



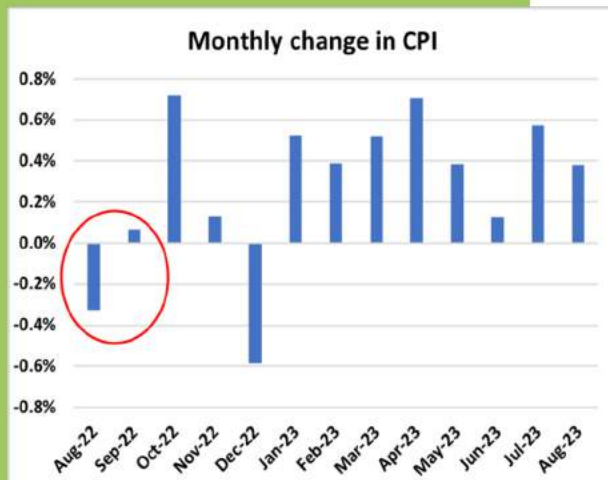
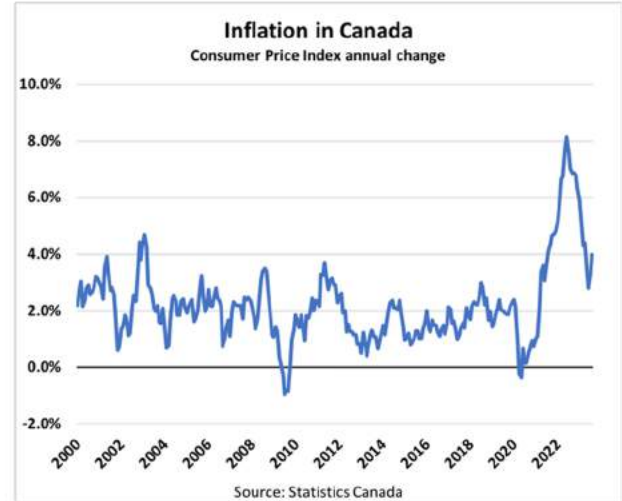
THE EDGE REPORT

September 2023



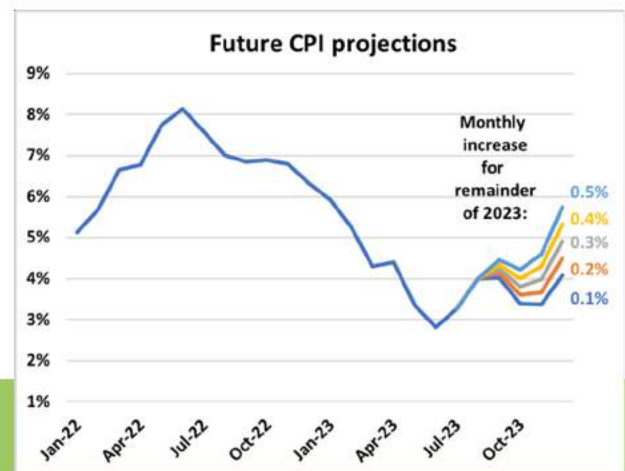
Second straight inflation surprise in August puts Bank of Canada in a bind

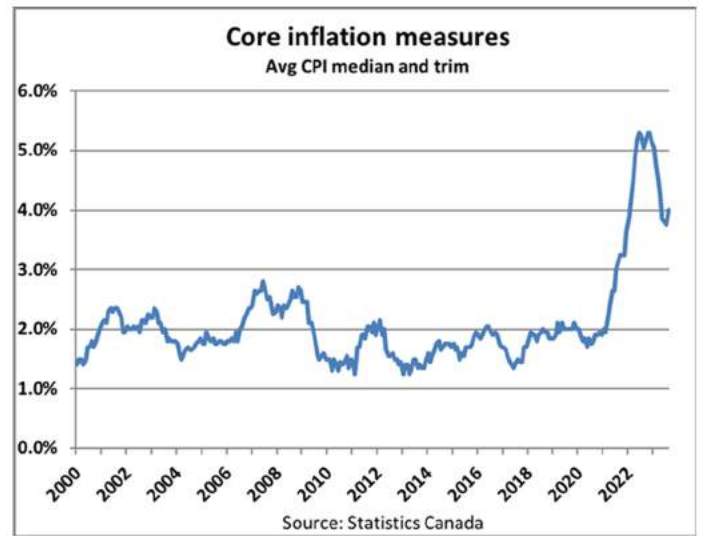
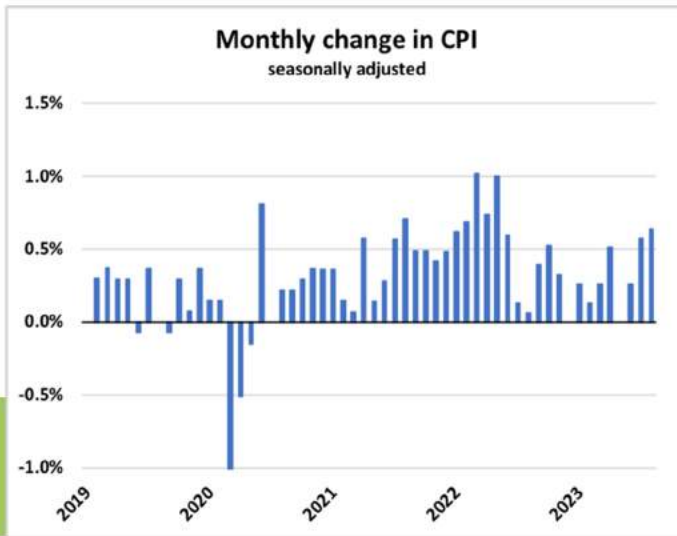
For the second straight month, Canada's inflation rate surprised to the upside in August. The headline Consumer Price Index (CPI) rose to 4.0%, up from 3.3% in July and considerably higher than consensus expectations of 3.8%:



An acceleration was entirely expected due to the weak increase last year at this time, as discussed in last month's Edge Report, but even accounting for that dynamic, this was a very spicy print. Looking ahead, we have likely one more month of acceleration in September (since Sept '22 was such a small increase) before inflation likely cools again temporarily in October. But it's worth reiterating an earlier point- Even if inflation averages a mild 0.2% monthly increase from here, we will end 2023 at north of 4%. And if we get 0.4% per month (the average over the past 6 months), we'll be back above 5% inflation by November:

Inflation is still running hot, plain and simple. We see it in the seasonally adjusted CPI which rose 0.6% on the MONTH and has now risen at a 7% annualized clip over the past 2 months. At the same time, measures of core inflation (which the Bank of Canada focuses on) accelerated to 4.0% from 3.8% previously. Not good!



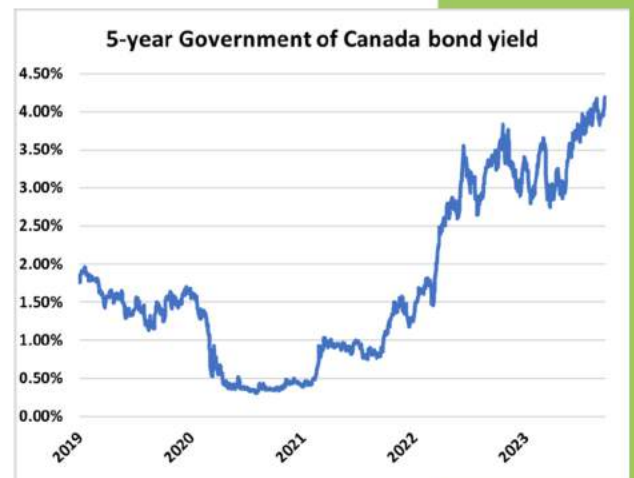


As a result, markets are now pricing in another rate hike by Q1 next year and are no longer expecting rate cuts next year. All of this reinforces a key theme of this publication: We are very likely nearing the end of this current rate cycle, but a return to “zero rates” is likely not in the cards. Higher for longer is something we’ll likely have to get used to.

2) Mortgage market update: Rates back on the move?

i) Mortgage rates stable so far in September

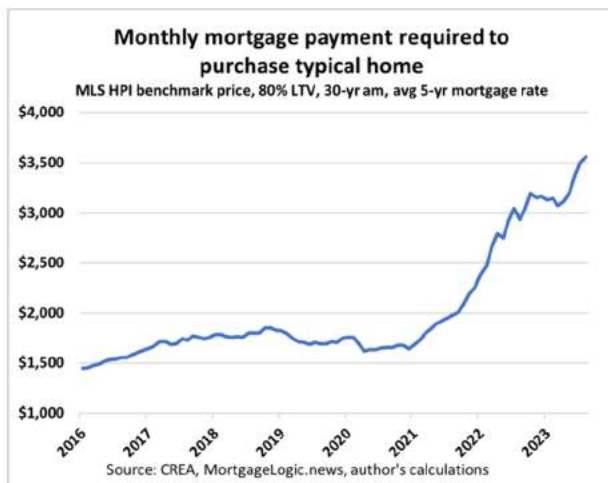
Deep discount mortgage rates have been stable over the past couple weeks, but fixed rates may come under pressure as early as after this week based on moves in the bond market. The bellwether 5-yr bond yield hit fresh 15- year highs following the CPI report:



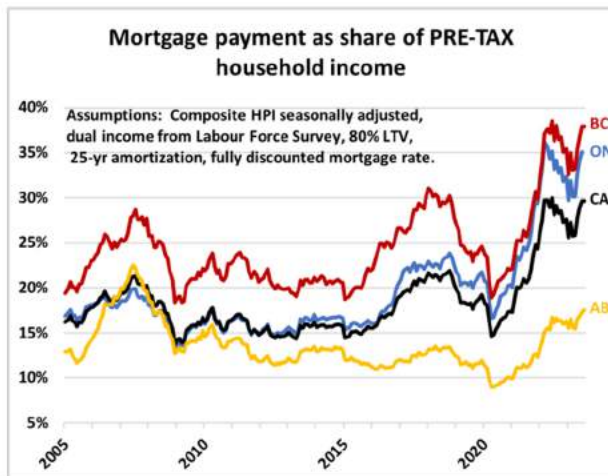
ii) Affordability deteriorates slightly

Mortgage demand remains constrained by severe affordability pressures across most of the country.

The monthly mortgage payment required to purchase the typical home rose to fresh highs last month of just under \$3,600...up 21% y/y and up 80% over the past 2 years.



Those mortgage payments as a share of income remain just off the 2022 highs and will likely continue to constrain demand going forward:



You know it's particularly bad when even sitting Members of Parliament in the current Liberal government lament being unable to afford a home:

'I haven't been able to purchase a home': What Liberal MPs are saying ahead of Trudeau arrival at caucus retreat -CTV1

[...] "I'm sort of sad that we're still talking about the same things... Why has housing continued to be the most pressing issue? ... I think it's because there's so many players that need to be at the table," said London West, Ont. MP Arielle Kayabaga. "I'm 32 years old, I'm a member of Parliament. I haven't been able to purchase a home..."

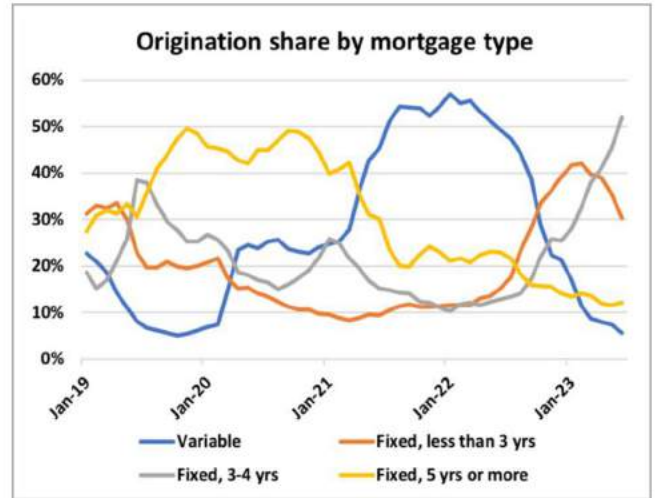
<https://www.ctvnews.ca/politics/i-haven-t-been-able-to-purchase-a-home-what-liberal-mps-are-saying-ahead-of-trudeau-arrival-at-caucus-retreat-1.6558540>

iii) Big push into 3-yr fixed rate mortgages

makes! Variable rate loans now account for a mere 5% of new originations. Classic 5-year fixed rate loans aren't far behind at just 10% market share...down from the long-term norm of closer to 50%. The popular loans today are 3 and 4-year fixed terms which now account for an unprecedented 53% of all new loans:

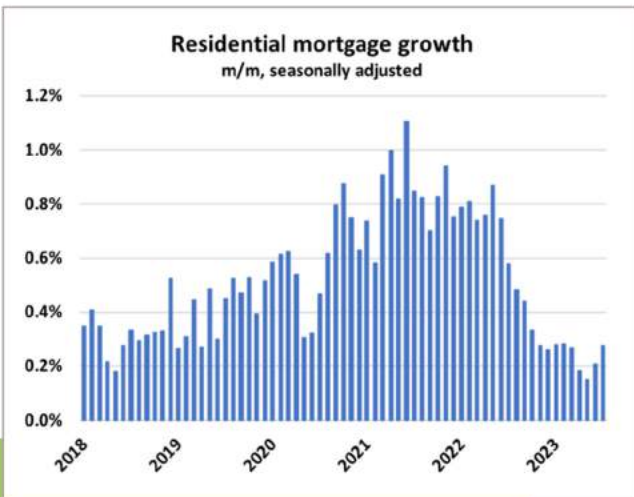
To be clear, I think this makes sense....3-year fixed rate terms look like a reasonable balance between rates (ie lower than shorter term and variable) and less punitive break fees than 5-yr terms if the Bank of Canada cuts rates in the interim.

From 2021 until early 2022, nearly 60% of all new mortgages were variable. What a change 2 years

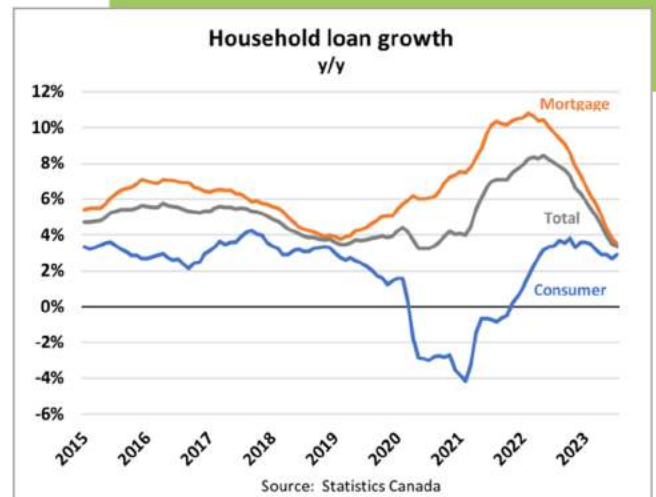


iv) Mortgage growth falls below B20 lows

Mortgage debt outstanding rose 0.3% in July, the strongest rate of growth in 4 months. Expect this to be a temporary blip that reflects closings from the strong spring housing market across Canada. Resale demand has cooled considerably since July, and we should expect loan growth to roll back over this fall.



Already mortgage growth on an annualized basis is the lowest since 2001 at just 3.5% y/y. That's well below the post-B20 lows in 2019, and it begs the ongoing question of just what the hell OSFI is hoping to accomplish if they do in fact tighten lending this fall:



3) Supply and demand: Building activity tanks, immigration in the spotlight

i) Immigration in the spotlight

Perhaps THE big story of the back half of 2023 has been the abrupt public sentiment shift regarding Canada’s aggressive population growth targets which has the current government scrambling to not appear out of touch. These are headlines from the past couple weeks.... both unthinkable just one year ago:



Canadian government won't rule out changing immigration targets to address housing challenges: Fraser [ctvnews.ca/politics/canad...](https://www.ctvnews.ca/politics/canad...)



2:40 PM · Sep 10, 2023 · 127.8K Views

207 67 139 9

Canada, in Policy Shift, Weighs Capping Student Visas

Boom in international students worsens housing crunch, say government ministers

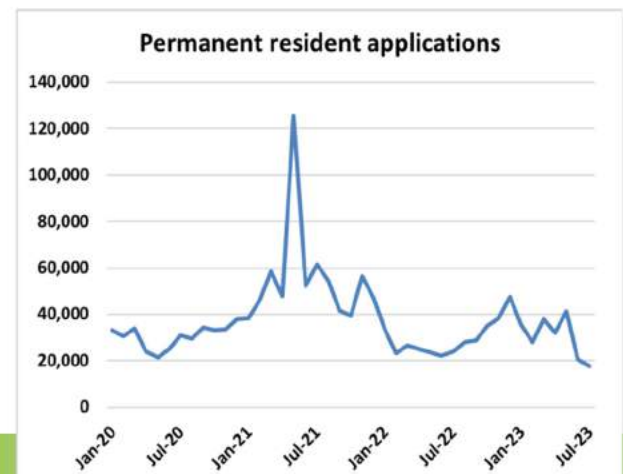
By Vipal Monga [Follow](#)
Sept. 12, 2023 8:00 am ET

Share Resize 30 Listen (1 min)



Canadian Prime Minister Justin Trudeau has made boosting immigration central to his economic agenda. PHOTO: ROSLAN RAHMAN/AGENCE FRANCE-PRESSE/GETTY IMAGES

The reality is that the idea of limiting population growth might be a moot discussion. The inherently pro-cyclical nature of the non-permanent cohort (which accounted for 730,000 of the 1.2 million population growth in the past year) will naturally weigh on headline population growth if the economy continues to cool. Meanwhile, permanent resident applications tumbled 7% y/y in July (the second straight decline) to hit the lowest level of the past 3 years.



Perhaps word is getting out that Canada has sold a false bill of goods to newcomers... particularly international students. You can bet this wasn't in the brochures from college recruiters:

International student living under a bridge in Toronto helped by strangers

The student, who is studying at Conestoga College in Kitchener, had been living under the bridge for the past four days

National Post Staff

Published Jul 27, 2023 • Last updated Jul 27, 2023 • 3 minute read

195 Comments



The student packs up his belongings before heading to a nearby shelter. PHOTO BY YOUTUBE SCREENSHOT

International students in Canada living on the side of a road come to a solution with local college

'At 7 p.m. they agreed with all of our points and the demands'

Jennifer Hamilton-McCharles, Postmedia News

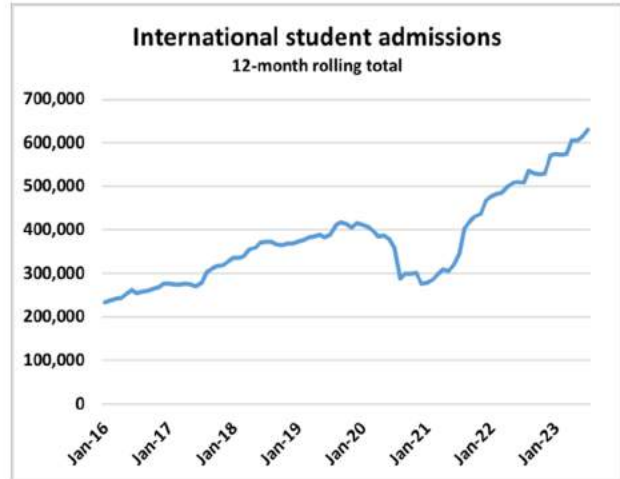
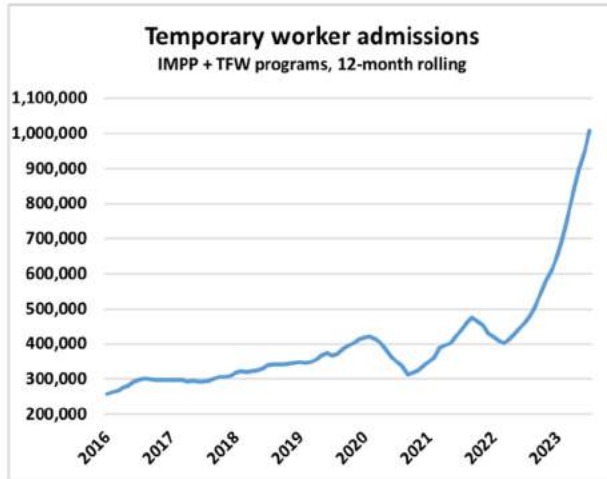
Published Sep 07, 2023 • Last updated 1 week ago • 3 minute read

371 Comments



Several international students held a demonstration outside Canadore College's Commerce Court campus Wednesday morning due to the lack of affordable housing. PHOTO BY JENNIFER HAMILTON-MCCHARLES, THE NUGGET

All of this is academic for now. The latest data, as of July, shows a continuing growth in admissions for both international students and temporary workers. But I suspect it's only a matter of time before we see these numbers start to slow.



ii) Building investment plunges

Even though I think population growth will be considerably lower by this time next year, it will still likely be very strong (600k is still a monster number by historical standards). That means we still need a pile of new homes to avoid a nasty supply crisis down the road...and we're just not getting that job done.

For example, housing starts fell slightly in August.... but as flagged previously, this has become an extremely volatile data point on its own:

	Housing starts 000s, SAAR	m/m % change
Jan 2023	215	-13.6%
Feb 2023	241	+12.3%
Mar 2023	213	-11.4%
Apr 2023	261	+22.0%
May 2023	202	-22.6%
Jun 2023	283	+40.6%
Jul 2023	255	-10.1%
Aug 2023	253	-1.0%

The real signal is in the single-family segment, which responds much quicker to real-time economic conditions. Here the trend is very concerning:

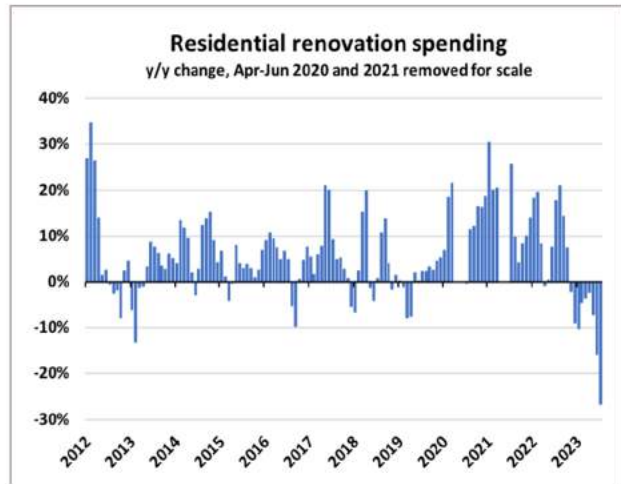


But here's where things get really crazy. The chart below shows inflation adjusted investment in residential building construction (new construction + renovations). Investment has fallen to the lowest level in more than a decade (after adjusting for inflation) and is barely above the COVID lockdown lows. Importantly, this is NEW investment flowing into housing each month:

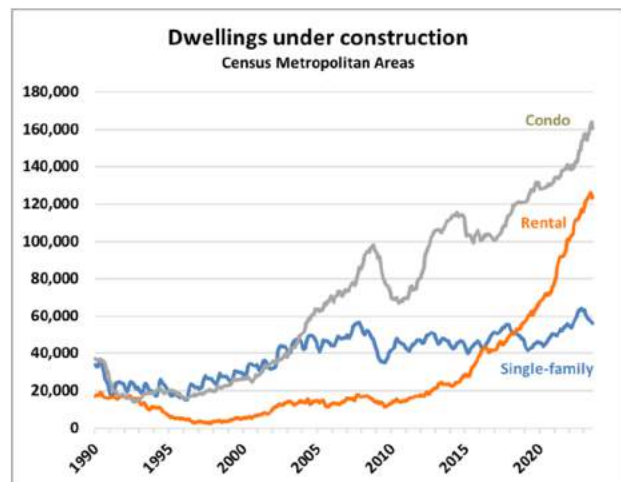


If this trends of weak housing investment continues, we will be looking at substantially fewer homes under construction in even 6 months....which means a significant hit to Canada's job market, and an eventual supply crisis down the road when demand inevitably normalizes on the other side of this cycle.

This is disastrous for the long-term supply picture. In part it's due to weak new construction (ie housing starts) but we're also now seeing renovation spending come under serious pressure, down nearly 30% y/y last month. Outside of the initial COVID lockdown, this is the largest annual decline since the Financial Crisis:



These issues are masked by the fact that Canada still has near-record levels of construction in spite of a steep slowdown in new housing starts. But that's starting to change. The number of dwellings under construction across the country fell by 1.7% in August, the largest monthly decline since 2016.



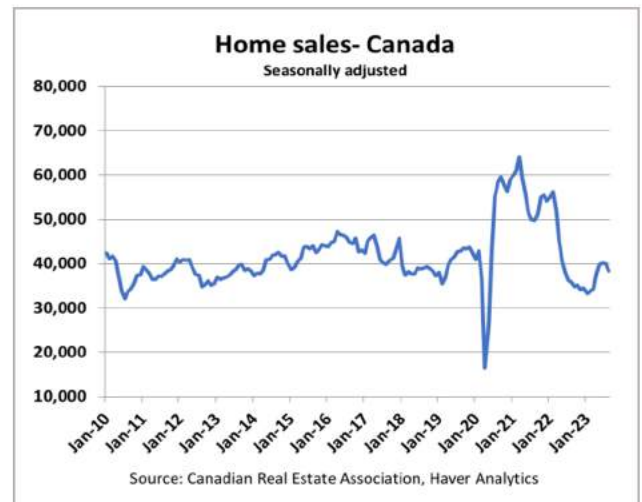
4) Housing market cracks appear in August

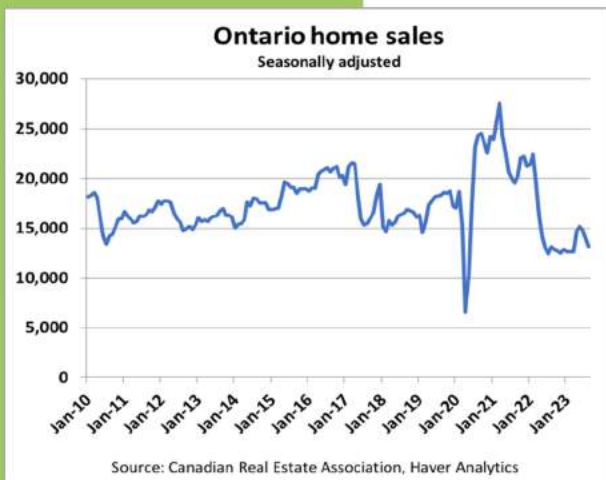
The key data from last month is summarized below.

	Sales		New listings		Active inventory		House prices (HPI, seasonally adjusted)	
	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	+6.9%	-4.1%	+3.8%	+0.8%	+0.7%	+2.5%	+0.3%	+0.4%
BC	+20.6%	-10.7%	+3.9%	-3.2%	+0.7%	+4.0%	+0.9%	+1.0%
AB	+22.2%	+2.8%	+4.4%	+3.7%	-19.5%	-0.6%	+4.2%	+1.3%
QN	-0.3%	-6.2%	+7.1%	+1.5%	+9.7%	+6.9%	+0.9%	+0.2%
QC	0.2%	-4.9%	+0.5%	+1.9%	+13.5%	+1.0%	+1.3%	+1.2%

i) Home sales slide

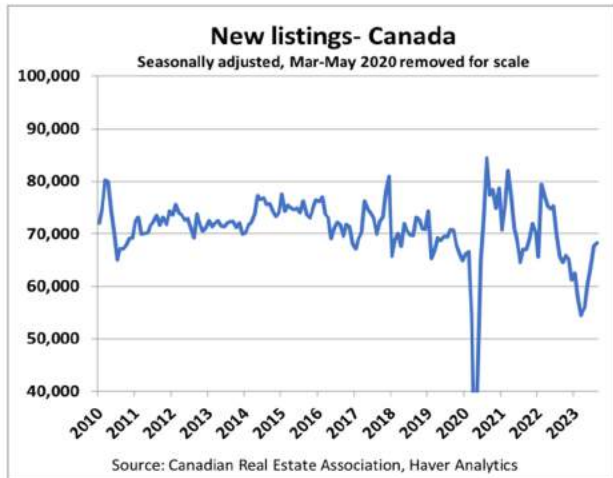
Seasonally adjusted home sales across the country slid 4.1% m/m in August led by a 10.7% drop in BC and a 6.2% decline in Ontario...both the largest since June 2022. In Ontario, sales have now plunged nearly 14% over the past 3 months and are back to levels last seen in 2002 outside of the early days of the COVID pandemic and the depths of the Financial Crisis. It's bad out there, but if there's good news it's that we are back to "unsustainably low" sales levels. They just can't stay here for any length of time given demographics.





ii) New listings rise

New listings in August were up 0.8% m/m nationally but still remain below normal.



But that appears to be changing. Anecdotes from realtors, point to a potential surge in supply heading into the fall:

Jesse @ Kleine Real Estate @jesse_k... · 46m ...
As some other realtors have mentioned on here, I'm also getting more and more calls from people in distressed or soon-to-be distressed mortgage situations. Needing to sell. This isn't just twitter fear-mongering. It's starting to happen now.
9 4 35 1,313

Jesse @ Kleine Real Estate @jesse_k... · 3h ...
More and more investors are listing their properties every week.
Homeowners will cut out vacations, sell cars, and stop going to restaurants to keep their home.
But why would an investor keep a property that costs them money every month?
Seeing some capitulation now.
25 9 87 9,954

John Pasalis @JohnPasalis · ...
I've been talking to a lot of investors lately who are looking to deleverage by selling one or more properties
I'll try to get some actual numbers behind this trend for my next monthly report
But investors exiting the market when things get challenging is a normal trend ✓
11:58 AM · Sep 13, 2023 · 38.8K Views

Nasma Ali @nasmadotall · ...
Getting about 20X number of sellers wanting/needing to sell vs buyers wanting to buy.
Sign of more listings coming to the market, than buyers that will absorb them.
Let's see if this halt of rate hikes will bring back buyer confidence.
1:57 PM · Sep 6, 2023 · 91.2K Views
37 Reposts 9 Quotes 451 Likes 18 Bookmarks

Nasma Ali @nasmadotall · ...
I mean getting calls from more sellers than buyers. Usually it's been more buyers than sellers. In past year about 60/40 buyers. And now 20 fold sellers.
2:00 PM · Sep 6, 2023 · 9,831 Views
3 Reposts 73 Likes

Sanj Mand @snj_mmc · ...
Interesting chat with a realtor this morning, almost all of his calls since the rate announcement has been sellers jumping at the opportunity. Sellers hoping for a second chance to deleverage could end up chasing the market down another leg.
12:15 PM · Sep 6, 2023 · 9,990 Views
5 Reposts 2 Quotes 95 Likes 2 Bookmarks

Contacts with access to the MLS system confirm that new listings through the first 2 weeks of September are indeed trending higher....up 36% y/y in Toronto.

iii) Inventory build accelerates

Seasonally adjusted resale inventory rose 2.5% m/m in August, the largest monthly build in over a year.

