Housing and Mortgage Market Review: *January 2023*

Muted inflation, weak business outlook set the stage for a Bank of Canada rate pause

By Ben Rabidoux

Mortgage Professionals Canada is pleased to share the January 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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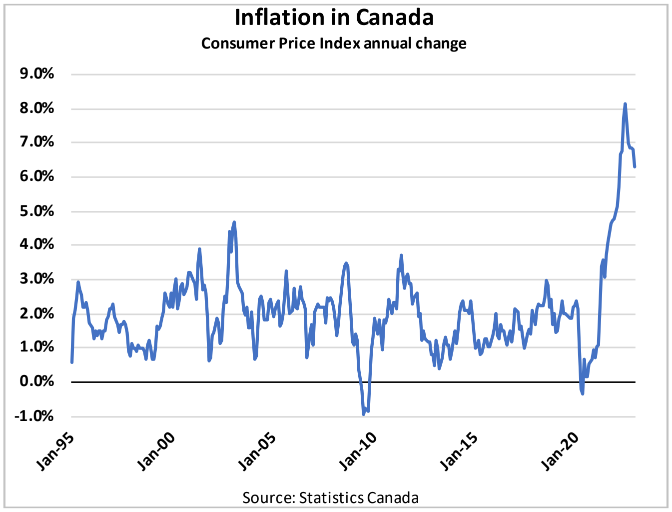
Inflation and the Bank of Canada's response to it remain the dominant macroeconomic variables to monitor in 2023.

On that front, inflation continues to moderate, with the headline reading coming in at a lower-than-expected 6.3% year-over-year in November. Further, the index itself is completely unchanged over the past six months after averaging 1.5% monthly increases in the first half of 2022. In other words, the widely-reported headline inflation reading is largely reflecting price increases that happened 6-12 months ago.



The latest Business Outlook Survey and Survey of Consumer Expectations from the Bank of Canada—two important surveys that shape monetary policy—point to developments that are broadly indicative of cooling inflation. For example, businesses are expecting slowing wage growth, they are seeing slowing input and output price pressures, and they're reporting fewer labour shortages. All of that is supportive of the view that inflation will continue to moderate over the near term.

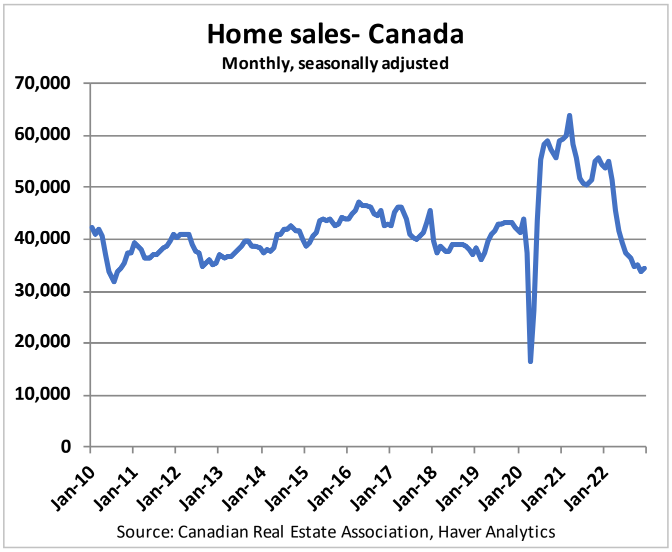
But at the same time, core inflation, which strips out volatile components like food and energy and which heavily guides the Bank of Canada, remains stubbornly above 5%—more than double the Bank's target. And the same surveys referenced above found that over 80% of Canadian businesses expect inflation to average above 3% over the next two years.

What it means: While we're seeing significant progress in the fight against inflation, we're not quite there yet. We should expect at least one more interest rate increase (likely 25bps) on January 25 before the Bank of Canada contemplates pausing after Q1 to gauge the full impact of the rate hikes to date.

Home sales remain under pressure

Seasonally adjusted home sales fell 4.9% nationally in the fourth quarter relative to the prior quarter. In spite of strong population growth, demand is at levels last seen 12 years ago, which speaks to extreme affordability constraints due to rising rates.

But it's not just buyers that have moved to the sidelines. Sellers have also largely exited the market. New listings plunged 3.5% from Q3 to Q4, with December seeing the lowest level since the early days of the pandemic in May 2020.



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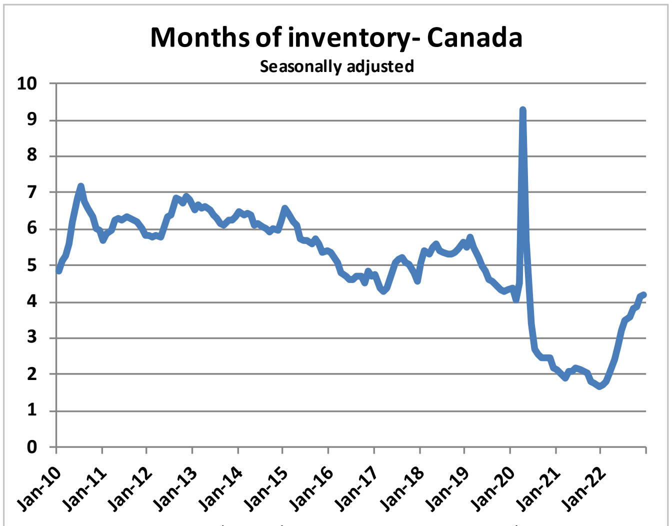
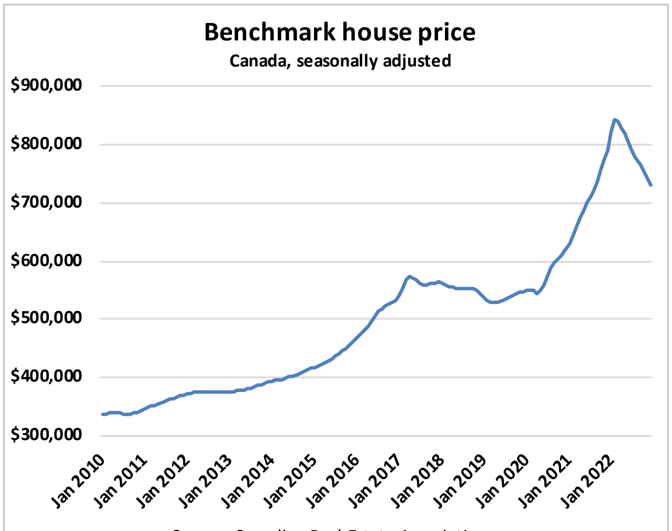
What it means: The big question heading into the key spring selling season is whether these listings have simply been "delayed" and we see a strong supply response, or whether sellers truly have exited the market altogether.

Months of inventory, a crude measure of supply and demand, jumped to 4.2 in December after hitting a low of just 1.6 in late 2021. This is a dramatic change, but we still have a way to go to get back to the long-term average of closer to 5.5 nationally. In other words, even after nine months of extremely weak demand, markets across the country are still not exceptionally well supplied by any means.

House prices continue to grind lower with the MLS benchmark down another 1.6% seasonally adjusted in December. That puts the cumulative decline from the peak at 13.2%, which is already considerably larger than the Financial Crisis peak-trough decline of 9.1%.



Source: Canadian Real Estate Association, Haver Analytics

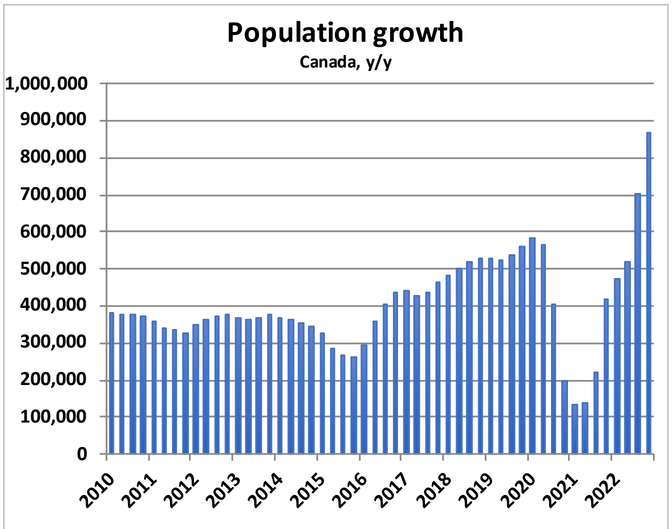


Source: Canadian Real Estate Association

Record population growth points to solid long-term fundamentals

Canada's population grew by a record 866,000 people in the past year, including a massive 362,000 last quarter alone. Strong immigration was a major driver, but so too was a record inflow of non-permanent residents, including international students and temporary workers.

What it means: Strong population growth and weak resale demand indicate, by default, that rental demand must be very strong. After all, people have to live somewhere.



Source: Statistics Canada

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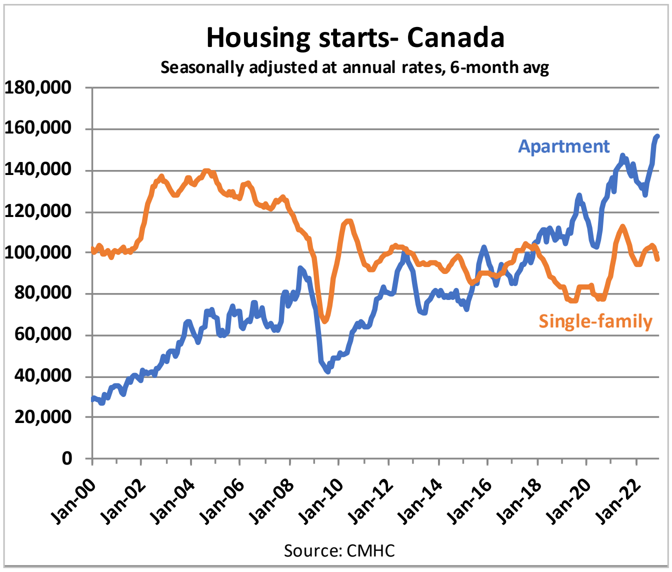
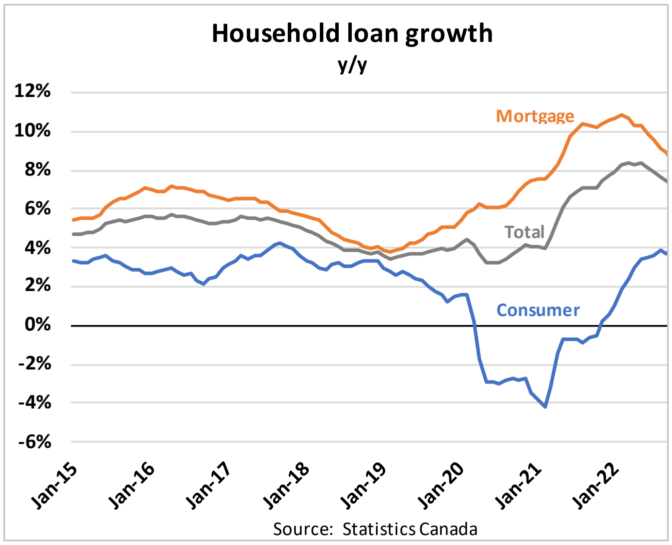
Meanwhile single-family housing starts have rolled over and are now below decade-averages while apartment starts (condos plus purpose-built rentals) remain at record highs.

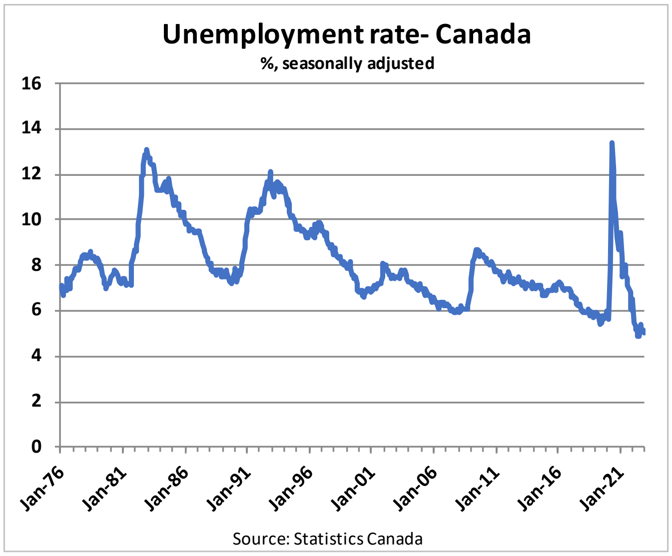


Mortgage growth continues to slow

Rising rates continue to significantly curb mortgage growth. True, the annual growth rate is still north of 8%, but if we zoom in on the seasonally adjusted monthly data, we find the monthly growth rate is just 0.4% and falling quickly. Originations were down 34% year-over-year in November. We'll likely see annual mortgage growth fall below the post-B20 lows of 4% later this year.

With variable-rate mortgages now priced above their fixed-rate equivalents of similar terms, it's not surprising that demand for variables has plunged in recent months. After accounting for over 50% of new originations in early 2022, variable-rate mortgages fell to just 22% of new originations in November and have likely fallen significantly since.





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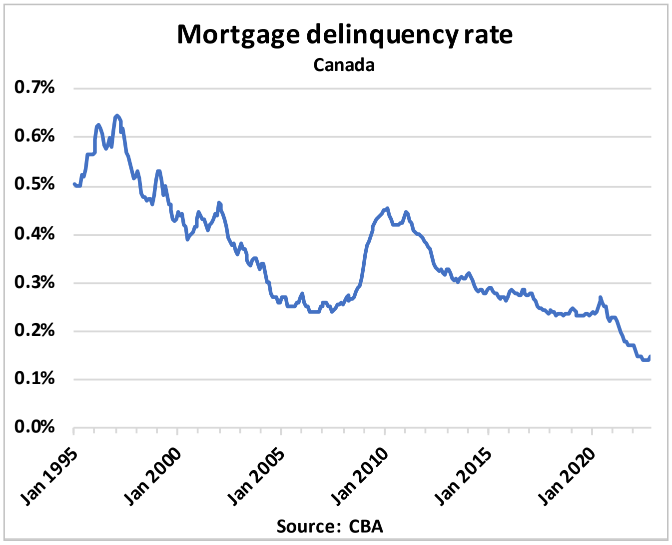
Job growth continues (for now), delinquencies remain near record lows

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.

And while almost all forward-looking indicators point to a significant economic slowdown, if not recession, on deck, the reality is that we're ending 2022 with mortgage delinquencies near record lows of just 0.15%.



What it means: 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 a potential recession in a better position than during other downturns.

**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.