CANADA

The real estate market at the forefront of Alberta’s economic problems

With the drop in oil prices, the growth outlooks have worsened substantially for the provinces that produce fossil fuels, i.e. Alberta, Saskatchewan and Newfoundland and Labrador. Although economic results for Newfoundland and Labrador have already deteriorated sharply, tangible signs of trouble are not nearly as clear in the Prairies, for now.

That being said, over the last few months, the evolution of the real estate market has been a fairly good reflection of the problems in the Alberta and Saskatchewan economies. For example, in Alberta, the number of existing properties sold started to decline again in April following March’s temporary spike. From the top of the cycle in October 2014, Alberta home resales are down 28%. Saskatchewan is down by a total of 18% from its cyclical peak in September 2014. These results contrast sharply with the results in other provinces, where sales are rising.

In Alberta and Saskatchewan, the slower sales are already having an impact on growth by property prices. According to the MLS Home Price Index (which allows for a more harmonized comparison over time), for the last few months, resale prices have been on a slight downtrend in Alberta and Saskatchewan. The real estate market in these two provinces stands out from the rest of Canada, with price increases being recorded in most of the other major markets, especially Toronto and Vancouver.

Implications: The real estate market’s recent movement is a good illustration of the dichotomy in the country’s 2015 economic outlooks. On one hand, Alberta and Saskatchewan are facing a substantial slowdown. On the other hand, the real estate market has apparently been doing relatively well in most of the other provinces in recent months. Note that the key interest rate cut ordered by the Bank of Canada last January and the bond market’s movement favour ongoing very low mortgage rates, which is of course positive for the housing market.

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