



April 2024
Metro deep-dive: March data

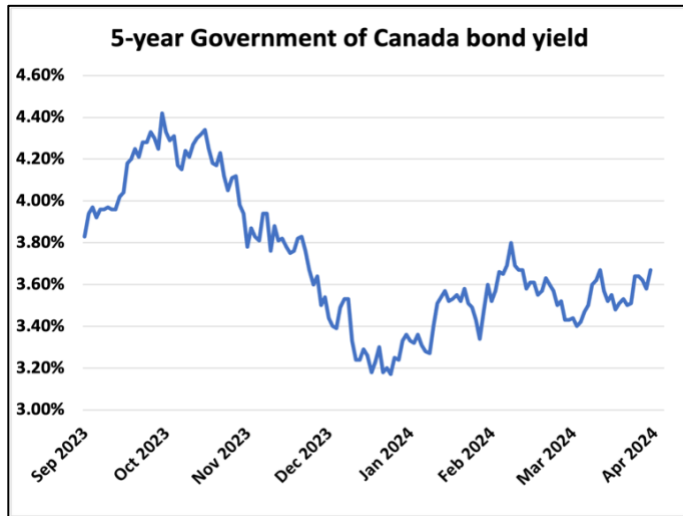
Quick links:

- 1) **Macro commentary: Rates in a holding pattern even as economy weakens**
- 2) **Toronto home sales tick lower, prices hold firm**
- 3) **Vancouver homebuyers stay on the sidelines in March**
- 4) **Blistering hot housing markets in Calgary and Edmonton**

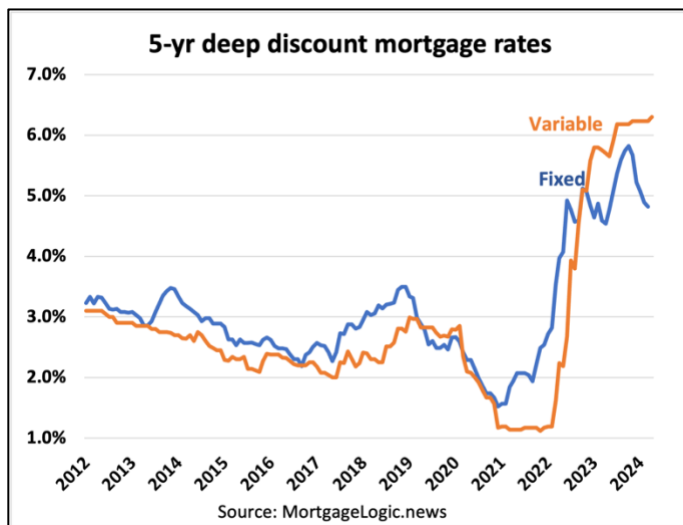
1) Macro commentary: Rates in a holding pattern even as macro backdrop weakens

Rates in a holding pattern...for now

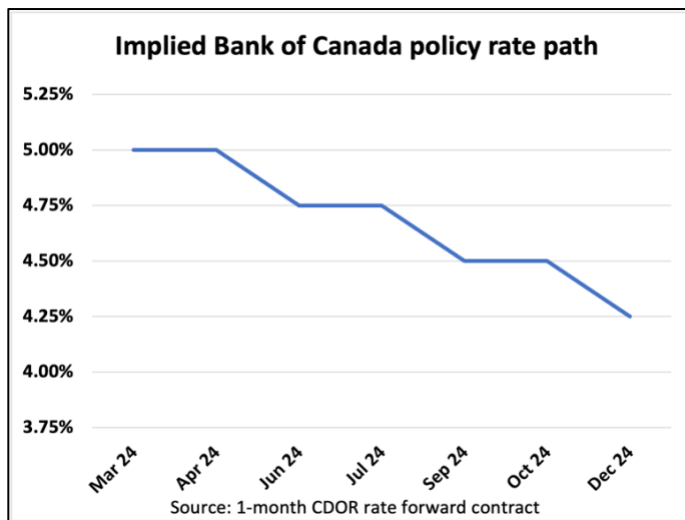
Bond yields remain more or less range-bound, with the bellwether 5-year sitting just a shade under 3.7% at time of writing, holding in the same 40bp band between 3.4% and 3.8% that we've seen since late January.



As I've said for a while now, what you see is probably what you're going to get on the mortgage rate front until the Bank of Canada makes a definitive move. Deep discounted mortgage rates are shown below courtesy of Rob McLister over at the excellent MortgageLogic.news publication:



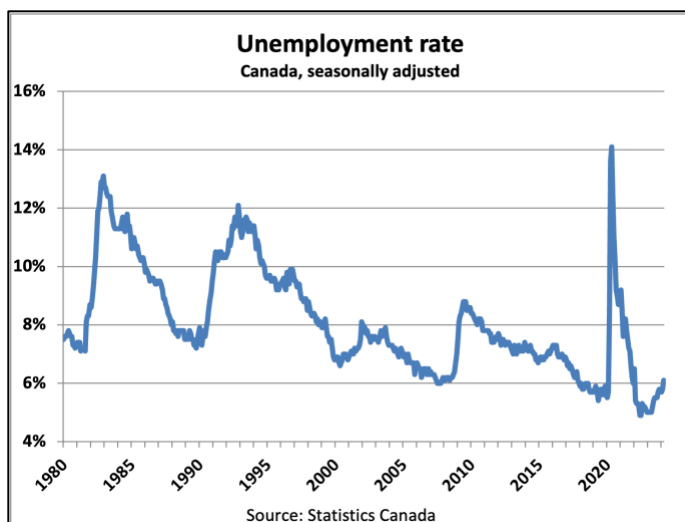
The implied policy path has been unchanged over the past month, with the first cut still expected in June and with 0.75% of cuts expected out to year end. There was some movement in the probabilities around the timing of the first cut, with the odds in June currently sitting at roughly 66%, down from 75% just a couple weeks ago:



The fact that rate cut odds are drifting lower is completely inconsistent with the macro data flow, and it does not change my view that the Bank will still likely end up cutting more than the 0.75% currently priced in this year.

Let's start with the jobs report last week via the Labour Force Survey (LFS). The headline print was disappointing (-2k m/m vs +25k expected) but the internals are where things get interesting.

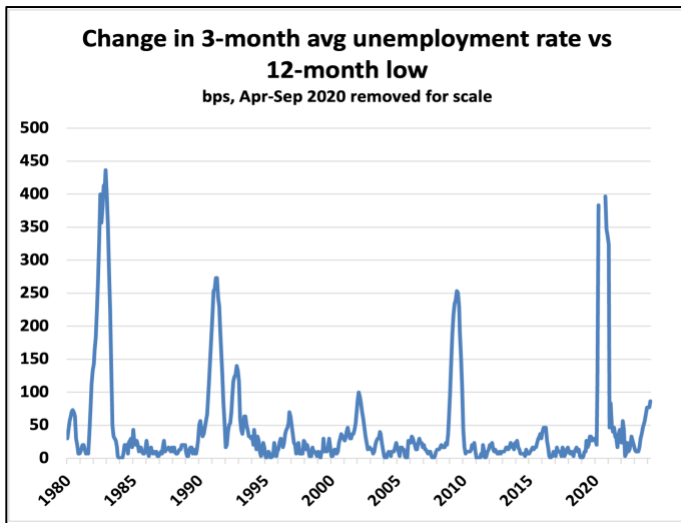
What immediately stands out is the 0.3% increase in the unemployment rate, the largest monthly jump since mid-2022. That puts it back above 6% for the first time since 2017 if we set aside the pandemic surge:



With unemployment clearly on the move, it's time to revisit the Sahm Indicator. As a refresher, any time the 3-month average unemployment rate rises 0.5% above the 12-month low in the US (0.6% in Canada¹), it is a strong indicator that the economy is heading toward recession. In 50 years, this measure has generated only one false positive back in 1996.

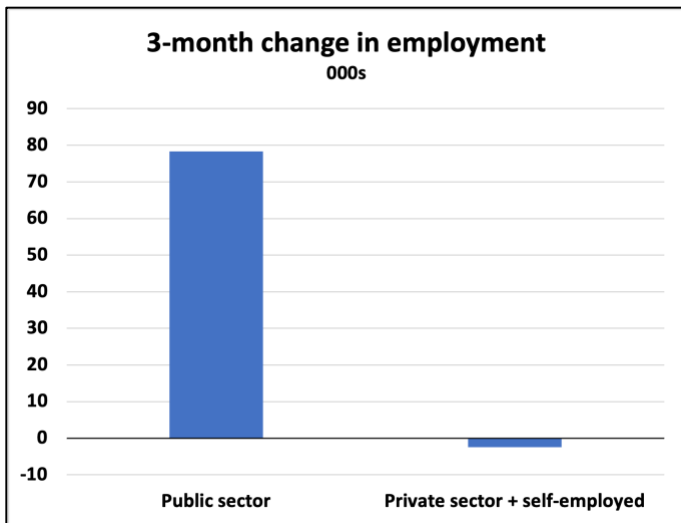
We are now nearly 90bps above the 12-month low, a level that has a 100% historical track record of predicting recession:

¹ https://stayathomemacro.substack.com/p/o-canada?mkt_tok=NTc2LU5QQi0xOTMAAAGPurf3SGmDt_gzk75KMkiaNOibePagL6t1sdQ5CpP-pOaH91JBsg70kjk8LZ4y41VGf7bVoyOHAPYfXki-nyovvjlrKEWjWd9A-u0n030

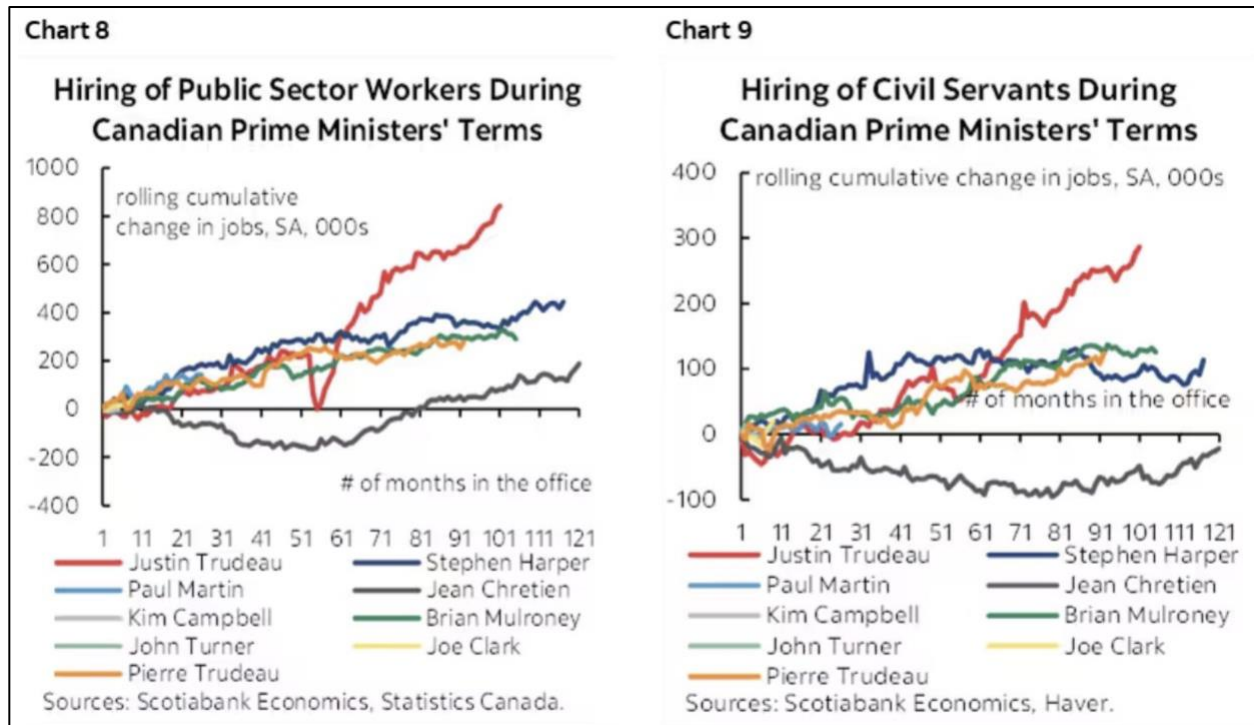


The takeaway is that there is a tendency for unemployment to trend. Once it gains momentum, it tends to move for a while. Setting aside the COVID lockdowns as an idiosyncratic event, the other 7 examples in which the Sahm indicator breached the 60bps threshold going back to 1977 saw the unemployment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

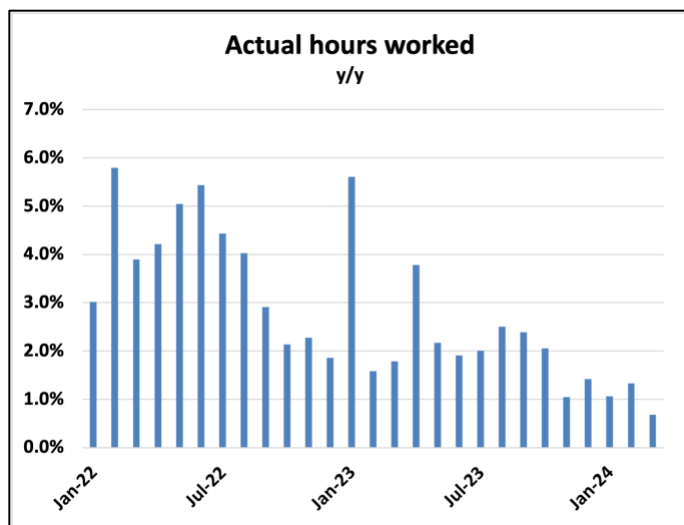
The composition of employment is also a red flag as we continue to see weakness in private sector employment being offset by growth in the public sector:



This is in keeping with current government's MO, and here we turn to a brilliant set of charts making the rounds on Twitter courtesy of Scotiabank Economics:



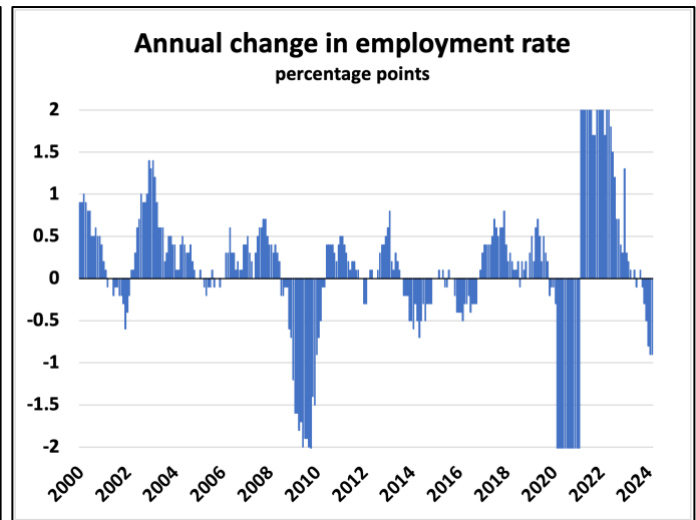
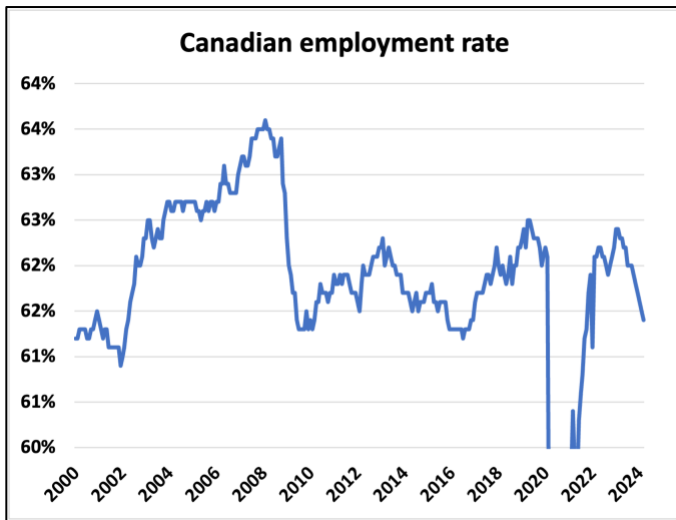
Hours worked, which matter more for GDP than headline employment, fell 0.3% m/m, the largest decline since November. That puts the annual growth rate at just 0.7%, the weakest since the depths of the pandemic:



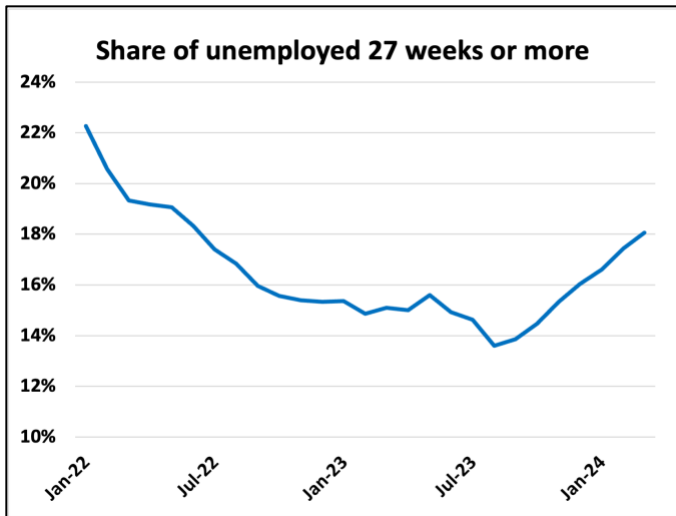
Perhaps even more concerning is trend in the employment rate.

As a refresher, the UNemployment rate measures the share of potential workers who are actively looking for work but unable to find it. In contrast, the employment rate measures the share of the working-age population (15-64 yrs old) who are currently employed.

What we find is that the employment rate has now fallen for 6 consecutive months....the longest unbroken streak since early 2009. This rate is now 90bps or 0.9% below where it was just one year ago, an annual decline that has consistently pointed to recession in the past:



It's clear that massive immigration and overall population growth is outpacing job creation leading to an overall loosening in the labour market. As further proof, we're now seeing a sharp increase in the share of unemployed who have been without work for more than 27 weeks...a clear sign that jobs are getting harder to find:



Finally, consider results from the Bank of Canada's Business Outlook Survey which found that the balance of opinion on the intensity of labour shortages has fallen to levels consistent with the depths of the pandemic and the Financial Crisis before that:



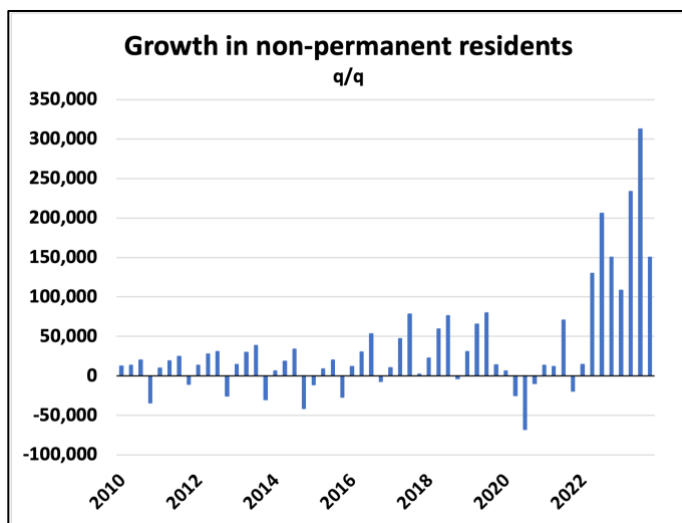
This will show up in wages in due time. Yes, annual wage growth is still running at a 5% clip, but we've now seen two consecutive months where seasonally adjusted wages were up just 0.1% m/m. Just give it time for base effects to do their thing, and we'll see wages begin to reflect the spreading weakness in the labour market.

I know it sounds callous since there are real people struggling to find jobs, but a softening labour market was always necessary to "break" inflation expectations and give the Bank of Canada cover to cut rates. If we want relief on mortgage rates, the trade-off has always been higher unemployment. Here we are.

Revisiting immigration numbers

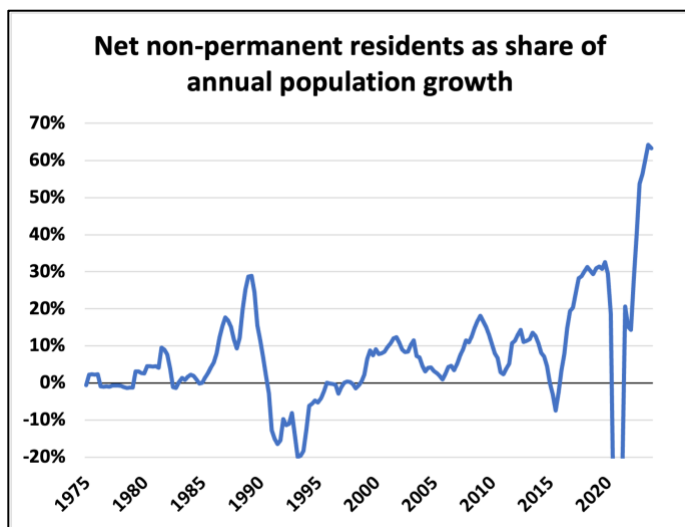
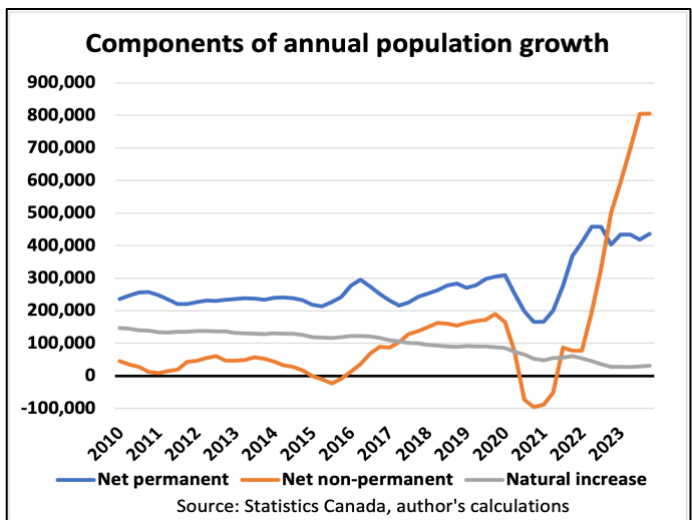
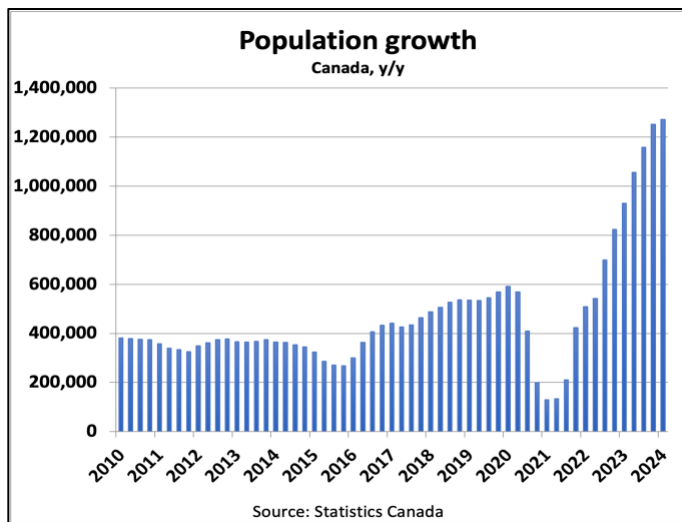
Less than a week after the immigration minister announced a major overhaul of the non-permanent resident (NPR) programs, we got new data that forces us to update our modeling. As a reminder, the key announcement was that the feds will aim to reduce the NPR cohort to 5% of the total population within 3 years.

We learned this week that the NPR cohort grew by another 150,000 last quarter. That's a sharp deceleration relative to the prior 2 quarters, but it still dwarfed growth among permanent residents which came in at +91k q/q.

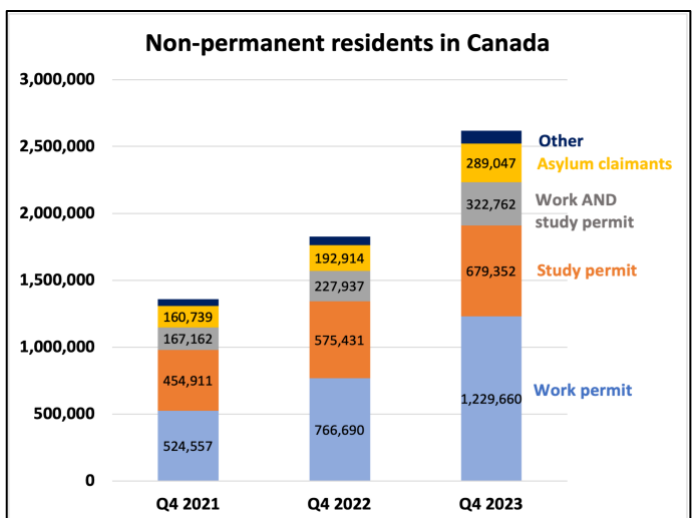
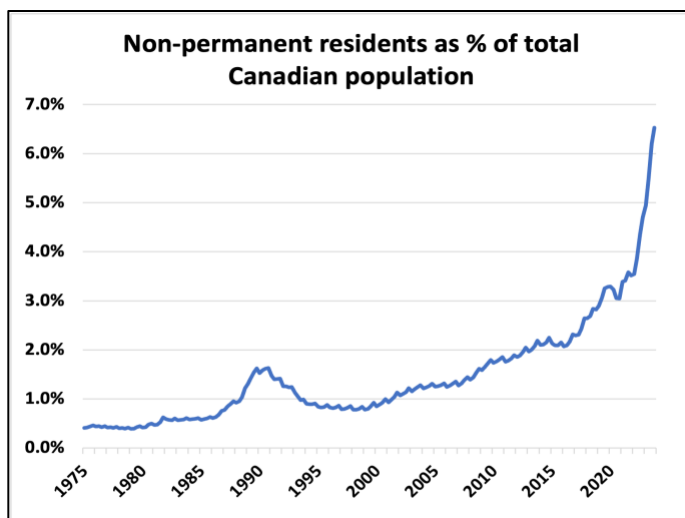


That pushed headline population growth to 1.27 million or 3.2% y/y, of which 800k (~64%) is the NPR cohort:



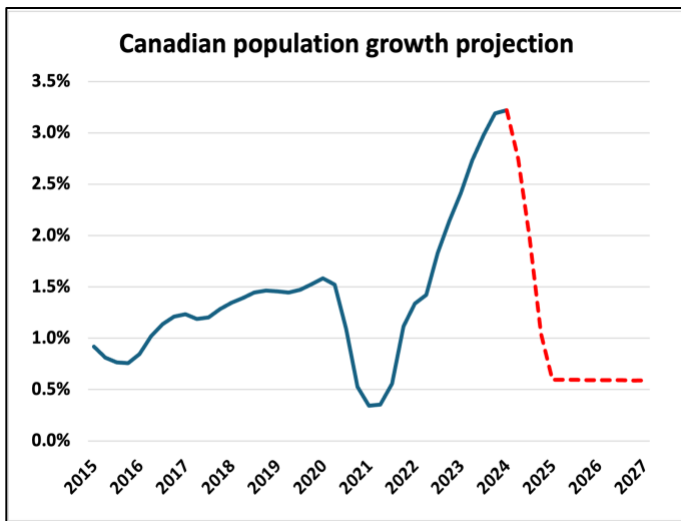


This new data puts the NPR cohort now at 6.5% of total population, or a little over 2.6 million people:

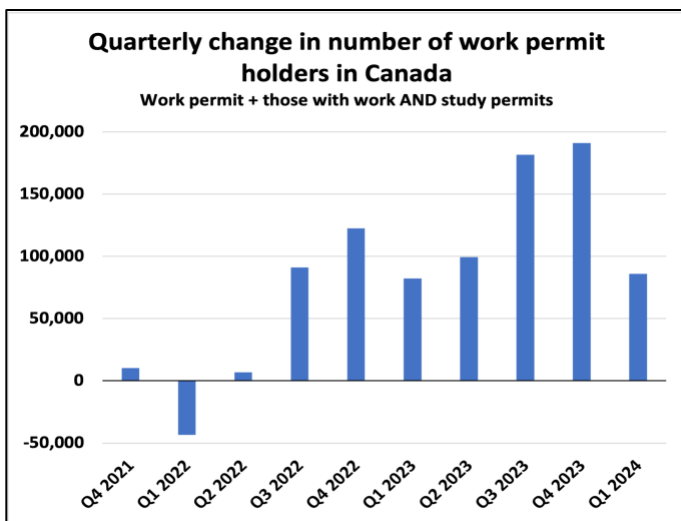


The modeling in our earlier note assumed NPRs at 6.2% of the total population, implying a reduction of 450,000 over 3 years would be necessary to hit the 5% target (assuming a stable rate of growth in the permanent resident cohort).

What this new data means is that in order to hit the targets, the NPR cohort will have to shrink by 600,000 over 3 years, which implies future population growth of 0.6% out to 2027 rather than 0.7% as calculated previously:



Interestingly, the deceleration in NPR growth last quarter was due in part to a sharp slowdown in temporary workers:



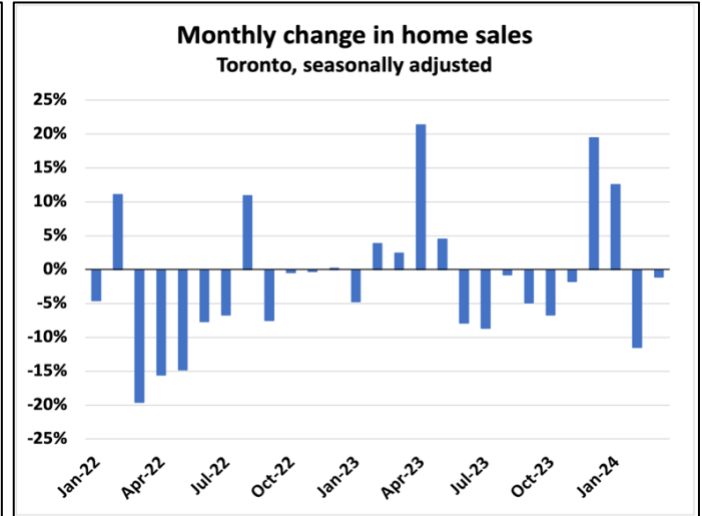
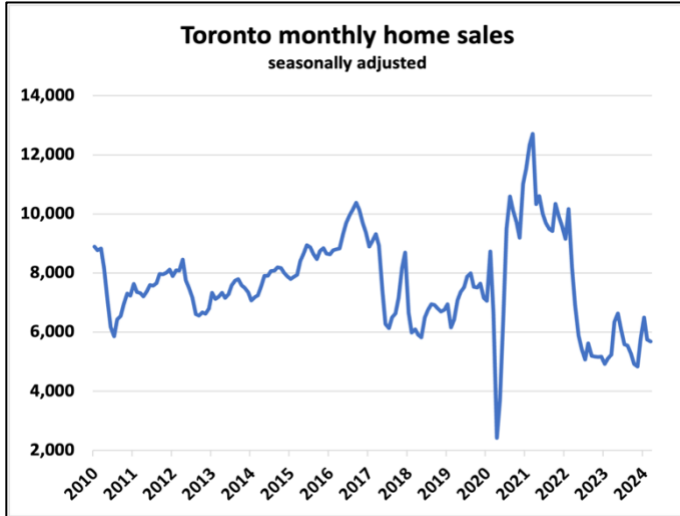
This further reinforces my view that population growth was set to slow sharply regardless of these new measures from the feds since it's clear that fewer NEW temporary workers will be required by businesses as the economy inevitably slows.

All of this strengthens my conviction that inflation and economic growth are softening and the weakness will gain momentum in coming months, leading to a hard pivot towards rate cuts later this year.

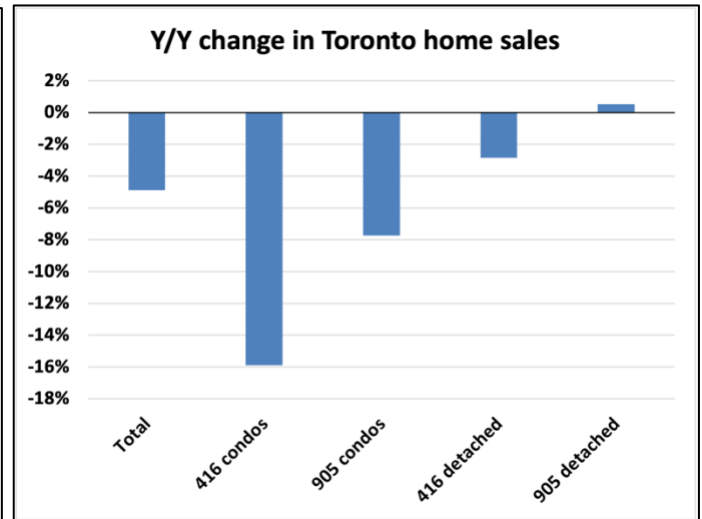
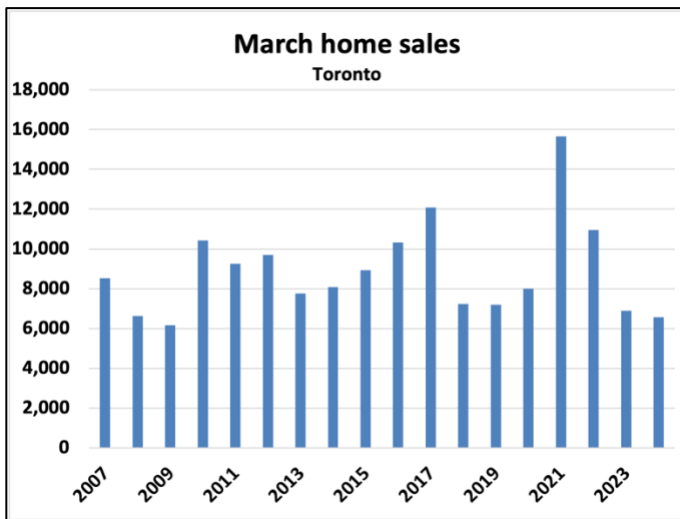
2) Toronto home sales tick lower

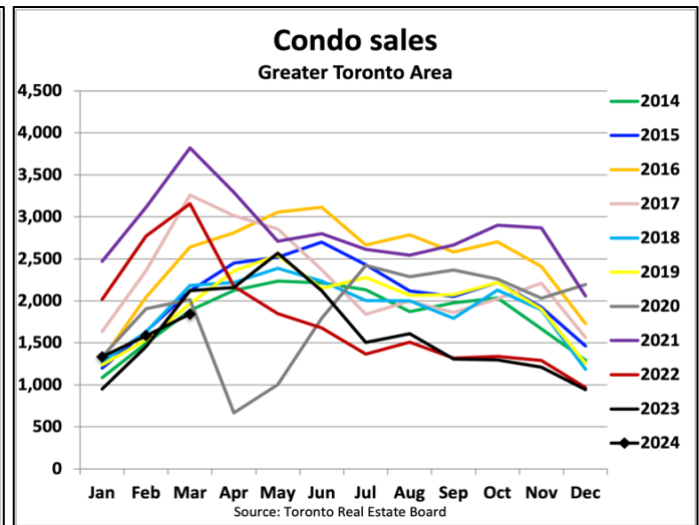
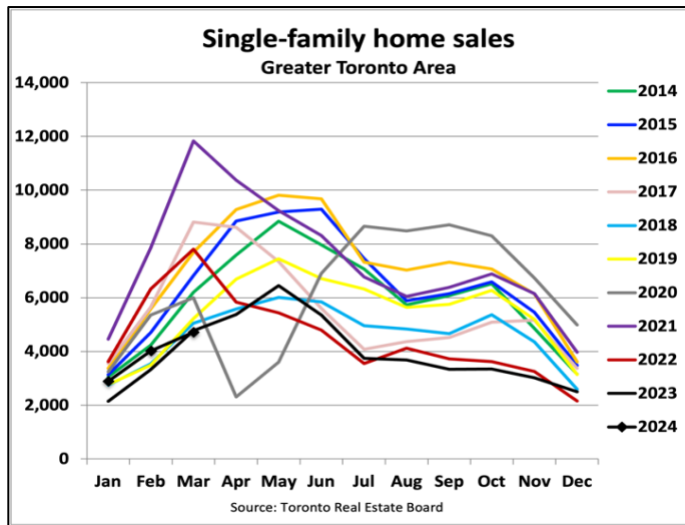
Buyers still stuck on the sidelines

Seasonally adjusted home sales in Toronto ticked down 1.1% m/m in March, building on the sizable 12% drop the prior month. I had been expecting a roughly 20% jump in sales off the late 2023 lows heading into the spring, but that's starting to look like an aggressive bet:



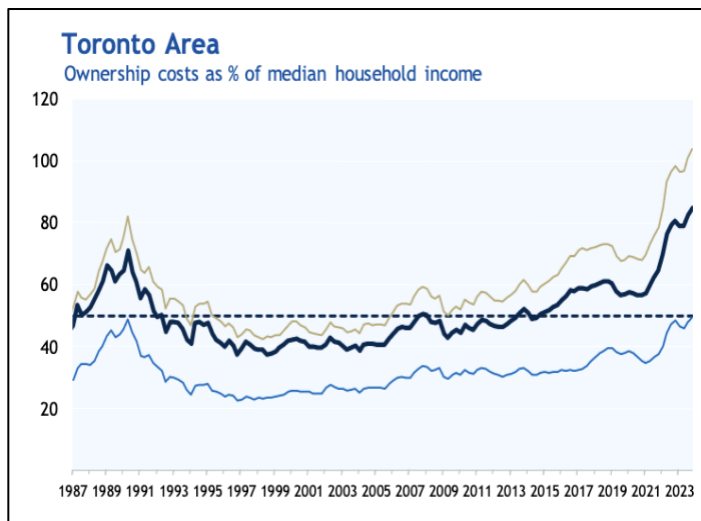
March sales were the lowest since 2009, and down 4.9% compared to last year. Note the outsized drop in condo sales in the 416, and contrast it with the positive momentum in 905 detached. Anything entry-level single-family, be it 905 detached or rows and semis in the 416, are still seeing considerable demand even as condo sales struggle. More on that in a moment:





Blame affordability

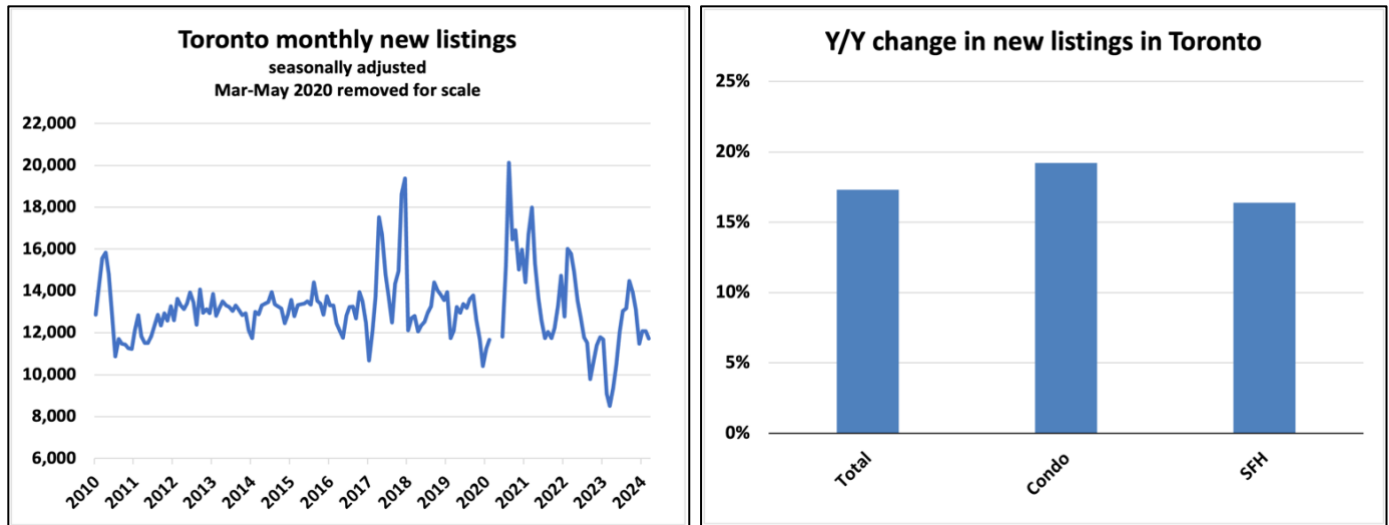
It's becoming clear that the high likelihood of a June cut is not enough to spur buyers into action given. What we need is a real improvement in affordability. On that front, RBC Economics was out with their excellent quarterly report on that subject². The trend in Toronto is downright depressing, and until this changes, we can't expect buyers to return in force:



² https://thoughtleadership.rbc.com/toughest-time-ever-to-afford-a-home-as-soaring-interest-costs-keep-raising-the-bar/?utm_medium=email&utm_source=salesforce&utm_campaign=Economics

New listings fall

There are still no signs that prospective sellers are getting anxious or being forced to liquidate. New listings were well below decade norms in March and were down 3.0% m/m (but still up 17% off the extreme lows seen last March):

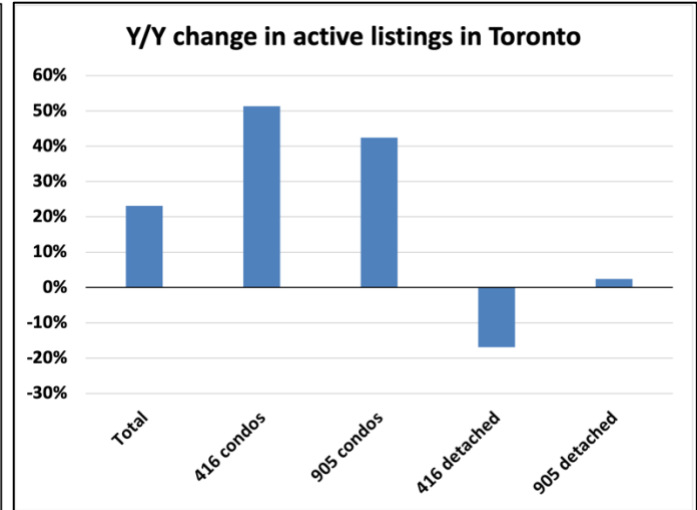
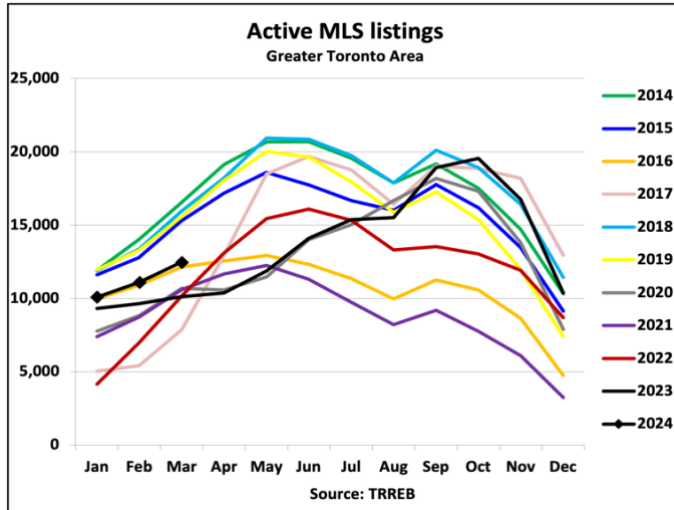


The sales-to-new listings ratio improved modestly on the month but is still holding at a meagre 48%. I hate to be the bearer of bad news, but if this ratio doesn't improve pronto, we're set to see prices roll back over again in coming months:

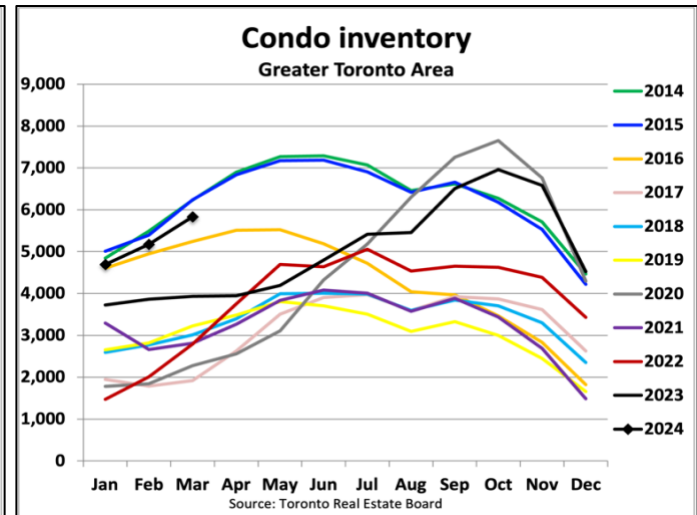
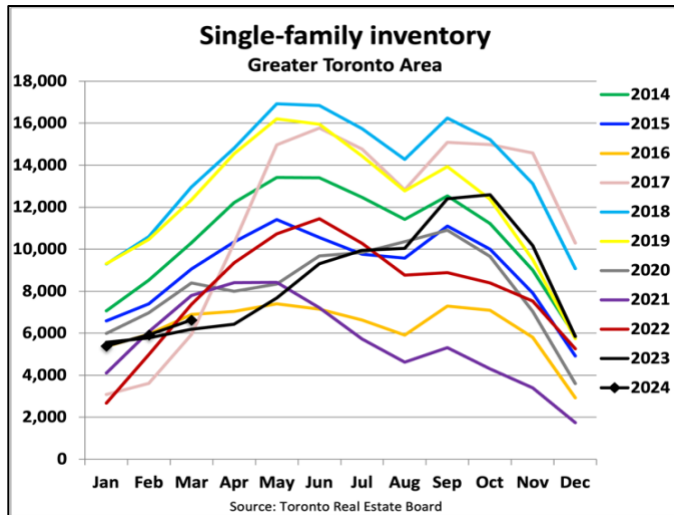


Condo inventory accumulation continues

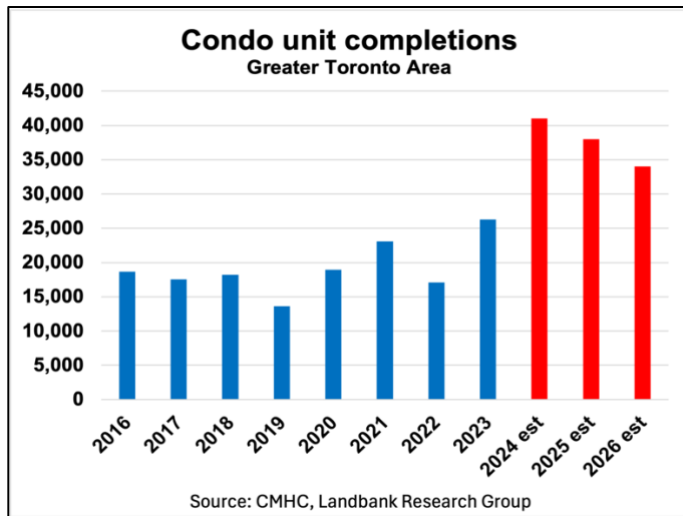
Total listings across the metro were up 22% y/y, but up 50% for condos:



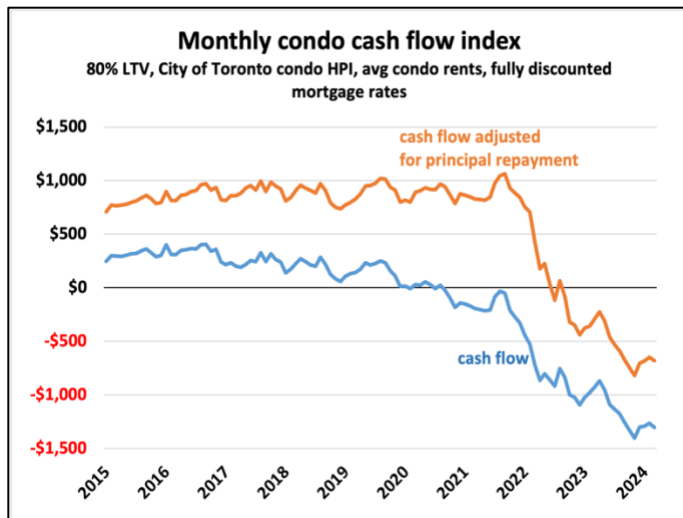
The divergence between condo and single-family inventory trends is quite striking right now, with single-family still well below normal levels while condo inventory is just a shade off the all-time highs for the month:



Now consider that we are likely facing a very healthy level of new completions over the next couple year, with 2024 looking to set a record:

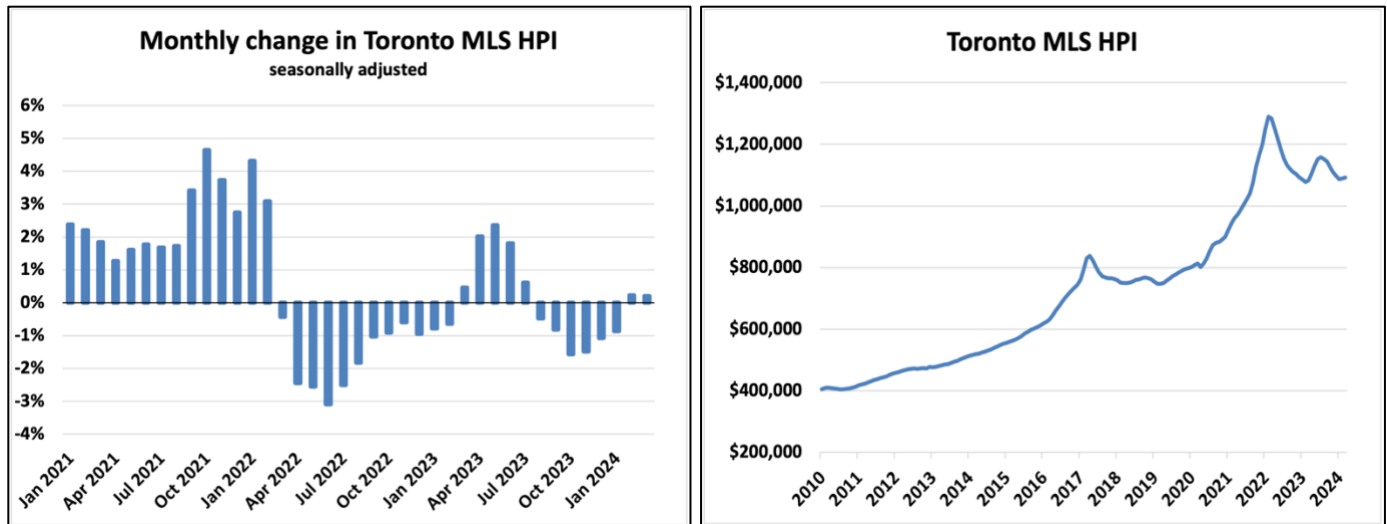


I continue to think that the likely culprit for the underperformance in the condo market is the lack of investor demand. Cash flow dynamics on resale condos are still very challenging and even deteriorated slightly last month. Until this changes, condos will likely underperform:

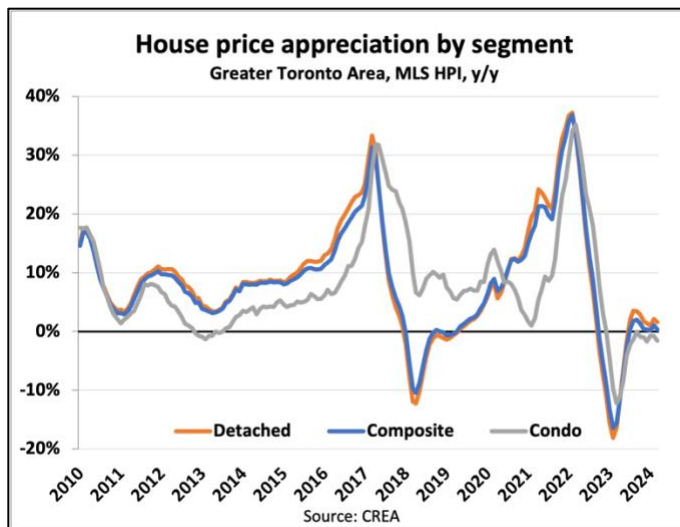


Upward price trend in March

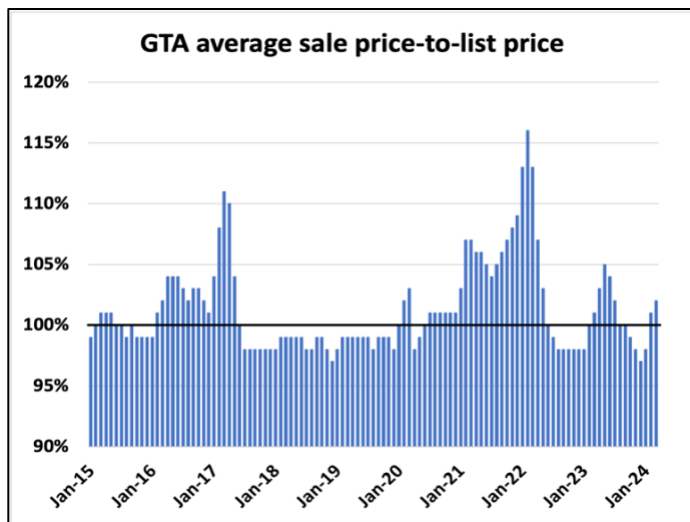
Seasonally adjusted house prices were up 0.2% m/m in March:



Prices are still flat relative to last year, with a growing gap between single-family (+2%) and condos (-2%)...a gap that I suspect will widen throughout the year:

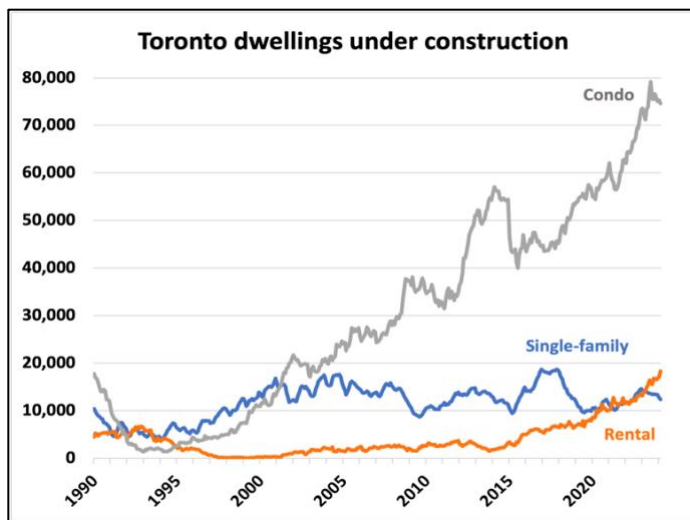


Average sale prices hit 102% of list prices...the best showing since the market caught fire in early 2023:



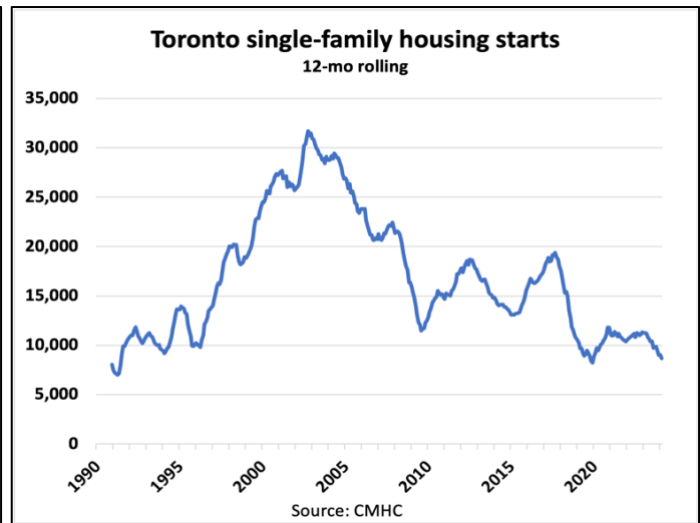
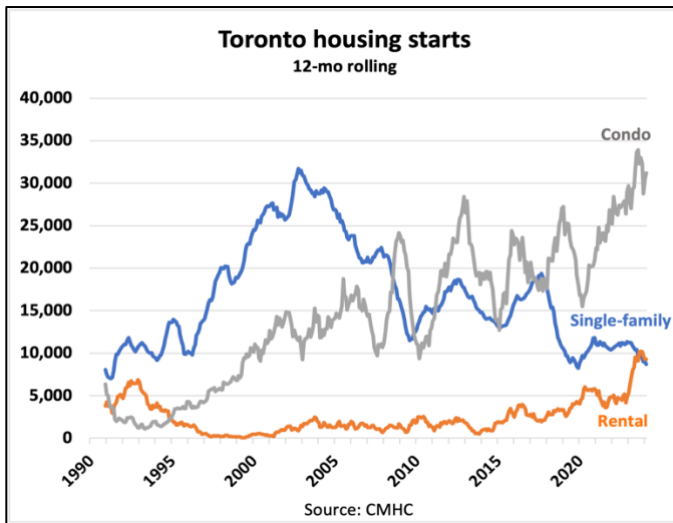
Construction activity ticks up on rental surge

The number of dwellings under construction across Toronto rose 0.2% in February on the back of a 7.6% surge in rental activity. Single-family and condo construction fell 2.9% and 1.0% m/m respectively:

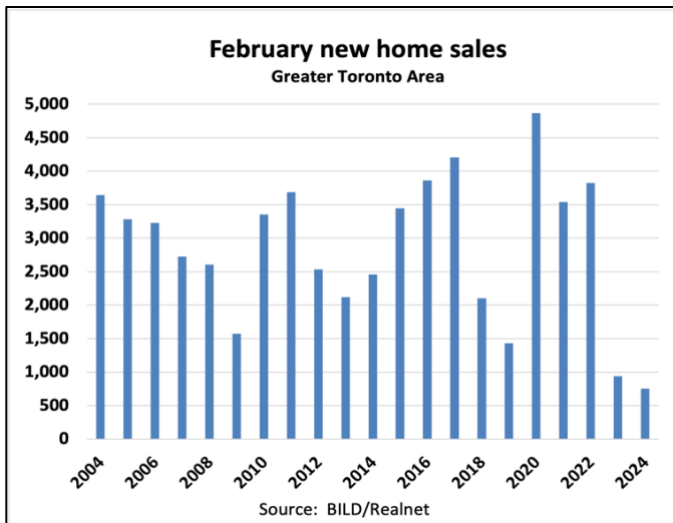


Housing starts were up 10% y/y in February across the GTA, but the divergence between segments is getting a bit crazy. Condo starts jumped 37% compared to last year, but single-family was down a whopping 46%. Outside of the early days of the pandemic when construction stopped in its tracks, single-family starts haven't been this low since the early 1990s!



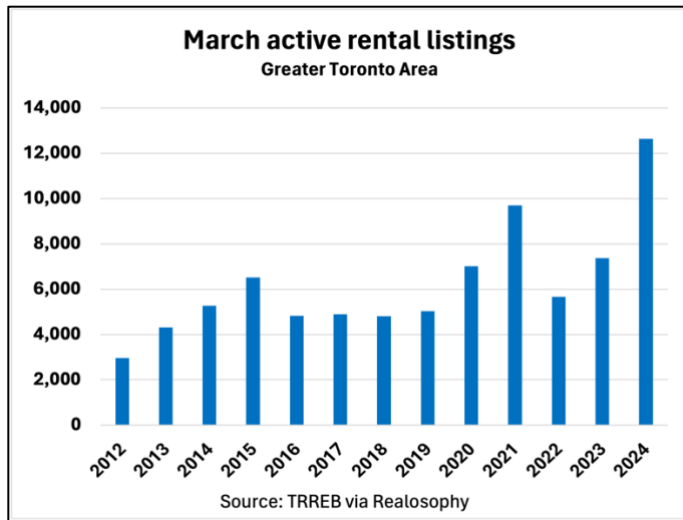


This remains a chicken and egg issue to some extent. Developers can't build without pre-sale contracts in hand, and buyers are still gone from that market. Just consider the latest data from BILD which shows new home sales in February hitting record lows for the month going back to the early 2000s:

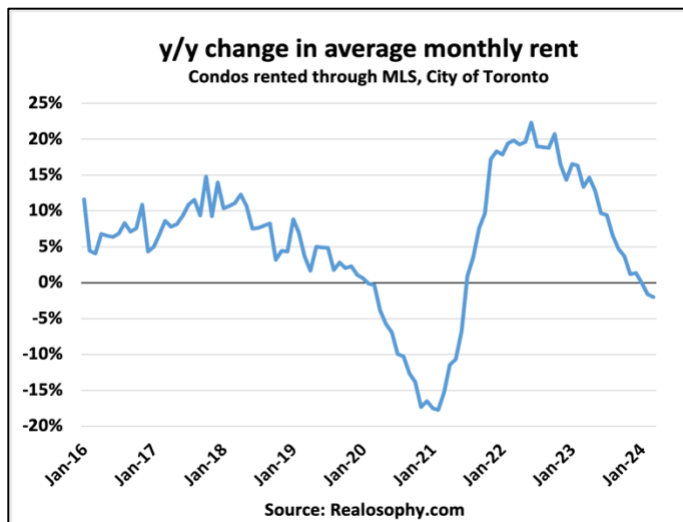


Rental market is easing

The number of rental listings on the MLS system in March was up 71% y/y:



Not surprisingly, condo rents continue to see downward pressure, with average rents down 2% y/y last month:



It's not just Toronto either. [The latest data from Rentals.ca³](https://rentals.ca/national-rent-report) shows monthly declines in average asking rents in 15 of the 20 most expensive metros in March, and the average rent across all of Canada was down 0.1% m/m.

Yes, there's some seasonality here, but in March 2023 there were only 7 metros with declining rents, and the national average UP 0.2% m/m, and in 2022 there were only 6 metros with monthly declines, and the national average was UP 0.9% on the month. It's safe to say that we're seeing a softening at least at the margins, and that's consistent with conversations I've had with property managers who confirm this slowdown:

³ <https://rentals.ca/national-rent-report>



RANK**	CITY/AREA	1 BED	M/M	Y/Y	2 BED	M/M	Y/Y
1	Vancouver, BC	\$2,653	-1.1%	0.5%	\$3,541	-1.9%	-2.5%
2	Toronto, ON	\$2,495	-0.6%	-0.2%	\$3,287	-1.3%	-0.8%
3	Burnaby, BC	\$2,456	-3.7%	7.6%	\$3,078	-1.9%	-3.1%
4	Mississauga, ON	\$2,294	-1.3%	5.2%	\$2,722	0.3%	4.3%
5	Oakville, ON	\$2,268	-0.5%	0.0%	\$2,684	-1.8%	-8.1%
6	Etobicoke, ON	\$2,255	0.1%	1.9%	\$2,799	-1.2%	1.1%
7	Scarborough, ON	\$2,194	-1.2%	10.1%	\$2,519	-1.3%	3.0%
8	Burlington, ON	\$2,193	-0.5%	-1.2%	\$2,591	0.5%	2.4%
9	Brampton, ON	\$2,155	-1.5%	15.5%	\$2,398	-2.4%	3.8%
10	Victoria, BC	\$2,116	0.7%	5.8%	\$2,743	1.1%	5.1%
11	Surrey, BC	\$2,056	-1.1%	9.8%	\$2,521	-2.7%	9.0%
12	Ottawa, ON	\$2,037	-0.2%	4.0%	\$2,494	0.6%	6.7%
13	Waterloo, ON	\$2,027	1.5%	14.2%	\$2,449	-1.0%	6.4%
14	Guelph, ON	\$1,986	0.3%	-1.7%	\$2,476	2.4%	6.3%
15	Halifax, NS	\$1,938	-1.3%	10.1%	\$2,336	-3.9%	5.0%
16	Kitchener, ON	\$1,924	-0.7%	-0.4%	\$2,350	-0.2%	-2.4%
17	Barrie, ON	\$1,915	-1.0%	-0.7%	\$2,189	-2.9%	-12.1%
18	Kelowna, BC	\$1,914	3.3%	-2.7%	\$2,375	1.4%	-4.8%
19	Kingston, ON	\$1,874	-0.1%	12.3%	\$2,279	-2.0%	7.3%
20	London, ON	\$1,829	-0.9%	3.1%	\$2,208	-0.2%	4.6%

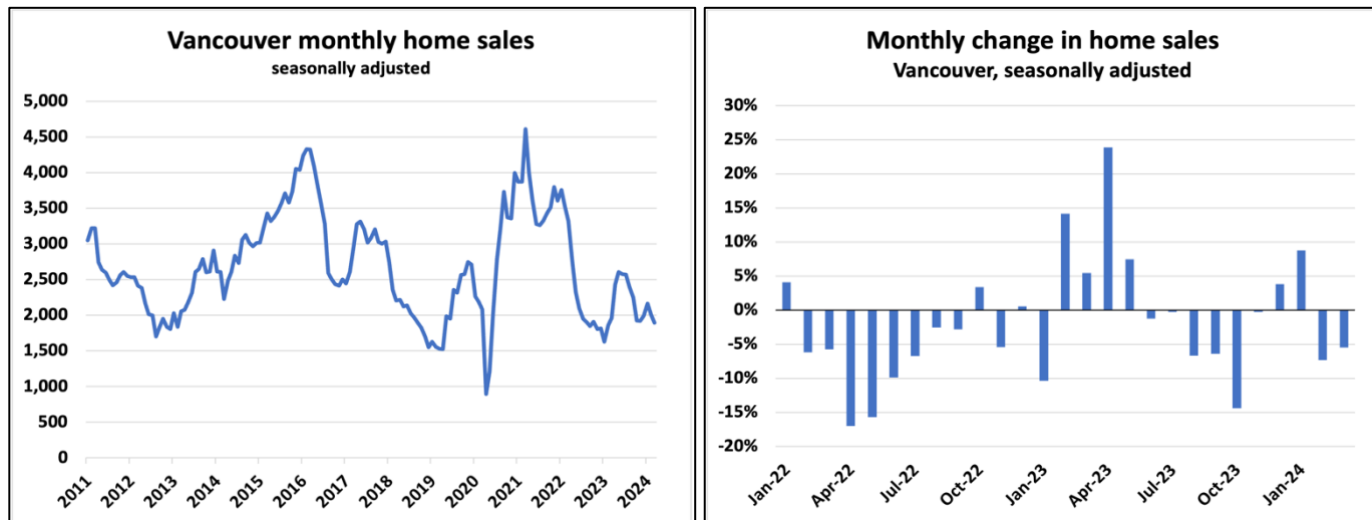
With the feds now set on reducing non-permanent residents (a MAJOR source of rental demand), we should expect the rental market to cool further over the next 18 months. To be clear, not FALLING rents outside of a few pockets, but a slowing in rent growth back down to likely the 2-4% y/y range in most metros.



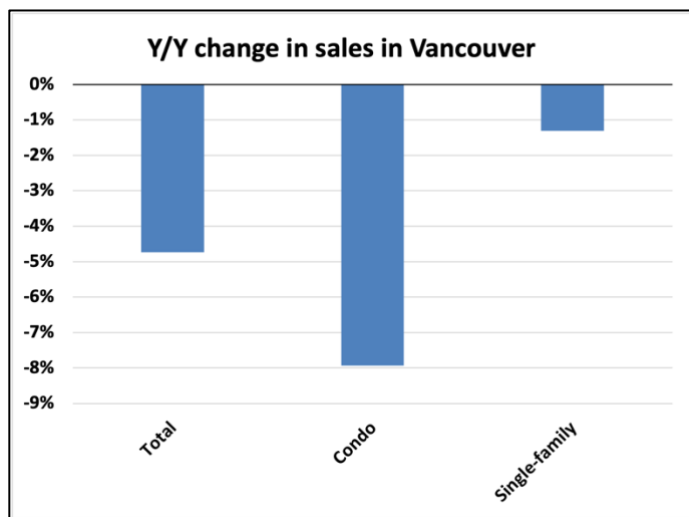
3) Vancouver homebuyers stay on the sidelines in March

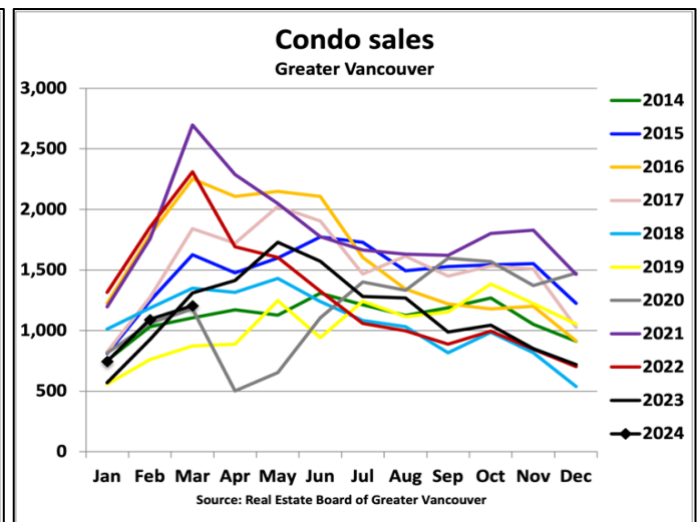
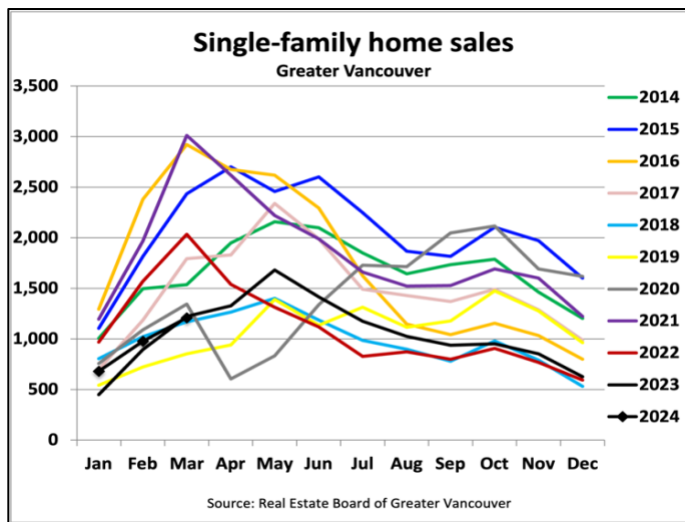
Sales tumble 5% in March

Vancouver home sales came in softer than expected in March, with seasonally adjusted transactions down an estimated 5.5% m/m, building on the 7% drop in February:



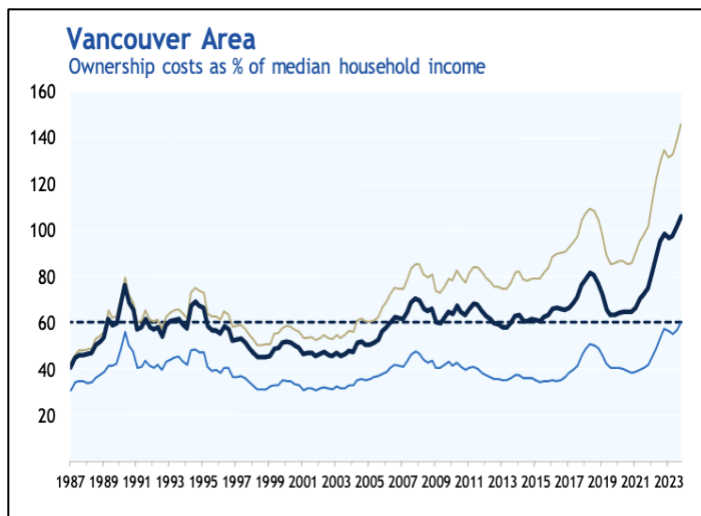
That left sales down nearly 5% from 2023 levels and down 8% in the condo segment:





Acute affordability challenges

RBC's affordability index for Vancouver is shown below. Affordability challenges are not new to Vancouver, but this latest reading is something else:

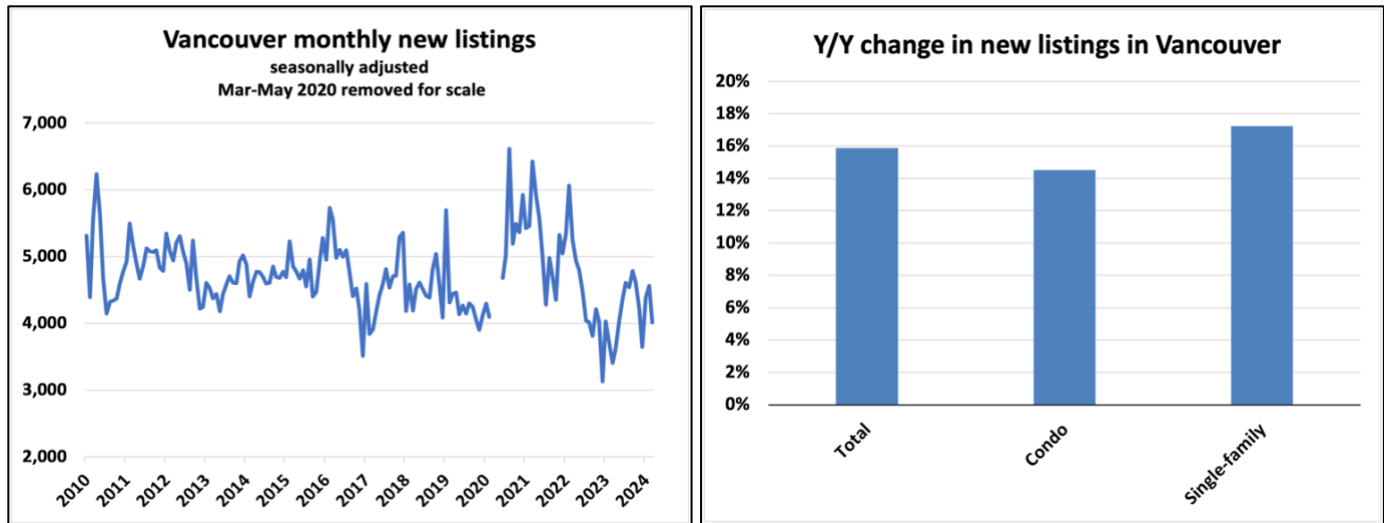


As to how ownership costs could ever get above 100% of median household income, the answer is some combination of the following:

- Only very high income earners are buying (ie median incomes aren't the "right" metric)
- Median income could be understated given that Vancouver is a destination for retirees who are asset rich but often show less income
- Intergenerational wealth transfer
- Foreign capital flows that disconnect prices from domestic incomes

New listings tumble

New listings fell 12% m/m in March. Granted, they were up sharply from the crazy lows seen last year, but they remain nearly 15% below decade norms:

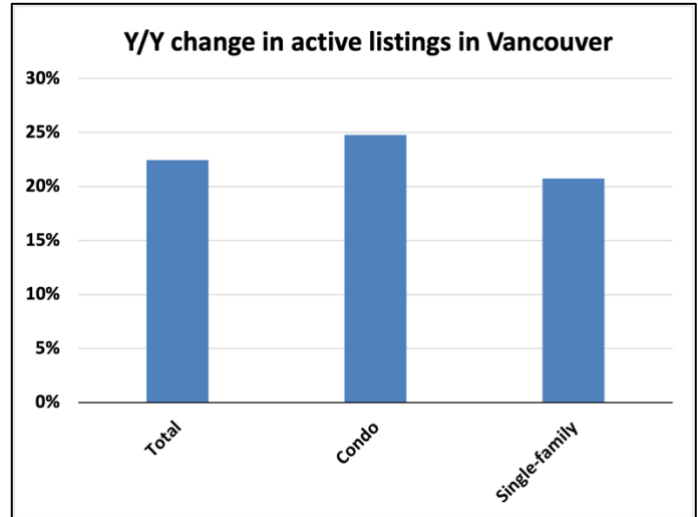
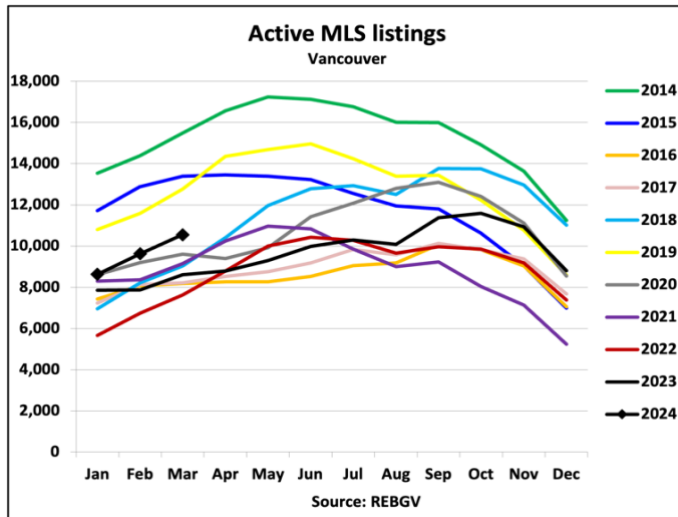


The sales-to-new listings ratio improved slightly to 47% from 45% previously but remains at a level generally consistent with slight downward pressure on house prices. If this doesn't bounce definitively in coming months, we could see prices start to slip further:

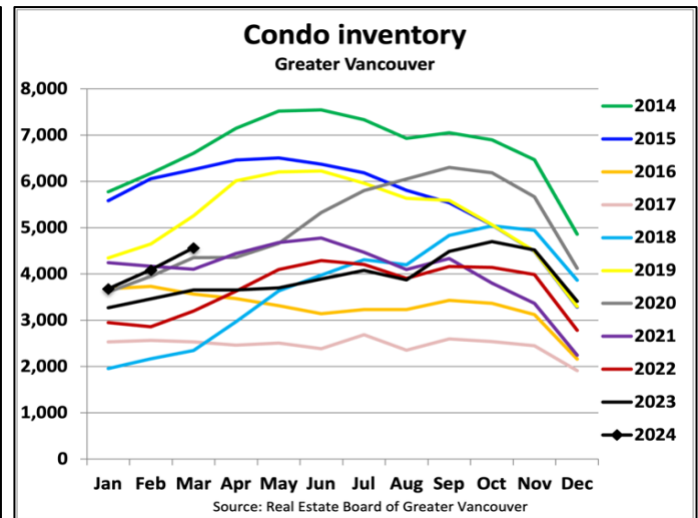
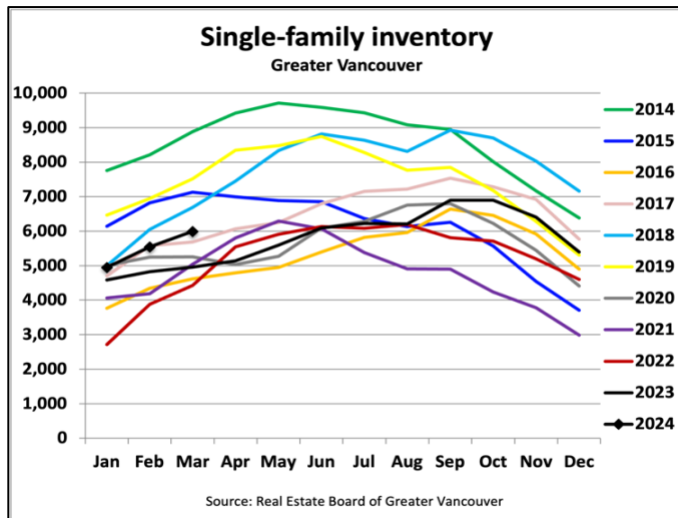


Inventory still normal but rising

Active listings across Vancouver were up 22% y/y but remain at what is effectively the decade average for the month:

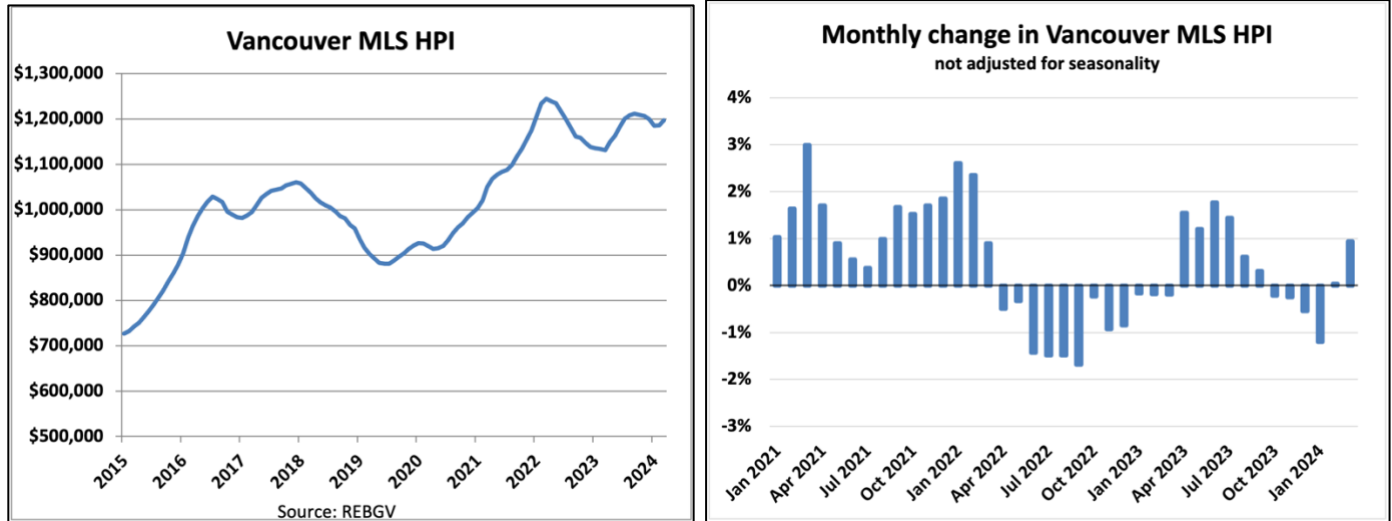


Unlike in Toronto where condo inventory is already approaching all-time highs, the supply situation in Vancouver is still pretty tame across segments:

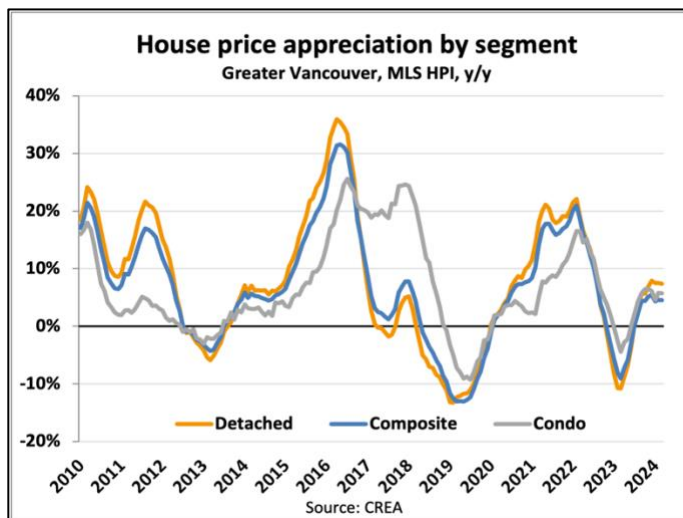


House prices rise

Vancouver saw house prices rise 1% m/m in March, the best showing since the middle of last year:

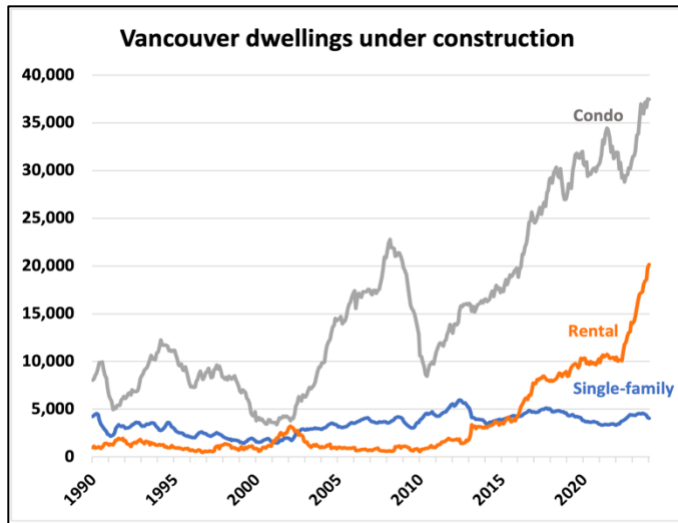


House prices were up 5.8% y/y overall led by a 8.5% jump in the detached segment:

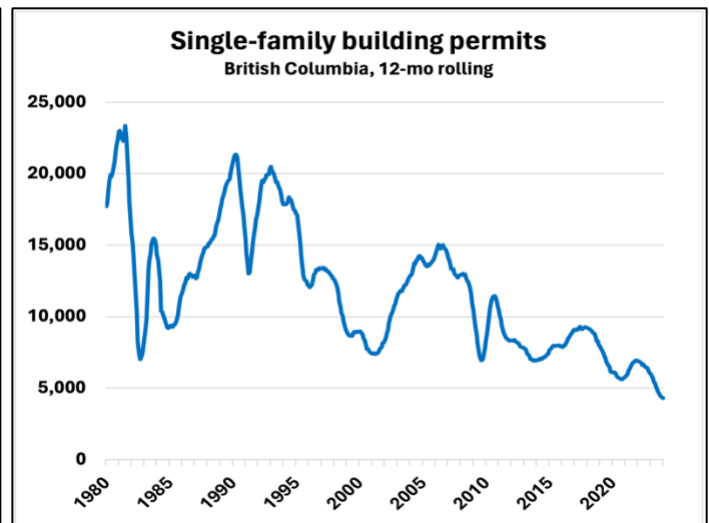
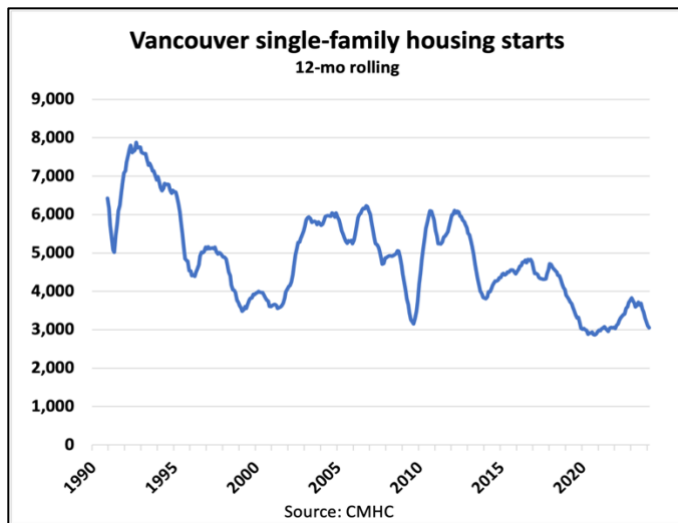


Single-family construction activity keeps falling

The number of dwellings currently under construction across Vancouver rose 0.6% in February, led by a 1.0% jump in condos and a 0.4% increase in rentals. In contrast, single-family construction fell 1.8%.



Housing starts overall were up a whopping 82% y/y in February, but that was entirely due to a 168% increase in condos. Single-family starts were down 26% y/y and are bumping along at 30-year lows. They will likely go even lower based on the trend in forward-looking building permits:



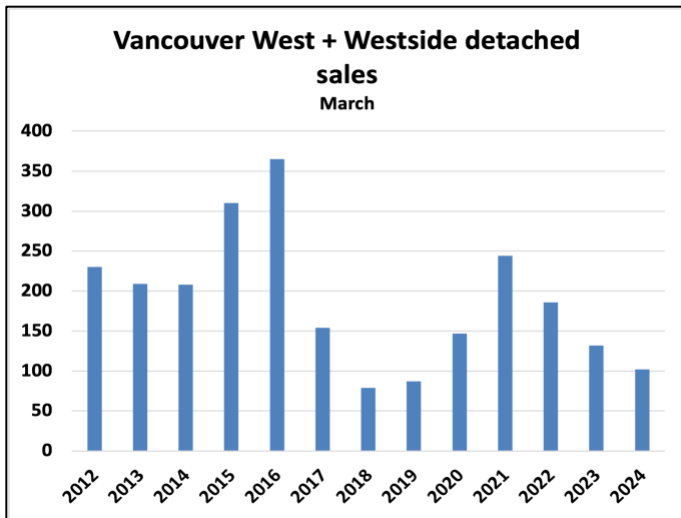
Monitoring demand from China

The BC provincial government filed its third Unexplained Wealth Order this month, targeting potential illicit funds linked to a defunct crypto exchange⁴. As a reminder, these orders force asset owners to account for the funds used in the acquisition of those assets or risk having them deemed the proceeds of crime and seized by the government.

⁴ https://vancouversun.com/business/bc-files-third-unexplained-wealth-order-case-alleging-cash-gold-linked-to-169-million-quadrigacx-cryptocurrency-fraud?taid=6604be7294906a0001847498&utm_campaign=trueanthem&utm_medium=social&utm_source=twitter



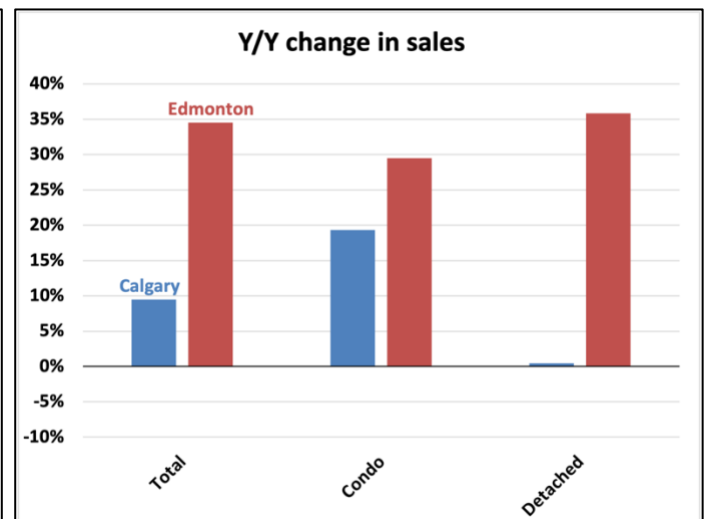
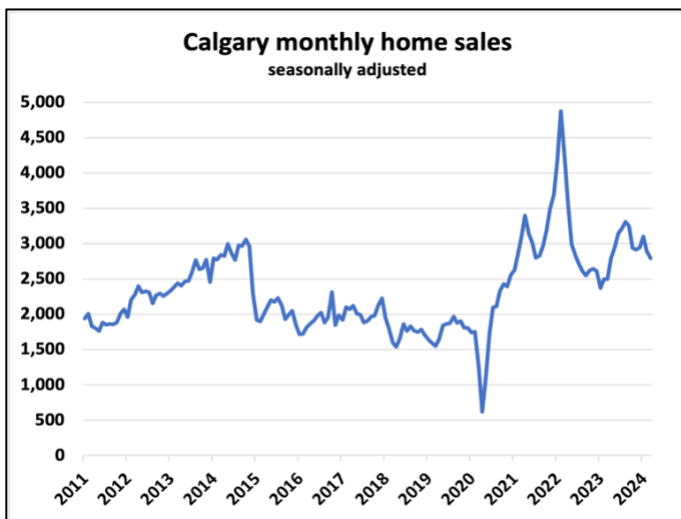
Interestingly, detached sales in West Vancouver and Vancouver's Westside- my proxy for demand from mainland China- were down 22% y/y in March vs a 4.7% decline in overall home sales across the metro. Coincidence? Or is Canada finally succeeding at becoming a slightly less welcoming jurisdiction for international capital flows?



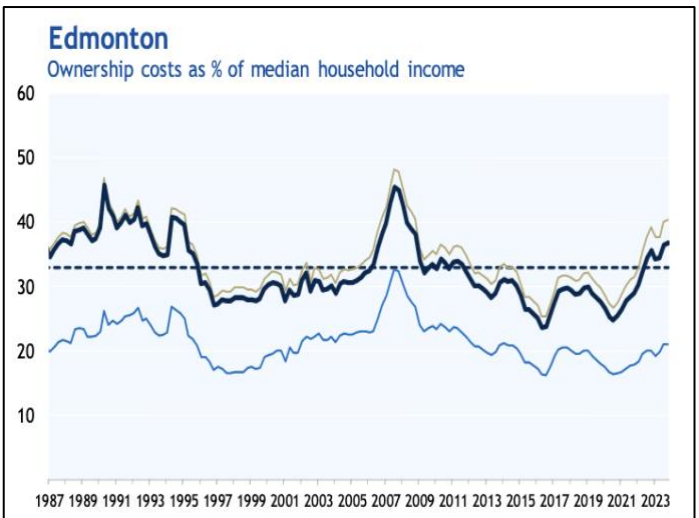
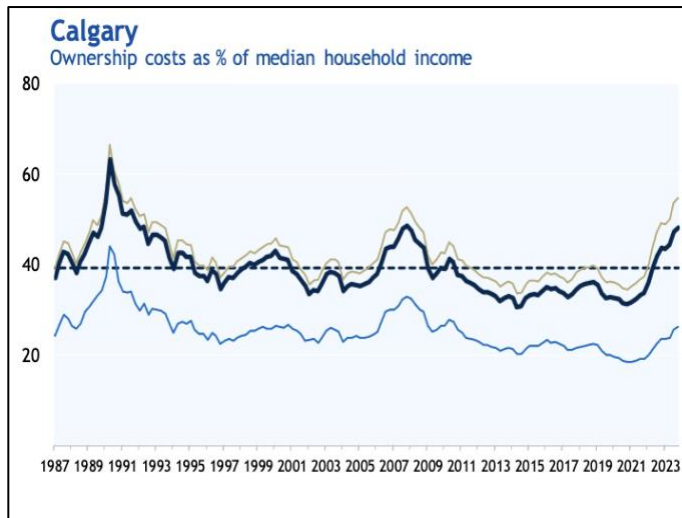
4) Blistering hot housing markets in Calgary and Edmonton

Demand cools slightly, but market balance still tightens

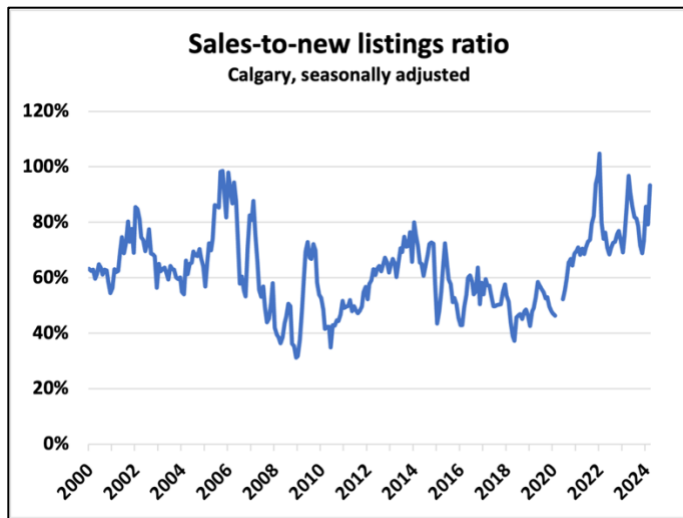
Seasonally adjusted home sales slipped 3.5% m/m in Calgary in March but were up 9% y/y and up a whopping 35% y/y in Edmonton...a market that looks set to catch fire this year:



Affordability dynamics are starting to get a tad stretched in Calgary but still look decent in Edmonton:

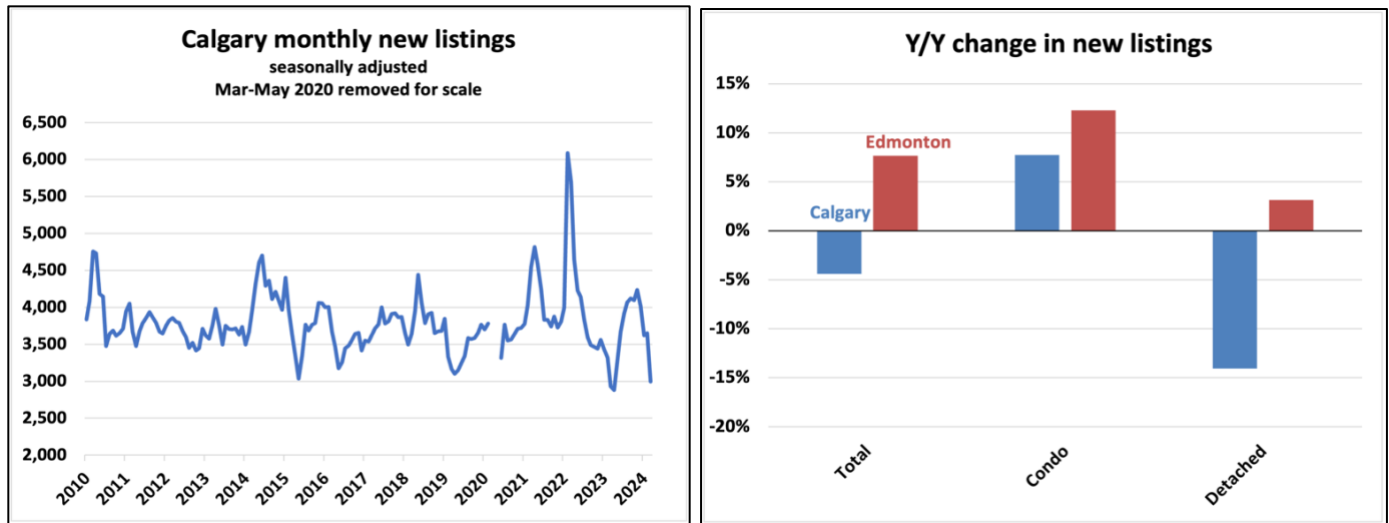


In spite of the slight pullback in sales in Calgary last month, the market balance still tightened significantly. The sales-to-new listings ratio surged to 93%....an absolutely scorching hot market. For context: Toronto and Vancouver are both in the 40s on this measure:



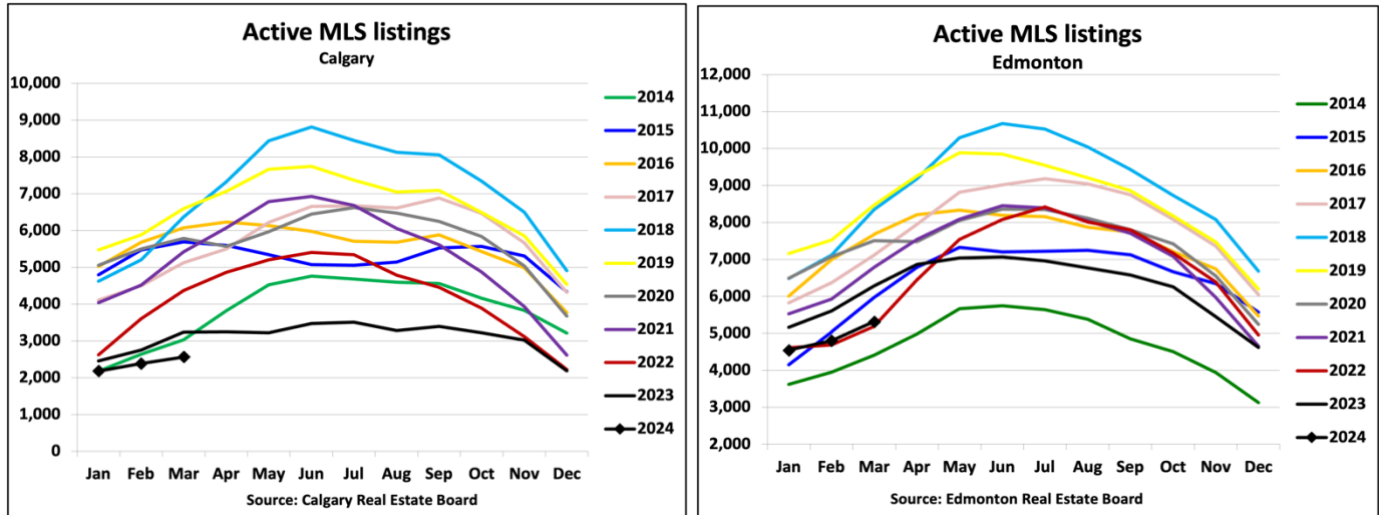
New listings plunge

The main reason for the tightening market balance in Calgary was a 18% drop in seasonally adjusted new listings in March:

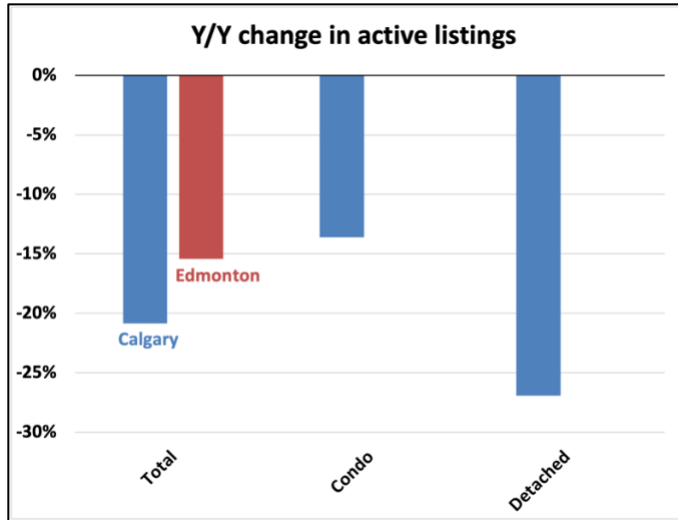


Still no inventory

Inventory is still at crisis levels in Calgary and is getting pretty close to that in Edmonton too. There's just nothing to buy:



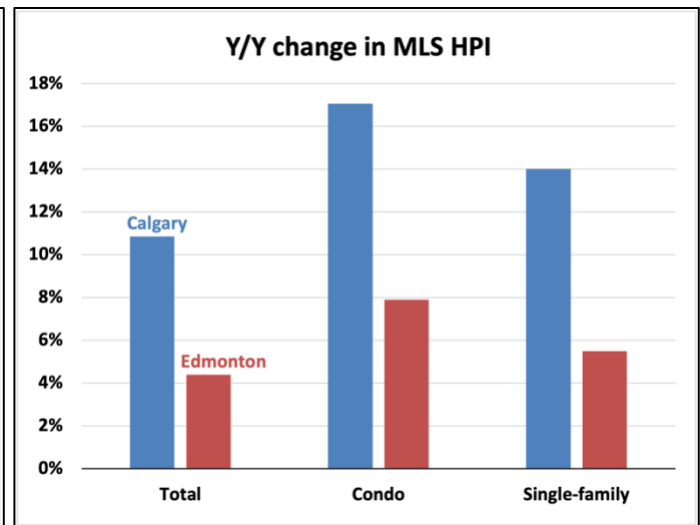
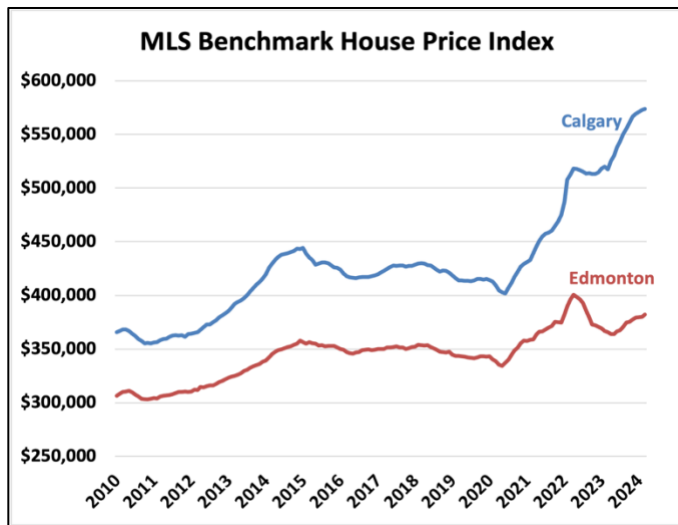
Inventory levels are down 21% y/y in Calgary and 16% in Edmonton:



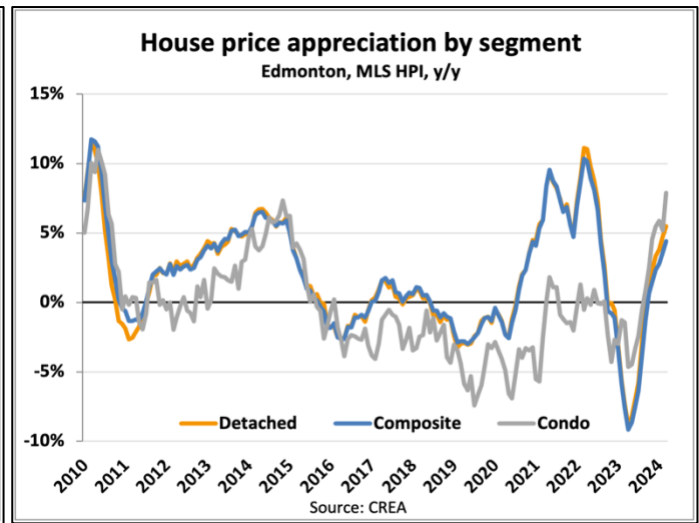
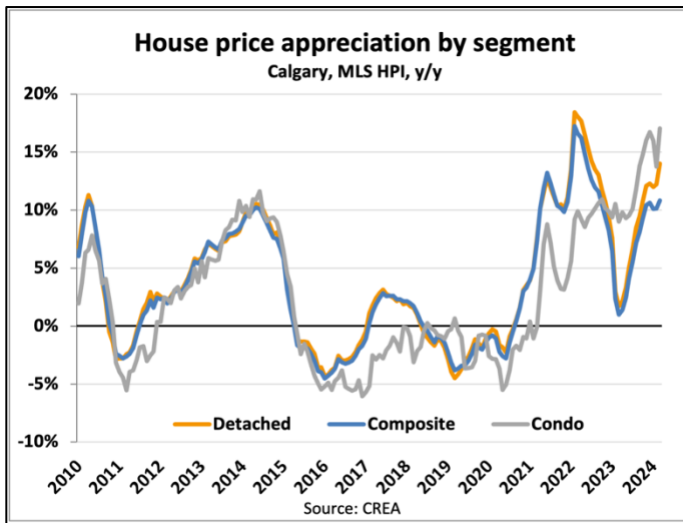
House prices surge

House prices just keep grinding higher in Calgary, up another 0.2% in March and up nearly 11% y/y. In Edmonton, prices are just starting to gain momentum, up 0.5% m/m and up 4.3% y/y.

Given market dynamics, I actually think that by Q3 we'll see price gains in Edmonton begin to outpace Calgary.

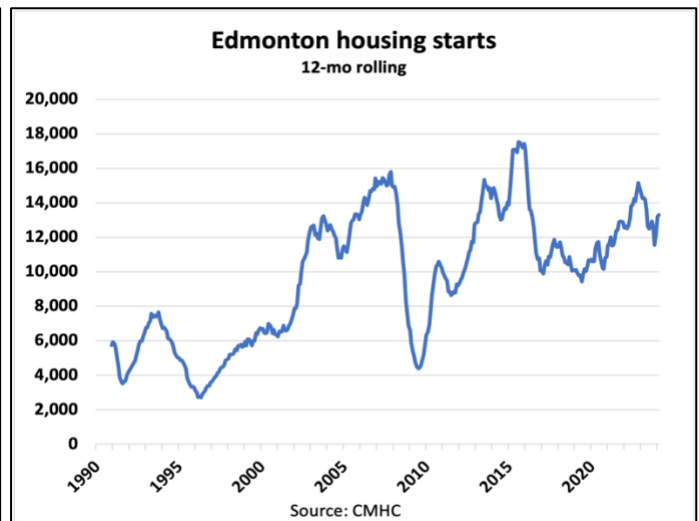
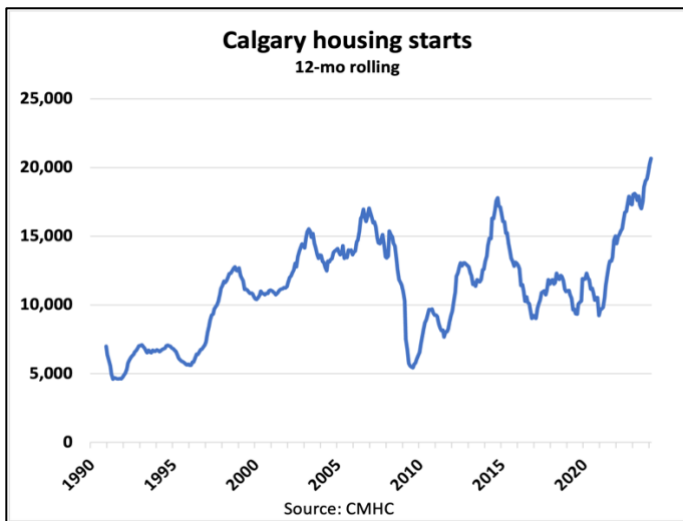


Looking at the y/y price change, we see condos in Calgary are now seeing the strongest appreciation in 18 years while Edmonton is seeing 10-year highs in condo price growth:

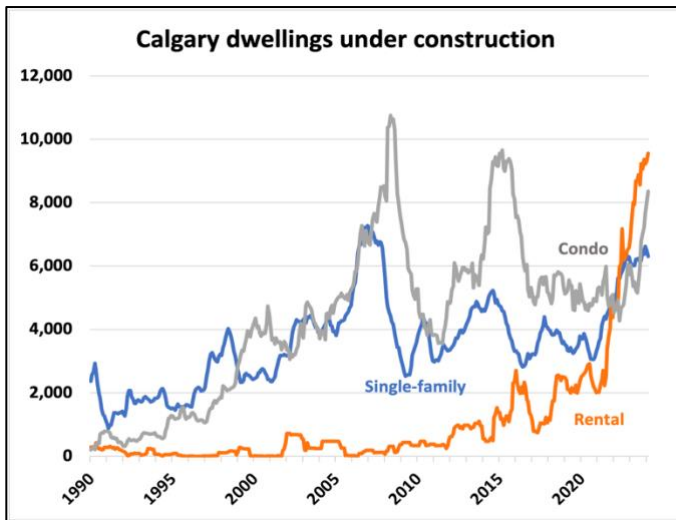


Construction activity rises again

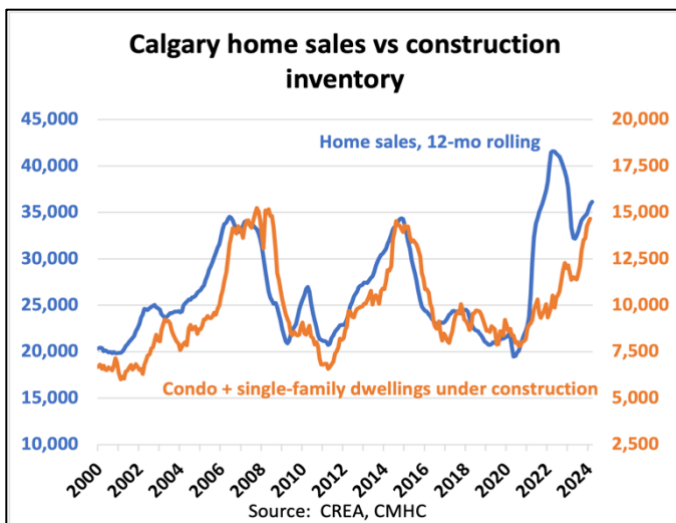
Construction activity in Calgary continues to pick up steam. Housing starts were up 35% y/y in February including a 130% jump for condos. That puts total starts at a fresh record over the past 12 months. In contrast, Edmonton remains well below peak levels:



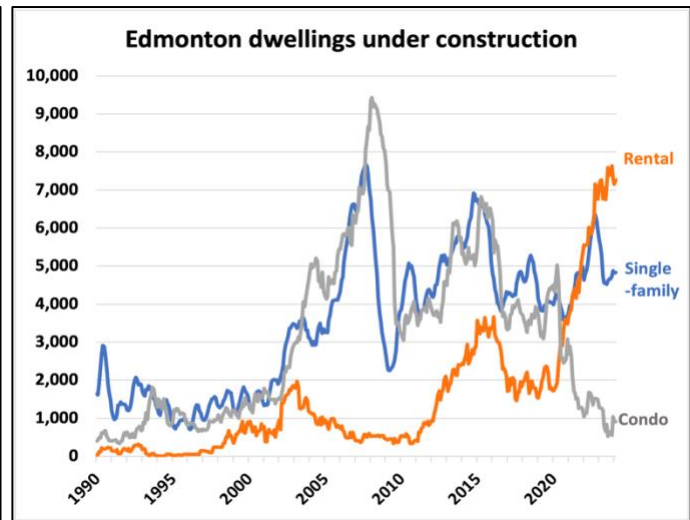
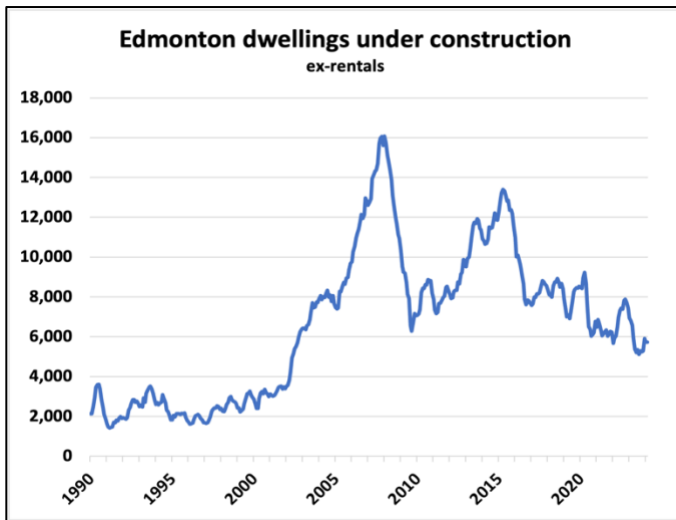
The number of dwellings in the construction pipeline in Calgary rose another 1.8% in February led by a 4.5% jump in condo construction. **In the past 8 months alone, the number of condo units under construction has surged by 62%!!!** These units will take a while to come to market, but I would bet that resale supply is likely at the lows or close to it, and 2025 and beyond will see a better supplied market in Calgary:



My indicator for cyclical overbuilding in Calgary continues to flash yellow, and it's good to remind ourselves that ALL things are cyclical, and that's been very true for Calgary's market:



Meanwhile in Edmonton, homeowner dwellings under construction (ie ex-rentals) remains near 20-year lows, which means resale supply could continue to tighten through 2025:



So I reiterate my call that Edmonton will likely start outperforming Calgary in terms of price appreciation later this year. To be clear, I'm not "worried" in the least about Calgary....I'm still very optimistic over the longer term. It's just not the "layup" it was 2 years ago when I was pounding the table on Calgary being a screaming buy.

Have a great day!
Ben