Provincial Housing Market Outlook

BoC Hikes to Send a Chill Through Buyers

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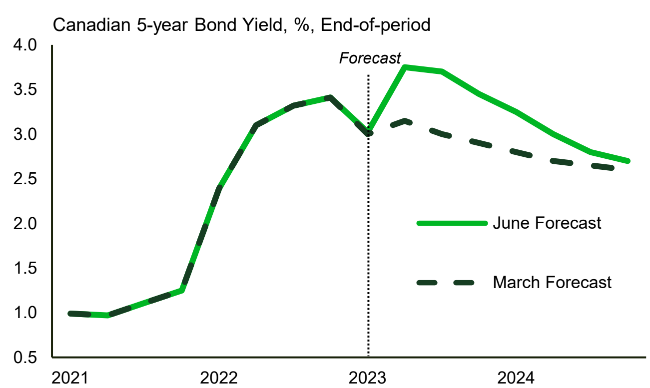
- Huge second-quarter upside surprises in both Canadian home sales and average home prices, relative to our March projection, have left their mark on our updated forecast. Our modelling had suggested that sales had undershot levels consistent with underlying fundamentals (such as income and population growth, for example). However, with the recent surge, this gap has effectively been closed. The sharp rise in prices also deteriorated affordability by more than we thought would take place, which is also a negative for go-forward activity.
- In light of resilient housing and consumer spending data, the Bank of Canada nudged its policy rate higher in June after a 4-month hiatus. By the time July is over, policymakers will have injected an additional 50 bps of tightening relative to our prior expectations. Beyond the direct hit to affordability from a higher policy rate, a more hawkish central bank should chill the psychology of buyers who were previously rushing into the market after the Bank went on pause earlier in the year. Indeed, Bank of Canada signaling appears to be playing a major role in shaping housing market dynamics. Our bond yield forecast has also been materially upgraded (Chart 1).
- We expect Canadian home sales to decline in the second half of this year, reversing part of their recent strength. Furthermore, we anticipate purchases growing at a slower quarter-on-quarter pace than previously envisioned in 2024. Tight markets amid restrained supply should keep Canadian average price growth positive in the third quarter, but we anticipate prices dropping slightly in Q4 (Chart 2). Like sales, we've marked down our quarterly growth profile next year relative to our March forecast.
- It seems fair to ask that, given the above headwinds, why are we forecasting growth in sales and prices next year at all? We expect the Bank of Canada to begin cutting rates in the second quarter of 2024, and bond yields should also trend lower. Meanwhile, population growth will continue to run at a robust clip. And, job markets should continue to deliver positive income gains, even with some deterioration in the unemployment rate.
- Supply in the resale market remains low, with new listings some 16% below the post-GFC average in May. What explains this subdued supply backdrop? Healthy job markets and the ability to lengthen amortizations have prevented forced selling. Another factor that is likely impeding growth in listings is the possibility that poor affordability is disincentivizing move up buying. We are likely to witness a near-term bump in listings, as homeowners respond with a lag to this spring's firming in price conditions. Next year, a more sustained rise in resale supply is expected, even as continued resilience in employment levels limits the risk of a deluge of forced selling.

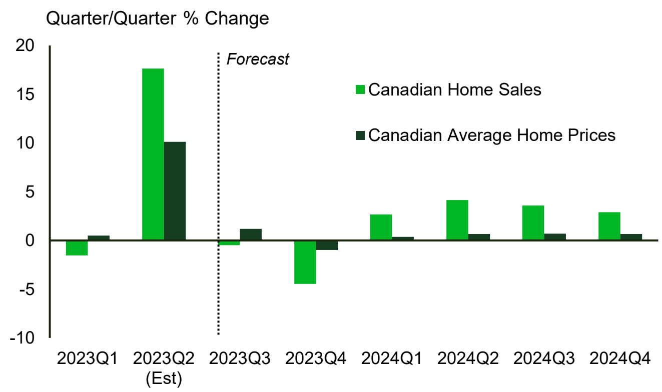
Chart 1: Bond Yield Forecasts Have Been Materially Upgraded



Source: Bank of Canada, TD Economics.

- In annual average growth terms, sales should outperform in Ontario and B.C. in 2023 and 2024. However, this largely reflects a move towards more "normal" sales levels after they cratered last year. On a quarter-on-quarter basis, we foresee comparatively cooler price growth in Ontario and B.C. on average over the rest of this year and next, owing to heightened sensitivity to the higher rate backdrop. This is even as compositional forces (i.e., stronger growth in more expensive detached prices) offer some near-term upside to average prices.

Chart 2: Higher Rates a Headwind To Sales and Price Growth



Source: CREA, TD Economics.

- In contrast, we expect quarterly price growth to outperform in the Prairies moving forward (marking a turnaround from earlier year underperformance), supported by still-decent affordability conditions and relatively firm economic growth. This is even as sales growth should lag somewhat in Alberta, given their relatively high starting point. In the Atlantic, solid population gains mixed with tight markets should maintain prices at their elevated level through the second half of this year and drive increases in 2024, although the pace should be restrained by severe affordability deteriorations. In Quebec, a relatively modest pace of population expansion will weigh on demand more so than in other regions. Meanwhile, markets that are looser than the rest of Canada (but still tight by Quebec's historical standard) will likely result in comparatively slower price growth on a go-forward basis.
- The potential for tighter mortgage lending rules has been raised by regulators and remains an important downside risk to the outlook. However, we don't have clear enough line of sight to build this into our forecast. Sales could also be weaker-than-anticipated in the near-term if hawkish central bank signaling drastically upends buyer psychology. Weaker-than-expected economic growth could also weigh on prices, both through softer demand and the potential for a higher degree of forced selling by strained homeowners.
- On the other side, compositional forces pushing average prices up in Ontario and B.C. could persist longer-than-anticipated. Housing shortages stemming from very strong population growth could also pressure prices higher than we anticipate.

Home Sales and Price Outlook *Annual Average Growth, %*						
Provinces	Home Sales			Average Home Prices		
	2022	**2023F**	**2024F**	**2022**	**2023F**	**2024F**
National	**-25.2**	**-9.2**	**8.8**	**0.8**	**0.5**	**3.6**
Newfoundland & Labrador	-7.1	-14.1	10.7	7.1	2.3	2.0
Prince Edward Island	-18.1	-12.6	13.2	13.9	-1.8	0.1
Nova Scotia	-21.7	-20.5	7.3	13.6	0.9	2.3
New Brunswick	-20.4	-14.4	5.5	16.8	1.2	3.3
Québec	-20.4	-14.4	5.9	9.3	-0.7	1.7
Ontario	-32.3	-3.2	11.9	4.5	-3.5	2.9
Manitoba	-20.1	-14.6	8.4	6.9	-4.5	2.1
Saskatchewan	-11.7	-13.9	3.8	0.1	-0.4	3.0
Alberta	-1.9	-17.9	3.8	4.8	2.9	4.3
British Columbia	-35.2	-3.3	10.1	5.3	-2.3	2.6

Source: CREA, CMHC, TD Economics. Forecasts by TD Economics as of June 2023.

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