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## **September 2022 Metro level deep-dive- August data**

### **Quick links:**

- 1) Affordability pressures intensify as Bank of Canada continues to hike rates**
- 2) Toronto home sales snap back in August**
- 3) Vancouver home sales down slightly**
- 4) Calgary and Edmonton continue to buck national trends**

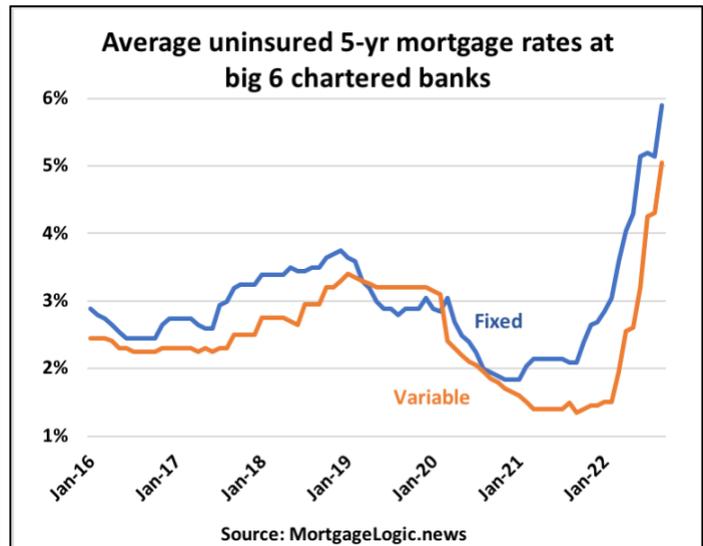
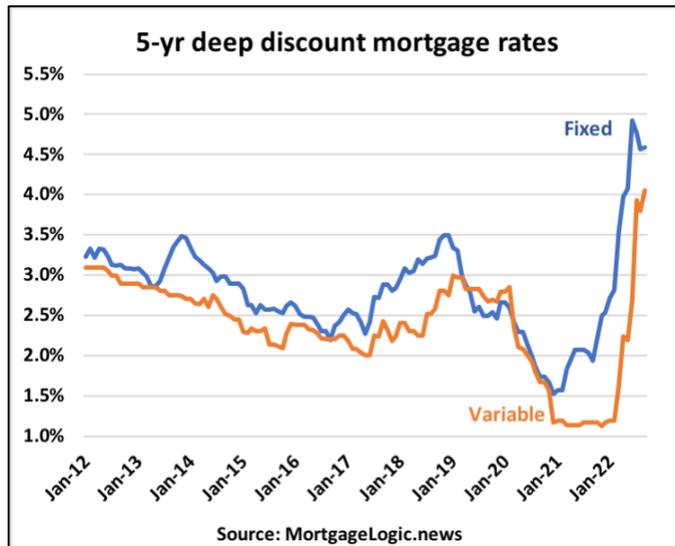
### **Key takeaways:**

- The Bank of Canada's rate hike last week continues to pressure affordability, which just saw the steepest deterioration on record in Q2.
- We're seeing a significant deterioration in economic data, which may signal that we're finally near the end of the current tightening cycle.
- Sales bounced strongly in Toronto off exceptionally low levels, but pricing trends are still not favorable.
- Vancouver sales demand continues to slide, but the inventory build and price pressure is still better than in Toronto.
- Alberta still remains in remarkably good shape. Sales in Calgary are still running 50% above 2015-2020 levels even with the headwinds from rising rates.

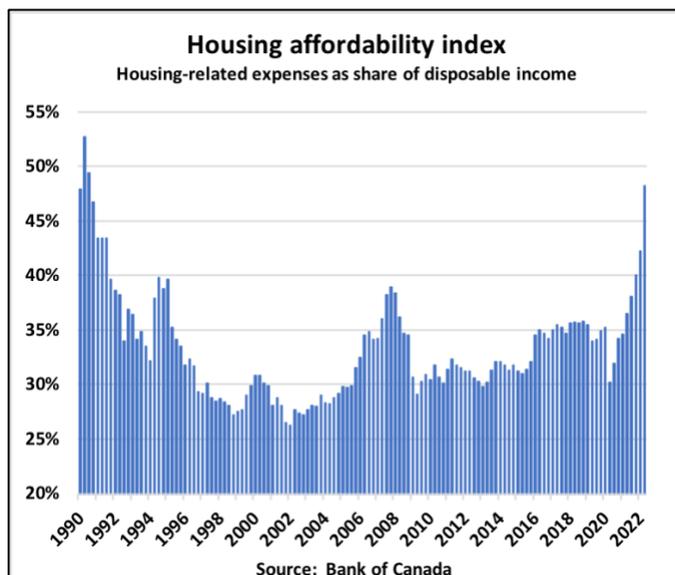
## 1) Affordability pressures intensify as Bank of Canada continues to hike rates

The big story last week was the 75bp (0.75%) hike from the Bank of Canada which brought the overnight rate to 3.25%. As I warned in the last Edge Report, the trends in core inflation were not great last month even though the headline numbers cooled a touch, and the market expectations at that time for a 50bp hike looked a little light.

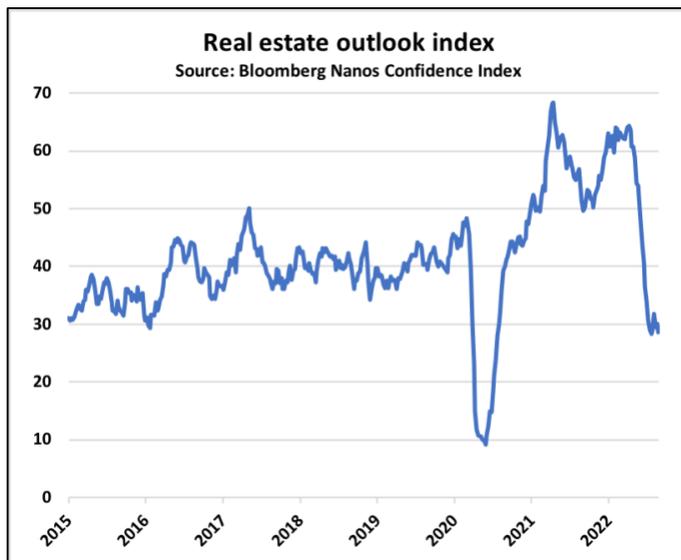
As of this morning, deep discounted variable mortgage rates (ie the average of the best widely-available insured and uninsured mortgage rates) were up 25bps from last week. The move is more pronounced at the big banks where they were quick to raise offered variable rates by the full 75bps.



None of this is good for housing affordability which just saw the steepest quarterly deterioration on record in Q2 according to the Bank of Canada. This is one heck of a chart, and it seems to me that this only gets resolved in the near term via a drop in rates or a further decline in prices.



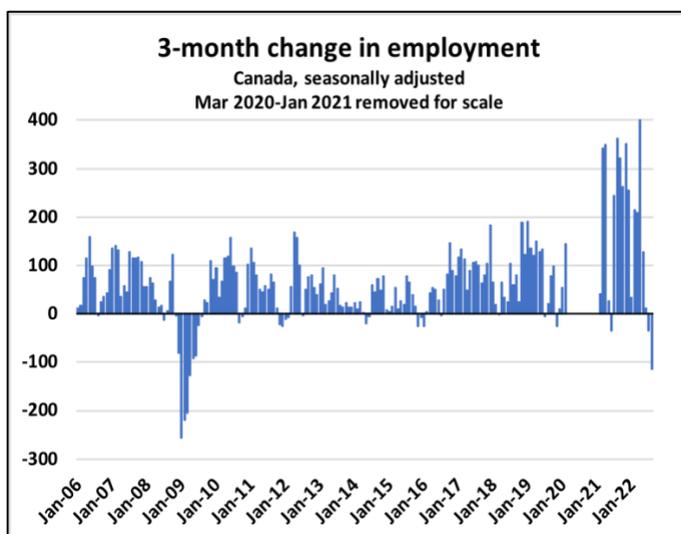
And since housing demand is as much a confidence game as anything else, we should expect continued pressure on homebuyer sentiment:



I think we're FINALLY close to the Bank of Canada moving to the sidelines on rates. Their language last week implies a couple more hikes, with markets currently pricing in another 50bps before the end of the year.

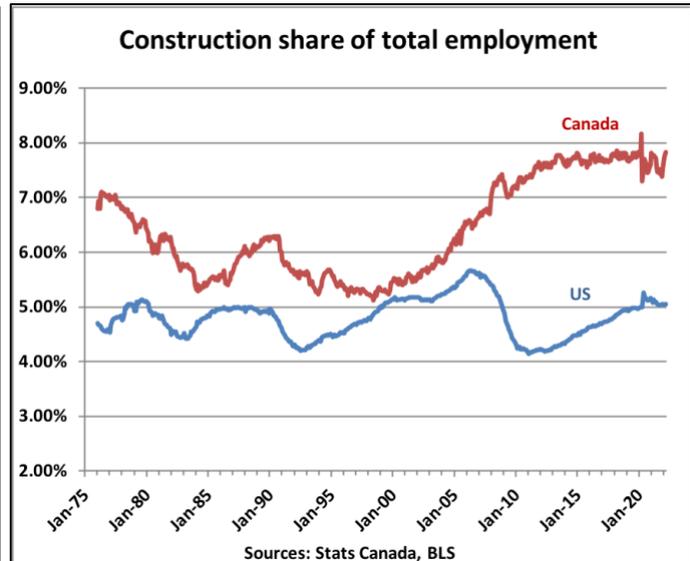
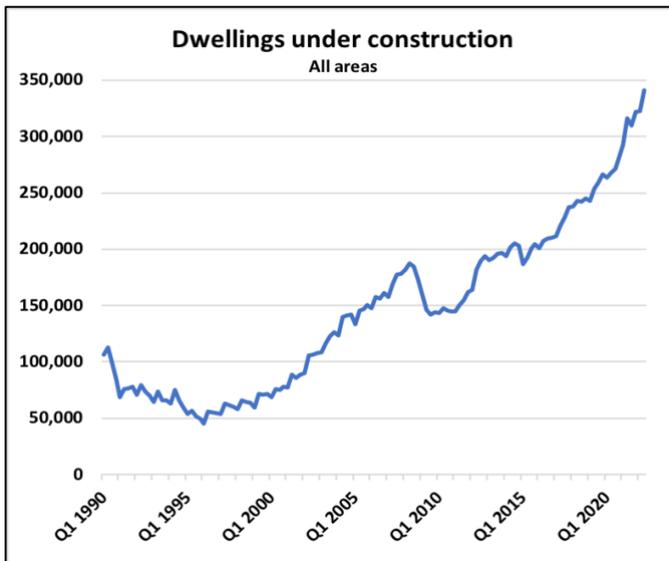
But things can change quickly. For example, Canada's labour market has clearly and rapidly shifted into lower gear. I think most market observers missed just how weak last Friday's employment report really was.

Canada shed another 40k positions in August, bringing 3-month cumulative job losses to 114,000. Outside of pandemic-related shutdowns, this is the largest such decline since the Financial Crisis:



The construction industry shed 38k positions, the largest one-month decline since 2005. The culprit is likely the slowdown in renovation expenditures, which fell 6% sequentially in the Q2 GDP report. It seems that a doubling in HELOC payments can throw a wrench into renovation plans.

Importantly, construction employment is under pressure even with dwellings under construction at record highs of nearly 350,000 in Q2. Weakness in the new home market will cause this to roll over hard in coming quarters and will put pressure on an industry that still accounts for nearly 8% of all jobs in the country.

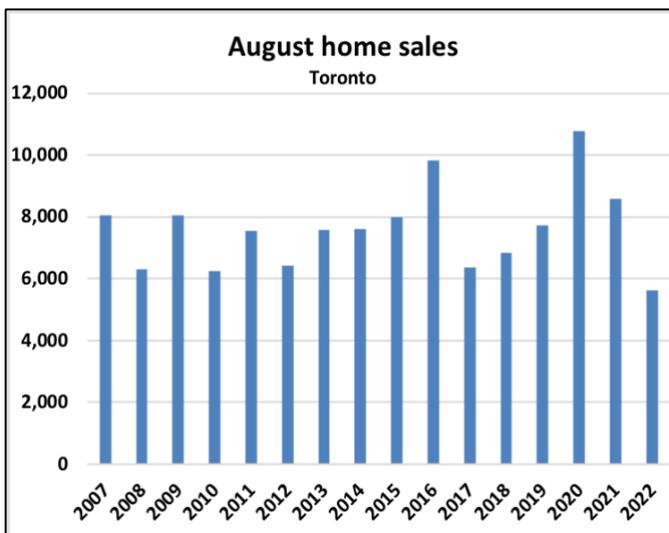


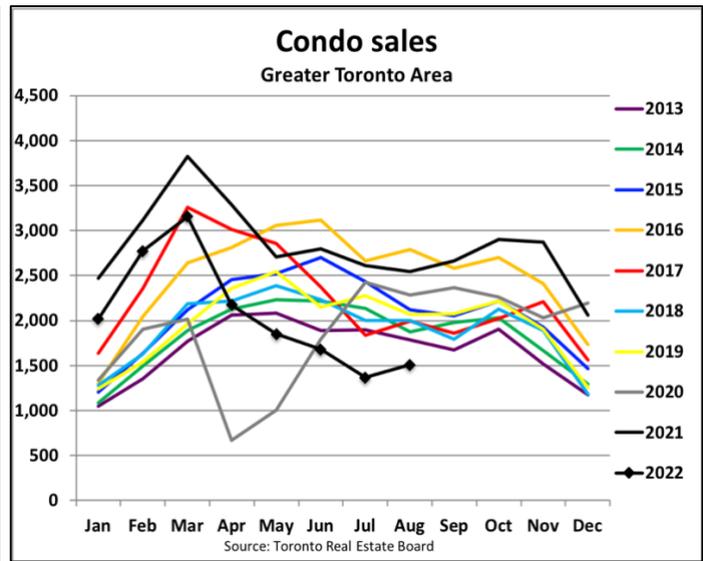
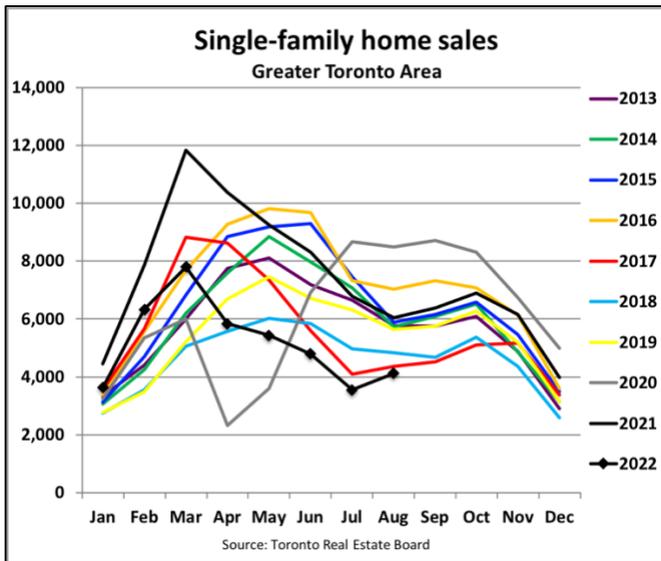
The unemployment rate jumped to 5.4% from 4.9% previously. That's not a small move! There are only 5 other times since 1976 that we've seen the seasonally adjusted unemployment rate jump that much in one month.

I said last month that the market was underpricing the risk of a larger-than-50bp hike in September. I'm saying now that the market may be missing how quickly the Bank of Canada may be forced off this tightening path. Rates at these levels are already breaking things, and it will only get worse from here.

## 2) Toronto home sales snap back in August

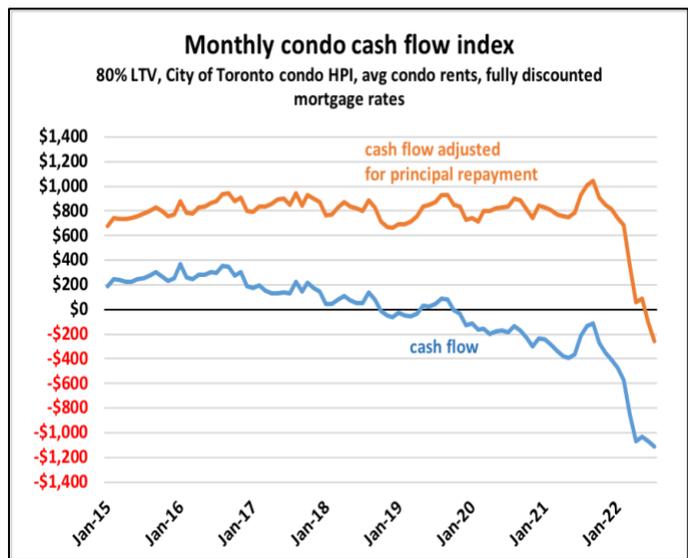
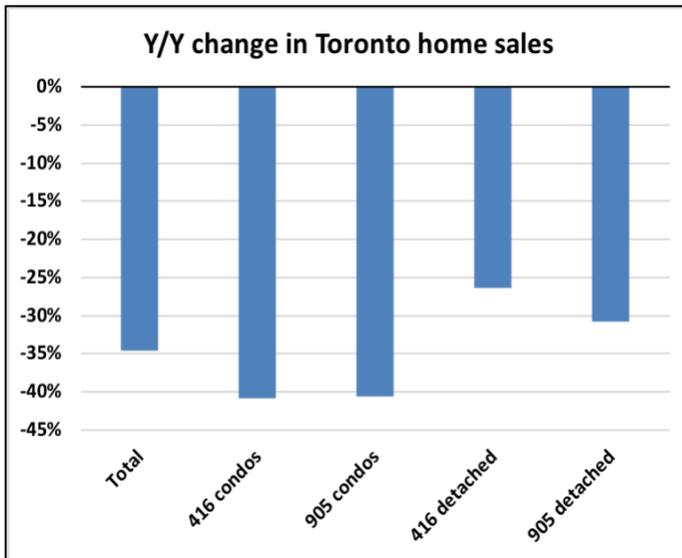
Home sales in the Greater Toronto Area were down 35% y/y in August to hit the lowest tally for that month since the 1990s. BUT they were also up 11.1% m/m on a seasonally adjusted basis. Pick your framing.



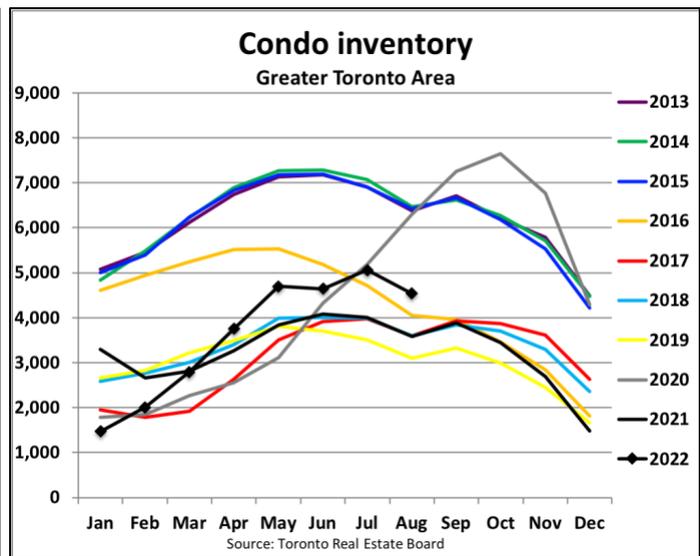
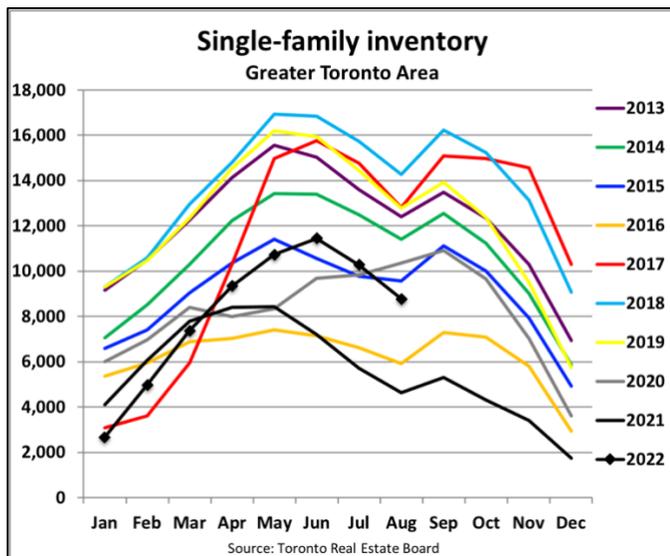


As I mentioned in the last report, home sales in Ontario are running at levels that were last seen in the 1990s....setting aside Apr-May 2020 and 3 months during the Financial Crisis. Sales volumes almost HAD to bounce a bit from those levels. Here we are.

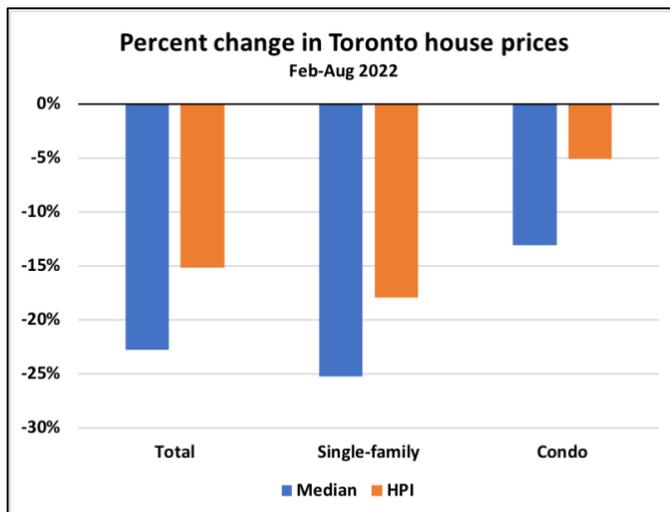
Condo sales continues to be the laggard, down 41% y/y, in a sign that deteriorating rental economics due to rising rates is beginning to sap investor demand. As a reminder, investors buying a resale condo today at 80% LTV face a negative cash flow of nearly \$1,200 per month by my math.



Active listings were up 62% y/y and up 90% in the single-family segment, but it's no longer building as rapidly as it was earlier this year. The flow of new listings coming to market hit the lowest August level since 2010. It's a sign that we've hit the "tug of war" phase of this market correction where less motivated sellers are now holding off for better conditions.



Downward price pressure continues. While the average purchase price ticked up m/m due to composition shift, the median and HPI both ticked down, with the former now posting a 23% decline off the February highs.

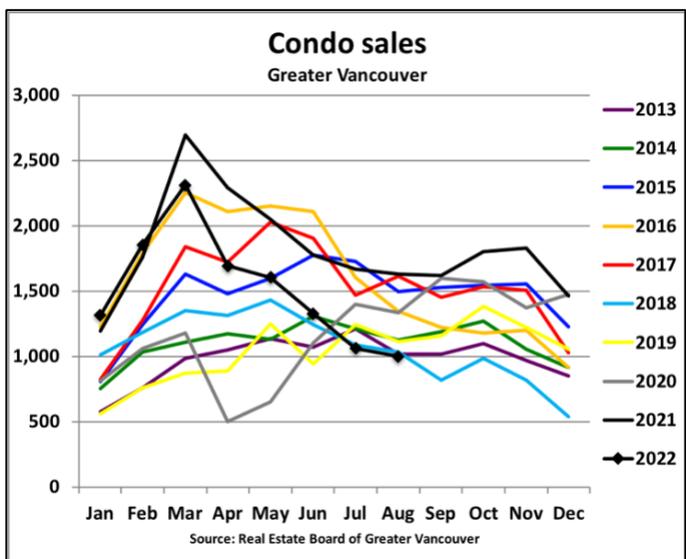
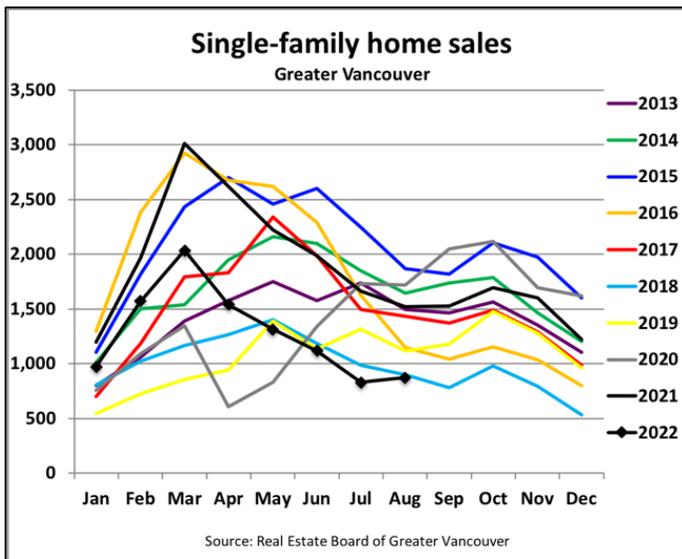
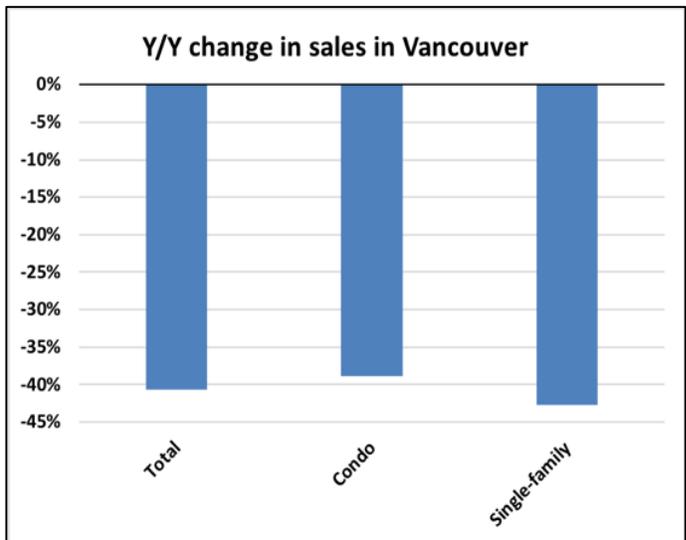


Given that sales are currently at 20-year lows, I expect we'll see them grind sideways a bit from here. A sharp leg lower looks unlikely unless we see the macro backdrop deteriorate sharply. But even more unlikely is a sustained rebound back to peak levels. The payments needed to carry the mortgage on a typical home purchased today is up nearly 50% in the past 10 months. Consumers simply cannot shrug off a deterioration in affordability of that magnitude.

The bigger question is what will happen with inventory. Sellers are starting to hold the line, but we have a pile of new supply in the construction pipeline while rising rates are already starting to force the hand of some highly levered investors. September generally sees a big jump in listings coming out of the summer doldrums, so we'll get a better sense of inventory trends in next month's report.

### 3) Vancouver home sales down slightly

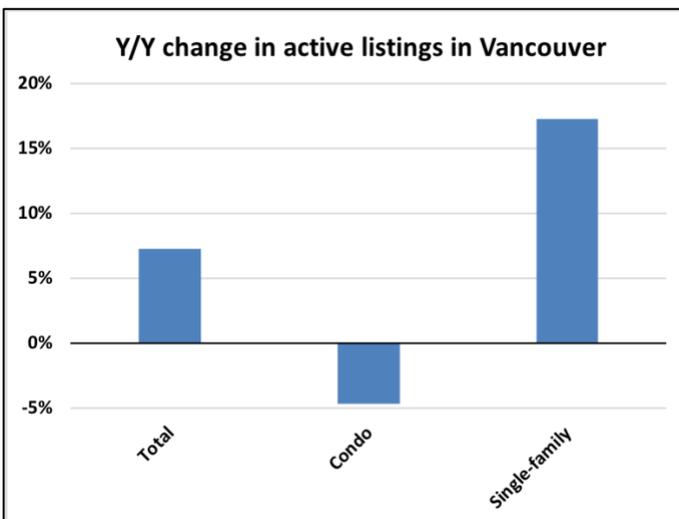
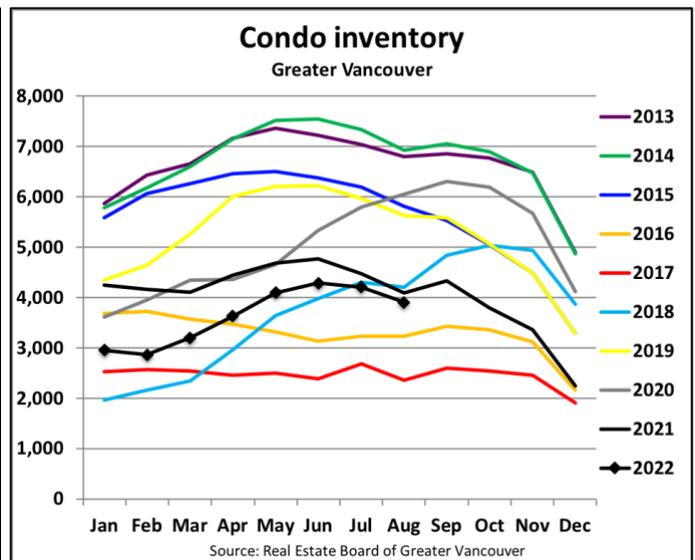
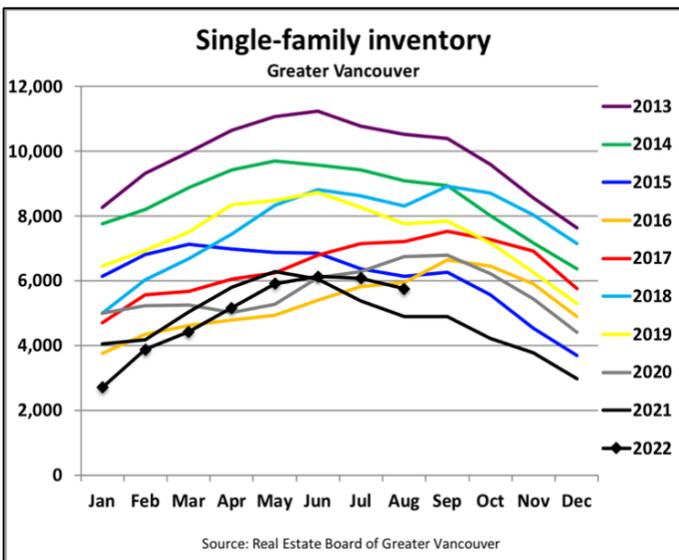
Home sales in Vancouver didn't see the same bounce that we saw in Toronto...but they haven't fallen nearly as far either. Transactions slipped a modest 0.5% m/m (seasonally adjusted) in August but were down a whopping 40% compared to last year.



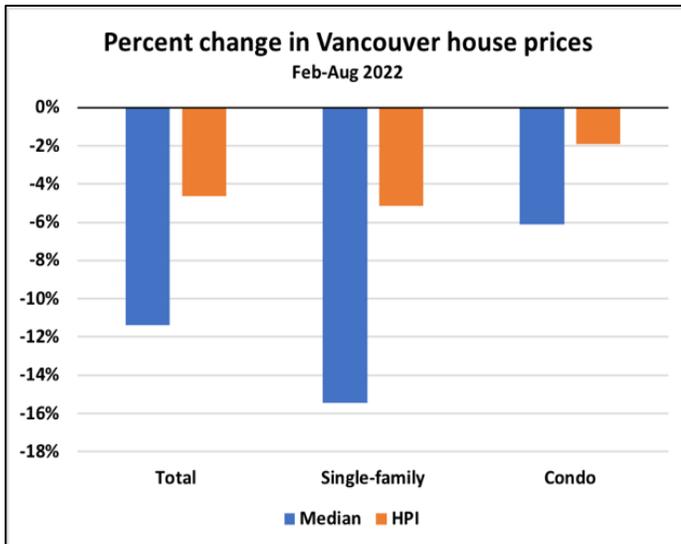
As with Toronto, there are no sign of a “rush to the exits” for sellers. Far from it. New listings were at decade lows in August in a sign that the “tug of war” between buyers and sellers is in full force here too:



Consequently, inventory is not building particularly quickly across the metro region. Sure, it's up about 7% y/y overall and about 17% for single-family, but that's a far cry from the trends we're seeing in Toronto.

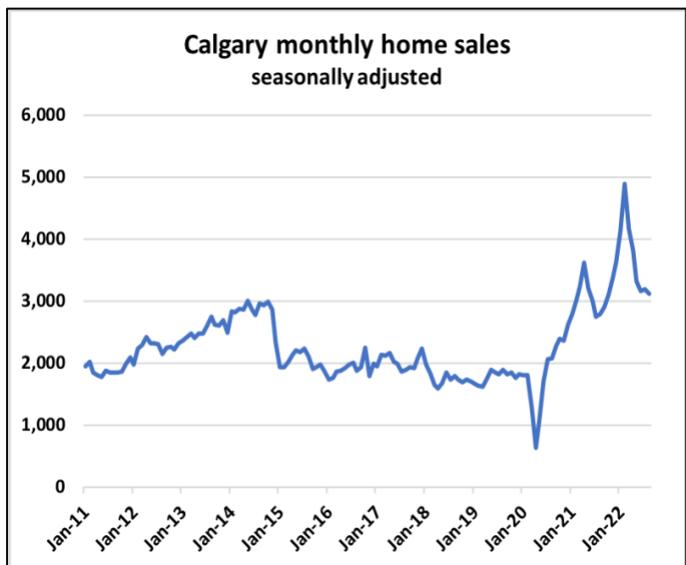
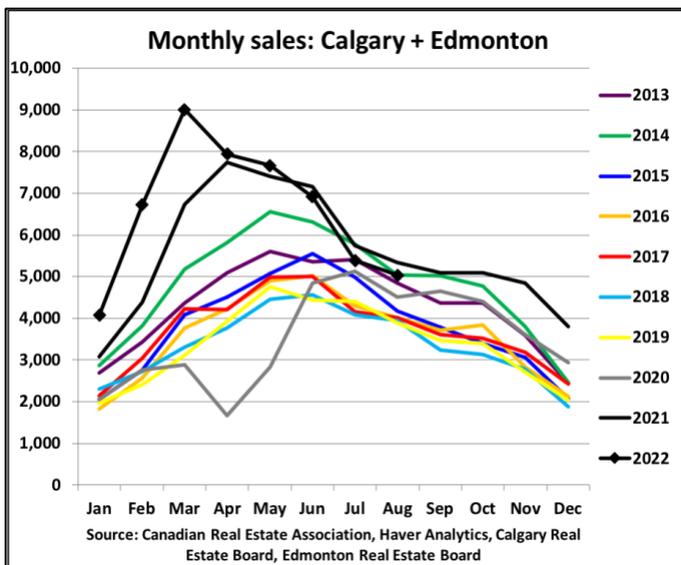


Prices remain under pressure, with the median down another 1.6% m/m and the HPI down 2.2% (non seasonally adjusted). That puts the cumulative decline from peak at 11.4% and 4.6% respectively.

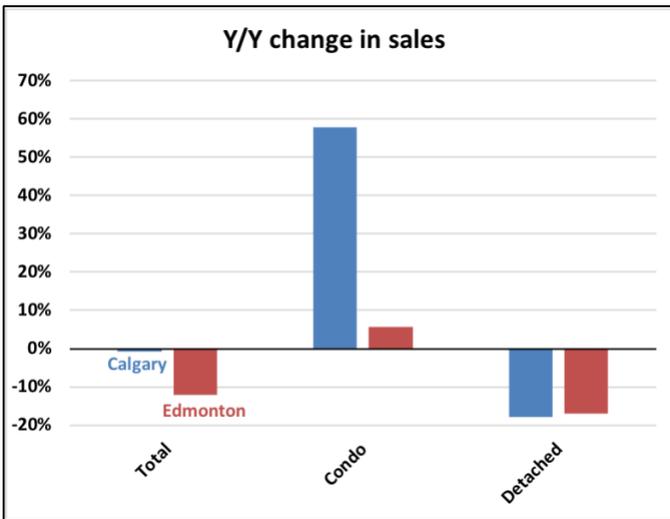


#### 4) Calgary and Edmonton continue to buck national trends

Home sales in Calgary and Edmonton were down 2.5% seasonally adjusted in August and were down 4% y/y due mainly to a 12% y/y decline in Edmonton. That's a remarkably strong showing in light of the move in mortgage rates. After all, seasonally adjusted home sales in Calgary are still running 50% ABOVE average levels from 2015-2020. This is not a weak market!

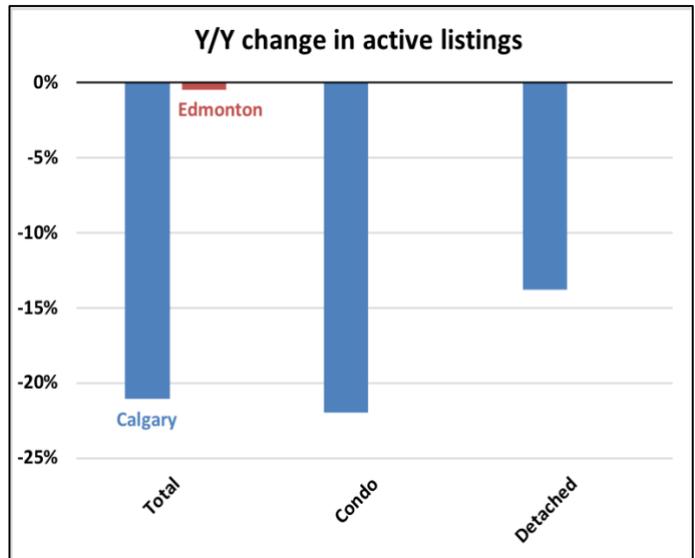
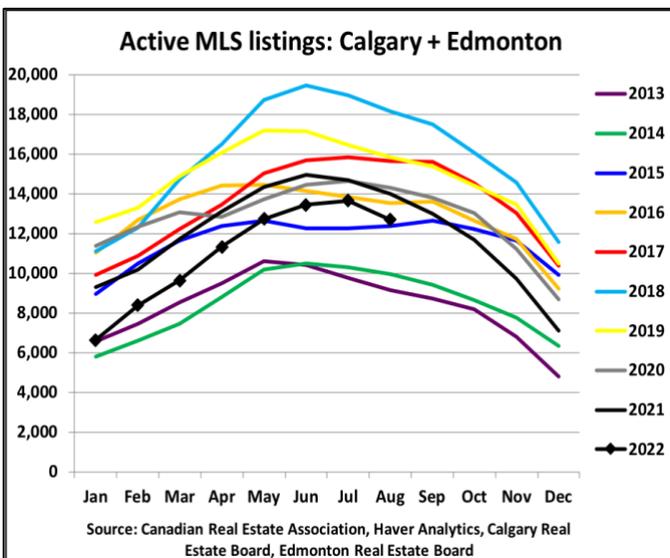


If there's one thing that weirds me out a little it's the ongoing boom in condo sales in Calgary. I think we're seeing some residual demand from investors looking to chase the last bit of momentum in the Canadian market. How else do we explain a 60% y/y jump in condos compared to a near 20% drubbing in detached.

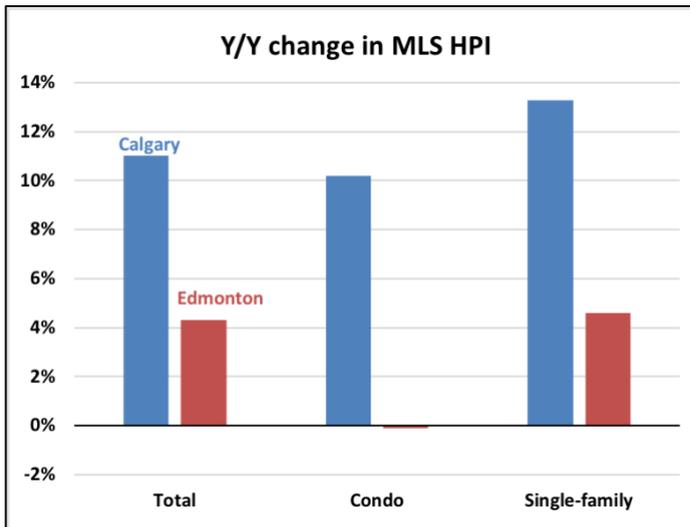


It's perhaps also notable that new listings in the condo space were up 14% y/y in August compared to a 4% decline in the overall market. Maybe an early sign that some investors got in over their heads?

Inventory levels remain totally benign. Active listings in Calgary were down 21% y/y and were basically flat in Edmonton:



House prices are still up strongly in Calgary (+11% overall and +13% for detached) while Edmonton saw prices up a little more than 4% overall.



Regards,  
Ben