



August 2023
Metro deep-dive: July data

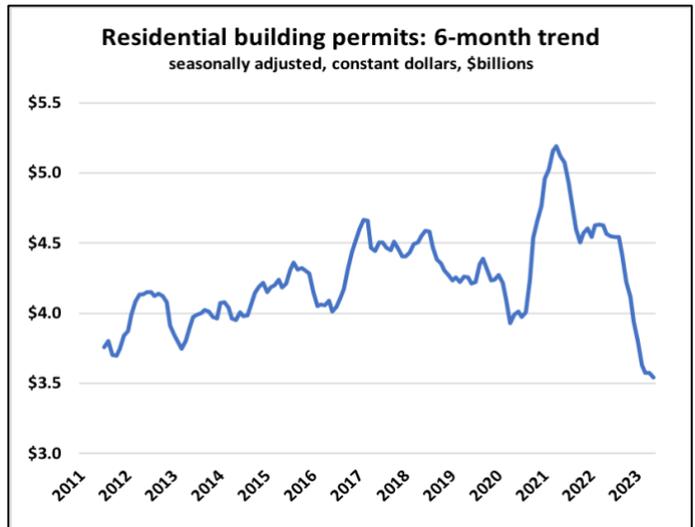
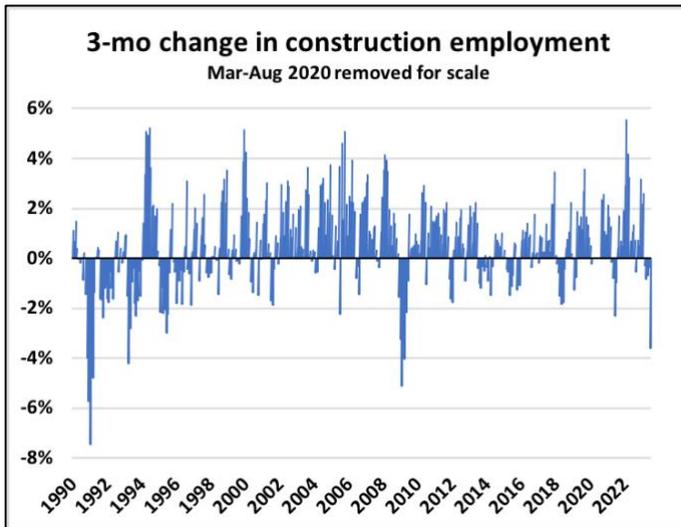
Quick links:

- 1) **Macro commentary: How high is the ACTUAL unemployment rate?**
- 2) **More signs that demand is stalling in Toronto**
- 3) **Vancouver sales slide in July**
- 4) **Record sales in Calgary as Alberta continues to outperform**

1) Macro commentary: How high is the ACTUAL unemployment rate?

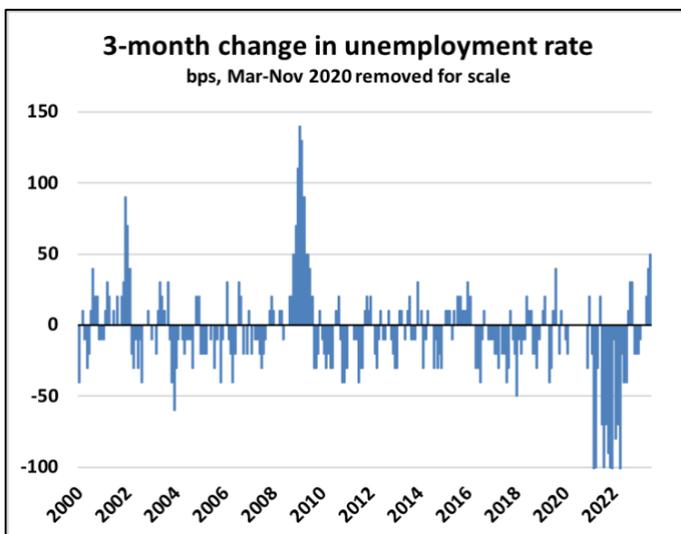
Last week's Labour Force Survey was softer than expected with headline job losses of 6k m/m vs expectations of a ~20k gain. And things would have been much worse were it not for a stellar showing in Alberta. Backing that province out, job losses across the rest of the country were 18k total and 30k for full-time employment.

Among the big detractors was the construction industry which saw job losses of 44k on the month. That industry has now shed nearly 4% of workers over the past 3 months. Outside of COVID, you have to go back to the Financial Crisis to find the last time the sector shrank at this clip. And prior to that, the early 1990s. Things may get even worse based on the trend in building permits, which in real terms have fallen to the lowest levels in over a decade:



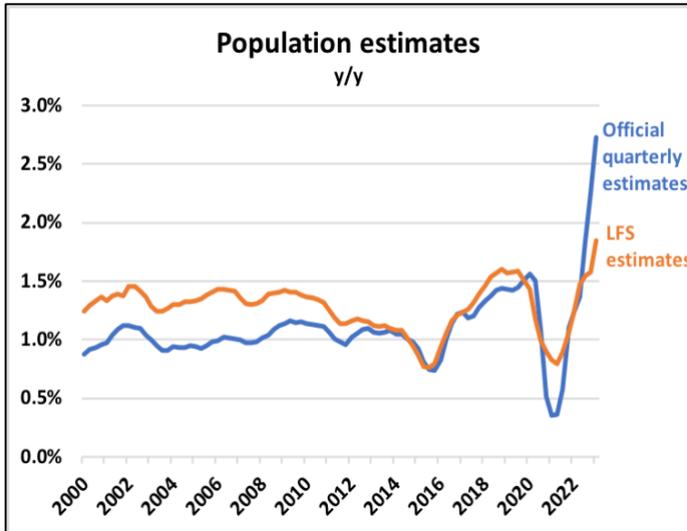
This is a dynamic that is negative for housing and employment in the near term (ie a potential downward demand shock) but sets the stage for a nasty supply crisis down the road once demand normalizes.

The unemployment rate ticked up 10bps to 5.5%, and we've now seen a 50bp increase in the past 3 months....an increase that seldom occurs outside of recession:

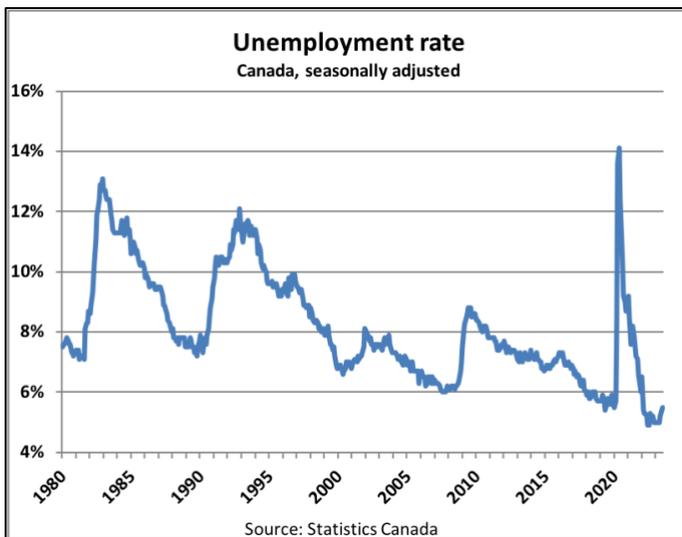


But what is the ACTUAL unemployment rate? I think there's some reason to believe that Stats Canada is undercounting population growth in the Labour Force Survey (LFS), and therefore undercounting the number of unemployed Canadians. If we compare official quarterly population estimates to the LFS, we note an unprecedented gap between the two. One of them is clearly very wrong. And based on the incredible tightness in the rental market

(which argues strongly for exceptional population growth), I would argue that the LFS is in the wrong here:



But there are other reasons to question this data. Consider that the reported unemployment rate of 5.5% is barely off the all-time lows...



...Yet how do we square that with a massive lineup of people attending a Fortinos (grocery store) job fair in Brampton last week. This video is wild (you can see the clip [here](#)):



Similarly, a posting on Reddit from a recent grad with training in biomedical sciences. It's anecdotal, but none of it computes:



The key takeaway is that if the LFS is wrong and is revised in coming months, it could have a meaningful impact on the reported unemployment rate and on BoC policy projections by default. If it turns out that the unemployment rate is already closing in on 6%, which I think is entirely possible, there will be potentially a sharp drop in bond yields as markets price in greater odds of rate cuts in 2024.

Also related, from the Globe and Mail¹:

Canada's banks quietly shedding jobs as recruiters warn of rampant overhiring in recent years

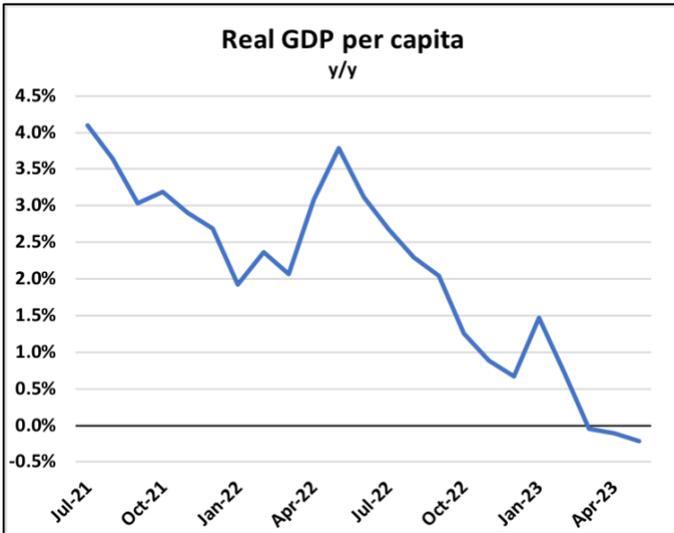
Slowly but steadily, Bay Street is slashing jobs. Royal Bank of Canada chief executive Dave McKay all but announced imminent layoffs in May, when he acknowledged in a conference call with analysts that the bank had "overshot" hiring by "thousands of people." Weeks later, more than 100 people were dismissed from the capital markets division of Bank of Montreal.

Little else has emerged publicly about the broader trend of layoffs at Canada's big banks, but experts in financial services recruitment say that is exactly the point.

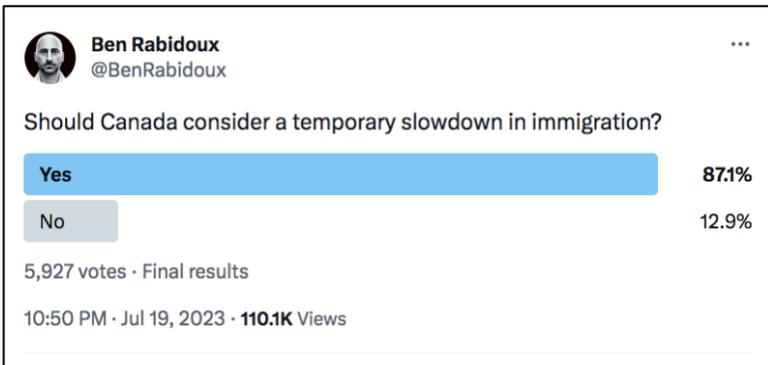
"This stuff is usually done in the cloak of darkness," Bill Vlaad, chief executive of Toronto-based recruitment firm Vlaad and Co., said in an interview. "Instead of firing 200 people in one day, they will do 20 here and 20 there so it doesn't hit [the public] radar."

¹ <https://www.theglobeandmail.com/business/article-bay-street-layoffs/>

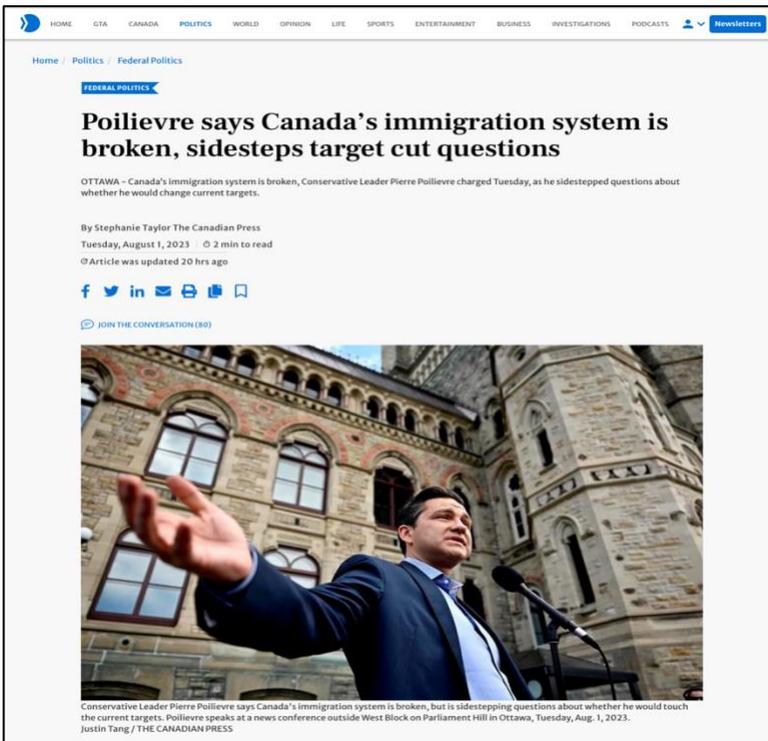
Last week's GDP report showed yet another decline in real GDP per capita. And that's using the arguably-understated monthly LFS population numbers. The decline is significantly larger if we use the official quarterly estimates:



The reality is that population growth is now running well ahead of growth in the broader economy. I believe we're starting to see an inflection in public sentiment towards immigration. Consider the poll below which garnered nearly 6,000 votes. Arguably not a perfect reflection of the broader public, but I think the simmering, un-spoken unease with the CURRENT population growth is a very real thing right now:



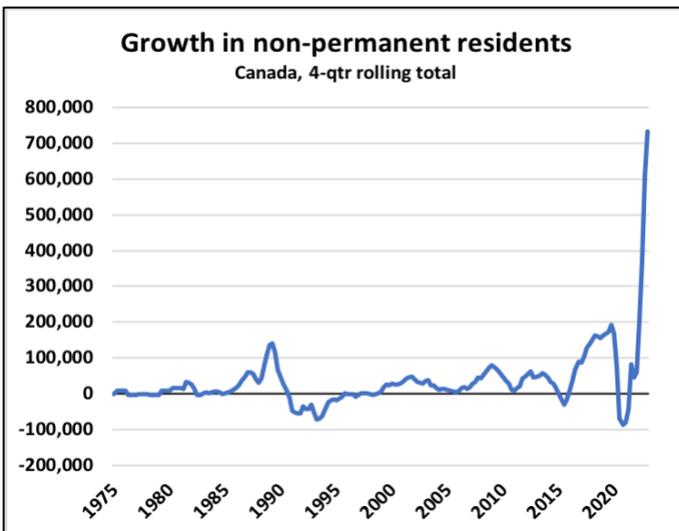
We now have Trudeau's primary political opponent, who happens to be polling extremely well right now, commenting on a "broken immigration system":



And we have respected economists like the folks at National Bank calling for an outright immigration target cut. From a report this week, as quoted in the Globe:

"As housing affordability pressures continue to mount across the country, we believe Ottawa should consider revising its immigration targets to allow supply to catch up with demand."

Sentiment is changing, and Ottawa knows it. The low hanging fruit is the non-permanent resident (NPR) programs, which can and likely will be quietly tightened without Ottawa having to adjust their official immigration targets. As a reminder, those NPR programs added on net some 740,000 people to the Canadian population in the past year....an absurd number in historical context:

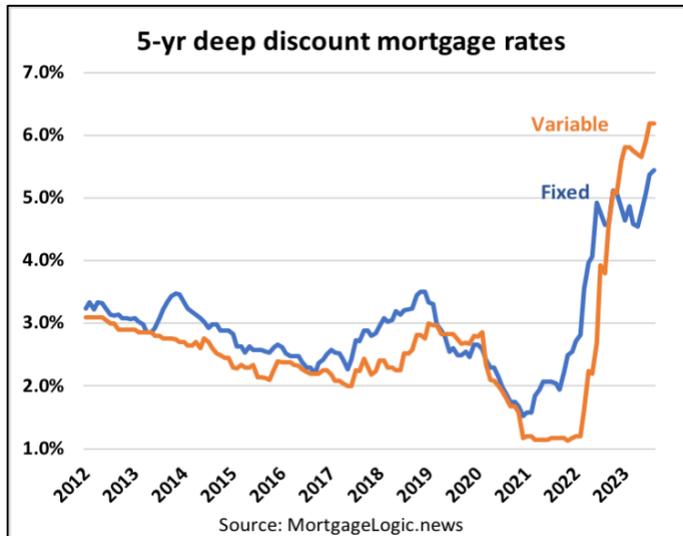


It's something to keep an eye on in coming months. I wouldn't be surprised if Ottawa quietly leaned on the NPR programs to achieve a modest slowdown in population growth without having to concede by lowering the official permanent resident targets.

2) Sales weaken, inventory builds in Toronto

Sales drop, and a downward revision to boot

The bellwether 5-yr yield Government of Canada bond yield broke above 4.1% this week, a fresh 15-year high. That helped push fixed mortgage rates up another 12bps on the week with even more hikes being telegraphed by lenders:



Affordability has now deteriorated to the point that charities like Habitat for Humanity are building homes for higher income Canadians²:

As home prices soar, Habitat for Humanity helps higher-income Canadians buy properties

After decades of helping low-income Canadians get into homes, Habitat for Humanity is witnessing a profound change in who it is assisting.

The charity is increasingly backstopping mortgage loans for higher-income households, including those earning about \$100,000 a year, in yet another sign of how unaffordable Canada has become.

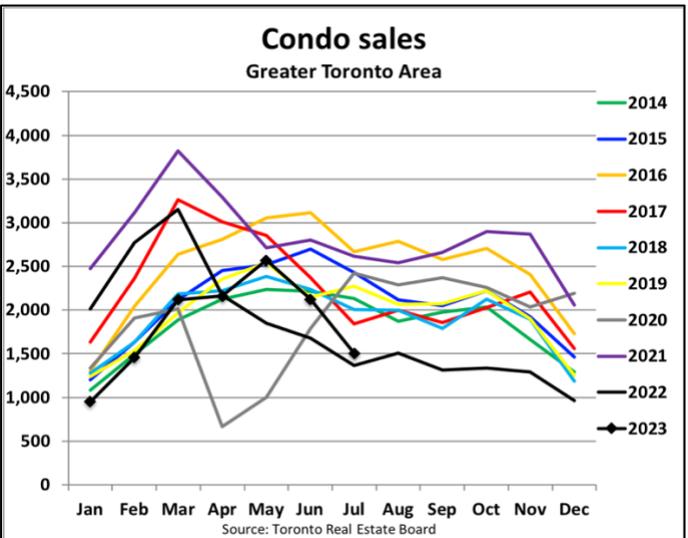
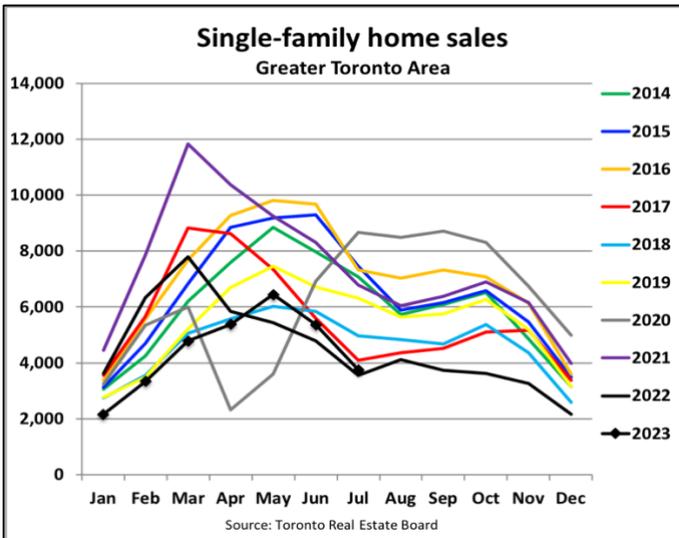
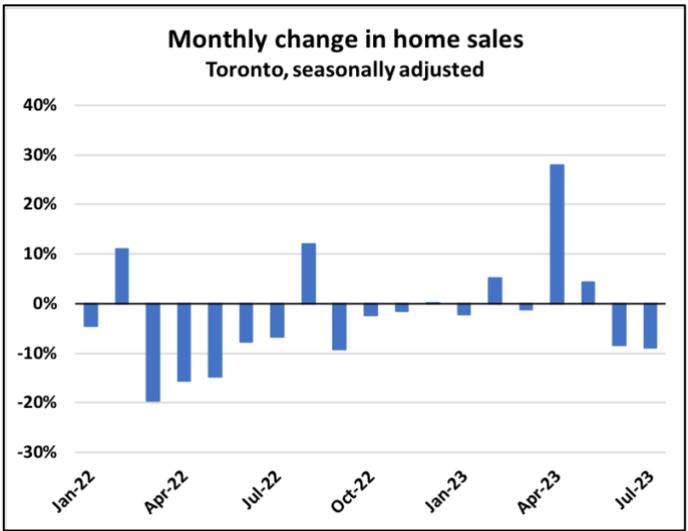
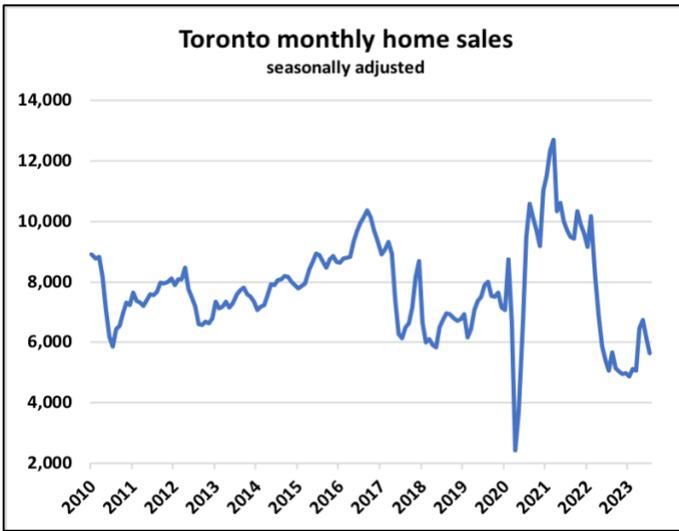
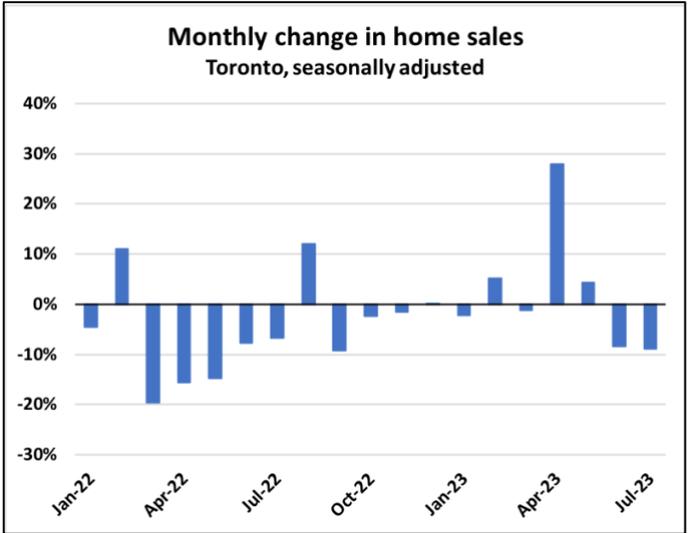
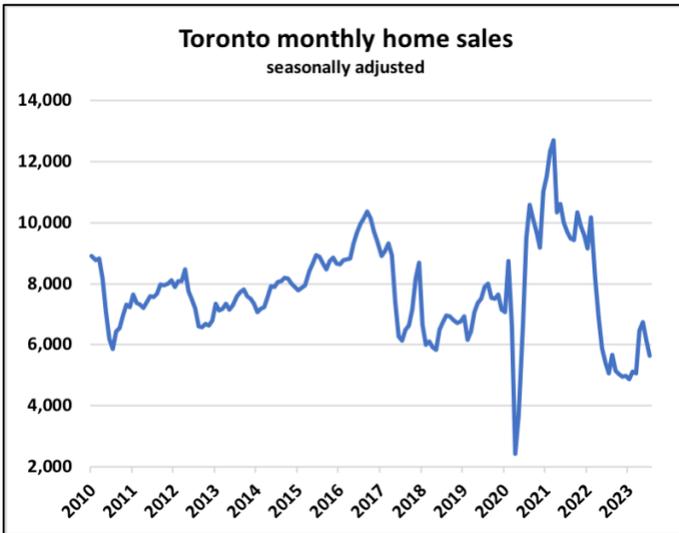
[...] “We’re serving families that look like they’re doing so much better,” said Ene Underwood, the chief executive with Habitat for the Toronto region. But, Ms. Underwood said, in reality they are struggling.

[...] “We’re seeing stress in every part of the market, from mortgage rates to rental costs to interest rates and construction costs. And this is all coming at a time when incomes are stagnant and we’re experiencing record inflation. It’s unlike anything I’ve seen before,” said Ms. Tremain.

So it should come as no surprise that sales have weakened in major markets, and it will likely get worse over the next couple months. According to contacts, July saw a scramble by some buyers who either had to purchase before their rate holds expired or face mortgage rates some 75bps higher.

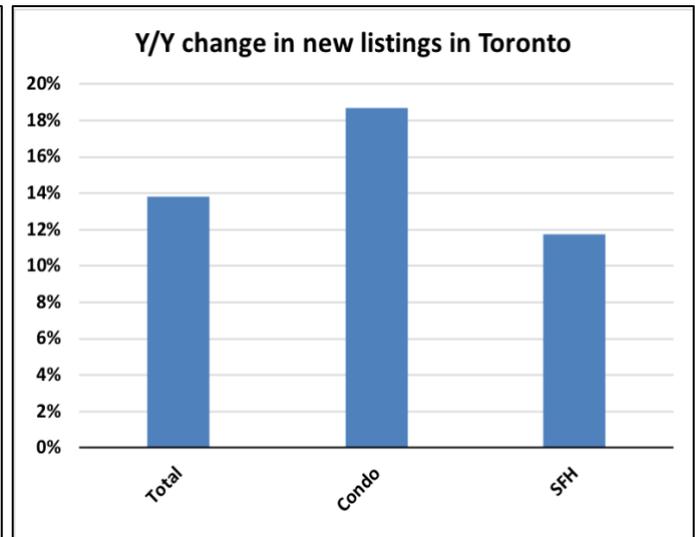
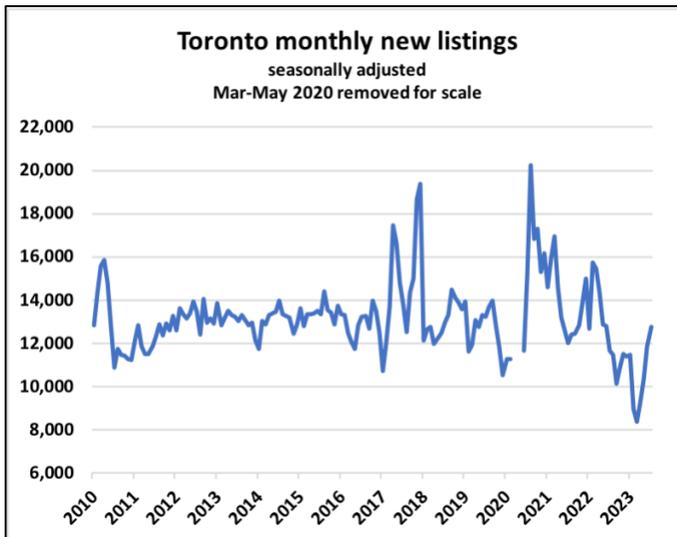
Even with that small flurry, seasonally adjusted home sales fell 8.9% m/m in Toronto (and that’s on top of a significant 3% downward revision to the June numbers!) and have now pulled back 15% in the past 2 months....largely as expected:

² <https://www.theglobeandmail.com/business/article-habitat-for-humanity-housing-prices/>



New listings normalize

A key driver of market tightness this year has been a persistent shortage of new listings. We're now seeing that trend reverse, with seasonally adjusted new listings up 7.7% m/m and 14% y/y and are now up 35% off the lows over the past 3 months.



We should probably expect high rates to continue to drive a normalization in new listings. Consider³:

NEWS

Barrie-area woman watches mortgage payments go from \$2,850 to \$6,200, forced to sell

Cora Cook says her family is forced to sell their dream home less than 2 years after moving in, after their mortgage payments doubled

Cora Cook says her family is forced to sell their dream home less than two years after moving in, after their mortgage payments doubled.

By **Brett Glover** Brett Glover Barrie Advance
Thursday, August 3, 2023 · 2 min to read

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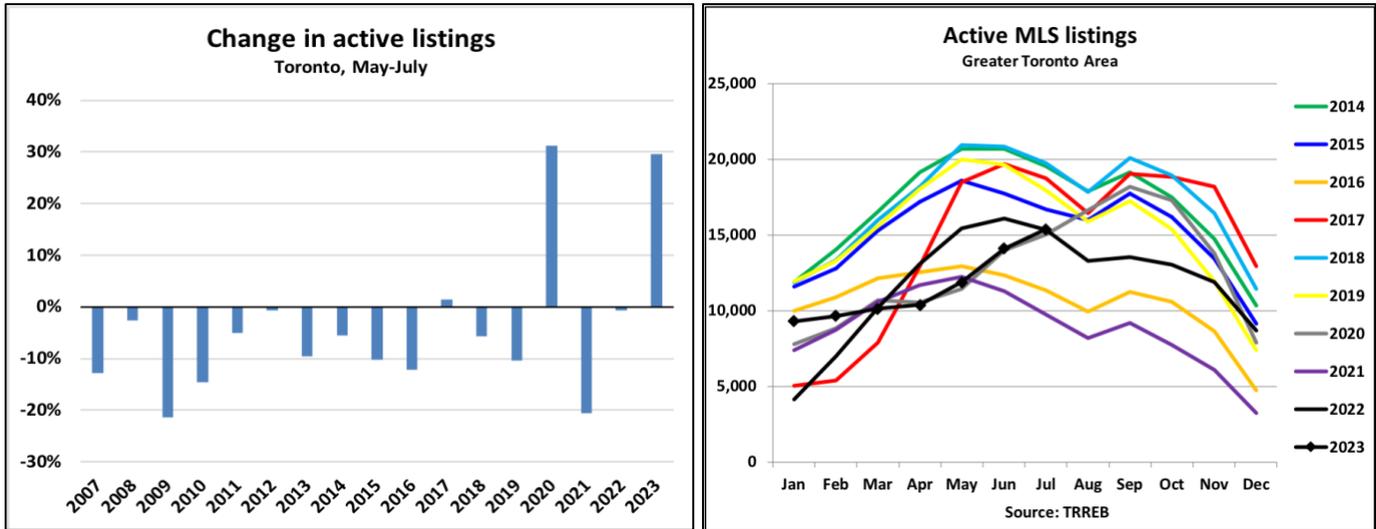
JOIN THE CONVERSATION (74)

NEWS
Cora Cook says she and her family have been forced to put their Barrie-area dream home up for sale after their variable-rate mortgage payments more than doubled to \$6,200 per month. - Brett Glover/Metroland

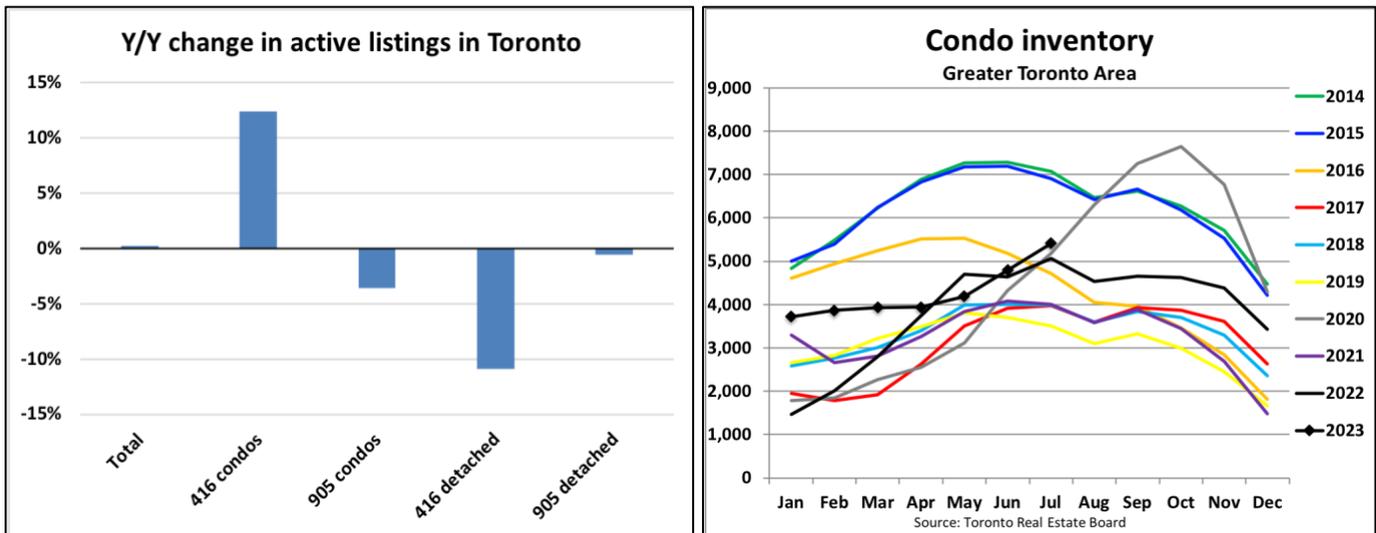
³ https://www.thestar.com/news/barrie-area-woman-watches-mortgage-payments-go-from-2-850-to-6-200-forced-to/article_89650488-e3cd-5a2f-8fa8-54d9660670fd.html

Counter-seasonal inventory build

We've seen a strong counter-seasonal build in inventory in Toronto in the past 2 months. Active listings have jumped by 30% since May in a period where we typically see inventory shrink by roughly 10%. The only other year that saw a comparable build was 2020:

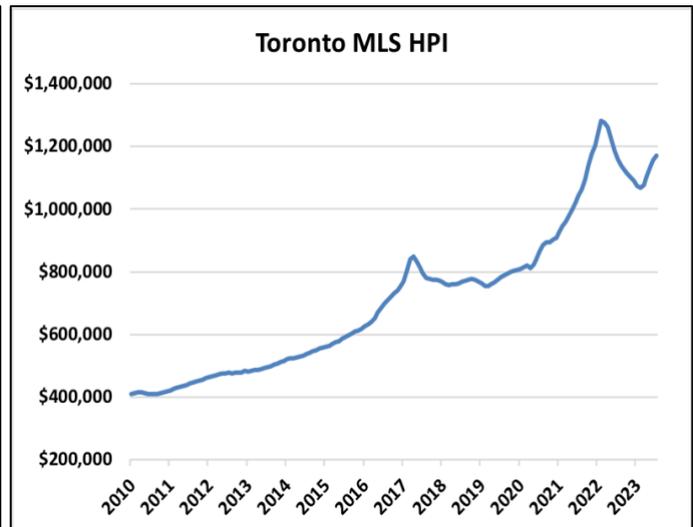
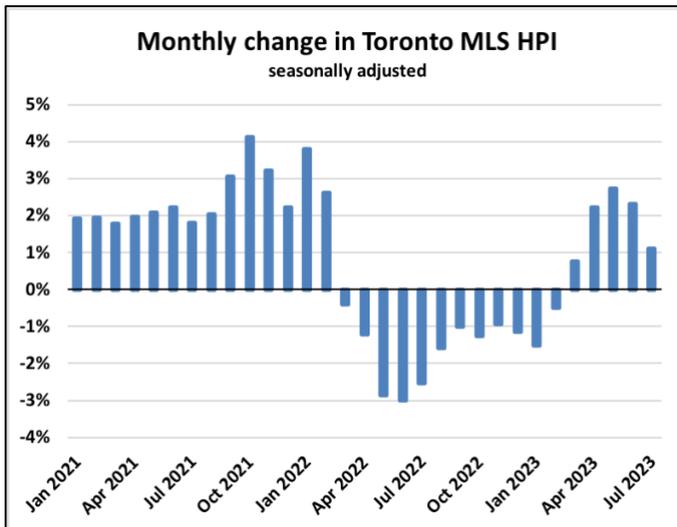


Inventory levels are now flat compared to last year, but with a notable increase in 416 condos offsetting a steep decline in detached inventory. In the cast of the condo segment, inventory is now back to the highest levels since 2015:



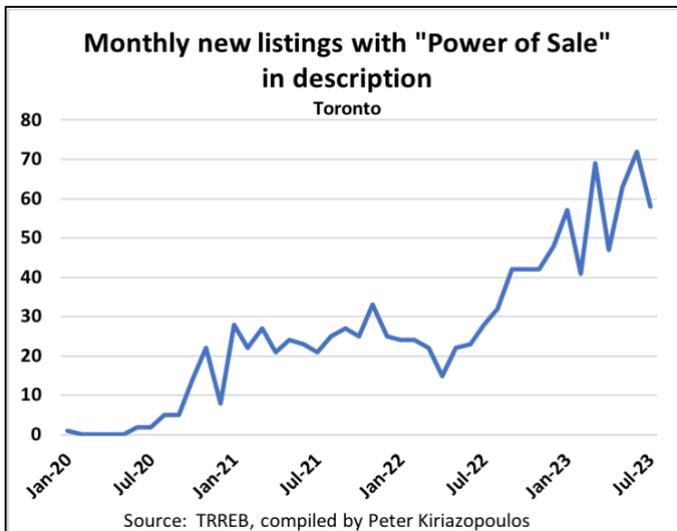
Price gains are slowing

There's enough residual momentum and tightness in this market that we'll likely see another month or two of positive price gains in Toronto, but the decelerating trend is very clear. If current trends hold, we may start seeing seasonally adjusted monthly price declines in early fall:



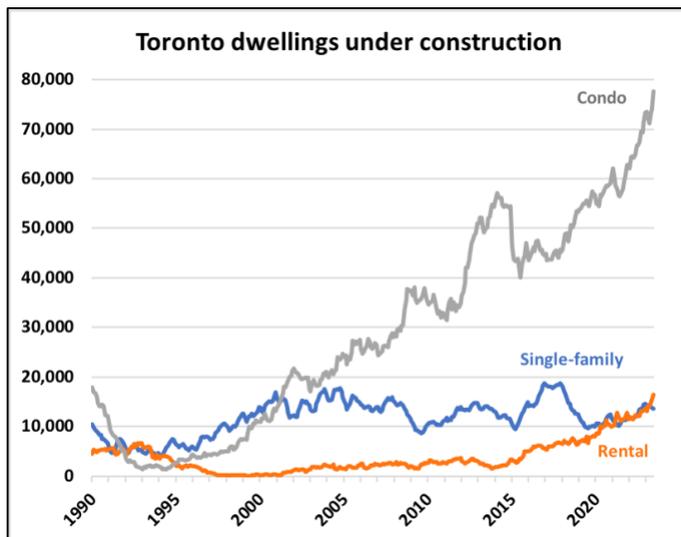
Power of sale listings drop

New listings with the term “power of sale” in the description dropped to 58 in July (thanks again to Peter Kiriazopoulos for the data). We should expect a general upward trend around the monthly wiggles given the move in rates and the mounting evidence of some softness in the labour market.



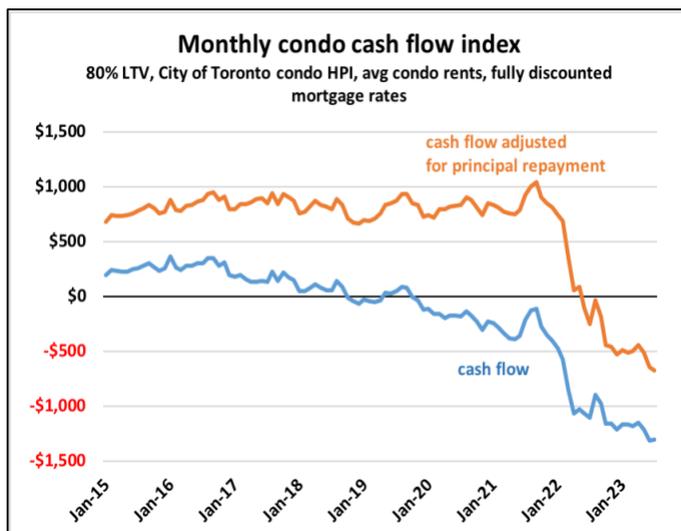
Construction activity up on rentals

The number of homes being built in Toronto jumped 4.5% m/m led by a massive 6.7% increase in rentals and a 4.9% increase in condos. In contrast, single-family dwellings under construction fell 0.4% m/m and have now fallen for 3 straight months:



Condo cash flows deteriorate again

The uptick in mortgage rates pushed the cash flow index to new lows in July. By this admittedly very simple model, investors buying a typically-priced condo in the City of Toronto, financing at 80% LTV at prevailing rates, and achieving average condo rents for the city, is facing a negative cash flow of over \$1,300 which is still roughly \$650 once we add back principal repayment.



Pain is spreading in the new condo market. From the Globe and Mail⁴:

Prices for new condos in Toronto fell in the second quarter for the first time in 10 years

New condo prices in the city of Toronto declined for the first time in a decade, as developers cut rates and offered more incentives in an attempt to entice prospective buyers.

The average price for a condo that has not yet been built, also known as a preconstruction condo, was \$1,549 per square foot in the second quarter. That was a 1 per cent decline over the same period last year and the first annual decline since 2013, according to a report from industry research firm Urbanation Inc.

⁴ <https://www.theglobeandmail.com/business/article-toronto-condo-prices-second-quarter>

And that doesn't capture non-price incentives including rising commissions to realtors. Consider this offer from one developer evidently offering realtors 10% commissions on one development. I don't recall ever seeing anything like that:

LIMITED OFFER

8%
COMMISSION*
LUSH TOWNHOMES
STONEY CREEK, ONTARIO
FROM \$799,990

10%
COMMISSION*
CALDERWOOD PH 2 DETACHED
THOROLD, ONTARIO
FROM \$949,990

*ASK A SALES REPRESENTATIVE ON DETAILS FOR PAYMENT STRUCTURE AND AVAILABILITY

Declining prices raise the very real risk of valuation shortfalls at completion, which is made worse by the fact that the vast majority of condos currently under construction were sold at substantial premiums to resale values.

Those issues appear to be getting worse. See below from lawyer Mark Morris who has now had two clients who came in to close on a preconstruction home who, rather than closing, he referred them directly to an insolvency trustee due to the size of the appraisal deficiency:

Mark Morris (Markinmetaform on Threads)
@MarkinMetaForm

From the lawyer's office: New Build appraisal is over 600k off from the purchase price (\$1.6 mil).

This is the second time this month that I have turned to a trustee instead of a mortgage agent to assist a client.

Things... are changing quickly out there.

9:12 PM · Jul 31, 2023 · **86.2K** Views

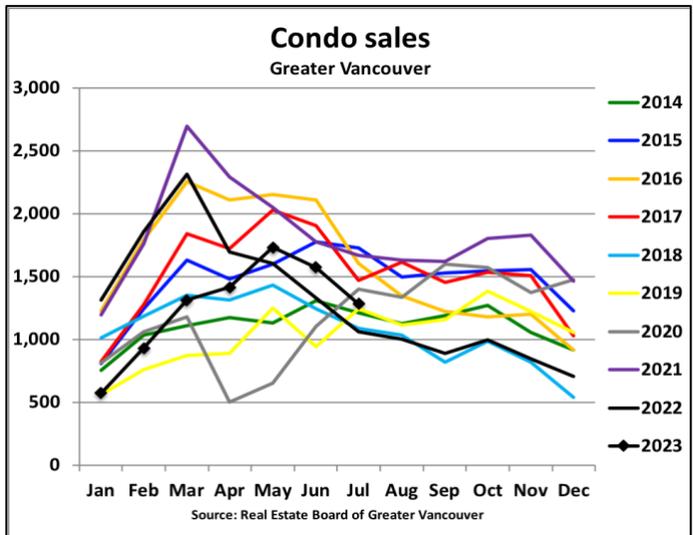
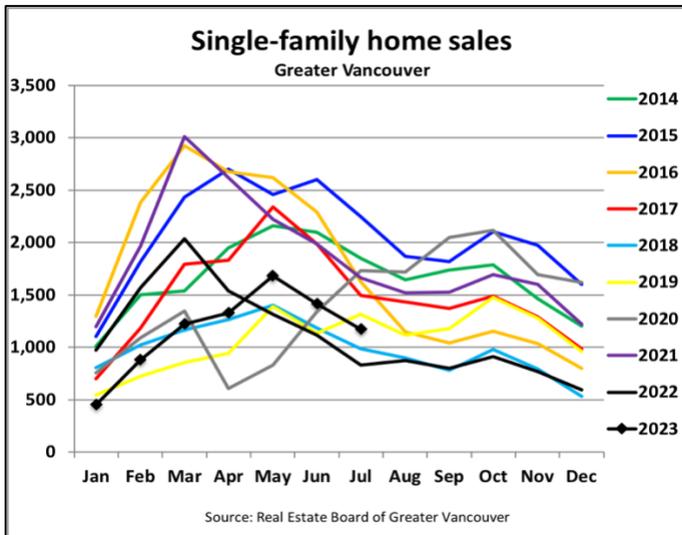
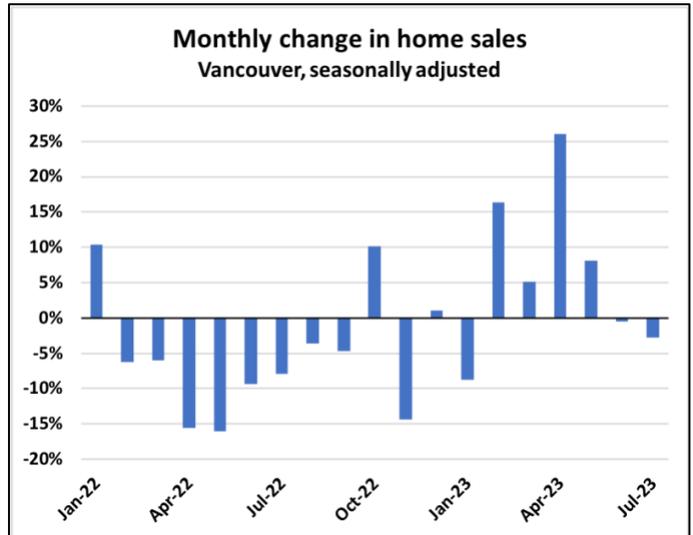
23 Retweets 9 Quotes 216 Likes 9 Bookmarks

With nearly 80,000 condos currently under construction (equivalent to 4 years of resale supply at current demand levels), this is arguably the #1 issue to watch later this year and into 2024.

3) Vancouver sales weighed down by rising rates

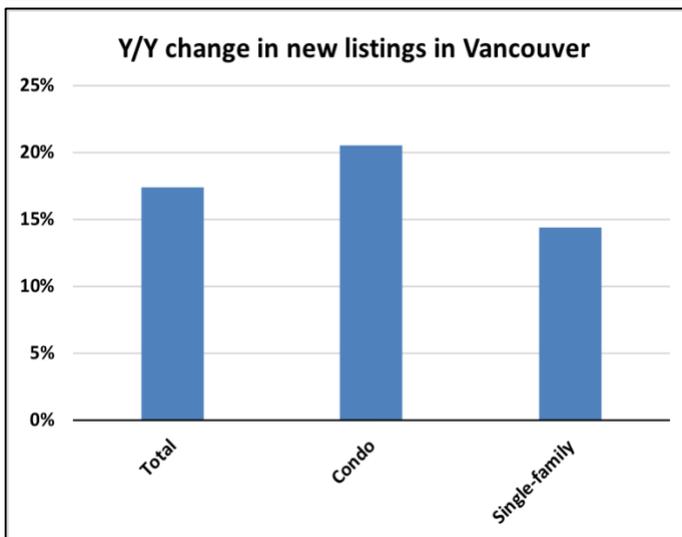
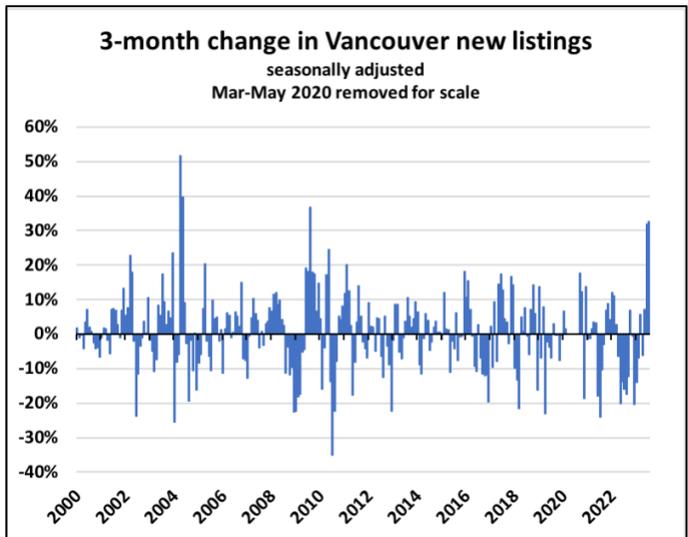
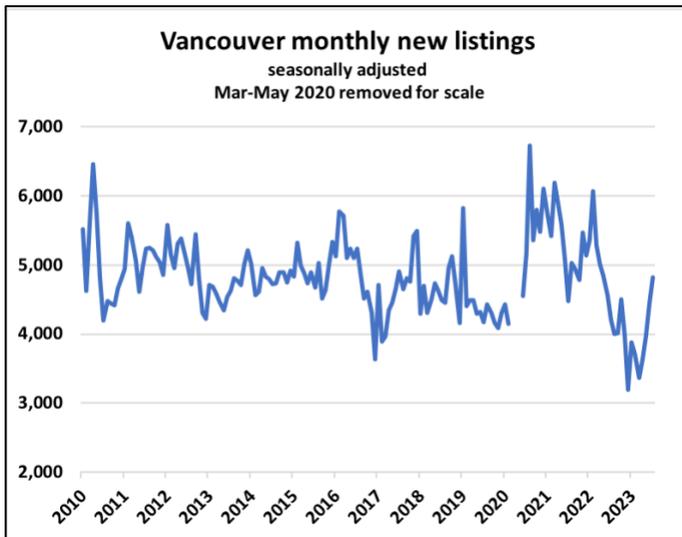
Sales slip

Seasonally adjusted home sales fell an estimated 2.5% m/m in Vancouver in July, the second consecutive decline:



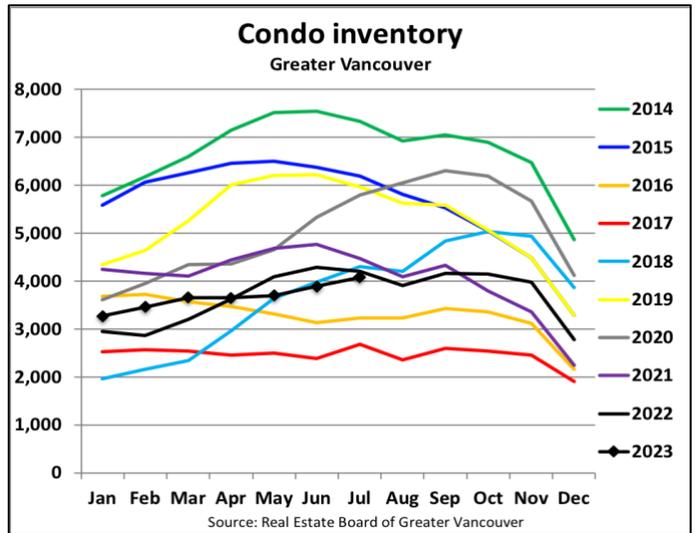
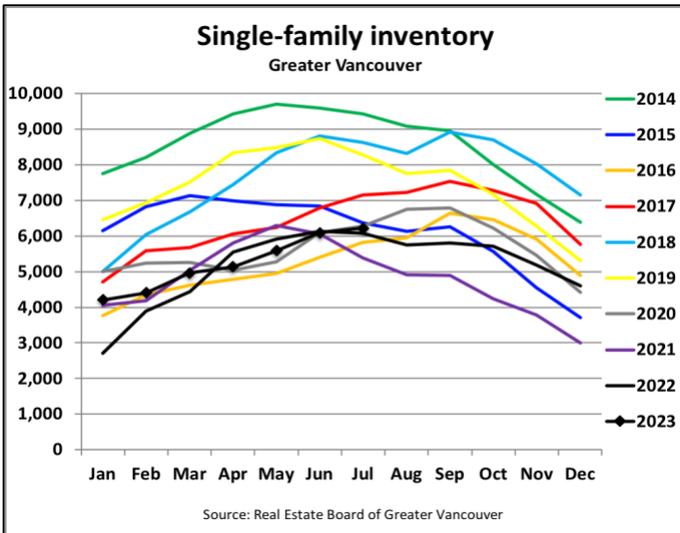
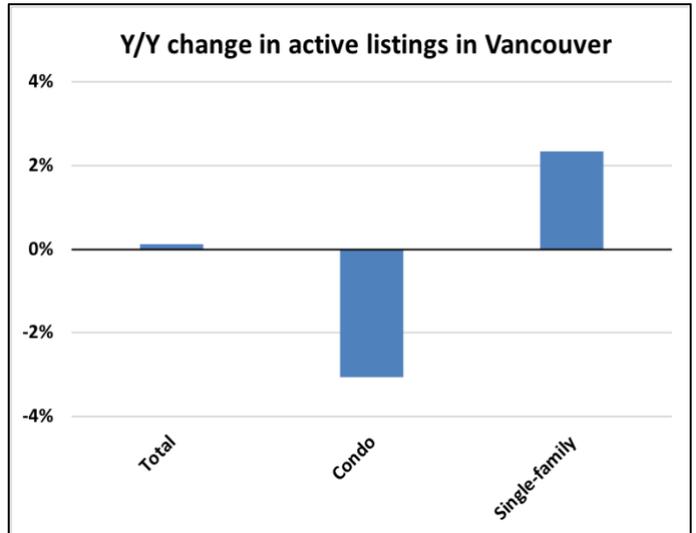
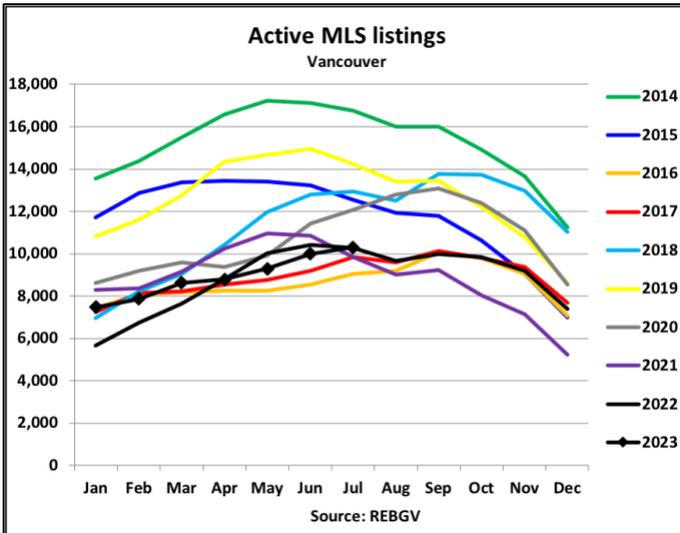
New listings jump

Seasonally adjusted new listings jumped an estimated 8% m/m and have now risen by 35% off the recent lows. New listings are now back at “normal” levels after surging 33% over the past 3 months:



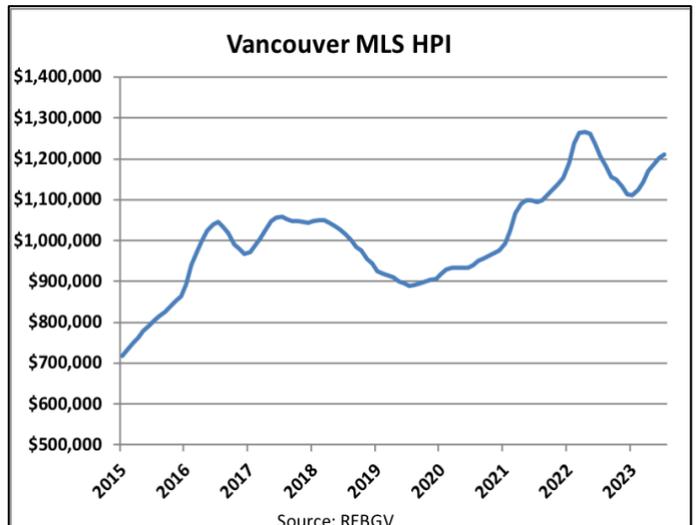
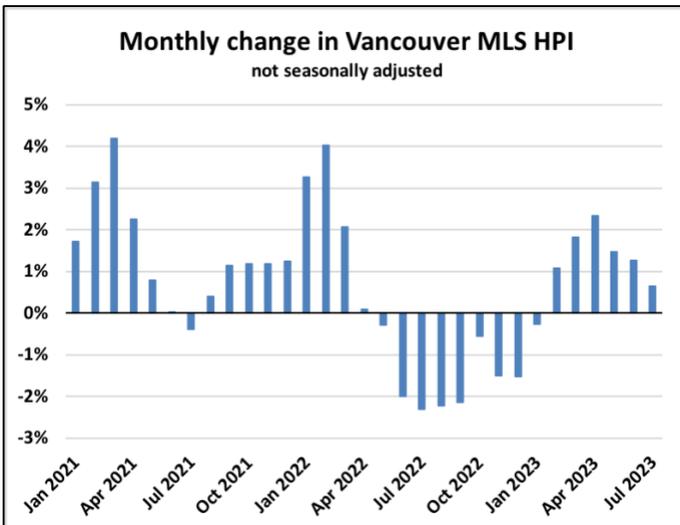
Inventory still tight

Unlike in Toronto, active listings across Metro Vancouver remain extremely low with little sign of a meaningful counter-cyclical build just yet.



House prices firming

The MLS House Price Index posted a 0.6% monthly gain in July, but has now shown a decelerating trend for 3 consecutive months:



Construction activity rises

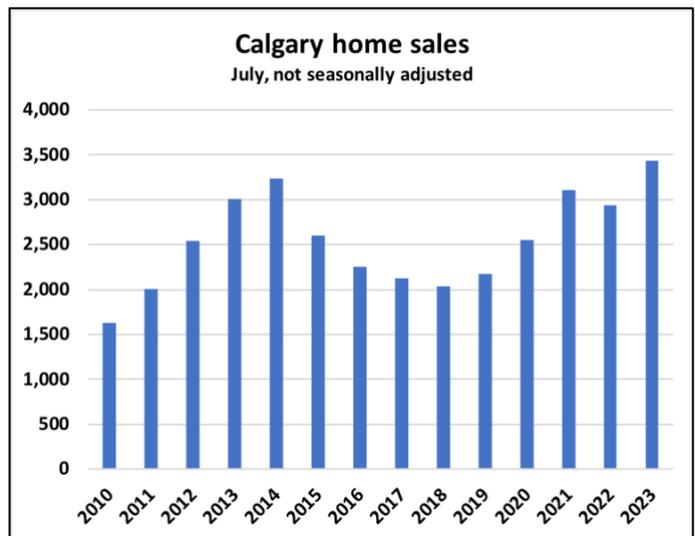
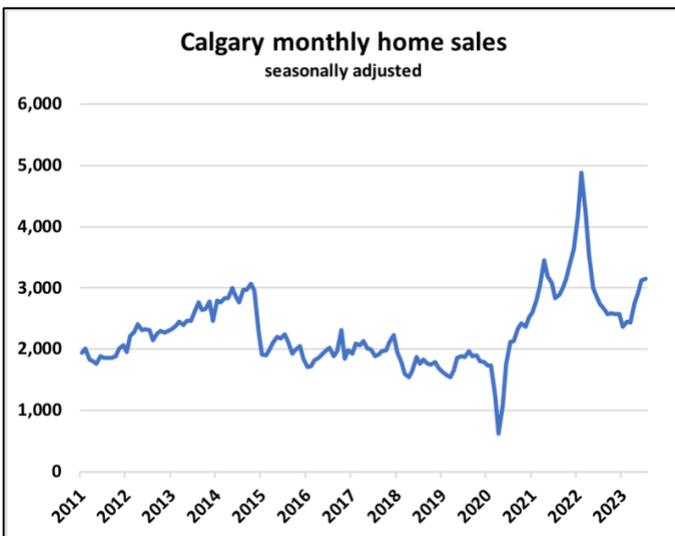
The number of homes being built across metro Vancouver jumped 3.5% m/m in June led by steep increases in condos (+4.1%) and rentals (+3.1%):



4) Calgary market continues to outperform

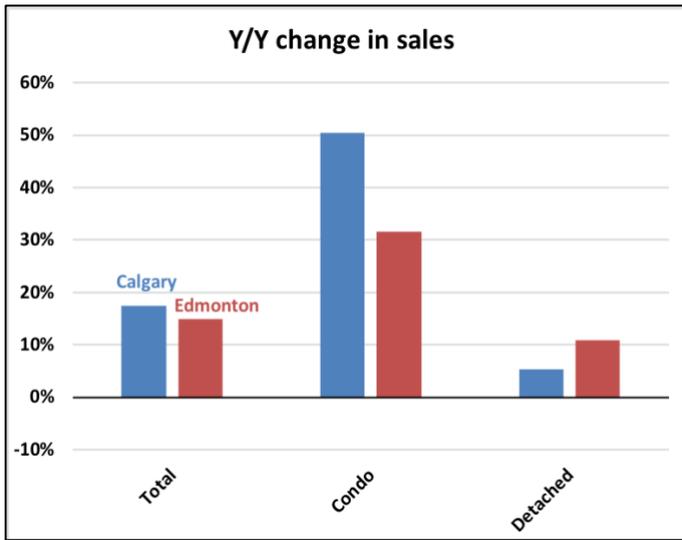
Home sales rise

While Toronto and Vancouver saw slowing demand, Calgary managed to eke out a 1.1% gain in sales in July and even posted a record number of transactions for that month:



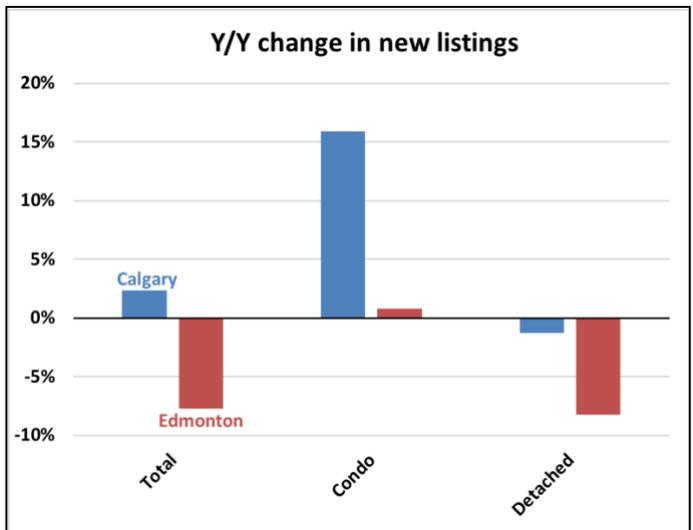
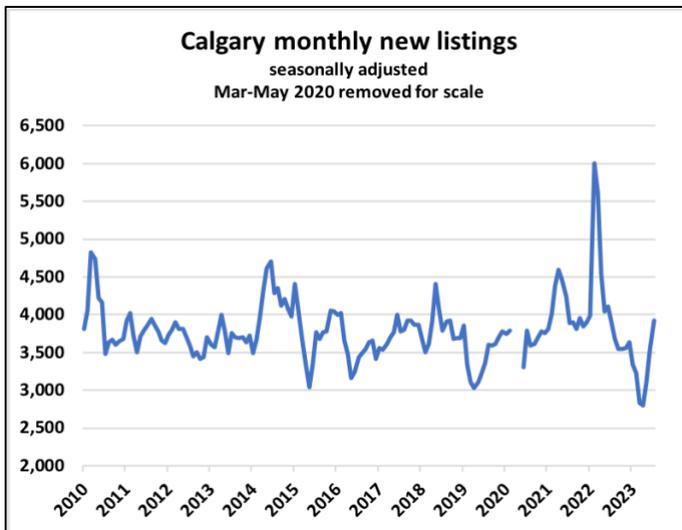
Surging condo demand

It's worth noting that condo sales continue to massively outpace the single-family segment in what may be a sign that investor interest continues to be high and rising:



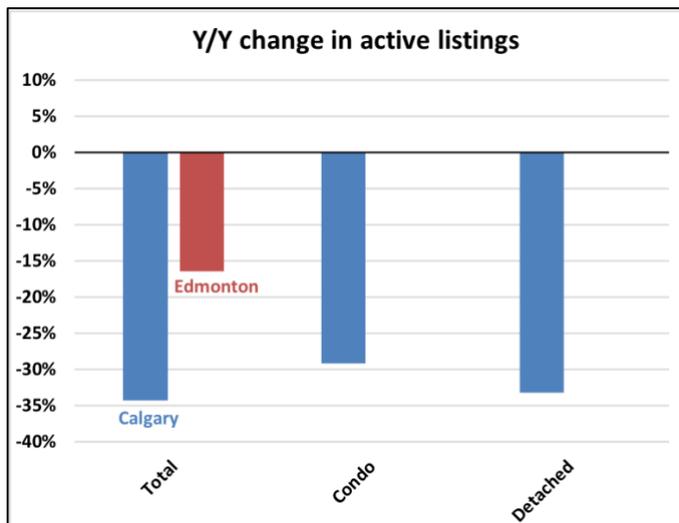
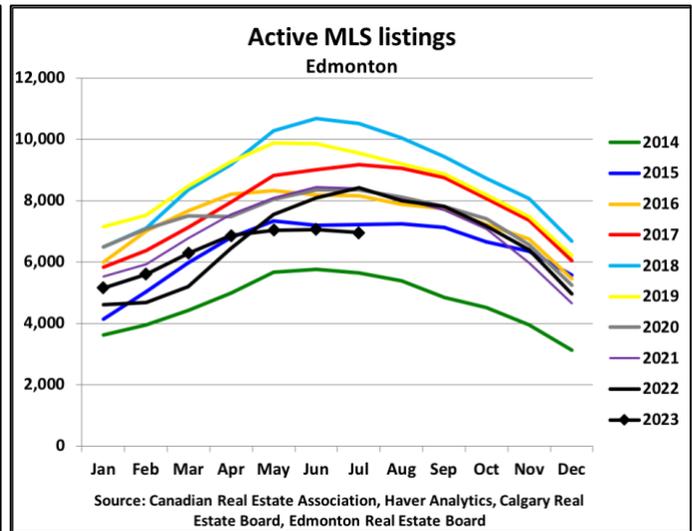
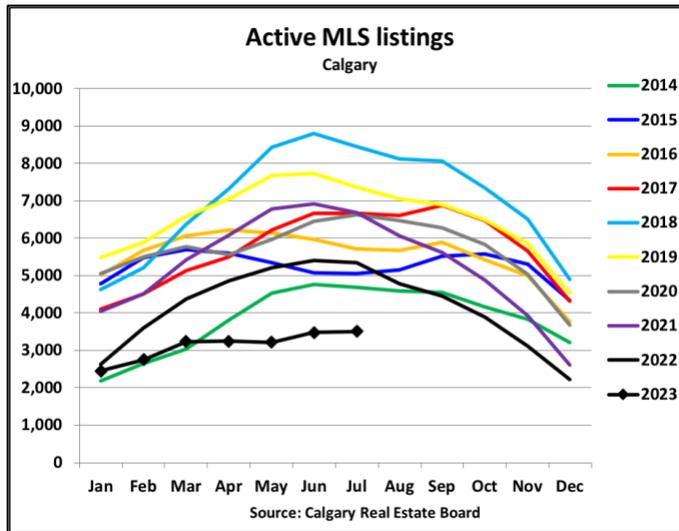
New listings jump

Seasonally adjusted new listings in Calgary were up an estimated 11% m/m in July and have now risen by 40% in the past 3 months:



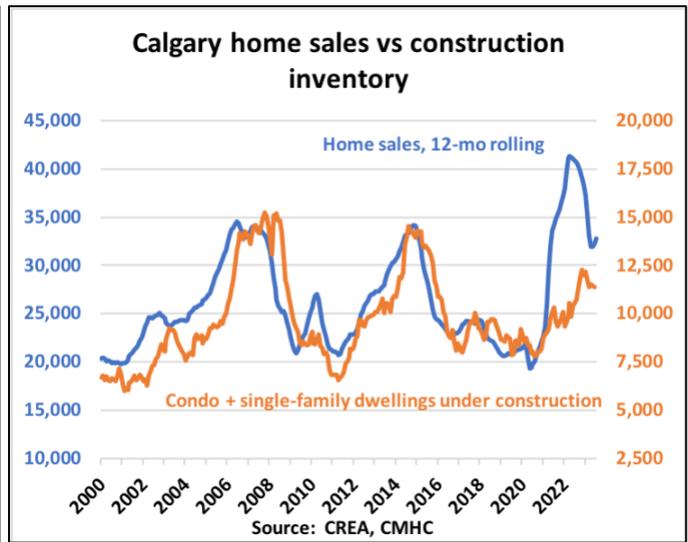
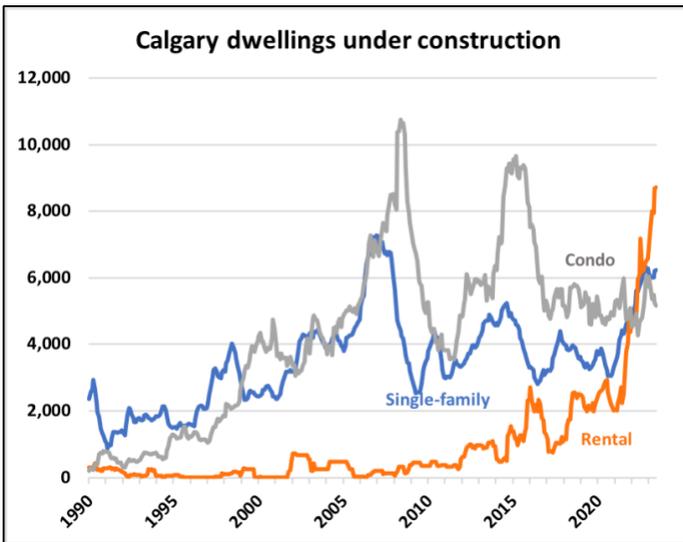
Inventory grinds lower

The big story in both Calgary and Edmonton is the rock-bottom level of resale inventory which was down 34% y/y in the former and 16% in the latter:



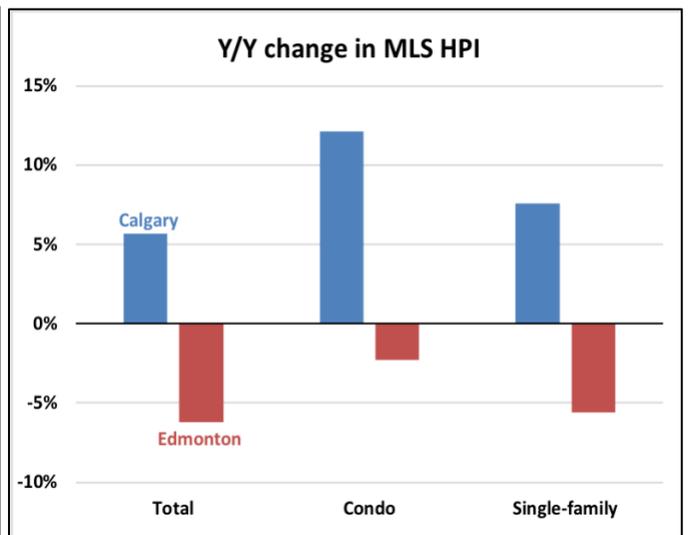
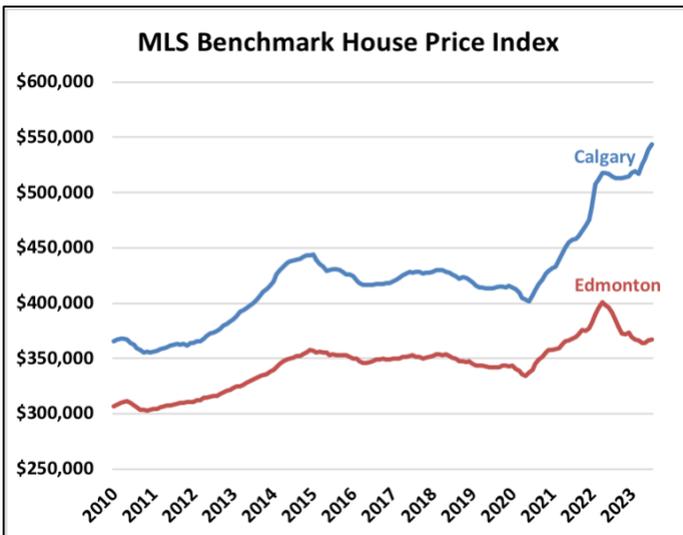
Construction activity slows

The number of homes under construction in Calgary fell 0.4% m/m in June as condo completions ramped. "Homeowner" construction activity (ie condos + single-family but not including rentals) continues to be well below levels that marked prior cyclical peaks, and we may have some runway yet before we need to be concerned about excess supply in the construction pipeline:

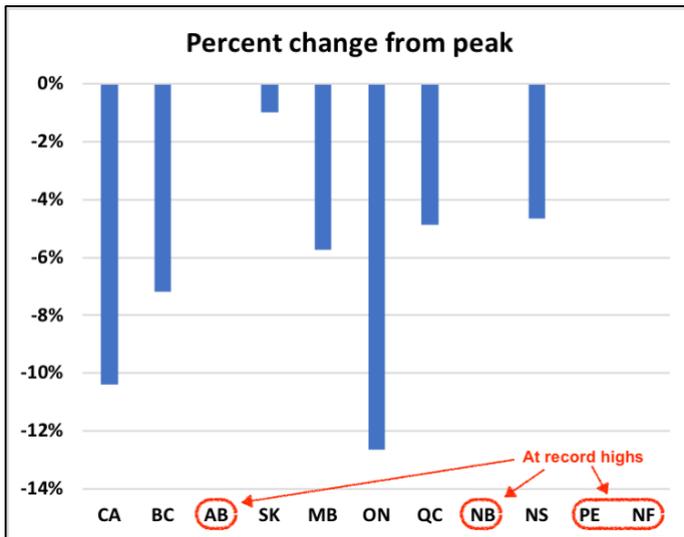


Prices rise in Calgary

Prices continue to set new records in Calgary while Edmonton is still well below peak levels but trading water for now:



Strength in Calgary has pushed the House Price Index for the province to record levels, one of only 4 Canadian provinces currently at all-time highs:



Have a great day!
Ben