METRO DEEP-DIVE: DECEMBER DATA

January 2025

MORTGAGE MINGLE

1) *Macro commentary: Revisiting rate forecasts*

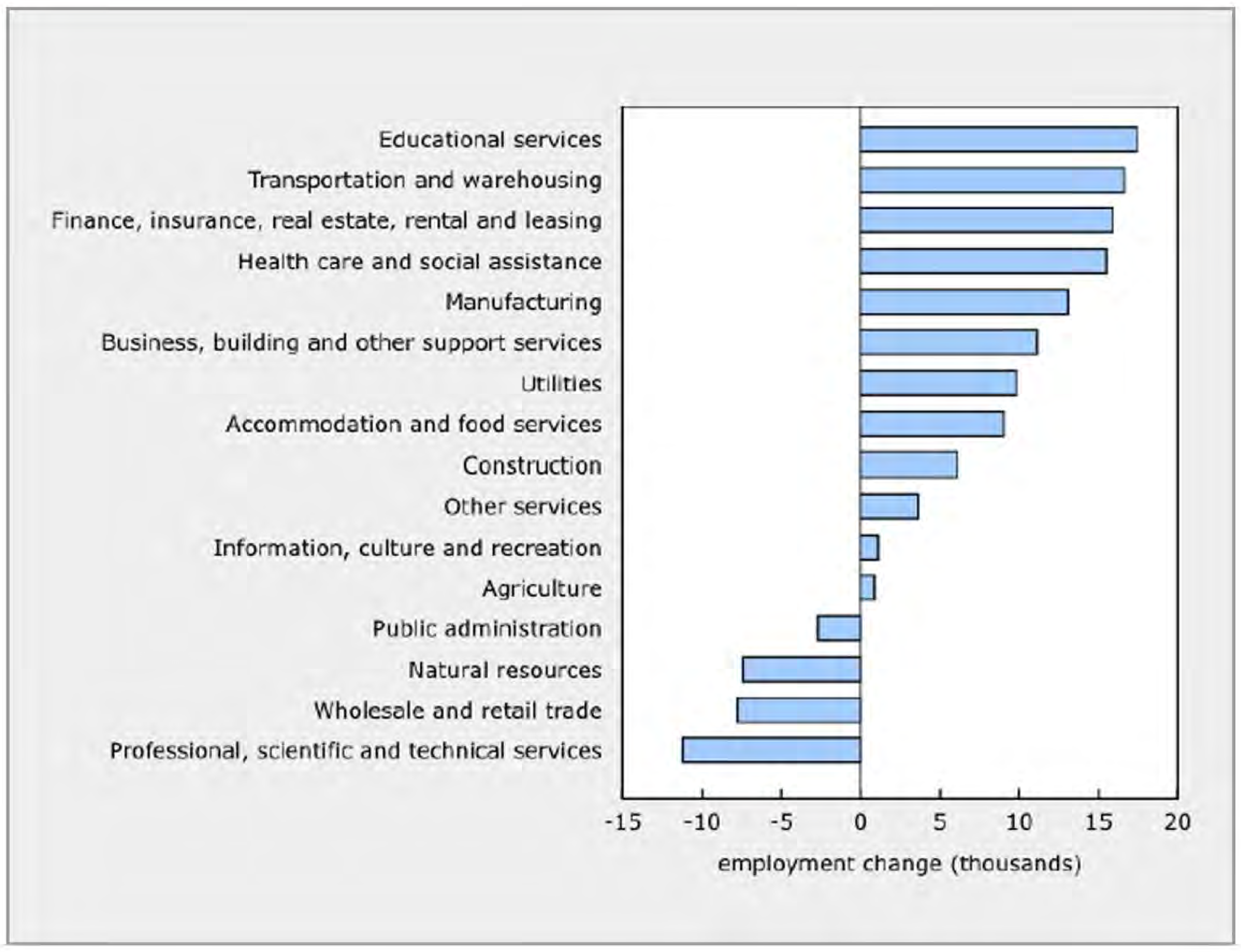
Let's start with a review of the big, market-moving data release from last week: The Labour Force Survey. This is the most-watched data released from Stats Canada, and it moves rate expectations more than anything else.

We learned on Friday that Canada reportedly churned out an incredible 91,000 new positions in December... the largest monthly gain in 2 years. This smashed expectations for a 25,000 increase.

An initial passthrough all looks really good:

- +58k full-time employment
- Unemployment rate down 0.1%
- Employment rate up for the first time in 2 years
- Hours worked up 0.5% m/m... best showing since July

Further, we see solid employment growth in some of the more cyclical, interest rate sensitive sectors like construction, manufacturing, and the FIRE groups (finance, insurance, real estate services):



A reading like this looks a lot more like an overheating economy than one that needs to be resuscitated by lower rates, so it makes sense that bond yields screamed higher following the release (the hot US non-farm payroll print was also a major contributor).

But look a bit deeper and things look a little weird.

For starters, 2/3 of the job growth came outside of the core working-age cohort. In other words, 62k positions went to workers older than 55. So yes, the overall employment rate rose for the first time since 2023, but not for the core age group. What's the read-through here? A bunch of seniors suddenly decided to pick up jobs in December? Odd.

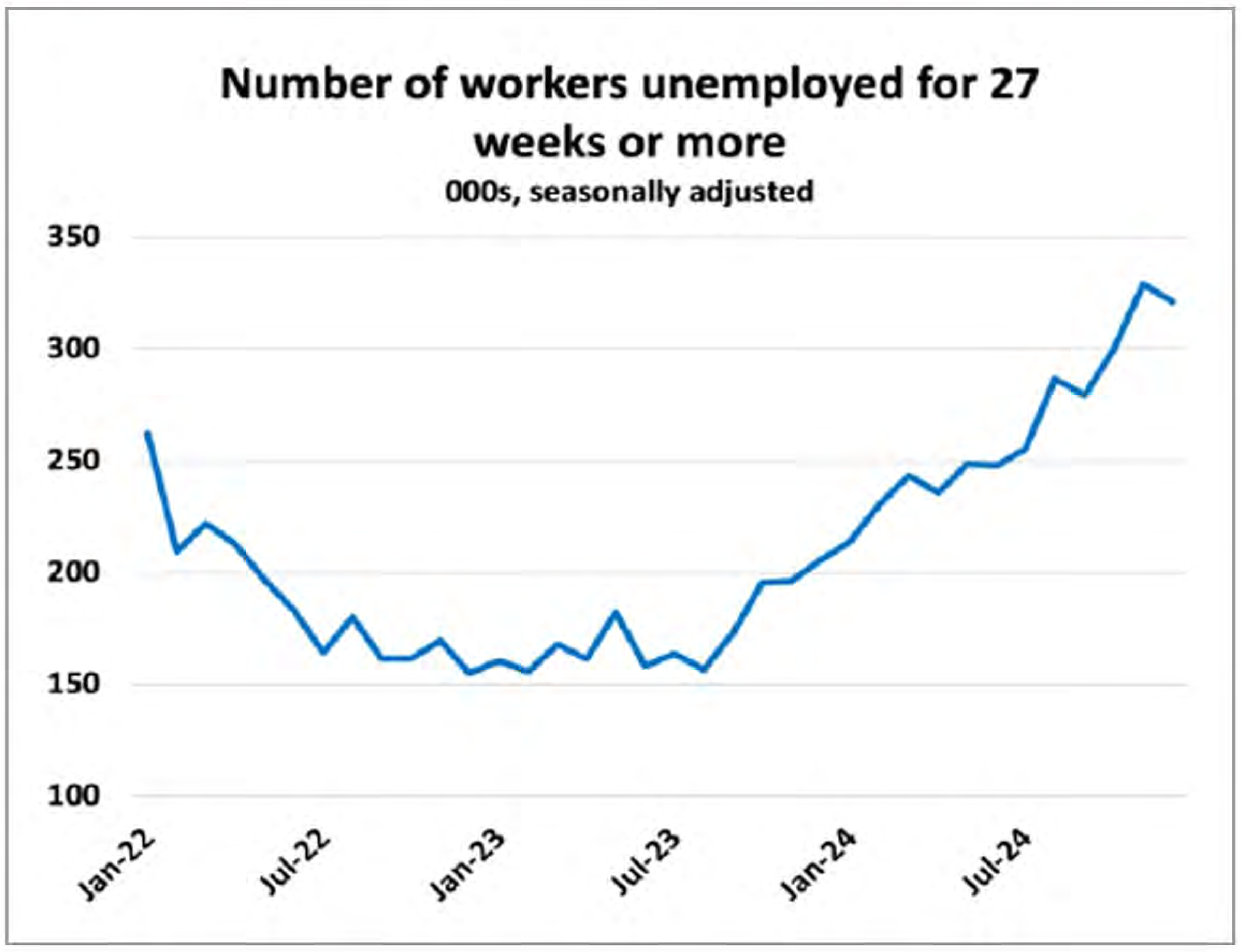
Second, we had a 40k increase in public sector employment in December which built on a 45k jump the prior month. That means we've now had a 2% expansion in the public sector just in the past 2 months alone.... which hasn't happened since 2021.

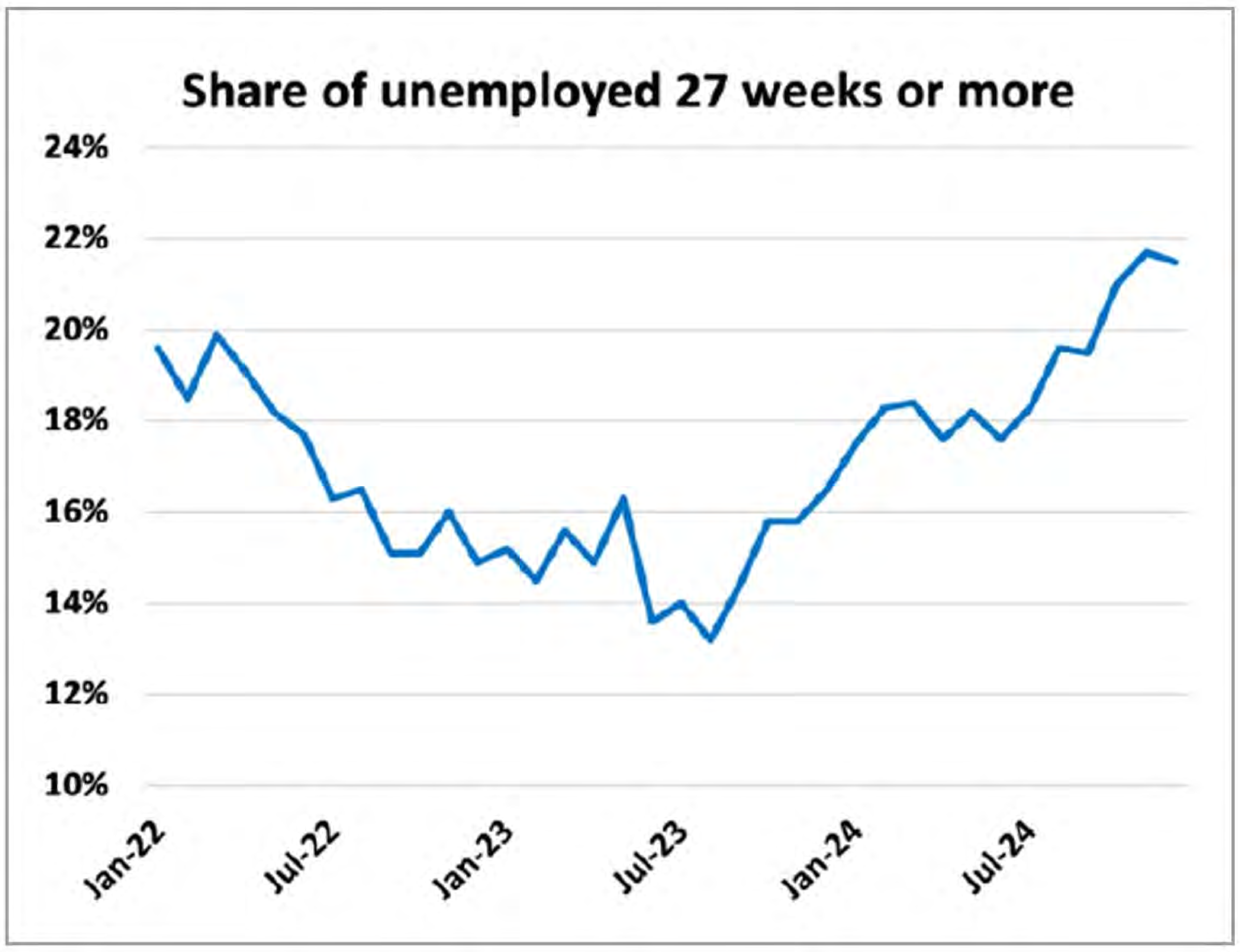
And we had a 23k increase in the volatile "catch-all" category of self-employment. That means the private sector added 27k positions in December, which is nothing to sneeze at but is not quite as impressive as the

Further, wage growth slowed to 3.7% y/y, the slowest since April 2022. But for Q4 as a whole, seasonally adjusted wages were up just 0.3%, the weakest since Q4 2020.

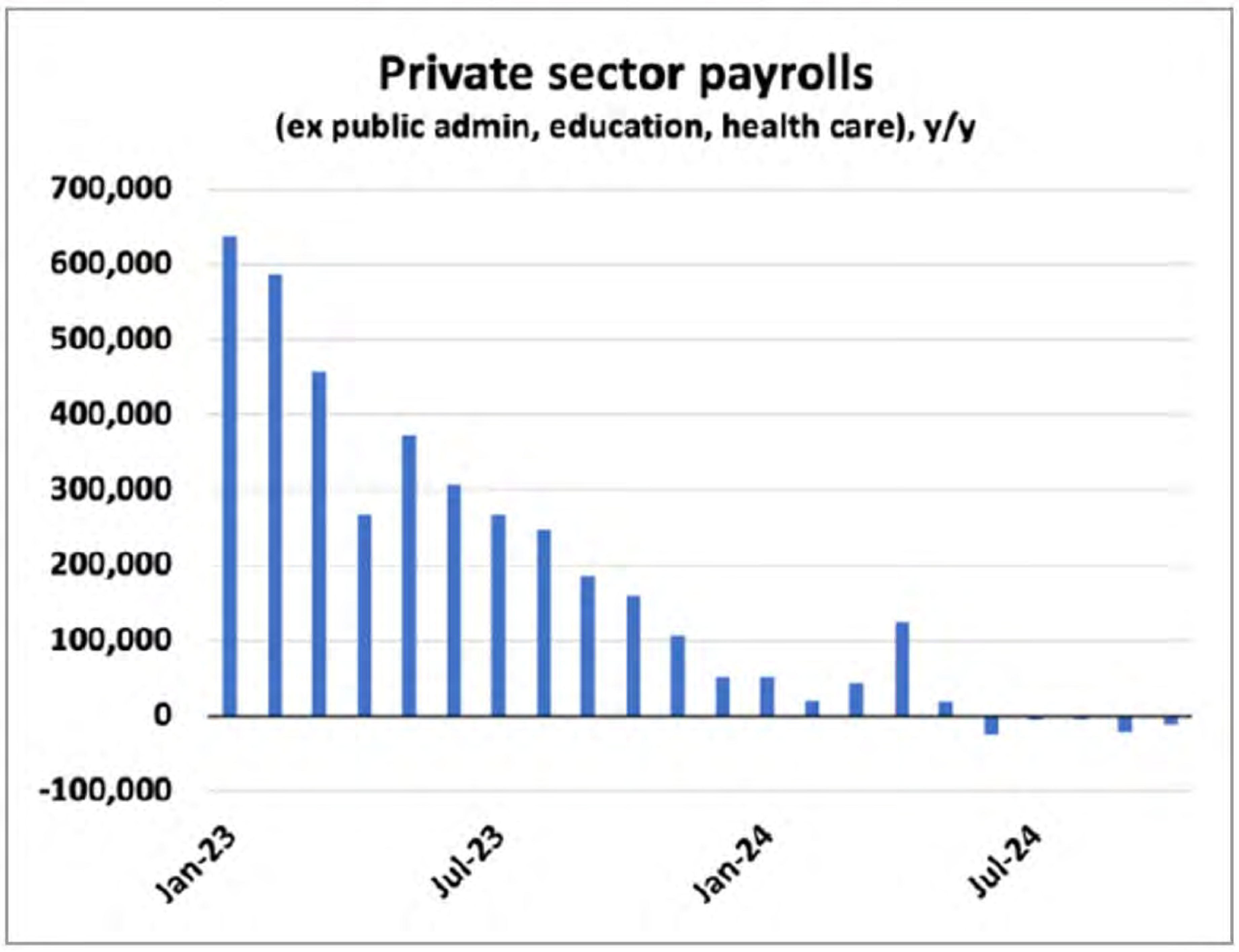
Hours worked (which matter more to GDP than the NUMBER of jobs) were up solidly in December, but for Q4 as a whole they were up a paltry 0.1% on an annualized basis. So companies are adding new positions but limiting hours worked? Also odd.

The ranks of the unemployed declined in December, but the cohort that has been unemployed 6 months or more was still up 60% y/y and still comprises nearly a quarter of all unemployed individuals... the highest share since 2021:





I don't really know what to make of it, but it's important to note that payroll survey, which is less followed and less impactful to markets, is telling a very different story. There, we've seen job losses in 3 of the past 5 months and now a negative trend for private sector employment.

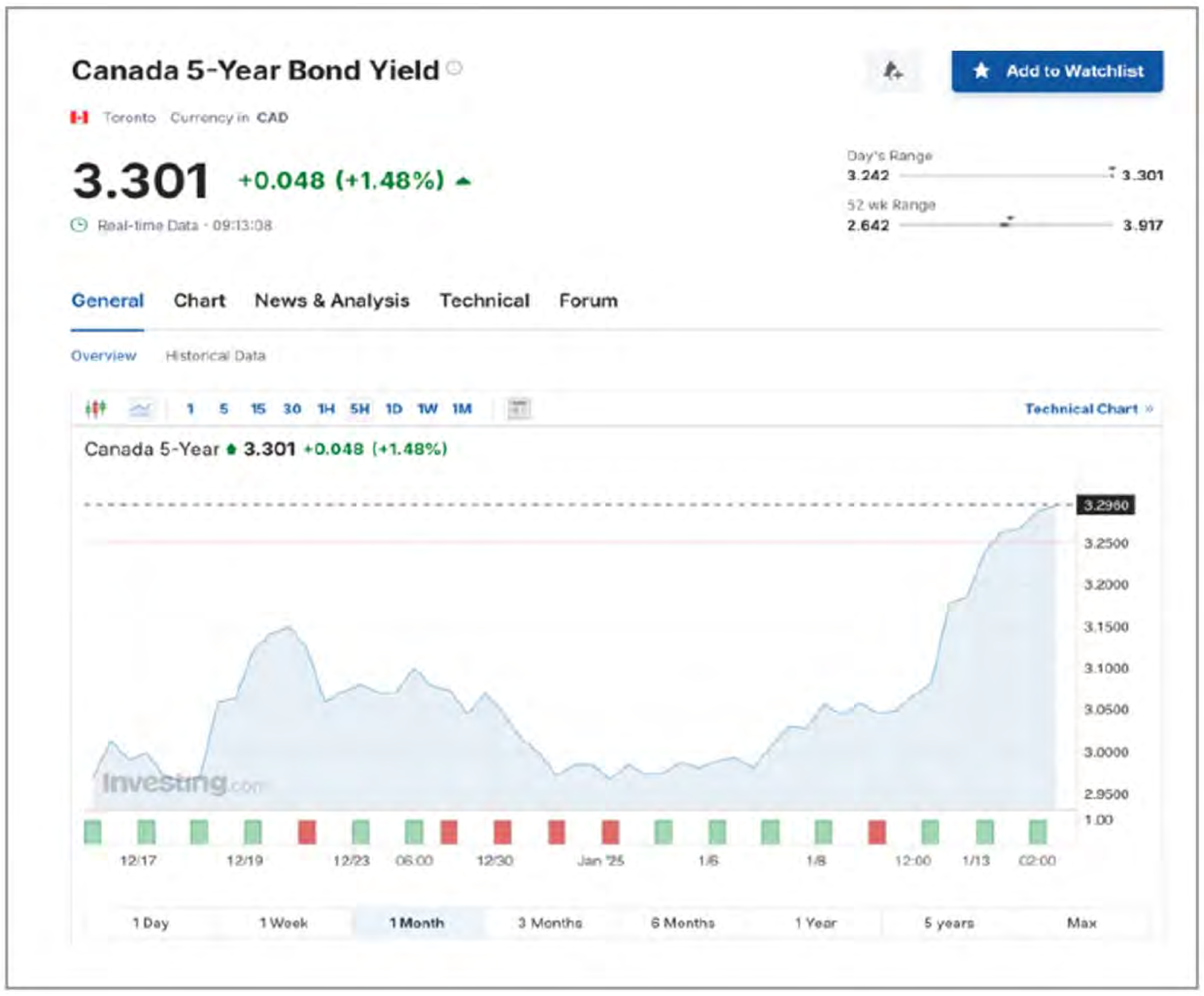


It's not the first time we've seen a big divergence between the two surveys, but history tells us that when that happens, it's almost always the payroll data that's giving the better signal.

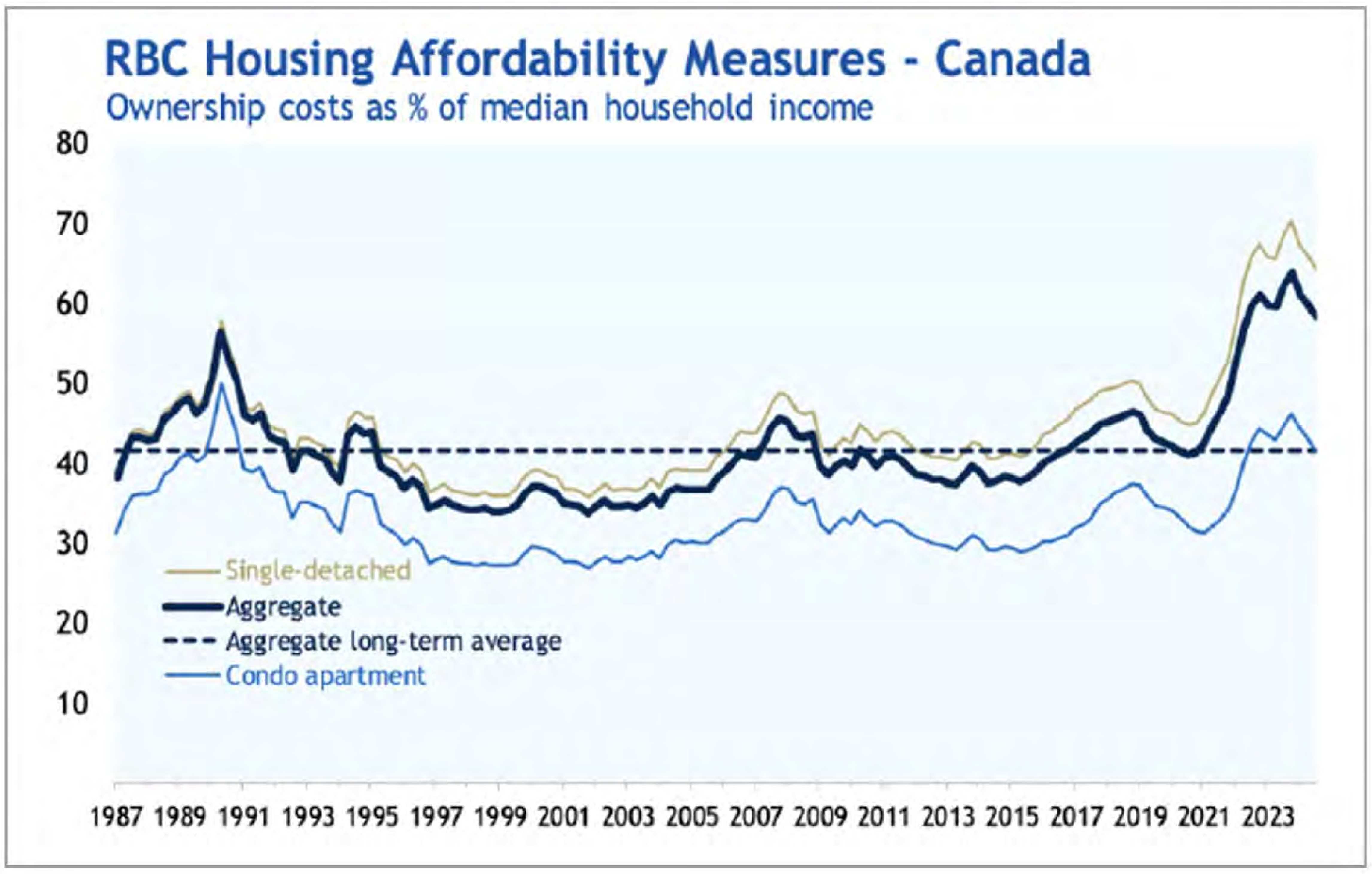
Something to keep in mind.

Be that as it may, the data last week certainly does put the Bank of Canada in a bit of a bind. You have an economy apparently shrugging off the impact of high rates. And oh by the way, oil -the master commodity- is ripping to start the year, which is not good news for inflation:

An economy that's apparently faring better than expected + rising risk of an inflation uptick all as the bond market a bit spooked. Bellwether 5-year bond yields are touching 3.3% this morning, up 30bps in the first 2 weeks the new year:

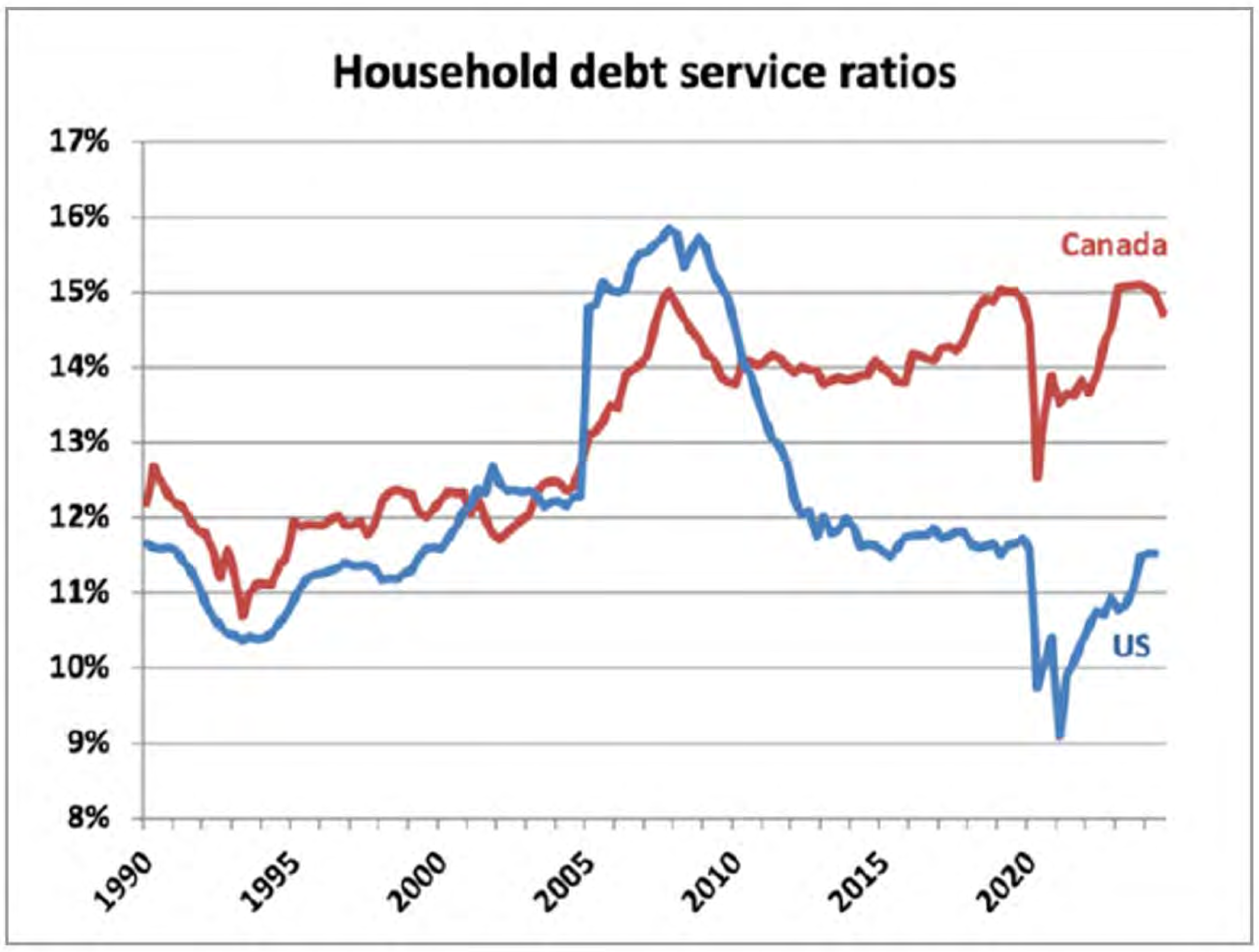


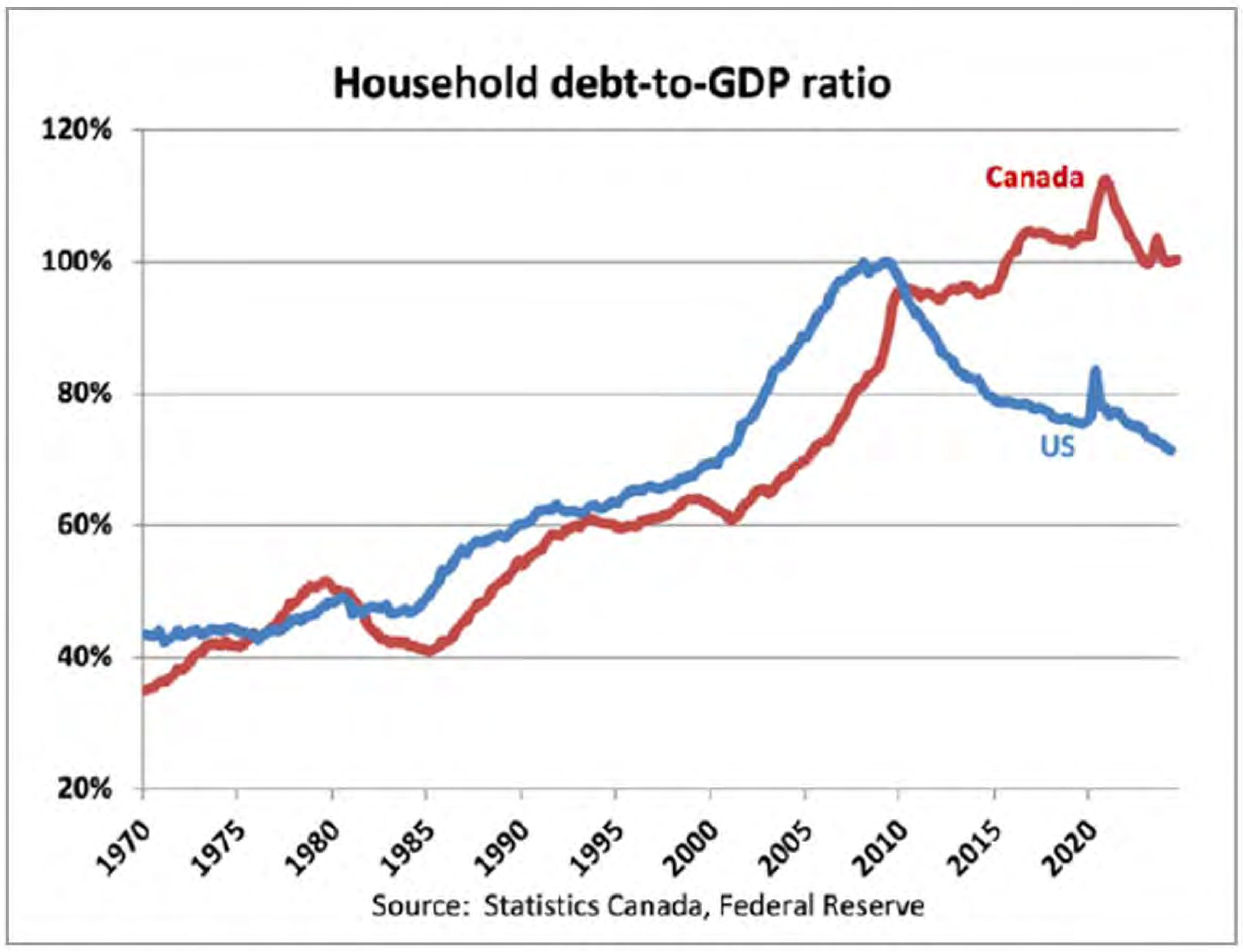
That's a concern for the housing market given that rates at these levels are still problematic, something that the latest RBB Housing Affordability Index makes clear[1]:



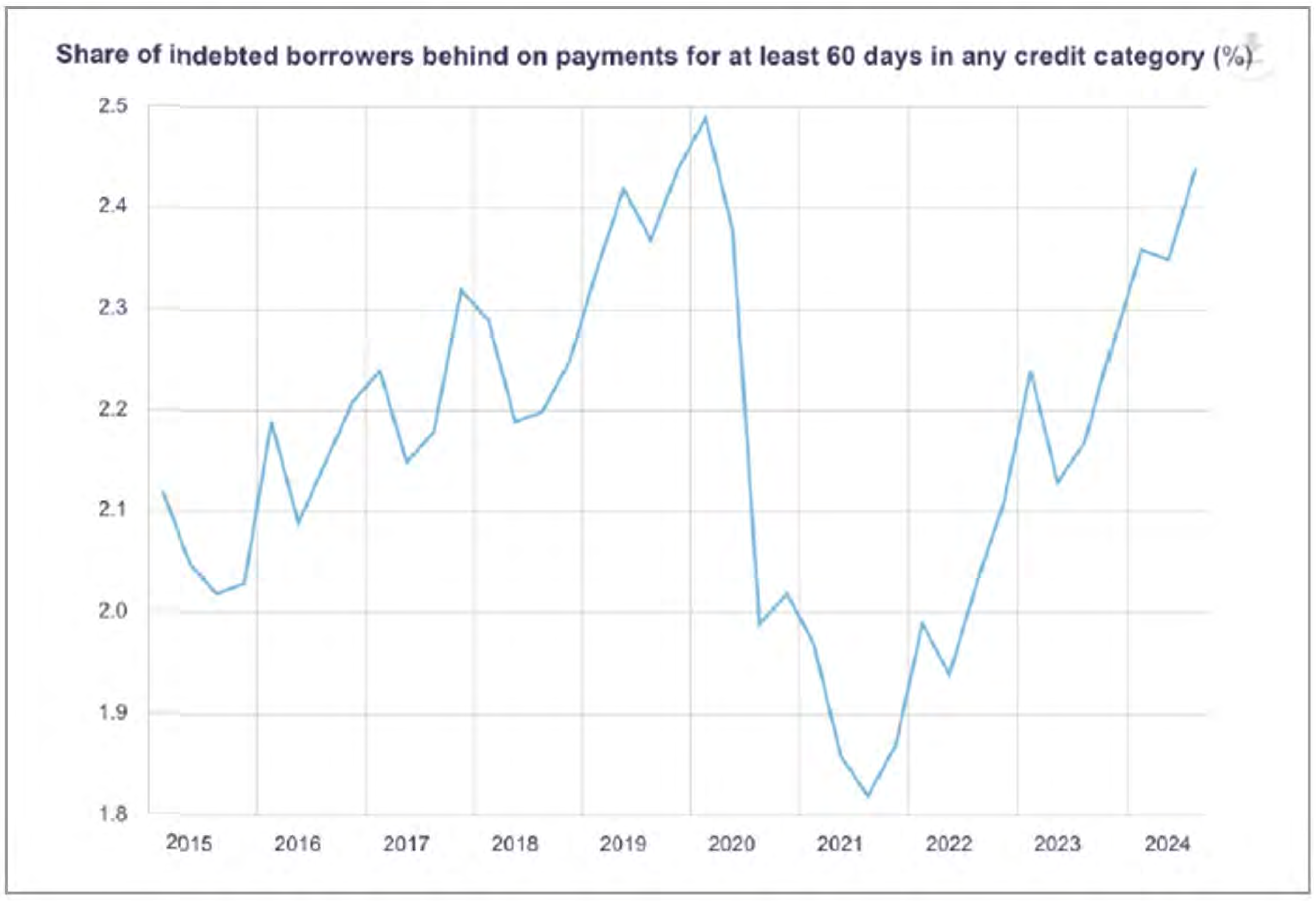
[1] https://thoughtleadership.rbc.com/homebuyers-get-some-affordability-relief-but-strains-endure/

But let's take a step back and keep the big picture in focus. The amount of household, corporate, and government debt means that rates at these levels simply do not work for Canada's economy:

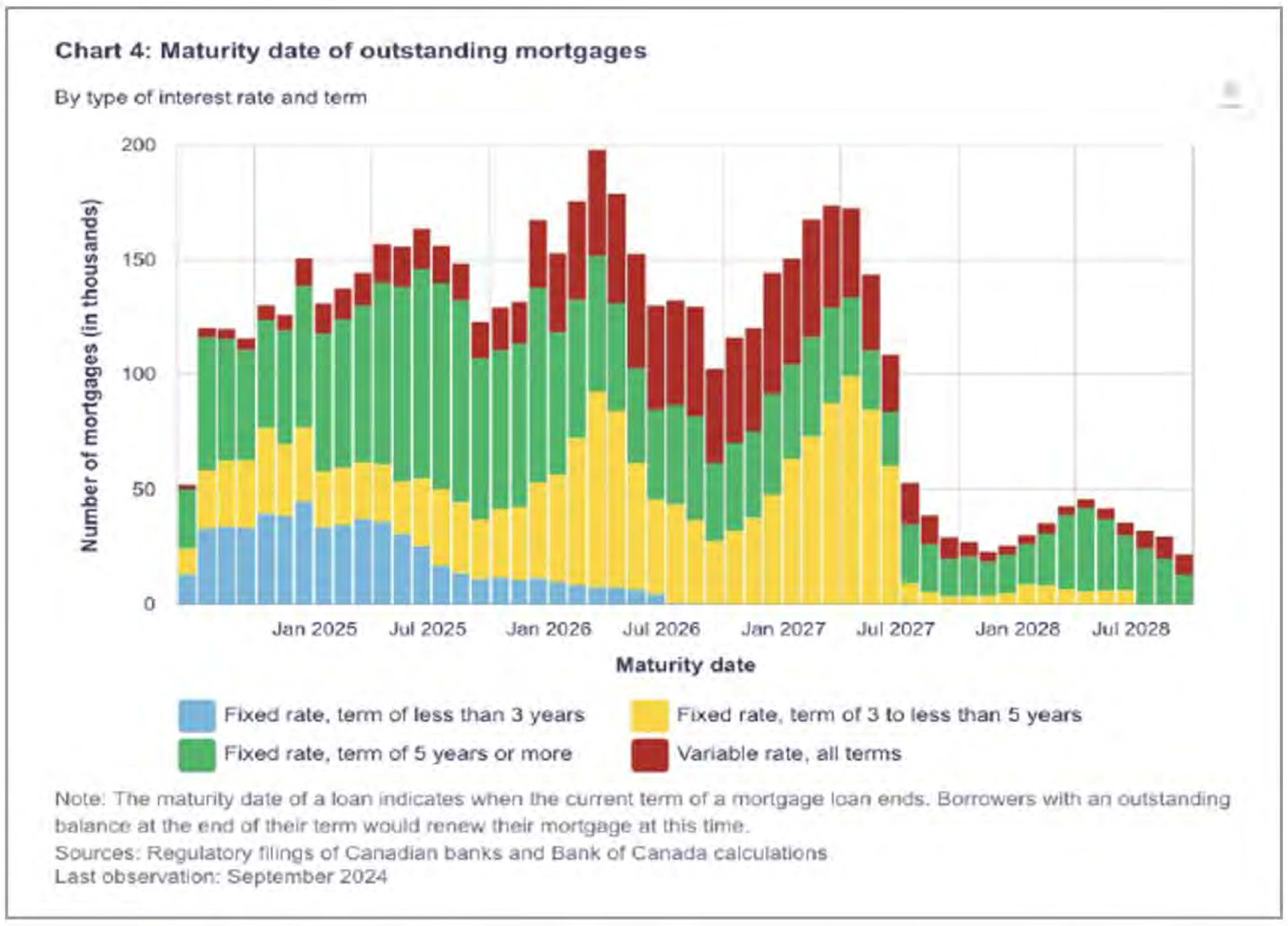




We learned this week from the Bank of Canada that we now have the highest share of households behind on at least one credit product since Q2 2020 when the world locked down:

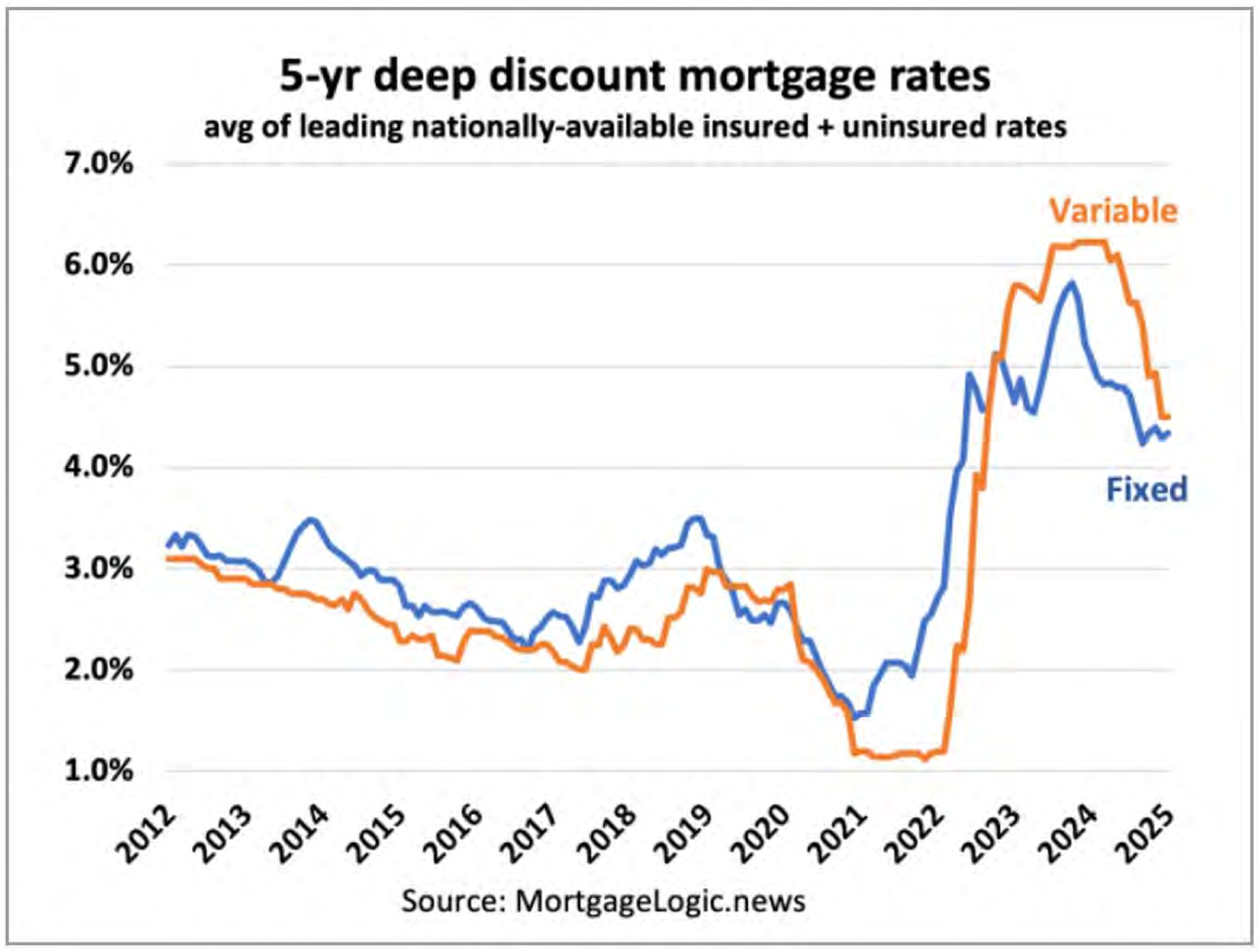


And that's before we see the full impact of the rate renewal cycle. New Bank of Canada data from last week shows the run-rate of renewals out to 2027. By their own math, we still have half of borrowers who have not felt the impact of higher rates.

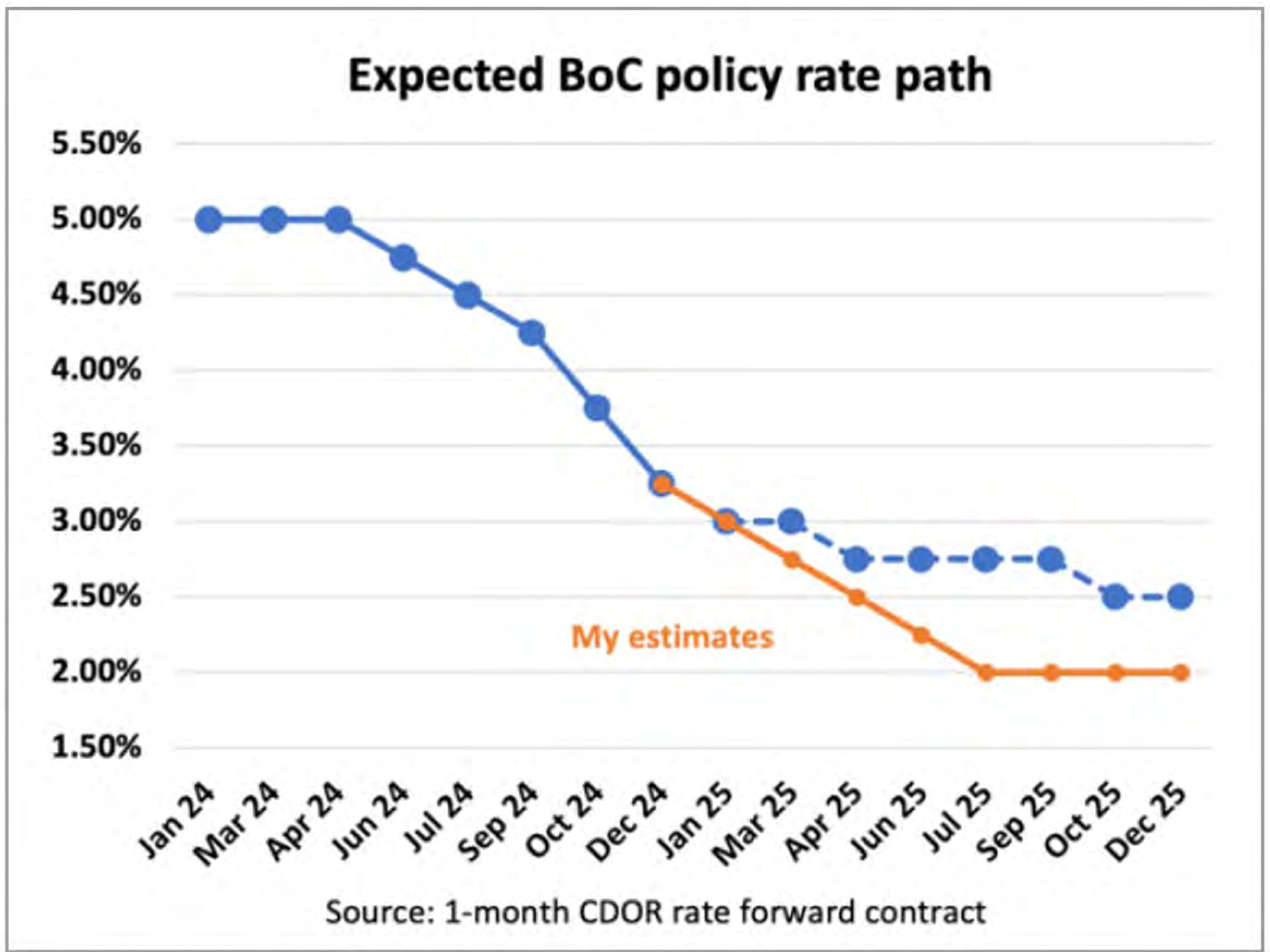


Importantly, because the bond market (and hence fixed mortgage rates) ran in front of the Bank of Canada, it means that the recent jumbo interest rate cuts have only moved variable rates. Fixed rates are now effectively unchanged since September in spite of 100bps of cuts over that time.

But since fixed mortgages were priced way below variable, it means that the BEST mortgage rate on offer has really not declined over the past 4 months and remains at a level that would cause a ~35% monthly payment increase to borrowers renewing this year and next:



All of this means the Bank of Canada still has work to do. Markets are expecting a terminal rate at 2.5% by October. I think that's still too high, but the data has forced a rethink of the likely rates trajectory. I've updated my thinking below. Clearly 50bp cuts are much less likley for the time being, but we should still expect a steady string of declines until we get to 2% that I think will be necessary to cushion the economy from the worst of the rates fallout.



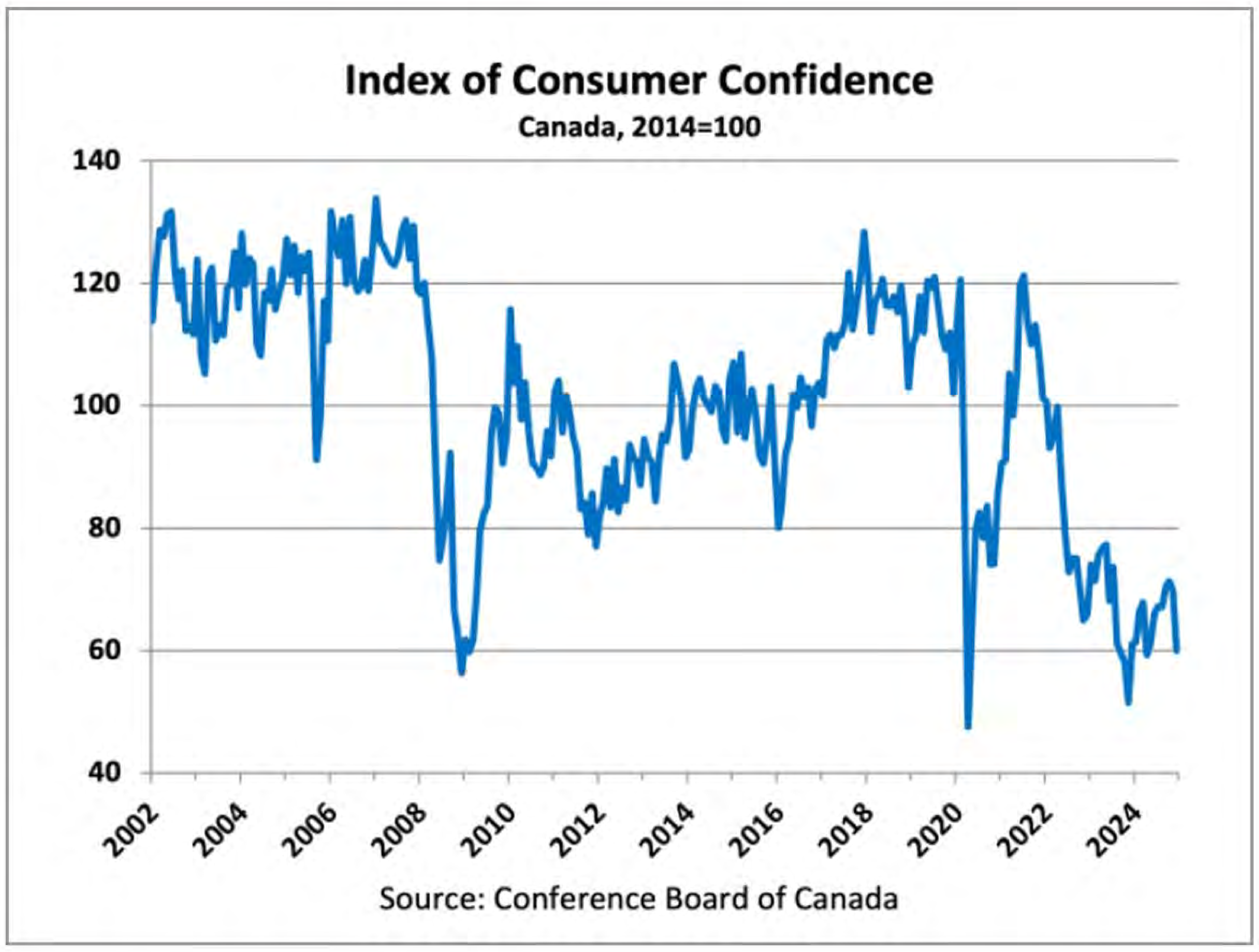
2) *Toronto: Unexpected decline in sales, but watch those seasonal adjustments*

Word of caution on seasonal adjustments

December housing data is always volatile owing to the fact that it is the lowest month of the year for transaction volumes and it's prone to delivering bouts of nasty early winter weather that can easily push seasonally adjusted sales +/- 5% from just one winter storm.

For these reasons, I'm generally hesitant to look for signals in December and January data. However, it's hard to gloss over a decline in home sales like we just saw in the Greater Toronto Area, particularly when it coincided with (or perhaps confirmed by) a marked decline in Canadian consumer confidence since mid-November, notably driven by deteriorating job security and a weakening outlook for real estate prices as discussed in the last Edge Report.

As a reminder, the Conference Board of Canada reported a 10 point drop in their confidence index in December, the largest decline since August of last year. That confirmed an earlier decline in the Bloomberg Nanos weekly confidence index which, following the US election, had posted the steepest 4-week decline since the COVID lockdowns:



From the press release[2]:

The proportion of Canadian households thinking that their current financial situation is better than a year ago decreased 1.7 percentage points to 11.7 per cent in December. At the same time, the share of those believing that their current finances have worsened compared to last year rose 3.9 percentage points to 33.9 per cent.

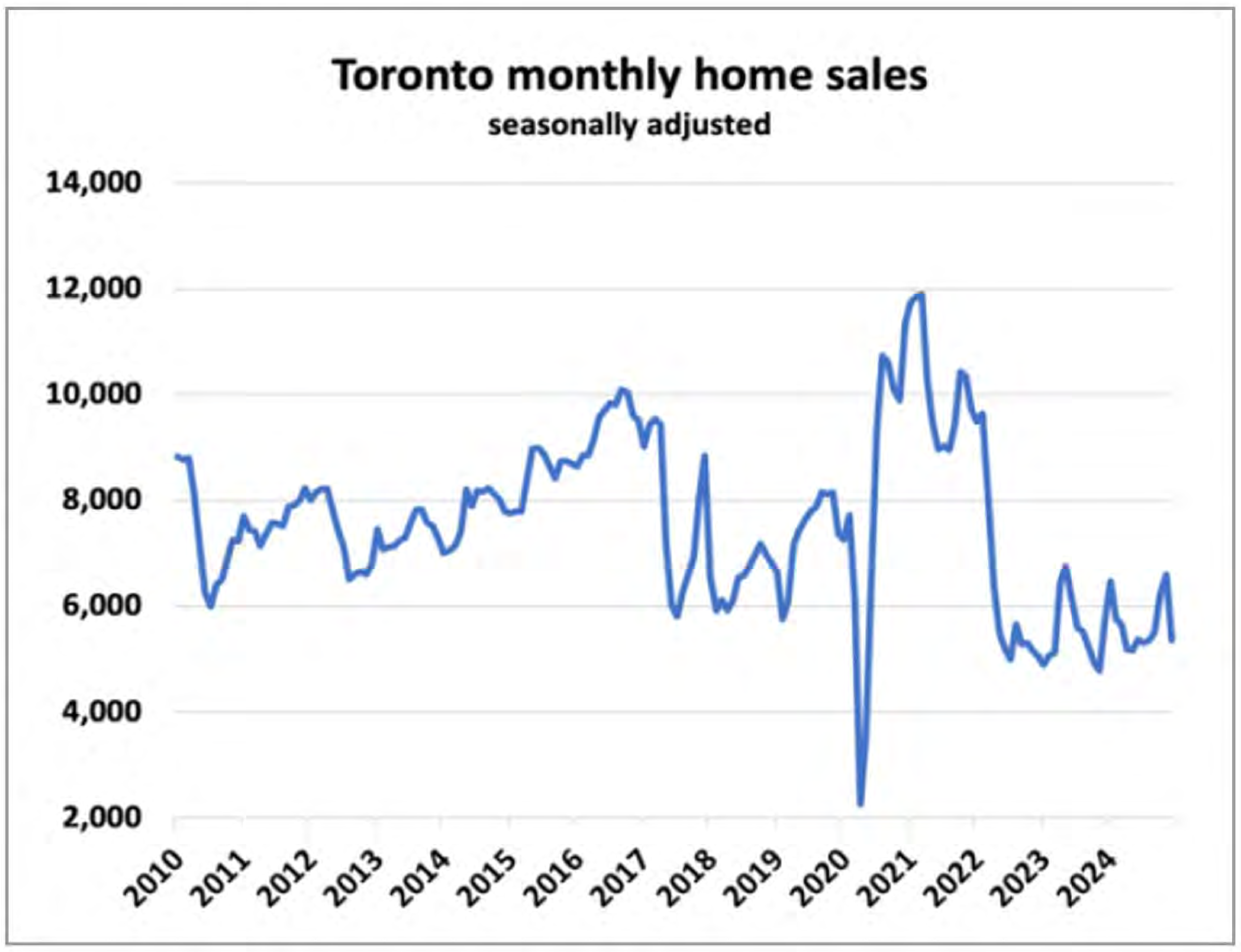
Compared to last month, the proportion of respondents expecting more jobs over the next six months fell to 5.9 per cent, the lowest share since 2009, reflecting a decline of 1.8 percentage points compared to November. The pessimism is likely related to a rising unemployment rate as interest rates cooled off economic growth.

Respondents also remained hesitant to make a major purchase, as the share who felt now was a good time fell 1.4 percentage points to 14.4. A downward trajectory in interest rates combined, an uncertain global environment and a weak economic performance are likely to blame.

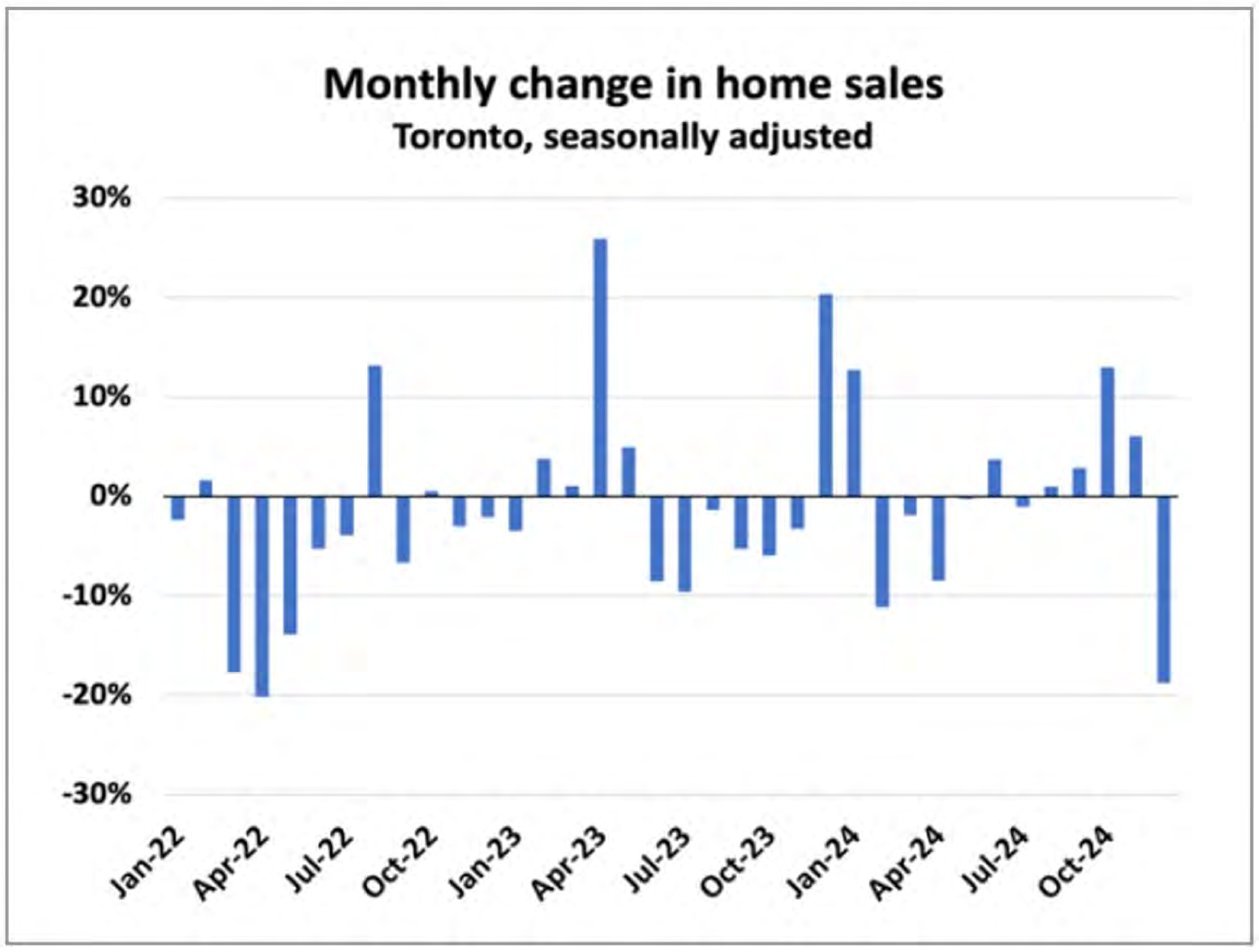
So it shouldn't be a surprise that sales came in soft, but the size of the decline caught everyone a bit off guard and was likely magnified by larger seasonal adjustments this time of year.

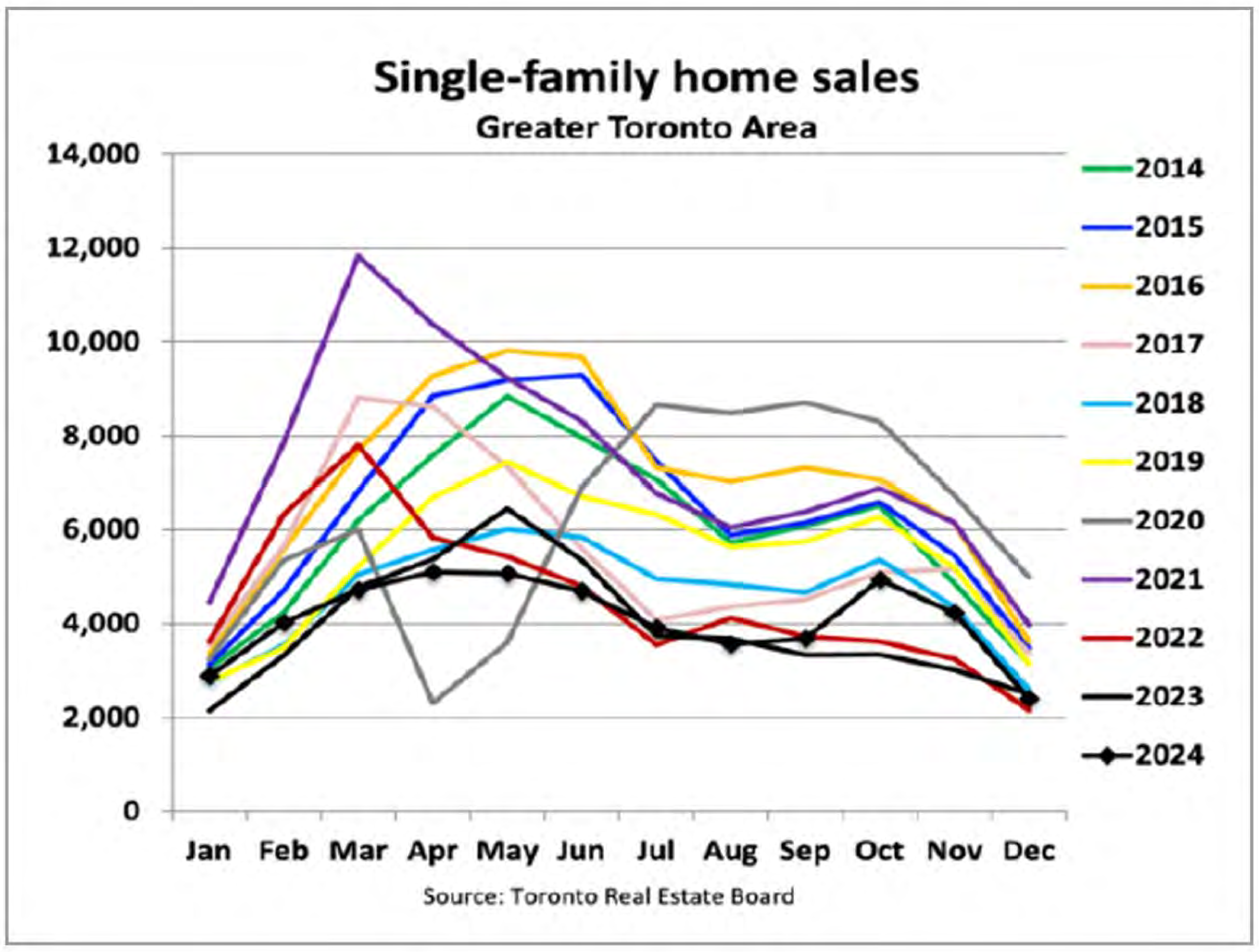
Sales tumble

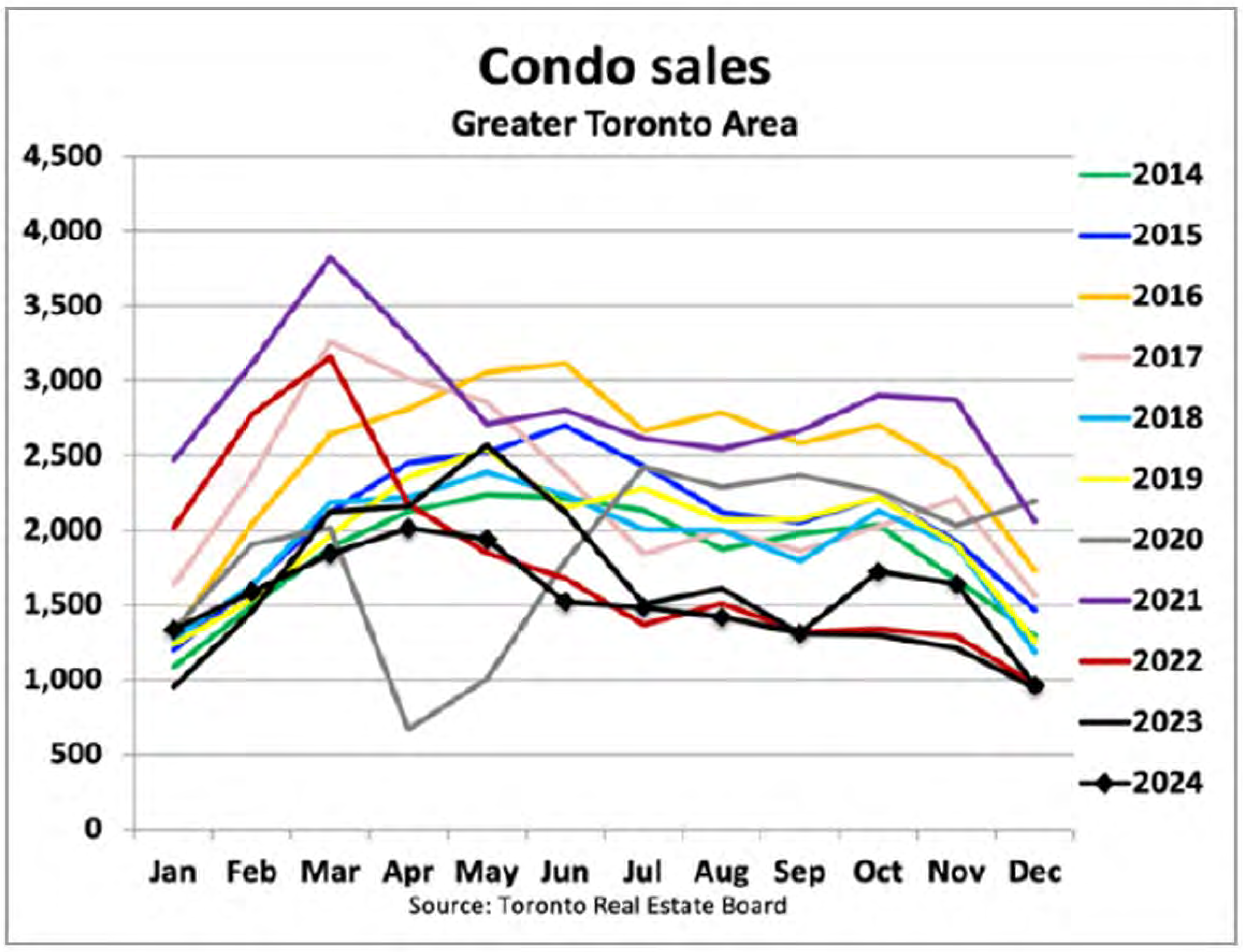
The 18.7% monthly decline in seasonally adjusted home sales across the Toronto region in December was the largest in nearly 2 years. To add insult to injury, there were also solid downward revisions to 5 of the prior 6 months to boot, albeit with a upward revision to the November numbers:



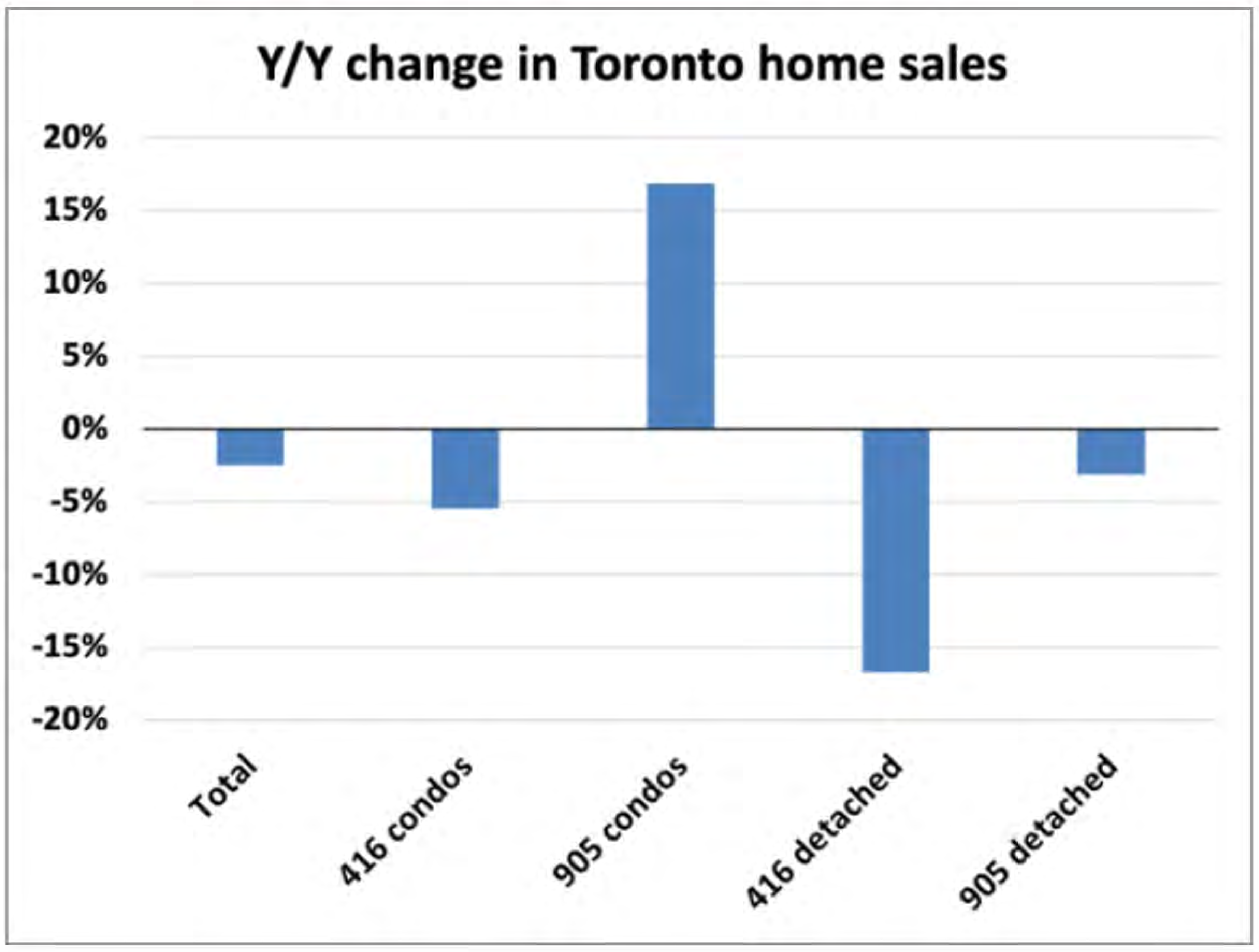
[2] https://www.conferenceboard.ca/insights/index-of-consumer-confidence-for-december-2024/

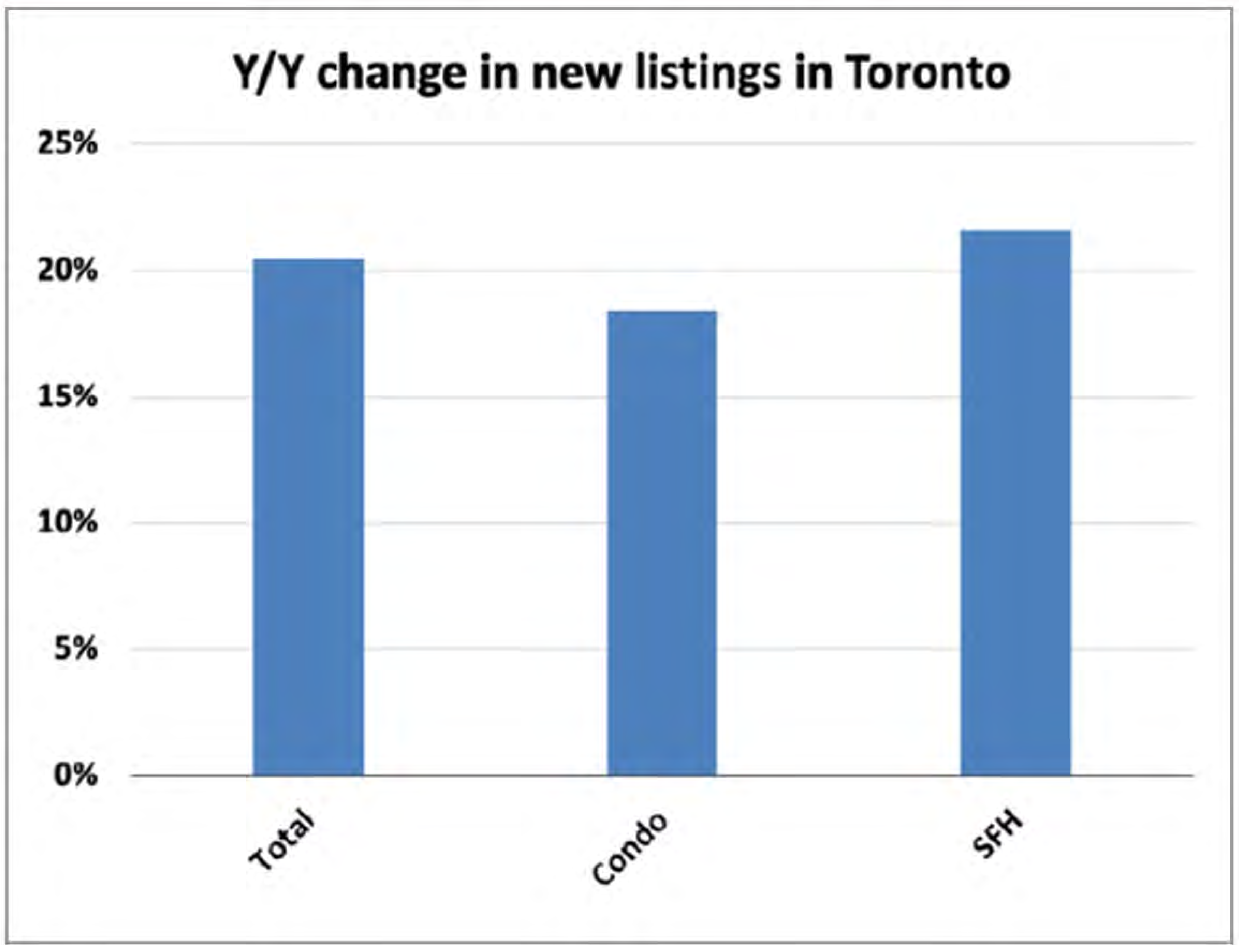






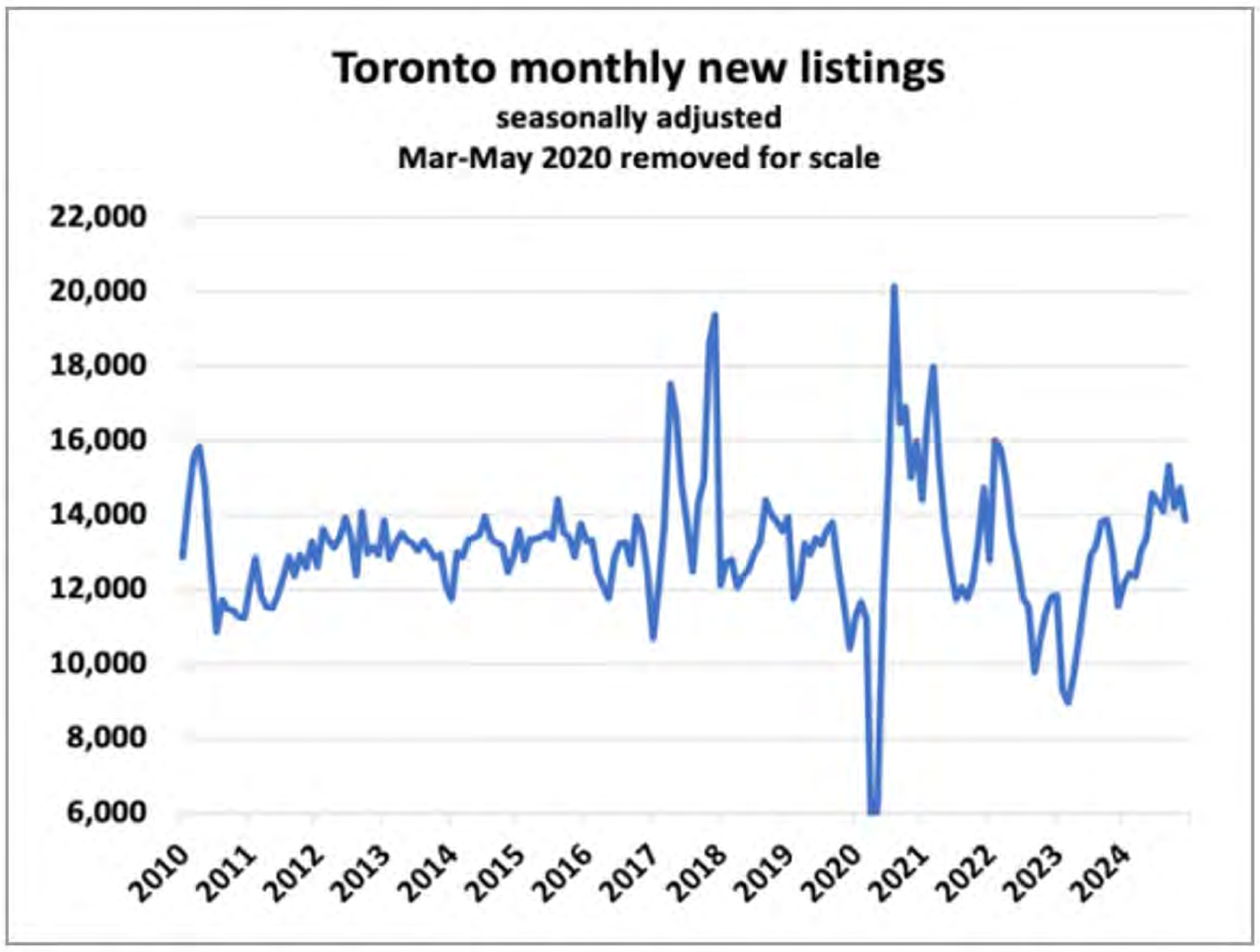
The sales decline was particularly pronounced in the 416 (City of Toronto proper) where detached sales fell to levels last seen in the 1990s while condo sales hit the lowest December levels since the 08 Financial Crisis. Perhaps the financial centre has just been quicker to grasp the potential magnitude of the looming Trump tariffs and are a bit more spooked?





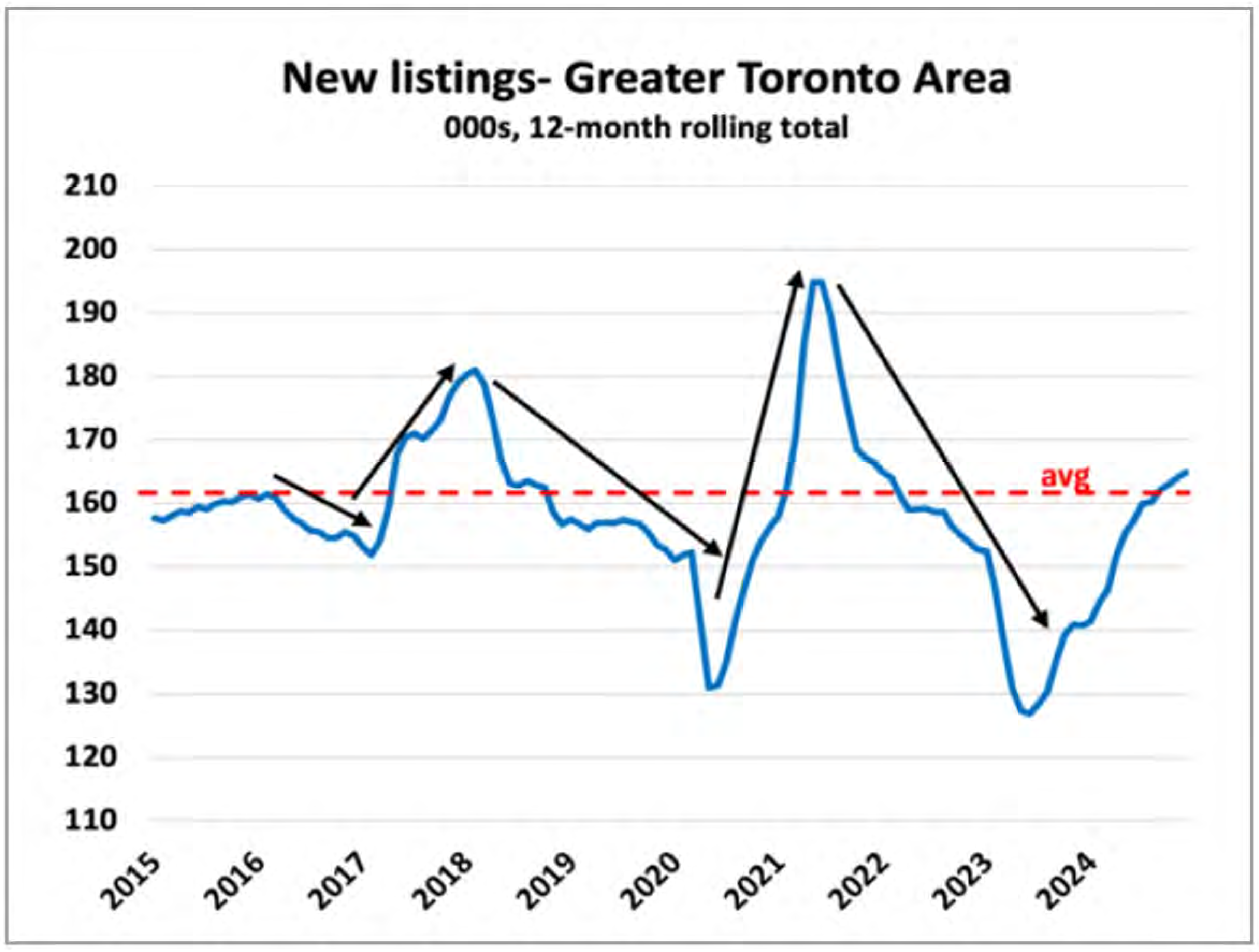
New listings fall

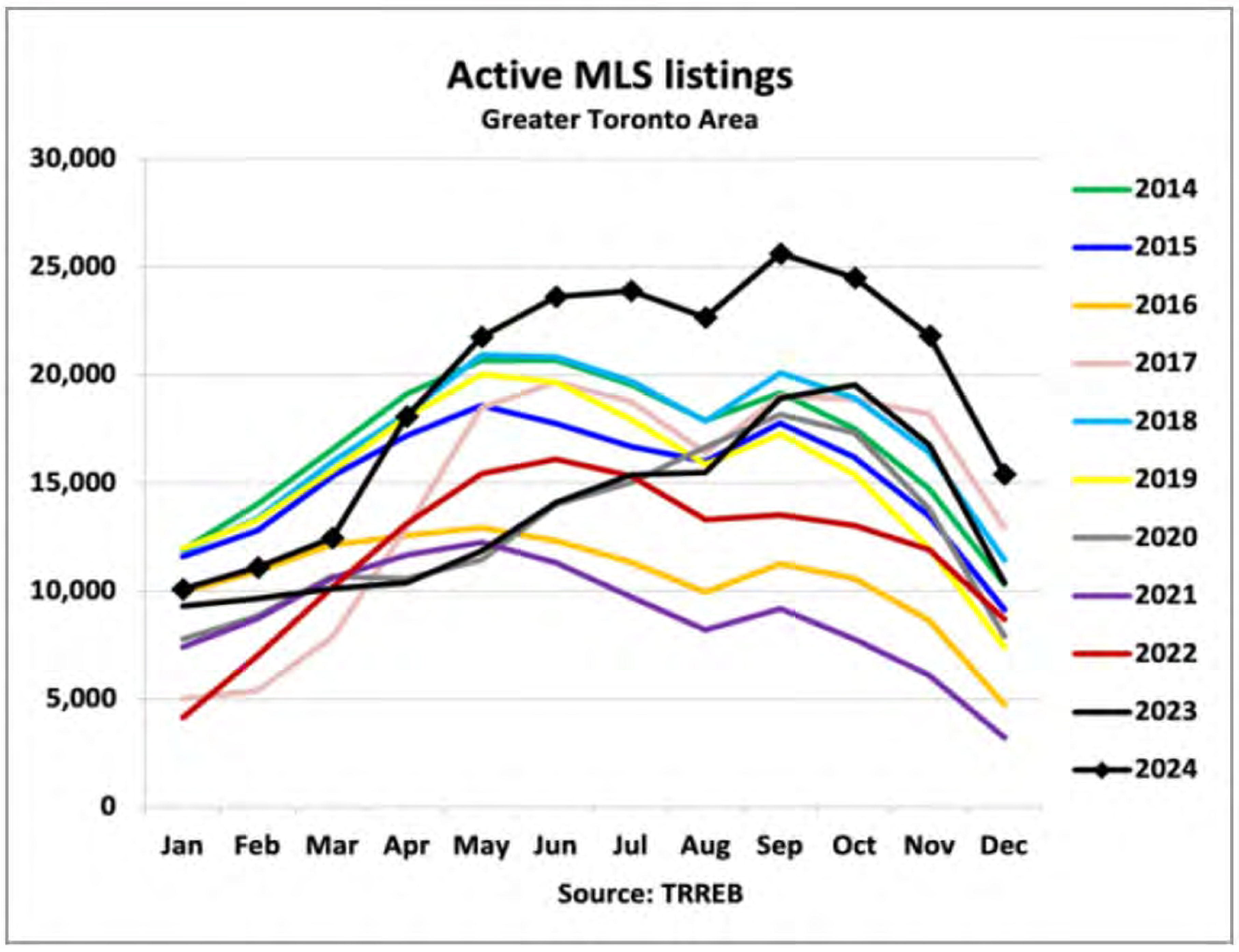
New listings were lower by 5.8% m/m but were still 20% above year-ago levels.



An early look at 2025 trends points to a major surge in supply to start the year. Realtor Rob Marsiglio reports a 63% y/y increase in new listings over the first 7 days of the year. It's the first time since 2009 that we've seen more than 2,000 new listings up to Jan 7:

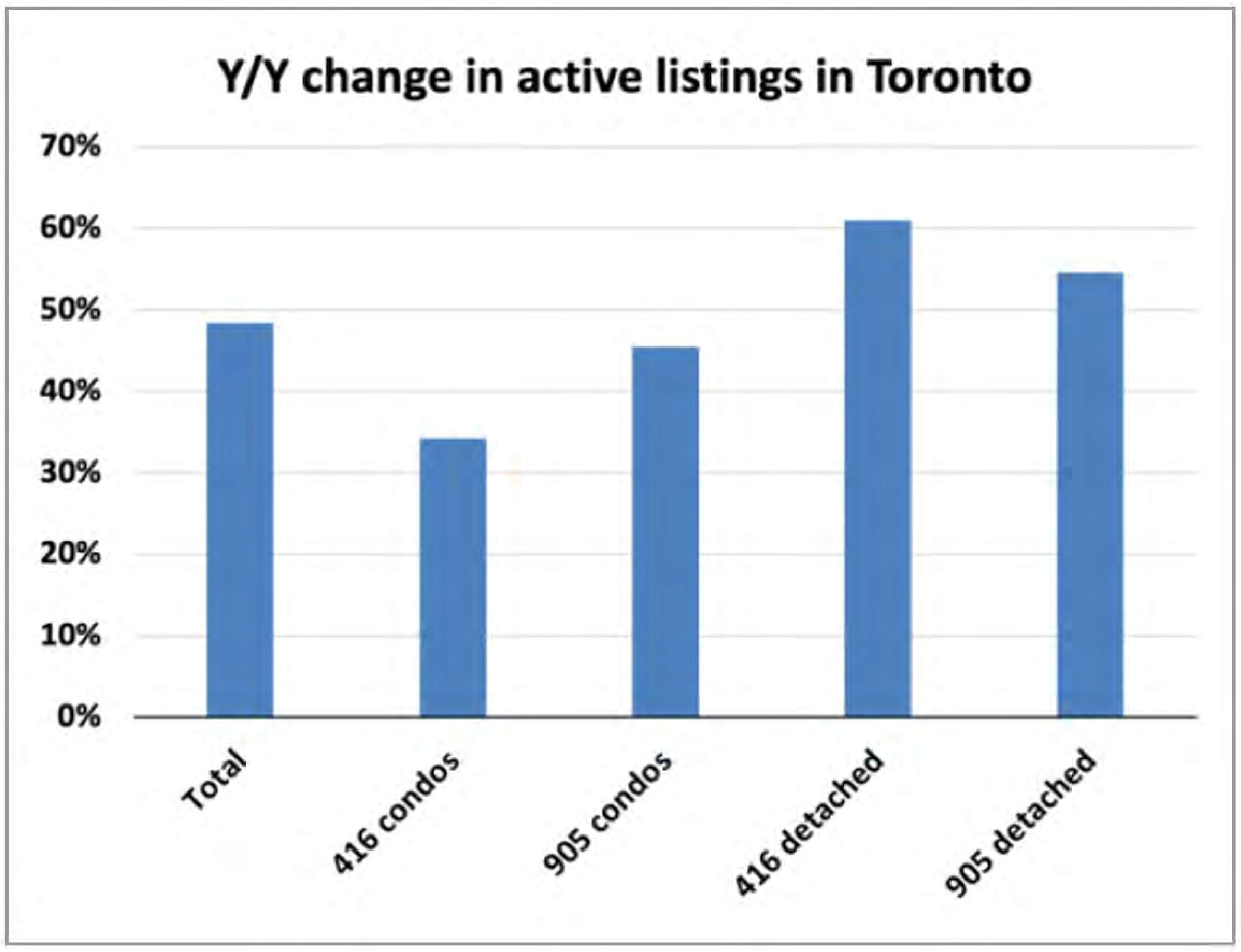
I expect we'll see a strong flow of listings through 2025. The trend in new listings is extremely mean-reverting. There's a run rate of people who have to sell in any normal year, and when you suppress that for whatever reason, it tends to create a coiled spring. We've just come through over 2.5 years of extremely below average levels of new listings culminating in 30-year lows in early 2023. We're only now poking back above average. It will trend higher right through the year:



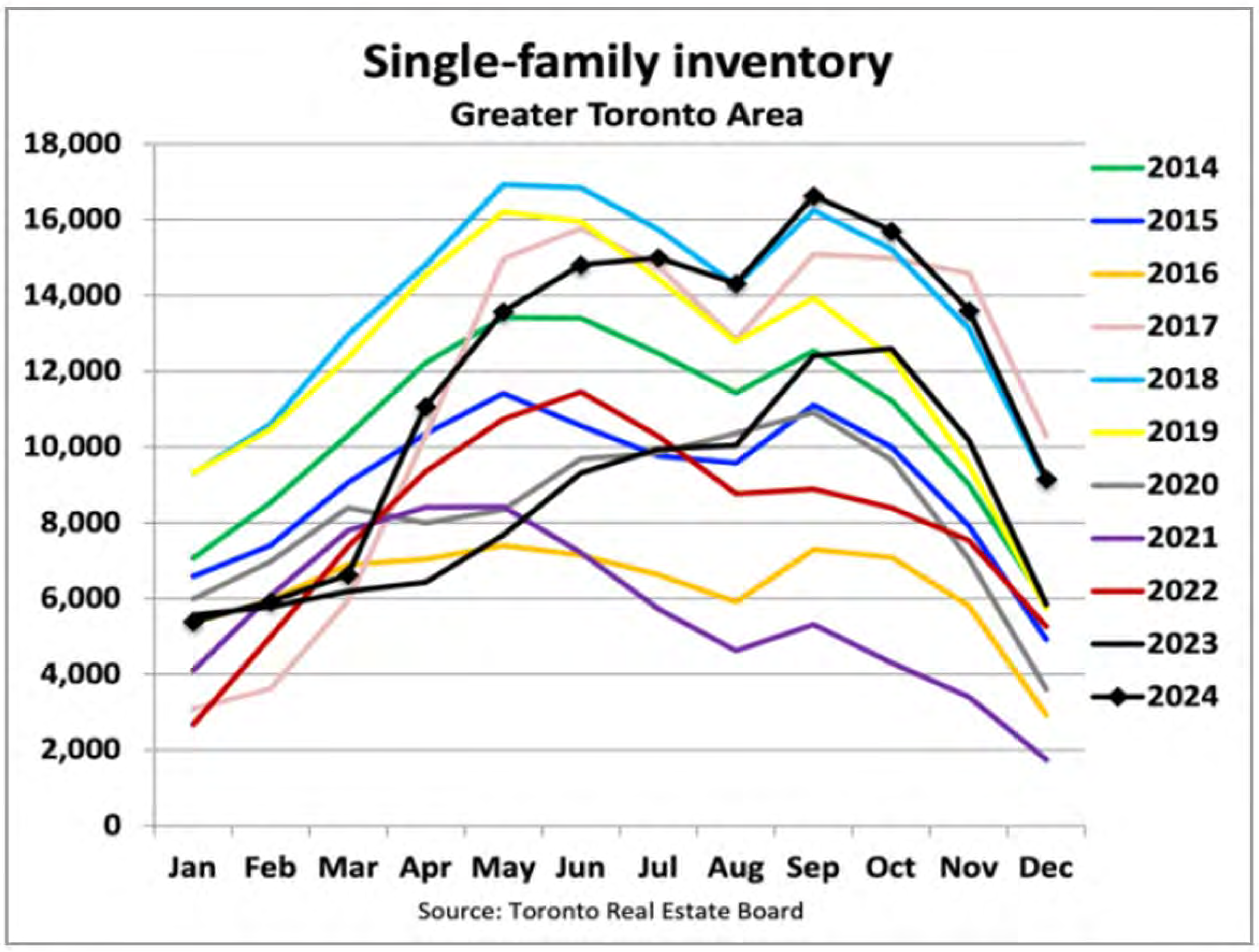


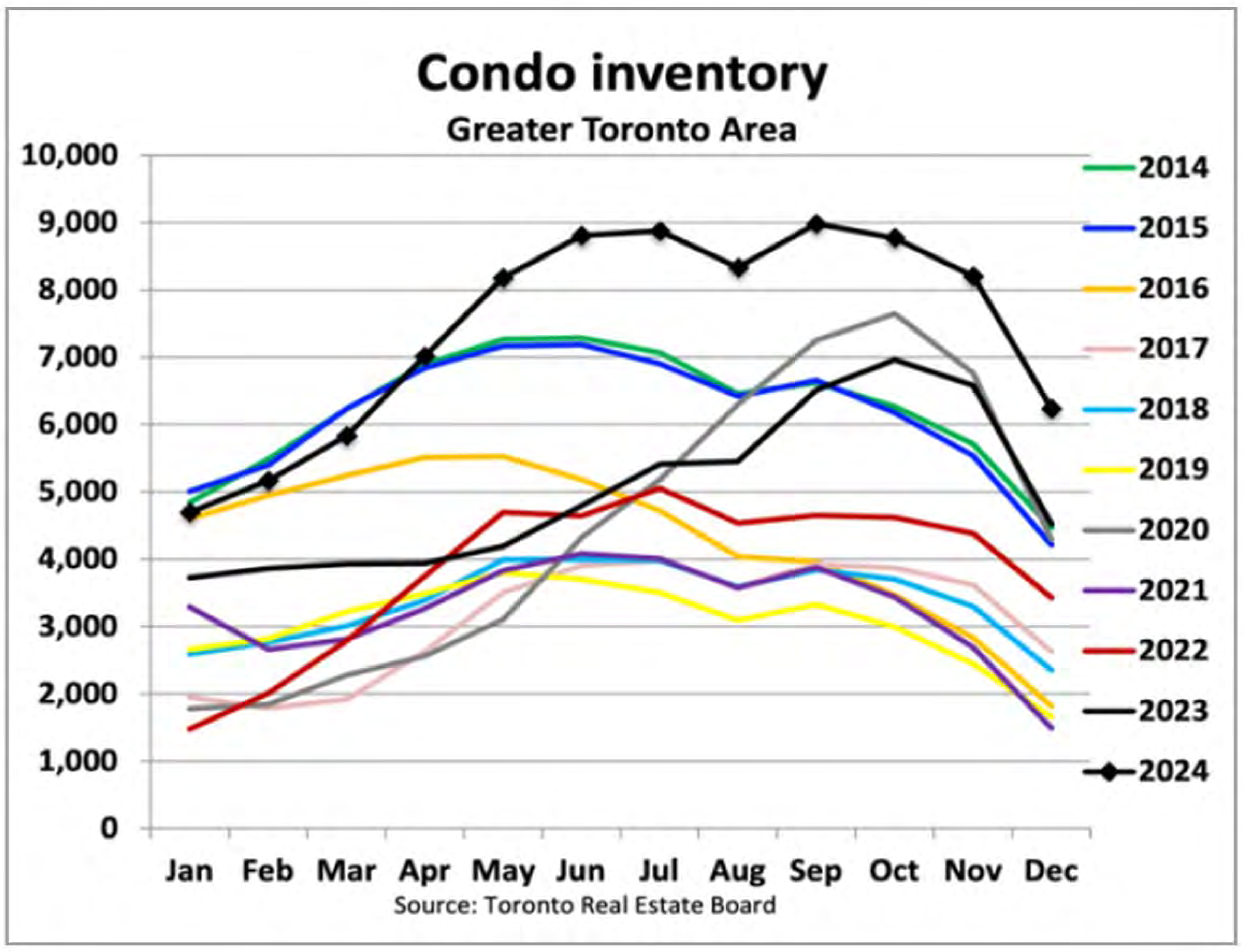
Inventory up 48% y/y

Active inventory was 48% y/y to the highest level of any December since 2008, led by a 60% increase in detached listings in the 416 which were up 60%:



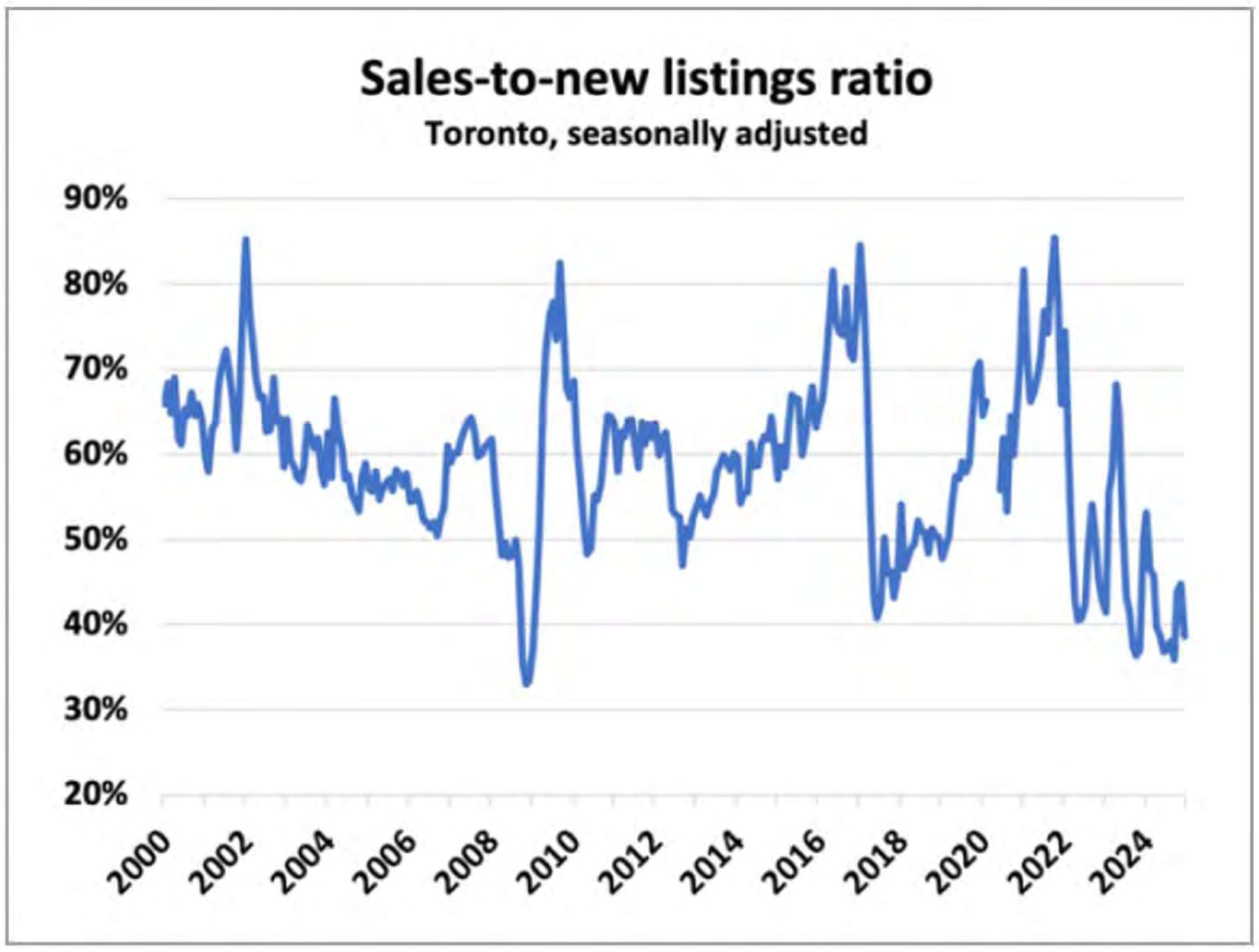
Condo inventory remains at all-time highs, but single-family listings slipped back below 2017 levels last month:





Sales-to-new listings ratio slips below 40%

The sales-to-new listings ratio slipped back below 40% in December, a level that has typically preceded declining prices in the past:



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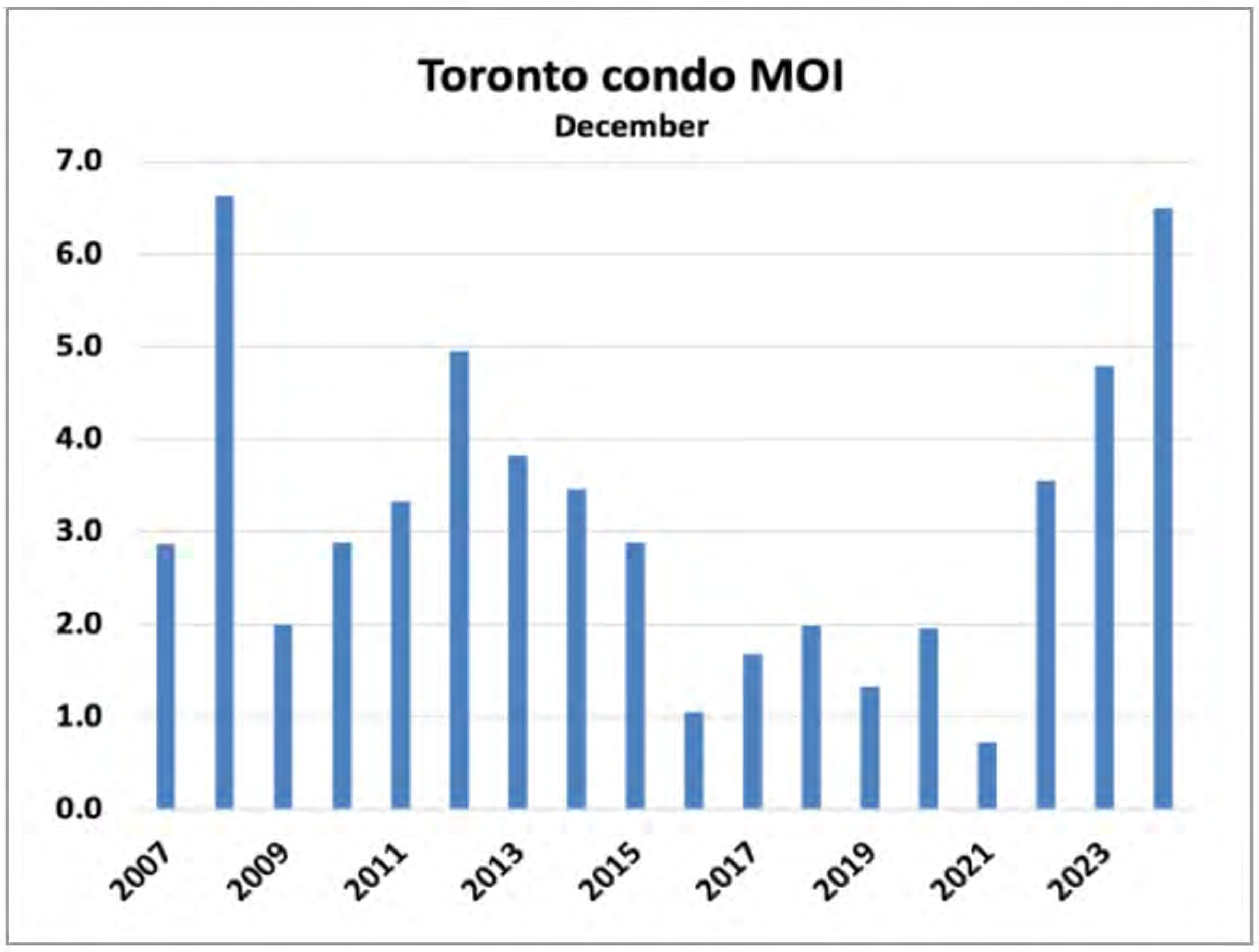
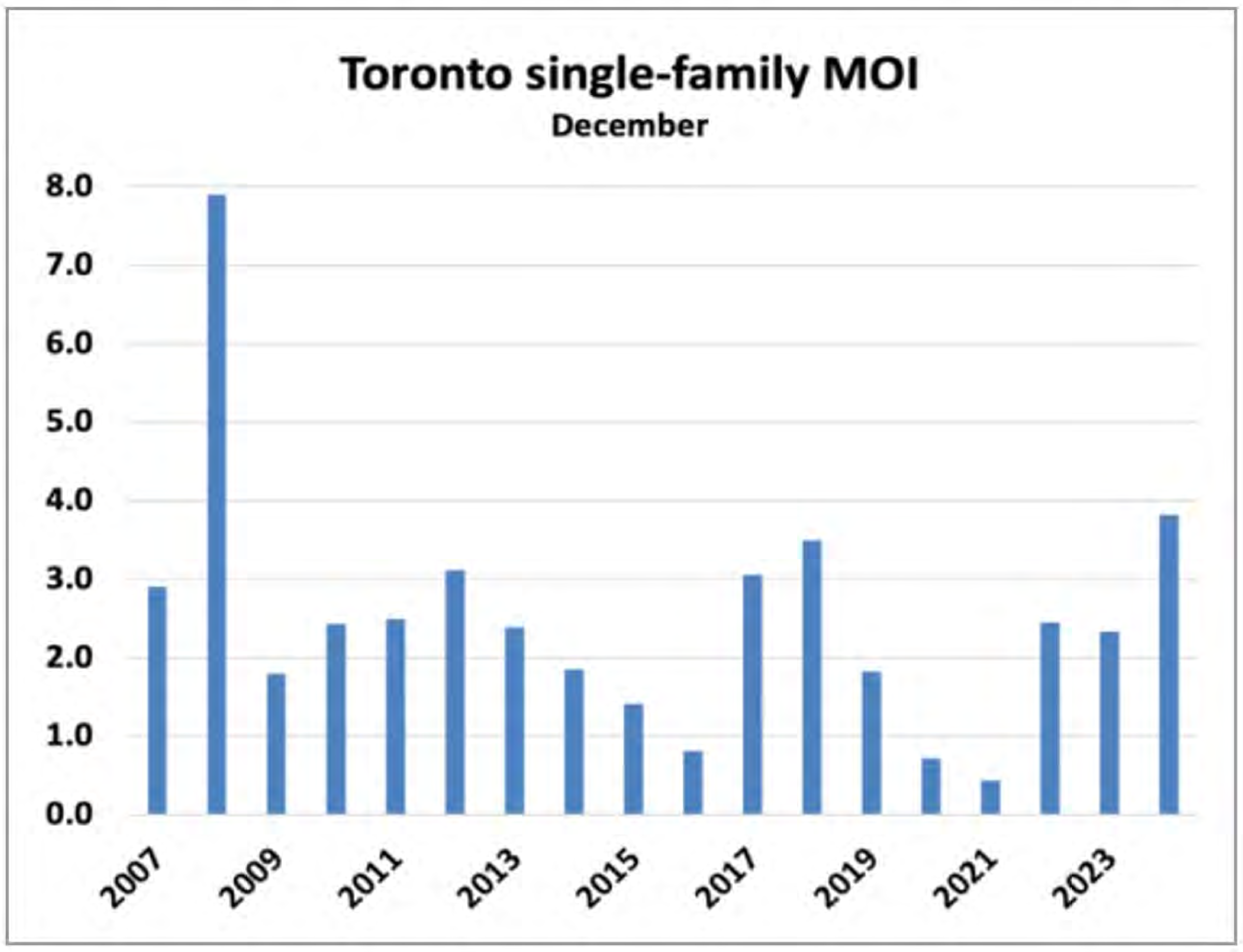
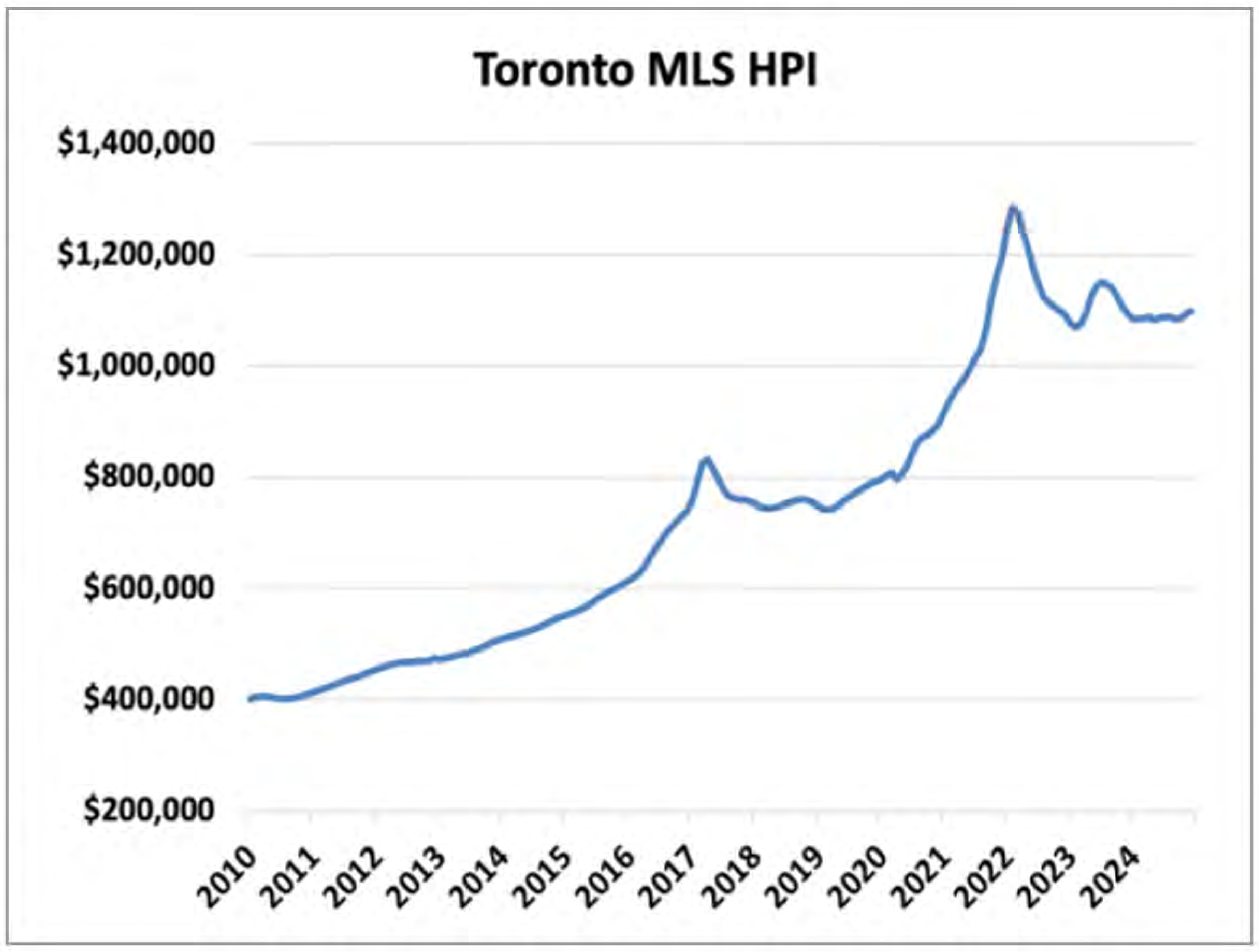
Months of inventory was at the highest level since 2008 for both condos and single-family homes in December:

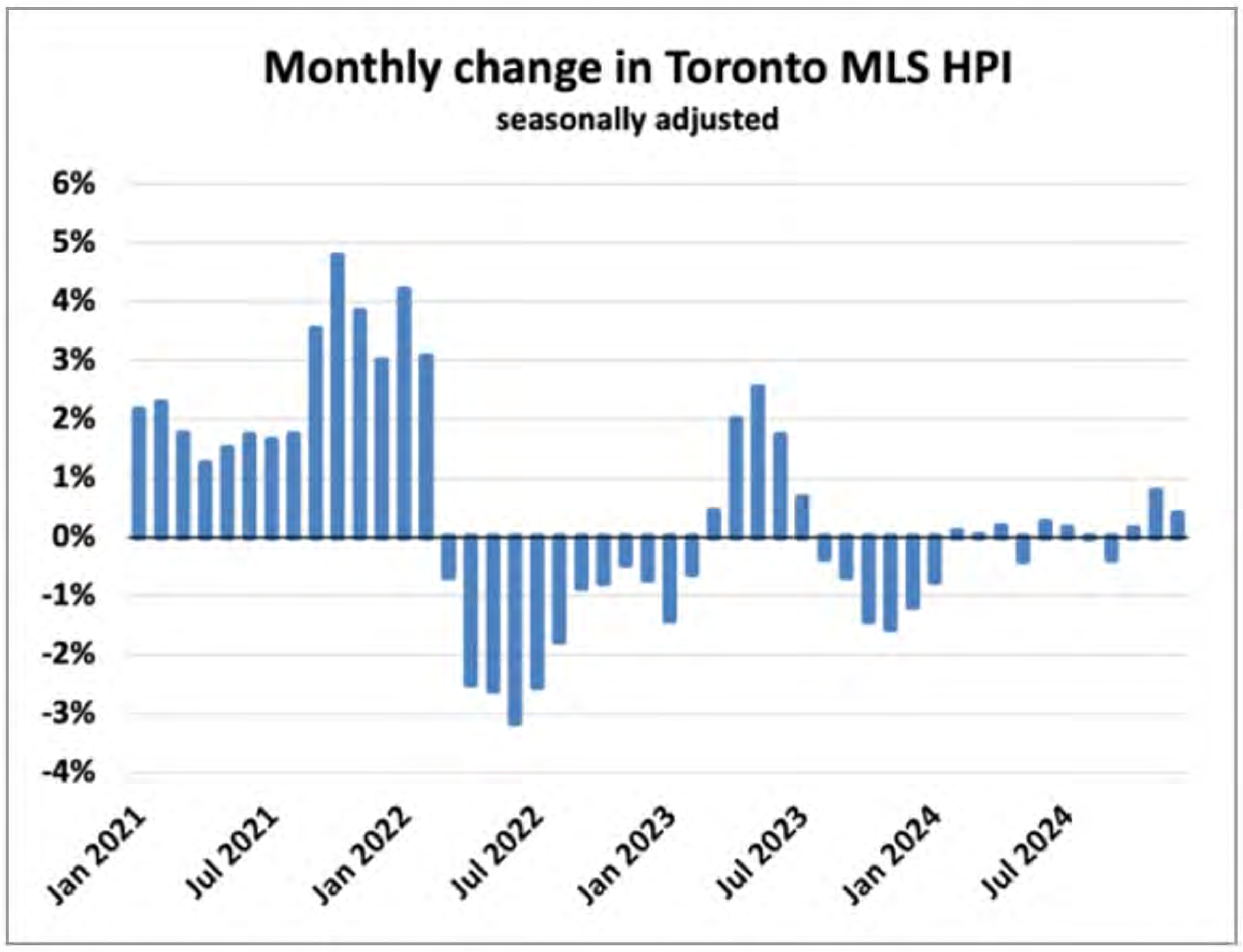




Prices jump

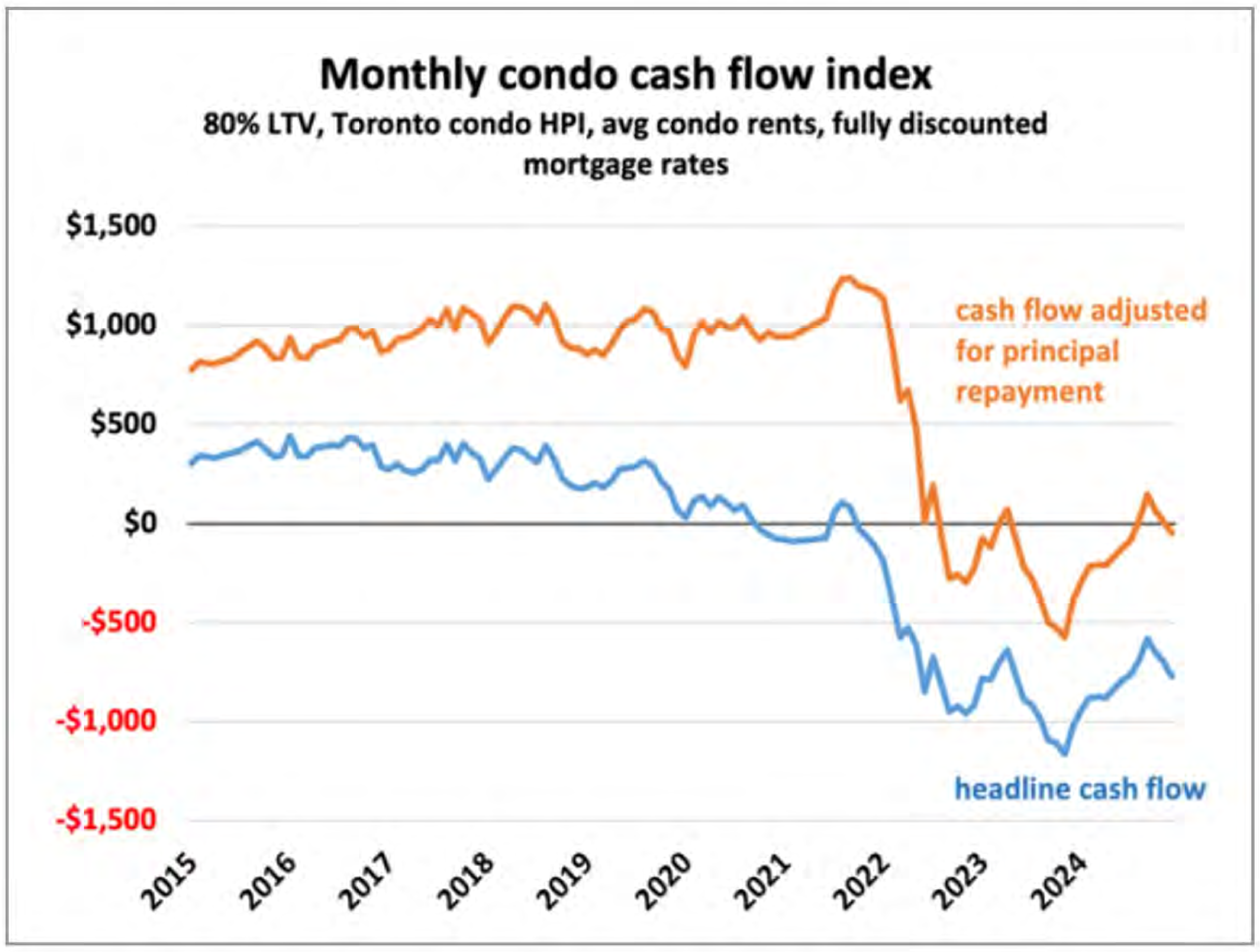
In spite of a deterioration in market balance, the reported House Price Index ticked up 0.4% m/m off a November level that was downwardly adjusted in November. Curiously, seasonally adjusted average house prices have slid lower in 4 of the past 5 months, average days on market has expanded, and the average sale price-to-list price just fell to the lowest level of the past year last month. So we have a situation where all indicators are pointing to softening prices….except the index itself. That makes me wonder if we may see downward revisions in coming months if the market doesn't find its mojo.



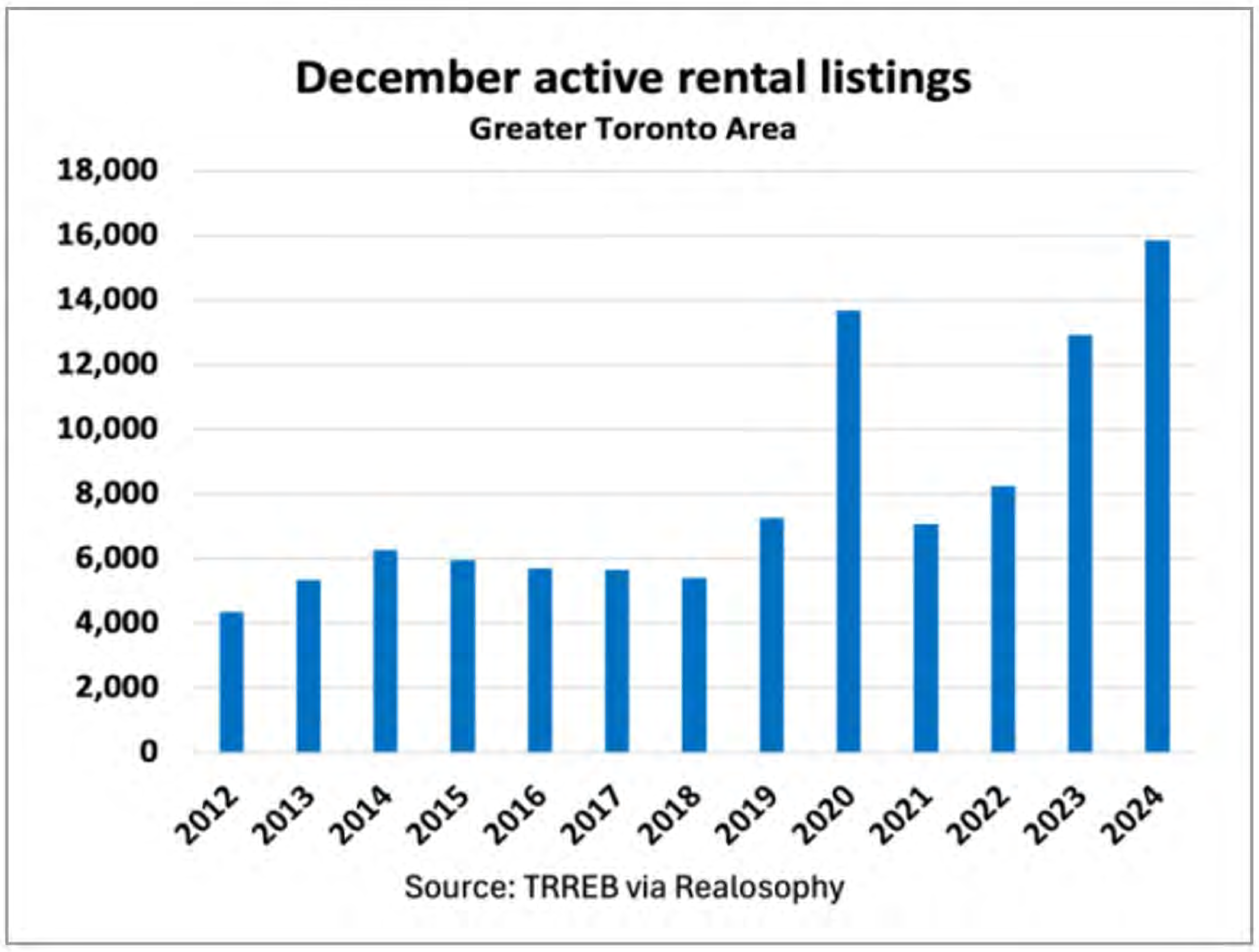


Condo rents decline

I've updated my monthly condo cash flow index to reflect the LOWEST available mortgage rate as opposed to the average of discounted fixed and variable rates as I had been using previously. I think this gives a better view of TREND in potential cash flows on new purchases over time. As you can see, investors buying today at 80% LTV are seeing steep negative cash flow, but are effectively breaking even once principal repayment is factored back in. That's a sharp improvement from 2023 and early 2024 when cash flows were deeply negative even inclusive of principal repayment:



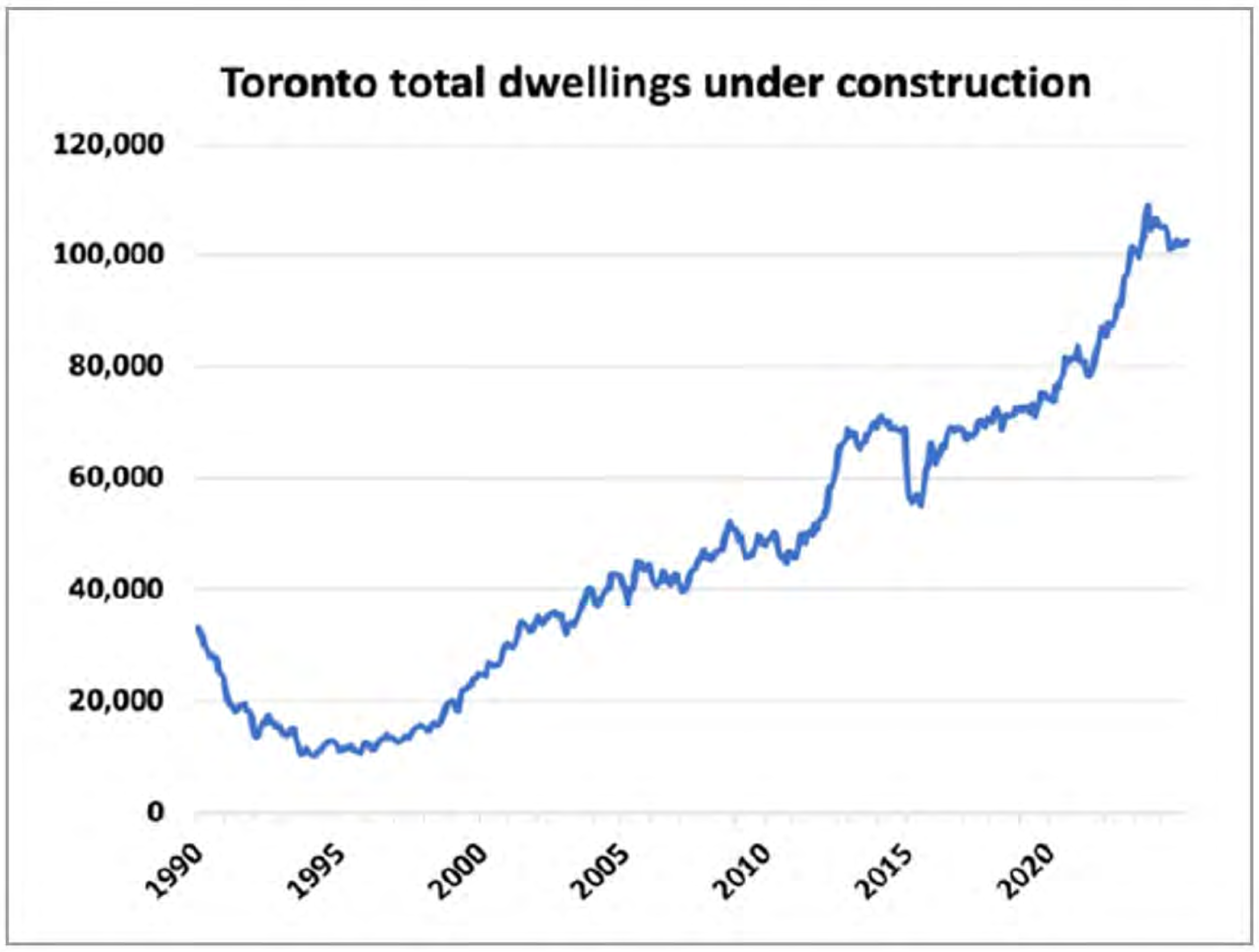
The issue now is one of supply. We've got a lot of active rental listings on the MLS system at the moment relative to any other time in the past decade, and we're seeing a steady grind lower in average condo rents as a result.



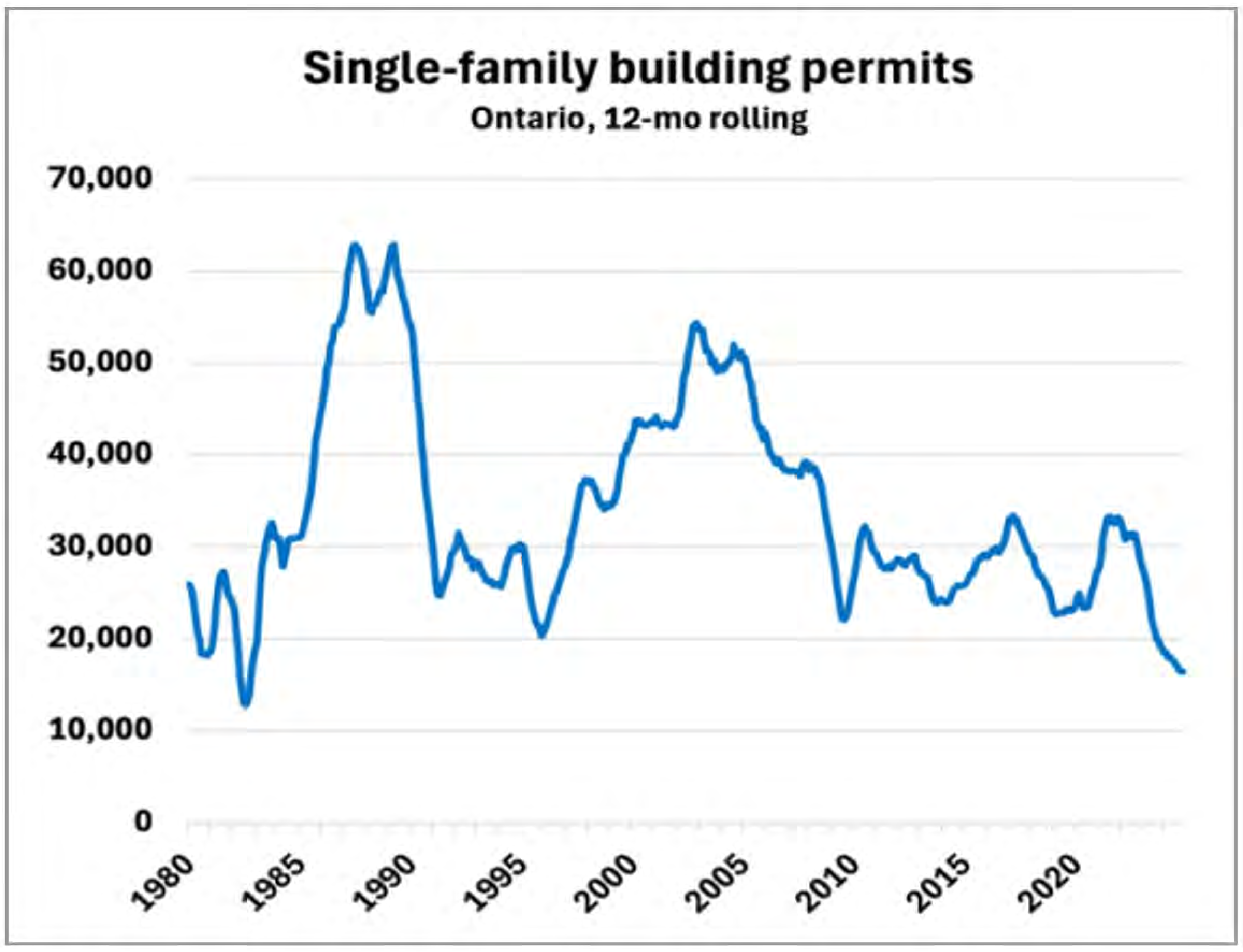
Unfortunately I think we'll have a soft rental market for most of the next year while we adjust to an inflow of supply in both condos and purpose-built rentals while temporary resident growth- a key source of rental demand- goes negative.

100,000 dwellings in the construction pipeline... but

The number of dwellings under construction across the GTA rose 0.6% in November to hit 103,000 in total, including 84,000 "homeowner" dwellings that represent potential future resale supply:

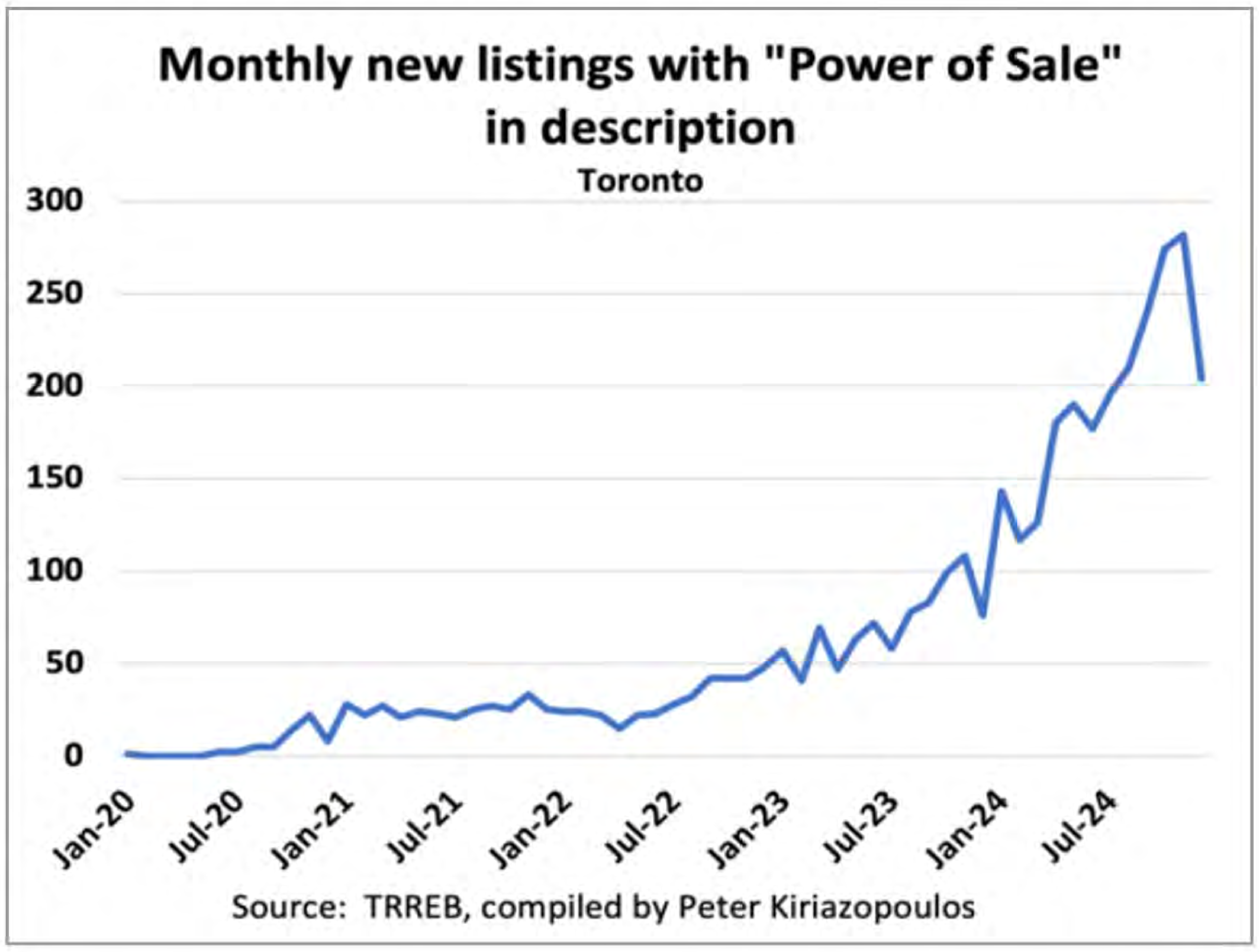


However, only 11,500 or 11.3% of those were single-family dwellings. That's a record low share of total construction. Couple that with the ongoing decline in permitting activity and it points to serious long-term supply constraints that will emerge when this cycle eventually turns and buyers re-engage:



Power of sale listings continue to rise

Thanks to good friend of Edge Analytics, Peter Kiriazopoulos, for the ongoing power of sale data. There were 204 new listings with "power of sale" in the description last month, a sharp decline from the 284 recorded in November:

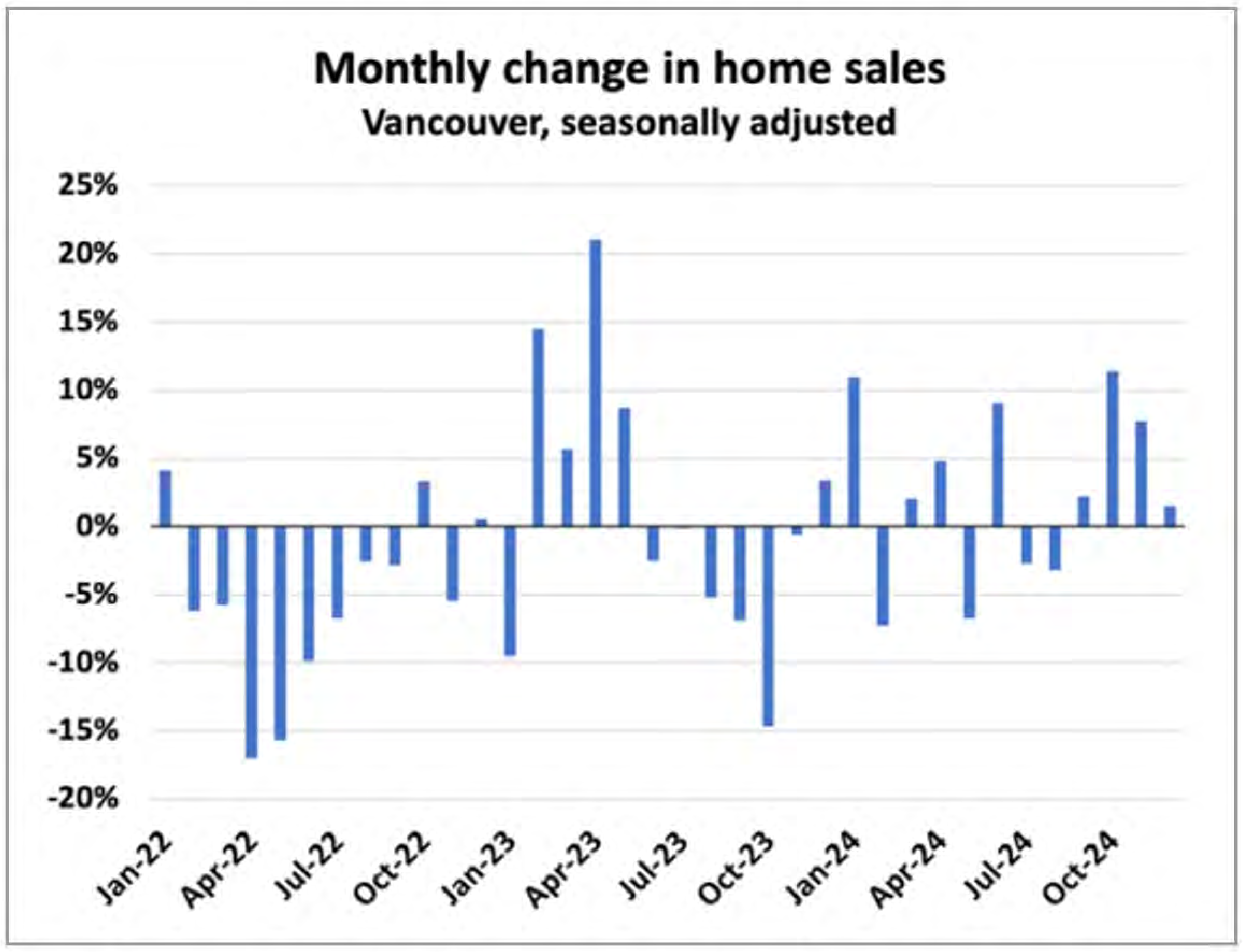


Source: TRREB, compiled by Peter Kiriazopoulos

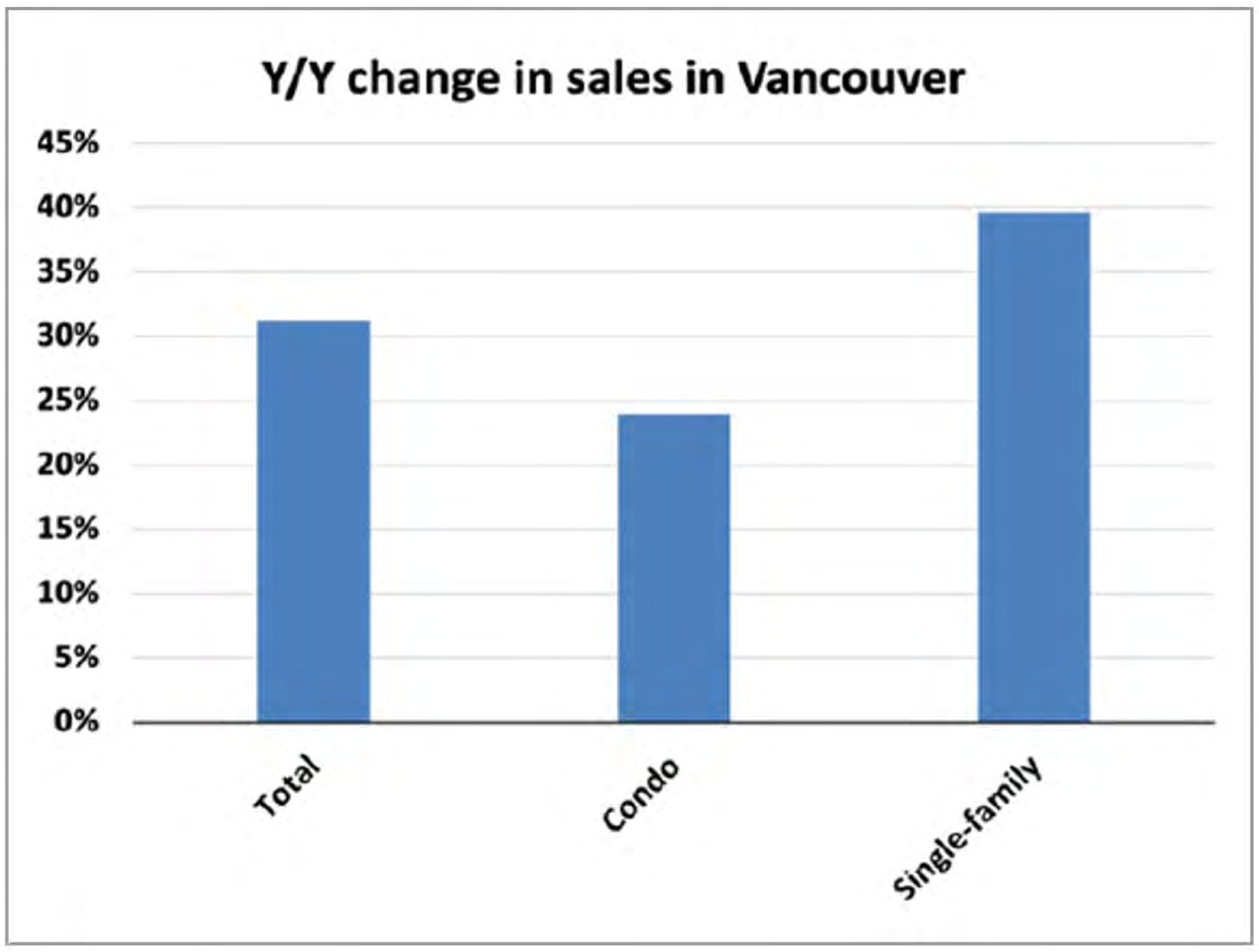
3) *Vancouver: Sales post 4th straight increase*

Demand on the rise

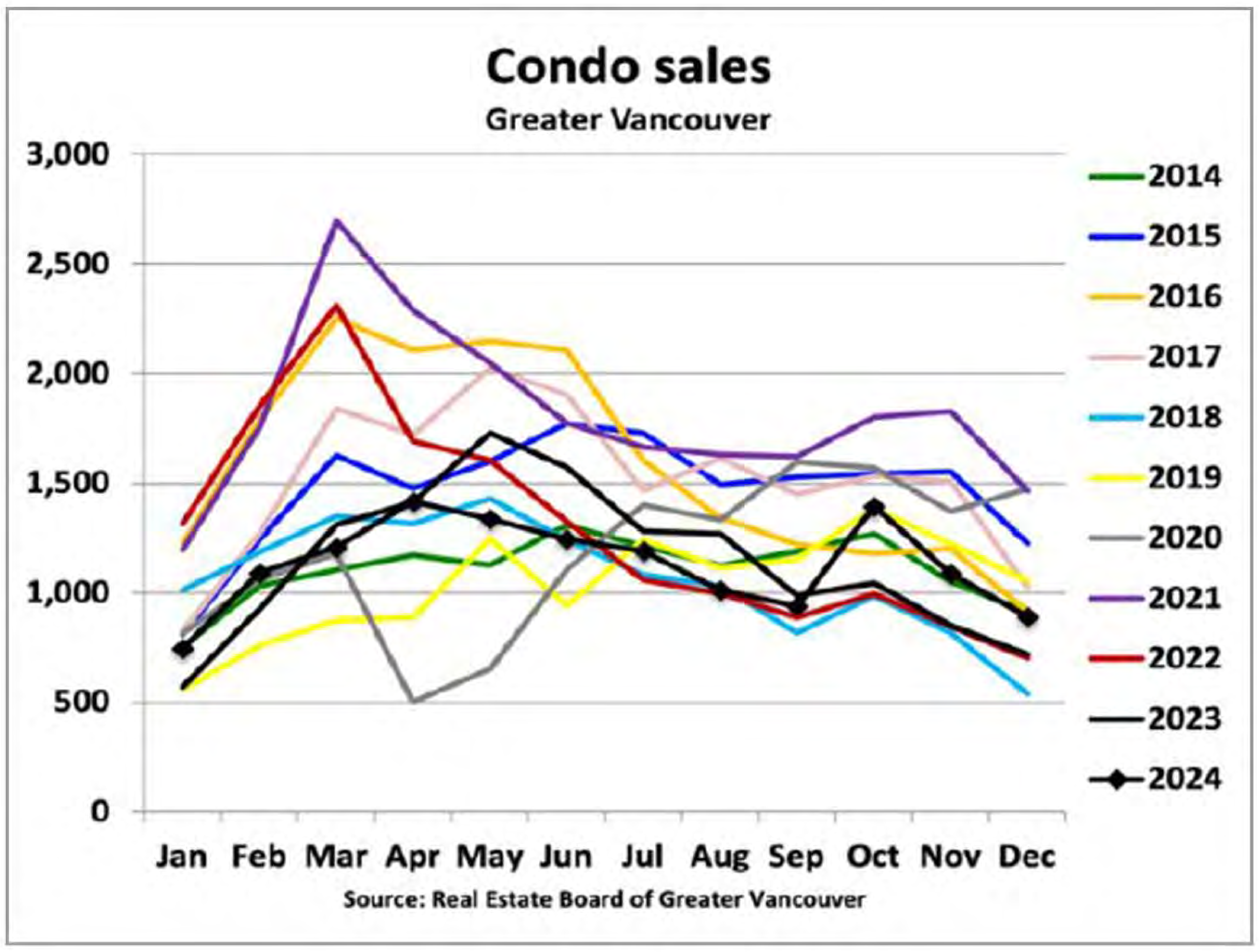
Flash back to last month's Deep Dive report, which flagged a slight decline in Vancouver area home sales in November. That data was revised sharply higher to instead show a 7.7% increase in sales that month, building on the monster 11.4% jump we saw in October. Add on to that a further 1.5% increase reported in December, and we've seen the best 4-month showing for home sales since the spring of 2023. Demand is now running at the highest since interest rate hikes started in Q2 2022:

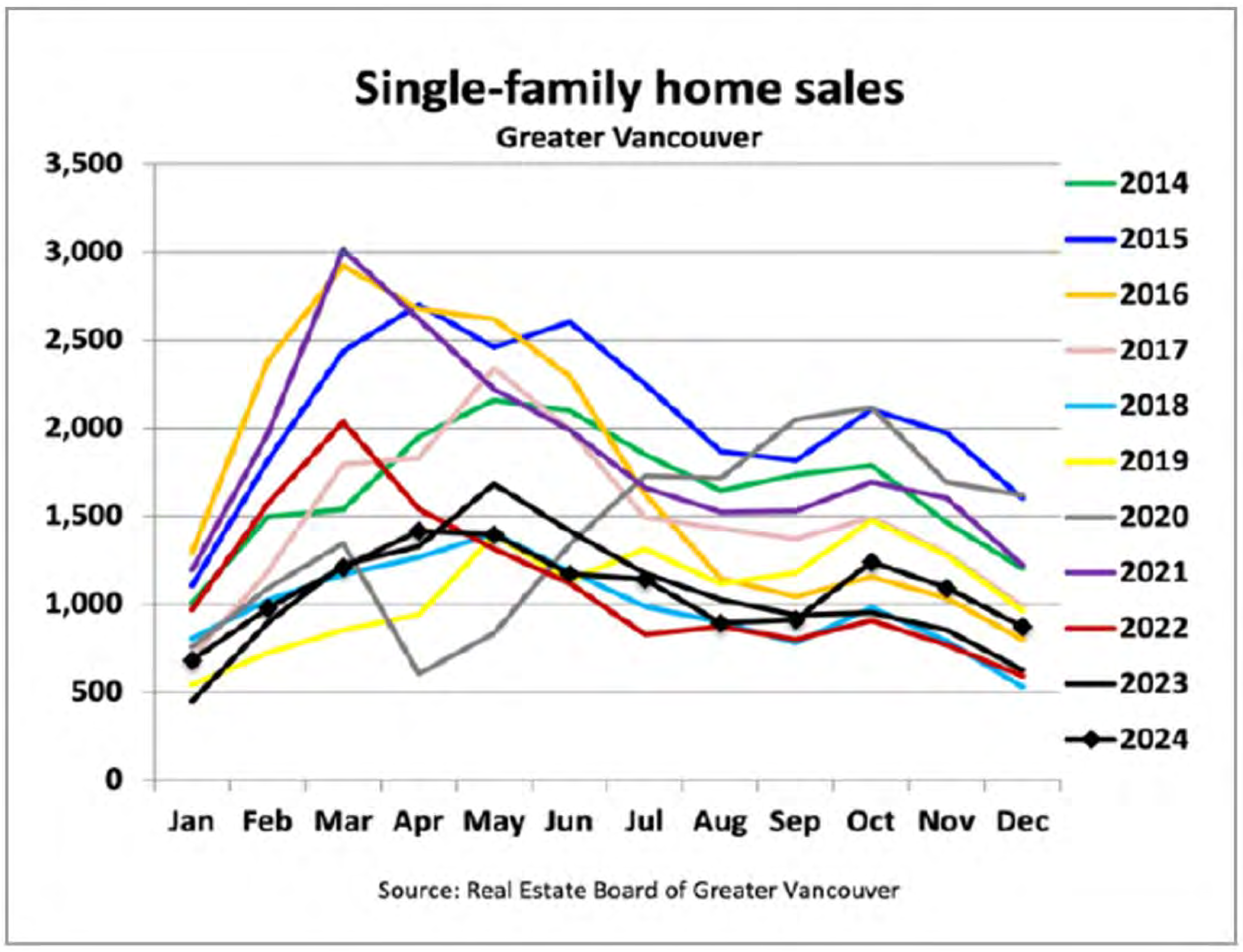


Sales overall were up a massive 31% relative to last year including nearly a 40% increase in the single-family segment:



We're far from setting records for sales in Vancouver, but December was not too far off the decade averages across segments:





New listings fall

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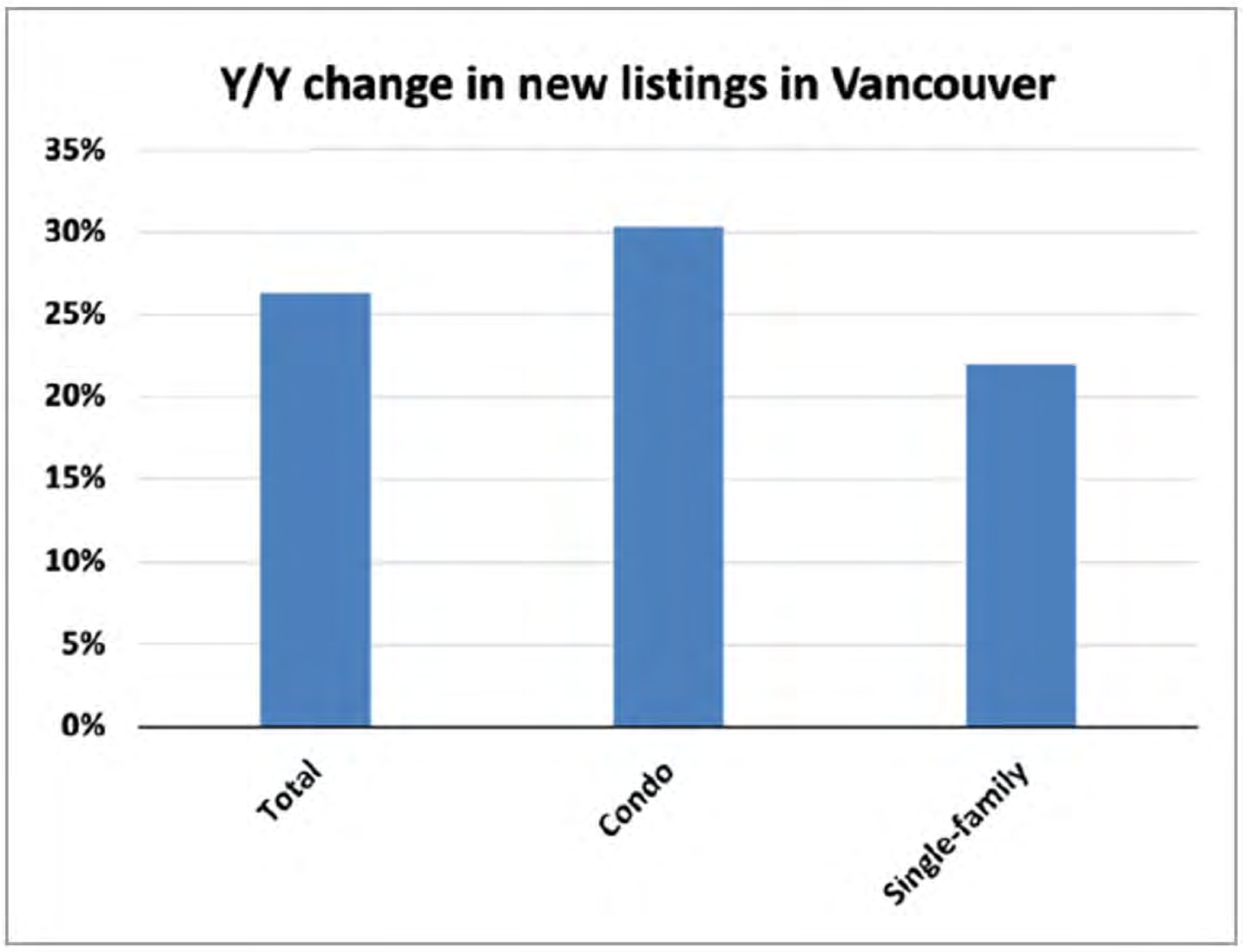
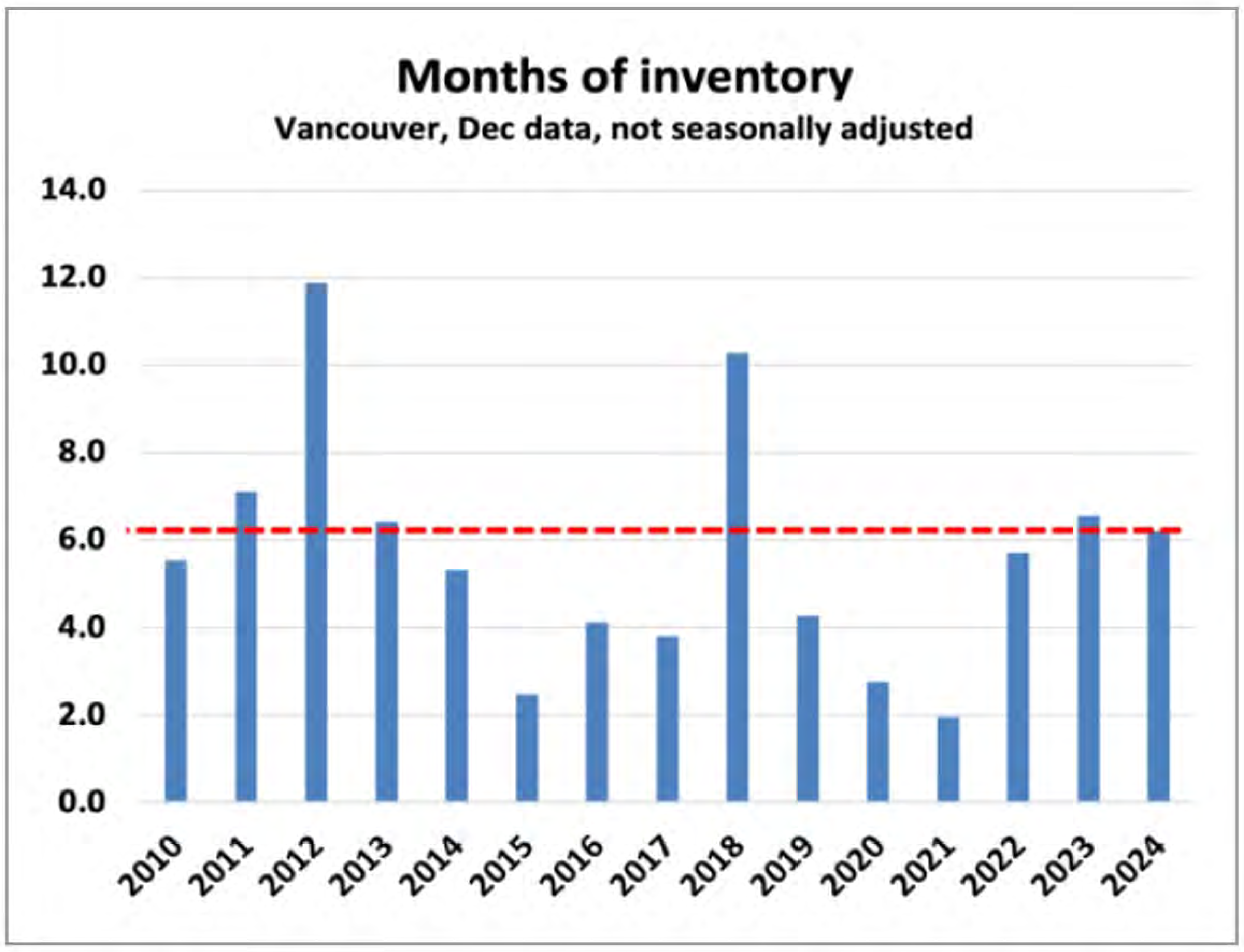


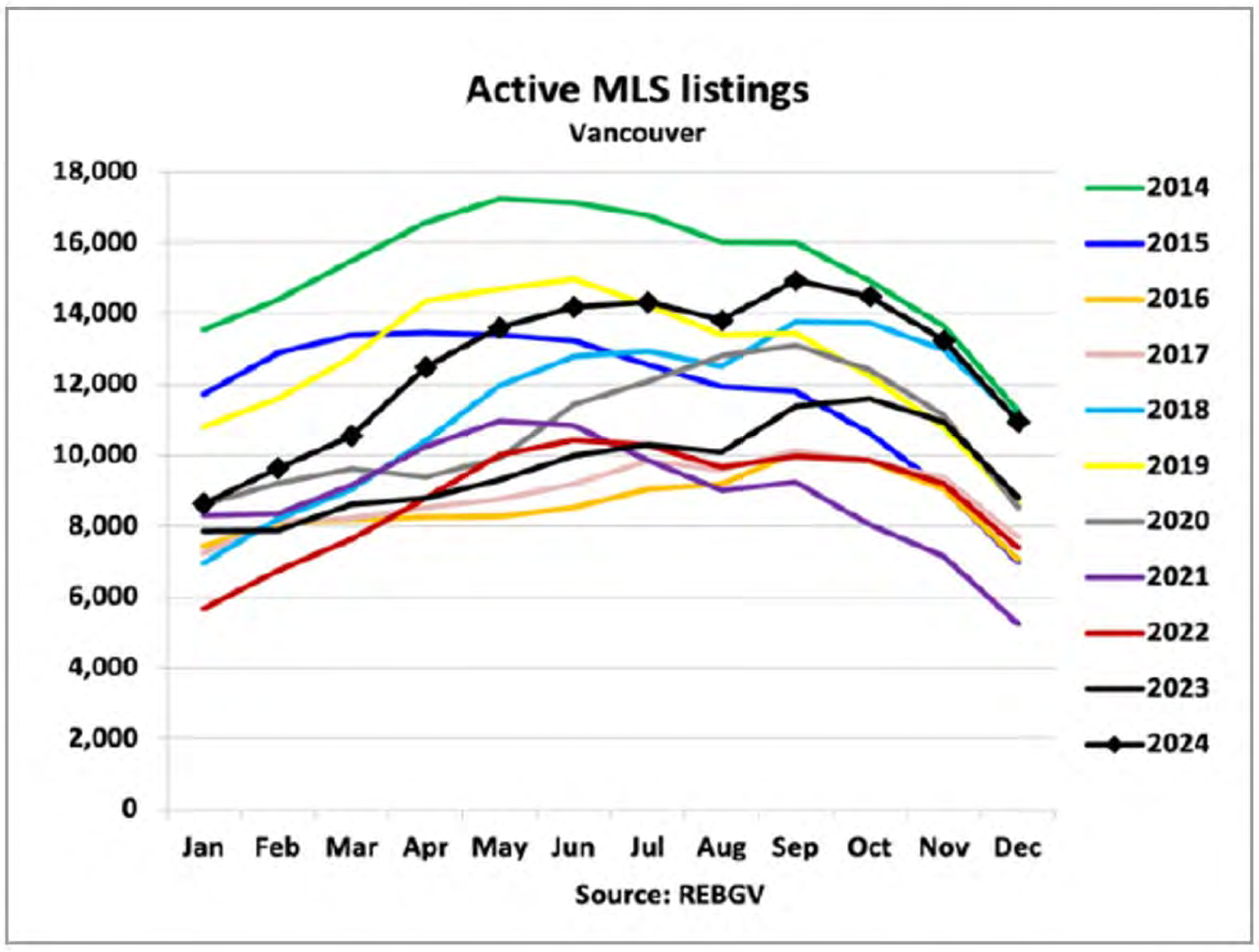
Market balance tightens

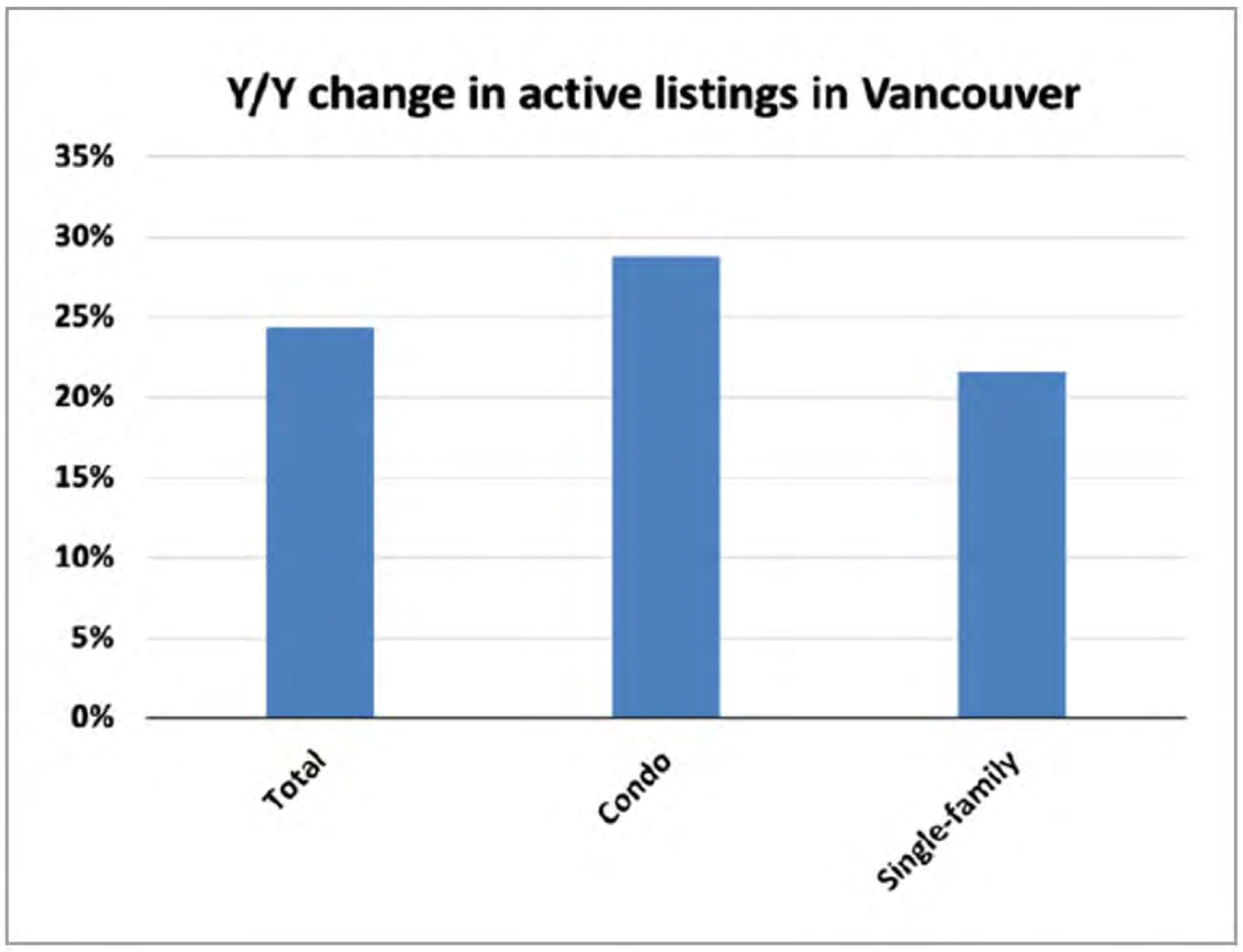
The sales-to-new listings ratio jumped to 54% in December, the best showing since the summer of 2023. Months of inventory remained elevated at 6.0 overall in December (7.5 for single-family), but that's down from year-ago levels:



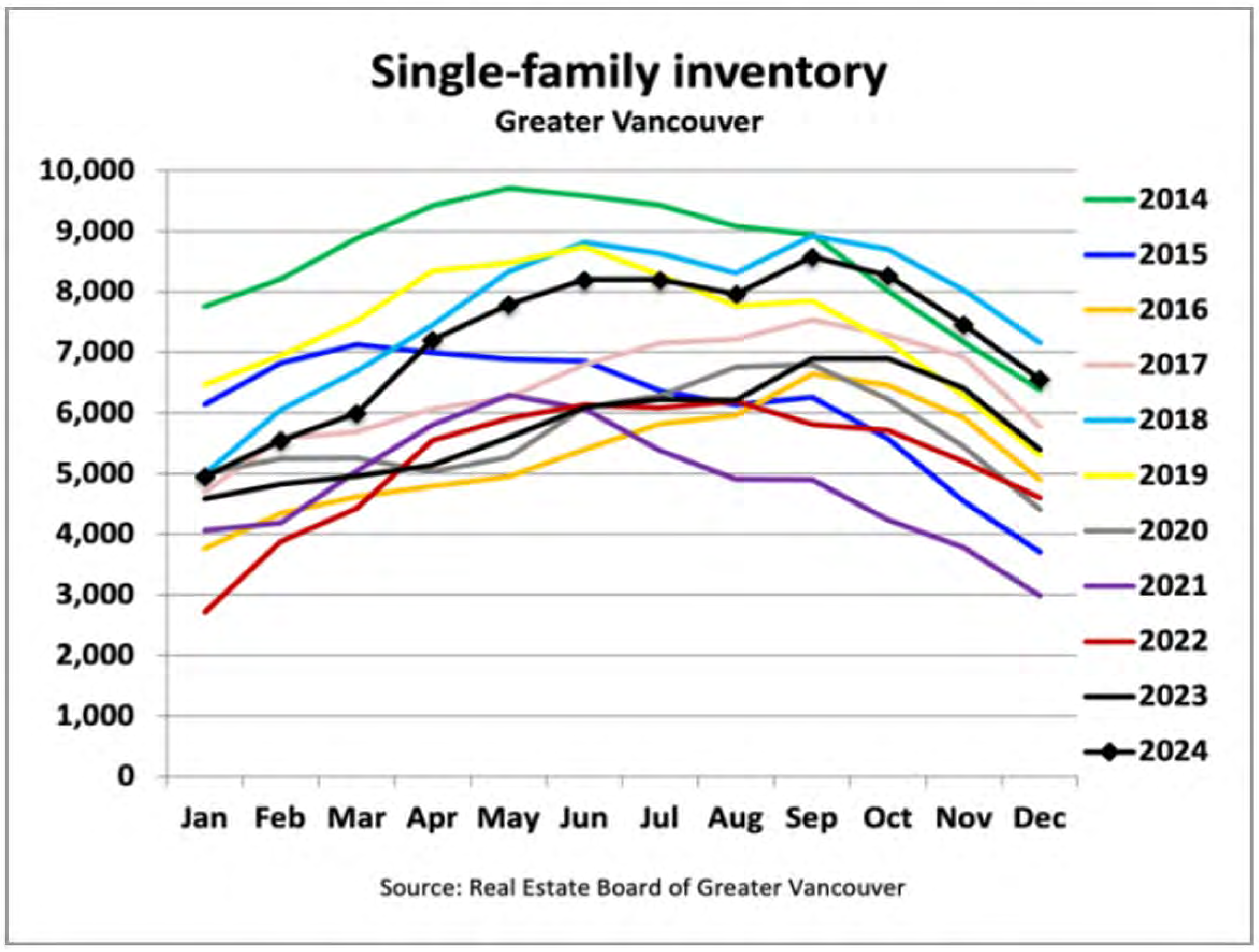
Inventory levels still elevated

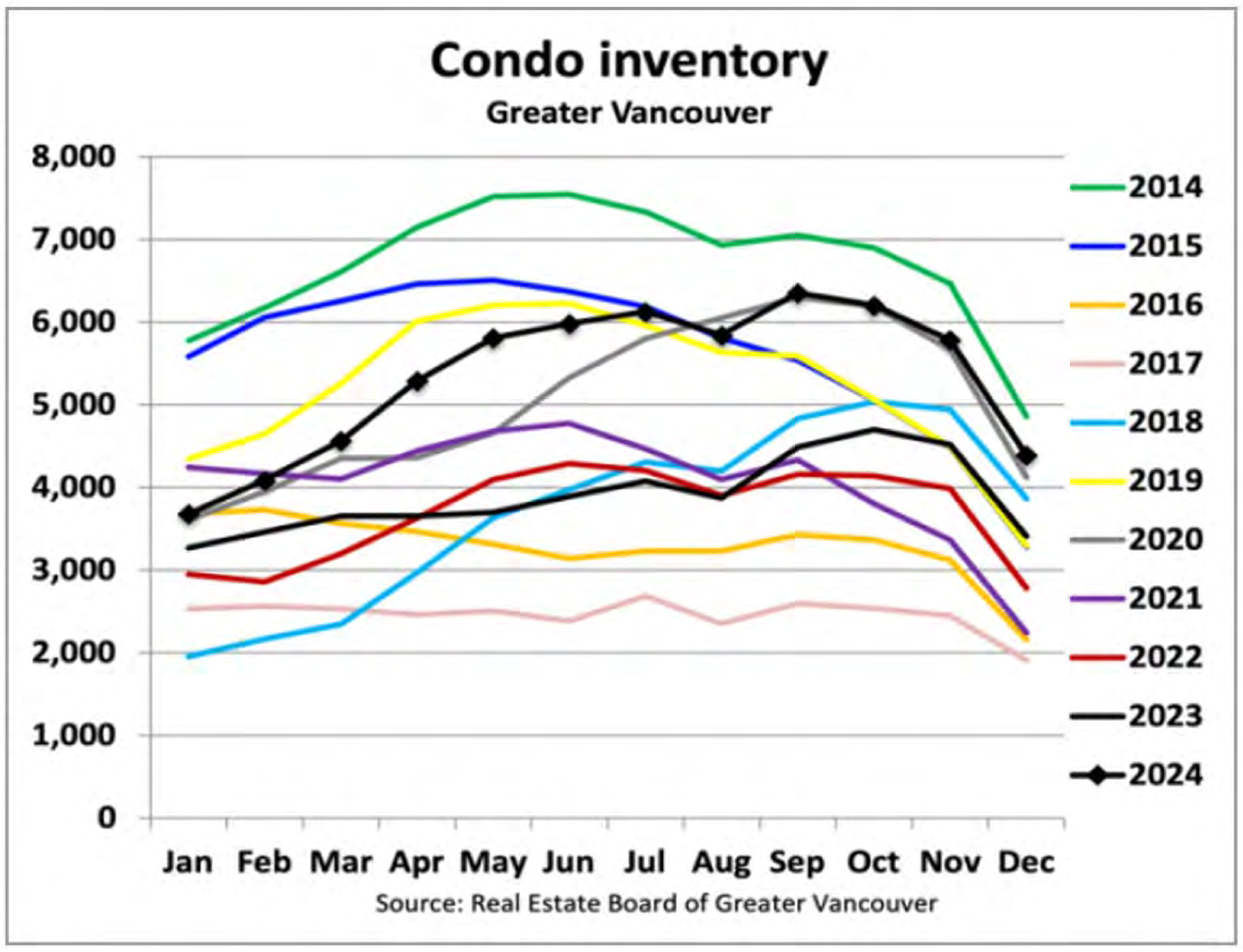
Active listings ended the year up 24% and up 27% in the condo segment:





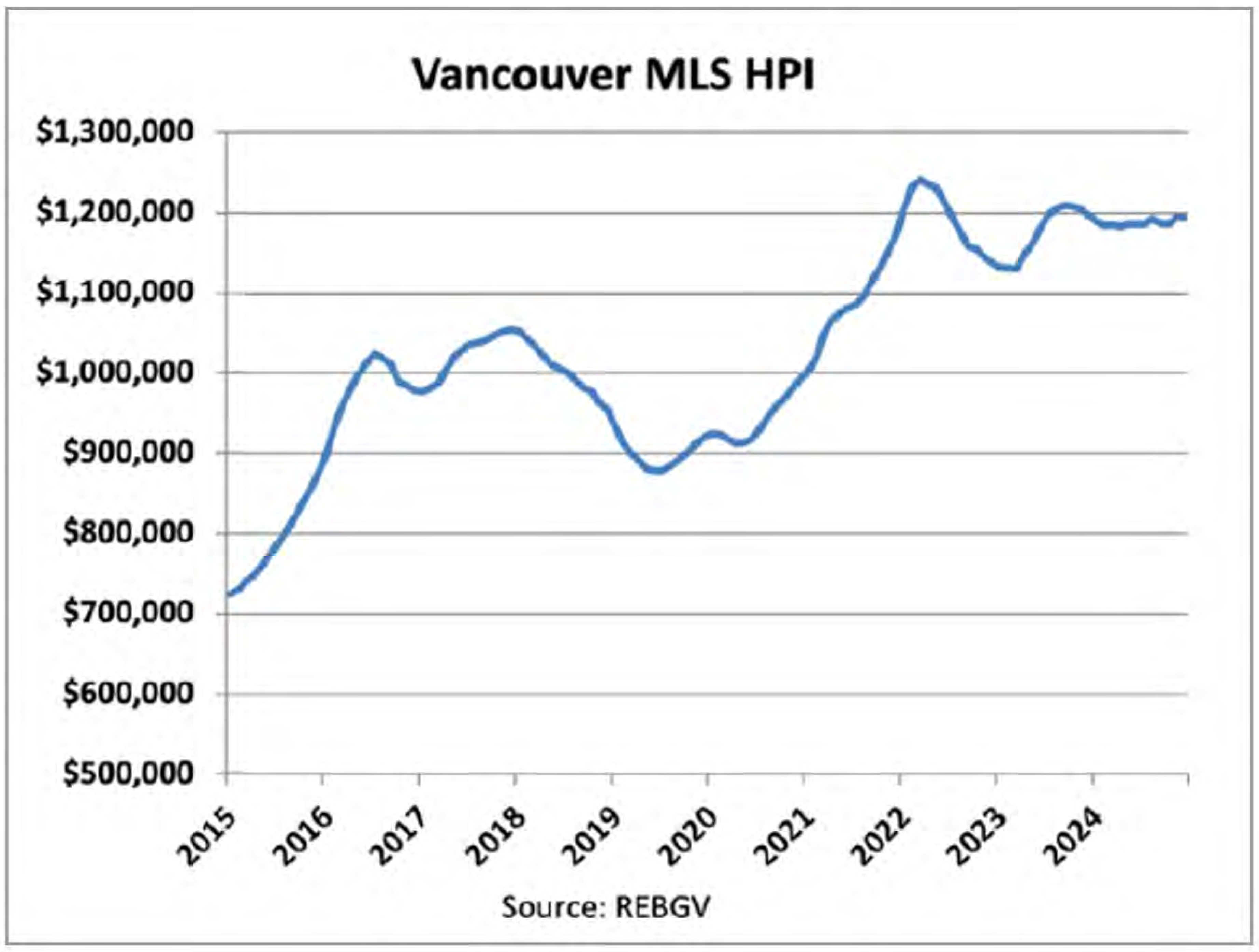
Inventory levels remain high relative to decade norms across segments:

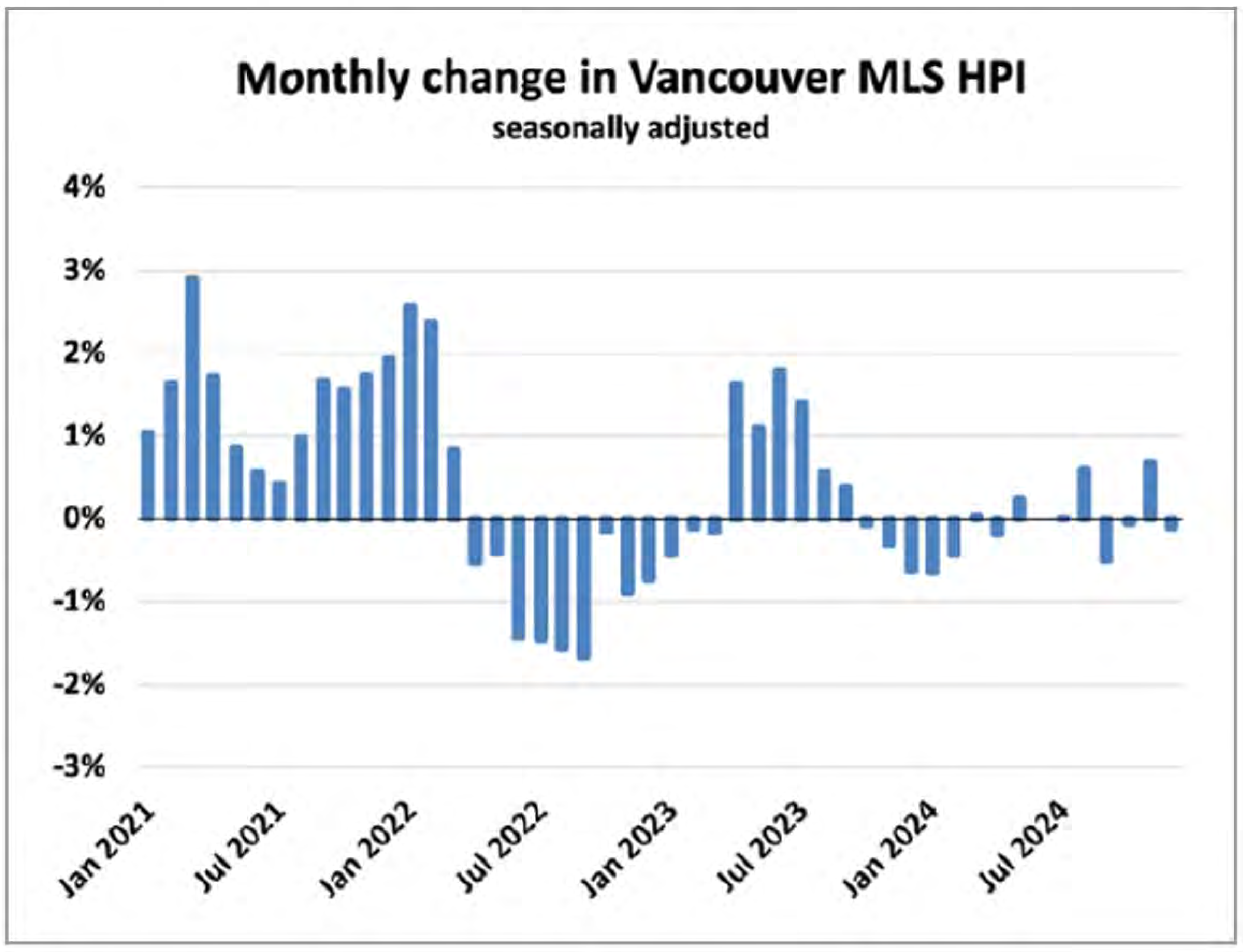




House prices tick lower

An initial read of the MLS House Price Index points to a modest 0.1% decline in prices in December. The benchmark price is now unchanged over the past 3 years, which is about as soft a landing as policy makers could have ever hoped for:

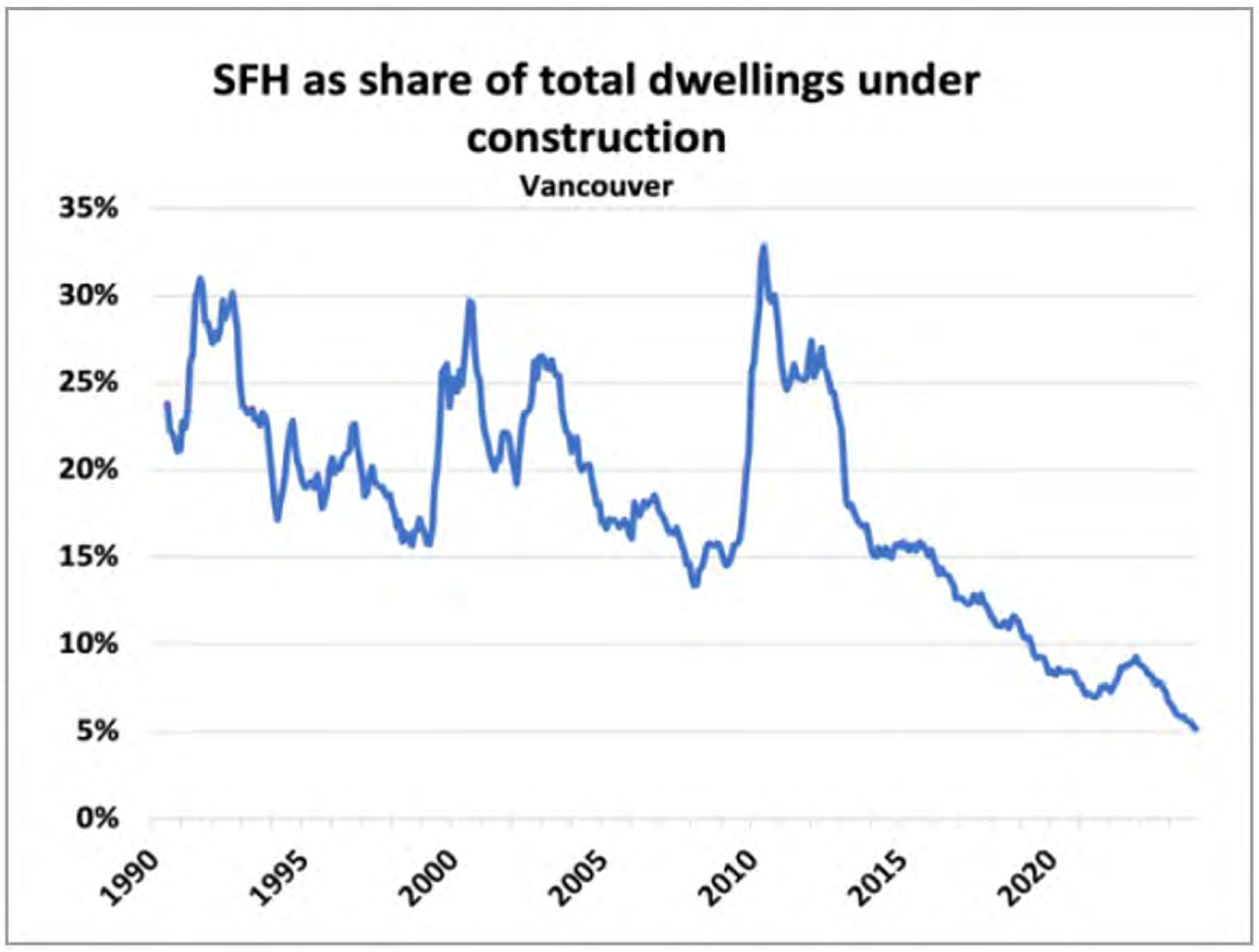


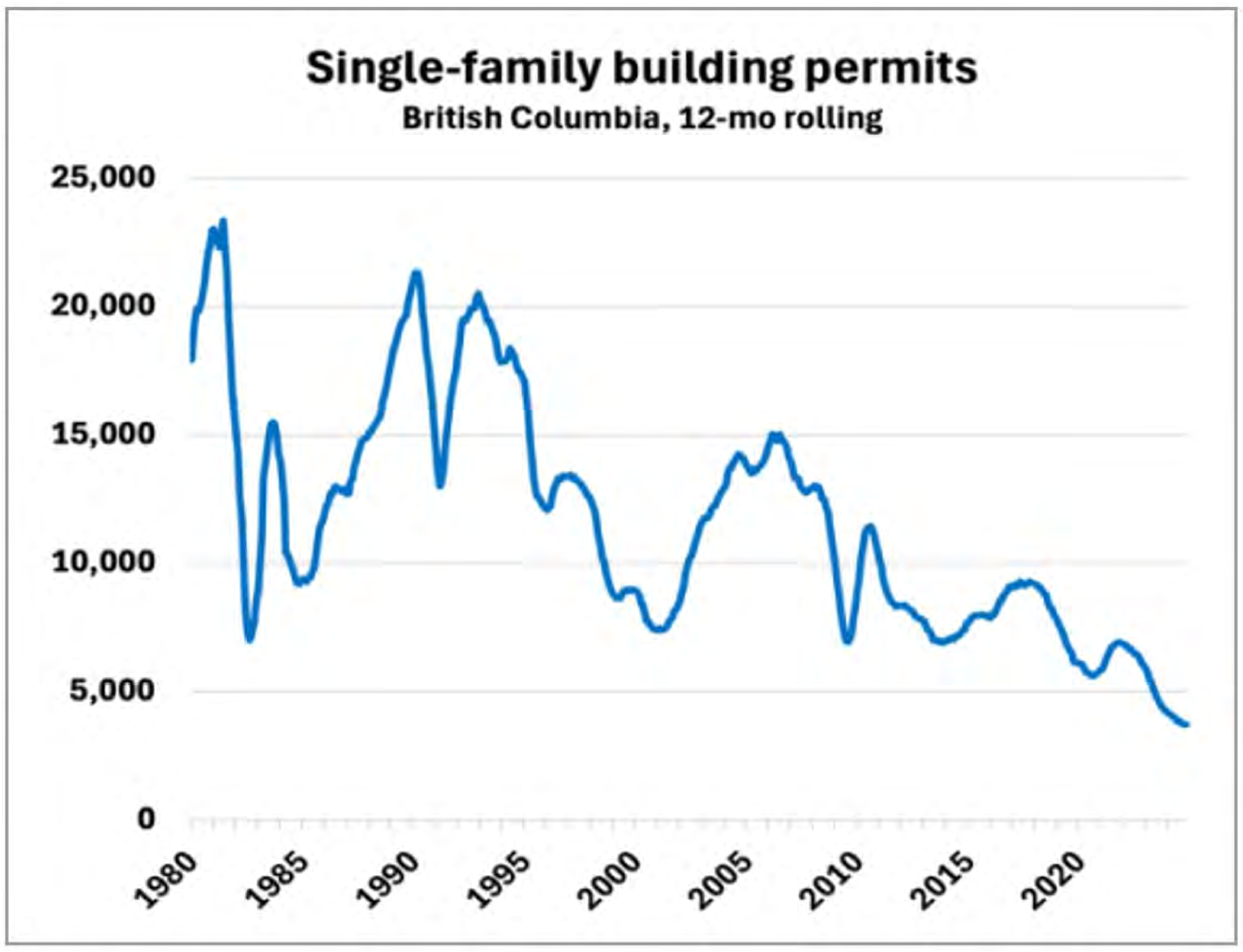


Construction activity continues to rise

The number of dwellings under construction across metro Vancouver is closing in on 70,000 after rising 1.1% in November. Strip out rentals, and there are still nearly 45,000 "homeowner" dwellings in the pipeline, the most on record.

Over 40,000 of those are condos and only 3,000 are single-family in any form. That means that just 5% of all dwellings under construction are in this much-coveted segment, a record low going back to 1990 and with little relief in sight based on permitting trends:

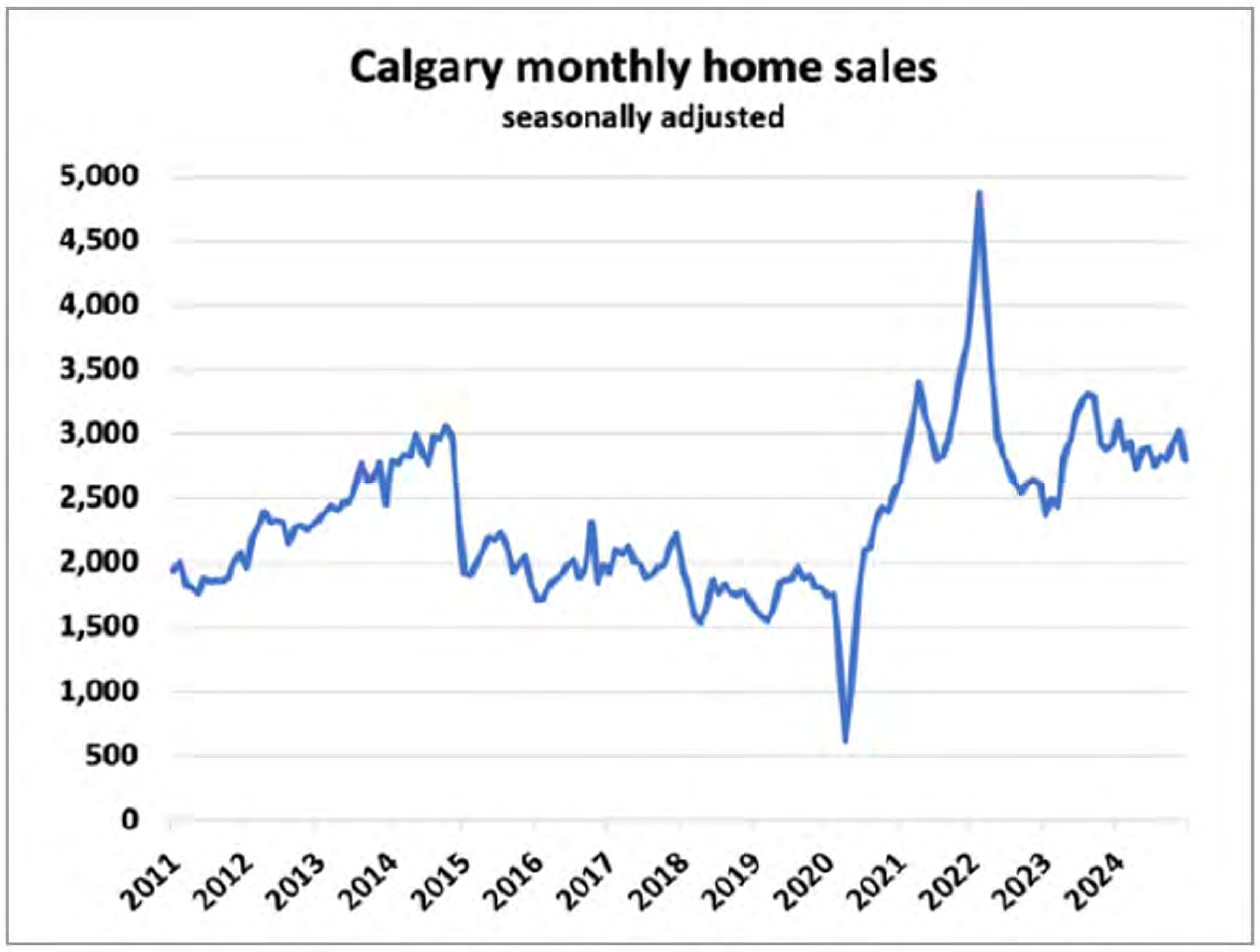


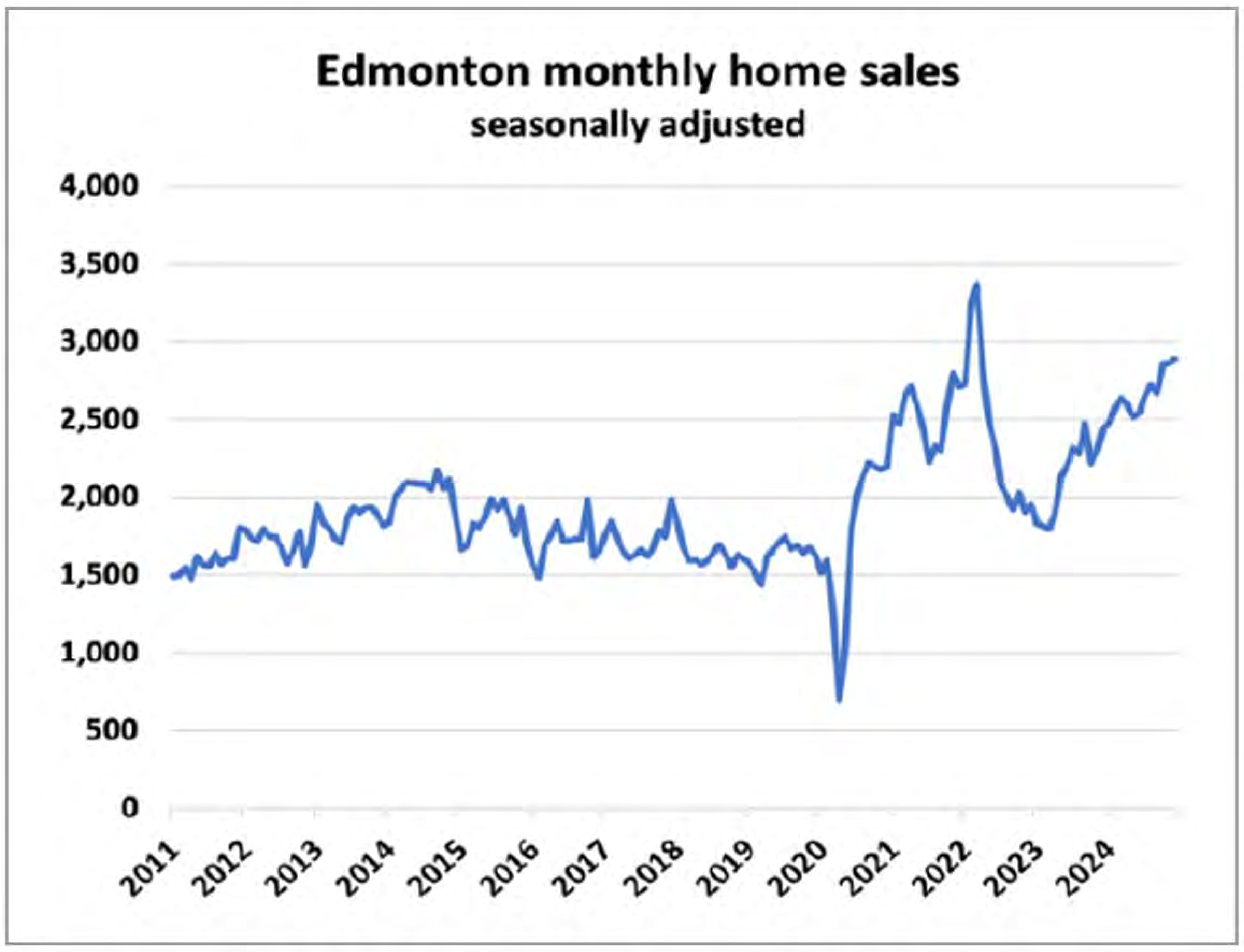


4) *Calgary and Edmonton: Divergence deepens*

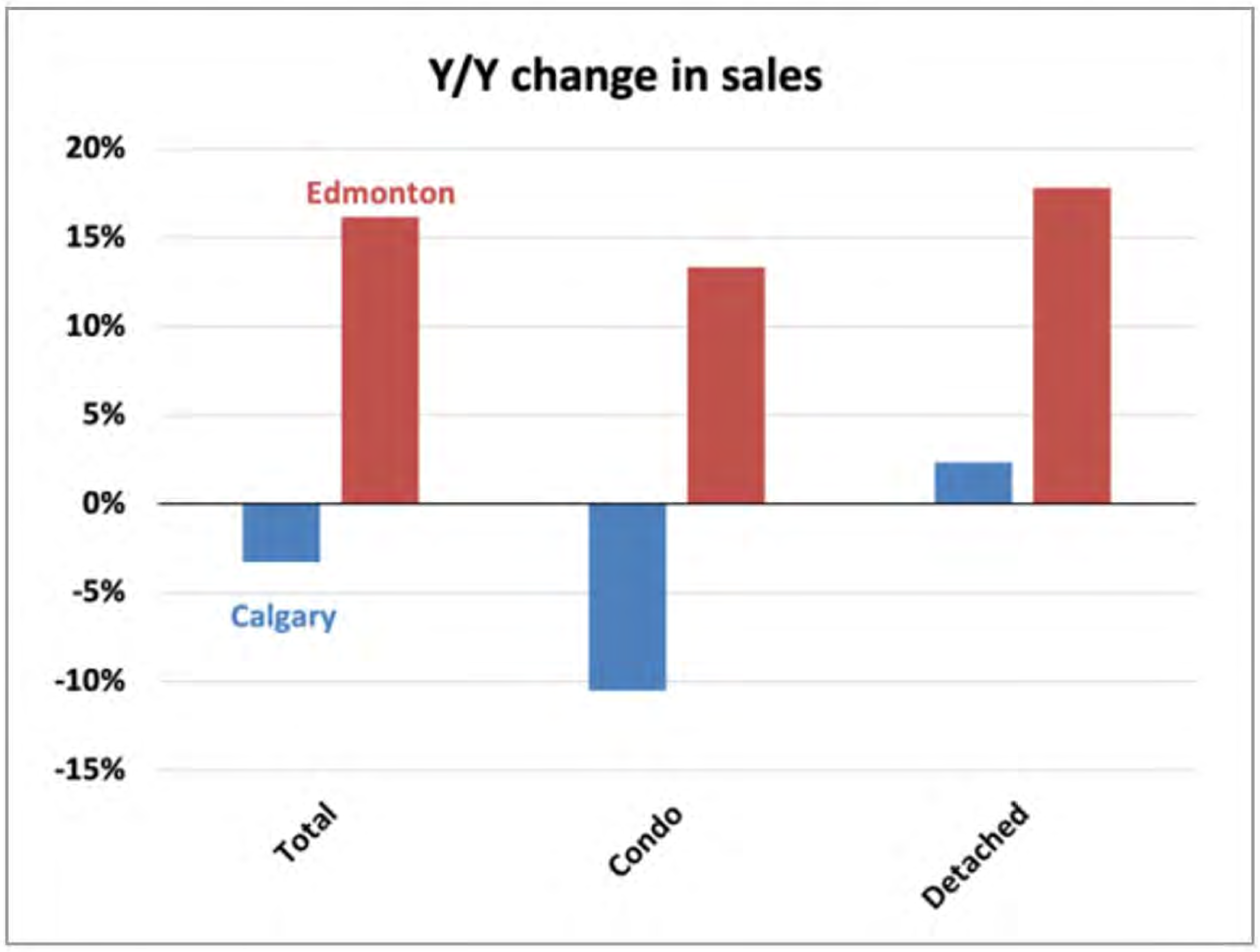
Divergence continues

Calgary home sales slipped 7% in December and have now been effectively flat over the past 2 years. In contrast, Edmonton sales jumped another 1% last month. Outside of a 2-month stretch in 2022, this is the highest level of demand on record:



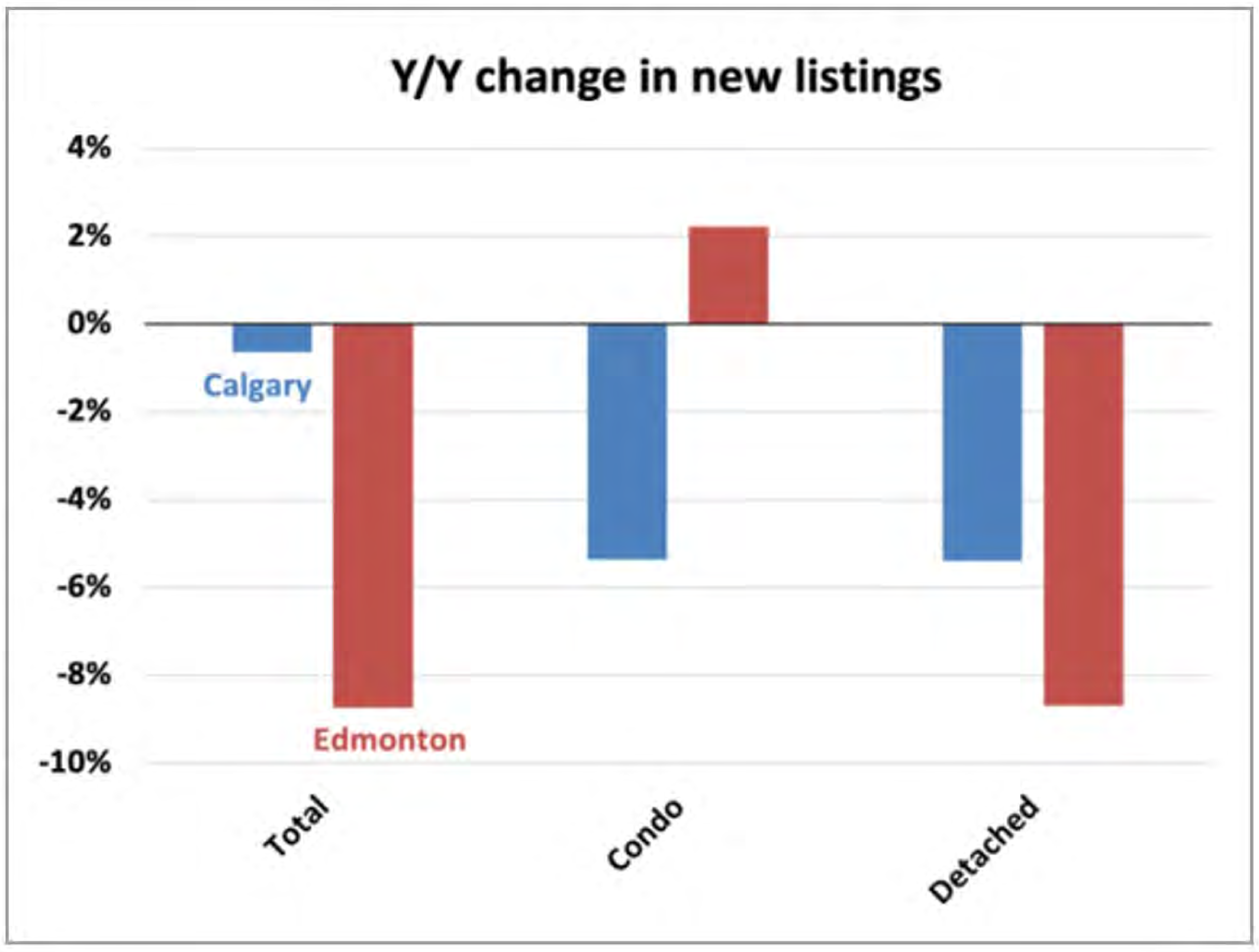


The relative performance gap between the two metros is really starting to widen, with Edmonton seeing sales up 16% y/y compared to a nearly 4% decline in Calgary:

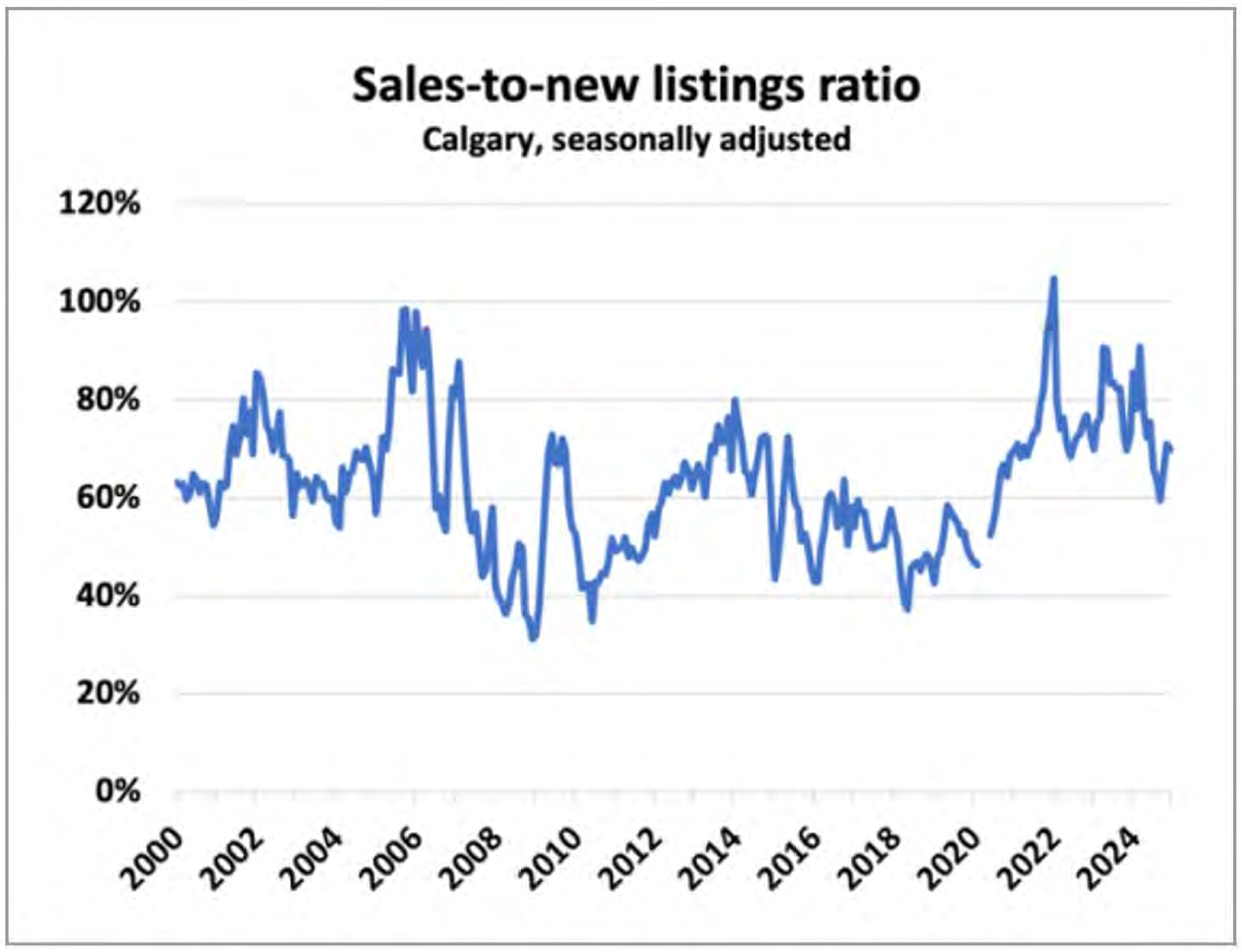


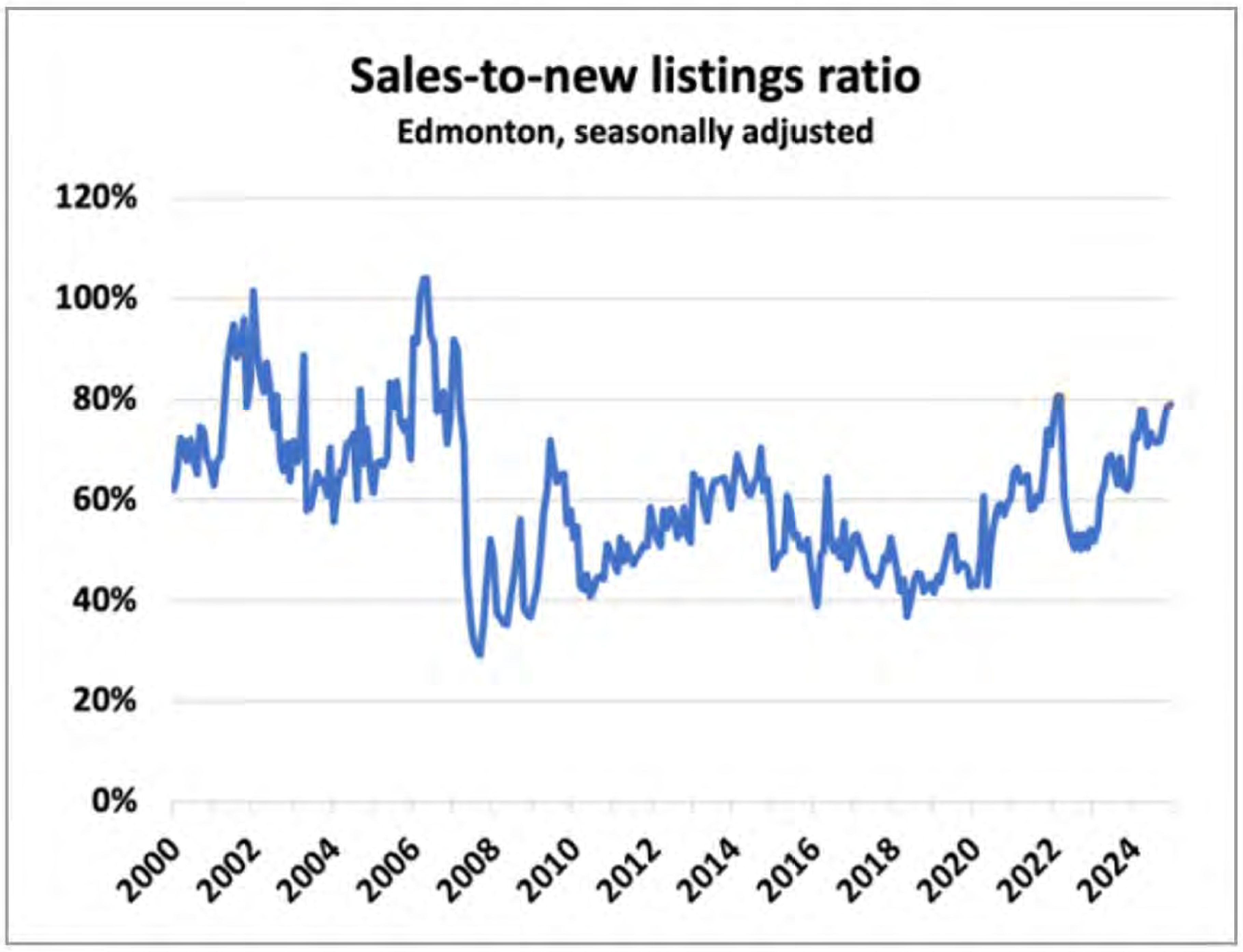
New listings fall

The flow of new supply was lower in both Calgary (-1% y/y) and Edmonton (-9%) last month:



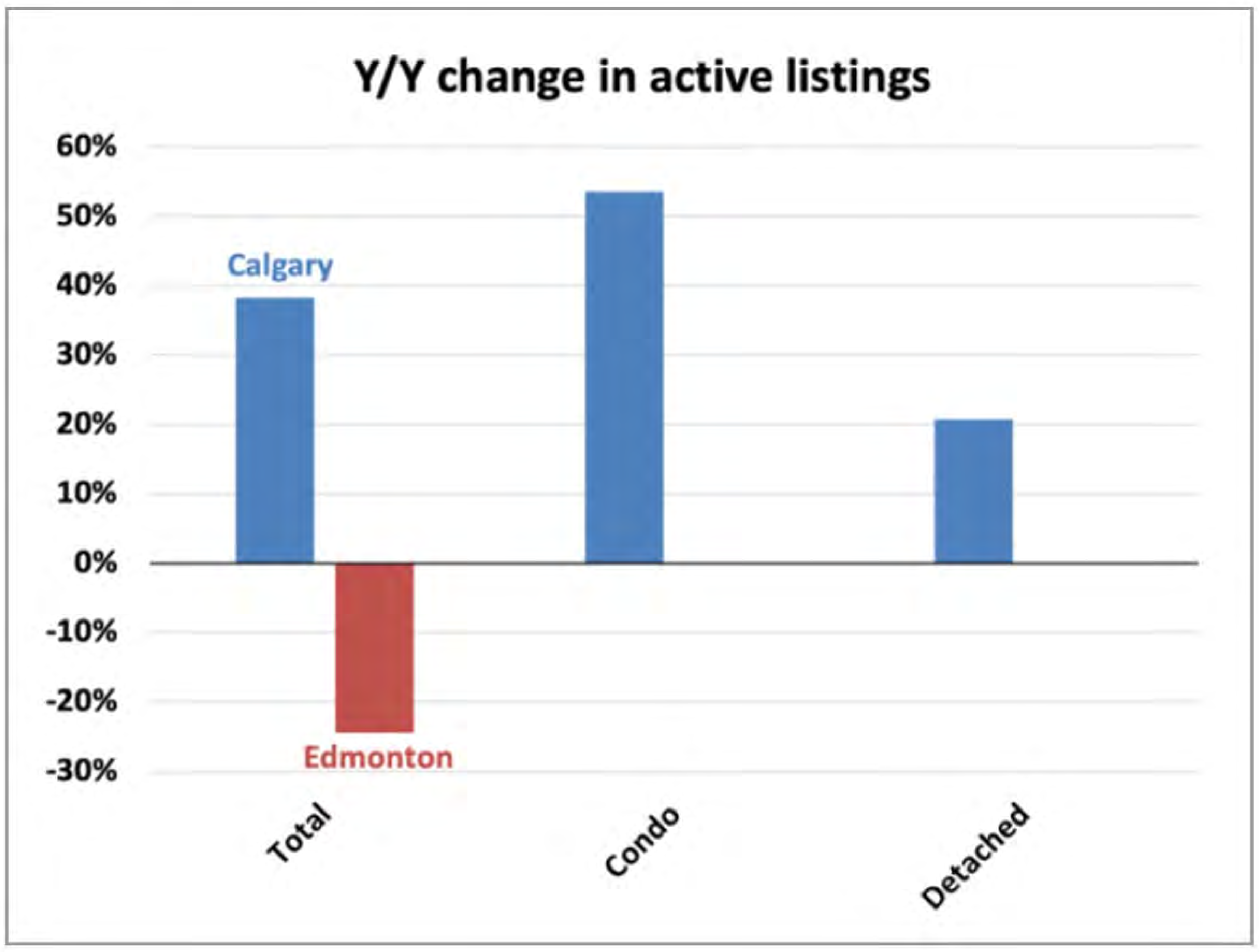
The sales-to-new listings slipped back below 70% in Calgary in December. That's still a solid reading relative to other Canadian cities, but it's well off the 80% average from 2020-2024. In contrast, Edmonton is holding above 80%....a full 10 percentage points above Calgary. The last time we saw Edmonton's market this much tighter than Calgary's was back in 2006:

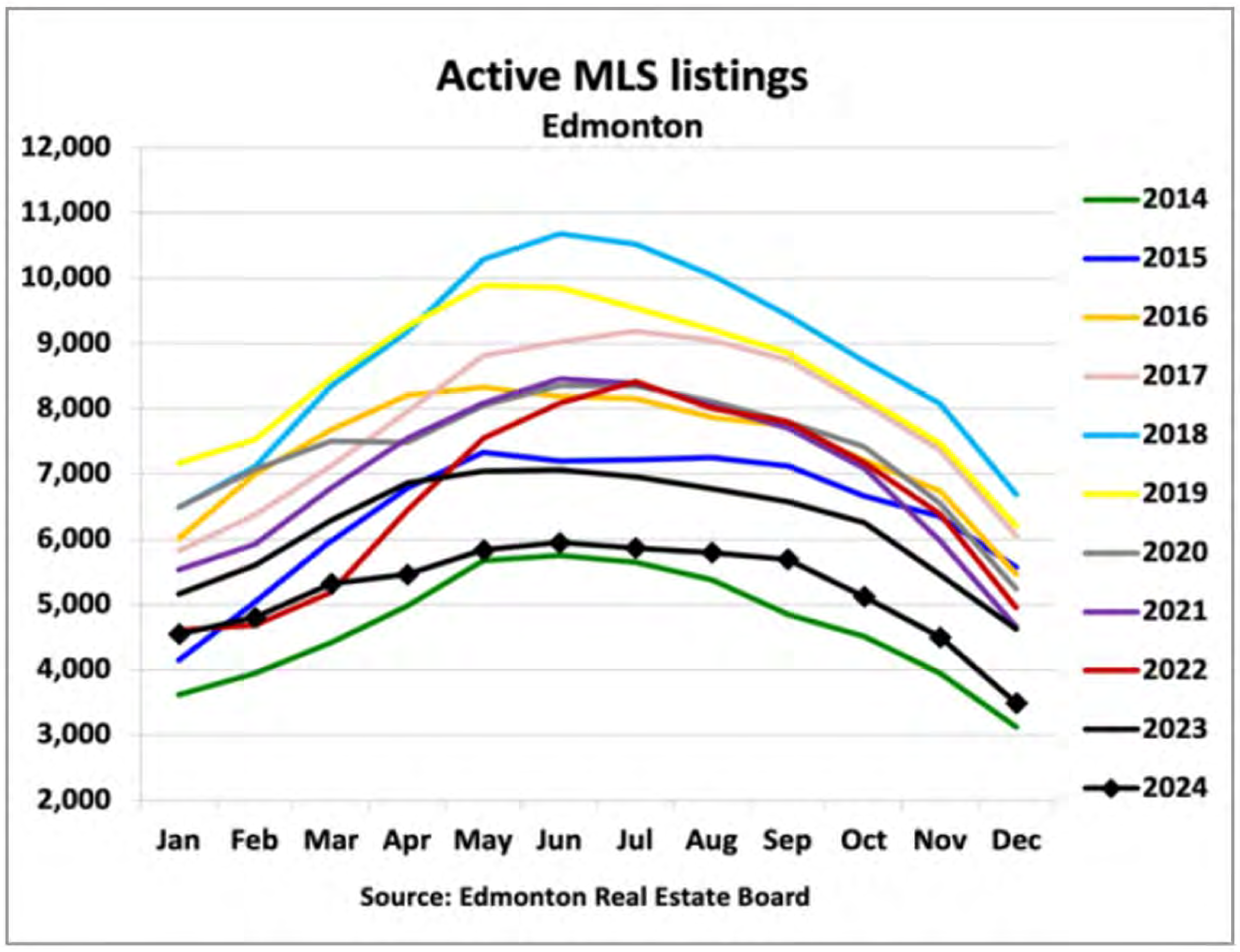


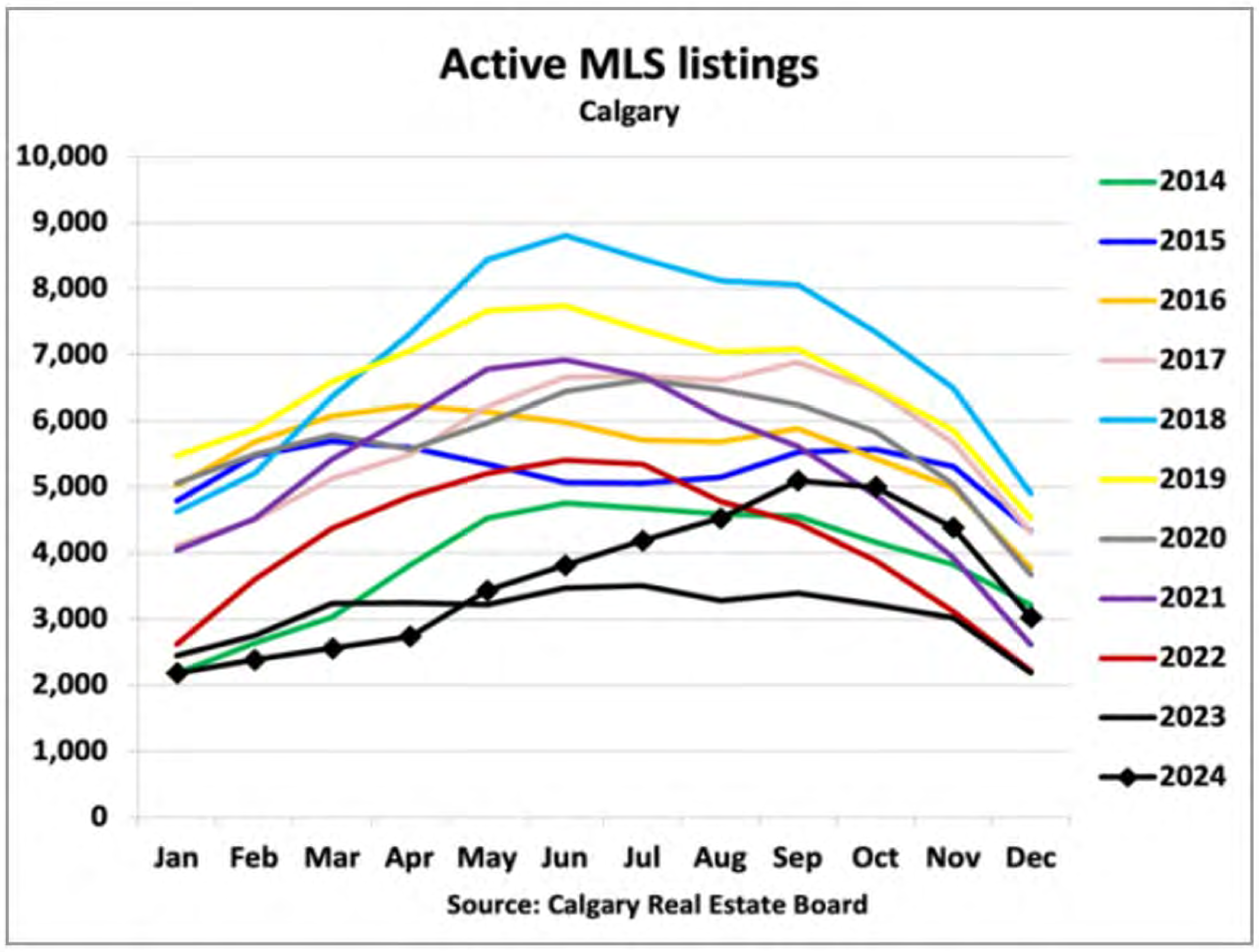


Inventory up in Calgary, down in Edmonton

Active listings ended the year up 38% y/y in Calgary and down 24% in Edmonton:

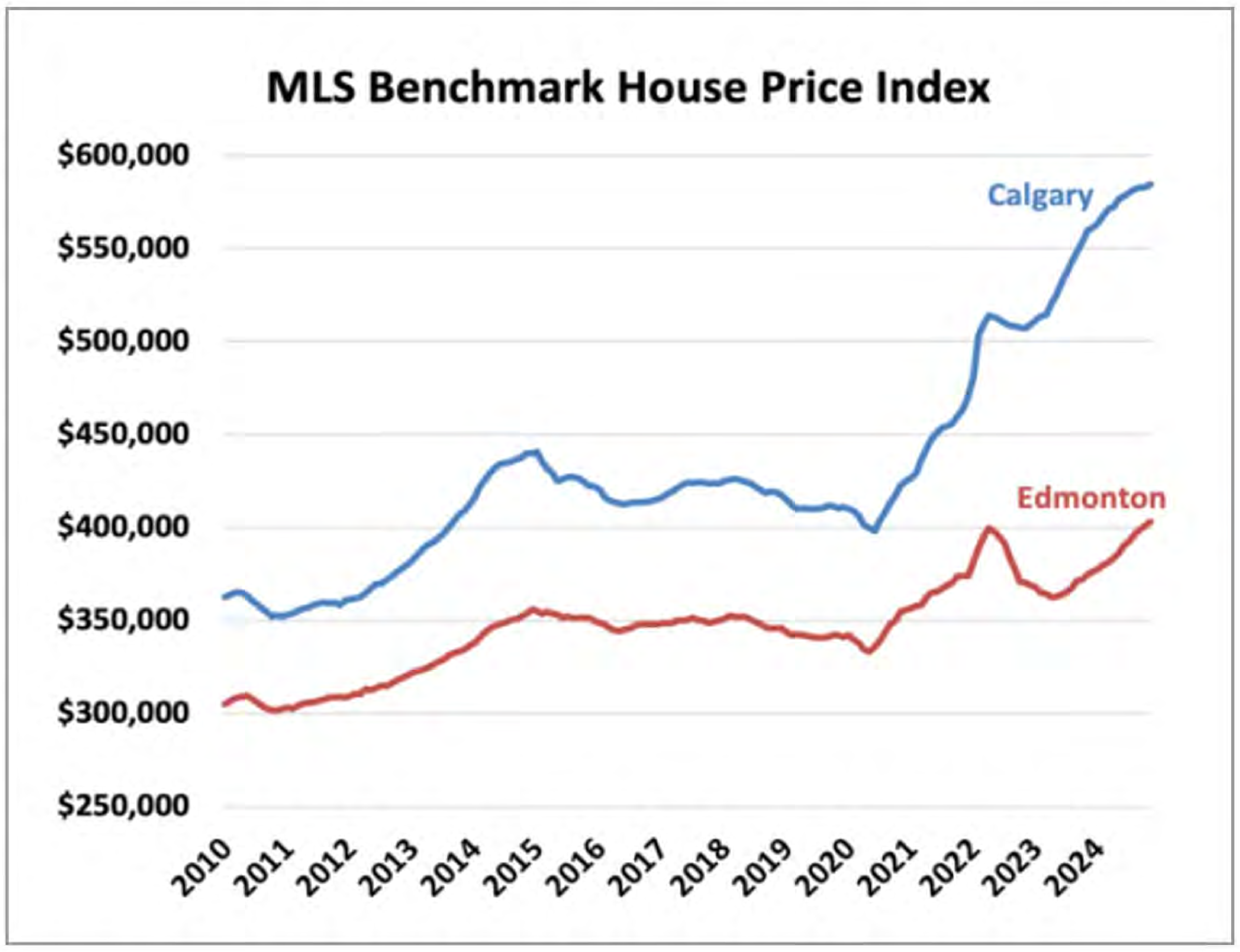


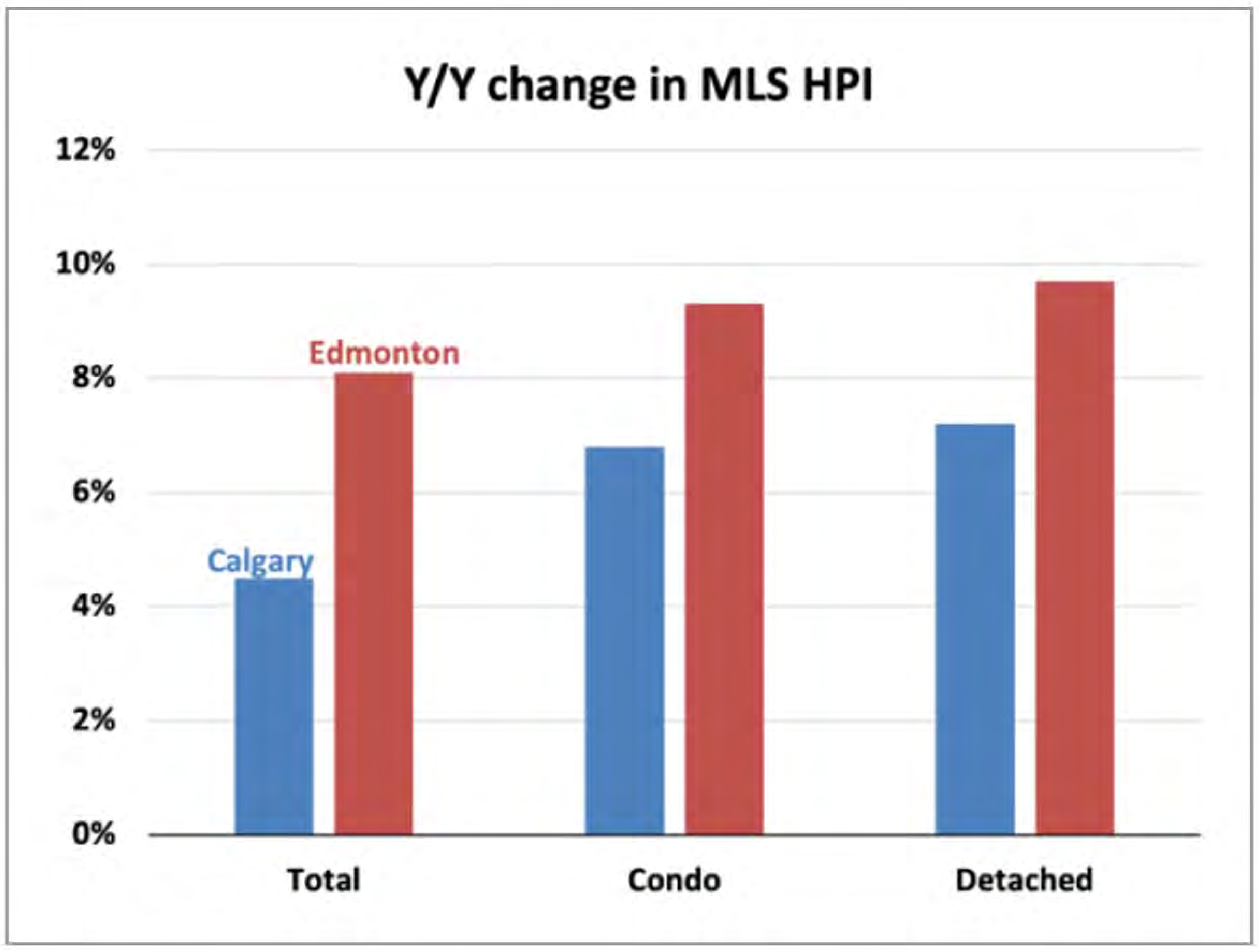




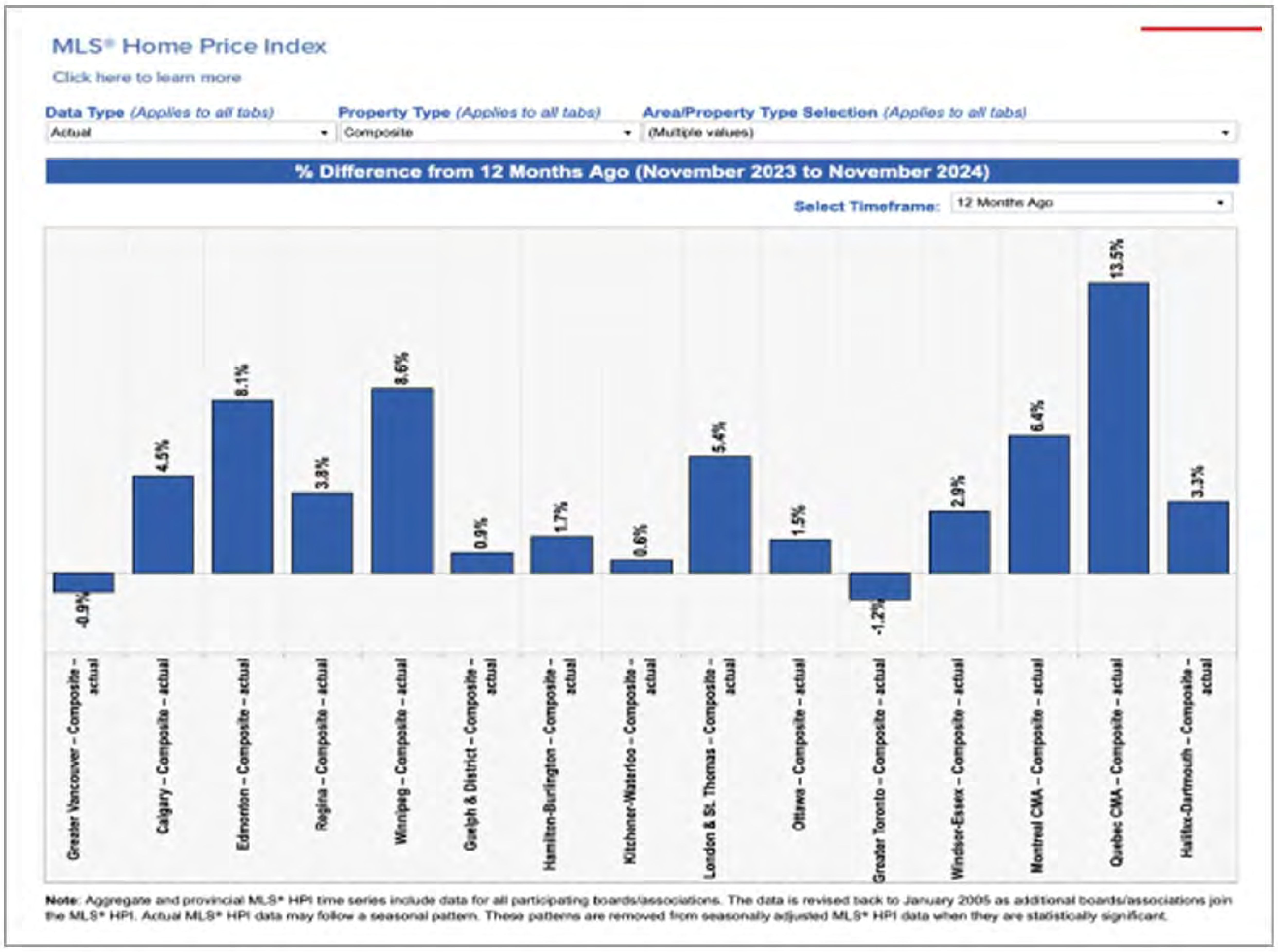
Price gains accelerate in Edmonton

Edmonton is now seeing house prices accelerate at nearly double the rate in Calgary (+8.0% y/y vs +4.3%)





Last year I predicted that Edmonton would be one of the best performing Canadian metros when it comes to house price appreciation. It's quickly climbing the ranks and is now trailing only Winnipeg and Quebec City on that front:



Construction activity continues to surge in Calgary

The number of "homeowner" dwellings (ie condos + single-family) under construction across Calgary continues to set new highs, pointing to a strong flow of new completions this year and next. In contrast, construction activity in Edmonton remains way below levels warranted resale market demand, which means we should see as longer runway of strong price appreciation.