



September 2024
Metro deep-dive: August data

Quick links:

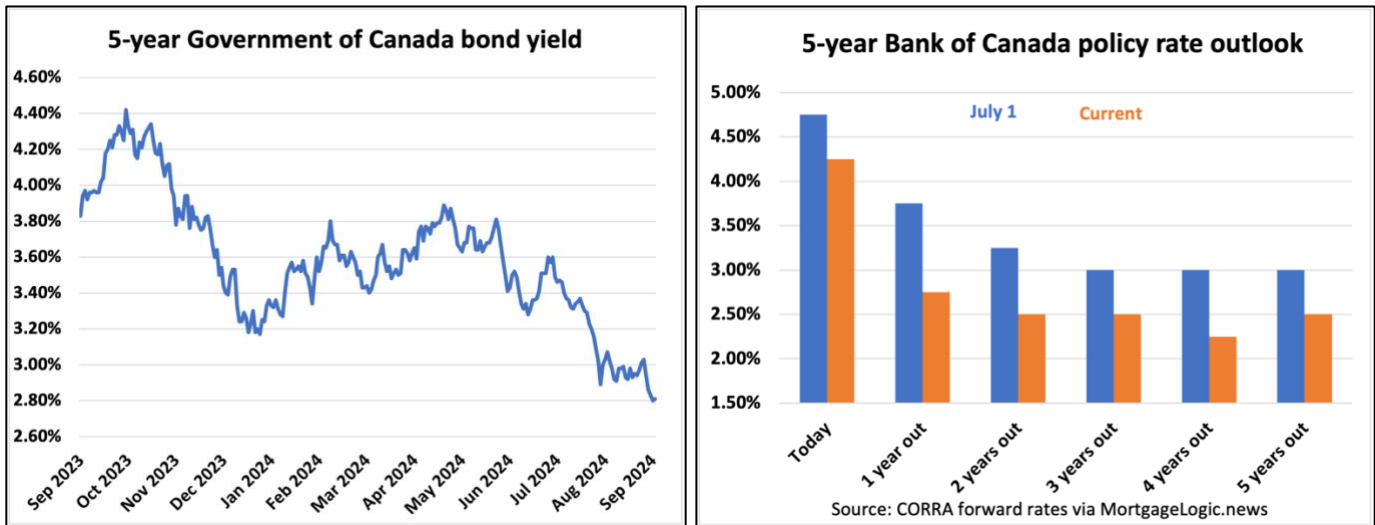
- 1) **Macro commentary: Markets pricing in cuts at EVERY meeting out to Mar '25**
- 2) **Toronto update: Sales tick up, mortgage arrears spike**
- 3) **Vancouver home sales fall, prices hold firm**
- 4) **Edmonton and Calgary markets start to diverge**

1) Macro commentary: Markets pricing in cuts at EVERY meeting out to Mar '25

Markets now pricing in rate cuts at EVERY meeting out to March 2025

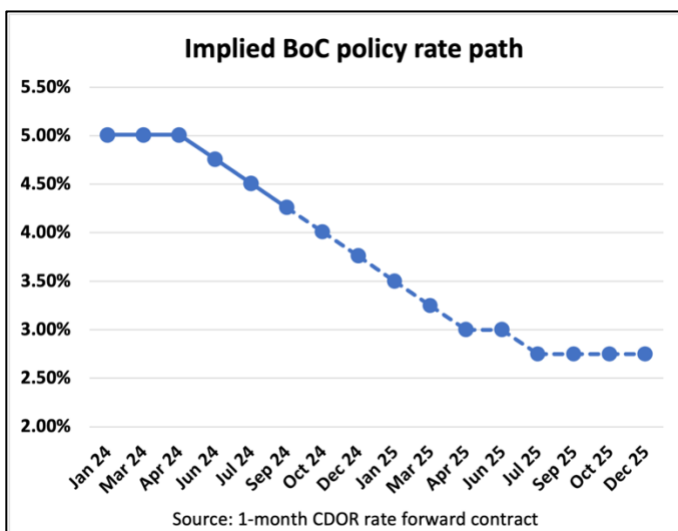
What a difference a few months make! I've been resolute in my views that interest rates at these levels simply do not work given the leverage in the Canadian economy, and that by the fall it would be clear that the wheels are starting to come off.

We'll get to the macro data in a moment, but for now, just look at trend in 5-year bond yields which are now down to 2.8%....levels last seen in early 2023. Longer-term rate expectations have seen a dramatic shift since July:

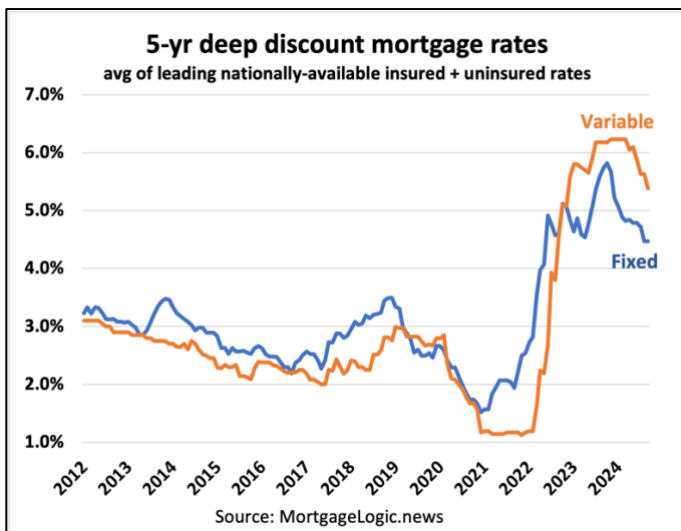


That means we've got a good shot at seeing 5-year fixed-rate mortgages back under 4% for insured files over the next few weeks. Don't under-estimate the psychological impact of mortgage rates once again start with a 3.

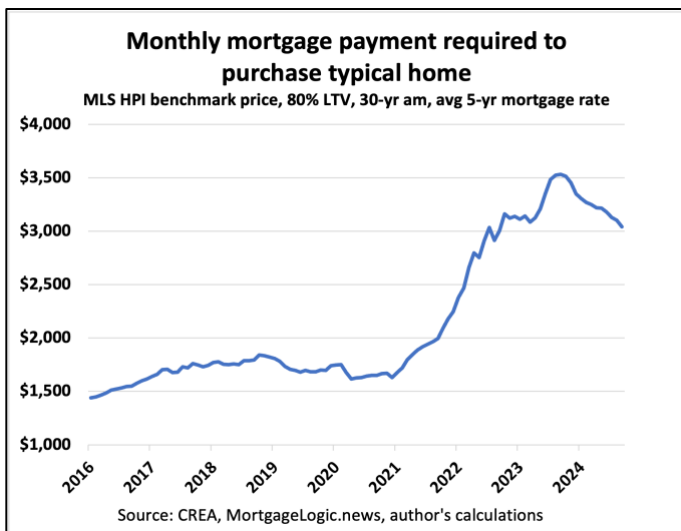
Looking ahead, the market is now pricing in rate cuts at every one of the next 5 Bank of Canada meetings....all the way out to March of next year...and the overnight rate is expected to be in the 2.75% range in the back half of 2025:



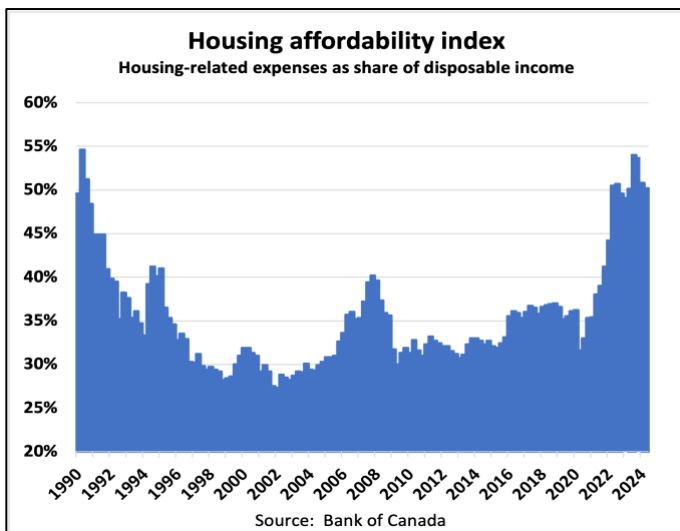
Deep discount mortgage rates are shown below courtesy of MortgageLogic.news. We saw a big decline in variable rates following the BoC cut last week with plenty more to come if the rates story plays out the way I expect:



Given the new prevailing rates, a buyer purchasing a typical Canadian home today and financing it at 80% LTV would have monthly mortgage payments of just over \$3,000, down \$60 from last month. That's not great, but it's down \$500 from the peak one year ago:



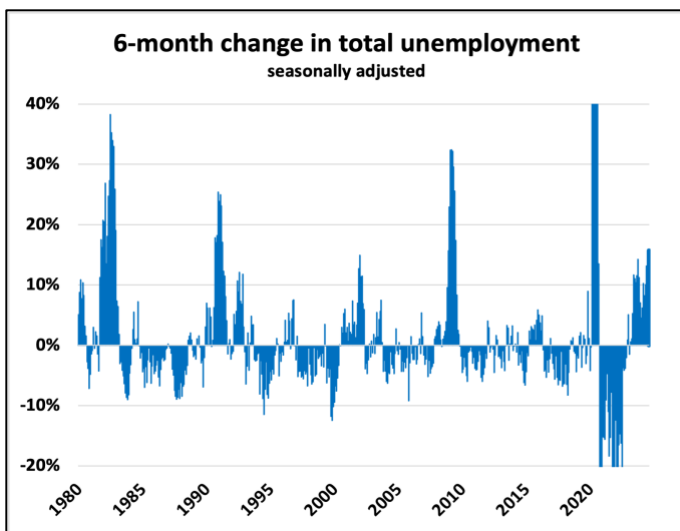
The worst of the affordability crisis is behind us, but there's still a lot of wood to chop. The Bank of Canada has updated their housing affordability index for Q2. It showed a modest improvement from Q1 but remains at extremely elevated levels historically. Expect this to improve sharply through the back half of the year as rate cuts filter in:



More signs of softening in jobs data

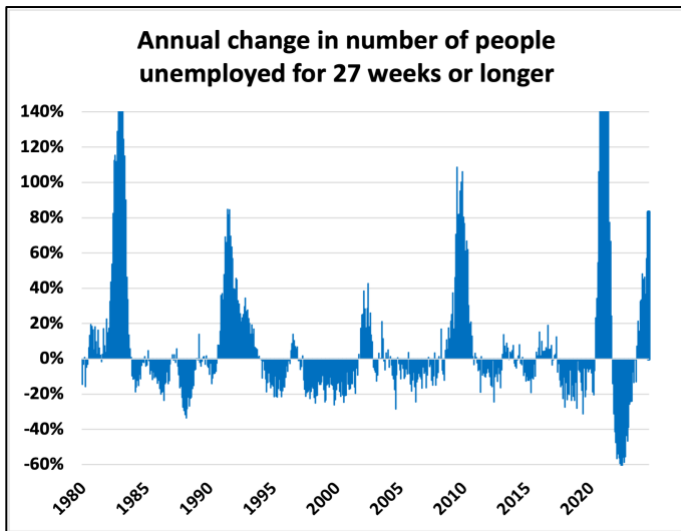
The key takeaway from last week's Labour Force Survey is that while we have yet to see material job losses, new job creation has ground to a halt. The most striking data point is that the ranks of the unemployed in Canada swelled by 4.3% m/m and 23% y/y in August even as Canada added a reported 22k total jobs.

Over the past 6 months alone, the ranks of the unemployed have swelled by 15%. Outside of the pandemic lockdowns, you have to go back to 2009 to find the last time unemployment has risen this quickly:



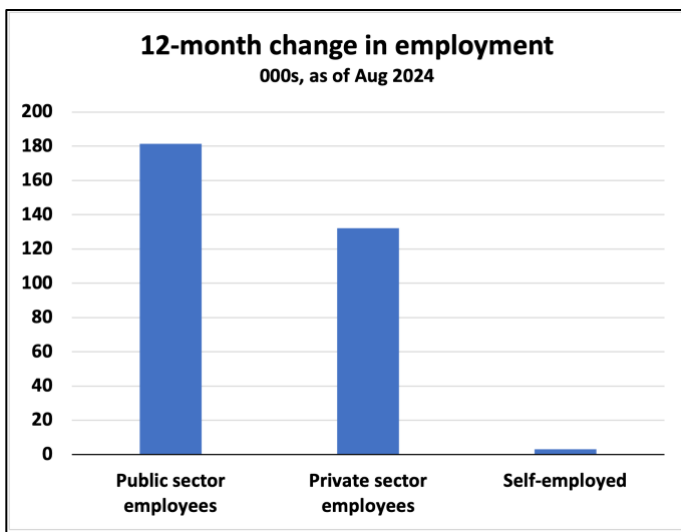
So the message is this: While there may not be a lot of job losses yet, if you're unfortunate enough to find yourself unemployed, you'll likely be there for a while since new jobs just aren't being created.

Consider the number of Canadians who have been unemployed for 27 weeks or longer...up 85% y/y!

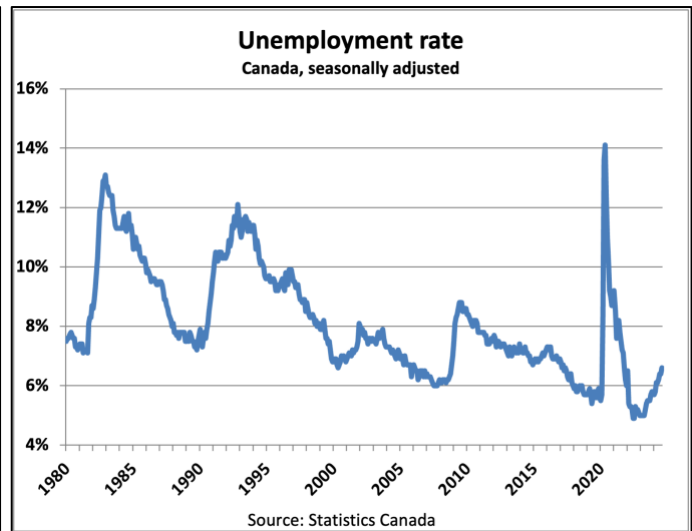
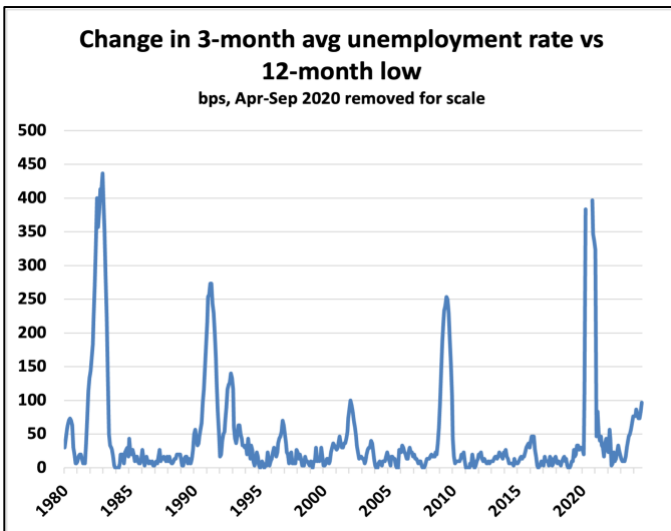


The internals were also pretty soft. The headline number of +22k hides the fact that full-time employment plunged by 44k, the largest decline in the past 2 years, while part-time employment jumped by 66k. That means that for the first time since the pandemic, the annual growth in part-time jobs is exceeding full-time positions (184k y/y vs 132k).

The good news was that we saw an expansion in private sector employment (+38k) offset by declines in public sector (-9k) and self-employment (-7k). Still, on a y/y basis, the public sector is up +180k vs just +132k in private payrolls.



The unemployment rate jumped to 6.6% from 6.4% previously, and that pushed the Canadian Sahm Indicator (the 3-month change in the unemployment rate relative to the 12-month low) to 97bps, a level with a perfect track record of predicting recessions. The takeaway here is that once the unemployment rate gets some momentum to the upside, it typically trends for quite a while:



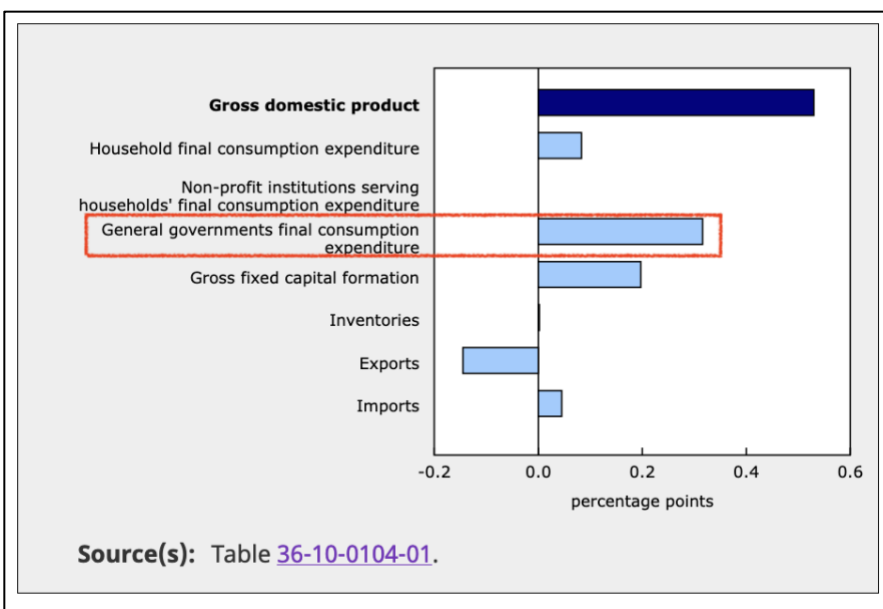
These trends are all exactly what you would expect to see in the early days of an employment downturn. Employers curtail hiring just before they start letting people go. I expect the jobs data to get pretty messy over the next few months.

Q2 GDP boosted by government spending

Q2 GDP came in hotter than expected last week at 2.1% annualized (+1.6% exp) and with a slight upward revision to Q1 to boot. That's the good news.

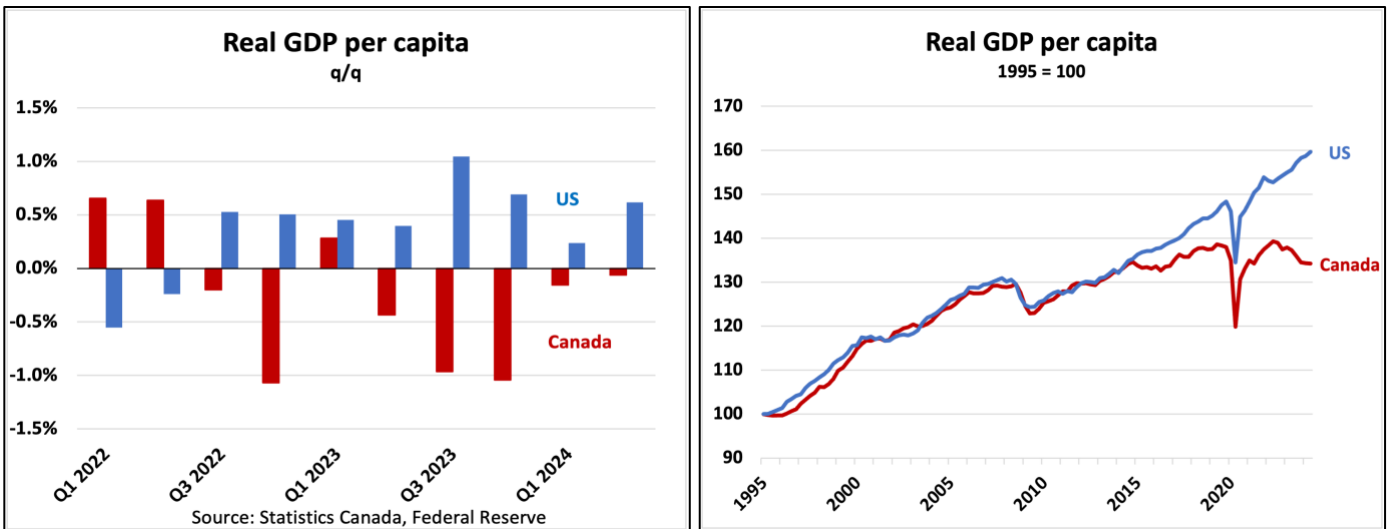
But digging into the details we find two concerning trends. The first is the clear deceleration in growth through the quarter. The majority of the gains were in April (+0.4% m/m) with May at +0.1% m/m (downwardly revised from +0.2%) and a flat reading in June. As a kicker, the preliminary reading for July was also unchanged. The economy is losing momentum.

The other issue, in keeping with the theme of the latest data, is that most of the increase last quarter was driven by government expenditures, which rose 1.5% in Q2:

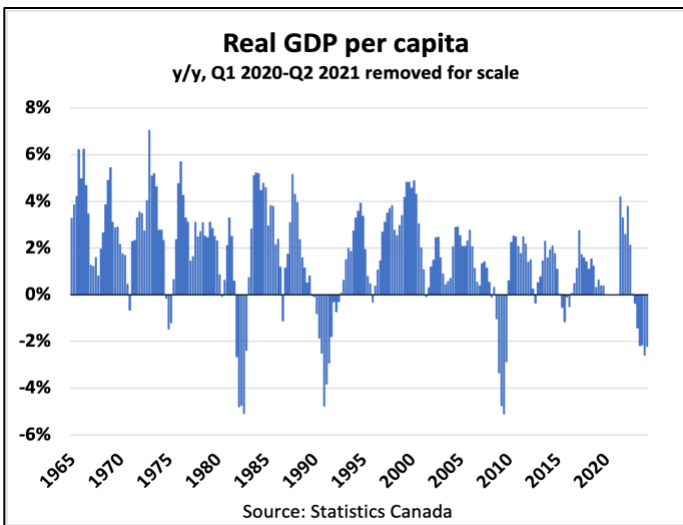


To frame it differently, real GDP increased by \$12.5B sequentially in the second quarter. Government consumption expenditures rose by \$7.6B and government capex was up \$2.5B. In other words, 80% of the increase in output came from government spending.

Even with that boost, per capita GDP was negative again on the quarter, the 7th decline in the past 8:



And it remains -2% y/y, a level of decline only ever seen in prior recessions:



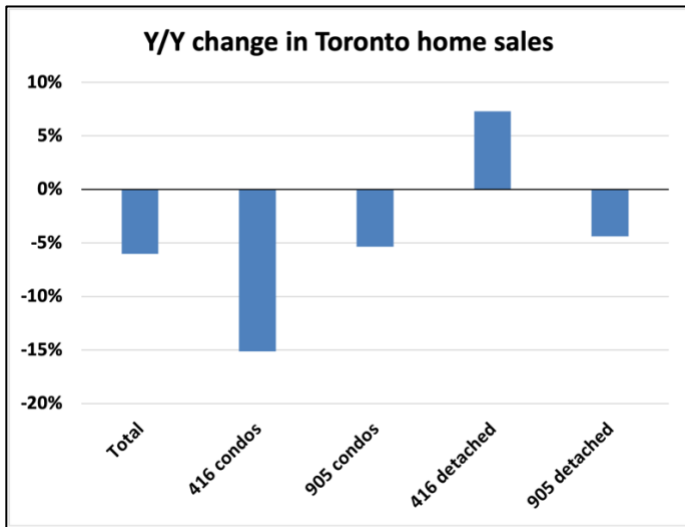
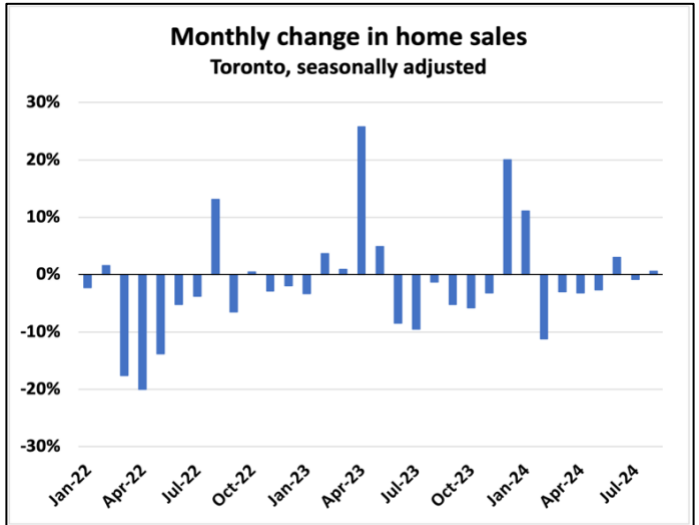
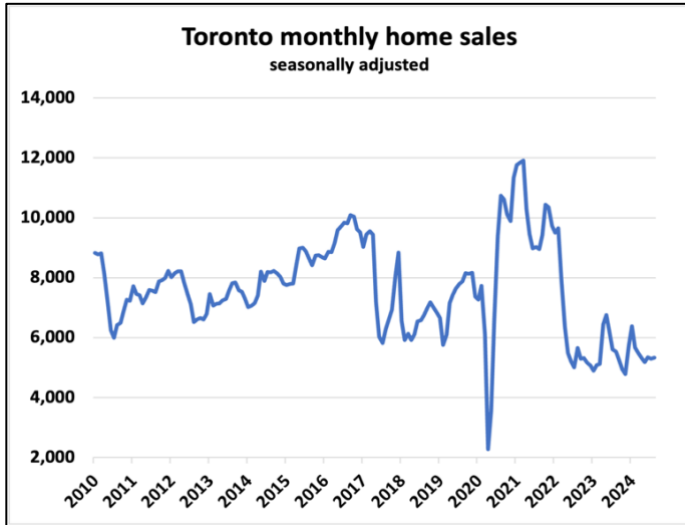
Key takeaway: We have a bit of a foot race between the offsetting factors of falling mortgage rates and a deteriorating economic backdrop.

I think over the next few months, falling rates should push seasonally adjusted home sales up 10-20% through year-end. Beyond that, it becomes a matter of how deep the economic downturn ends up being.

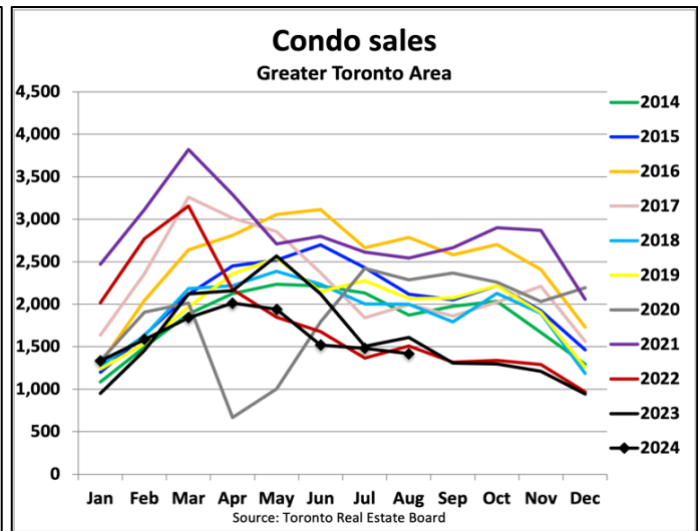
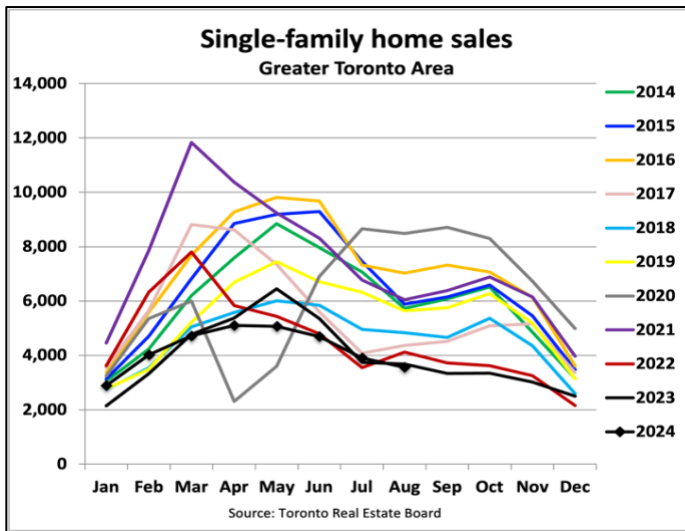
2) Toronto update: Sales tick up, mortgage arrears spike

Small uptick in demand

Seasonally adjusted home sales in Toronto ticked up 0.6% m/m in August with an upward revision to the July data to boot. Still that left sales down 6% y/y overall and down 15% in the condo segment in the city proper:



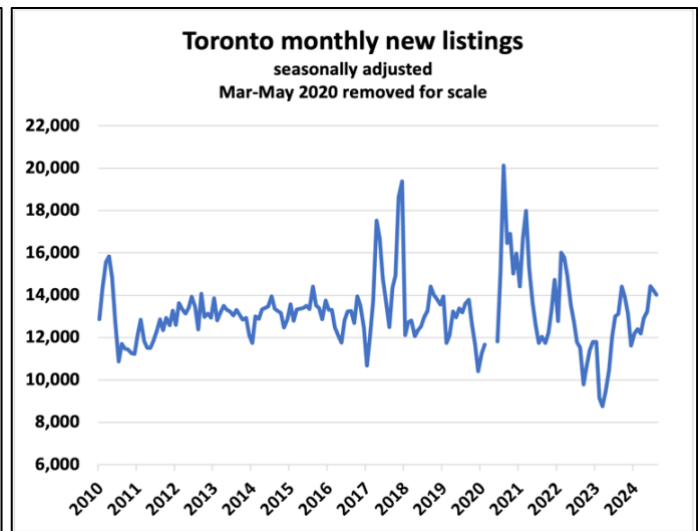
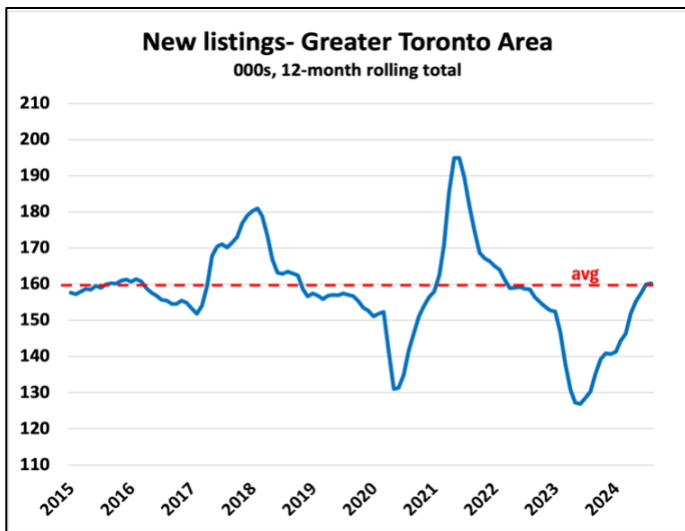
Both the condo and single-family segments registered the lowest number of sales for any August going back 25 years:



New listings decline

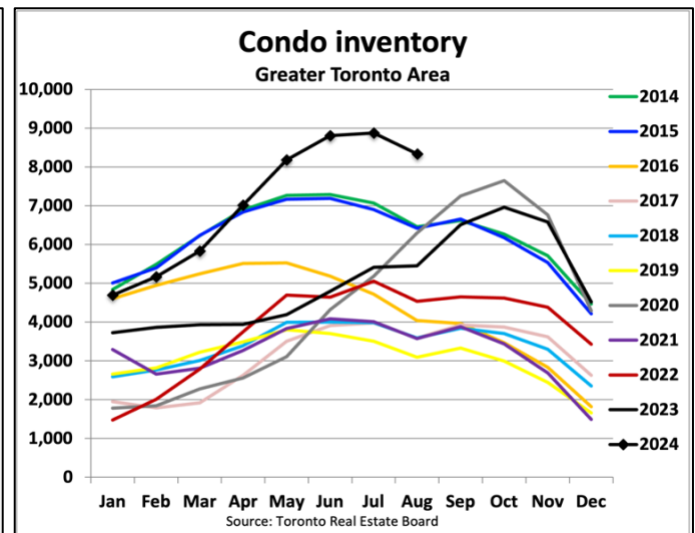
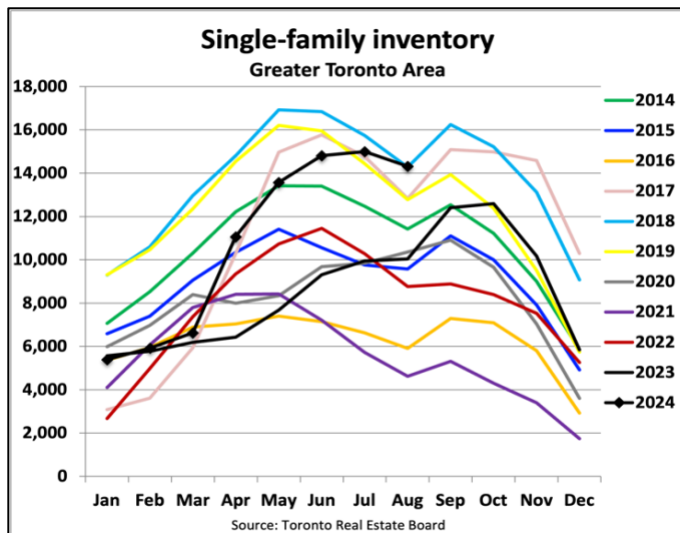
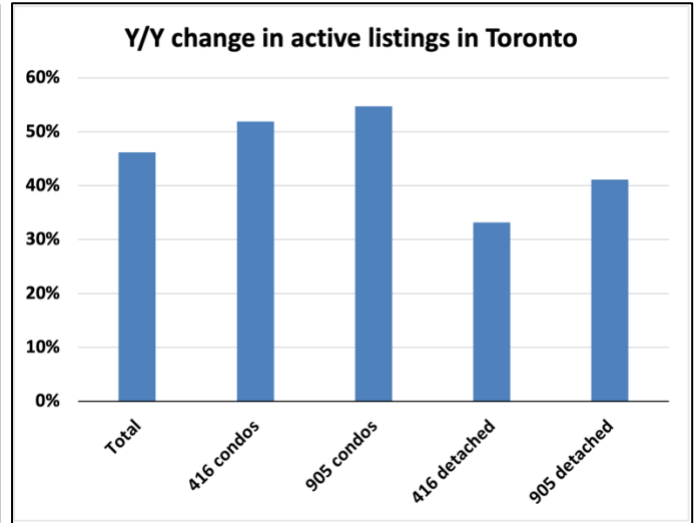
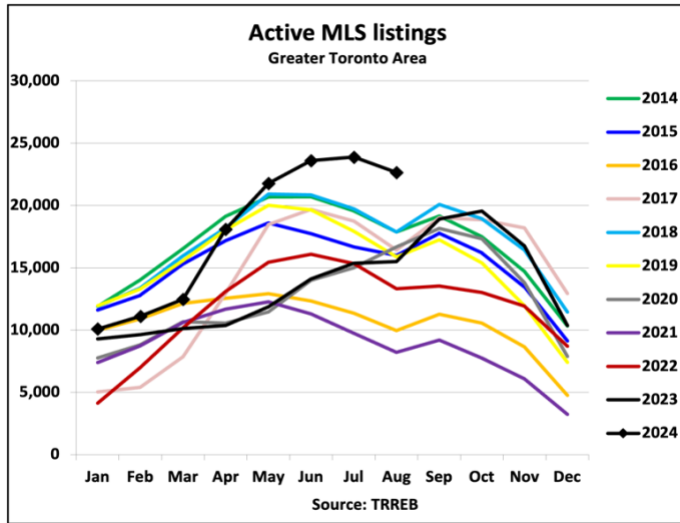
The uptick in seasonally adjusted sales was not unexpected, and I think we'll see a decent bounce in sales through year-end. Mortgage contacts tell me that there has been a notable uptick in pre-approvals in recent weeks, which should show up as sales in coming months.

However, I had expected a strong bounce in supply, and that did not materialize last month. Seasonally adjusted new listings were down 1.6% on the month, but I still think we'll see a sizable uptick through year-end given that we're coming off of 18 months of below-average listings:



Supply remains elevated

Active inventory was up 46% y/y across the GTA and remains at the highest levels since 2008 overall. For the condo segment specifically, inventory remains at record highs for the month:

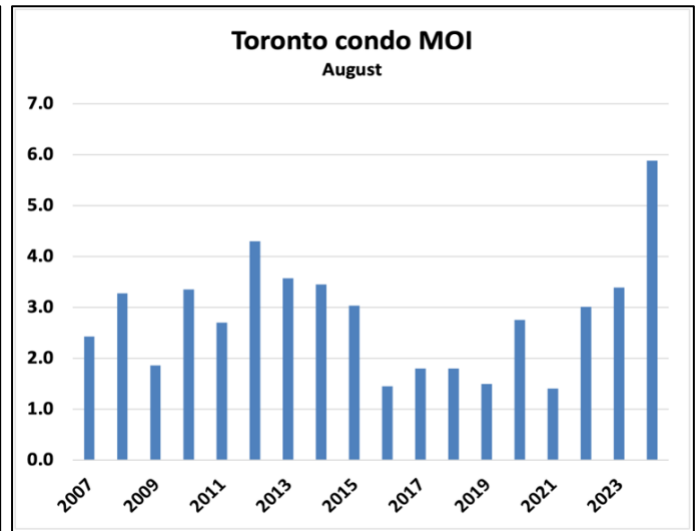
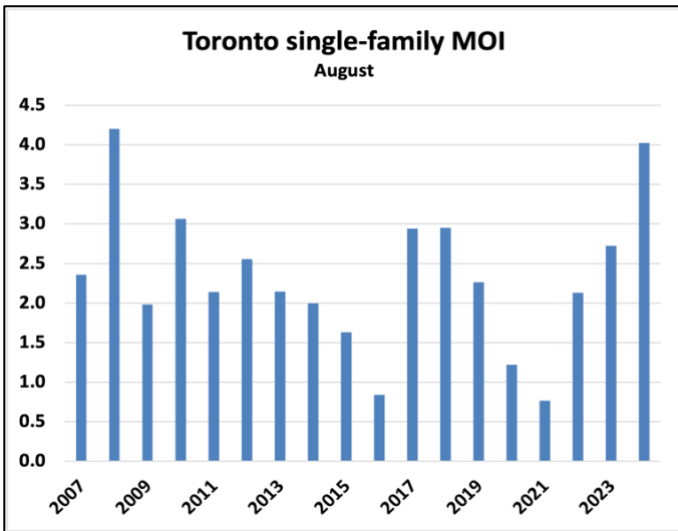


Market balance deteriorates

The sales-to-new listings ratio remains below 40%....a level that historically has seen significant price declines:



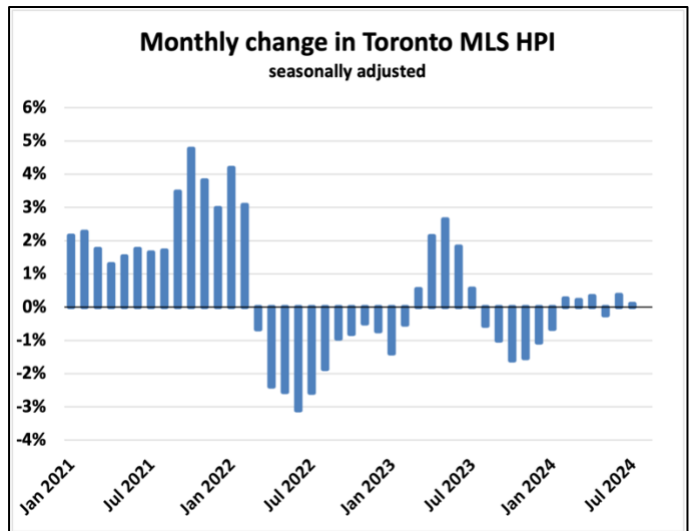
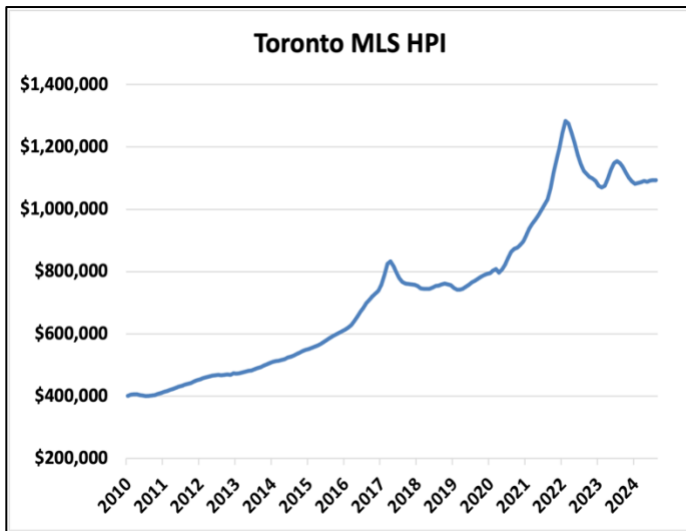
Months of inventory also point to one of the weakest markets on record, with the condo segment at the highest reading ever and the single-family segment at the highest since 2008:



Prices hold firm

In this market, having prices hold flat in the face of deteriorating supply/demand balance should be considered a win.

That's what we got in August as the MLS HPI was flat after adjusting for seasonality. Prices are effectively unchanged over the past 4 months. Still, I have to think that if the market does not start to tighten before the winter, we could see prices start to grind lower again:

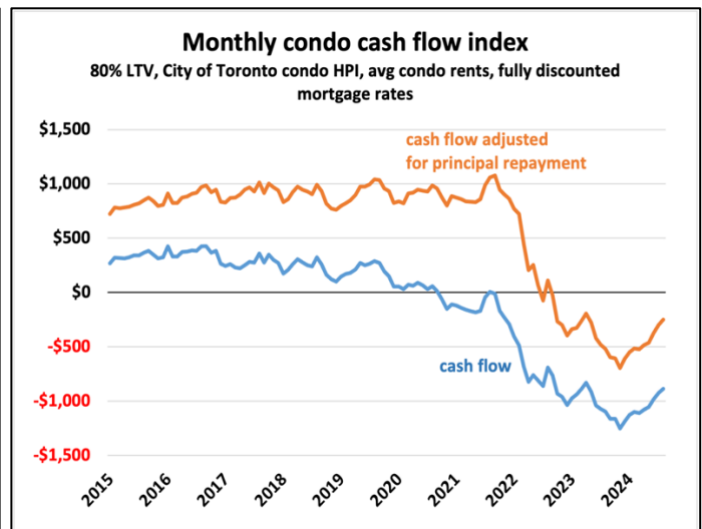
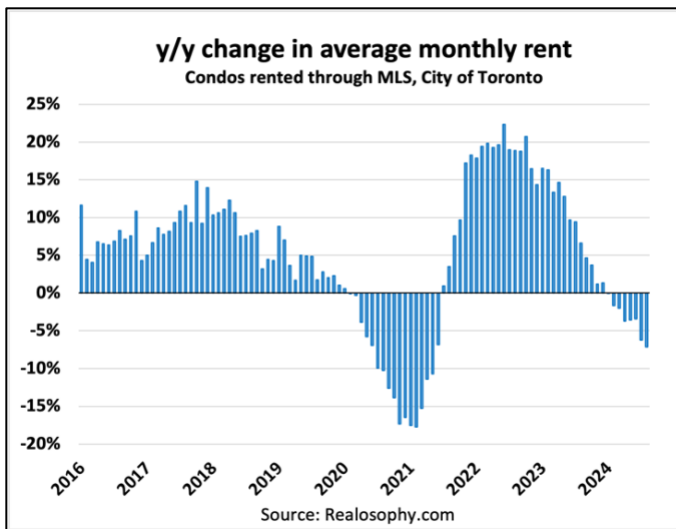


Condo rents decline, but fundamentals actually improve

The condo market remains the weakest segment, in part due to the absence of investor demand. It has not been easy for investors of late. Condo rents were down 7% y/y in August as the ongoing impact of high completions continues to pressure the rental market.

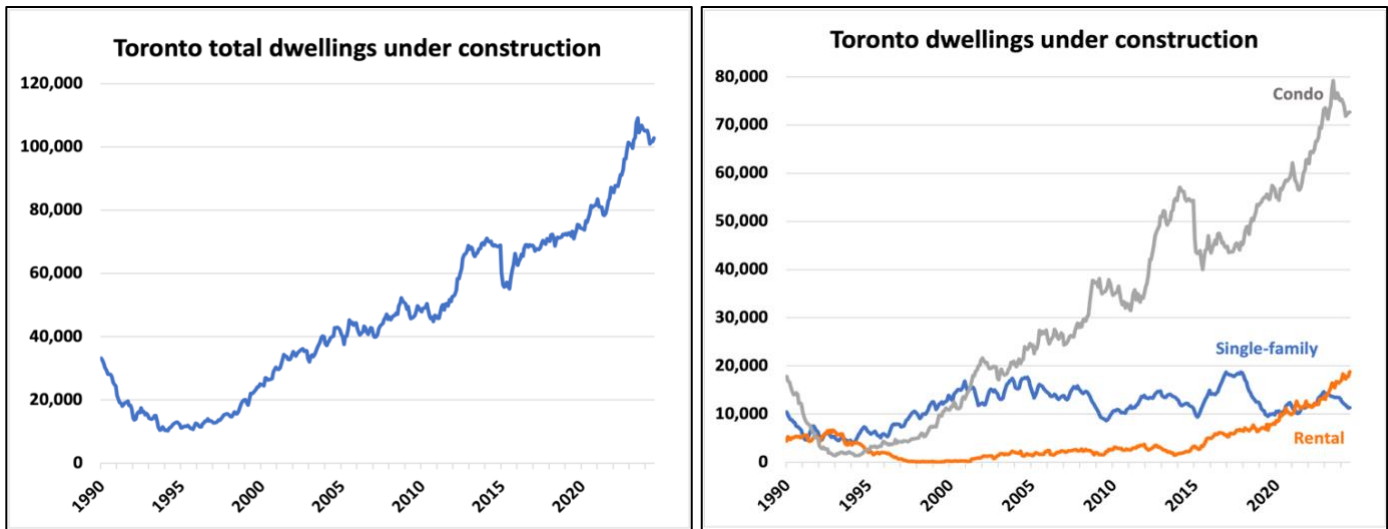
There is good news however; In spite of a soft rental market, cash flows are improving as a function of falling prices and declining mortgage rates. My cash flow index points to negative cash flow on a unit purchased today and financed at 80% LTV, but the monthly burn rate is now less than half of what it was in late 2023.

At a minimum, this index has to return to positive territory before investors return in size. I think that will happen early next year if rates decline as I expect:



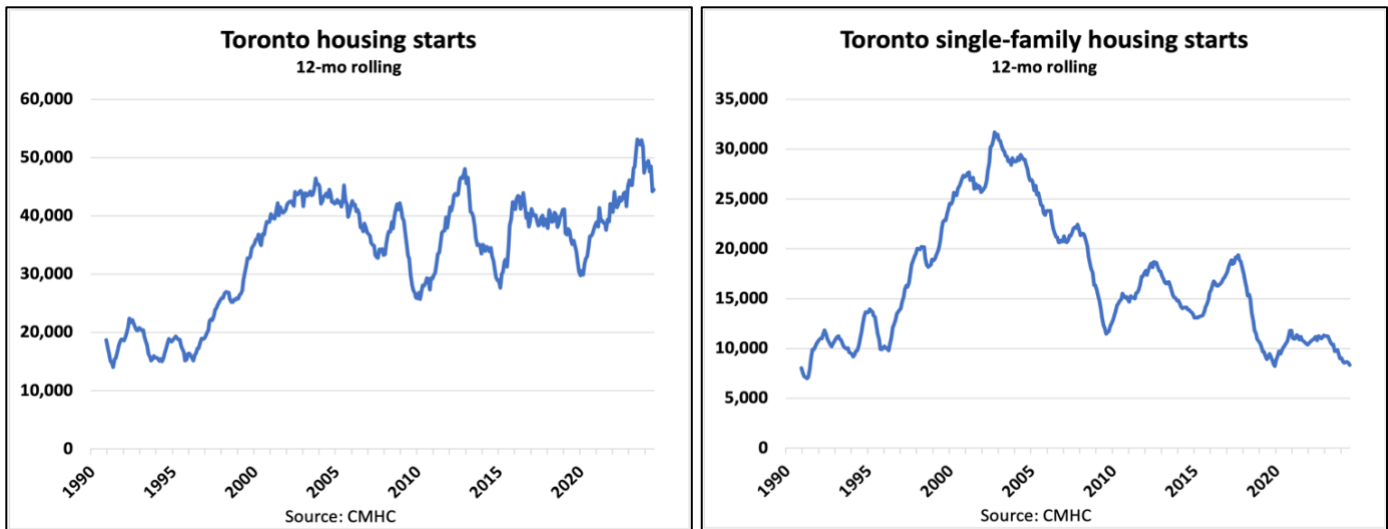
Construction activity ticks up on rentals

The number of dwellings under construction across the GTA rose 1.1% in July on the back of a 5.5% surge in rental construction activity. There are 103,000 total dwellings in the construction pipeline across the city, but only 11,000 are single-family vs 73,000 condos and 19,000 rentals:

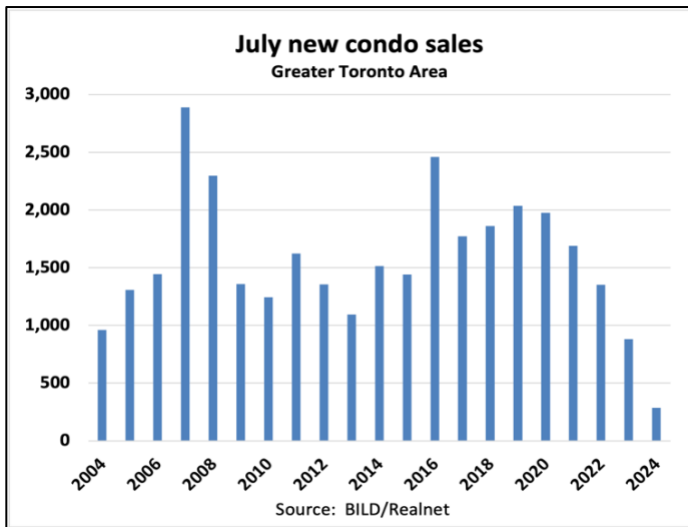


Housing starts were up 6% y/y in July but this too was led by a surge in rentals which registered the highest number of starts of any month going back to at least 1990.

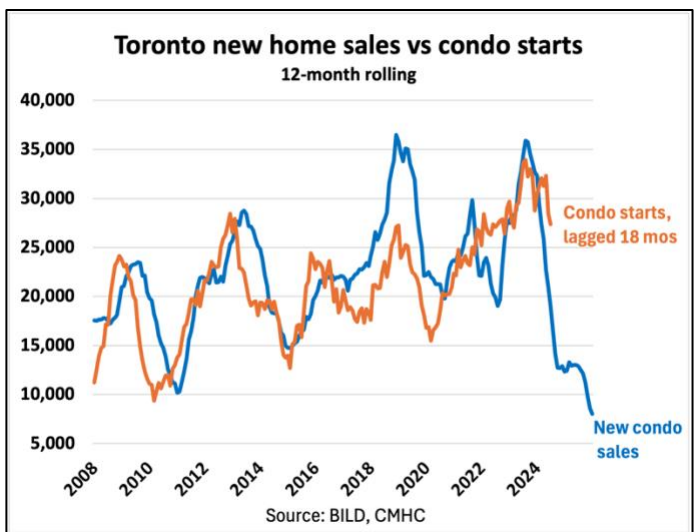
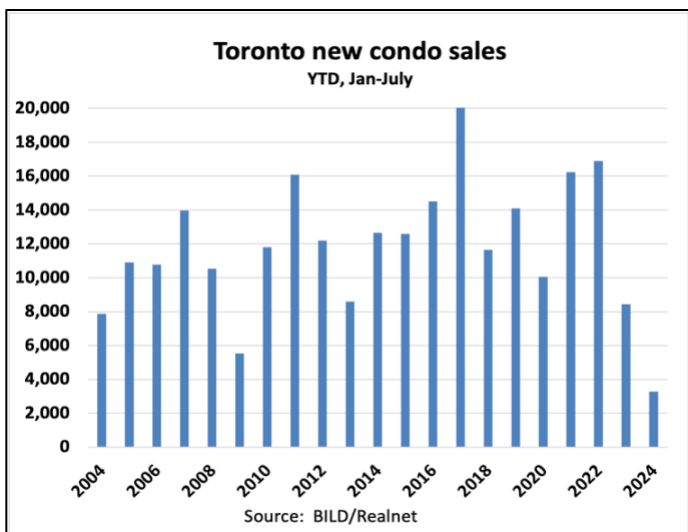
Of note, we've now seen only 8,300 single-family housing starts in the past 12 months. That's about to break below the 2020 lows (when the entire world was literally shut down) and fall to 30-year lows. **If it's not clear, this is what future supply shortages are made of!**



I continue to believe that we are on the precipice of a major slowdown in housing starts led by declining condo construction activity. Here I would point to the absolutely atrocious July new condo sales which came in at 287 for the month...down 67% y/y and down 83% from 2021 levels. As to how that stacks up compared to prior July levels...see below. Yikes!

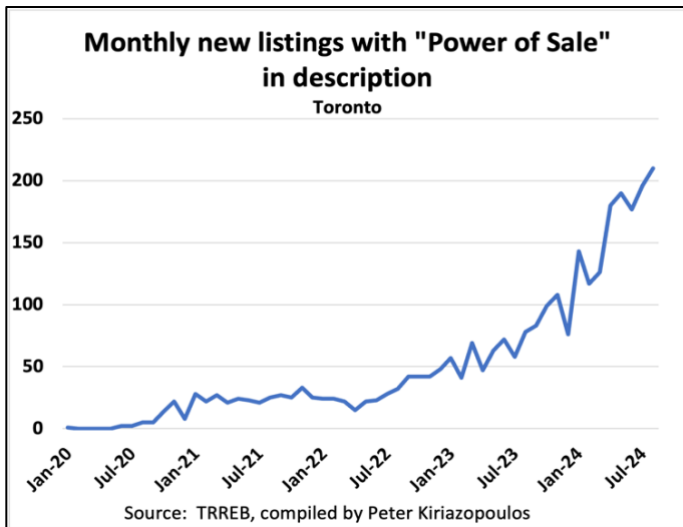


That puts the year-to-date total at just 3,300 units. The next closest over the past 20 years was 2009 at 5,500. Since new condo sales lead starts by roughly 18 months, we can expect that condo starts will basically fall off a cliff over the next year or so. We're in the Wile E Coyote moment where he's run off the cliff but hasn't felt the impact of gravity just yet:



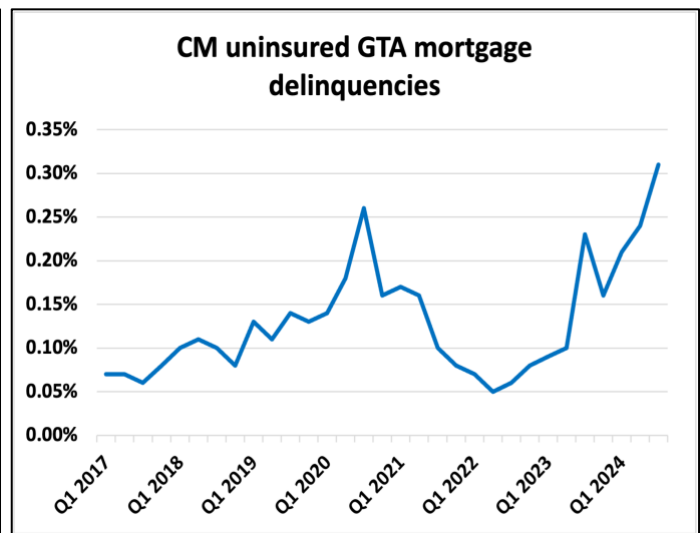
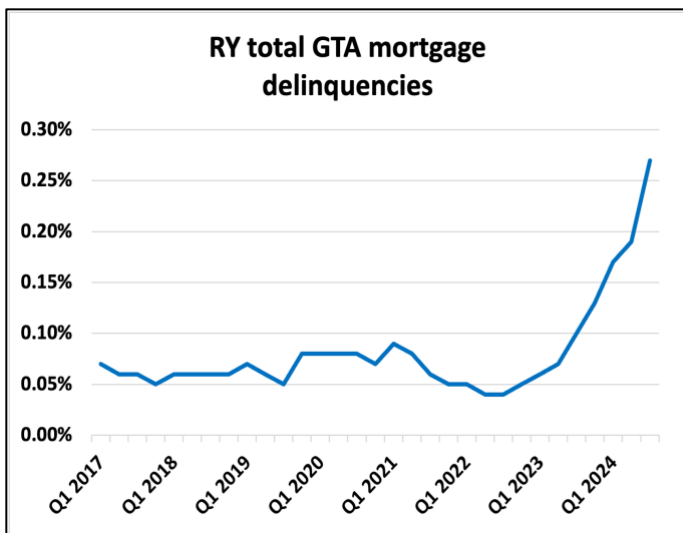
Power of sale listings jump

Thanks to good friend of Edge Analytics, Peter Kiriazopoulos, for the ongoing power of sale data. There were 210 new listings with “power of sale” in the description last month, the highest in at least 4 years:

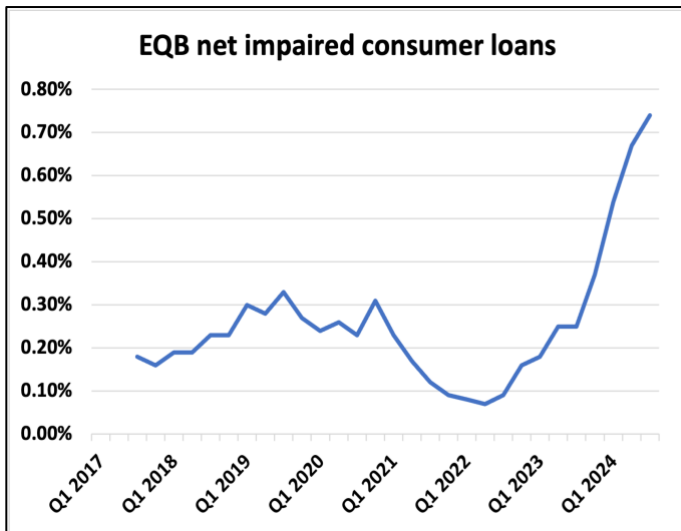


Most of the consumer credit data in Canada can best be described as “normalizing, but not alarming”. That’s true of auto loans, credit cards, and consumer insolvencies.

But the most concerning charts out there right now relate to the trend in mortgage delinquencies in Toronto. Consider the data below from RBC (stock ticker RY) and CIBC (stock ticker CM), the only two banks that disclose GTA-specific loan data:



And things are no better at EQB, which prides itself in lending primarily in southern Ontario:



In the case of RBC and CIBC, most of their consumers have not yet felt the full impact of higher rates. It's a bit surprising that their Toronto loans would be deteriorating so much faster than the rest of the country.

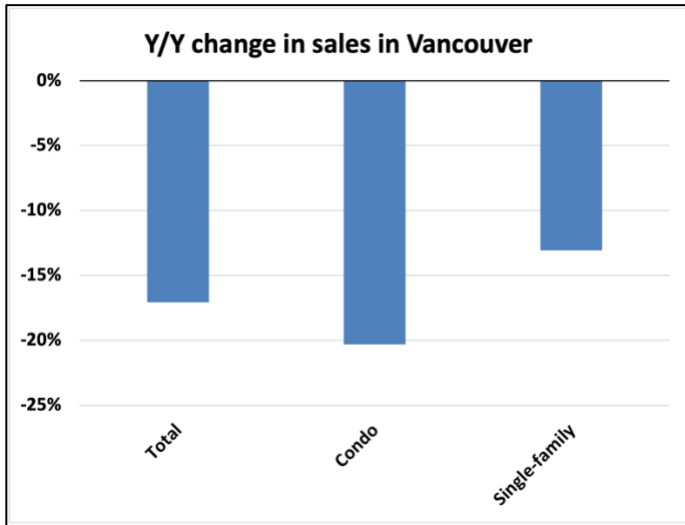
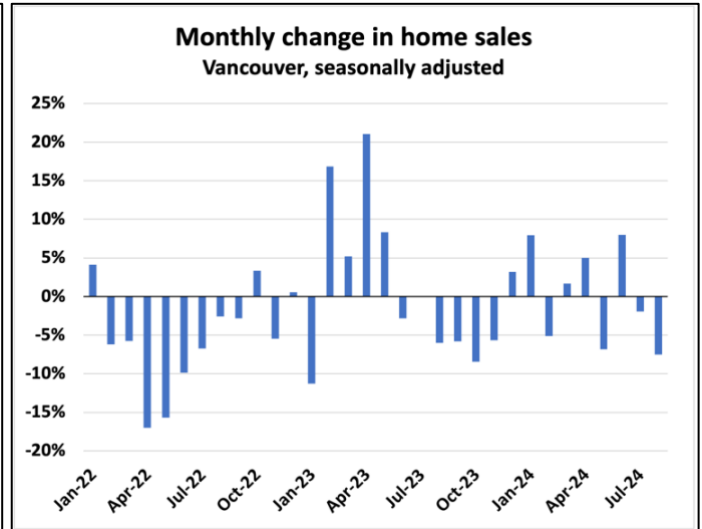
If the culprit is rising unemployment, expect it to get worse from here. The unemployment rate in the GTA jumped to 8.8% in August from 7.7% previously. Outside of the pandemic, that's the highest unemployment rate since 2012:



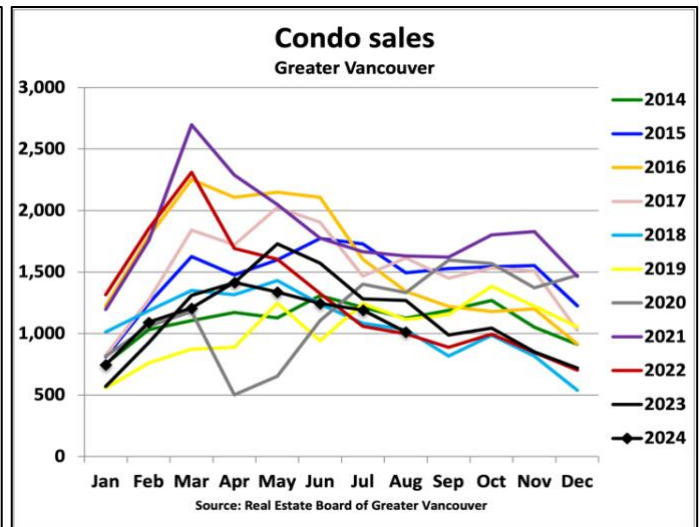
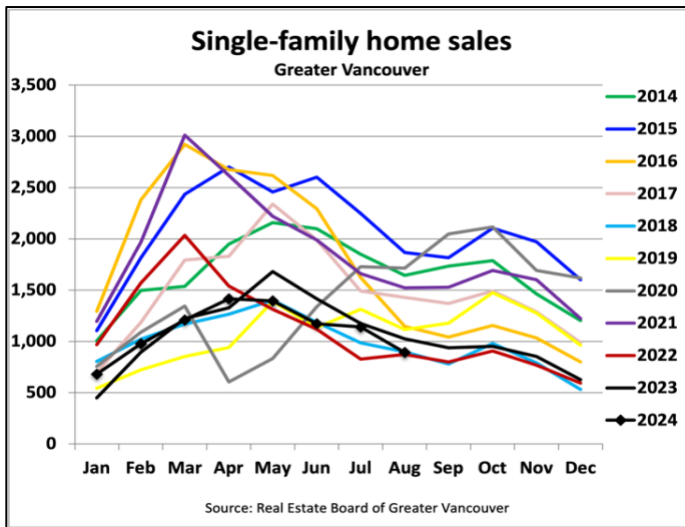
3) Vancouver home sales fall, prices hold firm in August

Sales slump in August

Seasonally adjusted home sales across Vancouver plunged an estimated 7.5% in August and were down a whopping 17% y/y (-20% condos):

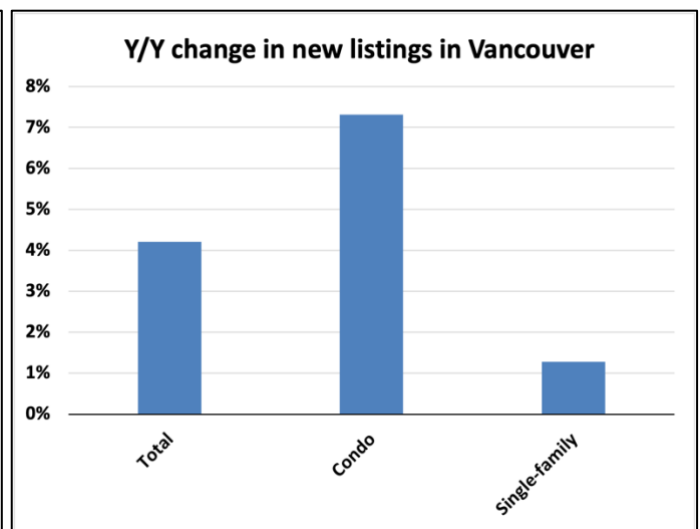
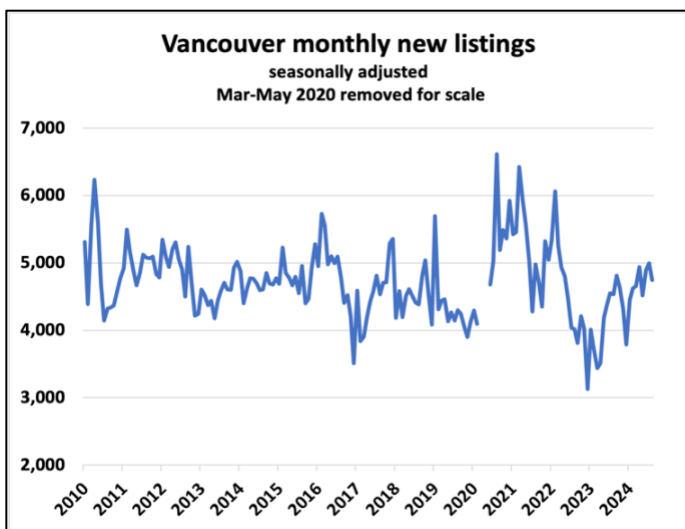


Sales across all segments were trending towards decade lows for the month:

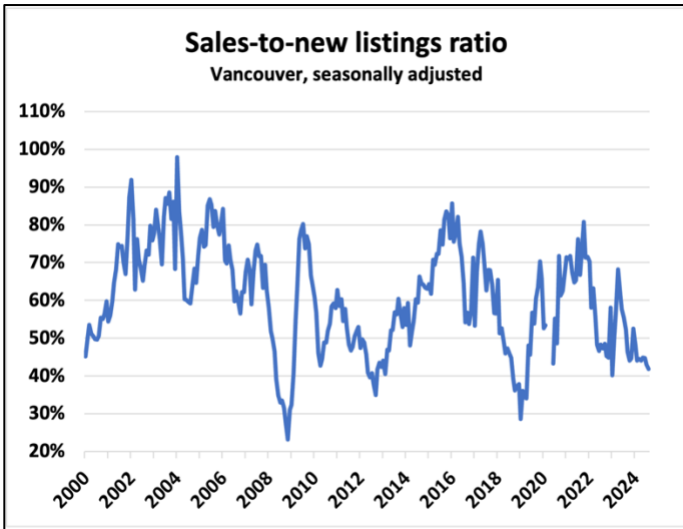


New listings fall

New listings were also down last month at -5% m/m. That left them just slightly above year-ago levels at +4.1% overall and +7.3% for the condo segment:

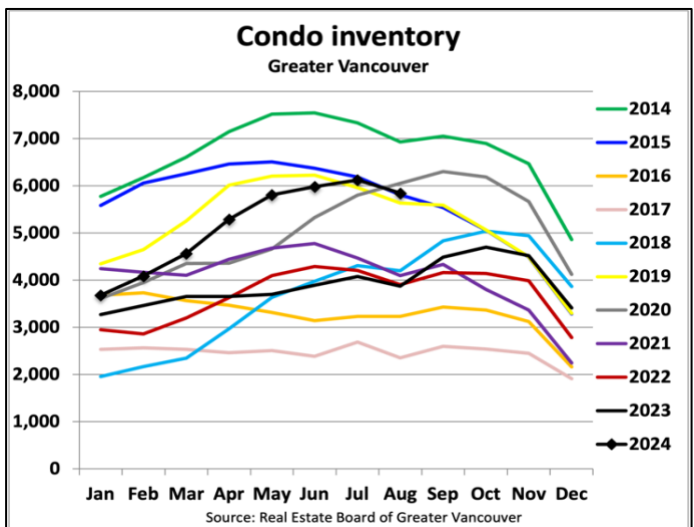
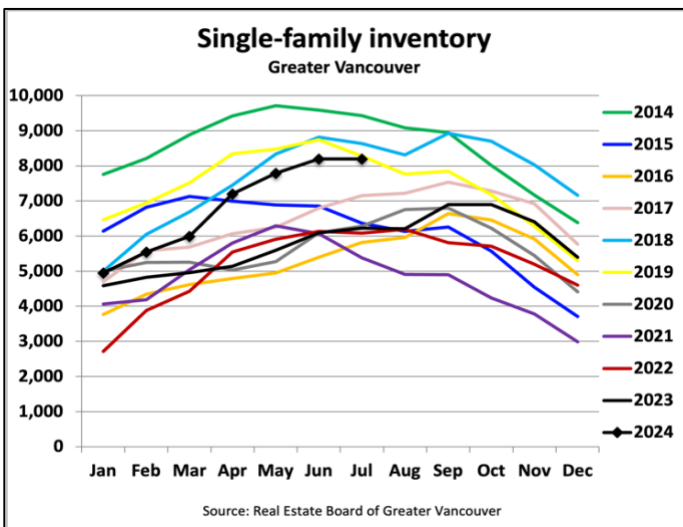
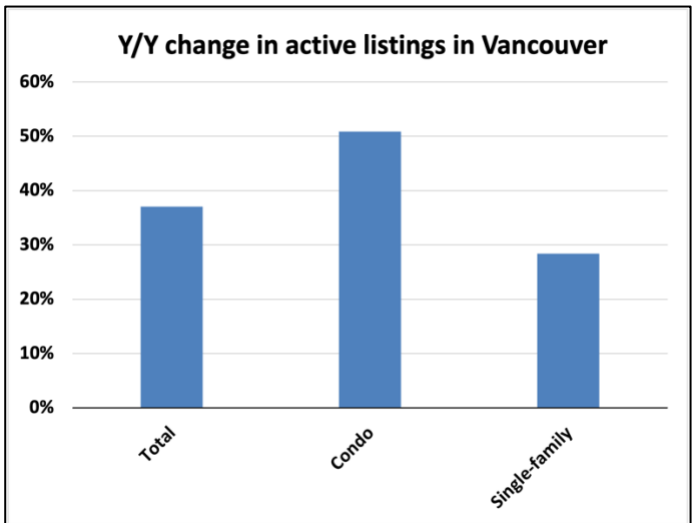
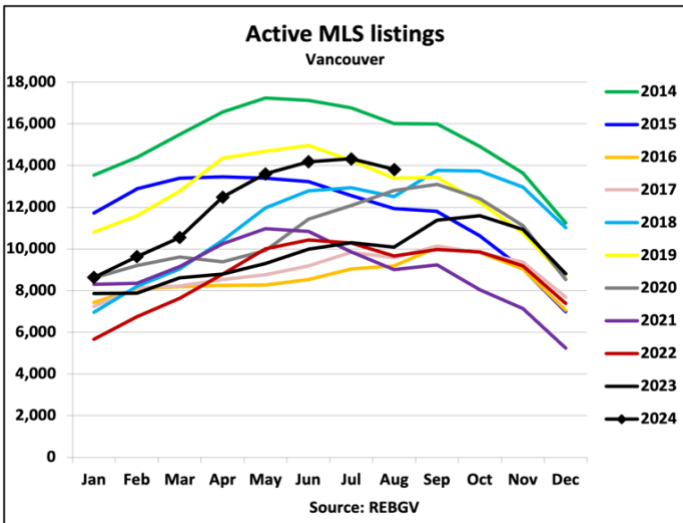


With sales declining faster than new supply, the sales-to-new listings fell again last month and is holding just above 40%...a level historically consistent with price declines:



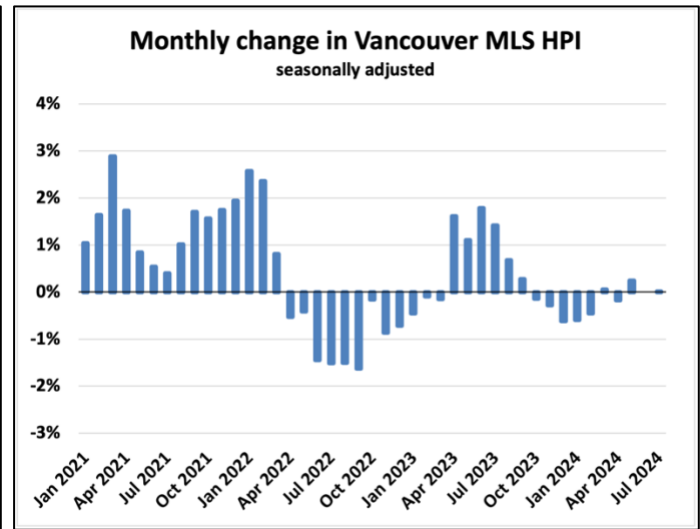
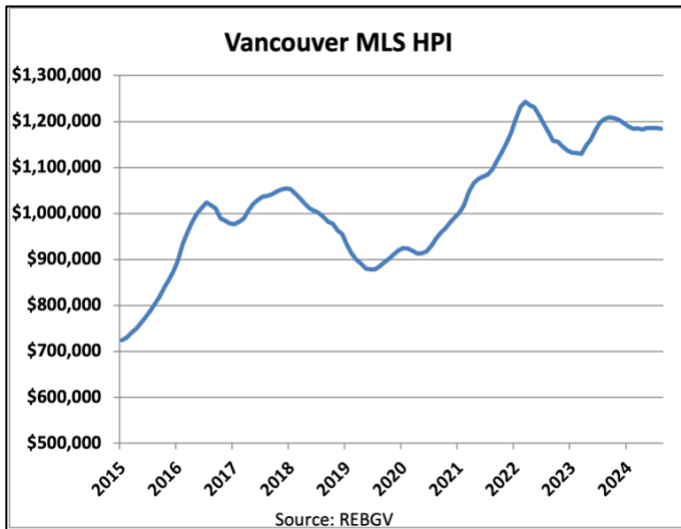
Inventory rises

Active listings were up 37% y/y and 50% in the condo segment:



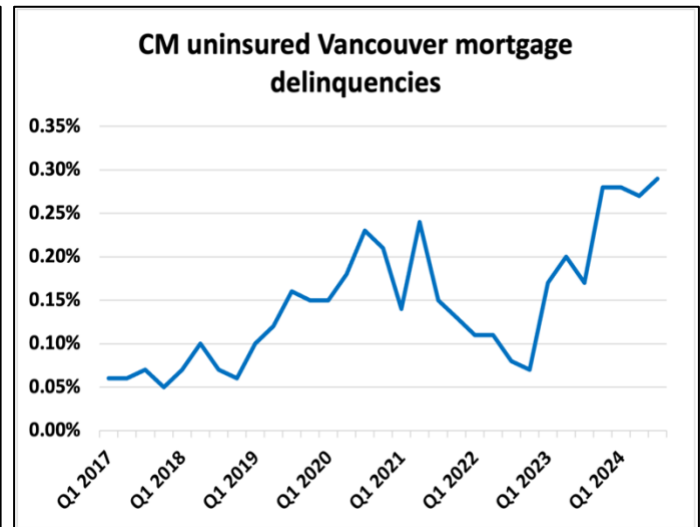
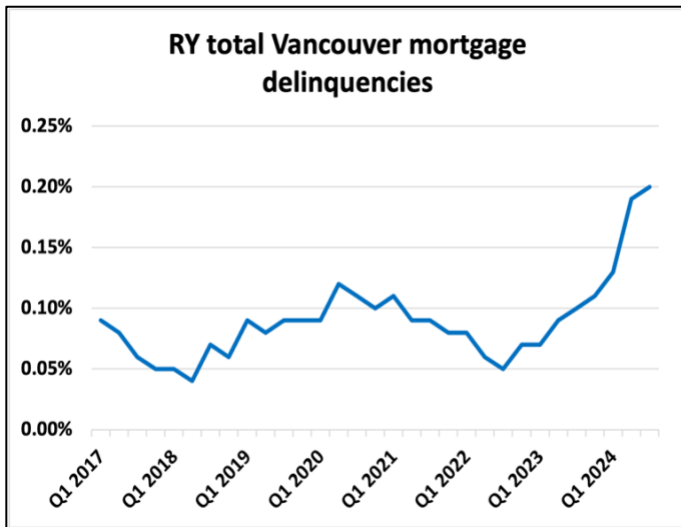
House prices flat in August

House prices were unchanged last month according to the MLS HPI and are still effectively flat from 2021 levels, but here too I would caution that the market balance needs to tighten in coming months to avoid further price declines this winter:



Mortgage arrears rise

It's not quite as alarming as the trend in Toronto, but we are seeing a definite upward drift in mortgage arrears at RBC and CIBC:

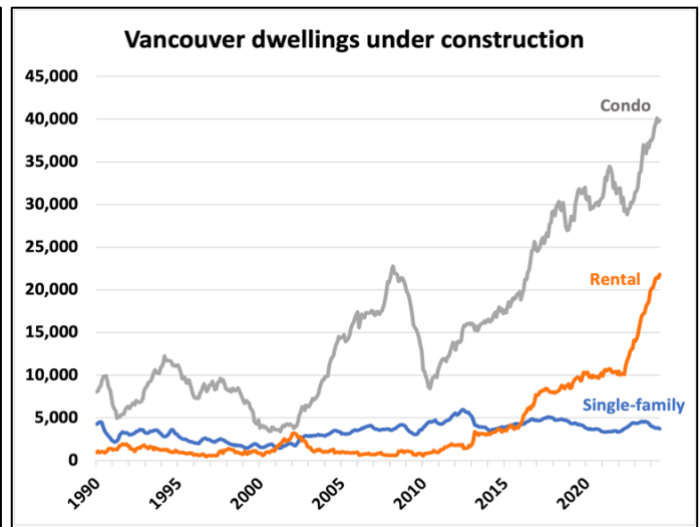
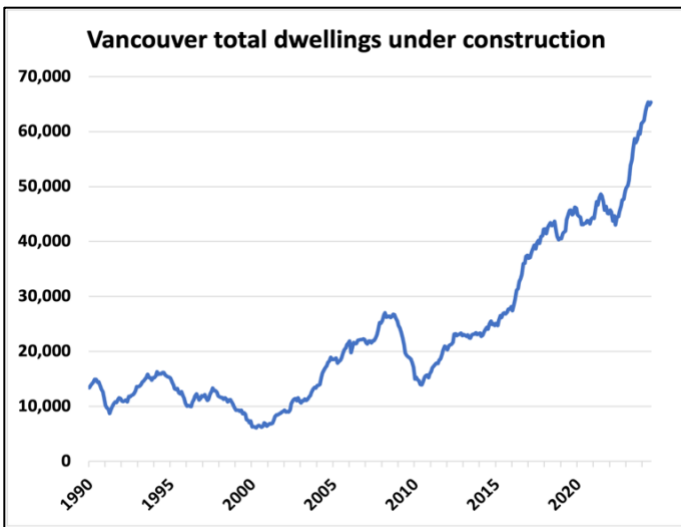


The unemployment rate has been on the move across the metro region and hit 6.3% in August. Outside of the pandemic, that's the highest rate since 2015:

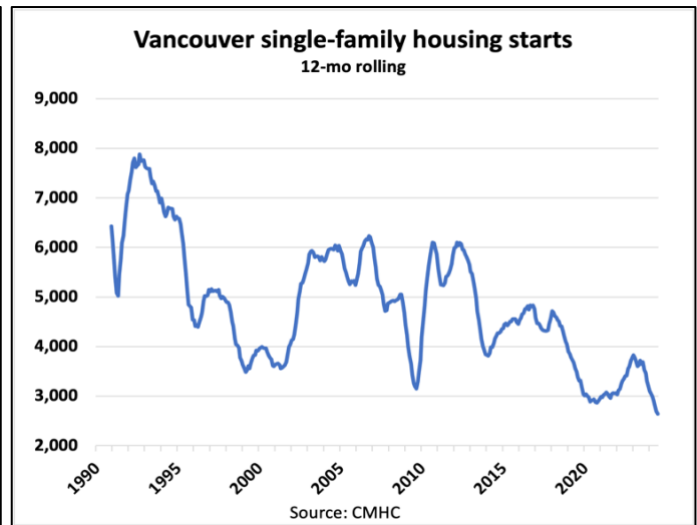


Construction activity rises in July

The number of dwellings under construction rose 0.9% m/m in July. There are now 65,000 dwellings under construction across the metro region, but only 3,700 are single-family vs 21,800 rentals and 39,900 condos:



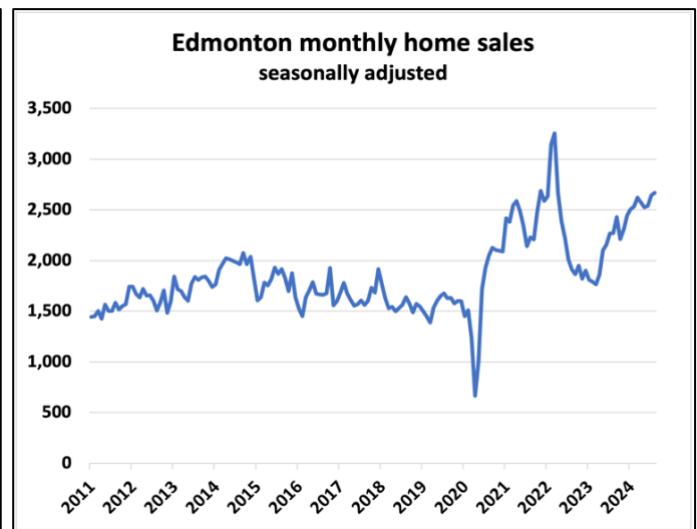
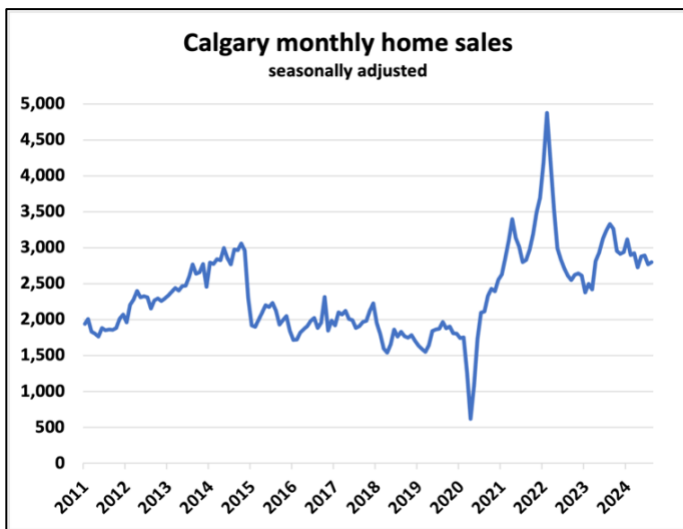
Housing starts were down 15% y/y and down 20% for single-family. We've now had only 2,600 single-family starts over the past year, the lowest tally in the past 30 years by a wide margin. The single-family market may be soft now, but it's hard not to be optimistic on the prospects over the longer term when almost NO NEW supply is being added to this market.



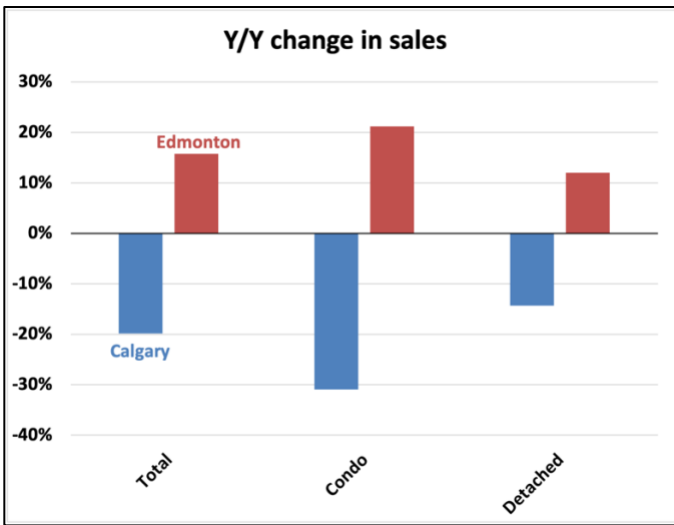
4) Edmonton and Calgary markets start to diverge

Demand remains solid

Both Calgary and Edmonton saw seasonally adjusted home sales tick up in August, but you can see from the charts below that Edmonton is really starting to gain momentum even as Calgary starts to stall out a touch:



Where things get interesting is in the y/y trend. Calgary saw 20% fewer sales last month than in August of 2023 (albeit off a record month last year) while sales in Edmonton were 16% higher:

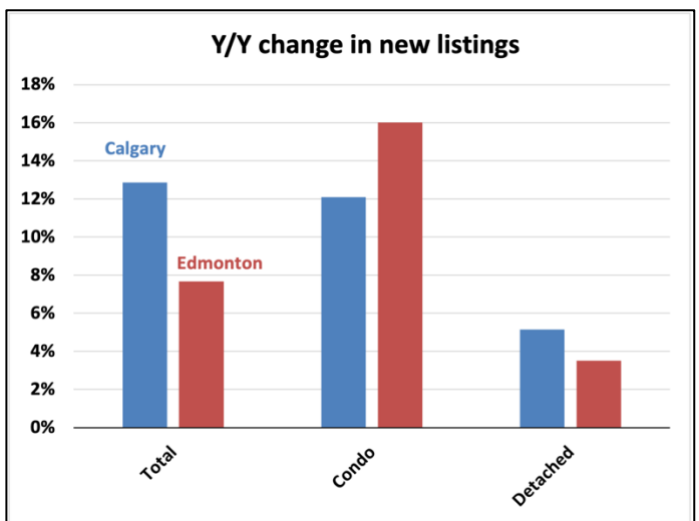
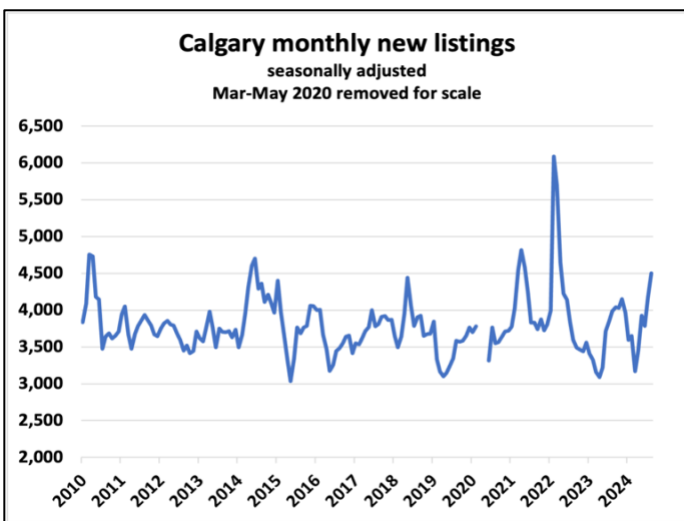


For Calgary, the pullback in condo sales, which were off by 31% y/y, is particularly notable:

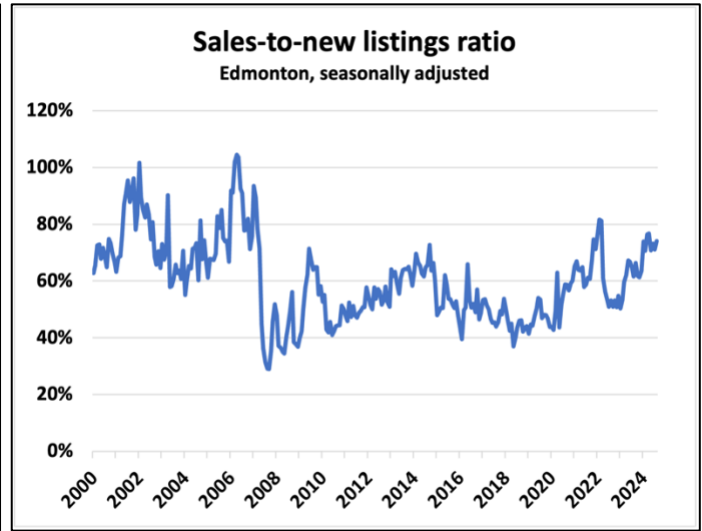
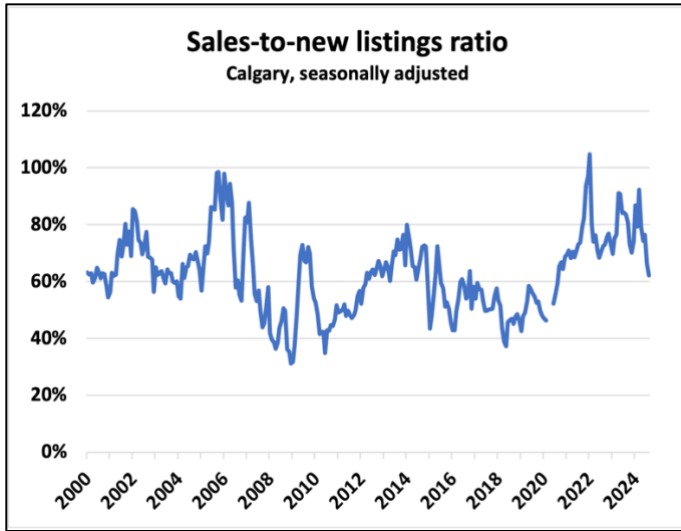


New listings surge

Seasonally adjusted new listings jumped by nearly 8% m/m in Calgary, and they were up nearly 13% relative to 2023:

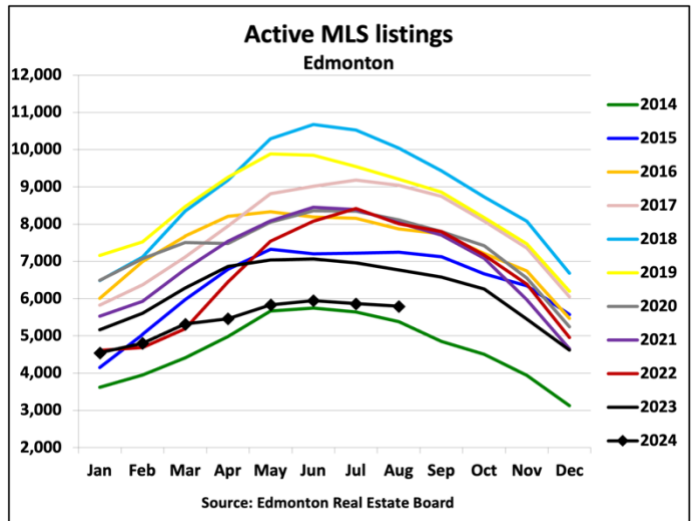
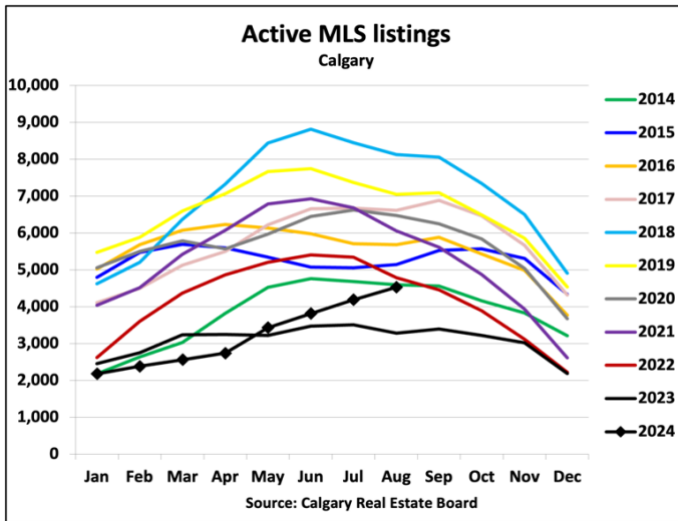


We've seen a sharp pull-back in the sales-to-new listings ratio in Calgary in recent months. It's currently sitting at 62%, which is nothing to sneeze at...especially with Toronto and Vancouver in the 40% range. But it does represent a notable slowdown off the near 80% clip we saw from 2023 through to early 2024, and it's now well below Edmonton which came in at 74% last month:

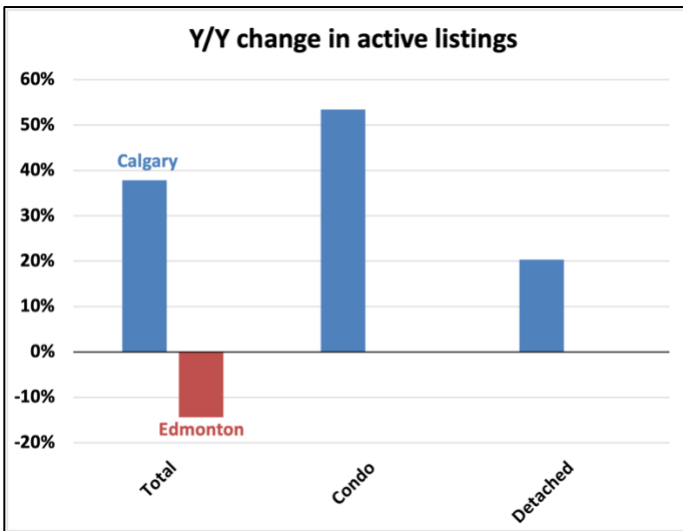


Inventory rises in Calgary

The most notable divergence between Calgary and Edmonton is in active listings. Calgary is now firmly on an upward trajectory -which this publication predicted would be the case this spring- while Edmonton continues to bump along near decade lows.

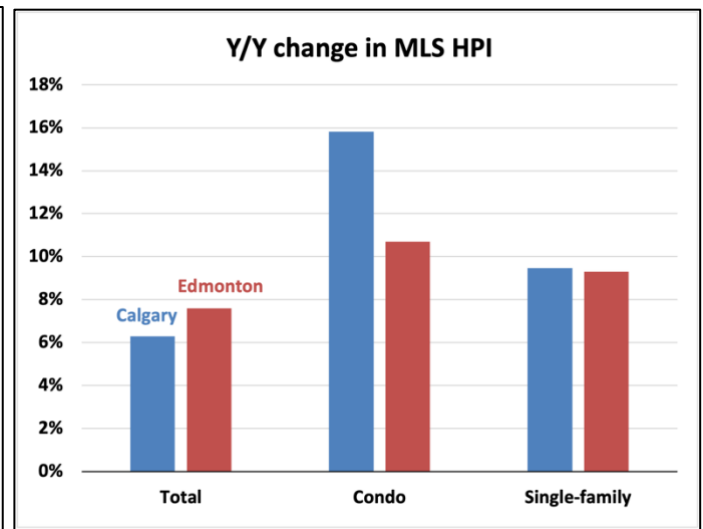
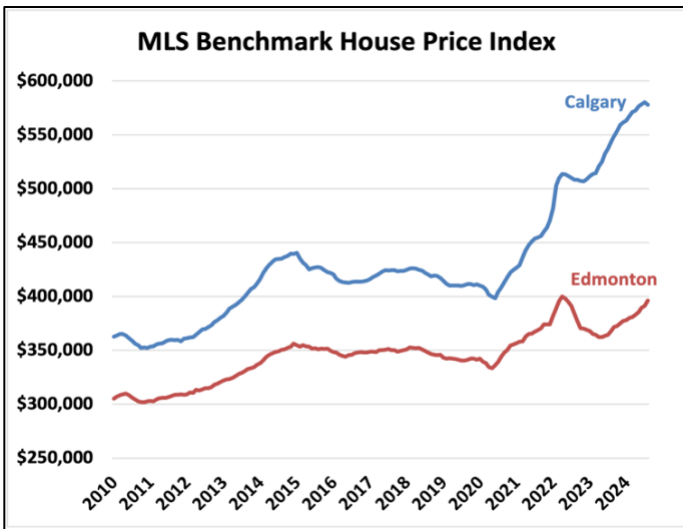


The y/y trend is striking, with Calgary seeing 37% more listings overall and 54% in the condo segment vs a 15% decline in Edmonton:

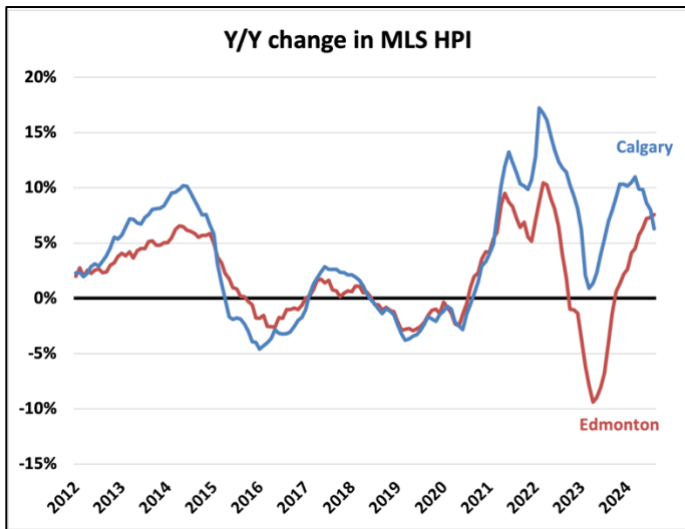


Edmonton overtakes Calgary for price appreciation

Prices continue to rise in both metros:

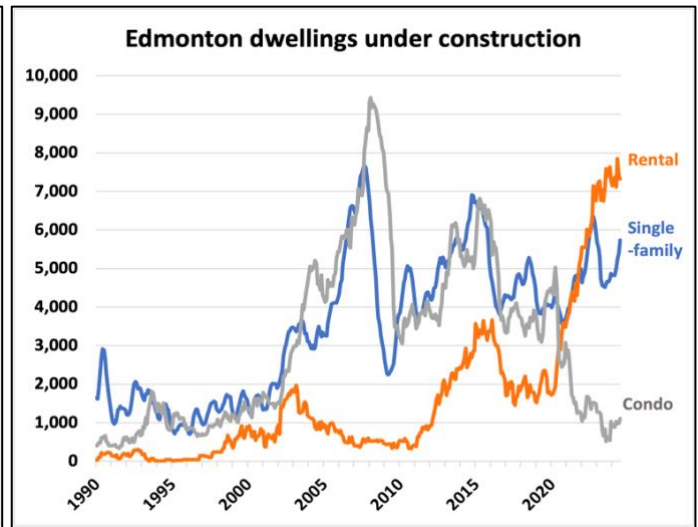
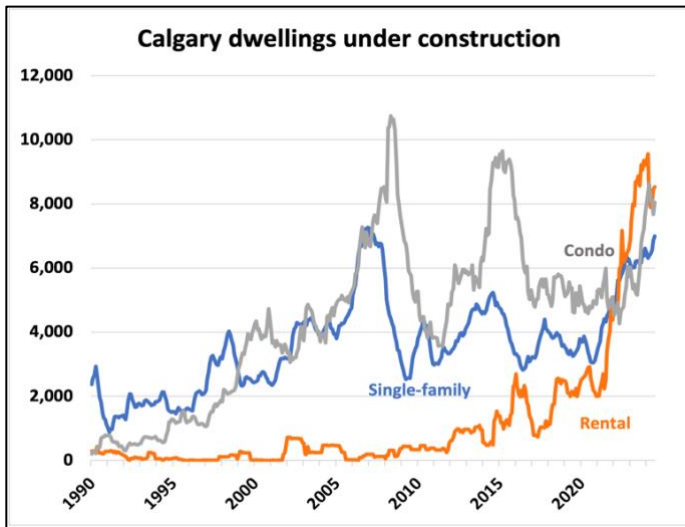


BUT, for the first time since 2014, Edmonton is now leading Calgary when it comes to annual price appreciation....also as predicted here back in June. I think there's a lot of room here for Edmonton to run.

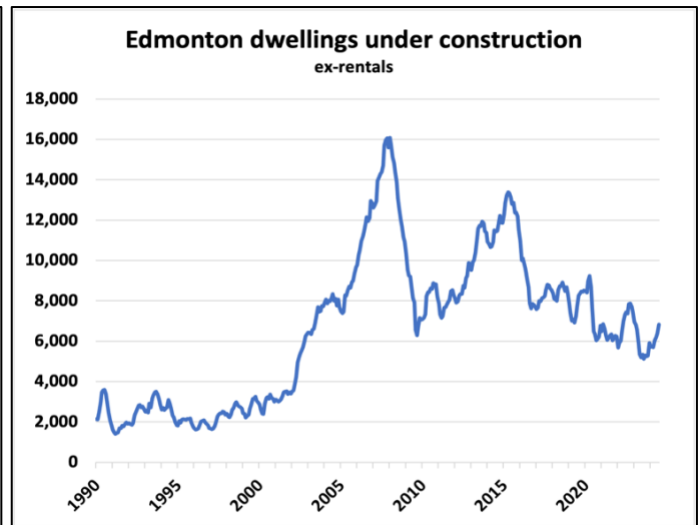
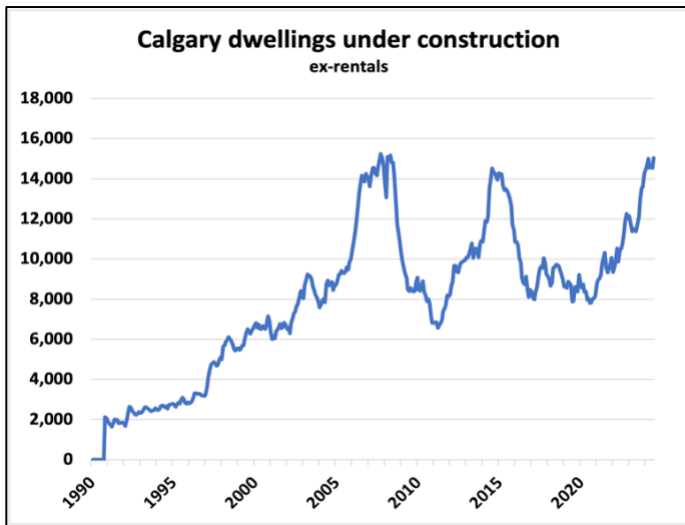


Construction activity rises in Calgary and Edmonton

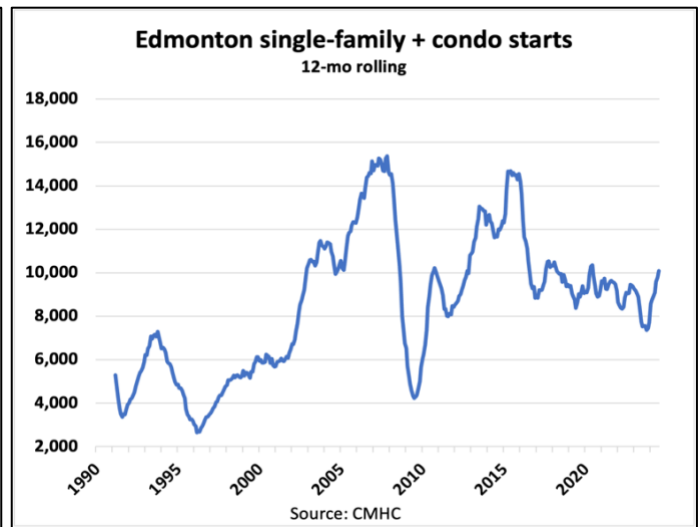
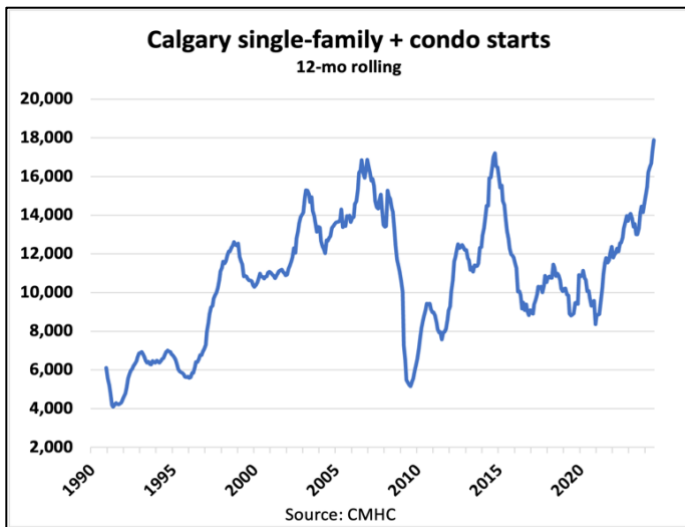
The number of dwellings under construction rose in both Calgary (+2.5%) and Edmonton (+2.6%) last month, both due to a sharp increase in condo construction:



My relative value call on Edmonton was predicated on the fact that developers had not yet started to respond to the tight resale market, while in Calgary they had. Those respective charts are below, and it still looks to me like Edmonton has more room to run than Calgary:



Housing starts tell a similar story. They were up a whopping 52% y/y in Calgary in July and up a more modest 9% in Edmonton. Backing out rentals to look at just condo and single-family starts (which ultimately can show up as resale supply as they complete) the trend here tells a similar story:



Bottom line: Developers are busy in Calgary, and much less so in Edmonton. All else equal, we should expect to see inventory build in Calgary through the remainder of the year and likely through next year as well. I'm not BEARISH on Calgary, but the easy money has probably been made....and that's alright. Hot, trending markets tend to attract hot money speculators and lead to bouts of volatility down the road. It's not a bad thing that Calgary's market moderates a touch after several years of scorching hot returns. The long-term fundamentals still look great. BUT...Edmonton is now the more interesting market for the time being.

Have a great day!
Ben