November 2023
Metro deep-dive: October data

Quick links:

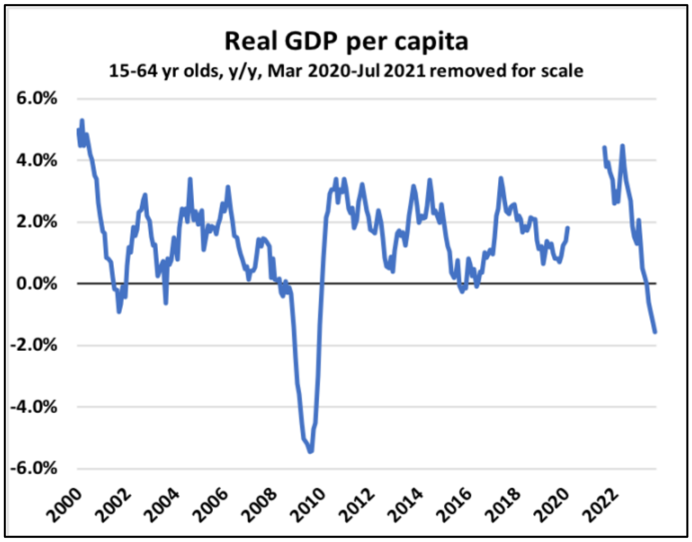
1) Macro commentary: Bond yields crack as economic slowdown gathers momentum

Economic slowdown gathers momentum

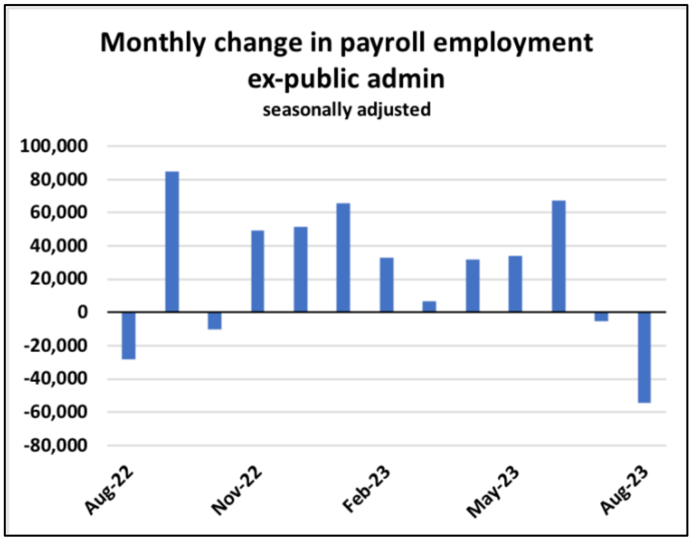
For the better part of the past year, I've had the view that rising interest rates would, in the course of time, cause a very meaningful slowdown in economic activity. It's taken longer to materialize than I expected, in large part due to the under-appreciated size of household pandemic savings (see last week's subscriber call for more on that), but it's now patently clear that the economy is not well.

Let's start with GDP. It was unchanged for the second consecutive month in August, with the advanced estimates for September coming in effective flat. That means we're looking at Q3 GDP in the 0% range (vs +0.8% expected in the BoC's latest Monetary Policy Report), and that follows on the heels of a very slight decline in Q2. In other words, it will likely come down to inventory adjustments to determine whether Canada slips into a "technical" recession when the Q3 data is released next month.

In per capita terms, GDP continues to trend lower and is now declining at a y/y clip last seen during the COVID downturn and the Financial Crisis prior to that. So by some measures, the recession is already here:



It's also starting to seep into the labour market. The latest payroll survey (known in Canada as the Survey of Employment, Payroll, and Hours or SEPH) registered a decline of 47,000 in August. And it was even worse if we strip out public admin, bringing total private sector job losses -54,000 m/m…the largest decline since 2009 outside of months associated with COVID-related lockdowns.



Even the notoriously volatile Labour Force Survey (which is less reliable than the SEPH but gets all the headlines) disappointed in October, registering an increase of 17.5k vs expectations of +25k m/m. Importantly, all new jobs created were part-time (full-time declined 3.3k), and actual hours- which matter more to GDP- were flat after slipping 0.2% in September.

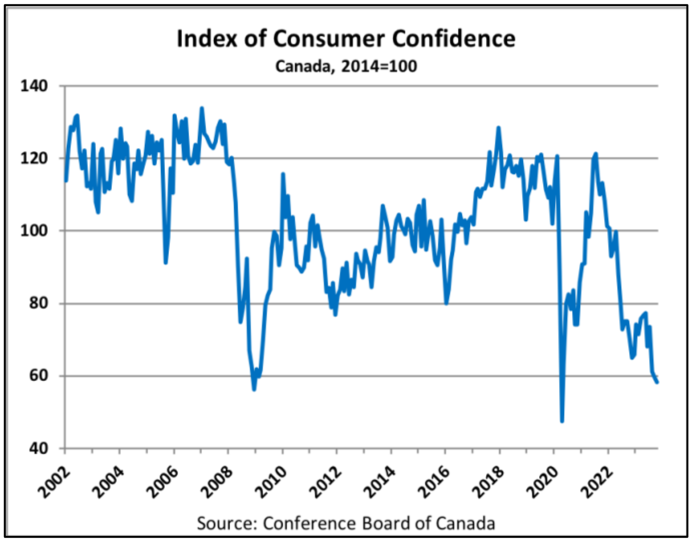
We also continue to see weak private sector job growth which was flat once again on the month and is down 40k over the past 4 months vs +86k for the public sector over the same time frame.

The big tell is in the unemployment rate which ticked up 0.2% in October and has now risen 0.7% in the past 6 months. A move of that magnitude has happened only 6 other times since the data started being collected in 1976. Of those 6 moves, 4 preceded recessions.

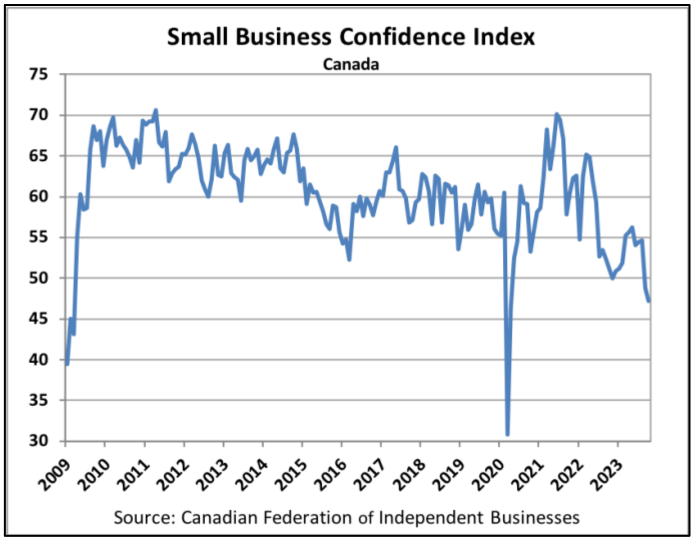
Meanwhile, the remarkable decline in consumer and business confidence continued in October.

Consider the Conference Board's Index of Consumer Confidence which fell another 1.4 points this month to hit 58.2….the second consecutive sub-60 reading.

To frame just how bad that is, consider that prior to the past 2 months, this index has been this low only 3 other months…Dec '08, Mar '09, and Apr '20. That's it! And in over 20 years, we've never seen back-to-back readings in the 50s until right now.

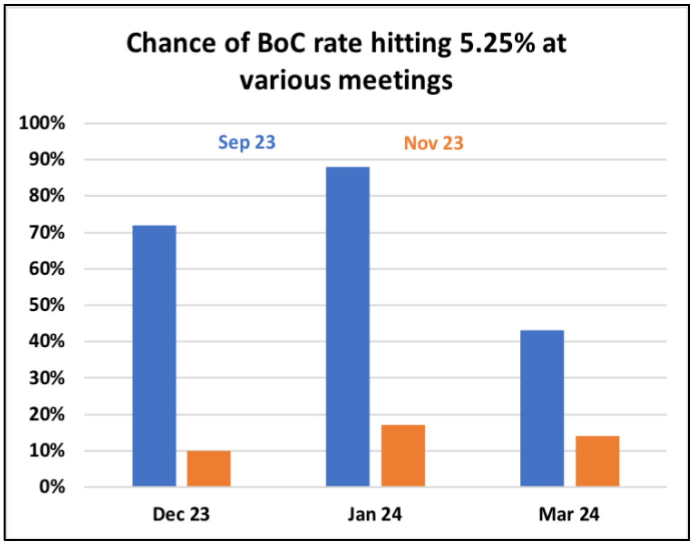


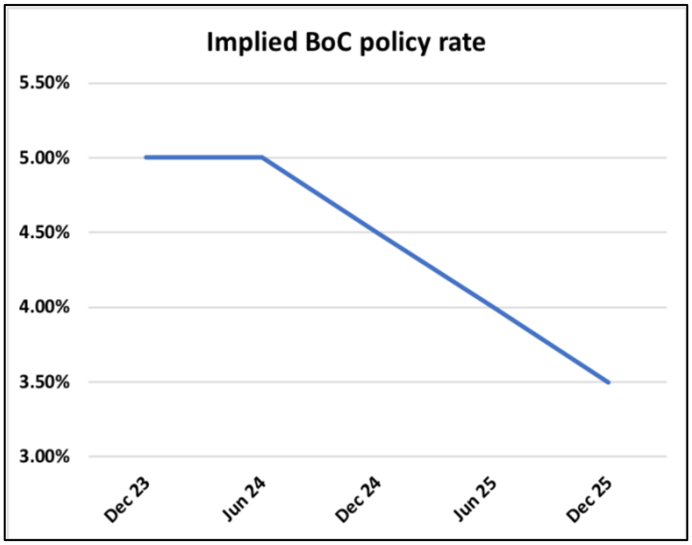
Things aren't much better on the business side. CFIB's Small Business Barometer slid another 1.6 points in October to hit 47.2. Sub-50 prints are exceedingly rare….Mar-Apr 2020, Oct '08-Mar '09, and now Sep-Oct '23. That's it.



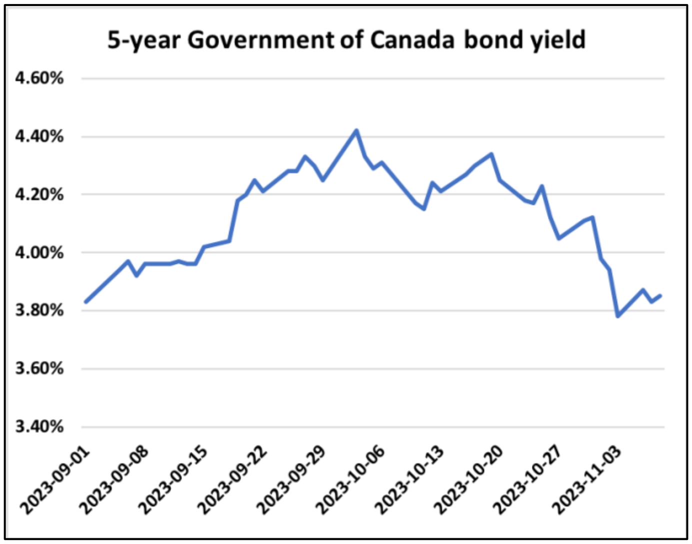
Bond yields finally crack

With the soft economic data getting hard to ignore, the bond market finally started pricing in the reality that we may already be at peak for the Bank of Canada this cycle. The odds of a hike in the overnight rate to 5.25% has collapsed from 90% in September to less than 20% today. Markets are now betting that the Bank will hold until Q2 next year before cutting and ending up in the 3.5% range in late 2025:

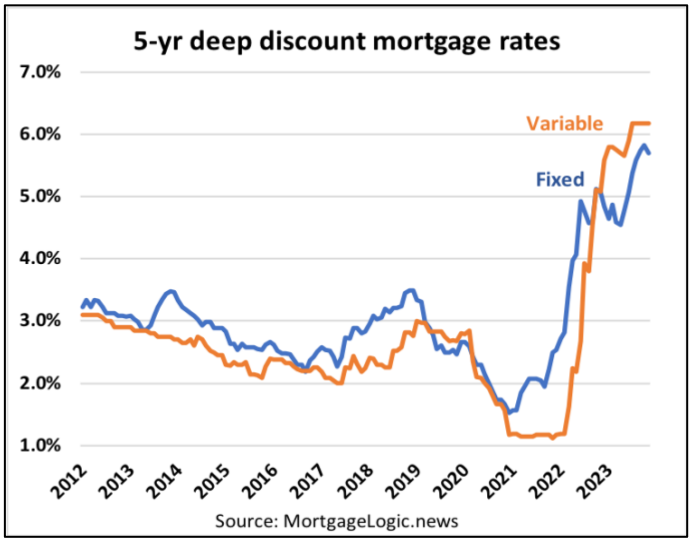




That has translated into falling bond yields, with the bellwether 5-yr falling over 50bps or 0.5% in just a couple weeks:



We're now seeing fixed mortgage rates react, with deep discount rates down 13bps in the past week and with likely another 10-20bps of downside to go:

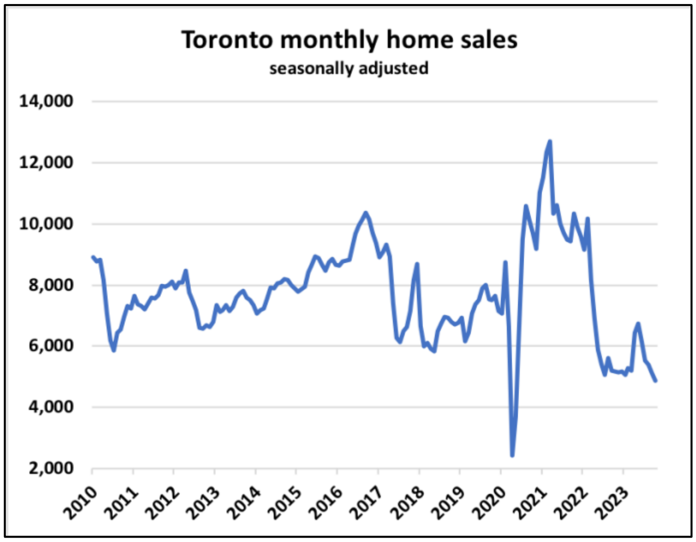


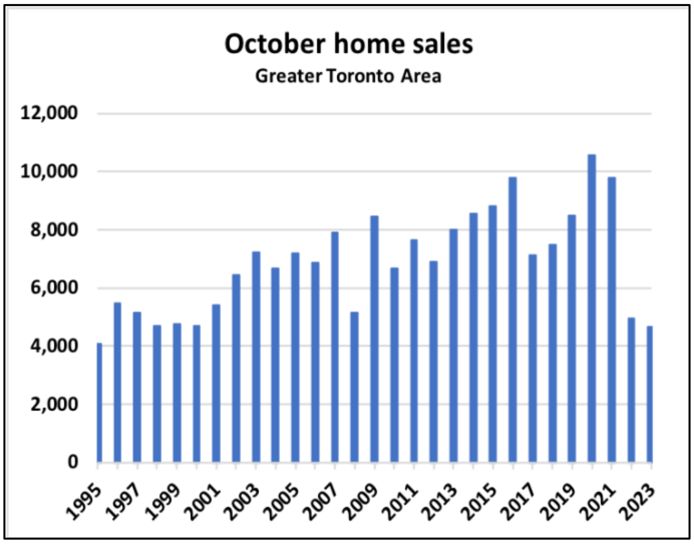
That probably won't move the needle in terms of housing demand in the near term. Affordability is still very challenged with rates at these levels, but it's important to remember that we don't need rates to return to zero for this market to stabilize. Fixed rates were in the mid-4s this past spring and the market was just fine. We have another 120bps or so to go to get back to those levels, but at least the fears of a return to double-digit interest rates of the early 90s looks like it's off the table.

2) Toronto inventory surges, sales slide in October

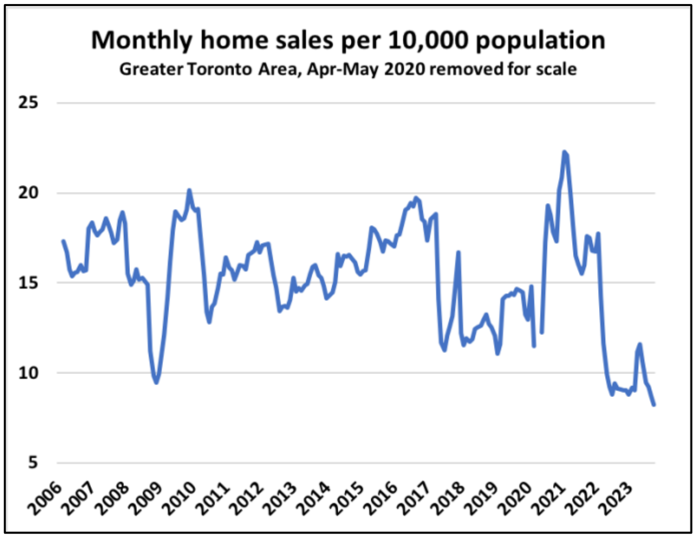
Home sales across the GTA were very soft in October, with seasonally adjusted transactions down 5.0% m/m and down 6.3% compared to last year at this time. Two ways to visualize just how bad sales were last month:

- In the past two decades, there have been only a handful of months with fewer than 5,000 sales (seasonally adjusted): Nov ‘08-Feb ‘09, Apr-May ‘20, Oct ’23. That’s it.
- It was the lowest October tally since 1995!



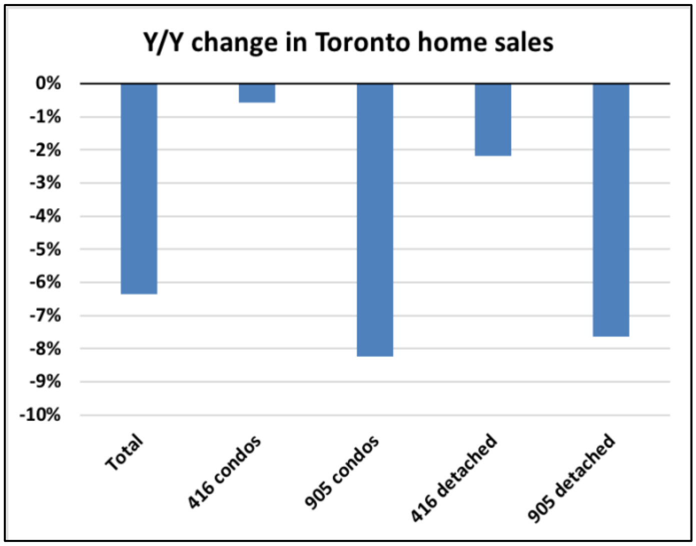


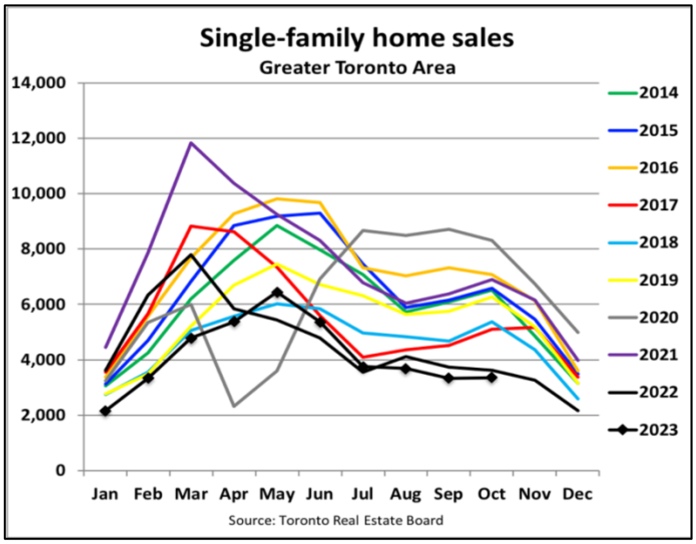
Adjusted for population, we’re now seeing demand BELOW levels seen at the depths of the Financial Crisis:

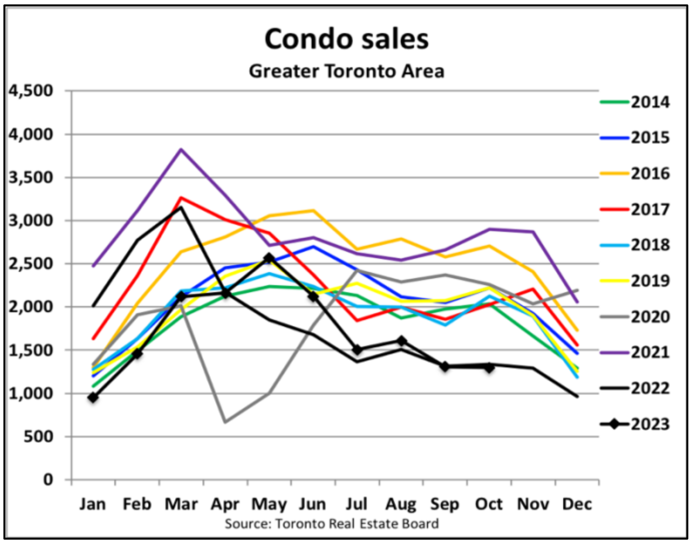


Sales are weak, but population growth is not. <u>And that means we’re effectively holding a beach ball underwater. Demand has not been permanently destroyed, it is simply being constrained by affordability challenges. Once those ease, either via falling prices, falling rates, or rising incomes (or some combination thereof), pent-up demand will return in force. But the big question is how long that will take.</u>

Sales were weak across all segments and geographies with the suburbs (905) seeing the most pronounced declines:

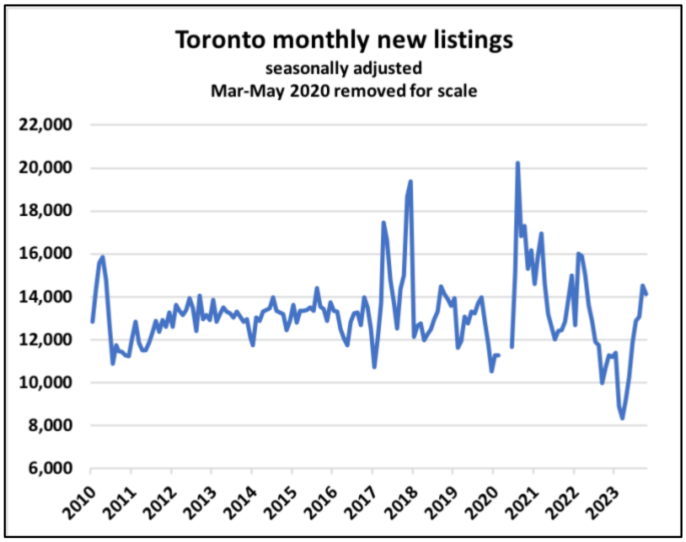

Y/Y change in Toronto home sales
0%
-1%
-2%
-3%
-4%
-5%
-6%
-7%
-8%
-9%
-10%
Total
416 condos
905 condos
416 detached
905 detached

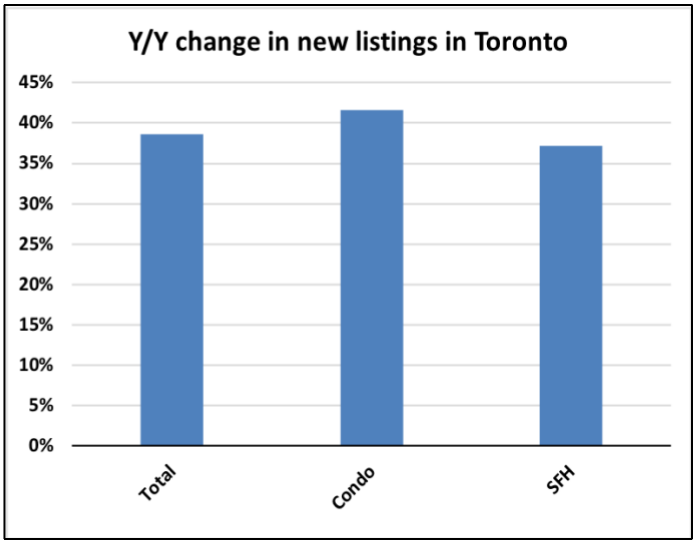

Single-family home sales
Greater Toronto Area
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
Source: Toronto Real Estate Board


Condo sales
Greater Toronto Area
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
Source: Toronto Real Estate Board

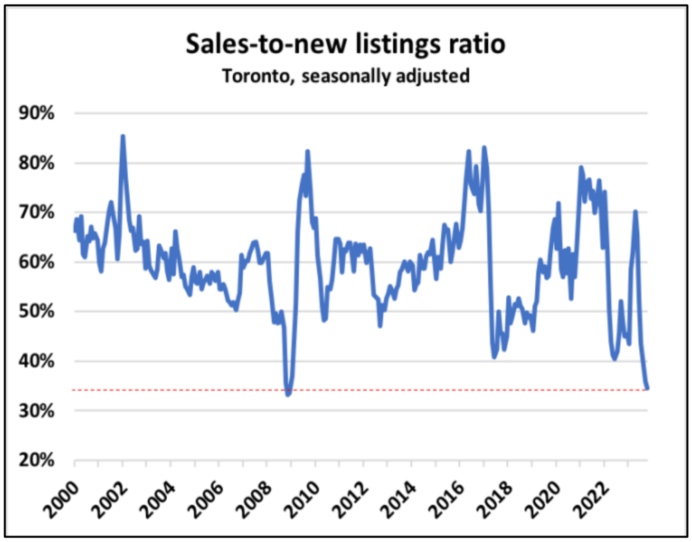
New listings stabilize but inventory jumps

After jumping 11.3% in September, new listings in Toronto pulled back 2.9% m/m, but they remain above normal levels and were up 39% compared to the same month last year (+42% in the condo segment).



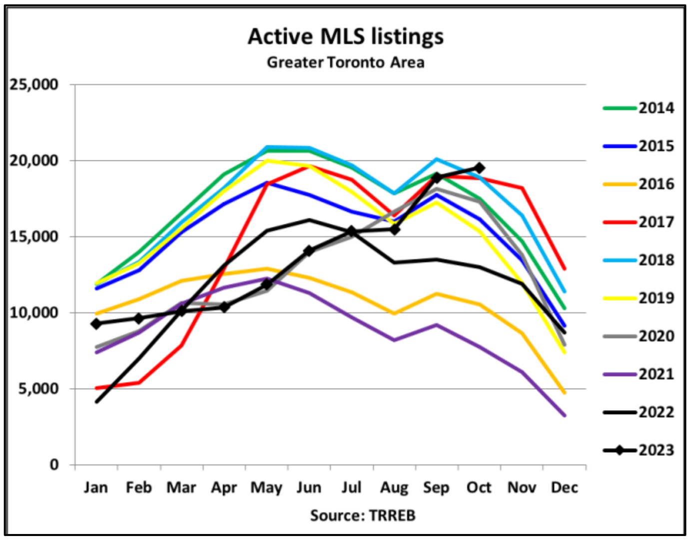


The sales-to-new listings ratio is still under 40% which signals a deep buyer's market:

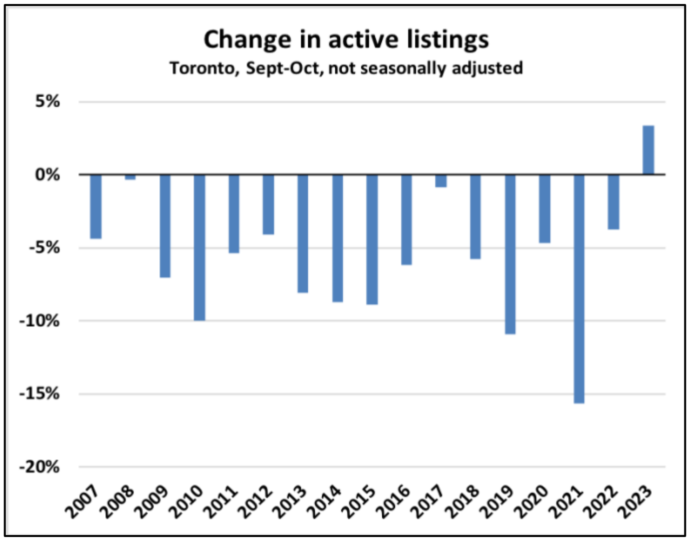


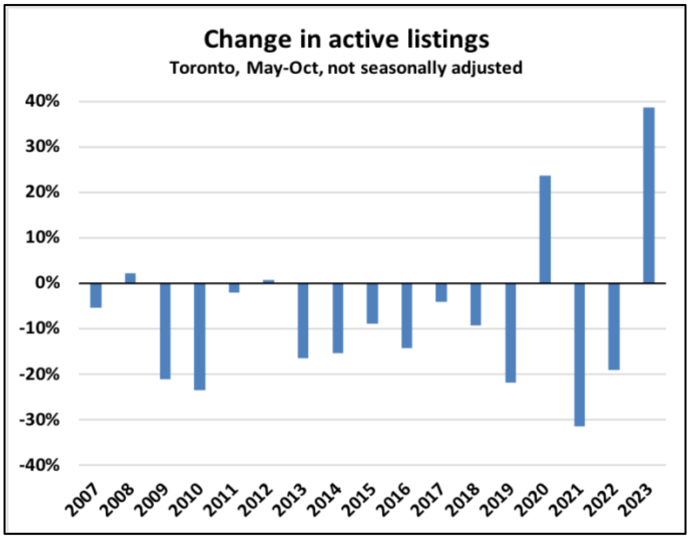
Dramatic inventory accumulation

Even with new listings stabilizing, active inventory is piling up. It hit the highest level of any October since 2012 and is up 50% y/y. We've now gone from decade lows in resale inventory to decade highs in just 6 months!

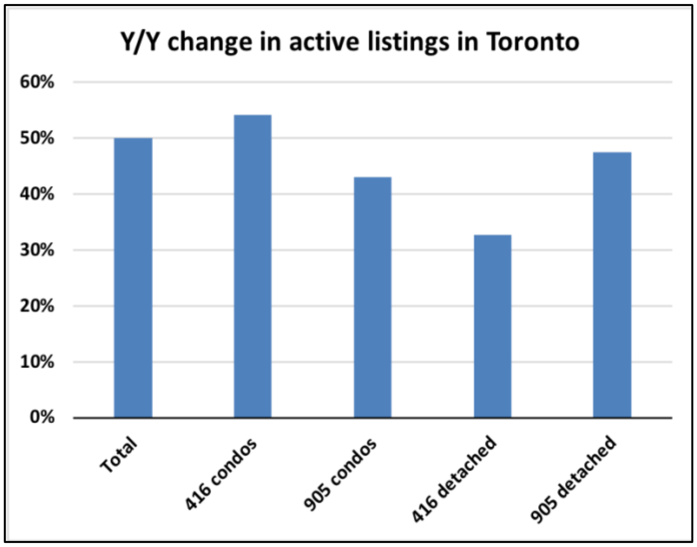


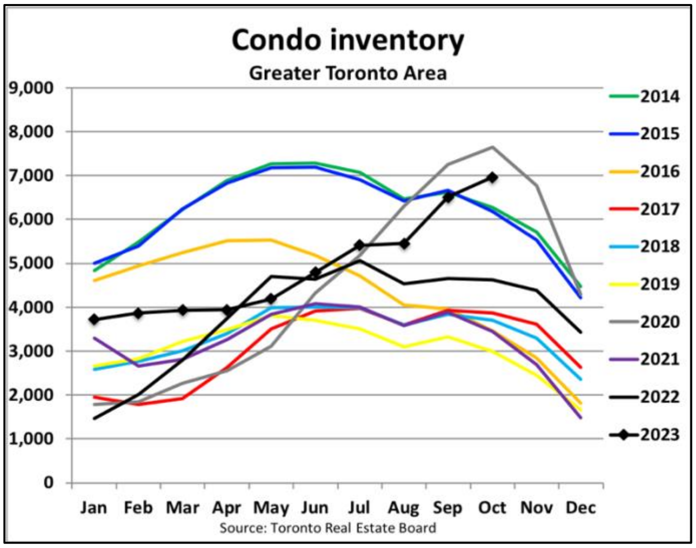
The counter-seasonal build is striking; last month saw a 3% sequential increase in active listings (not seasonally adjusted), the first increase for any October in at least 20 years. That brings the cumulative inventory build since the market peaked in May to 40%, a massive counter-seasonal build that now dwarfs what we saw in 2020:



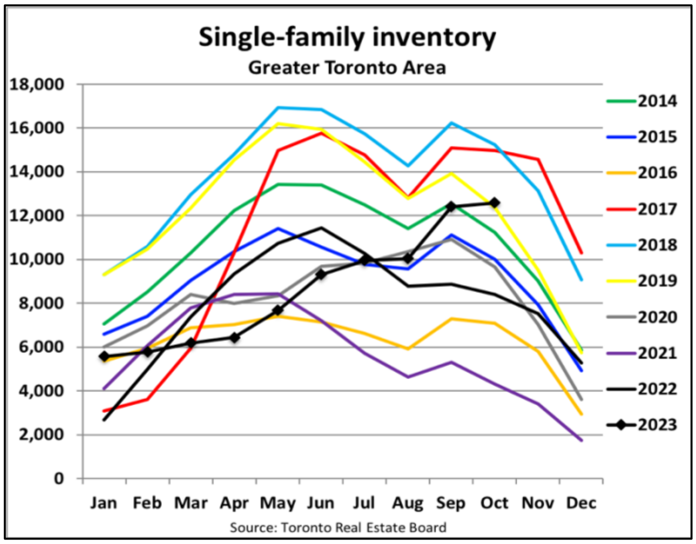


Inventory is building across the board, but it is most pronounced in the downtown condo segment where inventory is closing in on 2020 highs:





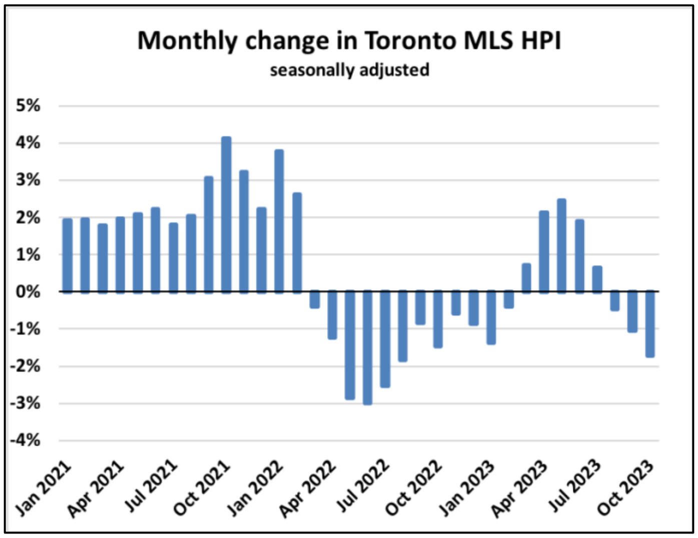
The single-family segment is not as well supplied but is still trending towards the higher end of the long-term range:

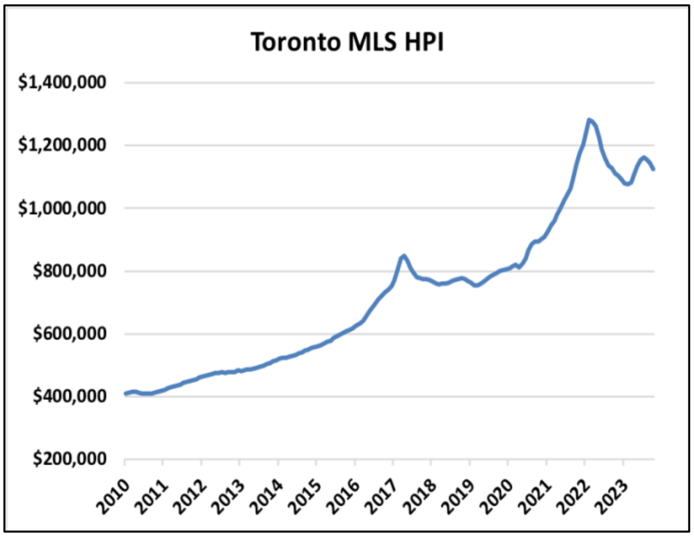


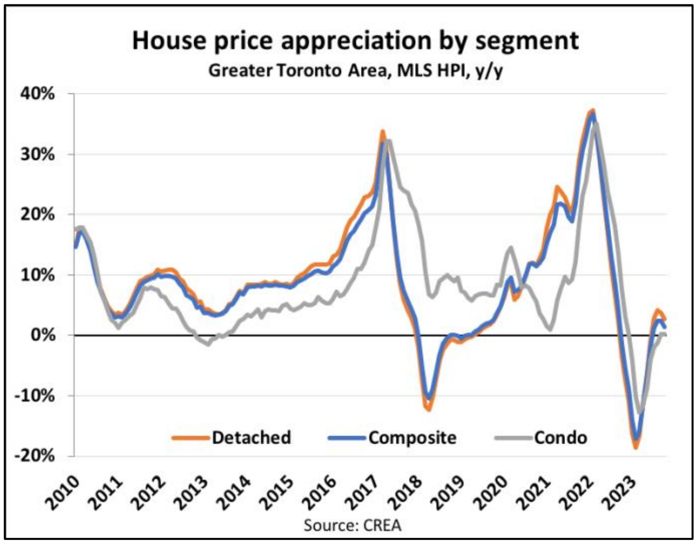
ben@edgeanalytics.ca
(519) 477-5211

House price declines accelerate

The seasonally adjusted House Price Index fell 1.7% m/m in Toronto with downward revision to the prior 4 months to boot. It was the largest monthly decline since mid-2022:

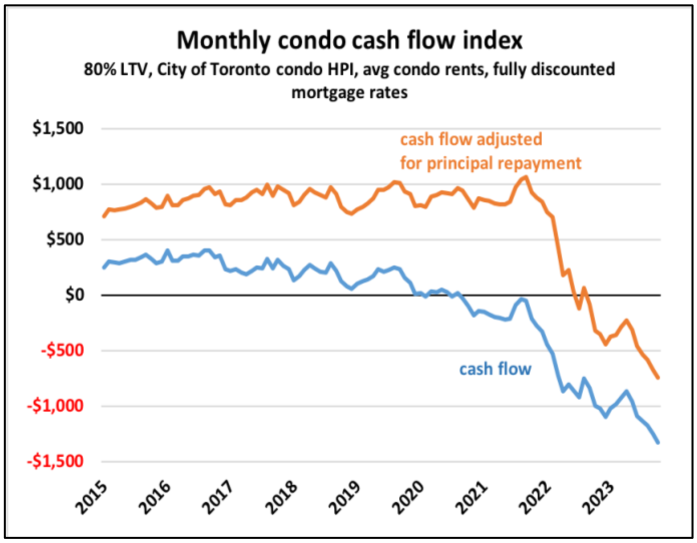




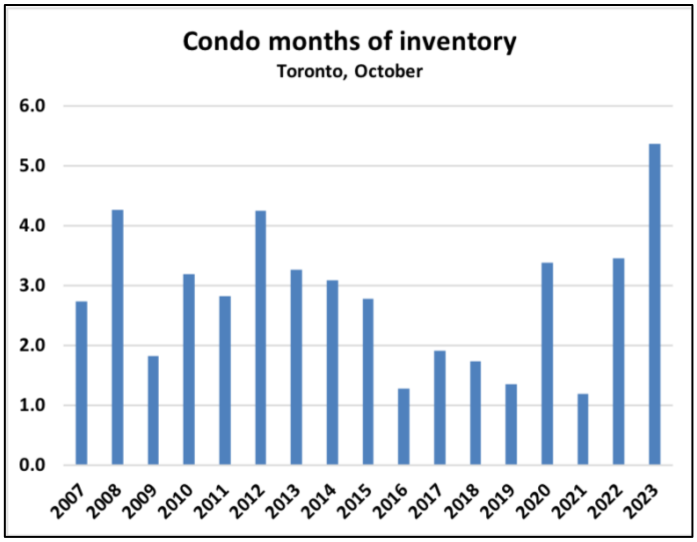


Condo stress builds

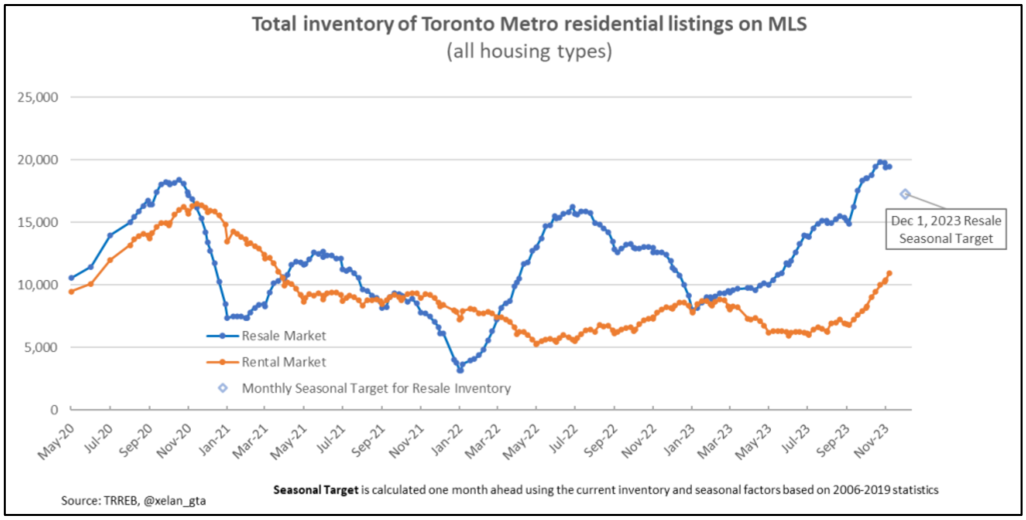
Unit economics on resale condos continues to deteriorate, with the headline condo cashflow index now at -$1,350 per month (-$750 even when principal repayment is added back).



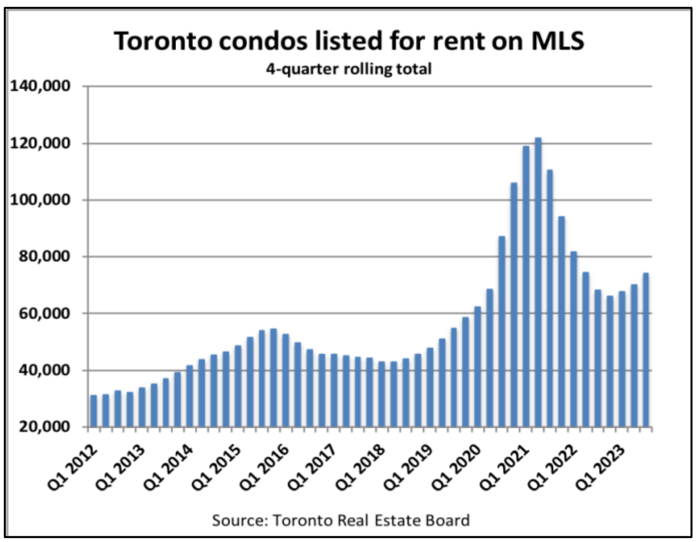
It's not surprising then that condo demand is under pressure. We've now seen months of inventory climb above 2008 levels. At these levels, further price declines look all but certain:

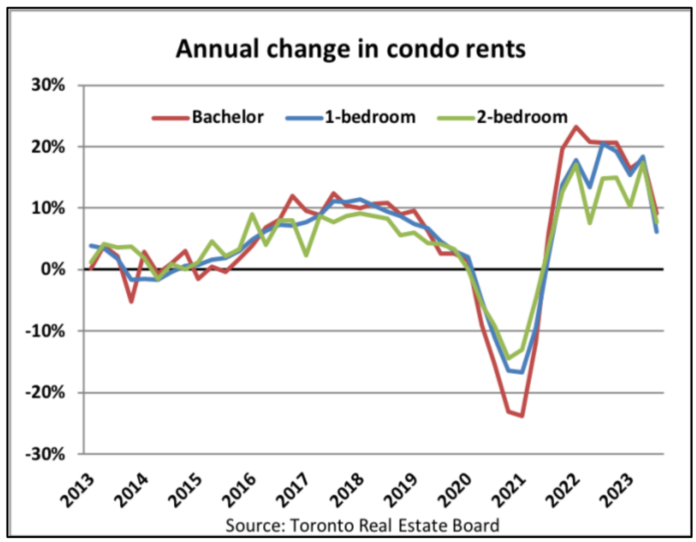


Meanwhile there are some signs that we are past peak tightness in the condo rental market. My friend Alex (@xelan_gta on twitter) tracks MLS rental listings every week, and his data is showing rental supply at levels last seen in late 2020.



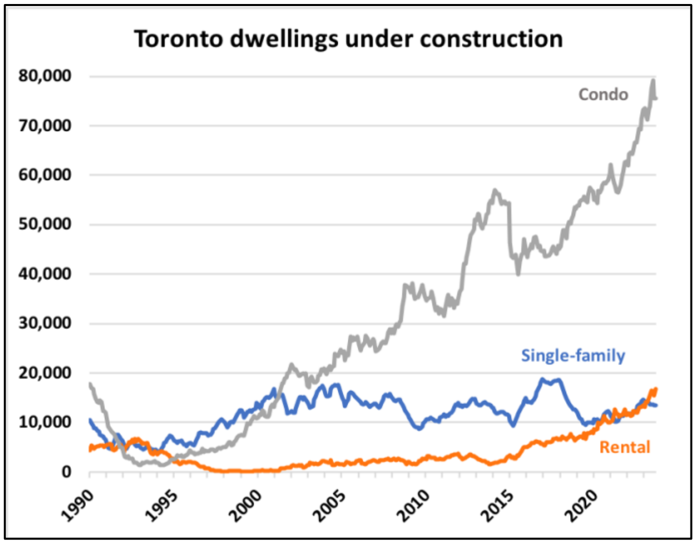
This is further confirmed in the Q3 rental data from TRREB. New rental listings jumped 22% y/y in the quarter, well outpacing the 7.5% increase in rental transactions. That pushed the lease-list ratio down well below last year's crazy peak. Rental growth across all condo segments is still strongly positive but is clearly slowing, which is in-line with my predictions for a moderation in the rental market away from the absurd, crazy tightness of the past 2 years to something slightly less chaotic:

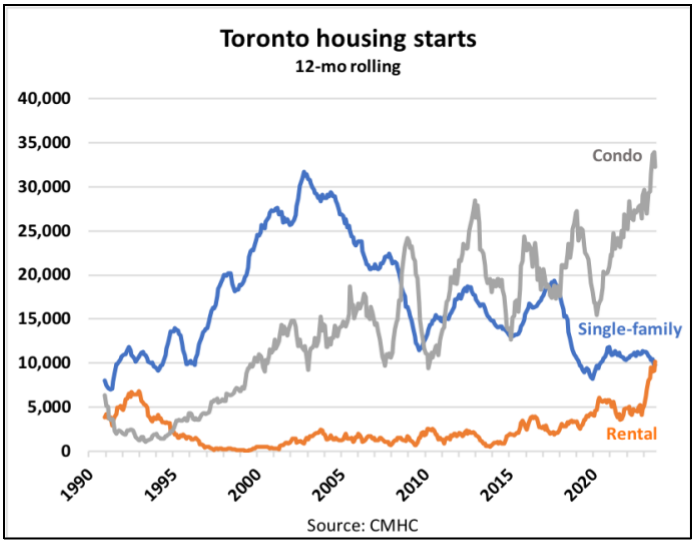




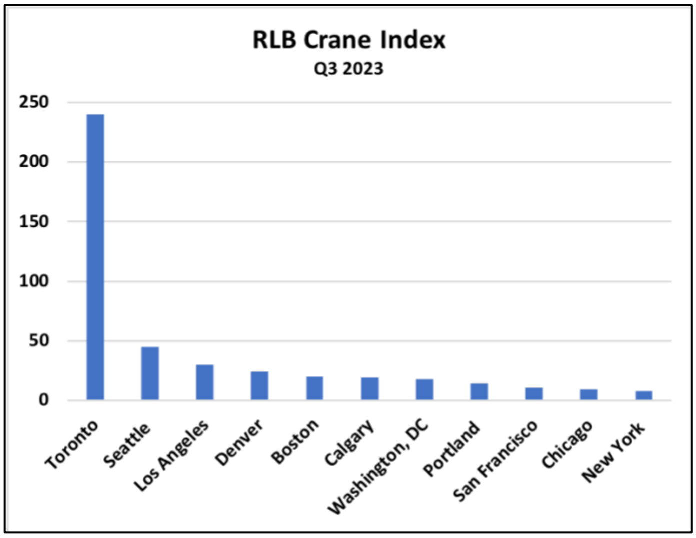
Under construction inventory ticks up

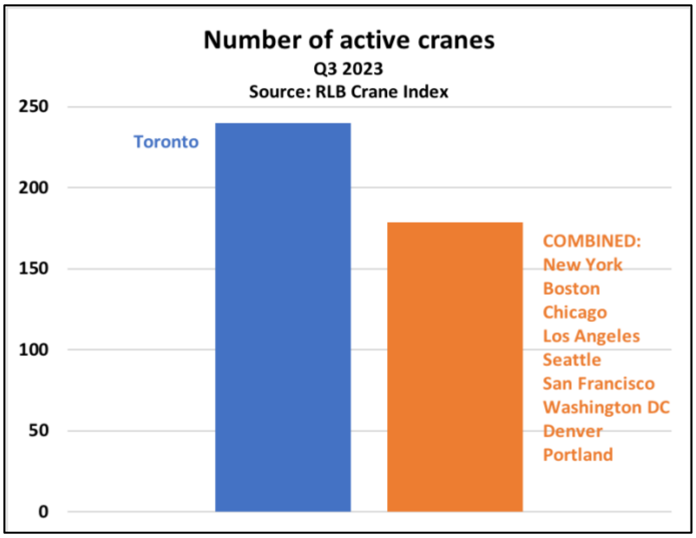
Dwellings under construction across the GTA rose 1.2% m/m in September. Housing starts continue to be heavily tilted toward condos and rentals and away from single-family. <u>In fact, for the first time in at least 30 years, rental starts are now higher than single-family on a 12-month rolling basis:</u>





All of that apartment construction leaves Toronto standing head and shoulders above all other North American cities in terms of active cranes in Q3. The RLB Crane Index counted 240 cranes across residential and commercial developments in Toronto, which, for reference, was more than in the top 9 US cities….COMBINED!

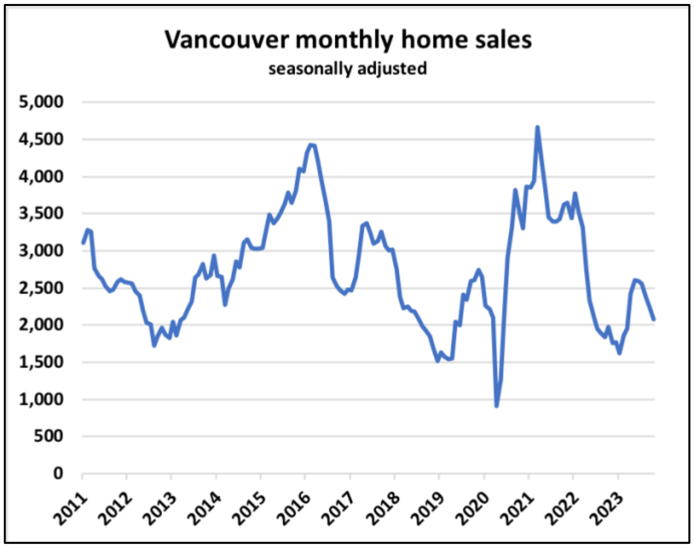


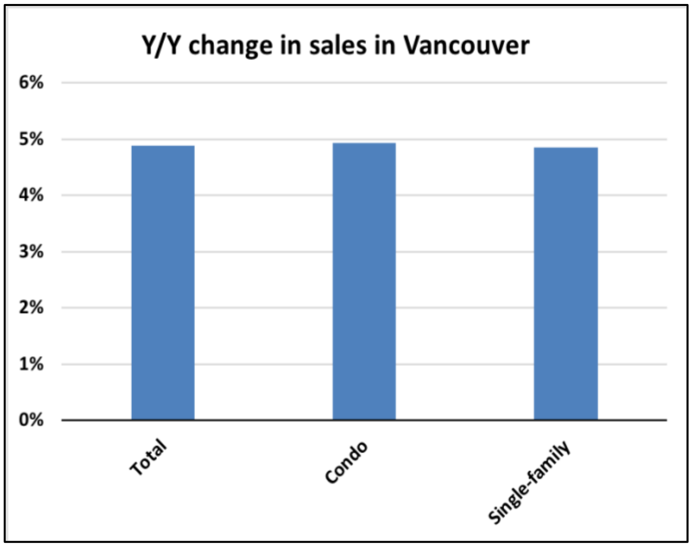


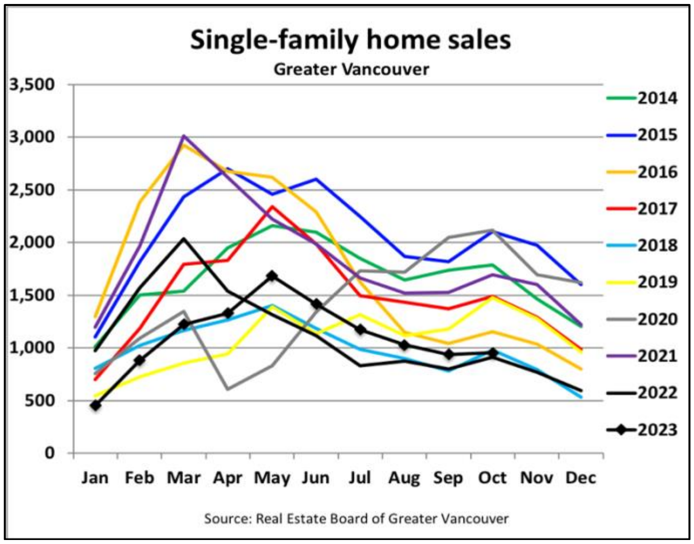
3) Vancouver's real estate market tips into buyer territory

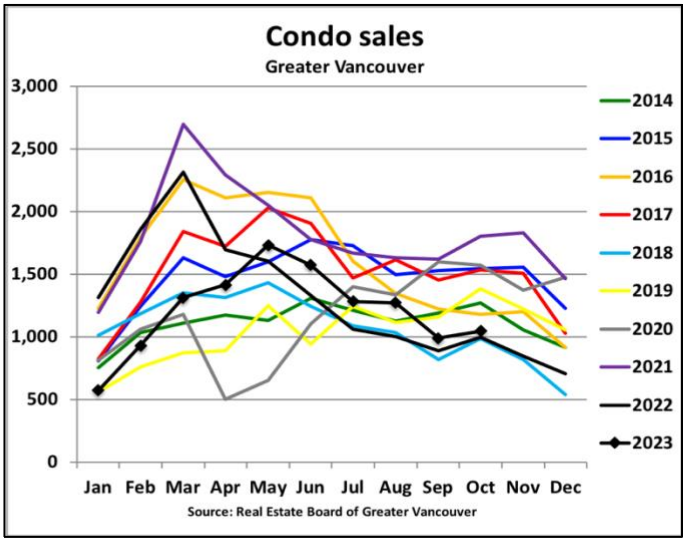
Sales slide

After falling a combined 13% in August and September, sales across Vancouver fell another 7% m/m in October, bringing the 3-month decline to an estimated 19%. Still, that leaves them slightly above levels from last year at this time:



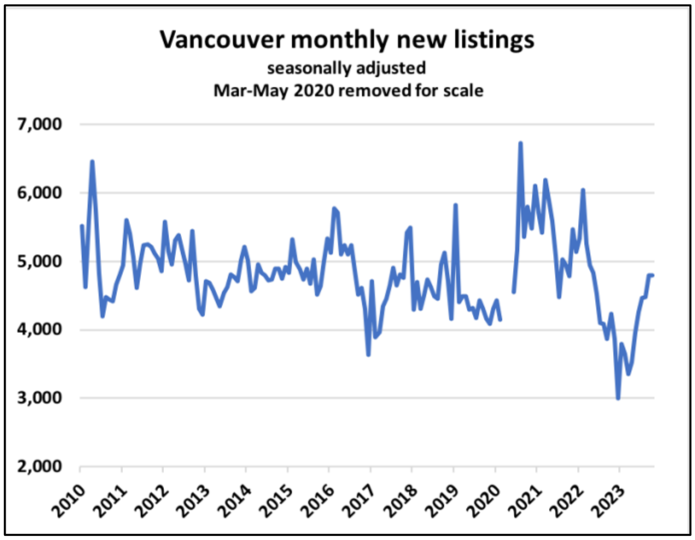


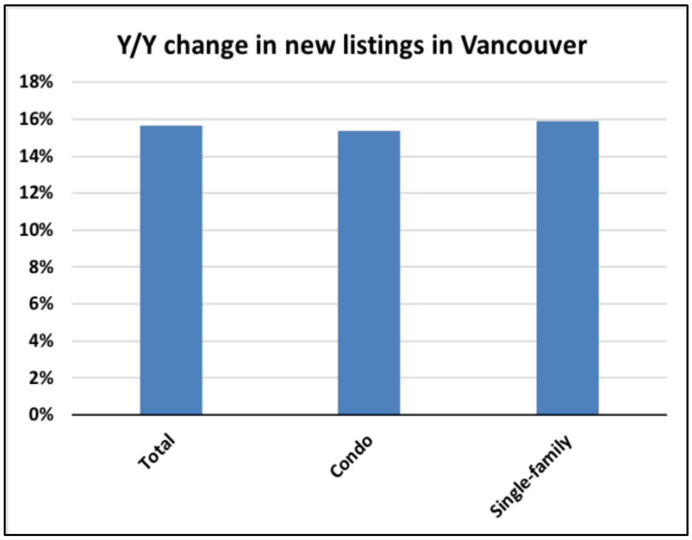




New listings flat on the month

Seasonally adjusted new listings were unchanged in October but were up nearly 16% compared to last year at this time:

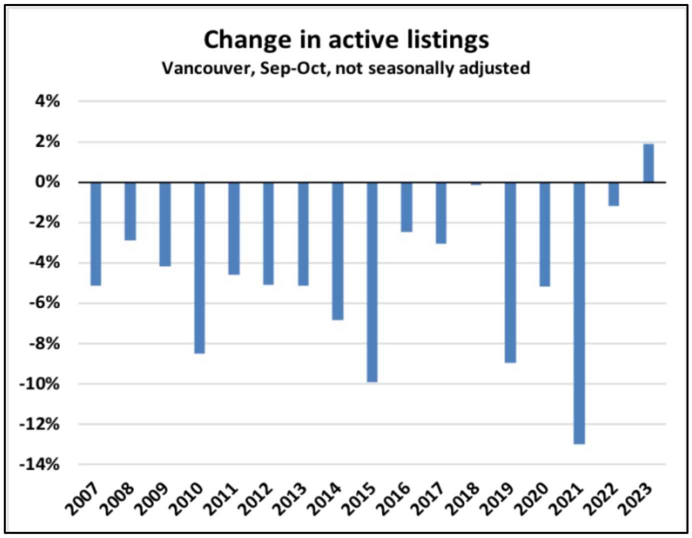


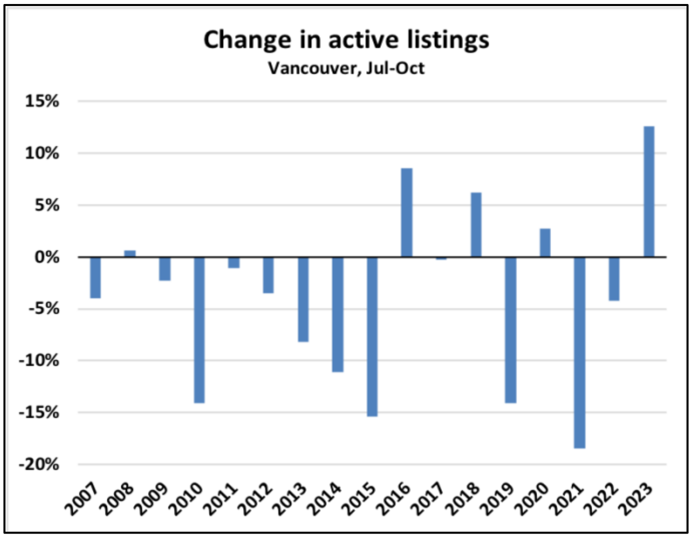


With sales falling more than new listings, the market balance continues to tilt towards buyers. The sales-to-new listings ratio is hovering just above 40%, a level generally indicative of a declining price environment:

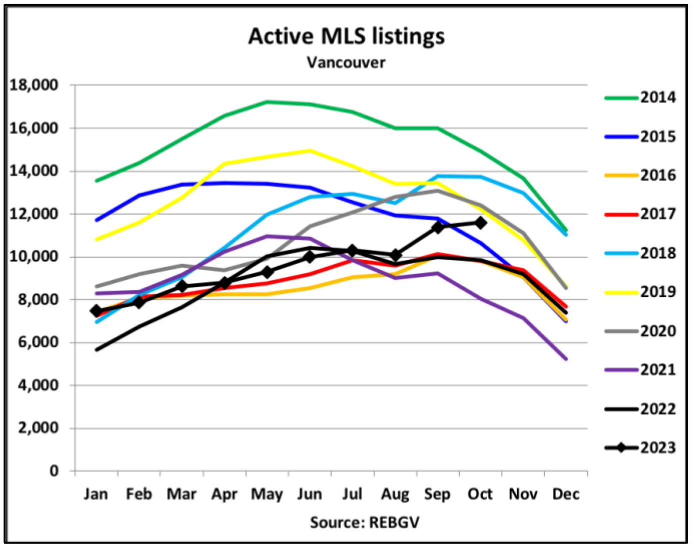
Strong counter-seasonal inventory build

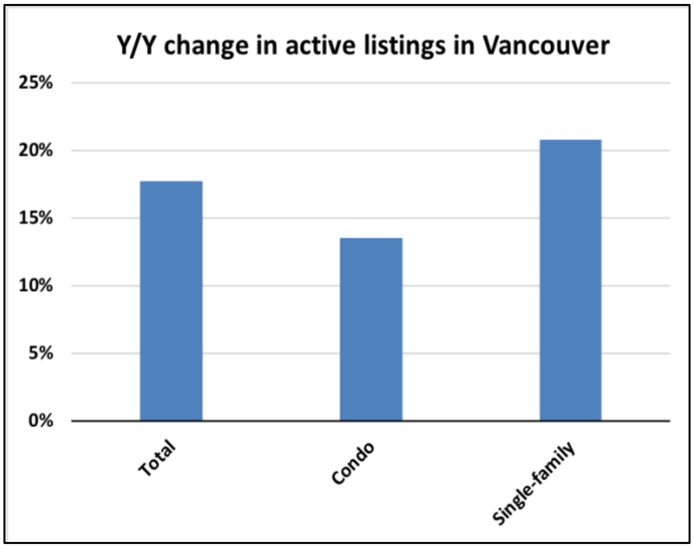
October saw a strong counter-seasonal inventory build, with active listings rising in October for the first time in at least 20 years. That puts the cumulative change in inventory since the summer at 13%, the largest such build since the early 2000s:

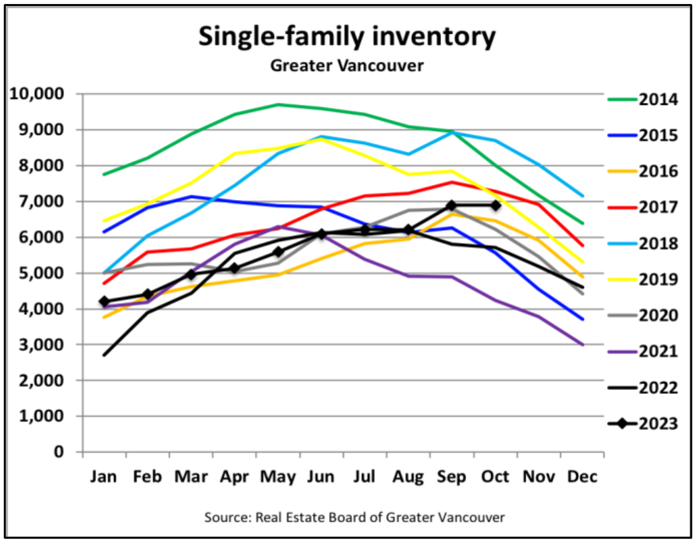


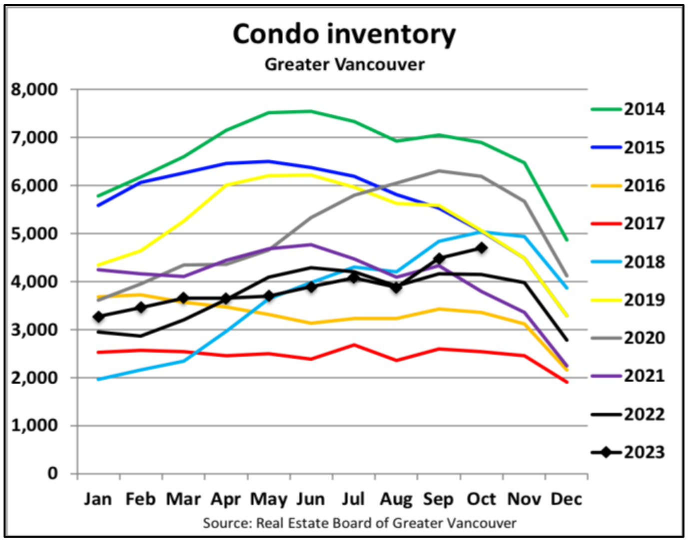


Inventory levels overall are trending in the wrong direction but they are not at alarming levels by any means. We are back to just slightly above normal levels for this time of year:



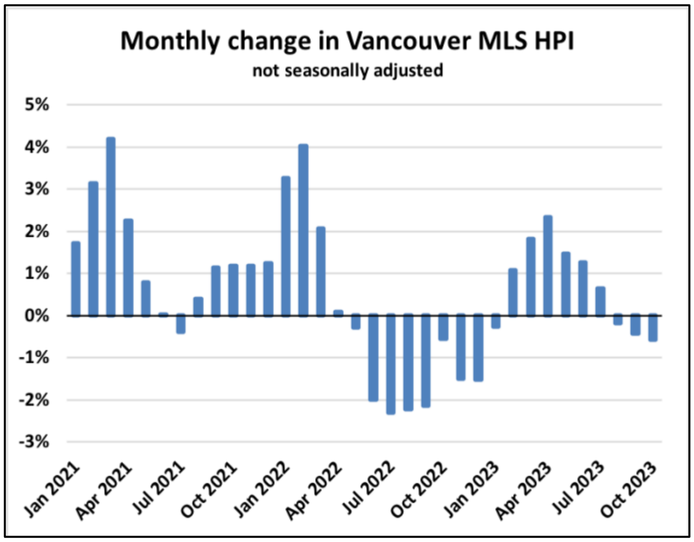


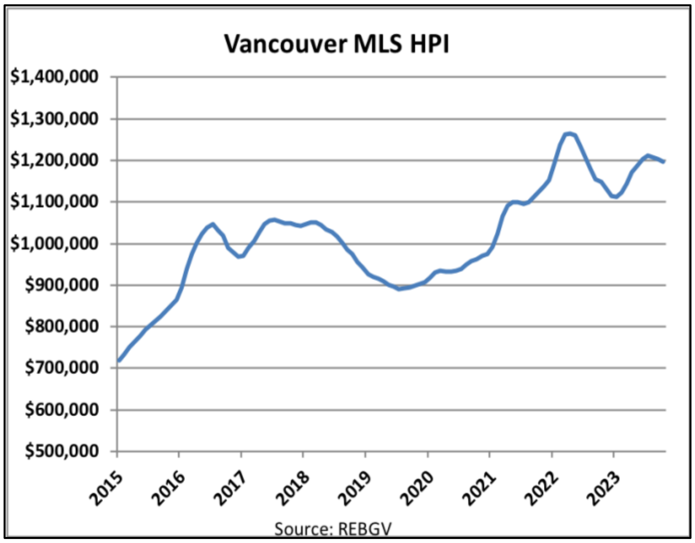




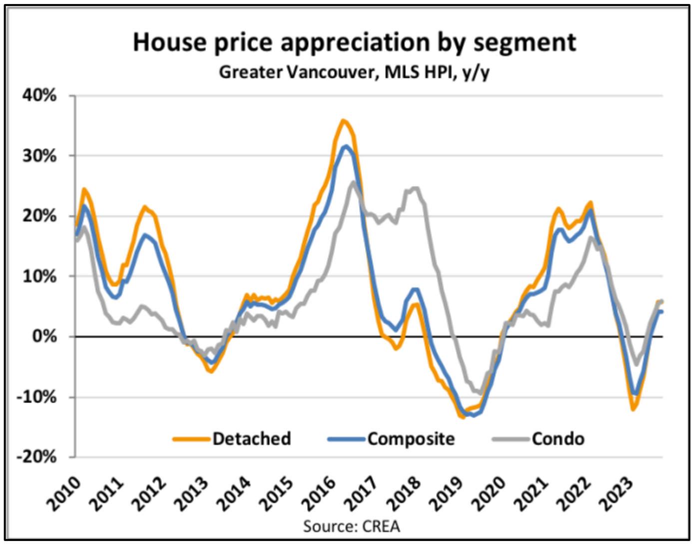
House prices tick lower

The MLS House Price Index (HPI) registered a 0.7% decline in October, the third consecutive monthly drop:



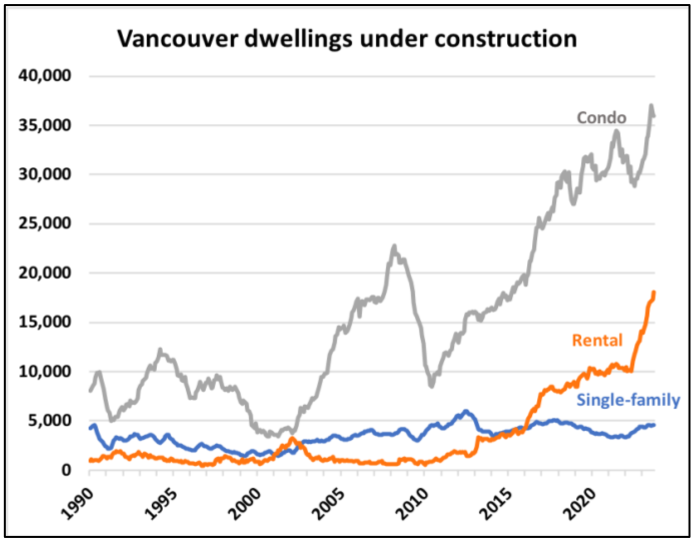


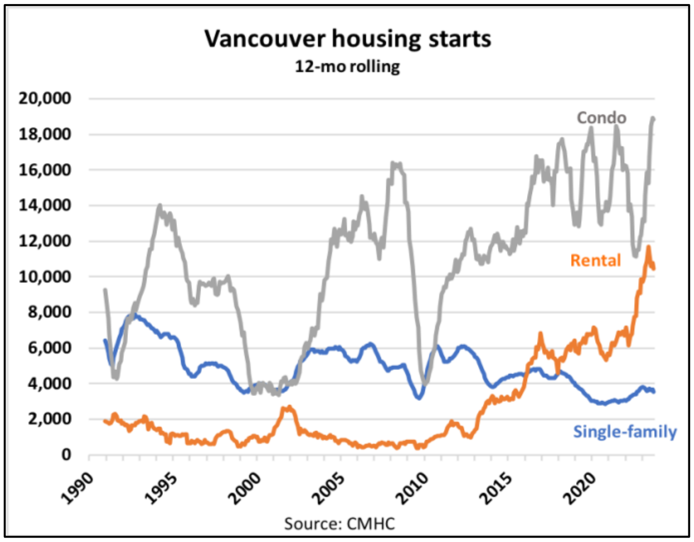
Still, that leaves prices roughly 5% higher than last year at this time:



New supply rises

Dwellings under construction across Vancouver rose 1.1% m/m in September led by a whopping 4.5% increase in the rental segment where we are now closing in on 20,000 units in the pipeline. Over the past year, we've seen 2.5 new rental units started for every 1 single-family unit in Vancouver:

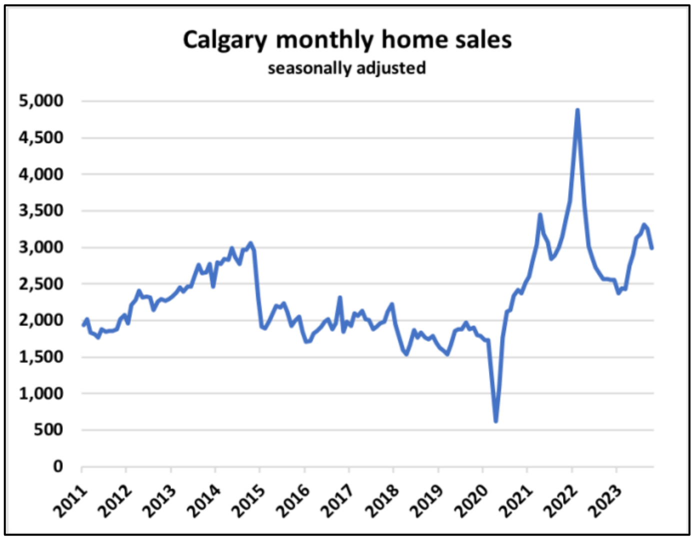


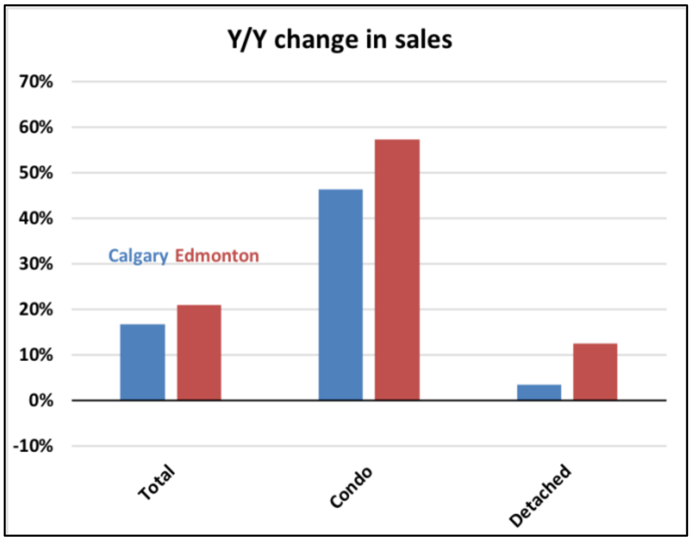


4) Calgary sales slow, new construction surges

Home sales slide

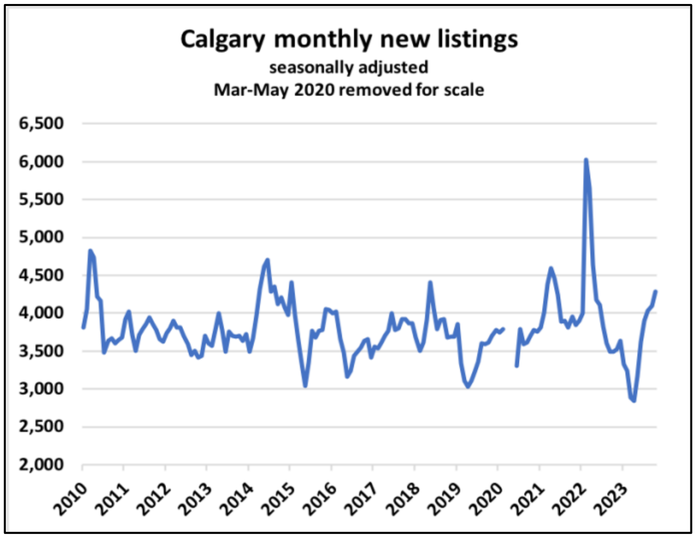
Even Calgary saw sales tumble last month, down an estimated 7.9% m/m. Sales are still up relative to this time last year, due primarily to a nearly 50% surge in condo transactions.

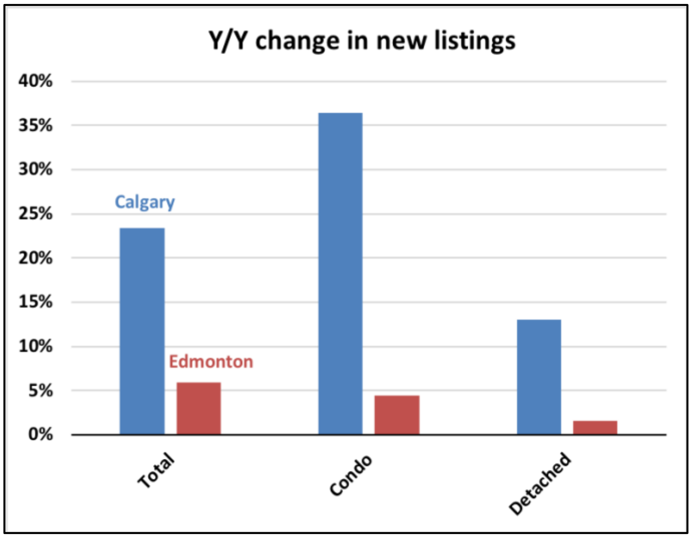




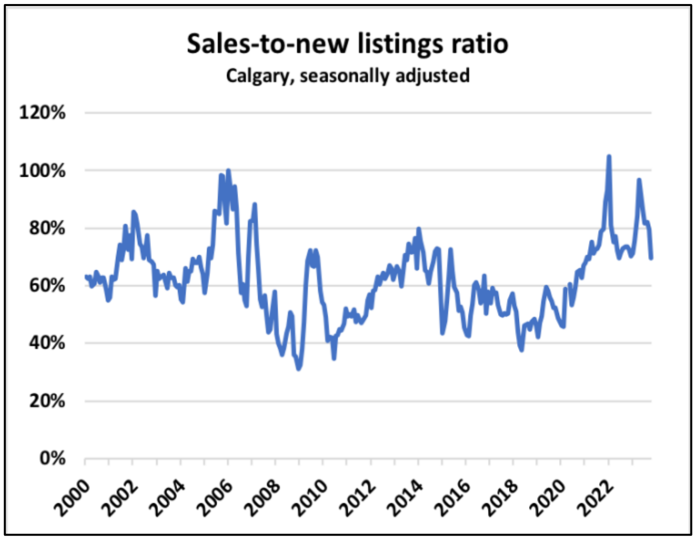
New listings tick up

New listings in Calgary rose an estimated 4.5% m/m in October and were over 20% higher than last year at this time:



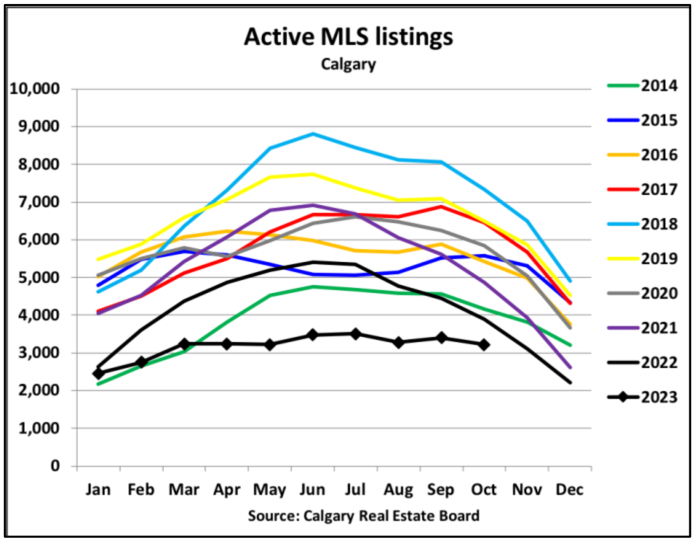


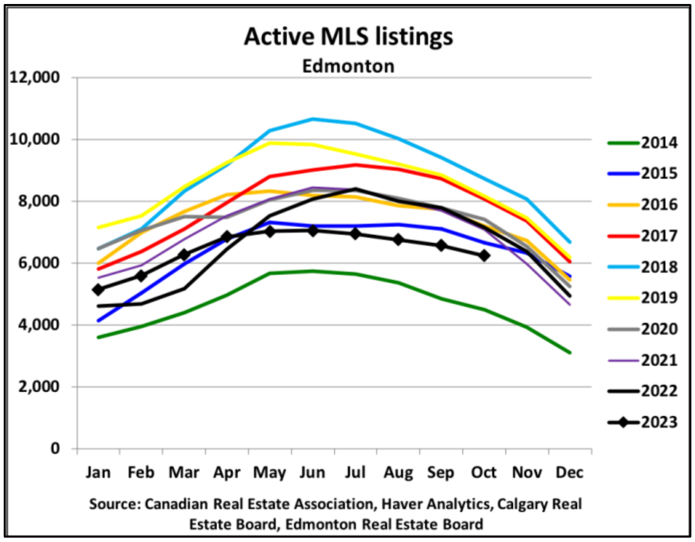
The sales-to-new listings ratio has slid over the past couple months but remains around the 70% range, which is indicative of a blisteringly HOT market. It's a good reminder that anyone who talks about THE Canadian housing market should be ignored. There is no such thing. We have a market of markets, each with their own characteristics, and I don't believe we're ever seen the sort of regional discrepancies we are seeing currently:

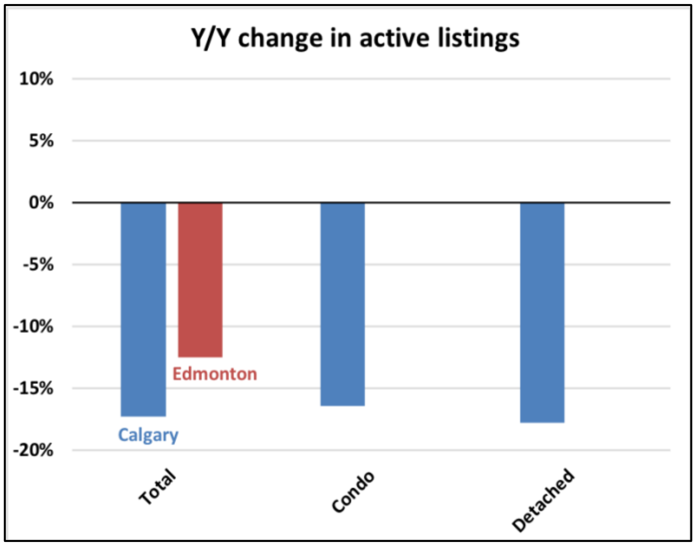


Inventory still at rock-bottom levels

Inventory in the resale market remains very thin in both Calgary and Edmonton, down 17% and 13% y/y respectively. Both are at or near decade lows. This dynamic continues to drive remarkable tightness in these markets and is the major contributor to rising prices:

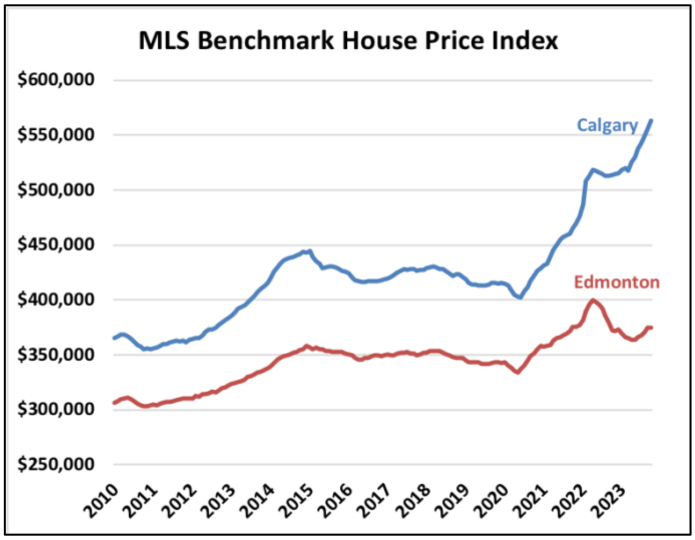


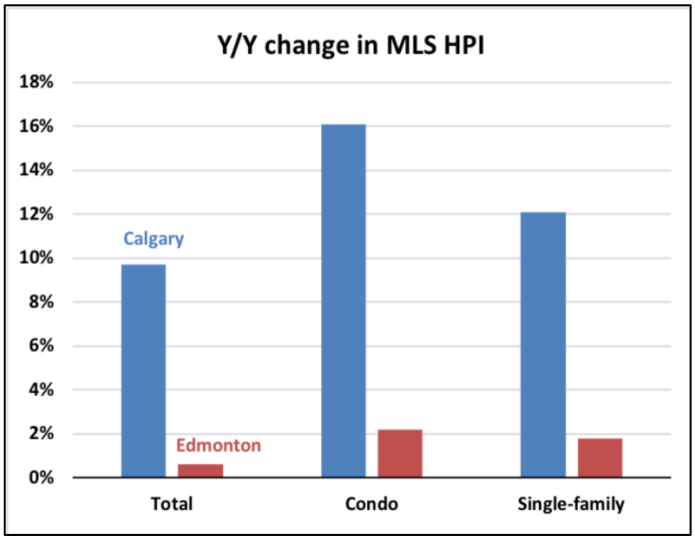


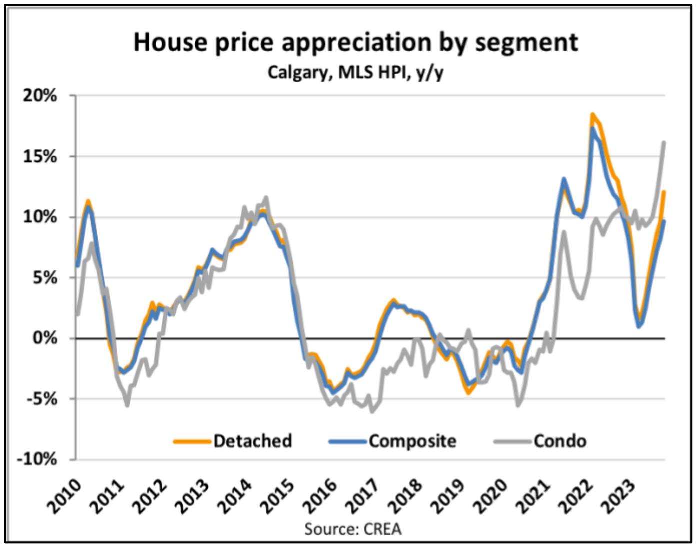


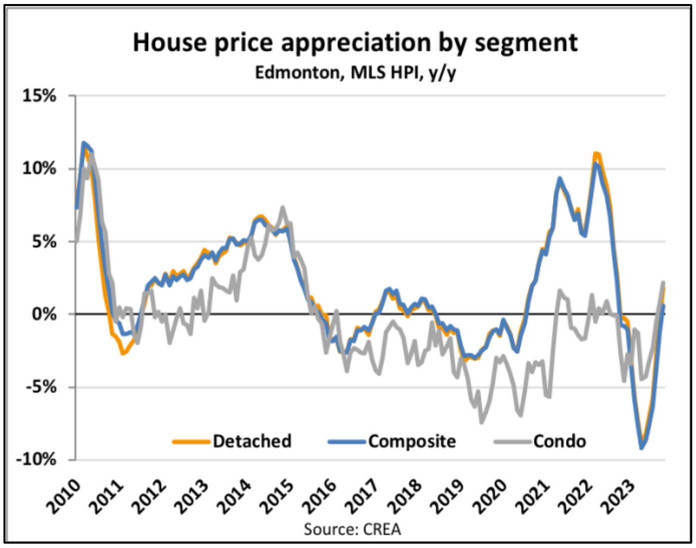
Prices rise again in Calgary

House prices are starting to really accelerate in Calgary, as can be seen in the chart below. Prices are now up at nearly a 20% annual clip since the spring and are rising at 10% y/y. Edmonton is not nearly as impressive with prices up less than 1% relative to last year:





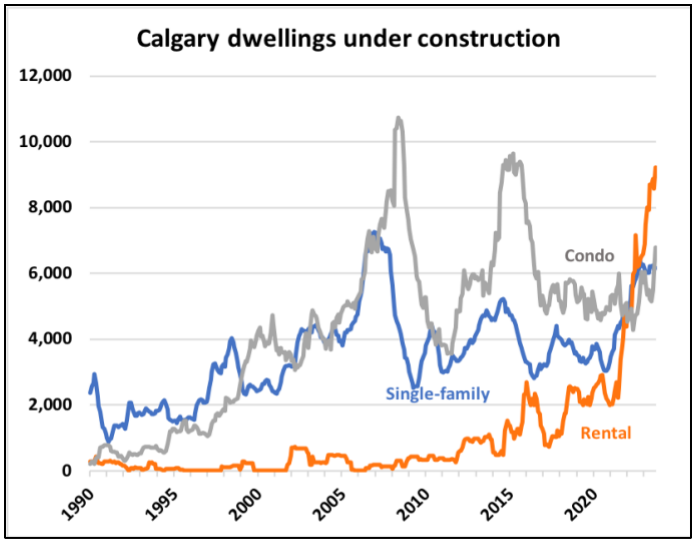


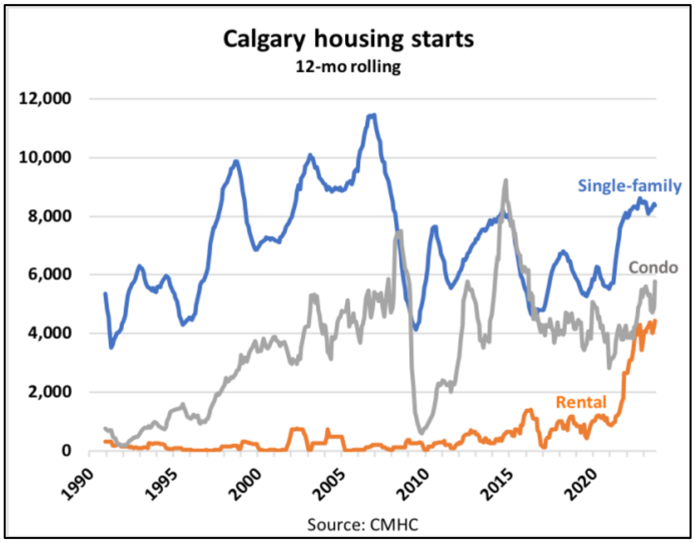


Construction activity surges

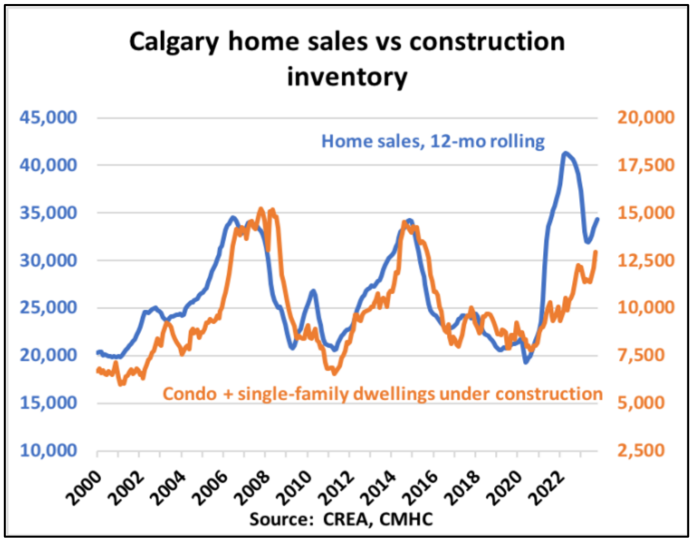
Dwellings under construction across Calgary surged 7.2% m/m in September thanks to a massive 13.2% jump in condos and a 7.7% increase in rental activity. There are now 31% more condos under construction than just 3 months ago! This is notable since a surge in condo construction has been a feature of the latter parts of the prior 3 cycles in Calgary.

Meanwhile rental activity continues to surge and now accounts for over 40% of all dwellings under construction, a record going back at least 30 years:





The warning signs of late cycle activity are not flashing red just yet, but with construction activity ramping up and demand showing some signs of possibly topping out, now is the time to keep an eye on developments in the notoriously cyclical Calgary.



Have a great day!
Ben