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## Sept 2021 Metro level deep-dive

### Quick links:

- [1\) Economic commentary: Energy costs hit consumers, threaten the “spending boom”](#)
- [2\) Toronto housing heating back up](#)
- [3\) Vancouver sales slip but inventory falls further](#)
- [4\) Alberta home sales boom: “Catch-up trade” continues](#)
- [5\) Quebec home sales decline amid inventory shortage](#)

### Key takeaways:

- Rising cost pressures, notably for food and fuel, pose an increasing risk to households and could eat away at record savings that otherwise would have been used to propel consumption and economic growth post-pandemic.
- Real estate markets across the country continue to tighten amid a chronic shortage of supply.
- Big city condo sales are now well outpacing single-family sales, notably those in suburban markets. It's a sign that affordability pressures are intensifying and that the “flight to the suburbs” trend is unwinding.
- Alberta metros are posting solid y/y sales increases, in contrast to other metros across the countries. Calgary and Edmonton still look like compelling value, particularly if the oil sector continues to perform well.

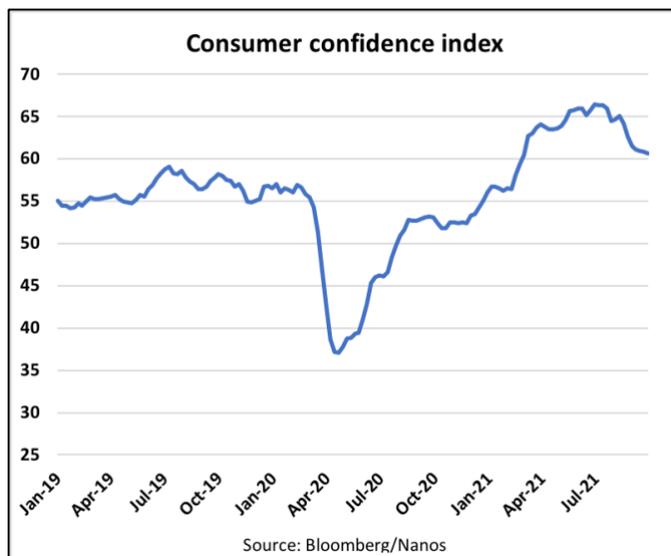
## 1) Economic commentary: Energy costs hit consumers, threaten the “spending boom”

I don't normally do much by way of economic commentary on these housing deep dive reports, but a lot is happening right now, and it warrants at least a mention here.

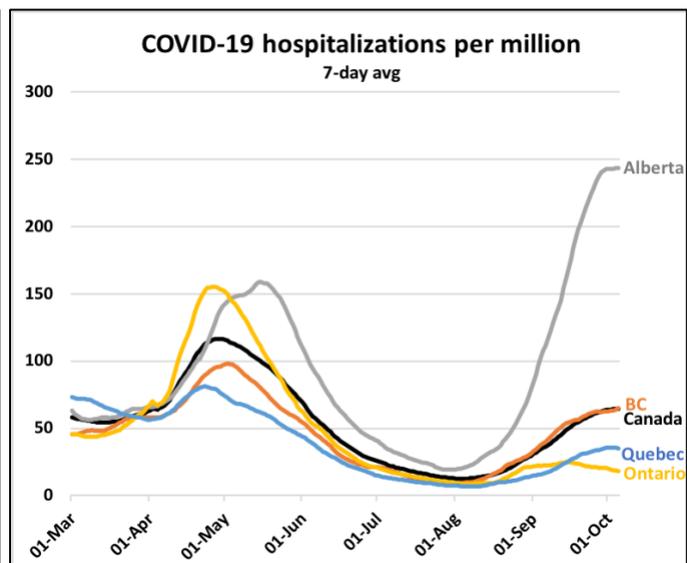
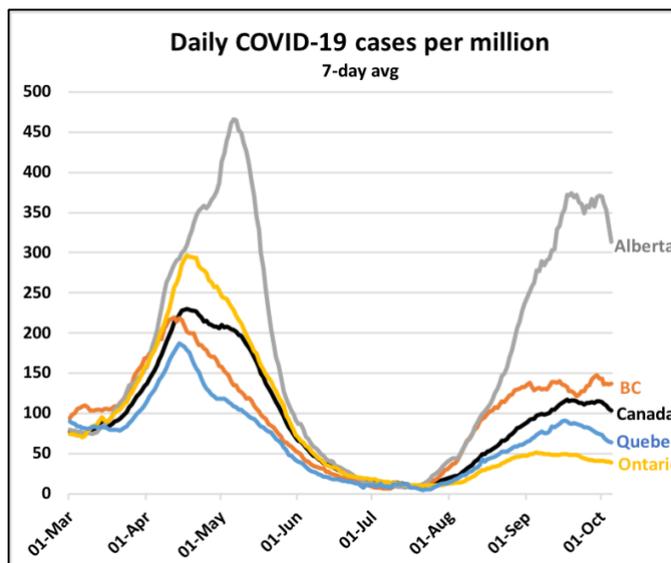
First off, regular readers will know that my view has been that the massive amount of excess household savings, currently running at nearly a quarter of a TRILLION dollars (or 10% of GDP), *should* be the fuel that propels an economic boom through next couple years. Households are still saving north of 14% of disposable incomes....a massive increase from sub-2% seen prior to the pandemic.

I still think growth is likely to surprise to the upside, but some developments are starting to cause me to question that thesis at the margins.

Let's start off by noting that Canadian consumers are significantly less confident than they were just a couple months ago. The Bloomberg-Nanos Confidence Index has now posted 7 consecutive weekly declines and 11 in the past 13 weeks! We're still well above pre-COVID levels but we're back to the lowest reading since February of this year:



This is in spite of what are clearly positive developments on the COVID19 front. Daily new cases are in decline across the country while hospitalizations have flattened out nationally and are trending down sharply in Ontario:



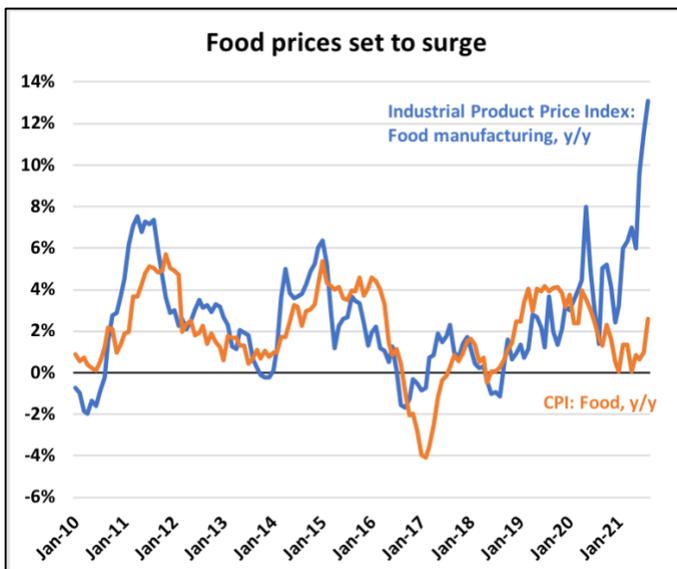
Notwithstanding those positive developments, I fear that consumer confidence may have more downside from here. So far it's been the economic expectations index that has pulled down the headline reading while the personal finance component has been relatively flat. **But with gasoline prices hitting the highest levels on record this week at just under \$1.43/litre nationally and with food prices set to surge, consumers may soon feel that pinch.**

On the gasoline front, consider the following chart. A new record high just this week:



This is particularly problematic for the “drive until you qualify” crowd who moved to the suburbs for lower housing costs. Rising transportation expenses (assuming we ever go back to the office) could offset a sizable portion of the savings from living further afield.

But more concerning is the trend in food prices. There's nothing more visceral for consumers than seeing their grocery bill spike. And if the normal relationship holds between food production costs (blue line below) and food prices paid by consumers (orange line), there may be some real pain to come:



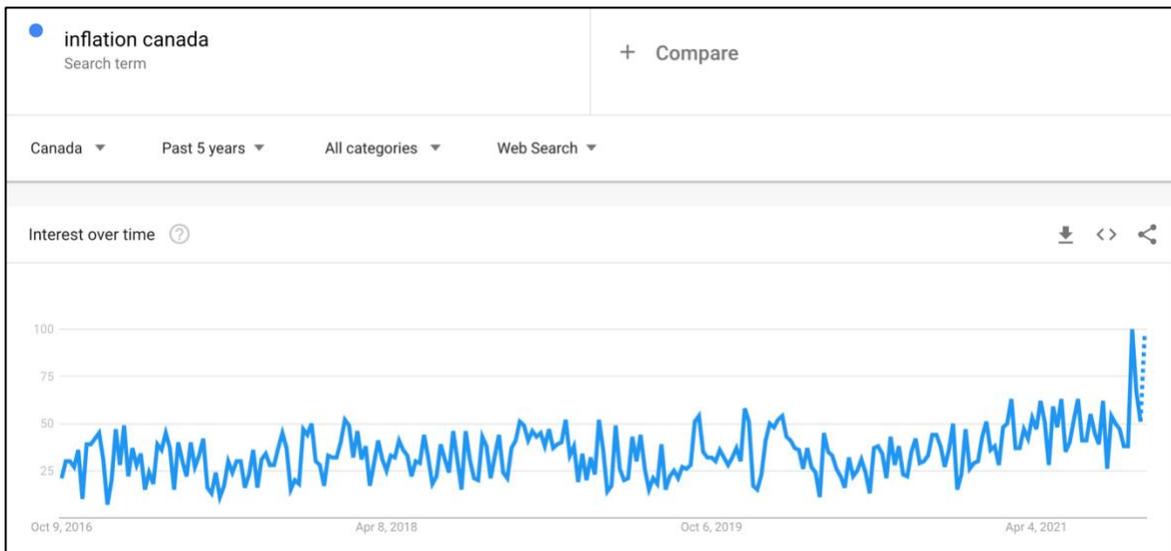
These rising cost pressure are being felt throughout the manufacturing chain and will continue to flow through to consumers. Consider this, from the latest Manufacturing PMI reading<sup>1</sup>:

*[...] Material scarcity and robust demand for inputs led suppliers to hike their fees in September. Survey members noted greater prices for oil, steel and transportation. **The overall rate of cost inflation accelerated from August's previous peak to a new series high.** Factory gate charges also rose at a survey record rate with the strong demand environment allowing firms to pass on a large proportion of the burden.*

The September CFIB Barometer pegged average price plans at around 3.7%, hovering near a record high:



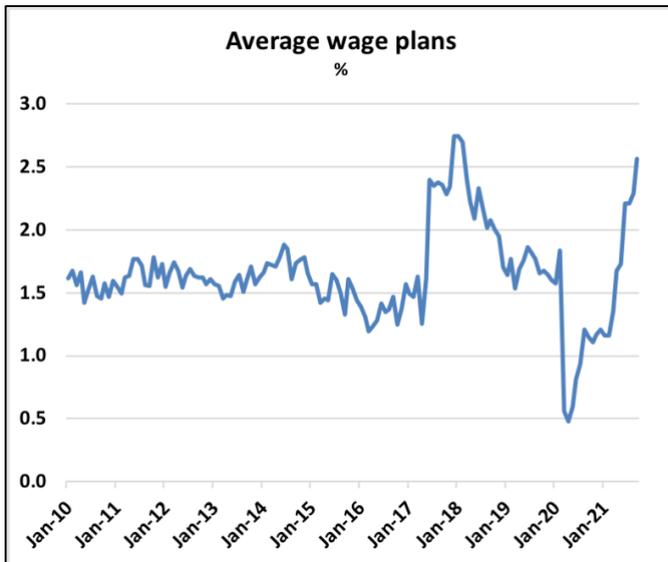
Canadians are well aware of what's going on with the cost of living. Google search trends for key words related to inflation are surging:



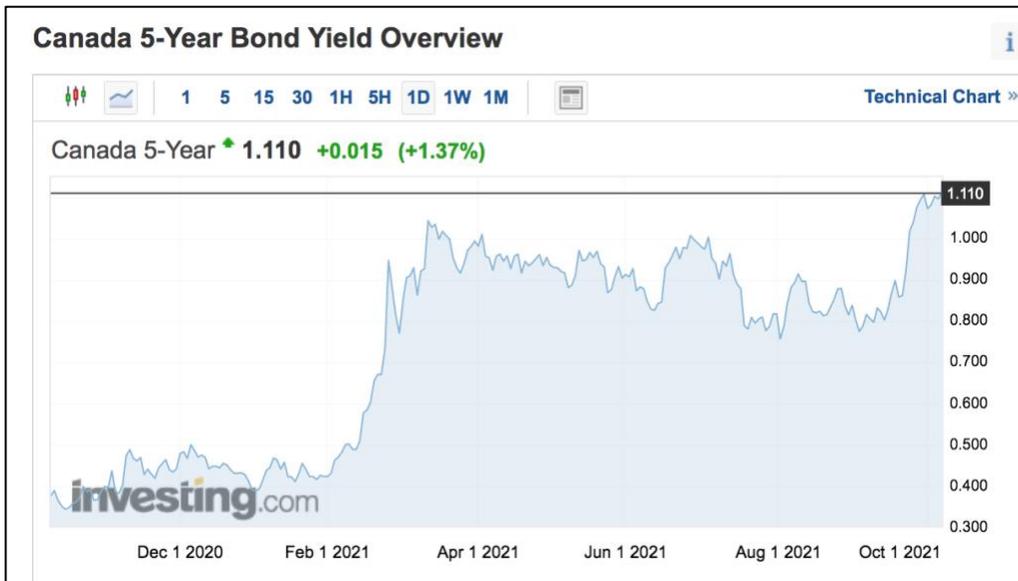
<sup>1</sup> <https://www.markiteconomics.com/Public/Home/PressRelease/2f10258a091540378140ae6294ea6e2c>

That post-COVID consumption boom would be seriously threatened if household excess savings evaporate into surging heating bills, transportation costs, and food budgets...which is now a very serious risk.

If there's good news here it's that wages are also expected to rise. Business owners expect to raise pay by 2.6% over the next year. That's the highest since the minimum wage jumped in Ontario in 2018.



From here, the big thing to watch is how the bond market reacts to this inflationary pressure. Since bond yields help set fixed mortgage pricing, any increase in yields flows through to the mortgage market fairly quickly. Bond yields have risen sharply in recent weeks, and that's led to a slew of fixed rate mortgage increases at major lenders:

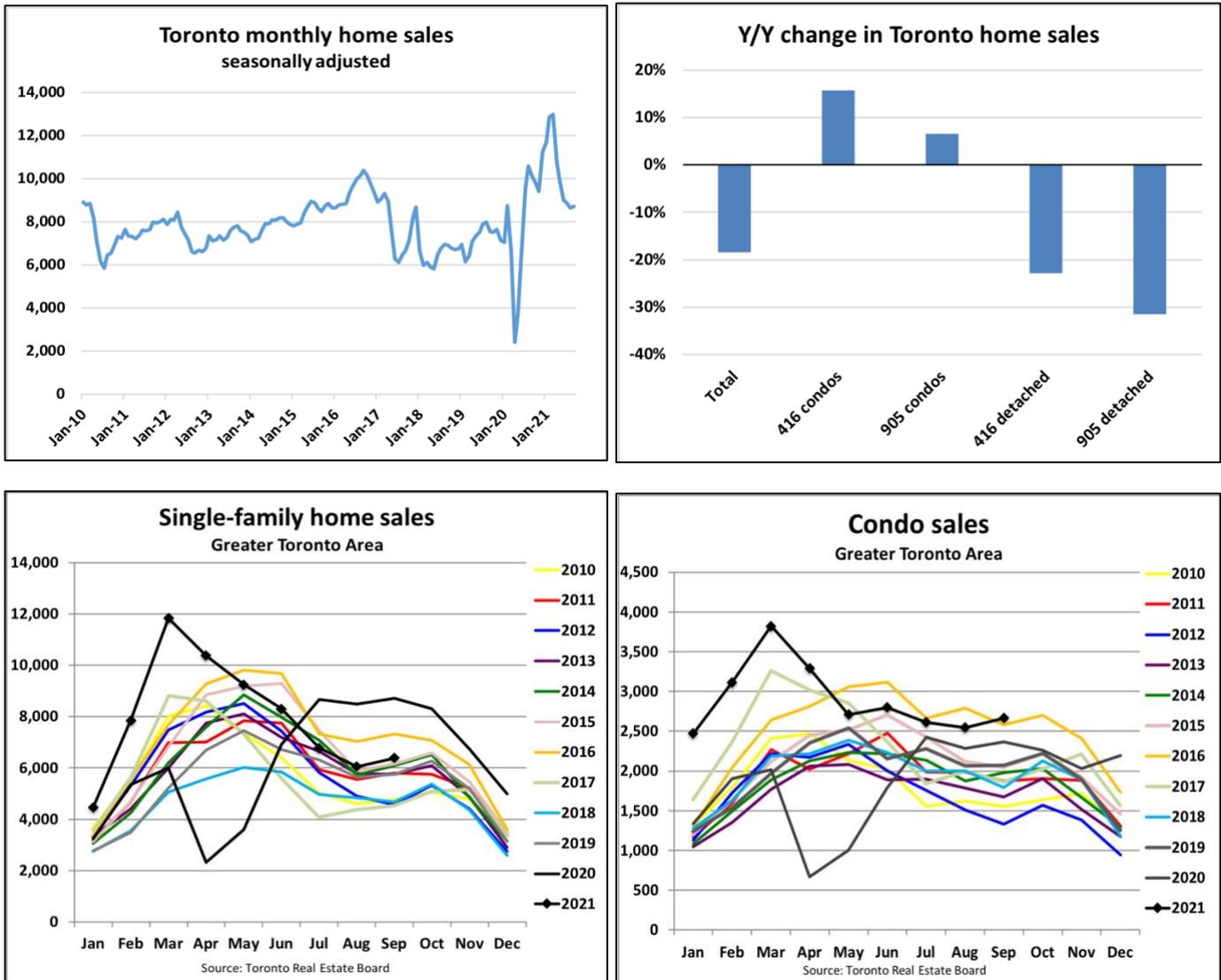


## 2) Toronto housing heating back up

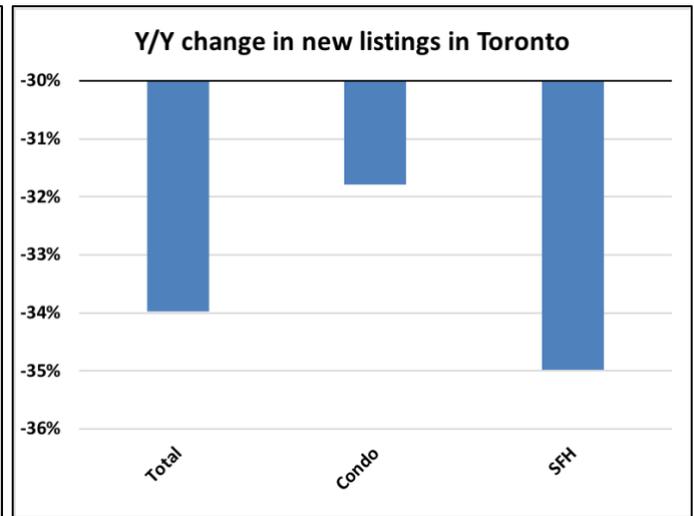
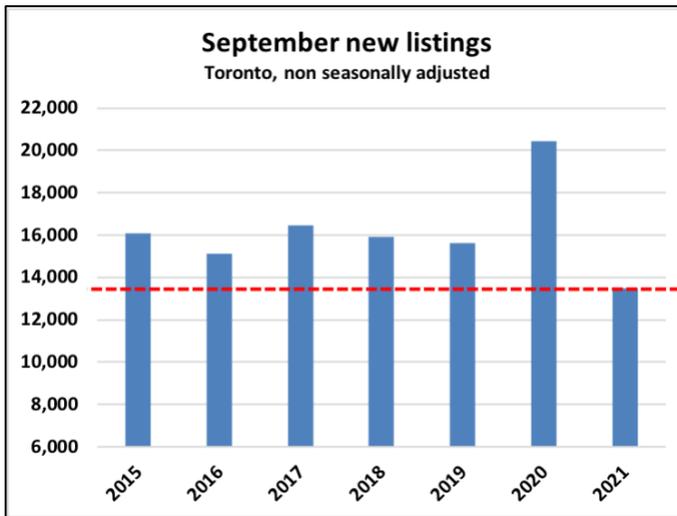
Housing in Toronto is heating back up again amidst an ongoing shortage of listings and now an acceleration in sales.

Seasonally adjusted home sales rose 0.7% m/m in September, the first increase since the March peak. Unadjusted sales were down 18% y/y off record highs last year, but what's notable is the growing disconnect between high density (416 condos) and lower density (905 detached) in the chart below. It's more evidence of a shift back towards big cities.

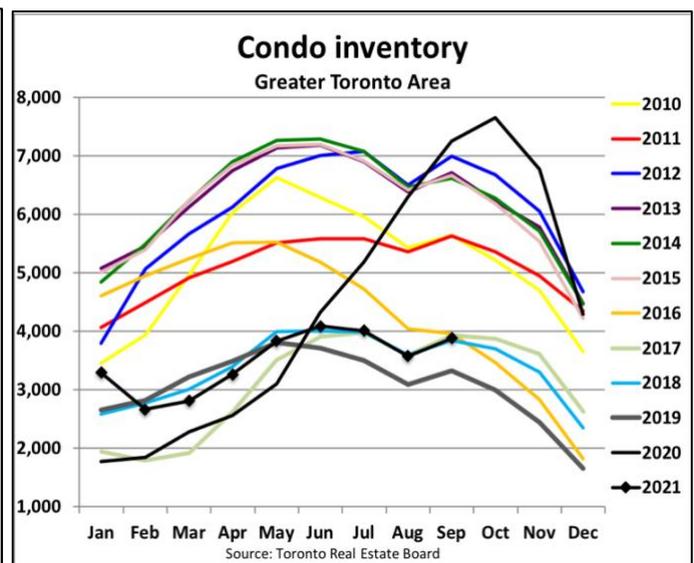
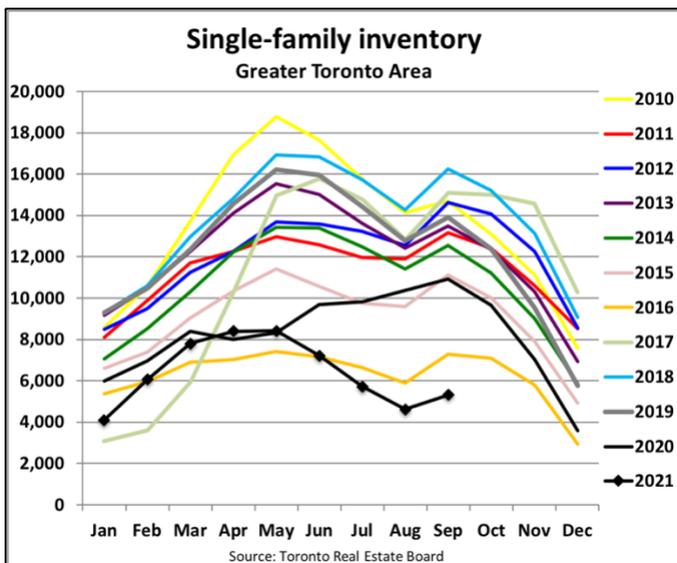
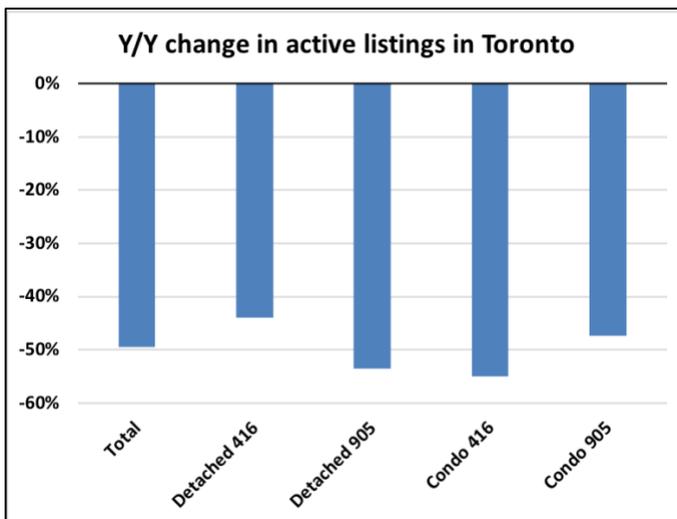
While sales were down overall, condos had the best September on record:



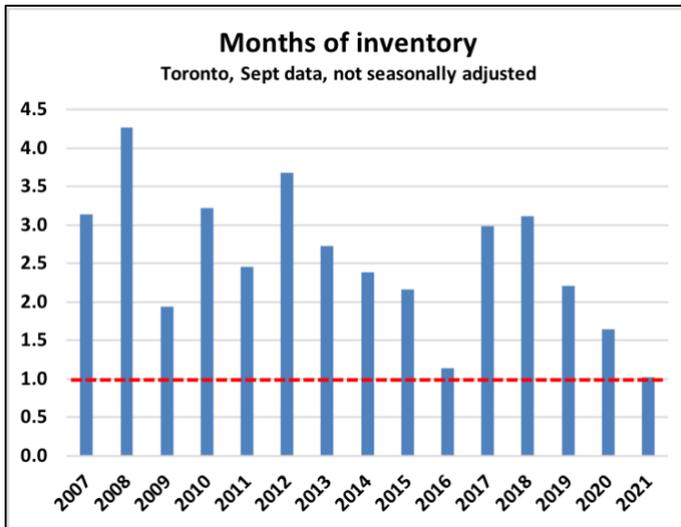
New listings were down by more than 1/3 off the record levels last year but were also well below “normal” levels for this time of year:



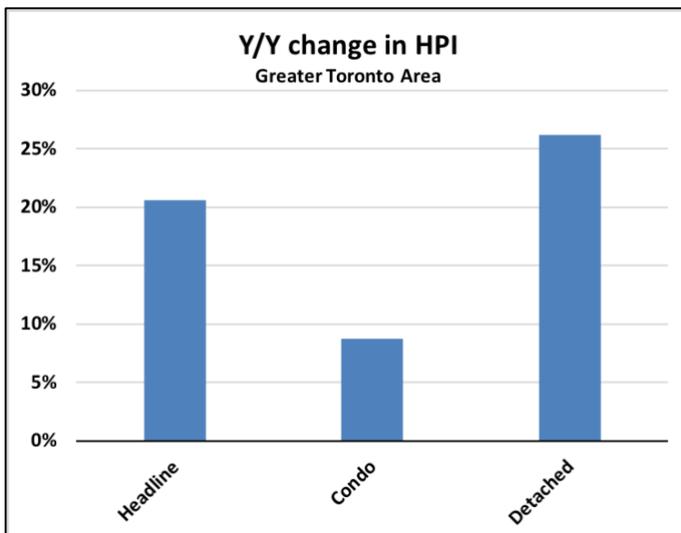
As a result, active listings continue to plunge, down nearly 50% y/y and close to a 60% decline in condos in the city of Toronto:



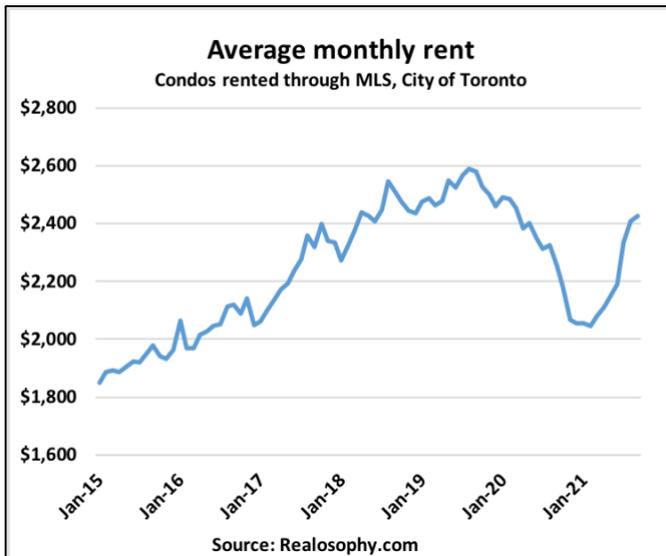
With falling inventory and strong sales, the supply-demand balance continues to tighten. Months of inventory fell to a record low of just 1 in September, eclipsing the previous low for that month back in 2016:



Prices are accelerating again, with the headline HPI up 2.2% on the month, the best showing since March. That pushed the y/y growth rate to almost 21% y/y, the strongest showing since mid-2017:

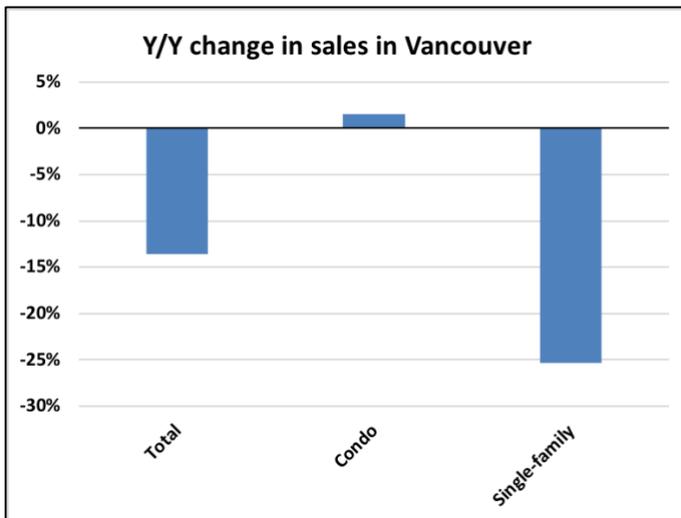


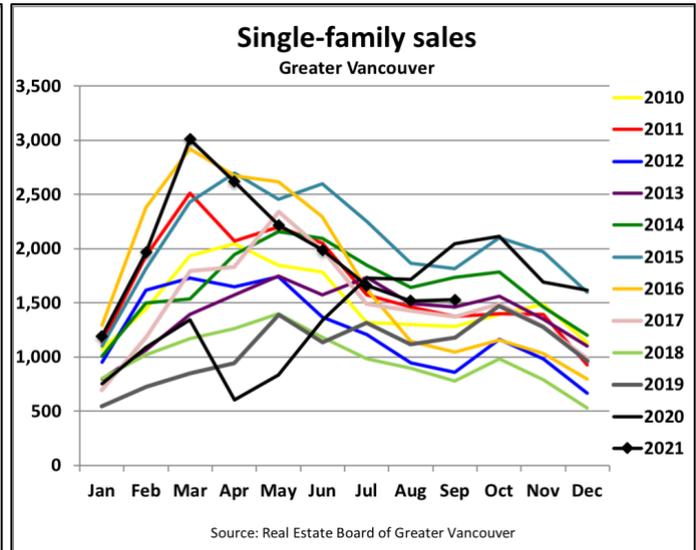
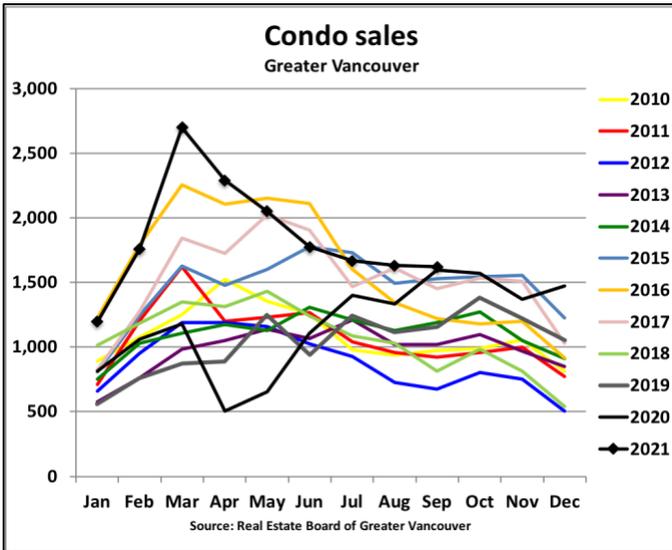
On the rental side, the “back to school” rush seems to be behind us. Average rents were up 0.8% on the month, a solid showing to be sure, but the weakest monthly increase since May:



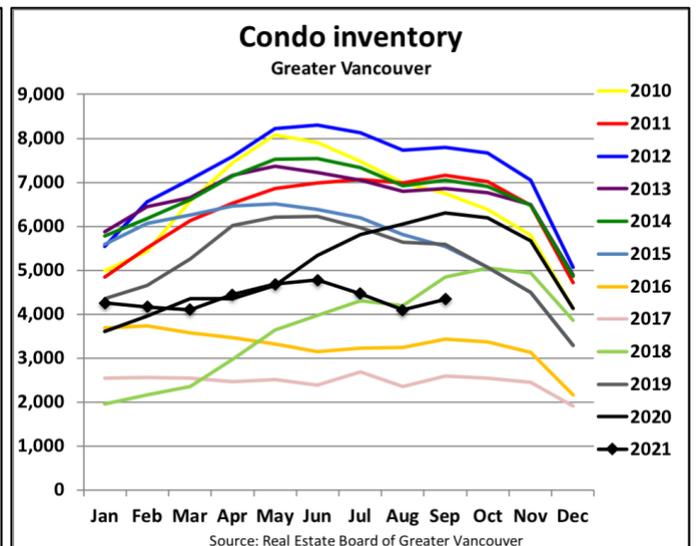
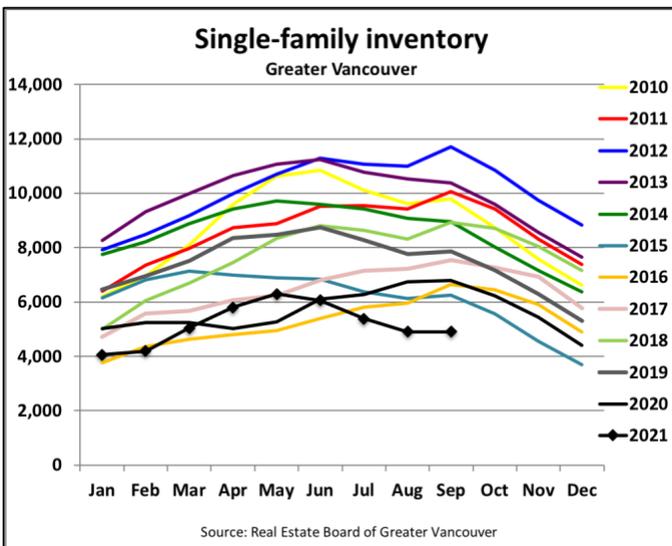
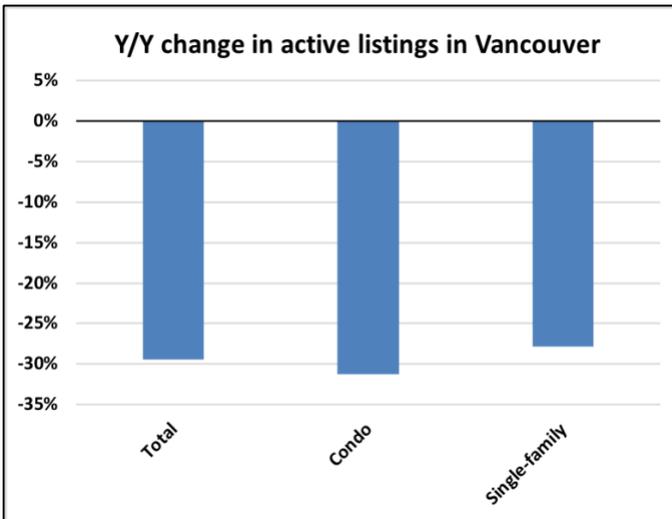
### 3) Vancouver home sales slip but inventory falls further

Home sales in Vancouver fell 14% y/y in September but all of the declines were in the single-family segment where transactions were off nearly 25%. Condo sales hit new records in yet another sign that affordability and shifting consumer preferences are driving demand for entry level homes.

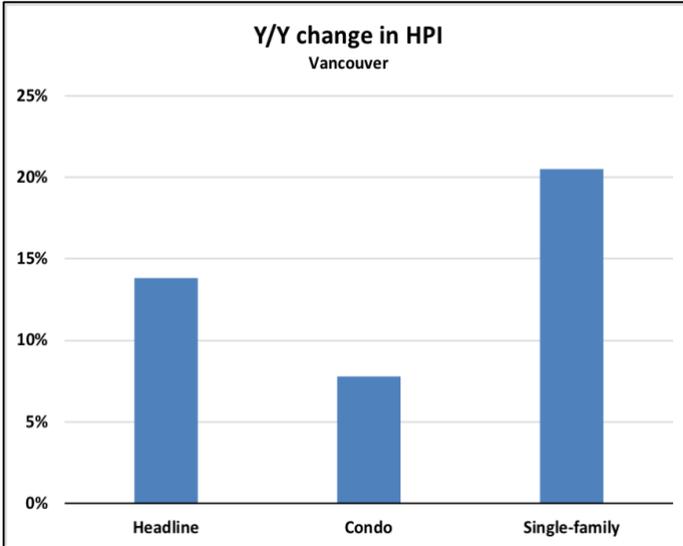




New listings were down 19% compared to record levels in 2020. That's helped push active inventory down nearly 30% y/y including a fresh 20-year low in the single-family segment:

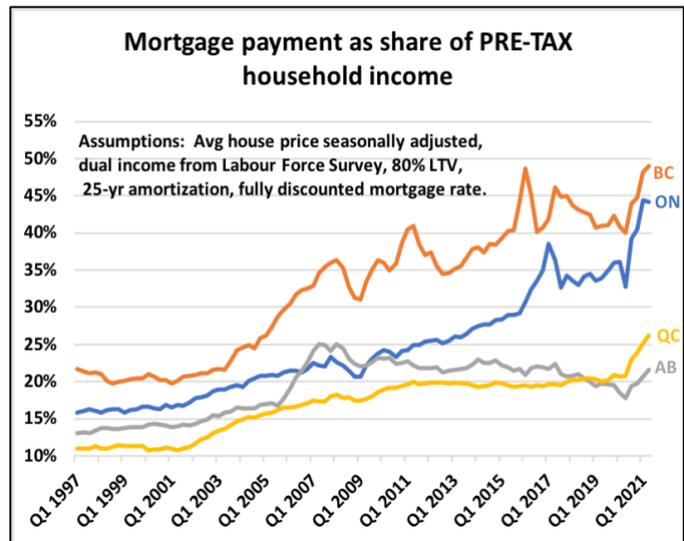
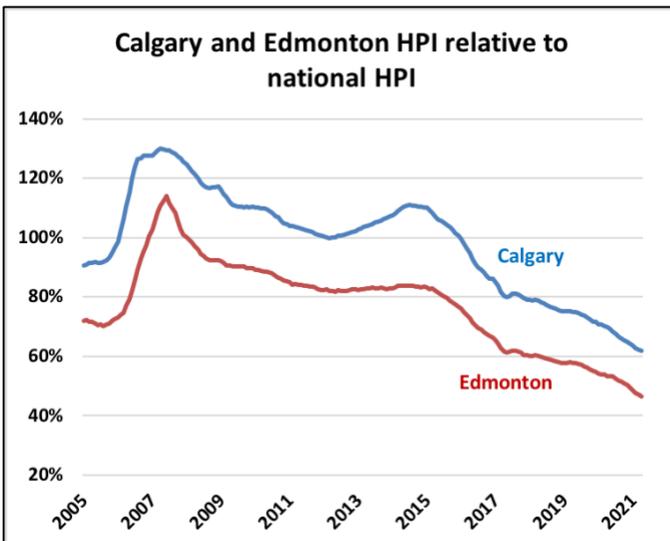


The MLS HPI prices rose 0.8% m/m, the strongest increase since May, and was up 13.8% y/y overall



#### 4) Alberta home sales boom. “Catch-up trade” continues

Alberta still looks primed for a bit of a “catch-up” trade. Houses in Calgary used to trade at a substantial premium to the national average but now trade at a record discount in spite of the fact that Alberta is the only province that has seen affordability trends improve over the past decade:



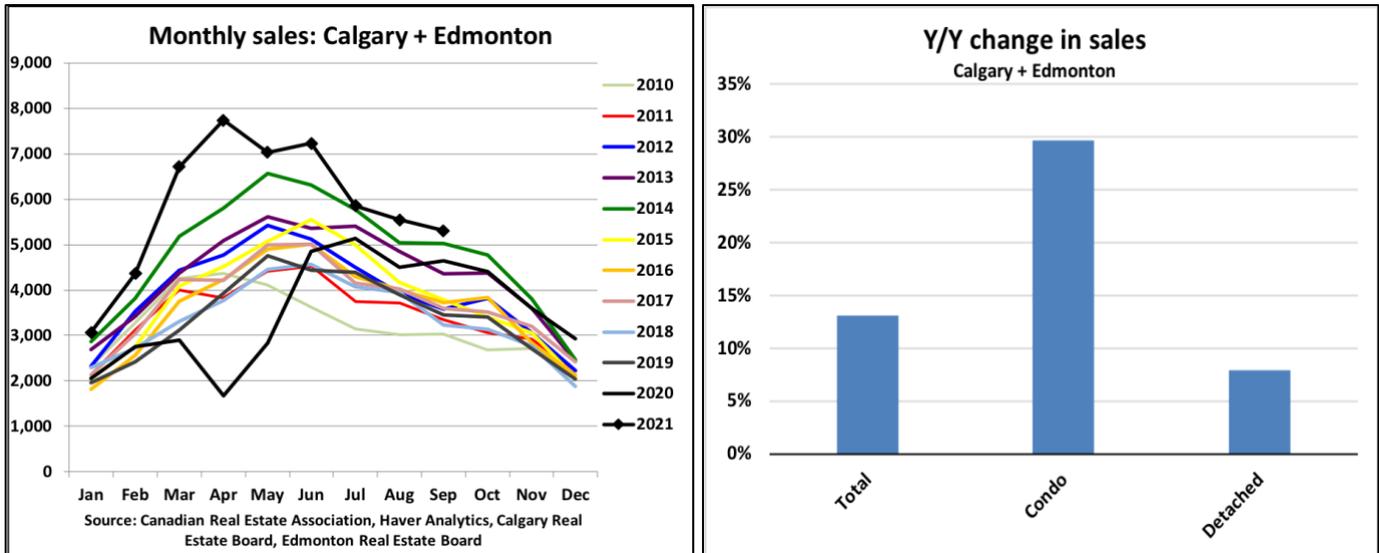
Alberta has a lot going for it right now, not the least of which is a young, educated workforce and incredibly cheap commercial and office space that should foster a solid start-up scene in coming years. Now throw in an energy sector that’s been given a new lease on life, and you have the makings of a solid turnaround story.

Consider the y/y trend in home sales in September:

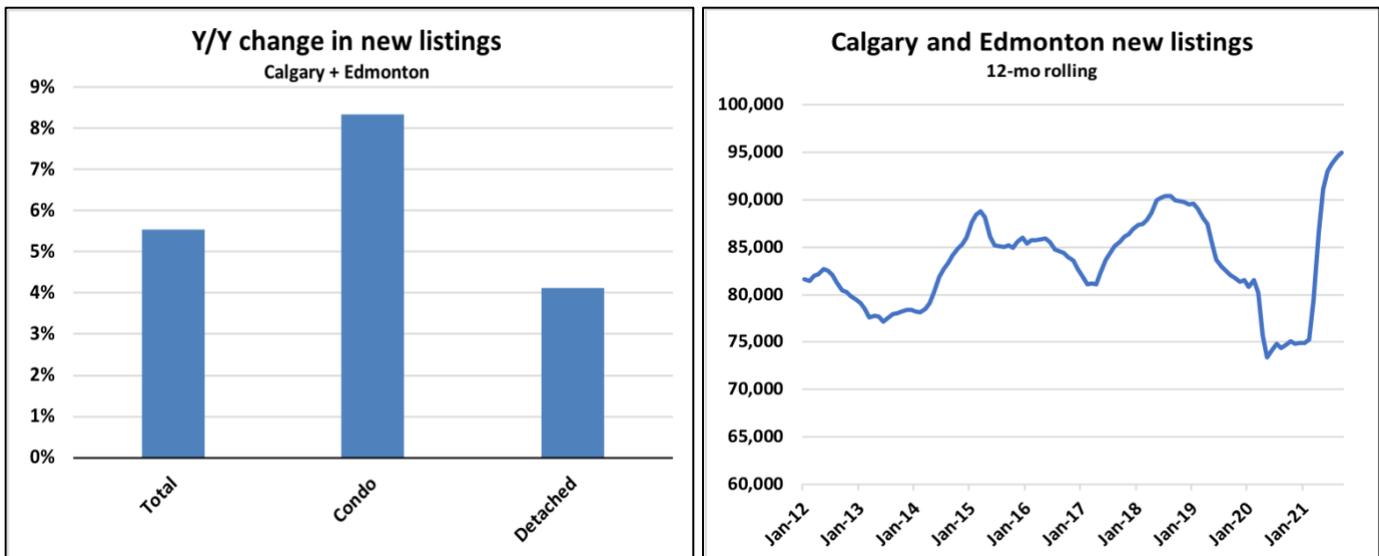
Province of Quebec:	-28% y/y
Vancouver:	-14% y/y
Toronto:	-18% y/y
Calgary and Edmonton	+13% y/y

One of these is not like the others.

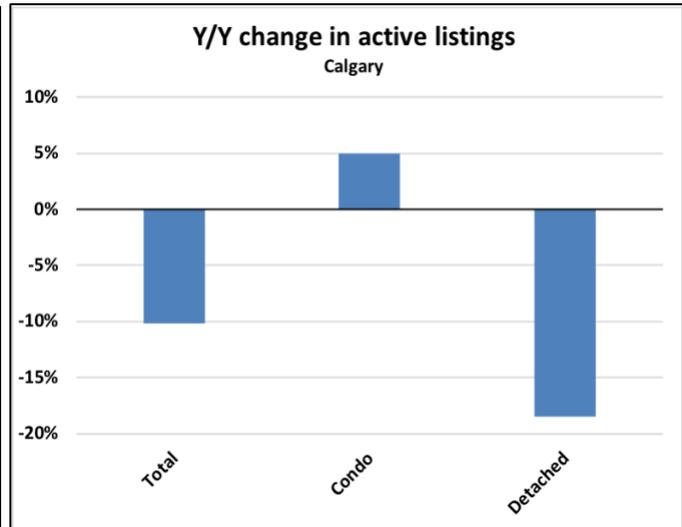
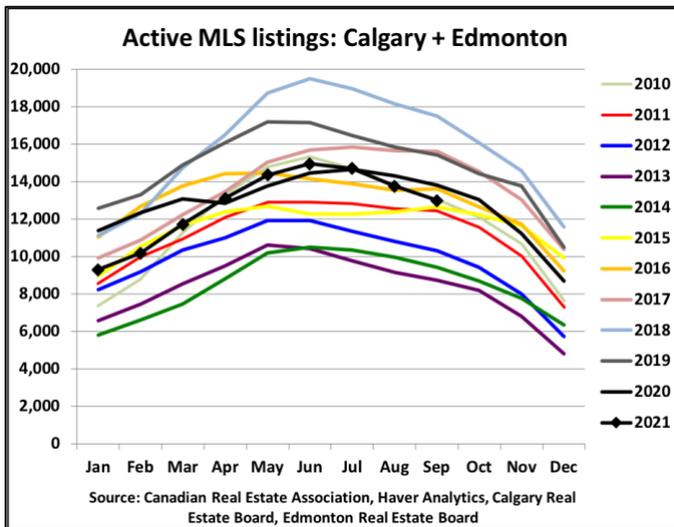
This is not a base effects story either. Sales were not just higher relative to 2020, they came in at the highest September levels in over a decade:



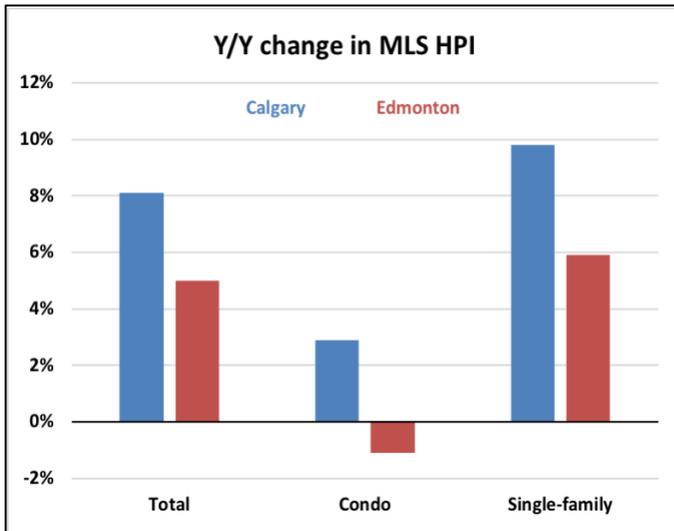
If there's one concern, it's the very strong flow of new supply coming to market....a very different dynamic than what we're seeing in Vancouver and Toronto. For now all that new supply is being readily absorbed and the market continues to tighten overall, but it's a trend that bears watching:



Active listings continue to trend down led by a near 20% y/y reduction in detached inventory:

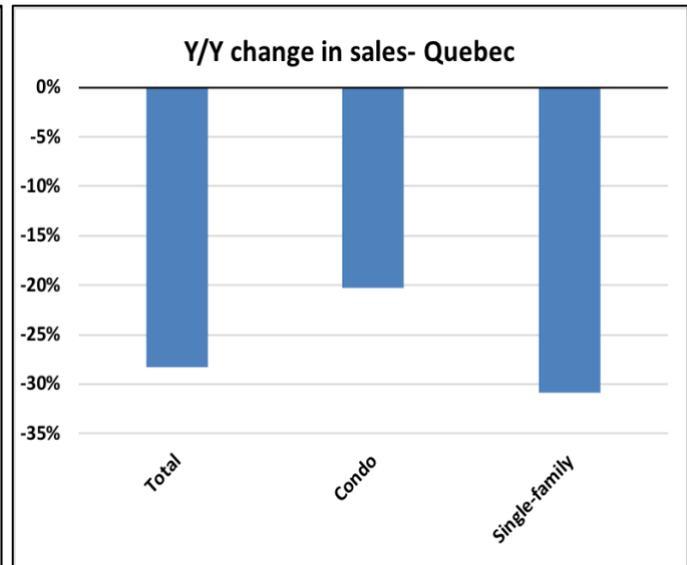
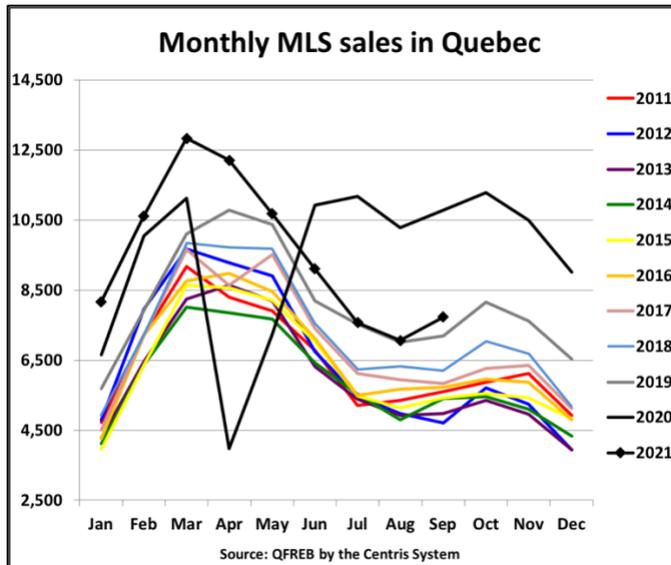


Price gains remain modest relative to the rest of the country, with the HPI up 8% y/y in Calgary and 4.9% in Edmonton. There's plenty of room to run from here:

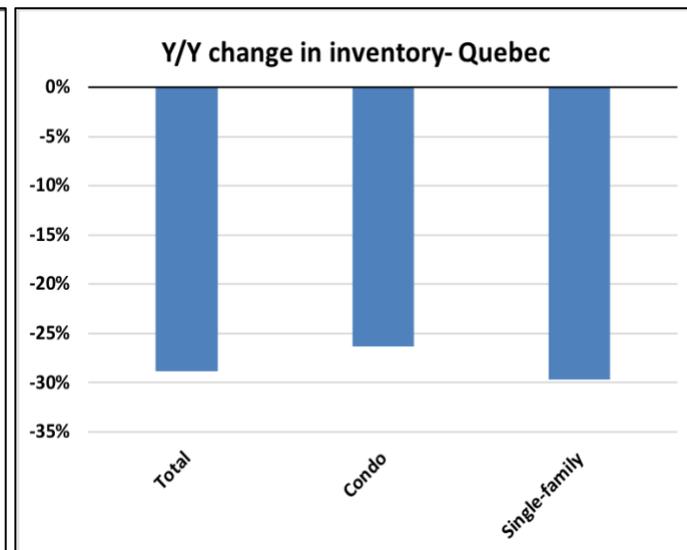
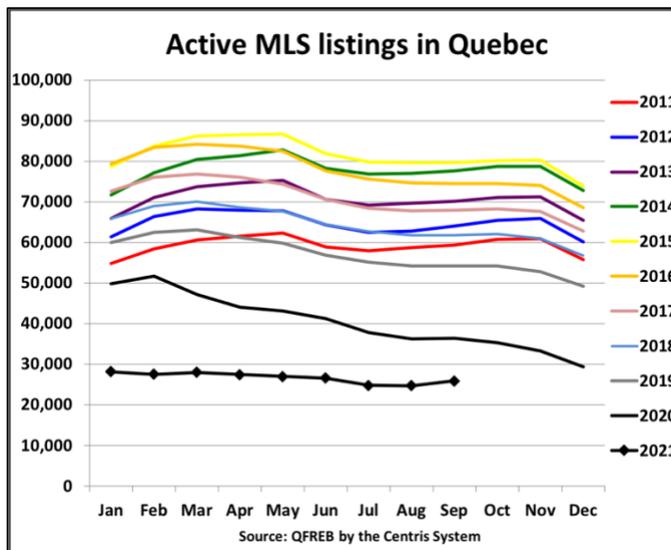


### 5) Quebec home decline amid shortage of inventory

Home sales in Quebec remain well below record levels last year. Sales across the province were down 28% y/y including a 31% decline in single-family sales (-37% in Montreal!).



This remains an inventory story more than anything else. You can't buy what's not for sale, and with active listings down another 29% y/y (down almost 70% over 5 years!) there's very little on the market for prospective buyers.



House prices are no longer surging 40% y/y as we saw this spring, but the gains are still solid at 17% y/y for condos and 16% for single-family:

