

Provincial Housing Market Outlook

Revised Rates Outlook Drives Downward Revision to Housing

Rishi Sondhi, Economist | 416-983-8806

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- As we've raised our forecast for the Bank of Canada policy rate, we've also downgraded our projections for Canadian home sales and average prices compared to June. We now see an additional 75 bps of tightening, bringing the policy rate to 4.00% by the end of the year. However, given still-elevated inflation, the risk to this call is tilted the upside.
- The higher borrowing costs will further erode affordability and weigh on overall economic growth, which in turn will exert another drag on housing demand. Ultimately, we think sales will bottom out at about 20% below their pre-pandemic levels in the early part 2023, while remaining very subdued for the rest the year.
- A cooler demand backdrop should pressure Canadian average home prices even lower. Compared to our prior projection, we are forecasting even steeper price declines through the early part of next year, and slower growth for the rest of 2023. However, we remain of the view that Canadian average home prices will retrace only a portion of their pandemic-era gains, as personal incomes are expected to continue growing and bond yields should begin declining in 2023.
- Home sales and prices are projected to decline the most in B.C. and Ontario, on average, in 2022 and 2023. This reflects their steep affordability erosion during the pandemic. Unlike our prior projection, Nova Scotia now sees comparatively weak home price growth, in part reflecting a surprisingly soft third quarter performance.
- In Alberta, sales declines to date have been following suit with Ontario and B.C., resulting in a sizeable drop in prices. However, sales should remain closer to their pre-pandemic levels than any of the larger provinces, keeping markets relatively tight and limiting the pace of declines relative to these other jurisdictions.
- Elsewhere, prices should hold up better across the rest of the Prairies and Newfoundland and Labrador, supported by the best affordability conditions in the country. Meanwhile, comparatively tight conditions should limit of the scope of price declines in the rest of the Atlantic Region and Quebec in 2022 and 2023.
- In 2024, a different story is likely to emerge. By then, inflation should be tamed, and the Bank of Canada will likely be lowering rates away from restrictive territory. At the same time, we expect some modest improvement in household income growth that year, and the combination of these factors should manifest in some improvement in housing demand. Indeed, after nearly 1.5 years of very subdued activity, sales should more earnestly recover. However, they should still remain below their pre-pandemic levels for much of the year. This improving demand backdrop will likely yield an increase in average home prices.
- Broad-based price gains are expected provincially in 2024, with a mild outperformance likely in the Prairies given that their comparatively solid affordability conditions are expected to persist. By that same token, tough affordability should restrain the pace of price growth in B.C. and Ontario.

Home Sales and Price Outlook						
<i>Annual Average Growth, %</i>						
Provinces	Home Sales			Average Home Prices		
	2022F	2023F	2024F	2022F	2023F	2024F
National	-25.0	-16.0	19.1	0.2	-11.2	6.1
Newfoundland & Labrador	-6.5	-16.0	10.6	6.8	-1.8	3.6
Prince Edward Island	-18.0	-26.4	6.3	13.5	-7.6	3.1
Nova Scotia	-20.5	-16.2	14.2	11.3	-15.1	3.9
New Brunswick	-20.9	-10.4	20.0	13.6	-14.7	4.1
Québec	-18.1	-10.6	12.6	8.5	-7.6	4.6
Ontario	-33.1	-16.4	23.9	3.8	-12.3	4.4
Manitoba	-18.4	-3.4	18.2	7.0	-7.0	4.0
Saskatchewan	-11.1	-12.0	10.6	1.5	-3.3	5.0
Alberta	-1.9	-22.2	13.3	3.1	-6.7	5.2
British Columbia	-34.6	-18.3	25.2	4.8	-9.4	4.5

Source: CREA, CMHC, TD Economics. Forecasts by TD Economics as of September 2022.

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