March 2025
Metro deep-dive: February data

Quick links:

1) Macro commentary: Tariffs crush sentiment, March rate cut back on the table

Tariff playbook still intact, sentiment crushed

Are the tariffs here or are they not?

Trump announced the implementation of sweeping tariffs on Tuesday, causing a major stock market selloff and flight to safety. But by late afternoon that same day, we got this headline from Secretary of Commerce Howard Lutnick (the key guy to watch for signals about how these tariffs will play out):

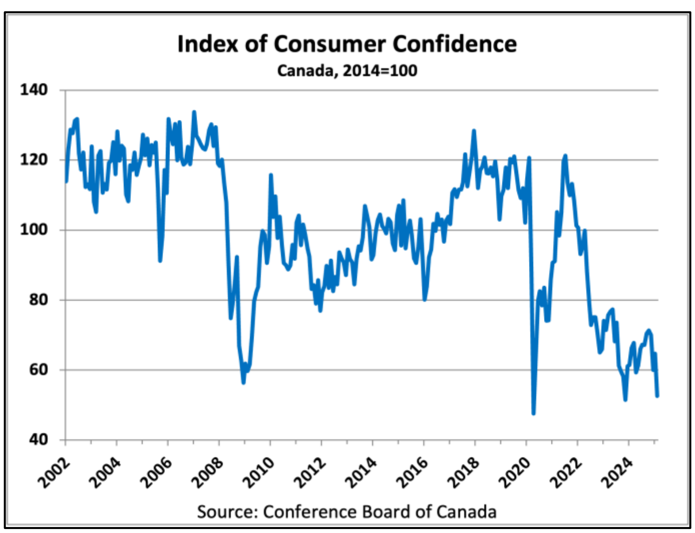
> **Trump Weighs Tariff Deal With Canada, Mexico, Lutnick Says**
>
> By Josh Wingrove
>
> March 4, 2025 at 4:29 PM EST
> *Updated on March 4, 2025 at 4:57 PM EST*
>
> The Trump administration could announce a pathway for tariff relief on Mexican and Canadian goods covered by North America's free trade agreement as soon as Wednesday, Commerce Secretary Howard Lutnick said.

If it seems that maybe the US administration is not all that committed to this first round of tariffs, trust your instincts.

I'll remind readers that the playbook appears to have been well telegraphed ahead of time and was laid out on our last subscriber call. According to Lutnick himself, this first round of tariffs was not intended to be permanent but rather to align US border partners around perceived issues of national security. Later this summer we'll get the permanent tariffs, which will likely be considerably lower and scaled in over time. Once we get clarity on what those might look like, we can finally model out some potential impacts. Until then, we're just spinning wheels.

Sentiment crushed

The direct impact of these tariffs is yet to be felt, but massive uncertainty is already weighing on economic activity. The Conference Board's Index of Consumer Confidence tumbled 12.1 points in February to hit the third lowest level on record as sentiment soured ahead of a potential Canada-US trade war:



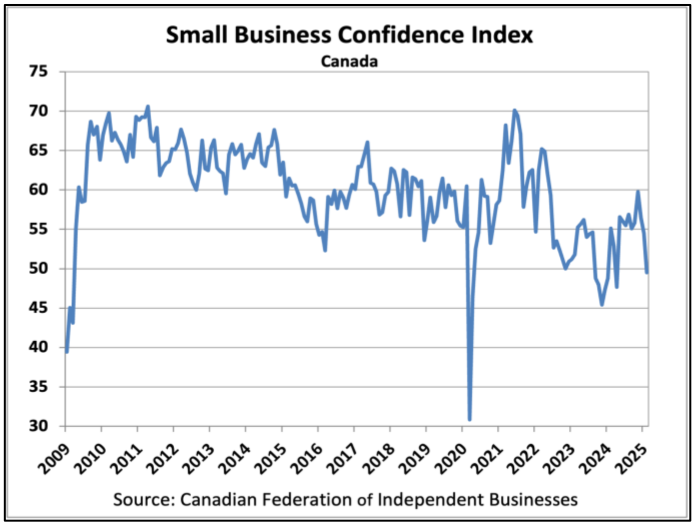
From the report:

> While no broad tariffs have been imposed yet, the uncertainty surrounding their occurrence is weighing on consumer confidence
>
> […] The share of households perceiving a deterioration in their current financial situation rose 2.7 percentage points to 33.9 per cent. Simultaneously, the proportion of consumers foreseeing a degradation in their future financial outlook increased 3.7 percentage points to 29.2 per cent, the largest proportion in two years.
>
> […] Views on major purchases followed a similar trend. The share of consumers thinking it is a bad time to make a major purchase increased 3.5 percentage points to 62.6 per cent.

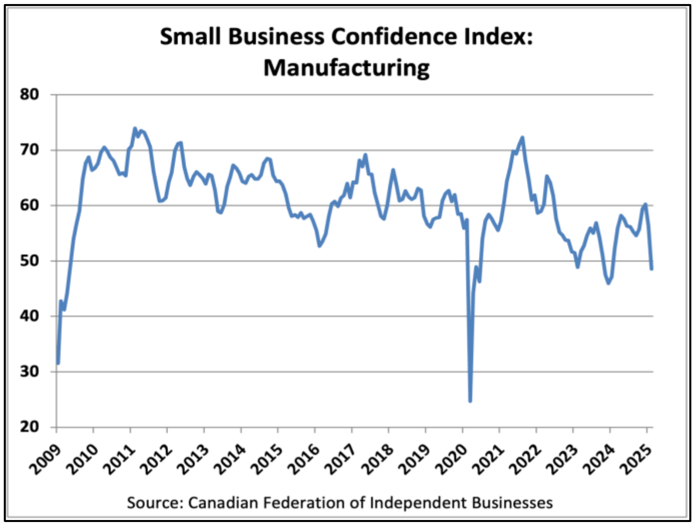
Weekly polling from Bloomberg and Nanos confirm the abrupt sentiment shift. The share of respondents in that survey who expect the economy to weaken in the next year hit the highest level since the onset of the pandemic:

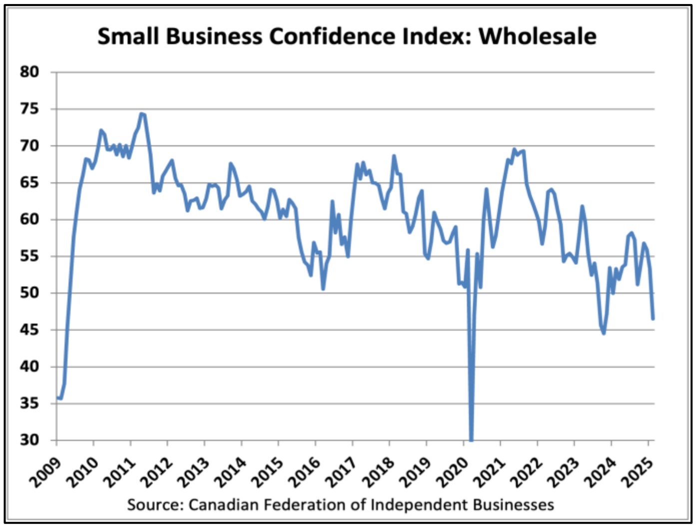
Expect this to weigh on consumer spending, particularly big ticket expenditures….including housing unfortunately. We got a glimpse of that in the home sales data for February.

Meanwhile on the business side, CFIB's Business Confidence Index plunged 5 points in February…



…dragged lower, as you might expect, from major declines in manufacturer and wholesaler sentiment:



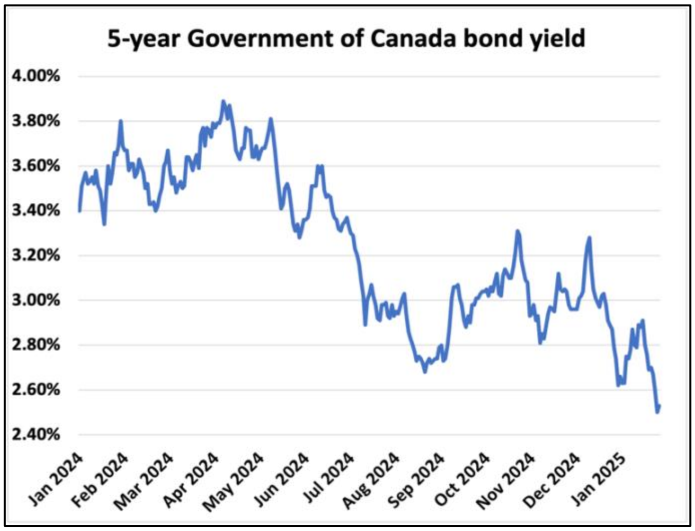


This means business investment will likely be very soft until the tariff issues are resolved.

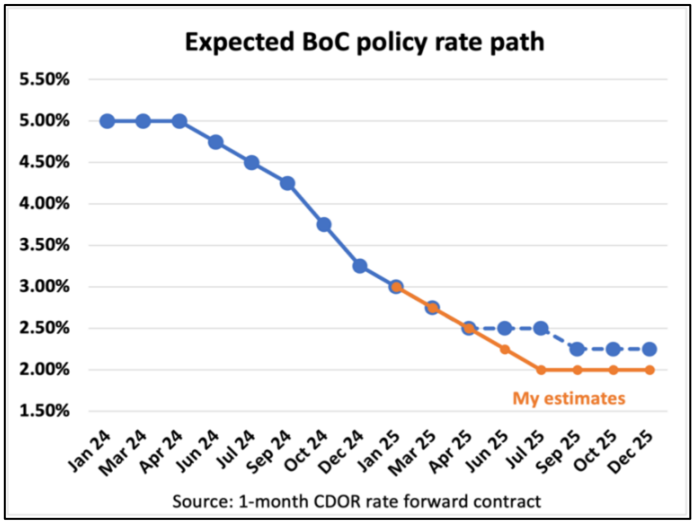
Uncertainty = low rates

For macro-watchers, all of this uncertainty means one thing: Lower rates.

Bond yields have plunged over the past couple weeks, notably in the bellwether 5-year segment which drives fixed mortgage rates. All else equal, we should start seeing chunky declines in fixed rate offerings within the week:



<u>Rate cut probabilities have shifted dramatically, and all of a sudden my call for a 2% overnight rate this summer doesn't look so far-fetched. Odds are now roughly 75% that we get a 25bp cut next week followed by another in April.</u>



That means we still have a shot to see mortgage rates in the low 3s this summer, and possibly even high 2s on insured deals. Tariffs aside, it's hard to overstate the boost to consumer confidence and housing demand that would accompany rates at those levels….assuming the wheels don't come off the broader economy.

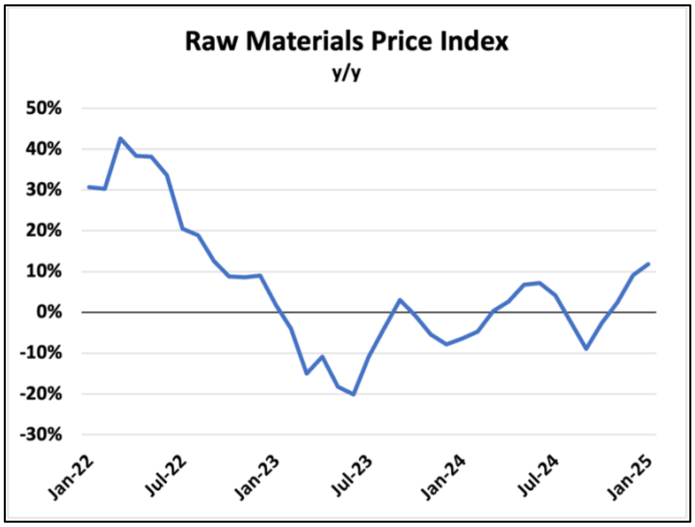
Watch out for inflation uptick later this year

Readers will know that my view has been that rates have to get sufficiently low to offset potential weakness in the economy, but that in the second half of this year, the concern will likely shift to inflationary impacts of the weakening currency.

On that front, I have to flag a few concerning developments that could complicate things for the Bank of Canada:

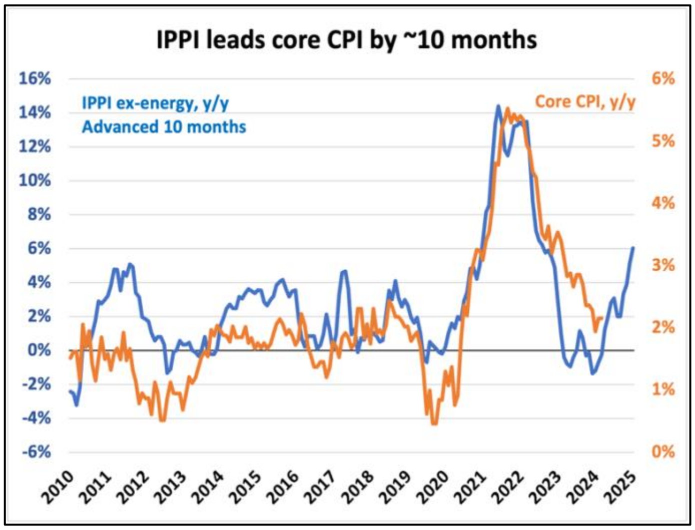
i) Weak loonie is starting to push input prices higher

Stats Canada reported last week that the Raw Materials Price Index jumped 3.7% m/m in January and is now up 11.2% in the past year…the highest since Sept 2022.



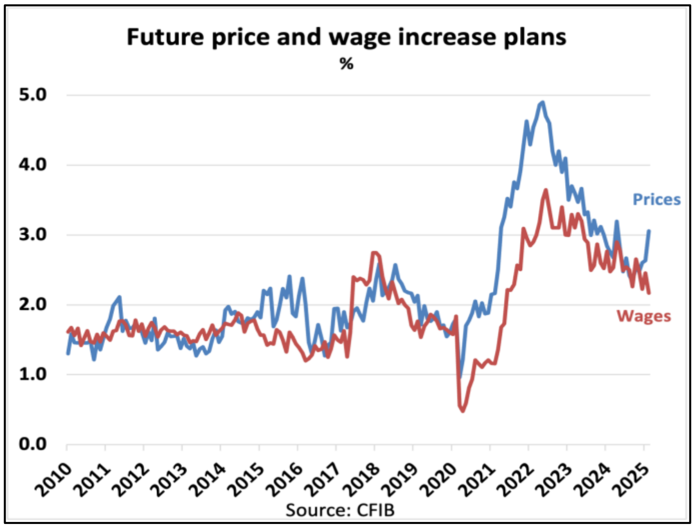
ii) Industrial prices are back on the rise

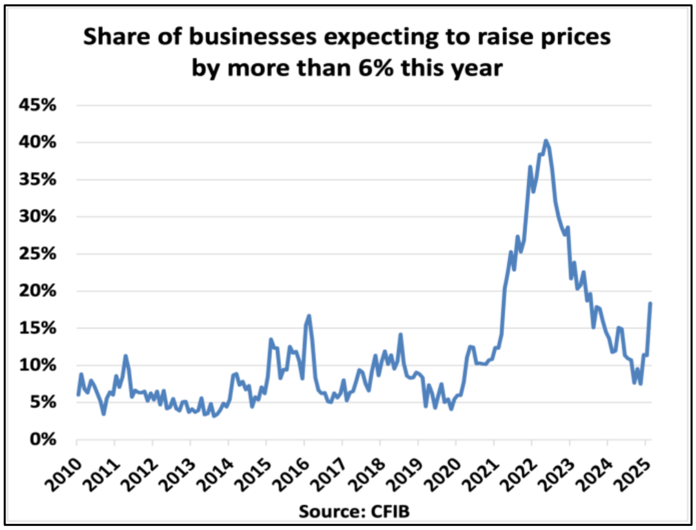
When manufacturers pay more for raw materials, it eventually flows through to prices paid by consumers. We just saw the Industrial Product Price Index (IPPI), which tracks the price of manufactured goods leaving factories, jump 1.6% in January and it's now up 6% in the past year even after stripping out volatile energy prices. Given its history of predicting core inflation trends roughly 10 months down the line, you can bet this index will have the BoC's attention:



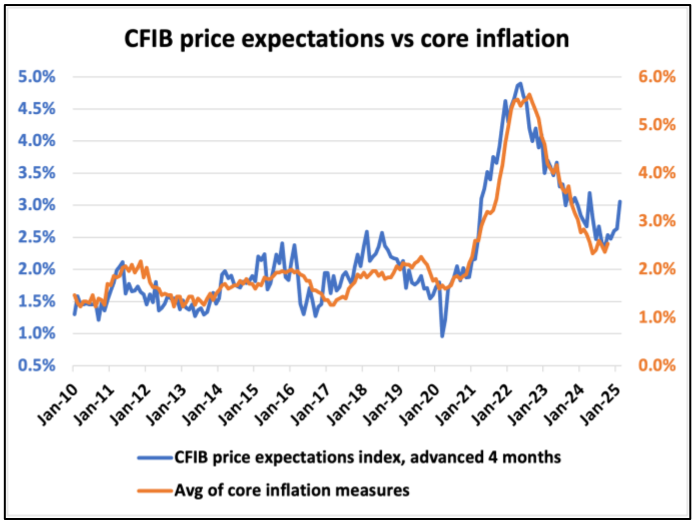
iii) Price expectations from businesses surged last month

The latest CFIB Business Barometer showed a surge in price expectations in February. We now have nearly 20% of businesses expecting to raise prices more than 6% this year…more than double the share from late last year:



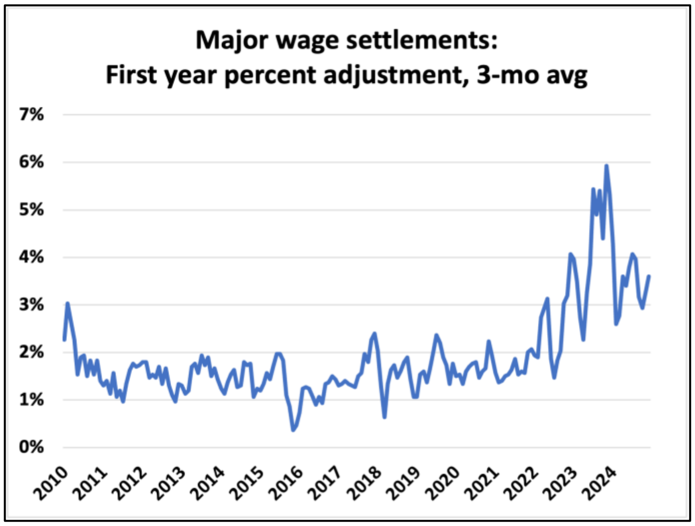


Just to make it really clear, here's the relationship between CFIB's price index and core inflation measures advanced 4 months:

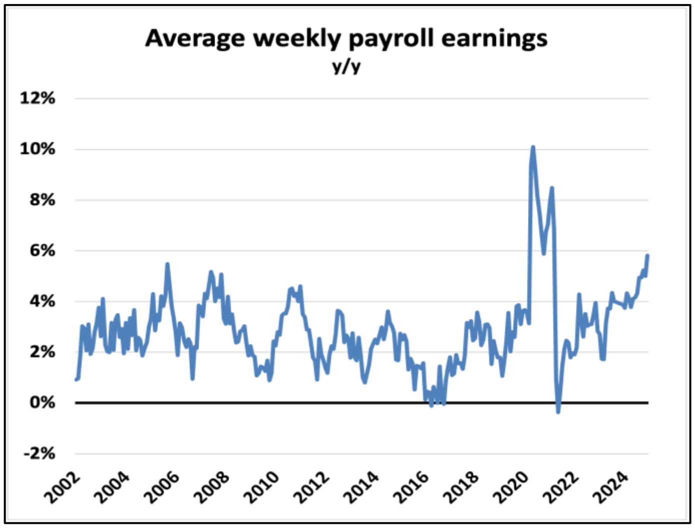


iv) Wage pressures are building

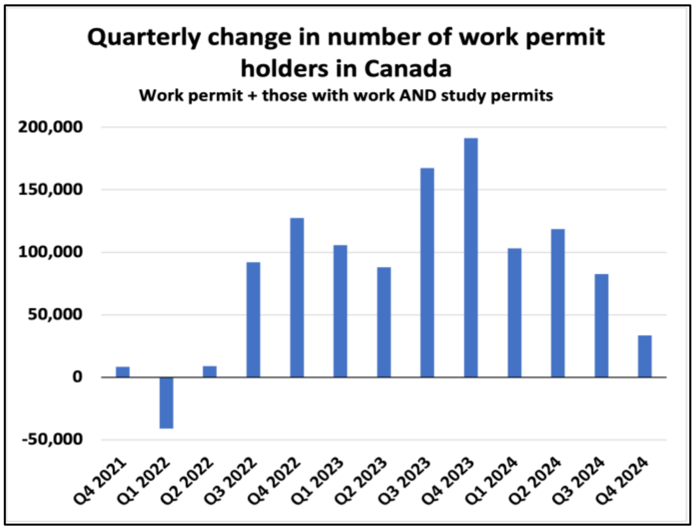
Despite a soft labour market, the average first-year adjustment on wage settlements is creeping back towards 4% or more than double the average level from 2010 to 2022. Even with inflation cooling, unions are managing to get solid wage concessions from employers in a classic price-wage feedback loop:



In fact, the latest payroll data last week show average weekly earnings growing at nearly 6% annually. Setting aside the distorting effects of COVID income supports, this is the best showing since the data set begins in 2001. This will help on the housing affordability side, but it will have the attention of the BoC as it risks stoking inflation:



One wonders if perhaps we're seeing the impact of the sharp curtailment in temporary worker visas. We may be in the early days of a shift in power back towards labour…in which case, watch out for business margins!



All of this has to be a concern for the Bank of Canada, which I'll remind readers does NOT have a dual mandate like the US Federal Reserve, which by law must balance inflation concerns with the state of the labour market. The BoC's mandate is inflation only.

Two takeaways from this:

i) The roadmap around rates has not changed. The BoC is in a race to get rates to a point where they are not acting as a drag on growth. I peg that level at 2%. But come the back half of this year, their concern could turn back toward inflation if the trends above persist.

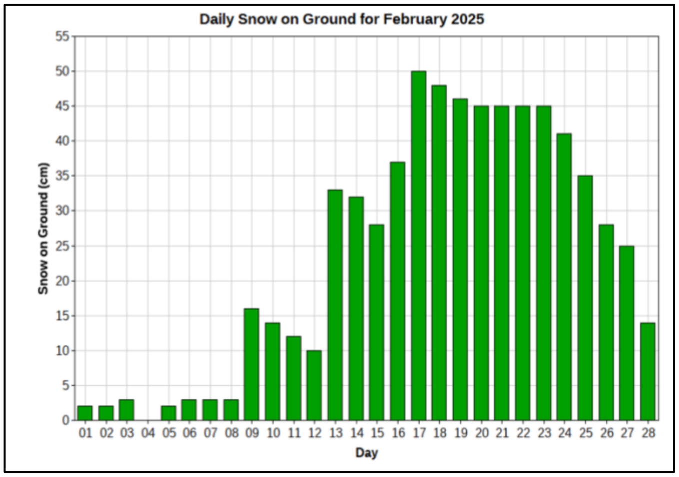
ii) Those hoping for a return to zero interest rates (and 1% mortgages) will be disappointed. The floor for rates this cycle is almost certainly higher than before, barring a true economic disaster. This is a different world.

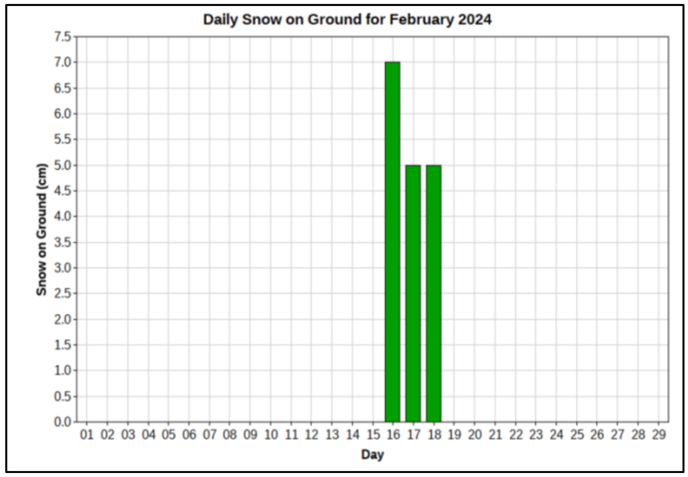
2) Uncertainty and weather weigh on Toronto home sales

Watch those seasonal adjustments!

A quick note before we dive into the nasty February data. Remember that Dec-Feb are low volume months for sales, and also happen to be the months most impacted by weather events. That means we can get some real volatility in seasonal adjustments this time of year.

Case in point, check out the snow on the ground at Pearson Airport this February (left) compared to last year (<u>and note that the vertical axes are NOT the same between the two charts</u>):



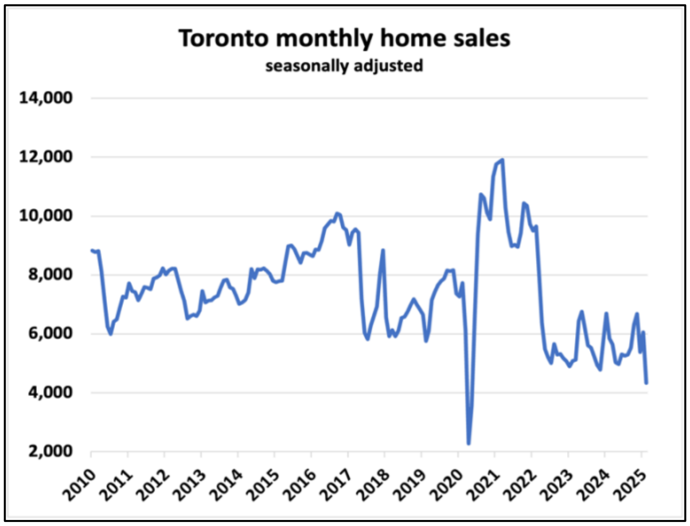


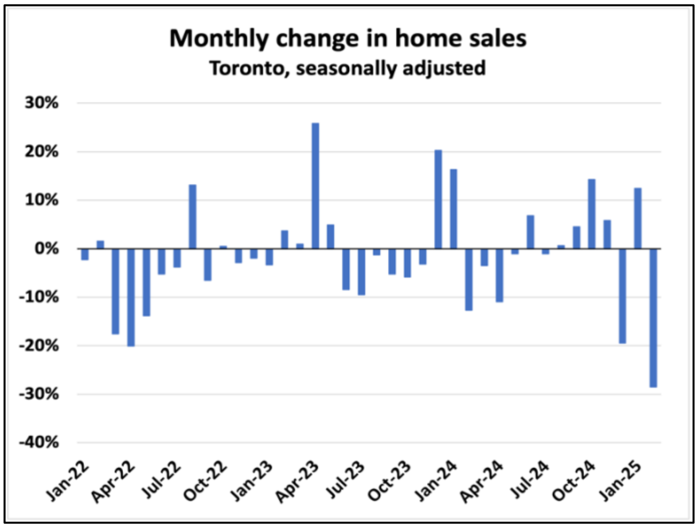
We had 12 days with more than a foot of snow on the ground last month vs ZERO in Feb 2024. This matters. Clearly concerns around tariffs weighed on demand but so too did the nasty weather. We should expect some of this to get reflected in a solid bounce in seasonally adjusted home sales in March. I'd be surprised if seasonally adjusted sales don't bounce 10% or more this month.

With that said, on to the rest of the bad news.

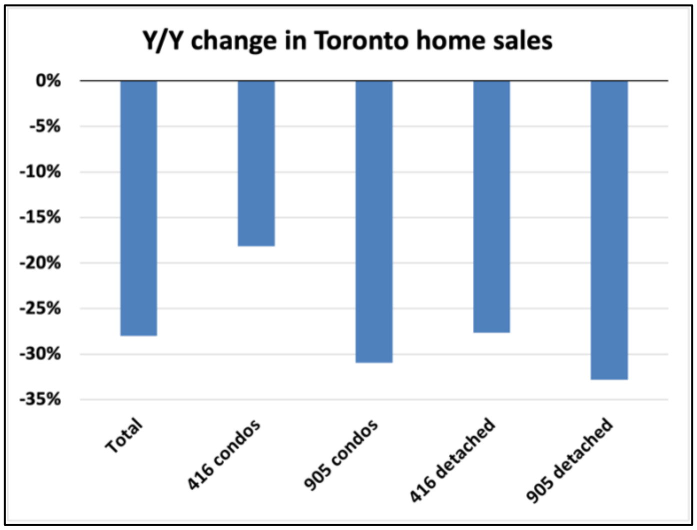
Big decline in sales as sentiment sours

Seasonally adjusted home sales across the GTA posted a stunning 28.5% monthly decline in February. Outside of April 2020 when the world locked down, you have to go all the way back to 1989 for the last time we had a monthly decline on this scale:

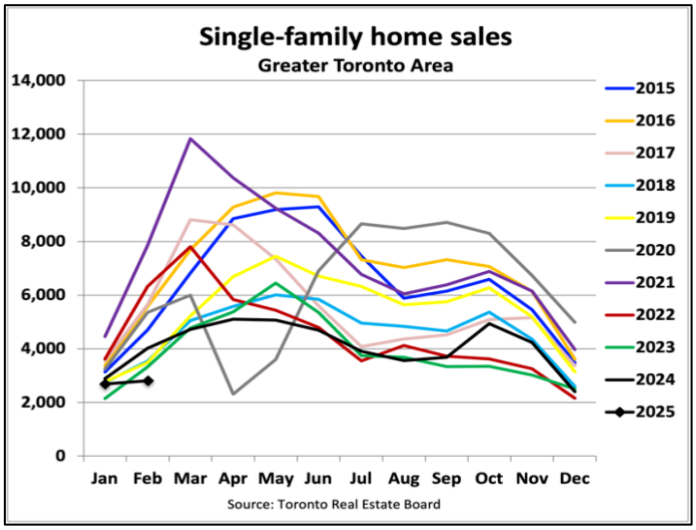


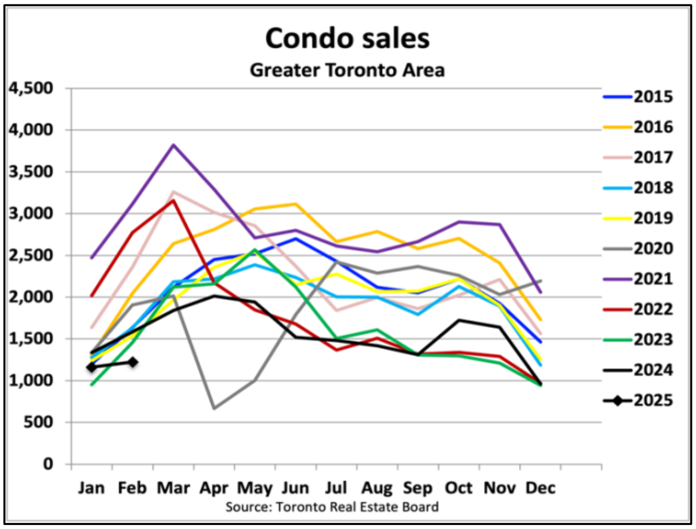


That left sales down 27% y/y overall and down over 30% across segments in the 905:



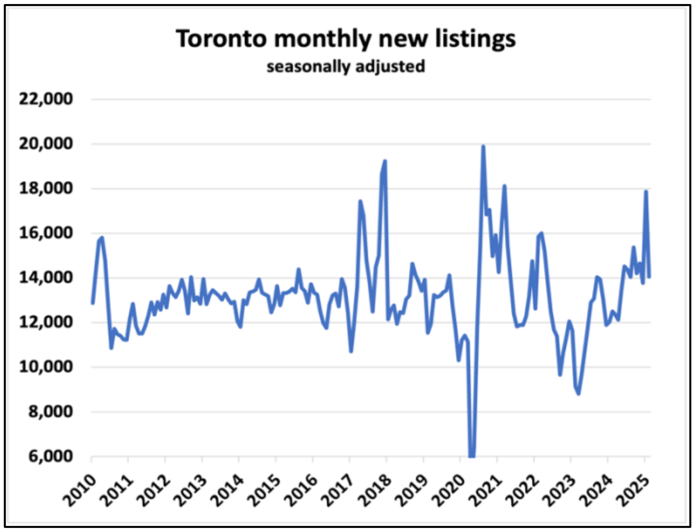
Demand was soft right across segments and geographies last month with both single-family and condo sales posting the weakest month since the Financial Crisis:

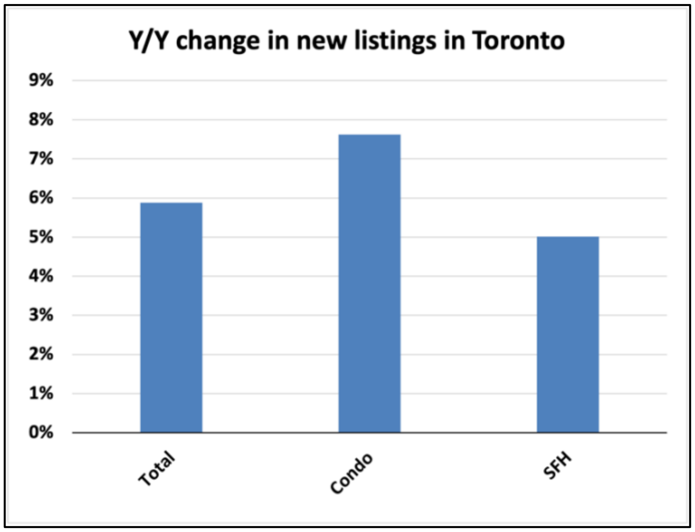




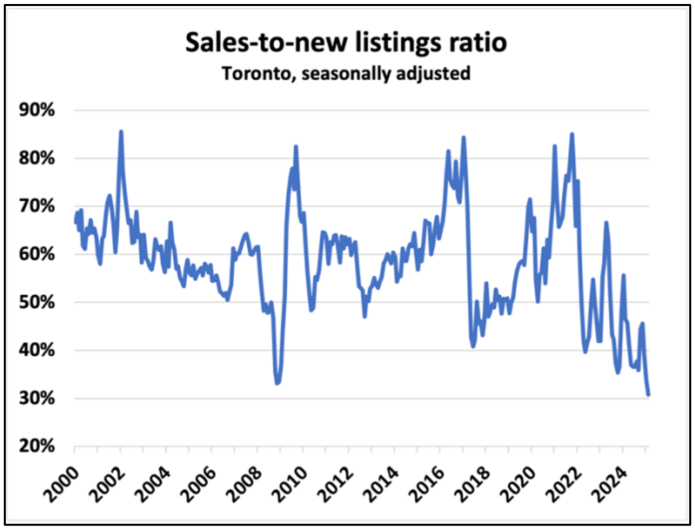
New listings moderate

There was some good news on the supply side as seasonally adjusted new listings fell 21.4% m/m, but off a January level that was revised HIGHER by 3.8%. That left new listings up roughly 6% compared to last February:



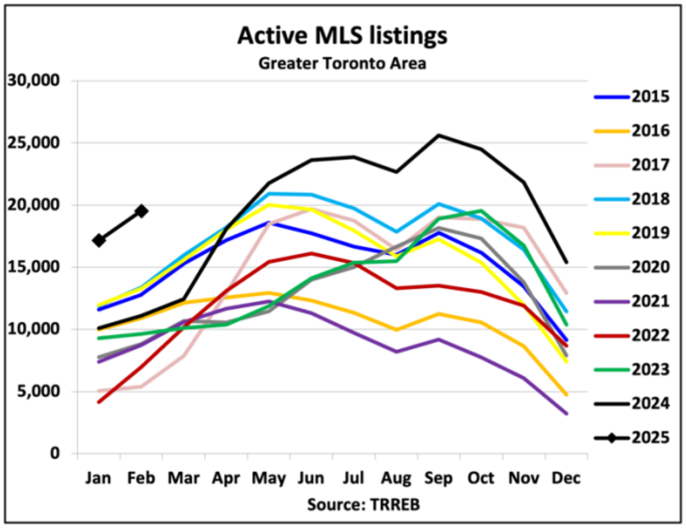


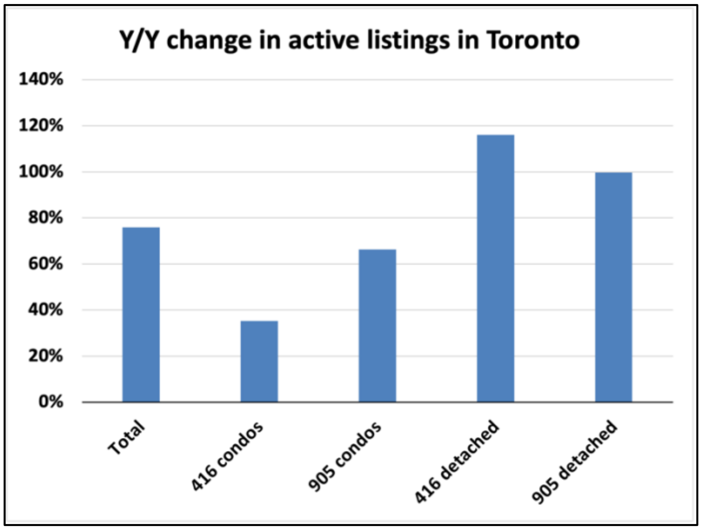
With sales falling faster than new listings, it meant the sales-to-new listings ratio slipped to just 30% in February…below the lows seen during the Financial Crisis!



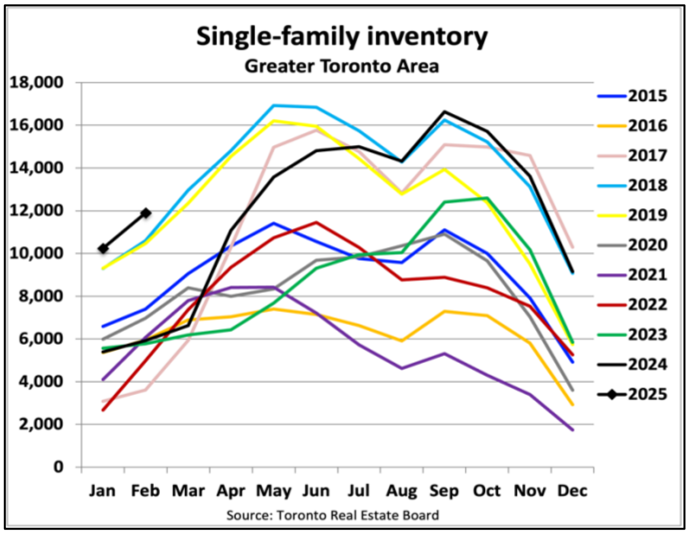
Inventory continues to build

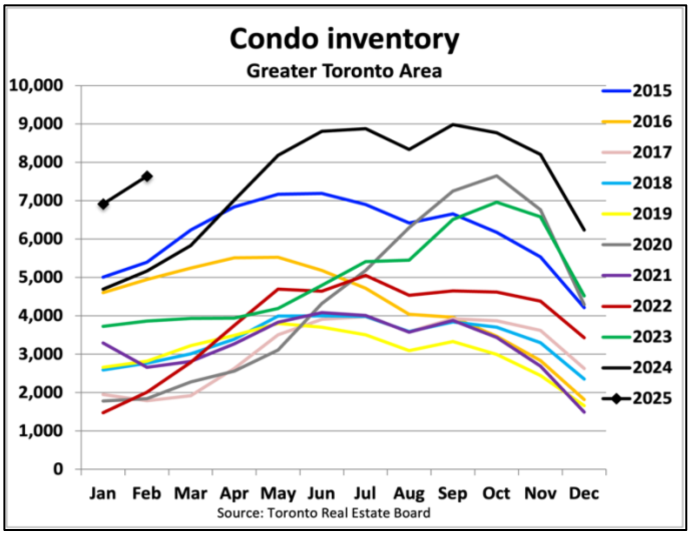
We now have the highest amount of active inventory for this time of year since 2009. Total active listings were up 76% y/y but up a whopping 117% for detached homes in the 416:



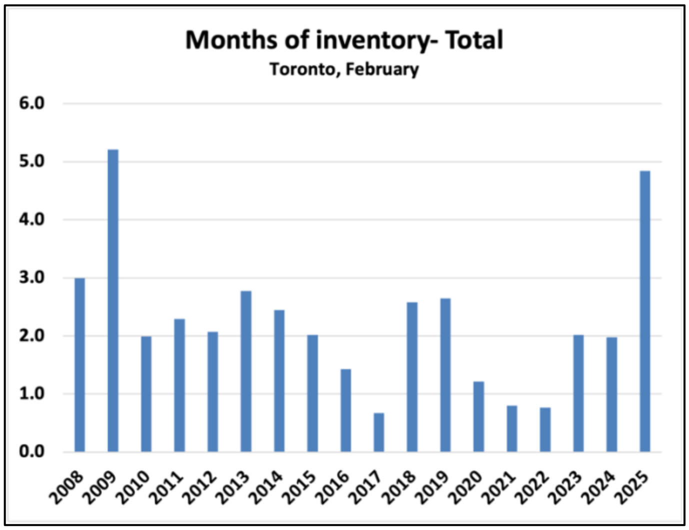


The inventory build can be seen across segments, but it's particularly high in the condo segment which set a record for this time of year:





Months of inventory rose to 4.8 overall, the second highest since 2000 outside of the Financial Crisis:



Prices grind lower

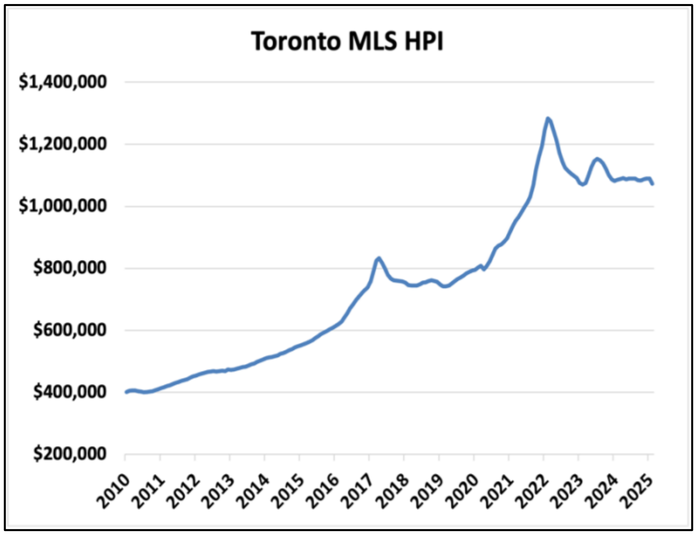
Last month I flagged the curious revisions to the MLS HPI in prior months, noting that the trend in the reported HPI did not appear to track with resale market trends. For example, I argued that the reported increase in December and January did not align with other "secondary" measures of prices. This didn't pass the "smell test" when originally reported:

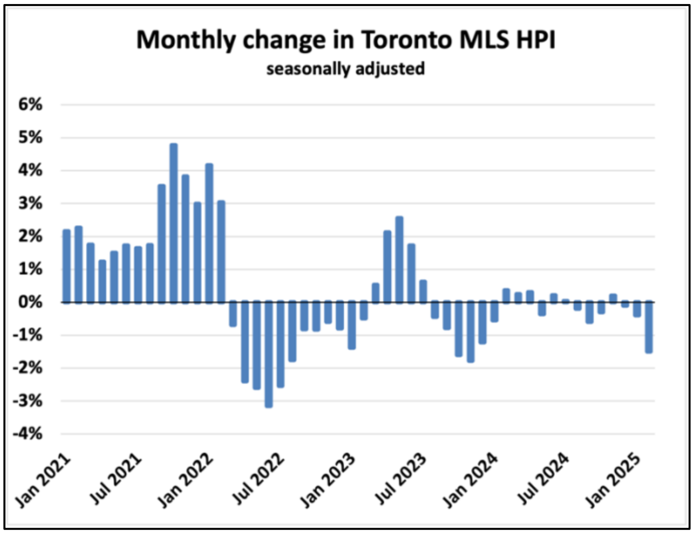
TRREB MLS® Seasonally Adjusted Stats[1]				January 2025
	Sales	% Change	MLS® HPI[2]	% Change
January 2024	6,687	13.8% ▲	$1,081,300	0.6% ▼
February 2024	5,813	13.1% ▼	$1,085,200	0.4% ▲
March 2024	5,598	3.7% ▼	$1,087,900	0.2% ▲
April 2024	5,007	10.6% ▼	$1,091,300	0.3% ▲
May 2024	4,996	0.2% ▼	$1,087,300	0.4% ▼
June 2024	5,327	6.6% ▲	$1,089,600	0.2% ▲
July 2024	5,274	1.0% ▼	$1,090,000	0.0% —
August 2024	5,304	0.6% ▲	$1,089,800	0.0% —
September 2024	5,565	4.9% ▲	$1,083,900	0.5% ▼
October 2024	6,351	14.1% ▲	$1,082,500	0.1% ▼
November 2024	6,634	4.5% ▲	$1,087,000	0.4% ▲
December 2024	5,429	18.2% ▼	$1,089,700	0.2% ▲
January 2025	5,971	10.0% ▲	$1,089,300	0.0% —

This month we had revisions to the previously reported HPI to show declines in Dec and Jan, which frankly make a lot more sense. It's hard to have the sales-to-new listings ratio hovering near multi-decade lows AND have positive price momentum:

TRREB MLS® Seasonally Adjusted Stats[1]				February 2025
	Sales	% Change	MLS® HPI[2]	% Change
February 2024	5,838	13.7% ▼	$1,080,400	0.5% ▲
March 2024	5,637	3.4% ▼	$1,086,800	0.6% ▲
April 2024	5,023	10.9% ▼	$1,093,400	0.6% ▲
May 2024	4,970	1.1% ▼	$1,091,300	0.2% ▼
June 2024	5,308	6.8% ▲	$1,094,400	0.3% ▲
July 2024	5,253	1.0% ▼	$1,094,800	0.0% —
August 2024	5,289	0.7% ▲	$1,092,900	0.2% ▼
September 2024	5,527	4.5% ▲	$1,085,800	0.6% ▼
October 2024	6,314	14.2% ▲	$1,082,700	0.3% ▼
November 2024	6,683	5.8% ▲	$1,084,700	0.2% ▲
December 2024	5,383	19.5% ▼	$1,084,100	0.1% ▼
January 2025	6,052	12.4% ▲	$1,079,800	0.4% ▼
February 2025	4,326	28.5% ▼	$1,063,300	1.5% ▼

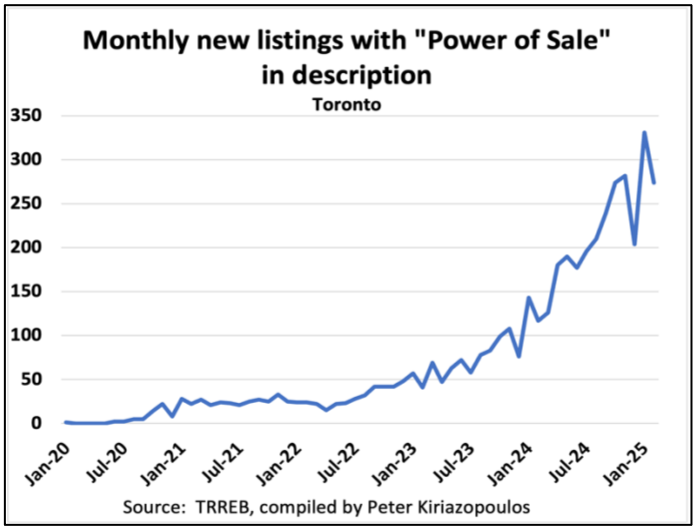
That 1.5% decline in the HPI in February was the largest since late 2023:



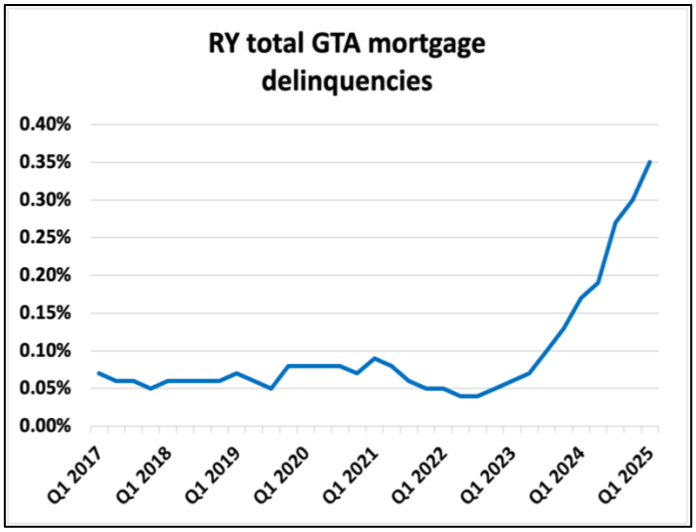


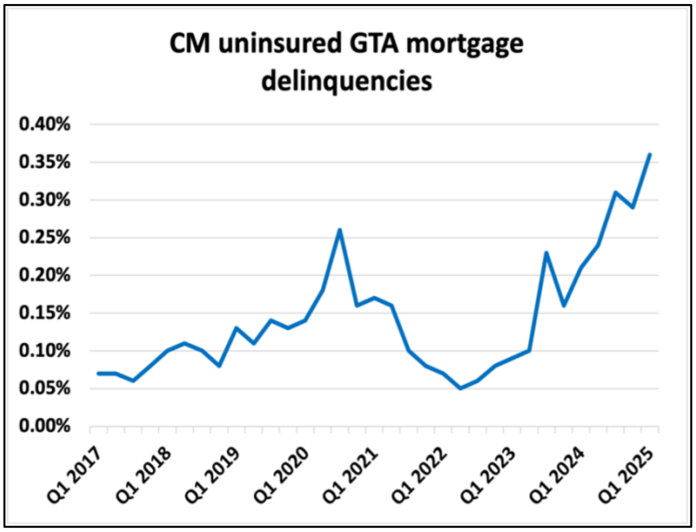
Power of sale listings decline in February

The number of new listings in Toronto that contained the term "power of sale" in the description came in at 274 last month according to the always-helpful Peter Kiriazopoulos. That's a sharp pullback relative to January levels:



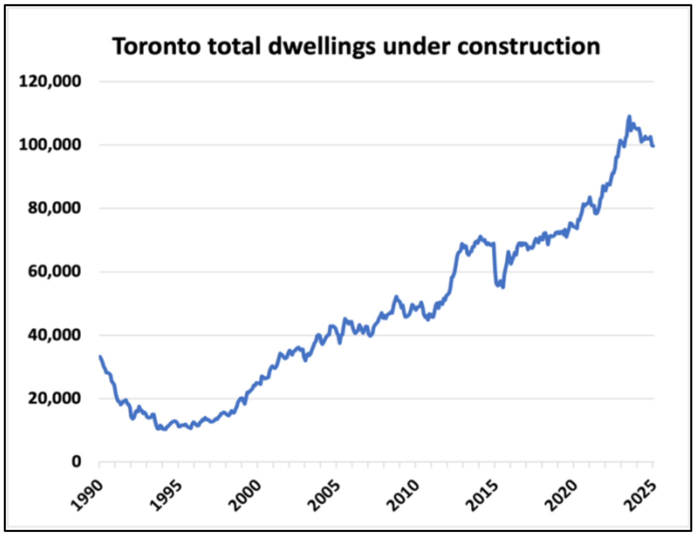
Of note, RBC and CIBC both report delinquent mortgages in the GTA in their respective quarterly reports, released last week. That trend is shown below, and it argues that we probably still haven't seen the highs in POS listings just yet:

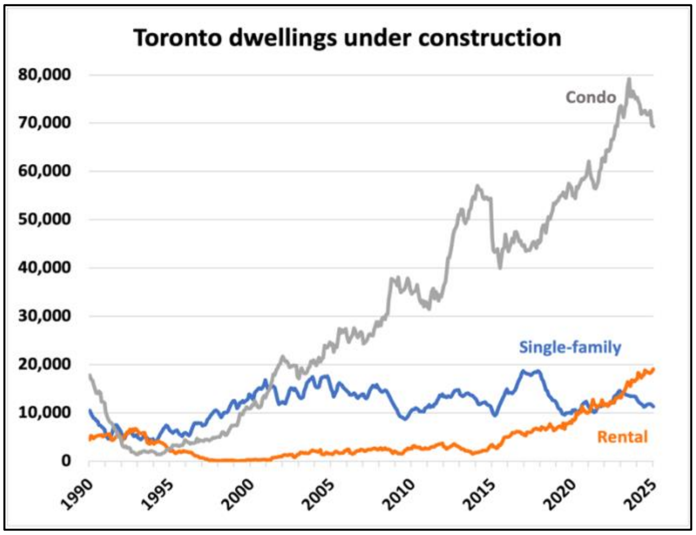




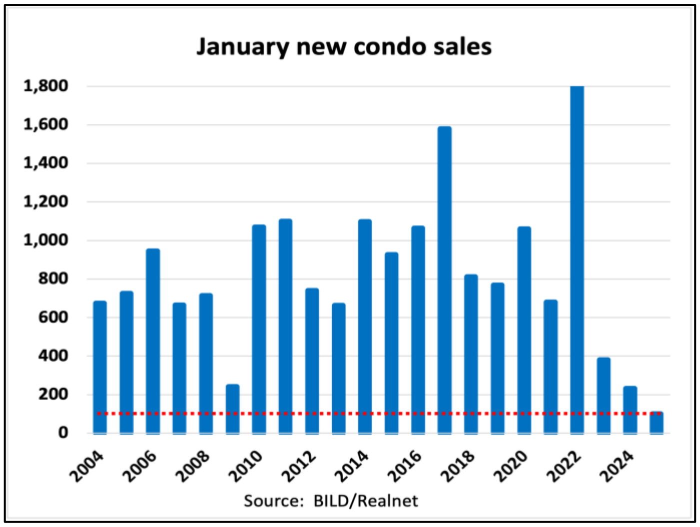
Construction activity falls

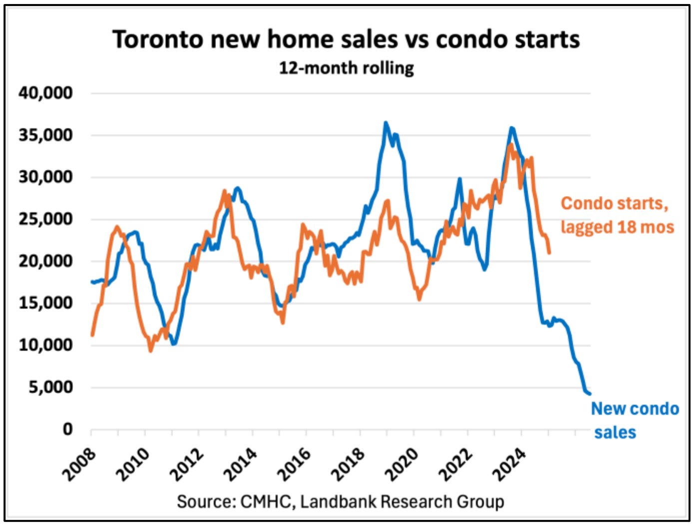
The number of dwellings under construction across the GTA ticked lower by 0.1% in January, primarily due to a slight decline in the number of condos under construction:





Expect condo construction to fall dramatically this year. BILD is reporting only 101 new condos sold in January, by far the lowest on record going back to 2004. We've now had just 4,000 new condos sold over the past 12 months which gives a good approximation of where condo starts are heading:

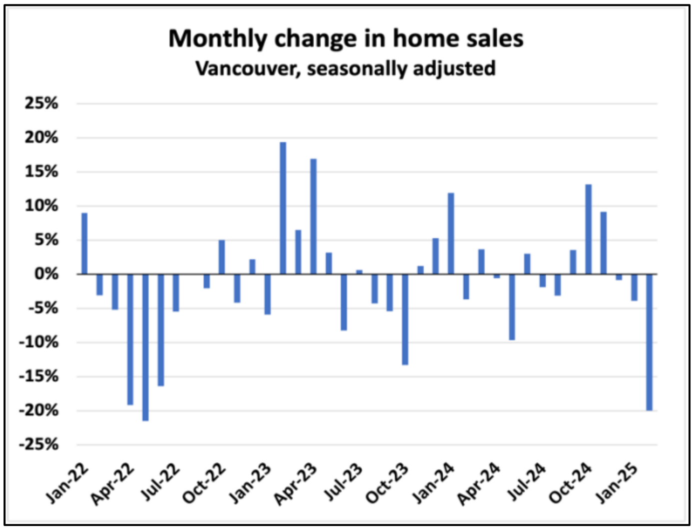




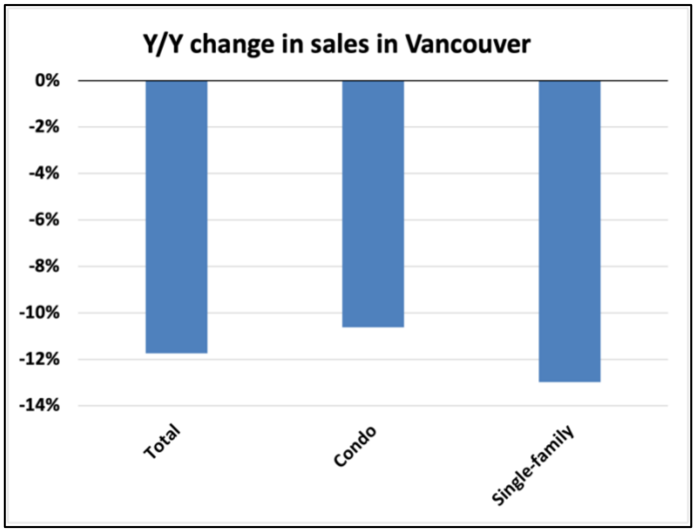
<u>This dynamic sets up the supply shortage come 2027 and beyond, but that's little comfort for anyone who needs to sell in near term.</u> It's a tough market for condos right now.

3) Sales fall, inventory rises in Vancouver

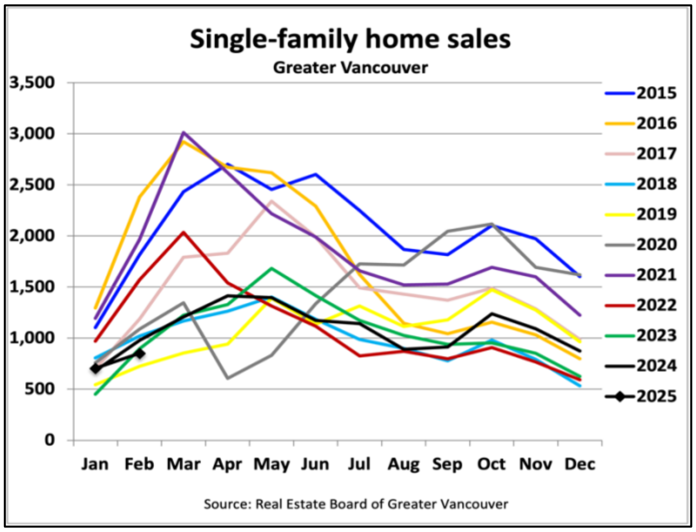
Seasonally adjusted home sales across metro Vancouver fell an estimated 20% m/m in February, the largest decline since May 2022:

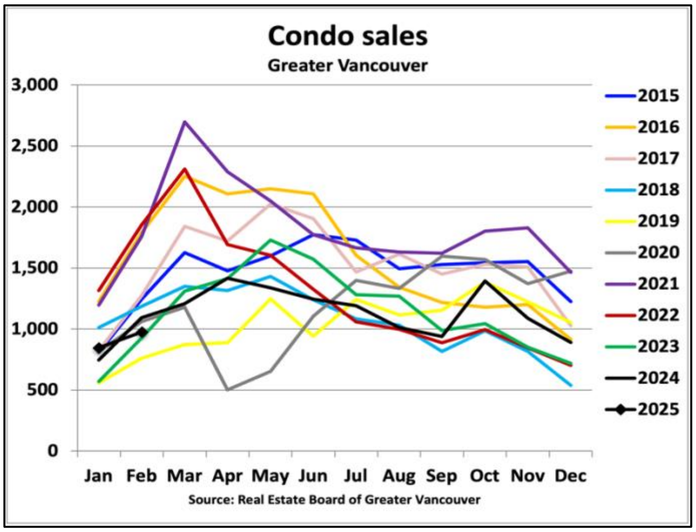


Sales were down 12% y/y, slightly more in the single-family segment:



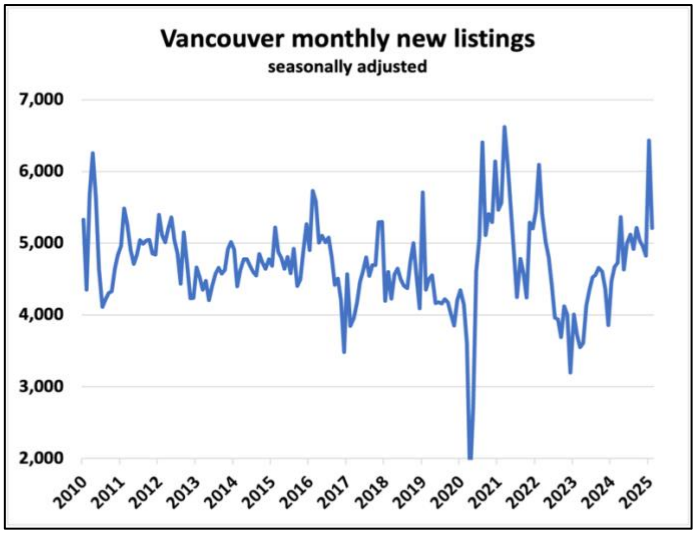
Sales were soft for sure but still considerably above 2019 levels for reference:

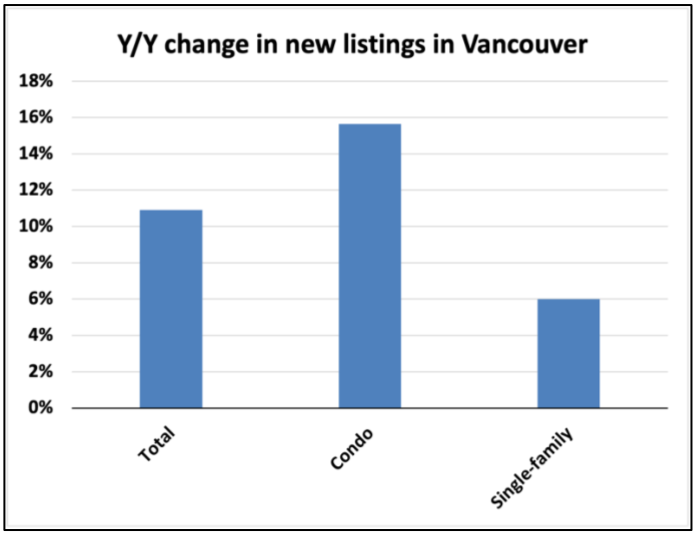




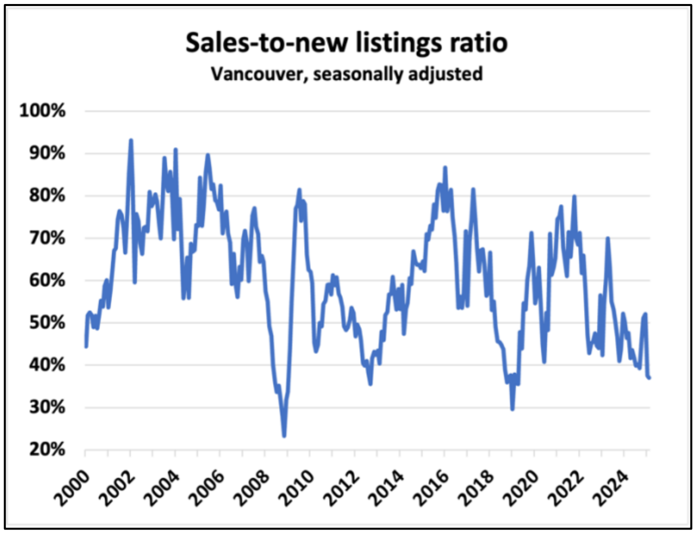
New listings fall

Sellers also pulled back in February as seasonally adjusted new listings tumbled 19% m/m. Still, that left them up almost 11% y/y and considerably more in the condo segment:



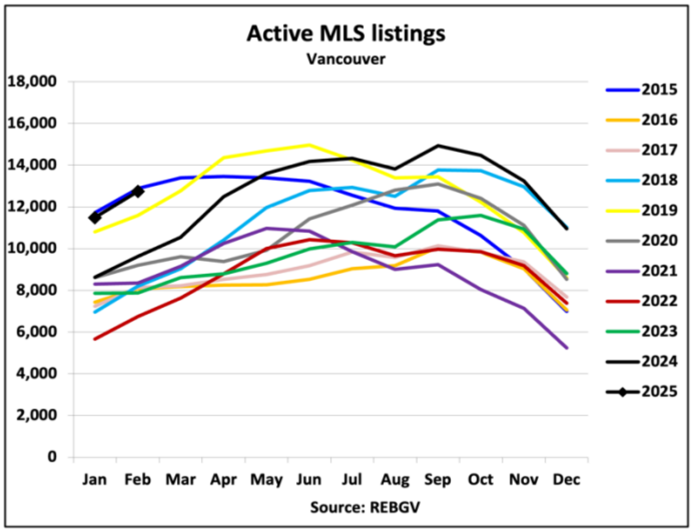


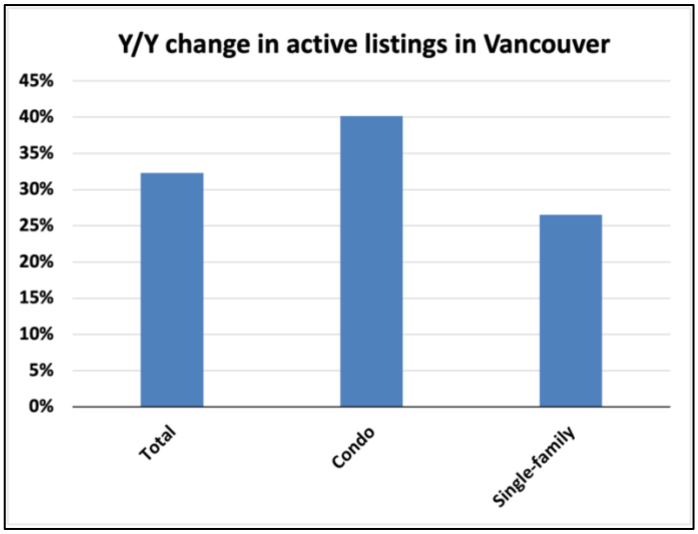
The sales-to-new listings ratio slipped to 37% in February, the lowest since 2019:



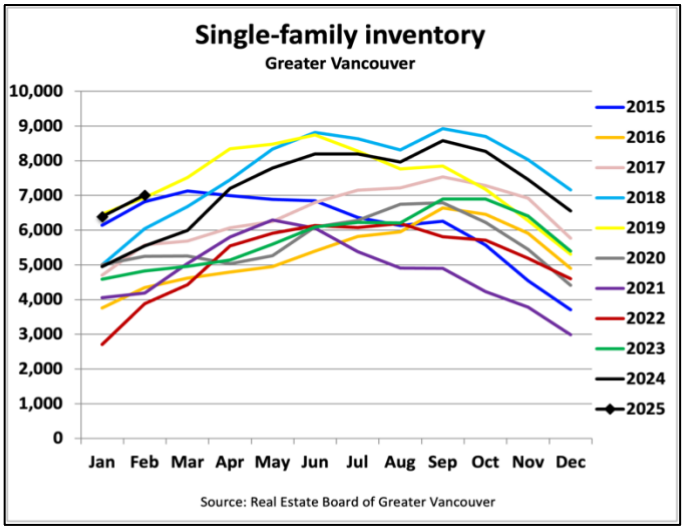
Inventory levels up 32% y/y

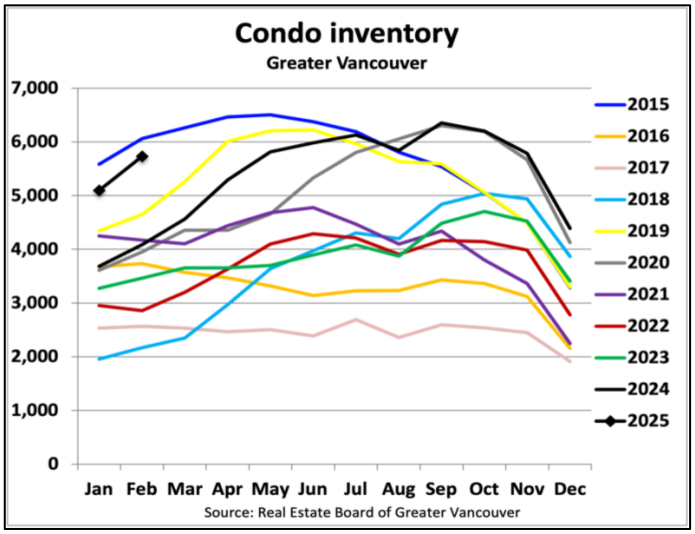
Active inventory is sitting near decade highs overall, tracking 2015 levels. Listings are up 32% y/y and 40% for condos:



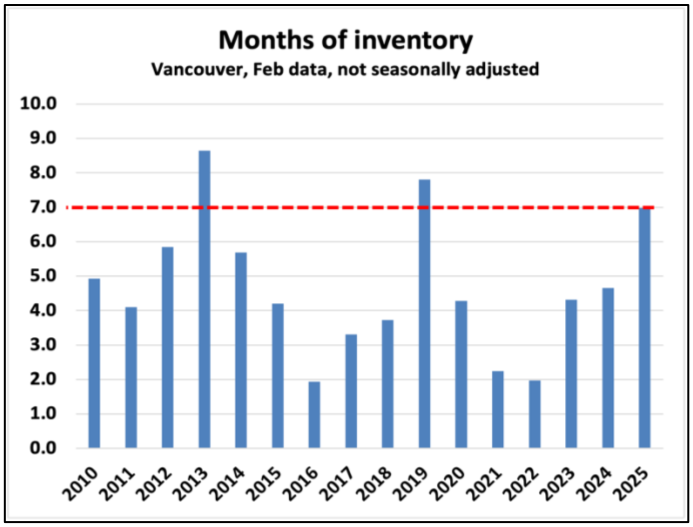


The single-family segment just saw inventory hit decade highs, above 2019 levels. But remember, we have building permits running at +50-year lows across the province, so this is extremely unlikely to last. New supply will be very thin in coming years.



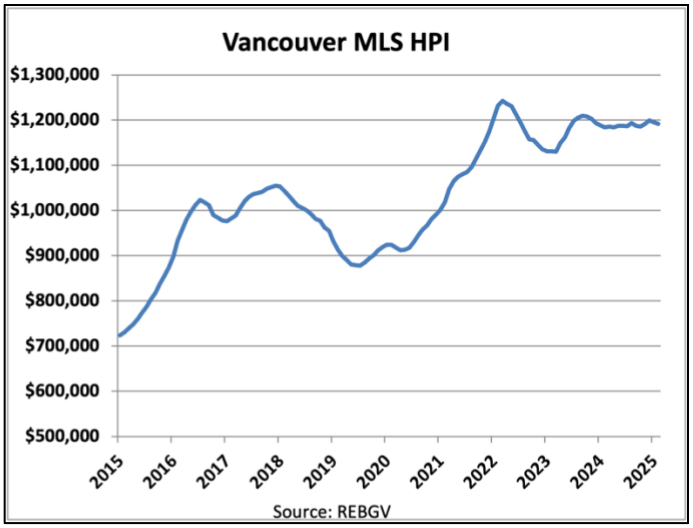


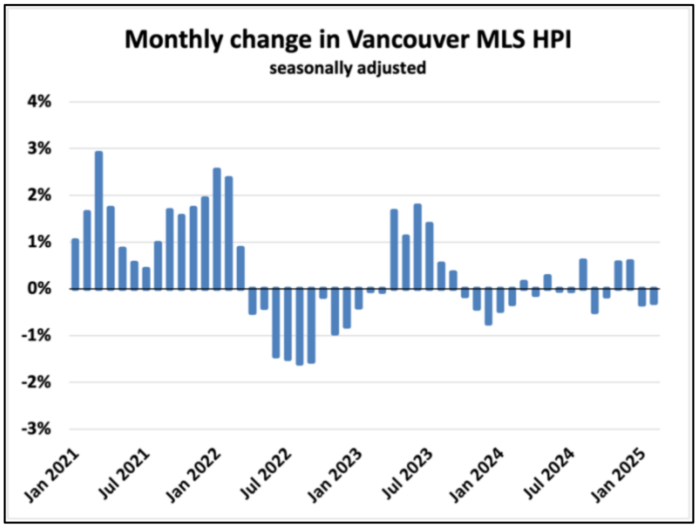
Total months of inventory hit 7 in February. Elevated, but still well below 2019 and 2013 levels for reference:



Prices tick down

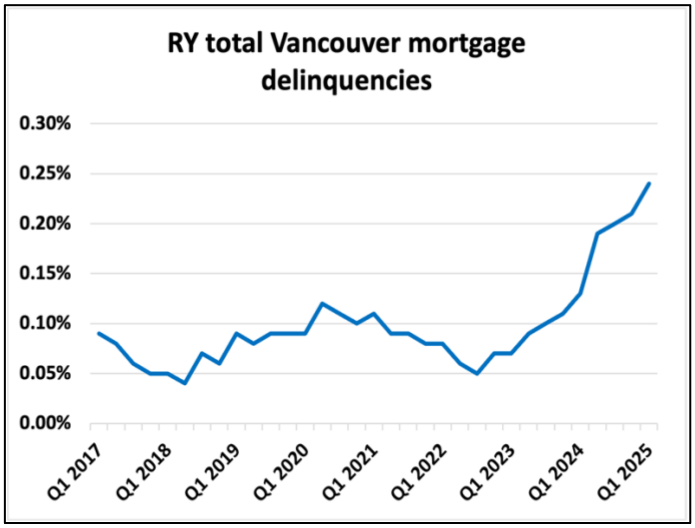
The MLS HPI posted a 0.3% decline in February:

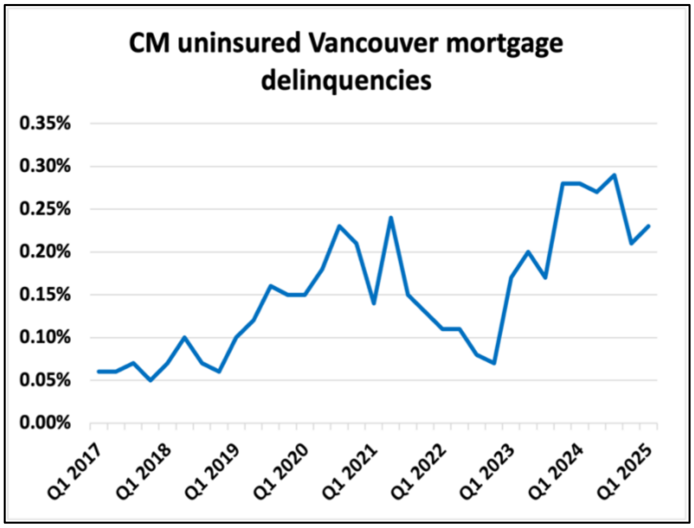




Mixed delinquency data

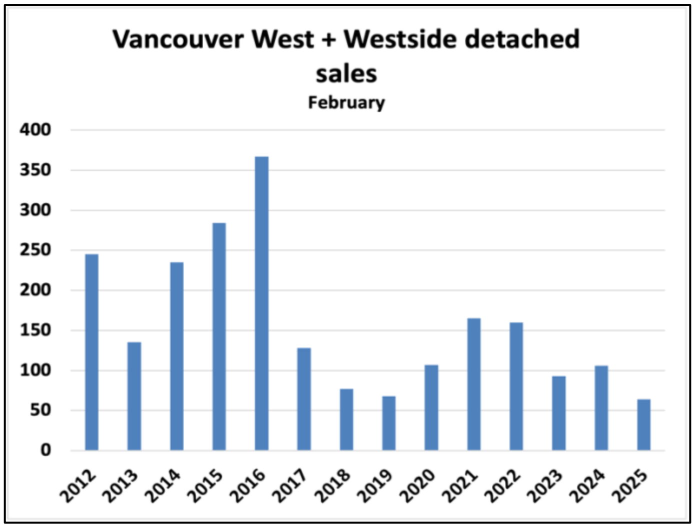
Royal and CIBC's mortgage delinquency data for Vancouver had mixed messages last quarter. Royal Bank saw delinquencies trend up to decade highs while CIBC saw delinquencies hover at well below 2024 levels:





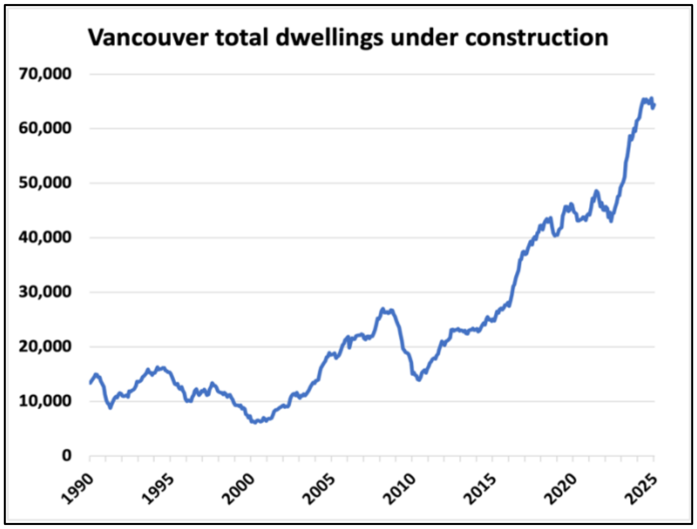
Foreign bid slowdown?

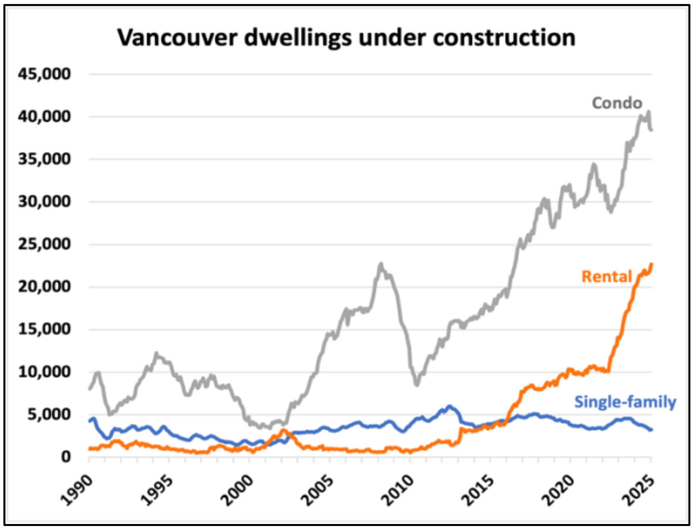
I've been tracking detached home sales in West Vancouver and Vancouver West for years now as I view these regions as decent, albeit imperfect, proxies for capital flows out of China. Note that demand peaked in the 2014-2016 period, which we now know was a period of strong capital flight. Curiously, sales fell very sharply last month, down 42% y/y to hit the lowest February level since at least 2012. Given that the Chinese economy continues to wobble, I wonder if we aren't seeing a second "leg lower" in foreign demand.



Construction activity ticks up on rentals

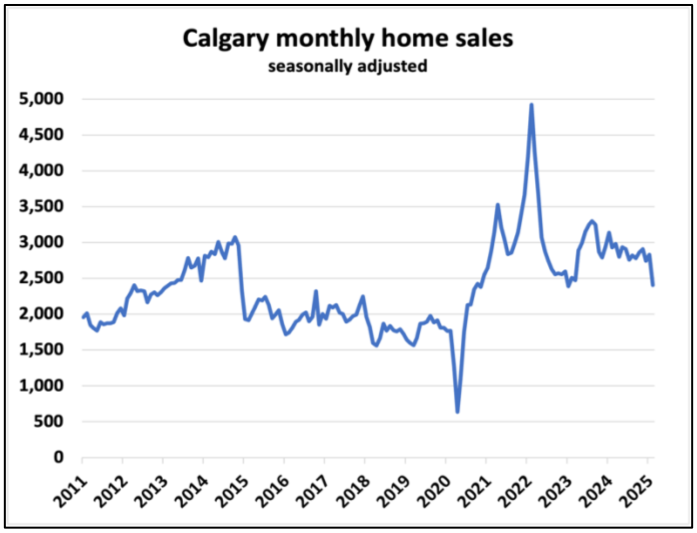
The number of dwellings under construction across Vancouver rose 1.0% m/m in January due to a 3.4% jump in rental construction. There are now 22,600 rental units in the construction pipeline across the metro region, which is plenty to keep a lid on rent growth through the rest of the year and probably into 2026:

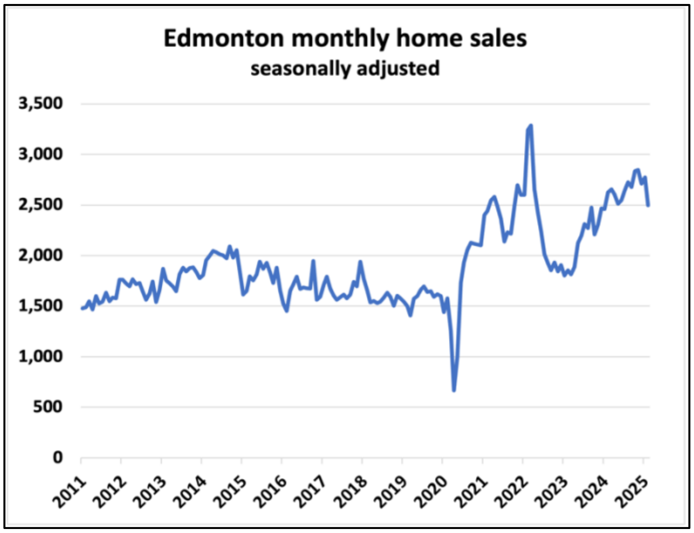




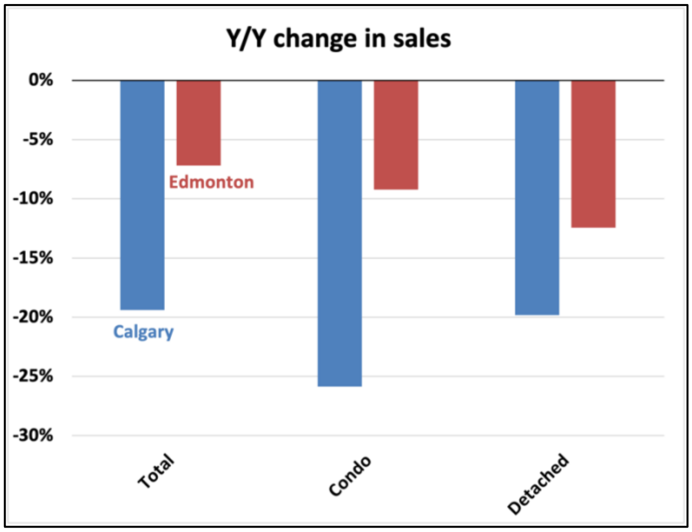
4) Prices surge in Edmonton, flatten in Calgary

Not even Alberta was immune to a slowdown last month. Calgary saw seasonally adjusted sales fall an estimated 15% m/m, the largest decline since March 2022. Over in Edmonton, sales ticked down an estimated 10%:





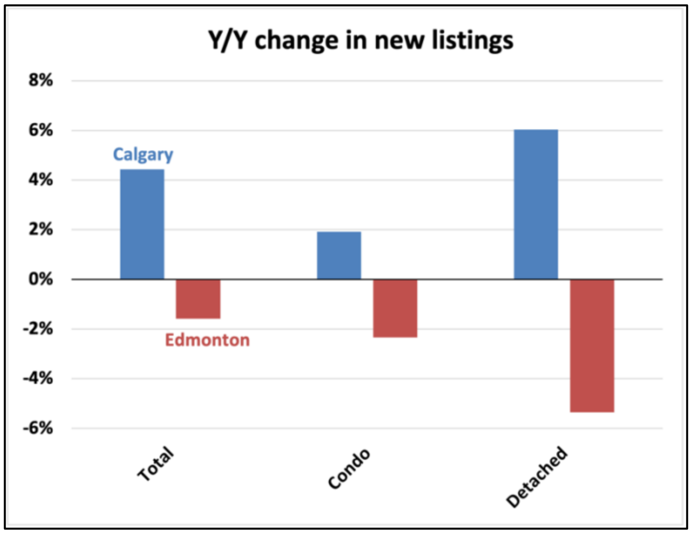
Both metros also saw sales down on a y/y basis across segments:



New listings moderate

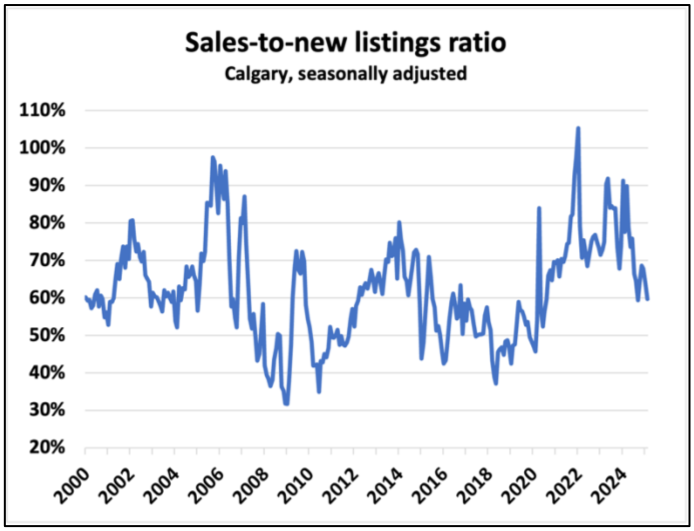
Seasonally adjusted new listings were down 9% m/m in Calgary and down 11% in Edmonton.

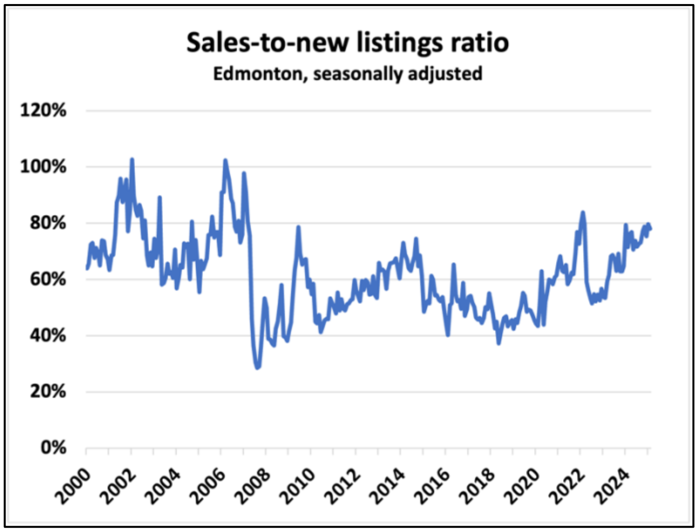
Compared to last year, sales were up slightly in Calgary (+4.3%) and down nearly 2% in Edmonton:



The sales-to-new listings ratio for Calgary slipped to 60% last month, which is back to the 20-year average. It's not a weak market by any stretch (for context, Toronto was at 30%), but the boom times are clearly over for now.

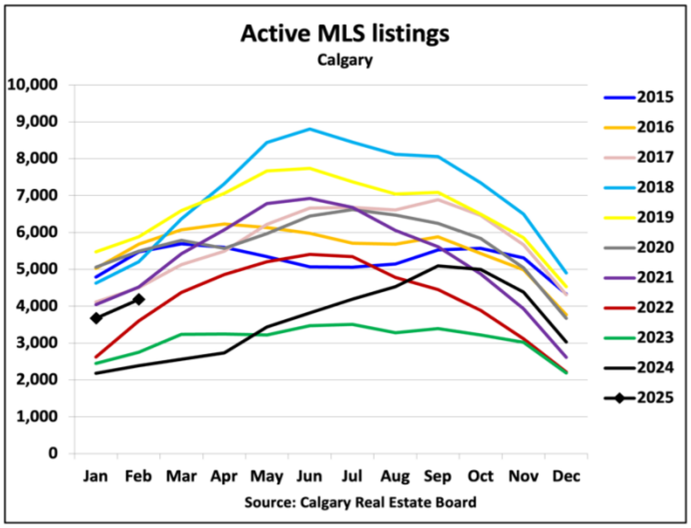
Things are different in Edmonton where that ratio is still hovering near a scorching 80%. That 20% gap between the two metros is the widest since 2006 continues to point to strong price outperformance on deck for Edmonton:

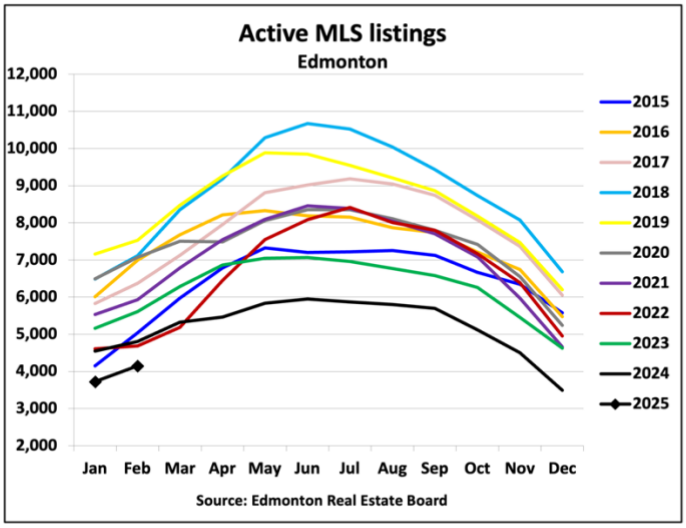


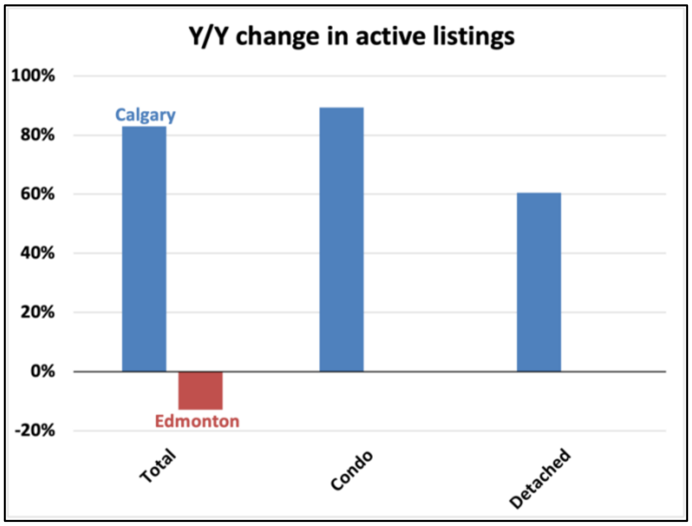


Inventory still at decade lows in Edmonton

The trend in active listings between the two big Alberta metros is fascinating. In Calgary, inventory is up over 80% y/y and back to "normal" levels while in Edmonton supply was down 17% and remains at decade lows:

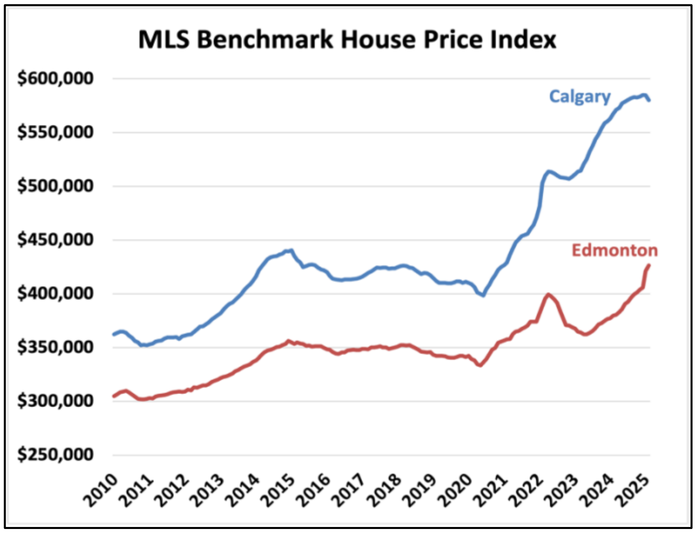


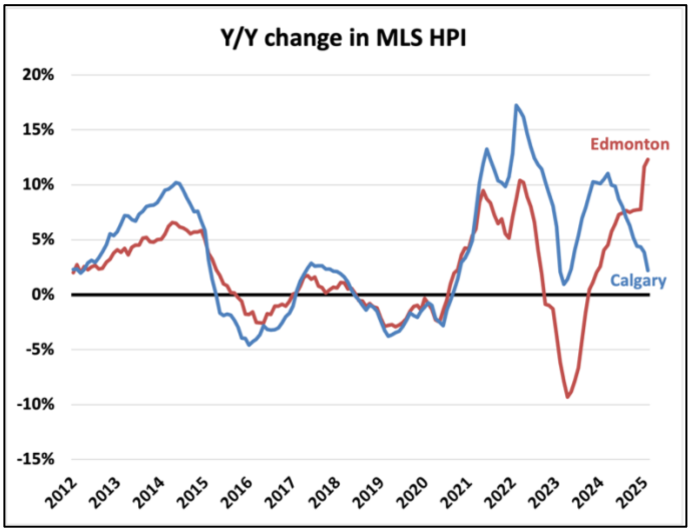




House prices diverge

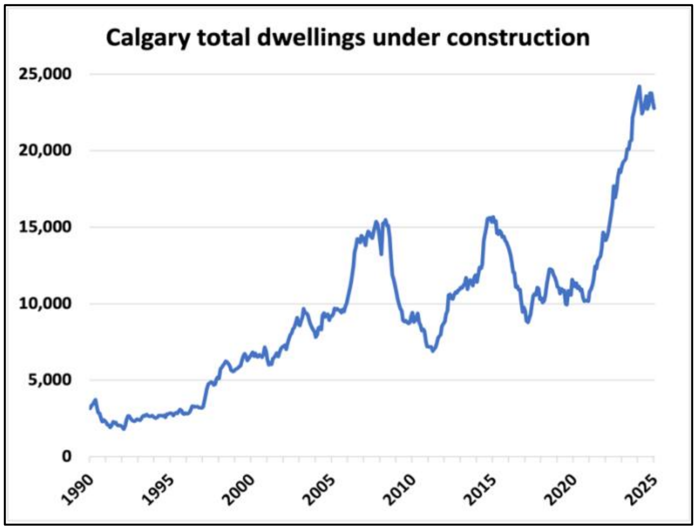
Based on my seasonal adjustments, it appears Calgary registered a slight decline in the HPI last month, which would be the first since 2021 if my math is correct. Meanwhile Edmonton prices are gaining steam and are now up 12% y/y vs just 1% in Calgary. You have to go back nearly 20 years to find the last time Edmonton's market outperformed by this much:

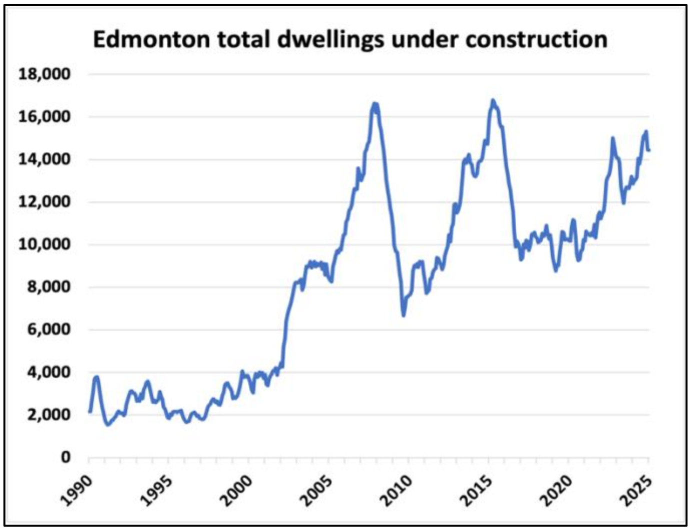




Construction activity falls in Calgary, holds steady in Edmonton

The number of dwellings under construction across Calgary fell 1.6% in January. A drop in condos and single-family was partially offset by a 2.8% increase in rental construction. Over in Edmonton, construction activity was flat at 14,400 units:

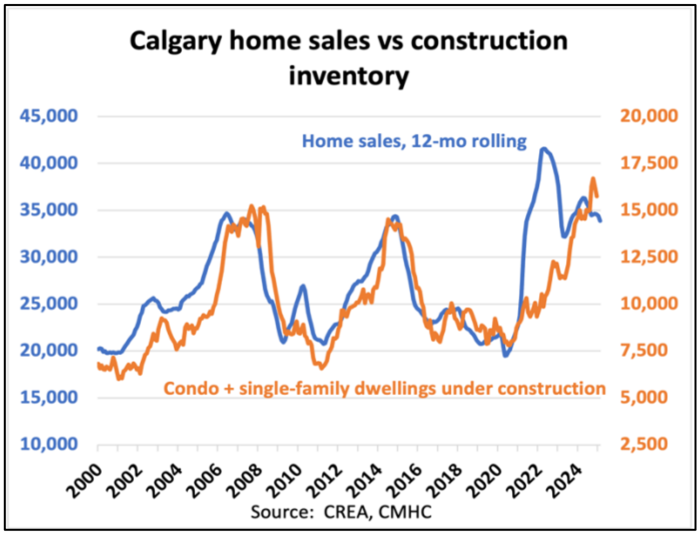


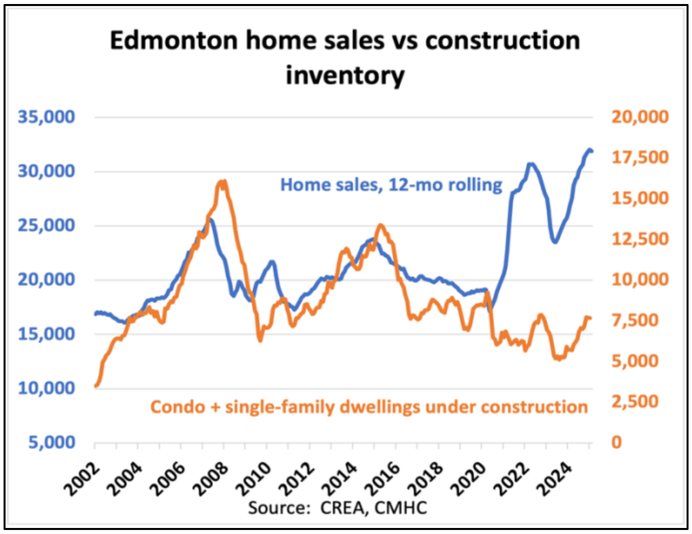


Since purpose-built rentals do not represent potential future resale supply, I prefer to strip them out to look just at "homeowner" dwellings under construction. When we do so, and then compare to the trend in resale activity, it's clear that Calgary has quite a bit of supply in the pipeline, which should keep resale inventory levels trending higher through the remainder of the year.

That's not true in Edmonton where we continue to see a disconnect between resale demand and homeowner construction activity.

The takeaway is that there's still ample runway for Edmonton prices to run from here before this market returns to balance.





Have a great day!
Ben