The Edge Report

January 2023

Compliments of: TheMortgageGuyNiagara.com

Hyperlinks:

1) **Recessionary signals drag rates lower- BoC pause on deck**
2) **December home sales rise, new listings plunge**
3) **Death by 1,000 cuts: Regulators propose slew of new measures**
4) **Mortgage growth tumbles in November**
5) **Consumer check: Confidence still in the dumps, spending under pressure**

Key takeaways:

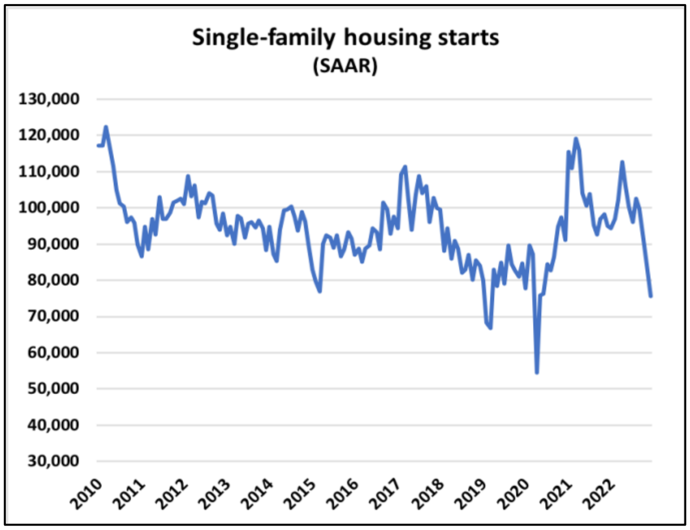
- Price pressures are waning while the bond market is signaling a shift in mindset from the Bank of Canada
- Mortgage rates are rolling over and may have considerable downside from current levels
- Home sales are weak but I think we're due for a decent bounce of +20% from current levels
- The bigger question: Where have all the sellers gone and will the reappear this spring
- Price declines from peak are now the deepest since at least the 1980s, led by big drops in BC and Ontario

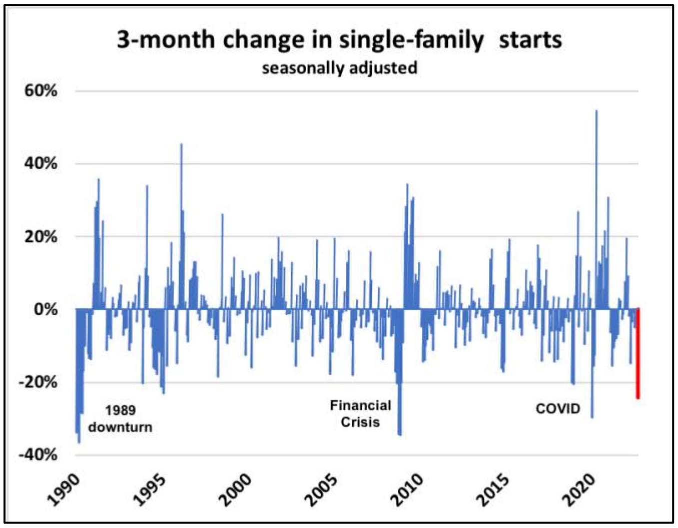
1) Recessionary signals drag rates lower- BoC pause on deck

Normally I'd cover housing starts in a later section, but I'm changing things up today. Starts nationally fell for the third consecutive month in December to hit 249k on an annualized basis, well below expectations of closer to 260k.

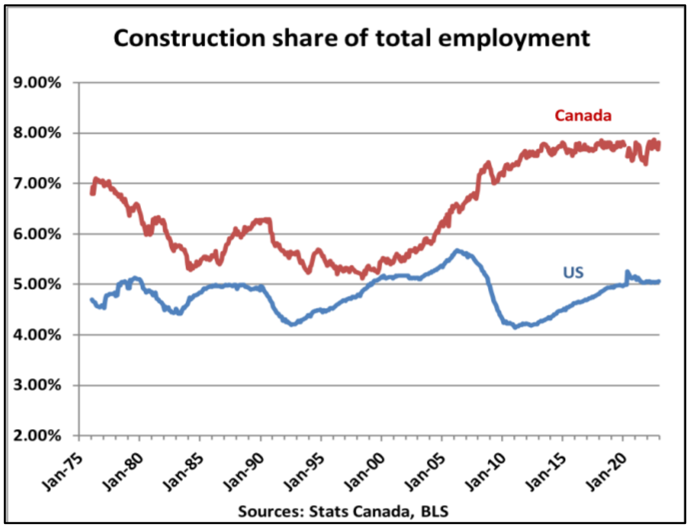
It's important to remember that CMHC counts a "start" only once construction is above grade. This means multi-family "starts" often capture larger condo and rental projects that have been under construction as a hole in the ground for many months already. And since developers have to pre-sell a large share of projects before getting construction financing, it means starts in that segment are a better reflection of housing demand 12-18 months prior, which helps explain why starts can remain stubbornly strong for a while even after the resale market has gone off the rails

The real signal is in the single-family segment where developers can respond much more quickly to changing market conditions. Here we find that starts fell to the lowest level since early 2020 last month and have fallen 24% over the past 3 months. A decline like that has historically foretold recession, and we've only seen larger declines a handful of other times in the past 30-odd years: one month in 2020, two during the Financial Crisis, and three in 1990.

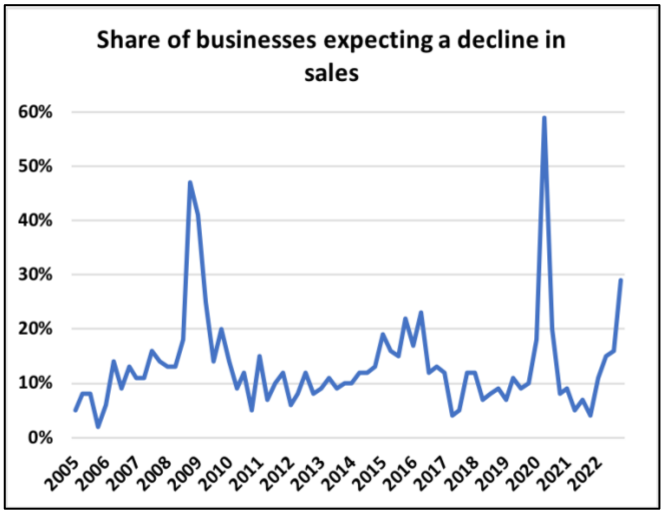




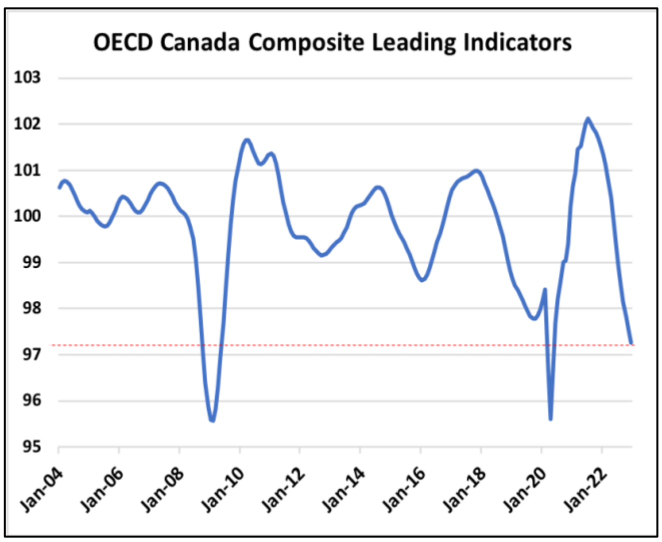
It should be noted that this dynamic is what will set the stage for a future supply crisis down the road, but in the near term it acts as a serious drag on economic growth, particularly with construction representing a larger share of employment than at any other time since at least 1976:

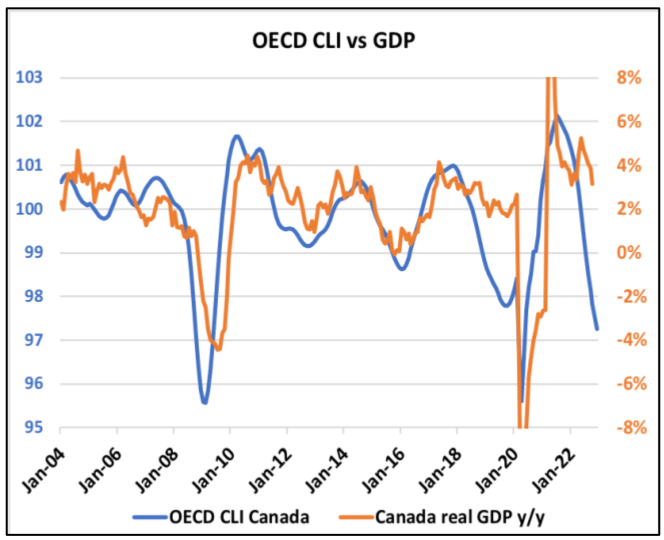


That wasn't the only recession signal last week. There were also some interesting takeaways from the Bank of Canada's Business Outlook Survey[1]. Notably, the share of businesses that expect weaker sales has doubled from the prior quarter to hit levels seen only in Q2 2020 and two quarters during the Financial Crisis:



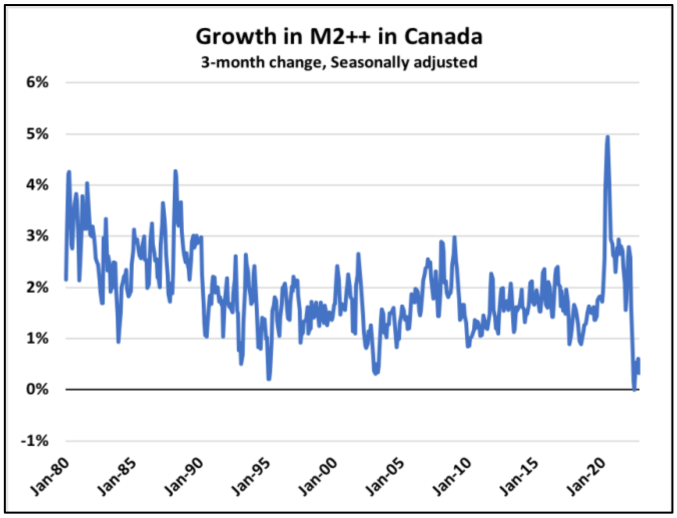
At the same time, the OECD's Composite Leading Indicator report showed another significant drop in November with the index now posting the steepest 6-month change since 2008 and hinting at negative real GDP growth this year (ie recession)





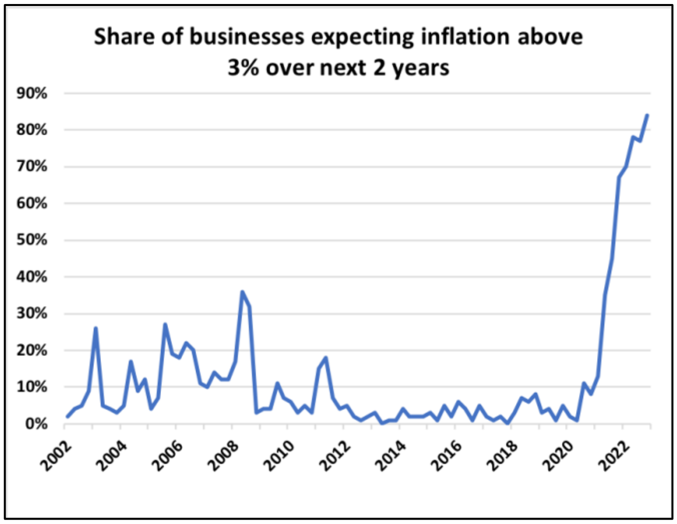
Finally, consider what's happening on the monetary side where broad money supply growth (as measured by M2++) has plunged to effectively zero over the past 3 months (seasonally adjusted). That's well below the Financial Crisis lows and below lows seen in early 2000s and mid-1990s.

[1] https://www.bankofcanada.ca/publications/bos/business-outlook-survey-data/

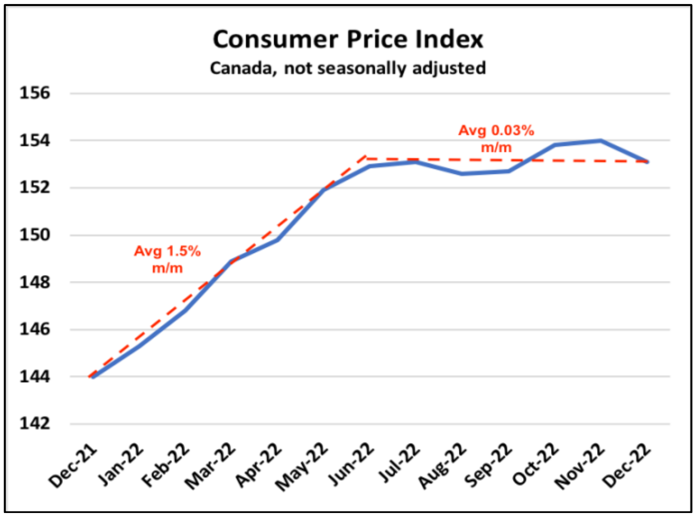


If you're of the view that massive money supply growth drove the post-COVID inflation boom in Canada, then you have to be convinced that the opposite is also true.

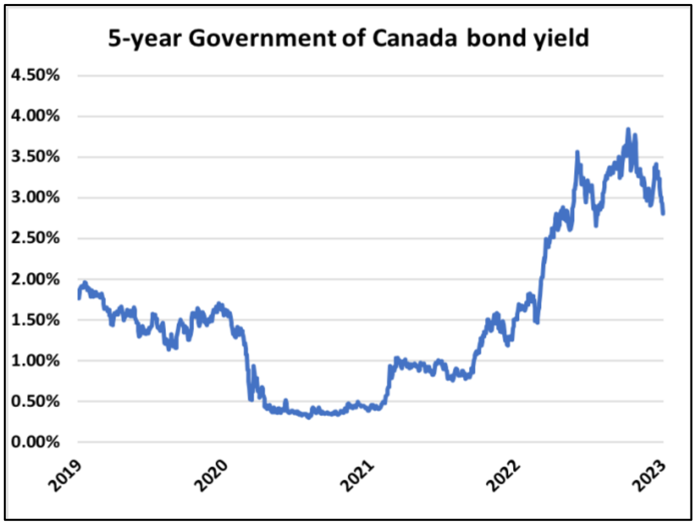
All of this is highly recessionary which normally would mean falling inflation. But businesses don't see it that way. The share of businesses expecting inflation to remain above 3% over the next 2 years jumped to fresh survey highs even with expectations of a significant economic slowdown:



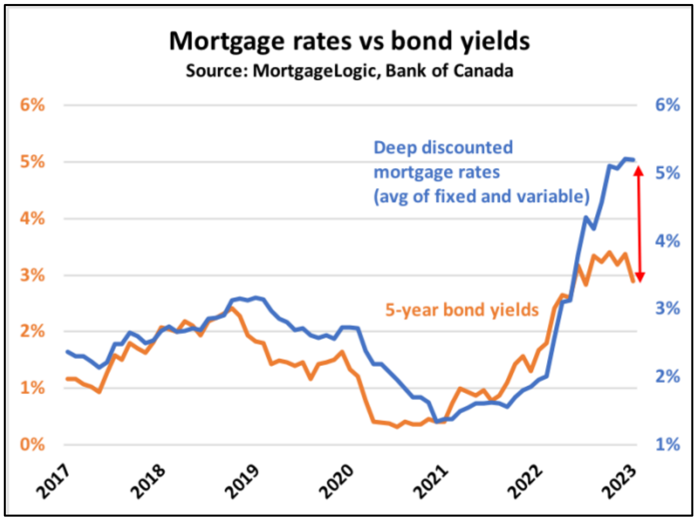
Be that as it may, inflation is moderating much quicker than most realize. In fact, the headline CPI is as flat as a pancake over the past 6 months, which means all the reported inflation we're seeing is a relic of price jumps 6-12 months ago:



So we have businesses telling us that inflation will stay high even as they throw out all sorts of recessionary (ie deflationary) signals. It's difficult to make sense of it all, but thankfully we don't have to. The ultimate arbiter of truth in these matter is the bond market which takes all of these signals and distills it down to one meaningful price. And here the story couldn't be more clear: Bond yields are falling hard in anticipation of a weaker economy and a Bank of Canada rate hike pause on deck:



Where this matters to real estate practitioners is in the bond market's tendency to be a very solid leading indicator of interest rates. In fact, current bond yields are telling us that mortgage rates could fall into the low 4s this spring, just in time for the key selling season. That could go a long way to offsetting any lost demand from an economic slowdown:



The takeaway is this: Bond markets are forward-looking. They predict WHERE the Bank of Canada is going. The data is now finally at the point where the Bank can contemplate moving to the sidelines while the impact of the rate hikes work through the economy. Expect language to that effect in the Bank of Canada's rate decision on Wednesday where they will likely announce one final 25bp hike.

A bit on clarity around interest rates is likely all we need to see prospective buyers move from the sidelines and drive a decent bounce in home sales off these distressed lows. I expect we'll see sales nationally rally more than 20% seasonally adjusted this spring (which would still leave them roughly 35% below the early 2022 highs). The bigger unknown is what will happen with new listings, but more on that in a moment.

2) December home sales rise, new listings plunge

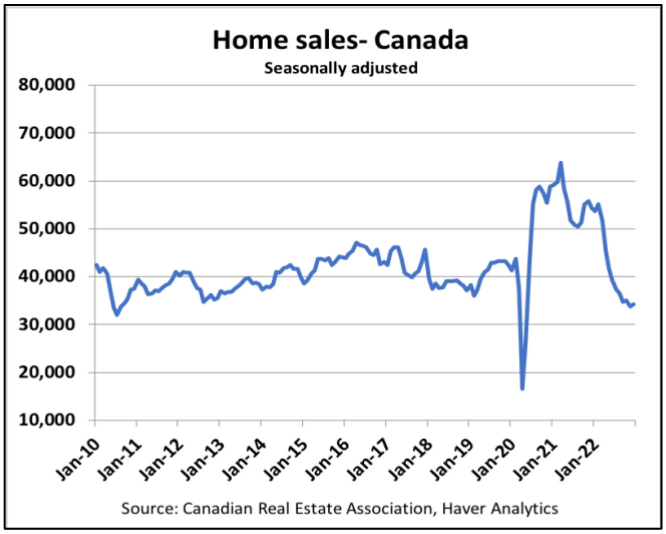
The key data from last month is summarized below.

	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	-36.9%	+1.3%	-11.0%	-6.4%	+59.3%	+2.2%	-7.5%	-1.6%
BC	-46.9%	+2.9%	-26.4%	-14.5%	+73.4%	+0.5%	-11.8%	-1.2%
AB	-30.4%	+0.1%	-6.1%	+1.3%	-1.5%	-1.3%	+2.9%	+2.7%
ON	-39.9%	+4.7%	-8.1%	-1.2%	+202.7%	+7.1%	-12.0%	-1.1%
QC	-34.0%	-3.3%	-4.8%	-19.6%	+56.3	+3.1%	-0.8%	-0.5%

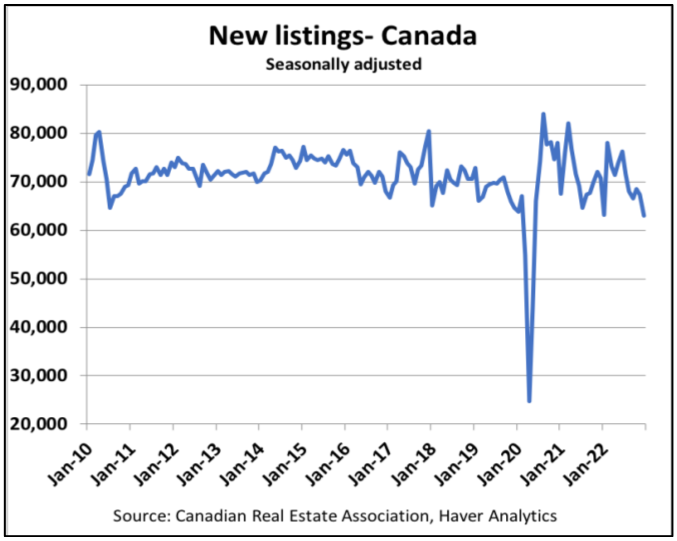
My expectations had been for home sales and prices to grind sideways through the winter before we get a more definitive break one way or the other this spring, the direction of which would largely be determined by the flow of new listings coming to market.

Notwithstanding that sellers remain on the sidelines (new listings registered one of the lowest readings in a decade last month) the data otherwise has been significantly weaker than I expected over the past few months. That's particularly true of house prices, which continue to post monthly declines larger than any seen during the Financial Crisis and which are now down 13.2% from peak….already significantly larger than the 9.1% peak-trough decline in 2008-2009.

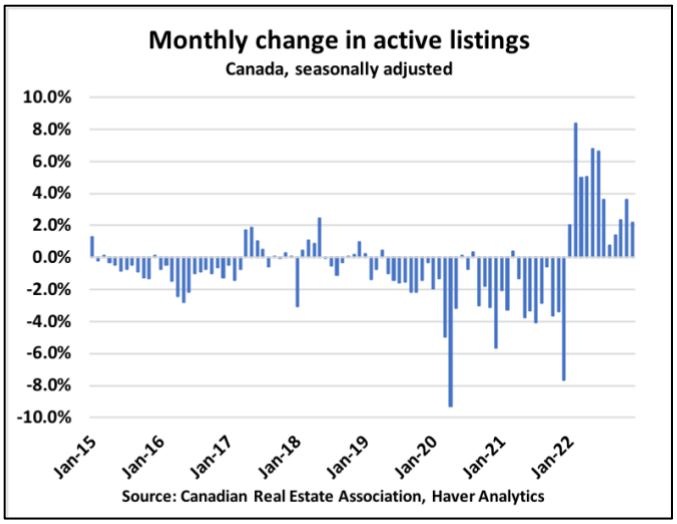
Turning to the December data, home sales were up 1.3% m/m primarily due to a 4.7% jump in Ontario and a 2.9% increase in BC. Still, that left Q4 sales were down 4.9% seasonally adjusted relative to Q3. Outside of Q2 2020 when the country was locked down due to COVID, it was the lowest quarter for sales in over 12 years!

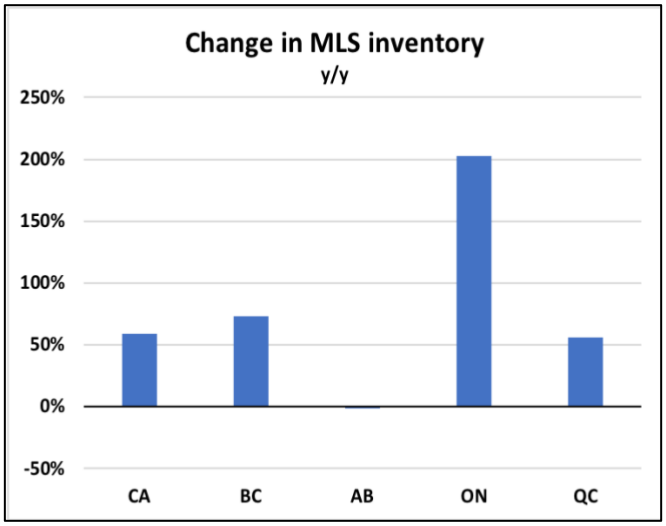


Seasonally adjusted new listings fell 6.4% m/m to hit the lowest month since May 2020. And it was the lowest number of new listings of any December in 20 years! This remains the biggest variable to monitor as we head towards the spring selling season.

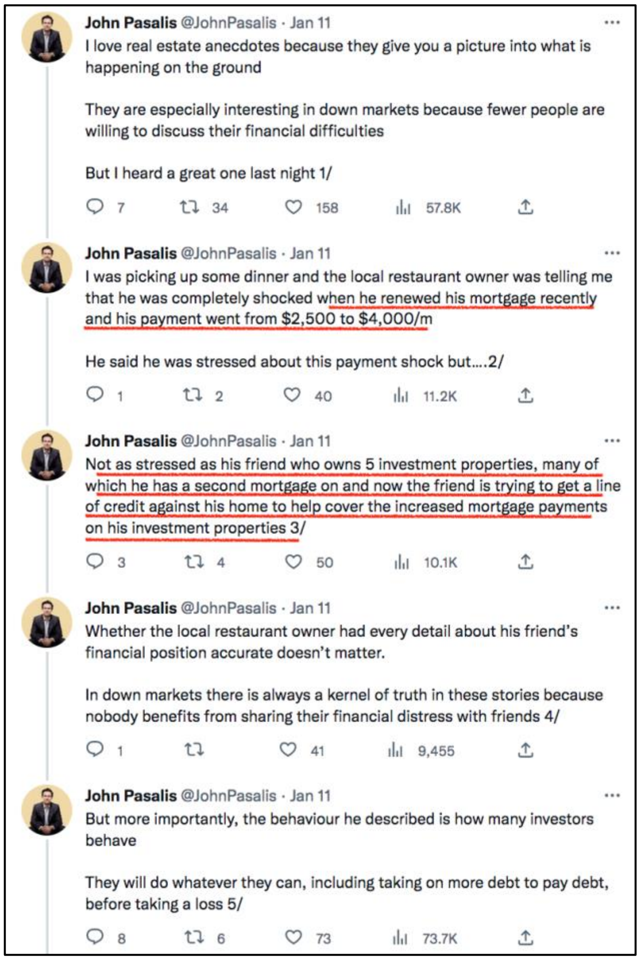


Even though the flow of new listings coming to market has slowed, active inventory continues to build. It was up another 2.2% m/m last month building on a 3.6% increase in November. Inventory is now up 59% y/y led by a 202% surge in Ontario!





My view is that new listings have simply been delayed, and we'll see a very high flow hit the market starting sometime around March/April. It's not only that real estate contacts report having clients waiting to list once the market "picks up again" this spring, but also the mounting anecdotes of very significant stress building among a cohort of investors who can tread water for only so long:


John Pasalis @JohnPasalis · Jan 11
I love real estate anecdotes because they give you a picture into what is happening on the ground

They are especially interesting in down markets because fewer people are willing to discuss their financial difficulties

But I heard a great one last night 1/

7 34 158 57.8K

John Pasalis @JohnPasalis · Jan 11
I was picking up some dinner and the local restaurant owner was telling me that he was completely shocked when he renewed his mortgage recently and his payment went from $2,500 to $4,000/m

He said he was stressed about this payment shock but....2/

1 2 40 11.2K

John Pasalis @JohnPasalis · Jan 11
Not as stressed as his friend who owns 5 investment properties, many of which he has a second mortgage on and now the friend is trying to get a line of credit against his home to help cover the increased mortgage payments on his investment properties 3/

3 4 50 10.1K

John Pasalis @JohnPasalis · Jan 11
Whether the local restaurant owner had every detail about his friend's financial position accurate doesn't matter.

In down markets there is always a kernel of truth in these stories because nobody benefits from sharing their financial distress with friends 4/

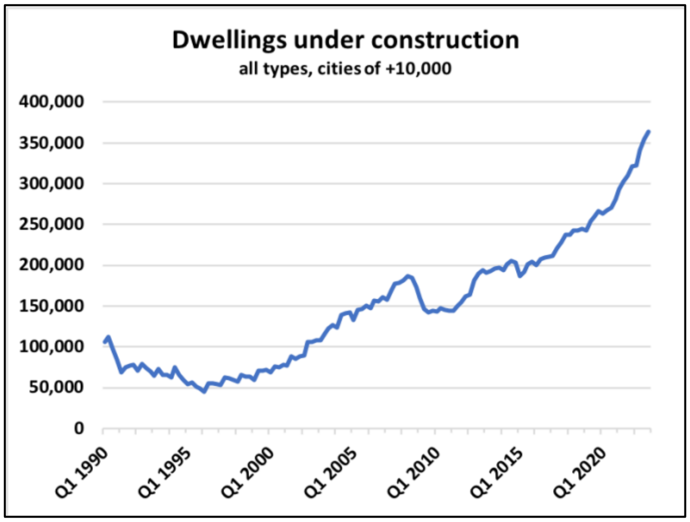
1 41 9,455

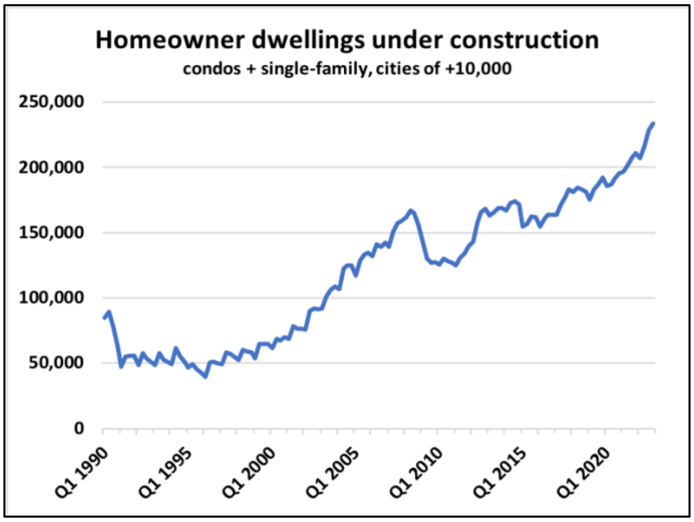
John Pasalis @JohnPasalis · Jan 11
But more importantly, the behaviour he described is how many investors behave

They will do whatever they can, including taking on more debt to pay debt, before taking a loss 5/

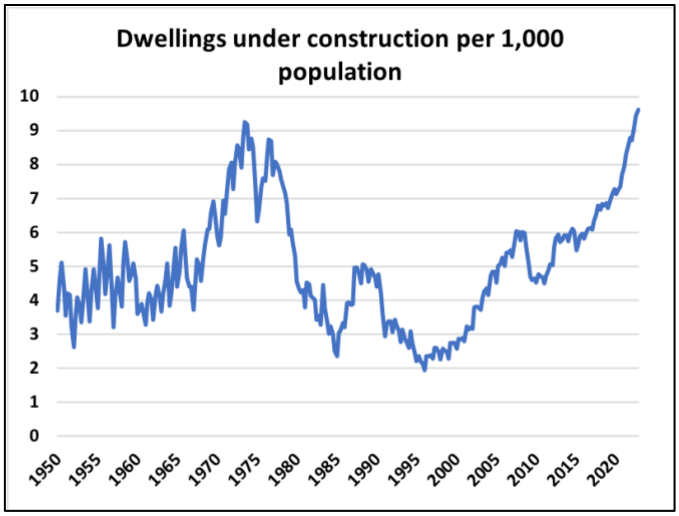
8 6 73 73.7K

There's also a record number of dwellings under construction across the country at over 360,000 as of Q4. That's true even when we strip rentals out to reflect "homeowner" units under construction represent potential future resale supply:



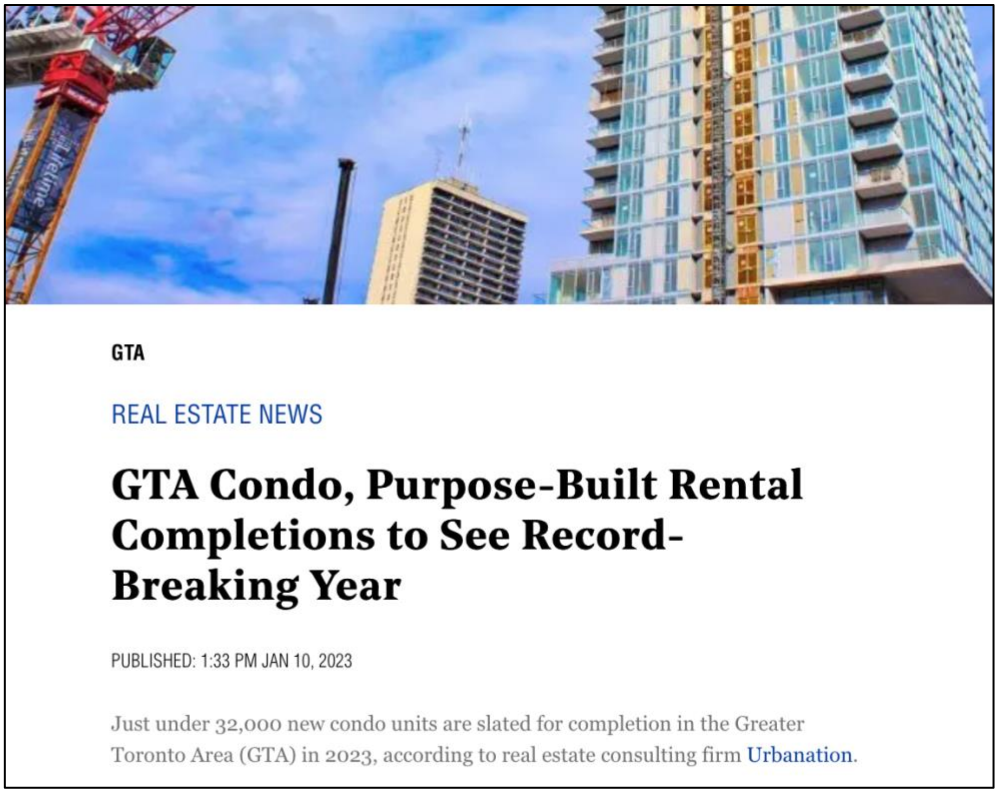


It's even more impressive when we normalize it for population. On a per-capita basis, we've now well surpassed the 1970s building boom.



Importantly, completions were surprisingly low over the past 2 quarters. The second half of 2022 saw 7.2% fewer homeowner completions than the same period in 2021. And on a 4-quarter rolling basis, we're at the lowest level since mid-2020.

<u>This potentially matters a lot since it means the resale market has been "helped" by a relatively low level of new supply,</u> a trend that will likely change in 2023 (more on that below):


GTA

REAL ESTATE NEWS

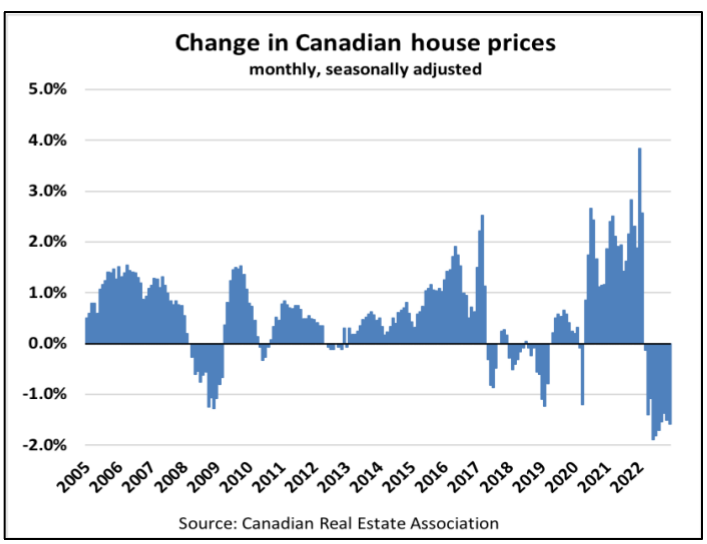
GTA Condo, Purpose-Built Rental Completions to See Record-Breaking Year

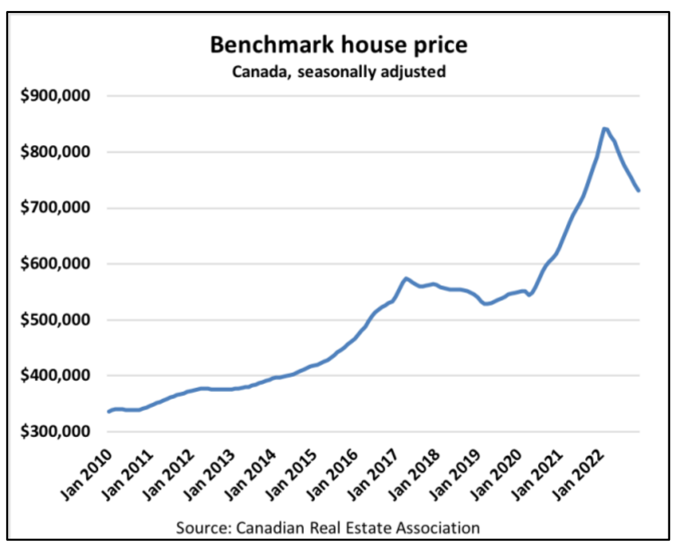
PUBLISHED: 1:33 PM JAN 10, 2023

Just under 32,000 new condo units are slated for completion in the Greater Toronto Area (GTA) in 2023, according to real estate consulting firm Urbanation.

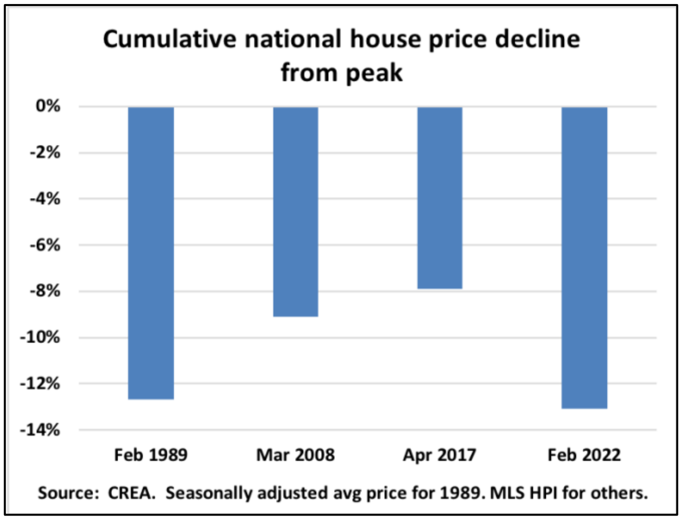
Back to the resale market. Months of inventory, which ended 2021 at just 1.6, has surged to 4.2 in December and is closing in on the long-term average of slightly over 5.

The seasonally adjusted House Price Index was down another 1.6% in December, the largest decline in 4 months. Prices are now down 7.5% y/y, the steepest annual decline since the Financial Crisis. The typical home has now lost $111,000 in value since the February peak….a negative wealth shock will help slam the brakes on consumer spending.





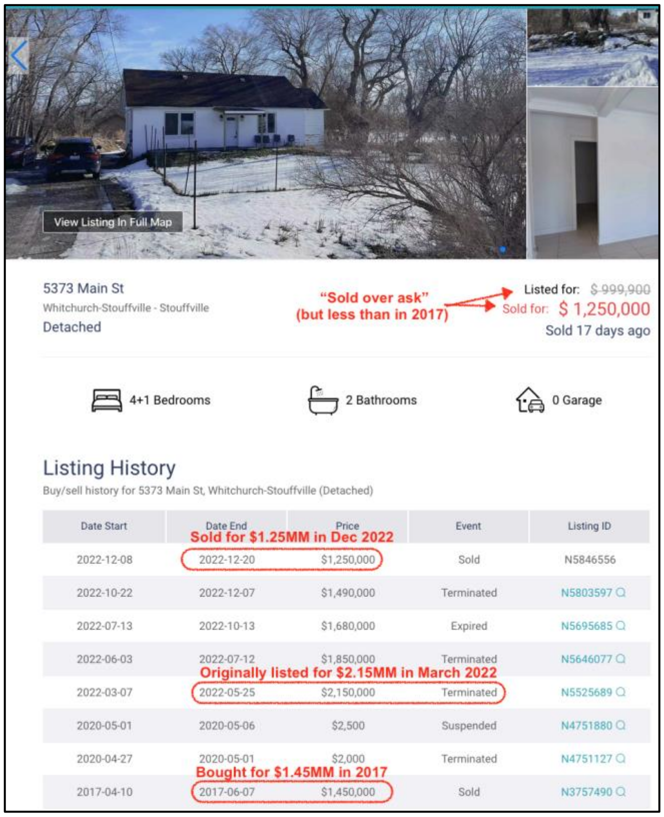
The national house price decline from peak is now the largest since at least the 1980s, having just surpassed the cumulative decline off the 1989 peak.

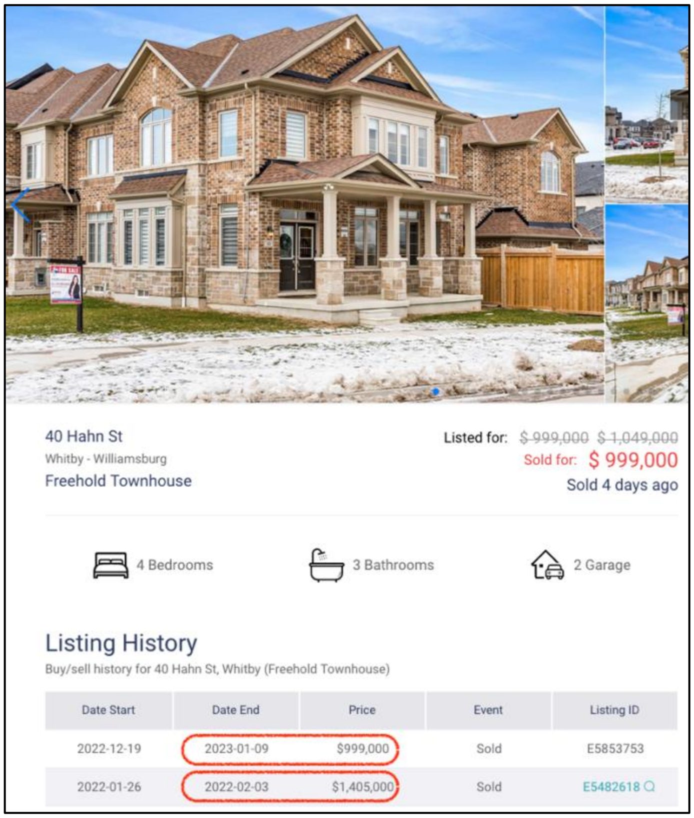


Granted, we have to use seasonally adjusted average prices for the 1989 decline since the HPI only goes back to 2005. You could argue it's not entirely apples-to-apples, but it's illustrative nonetheless.

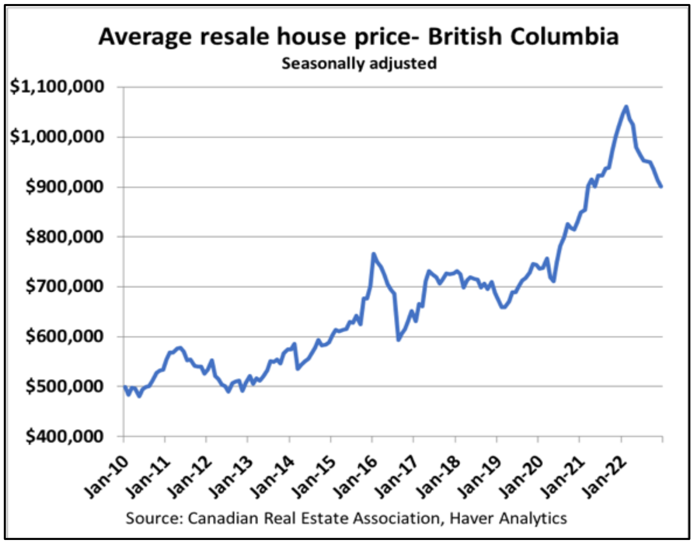
The late 80s/early 90s decline was more pronounced in Ontario where prices fell nearly 25% from peak and, more importantly, didn't recover the prior nominal high for over a decade. <u>It's a good reminder that the DURATION of the decline is every bit as important as the magnitude when it comes to the impact on consumption and credit performance.</u>

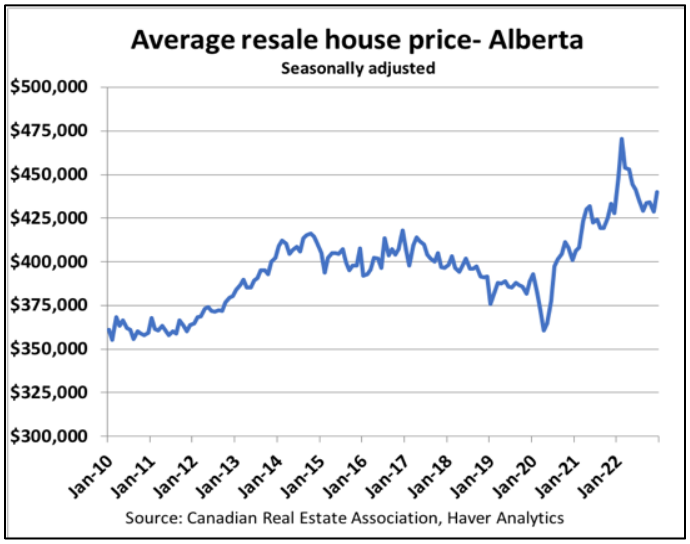
In a sign of the times, we're seeing continued crazy price discovery as buyers and sellers try to figure out fair value in a rapidly changing environment. The listing on the left shows a home that sold for less than in 2017 but only after a wild history that saw it go from a $2.15MM list price all the way down to $999k before selling "over ask" for $1.25MM. The one on the right shows the first 40% loss on a same-unit sale that I've come across:

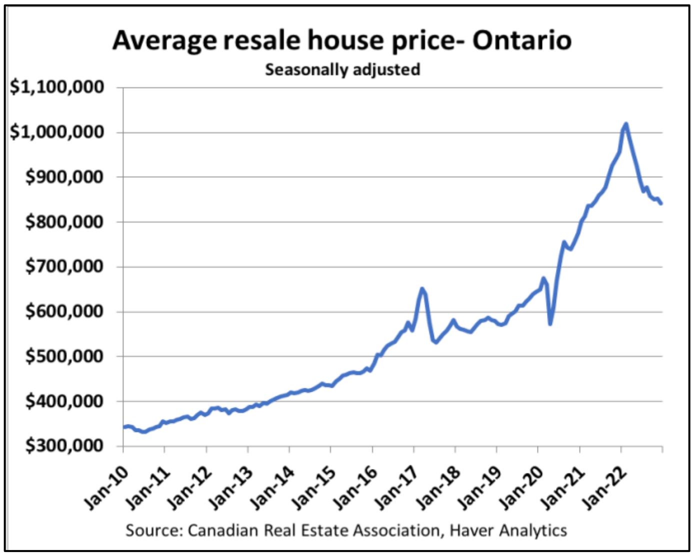


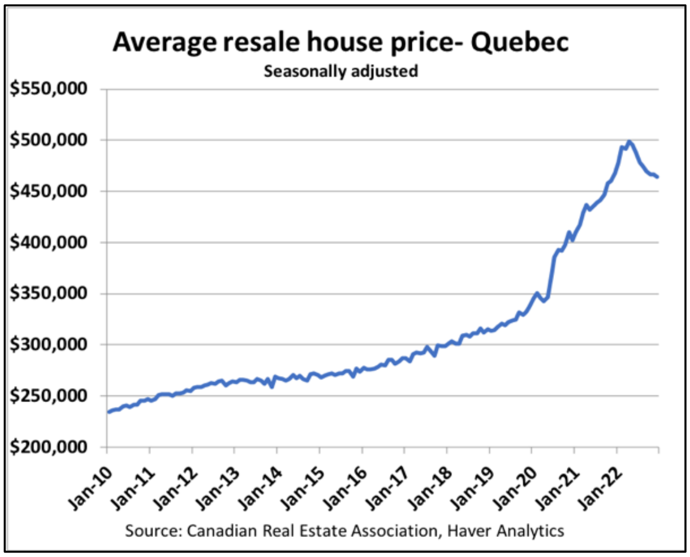


Looking across the country we find very different pricing dynamics, with steep price declines from peak levels in Ontario (-17%) and BC (-15%) and more muted declines in Quebec and Alberta (-6%).

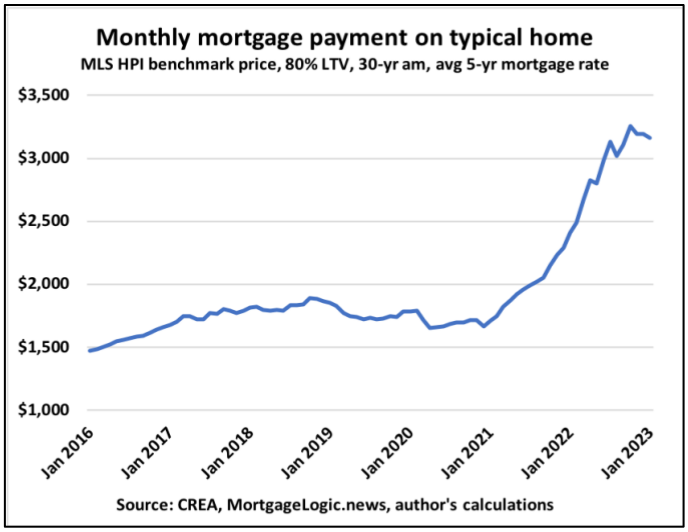


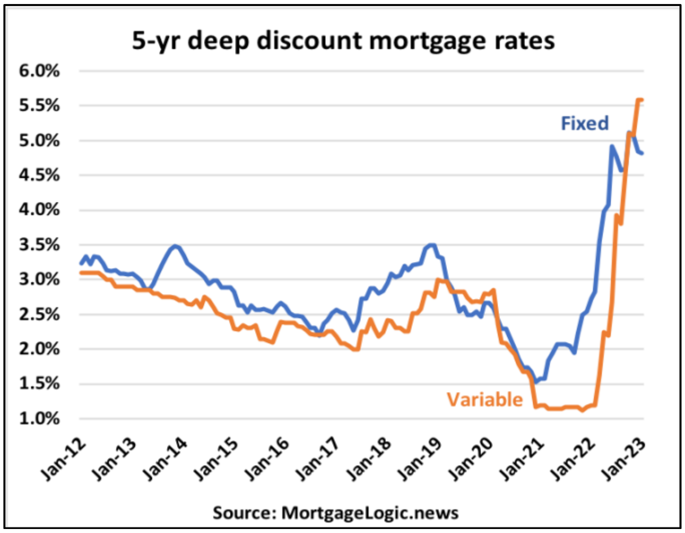




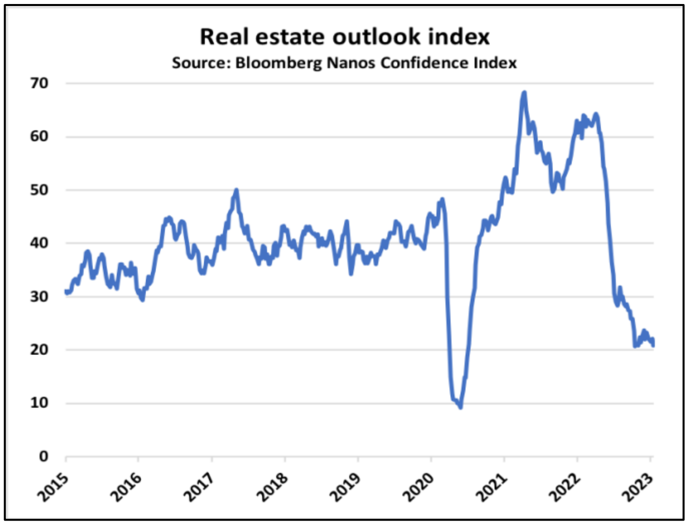


If there's good news in this story it's that we're at the point where falling prices and slight decline in fixed mortgage rates has meant that monthly payments required to purchase at prevailing resale prices have fallen for 3 consecutive months…something that hasn't happened since early 2020. In other words, affordability is improving once again.

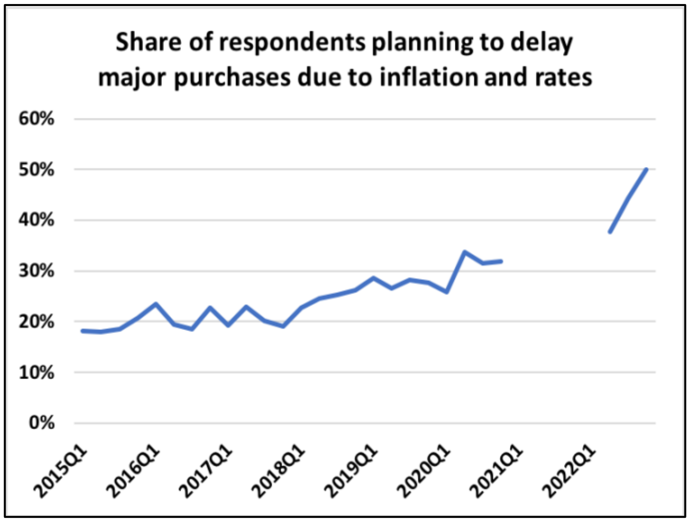




Still, sentiment towards real estate remains abysmal. The latest from the Bloomberg-Nanos Confidence Index shows the real estate outlook just hit a fresh post-pandemic low last week:



That squares with the latest Survey of Consumer Expectations from the Bank of Canada. The share of consumers planning to delay major purchases due to inflation or rates surged to a survey high last quarter:



In summary, I've been surprised at how persistently weak both sales and pricing has been in recent months. I still expect we'll see sales pick up as we get more clarity around terminal rates from the Bank of Canada, but it will likely be met with a very strong supply response this spring.

3) Death by 1,000 cuts as regulators contemplate slew of new measures to tighten lending

i) Regulators propose B20 amendments

As much as regulators strive for counter-cyclical policies that smooth out cycles, they also don't want the career risk of having presided over a serious downturn without the optics of having done everything possible to "protect the system".

That brings us to OSFI. To their credit, they have done an excellent job of tightening underwriting into a boom, and they have been soundly vindicated on the much-maligned mortgage stress test, which no doubt saved many households from serious pain.

We learned last week that OSFI is contemplating new changes to B20 underwriting guidelines that would further tighten mortgage qualification standards[2]. Three main proposals jump out. Credit here to Rob McLister from MortgageLogic (an excellent subscription for anyone in the mortgage space):

- ***New restrictions on mortgage size and debt loads***
  These measures would restrict how much a bank can lend to borrowers whose mortgage, or total debt, exceeds a certain percentage of their gross income. For example, OSFI may require banks to ensure that no more than 25 per cent of their mortgages have a loan amount that's greater than 4.5 times the borrower's annual income. Compared with today, by my estimate, this would limit mortgage amounts for maybe 5 to 10 per cent of borrowers.

[2] http://www.osfi-bsif.gc.ca/Eng/osfi-bsif/med/Pages/b2020230112-nr.aspx

- ***New debt-service coverage restrictions***
  This change could further limit how much a borrower's mortgage payment or other obligations can be as a percentage of income. Most banks, for example, limit a borrower's housing obligations to 39 per cent of gross income, or less. Thus far, OSFI hasn't capped this number. Now it might. And it might limit the debt ratio exceptions lenders make to get around its borrowing stress test.

- ***New interest rate affordability stress tests***
  OSFI says it may implement a new minimum interest rate that is applied in debt-service coverage calculations to test a borrower's ability to afford higher debt payments in the event of financial shocks. Examples of potential shocks include loss of income, soaring interest rates and divorce. Among other things, it's possible that the qualifying rate might be different for different mortgage terms, such a one-year fixed and a five-year fixed.

These proposals are open to public consultation until mid-April, but if history is any guide, OSFI will implement these changes more or less as written, likely towards the end of Q2 or early Q3.

These changes add to a slew of other regulatory actions over the past few months that collectively will serve to tighten credit and incrementally weigh on housing demand. Consider:

Policy measure	Implementation date	Impact
Basel III	Q1 2023	Significantly increase lender capital requirements on mortgages for investment properties, particularly where over 50% of the income used to qualify comes from rental income directly from that property.
National foreign buyer ban	Jan 1, 2023	Bans purchases by non-residents, including by corporations controlled by non-residents. Exceptions include for non-permanent residents, including international students, provided they meet eligibility requirements related to length of residency and qualifying purchase (international students cannot buy properties worth more than $500,000 for example). Non-residents who buy a home in contravention of the ban — or realtors and lawyers who help them — can face a conviction, and be fined up to $10,000 as well as forfeiture of property.
Toronto vacant home tax	Feb, 2023	A new tax equal to 1% of the assessed value on any vacant property in the Greater Toronto Area. Declarations are due by Feb 2, 2023.
BC beneficial ownership registry	Nov, 2022	Registry filing deadline was Nov 30. The beneficial ownership of any residential property in BC, including those held by numbered companies, is now searchable through BC Land Title Office for a fee of $5 per search.
BC unexplained wealth order	Spring 2023	Announced in Nov 2022, this measure proposes to allow authorities to issues orders forcing owners of luxury cars or real estate to explain the source of funds used in the purchase or face potential forfeiture of assets. The bill is expected to be introduced this spring.

While the impact of any single measure is likely incremental, the cumulative impact of the changes could be significant. Perhaps more importantly, the signaling effect of the feds and key provinces finally getting serious about money laundering and foreign speculation could prove to be a powerful deterrent to capital flows going forward.

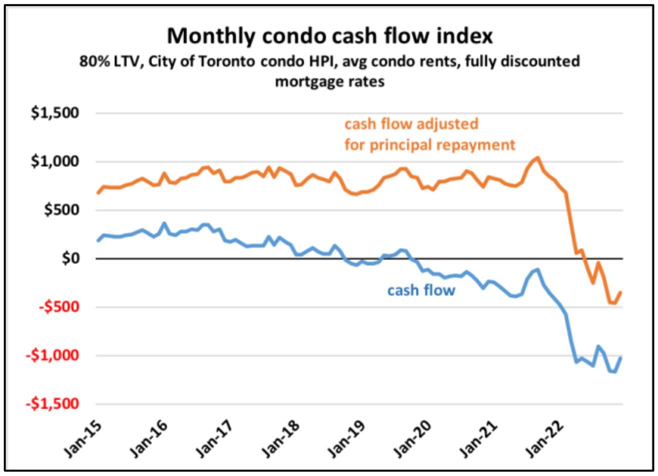
Finally, to add insult to injury, the City of Toronto is looking at a 5.5% property tax increase this year[3], the largest since amalgamation in 1998. It's not a welcome development for the city's many cash flow-negative landlords.

ii) Record condo and rental completions on deck?

An interesting forecast here from condo research firm Urbanation, as reported by the Globe and Mail[4]:

> **Record number of condos to flood Toronto market in 2023**
>
> A record number of new condo units will be completed in Toronto in 2023, just as skyrocketing mortgage rates make it harder for investors to close on their properties.
>
> Nearly 32,000 condos will hit the city and surrounding suburbs, according to data from condo research firm Urbanation Inc. That surpasses the previous high in 2020, when 22,473 units were completed.
>
> […] The average condo ownership cost in Toronto was $3,506 a month as of the third quarter of 2022, according to Urbanation. In comparison, the average monthly rent in the region was $2,733, which left the condo owner paying an average of $773 out of pocket every month. That is up from an average shortfall of $235 a month in the third quarter of 2021, $196 in 2020 and $17 in 2019, according to Urbanation.

The cash flow estimates are not too far off my own, which use the MLS HPI and average rents and which also shows a steep deterioration in cash flows in 2022:



There are currently a record number of both condos AND purpose-built rentals under construction across the country, so there's a good chance that we'll see record completions in 2023 for both. A simple way to estimate total potential rental supply is to take purpose built rentals and add half of the condo units under construction (roughly the share of new condos entering the rental pool at completion in major metros according to CMHC).

By that measure, we've got roughly 210,000 defacto rental units under construction at present….nearly 4x what it was just a decade ago:

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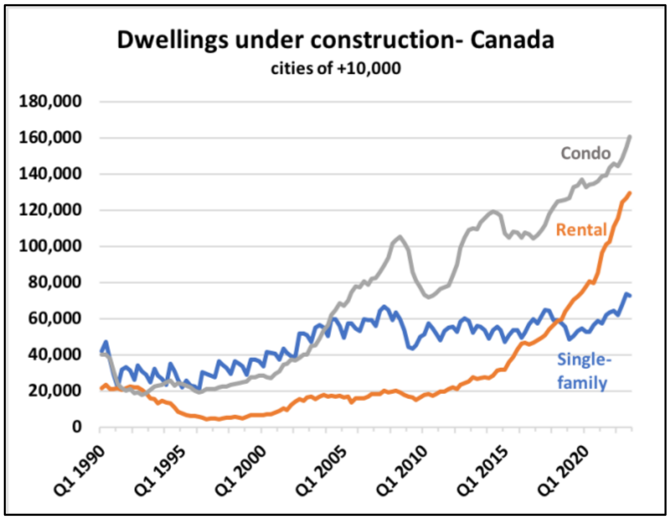
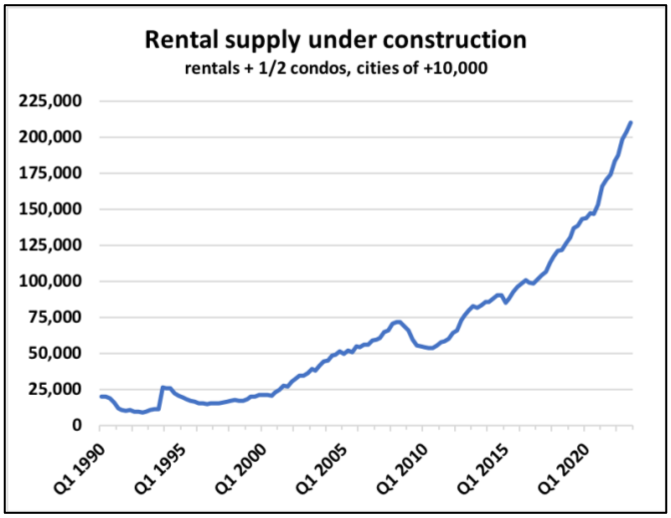
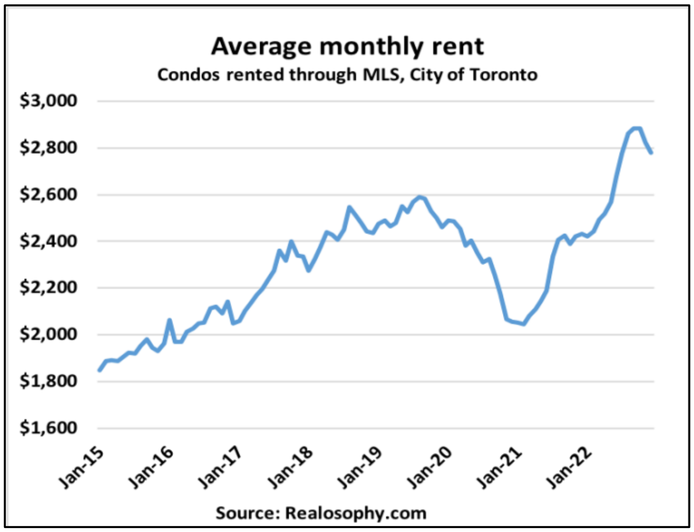
[3] https://toronto.ctvnews.ca/toronto-s-property-tax-to-increase-by-5-5-per-cent-biggest-hike-since-amalgamation-1.6224290?fbclid=IwAR02bN15DKlNyJW5nb7q65-FuJRlqaJHos4Iul420jTB3jwQ7NRqjzFb3vY
[4] https://www.theglobeandmail.com/business/article-real-estate-slow-sales-preconstruction-condos/

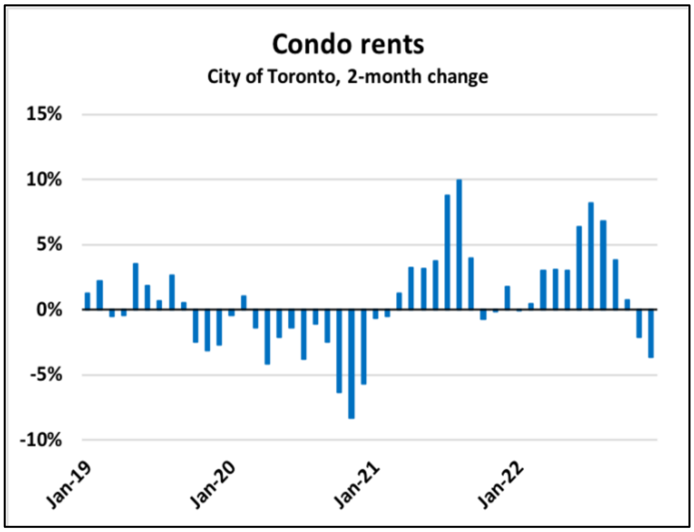




Already there are signs that the rental market may be coming off the boil. It started with scattered anecdotes from subscribers but now we can see it in the official data too.

Consider average rents for condos in the City of Toronto which have now fallen for two consecutive months. It's not unusual to see seasonal weakness at this time of year, but the magnitude of the decline is notable. It's the largest 2-month decline since the COVID lockdowns / Airbnb supply-induced downturn in 2020. It's in line with intel from industry contacts but flies against the prevailing view of a worsening rental crisis:



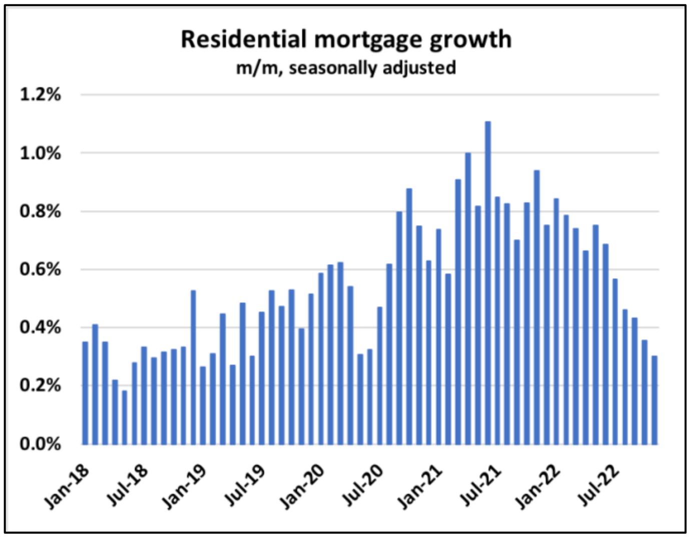


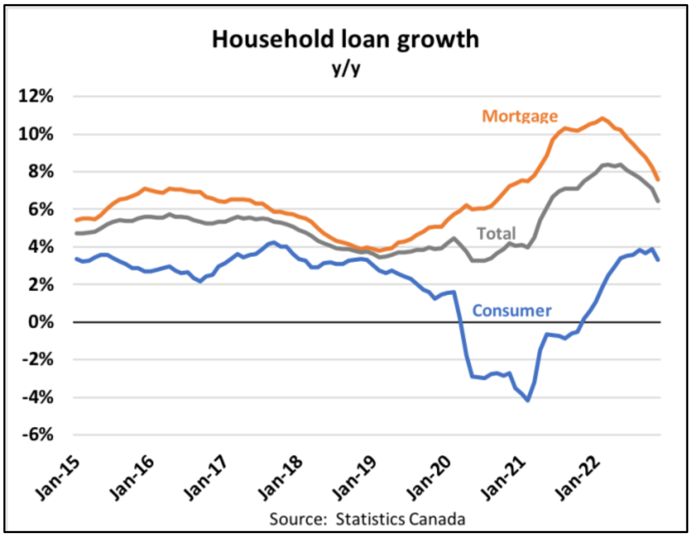
Further, the number of condos leased in Toronto's downtown core (C01 and C08) fell 24.7% in Q4 relative to the prior year. Granted, new listings were also down but to a much lower extent at -13.3%.

I don't want to overstate it. The rental market is still solid, it's just not quite as insane as it was a few months ago, and I expect that decelerating trend to continue as significant new supply comes online this year.

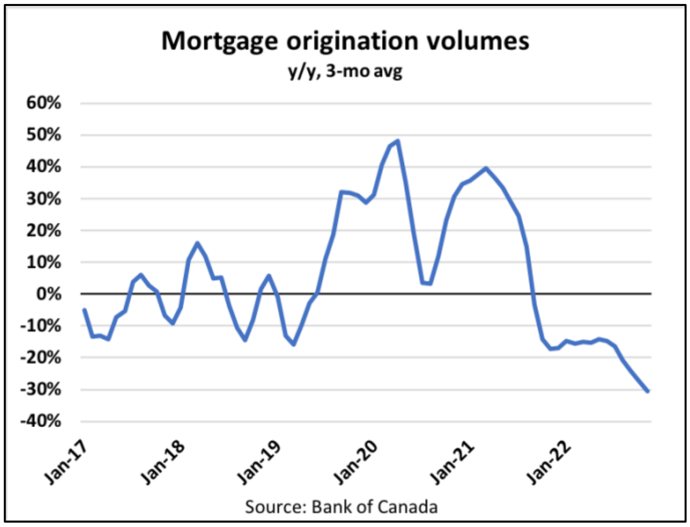
4) Mortgage growth tumbles in November

Mortgage credit outstanding grew just 0.3% seasonally adjusted in November, the weakest growth rate since mid-2019. The annual growth rate fell below 8% and will likely be cut in half again before the end of the year.

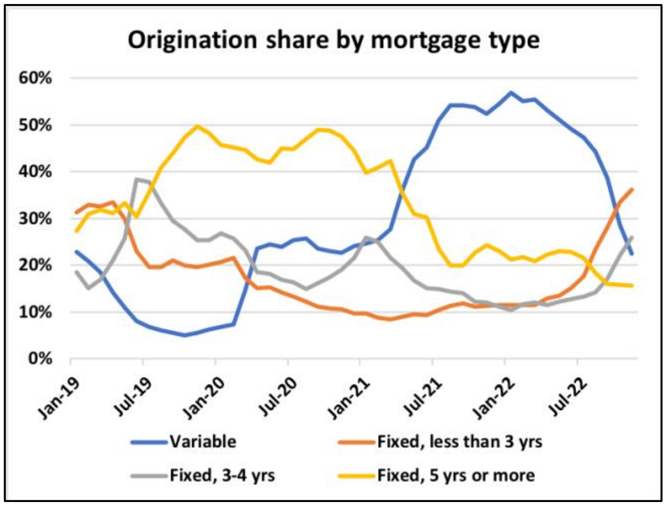




I believe mortgage growth will fall well below the B20 lows of 4% y/y later in 2023 based on new origination trends which saw a 34% y/y decline in November:

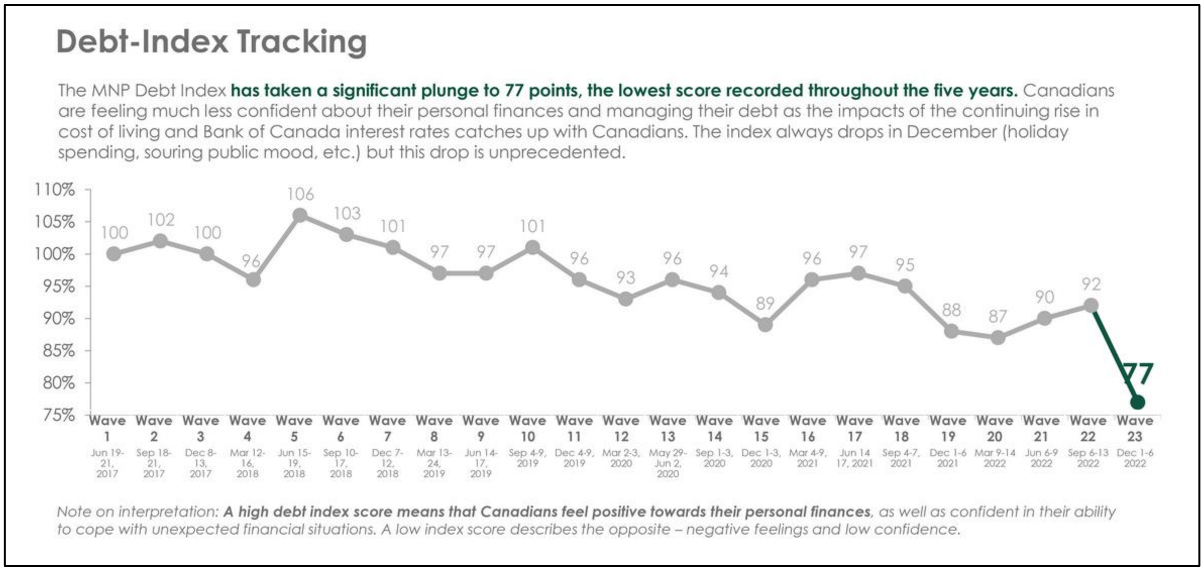


We continue to see a huge shift away from variable and 5-yr fixed terms and towards shorter-term fixed rate mortgages…which frankly makes total sense given that variable is currently priced higher than 5-yr fixed and the fact that there's a very good chance that rates will be lower in 2 years than at present.



Credit card balances posted another sharp increase, up 0.9% in November. That leaves them up 4% over the past 3 months (seasonally adjusted) and up 13% y/y. That's not a good readthrough into the state of the consumer.

Related, MNP publishes their latest Debt Index, which aims to measure Canadians' views on personal finances and confidence in their ability to manage their debt. The index plunged in the most recent quarterly reading to hit the lowest on record:

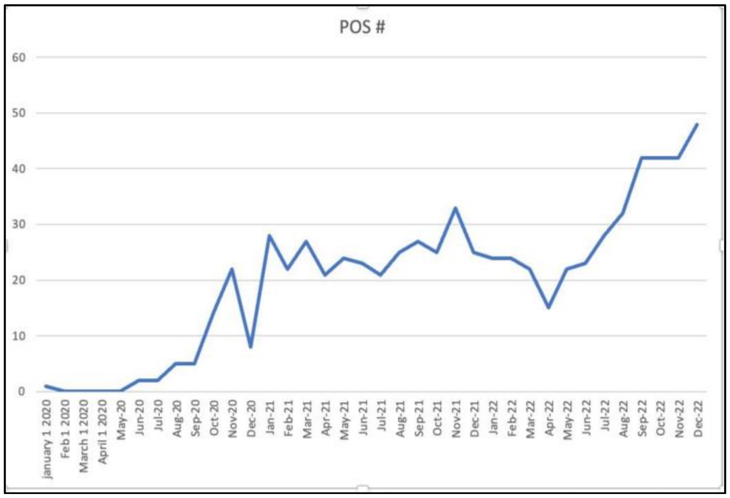


That financial stress is now evident in rising power of sale listings across Toronto. Industry contacts report a surge in power of sale actions starting in January….albeit off a base of effectively zero:

From the Toronto Star[5]:

> […] There are early signs of rough times ahead in the GTA real estate market, with some Toronto mortgage brokers reporting a rise in the forced sale of homes by private and alternative lenders.
>
> "It's happening at breakneck speed," said Toronto broker Ron Butler. "It's just a strange set of events that have come together to create this vast increase in power of sales."
>
> […] "This is just the very beginning of the problem; we're not going to see the real impact of the problem until May, June, July."
>
> Toronto mortgage broker Vince Gaetano said his brokerage has already had three clients that have been served with notice of power of sale from private and alternative lenders this week.
>
> "I've been doing this for 30 years. I haven't seen this many in recent history," he said."I don't think it's a coincidence, I think it's a sign of the times," he said.

The best data we have comes from realtors who are manually compiling power of sale listings from the MLS. It shows that the monthly flow of listings went from literally zero in the first half of 2020 to roughly 50 in December (kudos to Dan Foch and Peter Kiriazopoulos for their help here).



[5] https://www.thestar.com/news/gta/2023/01/13/help-must-sell-in-30-days-mortgage-brokers-report-an-uptick-in-forced-sales-of-gta-homes.html?rf&utm_source=Twitter&utm_medium=SocialMedia&utm_campaign=GTA&utm_content=forcedsales

Yes it's a small number overall, but the rate of change is telling. And keep in mind that for now it's just the private lenders….and that trend is likely just getting started. People will do everything they can to hold onto their homes until forced to let them go. Case in point:

These things take longer than you think, and not just because the borrowers will beg/borrow/steal, but also the lenders will drag their feet in the hopes that the loan will cure. This is particularly true for big banks who have more reputational risk than private lenders.

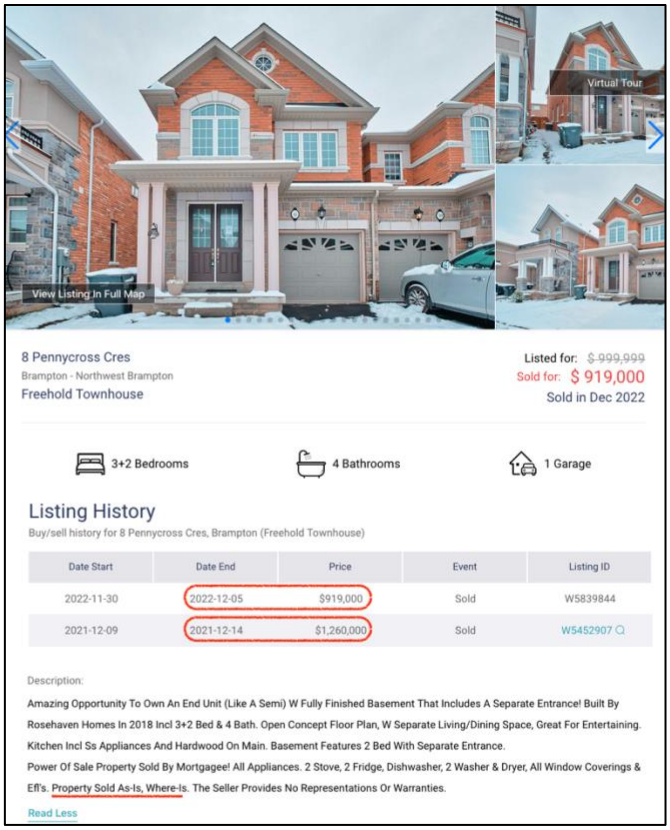
Take, for example, this very recent court case involving a power of sale action by CIBC[6]. In his decision, the judge outright scolded CIBC for taking so long to pursue remedy:

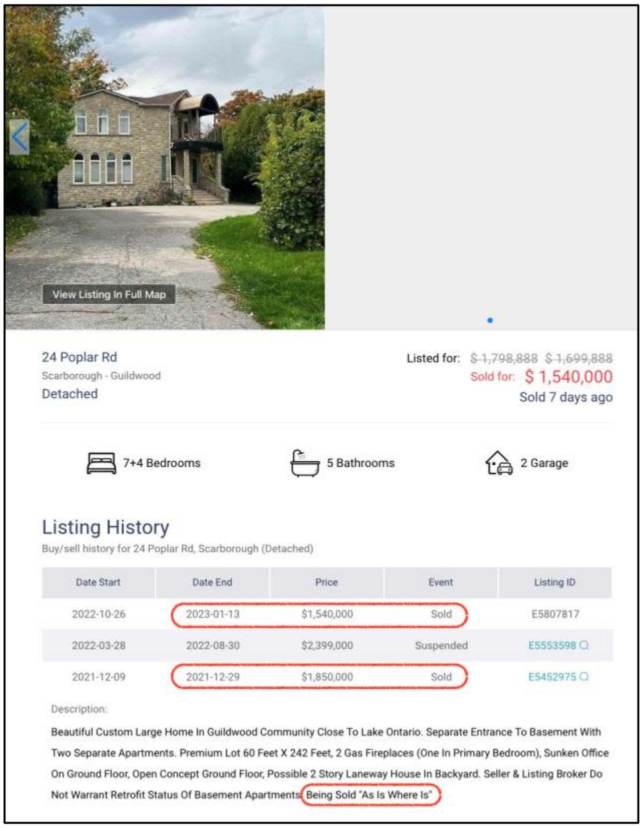
> […] On or about November 15, 2021, Mr. Pena defaulted on repayment of the Loans.
>
> […] On April 12, 2022, the Applicant served on Mr. Pena a Notice of Sale Under Mortgage and Notice of Intention to Enforce Security […] On August 2, 2022, the Applicant's property manager attended at the Property and posted a lock change notice
>
> […] While I do not fault the Applicant for waiting a number of months after Mr. Pena's default to see if he would cure it, **the Applicant let more than half a year go by before it did anything**
>
> […] The Applicant could have expedited its remedies and be slightly more vigilant as to what was happening at the Property over which it had a secured Charge.

In other words, what we're seeing so far is just the tip of the iceberg. Scotiabank's CEO made waves with recent comments suggesting that up to 20,000 of their borrowers could be vulnerable to default[7]. That's quite a statement when we consider that in the aftermath of the Financial Crisis, the number of mortgages in arrears across ALL LENDERS peaked at 18,000 and today is at barely more than 7,000.

Already some of these power of sale listings are being sold at deep discounts to prior sale price. Note in these listings that "sold as is where is" = power of sale.

[6] https://www.canlii.org/en/on/onsc/doc/2022/2022onsc6941/2022onsc6941.html
[7] https://www.thestar.com/business/2023/01/10/20000-scotiabank-customers-could-default-on-their-mortgage-new-ceo-says.html

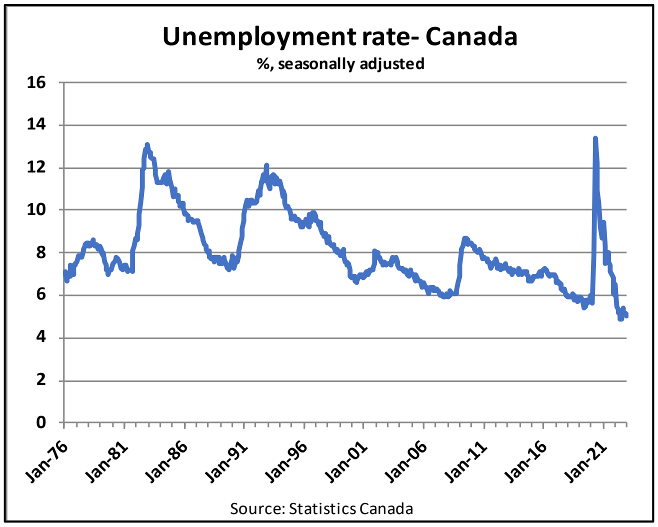




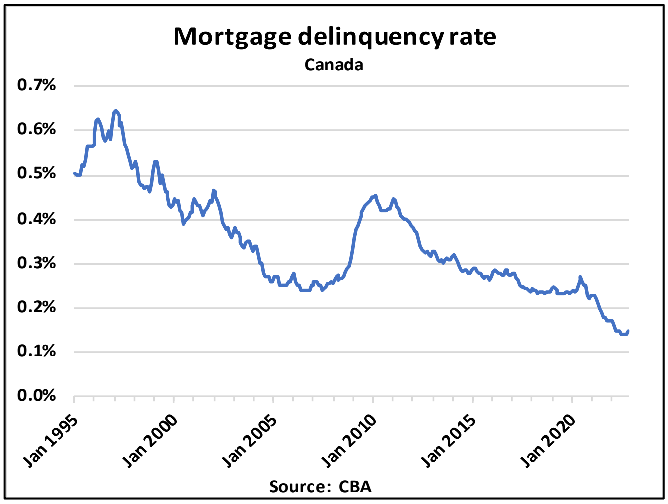
Unfortunately I think we're only in the first or second inning here.

5) Consumer check: Confidence still in the dumps, spending under pressure

For all the nasty forward-looking indicators, the labour market in Canada remains remarkably resilient. Canada created a whopping 220,000 new jobs in the fourth quarter while the unemployment rate fell to a near-record low of just 5%....both way better than analyst expectations.

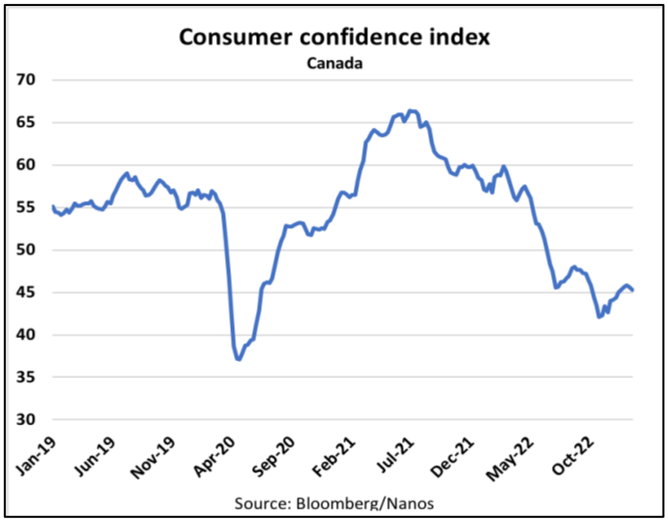


Meanwhile insolvencies and credit card delinquencies continued to trend up in November, as covered in the last Edge Report (the year-end data is always a bit lagged so we won't have that until next month) but remain below pre-pandemic levels. Also, the latest mortgage arrears data remains basically at record lows of just 0.15%.



Granted, that's a lagging indicator that tells us much more about how consumers were faring 9-12 months ago than it does about the near future, but it does tell us that households are likely going into the recession in a better position than during other downturns.

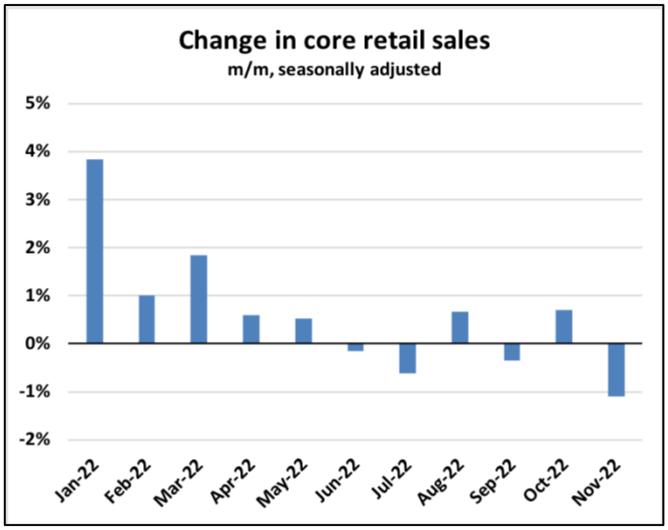
Notwithstanding all that, consumer confidence remains in the dumps and deeply into what traditionally has been recessionary territory which is not a great sign for household consumption…a key pillar of the Canadian economy:

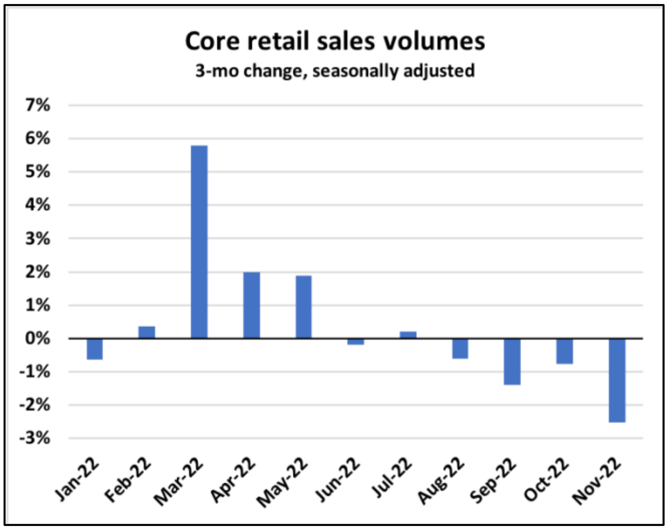


Now we finally have signs that weak confidence is bleeding into spending patterns.

Retail sales fell 0.1% m/m in November and were down 0.4% in volume terms (ie adjusted for prices). Statistics Canada's advance estimate for December shows an even larger 0.5% headline decline.

But trends were much weaker in core sales (ie ex-gas and autos) where retailers saw a 1.1% seasonally adjusted decline in November, the largest decline in 11 months. And when we look at core sales adjusted for prices, we've now seen a 2.4% decline over the past 3 months:





I'll leave it here for now. Please plan to join the next quarterly outlook. Details to follow via email.

Regards,
Ben