MORTGAGE PROFESSIONALS CANADA

Housing and Mortgage Market Review: *May 2023*

Inflation uptick surprises markets

By Ben Rabidoux

Highlights on what is driving the housing and mortgage market:

- Home sales sprang to life in April, jumping over 11% compared to March, although the real story remains the lack of housing supply
- Inflation surprises to the upside in April, driven largely by rising shelter expenses
- High inflation combined with a strong labour market could set the stage for interest rates to remain higher for longer
- The turnaround in housing market could open the door to a potential regulatory response from policy-makers

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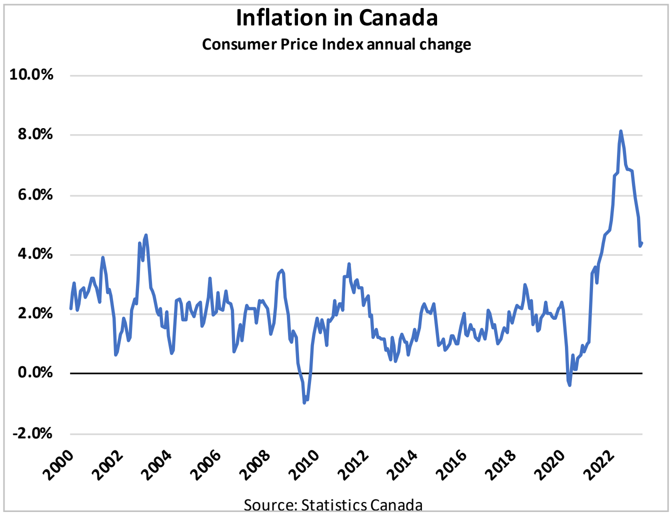
Canadian headline inflation ticked up to 4.4% annually in April against expectations of a 4.1% reading. That's up slightly from the 4.3% print in March. The increase was driven by higher shelter costs, including rents and mortgage interest expenses, and to a lesser extent by higher gasoline prices.

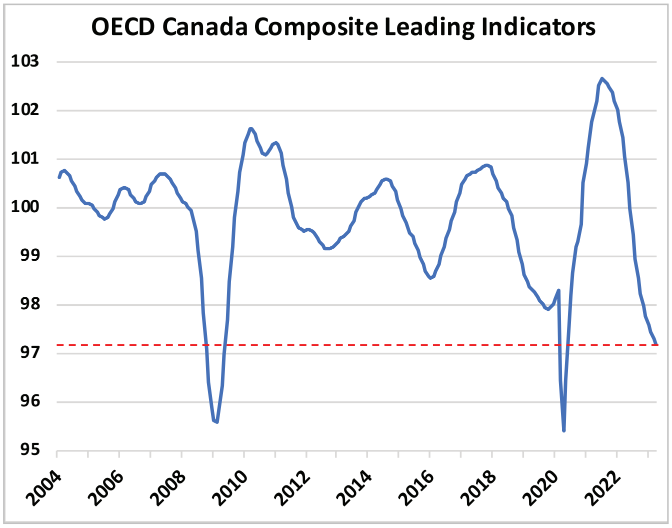


Further muddying the waters for the Bank of Canada is the remarkably strong labour market, which has now churned out 350,000 new jobs in the past six months. The unemployment rate is locked in near all-time lows while wage growth remains robust at over 5%, a level the Bank of Canada acknowledges is incongruent with their 2% inflation target.

All of this points to potentially higher rates for longer, a fact not lost on bond traders who rapidly reduced the odds of a rate cut later this year and pushed the 5-year bond yield up 15 basis points after the CPI print.

Pity the economic forecasters tasked with making sense of all of this. Inasmuch as current conditions point to the need for higher rates, it's hard to ignore the storm clouds on the horizon, be they the continued inversion in the yield curve (a classic recession indicator) or leading economic indicators, which remain at levels last seen during the Financial Crisis and the early days of the COVID pandemic.

At this point, the data points to a Bank of Canada "pause" until early 2024, by which point the economic slowdown foretold by leading indicators should allow for a sharp slowdown in inflation and rate cuts early next year.



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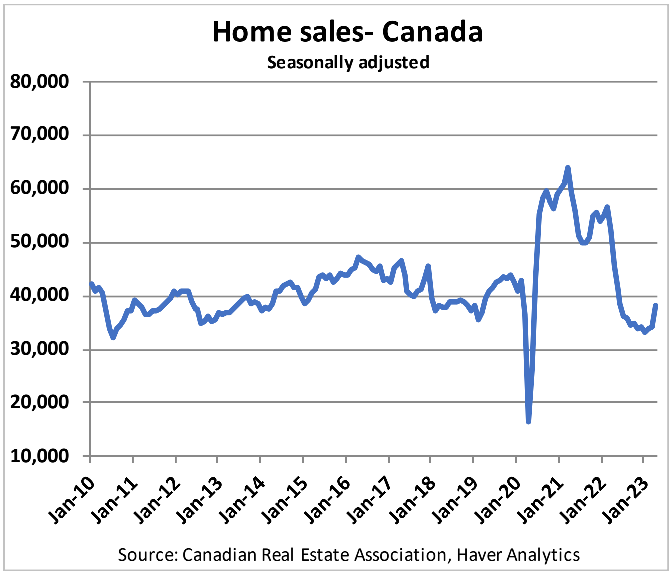
Home sales surge in April

Seasonally adjusted home sales sprang to life in April, jumping 11.3% on the month, the strongest monthly showing since the economy was emerging from lockdowns in mid-2020.



But the real story remains the lack of supply. Yes, seasonally adjusted new listings ticked up 1.6% relative to March, but they were 26% below April 2022 levels. And more importantly, they weren't nearly high enough to keep pace with surging demand. That pushed the sales-to-new listings ratio above 70%.

For context, the 2016-2017 period never saw this ratio hit these levels, and this period was considered "frothy" enough to necessitate significant policy responses (i.e., B-20 from OSFI and foreign buyer taxes in B.C. and Ontario). This data could raise concern among regulators, such as OSFI, which is currently deliberating potential amendments to the B-20 regulations.

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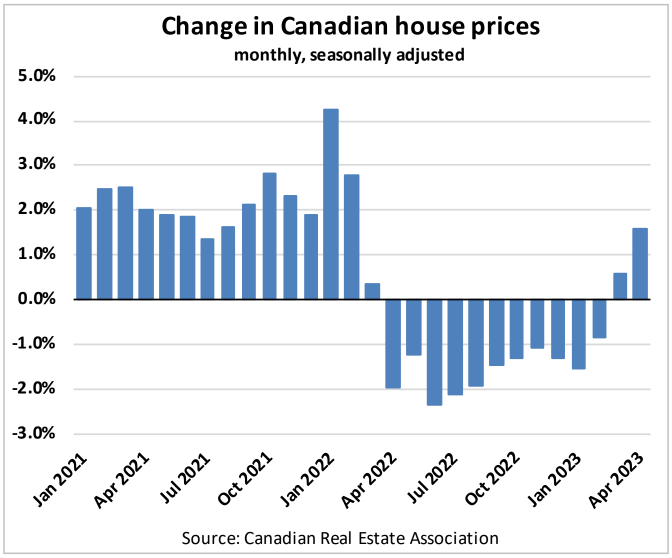
With market conditions tightening dramatically, the result is a firming in prices. The MLS House Price Index registered a 1.6% monthly increase, the largest since early 2022.

While the real estate industry may cheer this dramatic turnaround after a very difficult 12 months, we should be mindful that this will not be welcome news for policy-makers, and an extended period of market tightness, the like of which we just saw in April, would open the door to a potential regulatory response.



**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.