

Canadian Housing Forecast Update

Pandemic Puts Markets in a Deep Freeze

Note: Given rapid changes in the economic and policy environment, we will be publishing more frequent updates to our forecast as conditions warrant.

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- The COVID-19 pandemic has rippled across all segments of the economy, and of course, real estate has not been spared. The virus has put housing markets across the country in a deep freeze, with both buyers and sellers moving to the sidelines, awaiting the COVID-19 storm to pass. We got our first taste of the impacts of the virus in March, as Canadian home sales plunged in 14% m/m while listings were off by 13% m/m (Chart 1). And that result was recorded despite a strong first half of the month prior to the enforcement of containment measures. High frequency data points to another dramatic leg down in major markets so far in April.
- The drivers of the demand decline are numerous:
 - Social distancing is a prime culprit, as virtual tours struggle to replace in-home viewings.
 - Deep, historic job losses are another. On this front, most of the job declines observed during March were in lower wage industries, where homeownership rates are probably lower (Chart 2). This likely softened some of the fallout to ownership housing demand.
 - Collapsing equity markets have eroded an important source of down payments. This is particularly true for first-time homebuyers, who disproportionately rely on personal savings to fund their down payments. In addition, the nosedive in oil prices is a terrible development for incomes in Alberta, Saskatchewan and Newfoundland and Labrador.
 - Stalled population growth will test the resilience of investors whose units will be completed soon, as the pool of potential renters will shrink in the near-term. This could force some selling pressure.
- In light of the pandemic, we envision Canadian home sales remaining below their pre-virus level for the remainder of the year (Chart 3). Sales are poised to plunge at an historic pace in April, while gradually recovering their lost steps in subsequent months as buyers remain cautious. This profile bakes in our assumption that provinces take tentative steps towards re-opening their economies over the next month. Consequently, social distancing measures will ease, and the jobs market should also improve.

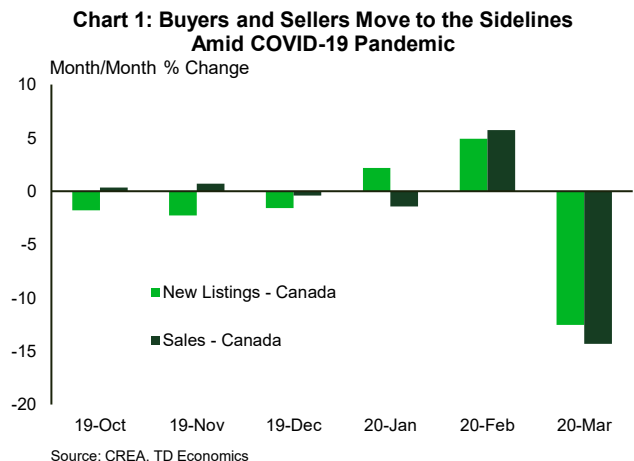
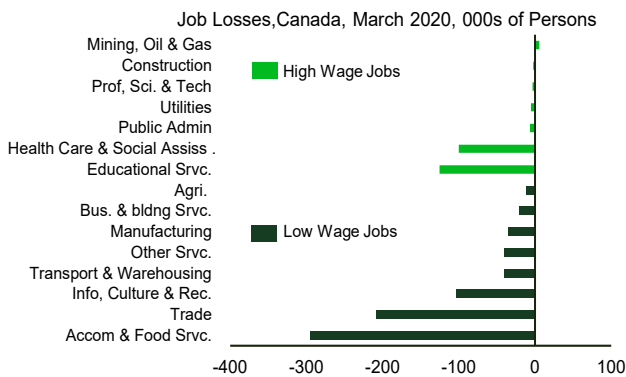
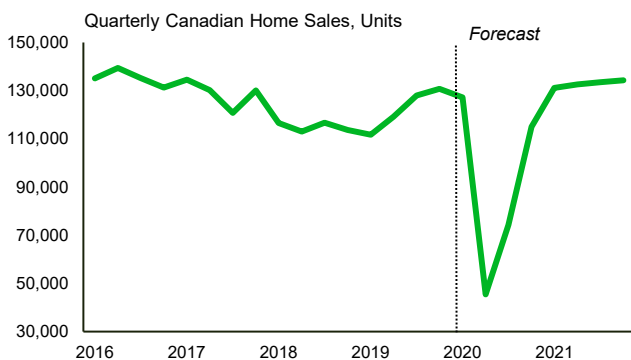


Chart 2: Job Losses Were Heavily Concentrated in Lower Wage Industries in March



Source: Statistics Canada, TD Economics. Note: High wage jobs are those that pay above-average wages, and vice-versa for low wage jobs

Chart 3: Home Sales to Suffer an Historic Near-term Plunge, and Post a Gradual Recovery Thereafter



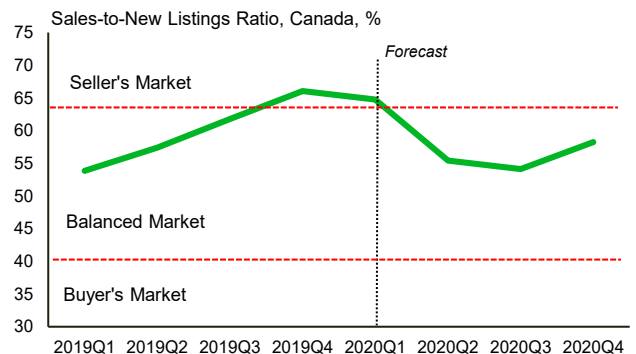
Source: CREA, TD Economics

- Sales will likely retrench the most in the oil-producing provinces this year. We also look for outsized declines in Ontario, Quebec and Nova Scotia, where the pandemic has weighed heavily. In contrast, activity should fall by a lesser amount this year in B.C., Manitoba, New Brunswick and PEI, consistent with better COVID-curves.
- Next year should see much stronger activity, as markets benefit from significant pent-up demand and historically low interest rates. This will allow Canadian sales to climb by 50%, paced by a strong gain in BC, where economic growth is likely to be relatively strong. On the opposite end, a muted recovery (owing to the oil shock), will keep sales levels relatively low in the oil-producing provinces.
- Absolutely key to our forecasts is the assumption that listings mirror sales by dropping substantially in the

near-term and recovering gradually thereafter. This puts a floor on prices and sustains relatively tight-supply demand balances across most markets, allowing for the resumption of positive price growth as provincial economies are re-opened (Chart 4).

- This is not to say that listings will match the trend in sales one-for-one. Indeed, we anticipate the gap between listings and sales to grow in coming months, as financial stresses force some homeowners to list their properties.
- However, the 6-month mortgage deferral program offered by banks (and lesser ones put forth by alternative lenders), combined with a jobs market that will likely improve starting next month, will limit number of households pressed into liquidating their homes.
- Under these assumptions, Canadian home prices suffer an outsized decline in the second quarter. After which, national average home price growth should proceed at a positive, but subdued pace for the remainder of the year.
 - Regionally, the oil-producing provinces are likely to suffer relatively severe price declines in the near-term and have recoveries that take longer to manifest.
 - On the opposite end of the spectrum, price growth should be relatively firm in PEI and NB in 2020, amid tight conditions and lesser COVID-19 impacts. Meanwhile, our projections for home price growth in Ontario and Quebec, and

Chart 4: A Deep Dive in Listings Should Keep Supply/Demand Balances Mostly Intact Across the Country, Maintaining a Floor on Prices



Source: CREA, TD Economics

to a lesser extent B.C., are flattered by the strong momentum these markets had coming into 2020 and the solid early-year gains recorded before the pandemic escalated. Indeed, price growth is essentially flat, on average, in Ontario and Quebec from 2020Q2 – 2020Q4, while being up modestly in B.C.

- These forecasts are subject to an extremely high degree of uncertainty:
 - A sharper-than-expected hit to the job market from the pandemic presents the most clear and present danger to the outlook. To the extent that household balance sheets sustain deeper and more prolonged negative impacts, housing demand will come under much greater pressure and distressed selling could intensify. This could have potentially very negative feedback effects.
 - Even if our base case of a U-shaped recovery in the job market is achieved, there could be a more significant "scarring" impact on confidence from the pandemic than anticipated, leading to more subdued-than-forecast gains in sales and prices in coming quarters.
 - In addition, there's also the chance that compositional effects play a larger-than-anticipated role in shaping average home prices. This is particularly true as sales volumes will likely be historically depressed in coming months, exaggerating the impact on average prices from transactions occurring at the top or bottom end of the market.
 - We are already seeing evidence of this effect, with sales of highly-valued homes falling more than overall activity in Toronto through the first three weeks in April, according to the Toronto Real Estate Board. This dynamic could pressure average prices downward by a larger-than-anticipated magnitude.
 - Not all risks are to the downside. Historically low interest rates could spur sharper-than-expected sales growth. This could lead to stronger price gains, particularly if supply/demand balances generally hold up through the pandemic, as we expect.

Table 1: Forecasts						
	Home Sale (% Chg.)			Home Prices (% Chg.)		
	2019	2020F	2021F	2019	2020F	2021F
National	6.5	-26.1	46.8	2.3	6.1	5.8
Newfoundland & Labrador	9.6	-49.0	2.7	-3.0	-5.3	-1.6
Prince Edward Island	-6.8	-4.9	16.2	11.7	13.8	3.8
Nova Scotia	10.6	-28.6	49.1	8.0	5.6	4.2
New Brunswick	13.4	-2.8	12.0	2.7	8.7	5.6
Québec	11.8	-23.6	48.8	5.1	7.6	3.2
Ontario	8.9	-27.4	49.7	6.2	8.3	3.1
Toronto	12.4	-23.0	55.0	4.1	7.8	3.9
Manitoba	8.5	-17.0	41.7	0.1	-0.6	4.2
Saskatchewan	1.1	-36.5	16.8	-0.5	-4.1	0.2
Alberta	-0.2	-32.0	26.2	-2.4	-4.7	-0.6
Calgary	2.0	-31.9	30.2	-3.5	-5.3	-0.1
British Columbia	-1.5	-22.9	62.0	-1.5	8.0	4.1
Vancouver	2.5	-16.1	58.3	-5.6	4.7	3.7

Source: CREA, CMHC, Statistics Canada, TD Economics. Forecasts by TD Economics as at April 2020

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