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Posthaste: Canada's housing correction has likely run its course, say economists

Home prices should start to climb by mid-year — perhaps even sooner

Pamela Heaven || February 20, 2024



Home sales rose for the second month in a row in January, up 3.7 per cent from December after four straight months of decline. PHOTO BY ASHLEY FRASER/POSTMEDIA

Spring came early to Canada's housing market.

Home sales rose for the second month in a row in January, up 3.7 per cent, after four straight months of decline. The latest gains brought sales back to where they were last summer.

“The upturn suggests that the sharp correction triggered by soaring interest rates has likely run its course,” said Robert Hogue, an economist with the Royal Bank of Canada.

For now prices continue to slip. The MLS Home Price Index fell 1.2 per cent nationally in January from the month before and is now down 5 per cent since August 2023.

Prices dropped in most local markets including Vancouver, Winnipeg, Toronto, Hamilton, Ottawa, Montreal, Moncton and Halifax. However, Hogue thinks they could be nearing an inflection point as buyers compete for a shrinking inventory of homes for sales.

“We think a bottom could form around mid-year and forecast the national benchmark price to gradually appreciate in the second half of 2024,” he said.

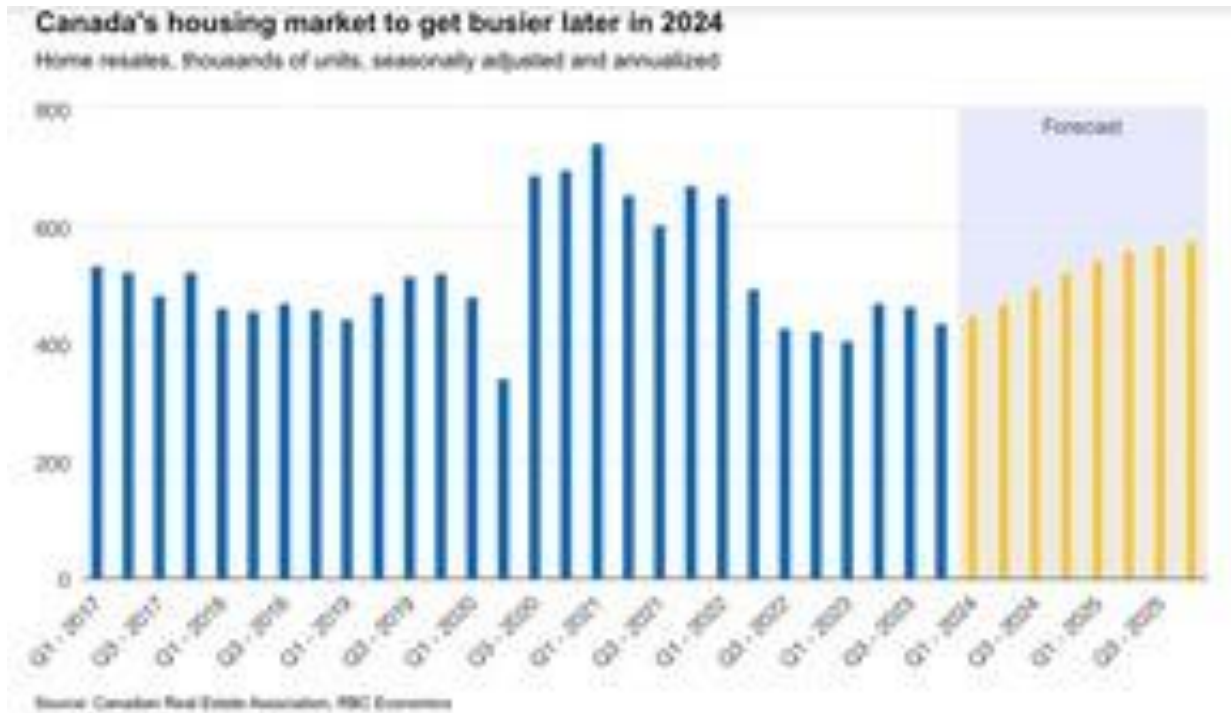
Economists with Capital Economics also reckon home prices are “close to their trough.”

New listings growth slowed and the sales-to-new-listings ratio points to an annual gain in prices, wrote Olivia Cross, North America economist with Capital.

However, affordability continues to be a challenge. Even with interest rate cuts over the next year, which Capital expects will be aggressive, affordability will remain more stretched than in any period since the 1990s, said Cross.

Capital predicts home price declines will moderate but prices will stay broadly stagnant this year.

Ontario and British Columbia led the gains in sales, up 18.5 per cent in the Niagara region, 12.6 per cent in Hamilton and 9.6 per cent in Toronto. Sales in the Fraser Valley were up 15.9 per cent, and up 6.7 per cent in Vancouver.



RBC Economics

Hogue does include a word of caution. December and January can be difficult to call because of seasonal influences and moves can be exaggerated, up or down. More data will be needed to get a reliable reading of the trends, he said.

Since gains are coming from historically low levels, the market is still considered slow, Hogue said, except in Alberta and Saskatchewan where sales are 20 to 80 per cent above pre-pandemic levels.

As the Bank of Canada continues to keep interest rates on hold at a two-decade high and affordability remains a challenge, sales and prices will stay subdued in the first half of the year, he predicts.

“But, we think a pivot towards rate cuts mid-year will get the wheels turning faster over the second half — perhaps even sooner,” said Hogue. “There will be a lot of pent-up demand to satisfy once confidence returns, which could heat things up in a hurry.”