Edge Realty
Analytics

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The Edge Report
October 2022

Hyperlinks:

1) Largest drop in bond yields in a decade signals potential pivot

I said on the subscriber Zoom call this week that there was a *chance* that we might see a change in tone from the Bank of Canada in their Monetary Policy Report (MPR). That's exactly what we got yesterday, with not only a lower-than-expected 50bp hike, but also a clear signal that the end of the current rate hike cycle is in sight.

Consider Tiff Macklem's comments that "*this tightening phase will draw to a close*" and that the Bank is "*trying to balance the risks of under- and over-tightening*". This is a very different tone than just a couple months ago where all the focus was on the risk of high inflation.

Further, the MPR downgraded inflation forecasts over the next 3 years. CPI is now expected to average 6.9% for 2022 (down from 7.2%), 4.1% in 2023 (down from 4.6%), and 2.2% in 2024 (down from 2.3%).

Even more striking is the extent to which they slashed their GDP growth models. They now expect just 0.9% in 2023 (from 1.8% in July, 3.2% in April, and 3.5% in January). That's about as close as they will ever get to projecting a recession.

Markets are now expecting a peak rate in the 4.25% range in Q1 2023 (down from 4.5% pre-announcement), and 5-year bond yields plunged by the largest amount in over a decade:

We're close to a peak in rates, but that doesn't necessarily mean they'll be coming down soon. As the CPI forecast above shows, the Bank isn't expecting inflation to return to target until into 2024, and that means that barring a very severe economic downturn, the overnight rate will stay in the 4% range for another year. And there's a good chance that it stays *relatively* high beyond that for reasons discussed on the Zoom call this week, namely:

- The risk of losing credibility over another policy mistake (remember "transitory" inflation?)
- Structurally higher inflation due to de-globalization, the loss of cheap labour globally, and high energy prices.

This brings up the concept of the "area under the curve". The idea here is that the *length of time* that rates stay elevated is more important than the ultimate peak itself. Consider which is more disruptive:

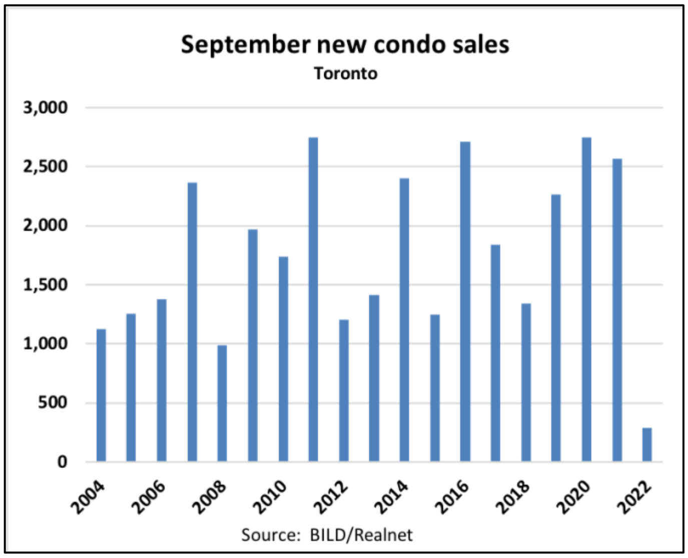
- i) a 6-month spike in mortgage rates up to 7% which then settle back to 3%
- ii) a 3-year period where mortgage rates hover around 5%

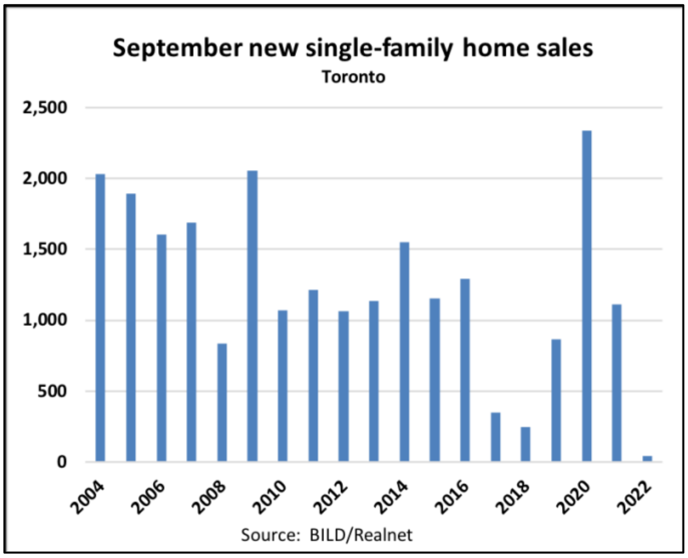
Clearly the latter is more disruptive. With some clarity around peak rates, the question now turns to one of duration.

One final point: There are definitely some well qualified buyers sitting on the sidelines awaiting this sort of clarity around rates. If the Bank pulls back on rate hikes going forward, it will probably be enough to get some of these buyers off the sidelines. We're likely looking at a low in resale activity within the next month or two, if we haven't seen it already.

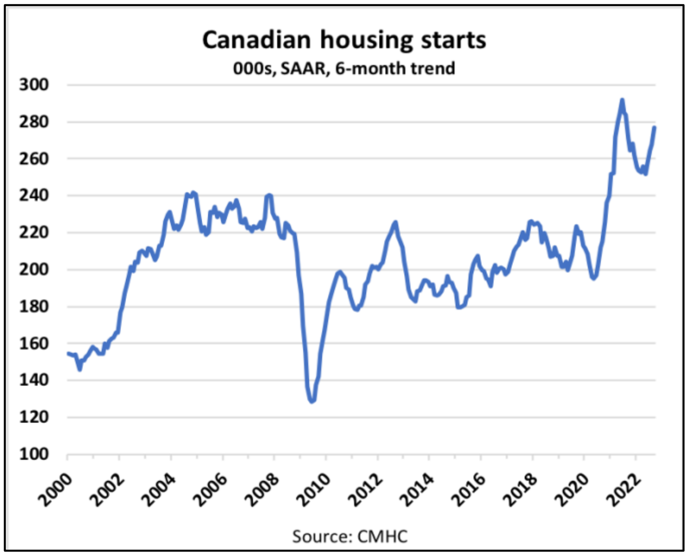
2) Frozen pre-construction market is a bad omen

It's really hard to overstate how bad new home sales have gotten across the GTA. Condo sales slumped 88% y/y in September while single-family sales fell a stunning 96%. In a metro region of 6 MILLION people, only 45 new single-family homes sold last month. These charts are simply wild:





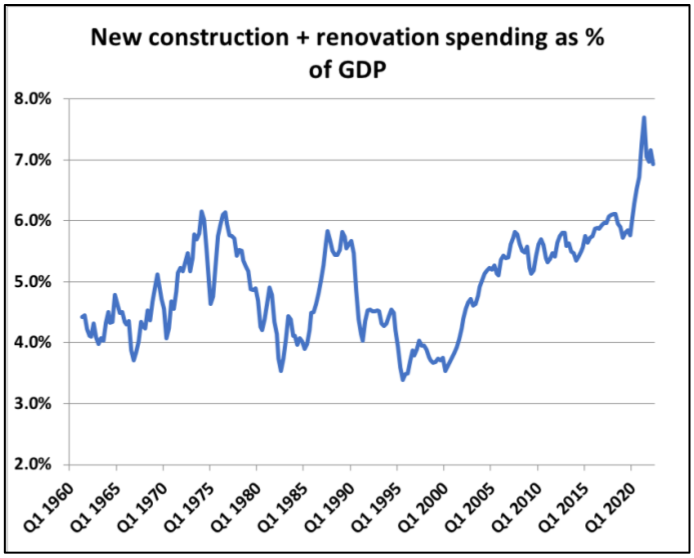
Over the longer term, falling new home sales translate into fewer housing starts and ultimately less supply. It's not showing up yet (in fact starts in September came in at 300,000 on an annualized basis!...that's really high in case that's not clear), but that's simply because condo starts today reflect strong pre-sale activity from 12-18 months ago. Falling pre-construction sales hit housing starts with a lag. It's coming!



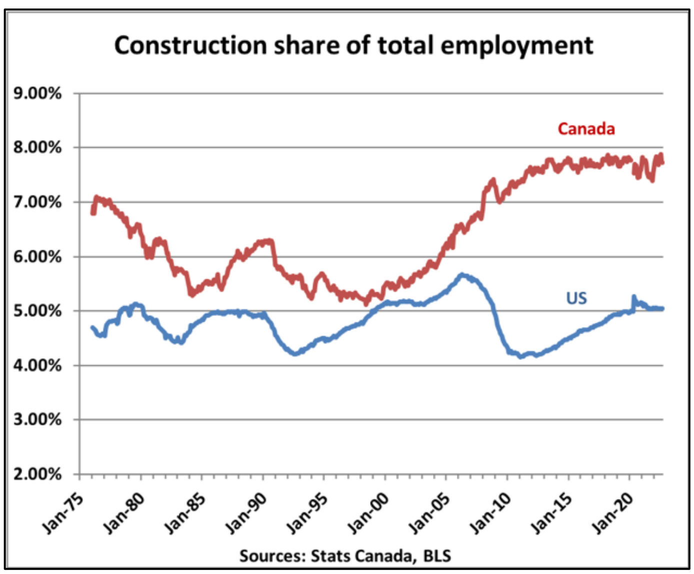
So over the longer term, falling pre-sales lead to less supply and ultimately drive up prices. But in the near term, they hurt for 3 important reasons.

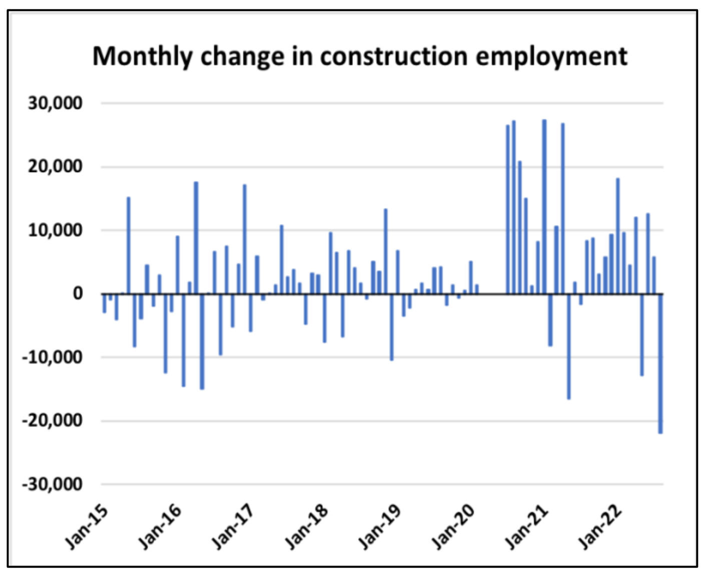
i) Canada’s massive reliance on construction

If we look at the two forms of residential construction (new builds and renovation spending), we find that their share of GDP have basically never been higher. In large part this is due to the capital intensive nature of new apartment construction:

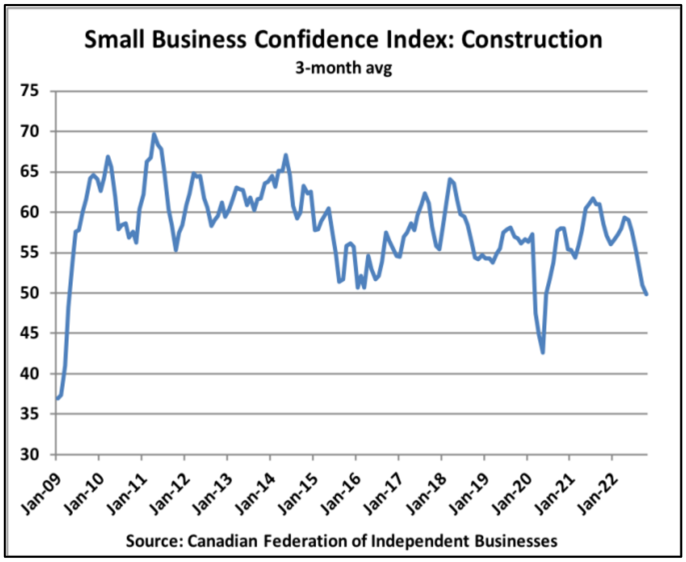


If this construction boom unwinds as badly as new home sales suggest it might, we may see construction employment decline to *at least* its long-term share of total employment. That means losing roughly 2% of all jobs in the country. And there’s a very real chance that employment could overshoot to the downside. That’s generally how cycles work. Already we’re seeing signs that construction industry employment is beginning to wobble.





It’s perhaps telling that business sentiment in the construction industry is already at recessionary levels seen only during the initial COVID pandemic and during the Financial Crisis. What do they see coming?



Source: Canadian Federation of Independent Businesses

ii) A big drag on city budgets

The City of Toronto derives 10% of revenues off of land transfer taxes and development charges. Declining resale transactions and now a slowing new construction market are set to blow a hole in the 2023 budget:

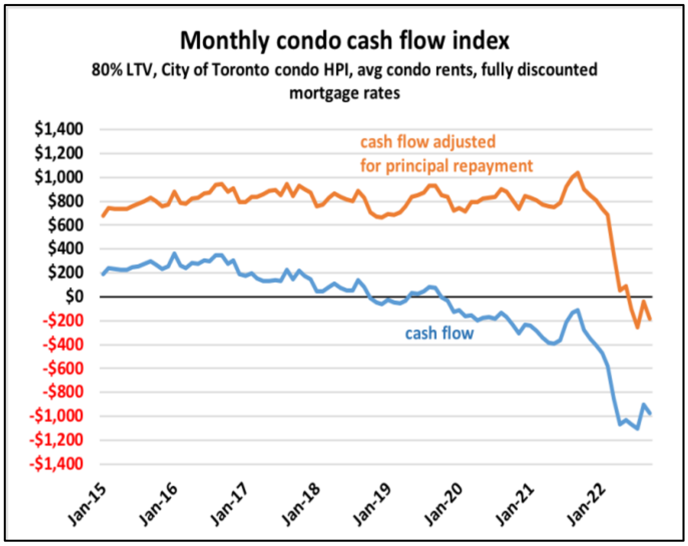
Consolidated statement of operations and accumulated surplus

Year ended December 31

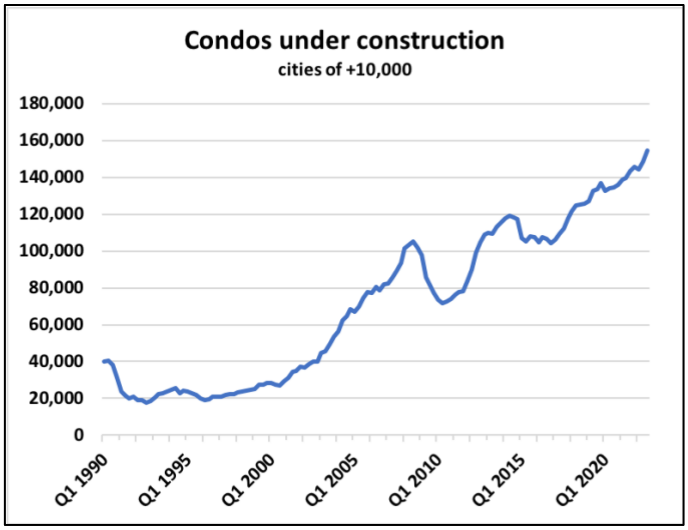
	2021 Budget (Note 19)	2021 Actual	2020 Actual
Revenue			
Property and taxation from other governments	$ 4,690	$ 4,767	$ 4,650
Government transfers (Note 20)	4,840	4,682	4,070
User charges	3,082	2,798	2,864
Municipal land transfer tax	694	1,172	804
Rent and concessions	457	477	511
Development charges	552	365	263
Investment income	266	147	187
Government business enterprises earnings (Note 6)	-	146	129
Other revenue sources (Note 21)	569	687	597
Total revenue	**15,150**	**15,241**	**14,075**
Expenses			
Transportation	4,329	3,648	3,472
Social and family services	3,177	2,658	2,627
Protection to persons and property	[redacted]		

iii) Diminishing liquidity for assignments

The majority of preconstruction demand is from investors, so there's a clear message here that demand from those particular buyers is evaporating. And why wouldn't it be so? After all, even with strong rental growth, the cash flow on newly purchased condos remains deeply negative at 80% LTV:



This is problematic since some unknown, but almost certainly non-trivial, portion of the 155,000 condos currently under construction across the country have been purchased by ~~investors~~ speculators who have no intention *or even ability* to close.



One has to wonder how many examples like the ones below are out there:

reddit PERSONALFINANCECANADA comments

Housing Is my family over-leveraged? Future consequences of buying pre-built condos in the GTA (self.Person

submitted 4 hours ago by Throwaway_87235643

Here for advice for my family.

In 2021, my aunt (51F) who is into real estate convinced my dad (54M) to purchase a pre-construction condo using a HELOC for the down payment. He came to me (24M) wanting to help me buy one to live in, in the future. I turned him down for a few reasons (I'm still a student, and I've been worried about the economy ever since covid started).

He also made this offer to my brother (27M), who took him up on it. Before he made his decision, we had a good discussion about risks, and I cautioned him that rising mortgage rates could easily lead to a monthly payment he might not be able to (currently) afford.

Some time passed, and one day I learned my dad actually signed up for a total of 3 condos. He is splitting one with my brother, one with my aunt, and got one for himself. My dad started quoting some of the things his realtor told him, and some of it was a big red flag for me. I sense that a bit of gaslighting effected his decisions, but that's another issue.

For the purpose of this post, I'm only specifically worried about the financial security of both my dad and my brother. My capacity to give advice to my family is limited to running calculations for mortgage payments & line of credit payments under different scenarios.

Here are some details. Each condo was a little over $600k (purchased in 2021). Occupancy date for each varies between 2025-2027, but who knows how that will actually pan out.

Brother's situation:

Used all of his capital for down payment, needs to save for closing costs & mortgage for (at earliest) 2025. No debt otherwise. He will assume the mortgage by himself (dad will be gifting his down payment contribution). Currently makes ~$70k.

I think my brother could be okay as he has low costs (isn't paying rent) and is good with saving his money. I think he would be able to make the closing costs and hopefully qualify for the (up to) $480k mortgage. But depending on how interest rates move, this could be a very expensive <1000 sq.ft bachelors condo. When he signed up for this, his mortgage rate quotes were closer to 2%, so his payments could double from what he expected.

Dad's situation:

He is currently almost maxing out his HELOC (@ prime + 0.25%) of $250k with the down payment installments (say they are $60k + $60k + $120k, since he is going half on two of them). I believe he has emergency funds, but otherwise has no capital to pay down the HELOC. No big debt other than the mortgage, and also makes ~$70k. I believe his condo is <1400 sq.ft, but can't remember exactly.

My dad's net worth is mostly his home which he bought for ~$300-400k and *was* 'worth' over $1m based on similar listings in his neighbourhood in 2021. He has 18 months left on his mortgage ($1000 bi-weekly payments, $38k principal remaining) and is making interest only payments on the HELOC (>$1000/month). The mortgage + HELOC interest payments are already starting to pressure him. He is considering re-amortizing the mortgage for another 25 years at his current low mortgage rate (2.64%), making it a <$100 bi-weekly payment, and trying to pay down the HELOC a little bit. I think he wants/needs this so he can use the remaining room on the HELOC to pay for closing costs.

Further, from the Financial Post[1]:

> **Pre-construction condo flippers may be left holding the bag as buyers disappear -**
>
> […] The overall share of conversations with the intent to trigger an assignment sale jumped from four per cent in 2017 to 14 per cent this year, based on a sample of 78,000 calls that were screened for the use of the words "assignment," "assign" or "flip."
>
> Precondo.ca chief executive and co-founder Jordon Scrinko said he has never seen the assignment market this soft before.
>
> "Within the past three to five years, there is a sizeable chunk of the market of the pre-construction buying pool, who bought units that may never actually intended to close on, and some of them — even more worrying — actually factually cannot afford to close on," Scrinko said.

And so we should expect to see more ads like the one below. Admittedly it's rare for now to see condo assignments on offer for below the purchase price due to the sharp runup in condo prices in recent years, but I think we'll start seeing more of these now that condos are seeing significant price declines (more on that below):

[1] https://financialpost.com/real-estate/condo-pre-construction-market-softens

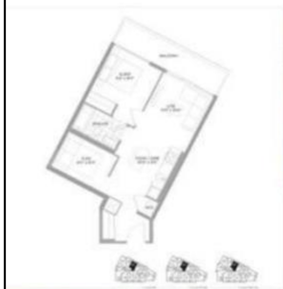
DISTRESSED ASSIGNMENT! OCCUPANCY AUG 17th!
Assignment With Builder Approval For Short Notice

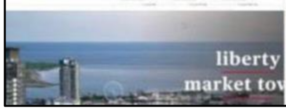
[redacted]

611 sqft+Balcony
1 Bed + Flex Den
1 Bath
Locker Included
NO parking

Asking Price: $710,000
Original Price: $731,000
20% Deposit Paid

DM Serious Inquiries Only





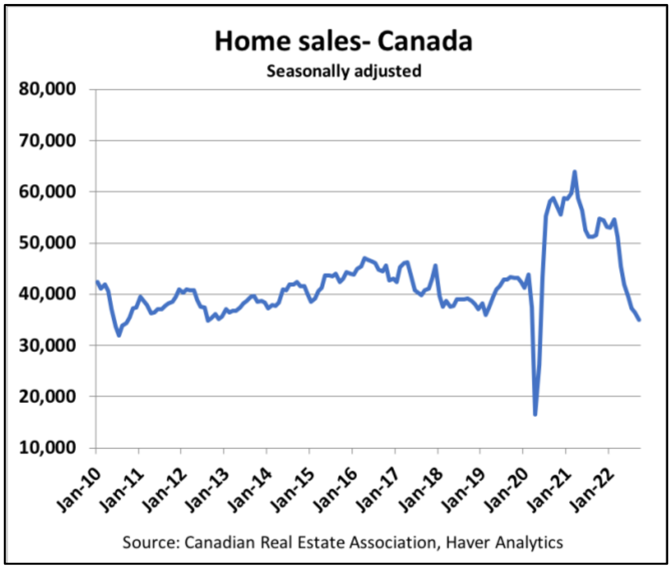
3) Takeaway from September home sales: Sales and prices grind lower

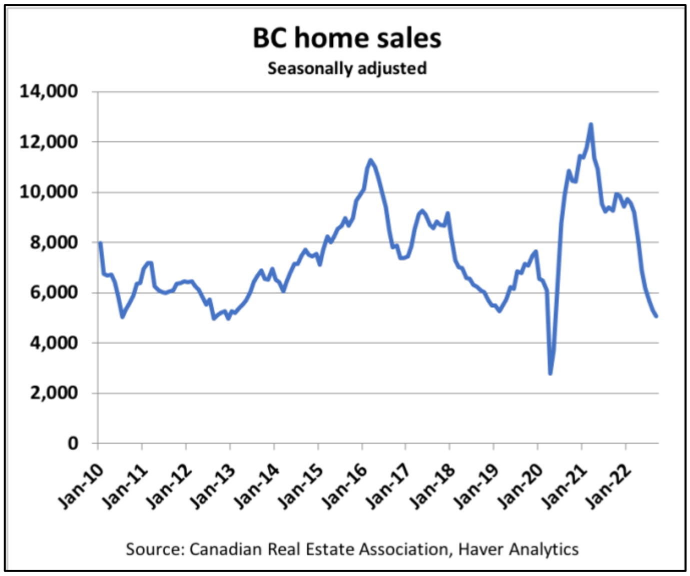
The key data from last month is summarized below.

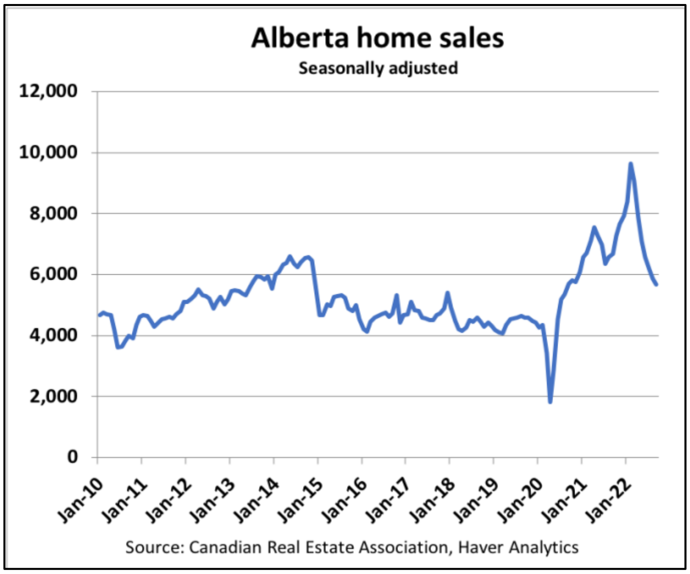
	Sales		New listings		Active inventory		House prices (HPI for Canada, average for provinces)	
	y/y	m/m seasonally adjusted	y/y	m/m seasonally adjusted	y/y	m/m seasonally adjusted	y/y	m/m seasonally adjusted
Canada	-32.2%	-3.9%	-1.4%	-0.8%	+25.6%	+0.5%	+3.7%	-1.4%
BC	-42.9%	-4.3%	-4.6%	+3.3%	+39.3%	+2.0%	+1.4%	+0.3%
AB	-14.9%	-3.2%	-3.5%	-1.1%	-7.6%	-0.7%	+4.1%	+1.9%
ON	-38.7%	-3.5%	-0.6%	-2.6%	+83.5%	-1.6%	-5.0%	-2.2%
QC	-23.7%	-4.1%	+4.2%	-0.8%	+24.5	+3.7%	+5.0%	-1.0%

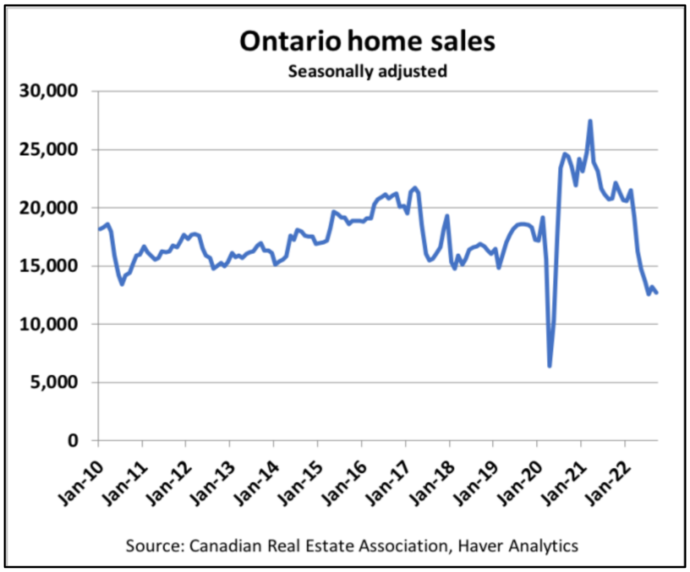
Demand is back on the decline

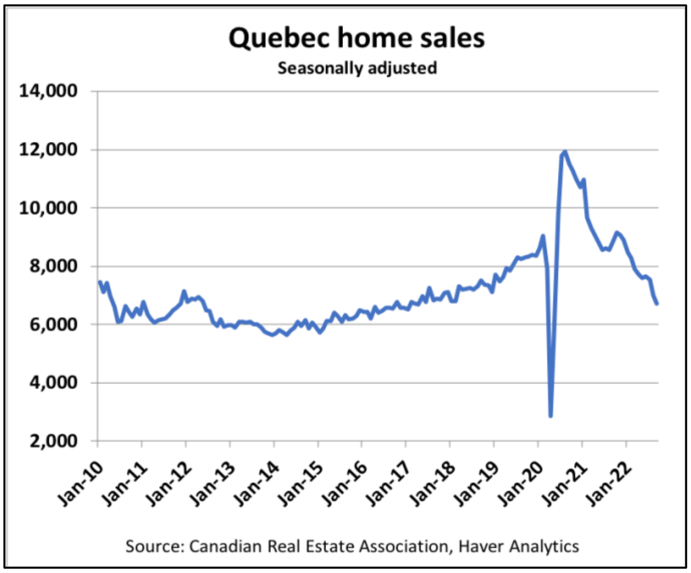
Seasonally adjusted home sales slipped 3.9% m/m in September and were down in every province led by BC (-4.3%) and Quebec (-4.1%).





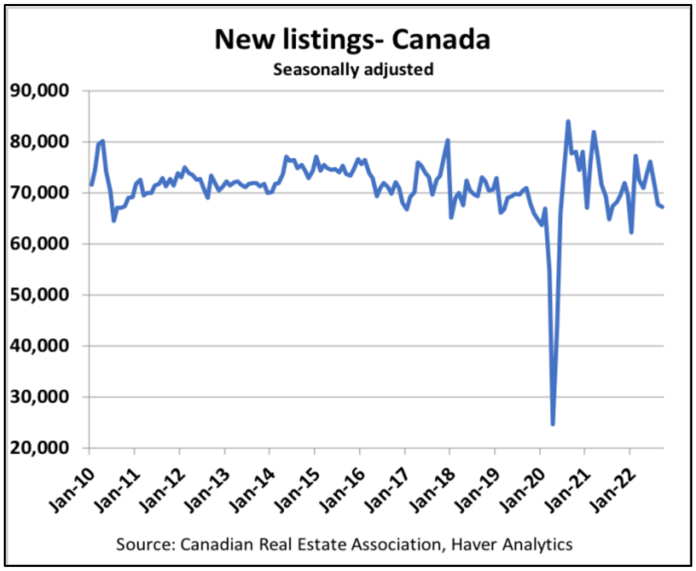






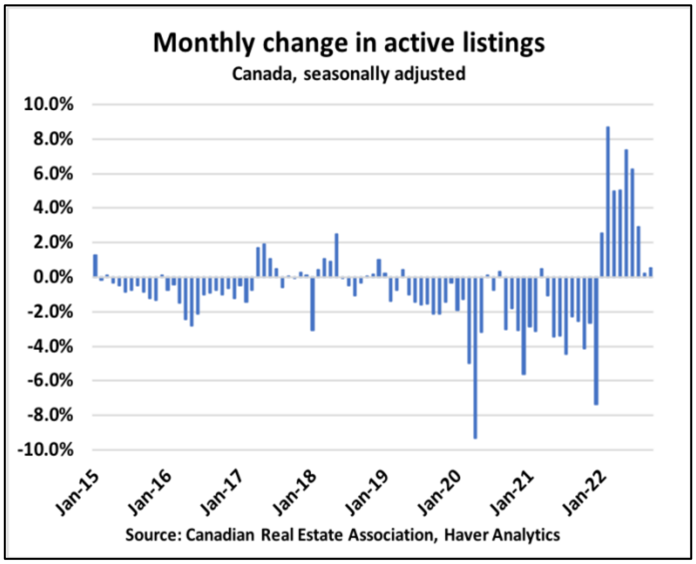
Sellers remain on the sidelines

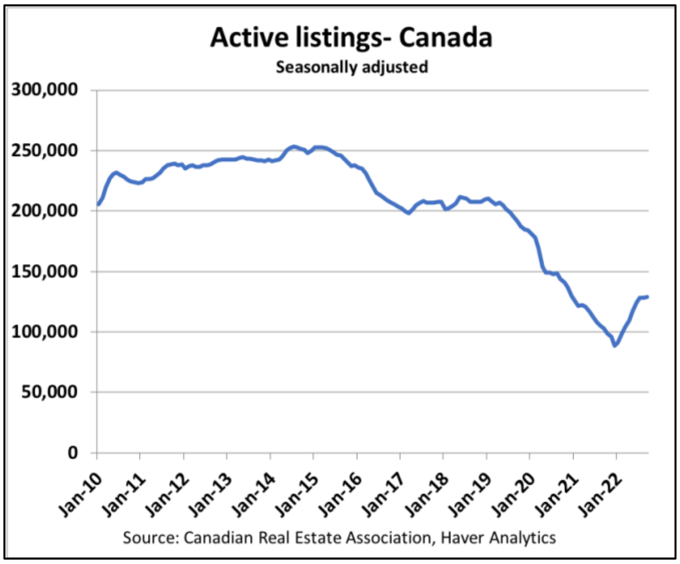
New listings fell another 0.8% m/m and are now 5% below decade norms. Put simple, there is still no “rush for the exits” or any panicked selling on a meaningful scale. The big question now is how many sellers have pulled listings expecting to re-list in a stronger market this spring. Time will tell, but I expect we’ll see a very significant supply response early next year.



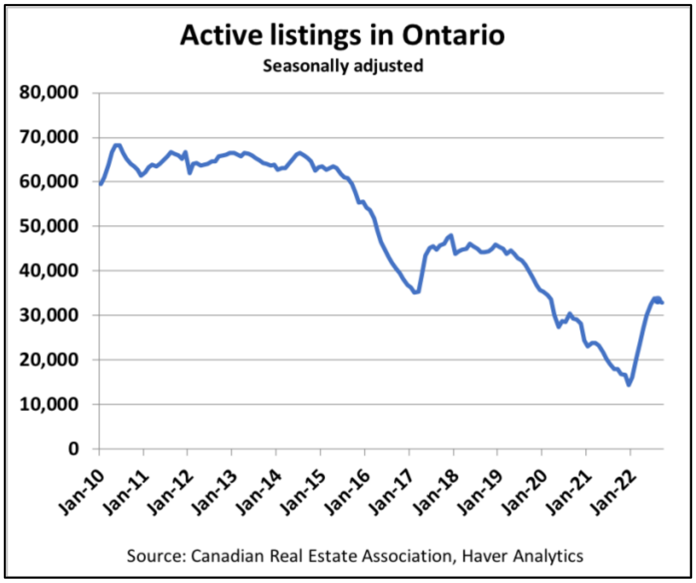
Inventory flattens out

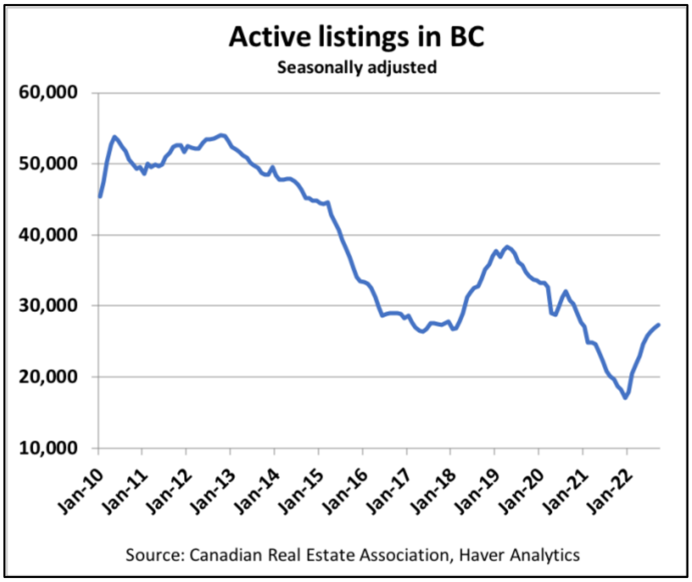
Seasonally adjusted active listing ticked up 0.5% m/m in September but it's a far cry from the +4% monthly builds we were seeing in late spring and through the summer. It's remarkable that after one of the weakest 6-month stretches for home sales in a decade that we still have inventory levels 35% below normal:

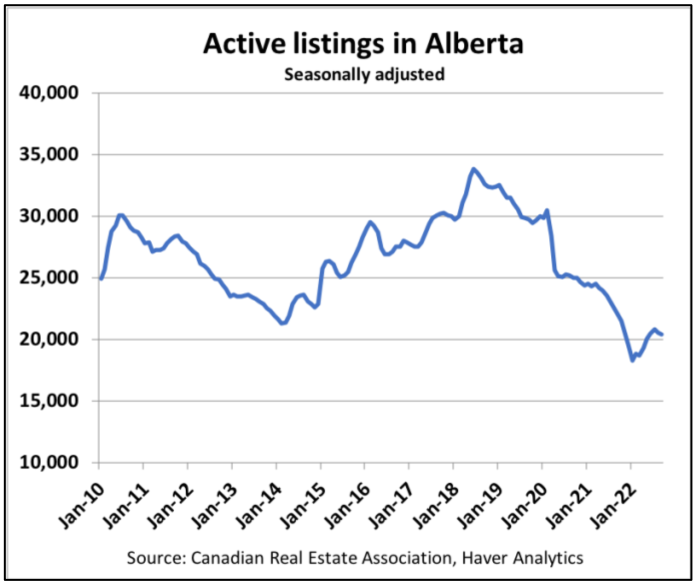


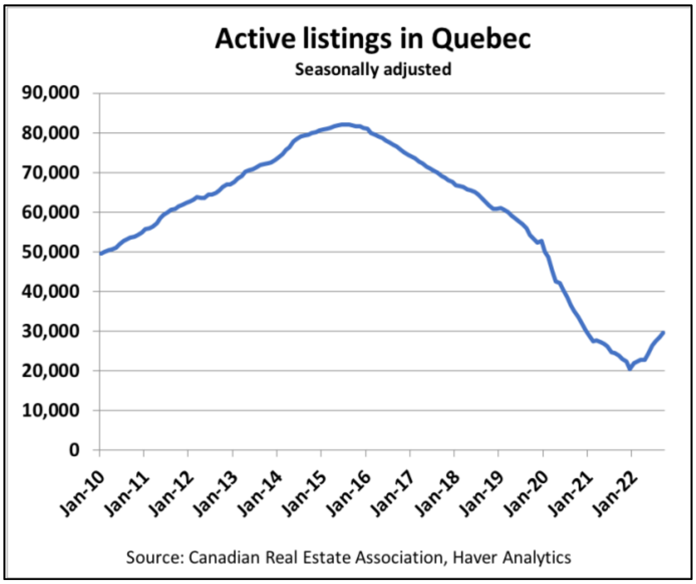


In Ontario, which I would characterize as the epicenter of the current downturn, we've now had active listings decline for 2 consecutive months. They also declined in Alberta where inventory is still basically at decade lows amid still strong demand:



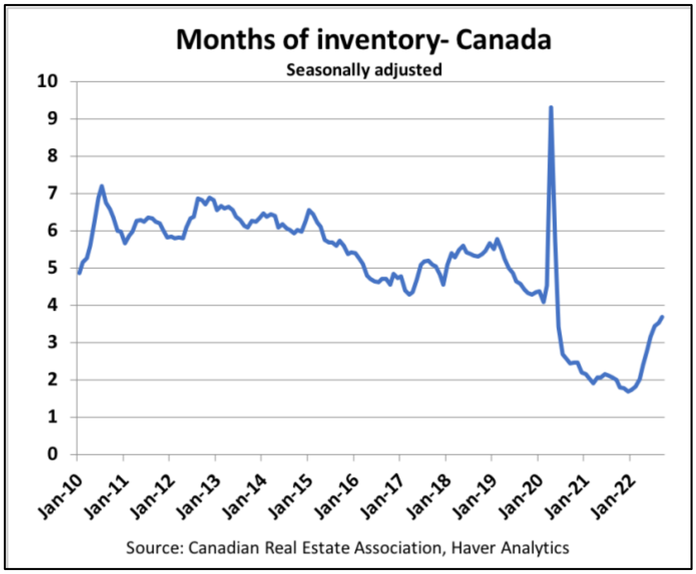






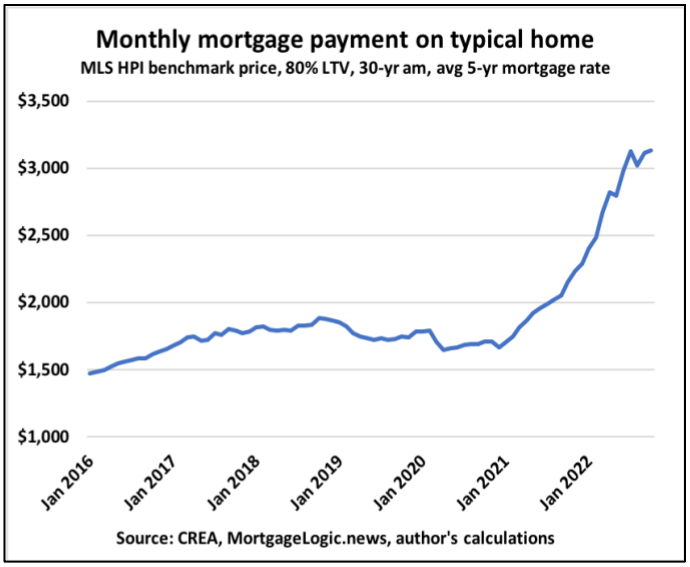
Market balance is still decent

Months of inventory ticked up to 3.8 from 3.7 previously. That compares to a long-term average of between 5 and 6. Again….this is NOT a dramatically imbalanced market by any means.



Affordability is a problem

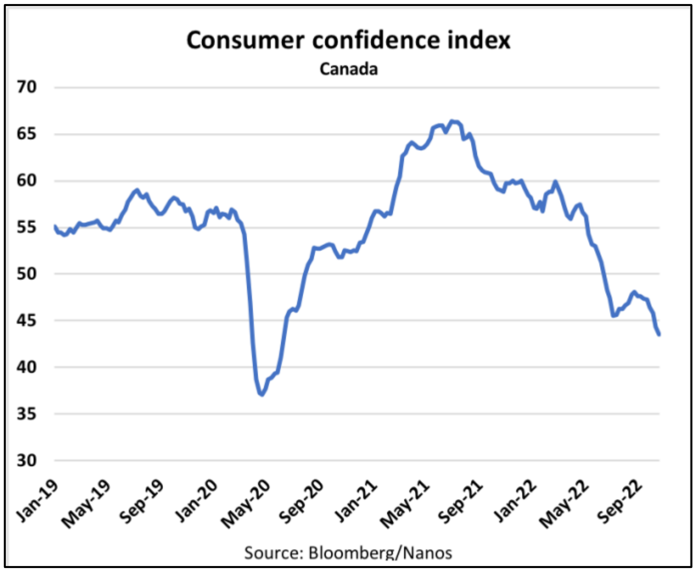
Affordability remains the key issue facing this market. My estimate of the monthly mortgage payment required to purchase a “typical” home is 45% higher than one year ago. Affordability has to improve dramatically before we can return to anything resembling a “normal” market.

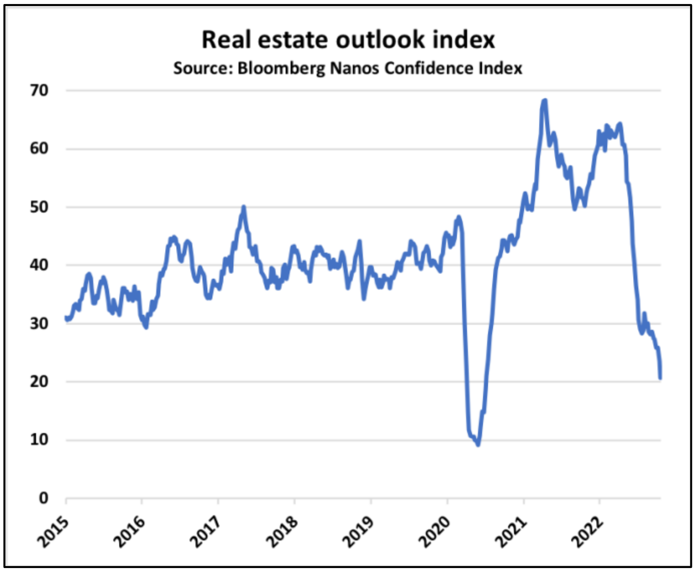


Sentiment closes in on COVID lows

This is starting to get ridiculous! I understand the pessimism, but we’re now seeing confidence levels that are nearly at the COVID pandemic lows, which is a bit absurd.

Back then we had a novel pathogen that, for all we knew, might end up wiping out a third of the global population. Today we have interest rates that are *almos*t back to 20-year averages. Not exactly the same thing, right?



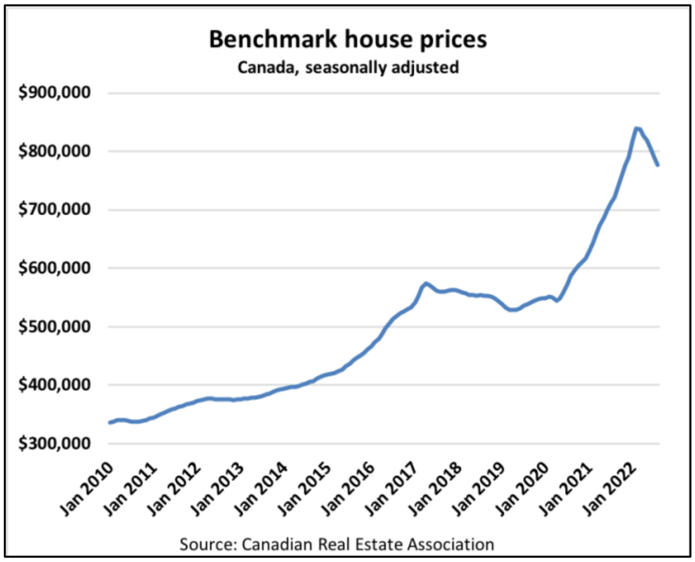


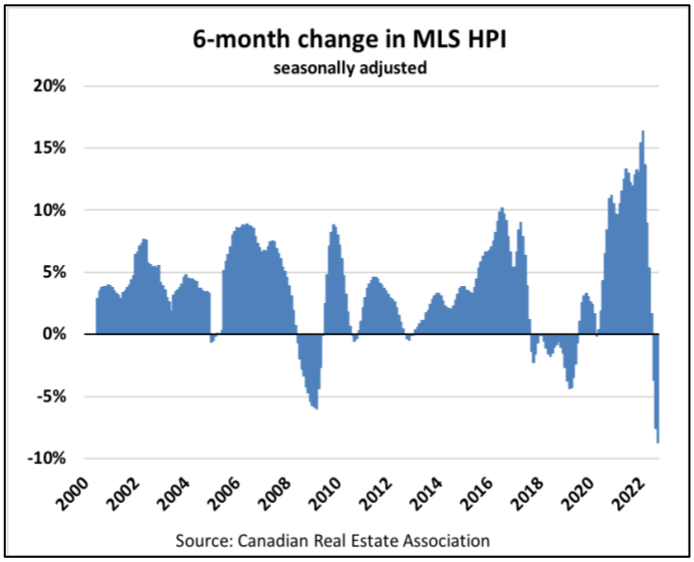
Price declines are moving into condos

The MLS House Price Index posted a 1.4% seasonally adjusted monthly decline in August, but that's a better showing than we've seen in recent months. Consider:

June	-1.8%
July	-1.7%
August	-1.7%
September	-1.4%

Still that leaves the HPI Benchmark down nearly 9% from peak, and it represents the steepest 6-month decline on record.



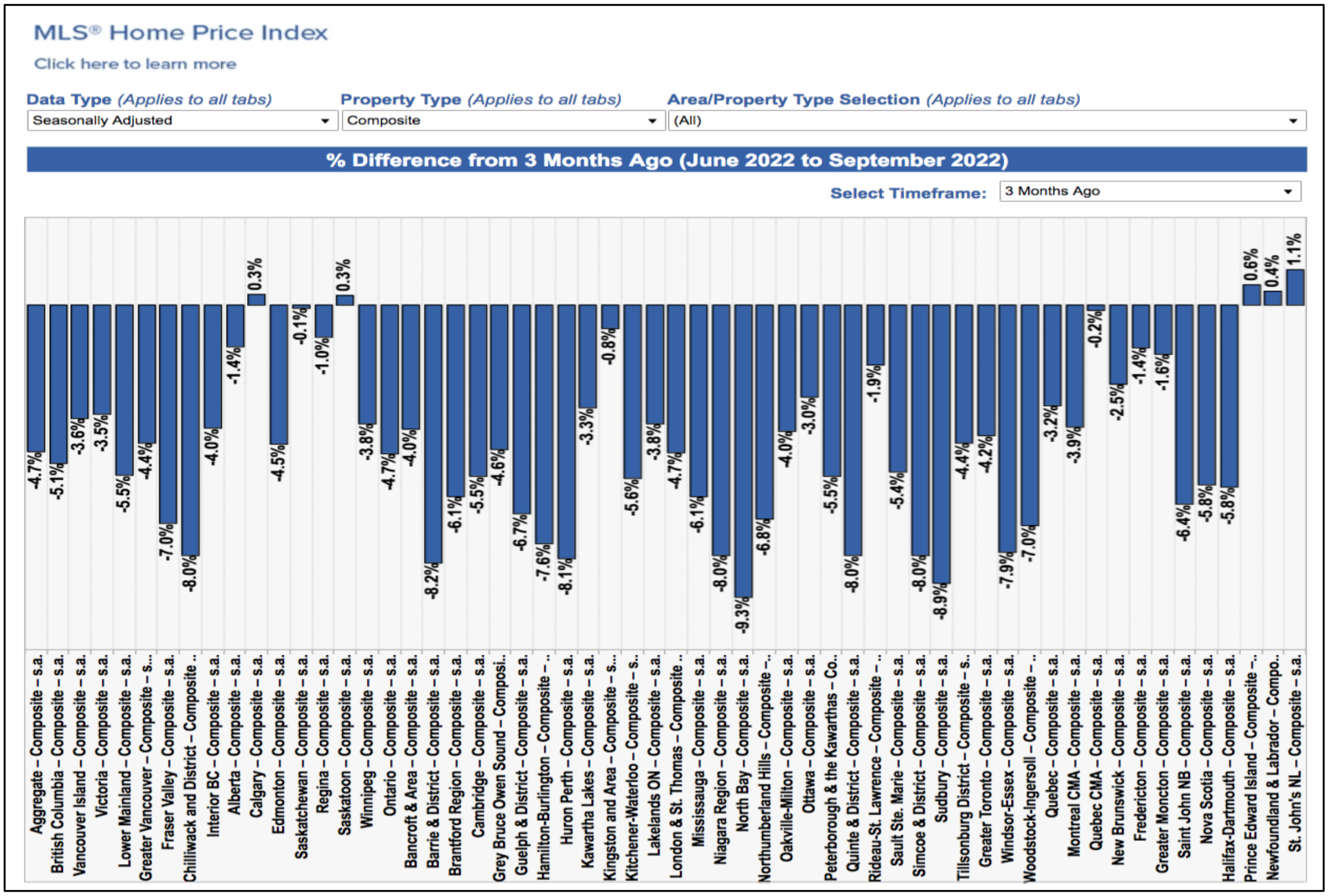


The Teranet Index is the best, pure measure of house prices in Canada, but it lags badly and does a poor job of capturing sharp inflections due to its use of closed sales which lag transactions by 60-90 days. It also uses rolling averages which provide a less volatile headline reading but muddies the waters when markets change abruptly.

I highlight this morning's press release from Teranet only because it's a telling signpost, but I do so with the caveat that this data represents steep price declines from this past spring more than current market dynamics:

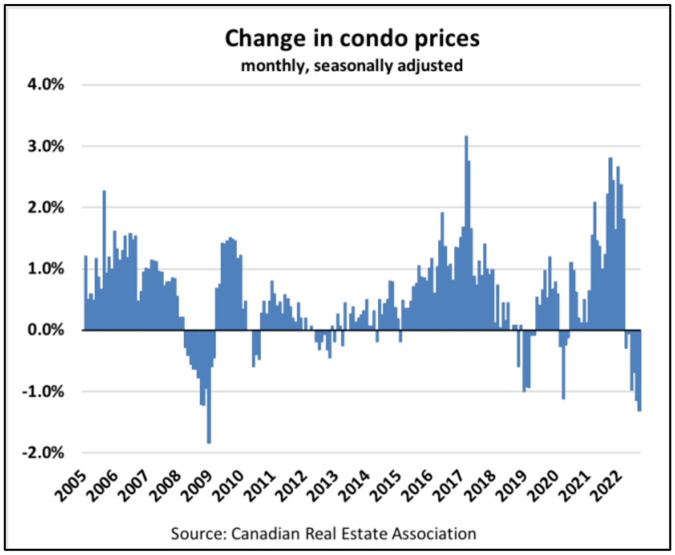
> […] Before seasonal adjustment, the Teranet–National Bank National Composite House Price Index™ fell 3.1% from August to September, the largest monthly decline on record since the index began in 1999 and shattering the previous month's record decline of 2.4%.
>
> After seasonal adjustment, the Teranet–National Bank National Composite House Price Index™ fell 2.0% from August to September, a monthly drop that equalled the previous month's record and the fifth consecutive decline.

Looking across the country, there are very few boards that have seen stable prices over the past 3 months. Atlantic Canada and Alberta are outperforming, a trend that I think will continue for several years still.



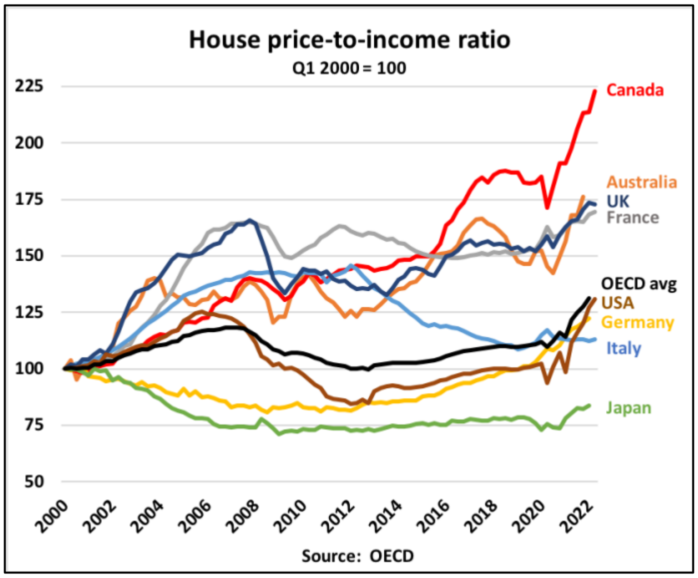
One interesting development is that prices are now declining faster in the condo segment than in single-family. In fact, condos just saw the single largest monthly decline since the Financial Crisis:

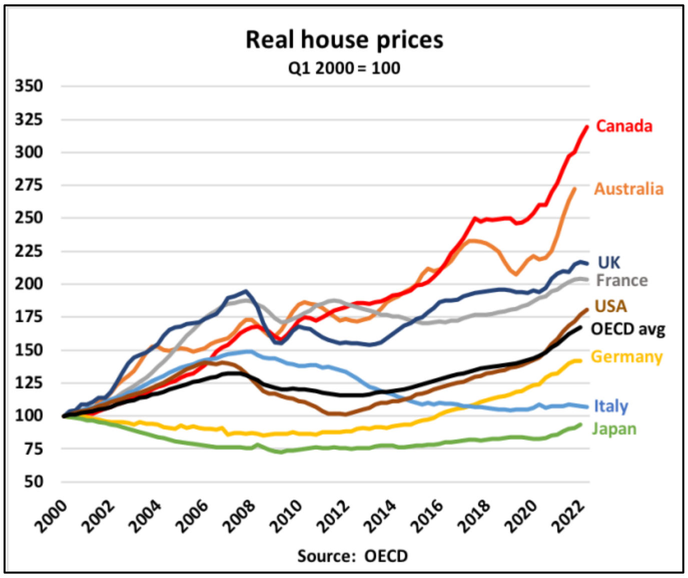
ben@edgeanalytics.ca (519) 477-5211

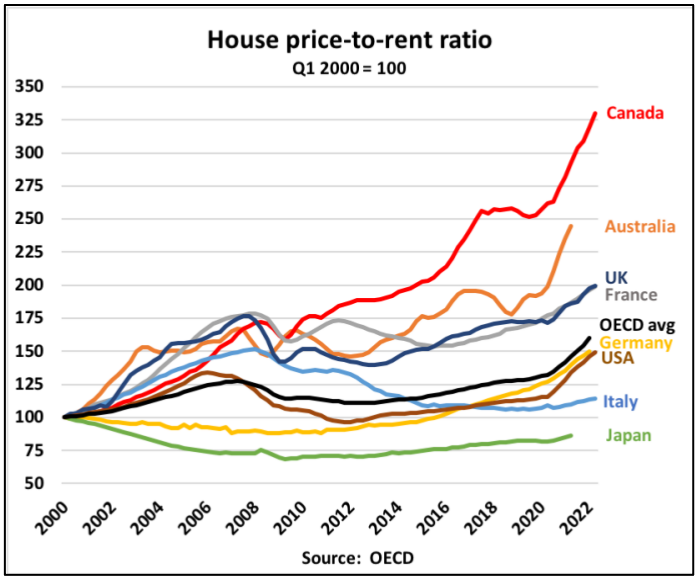


Crazy valuations visualized

The OECD has released some interesting house price data. It's a neat way to visualize the extent to which housing in Canada has outperformed global peers.



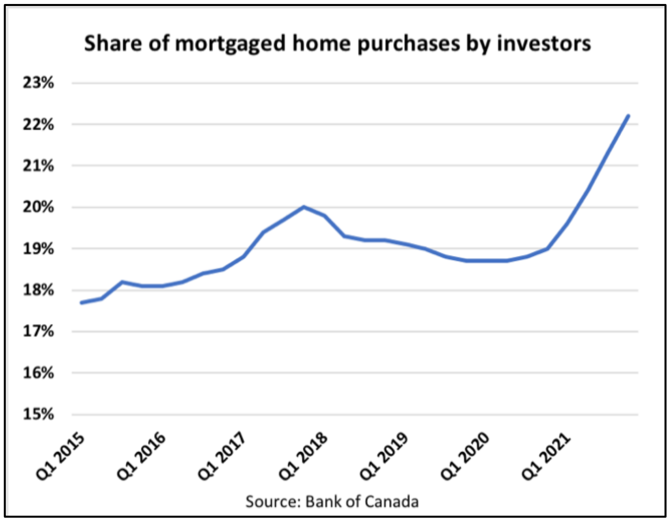




As the saying goes, "the fish doesn't know it's swimming in water". Canadian's have lived with a crazy housing market for so long that most have lost perspective. This market is not normal, in case that's not abundantly clear from the charts above.

More evidence that investors drove the housing boom

Data from the Bank of Canada shows that the share of homes purchased by investors jumped in 2021. It may not look like a huge move (~18% to ~22%) but that move alone accounted for roughly 40% of incremental demand into a supply constrained market:



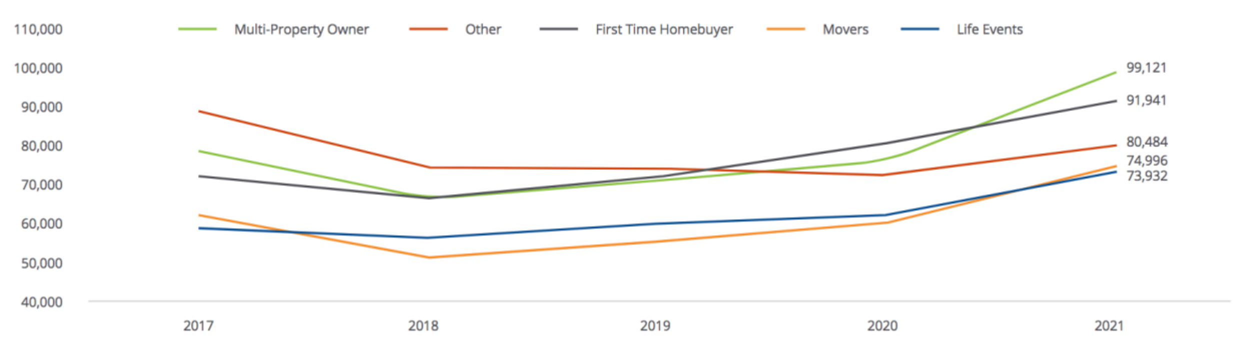
The latest Teranet Insights report[2] suggests that this trend got even pronounced in Q1 2022.

> […] Data from Q1 2022 shows that this trend continued unabated with multi-property owners accounting for over 26% of purchases in the quarter. Note that registry transactions typically lag sales by 60-90 days in light of the closing period.

[2] https://www.teranet.ca/wp-content/uploads/2022/06/Teranet-Market-Insight-Quarterly-Report-Q2-2022.pdf

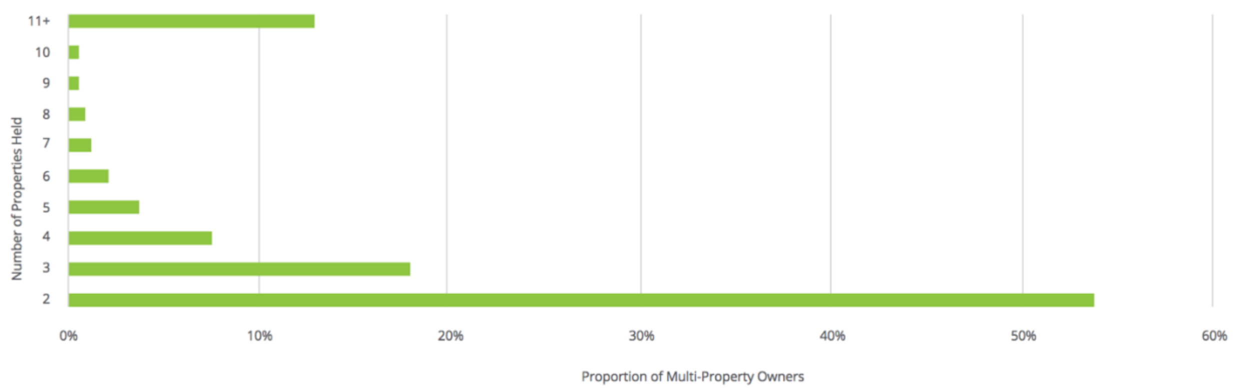
Multi-property owners were the single largest buyer cohort in Ontario as of 2021, accounting for just under 100,000 sales:

Figure 1 - Volume of Ontario housing sales by buyer segment, 2017 to 2021



According to Teranet, roughly 29% of multi-property owners have four or more properties in their portfolio, and nearly 15% have more than 10. They further estimate that 7% of Ontario's existing housing stock is owned by non-institutional buyers who own more than 5 properties!

Figure 2 - Number of properties held by multi-property owners



The risks here are clear. From the Globe and Mail[3]:

> **Multiple-property owners are facing rising interest rates, especially in Toronto's condo market**
>
> […] "COVID made investing in real estate sexy, where before it was a dormant asset class," said Jack Bernstone, a BRRR investor who amassed a portfolio of more than two dozen rental properties in Ontario by his late 20s.
>
> "On Tiktok and Instagram people were showing their journey and for the first-time for that Millennial group rates went low enough for people to get their foot in the door. … It kinda became cool to do."
>
> Mr. Bernstone, who owns Bernstone Capital, also offers coaching to budding investors and has worked with everyone from moms in their 50s who owned no property to early-twenties professionals curious to give it a try. "I've had so many calls with younger people, 18, 19, 20, they are saving money and they know someone who did it [bought a rental property]. … It's the new goal, instead of having an expensive toy, it's the new flex," he said.

[3] https://www.theglobeandmail.com/real-estate/article-rate-rises-leave-multiple-property-owners-exposed/

> […] Where he foresees trouble is among those BRRR investors who were over-reliant on cheap debt: “There is a huge portion of people who borrow the construction costs and the down payment,” he said. Rising mortgage costs are one thing, but many also have unsecured lines of credit, private loans or promissory notes that add to their risk if carrying costs eat away at revenues they earn from renting.
>
> “There’s a good chunk of investors that might get wiped out on this. … There’s losers already happening, I’ve seen it personally, people in my network are folding businesses,” he said.

One further complication lies in the looming Basel III reforms set to take effect in February 2023. From Rob McLister:

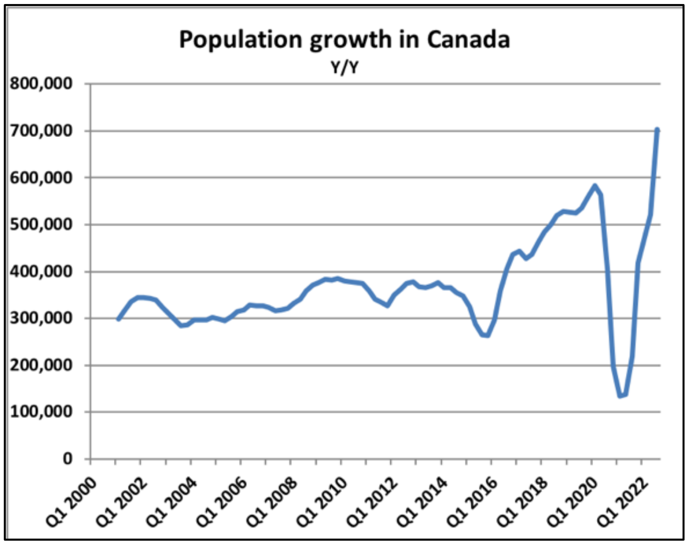
> OSFI told us: “A 50% increase in risk weighting is required for mortgages where over 50% of the income used to qualify for the mortgage comes from income generated by the property (e.g., rental income).”
>
> This will have a material effect on a bank’s funding cost for such mortgages. One way or another, we expect this to filter through to borrowers by way of incrementally higher rates on mortgages for rental properties, lower loan-to-values or otherwise.

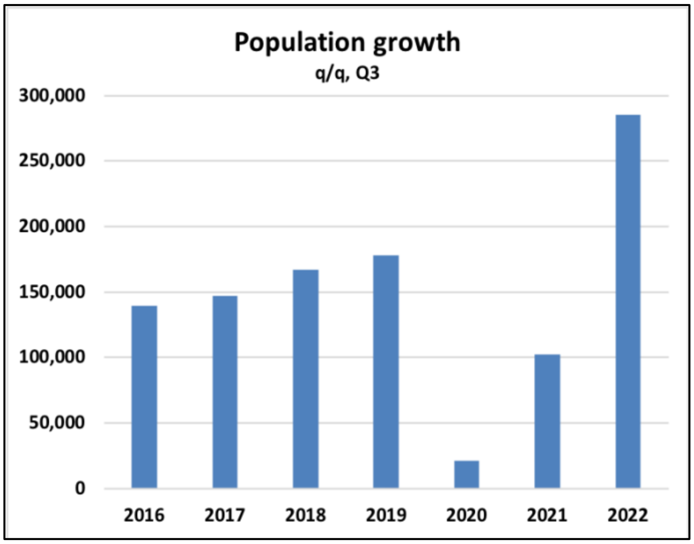
Higher rates and tighter financing may constrain investor demand for some time. That’s particularly bad news for segments that have become extremely reliant on investors in recent years….namely condos in Canada’s big cities.

4) Supply and demand: Monster population growth!

Shattered record: Unprecedented population growth in Q3

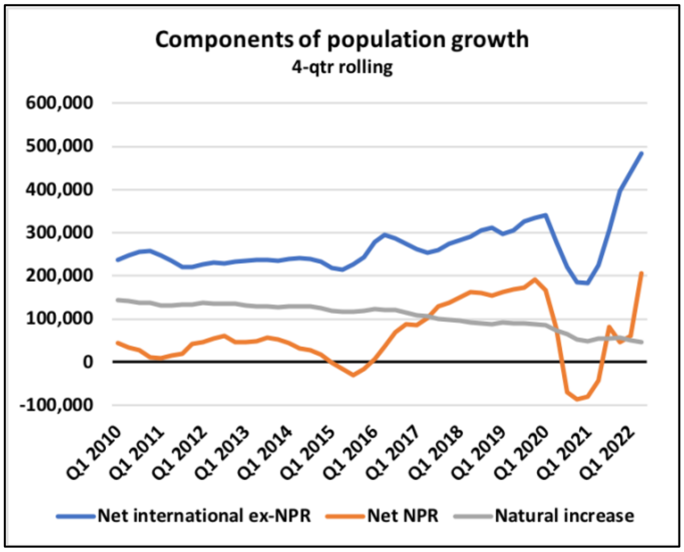
We got a stunner last month from Stats Canada when they revealed that the Canadian population surged by nearly 280,000 in a single quarter and was up by 700,000 compared to one year prior. Both of those figures are records by a wide, wide margin.





A big chunk of that quarterly increase was due to processing a backlog of non-permanent resident admissions as well as an influx of refugees out of the Ukraine.

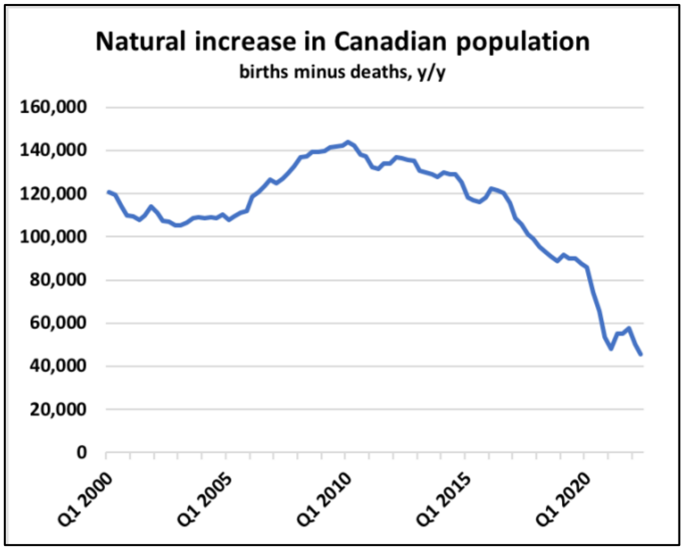
If we break down population growth into its component buckets, we find (not surprisingly) that immigration hit nearly 500,000 y/y (blue line in the chart below) while net non-permanent residents (mainly international students and work permit holders) added a tad over 200,000 (orange line).



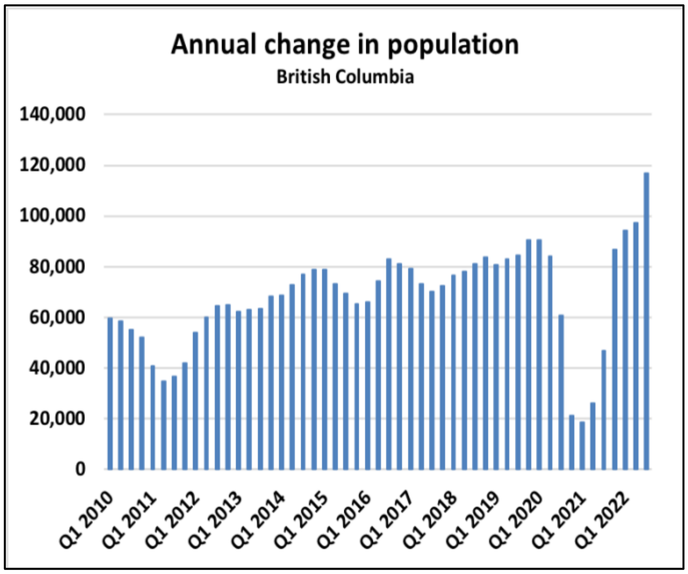
Two takeaways from this:

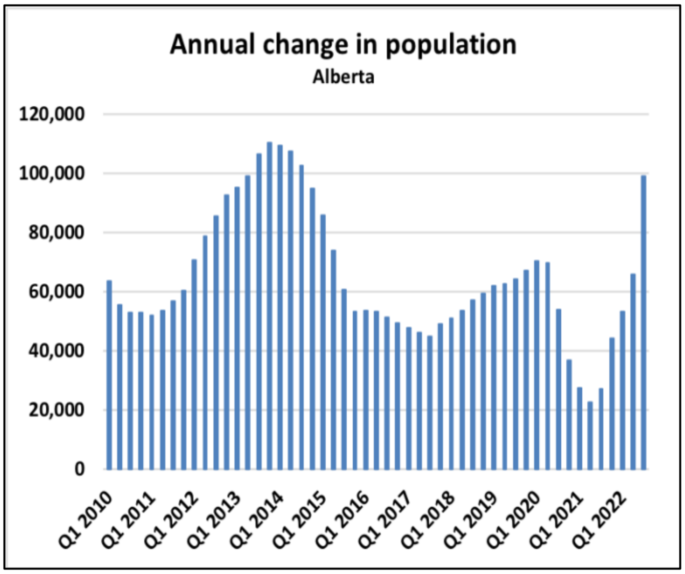
i) The 2022 immigration target is 430,000 for the full year. But on a rolling 4-quarter basis, we're already at almost 500,000. They'll have no problem exceeding that target.

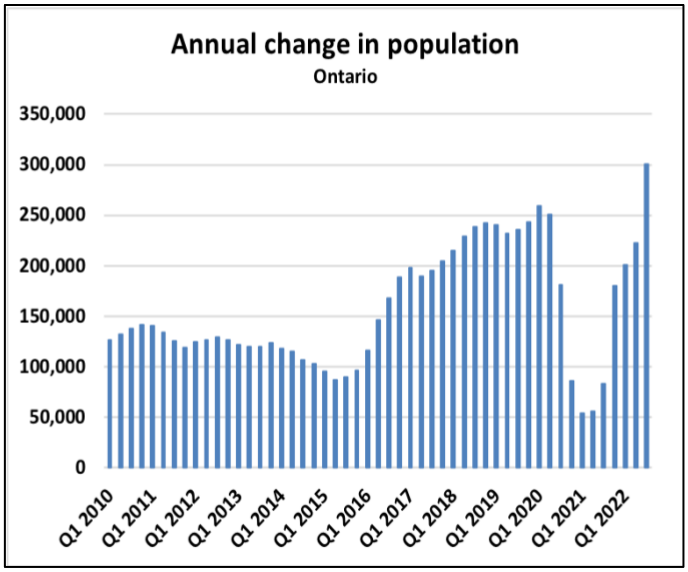
ii) Natural increase (ie births minus deaths) hit a record low of just 45,000. It's a good reminder that immigration is categorically a good thing, even if the arbitrary nature of the immigration target itself can be reasonably debated.

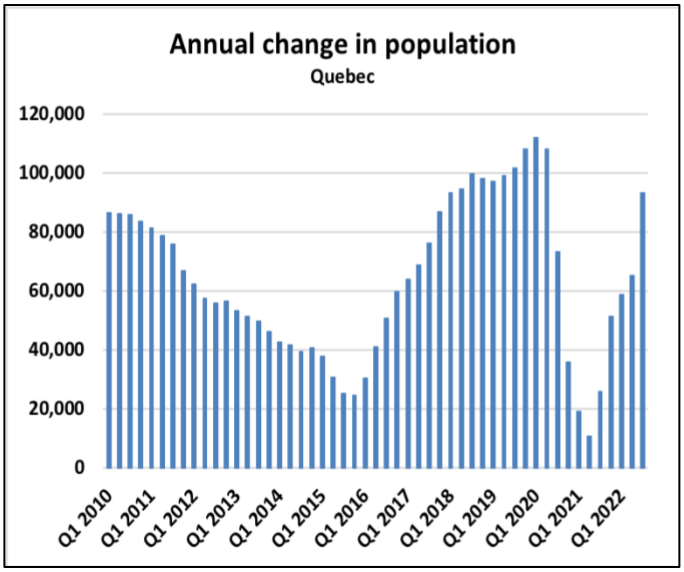


In terms of population change by province, the “big four” are shown below:

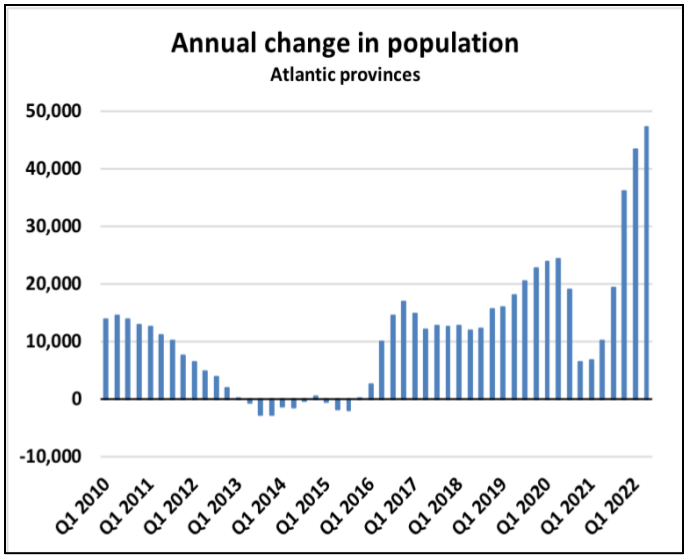


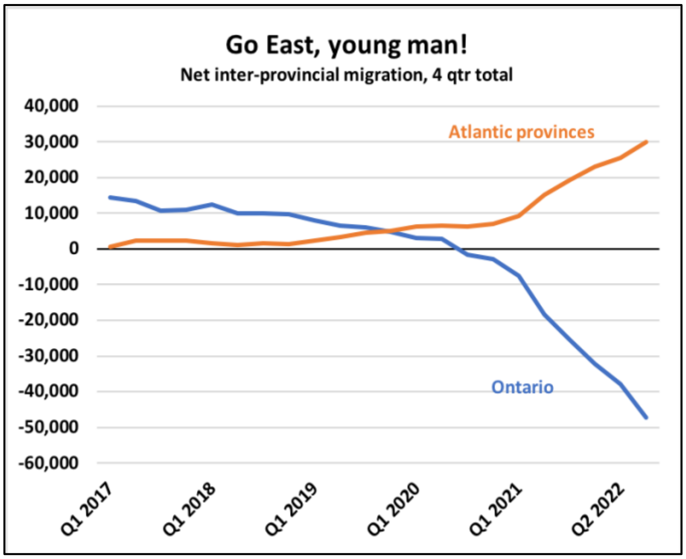






And one more just to highlight how unusual things are out east right now. As they say, “the cure to low prices is low prices”, and it’s probably not a surprise that Atlantic Canada is benefitting from massive interprovincial flows of “housing nomads”…primarily out of Ontario.



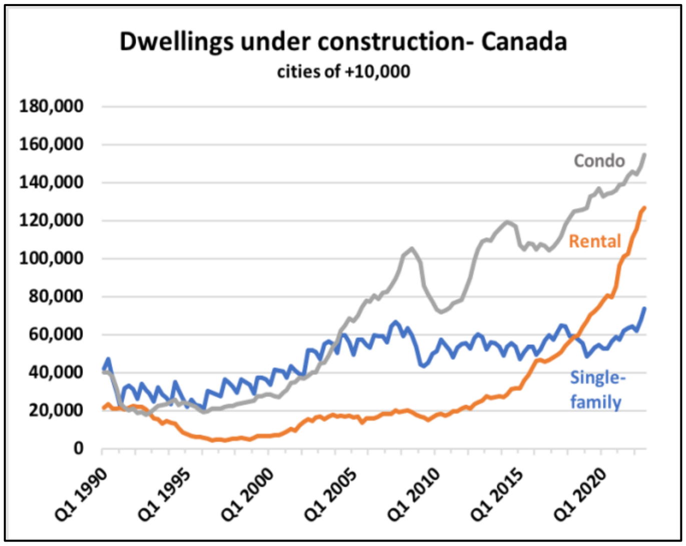


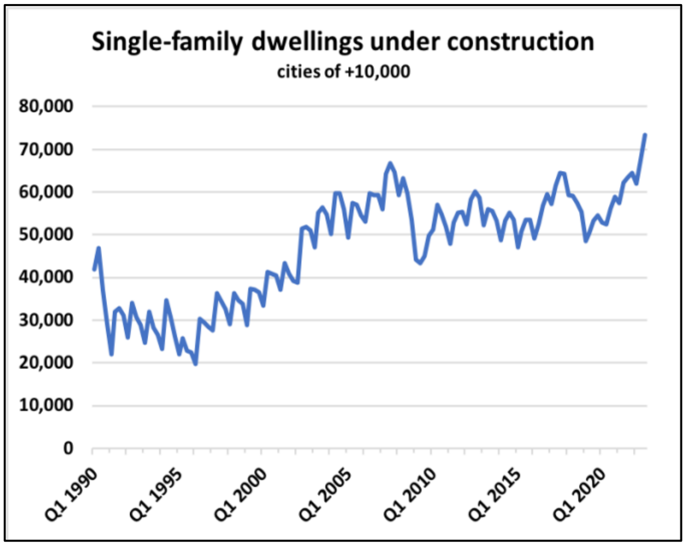
Walking back my rental predictions

Yes, I suggested earlier this year that we *may* see a slight softening in the rental market as new supply comes online. Not a *decline* in rents, mind you, just a moderation in the pace of growth.

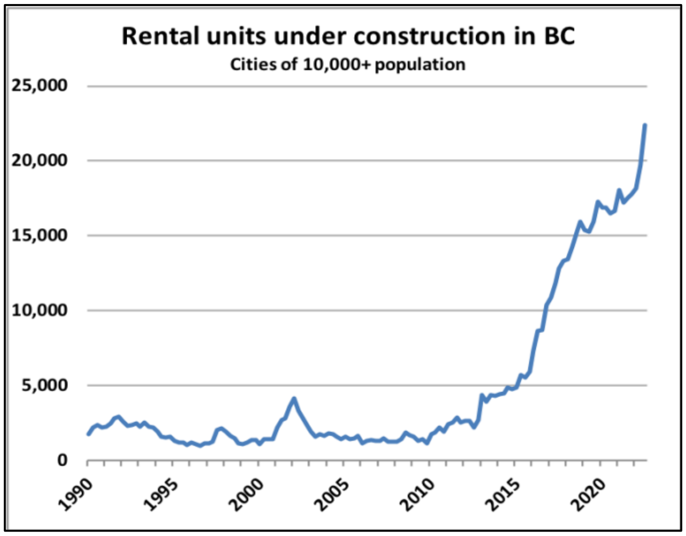
Clearly that was wrong, but in my defense, who could have foreseen a 280,000 quarterly bump in population? Certainly not your humble scribe. When data changes, so too does my thinking. Simply put, if population growth holds anywhere remotely close to current levels, rents will continue to rip. We don't have to overthink this.

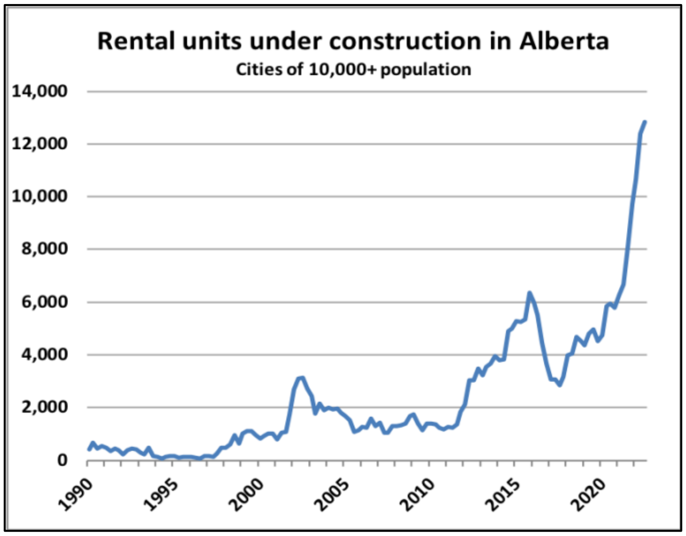
Taking a look at what's currently under construction as of Q3, note that rentals made fresh highs at 130,000 nationally. Also interesting is that single-family made new highs….perhaps not ideal timing given the state of demand in the resale market. I've zoomed in on single-family below to better show that trend:

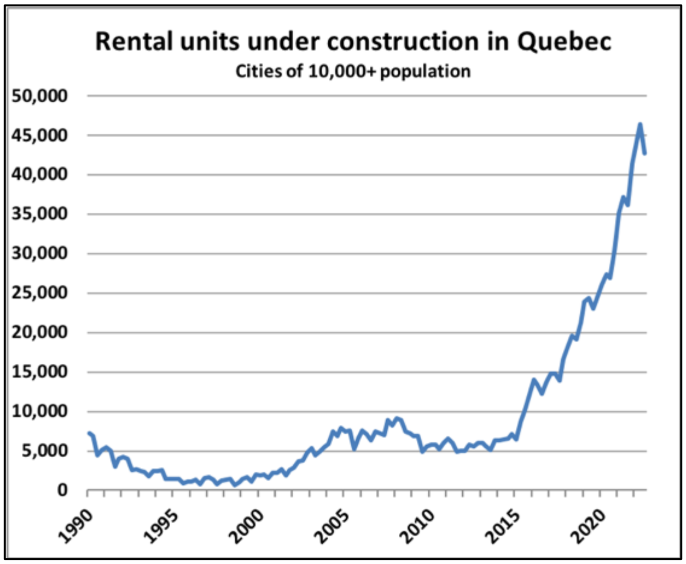


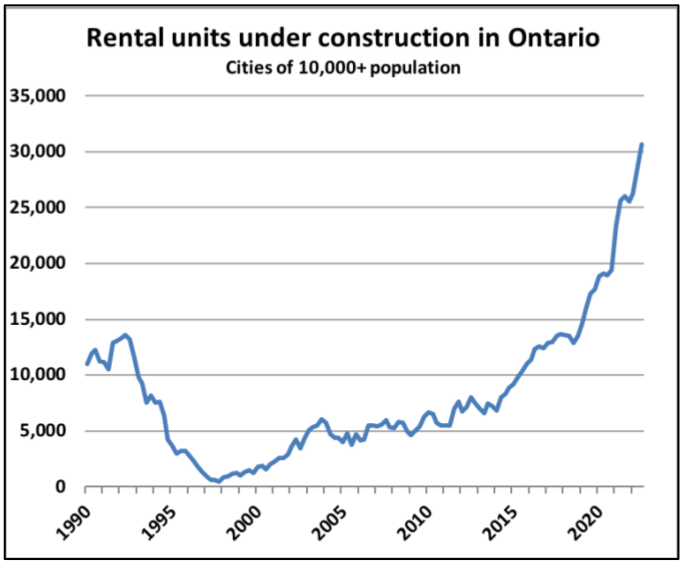


Still, the most striking trend is in the rental segment. Looking across provinces, we find records just about everywhere:

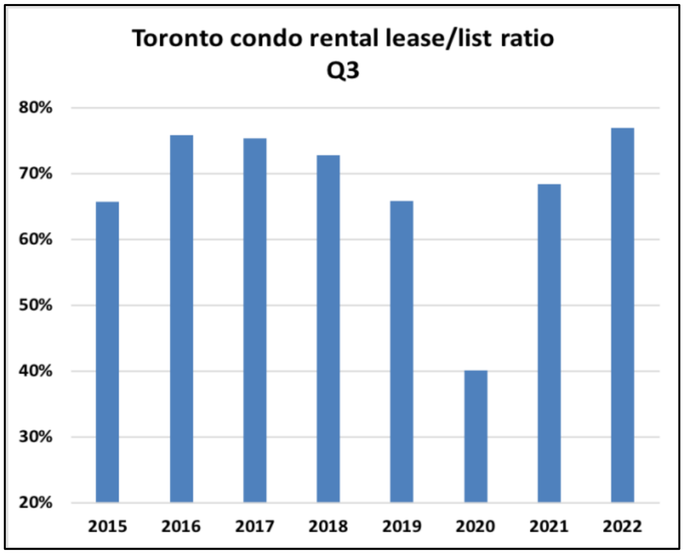


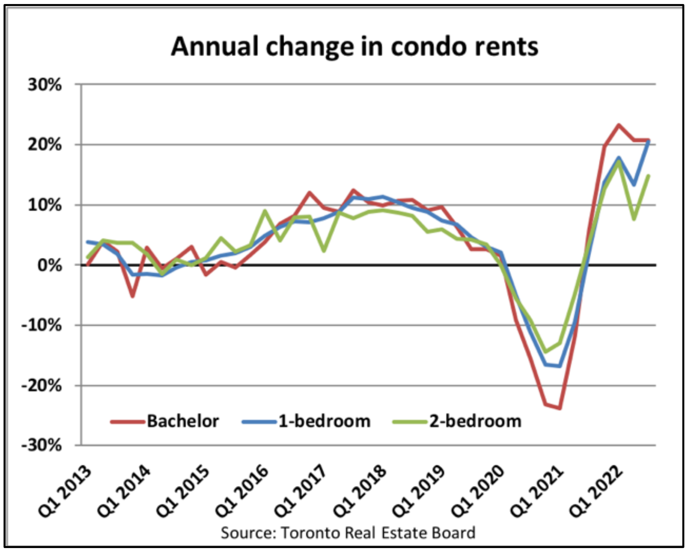






If we get an incremental slowing in population flows at the same time that this new supply comes online, that could yet take the wind out the sails of the rental market, but that's a hypothetical concern for another time. As it stands, we just saw the tightest condo rental market in Q3 on record in Toronto, at least as measured by the lease/list ratio, and we saw an acceleration in rental price growth in most segments.



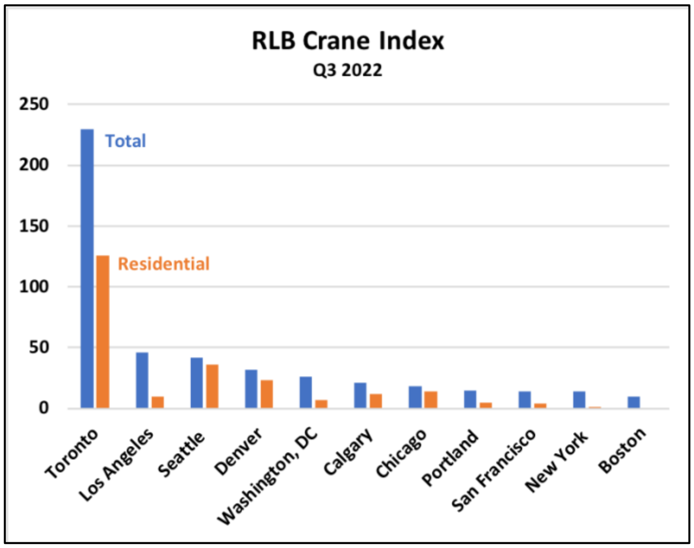


This is one of the reasons why I would argue that sales can't really get much lower. People have to live somewhere. And if they aren't buying, they'll bid up the rental market until the economics favor buyer over renting again and eventually bring things back into equilibrium.

Toronto remains North American crane capital

Toronto once again captured top spot in RLB's Q3 2022 North America Crane Index. In fact, there are currently more cranes building operating in residential developments in Toronto than in the next 10 top North American cities combined.

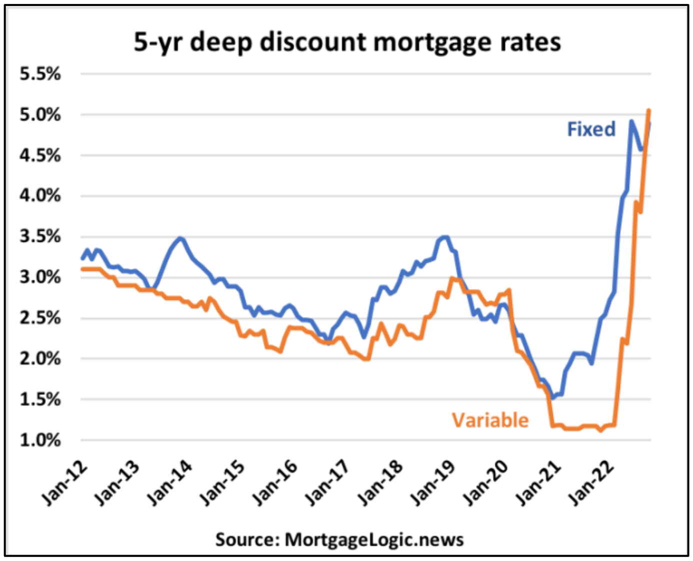
That is one heck of a stat.

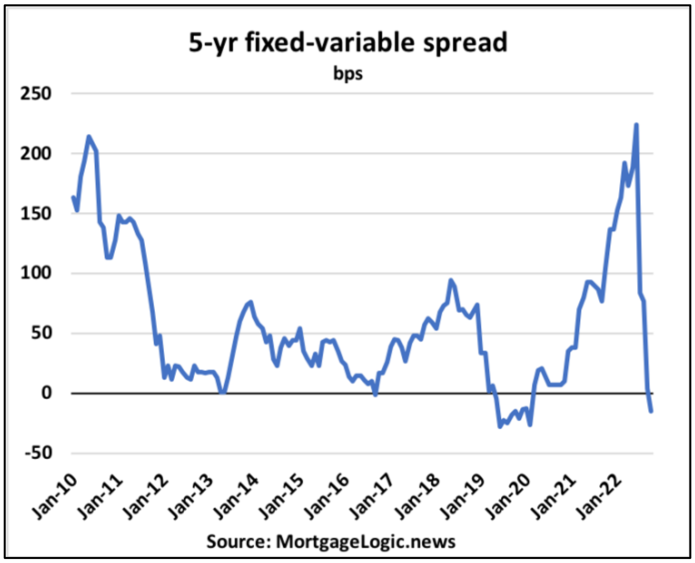


5) Rates update: The great mortgage rate flippening?

Rate flippening?

It doesn't happen often, but every now and then we get variable rates priced ABOVE fixed rates of similar terms. If we see fixed rates cut by 10bps in line with the decline in bond yields this week, and if variable rates tick up in line with the Bank of Canada's 50bps rate hike, we'll see exactly that dynamic (note, most recent data point below is my estimate):





The entire mortgage curve is all messed up as a result of a bond yield curve that has inverted. Yield curve inversions are a bad omen of a looming recession. You can read up on that here: https://www.investopedia.com/terms/i/invertedyieldcurve.asp

But for now, let's just note that this creates all sorts of bizarre pricing in mortgage land. From Ron Butler:


Ron Butler @ronmortgageguy · 4h
When Bond Markets Decide To Screw Canadian Mortgage Shoppers Its BIGLY

Here's some Yield Inversion for you

Canada Bond Yields

5 - Yr 3.43
3 - Yr 3.86
2 - Yr 3.91

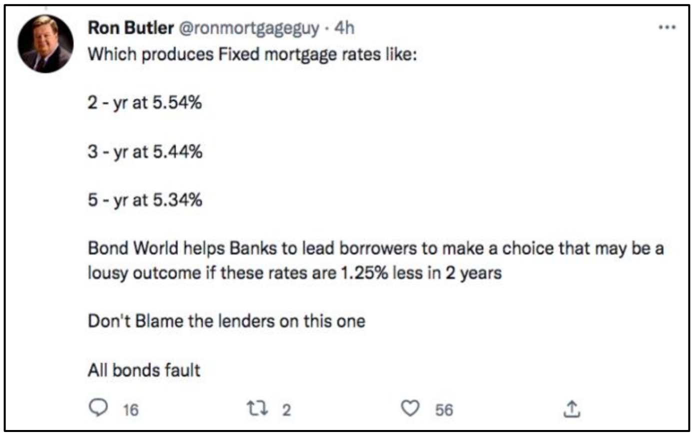
Here's what this means:

2 and 3 year mortgage rates are now HIGHER than 5 year

Further Comsumer Fckery

2/

13 9 95


Ron Butler @ronmortgageguy · 4h
Which produces Fixed mortgage rates like:

2 - yr at 5.54%

3 - yr at 5.44%

5 - yr at 5.34%

Bond World helps Banks to lead borrowers to make a choice that may be a lousy outcome if these rates are 1.25% less in 2 years

Don't Blame the lenders on this one

All bonds fault

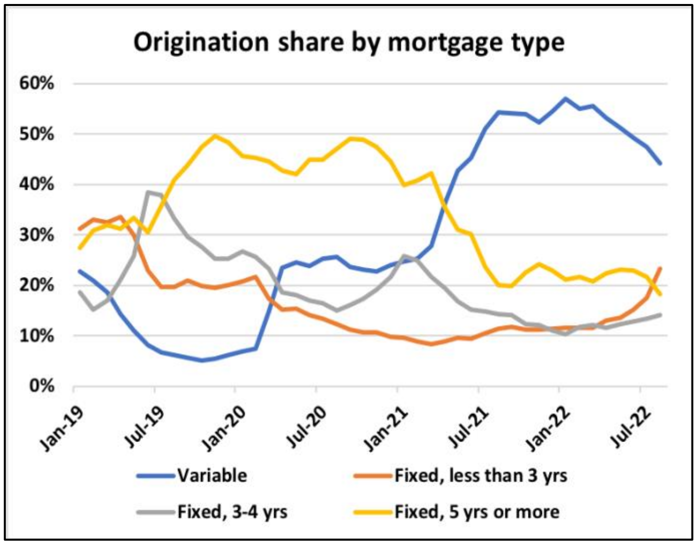
16 2 56

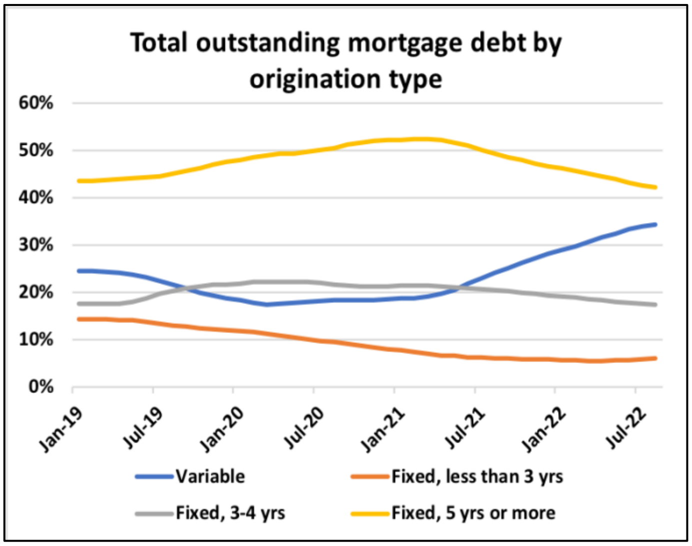
Borrowers calling the Bank of Canada's bluff

There may be something to the idea of the wisdom of crowds, at least as it relates to predicting Bank of Canada pivots.

In the latest data, variable and short-term (1-2 yr) fixed rate mortgages accounted for nearly 70% of new originations. Of course that's crazy IF the Bank of Canada were continuing on their hiking path but it looks a lot more sensible today after the latest rate announcement.

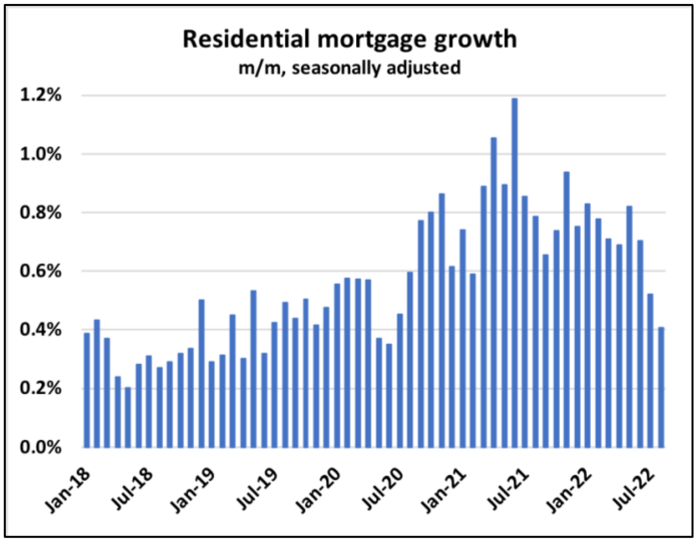
Also shown below is the composition of mortgage debt outstanding. Roughly 43% is 5-yr fixed (at origination), ~34% is variable, and the remainder is 3-4 yr fixed (~17%) and 1-2 yr fixed (~7%):

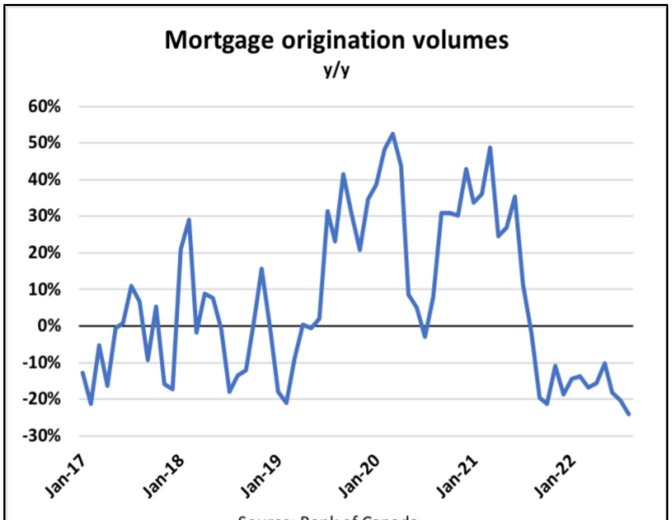




Mortgage growth slows sharply

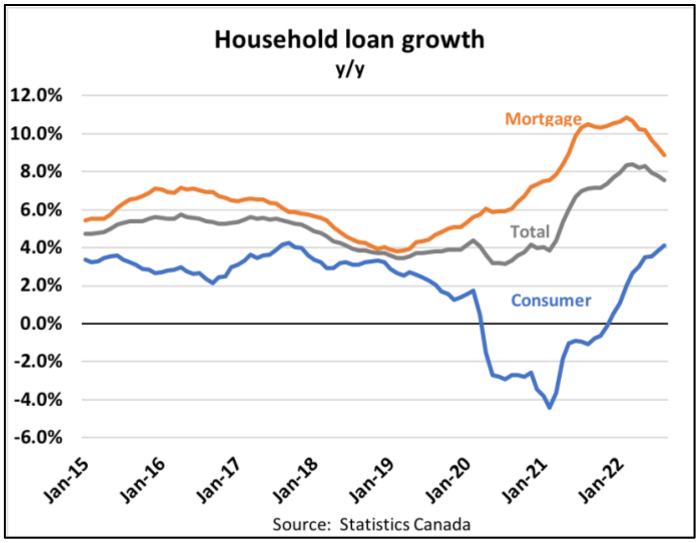
Mortgage growth is starting to really fall off a cliff, and this is data as of August. Mortgages funding in August reflect resale activity as far back as May, and sales have gotten a lot worse since then. Origination volumes were down 24% y/y, the steepest annual decline since at least 2017 and steeper than anything seen in the aftermath of the B20 regulations:





Source: Bank of Canada

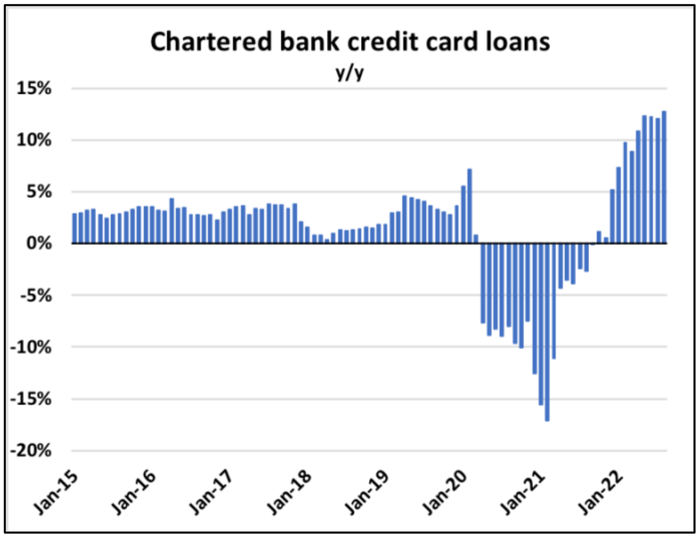
On a y/y basis, we're seeing mortgage growth slow at the same time that consumer credit is accelerating. I suspect we'll ultimately see mortgage growth bottom well below the B20 lows of 4% y/y:



6) Consumer check: Credit card balances jump, insolvencies up sharply

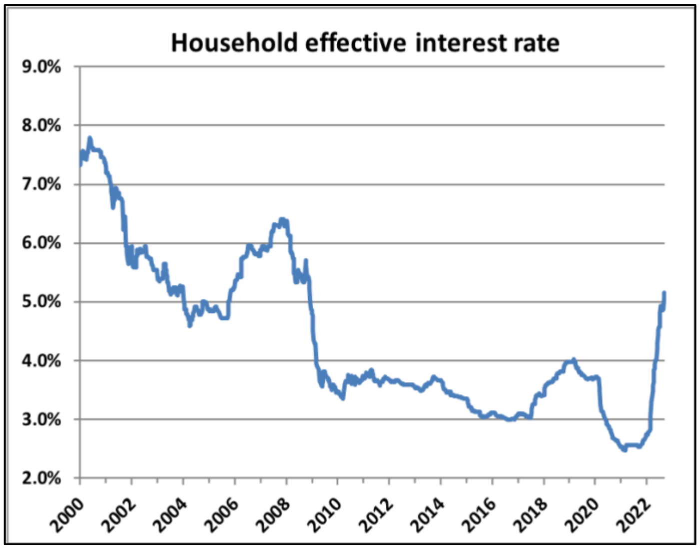
Credit card balances jump

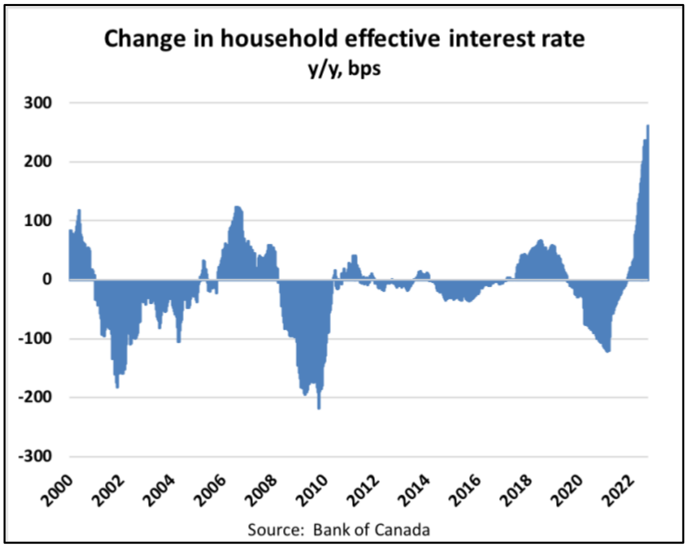
Chartered bank credit card loans jumped 1% seasonally adjusted in August and are now up 12.8% y/y, the largest annual increase in a decade. This is likely a sign that consumers are tapped out and resorting to high interest credit to support consumption and make ends meet:



Rates continue to hit consumers hard

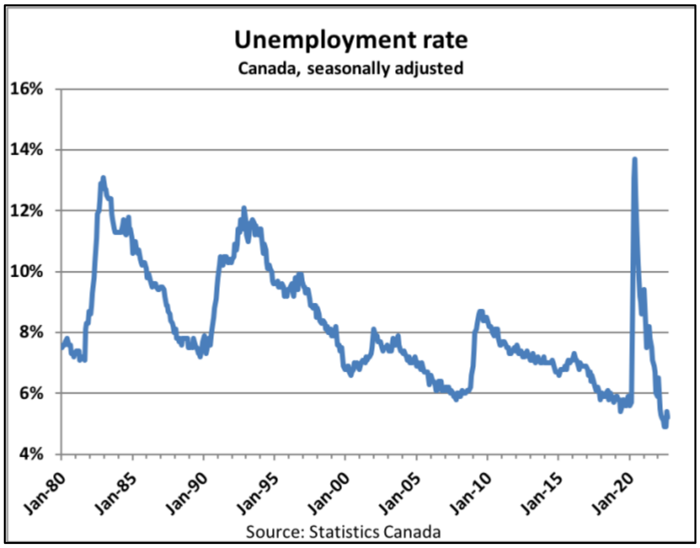
The household effective interest rate, a blended average rate across all debt products, surged to 5.2% last week….and that's BEFORE the 50bp hike from the BoC is factored in. That means that household interest costs have now more than doubled in just one year!

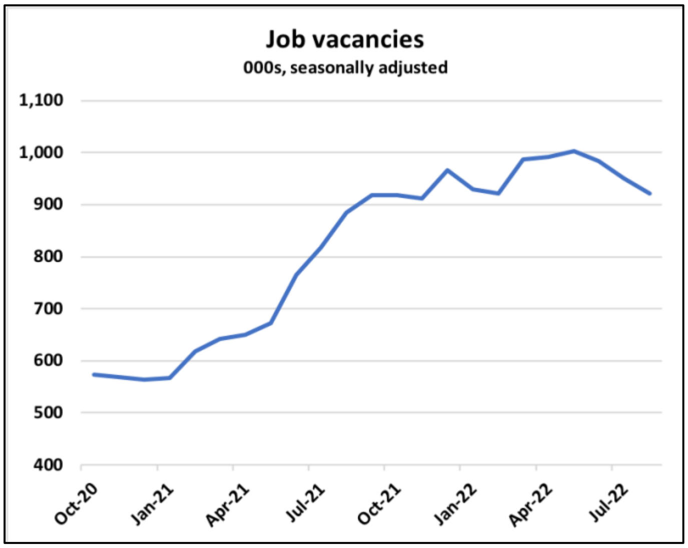




Labour market still tight but shifting fast

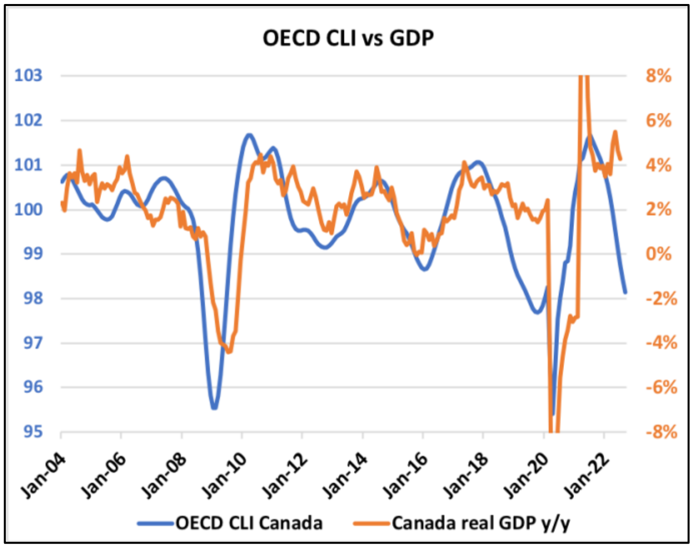
The labour market remains quite solid for now. In fact, we still have over 900,000 vacant jobs across the country. It's a sign that there's considerable room to absorb some slack in the economy….at least for now.





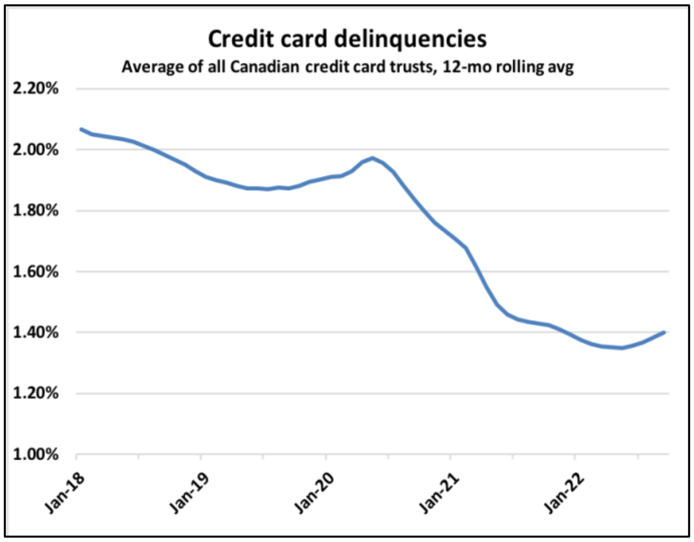
Forward indicators point to recession

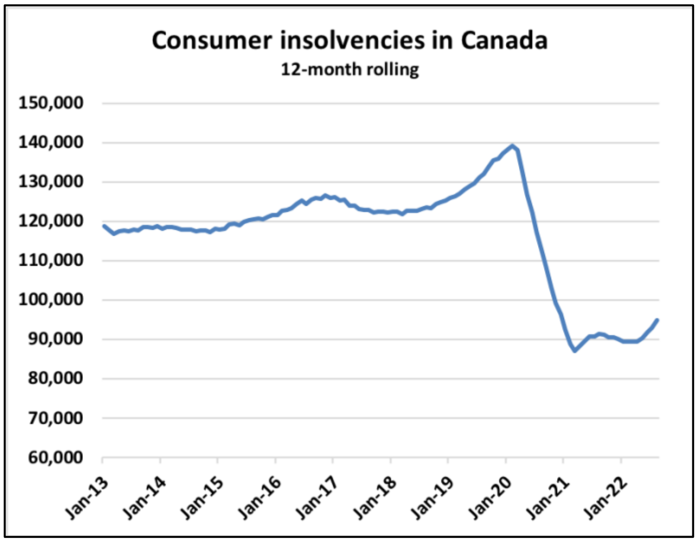
The OECD's Composite Leading Indicators have now posted the steepest decline from peak since the Financial Crisis. This index has a phenomenal record of predicting economic slowdowns, and it's currently at a level that suggests negative GDP growth early next year:



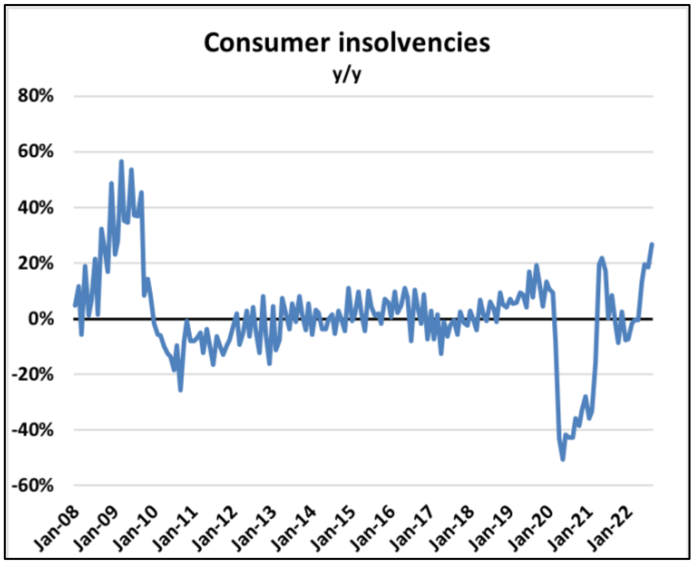
Credit stress low but rising quickly

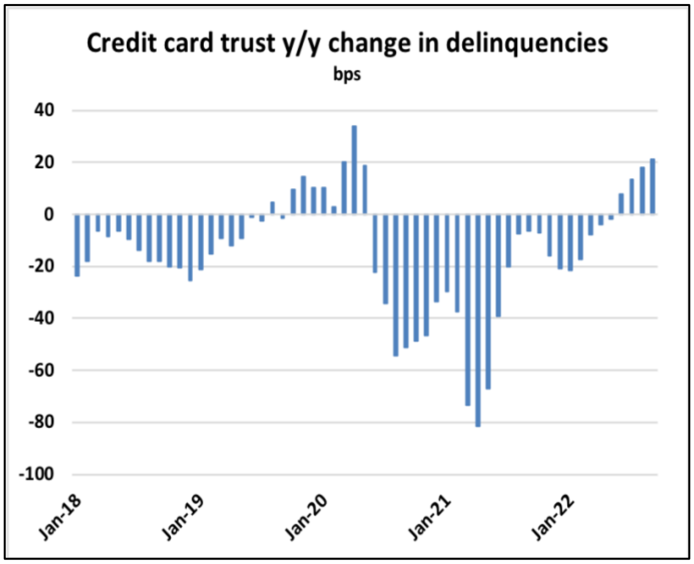
Credit card delinquencies and consumer insolvencies look pretty benign at the moment. Yes, the trend is clearly up, but absolute levels are still low.





But things change if we look at them on a y/y basis where we find that insolvencies are rising at the fastest rate since the Financial Crisis and credit card delinquencies are rising at the fastest rate since the early days of COVID.


Consumer insolvencies
y/y
80%
60%
40%
20%
0%
-20%
-40%
-60%
Jan-08
Jan-09
Jan-10
Jan-11
Jan-12
Jan-13
Jan-14
Jan-15
Jan-16
Jan-17
Jan-18
Jan-19
Jan-20
Jan-21
Jan-22


Credit card trust y/y change in delinquencies
bps
40
20
0
-20
-40
-60
-80
-100
Jan-18
Jan-19
Jan-20
Jan-21
Jan-22