Canada Watch
By Daren King and Alexandra Ducharme

The Teranet–National Bank Home Price Index report released today shows that in August, home prices experienced their largest one-month decline since the index began in 1999 and has already decreased by 4.1% since its peak in May 2022. Although this may seem like an abrupt slowdown, it must be put in perspective with the vertiginous price increases recorded in the last two years around the country. A change in consumer preference, coupled with very favourable borrowing conditions, low supply and some speculation drove property prices up by more than 80% in the country’s hottest markets. As today’s Hot Charts shows, the Census Metropolitan Areas (CMAs) that have seen the largest price increases since the start of the pandemic are now experiencing the largest decreases from their peak as less favourable borrowing conditions and a significant deterioration in affordability weighs on the resale market. Conversely, the cities with the smallest increases also had the smallest reductions. With the Bank of Canada expected to continue to raise its policy rate deeper in restrictive territory, we believe that the Teranet–National Bank Composite HPI should see a 10%-15% decline from peak to trough by the end of next year depending on where interest rates settle. However, judging by the relationship presented here today, the cities in the Golden Horseshoe and Atlantic Canada will bear the brunt of the correction.

Canada: Rapid declines after soaring increases
Teranet-National Bank House Price Index, change from February 2020 to peak and from peak to August 2022

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