



December 2023
Metro deep-dive: November data

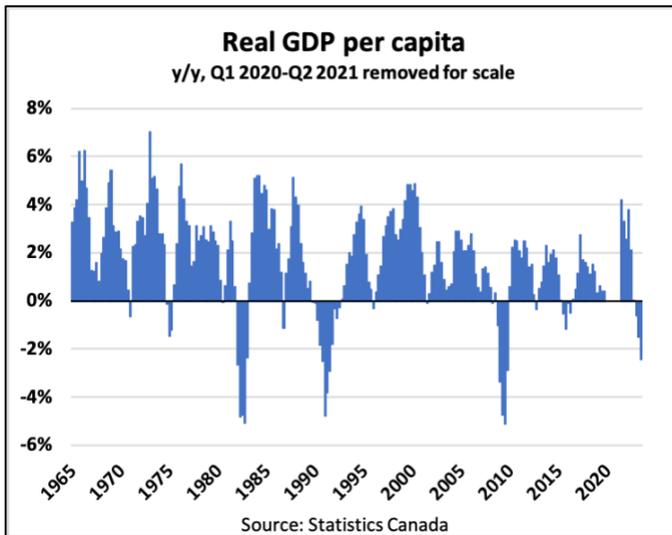
Quick links:

- 1) Macro commentary: Markets now expect rate cuts beginning in March**
- 2) Toronto home sales rise, new listings stabilize**
- 3) Vancouver home sales fall, new listings stabilize**
- 4) Calgary tips to balanced market as supply surges**

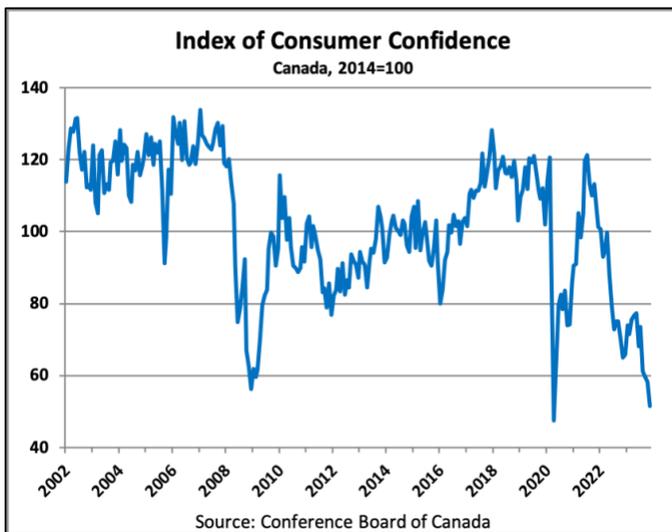
1) Macro commentary: Markets now expect rate cuts beginning in March

More signs of a cooling economy

There's now no denying that Canada's economy is slowing. Q3 GDP came in weaker than expected at -1.1% annualized (vs +0.2% expected). But the good news is that Q2 was revised sharply higher, from -0.2% to +1.4%, which meant we avoided a "technical" recession (defined as two consecutive quarterly GDP declines). Still, with Canada's population surging, it means per capita GDP is under serious pressure, now down 2% y/y. You have to go back to the Financial Crisis for the last time that happened.

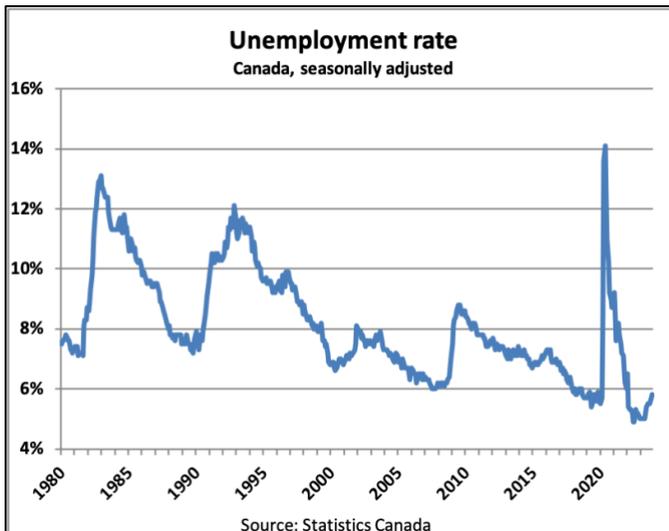


Meanwhile, consumer confidence continues to print new lows. We are now below levels seen during the depths of the Financial Crisis when there were very real concerns that the entire financial system might implode. That's quite a statement!

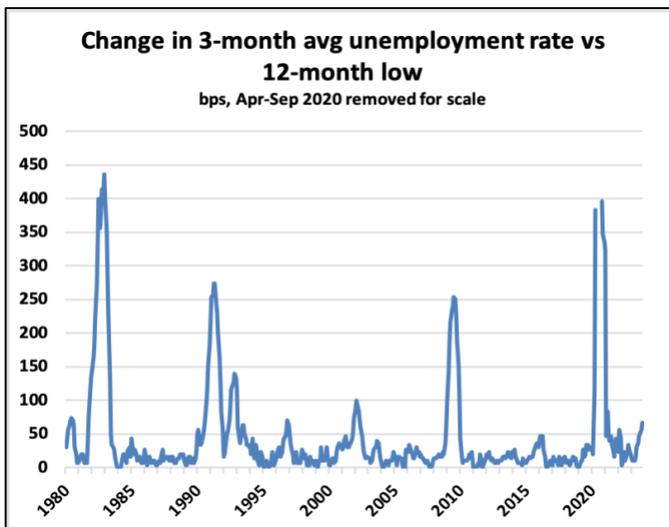


In the labour market, things look alright on the surface, with Canada adding 25k new jobs in November. But look a little closer and you'll quickly see red flags. I see three big ones.

The first and most notable is the uptick in the unemployment rate to 5.8% from 5.7% previously. It's now up nearly a percentage point from the cycle lows.



That brings us to the Sahm Rule which states that historically, recessions in the US are overwhelmingly likely when the 3-month average unemployment rate moves 50bps above the 12-month low. Claudia Sahm, creator of the namesake rule, wrote a blog post in 2021 suggesting that the threshold in Canada is closer to 60bps, with the only false recession reading occurring in 1996¹. By my math we are now nearly 70bps above the 12-month low.



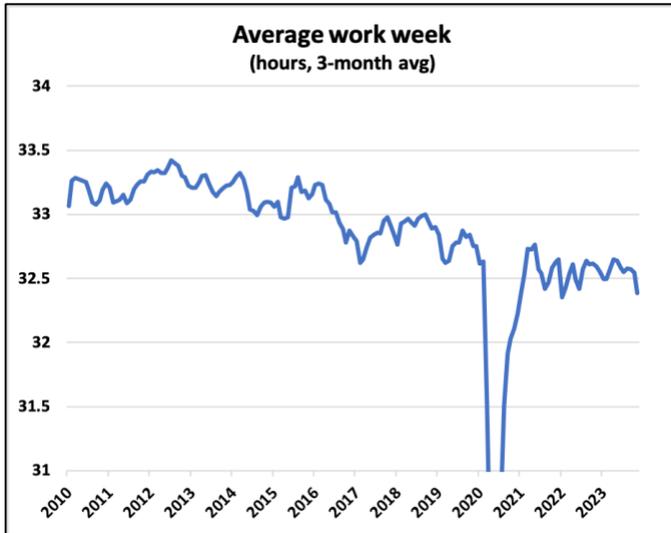
The point here is that there's a tendency for unemployment to trend. Once it gains momentum, it tends to move for a while. Setting aside the COVID lockdowns as an idiosyncratic event, the other 7 examples in which the Sahm indicator breached 60bps going back to 1977 saw the unemployment rate increase on average an ADDITIONAL 170bps after breaking that key threshold.

The second red flag is the decline in hours worked. Even with the jump in employment, hours worked fell by 0.7%, the largest monthly decline since early 2022...and it leaves them down nearly 1% over the past 3 months. That a huge move that's happened only half a dozen other times since the Financial Crisis, and it's akin to shedding 180,000 jobs over a 3-month period!

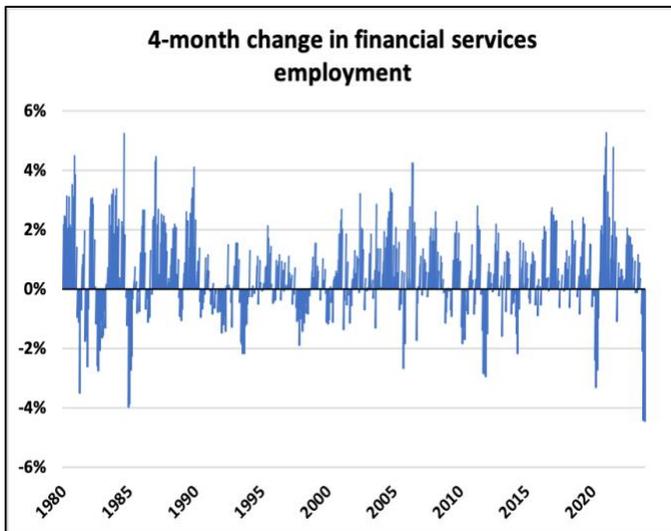
Chalk this up to a decline in the average work week which posted the largest monthly drop since April 2022. After struggling to find labour over the past couple years, it's clear businesses are reluctant to let workers go even as the

¹ https://stayathomemacro.substack.com/p/o-canada?mkt_tok=NTc2LU5QQi0xOTMAAAGPurf3SGmDt_gzk75KMkiaNOibePagL6t1sdQ5CPp-pOaH91JBsg70kjk8LZ4y41VGf7bVoyOHaPYfXki-nyovylrKEwjWd9A-u0n030

economy weakens, instead opting to cut hours or scale back overtime. It's not a good trend:

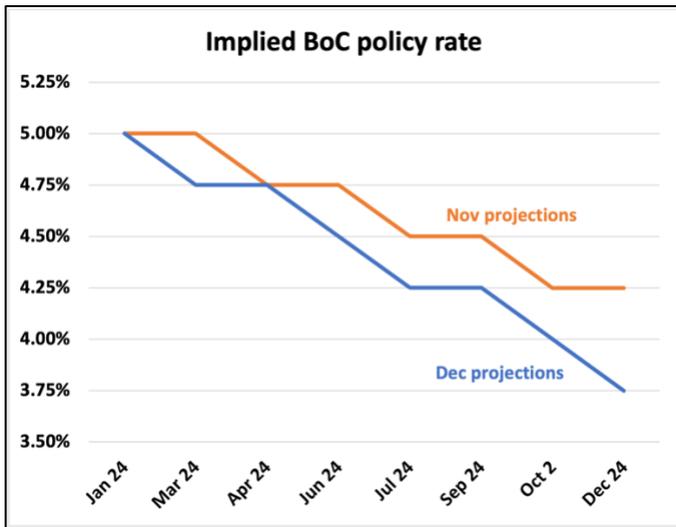


The third point of concern is in the bellwether financial services industry, which at its core is leveraged to the domestic economy. We've seen that sector slash headcounts for four consecutive months now and by a cumulative 4.4%. That is unprecedented going back nearly 50 years and spanning every recession over that period:

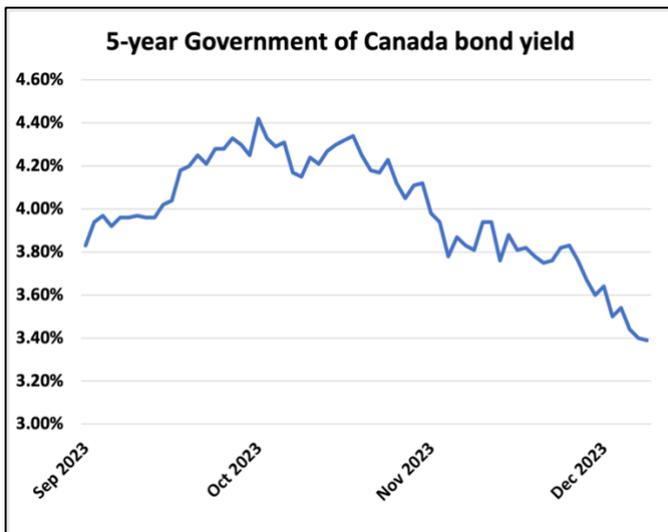


What this means for rates

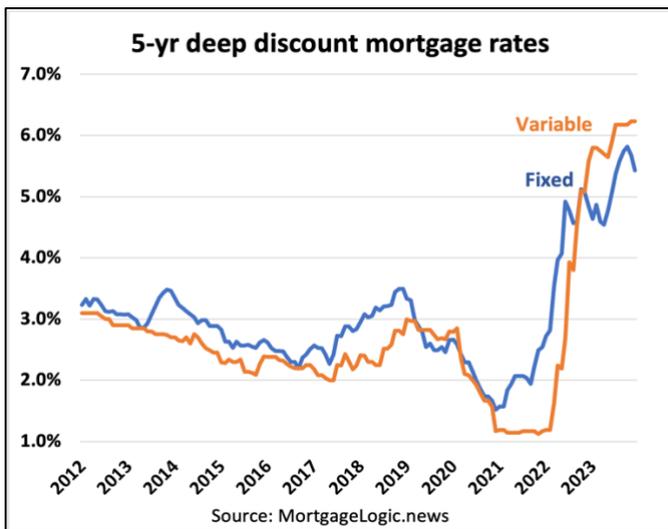
Markets have been quick to reprice the odds of rate cuts in 2024. Traders are now betting that the first cut will come in March (a month earlier than they expected in November), and they are expecting a cumulative 1.25% of cuts next year vs 0.75% expected just two weeks ago.



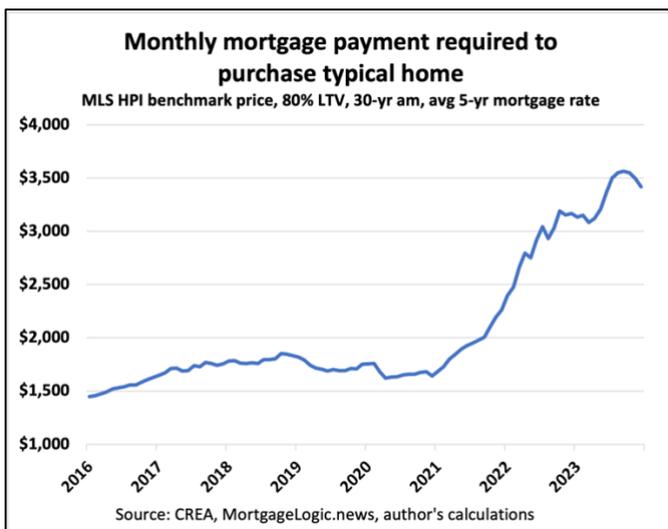
We're also seeing this in the bond market where the key 5-yr yield continues to plunge (notwithstanding a bit of a bounce this morning):



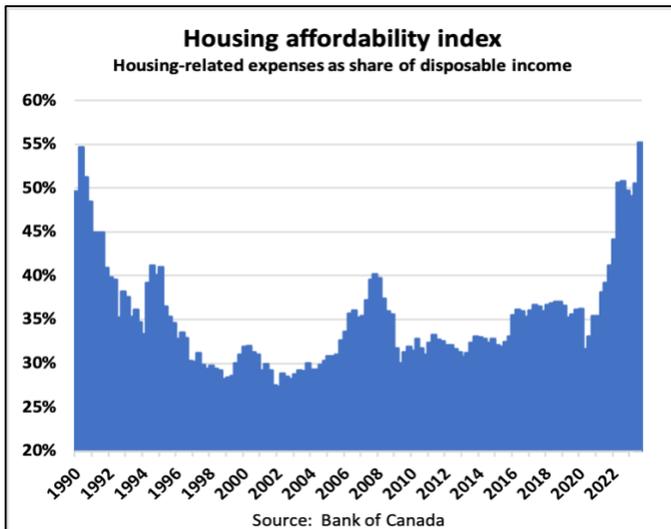
We've now seen deep discounted rates fall 40bps from the recent highs, and we even have some insured 5-yr mortgages back in the 4's:



That's translating to a modest improvement in affordability. We've now seen 3 consecutive months in which the mortgage payment required to purchase a typical home has fallen...down \$145/month over that span:



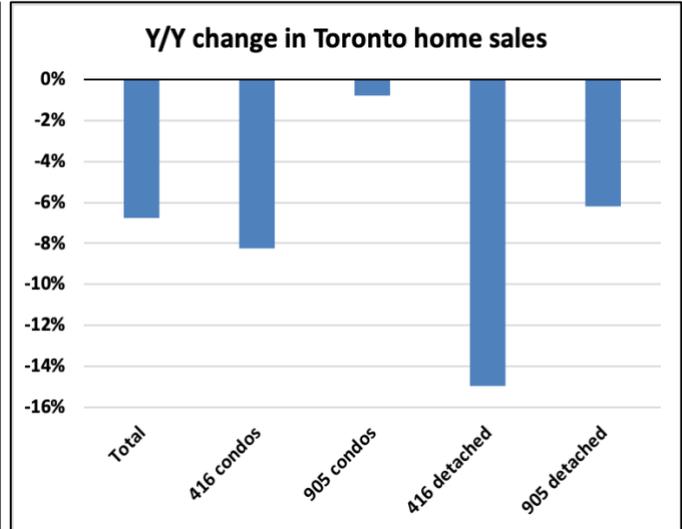
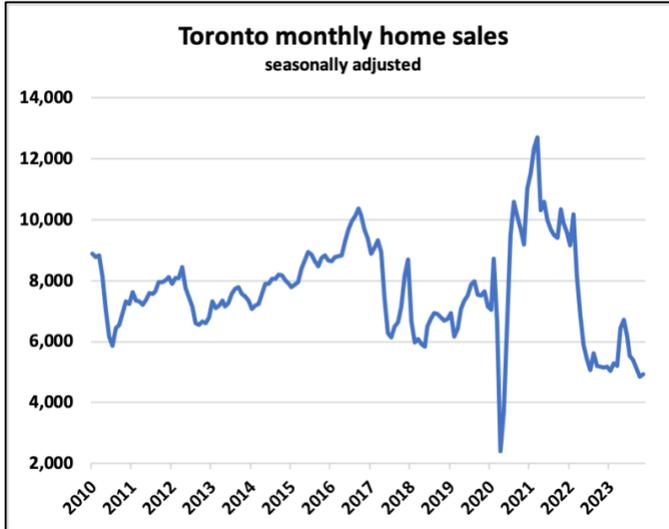
Expect that to continue as the rate laggards like the big banks eventually move to match the early-movers. That's welcome news since the affordability picture had been pretty bleak. We learned this week that housing affordability nationally set all-time lows in Q3 according to data from the Bank of Canada.



Thankfully that appears to be in the rearview mirror, and we should expect this to be the peak with affordability beginning to improve from here through a combination of lower rates and higher incomes (and potentially a bit more downside in prices in certain metros).

2) Toronto home sales rise, new listings stabilize

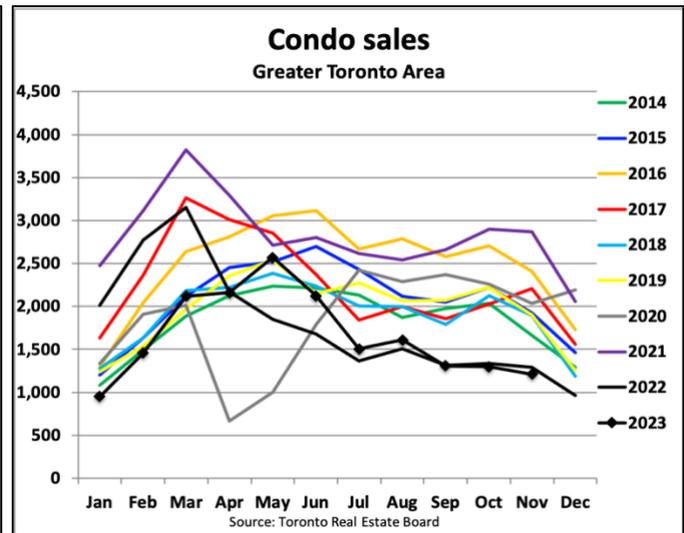
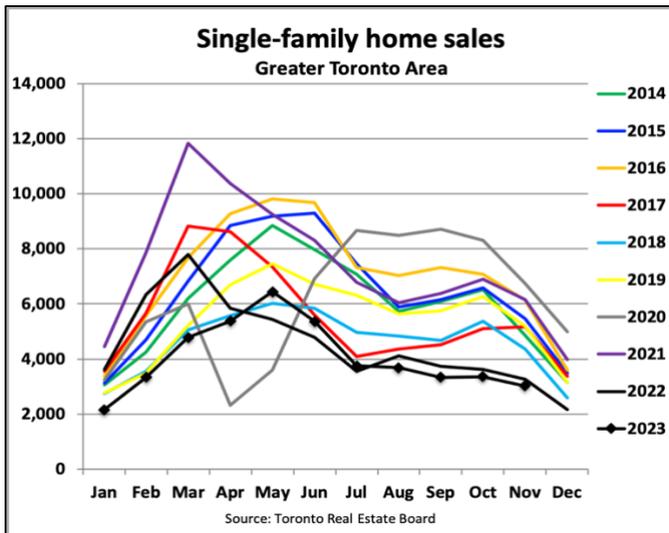
Home sales in Toronto may have bottomed in October. We saw a modest 1.7% monthly increase in seasonally adjusted home sales in November, and one has to think that the pullback in mortgage rates and expectations of a Bank of Canada pause ahead of cuts in early '24 will reinvigorate some demand from here. I wouldn't be surprised to see sales grind 10-20% higher over the winter ahead of a crucial spring selling season next year....but all of that assumes that the labour market avoids a very hard landing.



In line with the now widely-anticipated Bank of Canada “pause”, real estate sentiment has improved over the past 4 weeks according to Nanos, with the outlook index up 5 points in that time, the best 4-week showing since June of this year:

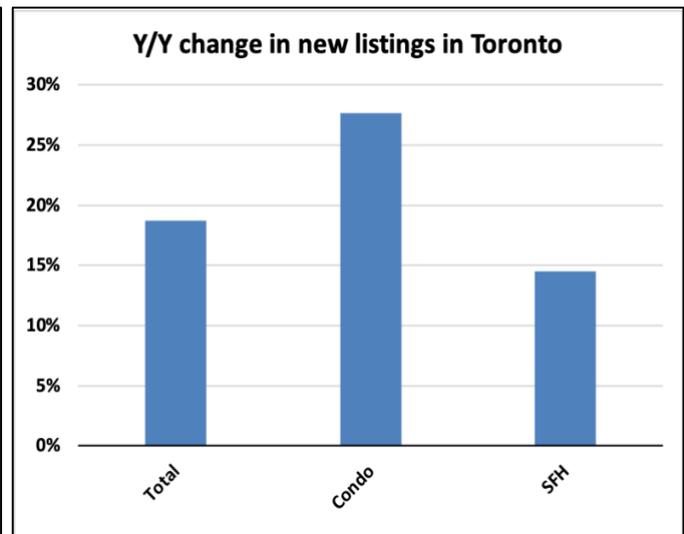
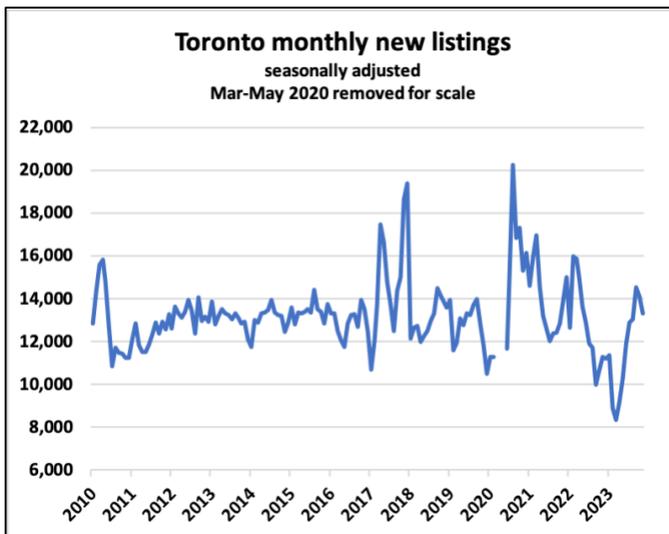


Notwithstanding the monthly improvement in the seasonally adjusted sales figure, demand remains at decade lows across all segments:

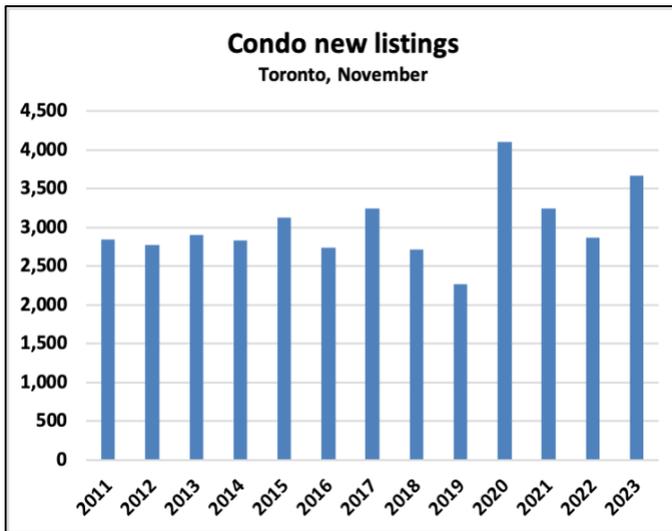


New listings fall, inventory stabilizes

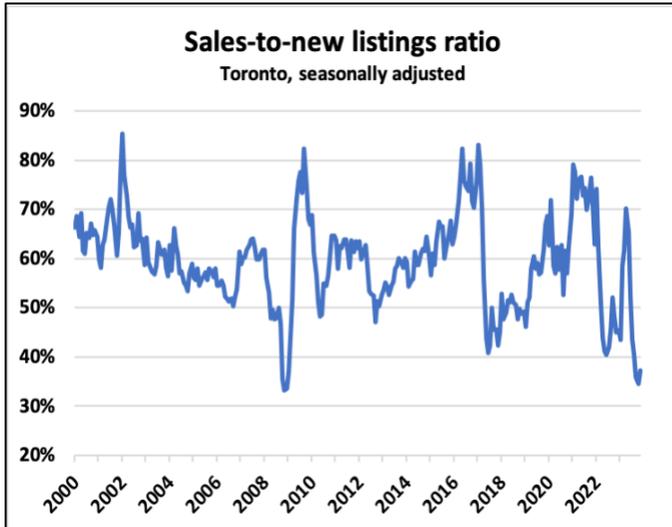
Sellers moved to the sidelines in November, with new listings falling 5.5% m/m:



One area to watch is the condo segment where new listings came in at the second highest of any November in over a decade....next only to 2020.

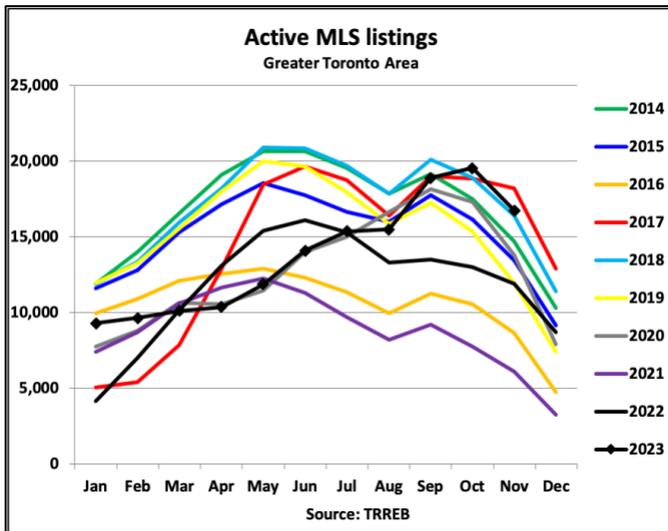


With sales rising and new listings pulling back, the market balance improved marginally in November. Still, the sales-to-new listings ratio remains below the key 40% threshold that typifies a deep buyer's market:

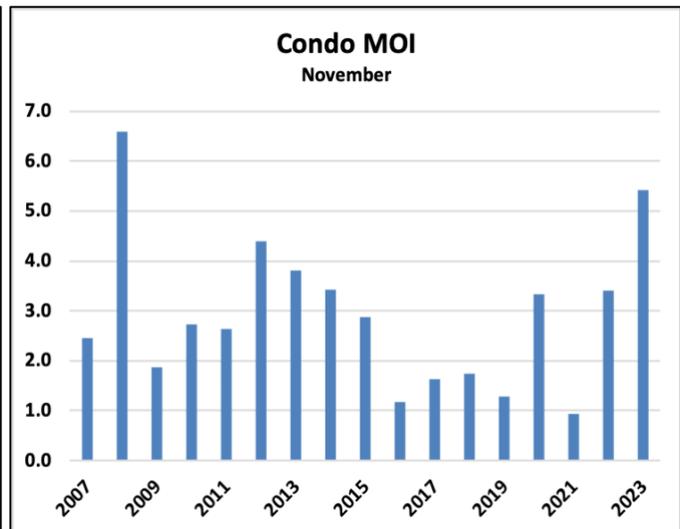
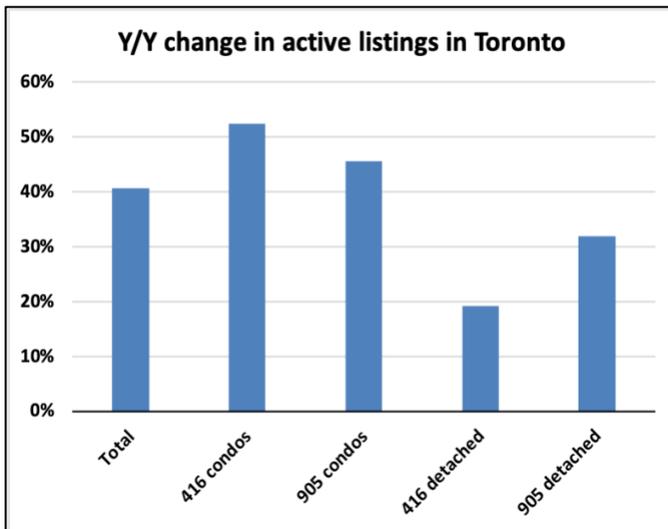


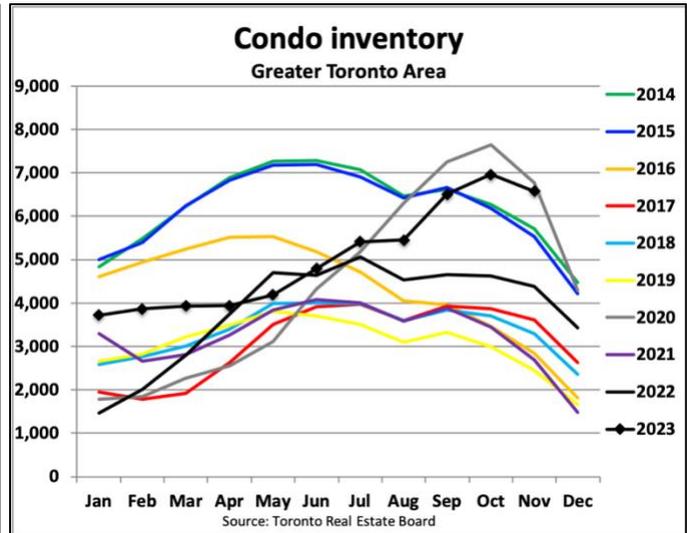
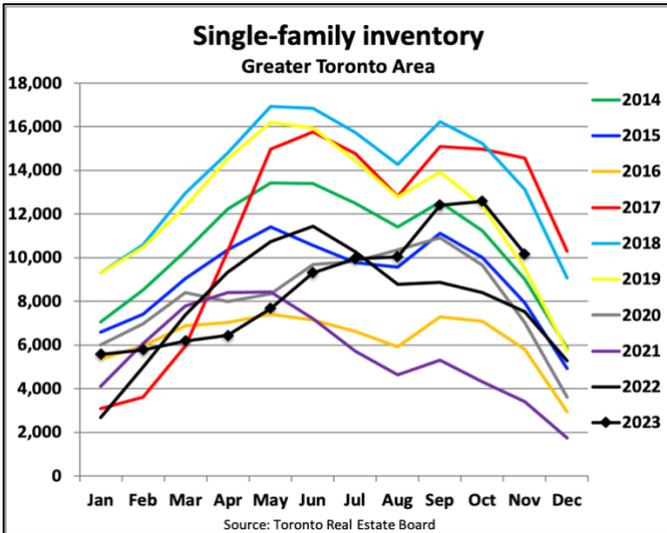
Inventory growth stabilizes

After several months of strong counter-seasonal inventory builds, we saw a very normal decline in active inventory in November that is on par with prior years. That tells us that the dramatic inventory build of the past 6 months may now be behind us and we may be back to normal seasonal inventory fluctuations:



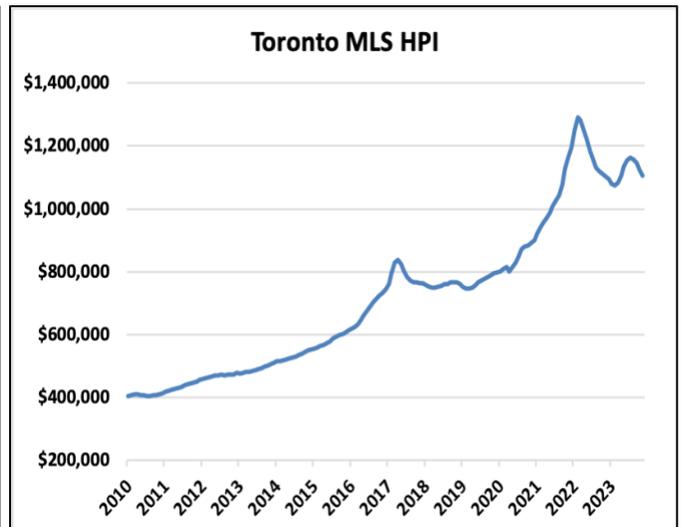
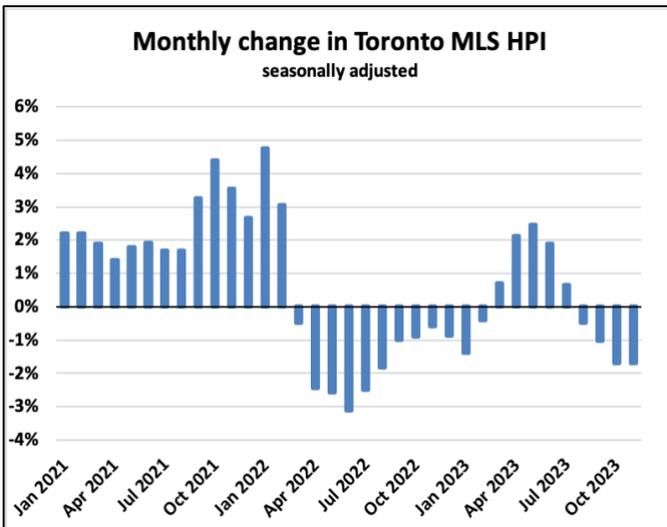
Inventory levels are still significantly higher than last year, up 40% overall and up 52% for condos in the 416. Total months of inventory (MOI) for condos is now above 5 and at the highest of any November since the Financial Crisis in 2008:

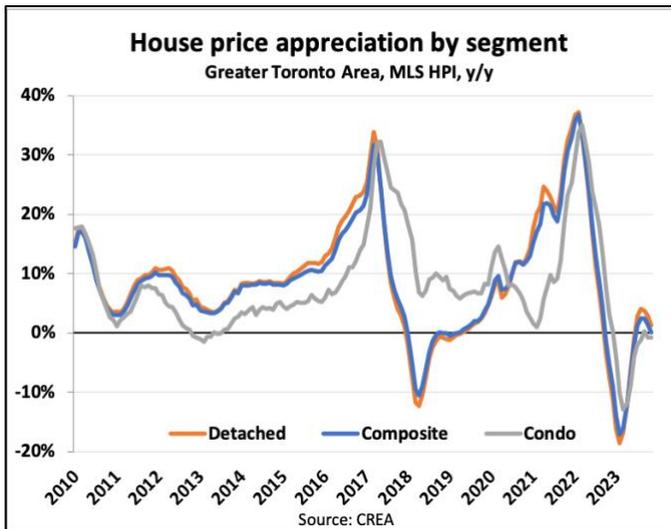




House prices decline

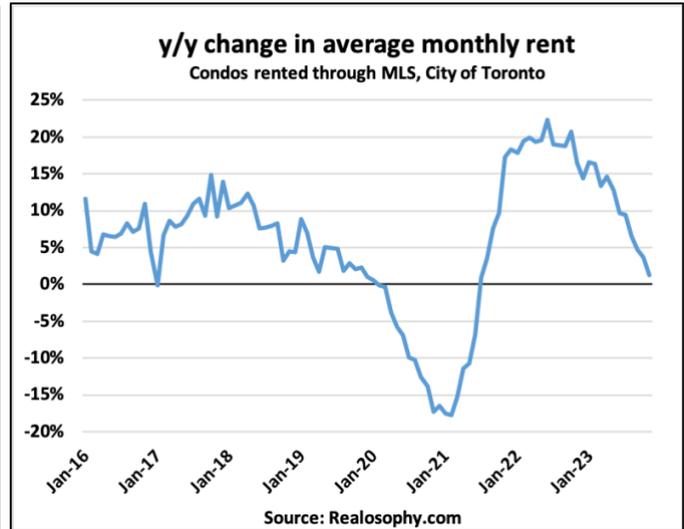
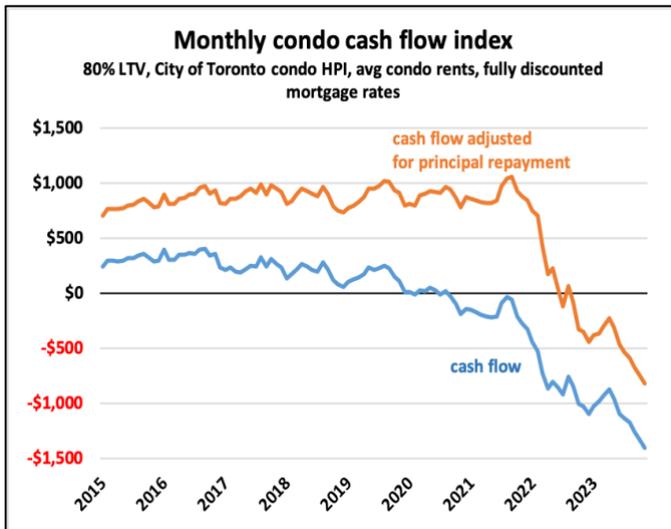
The seasonally adjusted House Price Index fell another 1.7% m/m and has now fallen just under 5% over the past 4 months:



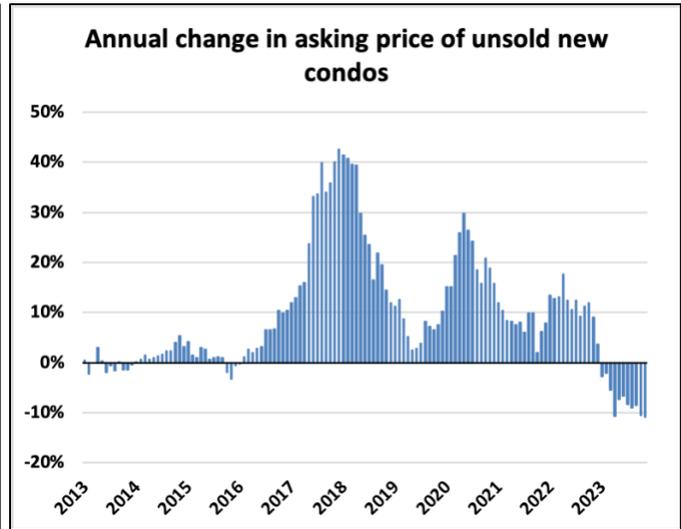
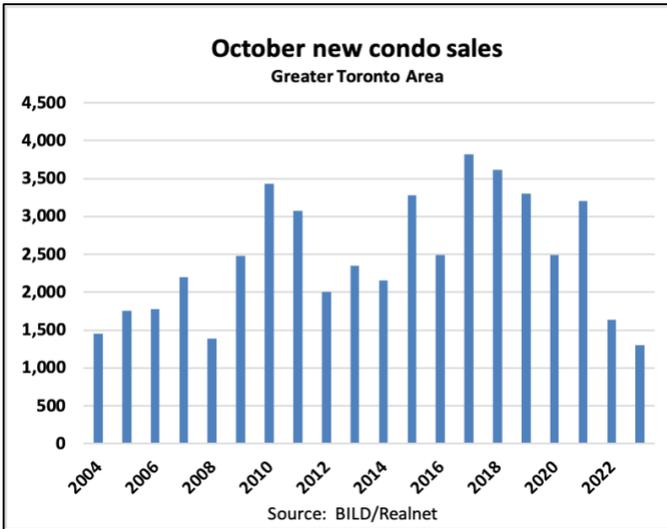


Condo market check

Cash flows on newly-purchased condos, financed at 80% LTV, continue to deteriorate. They set a fresh record low in November, this time due to some softness in average condo rental prices which were down last month and are now flat relative to last year.

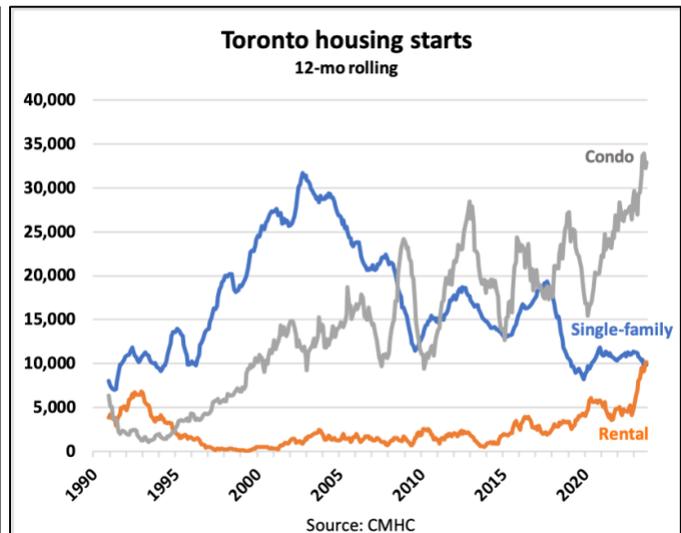
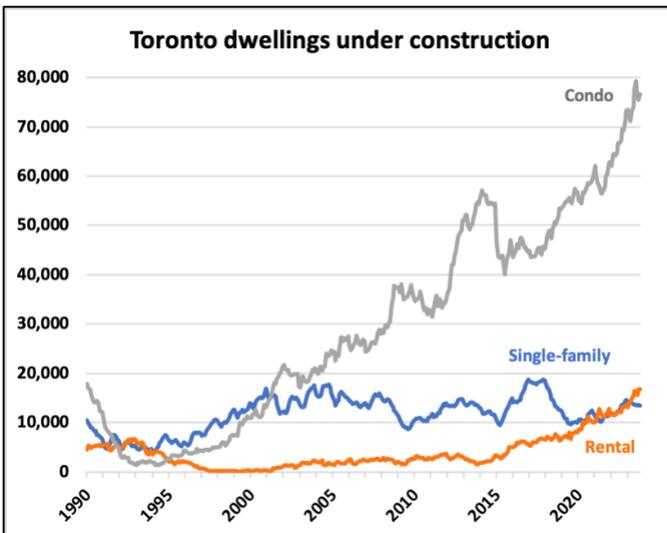


It's clear that investors remain on the sidelines for now. We can see this most acutely in the new home market which historically has been dominated by investors. The latest data from BILD shows new condo sales in October hitting record lows going back to 2004, while the average price of unsold units has fallen by over 10% in the past year:



Under construction inventory ticks up

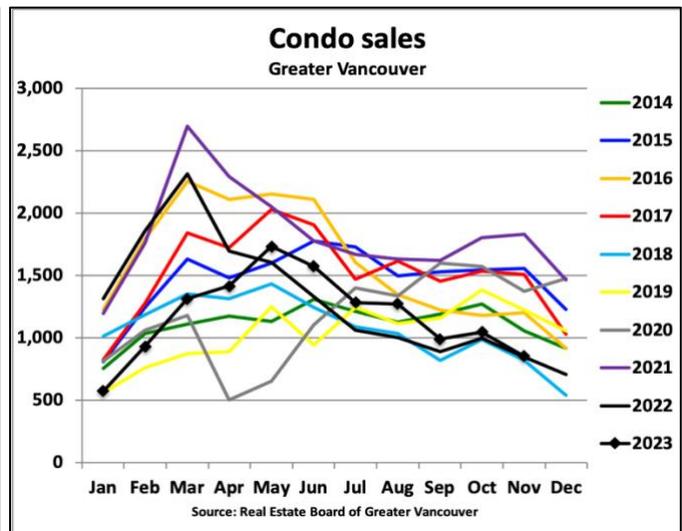
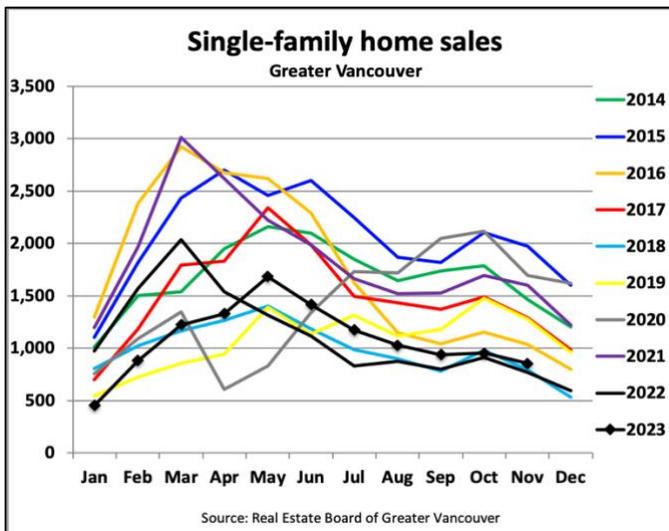
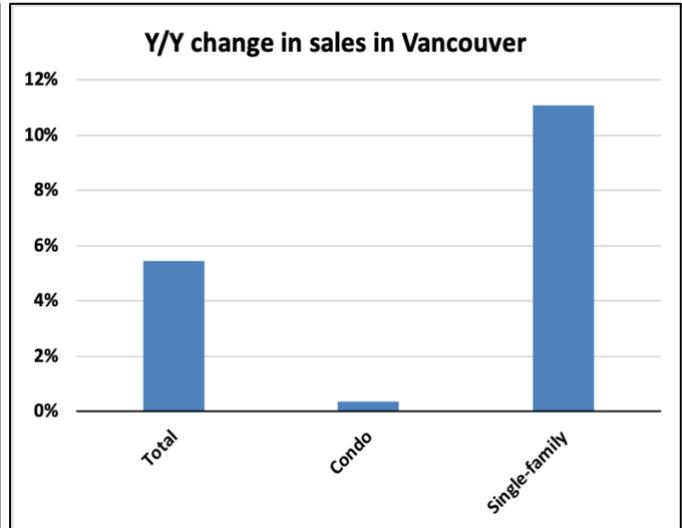
Dwellings under construction across the GTA rose 0.9% m/m in October due entirely to a 1.5% increase in the condo segment which continues to dominate housing starts over the past year. Note the steep drop-off in single-family starts, which are now closing in on 2020 lows. It may not feel like it now, but we're setting the stage for a nasty supply crunch down the road:



3) Vancouver home sales fall, new listings stabilize

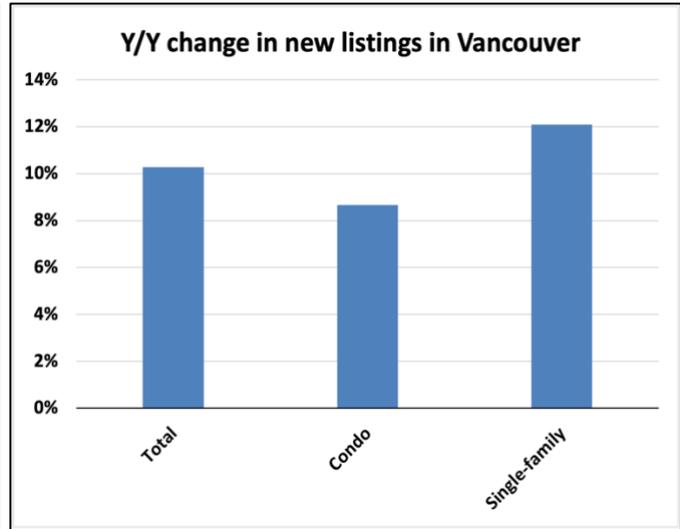
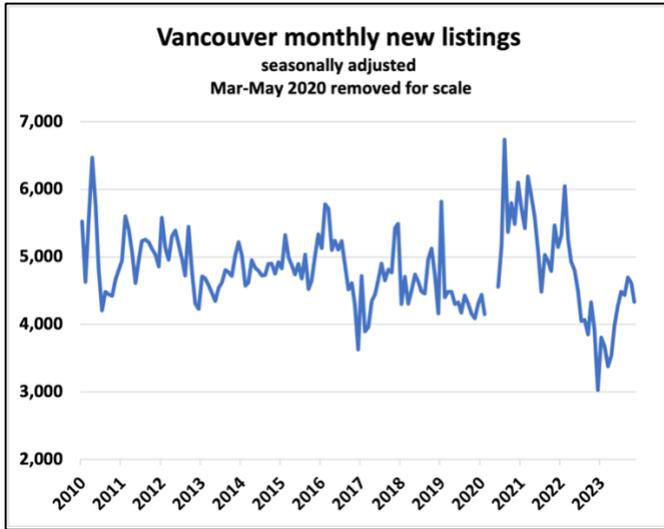
Sales fall

Seasonally adjusted home sales in Vancouver slid an estimated 8% m/m in November and are now down 29% from the May peak. Still, that leaves them up nearly 6% from last year at this time:



New listings flat on the month

Seasonally adjusted new listings plunged an estimated 6% m/m and are now back below decade norms (although 10% higher than the 20-year low recorded in November of last year):

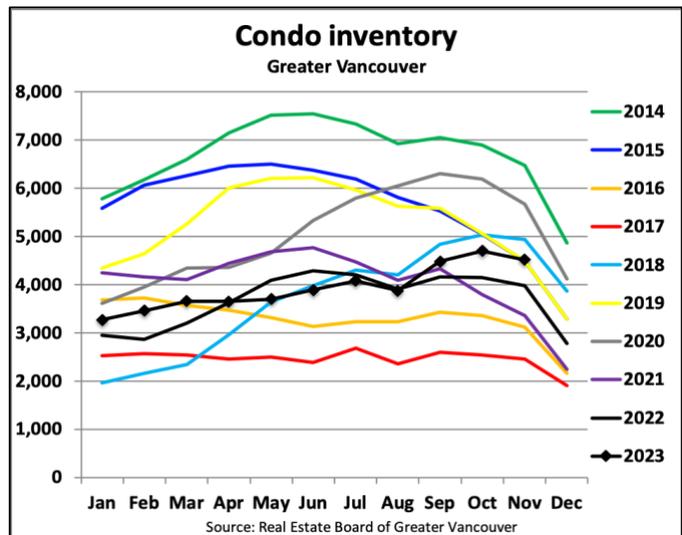
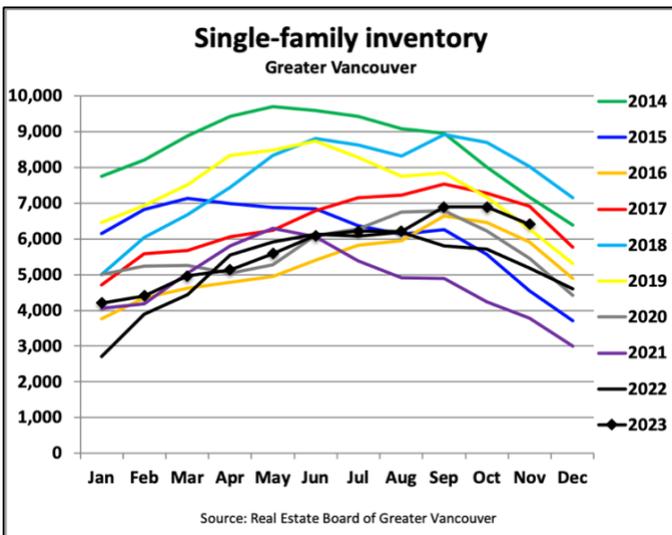
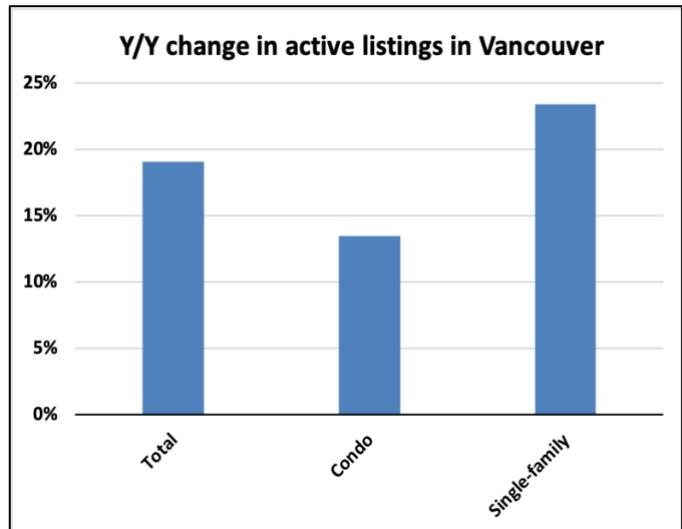
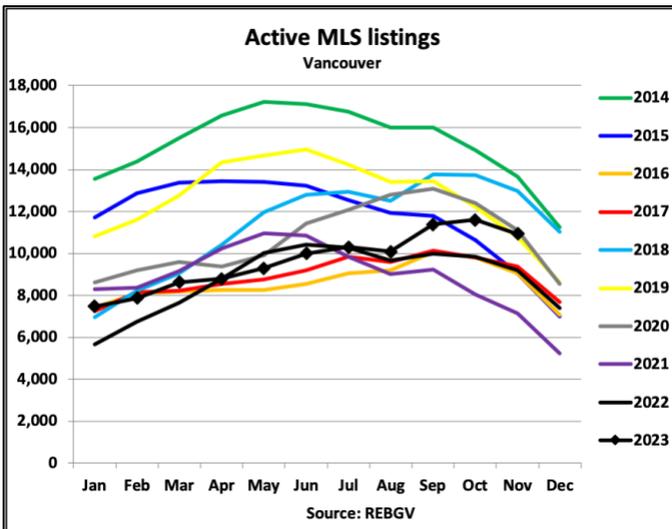


The sales-to-new listings ratio stabilized at 42%, well below decade norms of closer to 60% but above levels seen in Toronto:



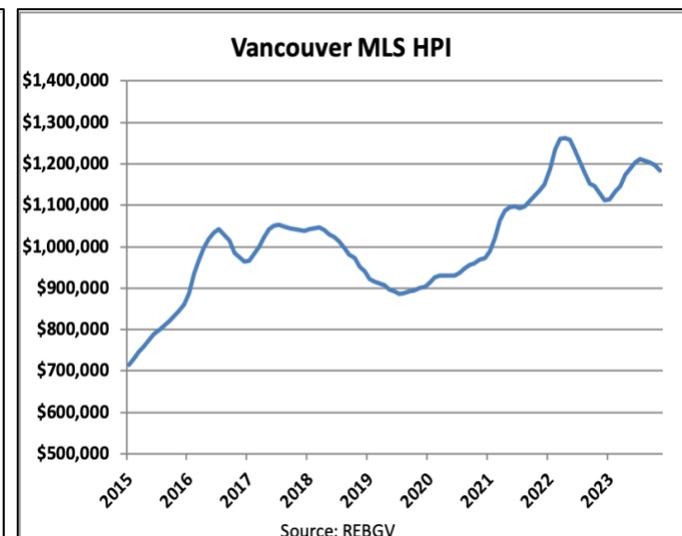
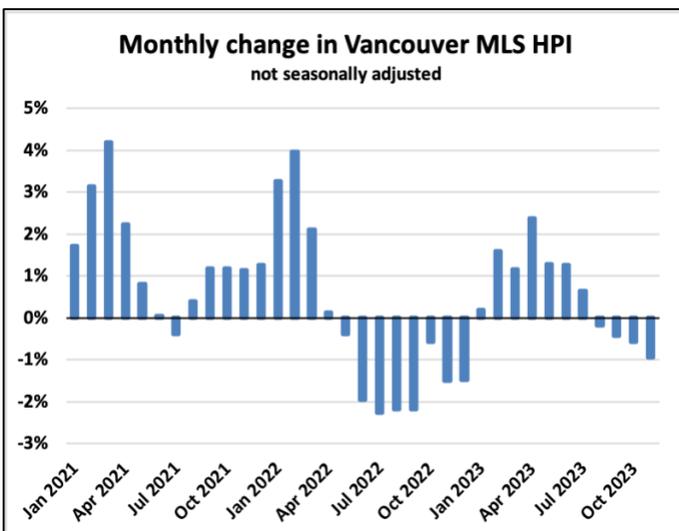
Inventory stabilizes

Active listings are 18% higher than last year at this time, but they did exhibit normal seasonal declines in November which tells us that the recent counter-seasonal inventory accumulation may be behind us. Inventory levels overall are still at normal levels, which is quite a thing considering we are over 18 months into a major rate tightening cycle....and there still isn't THAT much supply available.

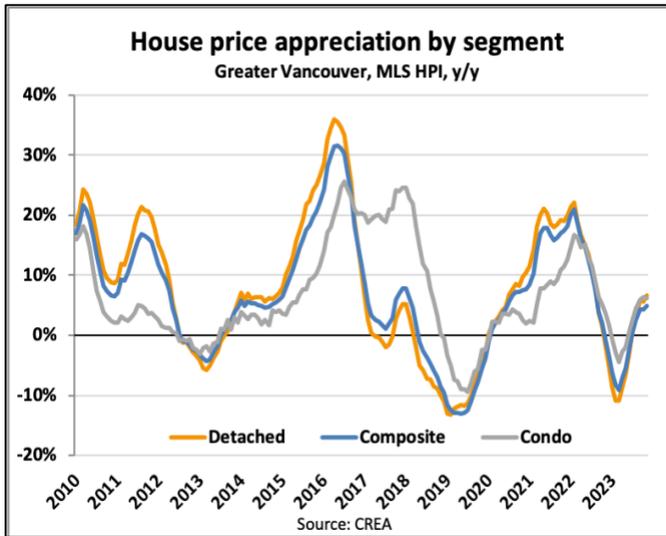


House prices tick lower

The MLS House Price Index (HPI) registered a 1.0% decline in October, the fourth consecutive monthly drop:

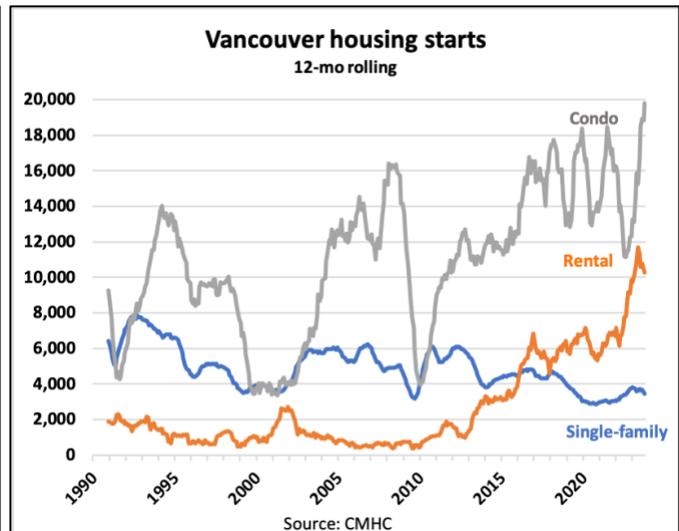
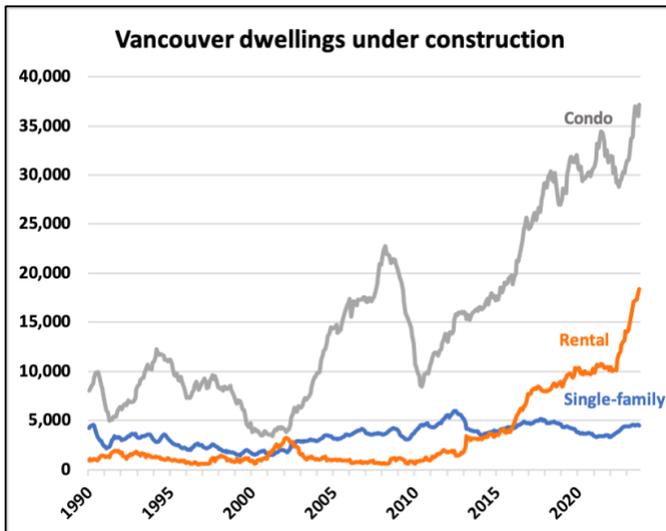


Still, that leaves prices roughly 5% higher than last year at this time:



New supply rises

Dwellings under construction across Vancouver rose 2.5% in October on the back of strong condo construction (+3.3% m/m) and more rentals in the pipeline (+1.9%). As in Toronto, we've seen a steep pullback in single-family starts lately, and that does not bode well for available supply in that segment once demand begins to normalize:



Vancouver issues first unexplained wealth order

Canada is unquestionably becoming a less welcoming jurisdiction for illicit capital.

We now have a national foreign buyer ban, a beneficial ownership registry in BC (plus a national registry in the works), and we even have FINTRAC actually doing their job for once:

RBC fined \$7.5M after Fintrac says bank failed to report suspicious transactions -Global News²

Canada's financial intelligence agency has levied a \$7.4-million penalty against the Royal Bank of Canada for non-compliance with anti-money laundering and terrorist financing measures.

The Financial Transactions and Reports Analysis Centre of Canada said Tuesday the violations include failing to submit suspicious transaction reports where there were reasonable grounds to suspect ties to a money laundering offence.

The \$7,475,000 fine announced Tuesday against the Royal Bank is the largest ever imposed by the agency.

Fintrac said the penalty was handed out early last month after violations were found during the course of a compliance examination in 2022.

It said that out of 130 case files it reviewed, the Royal Bank failed to submit 16 suspicious transaction reports, when there were reasonable grounds to suspect dealings were related to an attempted or actual money laundering or terrorist financing offence.

These included instances where the bank was served with production orders on clients but failed to escalate or refer the files for the purpose of determining whether a suspicious transaction report should be submitted to Fintrac.

In instances related to fraud, transaction reports were not sent to Fintrac despite the presence of indicators supporting reasonable grounds to suspect commission of an offence.

To top it all off, Vancouver has issued its first Unexplained Wealth Order:

B.C. uses new law to demand house owners explain where they got the money to buy it -Vancouver Sun³

B.C. is seeking a court order to compel property owners to explain where \$1 million came from to buy a Salt Spring Island house in 2017.

B.C. Solicitor General Mike Farnworth said the application filed in B.C. Supreme Court on Thursday is the first in a series of so-called unexplained wealth orders he expects the province to file.

The B.C. NDP government introduced new measures earlier this year to combat money laundering — including unexplained wealth orders. They must be applied for in each case through the courts and meet certain tests. If approved by a judge, the orders put a reverse onus on the alleged perpetrator to explain where money came from to buy their assets in cases where there is a suspicion of criminal activity or corruption.

The information from the orders can then be used to pursue civil forfeiture cases where the province aims to seize assets or money.

“Significantly, this is the first unexplained wealth order in Canadian legal history,” Farnworth said in a statement on Thursday.

In this case, the province has alleged in filings in B.C. Supreme Court that money from a \$200-million international stock fraud has been laundered through a Salt Spring home at 435 Stewart Rd.

It's about time. If nothing else, the messaging alone is an important deterrent.

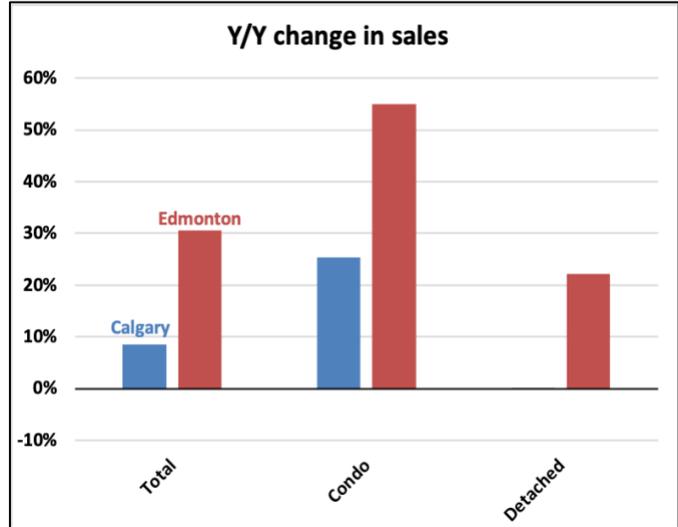
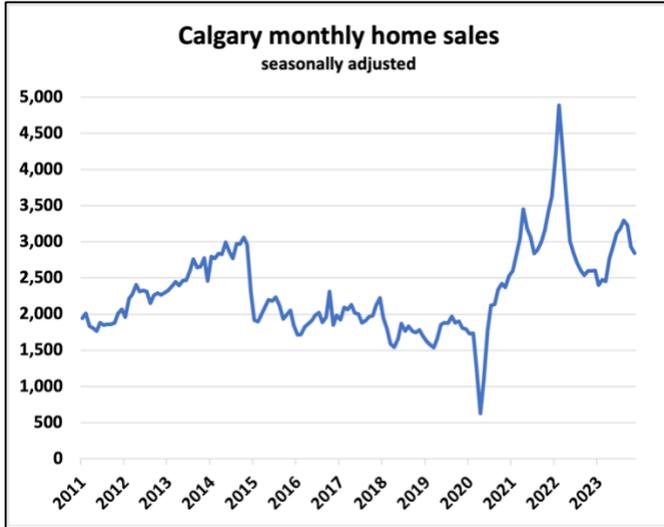
² <https://globalnews.ca/news/10148906/rbc-fintrac-fine-money-laundering/>

³ <https://vancouversun.com/business/bc-seeks-first-ever-order-to-explain-wealth>

4) Calgary tips to balanced market as supply surges

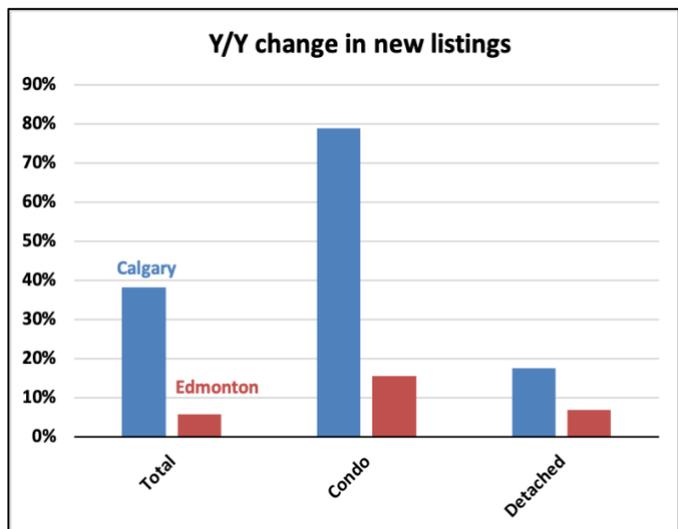
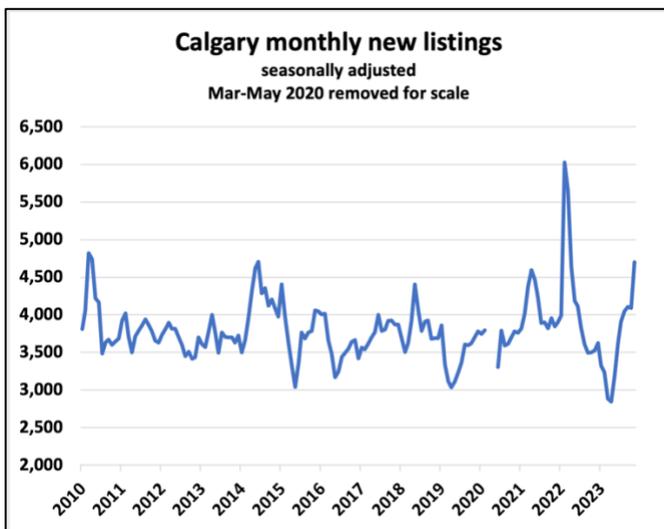
Home sales under pressure

Home sales in Calgary fell an estimated 3% m/m in November, building on the 9.2% slide in October. That's the largest back-to-back decline in sales since the rate hikes started in early 2022. Still, sales were up 8% y/y in Calgary and up 30% in Edmonton:

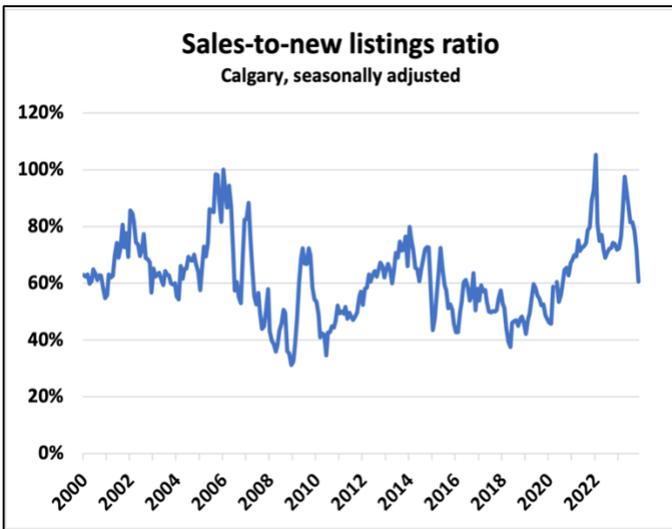


New listings surge

By my estimates, seasonally adjusted new listings in Calgary jumped 15% m/m in November to hit the third highest level of the past decade:

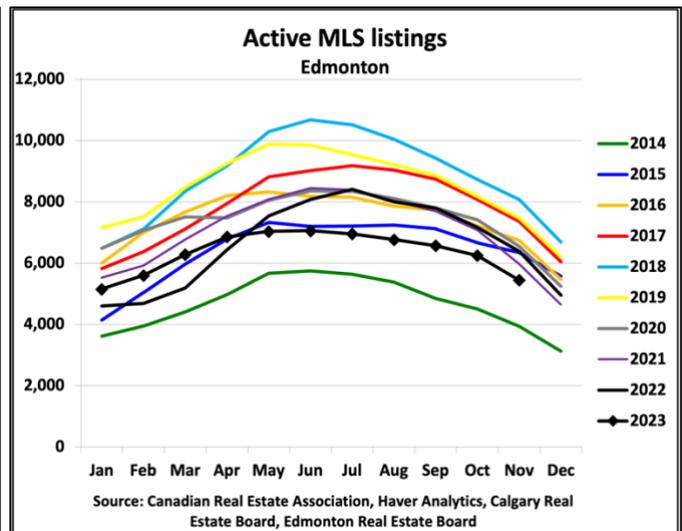
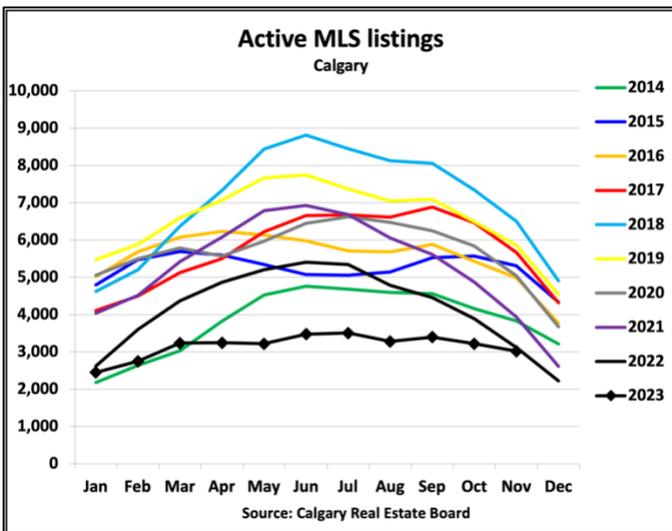


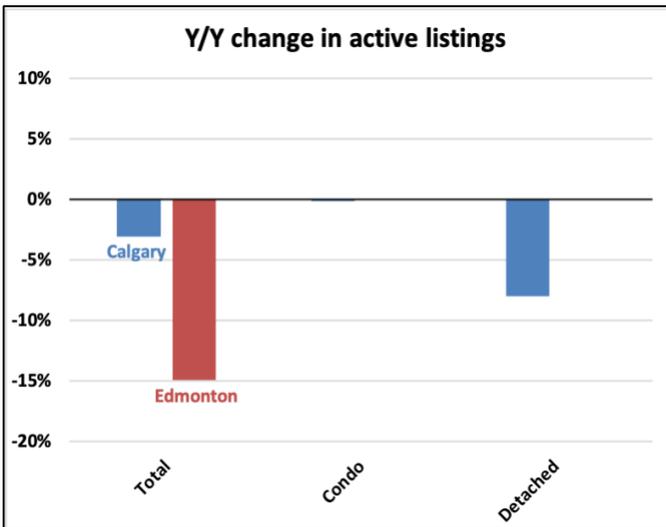
The sales-to-new listings ratio has pulled back dramatically over the past 3 months, falling from 82% in August to 61% in November. It's now sitting at the high end of balanced market territory for the first time since 2020:



Inventory low but stabilizing

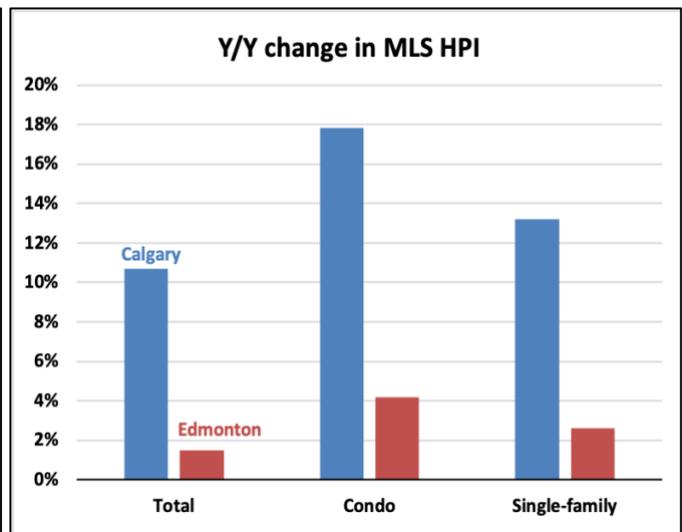
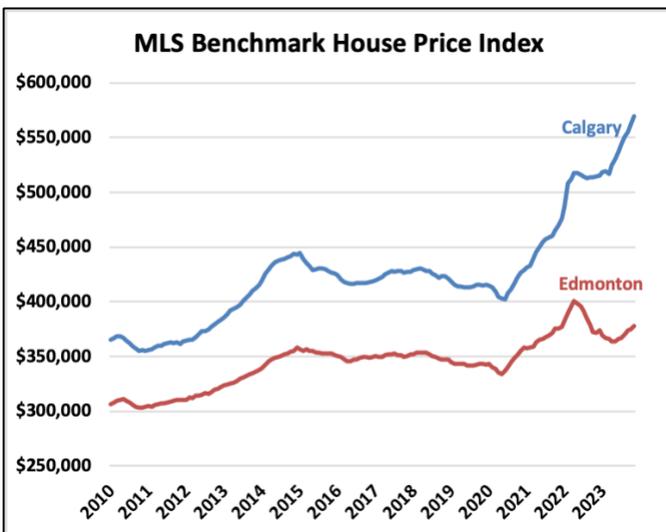
Absolute inventory levels remain very low in both Calgary and Edmonton, but the usual monthly decline in November was very small this year in Calgary. It's perhaps an early sign that we may see inventory build into the key spring selling season next year:

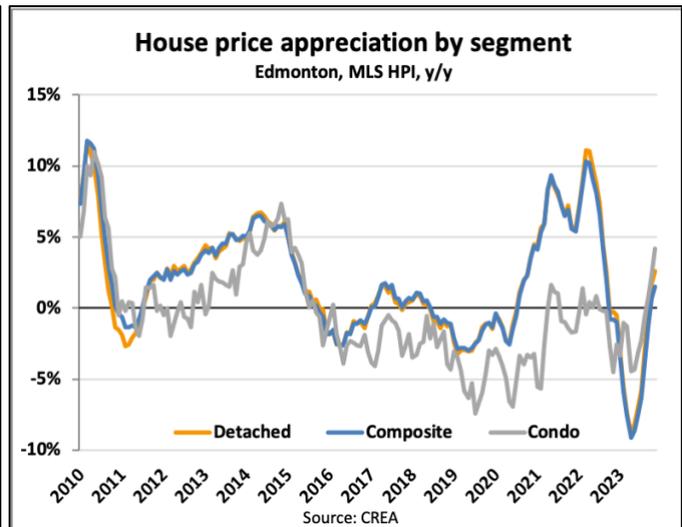
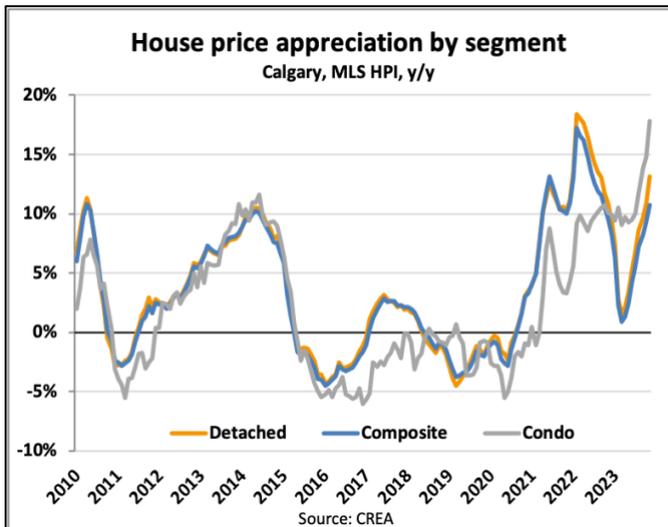




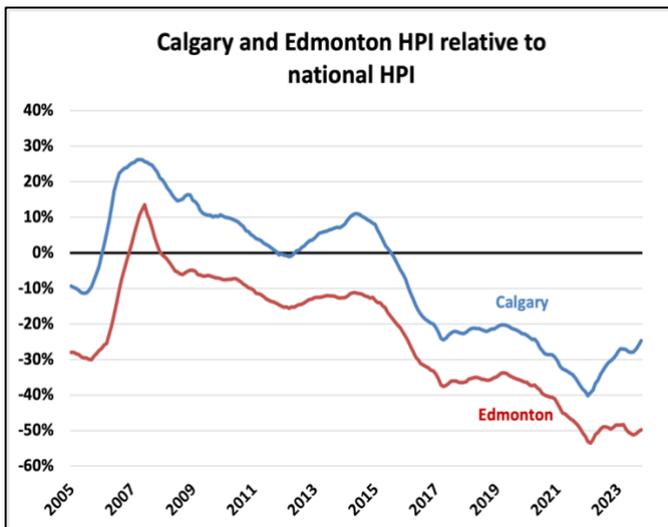
House prices continue to rise

House prices continue to surge in Calgary and are up over 10% y/y overall and 18% in the condo segment:





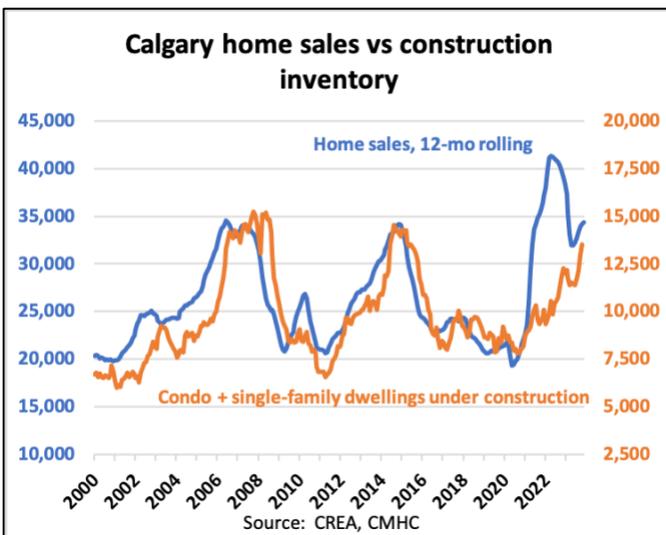
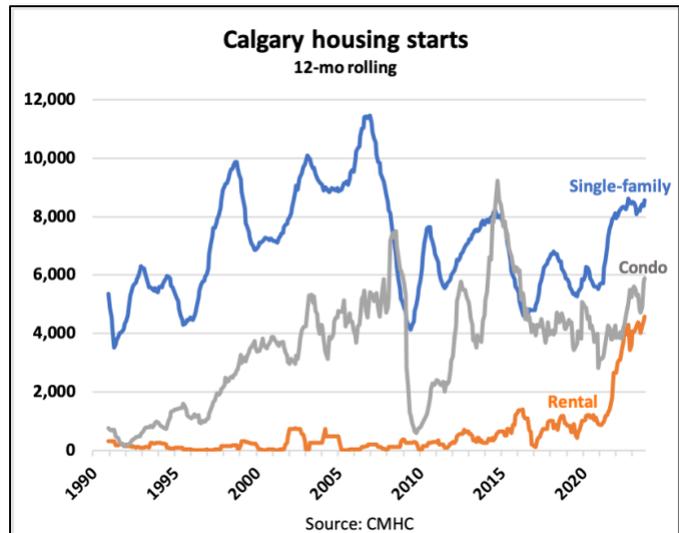
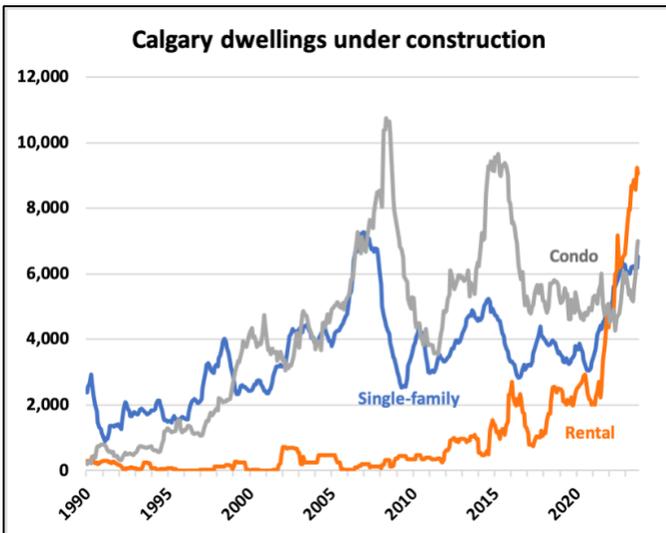
In early 2021 when this publication started, I stated that the outperformance of the Calgary housing market relative to the rest of the country was one of the easiest macro calls to make. Since that first report in April 2021, prices in Calgary are up 28% vs 14% for the rest of the country. I continue to believe that Calgary will trade in-line with the national average before this cycle is over, which means at least another 25 points of outperformance from here.



Construction activity surges again....some “pink flags”?

Homebuilders in Calgary are really turning it on right now. Dwellings under construction jumped again in October, up 1.9% m/m including a 5.7% monthly increase in single-family.

In fact, “homeowner” dwellings under construction (ie, after stripping out rentals) have surged by 19% over the past 4 months alone. You have to go back to 2014 to find the last time that happened. It’s not a “red flag” on it’s own, but coupled with some very tentative signs that inventory levels in the resale market may be about to inflect higher, it’s maybe a “pink flag” that bears watching.



Have a great day!
Ben