



Housing momentum continued through May, rate hikes likely to cut short rebound

Last week's Bank of Canada interest rate hike and prospects of more to come is likely to cut short the vigorous rebound in housing momentum seen through early 2023 that continued through May. Today's MLS® housing data from the Canadian Real Estate Association showed to a 5.1 per cent month-to-month increase in May sales following a 11.3 per cent increase in April. This was the fifth consecutive increase. At 40,220 units, sales were down about six per cent from February 2020, after gyrating from 50 per cent above at the height of the pandemic boom and 23 per cent below in January of this year. The average price jumped 2.7 per cent to \$715,300 which was up 13 per cent from the beginning of the year and narrowed the gap from peak 2022 to 10 per cent.

The re-emergent housing market seen this year has been surprising. Despite persistence of high interest rates and weak affordability, buyers returned on masse. Adjustment to the new rate environment, high savings during the pandemic, elevated levels of immigration and impatience with the rate of price declines in 2022 have shifted demand higher. In our view though, much of the increase reflected buyer catch up after a 2022 pause. Insufficient inventory and tight rental markets have fueled greater urgency among buyers and upward price pressures.

Among provinces, sales growth was more robust in the west. MLS® sales rose 8.0 per cent in Alberta, 9.2 per cent in Saskatchewan, and 5.7 per cent in B.C. Sales jumped 22 per cent in Prince Edward Island and 6.3 per cent in Quebec. At a metro level, May sales gains were led by Saskatoon (14.2 per cent), Regina (13.4 per cent), and Edmonton (11.2 per cent). Greater Vancouver sales rose 7.5 per cent, Greater Toronto rose 5.2 per cent and Calgary rose 6.0 per cent.

Strengthening conditions also triggered a modest supply response as new listings jumped 6.8 per cent with more owners looking to sell into the strengthening market. That said, levels are still low and notwithstanding an early pandemic plunge, is the lowest since the early 2000s. Sales outstripped the pace of increase with the months of inventory falling to 3.1 months from 3.3 in April and more than four months at the beginning of the year. A balanced market is normally around 4-6 months of inventory.

Tight conditions triggered another increase in home prices, and given drivers of sales growth in May, housing composition not a huge driver. Average price growth was led by a 5.7 per cent increase in B.C., 3.3 per cent in Ontario and New Brunswick, and 3.2 per cent in Saskatchewan. Average prices jumped sharply in B.C.'s Fraser Valley Real Estate Board (7.1 per cent), and 3.0 per cent in Greater Vancouver, 3.5 per cent in Toronto as highlights. The national benchmark home price, which adjusts for housing quality and attributes, rose 2.1 per cent and is up 4 per cent over three months.

Market momentum is likely to be cut short as Bank of Canada hikes hit short-term variable borrowing costs while fixed rate mortgage costs have already moved up. This will curb demand and cut into both sales and listings once again, while capping prices. Affordability is unlikely to improve. At the same time, underlying demand remains strong as immigration flows remain robust and ahead of year ago patterns while the economy has remained resilient. Going forward higher interest rates are likely to impede new development and rental construction, further amplifying supply challenges. We anticipate supply challenges to trigger significant price gains in 2024/25 as rates decline.

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MLS® Housing Market Summary

	MLS® Sales				MLS® Price				Sales-to-New Listings	Months of Inventory
	Unit Sales (k)		m/m % ch		Price (\$k)		y/y % ch			
	2023M05	2023M04	2023M05	2023M05	2023M05	2023M04	2023M05	2023M05		
Canada	40.2	11.3	5.1	-2.1	715.3	5.8	2.7	2.9	67.9	3.1
British Columbia	7.1	16.2	5.7	6.7	1,004.8	4.1	5.1	2.7	64.8	3.5
Alberta	6.3	8.1	8.0	-9.6	453.1	3.7	0.7	2.4	78.9	2.9
Saskatchewan	1.2	1.6	9.2	-9.3	300.8	-2.8	3.2	-0.5	63.9	4.8
Manitoba	1.1	5.1	1.0	-16.8	339.8	3.5	0.5	-8.7	59.4	3.3
Ontario	15.6	18.1	3.3	7.4	901.0	5.2	3.3	-1.6	67.2	1.8
Quebec	6.5	1.9	6.3	-10.9	479.1	0.0	1.4	-3.1	65.1	5.1
New Brunswick	0.8	-2.1	4.2	-15.9	289.2	-3.6	3.3	-2.3	77.8	3.3
Nova Scotia	0.9	12.9	0.9	-20.1	422.2	8.4	2.5	0.6	78.2	3.4
Prince Edward Island	0.2	2.8	22.3	10.4	379.9	-5.0	-0.6	-6.8	78.7	4.8
Newfoundland & Labrador	0.4	-16.0	6.4	-32.2	272.7	4.1	-7.5	-7.6	52.6	6.5