



## Prices to fall in the coming months

By Daren King

Despite the monthly increase, annual growth in the composite index fell from its peak of 18.8% in April to 18.3% in May. This deceleration comes as the housing market is experiencing a sharp slowdown due to rising interest rates and deteriorating affordability in recent months. Indeed, there is now a significant gap between the increase in property prices and the borrowing capacity of buyers. Since the beginning of the pandemic, the composite index has grown by 38.7% from February 2020 to May 2022, while borrowing capacity has declined by 5.8%, representing a 44.5% gap (left chart). With the continued normalization of monetary policy, we estimate that property prices could decline by 5% to 10% by the end of 2023 to be more in line with the financial reality of households. Even if a decrease in prices is still not observed on the Teranet-National Bank HPI, seasonally adjusted monthly growth was already less vigorous in May, falling from 2.0% in April to 1.6% during the month. Moreover, using the seasonally adjusted, unsmoothed index<sup>1</sup>, which is more sensitive to market fluctuations, prices instead remained relatively stable in May with a small increase of 0.2% (right chart).

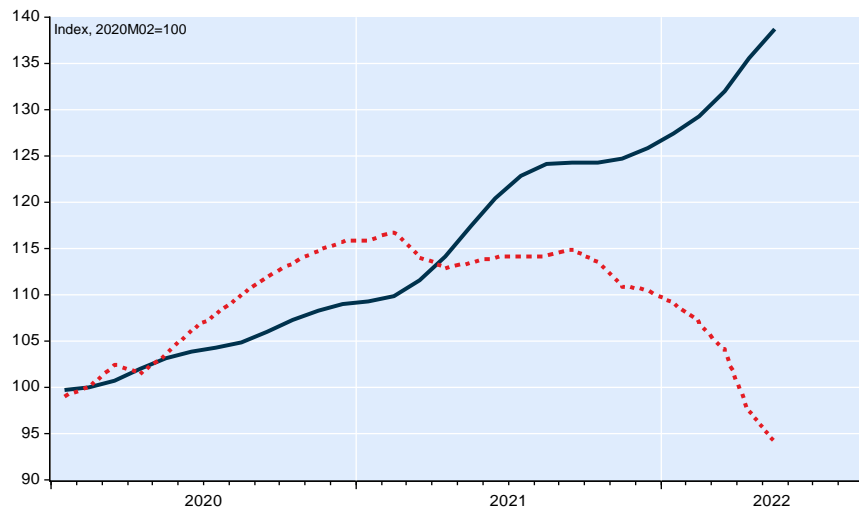
### HIGHLIGHTS:

- The Teranet-National Bank Composite National House Price Index™ increased by 1.6% in May compared to the previous month and after adjusting for seasonal effects.
- After seasonal adjustment, 10 of the 11 markets in the composite index were up during the month: Halifax (2.8%), Montreal (2.6%), Hamilton (2.0%), Victoria (2.0%), Ottawa-Gatineau (1.9%), Quebec City (1.9%), Winnipeg (1.8%), Toronto (1.7%), Vancouver (1.3%) and Calgary (0.6%). Only Edmonton was down (-1.5%).
- From May 2021 to May 2022, the composite index increased by 18.3%. This growth was driven by Halifax (34.0%), Hamilton (27.9%), Victoria (23.0%) and Toronto (21.8%). Growth was lower than average in Ottawa-Gatineau (16.9%), Montreal (16.6%), Vancouver (16.4%), Winnipeg (12.6%), Quebec City (9.1%), Calgary (7.1%) and Edmonton (1.6%).

See note on methodology, charts and table on pages 2 and 3.

### Canada: Growing gap between prices and borrowing capacity

Teranet-National Bank HPI and maximum borrowing capacity, index Feb. 2020 = 100



NBF Economics and Strategy (data via Teranet-National Bank, Bank of Canada and Statistics Canada)

### Canada: Price increases fell sharply in May

Monthly change in Teranet-National Bank unsmoothed HPI and number of transactions in the resale market, seasonally adjusted



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

<sup>1</sup> See note on methodology on next page

# Teranet-National Bank House Price Index

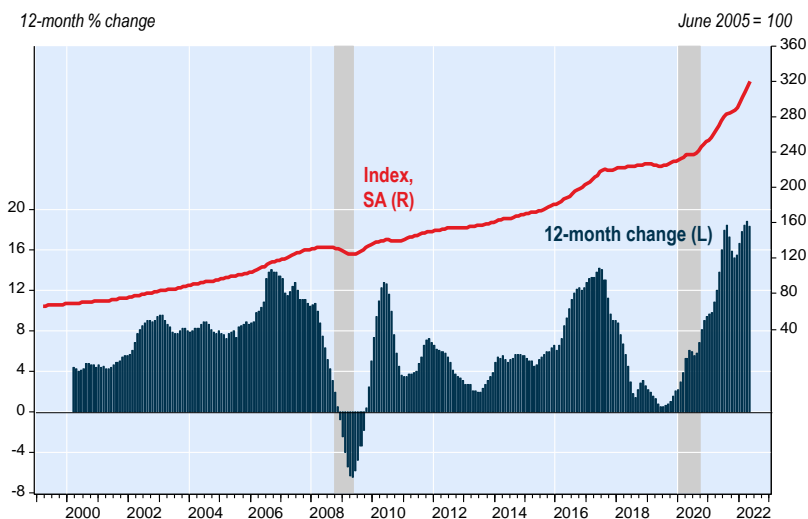
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## NOTE ON METHODOLOGY:

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™**

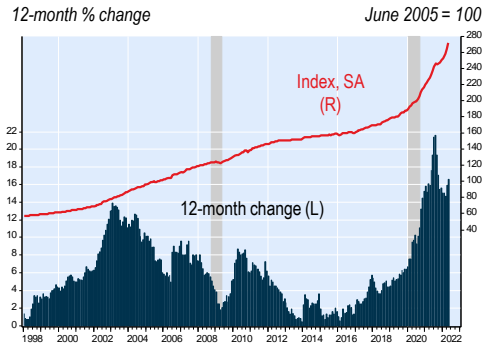


Metropolitan area	Index level * May 2022	% change m/m, NSA	% change m/m, SA	Prev. Month % change m/m, SA	% change y/y, NSA	% change from peak, NSA	Peak date, NSA
Composite 11	318.21	2.3%	1.6%	2.0%	18.3%	0.0%	2022-05
Victoria	299.40	2.5%	2.0%	2.2%	23.0%	0.0%	2022-05
Vancouver	366.07	1.5%	1.3%	1.9%	16.4%	0.0%	2022-05
Calgary	193.39	1.0%	0.6%	0.5%	7.1%	0.0%	2022-05
Edmonton	182.45	-1.3%	-1.5%	-0.6%	1.6%	-2.9%	2007-09
Winnipeg	261.86	2.8%	1.8%	1.4%	12.6%	0.0%	2022-05
Hamilton	412.59	2.9%	2.0%	2.7%	27.9%	0.0%	2022-05
Toronto	374.13	2.8%	1.7%	2.1%	21.8%	0.0%	2022-05
Ottawa-Gatineau	263.76	3.8%	1.9%	2.5%	16.9%	0.0%	2022-05
Montreal	266.13	2.8%	2.6%	2.4%	16.6%	0.0%	2022-05
Quebec	220.08	2.4%	1.9%	2.3%	9.1%	0.0%	2022-05
Halifax	288.04	3.6%	2.8%	4.0%	34.0%	0.0%	2022-05

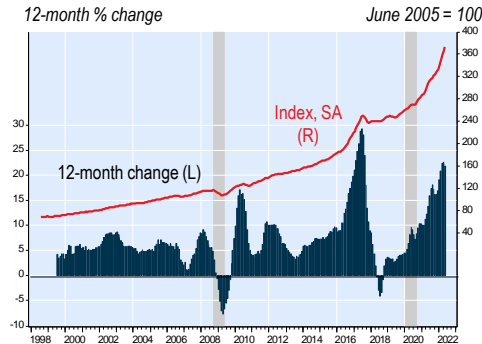
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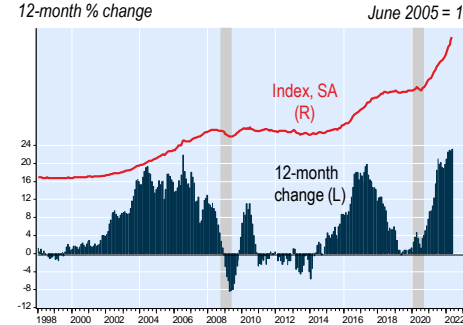
### Montreal



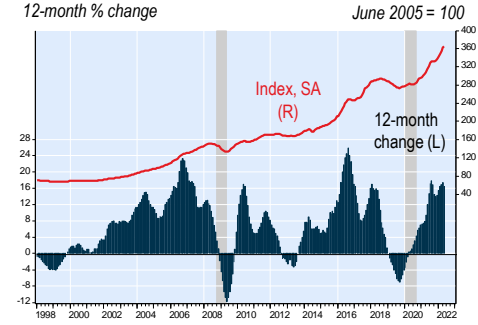
### Toronto



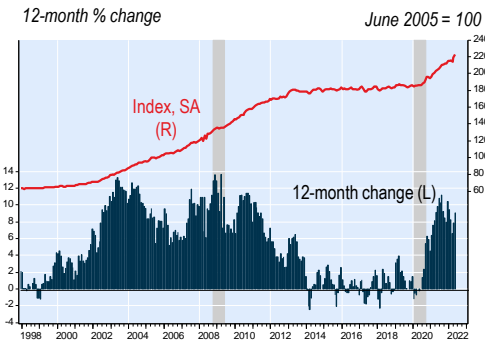
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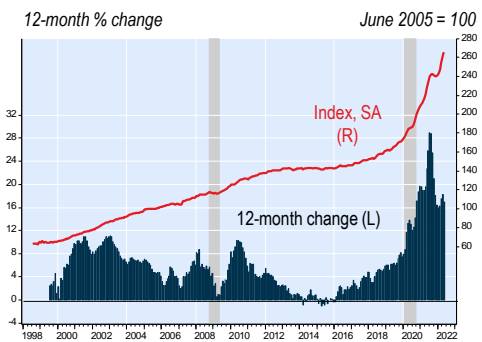
### Vancouver



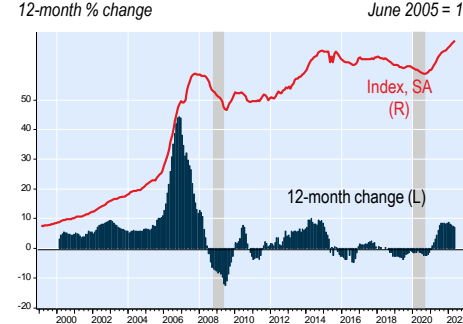
### Quebec City



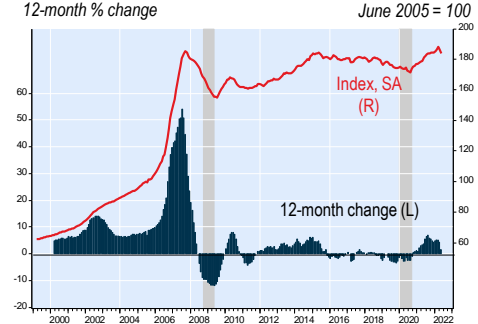
### Ottawa-Gatineau



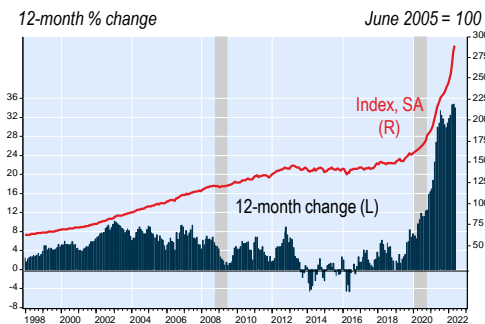
### Calgary



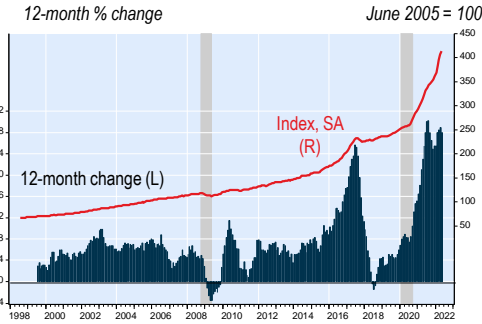
### Edmonton



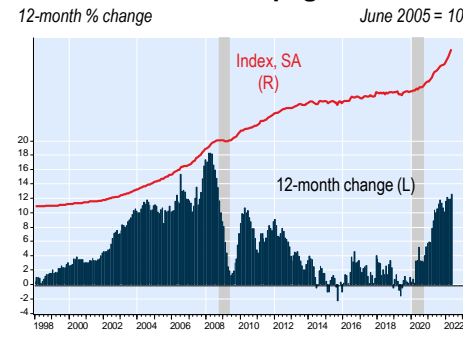
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### Winnipeg



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