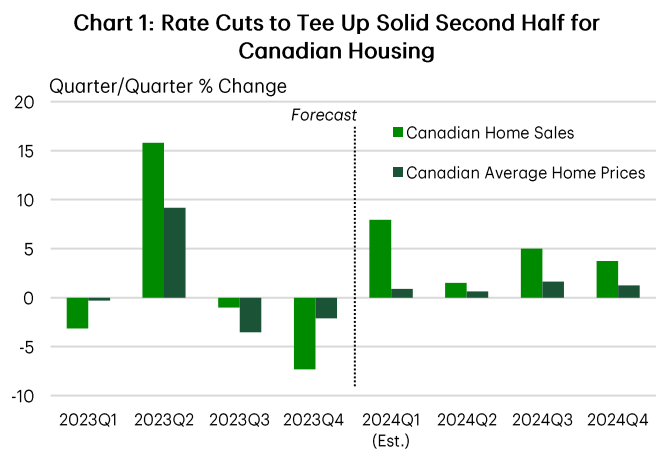


Provincial Housing Market Outlook Rate Cuts to Fuel Markets in 2nd Half

Rishi Sondhi, Economist | 416-983-8806

April 8, 2024

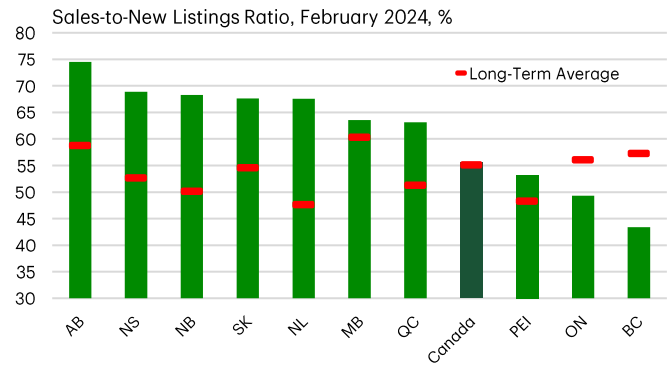
- First quarter growth in Canadian home sales and average home prices is tracking stronger than we anticipated in our December forecast, supported by favourable weather conditions, lower-than-anticipated borrowing costs, and the rapid release of pent-up demand. Regionally, B.C. and Ontario drove the upside sales surprise, while price growth was firmer in Alberta, Quebec, and parts of the Atlantic. In contrast, B.C. and Ontario are tracking price declines, as anticipated.
- The current quarter covers the so-called “spring selling season”, and we anticipate that Canadian home sales and average home prices will muster gains, albeit modest ones. On the positive side, significant pent up demand exists in B.C. and Ontario. However, many buyers and sellers will likely be waiting for more clarity around the timing of interest rate cuts by the Bank of Canada, keeping the market in somewhat of a holding pattern. Additionally, to the extent that favourable weather pulled forward purchases into the first quarter, near-term activity will be negatively impacted. Notably, preliminary data for March points to a modest beginning to the spring selling season, although it was impacted by an earlier Easter this year.
- We think the Bank will begin cutting their policy rate in July. Accordingly, a pickup in Canadian home sales and average prices is expected in the second half of this year (Chart 1). At the same time, tough affordability conditions in several markets should limit overall average home price gains to a below-trend pace in 2025.
- The regional disparities that characterized markets recently are anticipated to persist. Over the next few years, we see price growth outperforming in the Prairies, supported by solid affordability conditions, tight markets, and economic outperformance. Alberta’s market continues to draw strength from the fastest population growth in the country. Elsewhere, tight supply/demand balances should keep prices on the rise in Quebec and the Atlantic, although affordability has deteriorated to a notable extent in these markets, likely capping the pace of gains.



Source: CREA, TD Economics.

- In contrast, within Ontario and B.C., supply/demand balances indicate that conditions remain loose compared to historical norms (Chart 2), which should keep near-term price growth subdued. Thereafter, a brutal affordability backdrop should restrain price growth to the slowest in the country in these two markets. We expect relatively more upside on sales in B.C. and Ontario through the projection horizon, although a depressed starting point is a big part of the story (per capita sales levels were about 20-30% below long-term averages in both markets during February). The federal government’s decision to reduce non-permanent resident (NPR) levels over the medium term could deliver a more pronounced headwind to Ontario and B.C., given their larger NPR weightings within their populations. While impacts of these immigration policy changes will be more directly felt in rental markets, they could still feed-back to resale markets through reduced investor activity.

Chart 2: Loose Markets in Ontario and B.C. To Restrain Canadian Average Home Price Growth



Note: Higher Value = Tighter Market.
Source: CREA, TD Economics.

- There is a near-term upside risk to our forecast if inflation continues to moderate and yields drop as we anticipate. We’ve built some caution into our projection to reflect affordability challenges, although history points to the potential for a yet another coiled spring effect taking place. Essentially, markets have been highly reactive to positive demand developments (for example, the Bank of Canada communicating their conditional pause last spring, or the deep decline in borrowing rates late last year). Accordingly, the potential for another upside surprise remains.

Exhibits

Home Sales and Price Outlook						
Average Annual Growth, %						
Provinces	Home Sales			Home Prices		
	2023	2024F	2025F	2023	2024F	2025F
National	-10.8	9.9	11.1	-3.0	1.2	4.3
Newfoundland & Labrador	-15.2	7.4	5.2	0.8	8.7	3.1
Prince Edward Island	-5.8	-0.5	7.5	-2.1	4.6	3.1
Nova Scotia	-17.6	7.4	8.9	3.1	4.5	3.6
New Brunswick	-13.5	5.6	6.0	2.6	10.1	4.0
Québec	-12.7	13.5	6.1	0.3	6.1	3.5
Ontario	-11.9	11.4	13.8	-5.3	-2.0	2.7
Manitoba	-10.0	8.3	7.0	-2.7	5.0	4.0
Saskatchewan	-3.0	7.7	10.7	-0.2	5.0	4.8
Alberta	-8.0	11.0	6.1	0.6	8.5	4.2
British Columbia	-9.2	3.8	18.3	-1.5	1.2	2.8

Source: CREA, CMHC, TD Economics. Forecasts by TD Economics as of March 2024.

Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.