# February 2023
# Metro deep-dive- January data

**Quick links:**

1) **Bank of Canada reaffirms rate holds, but don't expect cuts this year. Unless…**
2) **No signs of stabilizing yet in Toronto**
3) **Vancouver home sales start 2023 on weak footing**
4) **Calgary sales slump for 11th straight month**

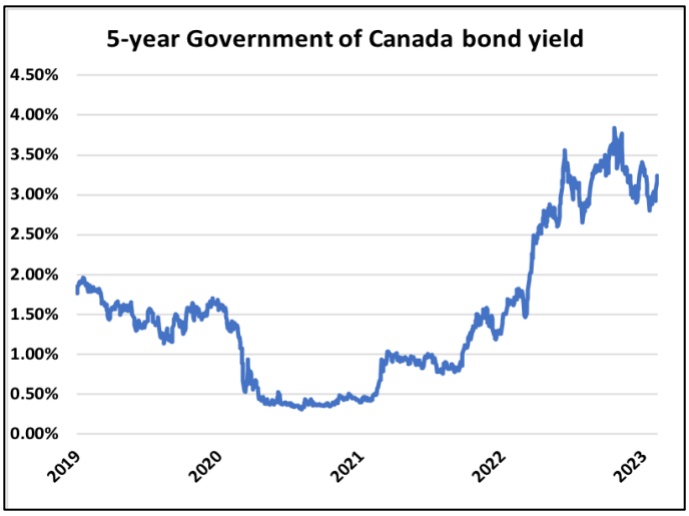
## 1) Bank of Canada reaffirms rate holds, but don't expect cuts this year. Unless…

Let's jump straight into comments from Bank of Canada governor Tiff Macklem this week since there are some important takeaways. Emphasis added throughout:

> […] In 2022, we faced an overheated economy and high inflation, and we responded forcefully, **increasing our policy interest rate rapidly. The year ahead will be different**. In January, after eight consecutive interest rate increases, we said that **we expect to hold the policy rate at its current level**, conditional on the outlook for inflation. We are pausing to assess how well our interest rate increases are working to bring inflation down.
>
> […] The transmission mechanism takes time—typically we don't see the full effects of changes in our overnight rate for 18 to 24 months. That's why policy needs to be forward looking. In other words, we shouldn't keep raising rates until inflation is back to 2%. Instead, we need to pause rate hikes before we slow the economy and inflation too much.
>
> **[…] if new data are broadly in line with our forecast and inflation comes down as predicted, then we won't need to raise rates further.**

That seems pretty clear, and it's in-line with the general messaging from the Bank over the past month: No more rate hikes unless we get a MAJOR upside surprise on inflation.

That change in guidance is what's driven the recent decline in 5-year bond yields from the highs of 3.8% all the way down to 2.8%. But notice that yields have been rising again over the past week or so and are now back above 3.2%:



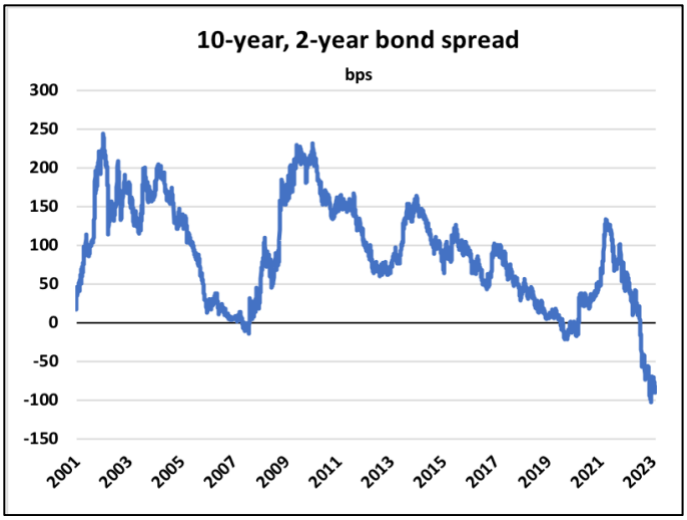

I think the market got too carried away and conflated the notion of a "pause" with an outright "pivot" to a loosening bias. In other words, markets just one month ago had priced in a whopping 160bps or 1.6% DROP in the overnight rate in the next 12 months which would take it down to the mid-2% range. But Tiff seems to be leaning against that view. Consider his comments in this week's speech:

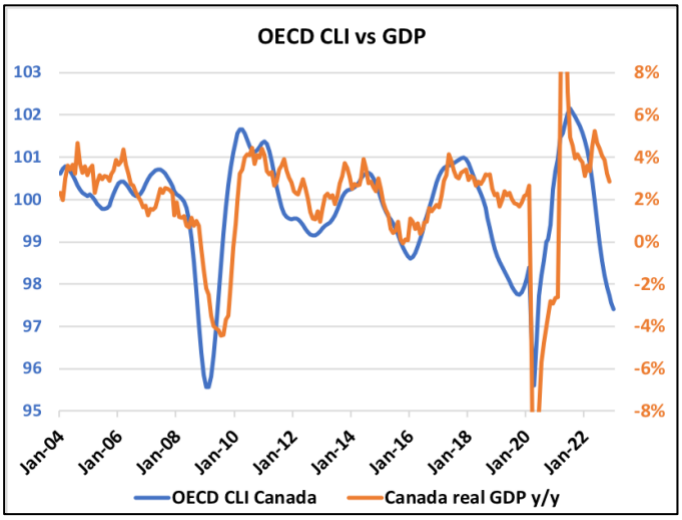
> […] with inflation still well above our target, **we continue to be more concerned about the upside risks**.

In other words, if they're going to err, it will to be on the side of being too tight in their policies. This is a complete 180 from their thinking over the past decade where the concern was with downside risk, and their bias was to err on the side of being too loose.

So the key takeaway is this: The Bank is done raising rates but they also won't be cutting unless we get a very significant economic downturn.

That's certainly possible, and I'd note that two major recession indicators continue to flash warning signs. First, the yield curve remains steeply inverted (the deepest inversion since the 1980s) while leading indicators continue to fall and are now at levels that are consistent with a nasty recession on deck.



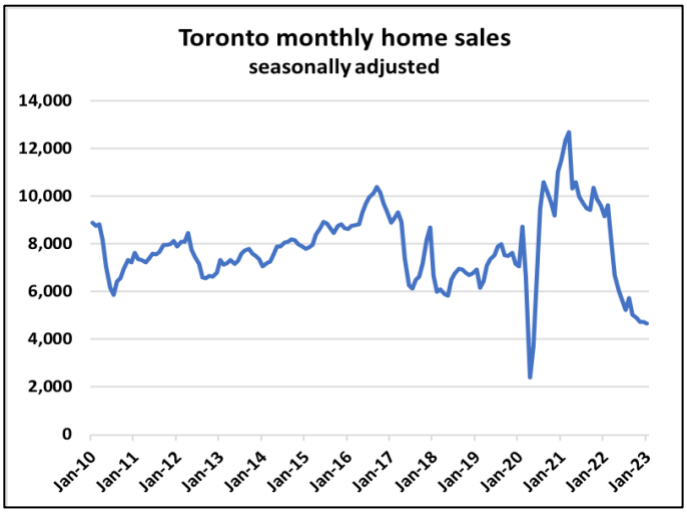



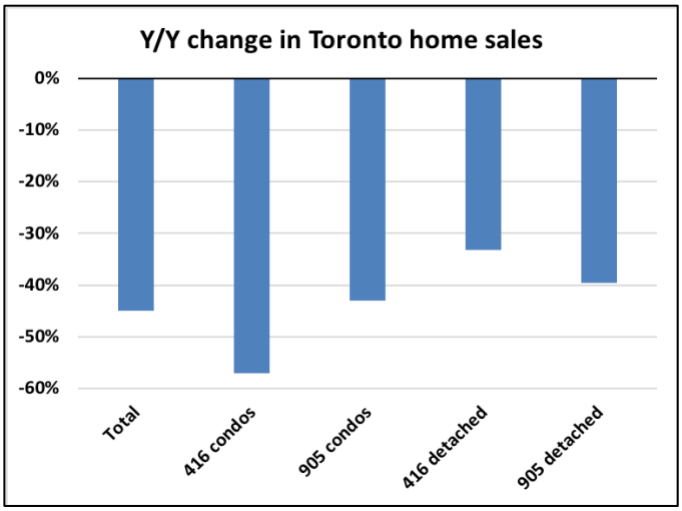

Canadians need to be careful what they hope for here. I suspect if we do get rate cuts this year, the much bigger concern will be the state of the economy. It's difficult to envision a durable recovery in demand in that scenario.

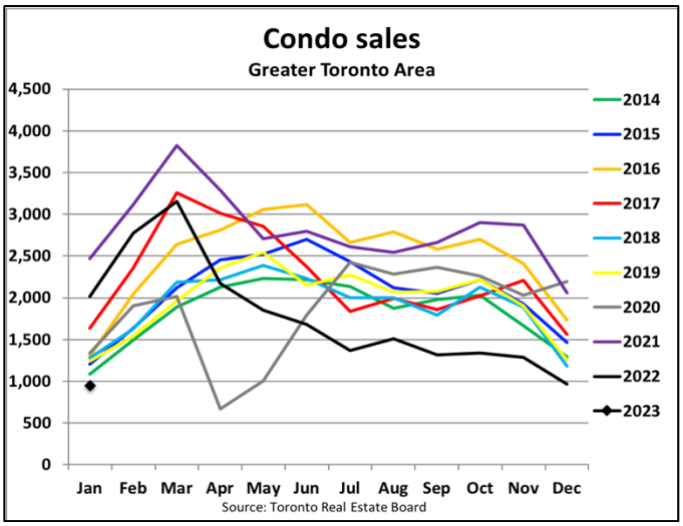
## 2) No signs of stabilizing yet in Toronto

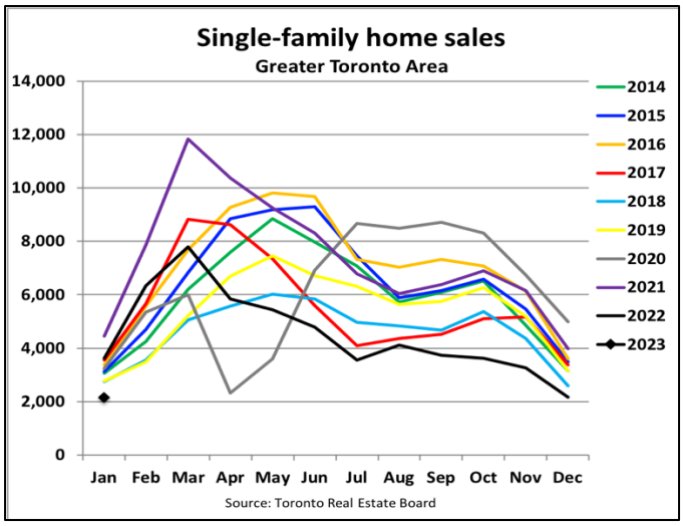
There was lots of buzz on social media regarding an uptick in demand in January, but at this point it's difficult to tell if it's normal seasonality or something else.

What we do know is that sales fell 1% m/m when adjusted for seasonality but were down nearly 45% y/y. And it's even worse than it appears when we consider that there were substantial downward revisions to November and December sales figures of -2.8% and -4.4% respectively.

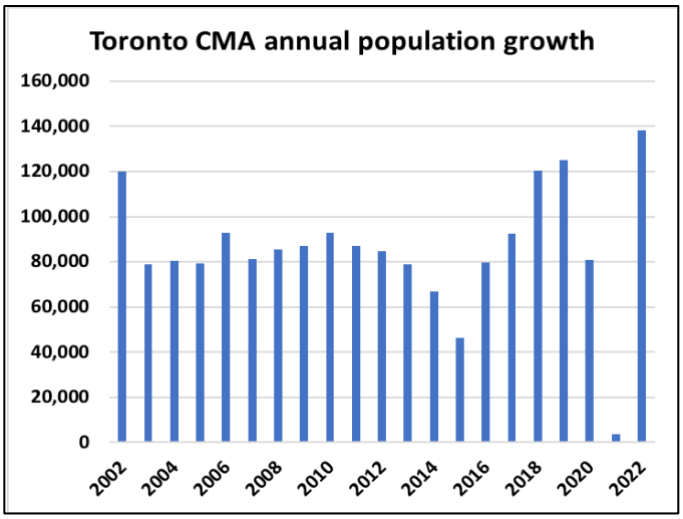




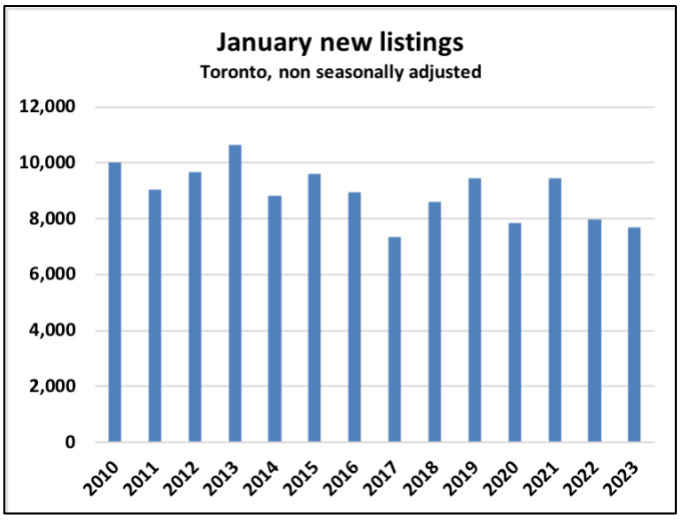



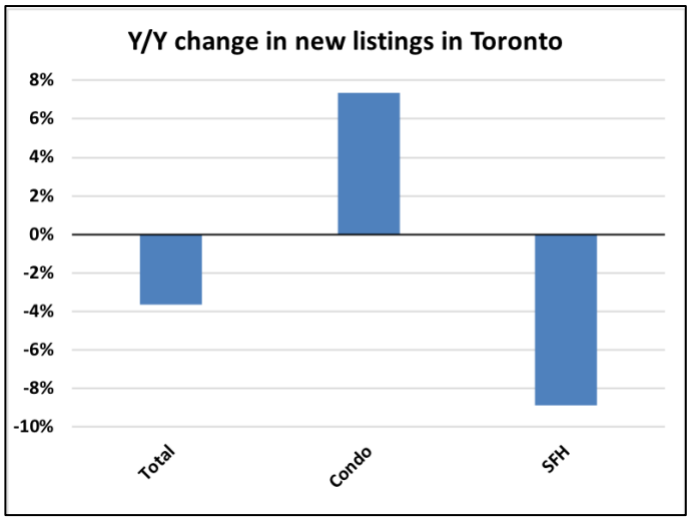

I've written in previous notes that an uptick in sales should be expected this spring. Transactions hit a 12-year low nationally in Q4 (outside of Q2 2020). And in Ontario, they were the lowest in nearly 25 years outside of COVID and the depths of the Financial Crisis. In Toronto, seasonally transactions in January were at 1998 levels outside of 2 months in 2020 and 3 during the Financial Crisis. They are simply unsustainably low particularly given record population growth:




Sales nationally will very likely jump 20% off current levels in Q1 (seasonally adjusted), but that will still leave them well below peak levels.

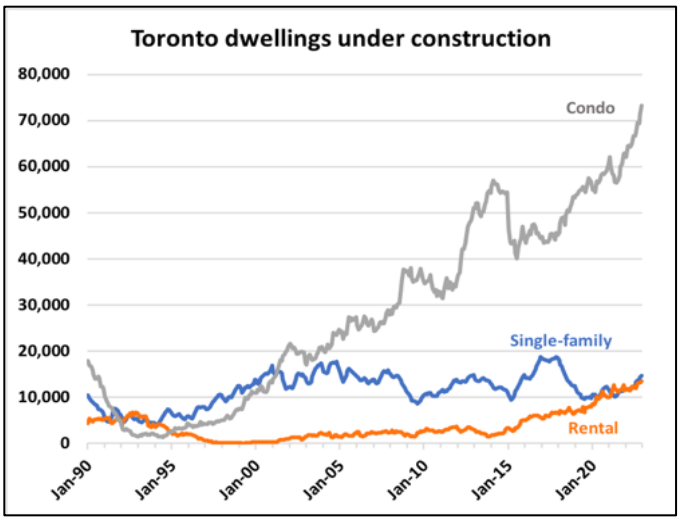
The bigger question now is what will happen to supply. Sellers continue to sit on the sidelines with new listings down nearly 4% y/y overall and 9% in the single-family segment:



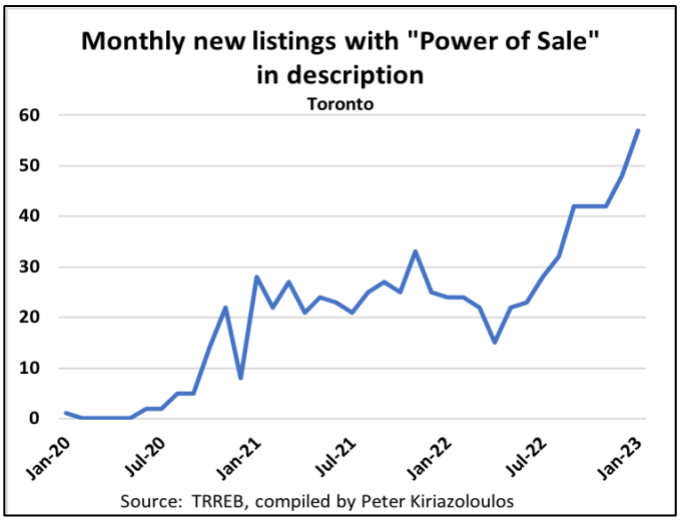




With new completions projected to hit record highs this year, and with some distress in the non-prime space, I think we'll see a very strong flow of new listings forced onto the market starting in March or April.

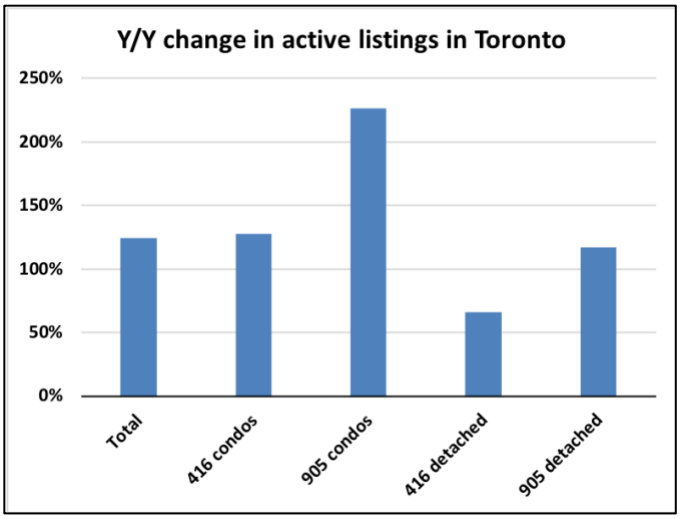
On the new supply side, we still have a record number of homes under construction across the metro, particularly in the condo segment:

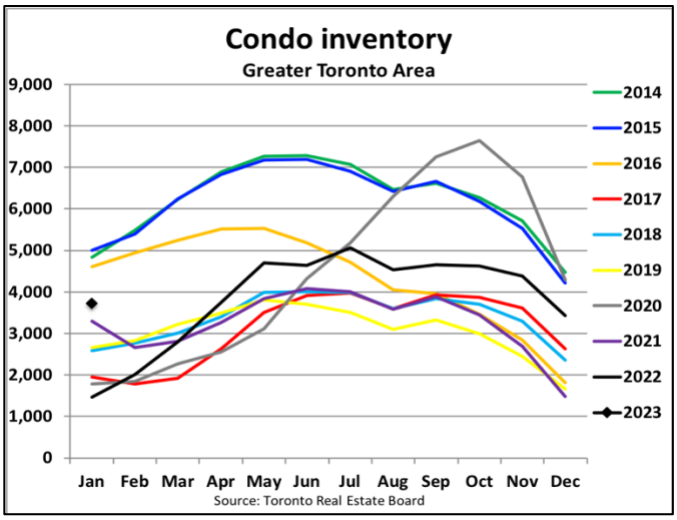


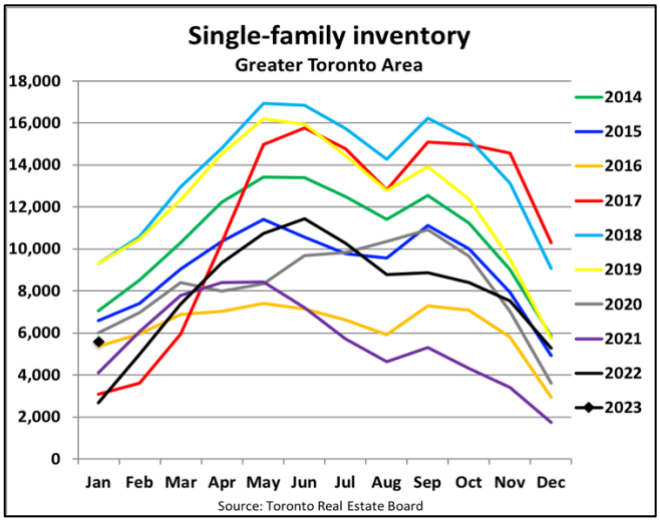

And as it relates to distress in the non-prime segment, I suspect we'll see the current trend of rising power of sale listings continue right through 2023:




Total inventory continues to build, but we're still only now back to what might be called "normal" supply levels:

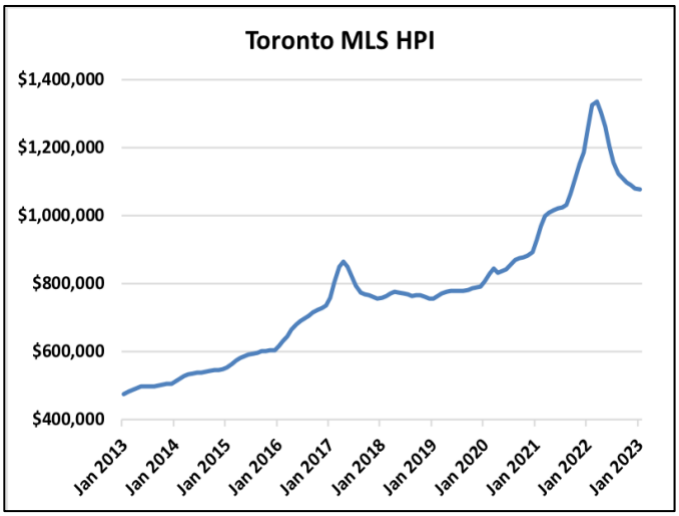


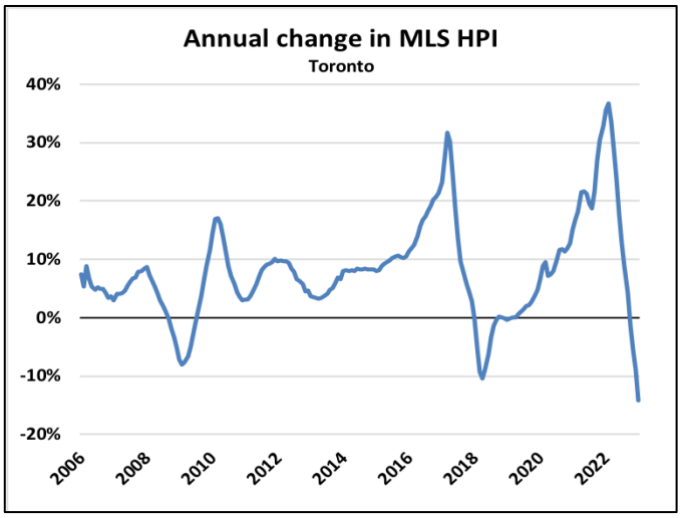



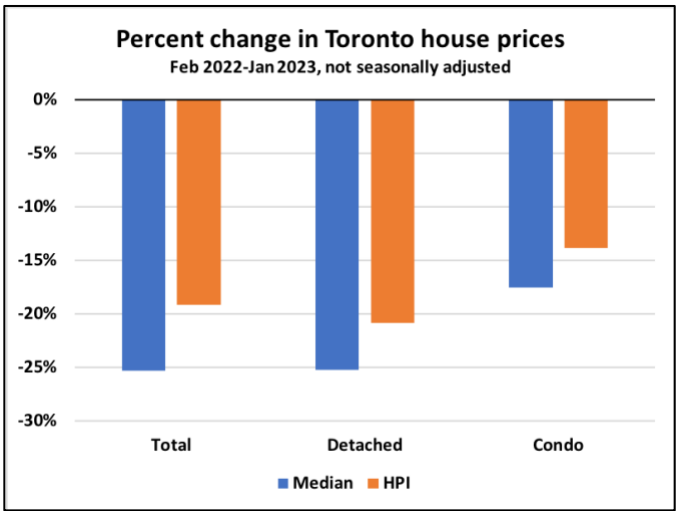




House prices continue to decline in Toronto, very much counter to my expectations of stabilization over the winter.

Seasonally adjusted average prices fell 3.0% m/m in January while the HPI fell 0.2% m/m and 14.2% y/y. We've now seen prices decline 19% from peak according to the HPI and 25% when measured in median prices:

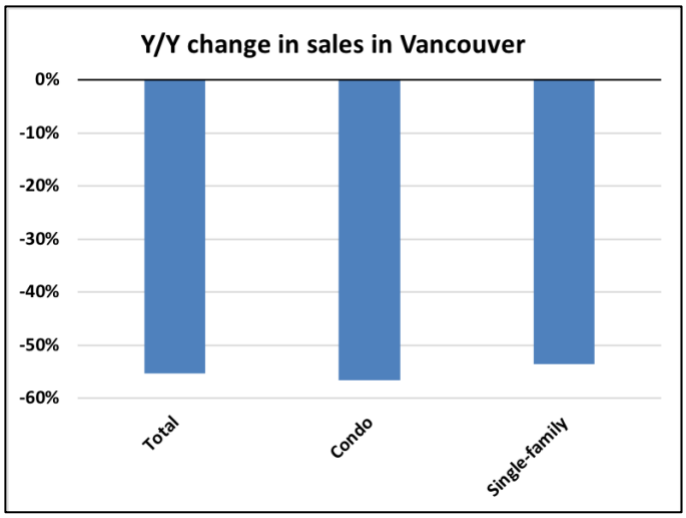


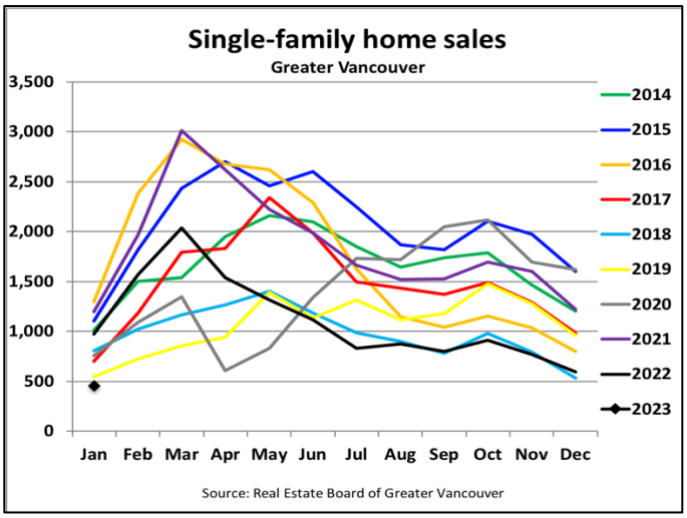



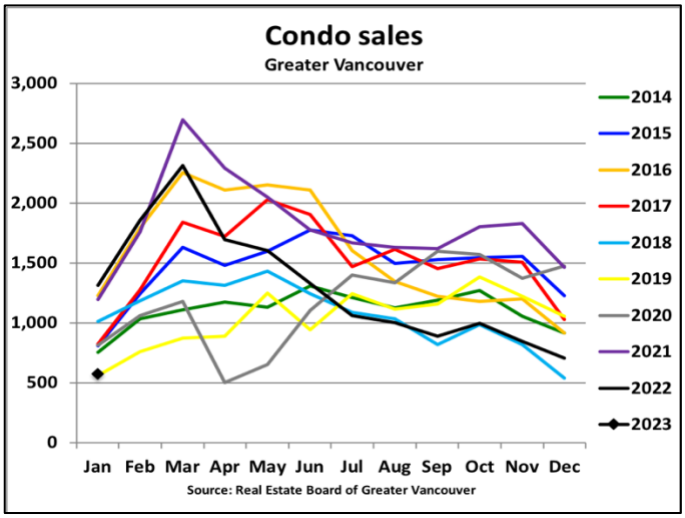



## 3) Vancouver home sales start 2023 on weak footing

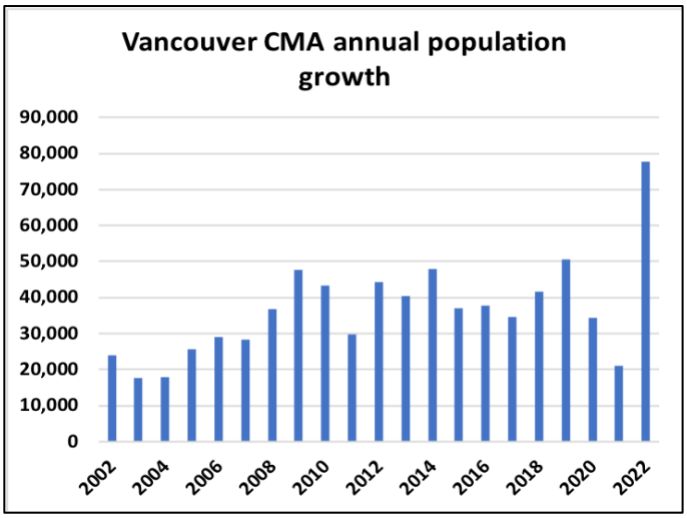
Seasonally adjusted home sales in Vancouver slid an estimated 4% m/m in January home m/m seasonally adjusted in December but were 52% below 2021 levels:



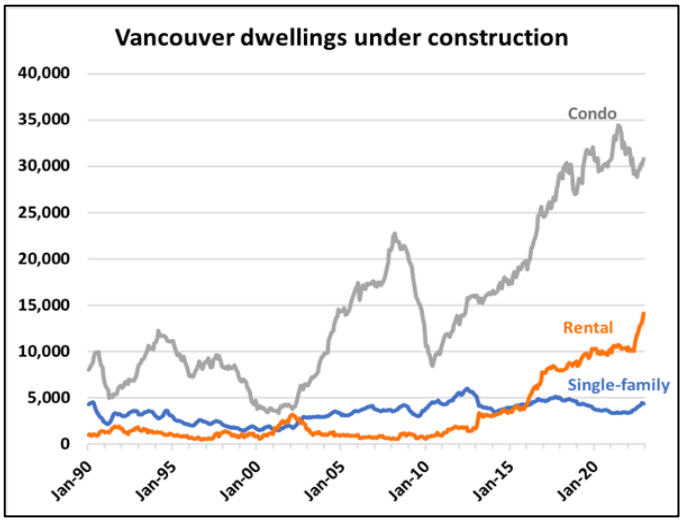



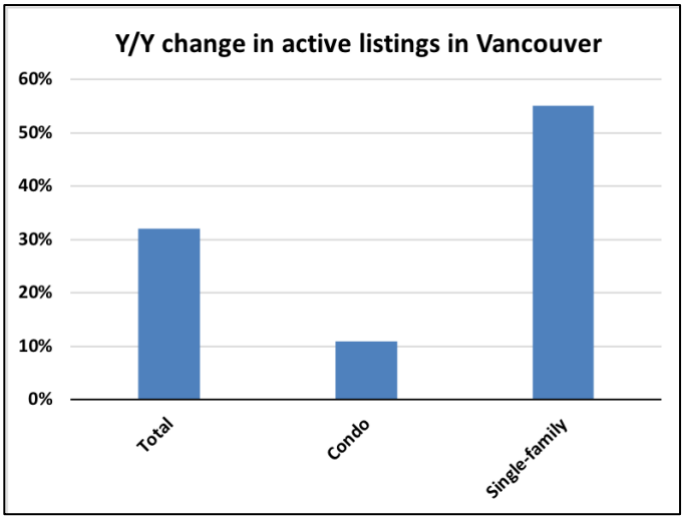

I expect we're seeing the seasonally adjusted lows right now. It's hard to envision sales staying this low while population growth is surging:

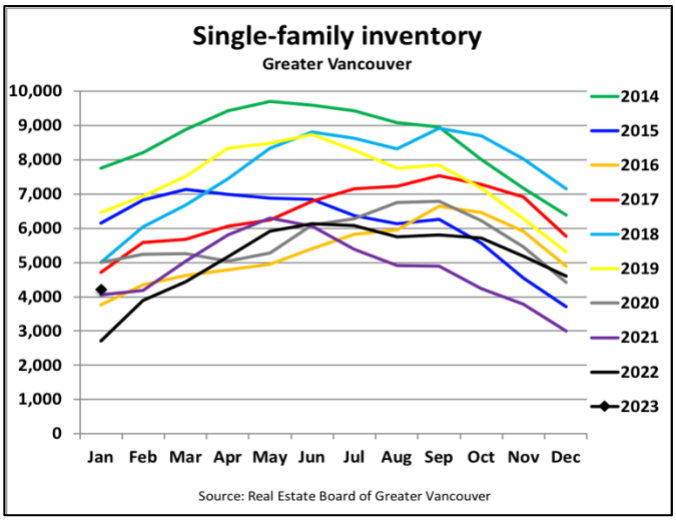


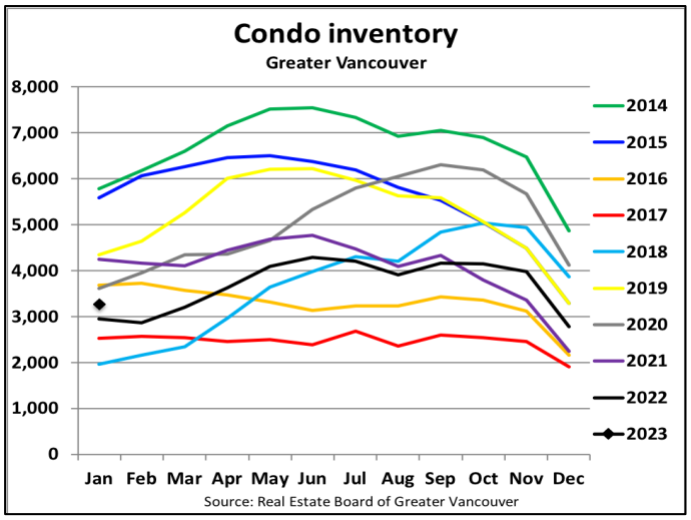

New listings were down a massive 38% y/y to hit the lowest December level since the 1990s. I expect we'll be surprised at how much supply materializes in the next few months. As with Toronto, we're expecting a very strong year for new completions, particularly in the condo segment:



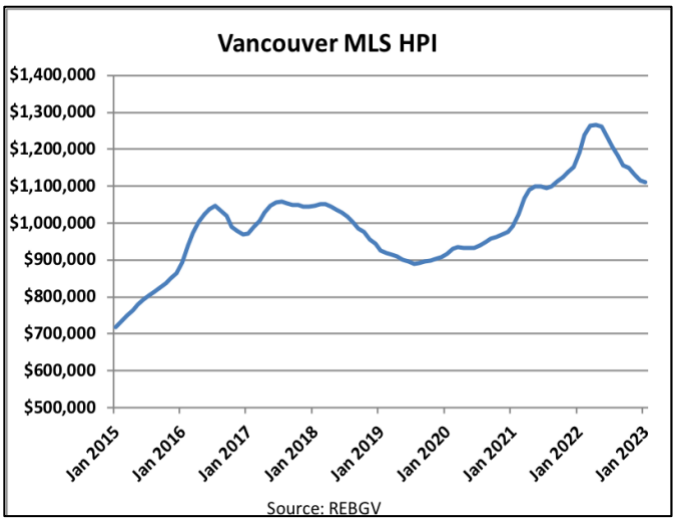

Active listings were up 32% y/y but are still well below normal levels:

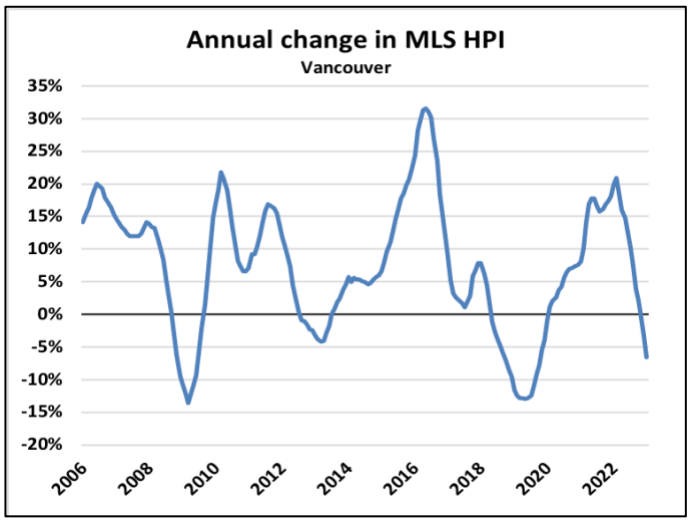


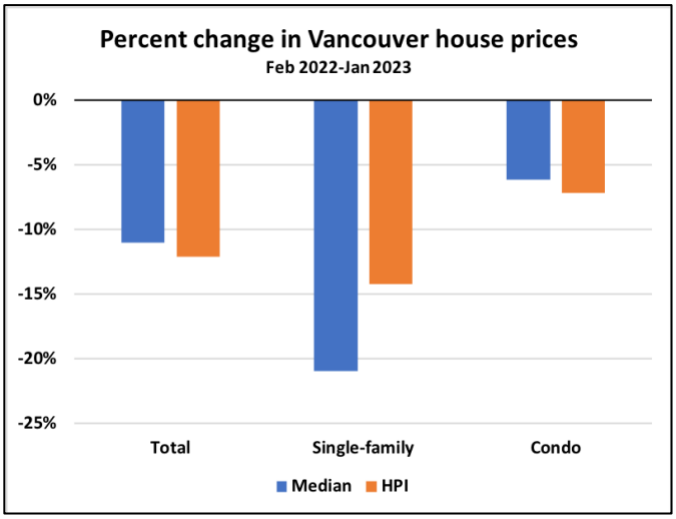



The MLS HPI slipped another 0.2% m/m in January and is now down 12% from peak and 6.6% y/y. The declines are even more pronounced in the single-family segment where prices are off nearly 15%.

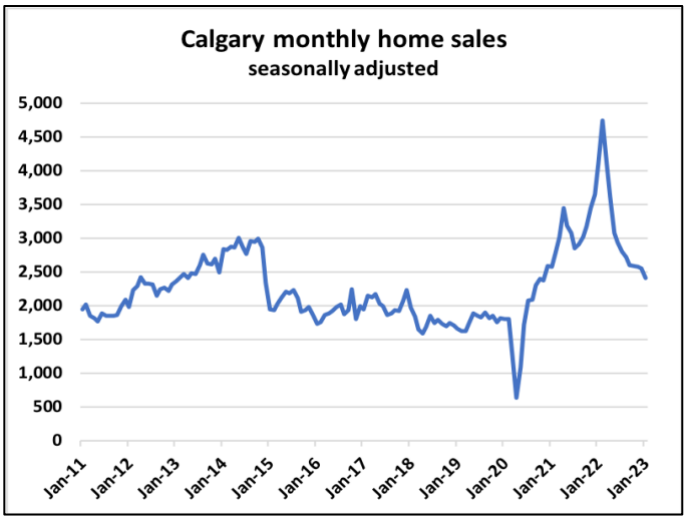


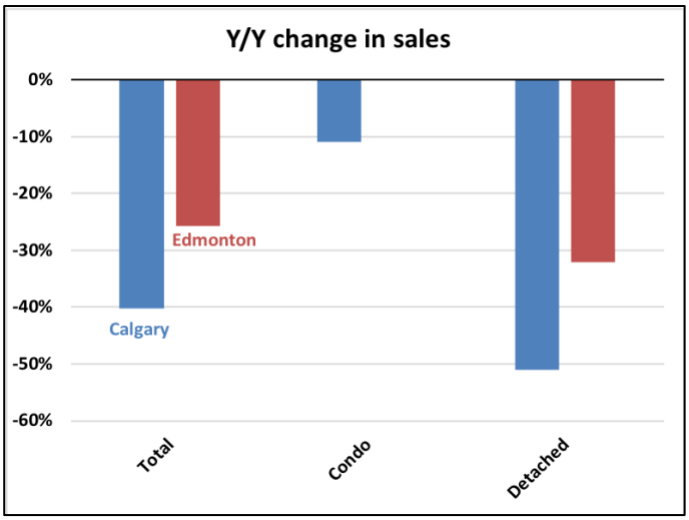



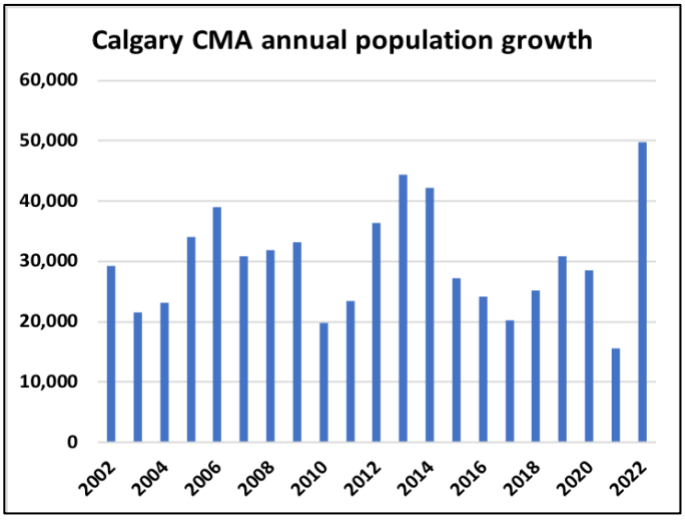
## 4) Calgary sales slump for 11th straight month

Even Calgary can't escape the gravitational force of high interest rates. We've now seen seasonally adjusted home sales fall for 11 consecutive months after posting a sizable 5.5% decline in January. That puts sales down 40% y/y and nearly 50% off the early 2022 highs:

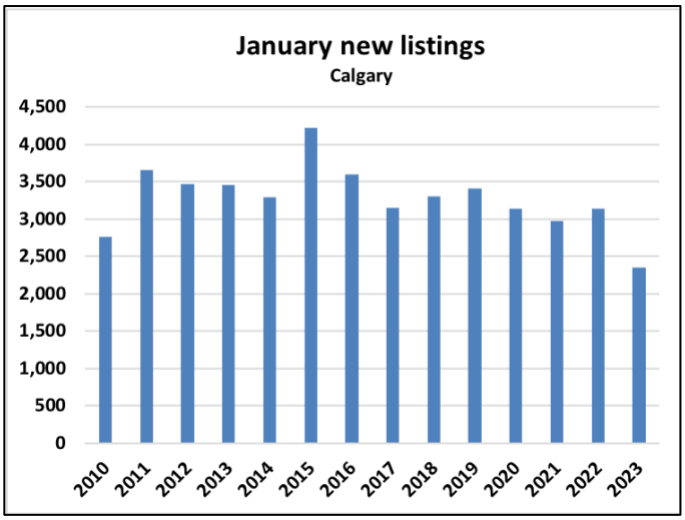


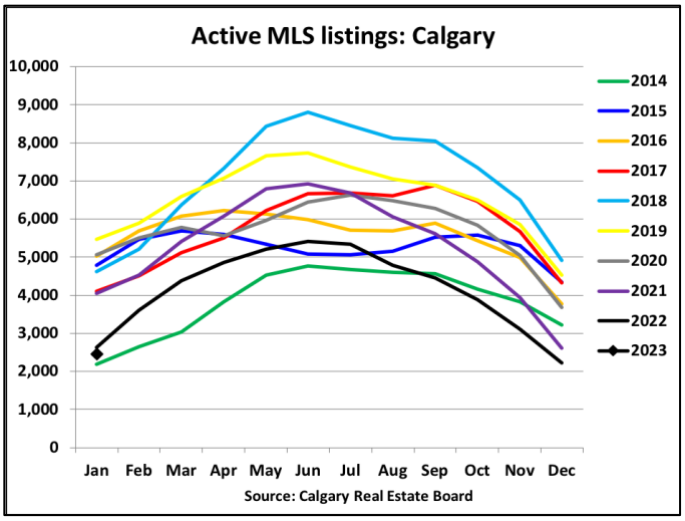

Here too, one has to wonder how far sales can fall in light of population growth that set a record in 2022:

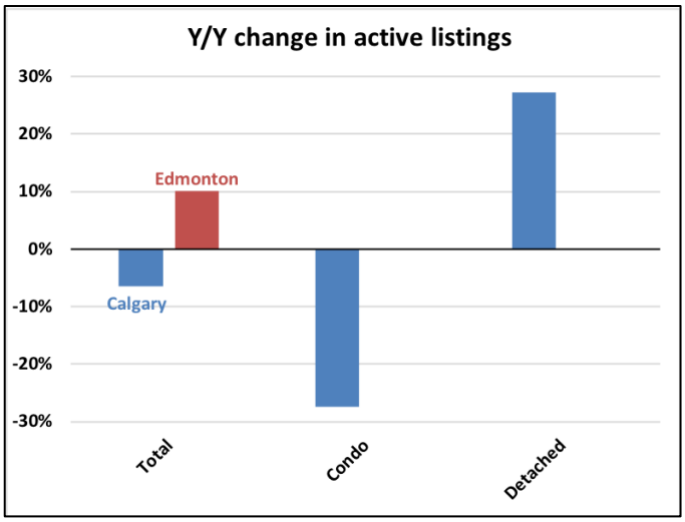



Sellers are in no hurry in Calgary either, with new listings falling a whopping 25% y/y to hit the lowest January reading since 1998!

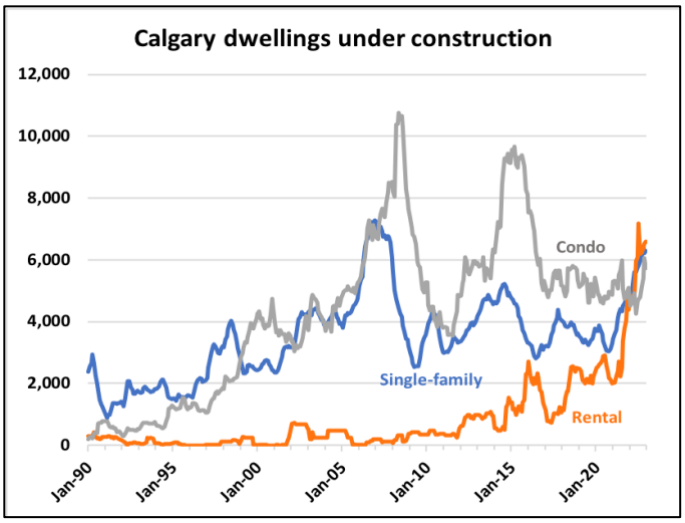



With so few listings coming to market, active inventory remains near record lows:

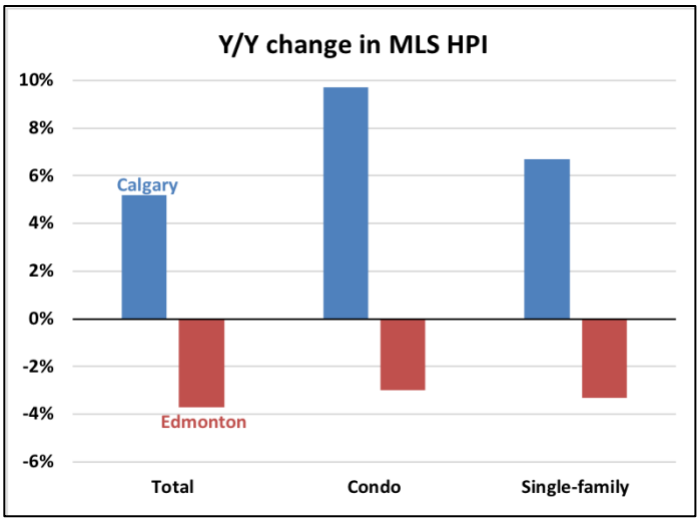


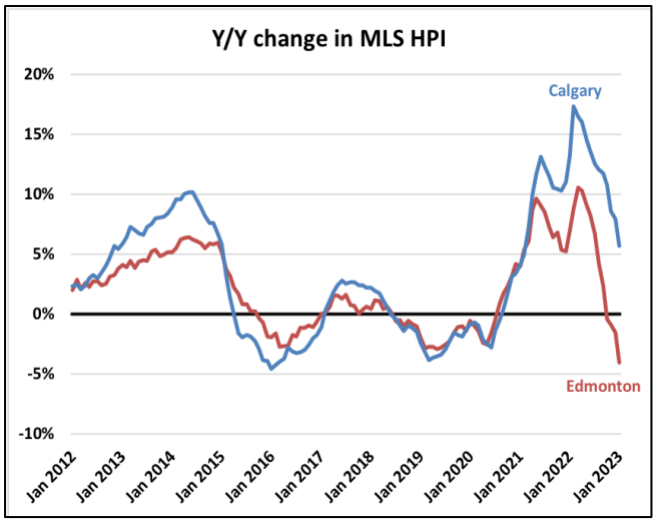




We may see a bit more supply come to market this year based on construction trends. Single-family homes under construction have risen rapidly in recent months and are now at the highest levels since 2005:



Unlike just about every other major market in the country, house prices in Calgary remain in positive territory compared to last year, but here too momentum is waning.




I still think Calgary outperforms most other metros over the next few years, but it's clearly shifting into a lower gear for now.

Regards,
Ben