Housing and Mortgage Market Review

Economic data is solid for now…but storm clouds are gathering

By Ben Rabidoux

Mortgage Professionals Canada is pleased to share the November issue of our monthly report on key market findings and analysis to help support Canada's mortgage broker channel.

We have partnered with analyst Ben Rabidoux, who each month provides MPC members with a review of the latest housing and economic data and rate trends. He breaks down what the data means and spells out the implications for Canadian consumers—your clients.

We look forward to arming our members with powerful insight into the housing and mortgage markets and hope you enjoy this latest report.

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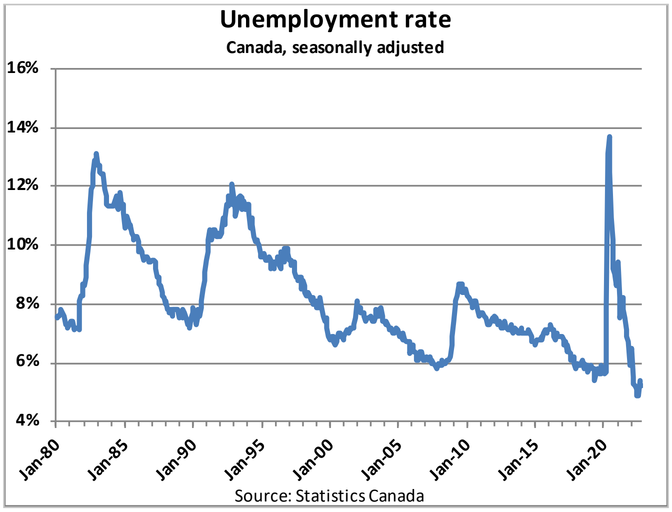
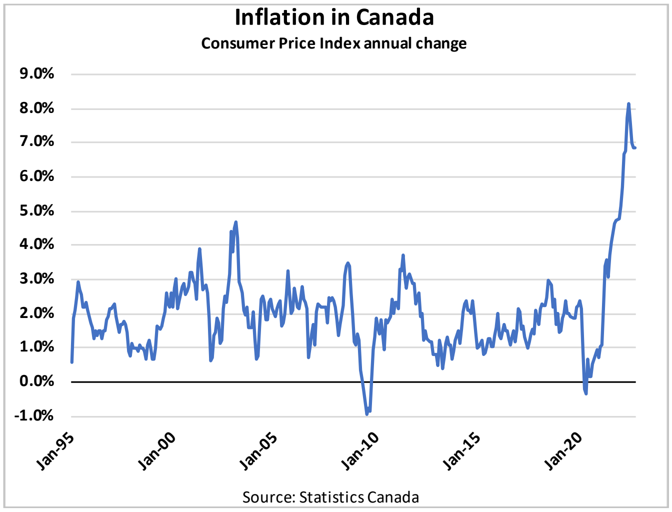
Economic activity in Canada has been holding up reasonably well through the Bank of Canada's current rate-hike cycle, but there are emerging indicators that a slowdown is imminent.

For now, though, one of those indicators isn't job growth. Canada saw a surprising 108,000 new jobs created in October compared to estimates of closer to 10,000. The unemployment rate held steady at 5.3%, one of the lowest readings on record.

Inflation, meanwhile, which had been as high as 8.1% as recently as June, slowed to a 6.9% year-over-year growth rate in October.





Importantly, there are signs that core inflation (the Bank of Canada's primary focus) is also beginning to cool. Seasonally adjusted core CPI rose just 0.2% last month relative to September, the slowest monthly increase since early 2021.

At the same time, the OECD's Composite Leading Indicators of economic activity for Canada have fallen to levels that suggest a steep economic downturn next year.

Even though current economic activity looks reasonably solid, the combination of cooling inflation and a steep decline in forward indicators has markets paring back expectations for future interest rate hikes. The 5-year bond yield, a major determinant of fixed mortgage pricing, has fallen from a high of 3.9% in mid-October to roughly 3.4% at the time of writing.

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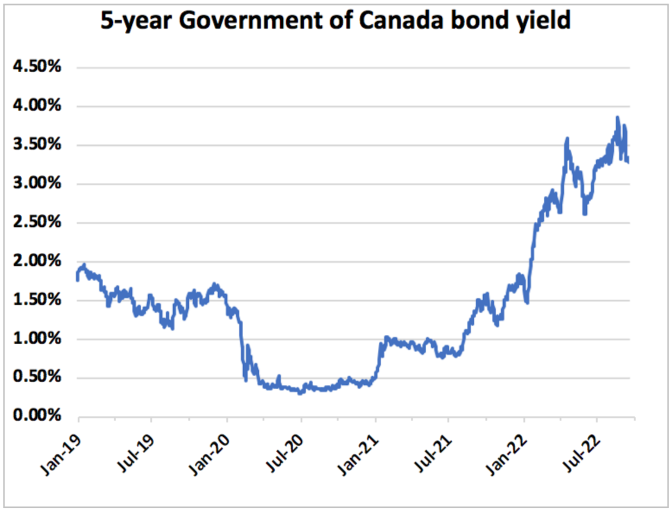
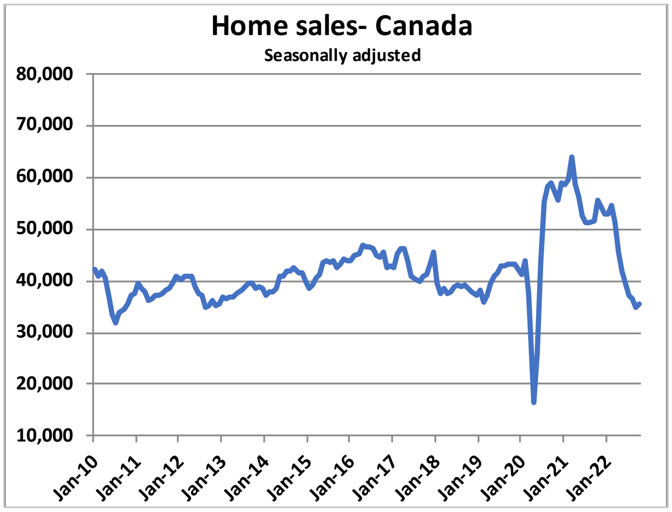
What it means: Fixed mortgage rates will see downward pressure in the coming weeks, all else equal. On the surface, it's a positive development for housing, but let's remember that the decline is primarily a function of a deteriorating economic outlook, and we don't yet know just how deep the potential recession may prove to be.



Home sales tick up

Canadian home sales ticked up 1.1% month-over-month in October, the first monthly increase since February. That still leaves sales down a massive 36% compared to last year at this time.

Notwithstanding a severe economic downturn, there's probably not much further sales can fall from here given record population growth (700,000 in the past year compared to 944,000 in the U.S.…a country with 9x the population). Key provinces like Ontario are already seeing demand that is effectively at 1990s levels. It's not sustainable over the longer term.



On supply side, new listings jumped 2.5% month-over-month nationally, led by B.C. (+4.7%) and Ontario (+3.4%). Active inventory levels also rose 2.3% month-over-month, the largest increase since July. That puts supply up 33% year-over-year nationally and up a whopping 106% in Ontario.

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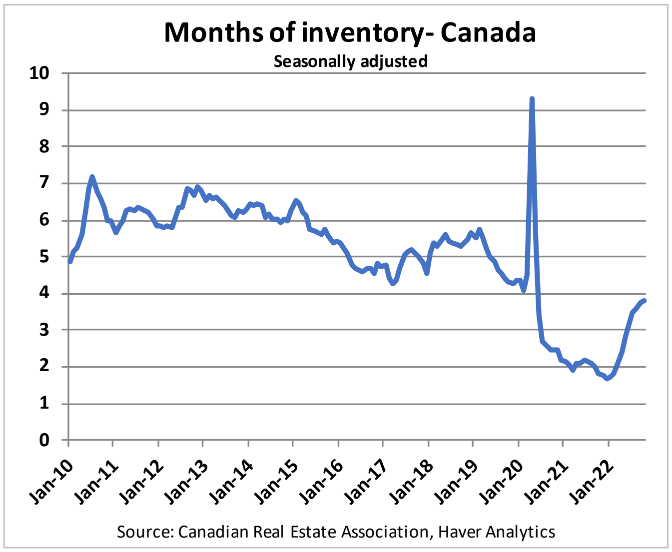
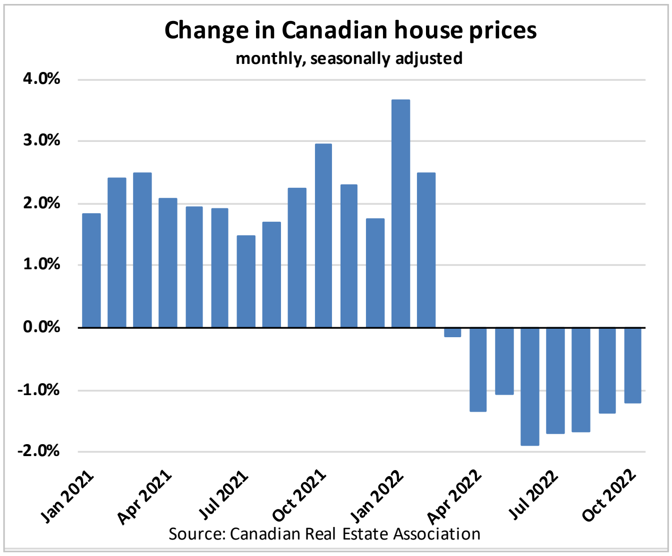
But it's important to note that the market is not dramatically oversupplied by any means. Months of inventory, a crude measure of supply and demand, ticked up last month, but only to 3.8 from 3.7 previously, but it remains well below normal levels.

Seasonally adjusted house prices did decline 1.2% on the month, but that represents the smallest such decline since March.





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**Any forecasts contained in this report are accurate as of the date indicated.*

Ben Rabidoux is the founder of Edge Realty Analytics (www.edgeanalytics.ca), which equips top real estate and mortgage professionals with timely research and insightful marketing infographics to help them stand apart from the competition and stay engaged with their clients and prospects.

He is also the founder and president of North Cove Advisors, a market research firm serving institutional and high net worth clients since 2013 that is consistently ranked top 5 for Canadian economic coverage by Brendan Wood International.

He is a frequent guest and contributor in major media outlets, including Bloomberg, The Wall Street Journal, Reuters, The Globe and Mail, The Toronto Star, Macleans, and many others.