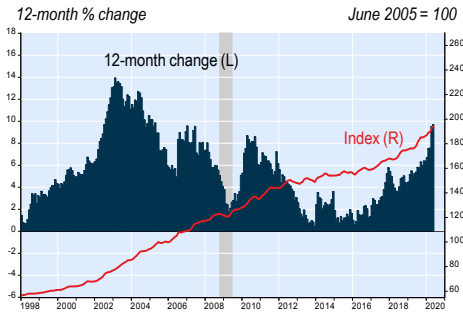


Metropolitan area	Index level May 2020	% change m/m	% change y/y	% change from peak	Peak date
Composite 11	236.55	1.1%	6.0%	0.0%	2020-05
Victoria	211.14	-0.5%	3.4%	-0.5%	2020-04
Vancouver	281.23	0.0%	0.7%	-4.4%	2018-07
Calgary	172.92	-0.2%	-1.3%	-8.2%	2014-10
Edmonton	173.22	0.9%	-1.7%	-7.8%	2007-09
Winnipeg	210.66	0.7%	3.4%	-0.9%	2019-09
Hamilton	257.08	1.6%	8.3%	0.0%	2020-05
Toronto	270.13	2.1%	9.7%	0.0%	2020-05
Ottawa-Gatineau	183.82	2.2%	13.8%	0.0%	2020-05
Montreal	194.04	0.7%	9.7%	0.0%	2020-05
Quebec	183.72	0.6%	-0.2%	-0.7%	2019-12
Halifax	165.56	1.8%	10.5%	0.0%	2020-05

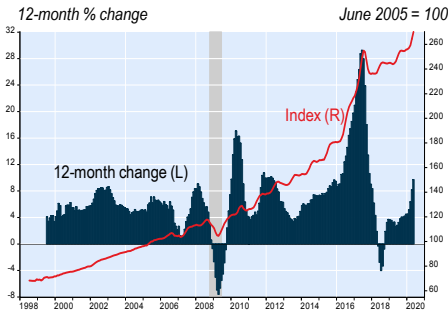
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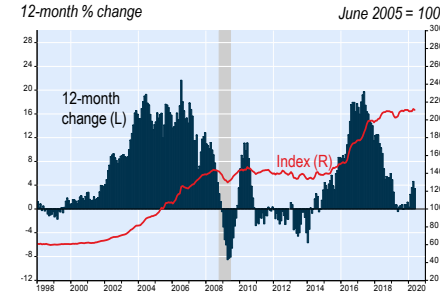
Montreal



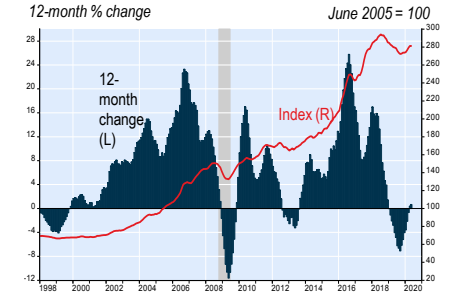
Toronto



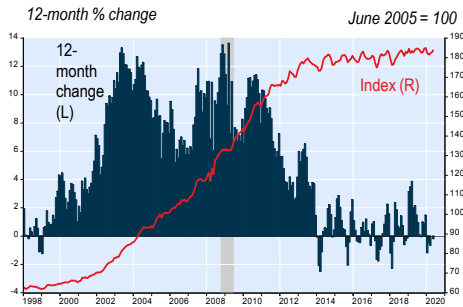
Victoria



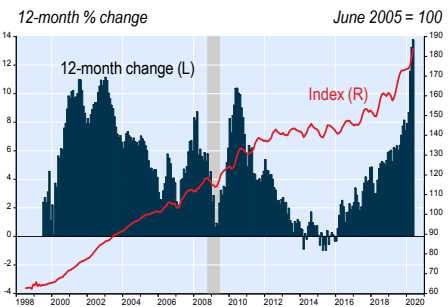
Vancouver



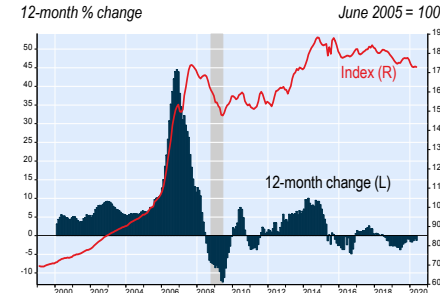
Quebec City



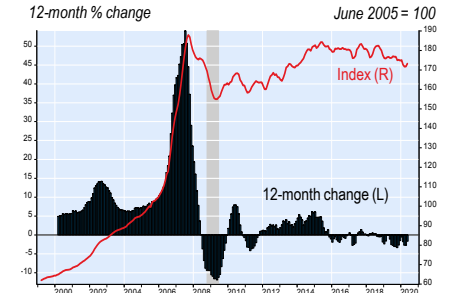
Ottawa-Gatineau



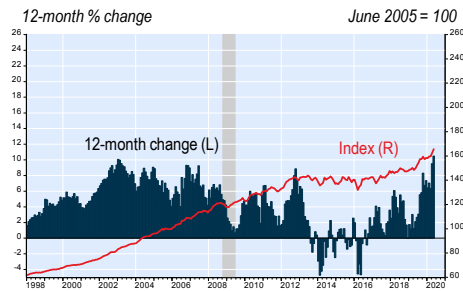
Calgary



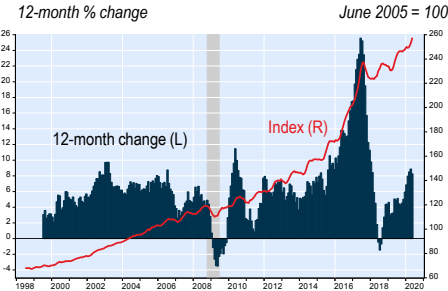
Edmonton



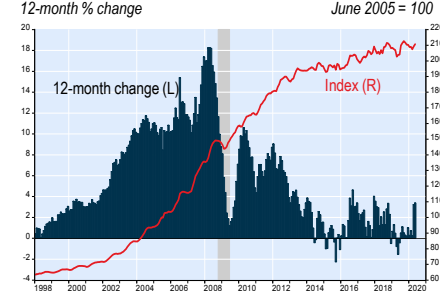
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