# December 2022
# Metro level deep-dive- November data

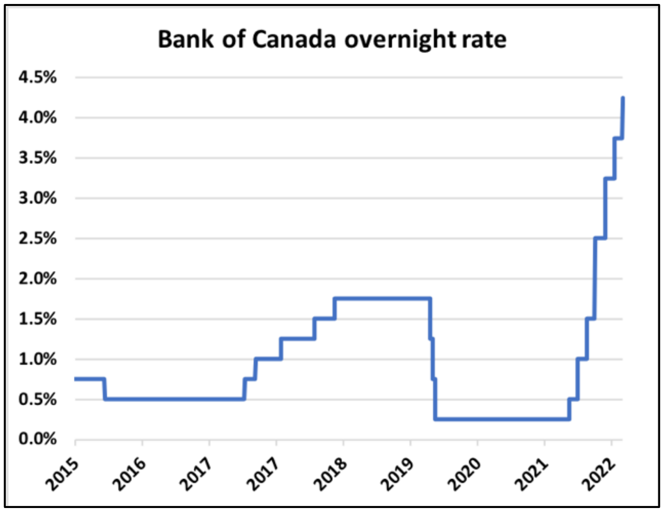
Quick links:

1) A classic “dovish hike” from the Bank of Canada
2) Toronto home sales resume slide in November
3) Vancouver home sales under pressure again
4) Alberta outperformance continues

Compliments of: TheMortgageGuyNiagara.com

## 1) A classic "dovish hike" from the Bank of Canada

The Bank of Canada hiked its overnight rate by 50bps (0.5%) yesterday to hit 4.25%. Let's remember that we started the year at 0.25%, so this is now the fastest rate hiking cycle since the late 1980s:



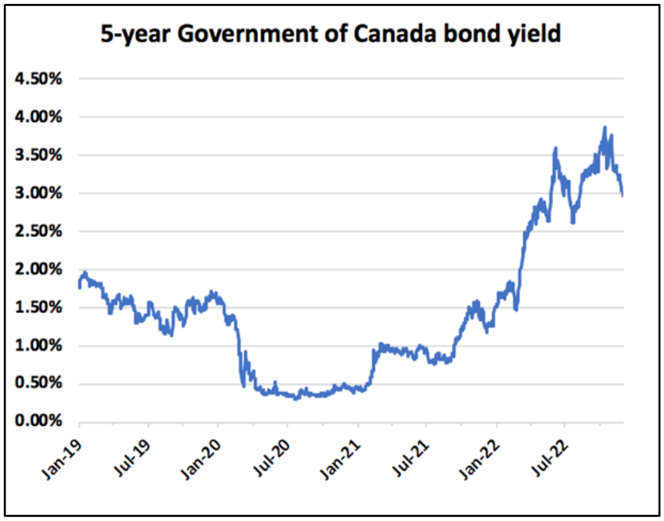

And there were some signs that the Bank still has a finger on the trigger for <u>potentially</u> more hikes. Consider:

> "…the economy continued to operate in excess demand."
>
> "…inflation is still too high and short-term inflation expectations remain elevated."
>
> "…we are resolute in our commitment to achieving the 2% inflation target."

But often it's what's left unsaid that provides the most important clues. For example, prior statements have included the phrase, "interest rates <u>will need to rise further</u>". That definitive statement was conspicuously absent this time around and replaced with, "Governing Council will be considering **<u>whether</u>** the policy interest rate needs to rise further". It's a subtle but important shift in tone.

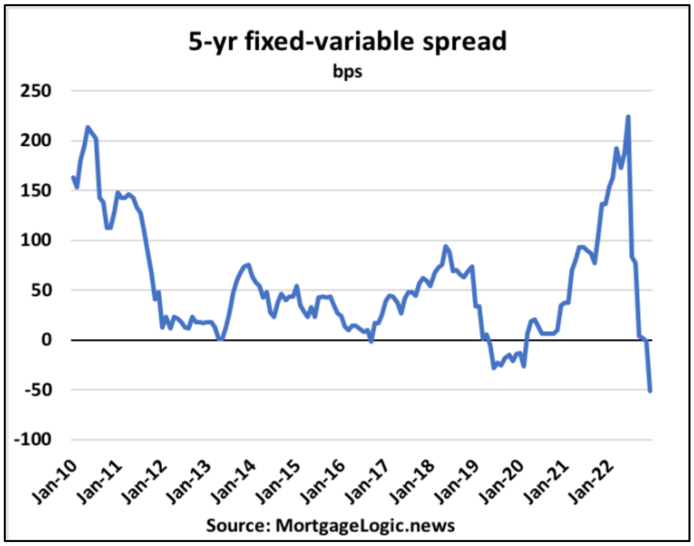
There was also a nod to the fact that core inflation has shown a clear decelerating trend, noting that it's a "early indicator that price pressures may be losing momentum."

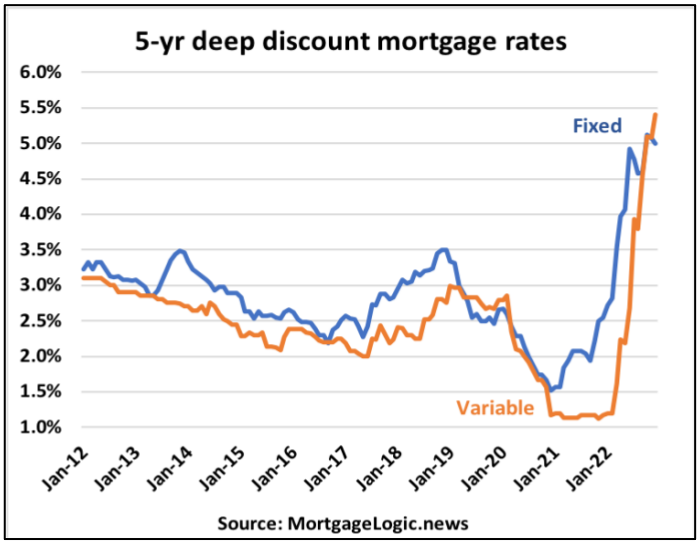
The Bank is not saying that the job is done, but they clearly recognize that they now have the upper hand. The bond market agrees, and we've seen 5-year yields plunge 90 basis points from the highs in October:



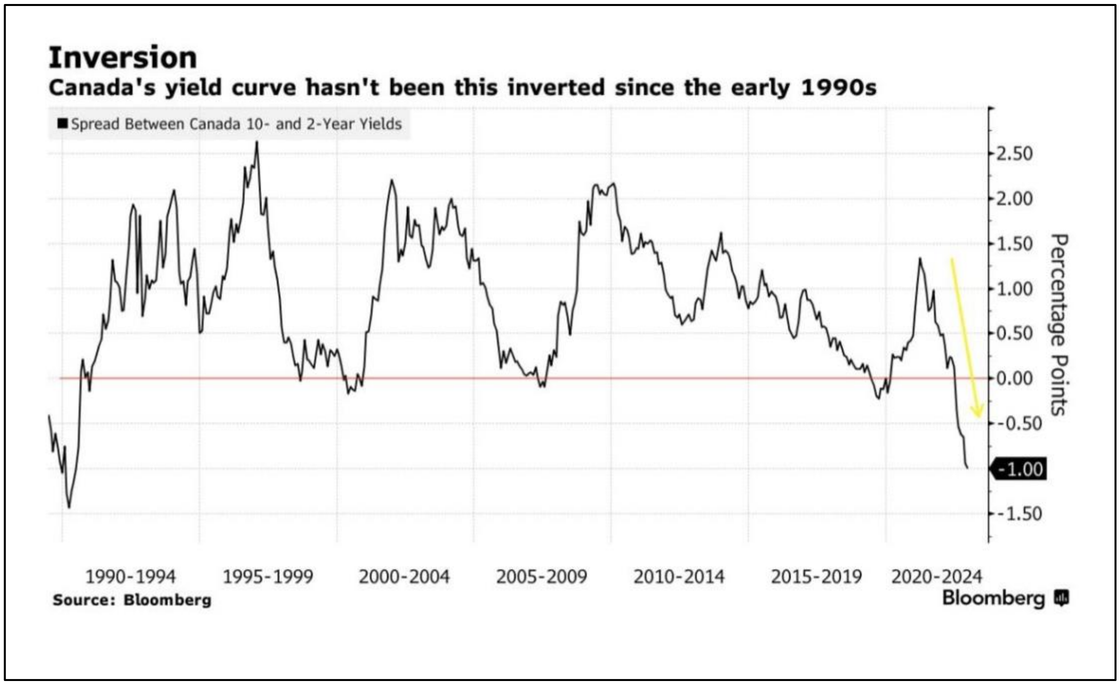
I said months ago that we'll know we're near the end of the cycle when the Bank of Canada hikes rates and the bond market (and fixed mortgage rates by extension) shrugs it off. We're at that point now. The Bank is raising the price of short-term money, but rates on longer term borrowing aren't responding.

We can see this in the mortgage market where the 5-yr fixed-variable spread is now -40bps (meaning it's ~40bps cheaper to lock in for 5 years than to go variable).




The same is true in capital markets where 10-year bonds now have a lower yield than their 2-year equivalents. This is known as a yield curve inversion, and this dynamic has a long history of predicting future recessions. The current inversion is the steepest since the early 1990s…which is yet another signal that we're heading for recession in 2023 and potentially a nasty one:

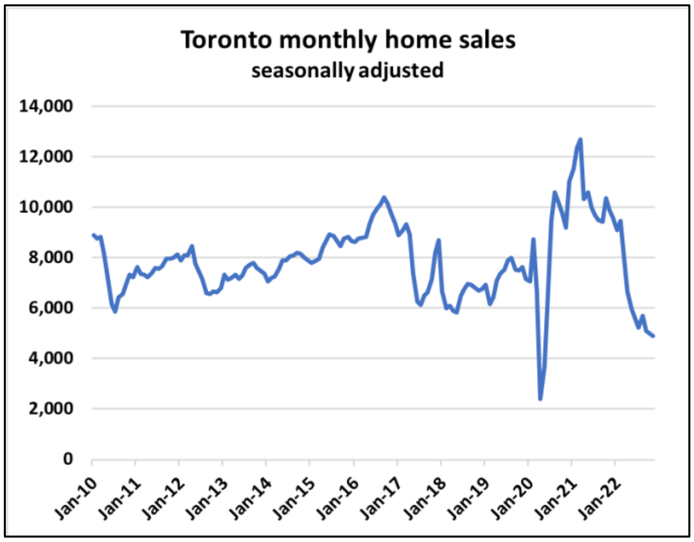


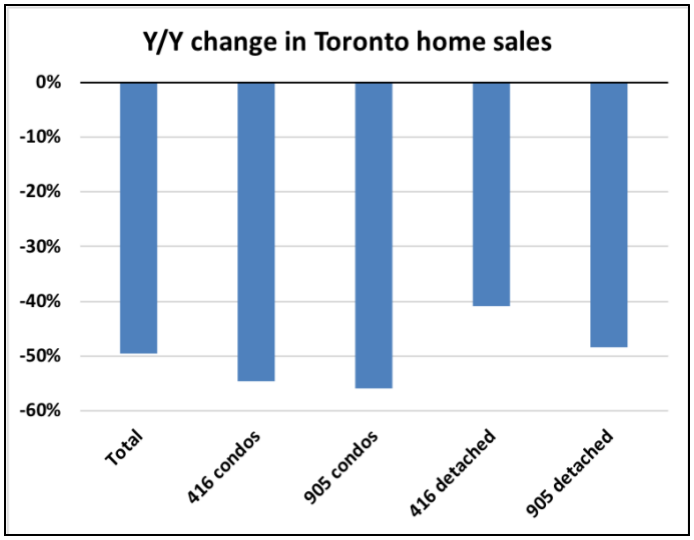

The Bank of Canada knows this. They are now very close to moving to the sidelines to gauge the economic impact of higher rates as they work through the system next year.

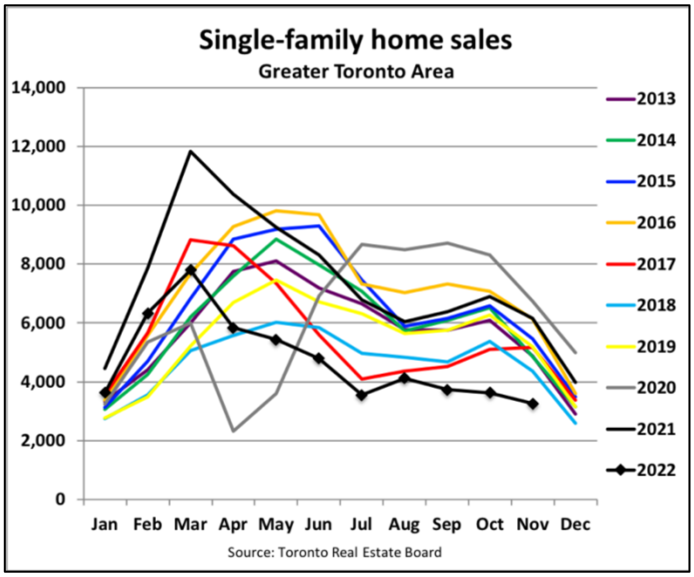
## 2) Toronto home sales resume slide in November

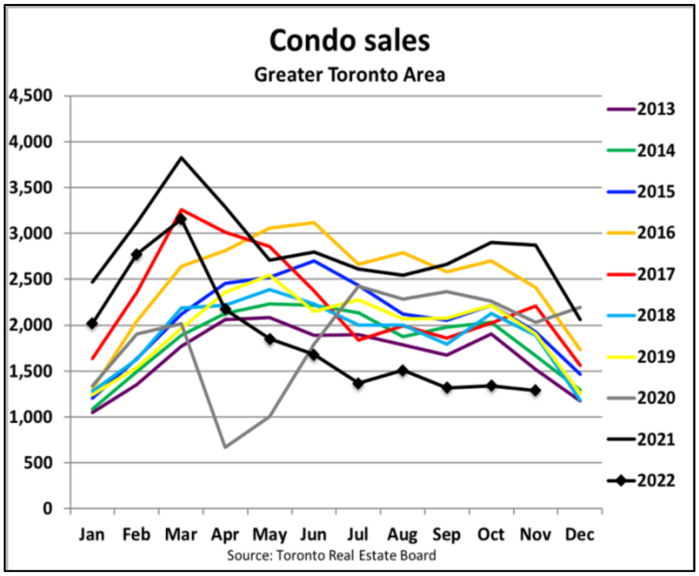
**Sales down another 2.4% in November**

Seasonally adjusted home sales in Toronto slid 2.4% m/m in November and are now down a whopping 62% from peak and 49% compared to last year at this time. This remains the lowest level of demand since the 1990s (outside of early days of COVID), and I have no problem saying that this is an unsustainably low level of home sales given population growth, and sales will almost certainly rebound, albeit modestly, once we get some clarity around rates.



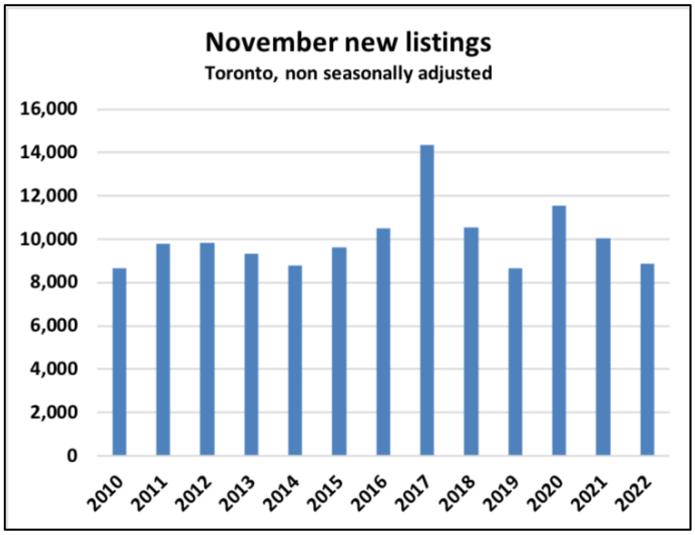



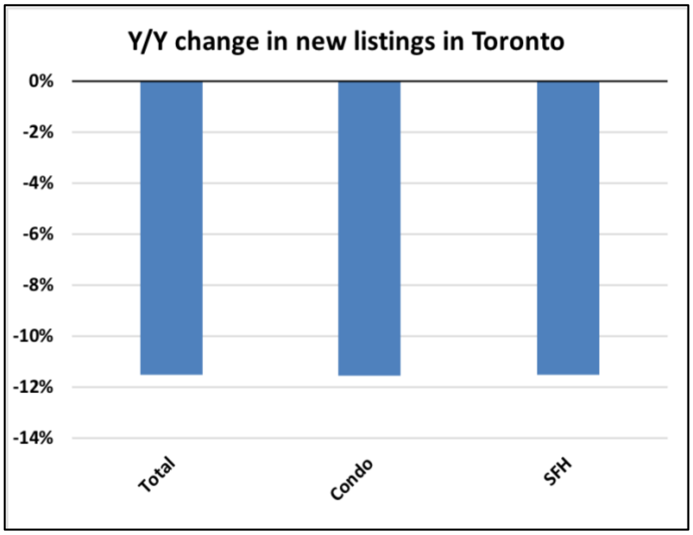



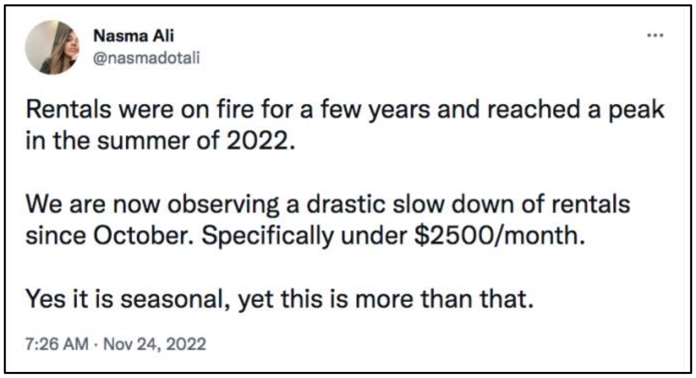
**Stubborn sellers wait out weak market**

New listings once again came in unusually low in November, down nearly 12% y/y:



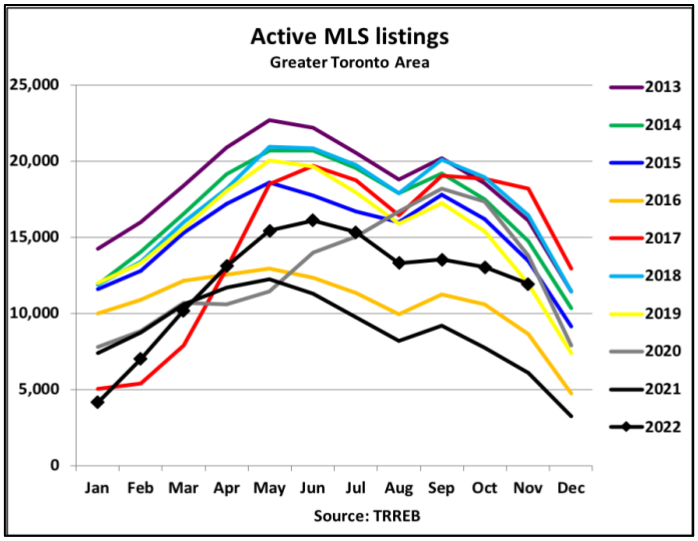

I remain convinced that a strong rental market is incentivizing some sellers to hold off until demand improves. Interestingly, I'm now hearing that rentals are softening….at least in the suburbs:

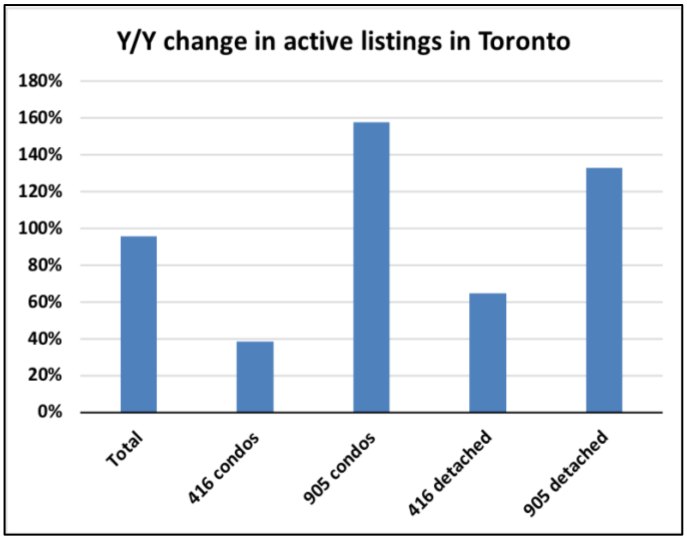


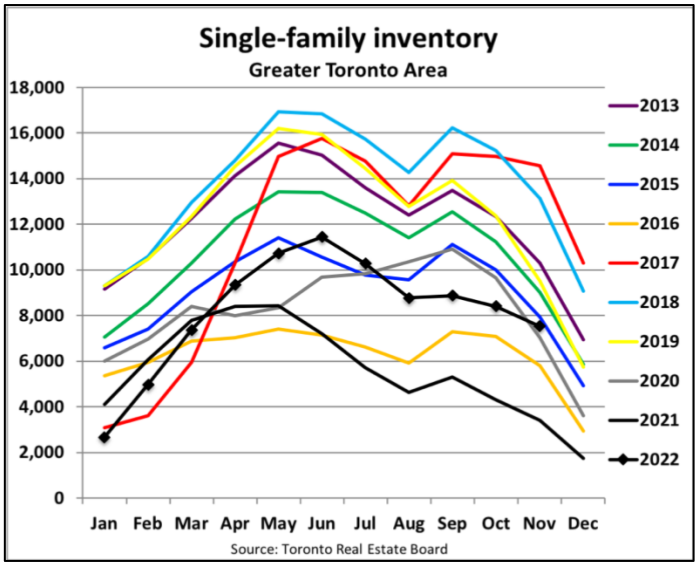

One subscriber sent me data showing lease listings on the MLS over time in two dozen boards in southern Ontario (ex-Toronto), and it basically looks like a hockey stick. They are really starting to pile up in the burbs. I do wonder if the combination of high rates, non-prime credit tightening, and now potentially a modestly softer rental market may all conspire to give us a very strong supply response this spring.

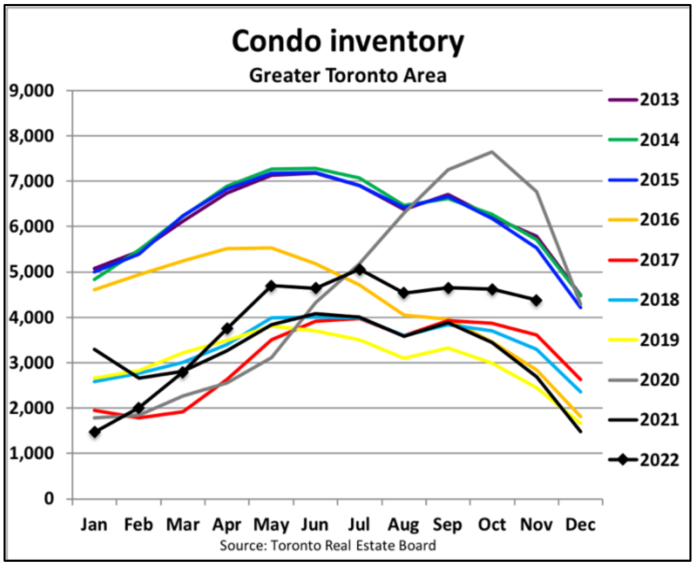
**Inventory trending up but still not alarmingly high**

Active listings were almost double where they were a year ago including a monster 160% increase in suburban condos and a 132% jump in detached in the 905, but these are still not alarmingly high levels by any means:



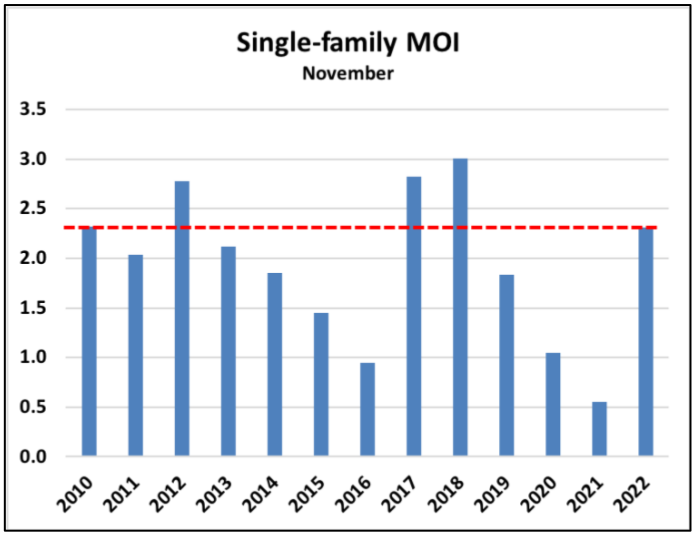



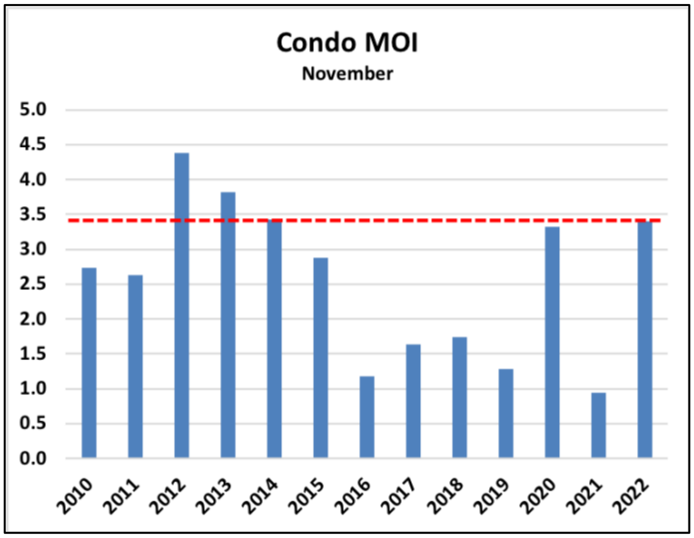




**Months of inventory trending up**

Market balance is deteriorating on account of weak demand, but things aren't apocalyptic. We're still talking less than 2.5 months of inventory in single-family (it was 7.8 in November 2008 for context) and just 3.4 in the condo segment (6.6 in 2008):

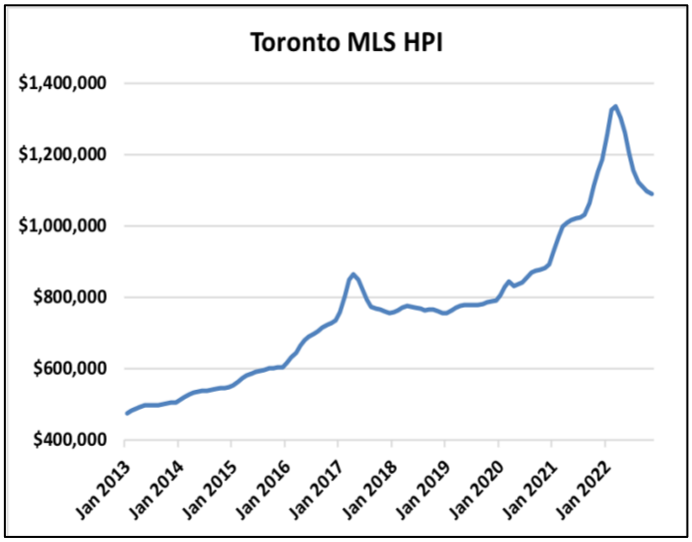


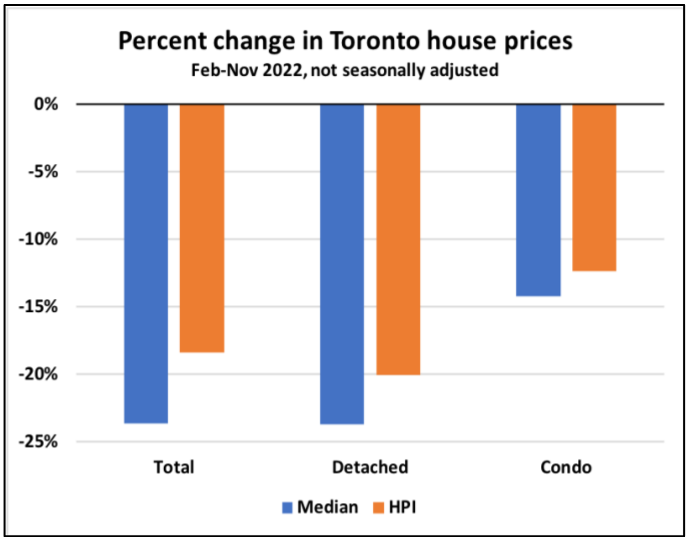




**Prices continue to melt**

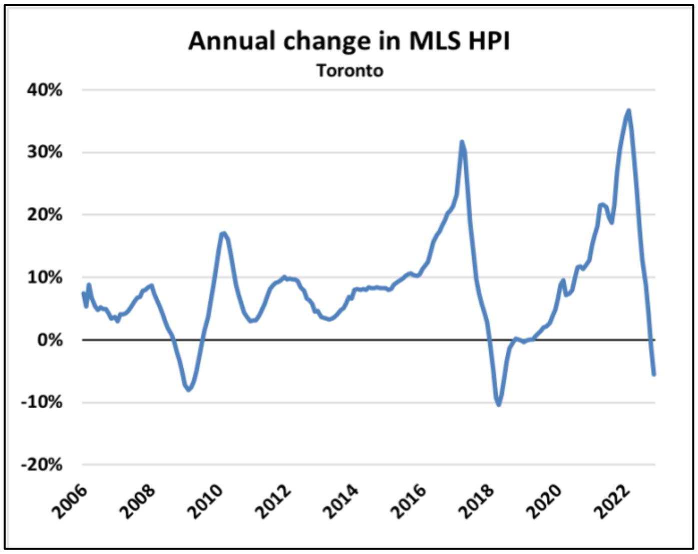
The MLS House Price Index fell 0.8% last month but the seasonally adjusted average price actually rose 0.3% and is now effectively unchanged since July. So pick your narrative.

HPI is down over 18% from peak including 20% in the detached segment:



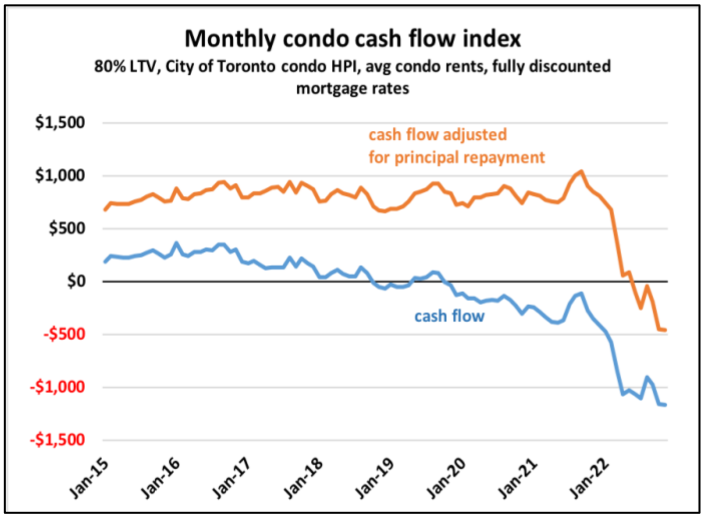

The MLS HPI is down 5% y/y, the steepest decline since 2018:



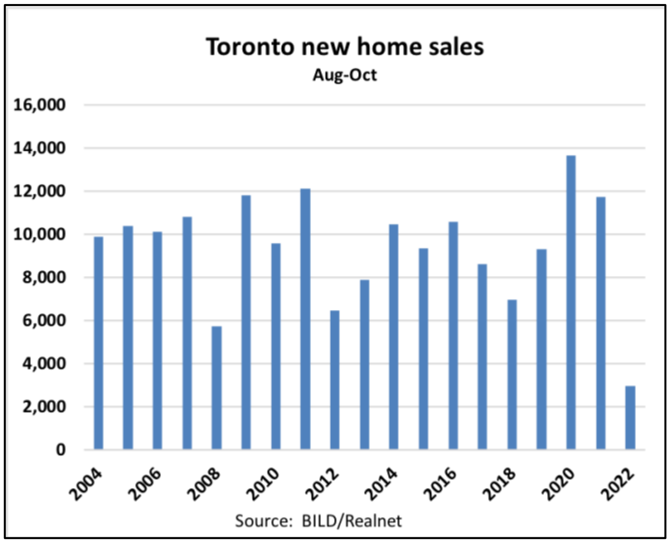



**New home sales remain anemic**

Rental economics on resale condos remain very challenged even with price declines this year:



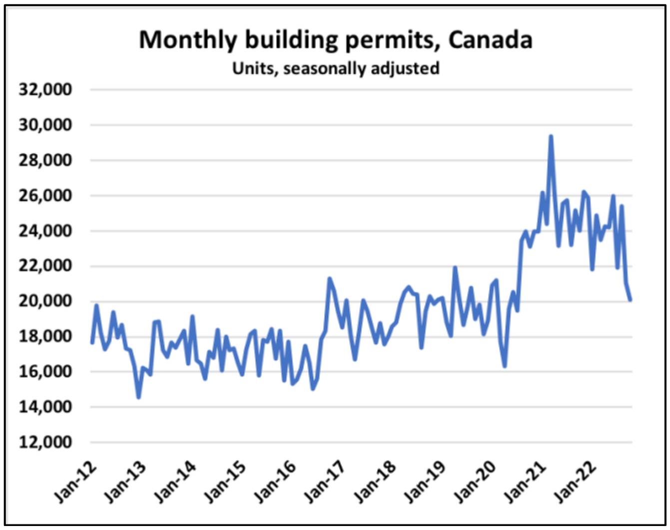

With investors no longer as active in this market, it's not surprising that new home sales have slowed recently. New sales were down 53% y/y in October to hit the lowest level since at least 2004. Over the past 3 months, fewer than 3,000 new homes have sold….an abysmally low level relative to recent past:






This is going to hurt for the development industry, and it will sting a LOT for preconstruction buyers who have to close next year and may be forced to assign units into an increasingly illiquid market. But counterintuitively, this is what will set the stage for the next supply crisis in coming years.

Consider that building permits fell 4.6% m/m in unit terms in October, and that builds on a 17.1% drubbing in September. Next to April 2020, this is the steepest 2-month decline in at least 12 years. Meanwhile, the chronically undersupplied single-family market saw the lowest level of new permits since July 2020.

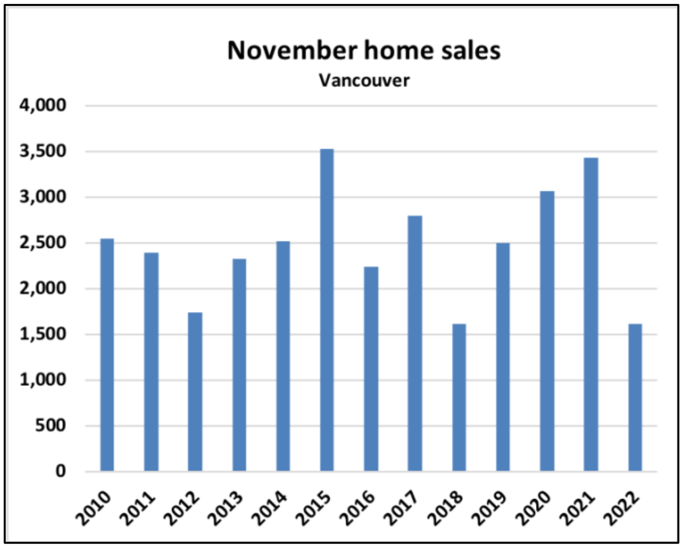


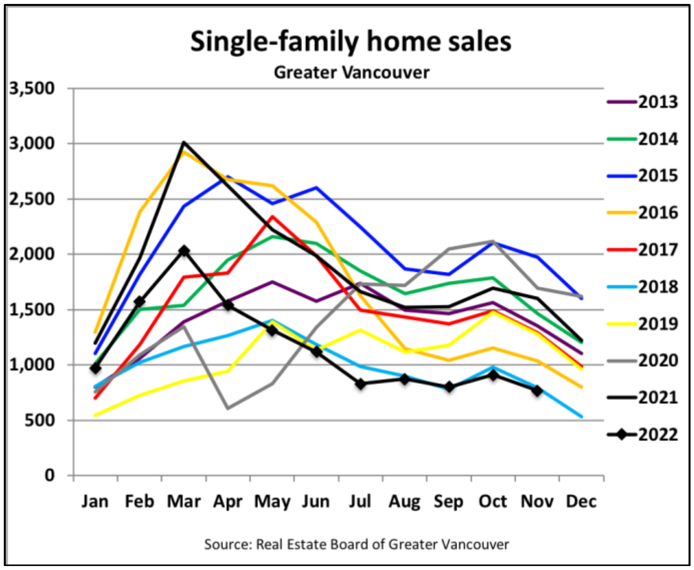

Construction activity is set to pull back hard even as the feds ramp immigration targets setting the stage for a serious supply-demand imbalance down the road. As always, opportunities are borne out of crises…the seeds of the next boom are being planted before us.

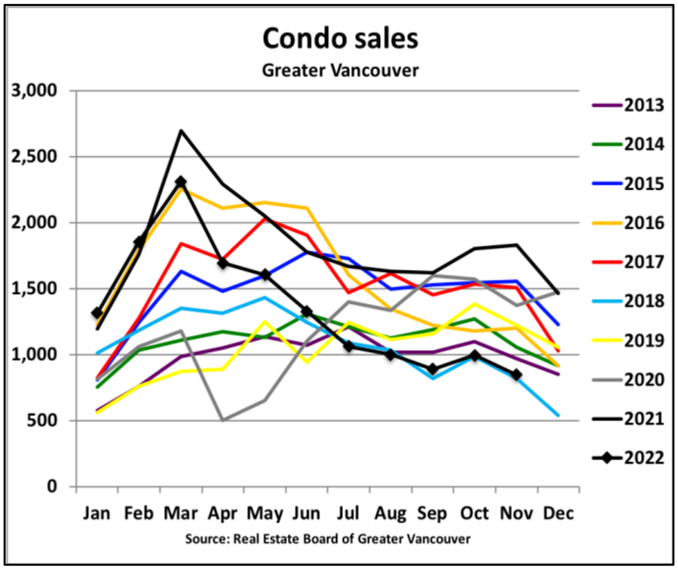
## 3) Vancouver home sales hit a wall

### Sales slump

Seasonally adjusted home sales fell an estimated 3% m/m in November and were down 53% y/y:

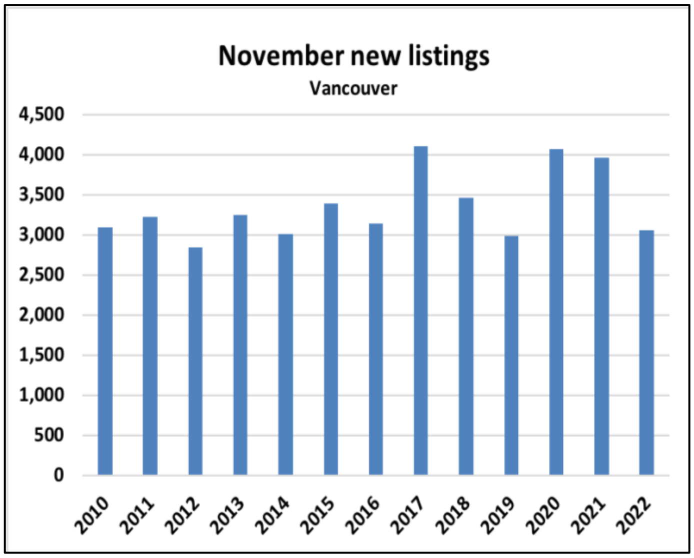



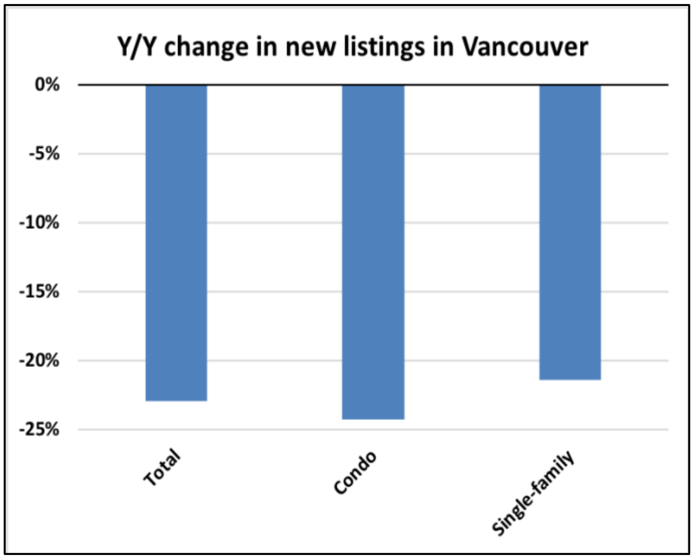




### New listings plunge 23%

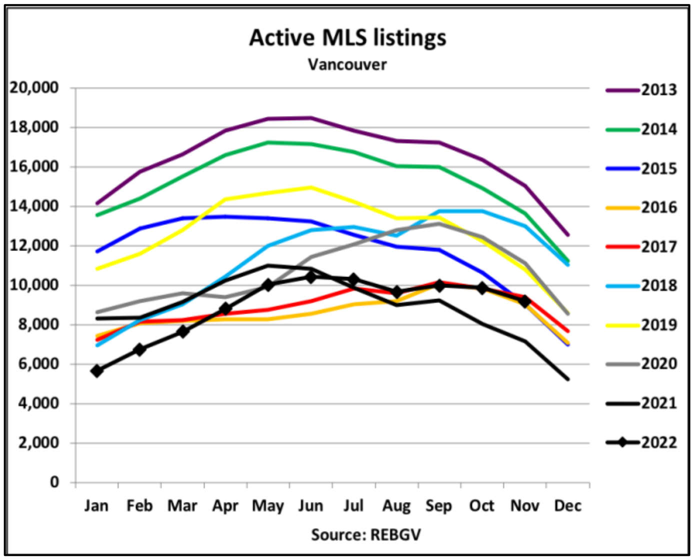
New listings fell 23% y/y in November in yet another sign that sellers are refusing to list into a weak market:

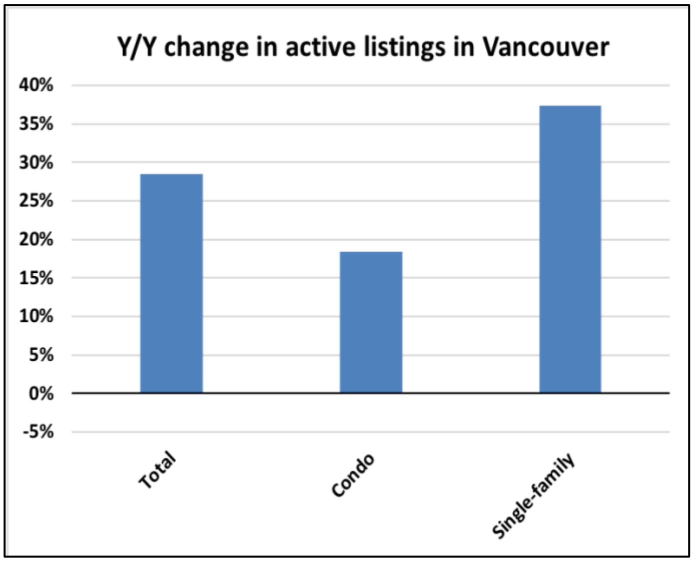


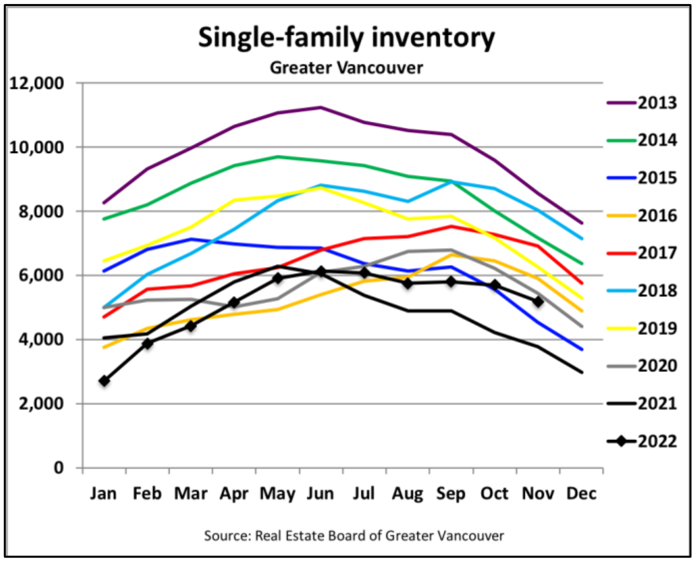



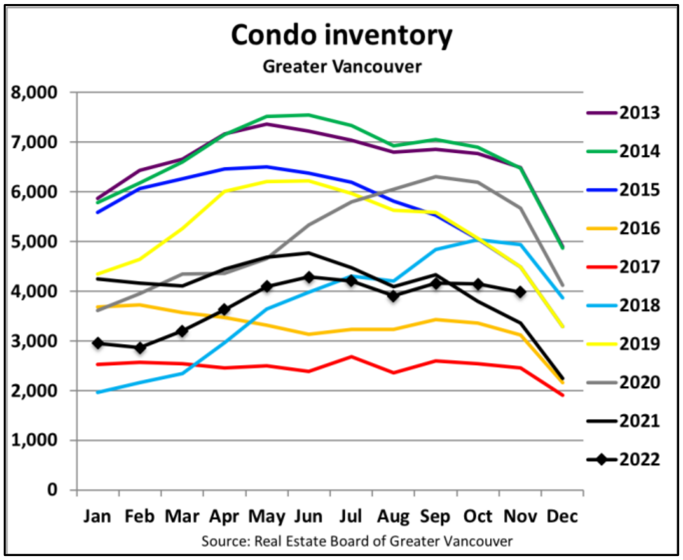

### Inventory builds but remains relatively low

Inventory levels were 28% higher than in 2021 including closer to 40% in the single-family segment, but the absolute level remains very low relative to the past decade:



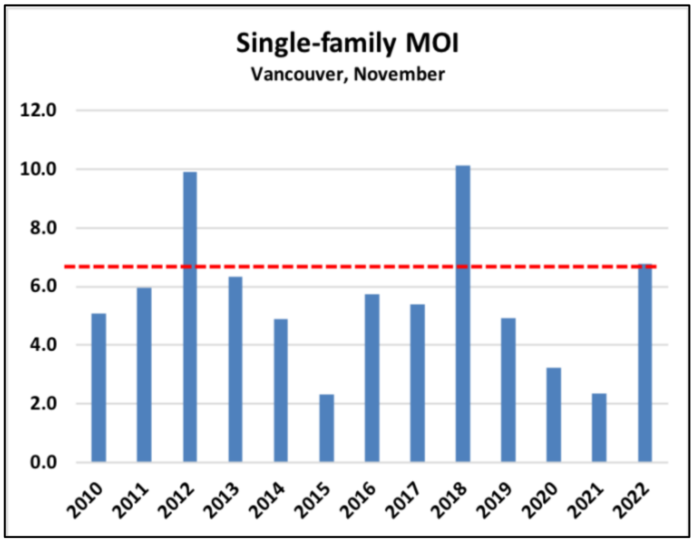



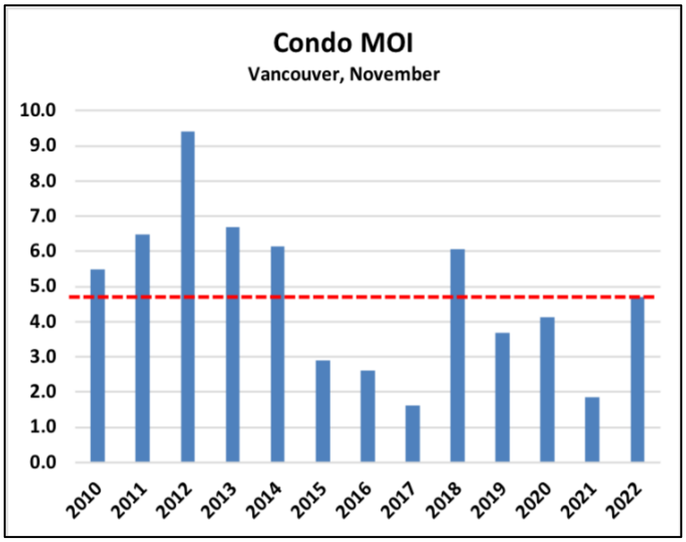



**Market still well balanced**

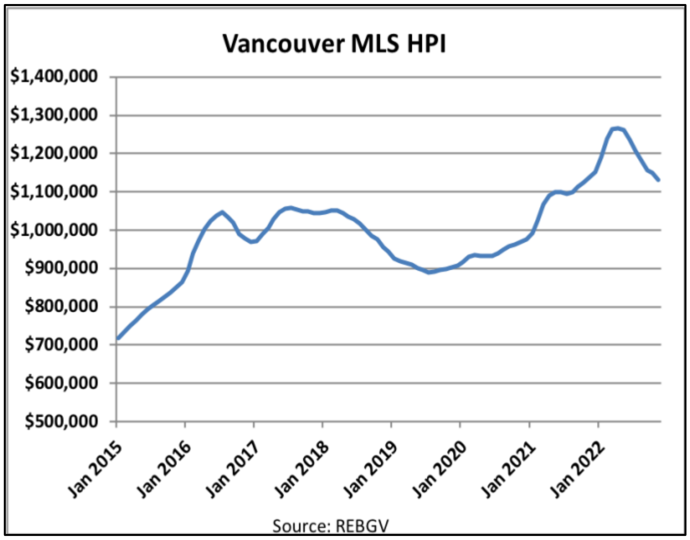
Months of inventory have nearly tripled from last year are still not back to 2018 or 2012 levels:

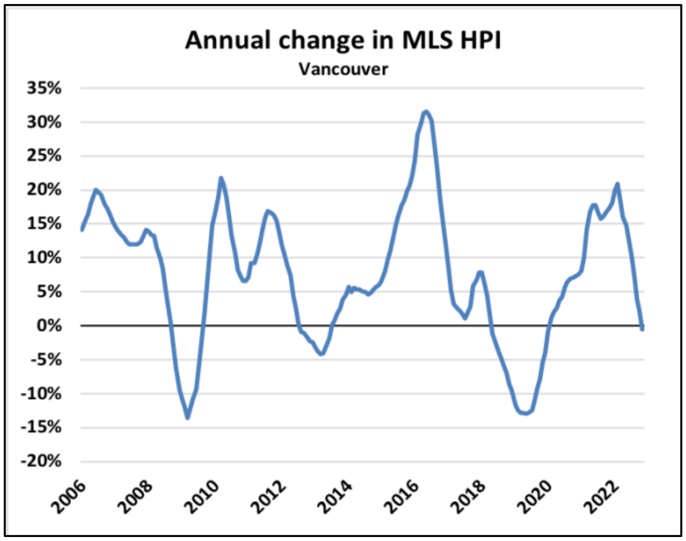


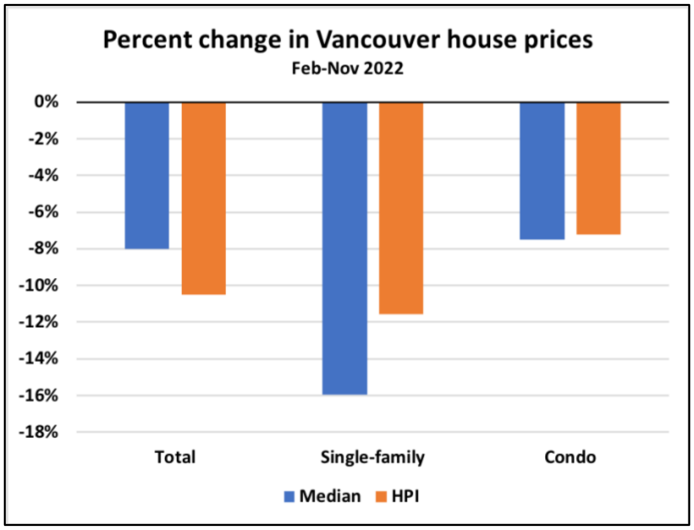

**Prices continue to grind lower**

Prices ticked down another 1.5% m/m in Vancouver according to the MLS HPI and are now negative y/y. The cumulative decline is now north of 10%.


Vancouver MLS HPI
$1,400,000
$1,300,000
$1,200,000
$1,100,000
$1,000,000
$900,000
$800,000
$700,000
$600,000
$500,000
Jan 2015
Jan 2016
Jan 2017
Jan 2018
Jan 2019
Jan 2020
Jan 2021
Jan 2022
Source: REBGV


Annual change in MLS HPI
Vancouver
35%
30%
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
-20%
2006
2008
2010
2012
2014
2016
2018
2020
2022

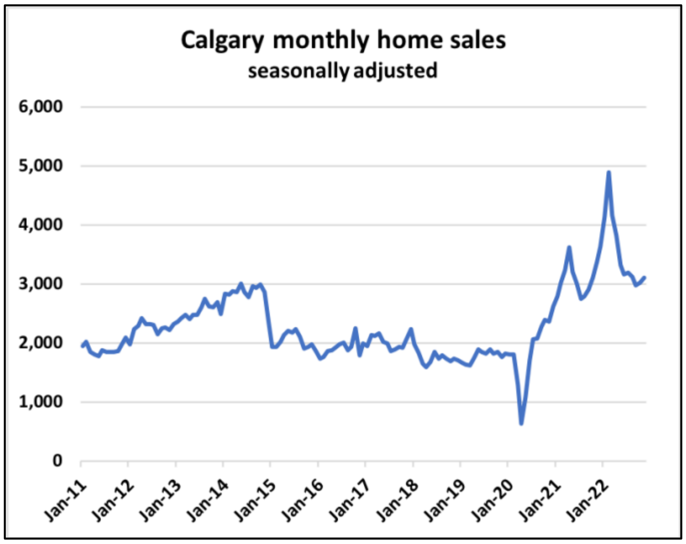


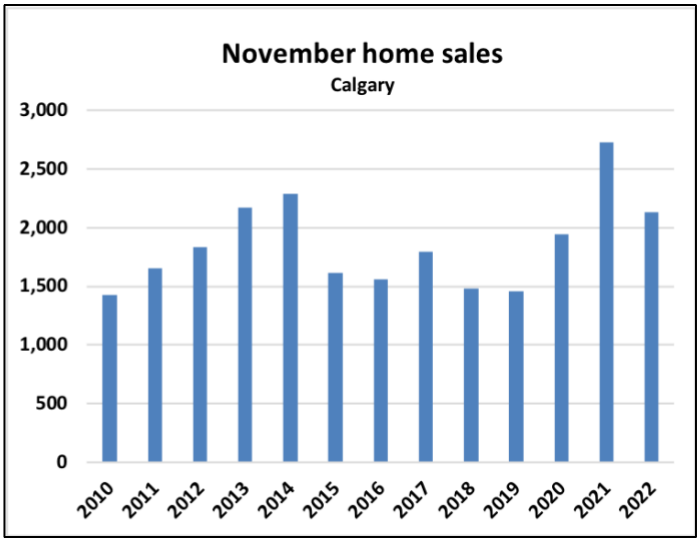

Percent change in Vancouver house prices
Feb-Nov 2022
0%
-2%
-4%
-6%
-8%
-10%
-12%
-14%
-16%
-18%
Total
Single-family
Condo
Median
HPI

## 4) Alberta still bucking the national trend

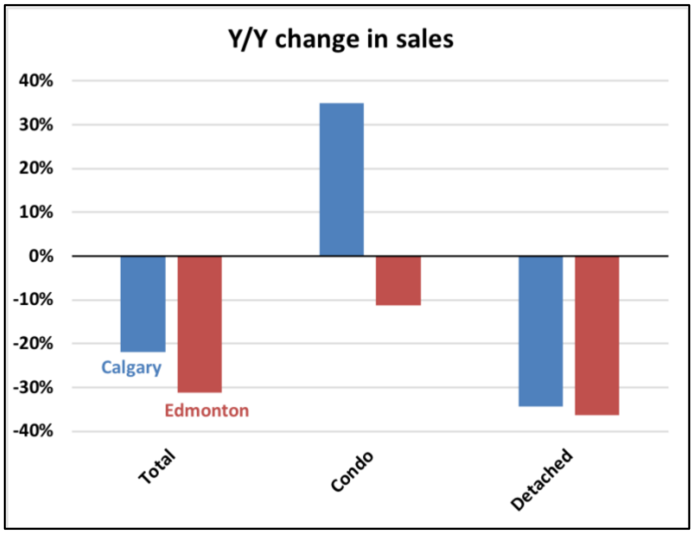
**Sales rise in November**

Home sales rose 3% m/m (seasonally adjusted) in November but were down 22% y/y. Still, that leaves demand at effectively the same level as prior boom times in 2013-2014:




The condo segment continues to provide a lot of lift to this market with sales up 35% y/y, and it's a bit unnerving to read articles of Toronto buyers rushing to "scoop up" investment properties in Calgary:





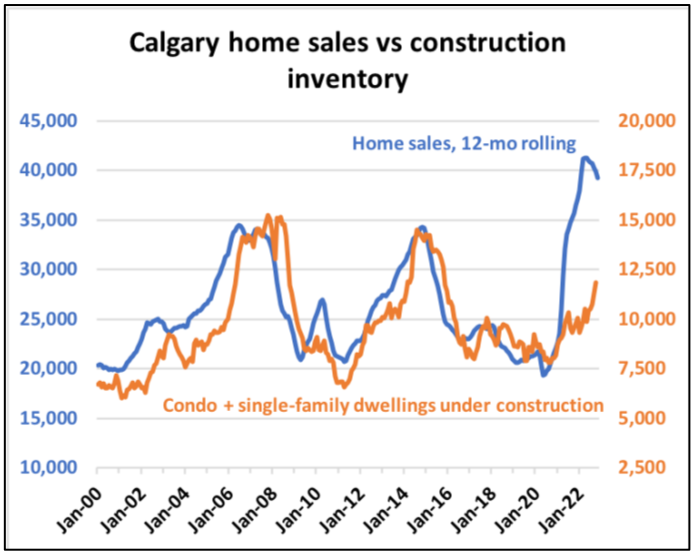
**Why Ontario buyers are scooping up investment properties in Calgary**

Trend has led to surge in out-of-province real estate agents getting licensed in Alberta

Paula Duhatschek · CBC News · Posted: Dec 01, 2022 2:00 AM MT | Last Updated: December 2

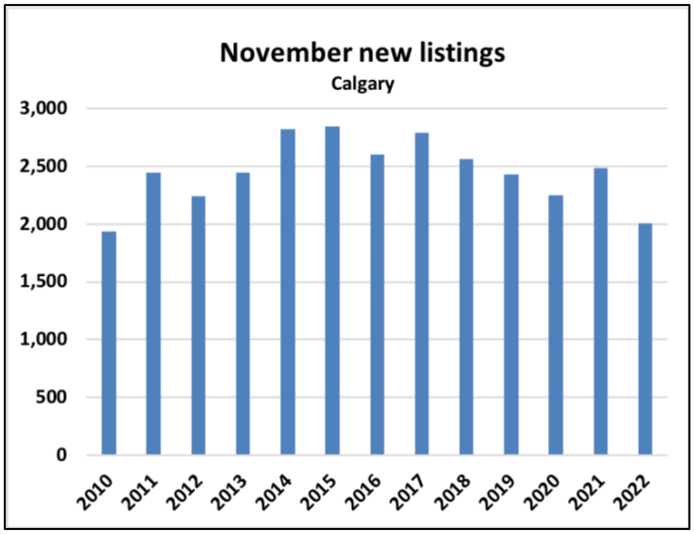
Kyle Dovigi, a Toronto-based real estate broker, is one of a significant number of Ontarians who became licensed to trade real estate in Alberta this year. (Submitted by Kyle Dovigi)

I'd be a lot more concerned if there were signs of overbuilding relative to demand, but we're not there yet:



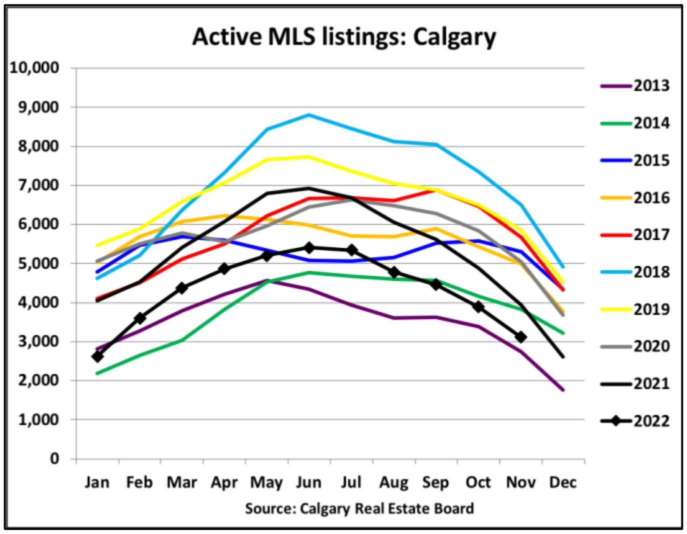

**New listings remain at decade lows**

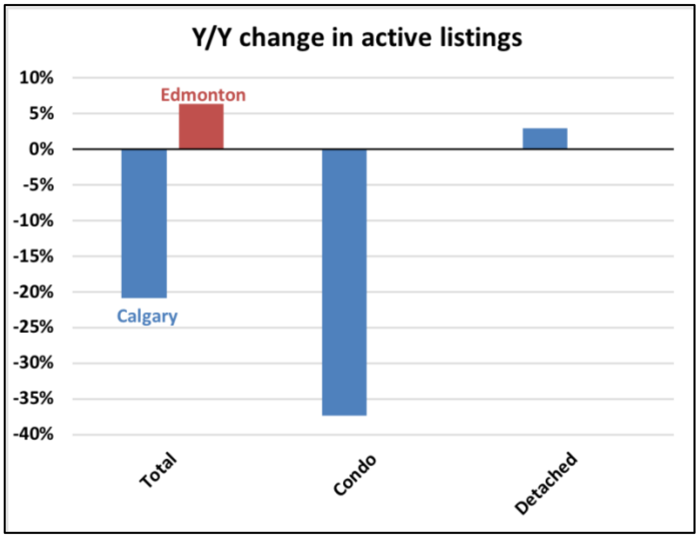
Demand may be strong, but no one's selling. New listings plunged 19% y/y in November to hit the lowest level in a decade:




**Inventory levels down 21% y/y**

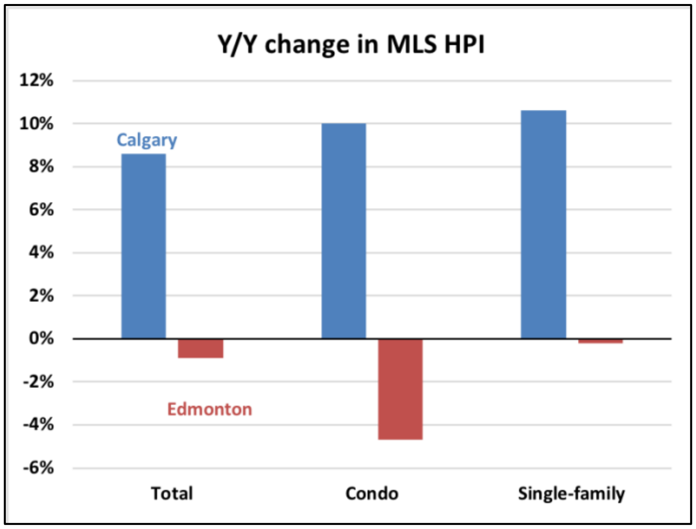
Unlike most of the rest of the country, inventory continues to tighten in Calgary while it's building only modestly in Edmonton. We're sitting at the second lowest inventory level in the past decade at present:

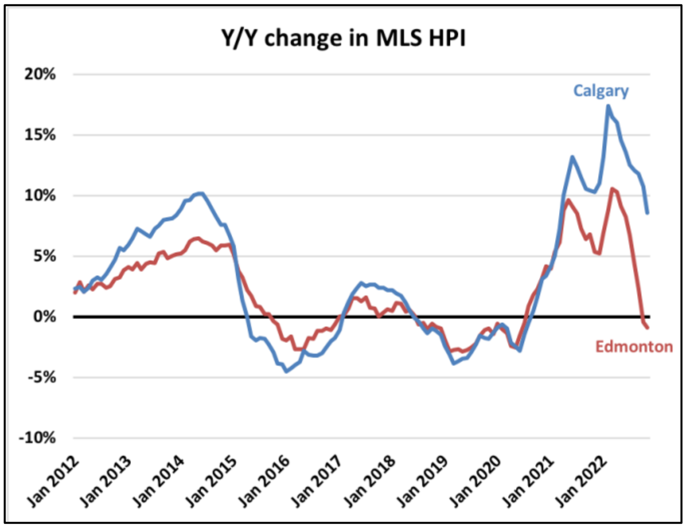


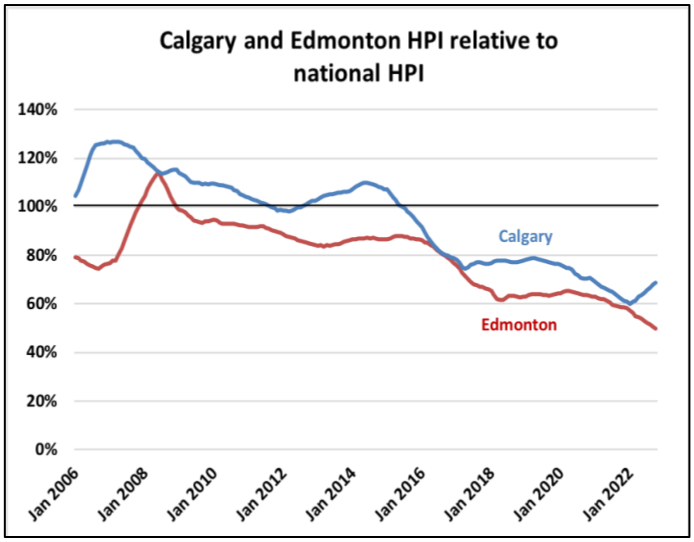

**Prices hold firm in Calgary, slide in Edmonton**

House prices in Calgary were up over 8% y/y and are now outperforming most metros across the country, a trend I expect will continue for several years yet:

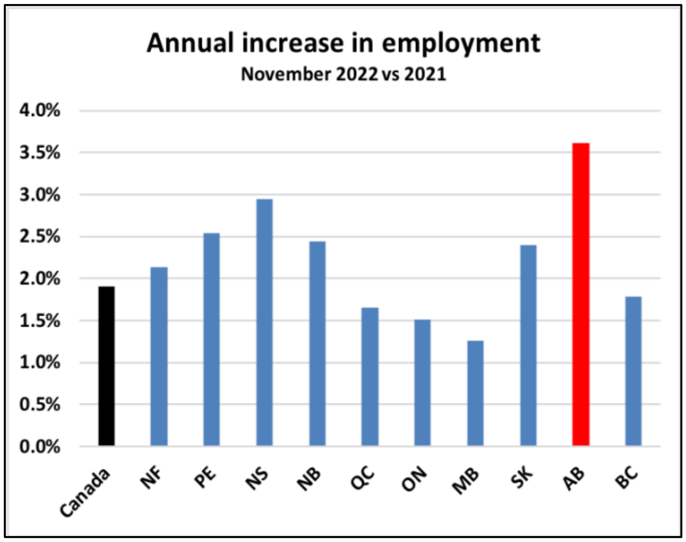



I fully expect Calgary prices to (at least) trade in line with national averages over the next 5 years, which implies 30 percentage points of out-performance (!). I have less confidence that Edmonton will close the gap:




Finally, consider the economic momentum in Alberta right now.




This gets back to a core point I've made before. The economic winds are at Alberta's back right now. Yes, the coming downturn could hurt, but it's clear that by the time Alberta is seeing serious pain, Ontario will already be in a deep recession and that alone will force the Bank of Canada's hands.

I remain bullish Alberta <u>RELATIVE</u> to the rest of the country.

Regards,
Ben