

ECONOMIC VIEWPOINT

Update to Our Canadian Residential Real Estate Outlook A Sharper Correction but with Significant Differences across Provinces

By Randall Bartlett, Senior Director of Canadian Economics, Hélène Bégin, Principal Economist, and Marc Desormeaux, Principal Economist

Canada's housing market is correcting quickly, and faster than we anticipated in our downbeat June forecast. Sales and prices are contracting particularly sharply in Ontario and British Columbia. The Maritime provinces are holding up better than expected, while commodity-producing provinces are predictably benefitting from higher global prices. That said, we continue to believe that home prices will generally fall the most over the forecast in provinces that saw the largest gains during the pandemic. At the national level, we expect a roughly 23% decline in the average home price between February 2022 and December 2023. And despite the accelerated pace of decline, we remain of the view that home prices will end 2023 above their pre-pandemic levels nationally and in each province. This is not likely to be the case for sales, however, which have fallen enough that most housing markets have returned to balanced territory.

Back in June, we [published](#) what was considered at the time to be a relatively bearish outlook for the Canadian housing market. Since then, the incoming data have been even more lackluster than we anticipated. Existing home sales and average home prices have also surprised somewhat, particularly in some smaller provinces and cities.

But overall, the story continues to hold up. After peaking in February at the national level, home prices continue to fall and have further to go before they find a bottom. That said, we still believe home prices will end 2023 above pre-pandemic levels nationally and in all ten provinces. Sales may not be so lucky, however, as they're falling fast in the big provinces of Ontario and British Columbia (BC). And some of the smaller provinces aren't likely to be far behind. In contrast, sales should fall less in Quebec than some other provinces. Transactions peaked there two years ago and have trended lower since. The Prairies are also likely to outperform their provincial peers, given their greater affordability and commodity market tailwinds.

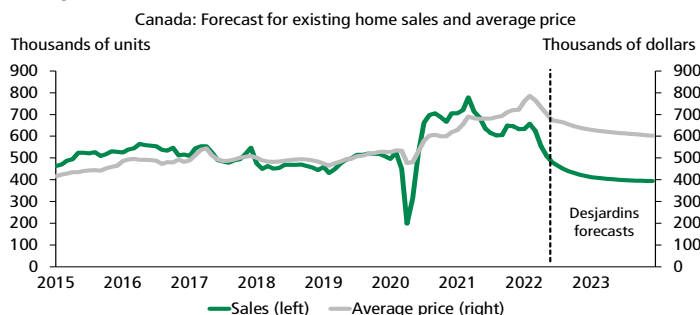
National outlook

At the national level, existing home sales and prices have fallen every month since February. Prices have dropped more than 4% in each of the three months through June. Sales have similarly cooled, but the pace of decline has moderated since plunging in April. This moderation is a bit of a silver lining in an otherwise

dismal housing market outlook, and one which we expect to continue. Indeed, we see the pace of decline in existing home sales gradually slowing as the market begins to stabilize toward the end of 2023 (graph 1). The same can broadly be said for prices.

This has led to a downward revision to the forecast we published in June. At the time, we expected the average home price to fall by 15% nationally from its February 2022 high to the end of 2023. But we're almost there already. We now expect home

GRAPH 1
Home sales and prices are correcting but are not expected to collapse



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

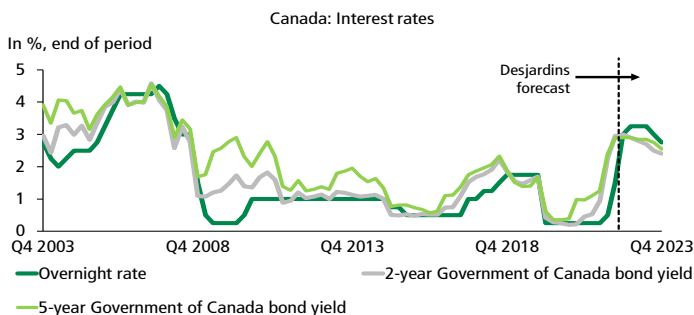
NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2022, Desjardins Group. All rights reserved.

prices to fall between 20% and 25% from peak to trough. On an annual basis, that would mean a price increase of 1.2% in 2022 followed by a 11.5% contraction in 2023. The reasons for this gloomier outlook are weaker data so far this year and more aggressive monetary policy than previously anticipated, leading to higher mortgage borrowing costs. We now expect the Bank of Canada's policy interest rate to top out at 3.25% late this year (graph 2). However, weakness in the Canadian economy primarily attributable to the housing market downturn should prompt the Bank to begin cutting rates by the end of next year. Markets seem to be predicting this already as bond yields have likely peaked.

GRAPH 2

Borrowing costs have risen considerably and may go up even further



Sources: Bank of Canada and Desjardins, Economic Studies

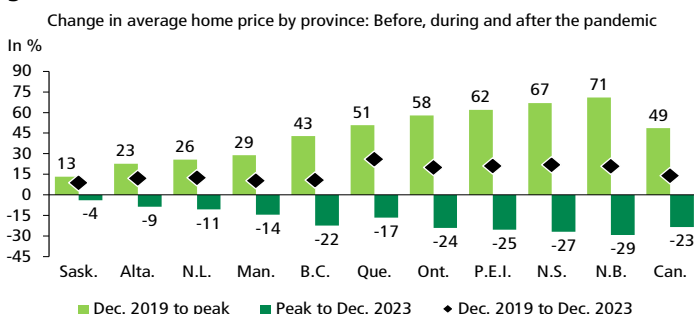
Provincial/regional outlook

When it comes to housing, there's no single Canadian market. Canadians live and work in communities, and it's what happens there that matters most.

We continue to believe that provinces that saw the biggest price gains during the pandemic are most likely to see the largest price corrections (graph 3). We could therefore see the most substantial price declines in **New Brunswick, Nova Scotia and Prince Edward Island**. Within the Maritimes, price appreciation

GRAPH 3

Home prices are falling but should keep some of their pandemic gains



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

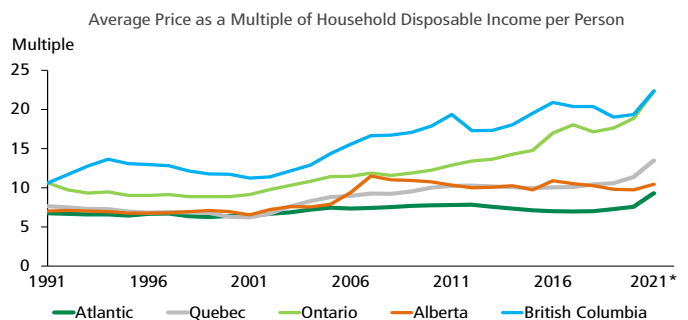
has been broad-based thanks in part to considerable inward migration from other provinces during the pandemic. As the shift from full-time telework to hybrid work arrangements makes relocating to more affordable provinces less practical, these jurisdictions could see much more modest housing demand in the coming months.

However, the Maritimes saw prices peak later and fall by less so far than **Ontario and British Columbia**. While home prices increased less there than on the East Coast, affordability in places like Toronto and Vancouver was already eroding before the pandemic (graph 4). It has only deteriorated since and in more communities as smaller centres saw the biggest price gains during the pandemic (graph 5). As such, the correction in Ontario and BC has been more abrupt than elsewhere. However, we expect the pace of price decline to slow as international immigration, return to work and improved affordability provide tailwinds to the housing market going forward.

In **Quebec**, prices started falling a little later than in Canada as a whole and haven't dropped as much. There the average home price peaked at over \$510,000 in April versus over \$1 million in February in Ontario and British Columbia, the same month the average price topped out nationwide. The correction has also

GRAPH 4

Ontario and BC are by Far the Most Unaffordable Provinces

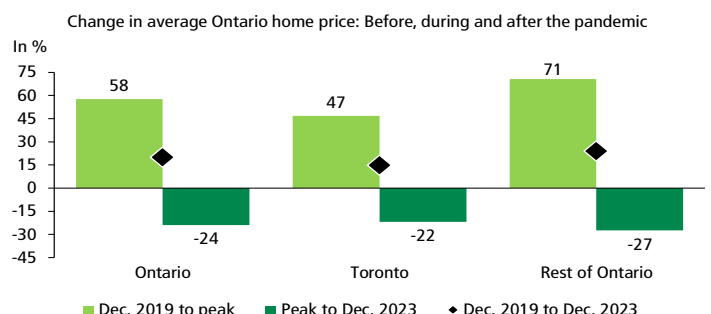


*Based on quarterly Household Economic Accounts

Sources: Statistics Canada, Canadian Real Estate Association and Desjardins, Economic Studies

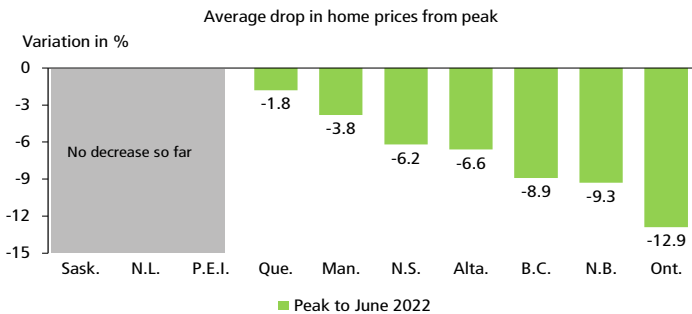
GRAPH 5

The biggest price swings in Ontario will ultimately be outside the GTA



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

GRAPH 6
Price declines vary widely across provinces



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

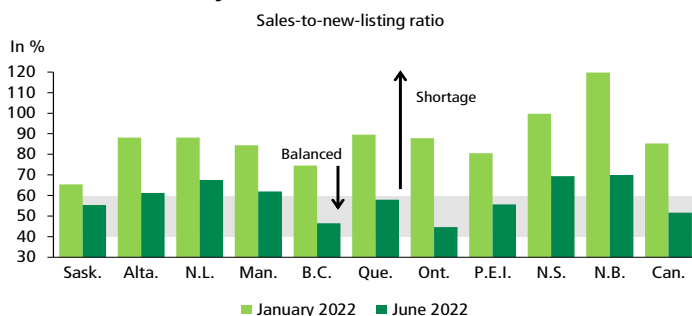
been less severe in Quebec. So far, prices are down close to 2% compared to more than 10% across Canada. Prices have fallen further in many other provinces (graph 6).

Quebec is faring better for a number of reasons. Households are in better financial shape, and homes are more affordable. Rapidly rising wages and the provincial government's recently income supports are also helping.

And while Quebec home prices have moved in line with June's forecasts, those figures have been revised downwards. It's now expected that by the end of 2023, prices will have fallen 17% from their peak rather than 12% as predicted in June. There are two factors behind this updated forecast: the market's swift return to balance and mortgage rate hikes, which have been bigger and faster than anticipated.

The price correction began in Quebec a bit later than in other provinces, but market conditions changed there just as quickly (graph 7). The inventory shortage has eased as potential buyers have dropped out of the market and the number of homes for sale has begun to rise again.

GRAPH 7
The shortage is over: Most provincial markets quickly returned to balanced territory

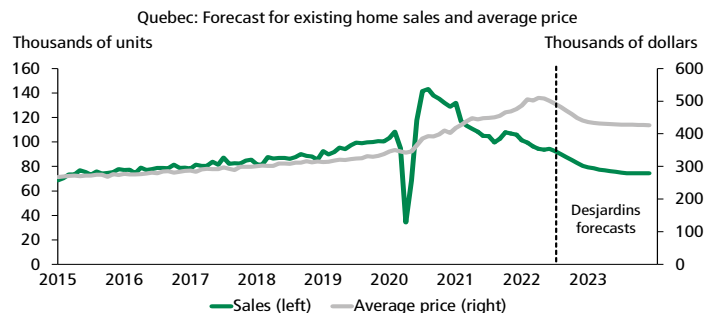


Sources: Canadian Real Estate Association and Desjardins, Economic Studies

Home sales peaked in August 2020, when extremely low inventory slowed activity in Quebec well before the rest of Canada. Now demand is plummeting because affordability has eroded dramatically. Home sales will continue to decline even though they're already below pre-pandemic levels.

We therefore expect prices to continue to correct and bottom out by the end of next year. But even then, they'll still be about 20% higher than they were in February 2020 just before the pandemic began (graph 8). Prices aren't expected to fall provincewide, however.

GRAPH 8
Prices are falling but will remain above pre-pandemic levels, while home sales will be much lower



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

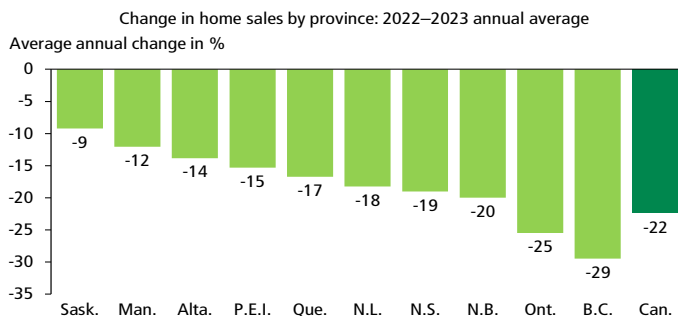
Markets that posted smaller price gains should hold up better, while areas where overbidding was common will see a bigger correction. As we mentioned in our June *Economic Viewpoint*, overbidding was rampant in many administrative regions of western Quebec early this year.

Finally, we have the oil-producing provinces of **Alberta, Saskatchewan, and Newfoundland and Labrador**. They're now benefitting from post-pandemic tailwinds, largely in the form of higher commodity prices. The resulting job creation and workers it attracts from across the country will provide support to existing home sales and prices. Affordability is also generally better in these regions than elsewhere in the country. Communities that are more reliant on commodities for jobs and growth are especially likely to outperform. Consequently, the Prairie provinces are likely to see sales fall less on average over the next two years than other regions in Canada (graph 9 on page 4). In contrast, Newfoundland and Labrador may see sales fall more than other commodity-producing provinces as the benefits of higher oil prices tend to be less directly and immediately felt in its economy.

The housing market is usually more stable in Manitoba than in other jurisdictions. Though the province won't be immune to the effects of higher interest rates and a more moderate global expansion, its diversified economy and relatively modest supply-demand imbalances should prevent a more severe correction.

GRAPH 9

The Prairie provinces should see the smallest decline in sales activity



Sources: Canadian Real Estate Association and Desjardins, Economic Studies

Conclusion

The Canadian housing market downturn is creating challenges for households. Both home sales and prices have contracted quickly and are likely to fall further over the next 18 months. While we don't want to diminish the difficulties some Canadians are facing, this adjustment is helping to bring some sanity back to Canadian real estate. Many markets are returning to balance, and affordability is on track to gradually improve as prices fall.

The housing market also plays a pivotal role in the Bank of Canada's aggressive fight against inflation. We expect the resulting economic slowdown to ease inflationary pressures enough to prompt the Bank to reverse some of its interest rate hikes next year. This will further improve affordability, with Canada's housing market likely to stabilize late next year. Such a sequence of events should lay the groundwork for a more sustainable recovery thereafter.