Economic News

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CANADA

The moderating trend in real estate activity shows signs of abating

HIGHLIGHTS

- Sales of existing homes rose by 3.6% in May; this is the third monthly gain in a row.
- Year over year, sales were down by just 2.6%, a much smaller decline than the -17.4% recorded last December.
- The average price of existing homes ticked up by 0.1% to set a new record of $374,473. Its annual variation is 3.7%.
- In Quebec, prices have picked up by 1.0% from a year ago, while sales have fallen by 8.0%.
- In Ontario, prices have climbed by 4.2% from a year ago, and sales have dipped by 2.1%.

COMMENTS

The downwards trend that had been observed in sales of existing homes since the spring of 2012 has been replaced with moderate improvement in recent months. Since last February, the number of transactions has increased by 7.1%. This improvement is fairly generalized across the country; only Newfoundland and Labrador and Prince Edward Island reported a slump during this period.

The impact on prices was not long in coming. The average price has started rising again in recent months, distancing itself significantly from the threshold (around $360,000) at which it seemed to have stabilized since more than two years ago.

Of course, we cannot rule out the possibility that the downwards trend in sales of existing homes may resume in the months ahead. Temporary swings have frequently been seen in these statistics. Having said that, this improvement in the resale market is one more in a string of recent surprises. Keep in mind that in the month of May, housing starts rebounded and employment in the construction sector also surged. Taken together, all these numbers raise concerns that the downwards trend in the real estate market may be levelling off. The situation will bear close watching in the months ahead.

Implications: If this upwards movement continues, worries about an excessive imbalance in the real estate market and overly high household debt could quickly intensify. Vigilance is therefore called for from the Bank of Canada and Canada’s Department of Finance.

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