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**September 2023**  
**Metro deep-dive: August data**

**Quick links:**

- 1) Macro commentary: Recession is already here, rate hike expectations tumble**
- 2) Major inventory build in Toronto, with more on deck?**
- 3) Vancouver sales post largest decline since late 2022**
- 4) Calgary “catch-up trade” now in the middle innings**

# 1) Macro commentary: Recession is already here, rate hike expectations tumble

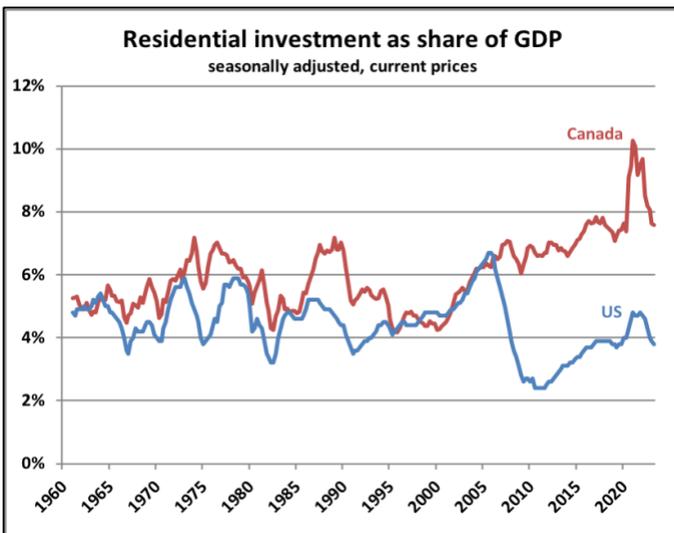
## Recession is here...sort of

Last week's Q2 GDP report came in much softer than expected at -0.2% annualized vs expectations of a 1.3% gain (and a 1.5% increase penciled in by the Bank of Canada in the latest MPR). We've now seen negative prints in 2 of the past 3 quarters.

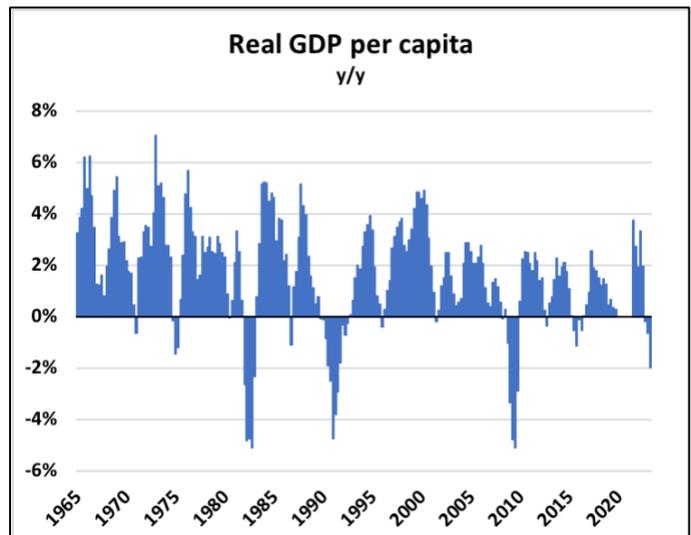
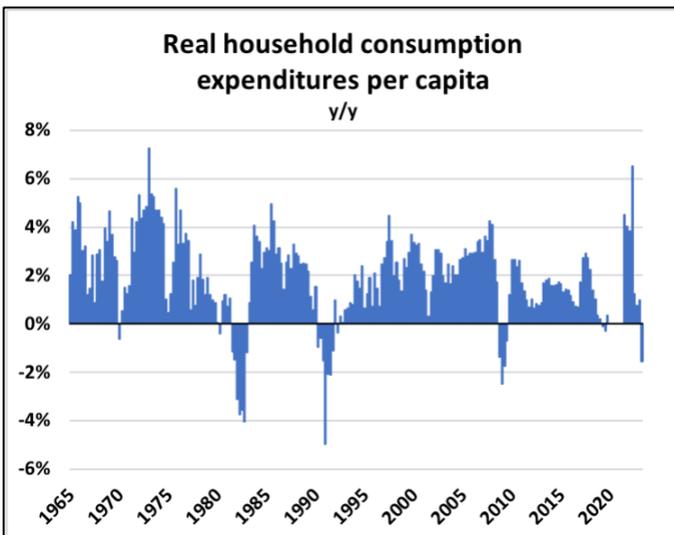
The handoff to Q3 was weak to boot with June at -0.2% m/m and preliminary estimates for July coming in flat.

There's plenty of signs that the Bank of Canada's rate hikes are indeed cooling the interest-sensitive components of the economy. Real household spending slowed to just 0.2% in the quarter, the weakest pace in 2 years, while new building construction and renovation expenditures fell 8.2% and 4.3% respectively.

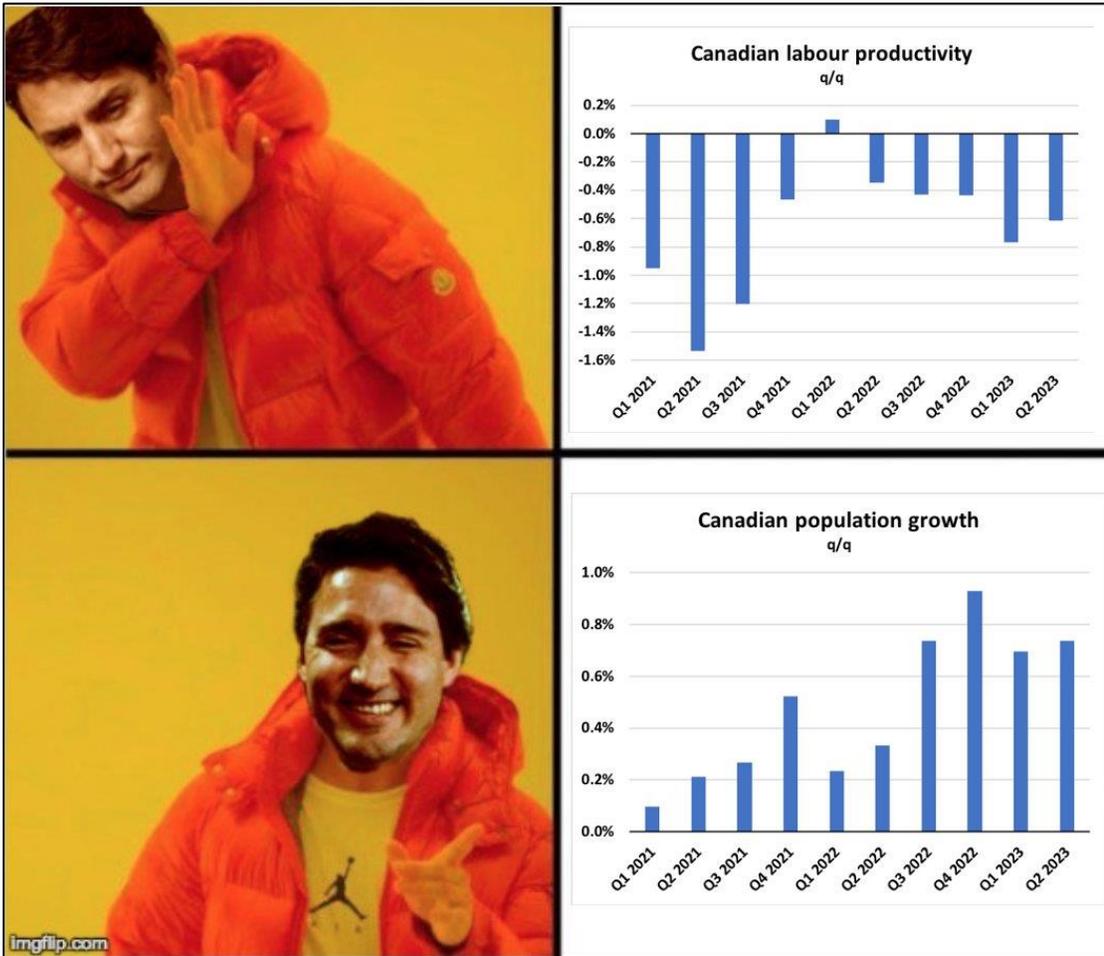
Residential investment fell another 2.1% in Q2 and has now fallen for 5 consecutive quarters....and yet still remains above prior cyclical highs as a share of GDP:



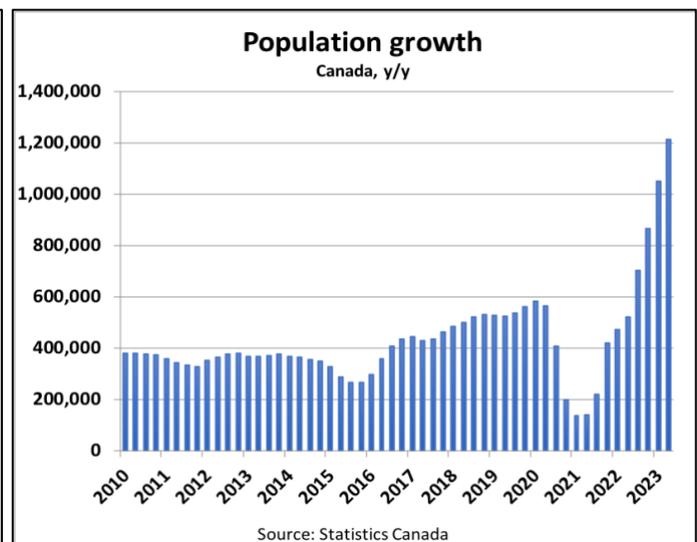
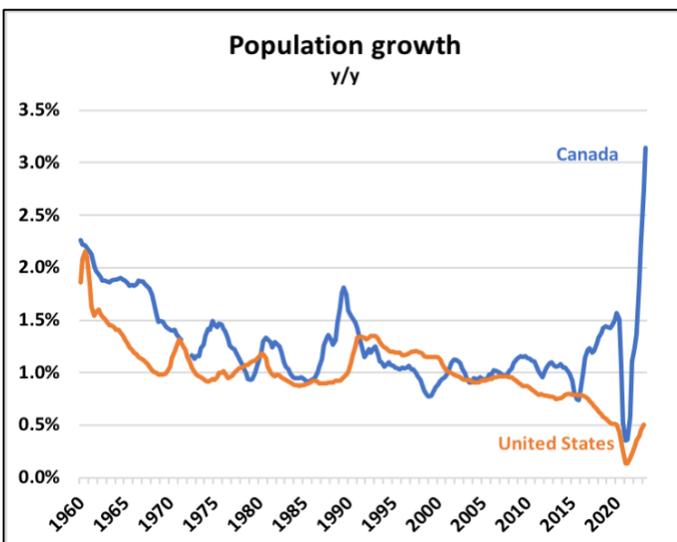
The bigger takeaway is that the economy is seeing declining growth on a per capital basis, and it's really only Canada's massive population boom that's keeping us from a formal recession already. Both per capital household consumption expenditures and per capita GDP are falling at an annual rate only seen in 3 other prior deep recessions ('08, '91, and '82):



We also learned that labour productivity declined again in Q2 and is now unchanged over the past DECADE! Since GDP growth is nothing more than population growth plus productivity growth, this means all the heavy lifting in the economic accounts is being done by Canada's massive immigration surge. Which means the current economic growth plan looks something like this:



But how long can Canada sustain population growth like this, particularly once people realize that their standards of living aren't keeping up with headline "economic growth"?



That's a particularly important question given the rapidly-shifting sentiment towards immigration policy in the country, especially as it relates to the unprecedented and irresponsible boom in non-permanent residents. Just a year ago it was impossible to imagine ministers in the current government could suggest that the "integrity of the system is at risk", and that they "won't rule out" cuts to immigration targets....yet here we are.

Politics

**Integrity of immigration system at risk as international student numbers balloon, minister says**



Marc Miller says Canada will host around 900,000 international students this year

 Christian Paas-Lang · CBC News · Posted: Aug 27, 2023 4:00 AM EDT | Last Updated: August 31



Immigration Minister Marc Miller is not committing to an idea floated by the government earlier this week to cap the number of international students entering Canada each year. (Spencer Colby/The Canadian Press)

CTV Kitchener  
@CTVKitchener

Canadian government won't rule out changing immigration targets to address housing challenges, Fraser says

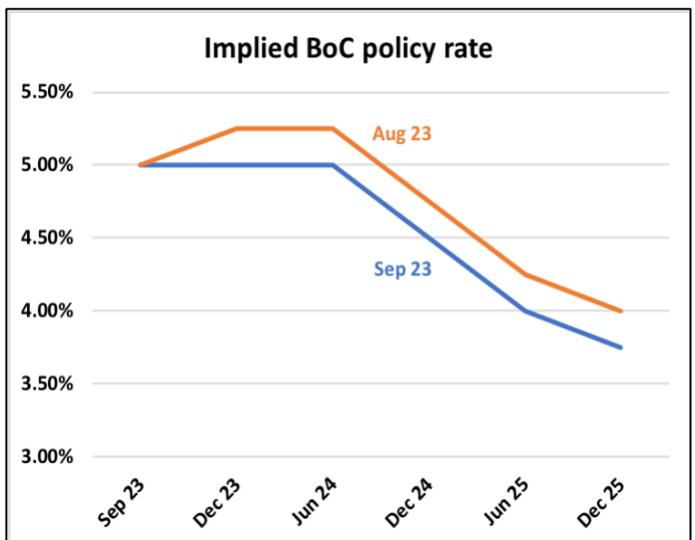
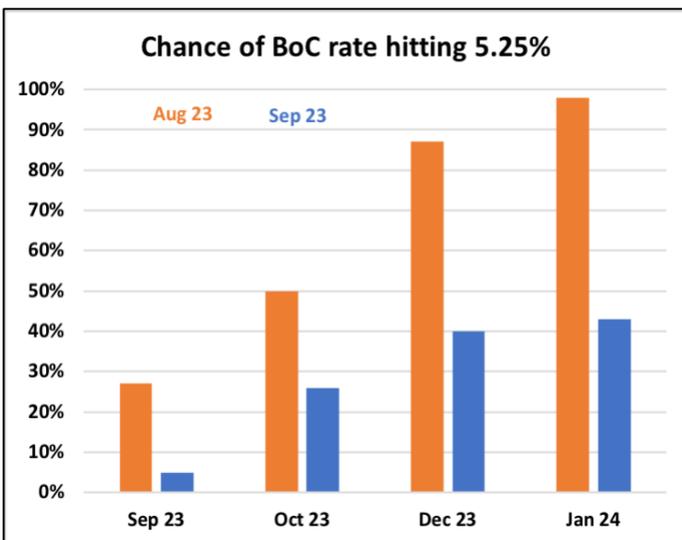


ctvnews.ca  
Canadian government won't rule out changing immigration targets to address...  
Canada's housing minister says the federal government isn't ruling out changes to its ambitious immigration targets, but maintains the country ...

9:00 AM · Sep 11, 2023 · 1,161 Views

**Rate hike expectations collapse**

The end result of the weaker-than-expected GDP print is that rate hike expectations have collapsed. Markets were pricing in effectively 100% chance of another 0.25% rate hike by January, but that has dropped to just 40% today. And in terms of the implied Bank of Canada rate path going forward, markets are now expecting that we've likely hit a peak. That can all change if we get another couple hot inflation reports, but for now, take it as a positive development on the rates front.



## Suspicious jobs report

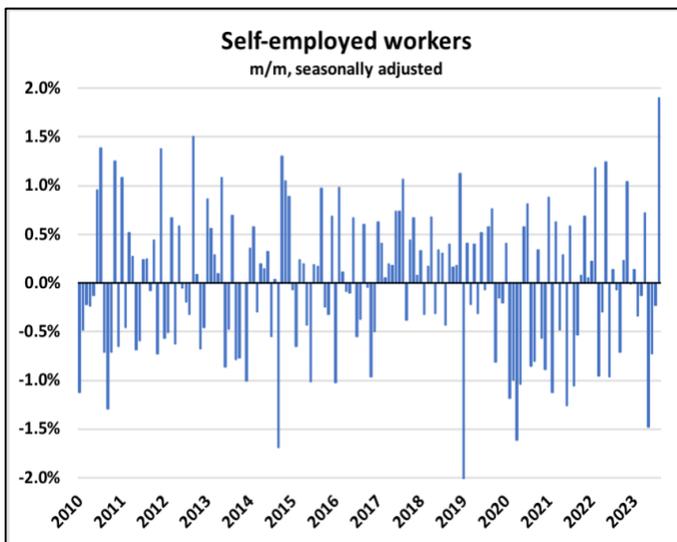
The Canadian Labour Force Survey is notoriously volatile with a standard error so wide that it's a wonder it has any market-moving abilities whatsoever. But every now and then we get a particularly head-scratching reading, and last week was one of those times.

The headline 40k job growth blew away expectations, but that's about the only positive takeaway.

For starters, private sector employment fell 23k m/m and has now declined 40k in the past 2 months. It was a small uptick in public sector employment and a massive 50k increase in "self-employed" workers that made up the increase.

Let's not gloss over that self-employed cohort. This is a "catch-all" category that is volatile at the best of times but particularly when we see abrupt shifts in the labour market. After all, someone who gets laid off can try their hands as an "entrepreneur" (think DoorDash or OnlyFans)...at least for a while.

Let's put the growth in the self-employed category into context. At 50,000 it was the largest nominal increase on record, and at 1.9% it was the largest monthly percentage gain since 1995. Suspicious, to say the least, and certainly not bullish.



There were other signs of softness too. The unemployment rate held steady, but has still risen 0.5% in the past 4 months. Outside of the pandemic, you have to go back to 2008 to find the last time we've seen that sort of increase. And when we expand it to broader measures that capture involuntary part-time and discouraged workers, the unemployment rate actually ticked up. The increase in involuntary part-time workers was particularly pronounced in the 15-24 year old cohort where it jumped from 16% last year to 20.6% in August. Perhaps that helps explain the huge lineups we're seeing at job fairs for entry level workers. This was in Waterloo:



And here's a wild video from a Food Basics job fair in Hamilton:

[https://twitter.com/shazigoalie/status/1695534533339201803?s=12&t=0GBHTHa5v90z2\\_Hr9zoNZQ](https://twitter.com/shazigoalie/status/1695534533339201803?s=12&t=0GBHTHa5v90z2_Hr9zoNZQ)

None of this squares with an unemployment rate that is just barely off record lows. I think the economy is softening in real time, and we'll likely see substantial downward revisions in coming months, which is typical when the economy turns ahead of recession.

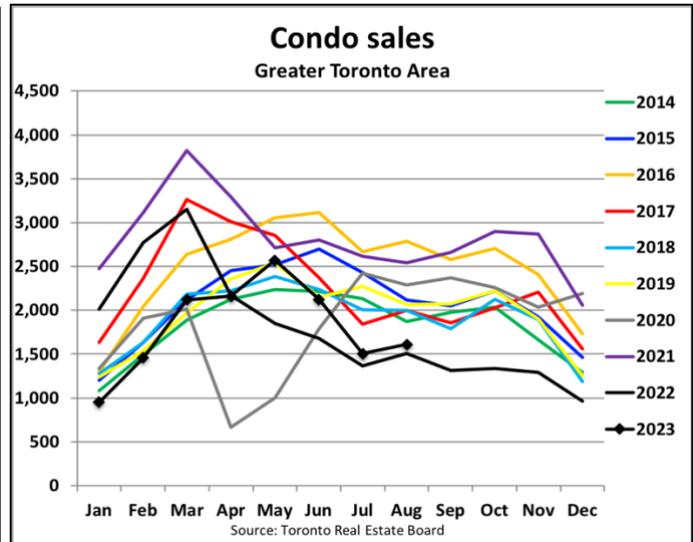
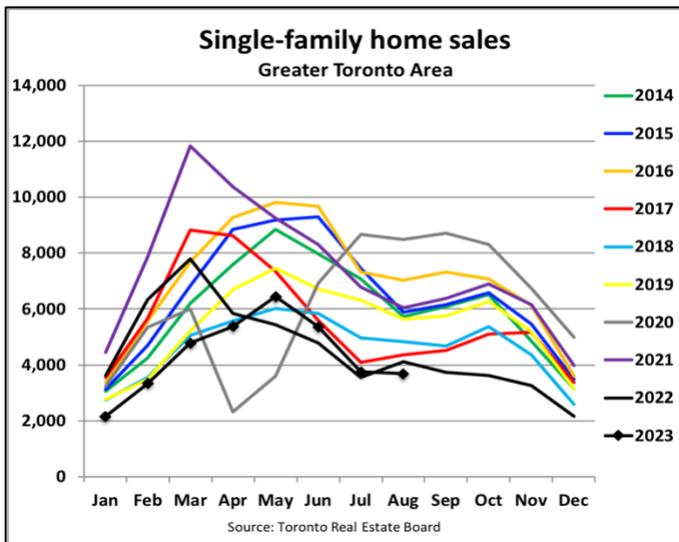
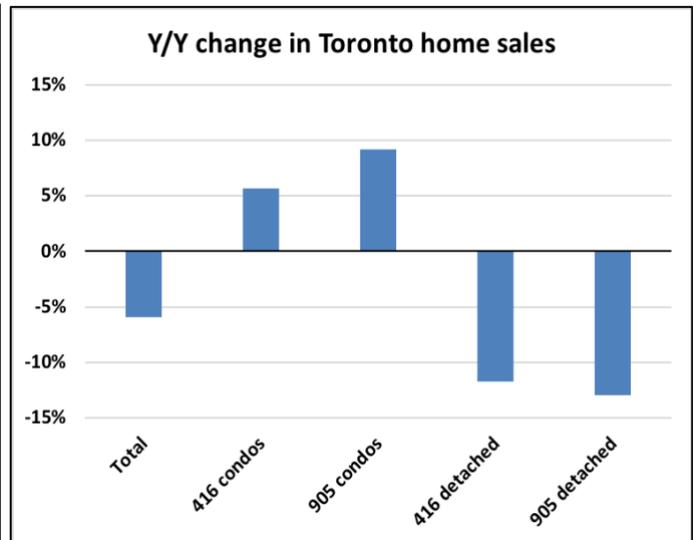
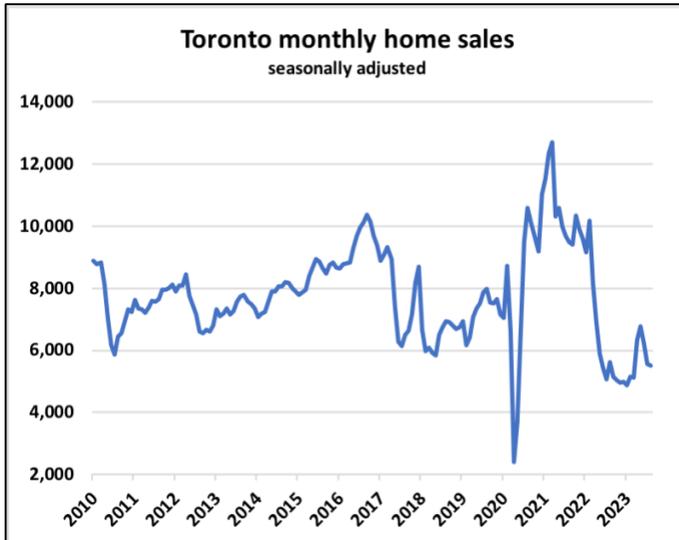
Meanwhile, wage growth slowed to 4.9% from 5.0% previously while the job changing rate sunk to 0.4%...well below the pre-pandemic average of 0.7%. This measure tends to decline when the labour market softens and workers perceive a deterioration in job prospects.

### **Bottom line**

Even with a surprisingly strong jobs report, the underlying details coupled with last week's GDP report point to a marked slowdown in the Canadian economy. The big question now is around what type of "landing" we're facing. Regardless, it's getting more difficult to envision more rate hikes from here barring a significant and sustained upside surprise in inflation.

## 2) Major inventory build in Toronto

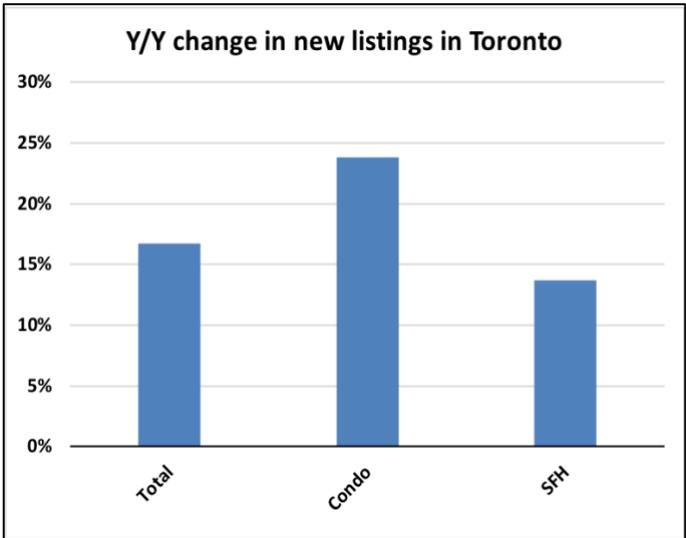
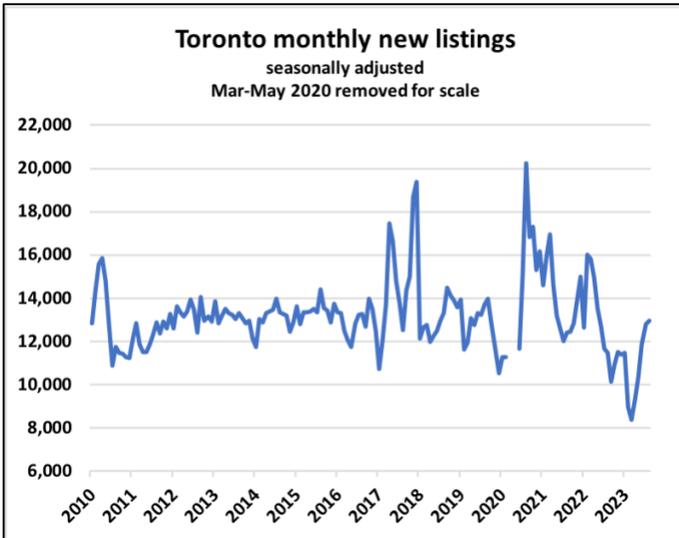
Seasonally adjusted home sales fell a more modest 1% m/m in Toronto in August, but that's off a July figure that saw a 1.3% downward revision. That leaves sales down a cumulative 19% over the past 3 months and puts sales back at sales levels that were last seen on a sustained basis in the 1990s.



### New listings tick up

With most mortgage rates today still in the 6% range, we should expect demand in less affordable markets to remain significantly constrained for the foreseeable future. The bigger unknown is on the supply side, and that's where we should remain focused.

New listings continue to grind higher in most major metros, but it's not an "explosion" just yet. In Toronto, new listings were up 1.3% m/m but are still barely back to long-term norms after sitting at 30-year lows for most of 2023:



Anecdotes from realtors point to a strong uptick in inquiries from prospective sellers in recent weeks. We're likely looking at a strong flow of supply this fall, and that will likely tip the market further into buyer territory:

**Nasma Ali**  
@nasmadotali

Getting about 20X number of sellers wanting/needing to sell vs buyers wanting to buy.

Sign of more listings coming to the market, than buyers that will absorb them.

Let's see if this halt of rate hikes will bring back buyer confidence.

1:57 PM · Sep 6, 2023 · 91.3K Views

37 Reposts 8 Quotes 451 Likes 18 Bookmarks

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**Nasma Ali**  
@nasmadotali

I mean getting calls from more sellers than buyers. Usually it's been more buyers than sellers. In past year about 60/40 buyers. And now 20 fold sellers.

2:00 PM · Sep 6, 2023 · 9,831 Views

3 Reposts 73 Likes

**Sanj Mand**  
@sm\_cmc

Interesting chat with a realtor this morning, almost all of his calls since the rate announcement has been sellers jumping at the opportunity. Sellers hoping for a second chance to deleverage could end up chasing the market down another leg.

12:15 PM · Sep 6, 2023 · 9,990 Views

5 Reposts 2 Quotes 95 Likes 2 Bookmarks

And that's just from those who have decided to sell. Waiting in the wings is the unknown, but not insignificant "shadow supply" from deeply cash flow negative investors who are barely holding on. Rates at these levels will force their hand in time. Consider these two posts from last week:

**Cam Cassidy**   
@CamCassidy

Speaking to Toronto firefighter today looking for agent referral. Owns 11 properties, sold the last 3 at a loss and is using his day job to support the negative cashflow.

Things are slowly breaking

2:26 PM · Sep 7, 2023 · 189.3K Views

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82 Reposts 90 Quotes 749 Likes 39 Bookmarks

**Indians in Toronto**  
Anonymous member · 22m · 

Hi! It would be much appreciated if i could get some guidance on this. My friend bought a 2bhk condo in March 2022 near bramble city center for \$600,000. Now due to the high interest rates he is unable to bear the expenses of this condo even after renting it out fully. He is still paying 1200 from his pocket towards the monthly payments. If he sells it now, (aprox value now is \$5,50,000) he would only be able to get about \$50,000 out of the 1,20,000\$ downpayment. Could someone please suggest what could be the market trend next year and should he sell it now or wait a year or two?

2 answers

 Like  Comment  Send

All comments ▾

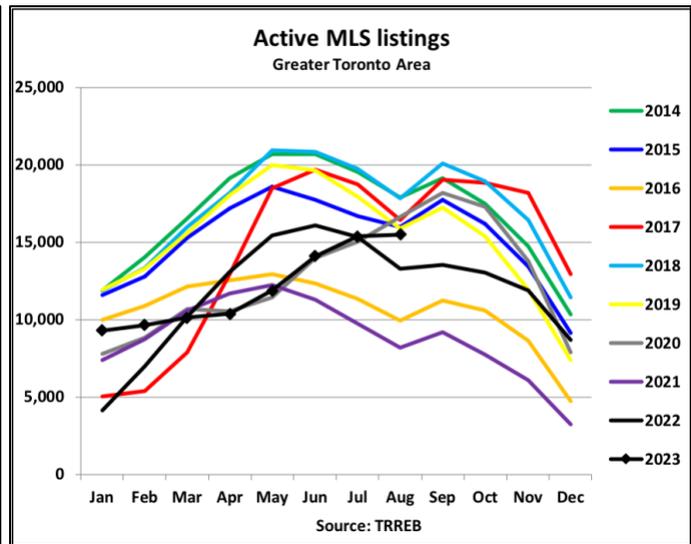
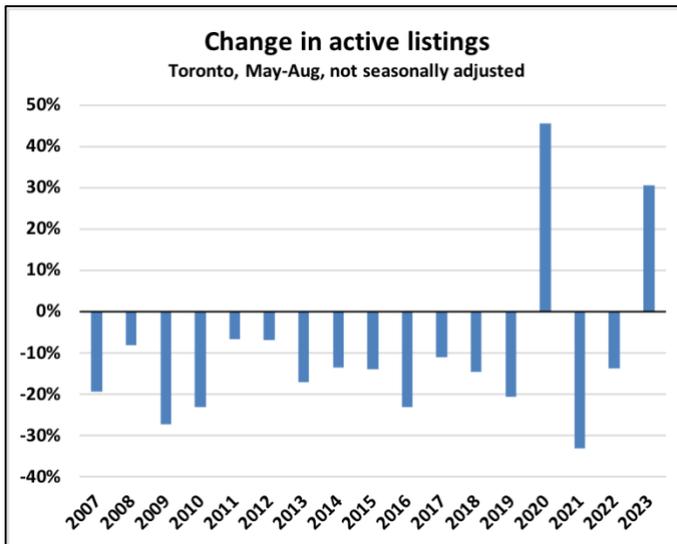
**Sreejith Pillai**  
Real estate is always an asset. If you can hold onto it then you should.

6m Like Reply

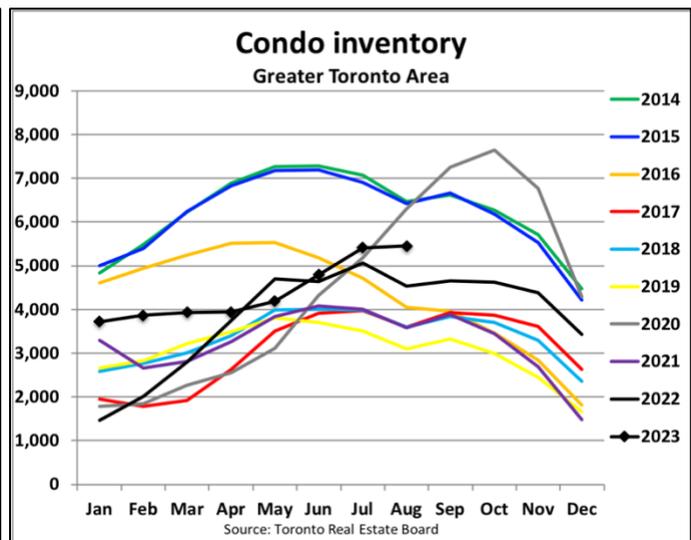
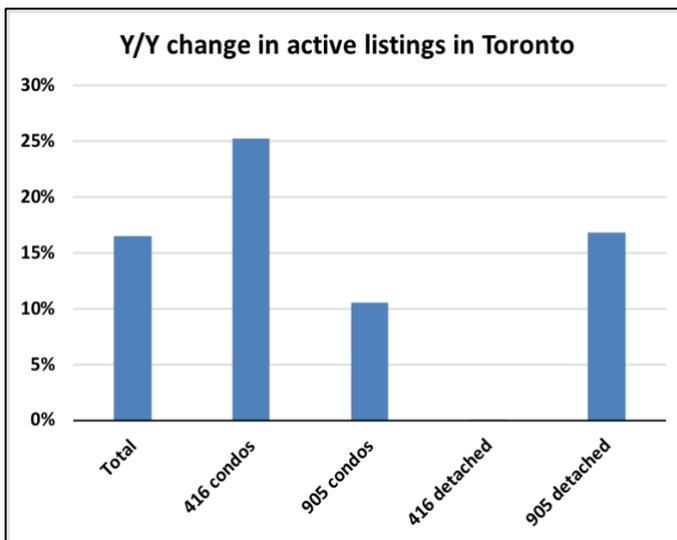
## Counter-seasonal inventory build

We're seeing a significant and counter-seasonal build in active inventory in major metros across the country. In the case of Toronto, month-end inventory in August was 30% above May levels. The only other month in the past 30 years that saw a build like that was 2020:

For now active listings are not at concerning levels, but we've seen that inventory can build quickly, and with high rates forcing the hand of some sellers, it doesn't take much of a supply response to exert significant downward pressure on prices:



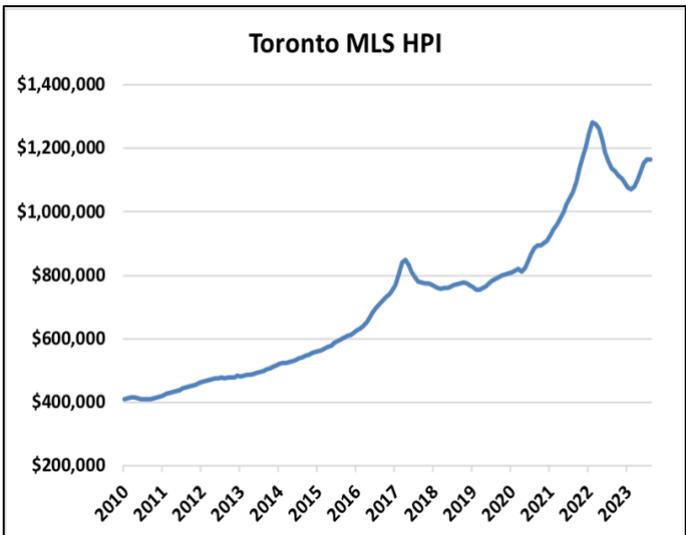
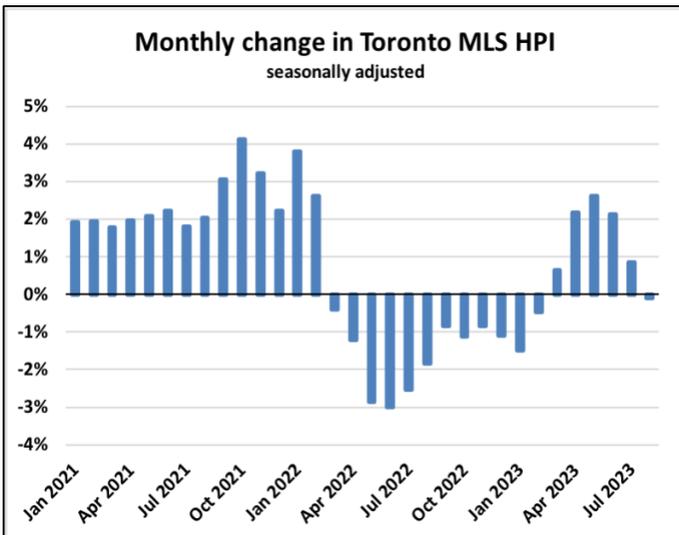
Inventory levels are roughly 16% above year-ago levels led by a big jump in condo listings in the 416. This is an area to watch later this year as condo completions ramp up:



**Prices turn negative**

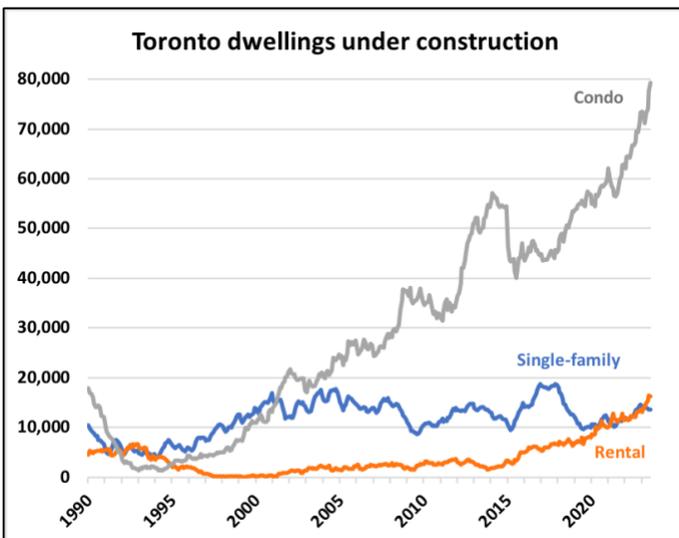
House prices are back under pressure in Toronto and Vancouver, and I'm sticking to my prediction that prices nationally will roll over this month (we'll get that data in mid-October).

In Toronto, the HPI declined slightly in August, the first declines in the past 6 months:



**Construction activity up on rentals**

Dwellings under construction in Toronto rose 1.4% in July and have now risen 9.6% in the past 4 months alone, driven almost entirely by surging activity in the condo segment where there are now 11.2% more units under construction than 4 months ago:



### Condo cash flows deteriorate again

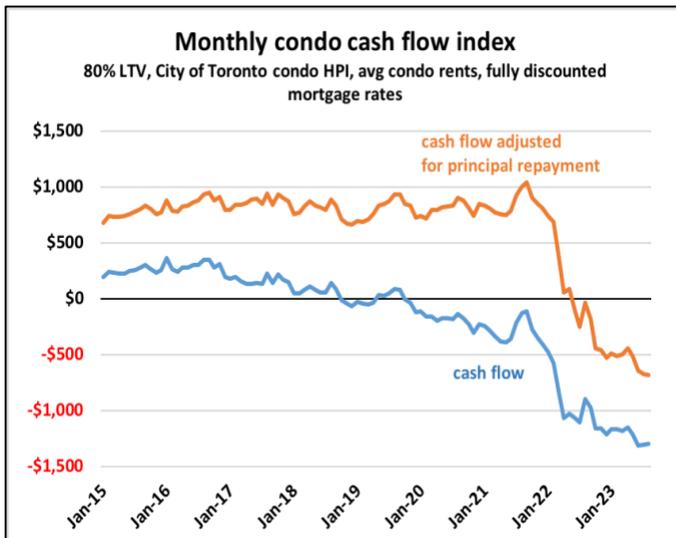
I met with a noted preconstruction condo expert last week who walked me through some interesting math. For starters, note that there were just under 80,000 condos under construction across the Toronto metro region in July:



This individual estimates that north of 80% (or somewhere around 65,000) were purchased by investors. And of THOSE, he estimates that at LEAST half will either be unable to get financing to close due to higher rates, or will face substantial capital calls due to appraisals that come in below the purchase price.

So we're talking about 30,000 to 35,000 "distressed" condos coming online over the next few years. Which is a little under 2 years of resale demand at current sales levels.

And that's assuming that investors continue to remain a significant portion of demand....a tenuous proposition given the current cash flow dynamics, which deteriorated again in August:



It's not a small problem, and it will only be made worse if prices stay flat or decline from here. This segment is already underperforming the broader market, with the condo HPI down 1.2% over the past year in Toronto compared to a 2.5% increase for the market as a whole.

Meanwhile this is the segment seeing the most aggressive supply response, with both new and active listings outpacing the broader market:

With prices declining and preconstruction condos already bought at a substantial premium to resale, expect to see more assignments like the one below, posted today:

**Mukesh Vankwani**  
13h

REAL Distress Deal on the table - Client losing Deposit. OMG 2 Condos. Selling at less than Original Purchase Price.

2 Bed 2 Wash Split layout unit with Parking and Locker.

\$50,000 Minimum Profit on the table.... [See more](#)

**RESS DEAL**

**Parking + Locker**

**2 Bed 2 Wash**

**Brampton**

### ASSIGNMENT DETAILS

TYPE - CONDO	2 BED 2 WASH
NEW PRICE	\$699,999
OCCUPANCY DATE ( TENTATIVE)	SEPTEMBER 13, 2023
SQFT INTERIER	851
SQFT EXTRIER (BALCONY)	40
FACING	NORTH
PROJECT NAME	OMG 2 BY DANIELS
ADDRESS	62 SKY HARBOUR DR BRAMPTON
LOCKER	YES
PARKING	YES
DEPOSIT PAYMENT TO ASSIGNOR	FLEXIBLE
DEPOSIT PAID TO THE BUILDER	\$74,340
MAINT FEES	\$388
FLOOR	3RD
EXTRA INCENTIVE	N/A

**MENT**  
**T \$795,000**  
**99**

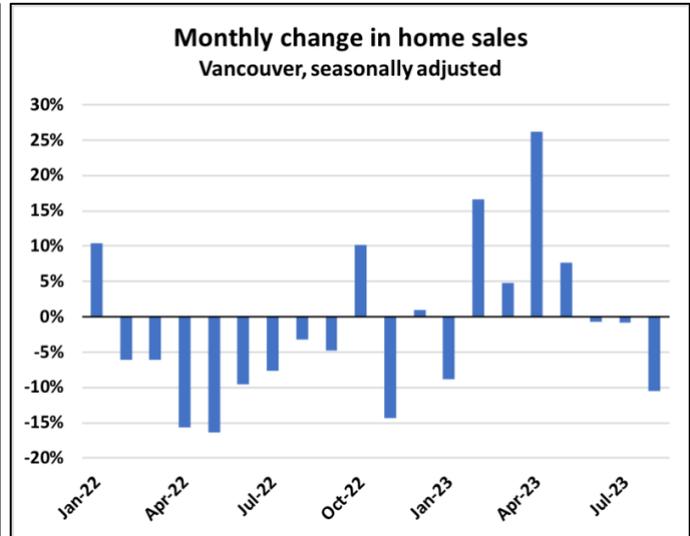
ARBOUR DR BRAMPTON  
ANCY: SEPT 13, 2023

Once buyers are willing to give up their entire deposit to get out of a deal, the next step is to walk away altogether. That's coming if trends don't change quickly.

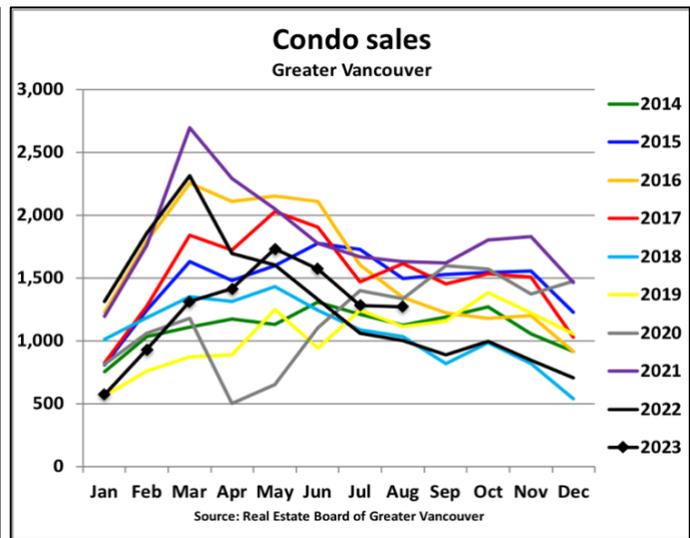
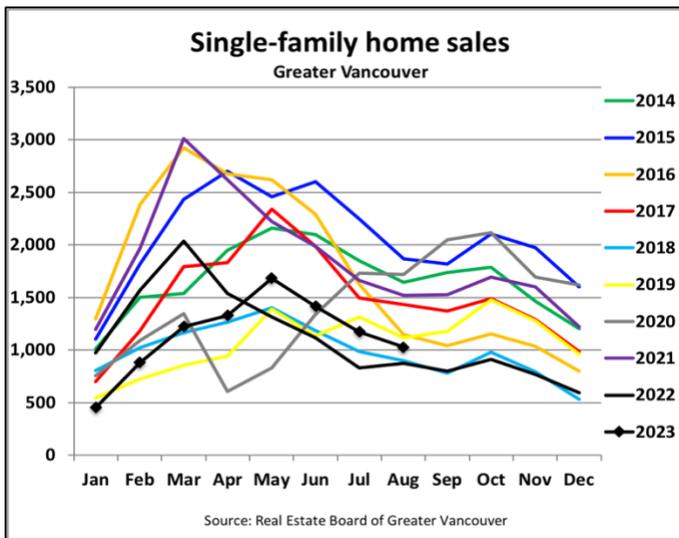
### 3) Vancouver sales tumble 10%

#### Sales post largest decline since late 2022

Seasonally adjusted home sales in Vancouver fell an estimated 10% m/m in August, the third consecutive monthly decline and the largest since late 2022.

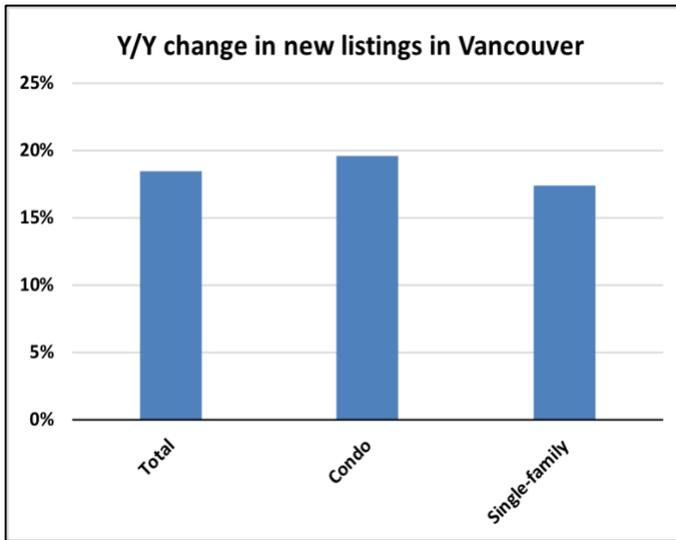


The decline was particularly pronounced in the single-family segment:



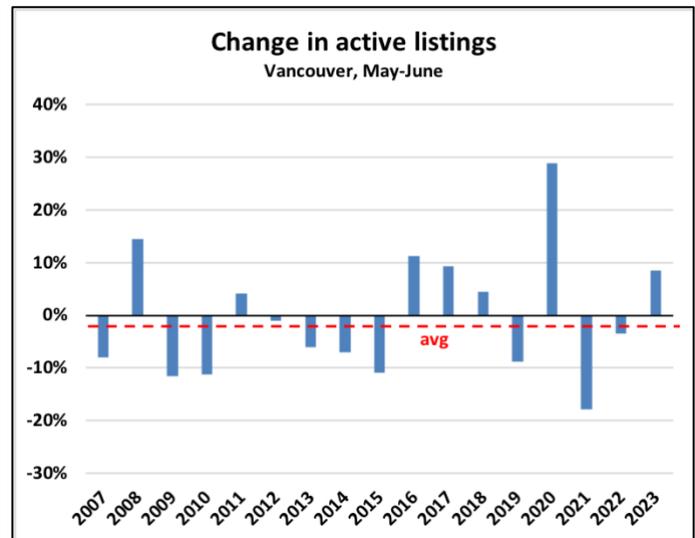
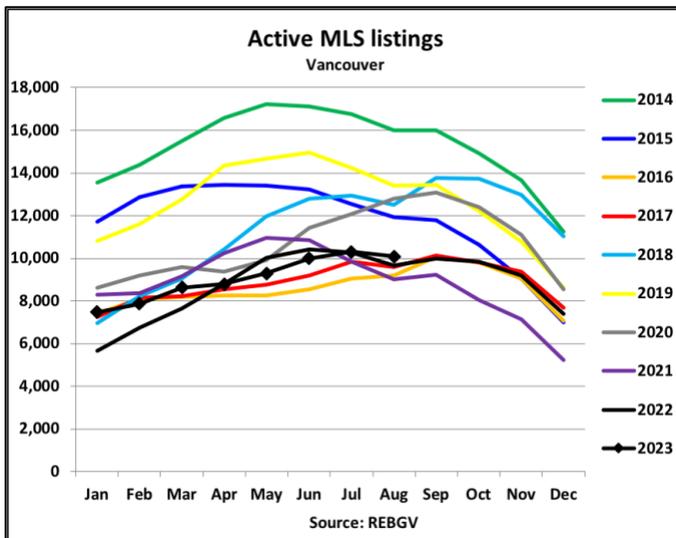
### New listings jump

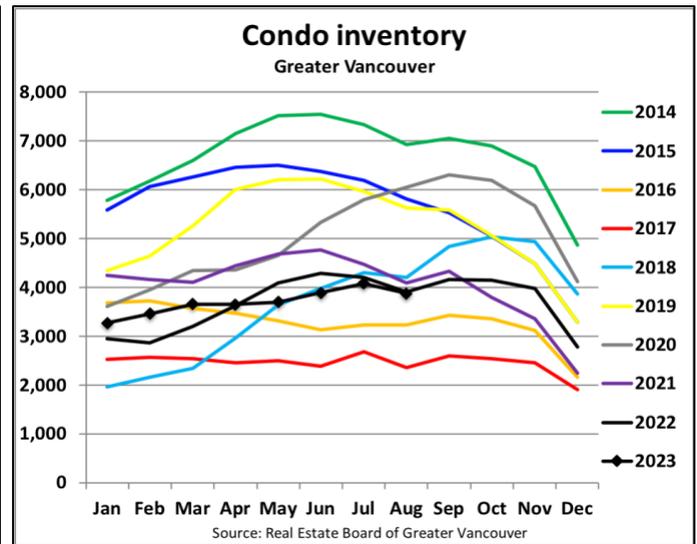
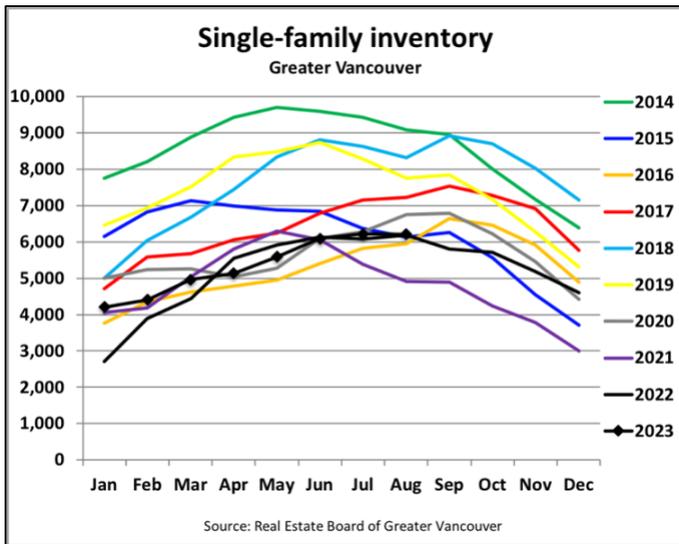
Seasonally adjusted new listings declined slightly in August relative to July but they were nearly 20% higher than last year at this time:



### Inventory still tight

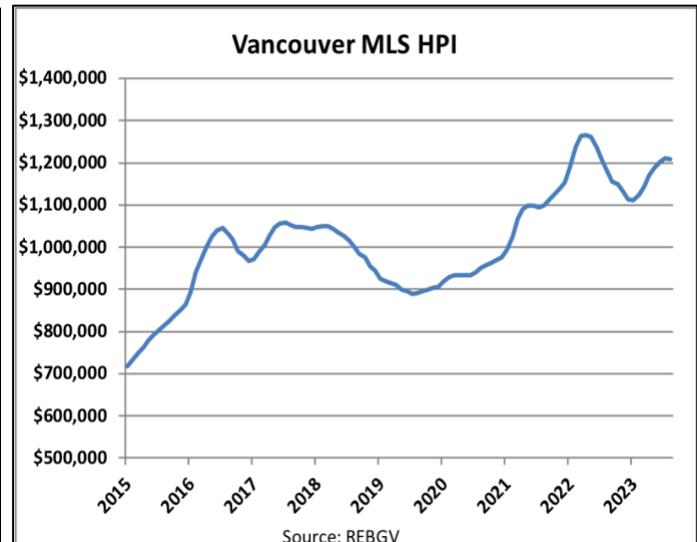
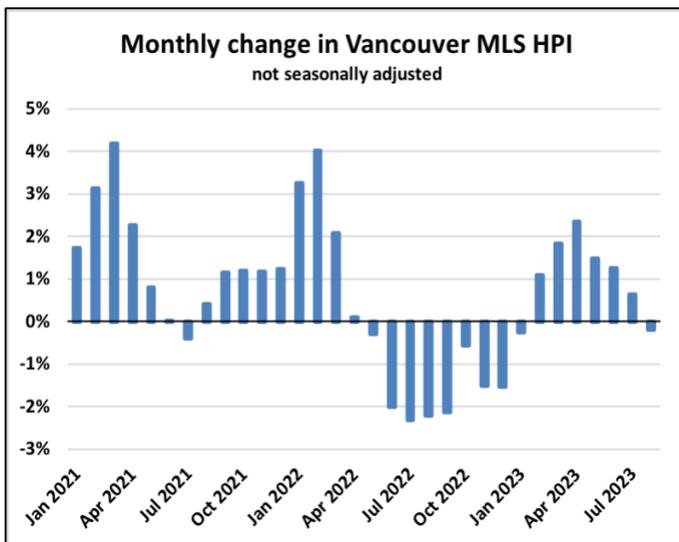
Vancouver also saw a counter-seasonal inventory build, albeit but much less pronounced than in Toronto. Active listings were 9% higher at month-end in August than in May at a time when they typically decline.





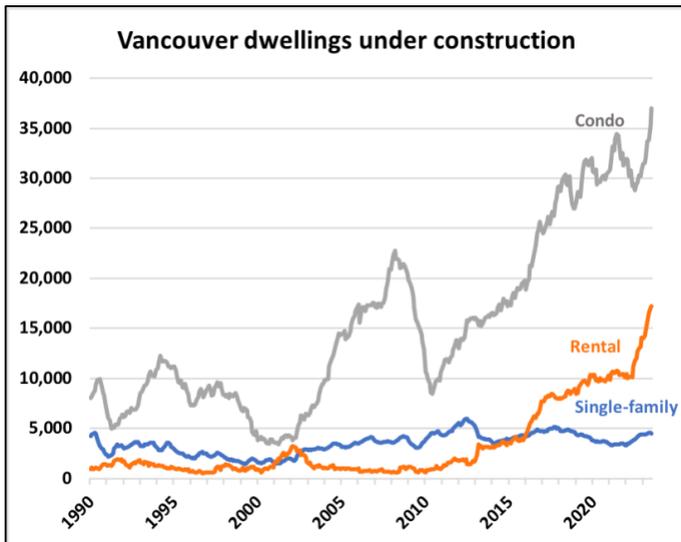
### House back under pressure

The MLS House Price Index posted a slight decline in August, continuing the decelerating trend we've seen since the April peak:



### Construction activity rises

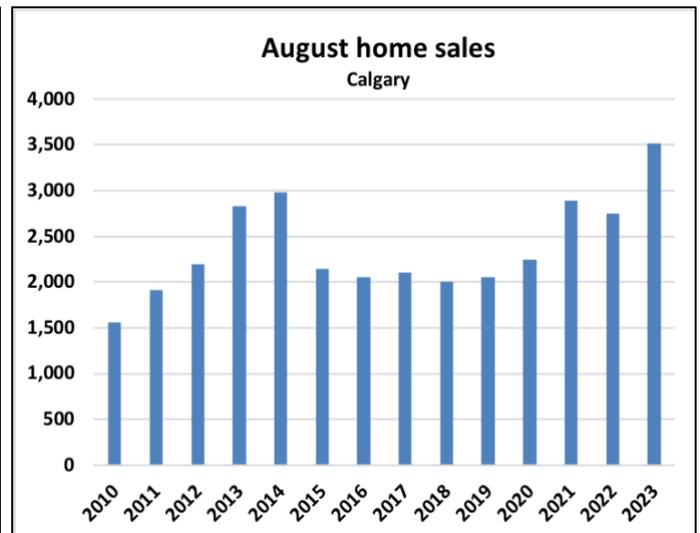
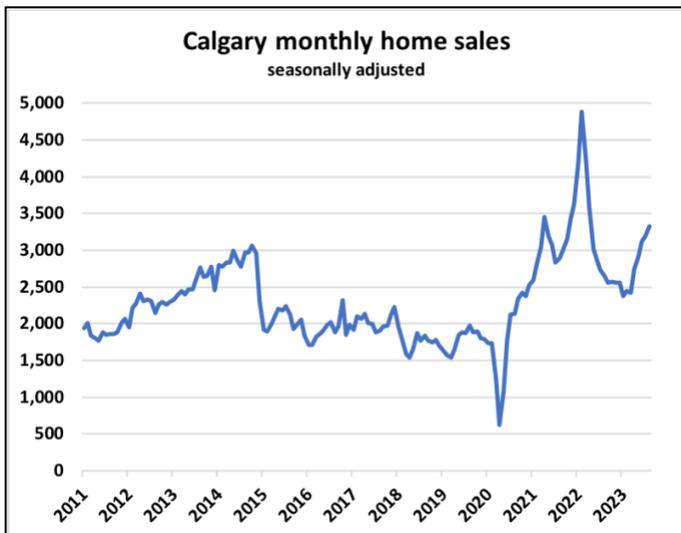
The number of homes being built across metro Vancouver jumped 3.3% m/m in July led by steep increases in condos which jumped 5% on the month. Dwellings under construction have now surged by 15% in just 4 months across metro Vancouver:



#### 4) Calgary “catch-up trade” now in the middle innings

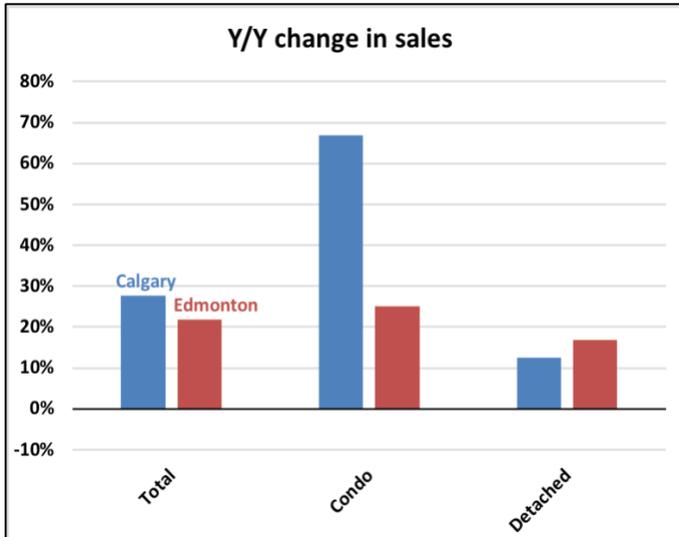
##### Home sales rise

Sales may be soft in Toronto and Vancouver, but they are decidedly different on the prairies. Calgary home sales jumped an estimated 4% m/m and posted the strongest August tally on record:



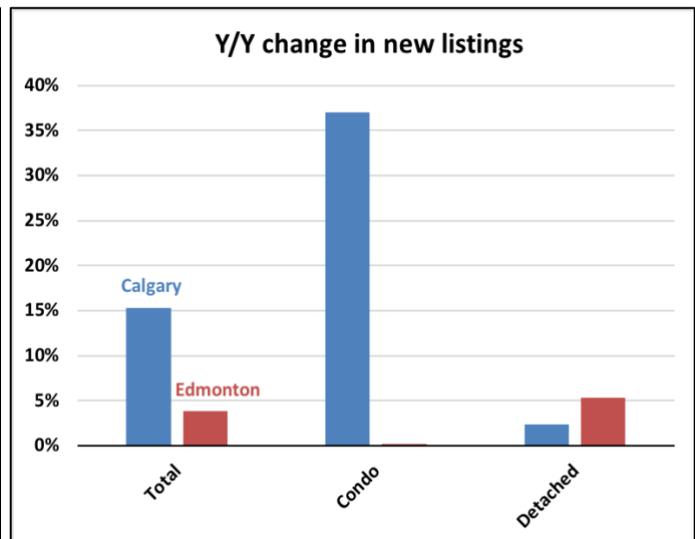
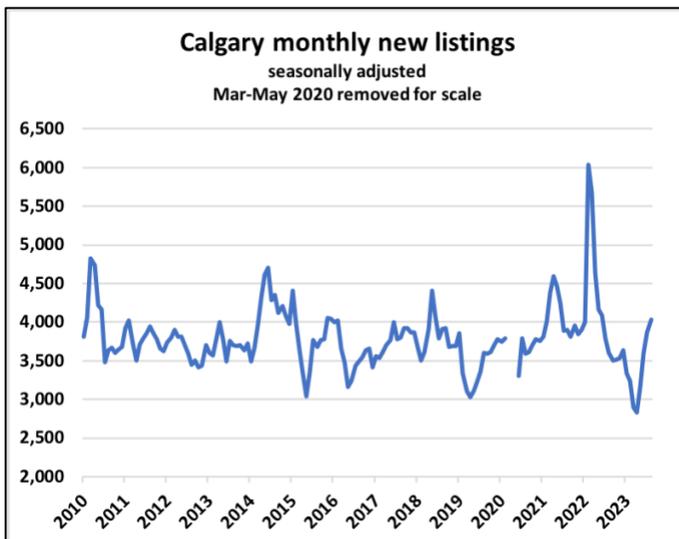
### Surging condo demand

Sales and pricing continues to be driven by the condo segment, a trend that has persisted for the better part of a year. I hear that presales are absolutely flying in Calgary, which means by this time next year we should see a pile of new condos under construction which will likely set the stage for a period of oversupply as the cycle comes to an end. Still, that likely sets up for at least another year or two of outperformance in Calgary relative to other parts of the country, but we're finally seeing some serious late-cycle behavior out there.



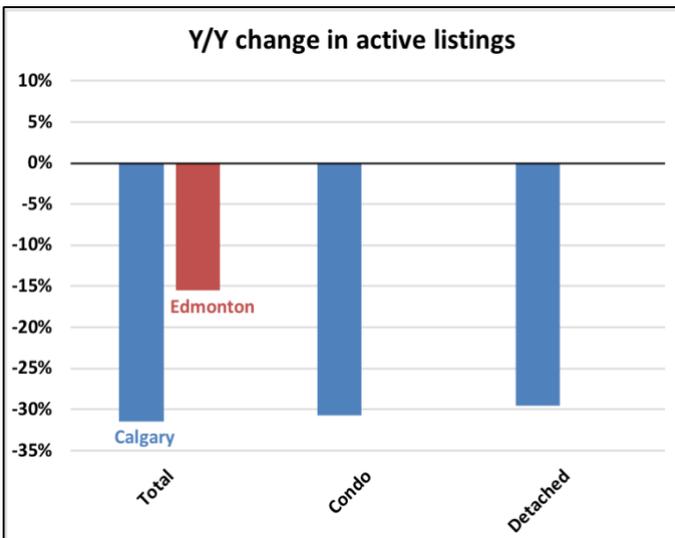
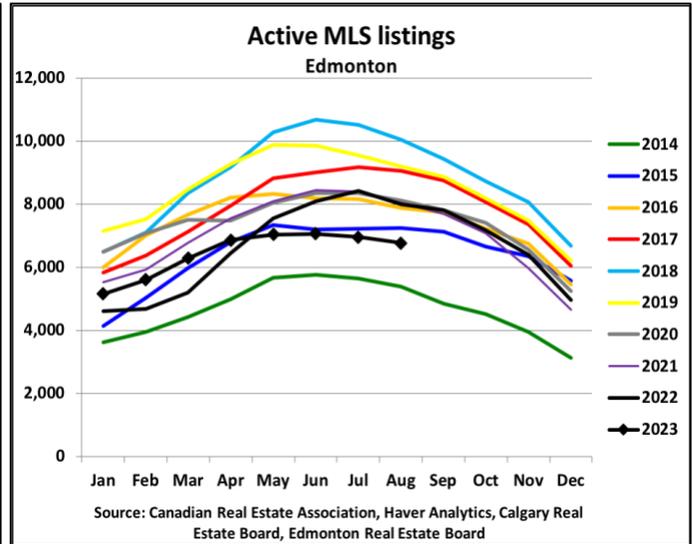
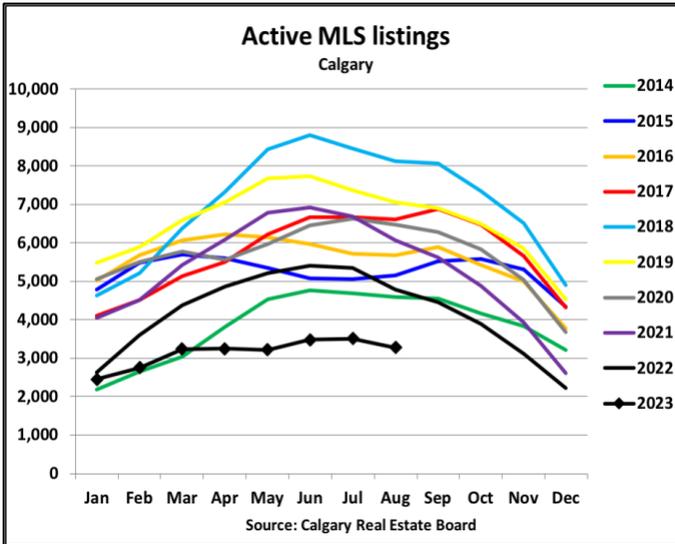
### New listings jump

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:



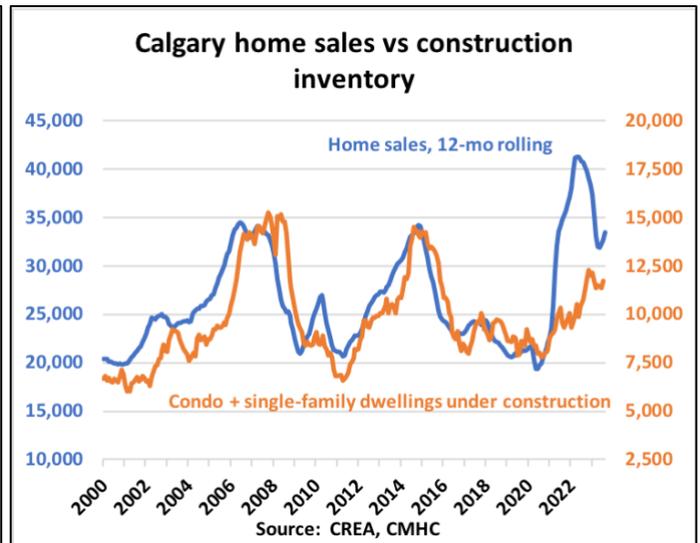
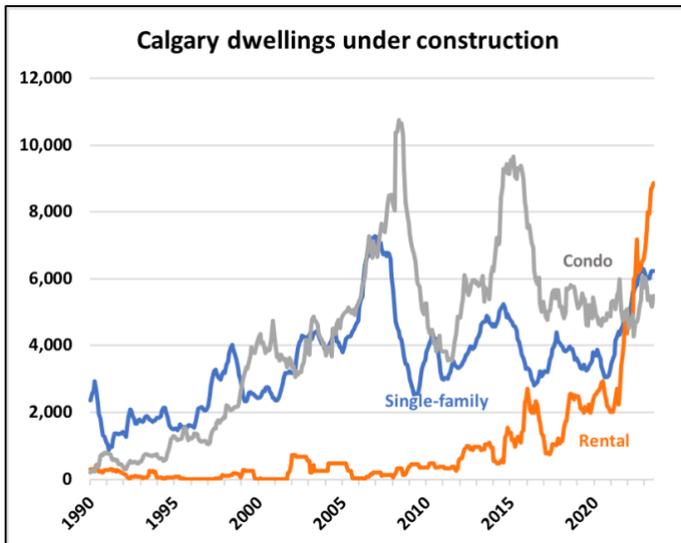
### Inventory grinds lower

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:



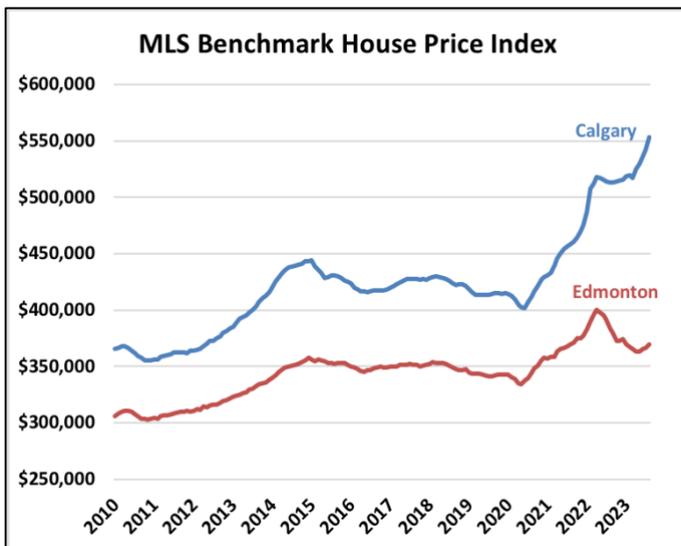
### Construction activity slows

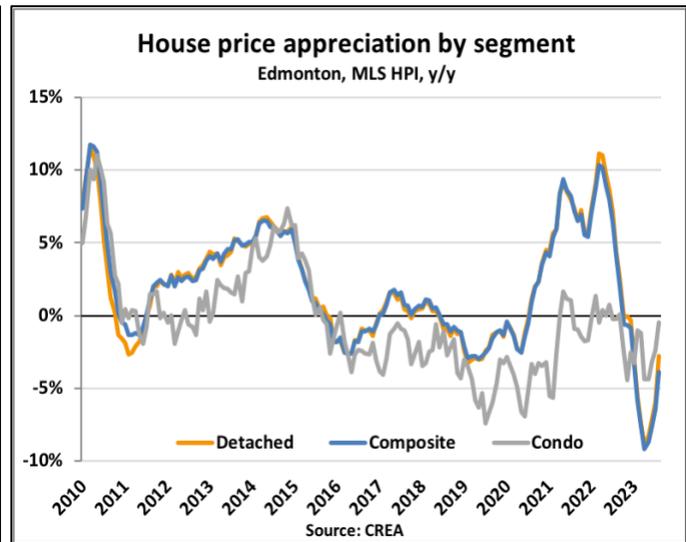
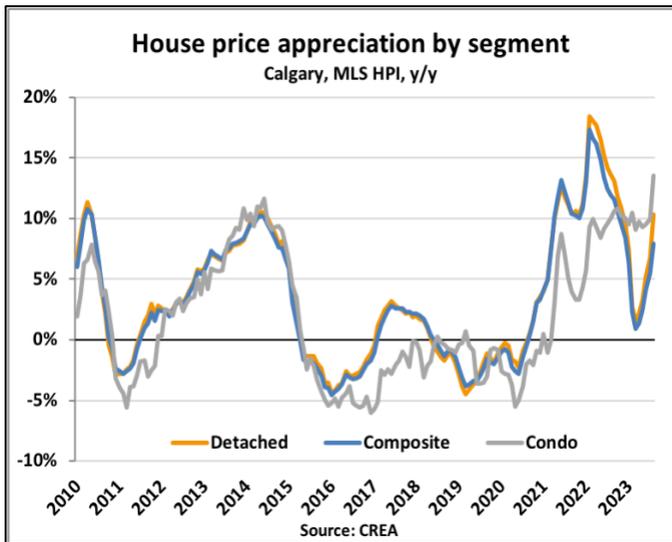
The number of homes under construction in Calgary jumped 2.6% in July led by...surprise, surprise...the condo segment which saw units under construction surge 6.6%. Still, with the resale market so strong, we have a ways to go before my potential oversupply indicator (sales vs units under construction) starts flashing red:



### Prices rise

House price gains are starting to really accelerate in Calgary even as Edmonton struggles to gain traction. By my math, prices have jumped 7% in Calgary in the past 4 months...a +20% annualized clip!





Outperformance in Calgary relative to the rest of the country has been a core theme of this publication since 2021, and it's nice to see it materialize in spades. I'm not at all bearish or concerned yet, but there's now clear signs that this is no longer an "undiscovered" trade. That's not to say we should anticipate an unwind any time soon, but it does mean we're likely in the middle innings of this trade where we now need to start paying attention to signs of froth.

Have a great day!  
Ben