

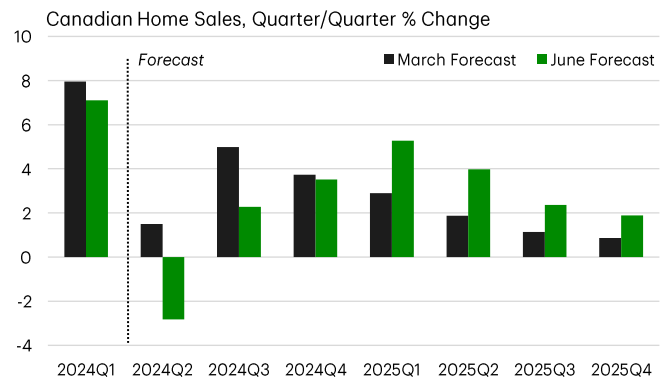
Provincial Housing Market Outlook Mediocre Second Half Sales Recovery on Deck

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- As we had anticipated, it's been a quiet spring selling season. Elevated borrowing costs and Bank of Canada uncertainty have kept buyers on the sidelines through May, leaving Canadian home sales at the lower end of their pre-Covid levels. Canadian average home prices have managed to grind higher so far this spring, but largely due to a shift to more expensive homes being sold. In contrast, benchmark prices (which are a more like for like measure) have declined.
- The resale market is still projected to gain traction in the second half of 2024, although we've dialed back the expected pace of gains in sales and prices relative to our March forecast (Chart 1). This is because borrowing costs are unlikely to fall as much as previously thought, with one fewer cut expected by the Bank of Canada this year. What's more, the U.S. central bank is now likely to begin cutting its policy rate late in 2024, instead of the summer, which has spilled over to more limited declines in Canadian bond yields over the remainder of this year.
- 2025 growth forecasts for Canadian home sales and average home prices have been lifted, however, as downgraded activity in 2024 yields additional pent-up demand waiting to be unleashed, and more meaningful rate relief is delivered.
- We're retaining our view that price growth will outperform in the Prairies going forward, lifted by tight markets, historically strong population growth, solid affordability conditions, and economic outperformance. Elsewhere, relatively tight supply/demand balances should keep prices on the rise in Quebec and the Atlantic, although notable affordability deteriorations will prevent even stronger gains. Inter-provincial migration has also begun to slow in the Atlantic, weighing on what is likely a key source of ownership demand in the region.
- In Ontario and B.C., average home price growth should benefit from the strongest sales gains in the country moving forward, with pent-up demand driving a recovery in activity from low levels in these two markets. In the near-term, price growth will be restrained by loose supply/demand

Chart 1: Upgraded Rates Profile To Weigh on Housing in 2024H2, Next Year Should Be Stronger



Source: CREA, TD Economics.

conditions, although compositional forces could offer some offset in Ontario, as they've done in recent months. Thereafter, historically challenging affordability backdrops should cap the pace of gains taking place in the two regions.

- In terms of risks to our forecast, the potential for an upside surprise to price growth remains if yields continue to fall as we anticipate. Recent history has shown that markets can be highly reactive to favourable developments on the rate front. For example, Canadian average home prices surged in the spring of 2023, after the Bank of Canada temporarily paused its rate hiking campaign. Compositional forces could also offer more of a boost to average home prices than we have incorporated in the near-term.
- On the downside, federal policies could cause a sharp slowing in population growth in coming quarters, weighing on rents and meaningfully impacting investor demand, which represents a sizeable share of the market (over 30% in 2024Q1, according to the Bank of Canada). Reflecting its condo market, listings in Ontario could also rise more than expected, downwardly pressuring near-term price growth to a larger degree than what's built into our projection.
- The federal government's new housing plan devotes significant focus to measures aimed at supporting the construction of new homes. However, the plan is unlikely to significantly influence our resale housing forecasts over the next few years due, for example, to the highly targeted nature of the demand-side measures that are being proposed (see [here](#)).

Exhibits

Home Sales and Price Outlook						
Average Annual Growth, %						
Provinces	Home Sales			Home Prices		
	2023	2024F	2025F	2023	2024F	2025F
National	-10.8	4.2	13.6	-3.1	0.9	5.7
Newfoundland & Labrador	-15.2	1.5	5.8	0.7	5.3	2.8
Prince Edward Island	-5.9	2.2	2.3	-2.0	0.4	3.0
Nova Scotia	-17.6	2.7	12.5	3.1	3.0	3.2
New Brunswick	-13.6	0.9	8.2	2.6	7.6	3.7
Québec	-12.5	10.9	7.0	0.3	5.2	3.8
Ontario	-11.8	1.4	19.8	-5.3	-0.2	4.0
Manitoba	-10.0	9.1	5.6	-2.7	6.0	4.3
Saskatchewan	-3.0	6.4	8.6	-0.2	4.6	4.4
Alberta	-8.0	9.3	6.3	0.6	7.8	4.1
British Columbia	-9.2	-2.4	20.0	-1.5	1.5	3.5

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

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