



July 2024
Metro deep-dive: June data

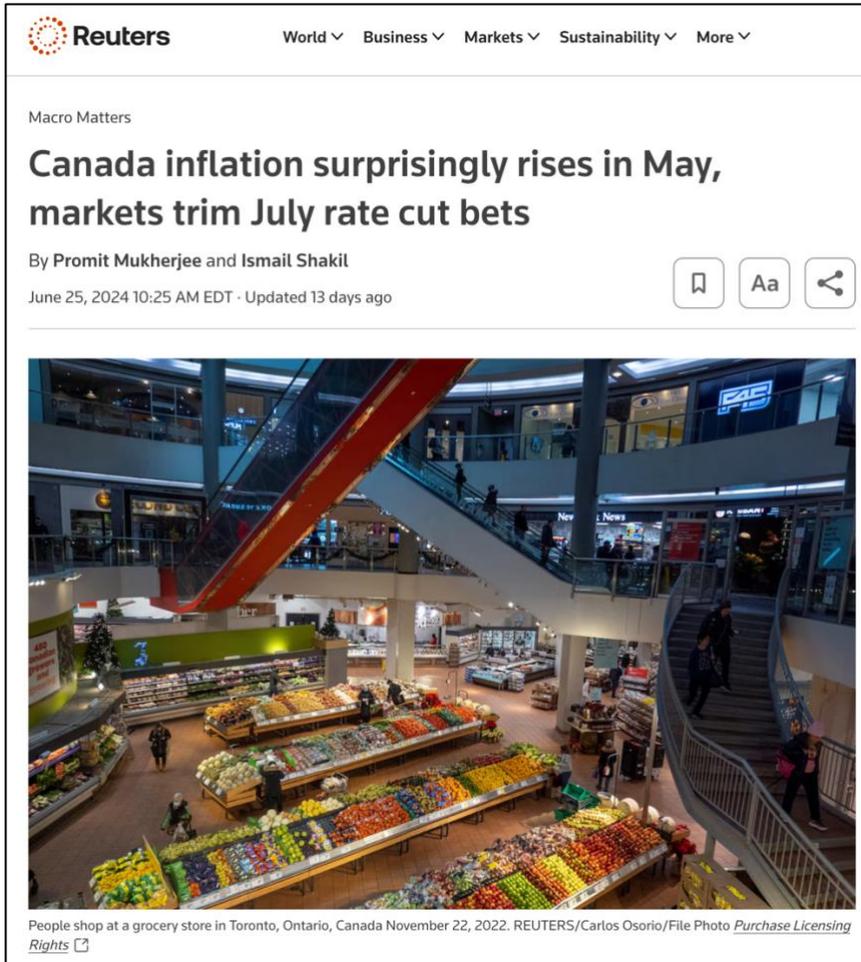
Quick links:

- 1) **Macro commentary: No, inflation was NOT “surprisingly hot” in May**
- 2) **Pressures mount for Toronto condos**
- 3) **Vancouver home sales rise, but inventory is piling up**
- 4) **Alberta boom continues**

1) Macro commentary: No, inflation was NOT “surprisingly hot” in May

May CPI “surprise” was entirely a statistical mirage

The latest inflation data came out late last month, coincidentally just minutes after I hit “publish” on the last Edge Report. Rates markets were thrown into a bit of turmoil on what appeared to be a surprisingly strong inflation reading that came in at 2.9% y/y against expectations of 2.6% and leading to headlines like this:



Markets immediately repriced the odds of a July rate cut. After all, with inflation apparently surging in May, how could the Bank of Canada possibly cut?

But everyone, and I mean EVERYONE, missed an important point. From Stats Canada:

CPI basket update

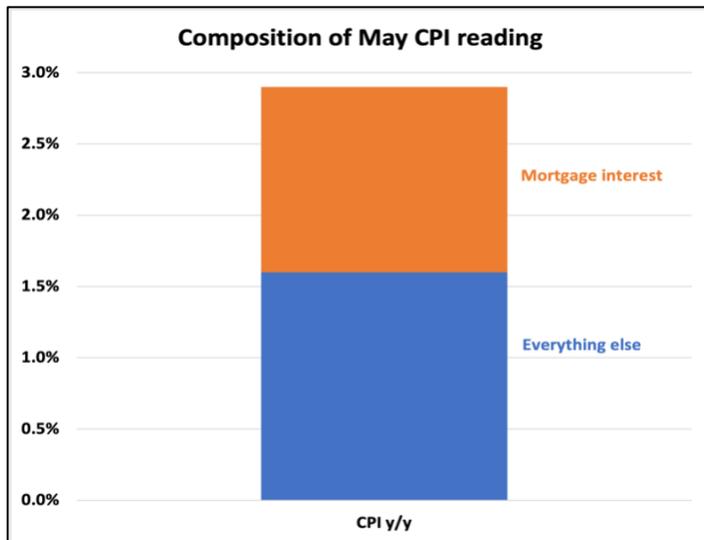
The basket of goods and services used in the calculation of the CPI has been updated with the release of the May 2024 data.

Statistics Canada periodically changes the composition of the CPI basket to reflect changing consumer spending patterns. They did that with the latest CPI release. That’s kind of an important point that no market commentator seemed to address.

When Stats Canada does this, it ALWAYS adds an element of volatility into the readings. How could it not? They’re literally changing the way they calculate inflation one month to the next.

For example, I flagged how the mortgage interest component was set to jump from 3.5% to 5.2% of the basket. Over the longer term, that means that it will exert more DOWNWARD pressure on inflation now that the Bank of Canada is into a cutting cycle, but for last month in particular, it meant that mortgage interest costs added 1.3 percentage points to headline CPI.

In other words...of the "surprise" 2.9% headline inflation reading, 1.3% was mortgage interest and 1.6% was EVERYTHING ELSE!



Do we really think the Bank of Canada is worried about inflation at 1.6% once we back out interest expenses...which THEY HAVE DIRECT CONTROL OVER?! That's absurd.

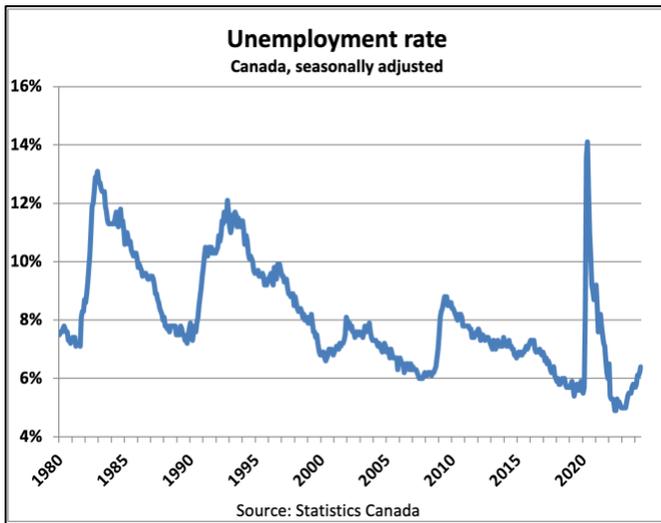
This inflation reading changed literally nothing except in the minds of people who don't understand the data. Wake me up if we get a couple more months of surprisingly hot data. Until then, there is nothing here to get the Bank of Canada off their cutting path.

Disappointing employment reports

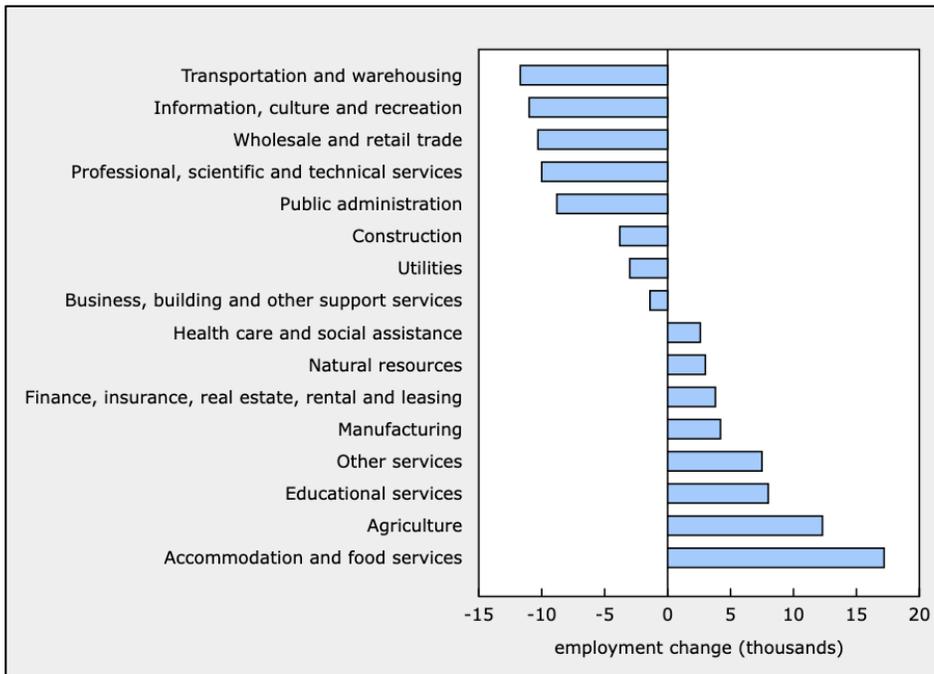
While the inflation data appeared to be a head-fake, we got more concrete signs of an economic slowdown in not one but TWO bad employment reports in the past couple weeks.

First off, the random number generator that is the Labour Force Survey spit out a -1k m/m reading in June, well below expectations for a gain of 25k. The decline was due to an acceleration in monthly layoffs (as opposed to weak new job creation), which were up 20% y/y last month.

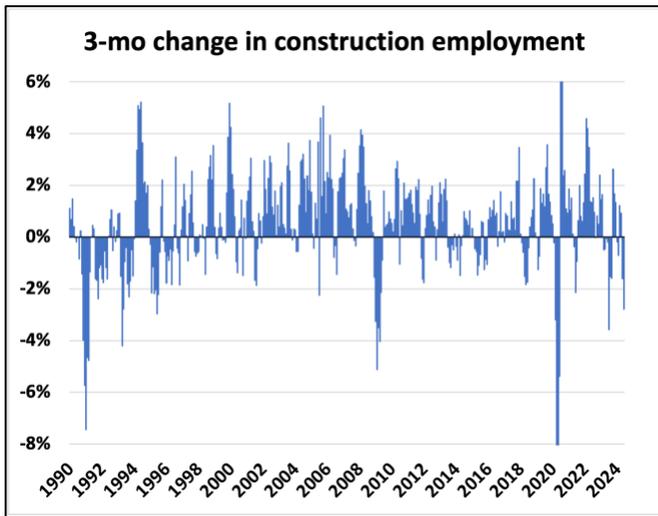
Strong population growth and soft employment trends pushed the unemployment rate up 0.2 percentage points to hit 6.4%, and that rate is now up 1.6 percentage points from the post-pandemic lows. That's already a larger increase off the lows than in several historical recessions over the past 30 years.



Looking across industries, there were job losses in bellwether cyclical segments like transportation (-11k), retail/wholesale trade (-10k), and construction (-4k) while accommodation and food services (+18k) led the gains:

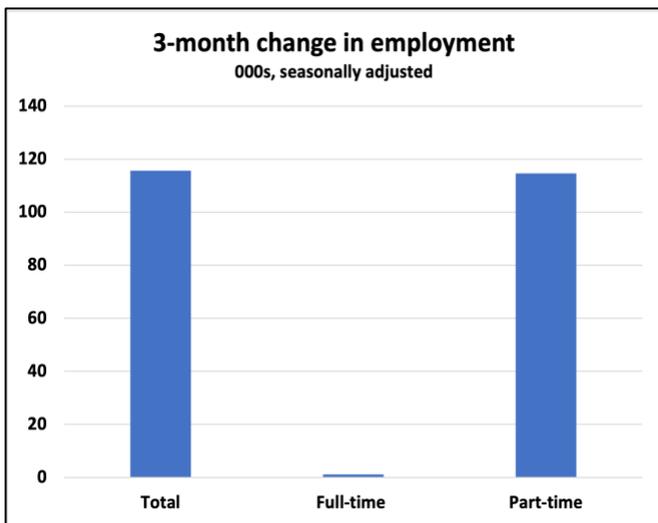


Construction employment has now declined for 3 consecutive months and is down nearly 3% over that stretch. That sort of decline has only happened in 2020, 2009, and a couple times in the early 1990s:

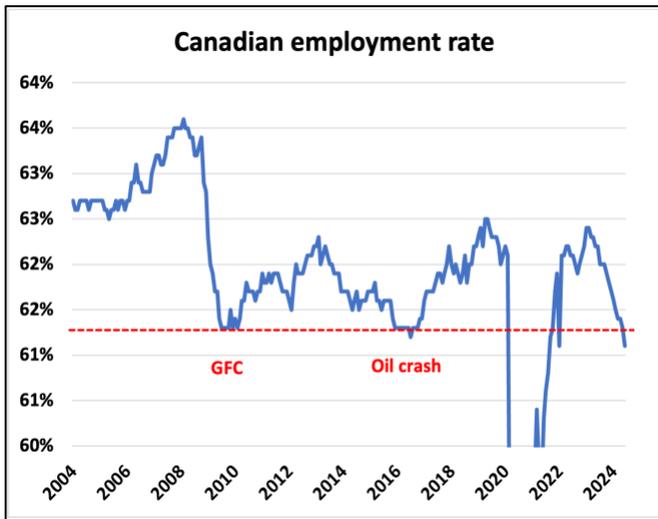


As I've articulated recently, I think we're about to see housing starts fall off a cliff due to the dual impact of slowing condo starts (a function of the normal lag between preconstruction sales and housing starts) and the tightening of the ultra-popular MLI Select CMHC rental development financing program which will slow rental starts later this year and into next. That points to more downward pressure on construction employment going forward, which has ALWAYS led employment lower in any interest rate-driven recession.

Over the past 3 months, we've seen effectively all job gains concentrated in part-time employment, and that held true again in June where full-time positions declined by 4k m/m and are now down 39k in the past 2 months. Consequently, hours worked- which matter more to the Bank of Canada since they are direct inputs into GDP- declined 0.4% on the month and are up just 1.1% y/y in spite of +3% population growth.



Canada's labour market is now completely unable to keep up with unhinged population growth. The employment rate fell 0.2 percentage points last month and has broken below the GFC lows:



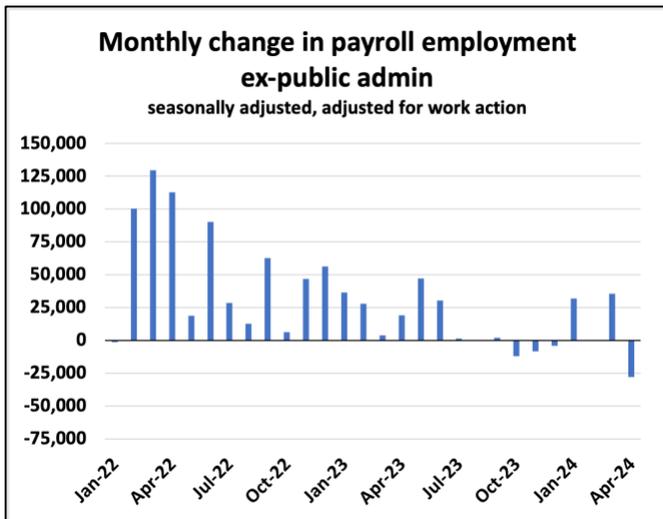
Sidebar:

Unemployment rate = the share of the WORKERS (ie active job seekers) that are unemployed.

Employment rate = the share of the TOTAL POPULATION (including those not in the labour force like retirees) that is currently employed.

Separately, we also had payroll data show a decline of 26k positions nationally in April and with a bonus downward revision to March numbers (+42k from +51k initially reported). Keep in mind, the Labour Force Survey reported a 90k increase for the same month. As any economist worth their salt will tell you, when the LFS and payroll numbers diverge, bet on the latter as the better indicator.

Private sector payrolls fell by 28k, the steepest decline since public health lockdowns in 2021. You can bet that caught the Bank of Canada's attention!



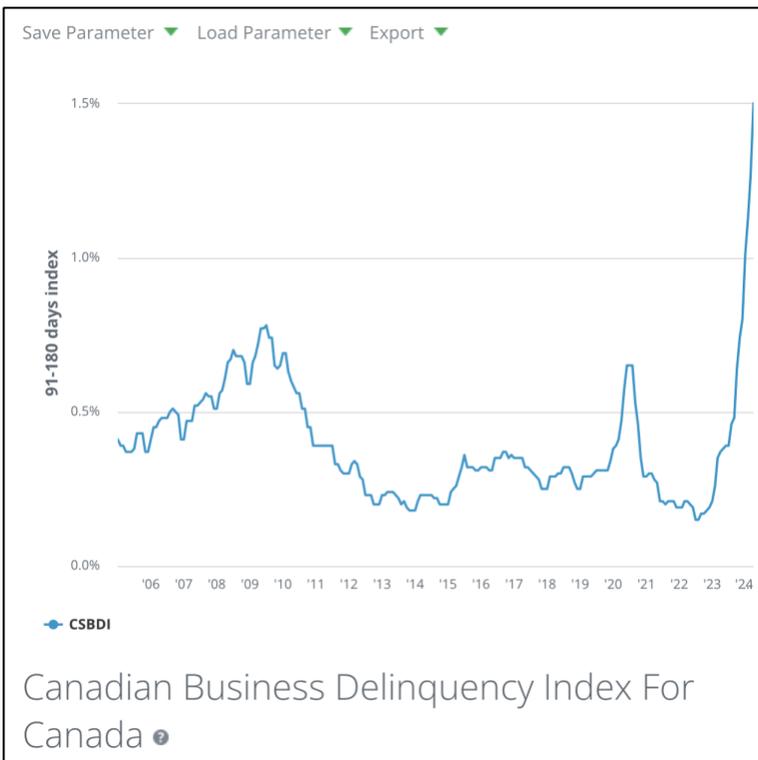
There were also signs of cooling wages. Headline wage growth slowed to 3.7% y/y from 4.1% previously, but it's even slower when we hold composition constant. Fixed weight wages were up just 0.1% m/m and up only 2.8% y/y...ie flat in real terms.

Meanwhile, job vacancies plunged again in April and have now fallen by 13% in the past 2 months...the steepest decline since the data set begins in 2015. That puts them nearly 30% below year-ago levels:



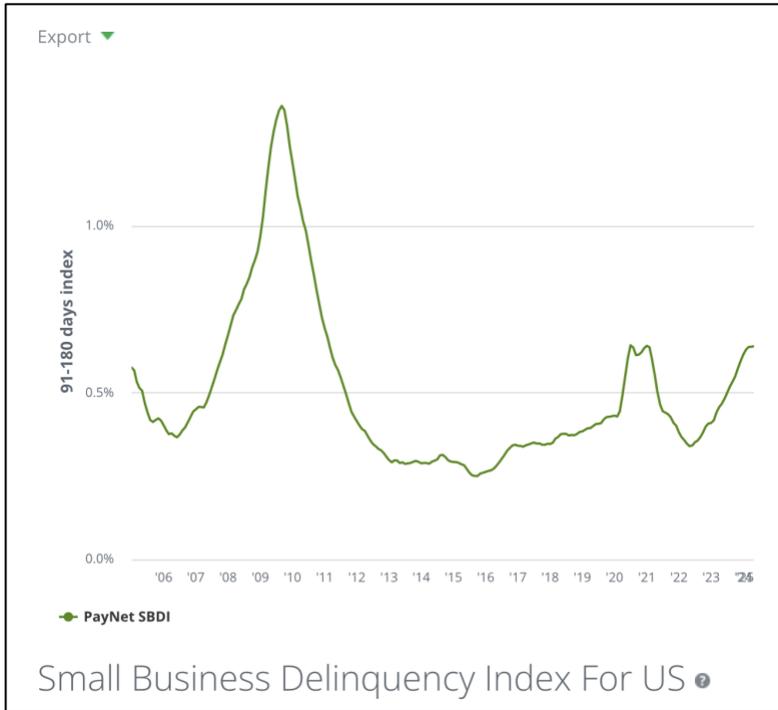
Small business delinquencies surge

As one final point on the state of the economy, consider new data from PayNet¹ (an Equifax company) which shows a sharp increase in small business loan delinquencies in Canada as of April. The share of +90-day delinquent loans has now surpassed the highs seen during the Financial Crisis:

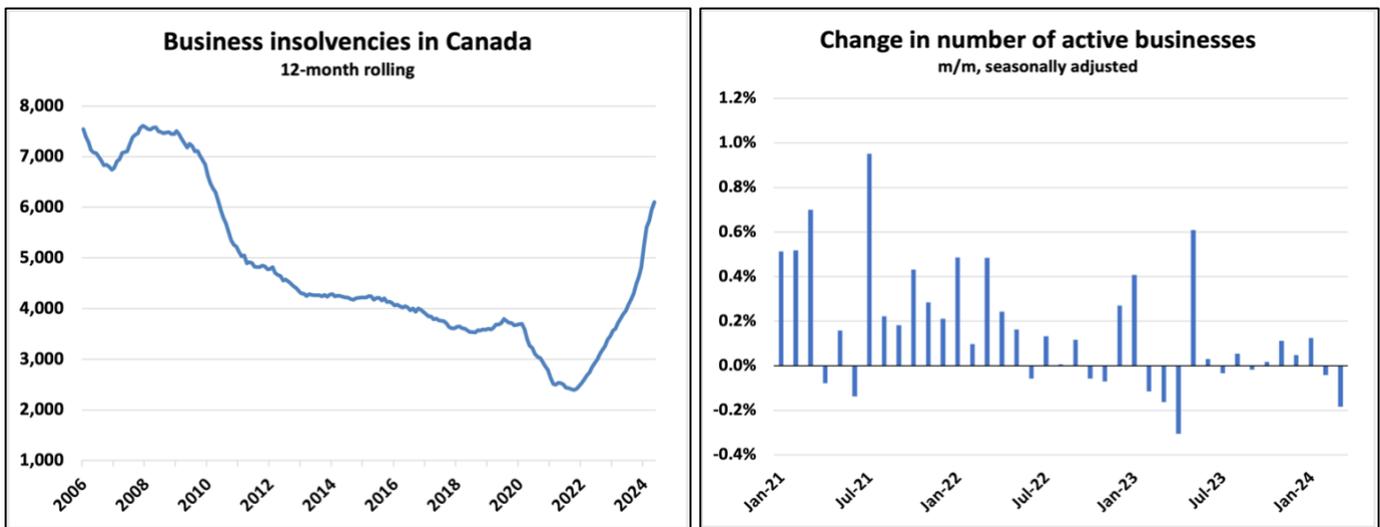


¹ <https://sbinsights.paynetonline.ca/loan-performance/>

The comparable US metric for reference:



No doubt this is partly a function of CEBA loan repayment (which started in January) and not entirely a signpost of a deteriorating economy, but it's notable nonetheless. And that's particularly true since the trend is being confirmed in official insolvency data and in business count data, which showed the second largest contraction in the number of active businesses across the country since the COVID lockdowns last month:

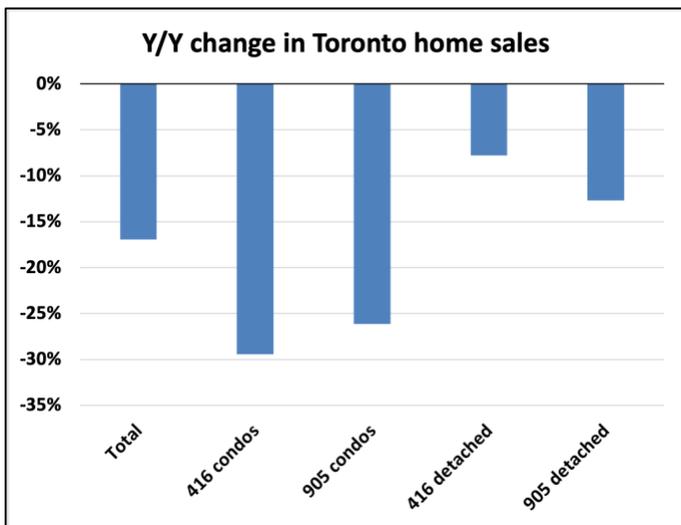
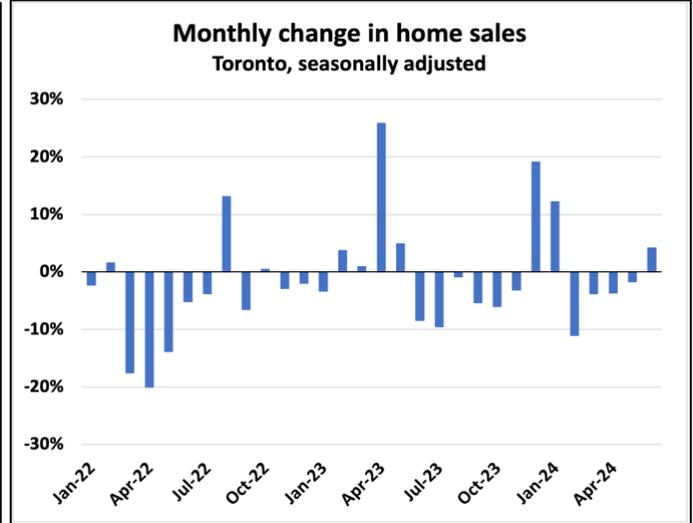
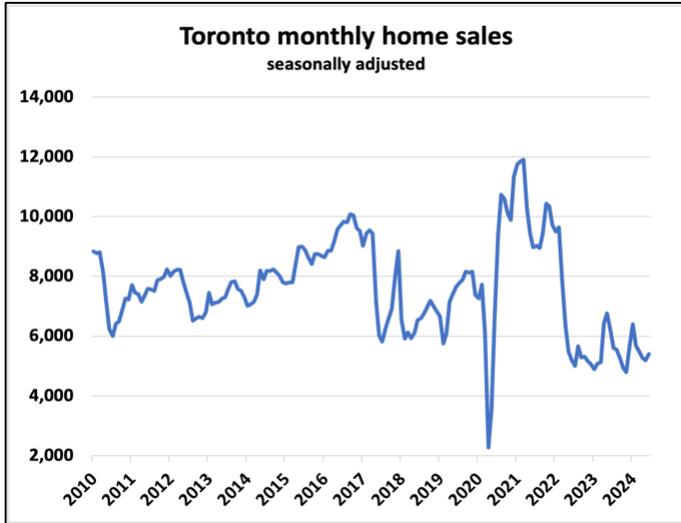


Put the pieces together: A “fake” inflation reading that simply a statistical mirage, a deteriorating job market, and mounting pressures on businesses. Is this really the environment in which the Bank of Canada wants to be sitting on its hands? I doubt it. My call remains: We are likely to see cut rates at every BoC meeting for the rest of the year.

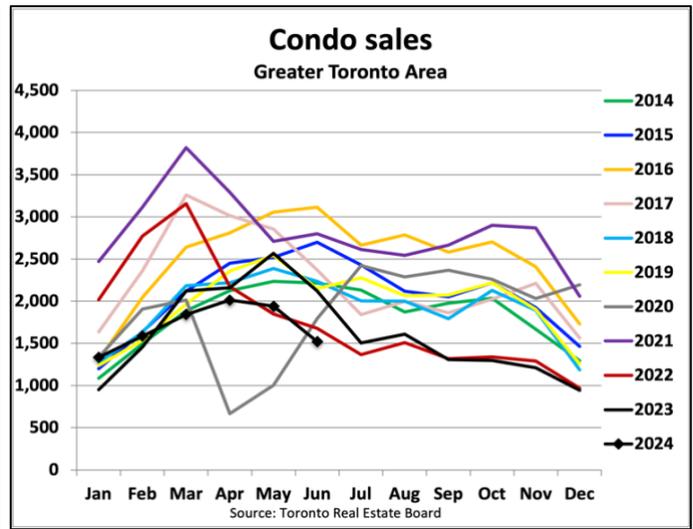
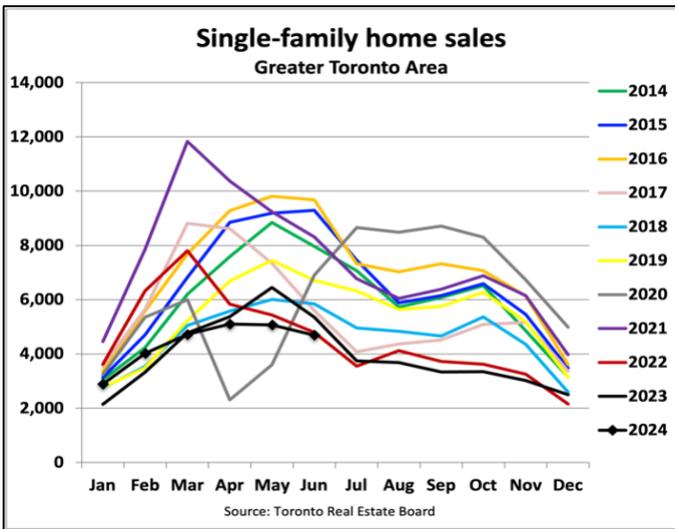
2) Pressures mount for Toronto condos

Sales tick up in June but remain very weak overall

The rate cut in June led to only a modest uptick in demand last month. Seasonally adjusted home sales across the Greater Toronto Area did manage to tick up 4.5% m/m, breaking a string of 4 consecutive monthly declines, but that left them at the lowest level of any June since 2000 and down 16.4% y/y (and -28% in the condo segment).



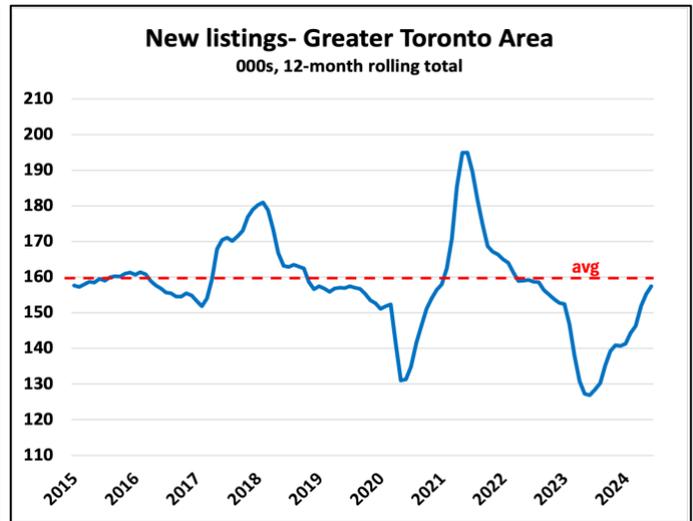
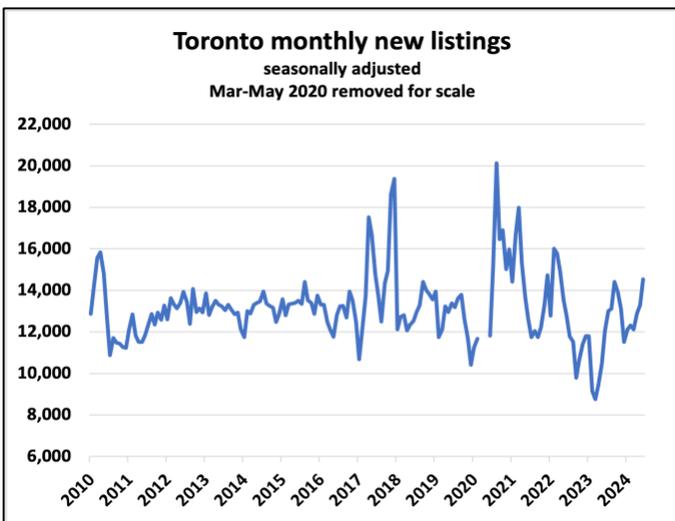
Sales remain at decade lows across segments:



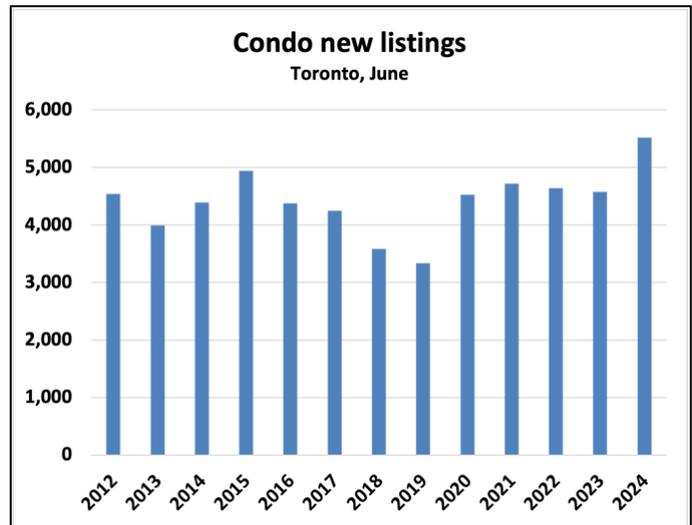
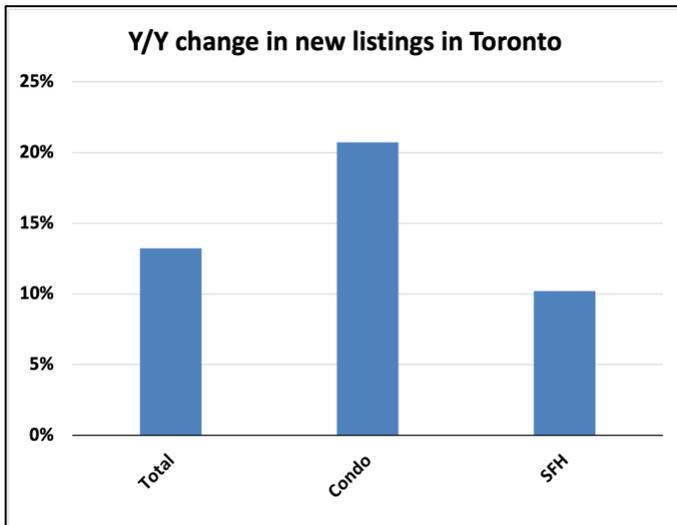
New listings jump

In line with anecdotes from realtor contacts, it's now clear that lower rates are impacting sellers more than buyers...at least for now. Seasonally adjusted new listings jumped 9.3% m/m with upward revisions to the prior 4 months to boot. Last month saw the highest number of new listings of any June since 2017.

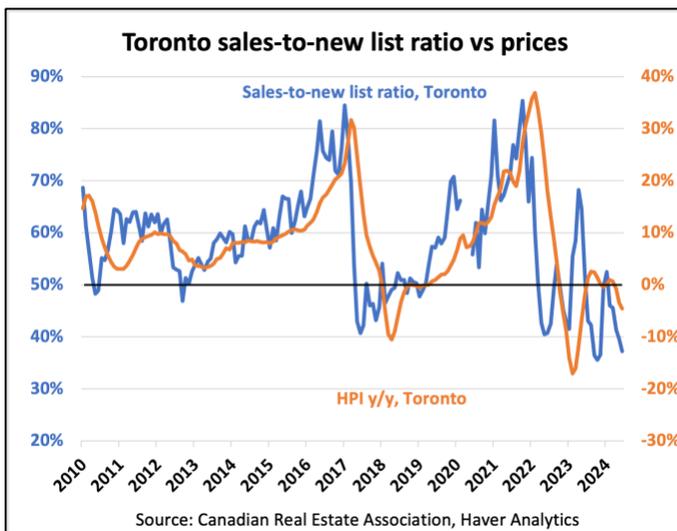
But with the 12-month tally still below normal levels and due for an "overshoot" following 18 months of bottom crawling, I think we'll see elevated levels of new supply right through the year.



The surge in supply is being driven by the condo segment where new listings were up 21% y/y and came in at the highest June levels since at least 2012.

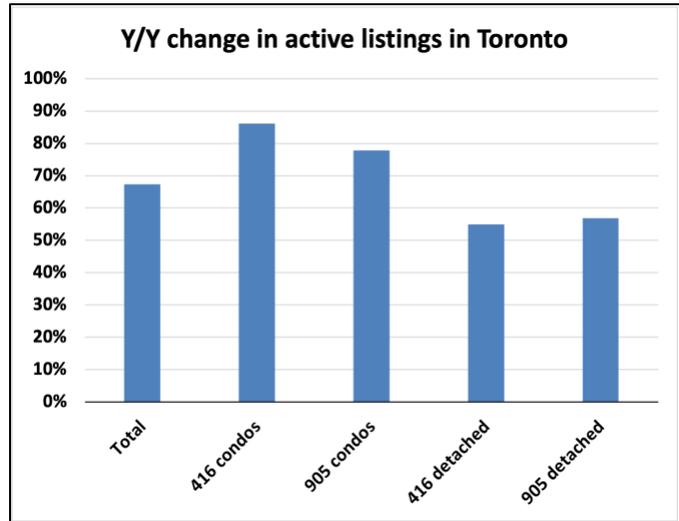
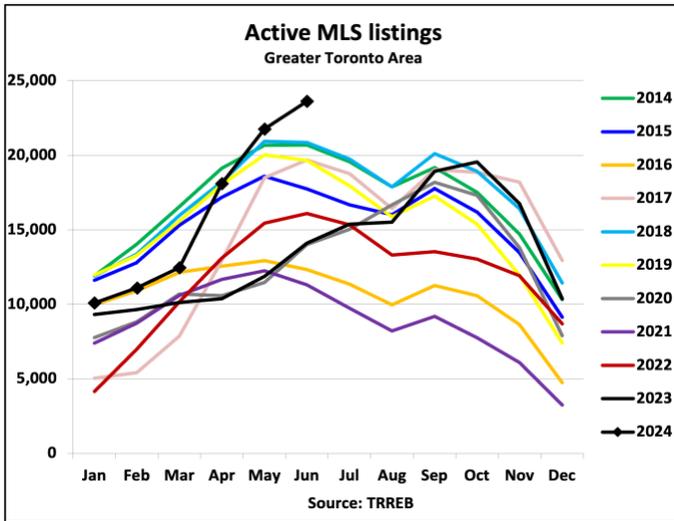


The sales-to-new listings ratio slumped to just 37%....just off the lows from last year and at a level that historically has been consistent with double digit annual price declines:

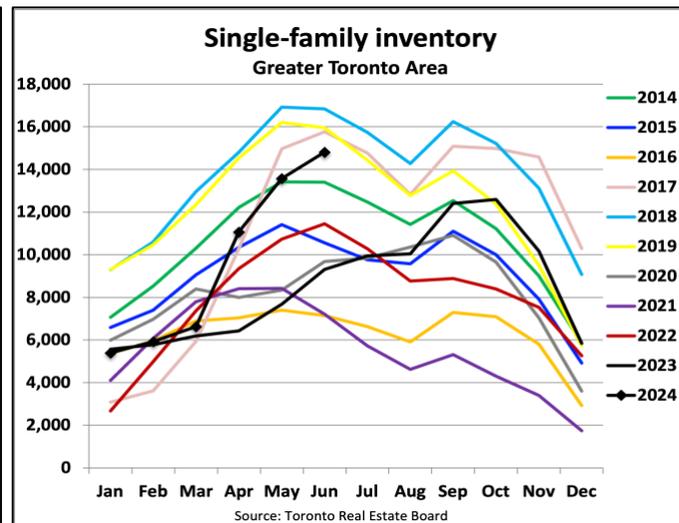
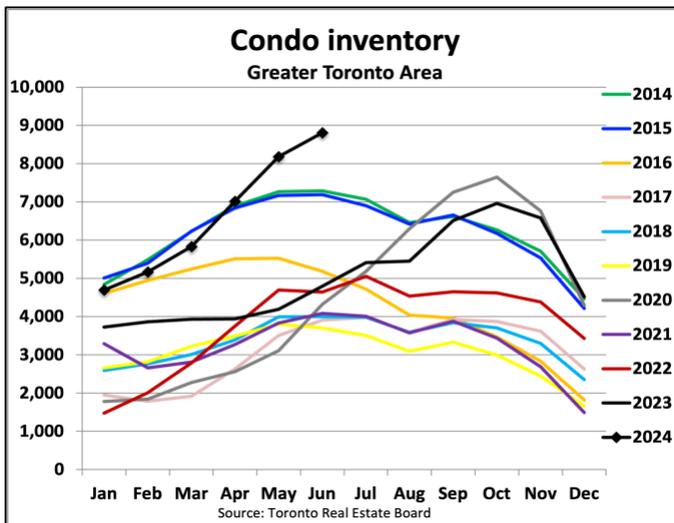


Major resale inventory build

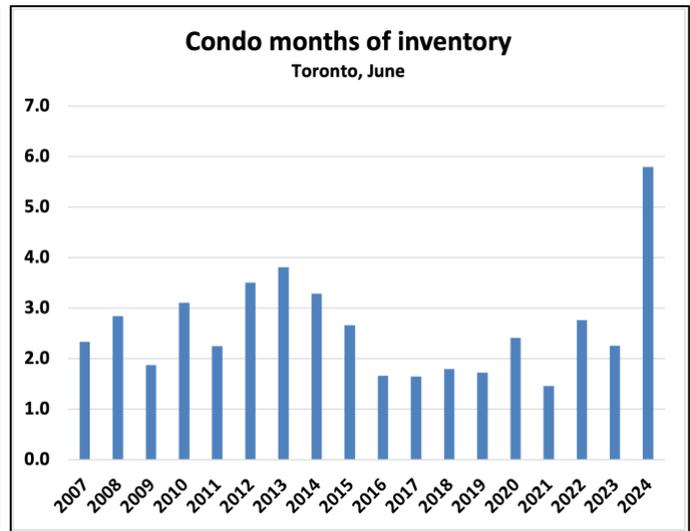
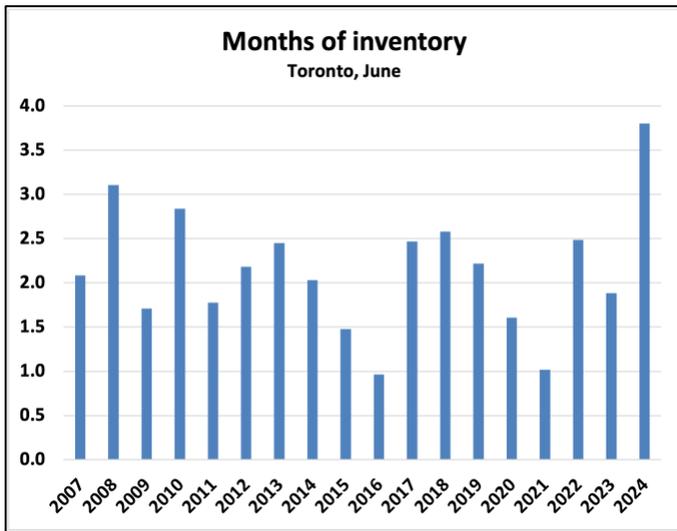
Active inventory was up 67.4% y/y (+84% for condos) and hit the highest level overall since 2010.



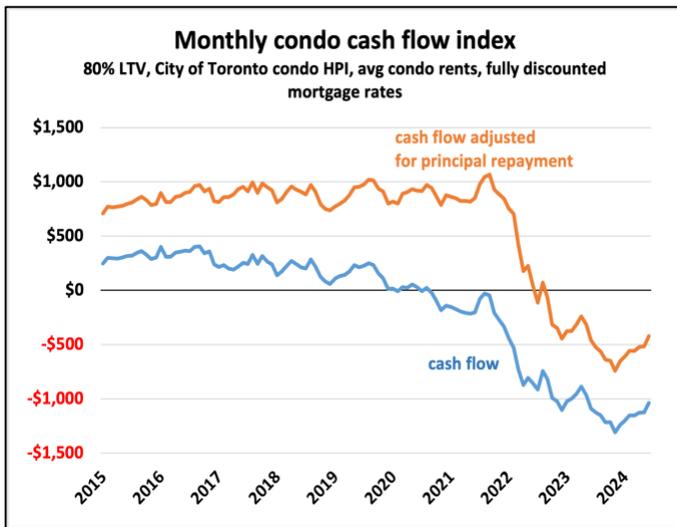
We continue to see a record amount of supply in the condo market, although the inventory build is quite alarming in the single-family segment as well. Supply in the single-family segment- including detached, semis, and towns- has surged by 124% over the past 3 months, the 2nd strongest Mar-Jun increase in the past 20 years (next only to 2017 following the announcement of the foreign buyer tax):



The overall supply-demand balance, as measured by months of inventory, is at the weakest June level since at least 2007 (2008 for single-family) and is by far the weakest on record for the condo segment:

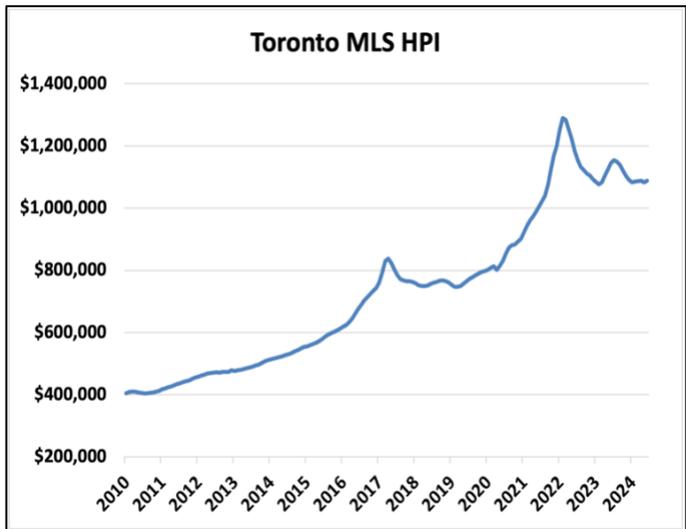
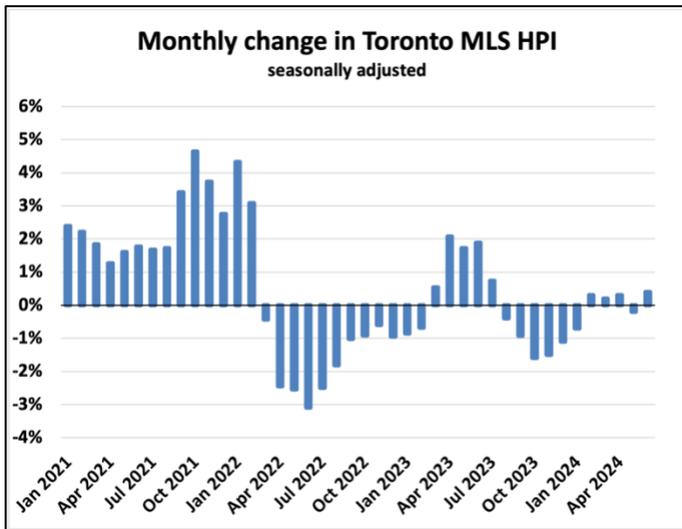


The market balance for condos is unlikely to tighten materially until investors return in size, and that won't happen until cash flows on investment condos get back to break-even once principal repayment is factored in. Declining prices and interest rates are moving the needle on that front, but we're still nearly \$500/month offside:



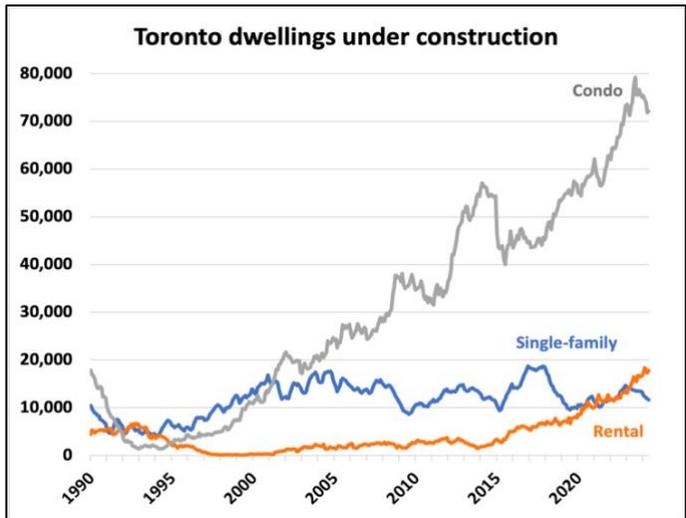
Prices rise at fastest rate since last summer

In spite of weak sales and an abundance of inventory, the MLS House Price Index registered a 0.4% seasonally adjusted monthly increase in June...the best showing since the middle of last year. I would view that reported increase with more than a little skepticism given current market dynamics. I can't envision prices holding firm here if current trends persist for any length of time.

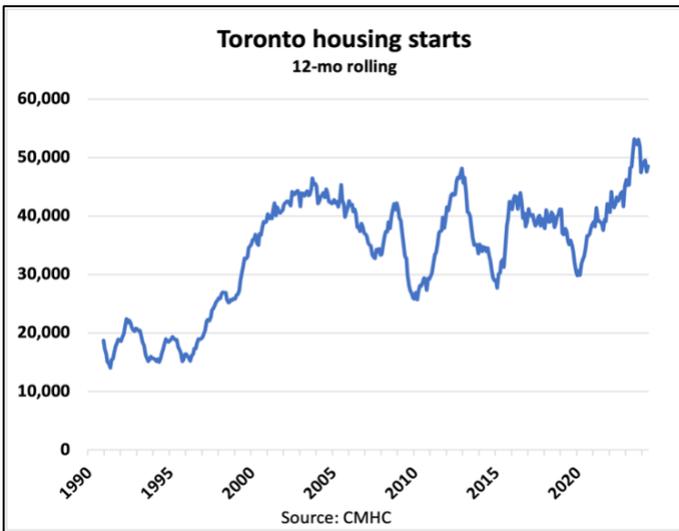


Construction activity ticks up on rentals

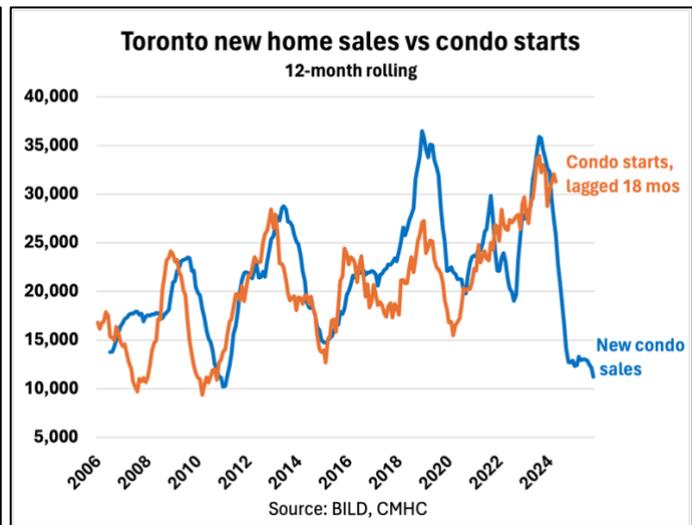
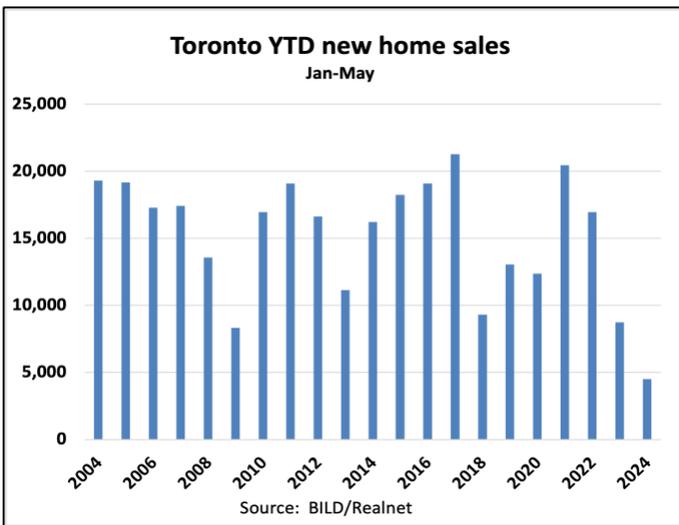
The number of dwellings under construction across the GTA ticked up slightly in May (+0.6% m/m) on the back of an uptick in the rental segment (+3.0% m/m). Of note, single-family dwellings under construction declined by 1.4% and have now fallen for 13 of the past 14 months!



Housing starts overall remain at solid levels in Toronto and were even up 26% y/y in May. But dig a bit deeper and we see that the single-family segment is getting crushed and is now at less than 1/3 of the levels seen in the early 2000s. This sets up a key theme for coming years: An abundance of condos (at least until 2028 when market balance will flip and get very tight) and a growing shortage of coveted single-family dwellings.

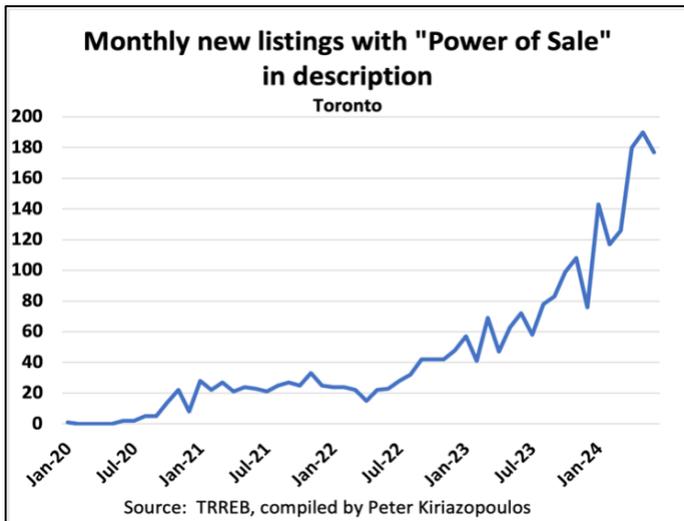


I continue to believe that we are on the precipice of a major slowdown in housing starts due to the trend in new home sales which were down 71% y/y in May and are off to the weakest start to the year since at least 2004. That points to a massive slowdown in condo starts on deck:



Power of sale listings ease

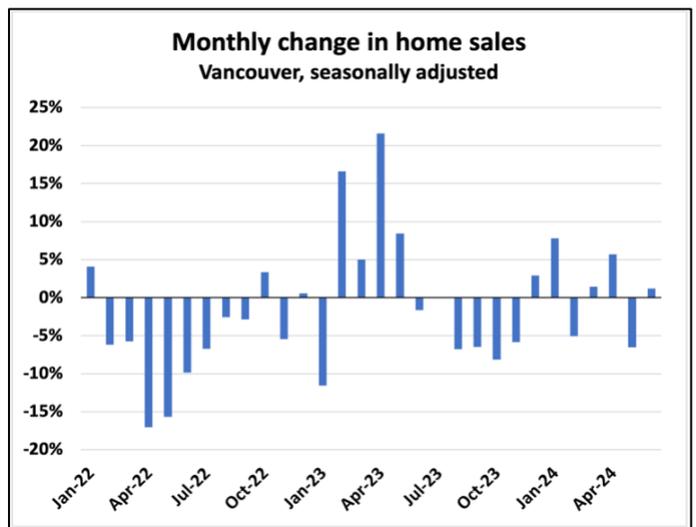
Thanks to good friend of Edge Analytics, Peter Kiriazopoulos, for the ongoing power of sale data. There were 177 new listings with “power of sale” in the description last month, a slight pullback from May levels:



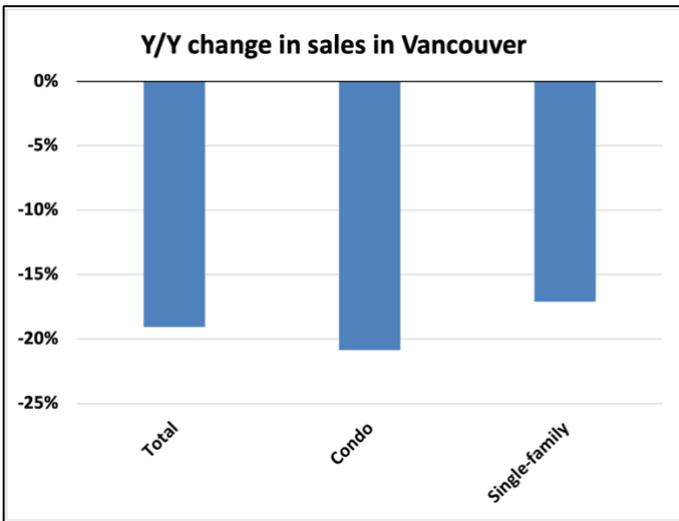
3) Vancouver home sales rise, but inventory is piling up

Sales tick up

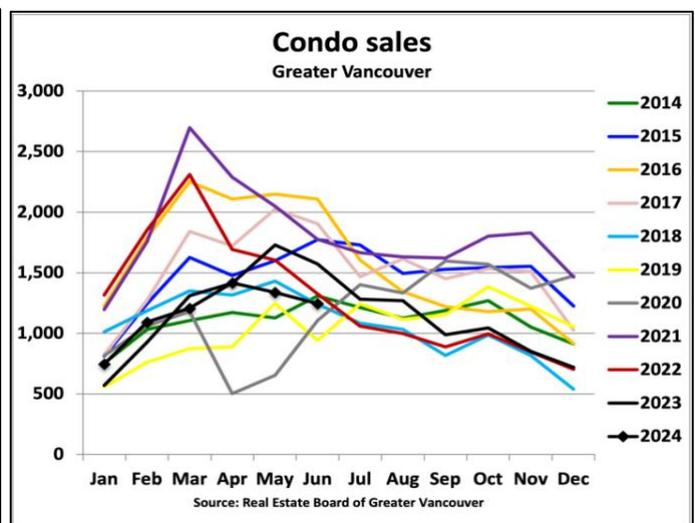
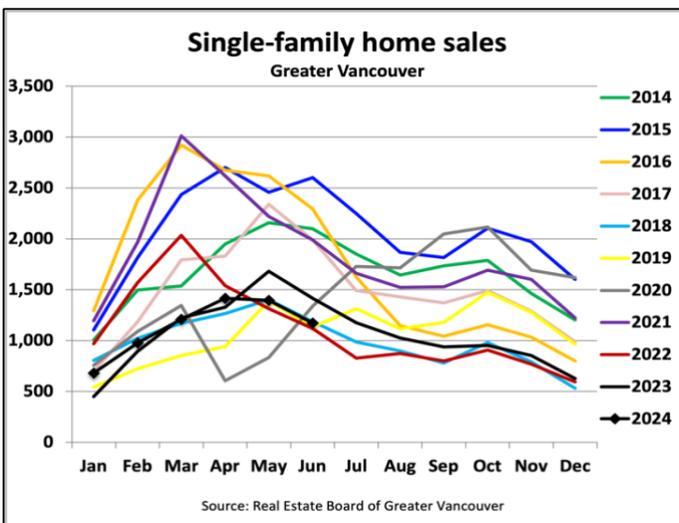
Home sales in Vancouver ticked up 1.2% m/m in June following a 7% decline in May but were down 19.1% y/y and remain 30% below decade averages.



That left sales down 19% compared to last year at this time, and down closer to 21% for the condo segment:



Sales across all segments were trending towards decade lows for the month:



New listings tumble

Seasonally adjusted new listings were up 4.5% m/m and were up 7% compared to last year.

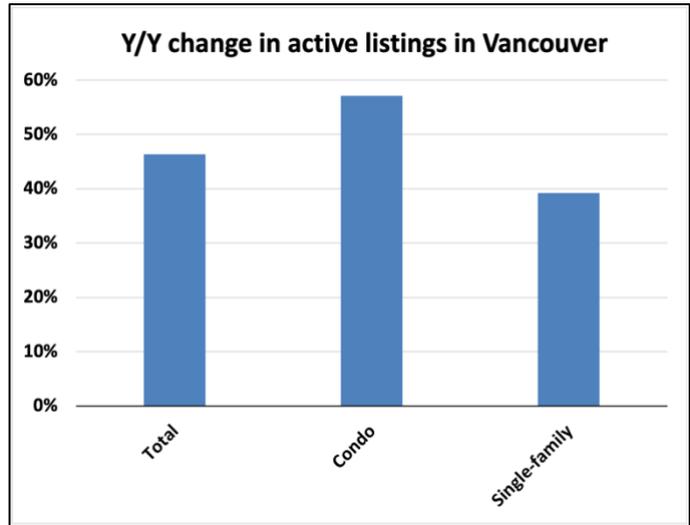
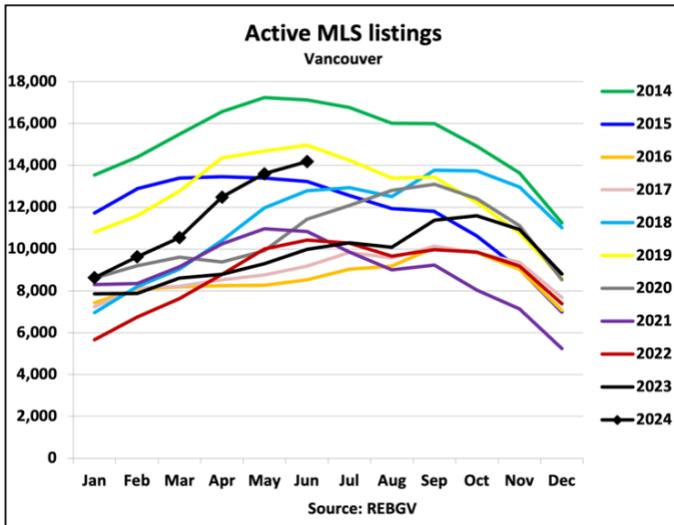


That pushed the sales-to-new listings ratio down to 44%, a level typically consistent with a ~5% annual decline in house prices:

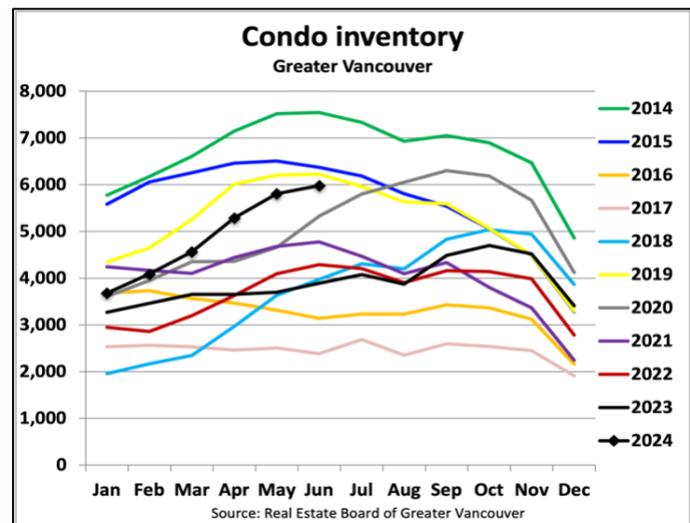
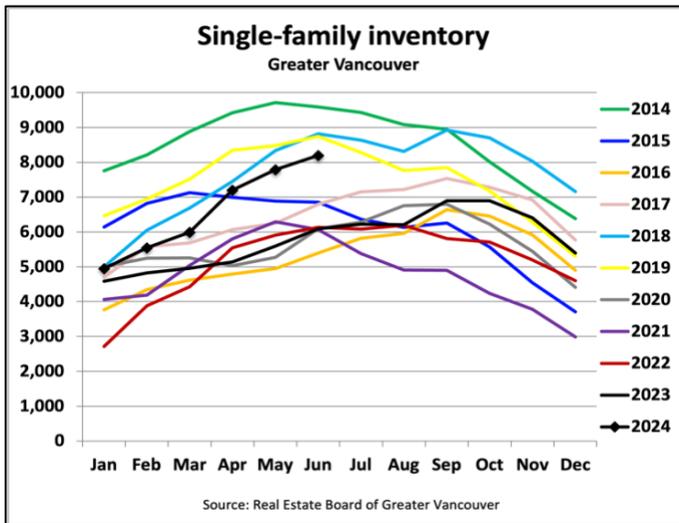


Inventory rises

Active listings were up 42% y/y overall and up 54% in the condo segment:

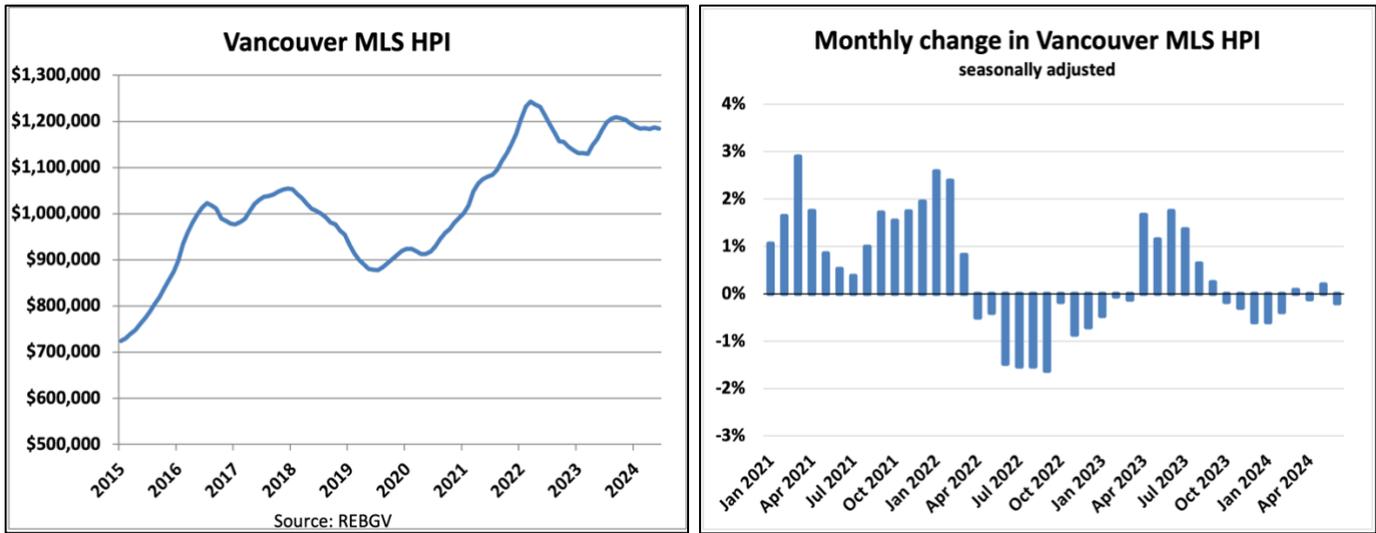


Inventory is seeing strong counter-seasonal builds across both the condo and single-family segments:



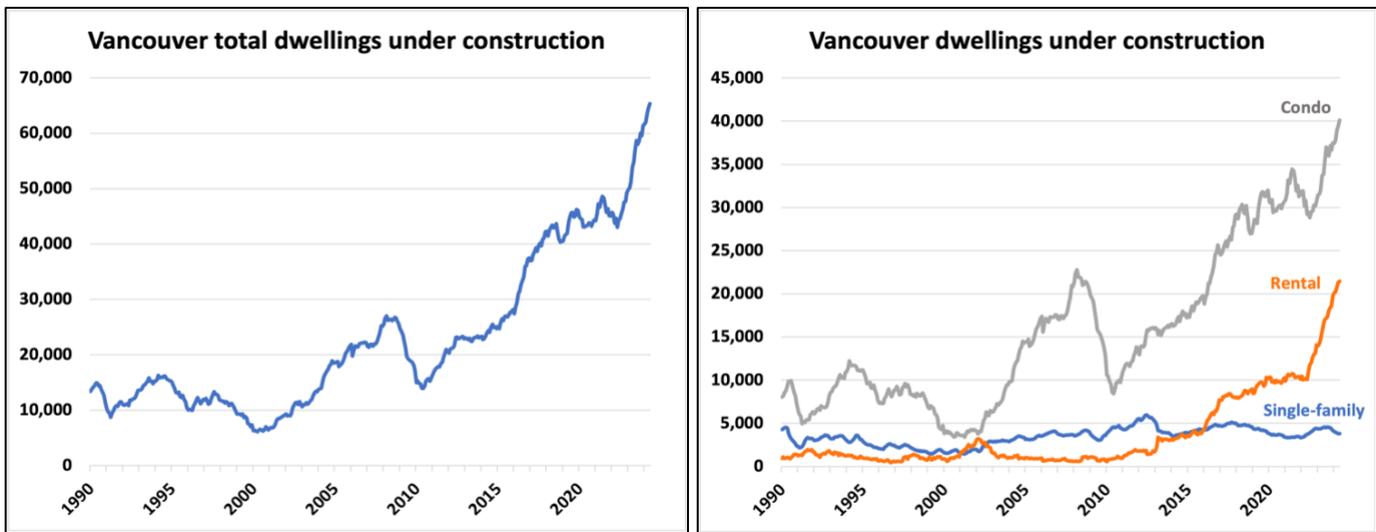
House prices tick lower

By my estimates, seasonally adjusted house prices ticked down 0.2% m/m in June:



Construction activity continues to surge

The number of dwellings under construction rose 1.3% m/m in May led by increases in the condo segment (+1.8% m/m) and rentals (+0.6% m/m). In contrast, the single-family segment was flat and is now down 16% compared to last year at this time.



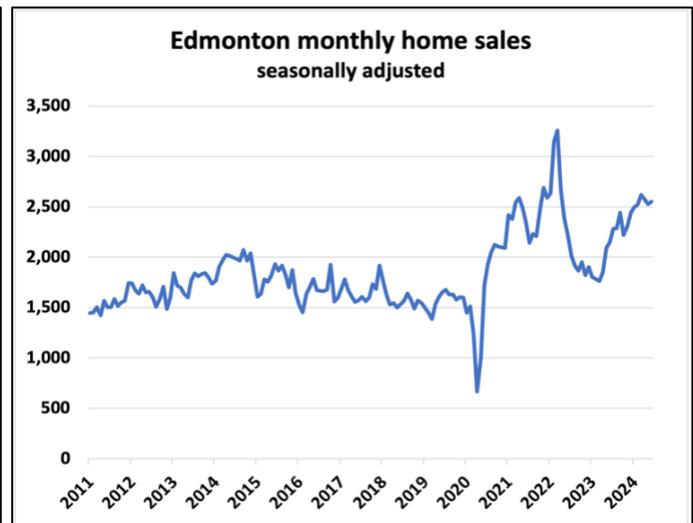
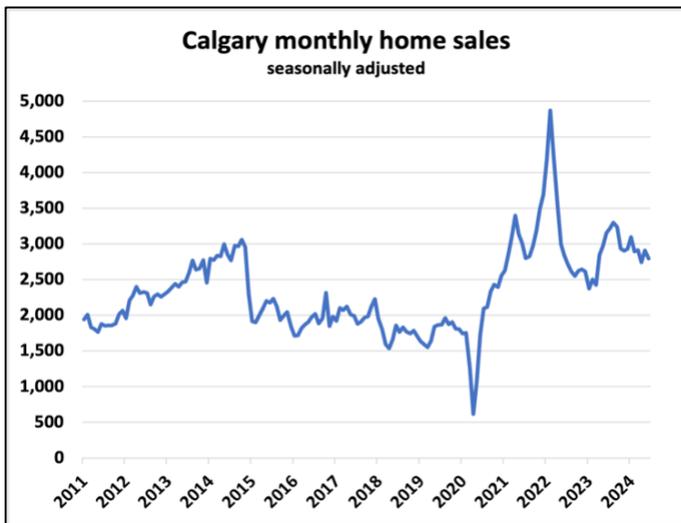
Vancouver housings starts remain near record highs, but over 90% of starts in the past year have been in the apartment segment (condos + rentals). Single-family starts remain at the lowest levels of the past 35 years:



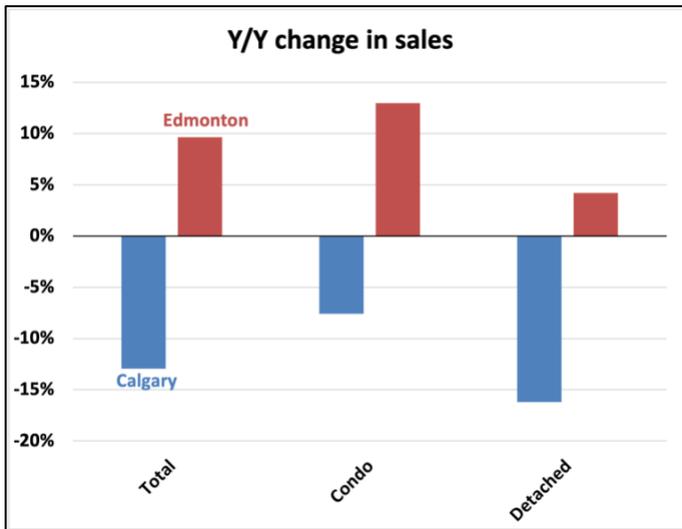
4) Alberta boom continues

Demand remains solid

Calgary home sales cooled in June, down an estimated 4% m/m while Edmonton saw sales rise an estimated 1%:

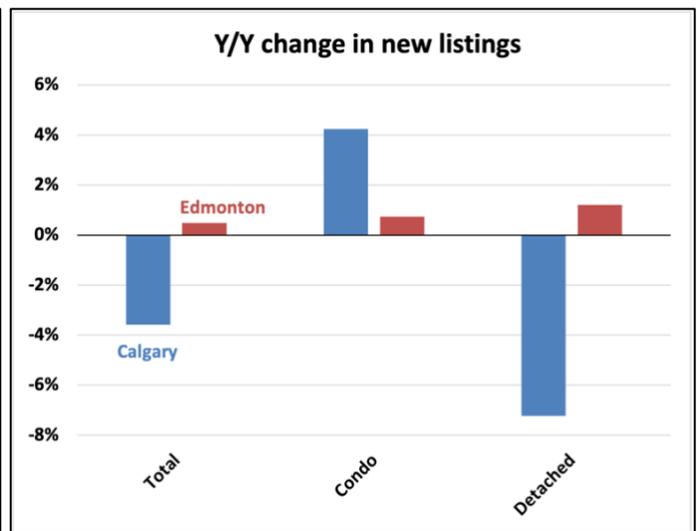
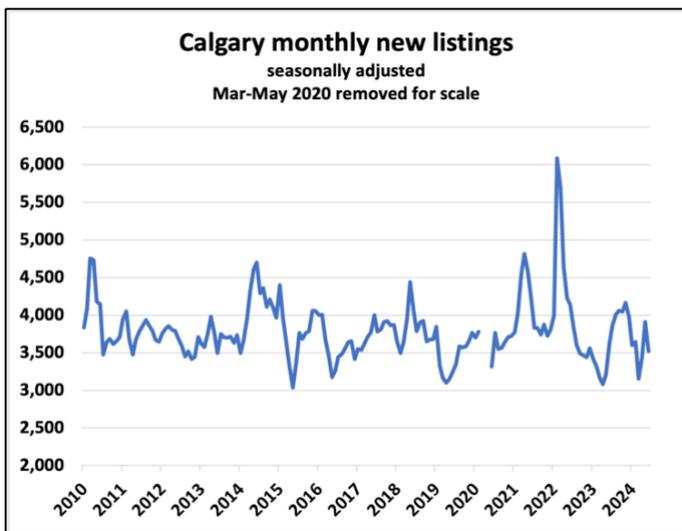


The y/y trend remains very telling. Edmonton is seeing sales up 10% y/y while demand in Calgary is down 13%:

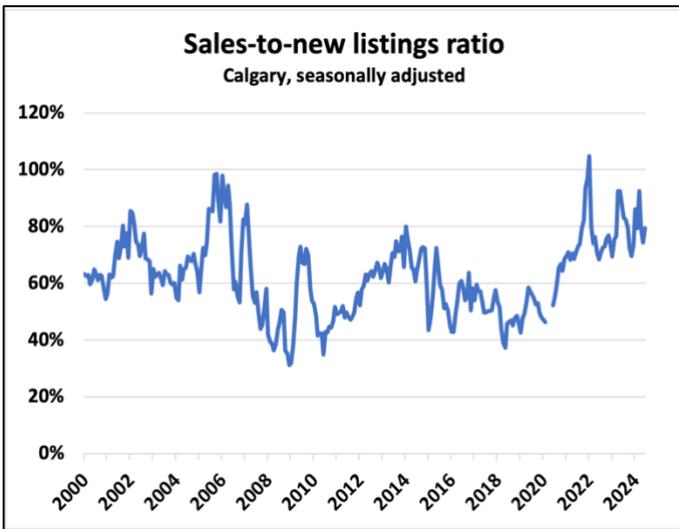


New listings remain subdued

Seasonally adjusted new listings ticked down by 9% m/m in Calgary and were down by roughly 3% in Edmonton. On a y/y basis, listings are down roughly 4% in Calgary and up 1% in Edmonton:

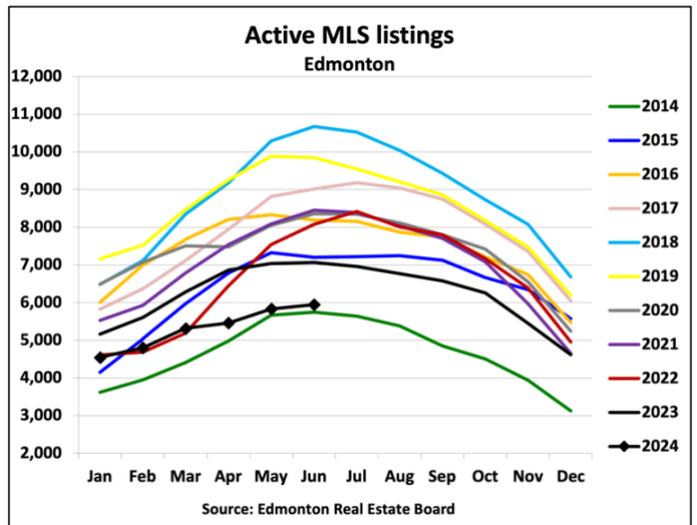
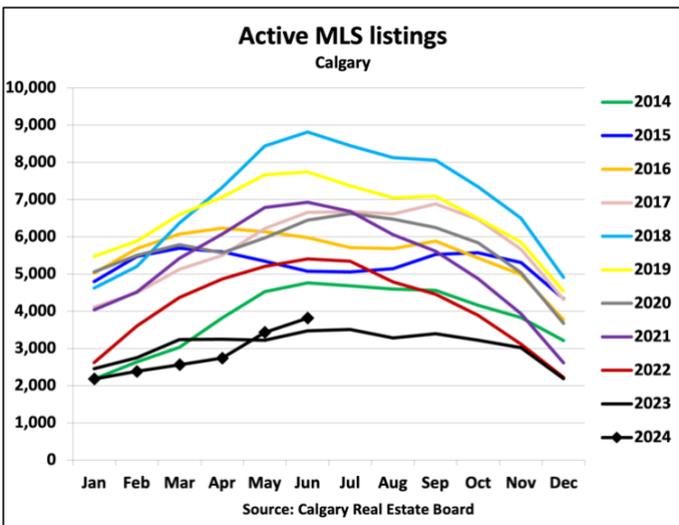


The sales-to-new listings ratio continues to hover near the 80% range in both metros, which represents a rip-roaring market by the standards of ANY Canadian city:

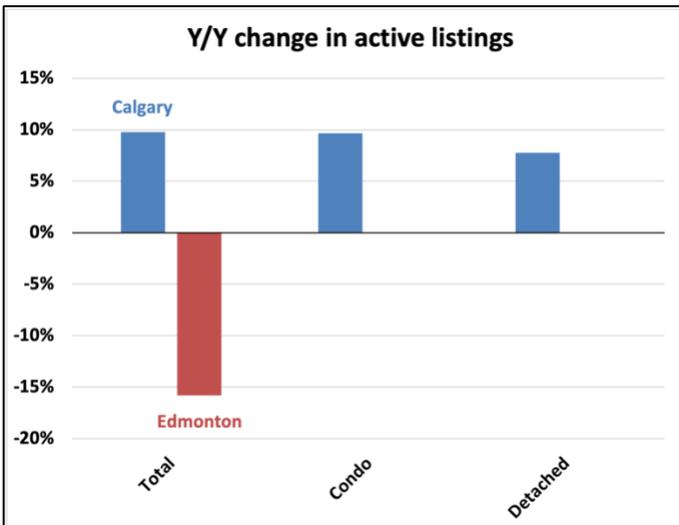


Inventory rises in Calgary

Active listings were up 10% y/y in Calgary and down 16% y/y in Edmonton. Both remain near decade lows:

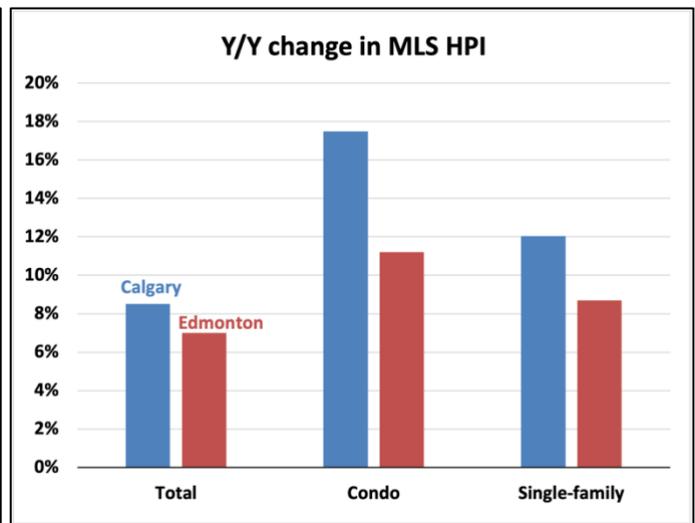
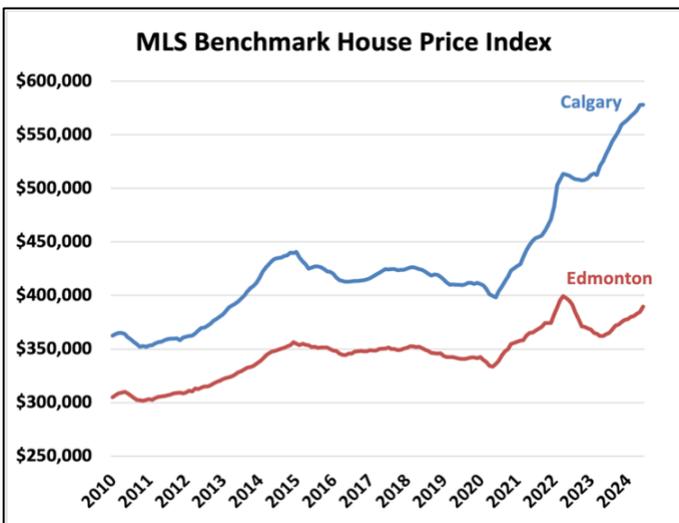


Once again, this chart highlights the diverging trends in Calgary and Edmonton and I believe supports my view that Edmonton is about to take the crown as the best performing major Canadian metro:

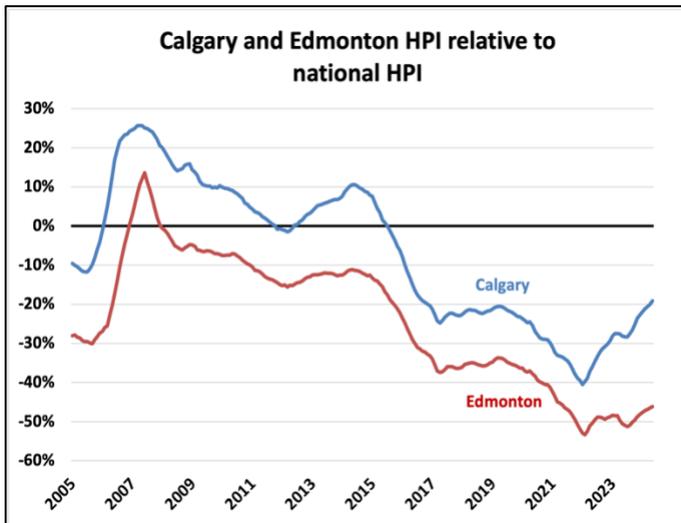


House prices rise

Price continue to surge higher in both Calgary (+8.5% y/y) and Edmonton (+7% y/y). By the end of the summer, I suspect we'll see Edmonton prices start to outpace Calgary:

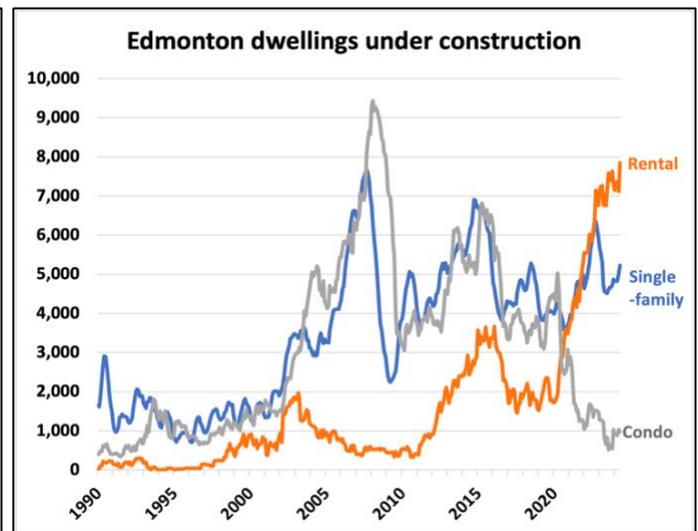
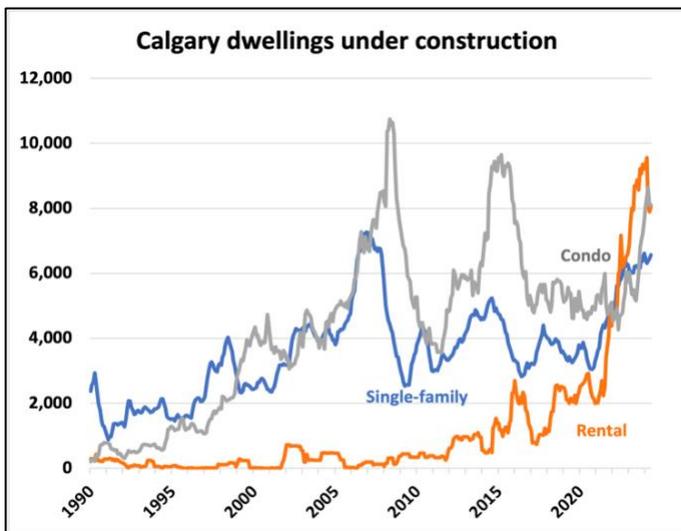


House prices in Alberta continue to outperform the rest of the country, and I still think we'll see average prices in Calgary rise above the national average within the next couple years. I am still bullish on Calgary after all, I just think Edmonton will be stronger on a relative basis over the next 2 years:

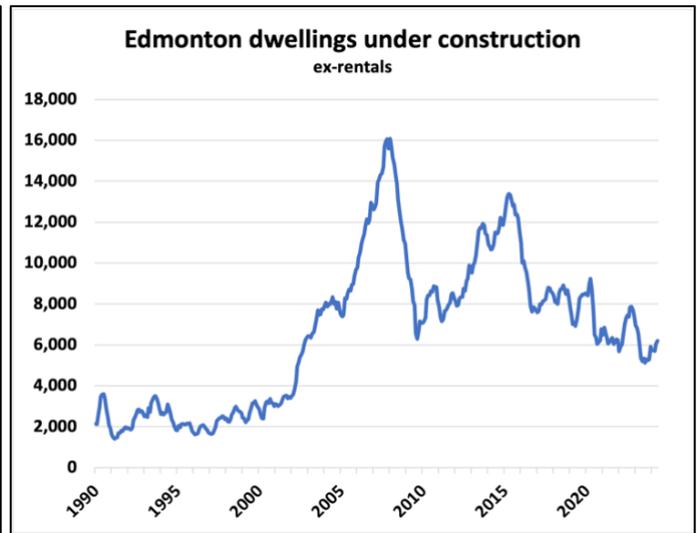
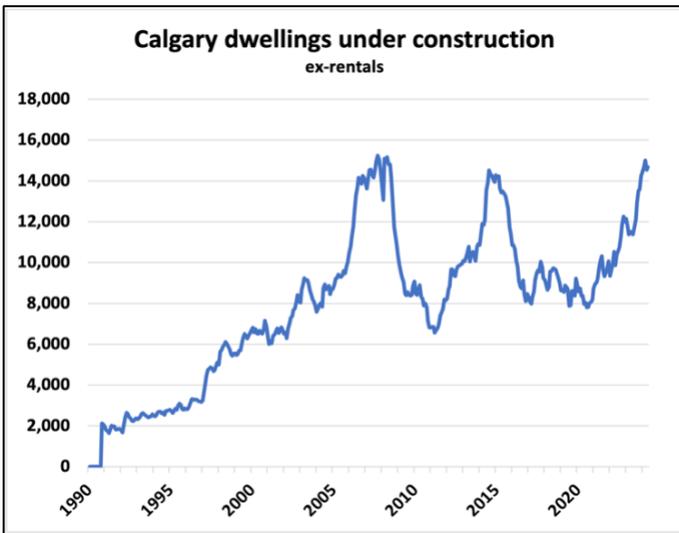


Construction activity rises in Calgary and Edmonton

The number of dwellings under construction rose 1.4% m/m in Calgary and was up a whopping 6.8% m/m in Edmonton:



Backing out rentals which comprise a rising share of dwellings under construction in both metros, we see that Calgary remains near record highs while Edmonton remains near decade lows. Because of this, we should expect resale inventory levels to have bottomed in Calgary while resale supply in Edmonton will likely be near decade lows for another year or more:



Have a great day!
Ben