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Posthaste: Looks like Canada's housing market has finally turned the corner

And that could stop the Bank of Canada from cutting rates this year

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Home sales were up in most markets and prices edged higher, led by Vancouver, Toronto and Calgary. PHOTO BY ERNEST DOROSZUK/TORONTO SUN/POSTMEDIA NETWORK

The speed of Canada's housing market correction last year surprised forecasters. Now its recovery is too.

There had been signs that the market would hit its bottom this spring, but “April pretty much sealed the deal,” said RBC assistant chief economist Robert Hogue.

“Early results from real estate boards gave strong indications local markets turned a corner last month.”

Sales were up in most markets and prices edged higher, led by Vancouver, Toronto and Calgary. Montreal sales, which have been in a deep slump, were up 12 per cent from the month before.

Toronto sales jumped by 27 per cent in April from March. New listings also rose but not enough, and demand-supply conditions are now as tight as they were before the correction, said Hogue.

With new listings lagging, the sales-to-new-listing ratio soared in most cities.

Hogue says the coming months should be interesting. The upturn in the market could bring out more sellers, adding much-needed supply to historically low inventories. Buyers, wishing to avoid potentially higher prices later on, are also likely to jump back in, adding momentum to April’s gains.

The spring surge has Capital Economics rethinking its forecast.

“With sales now taking off, there are clear upside risks to our forecast that house prices will be little changed over the rest of this year,” wrote deputy chief North America economist Stephen Brown in a note.

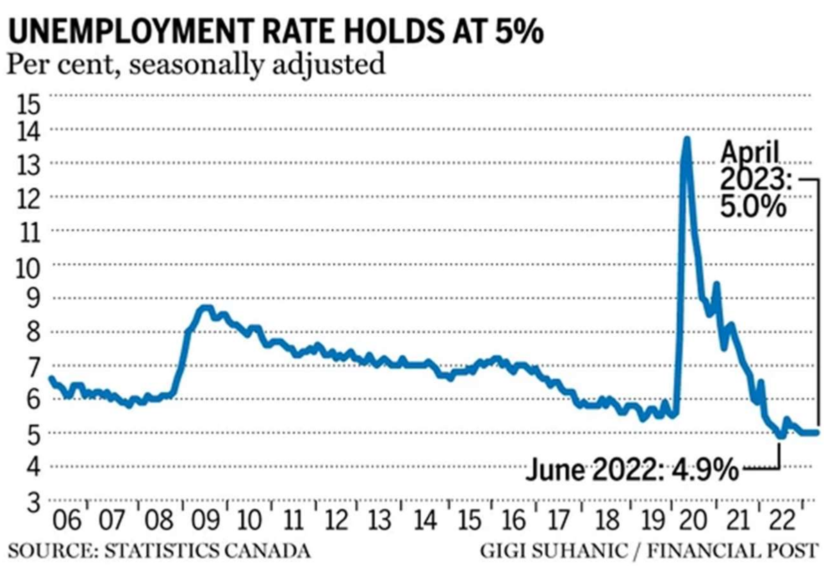
One reason the housing market is bouncing back faster than expected is that borrowers are coping with higher interest rates, Brown said. Mortgage delinquency rates declined last year even as borrowing costs rose, according to data from the Bank of Canada.

A strong labour market is also lending support. Job gains have been beating expectations (see charts below) and wages continue to rise, up 5.2 per cent in April from the year before.

While wage growth is a worry for the Bank of Canada in its efforts to tame inflation, the recent decline in job vacancies and evidence that labour shortages are easing suggest its pace will slow, said Capital.

But even if it does cool over coming months, the Bank of Canada won’t be inclined to cut rates when housing prices are soaring higher.

“Housing, rather than the labour market, is currently the key risk to our forecast and the market-implied view that the Bank will cut interest rates by the end of the year,” said Brown.



Canada’s job market hit it out of the park again in April, gaining 41,000 jobs, more than double expectations. The unemployed rate also surprised by sticking at 5 per cent, near an all-time low.

There was some weakness behind the headline. All of the gains were part-time jobs, with full-time positions declining and the increase was boosted by the rapidly growing population, said BMO chief economist Douglas Porter.

But the big takeaway is that the labour market is showing no signs of softening, after the most aggressive rate hiking cycle in the Bank of Canada's history.

"If this persists through the spring, the Bank of Canada may yet be forced to rethink its rate pause, especially with the housing market showing signs of reviving," wrote Porter in his note on the data.