

TD Economics

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Data Release: Housing on downward pitch in July's Dog Days

- Reflecting a continued moderation in Canadian homebuying, seasonally-adjusted sales of resale housing were down 6.8% M/M and 30% Y/Y in July.
- While average house prices have still gained 1% since July 2010, these year-over-year increases have rapidly decelerated and house prices fell on the month, by our seasonally-adjustment, experiencing a 1.5% M/M contraction. This is the third consecutive month of declines and, although the Canadian housing market experienced some unique downward pressure in July, the seasonally-adjusted monthly pull-back is accelerating.
- Much of the declines in sales were focused in Ontario and B.C., which while generally accounting for 60% of nation-wide sales were the source of 85% of the month's pull-back. When house prices are adjusted for constant geographic weighting, removing the distortion from regional swings in home sales, the weighted national home price in Canada's major markets showed a 7.4 Y/Y gain, compared with a 2.9% Y/Y advance in the standard average price across those same cities.
- While inventory had been brought onto market by rising prices, new listings, falling 7.2% M/M in July, are now contracting in-line with easing homebuying and falling prices. The ratio of seasonally-adjusted sales-to-new listings was relatively unchanged from June, hovering at 48%, its lowest value since March 2009. The easing of the from the peak 68% ratio in October 2009 ratio exhibits a clear moderation for earlier "seller's market" conditions to a more balanced market.

Key Implications

- The excessive pricing of Canadian housing in relation to fundamentals is now clearly correcting, and we expect a moderate contraction in prices over the coming year. Affordability was steadily eroded during the house price surge of late 2009 and early 2010, with carrying costs on a standard mortgage on an average priced home rising relative to average household incomes. The current level of household debt flags the need for households to slow their borrowing, and, coupled with tightened standards for mortgage insurance, this has necessarily slowed homebuying. With housing 10-15% overpriced, we expect a downward correction of nearly 10% in the monthly average prices, followed by several years of stagnation of price growth at the rate of inflation, in order to bring Canadian house prices back to balance.
- While market fundamentals do warrant a pull-back in prices and sales, July's decline also does reflect some unique factors. Specifically, a heat wave that hit much of the Eastern part of the country could also have temporarily deterred some home shopping in early July. While seasonal factors account for summer fluctuations, aberrant weather can certainly limit the visitors to open houses. Nonetheless, retrenchments in sales in Quebec and the Maritimes confirm that this summer's downturn in prices and sales is not just a regional anomaly.
- As well, the July 1st implementation of a harmonized sales tax (HST) in Ontario and B.C. likely impacted sales substantially. While existing homes sales are not directly taxed, they could still experience an outsized pullback during that month as some previously untaxed housing-related services now fall under the HST. Additionally, anecdote is that a certain amount of new homebuying was moved-forward by mistaken homebuyer perceptions that purchases ahead of HST implementation would save the tax, ignoring that the pre-HST rush may have actually pushed up prices, with consequent give-back in July.
- To be clear, we do not view the present correction as a U.S. housing crash. While housing was overpriced, Canada did not experience a "housing bubble". Instead prices were propelled by near-term

incentives for homebuying and these have now quelled. As well, the structure of Canada's mortgage institutions – particularly the further toughened tests for mortgage borrowers and the highly-regulated character of most mortgage securitization – guards against the kind of contagious collapse witnessed stateside.

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