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April 8, 2013: Signs of Life in the Spring Market Amid Weak Economic News

Despite disappointing employment numbers from both Canada and the US late last week, there was a bit of positive news on the state of Canada's two largest residential real estate markets and on the slowing growth in consumer debt. The very strong levels of home re-sale activity in the first half of 2012 is still helping to create alarming headlines about the decline in year-over-year sales numbers but the end of those headlines is clearly in sight – only a couple of months down the road.

Continued volatility in the employment market was in evidence again as the Canadian economy shed some 54,500 jobs in March. This caused the unemployment rate in Canada to rise .2% to 7.2%. Economists' expectations were in the range of 6,500 *new* jobs. The job losses in March more than negated the 50,700 jobs gained in February but, after smoothing out the peaks and valleys, the economy has added an average of about 12,000 new jobs per month for the last six months. Canada's trade deficit also rose to over $1 billion in March. In the US, 88,000 jobs were added, against expectations of about 200,000. The US unemployment rate was down slightly to 7.6% as about a half million American gave up looking for work.

RBC Economics published research early last week on the growth of Canadian consumer debt in February. It continues to decelerate and especially encouraging is that non-mortgage debt grew by only 2.5% in February, on a year-over-year basis, its lowest level of growth in 20 years! Total non-mortgage consumer debt stood at $512 billion and mortgage debt reached $1.16 trillion at the end of February. Mortgage debt drew at the rate of 5.4% compared to last year. That rate was slightly lower than January's rate of growth and well below the 7.3% growth rate from February, 2011 to February, 2012. The combined rate of growth for all consumer debt in February was 4.5% which was the slowest growth rate since June, 2001. Consumer deleveraging is obviously positive for household balance sheets but can also be a drag on economic output if it occurs too quickly. The recent deceleration seems to be orderly and is clearly addressing one of the key risks to Canada's financial system frequently identified by policy makers.

CIBC published results of a survey last week where Canadian home owners with mortgages were asked, among other things, at what age they predict that they will finish paying off their mortgages. The average answer across the country was age 57. This has increased by two years from a similar survey from last year. The survey also asked these home owners about the accumulation of additional non-mortgage debt after taking on their mortgages. Some 50% of respondents reported having done so. Of those, not surprisingly, only 9% reported making additional principal payments toward their mortgages. This compares to 19% making extra payments toward their mortgages among those who did not incur more consumer debt after their taking out their mortgages.

The Vancouver and Toronto real estate boards released activity data for March last week and, although the comparisons to last year continue to appear weak in terms of sales volumes, there were signs of stability in the Vancouver market and continued strength in the Toronto market. Looking first at Vancouver, although sales activity was about 18% lower than a year earlier, activity was up more than 50% from February. The sales-to-active-listings ratio was up 3% from February and rose above 15% for the first time since last May. The Real Estate Board of Greater Vancouver president observed that "we are seeing more balance between the number of sales and listings on the market in the last two months, which is having a stabilizing impact on home prices". Listings were actually down more than 17% year-over-year and stand at about 14% lower than the 10 year average. Sales volumes in Vancouver continue to trend at about 30% below the 10 year average. The MLS HPI (which adjusts for the mix of housing types in the sales data) was down but only by 3.9% year-over-year to $593,100. This is actually higher than January's results by almost 1%. The sales tax regime in B.C. also changed as of April 1st and this should further boost activity. New homes are now subject to GST of 5% and a Transition tax of 2%, rather than to a flat 12% sales tax. Real estate commissions are now subject only to the GST of 5%, rather than the combined 12% tax which was rescinded by way of a referendum last year.

In Toronto, prices continue to rise in spite of activity levels being 17% lower than a year earlier. For the first quarter of the year, sales activity was down 14% from the first quarter of 2012. As the Toronto Real Estate Board (TREB) pointed out, Easter was in March this year which meant an additional statutory holiday (and one less business day) during the month. The Easter holiday also represents a psychological marker in the calendar, after which activity in the traditional spring real estate market usually picks up.

Prices in the Toronto market continue to rise, despite reduced sales volumes. The average re-sale price reached $519,879 in March, up 3.8 year-over-year. For the first quarter in aggregate, the average re-sale price was $508,066, which is 3.2% more than the first quarter of 2012. Competition among buyers continues as inventory levels are tight. New listings in Toronto were down 13% in March compared to a year earlier. "There are many willing buyers in the marketplace today", commented the TREB President but some households "simply haven't been able to find the right house due to a shortage of listings in some market segments". TREB is forecasting that the average re-sale price for 2013 will be $515,000.