THE EDGE REPORT

October 2024

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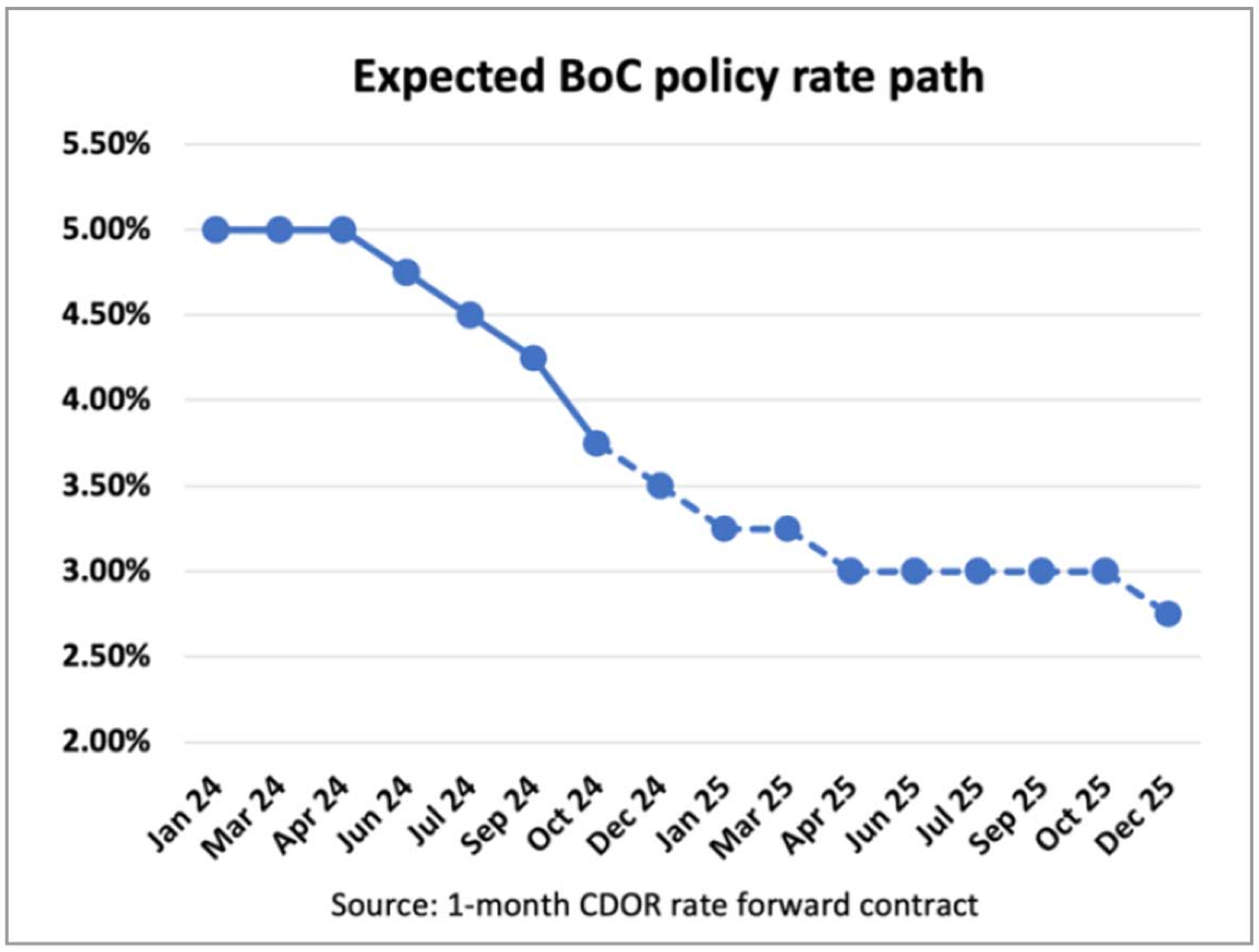
MORTGAGES
FSRA # 12543

1) *Jumbo rate cuts from BoC. What comes next?*

The Bank of Canada cut 50bps this morning as expected. Markets are currently pricing in roughly a 25% odds of ANOTHER 50bp cut in December, but expect those odds to drift higher between now and then. <u>I still think we have one more outsized cut in store before we ring in th new year.</u>



Looking out to the end of 2025, markets see the overnight rate at 2.75% or 1 percentage point lower than it is currently.

> I think that's about right, I just think we get there sooner than markets think, and by the middle of next year, the concern will turn to how low the Bank of Canada can allow the loonie to fall before we risk importing another about of inflation.

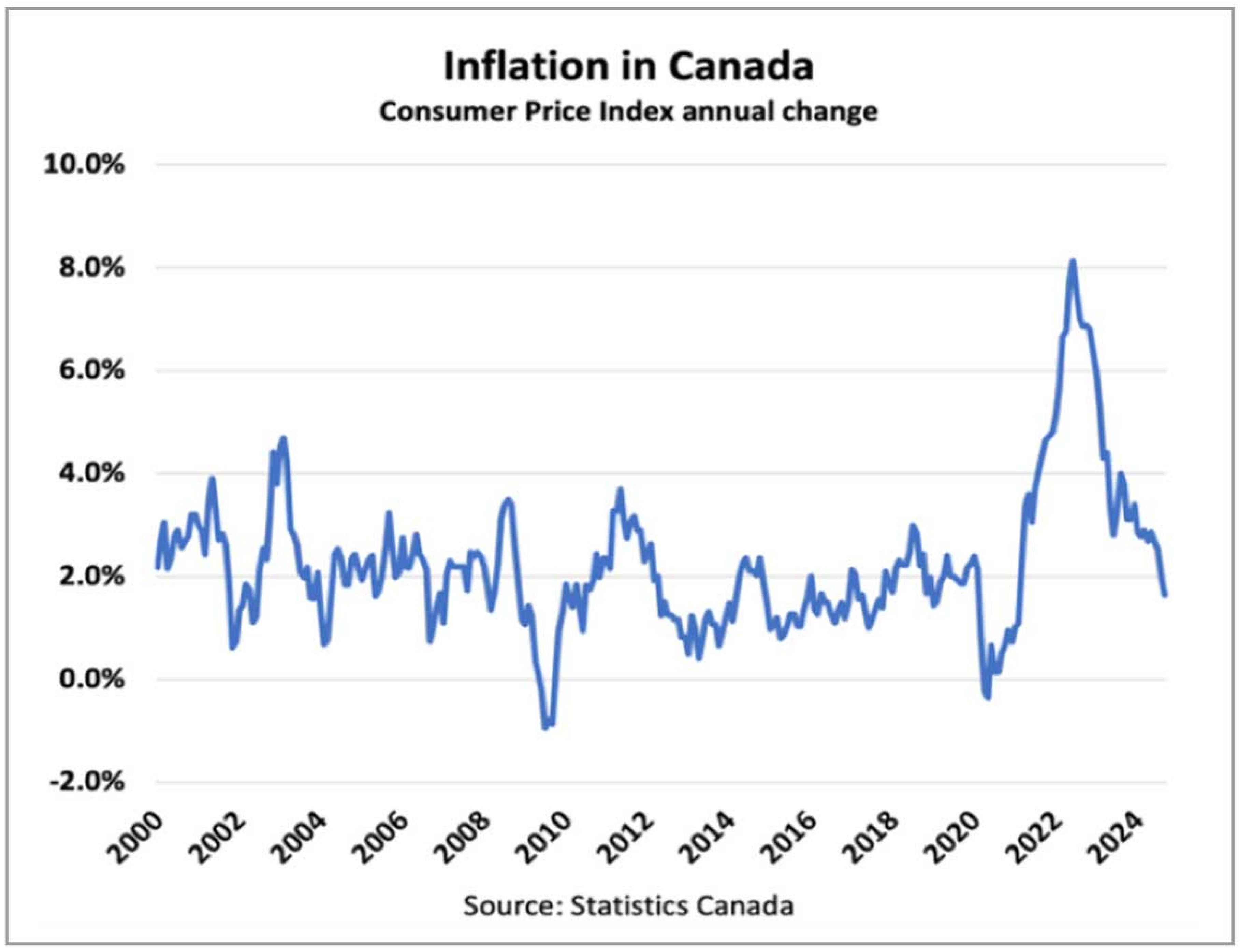
But that's likely a discussion for next summer.

Expect variable rates to follow in step this week, but also note that fixed rates have already priced in a lot of rate cuts. It's noteworthy that 5-year bond yields are actually UP this morning even with the jumbo rate cut:

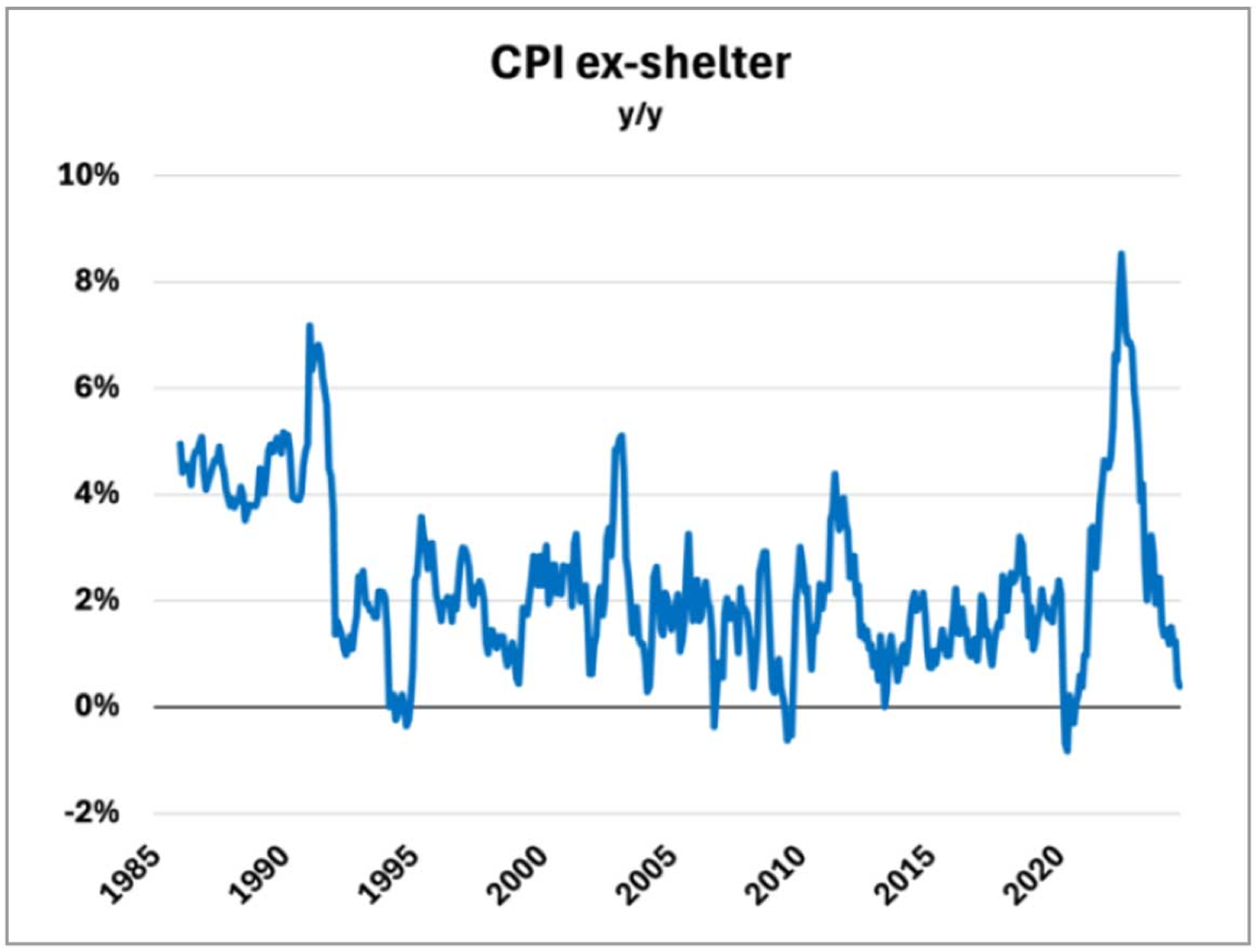
Why now?

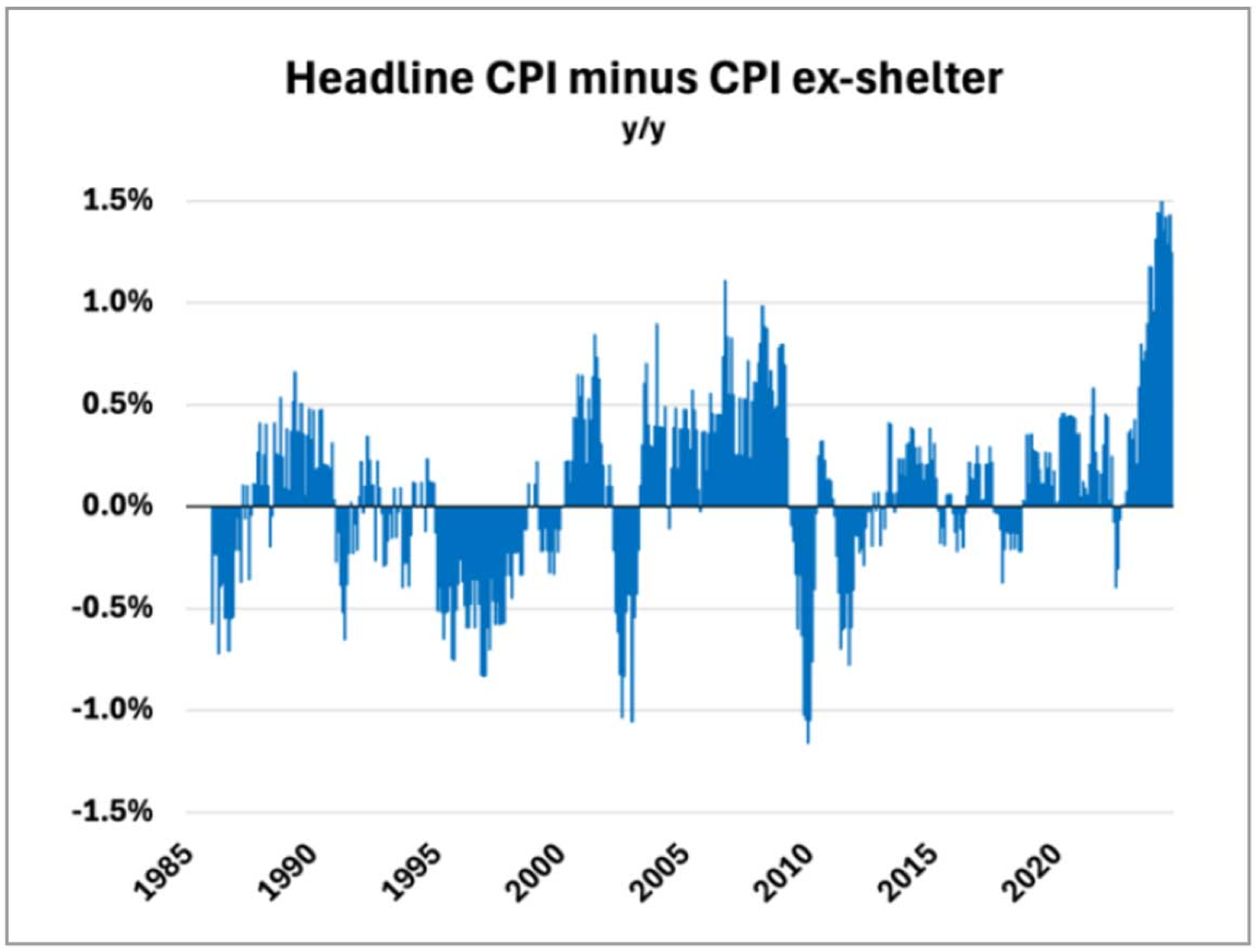
So what forced the BoC into an outsized cut at this juncture?

Let's start with headline CPI. We know it came in way softer than expected last month at just 1.6%...

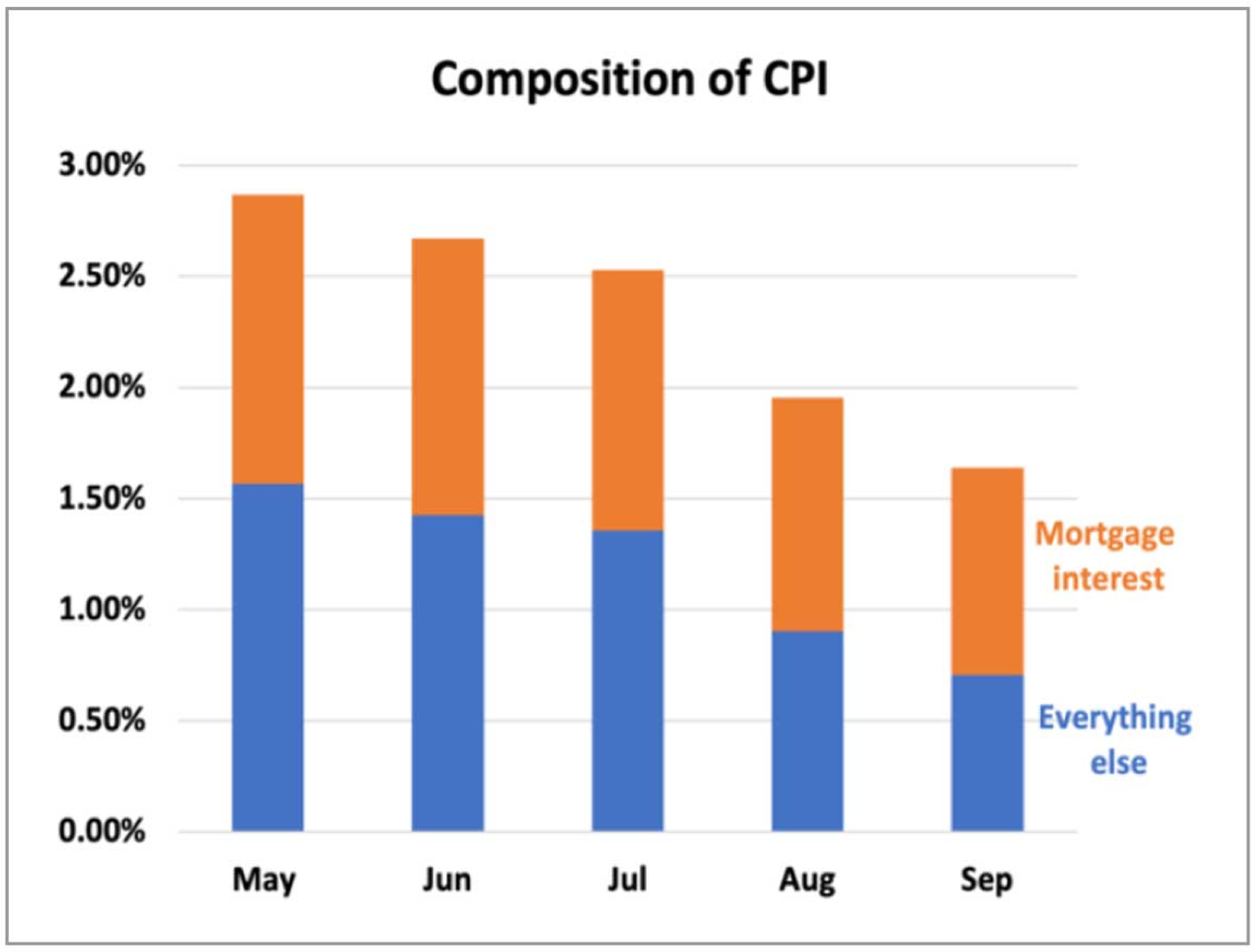


... but it's telling that once we back out shelter, it's just 0.6%. The gap between headline CPI and CPI-ex shelter is the widest on record which tells us that "inflation" at this point is really just a story of rents and mortgage interest costs.

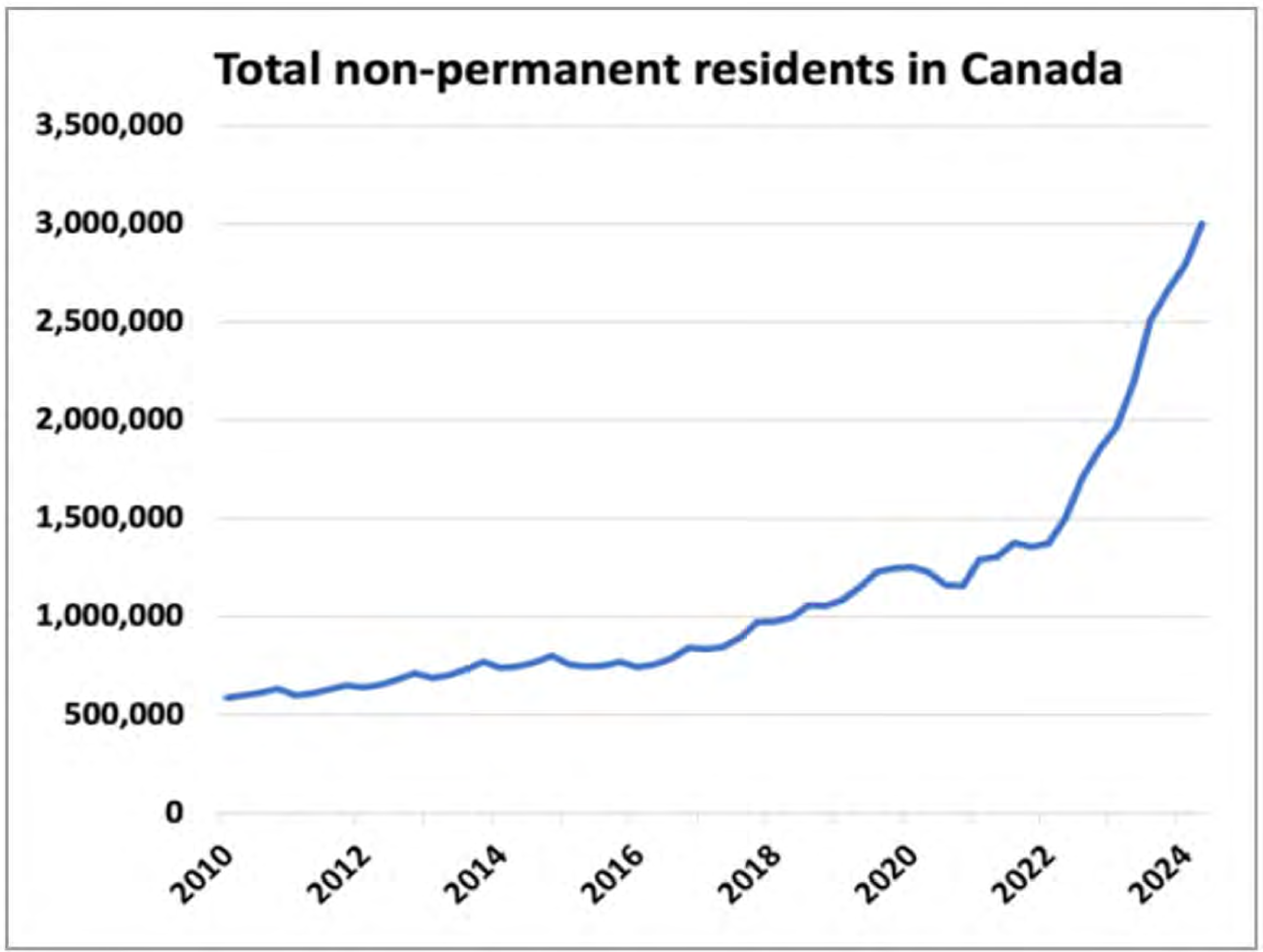


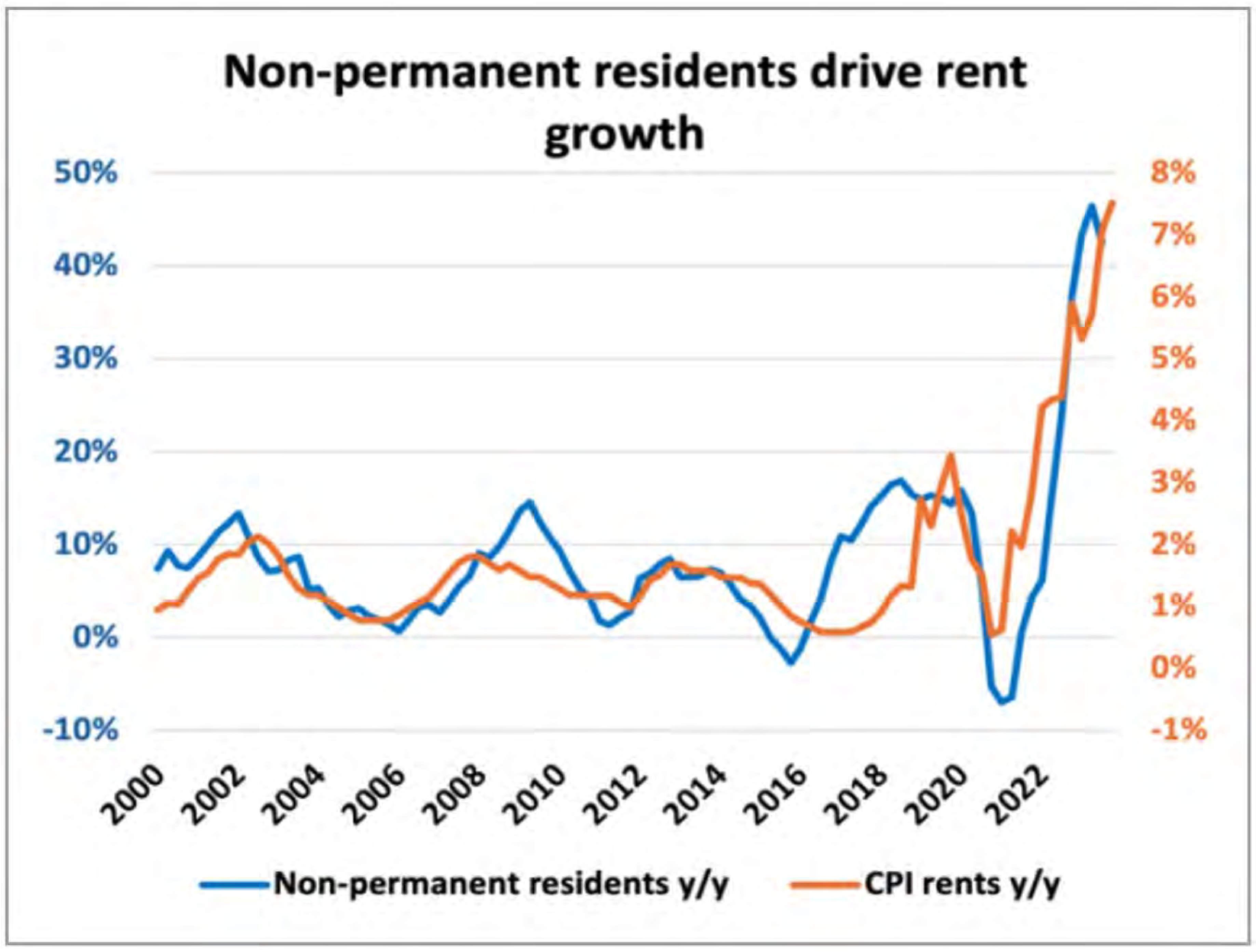


As I've argued many times, the Bank of Canada can and will look through these two dynamics. They have direct influence over mortgage interest costs, and that one component is still accounting for over half of headline CPI:

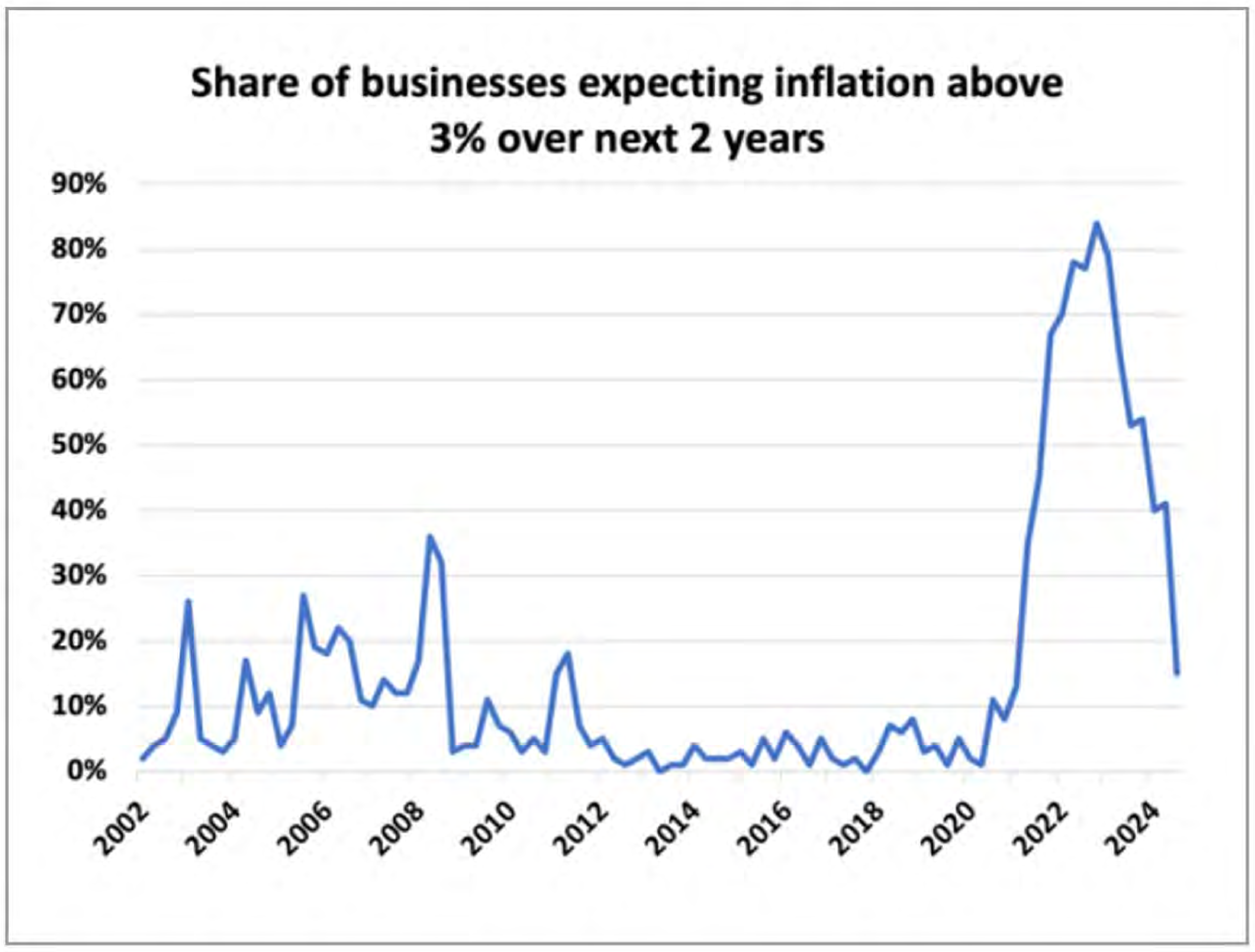


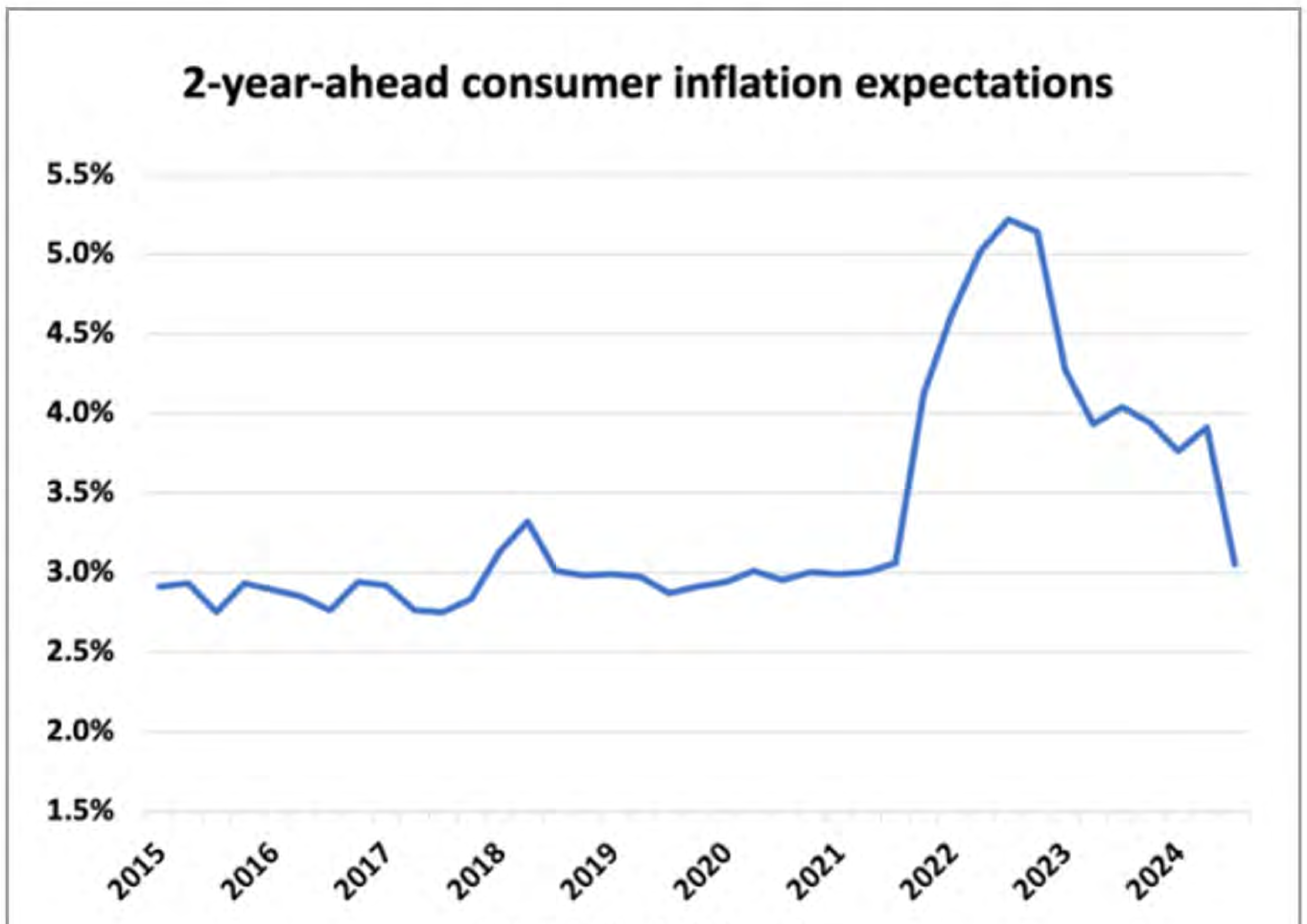
On the rental side, I think the Bank understands, as I do, that the rental market is already transitioning to a more balanced state, and that's BEFORE we feel the impact of the looming slowdown in non-permanent resident growth. And lest there be any doubt, this dynamic more than any other has led to the crazy rental market of the past couple years:





Further, inflation expectations from consumers and businesses are collapsing. We see this in spades in the most recent BoC Consumer Expectation Survey and Business Outlook Survey released last week:





Source: Bank of Canada

The risk of inflationary psychology driving a resurgence in price pressure is now virtually nil.

Finally, consider the labour market. I've been arguing for a while that it's weaker than headline numbers suggest. We see this in secondary indicators like a slowdown in hiring and a surge in long-term unemployment.

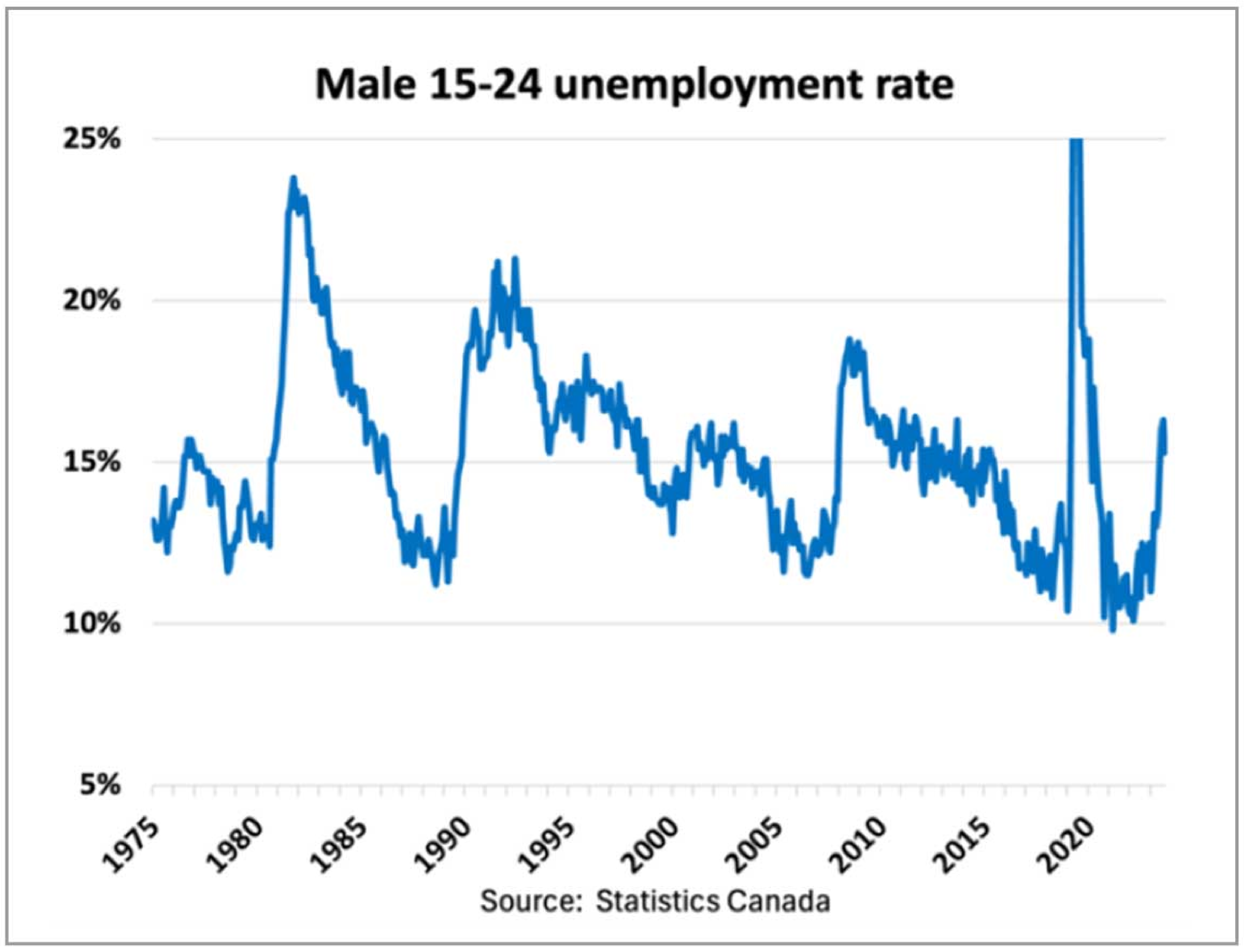
But it's worth highlighting some Bank of Canada research from earlier this year[1]. According to their own models, the number one predictor of future inflation is the unemployment rate for young men:

Table 1: Some indicators contribute more to inflationary pressures than others
Impact of a 1 standard deviation increase in labour indicators on annualized CPI-trim inflation, percentage points

Indicator	Total impact	Significance of estimates	Model fit
Unemployment rate, 15–24 males	0.43	✓	★
Job changing rate	0.41	✓	⯪
Job finding rate	0.40	✓	★
Unemployment rate	0.39	✓	★
Unemployment rate, <27 weeks	0.39	✓	★
Involuntary part-time rate	0.37	✓	★
Unemployment rate, 55+ males	0.37	✓	★
Unemployment rate, non-university	0.37	✓	★
Wage growth, SEPH variable weight	0.36	✓	⯪
Employment rate, low-wage	0.36	✓	★
Broad unemployment rate	0.35	✓	★
Unemployment rate, university-educated	0.35	✓	★
Unemployment rate, 52+ weeks	0.35	✓	★
Unemployment rate, 25–54 males	0.35	✓	★
Unemployment rate, 27+ weeks	0.35	✓	★
Unemployment rate, 25–54 females	0.34	✓	★
Participation rate, 15–24 males	0.34	✓	⯪
Employment rate, private sector	0.33	✓	★
Employment rate	0.32	✓	★
Unemployment rate, 55+ females	0.31	✓	★
Wage growth, SEPH fixed weight	0.30	✓	☆
BOS labour shortages	0.30	✓	⯪
Employment rate, mid-/high-wage	0.29	✓	⯪
Unemployment rate, 15–24 females	0.29	✓	★
Job separation rate	0.29	✓	⯪
Wage growth, LFS fixed weight	0.27	✓	⯪
Wage growth, LFS variable weight	0.27	✓	⯪
Wage-common growth	0.27	✓	⯪
Wage growth, NAC	0.26	✓	⯪
Labour force participation rate	0.23	ⓘ	☆
Participation rate, 15–24 females	0.22	✓	⯪
Unit labour cost growth	0.22	✓	⯪
Employment rate, public sector	0.19	✓	⯪
Average hours worked	0.17	⊗	☆
Participation rate, non-university	0.16	⊗	☆
Participation rate, 25–54 males	0.06	⊗	☆
Participation rate, 25–54 females	0.01	⊗	☆
Participation rate, 55+ females	-0.11	⊗	☆
Employment rate, self-employed	-0.16	✓	⯪
Participation rate, university-educated	-0.29	⊗	☆

This is now to minimize the impact of women in the labour force, but the reality is that young men are over-represented in industries like construction, manufacturing, and grocers. When the job market in those industries gets tight, it forces wages up, and that feeds through to key inputs in the CPI basket.

So let's look at the trend in unemployment in that cohort:



The unemployment rate has gone from 10% to 17% in basically a straight line. Not good! This means significant downward price pressure on the horizon. Don't think the Bank isn't taking notice.

> Finally, I think people are sleeping on how much trouble the manufacturing sector is in currently.

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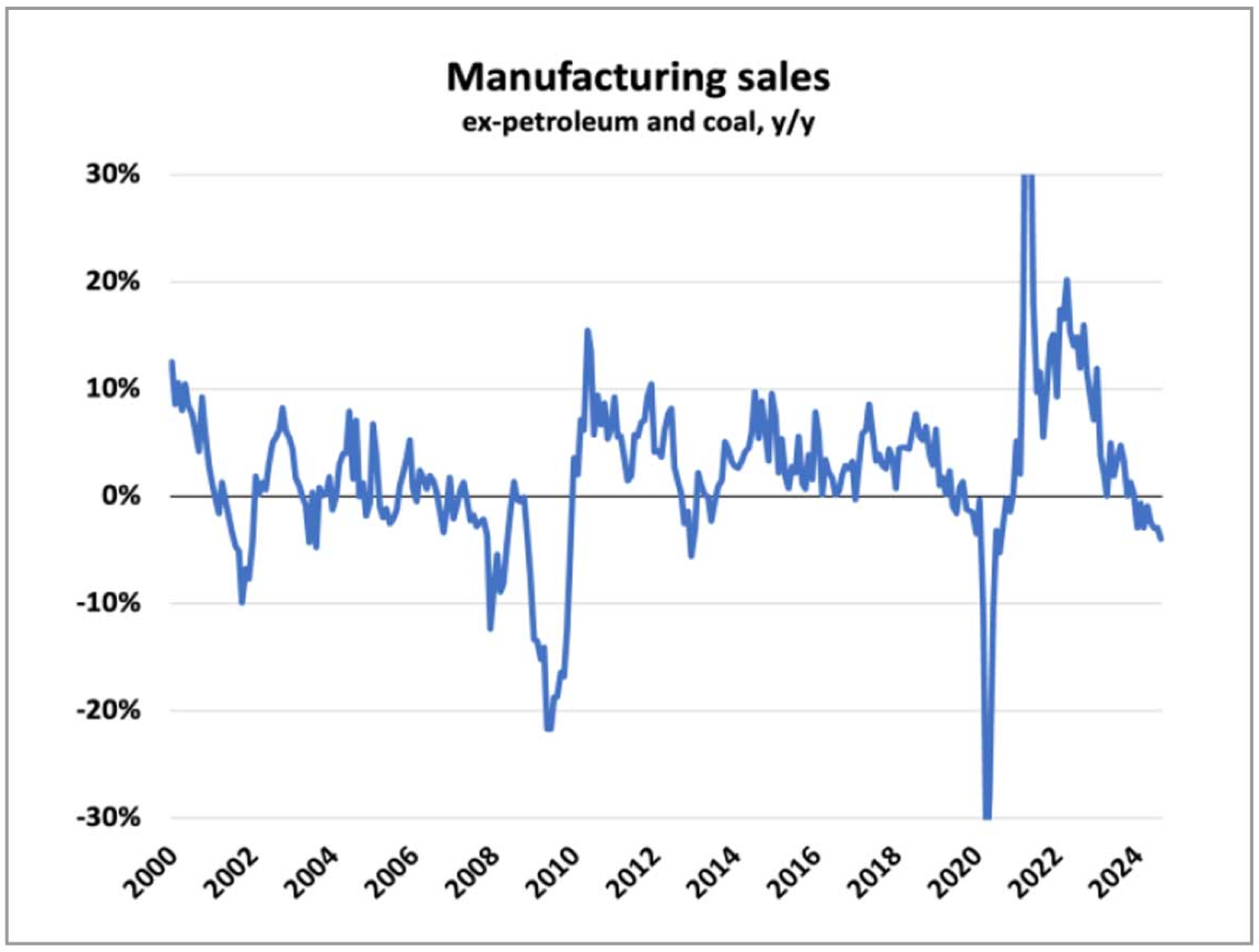
[1] https://www.bankofcanada.ca/2024/04/staff-analytical-note-2024-8/

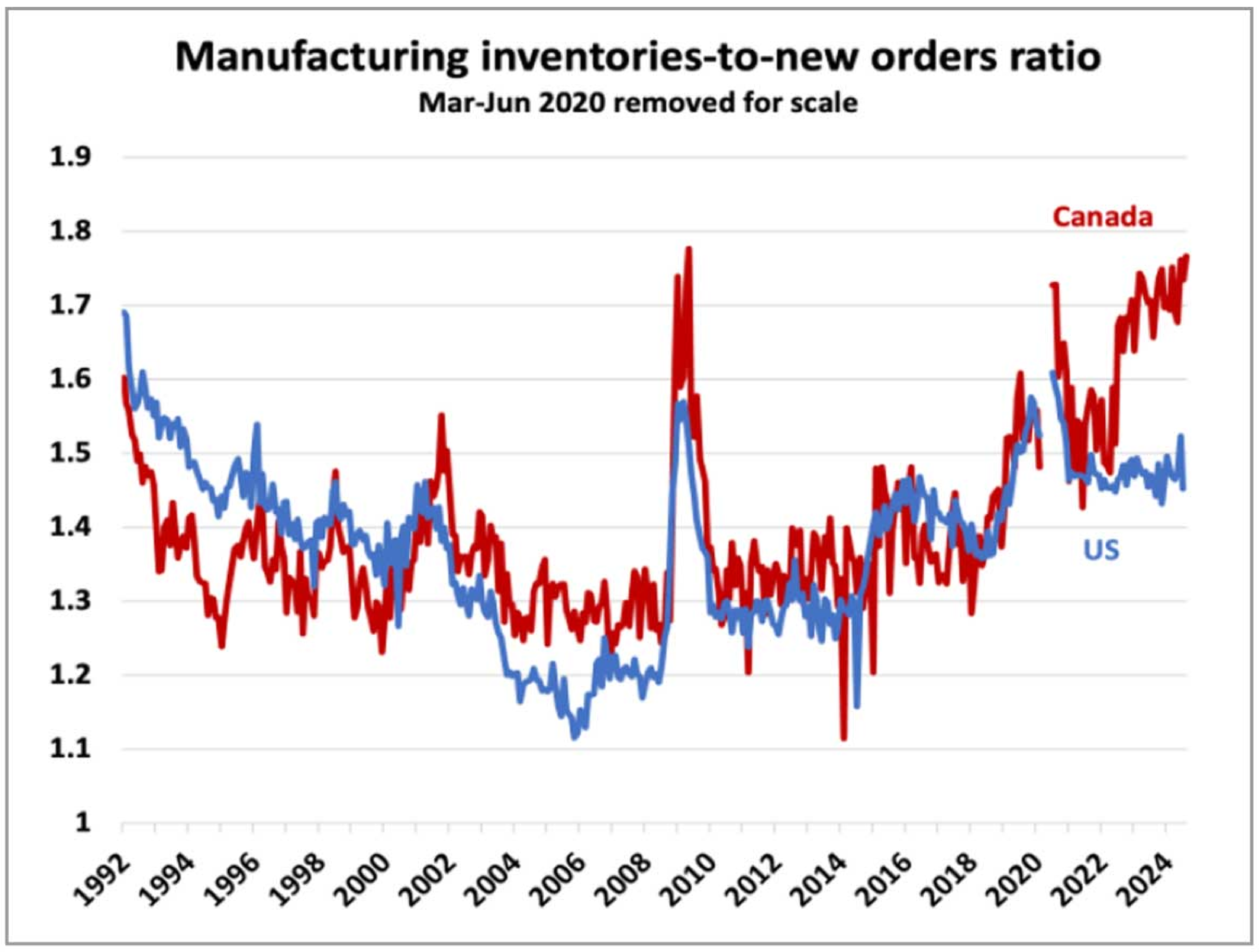
This is the sleeper issue that is not yet being discussed by Bay Street economists, but just give that some time.

Consider the most recent report from last week. Headline manufacturing sales were down 1.3% m/m and were down 1.0% once backing out the volatile petroleum component. That left ex-petroleum sales down 4.0% y/y and sitting at 2-year lows.

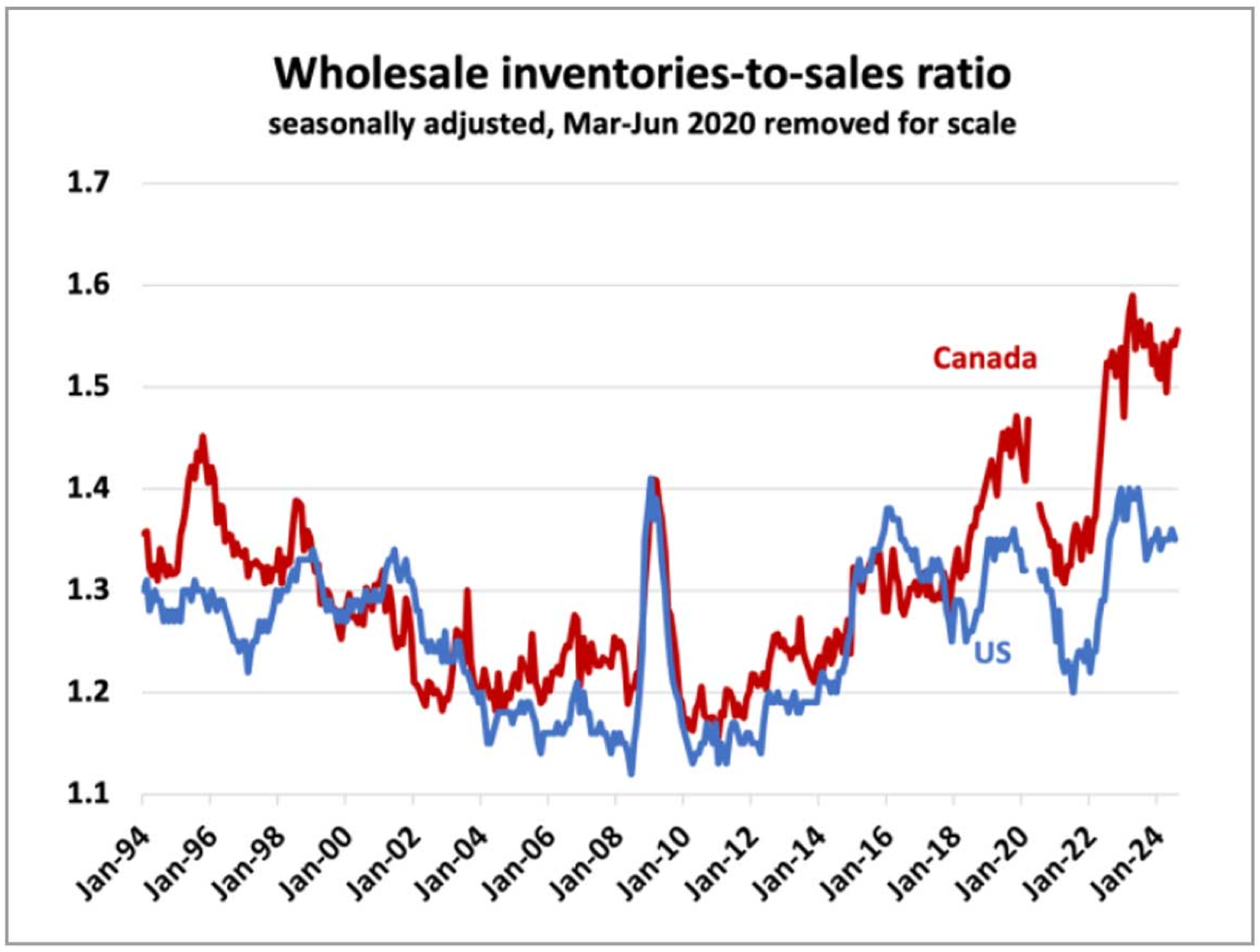


Meanwhile, inventory levels of both raw materials and finished goods remain extremely elevated. As a ratio of sales, we're sitting above Financial Crisis levels and at the highest since the 1990s and at record spreads relative to the US:

At the same time, new orders were down 2.4% m/m and 6.3% y/y to hit the lowest level since Jan 2022. The ratio of raw material inventories to new orders has blown out to Financial Crisis levels:

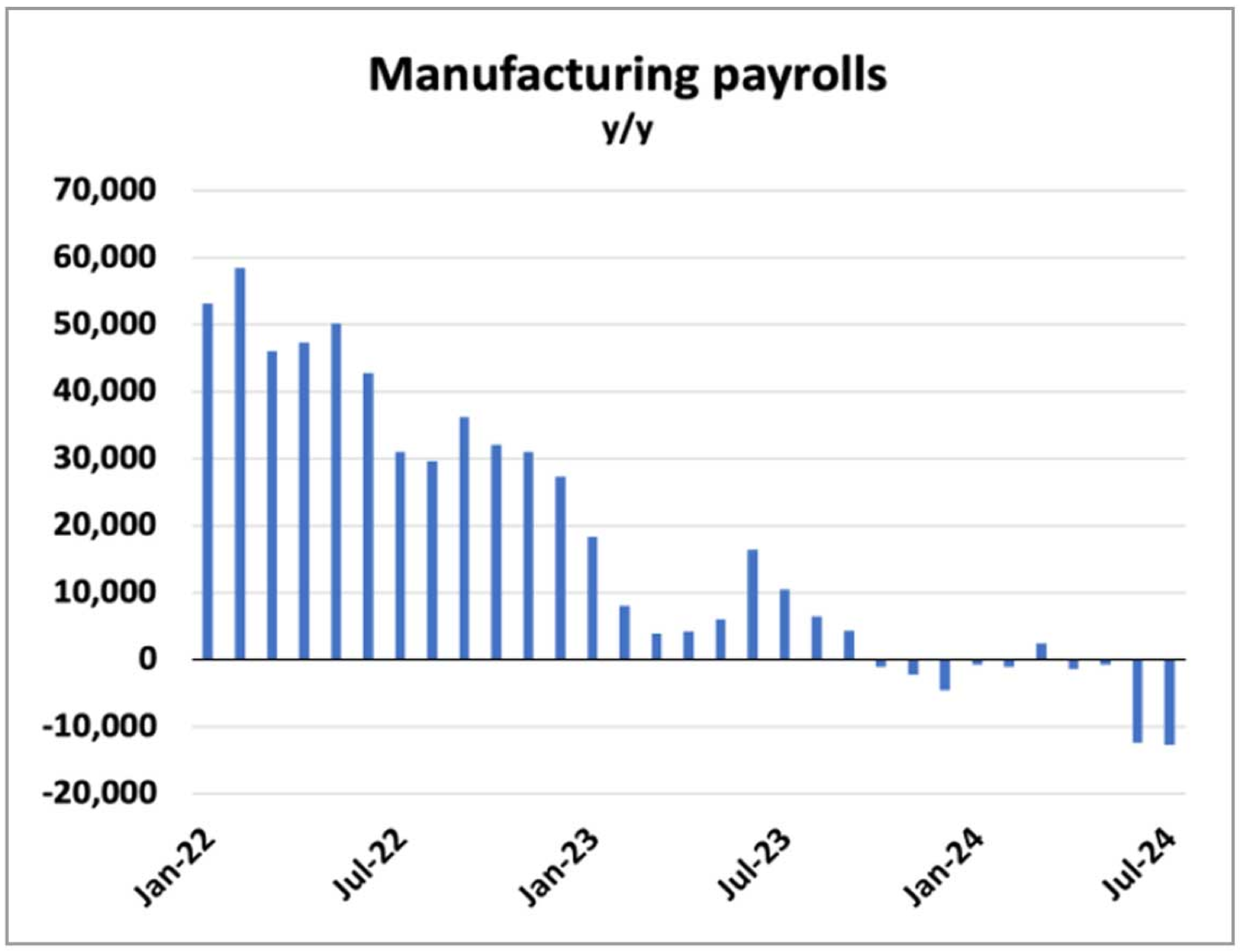


The problem is compounded by the fact that wholesalers, who operate as the middle-men between manufacturers and their final consumers, are also stuffed to the gills with inventory. Wholesaler sales fell 0.6% m/m in August while inventories grew 0.3%:



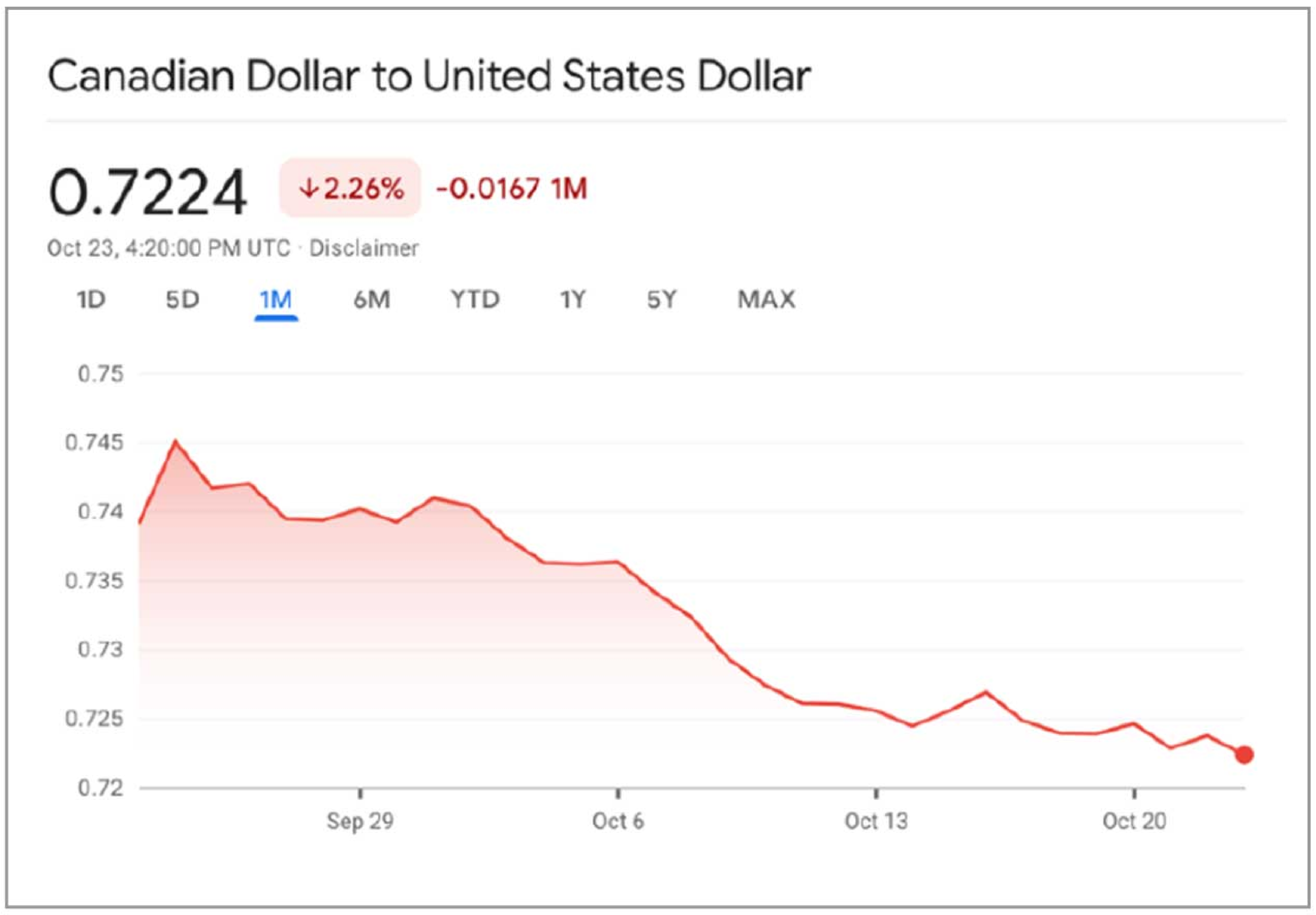
The story here looks pretty simple: Canadian manufacturers hav ebeen producing goods at well above the run rate of demand, and that's showing up in a rising ratio of inventory relative to sales at both manufacturers and wholesalers.

A slowdown in manufacturing activity looks baked into the cake and we're starting to see the early signs of this in the payroll data:



This is not a small issue when manufacturing accounts for 9% of total employment.

<u>The solution? If Canadians aren't buying, you need to get the currency waker to make manufacturing exports more competitive on international markets. This may not be an explicit goal of the Bank of Canada, but at this point it's a welcome side effect.</u> Look at the trend over the last month:

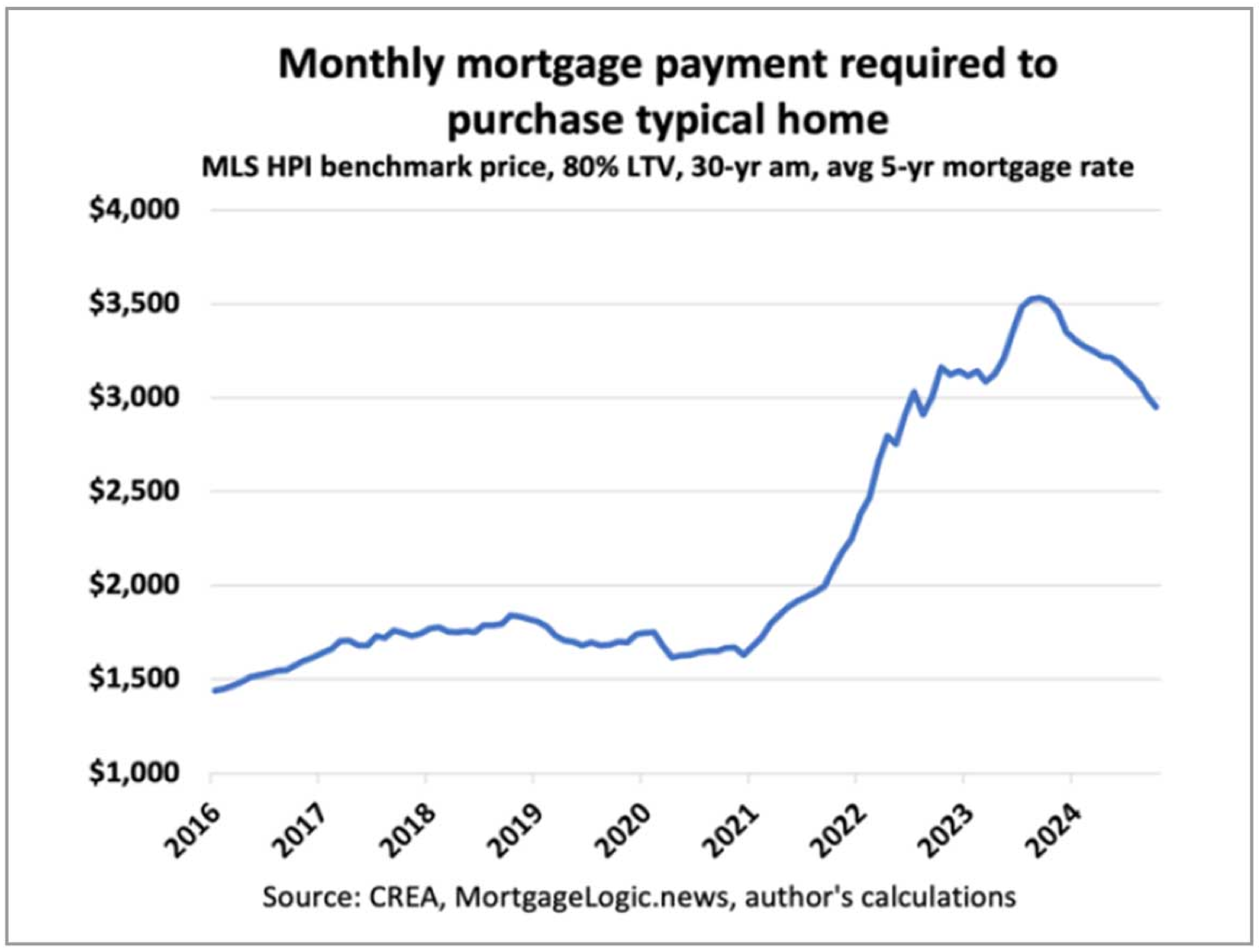


I've said previously that before this cycle is over, we'll likely see the Loonie retest the all-time lows of ~62 cents to the US Dollar. This will ultimately facilitate the rebalancing of the Canadian economy away from housing and consumption and back towards manufacturing, but it does risk stoking inflation. But we'll cross that bridge when we get there... likely next year.

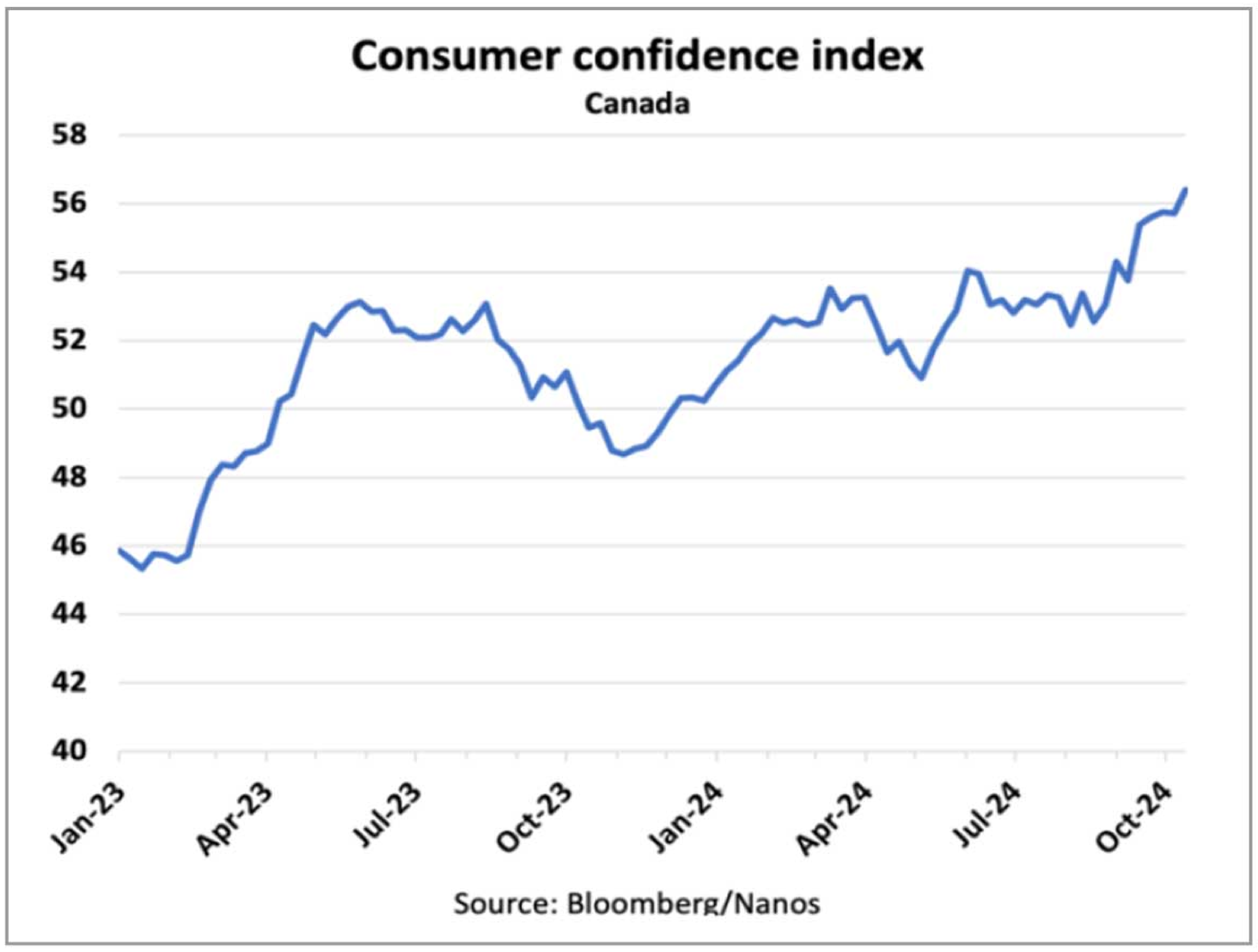
Considering all of the above, if you're the Bank of Canada, why wouldn't you cut 50bps? And why wouldn't you do it again in December?

What does it all mean?

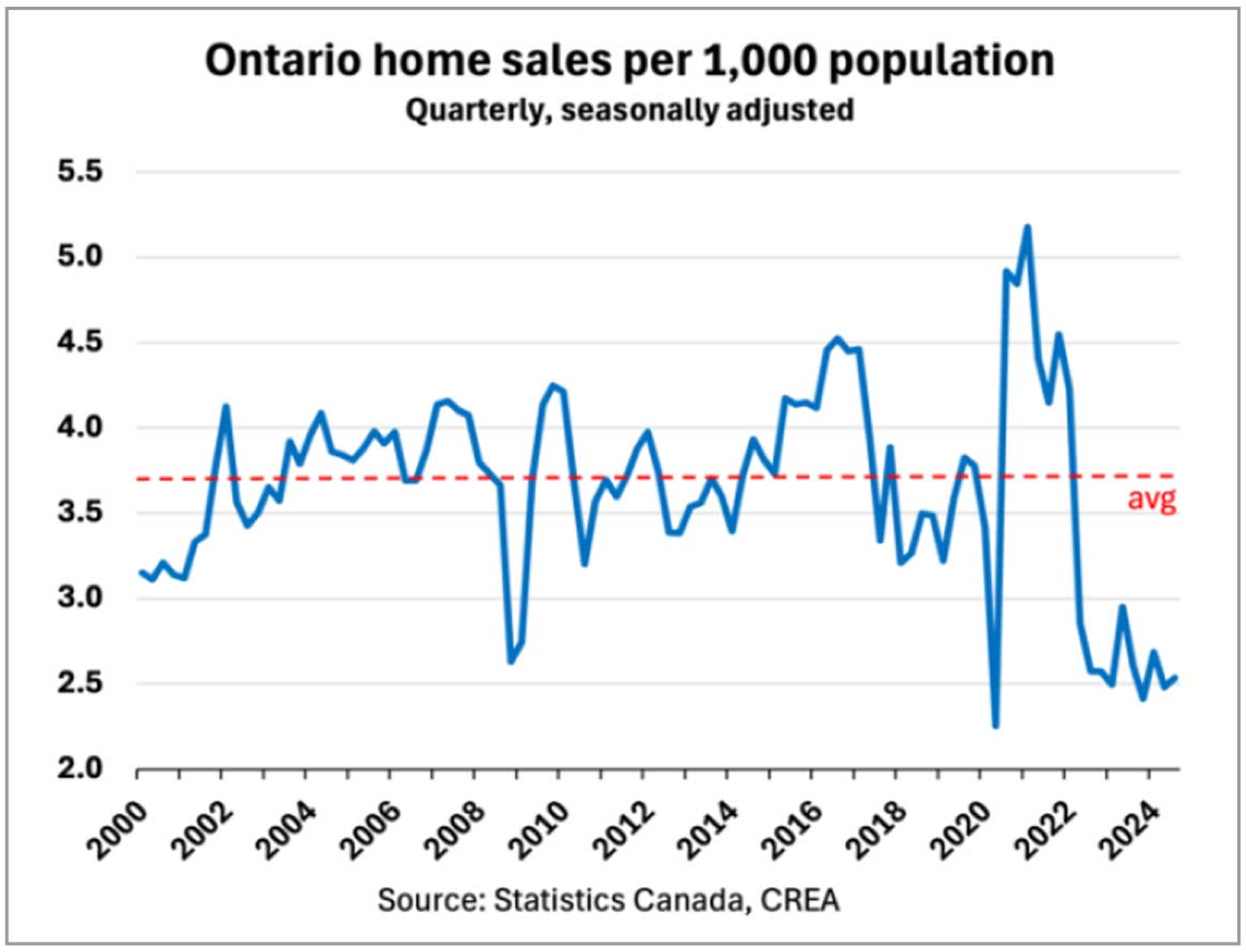
For the real estate and mortgage industries, this is great news. The monthly payment needed to purchase a typical home just fell by $80 per month by my math and is now down $230 in the past 4 months. That means a household now needs $2,800 less AFTER TAX household income to service a mortgage on a purchase today than in July.



To get sales moving again, we need two things: Capacity to purchase and confidence to do so. The Bank is addressing the former through lower rates. The confidence piece is starting to materialize, as evidenced by the 30-month high in the Bloomberg Nanos Confidence Index just this week:



This all points to a rebound in demand. I continue to expect a 10-20% bounce in home sales nationally by year-end off the seasonally adjusted summer lows. There's pent-up demand out there, particularly in Ontario where per capita sales remain below Financial Crisis levels. Expect a meaningful uptick in activity:



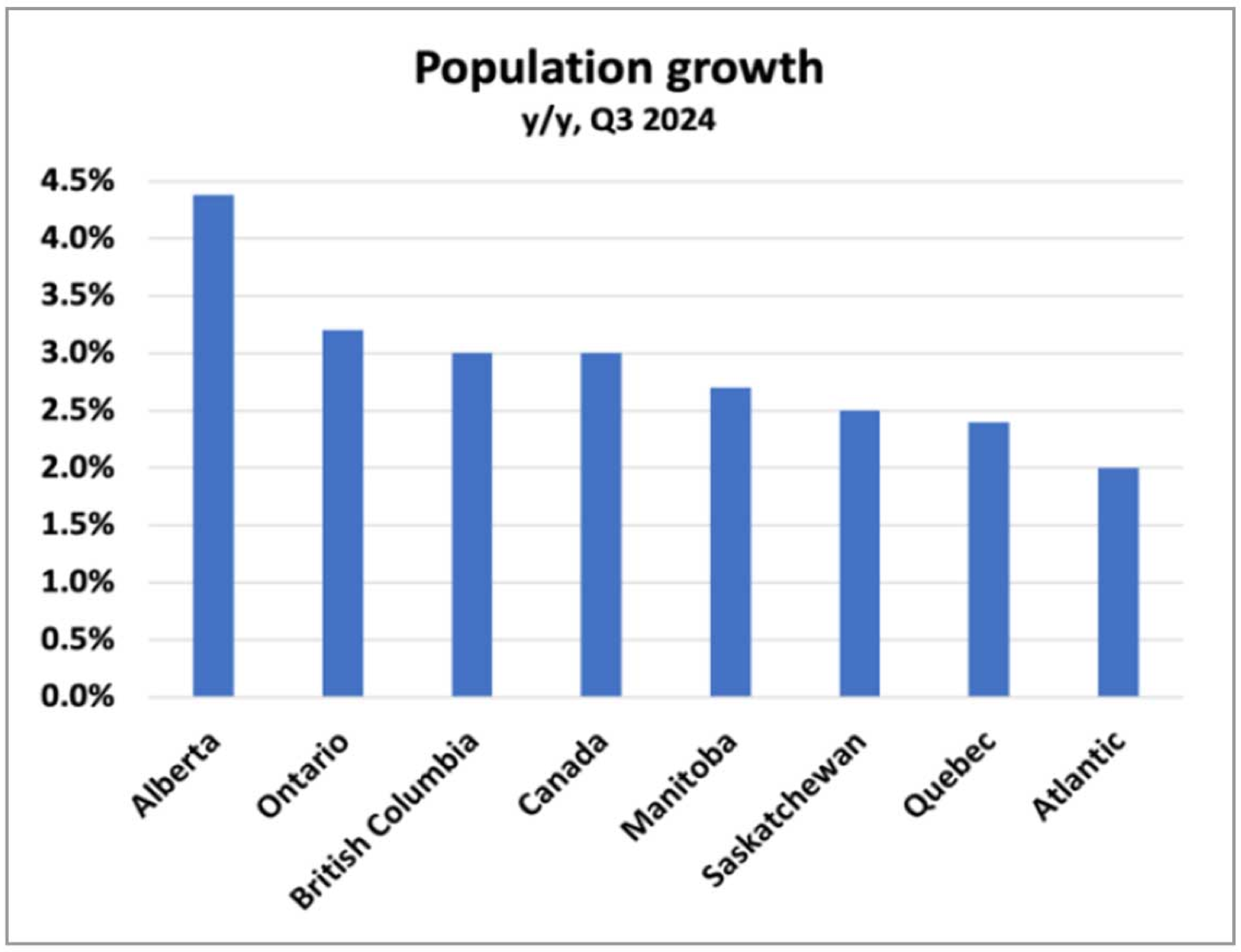
But two questions remain:

i) How will supply respond? We're seeing a strong flow of new listings which could keep the market well-supplied for the next year or so (more on that below)

ii) Will low rates filter through quickly enough to offset what I believe wil be a material slowdown in the job market? If not, we could see one more soft patch with some forced selling due to job losses before the market finds its eventual footing

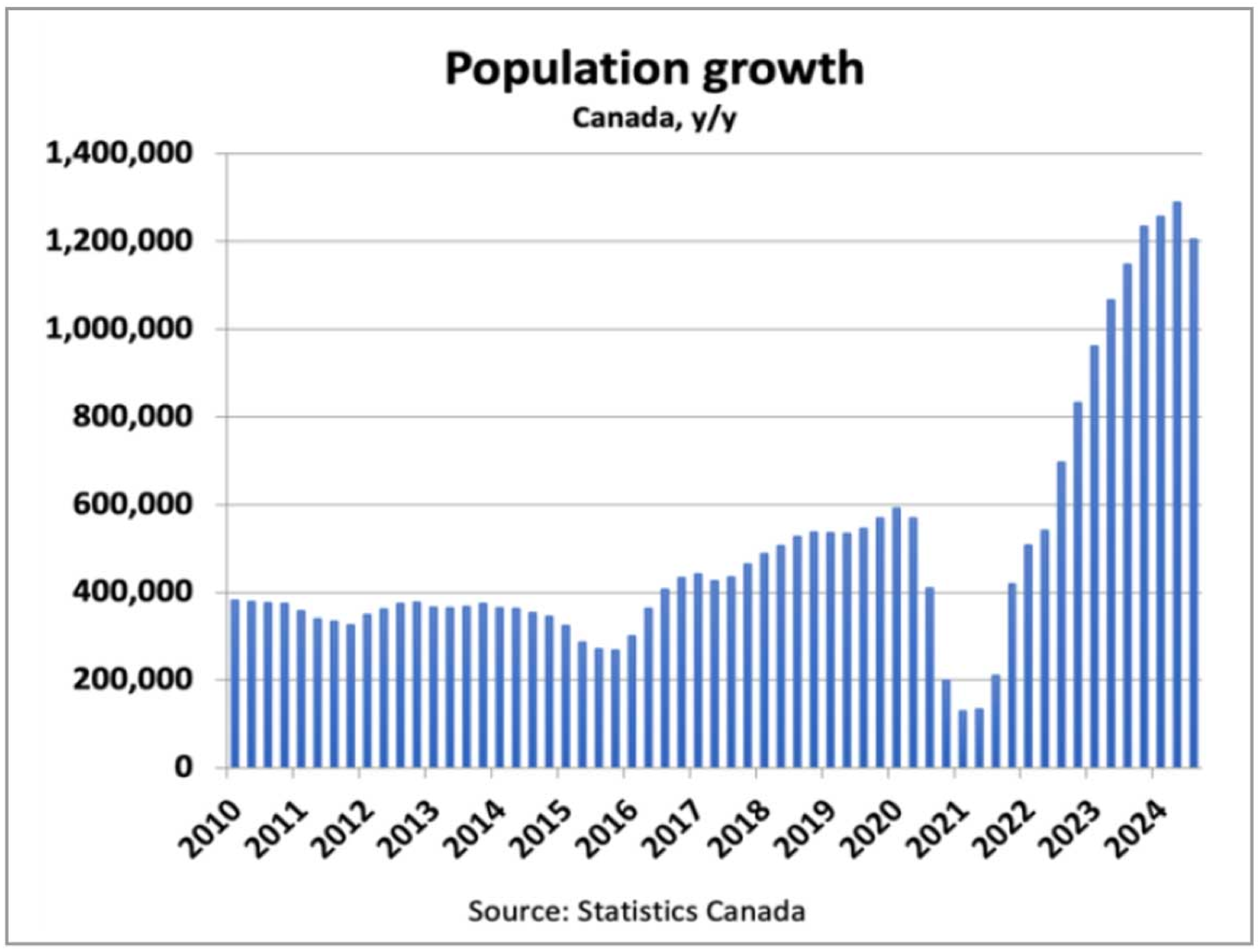
Regardless, today's annoucement is categorically positive news for the real estate and mortgage market in Canada, and I expect we'll get more good news in December.

2) Supply and demand: Population growth moderates but housing starts slide



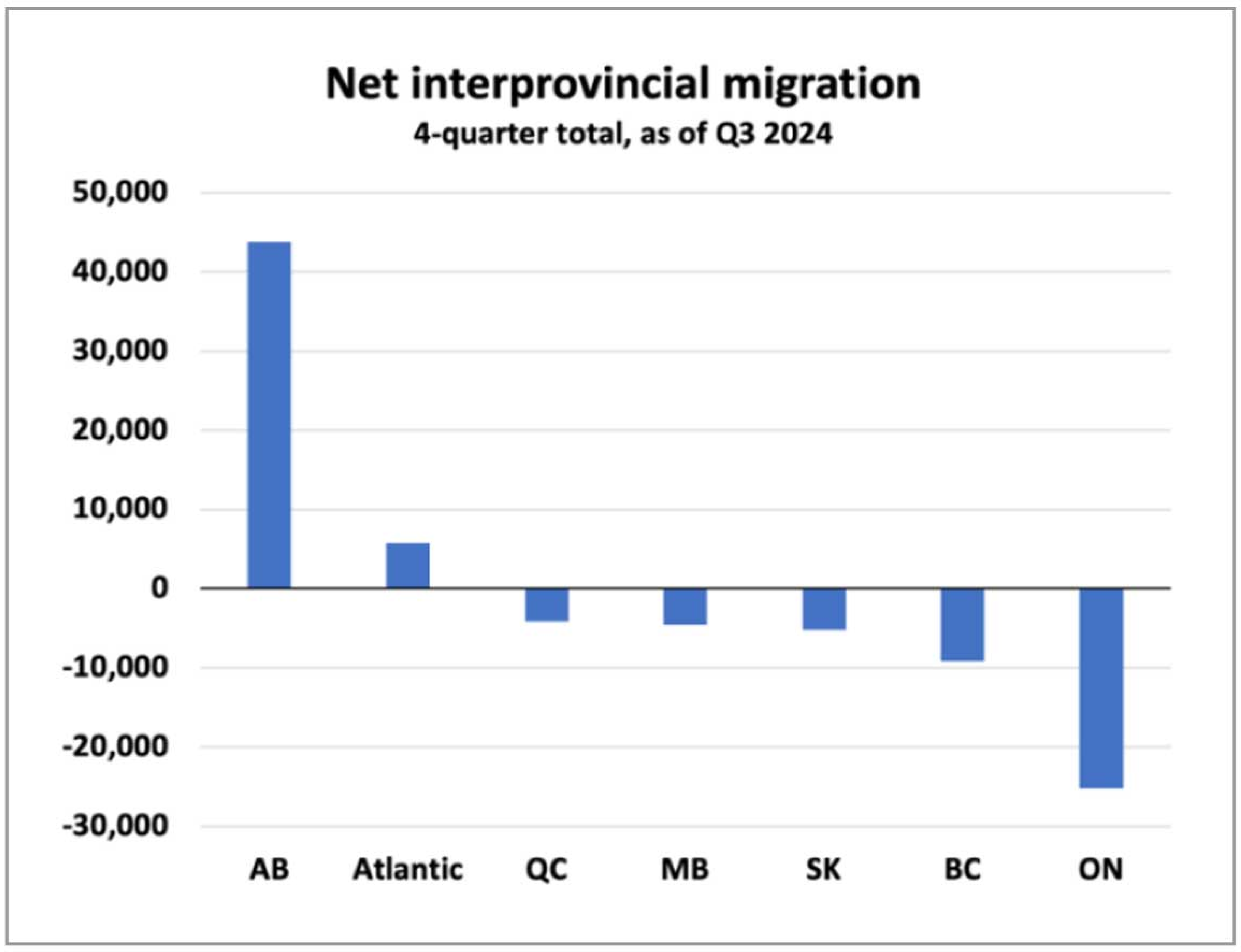
First signs of slowing population growth

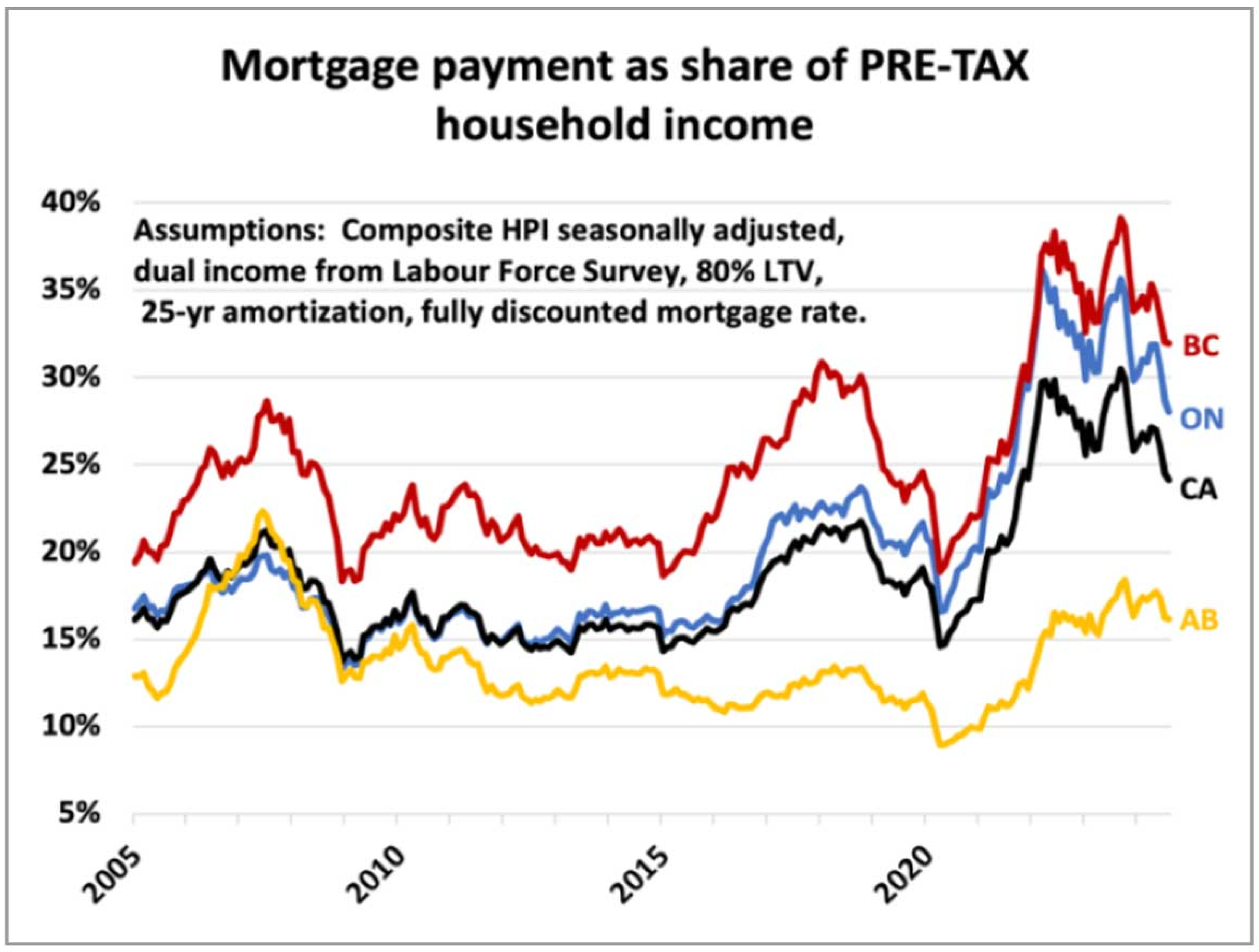
Stats Canada released the latest population estimates earlier this month. The key takeaway is that we saw the first deceleration since Q4 2020 with growth slowing from 1.3 million annually in Q2 to 1.2 million in Q3:



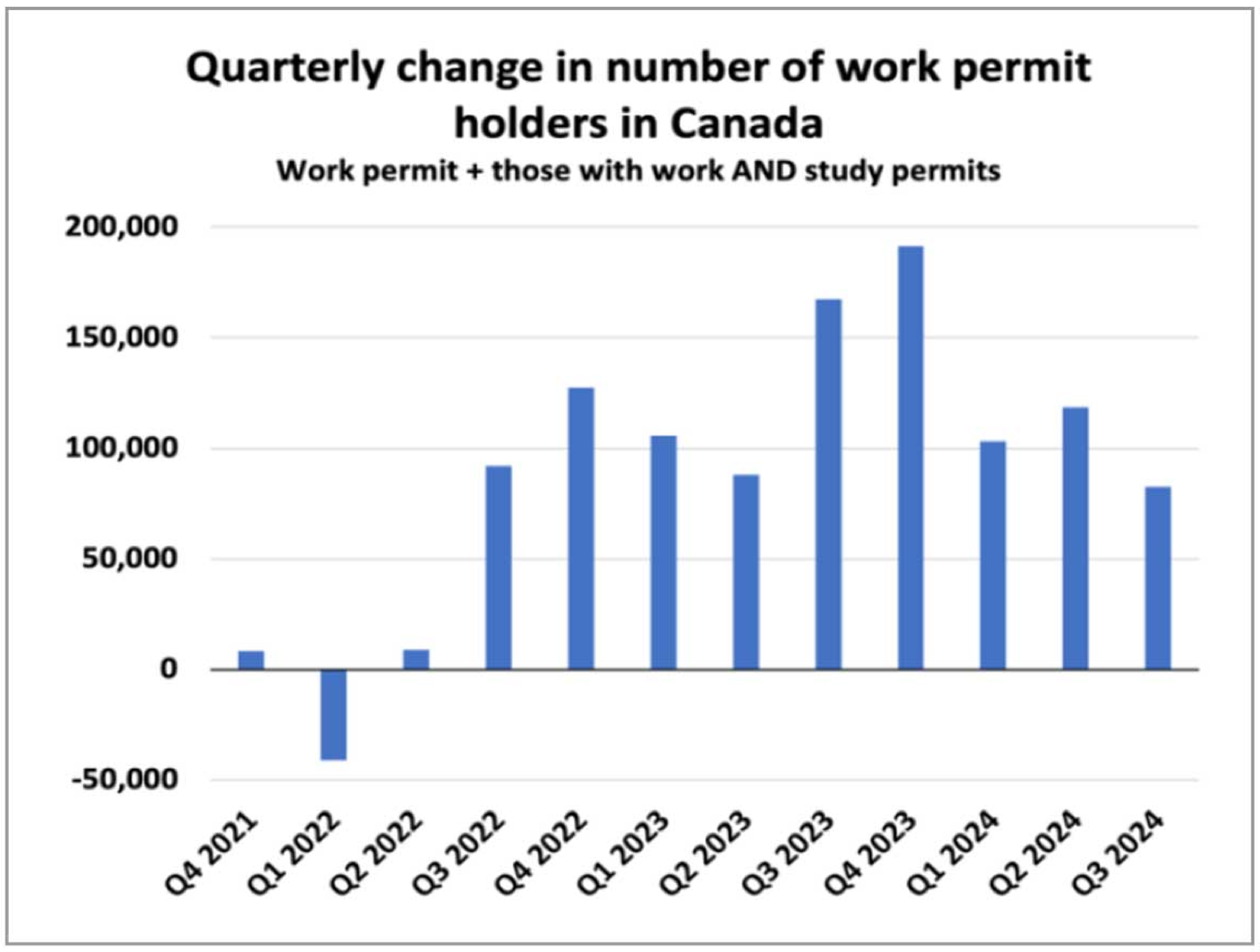
Looking across provinces, Alberta continues to lead by a country mile while the Atlantic provinces are now starting to lag badly.

Alberta is still benefitting not just from strong international migration (ie immigration) but also from inter-provincial flows of people leaving Ontario for more affordable regions. Affordability in Alberta is still way better than Ontario and BC and is still better than it was in 2006-2008... the only part of the country that can boast about being more affordable than 15 years ago:



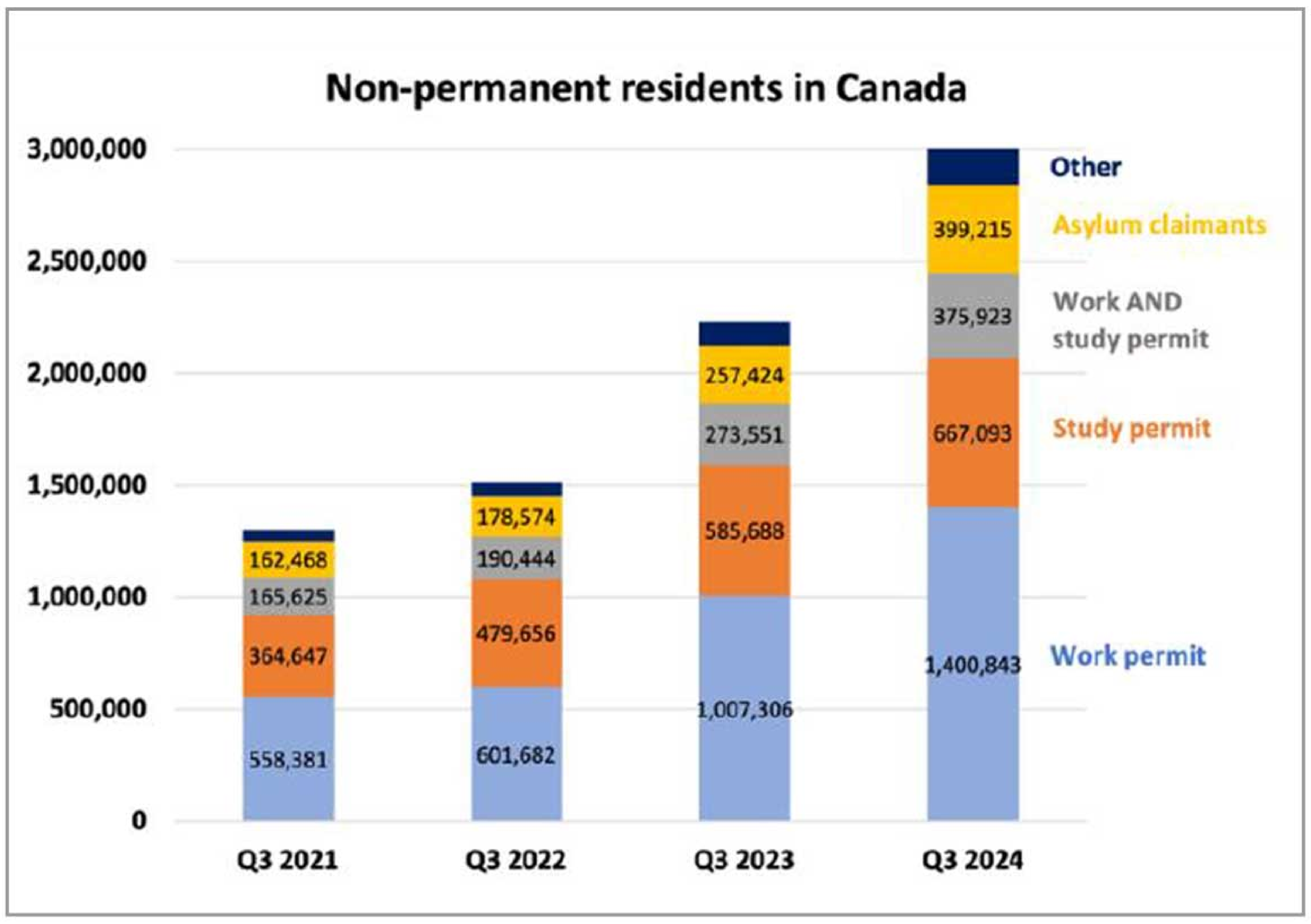


Back to the headline numbers. The deceleration in population growth nationally was due to a sharp slowdown in the non-permanent resident (NPR) cohort. International students grew by "just" 20,000 last quarter- still a huge number but down 63% from the same quarter last year - while growth in work permit holders was less than half of what it was in 2023. That group saw the smallest quarterly increase since Q2 2022:

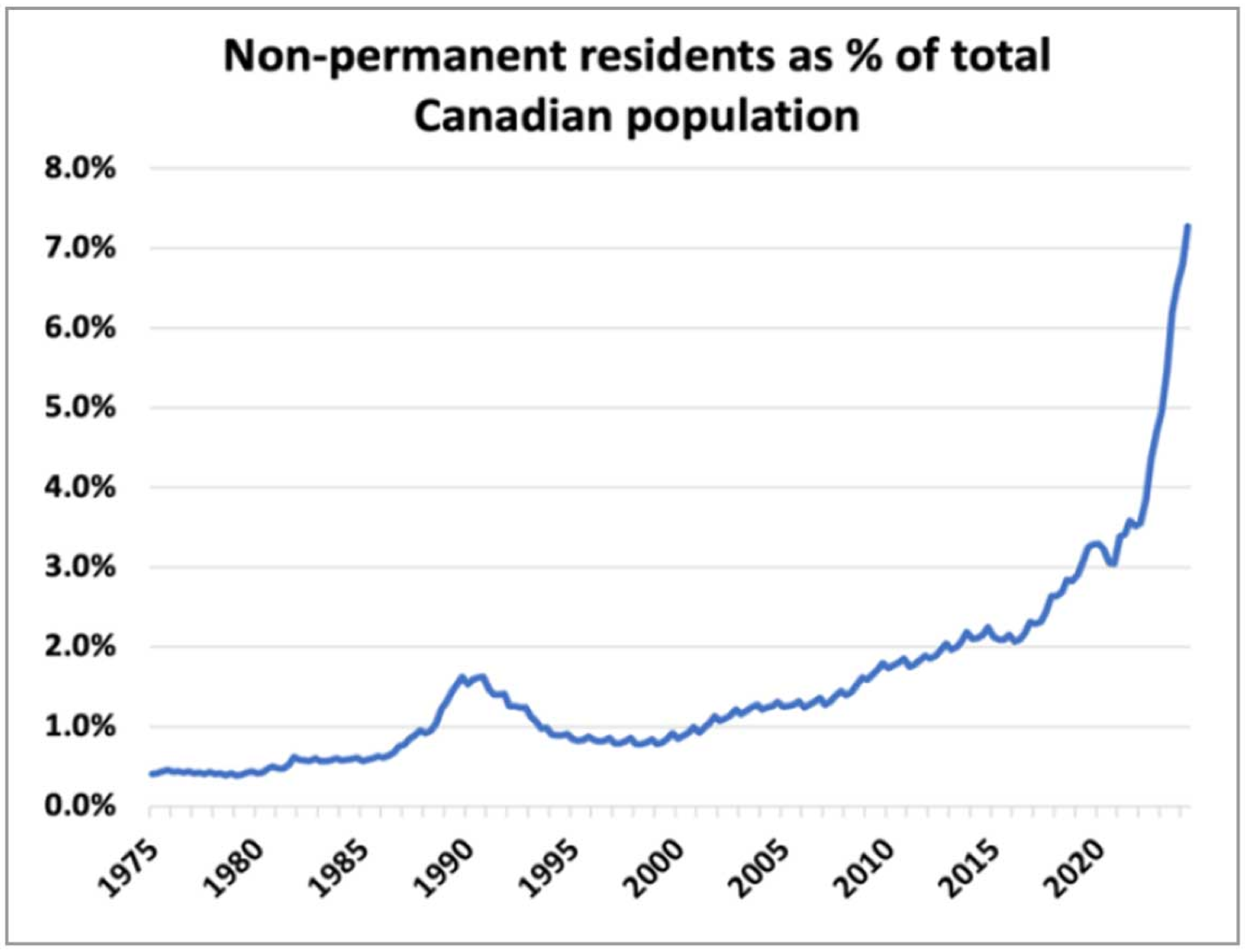


And all of this is BEFORE the real impact of the new federal government measures kick in.

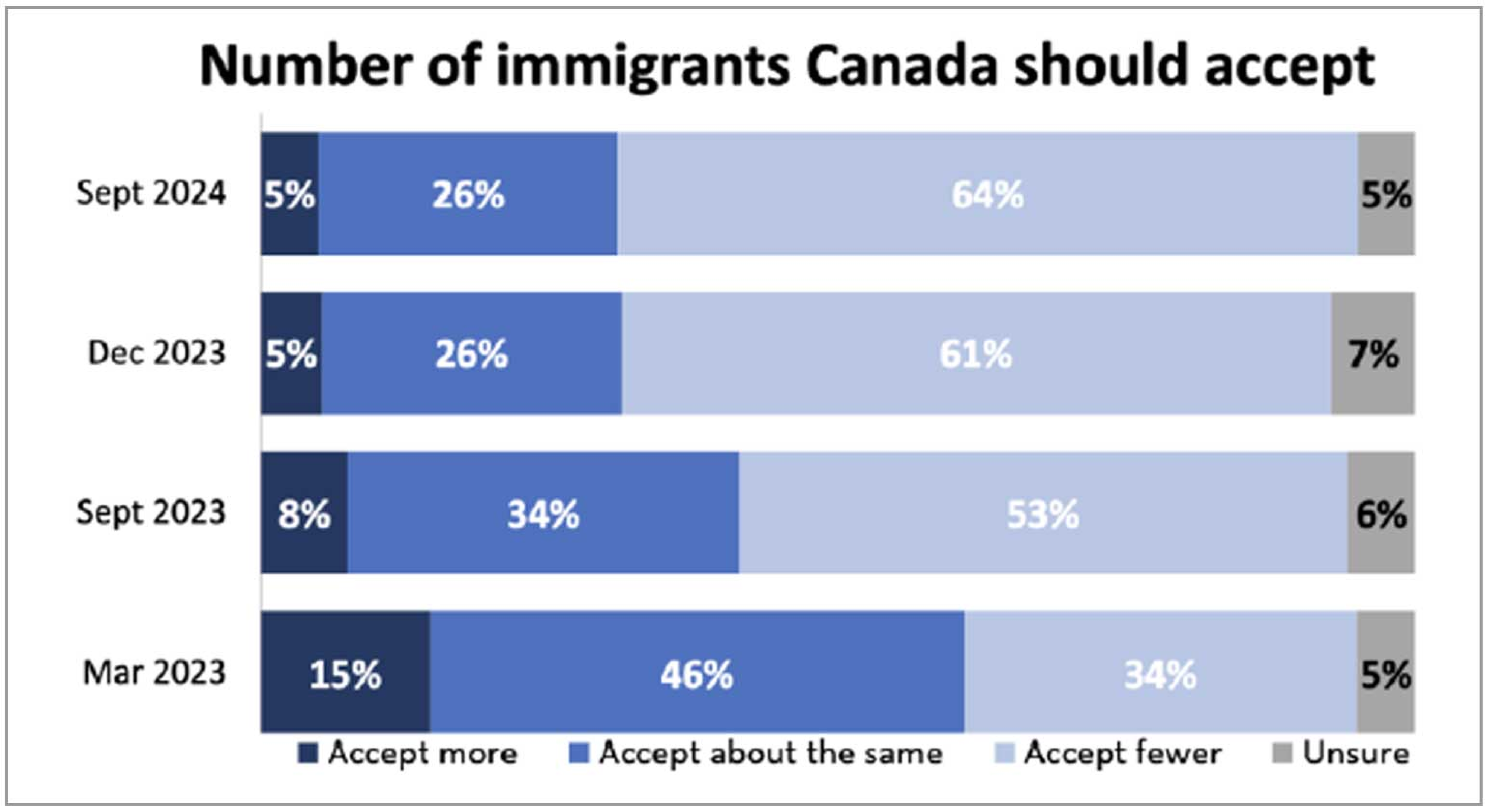
The NPR cohort is growing for now, and it broke through 3 MILLION for the first time on record... with 1.6 million coming since the start of 2022:



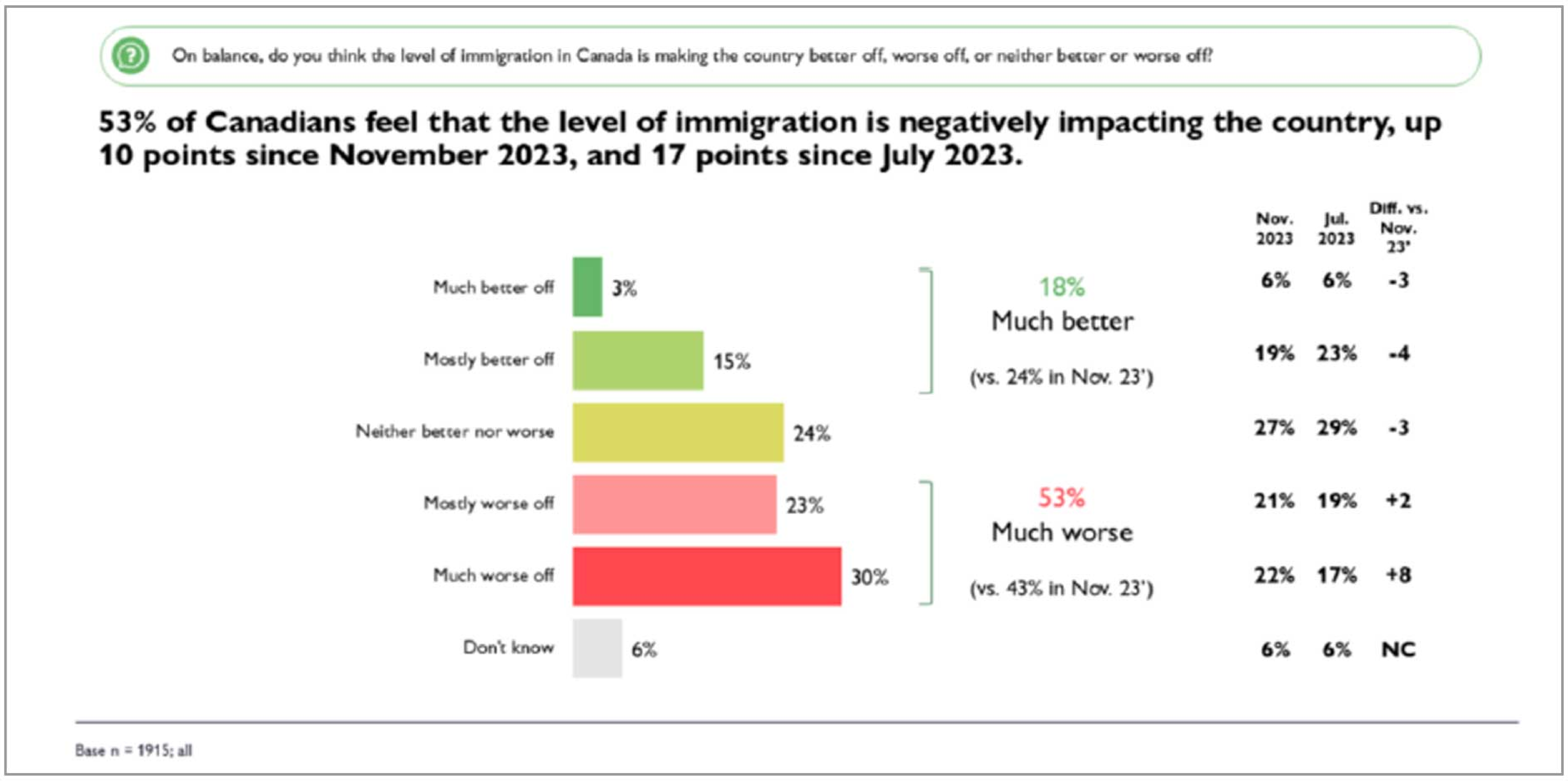
That puts the NPR cohort at 7.2% of the total population, making it an even more daunting task for the feds to return this to the 5% target within 3 years. Still, the Feds seem committed to trying:



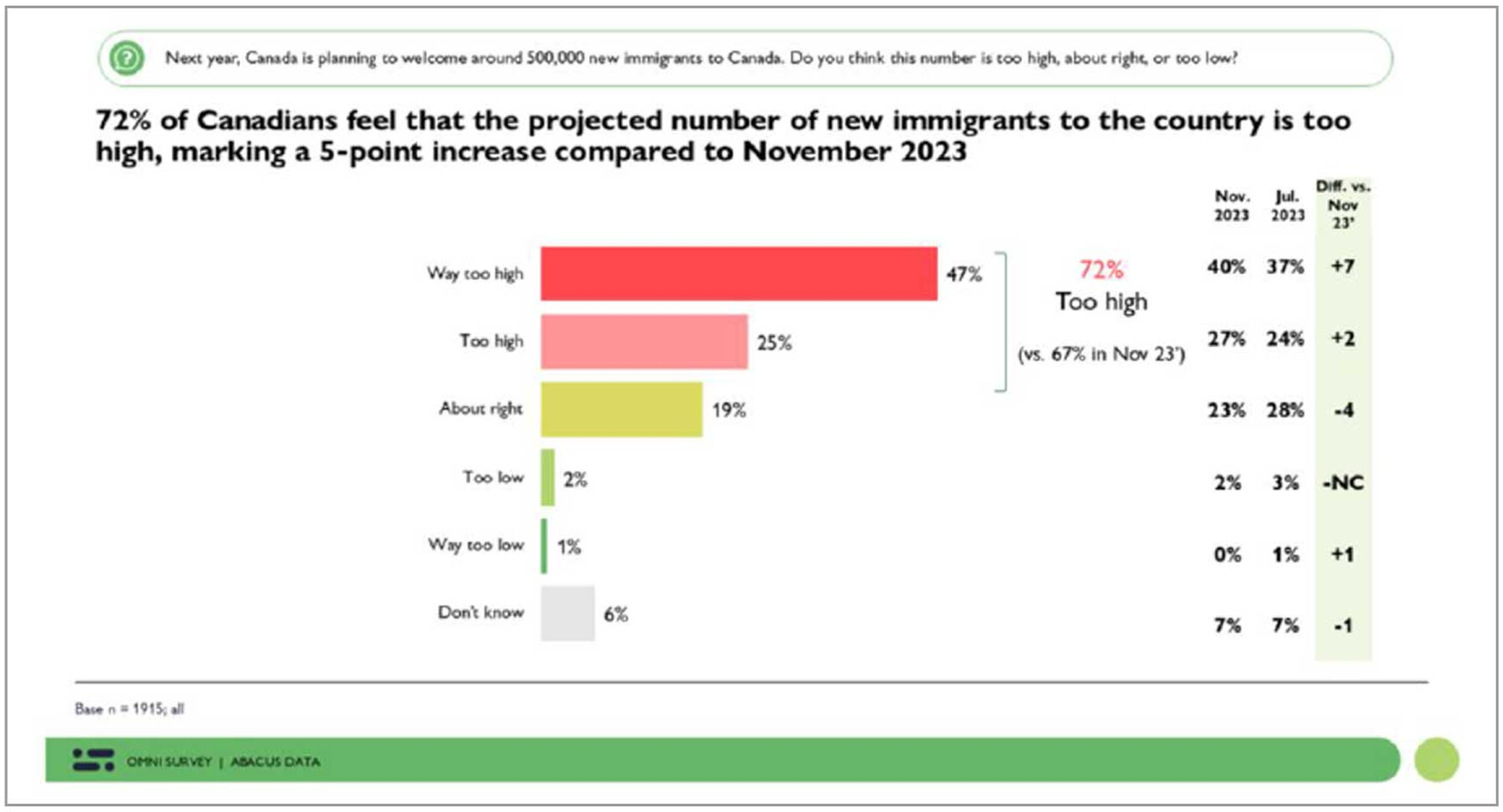
And why wouldn't they? Polls continue to show huge support for a reduction in immigration, including a Nanos report[2] earlier this month that put that share at 64%... a dramatic change from just 34% in Q1 of last year:



Meanwhile, similar and concerning finding from Abacus Data[3]:



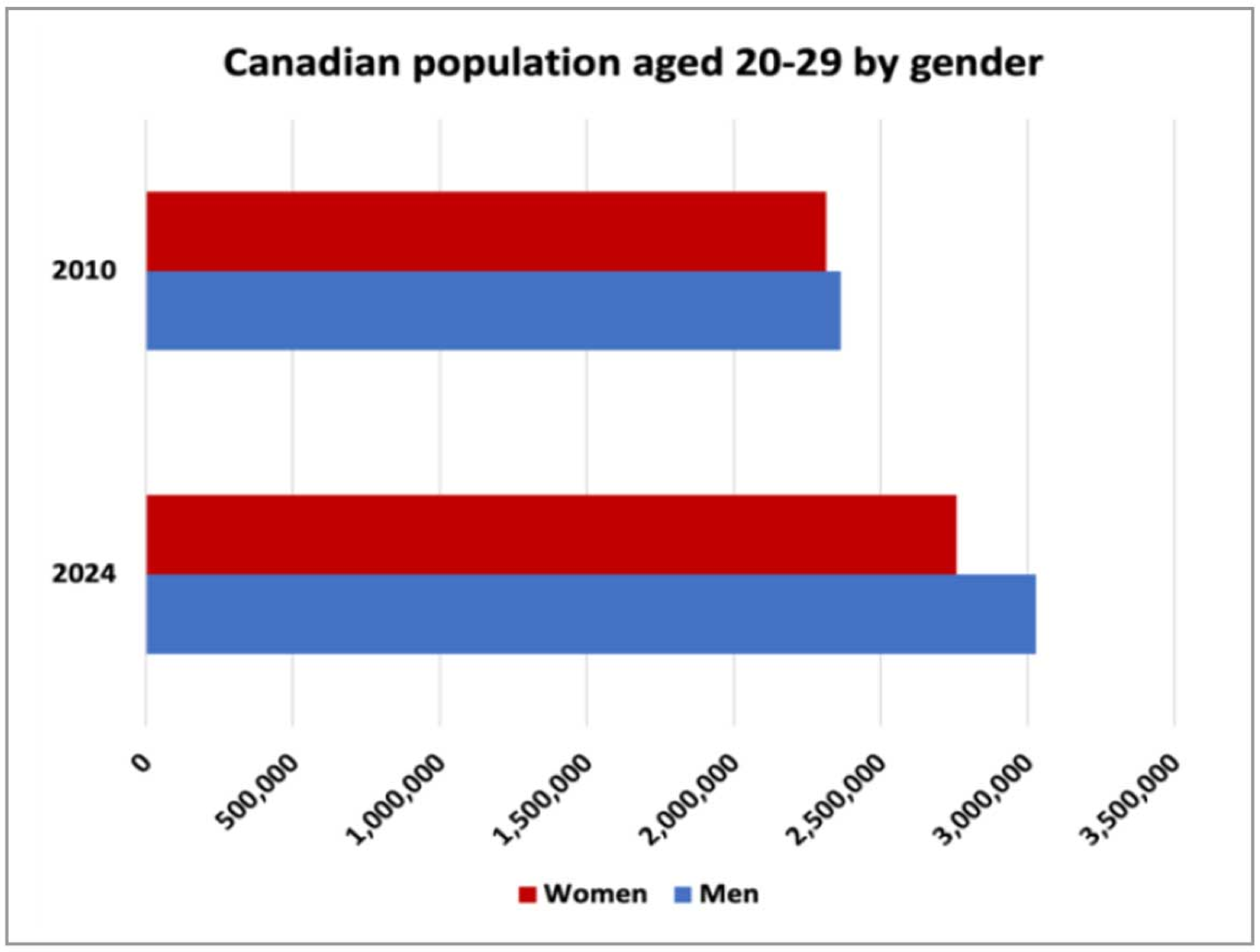
[2] https://nanos.co/wp-content/uploads/2024/09/2024-2670-CTV-Aug-Populated-report.pdf
[3] https://abacusdata.ca/1-in-2-canadians-say-immigration-is-harming-the-nation/



The takeaway: Canada's popluation growth has turned a corner and will decelerate sharply from here as the non-permanent cohort goes from a +800,000 annual tailwind to a headwind of some sort over the next couple years.

The looming issue along the way is what to do with the inevitable anger from folks who came here in good faith after being promised a path to permanent residency, in some cases by self-serving marketers/recruiters.

As a reminder, the NPR cohort skews heavily towards men, enough so that it's kinked the population pyramid to the tune of +270,000 more men than women in the 20-29 year old cohort as of 2024. That's a lot of potentially very angry young men... a conundrum (some might say a national security issue) that no one wants to acknowledge yet.



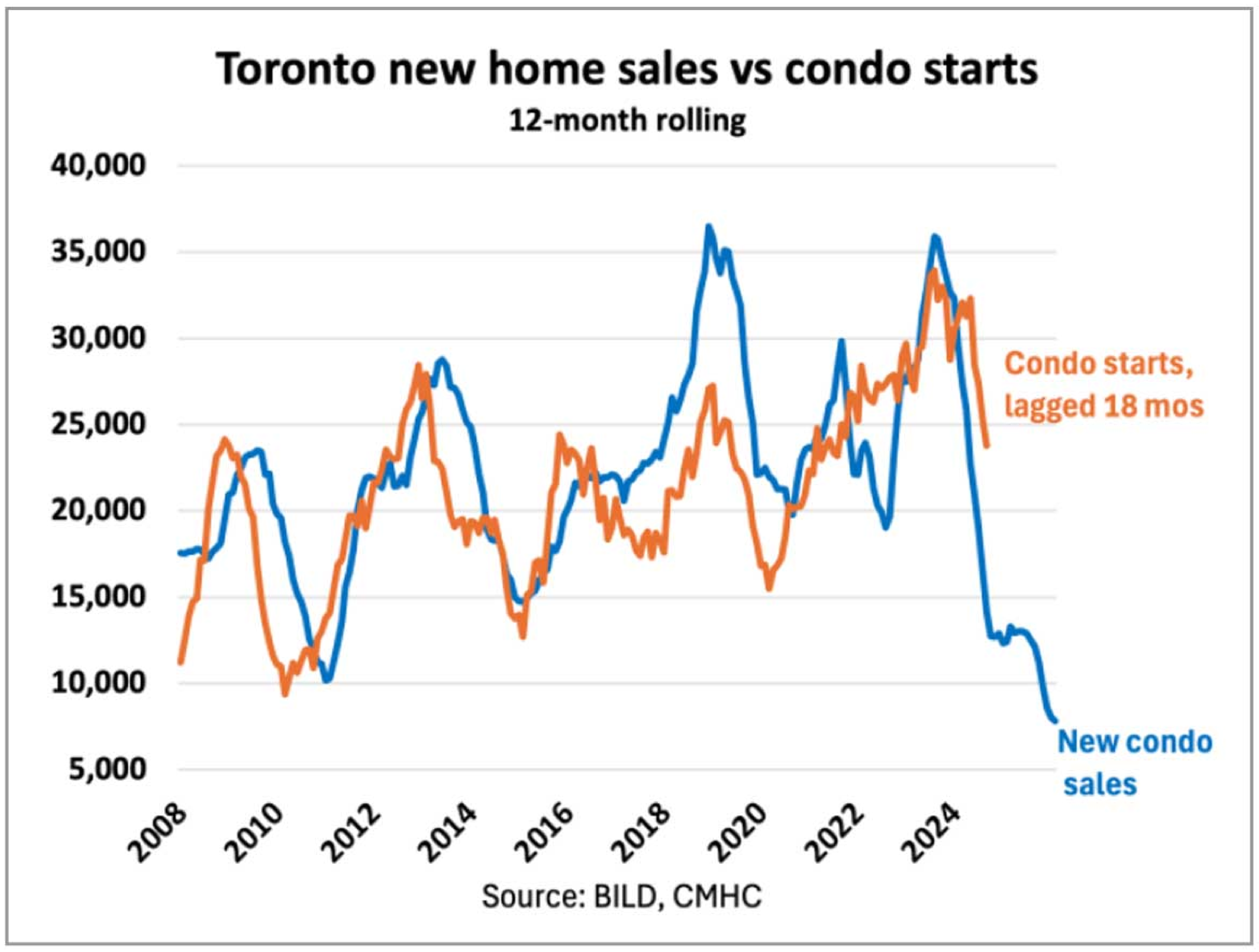
It should also be said that there are rumors swirling in Ottawa that the government is seriously looking at a reduction in the PERMANENT resident targets, currently set at 485,000 for 2024. Trudeau is set to make a major annoucement tomorrow. Could this be it?

Condo segment weighs on starts

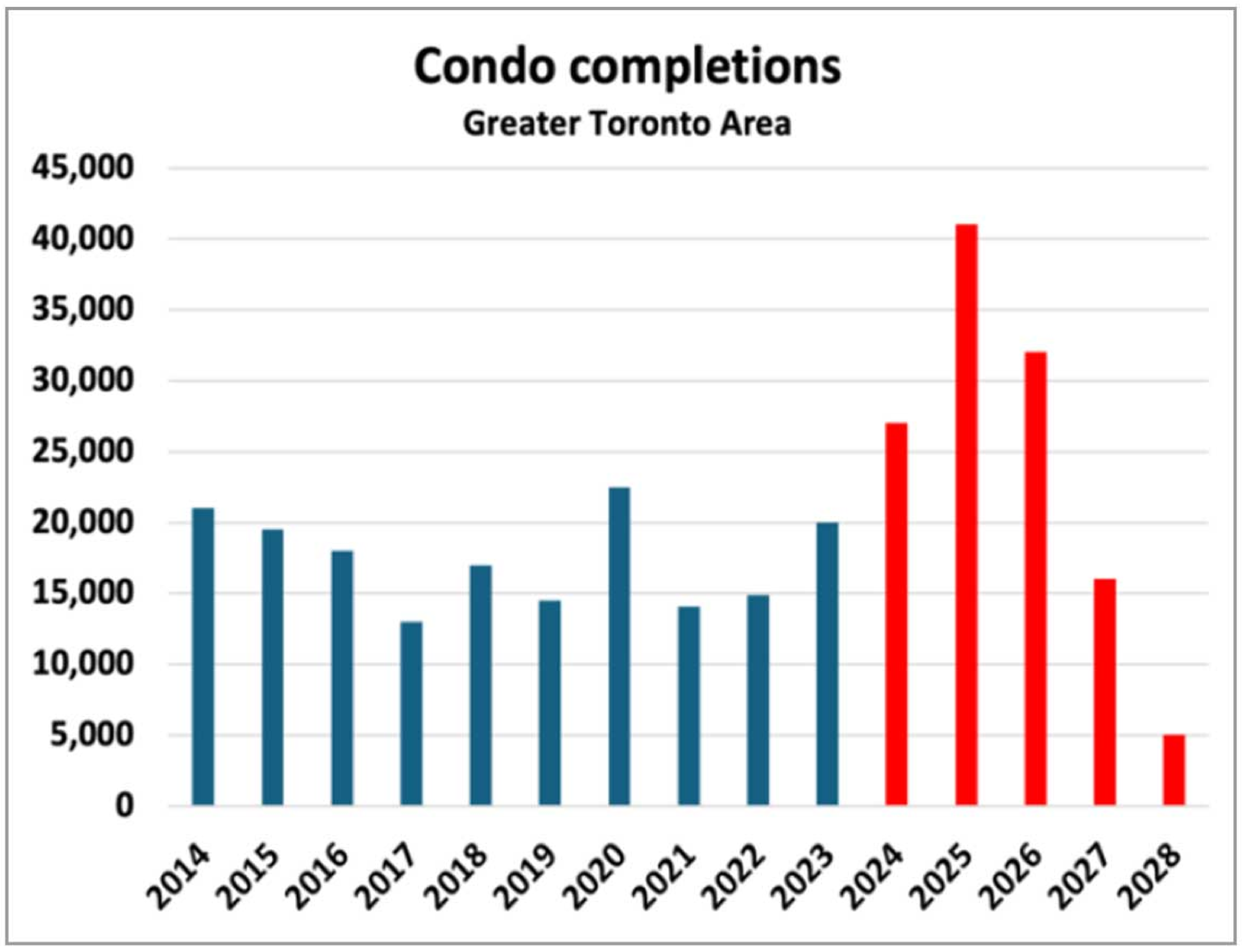
Housing starts came in a tad soft in September at 224k annualized vs 238k expected. Still that's a 5.0% increase off of the downwardly-revised August numbers (213k vs 217k originally reported).

What's interesting is the y/y trends by segment. Overall starts were down 18% compared to last September led by a 30% drop in condo starts and a 21% decline in rentals.

This was driven by Toronto where condo starts collapsed by 67% y/y, which should not be a surprise to readers of this publication. Expect this to continue for some time as we have a long way to go to realign condo starts with preconstruction sales:



This slowdown in condo activity will ultimately lead to a dramatic shortage come 2028 or so, but I fear we have some pain to wade through for the condo market between no and then.



With completions now significantly outpacing starts, we've seen the number of dwellings under construction across the country fall by 2% over the past 4 months. That may not sound like much, but you have to go back to 2016 for the last time construction activity slowed this quickly, and there's no reason to think it will find a floor any time soon. And with that, we should expect construction payrolls to start printing y/y declines in the next few months.

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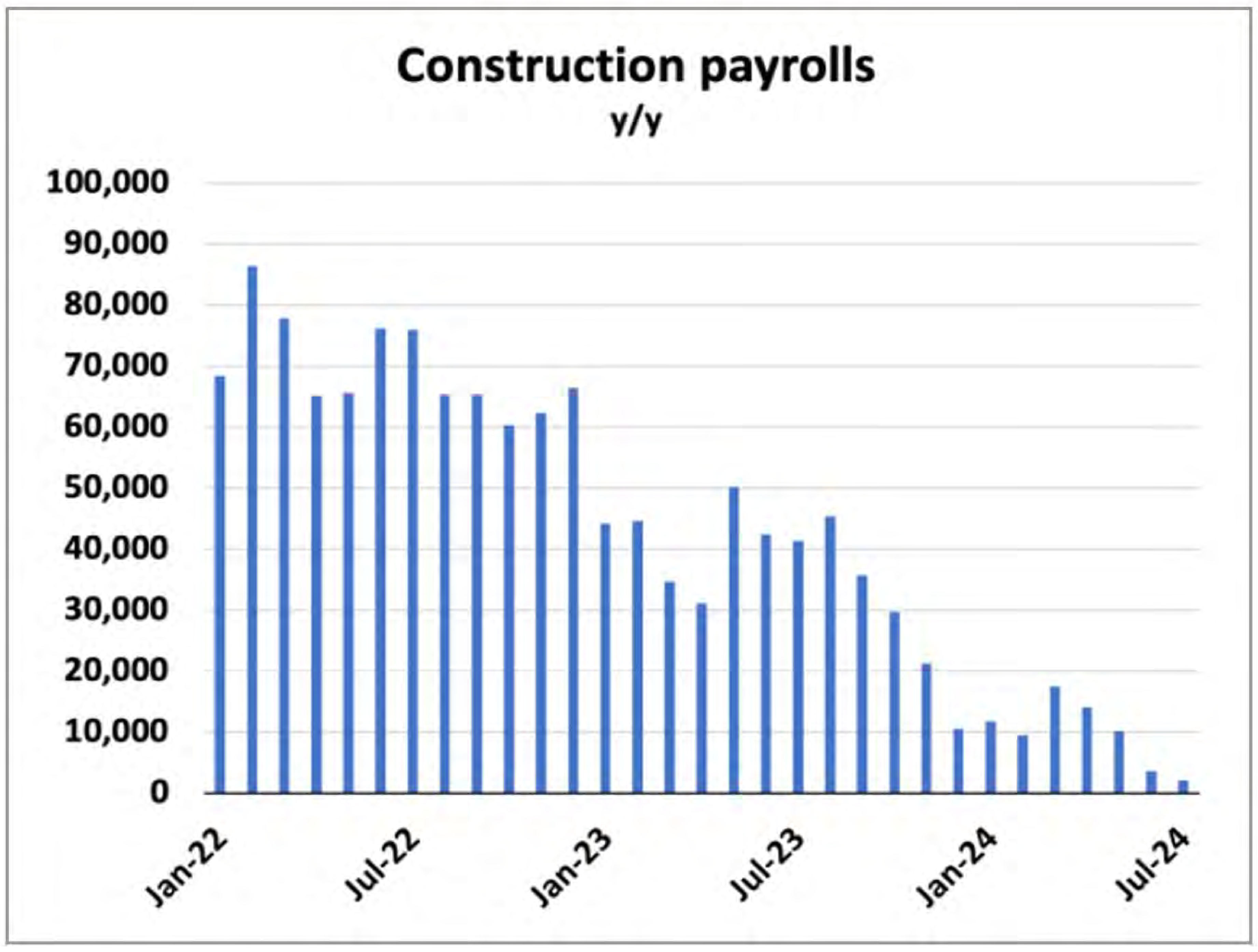
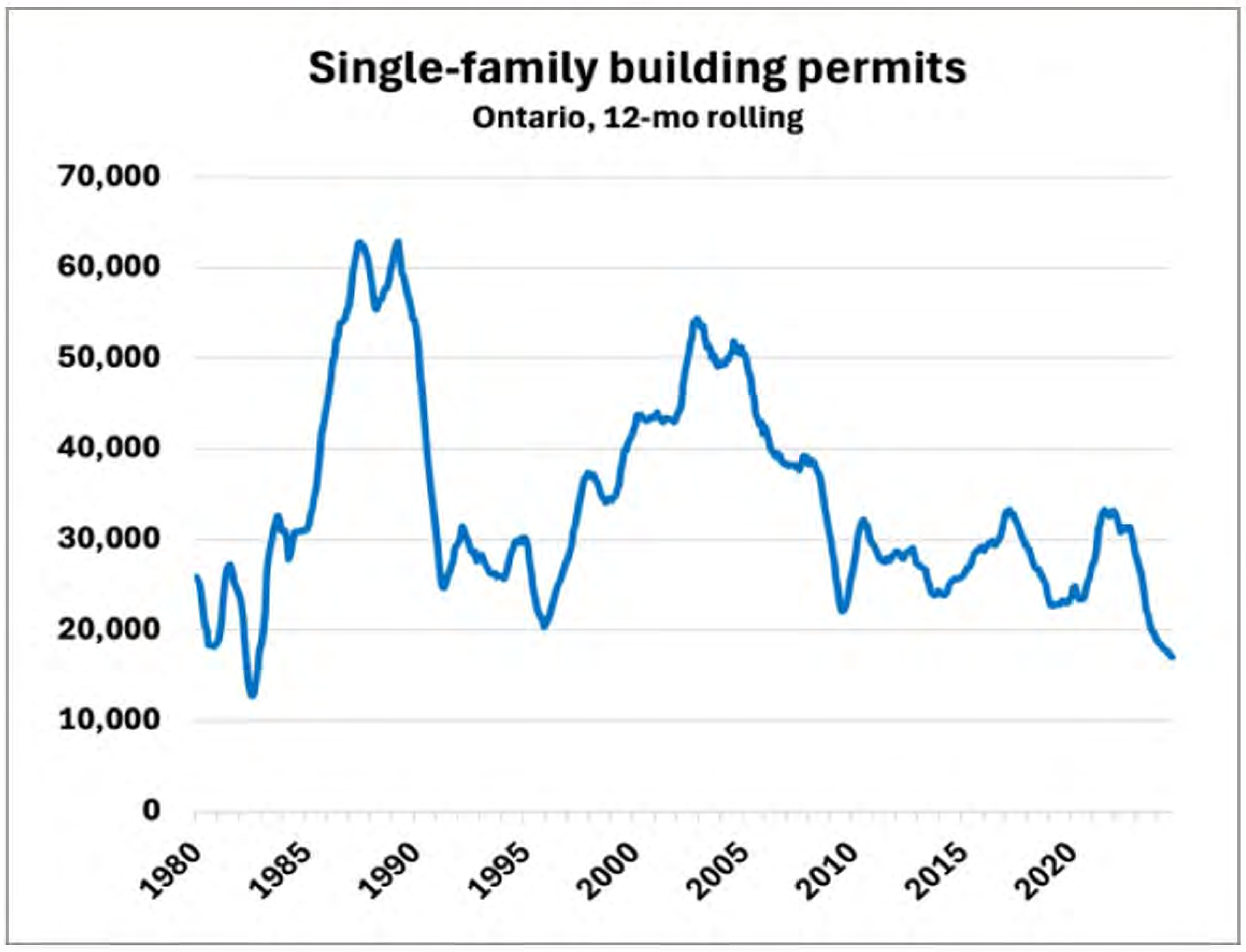
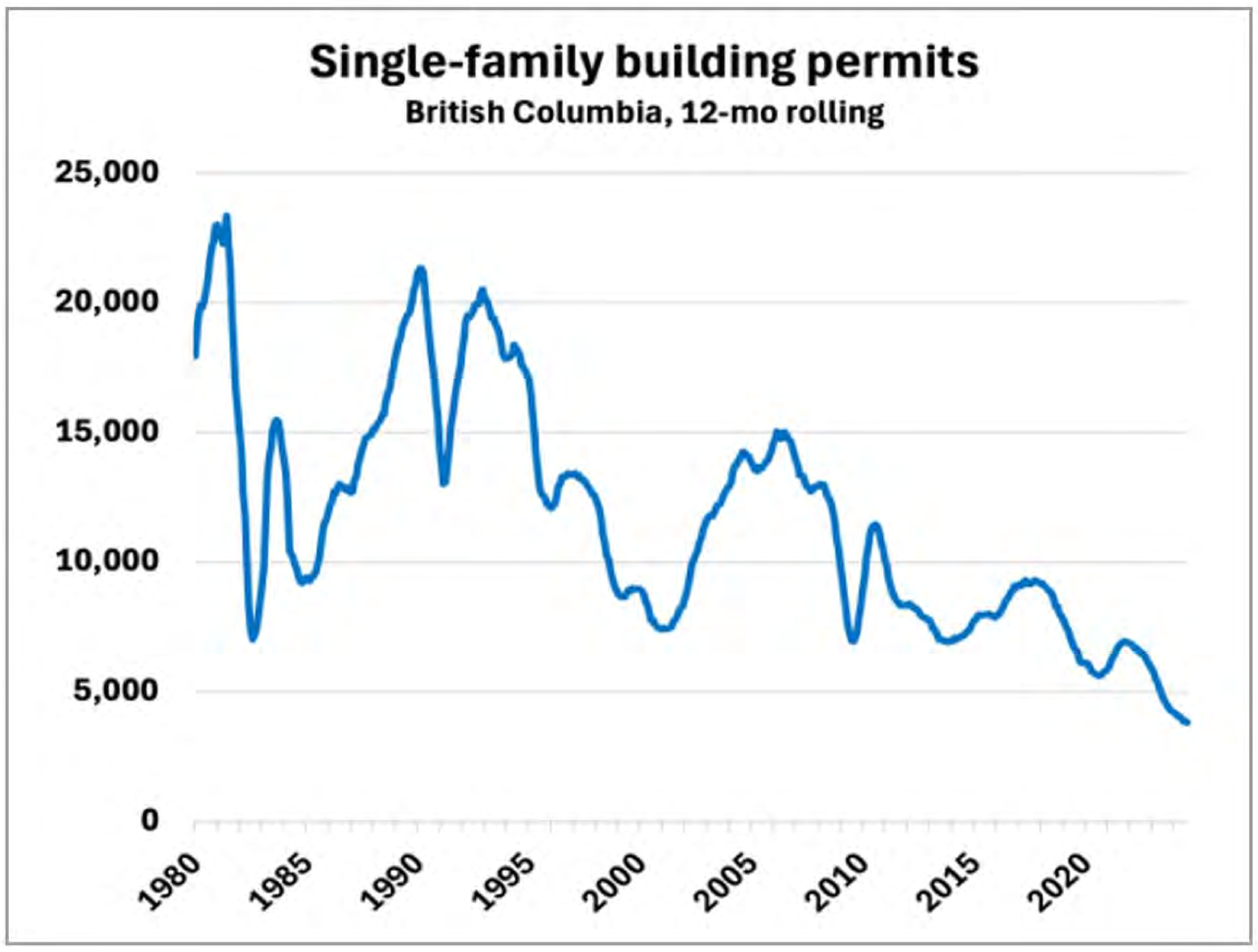
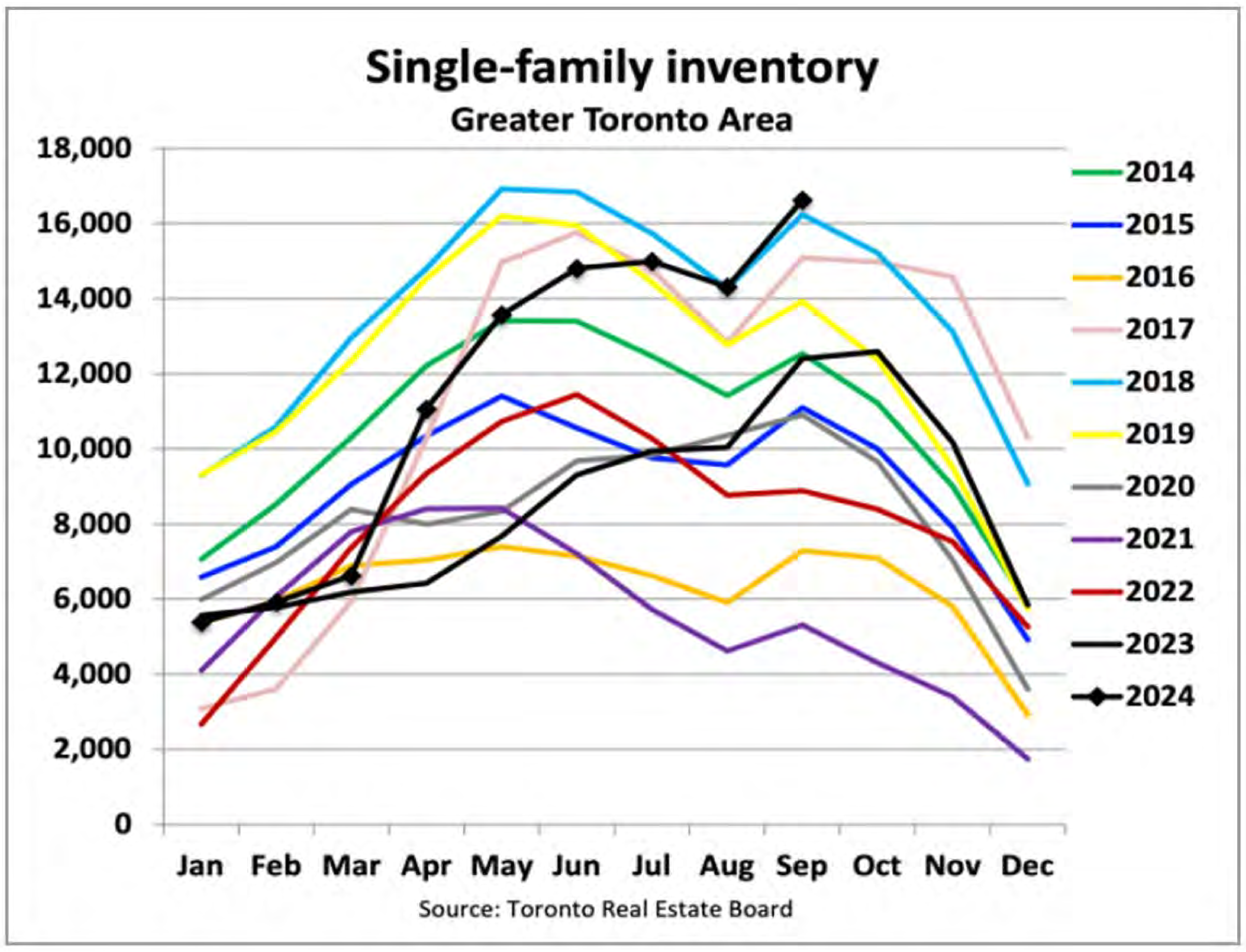




If there's a significant point of optimism here, it's that we're probably looking at a severely UNDER-supplied single-family market at some point in the next couple years once demand begins to normalize, and that will most certainly be supportive of prices over the longer term. The trend in single-family permits is getting quite striking, notably in Ontario and BC where they're sitting at +40-year lows.



It doesn't look like it now with resale supply and months of inventory (MOI) hitting the highest levels since the Financial Crisis in Toronto, but we may be sowing the seeds of a future supply crisis when we inevitably get back to normal levels of demand:



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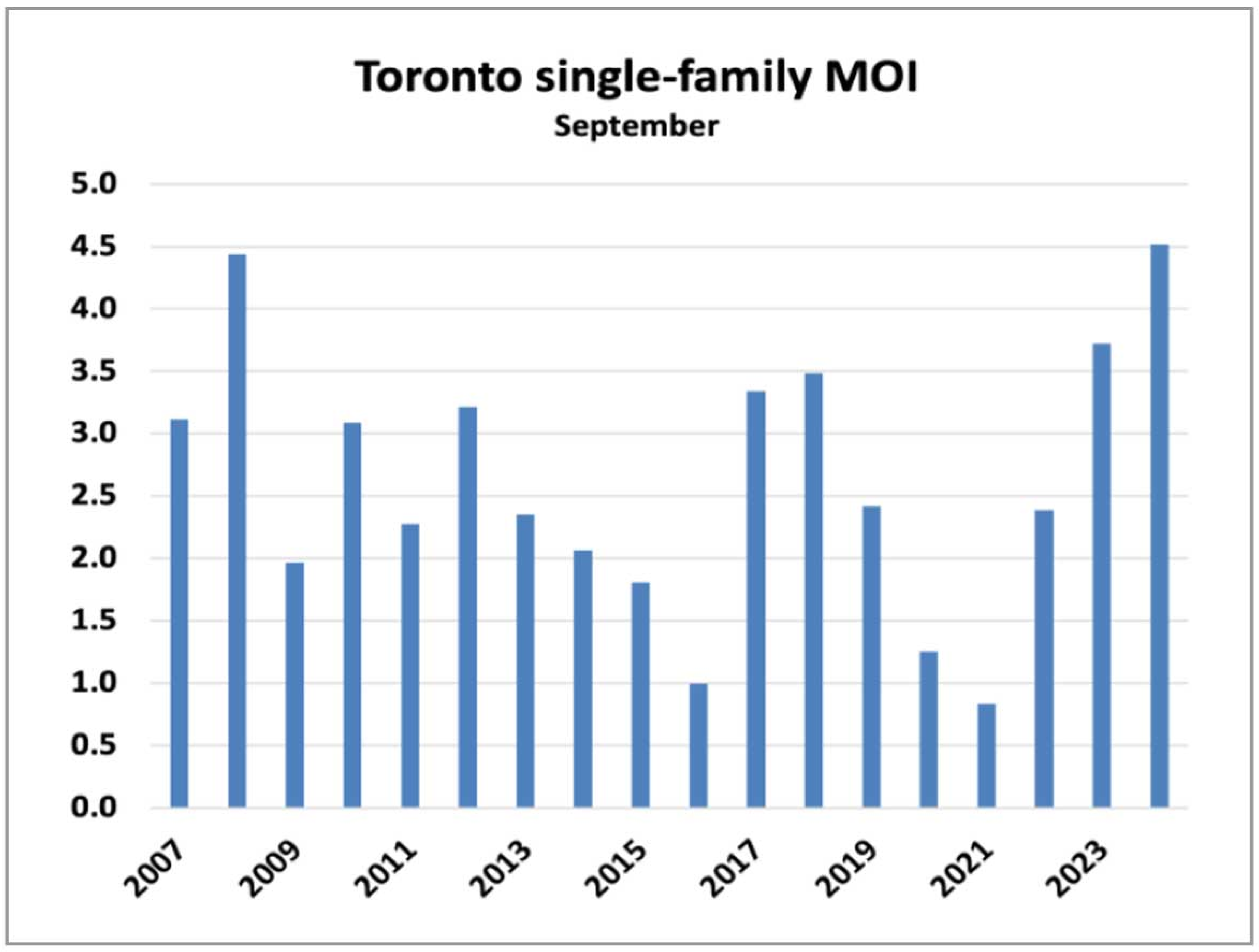
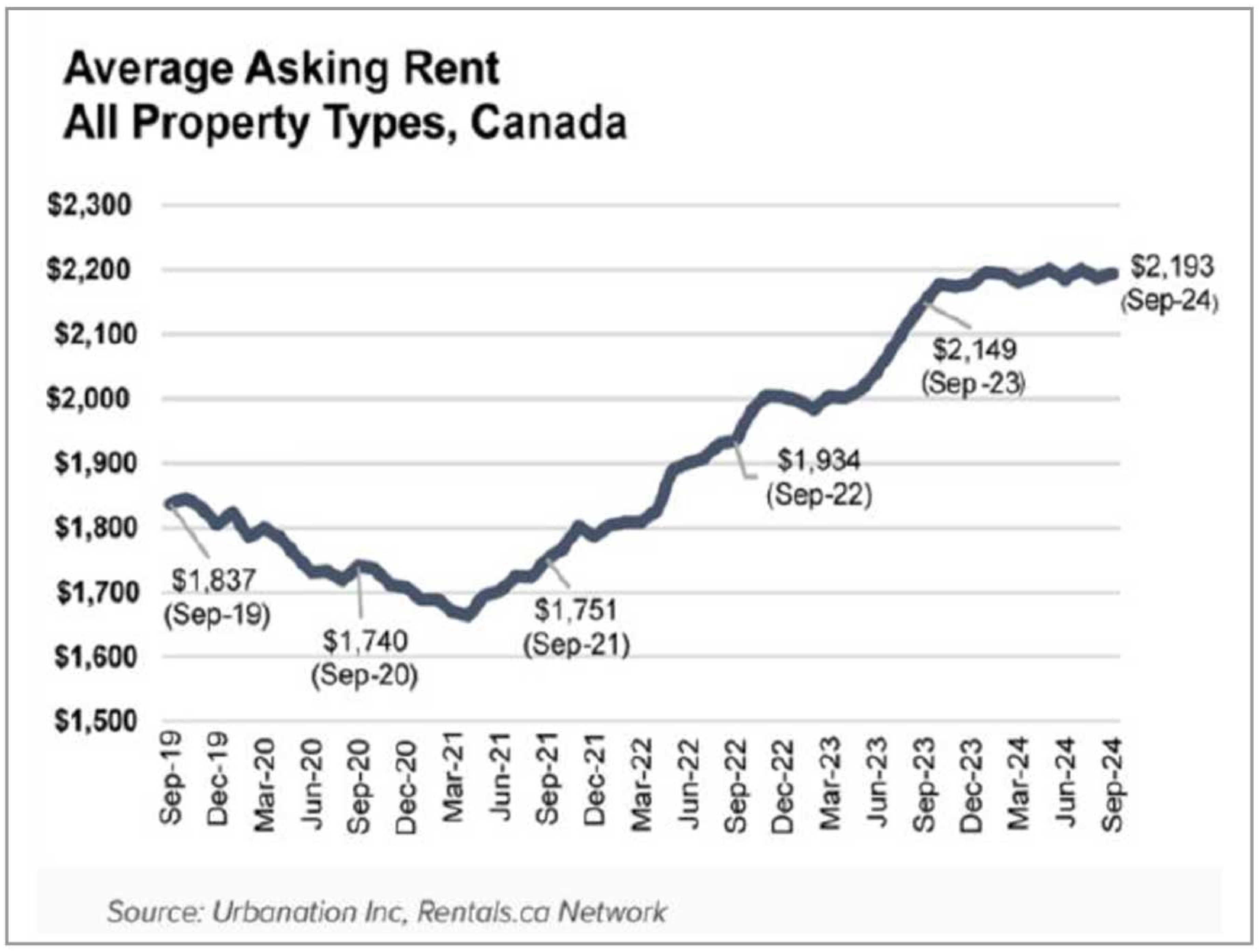
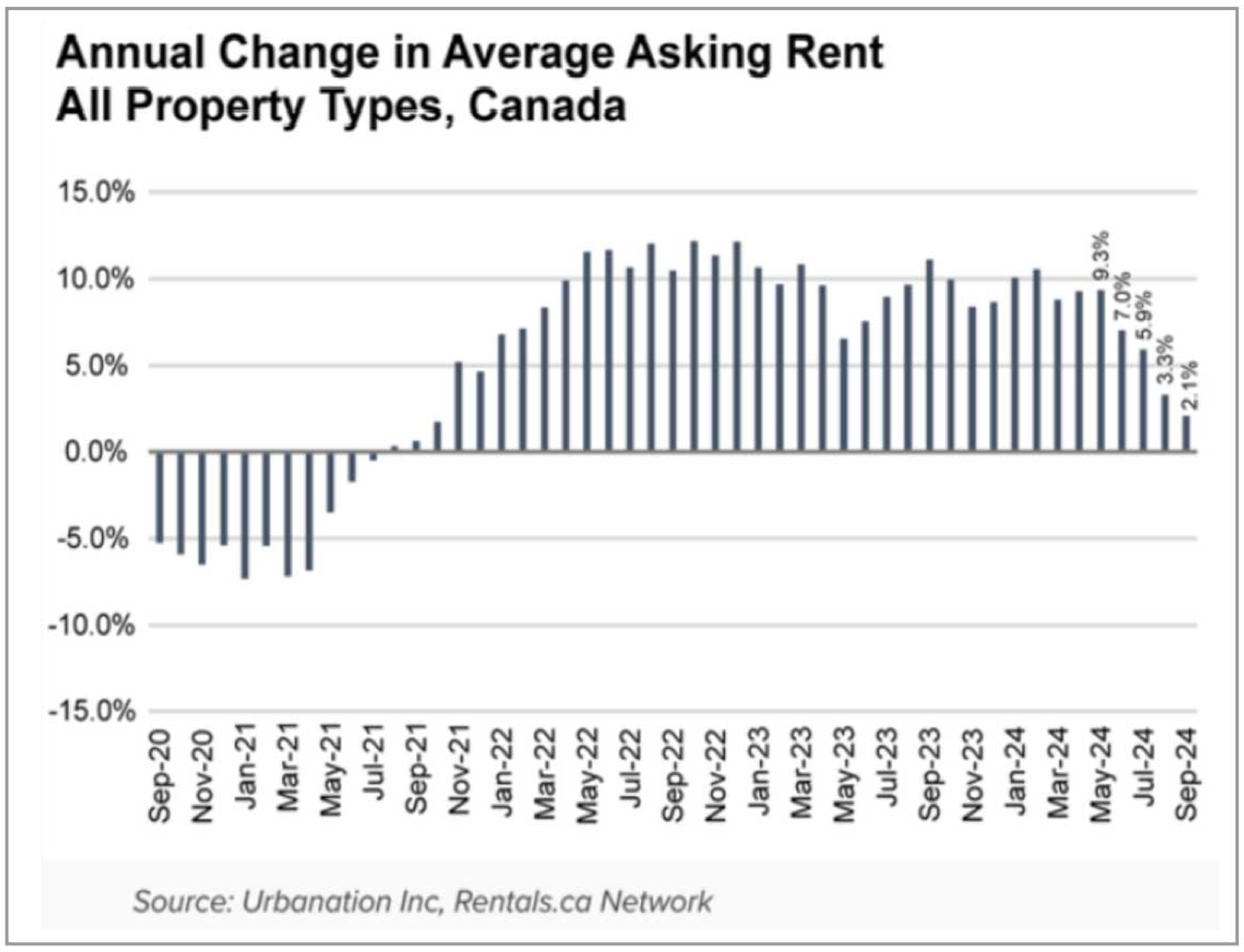


Rental market cooling

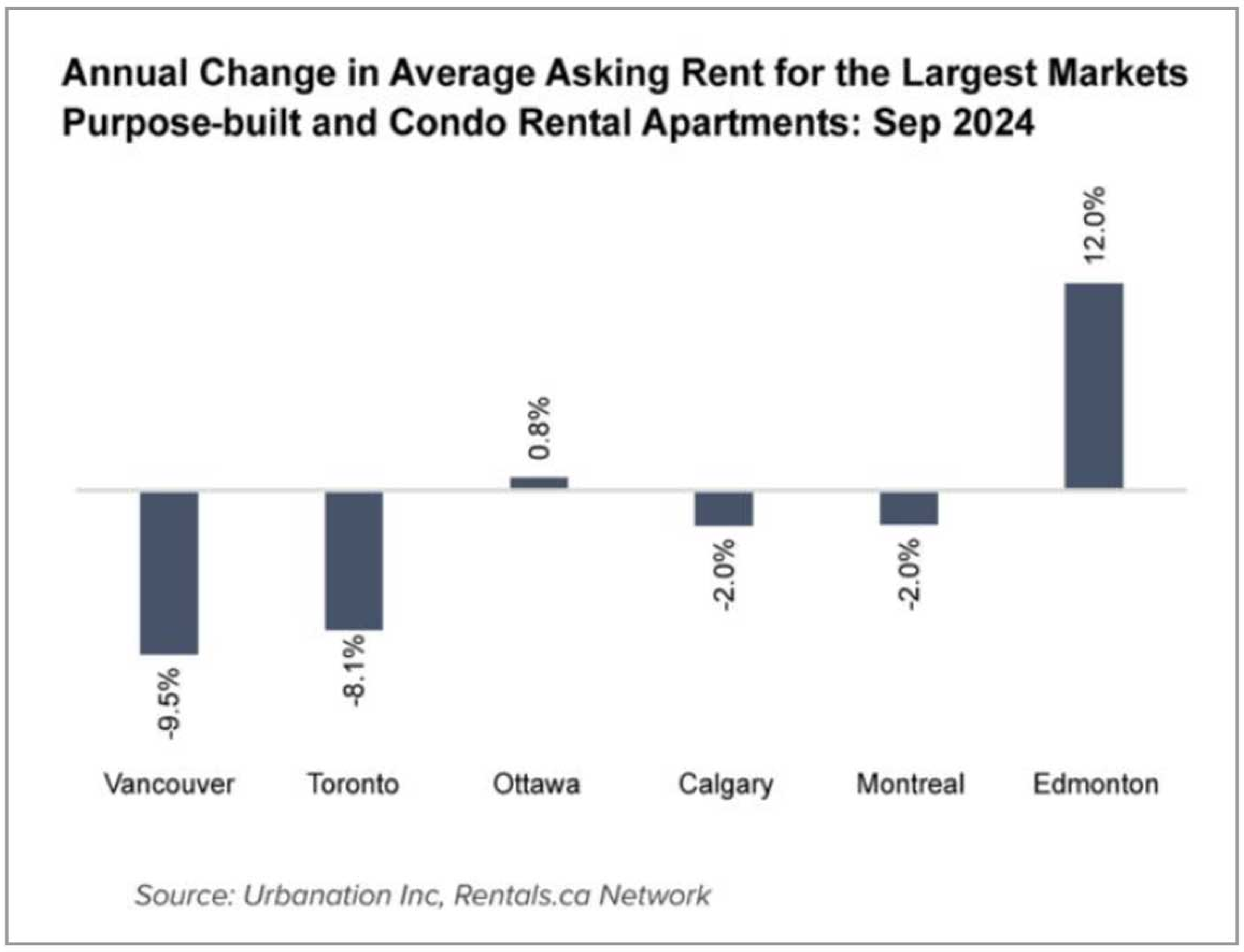
A report last week from Rentals.ca[4] added support to my view that rent growth is indeed slowing sharply, notwithstanding that its not yet being reflected in official CPI data.

The authors note that asking rents have now flatlined since late 2023, and annual growth has fallen to just 2.1%:





That headline number masks sharp regional variations across the country, with annual gains well into the double digits on the prairies and steep declines in Toronto and Vancouver:



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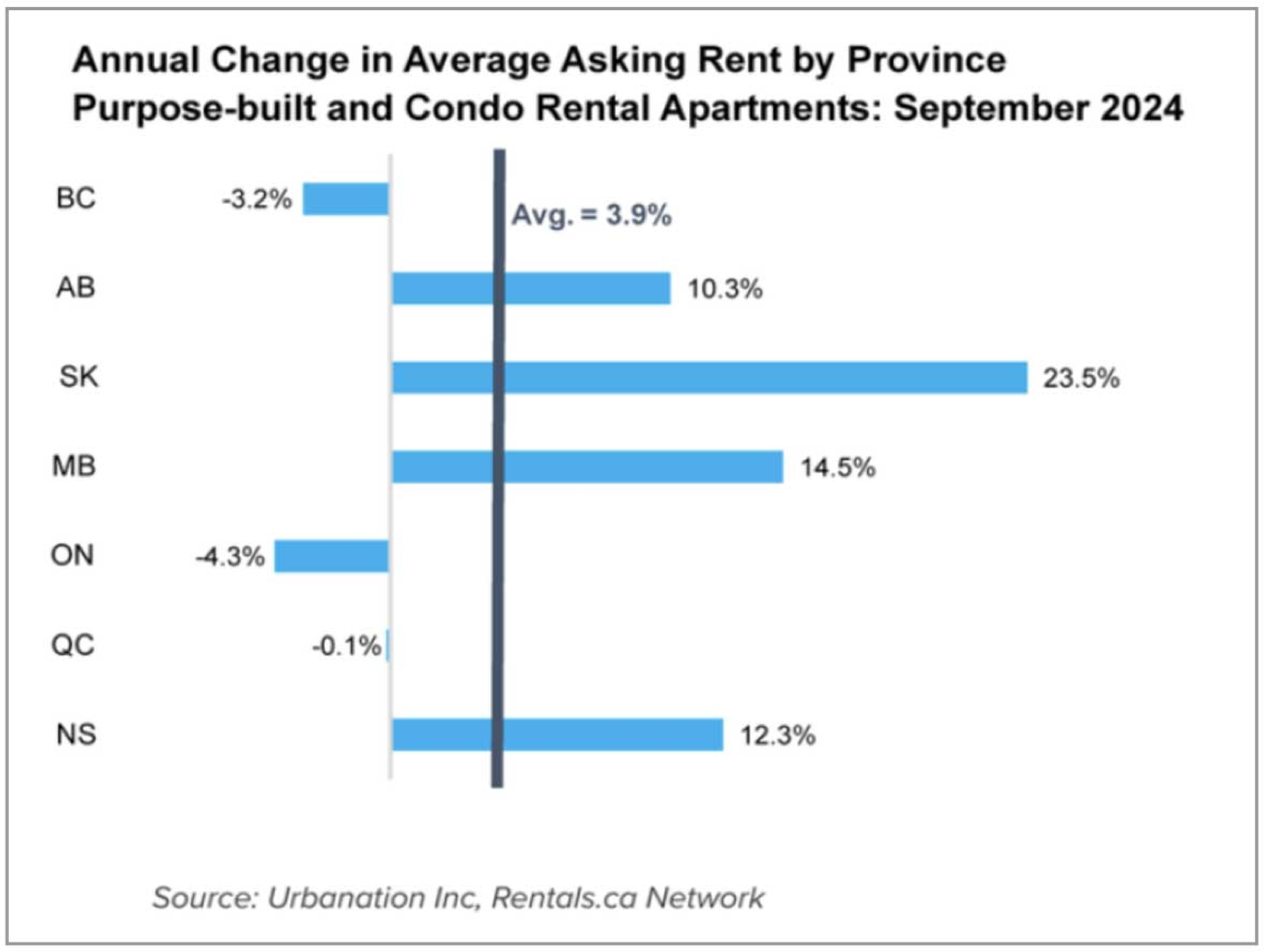
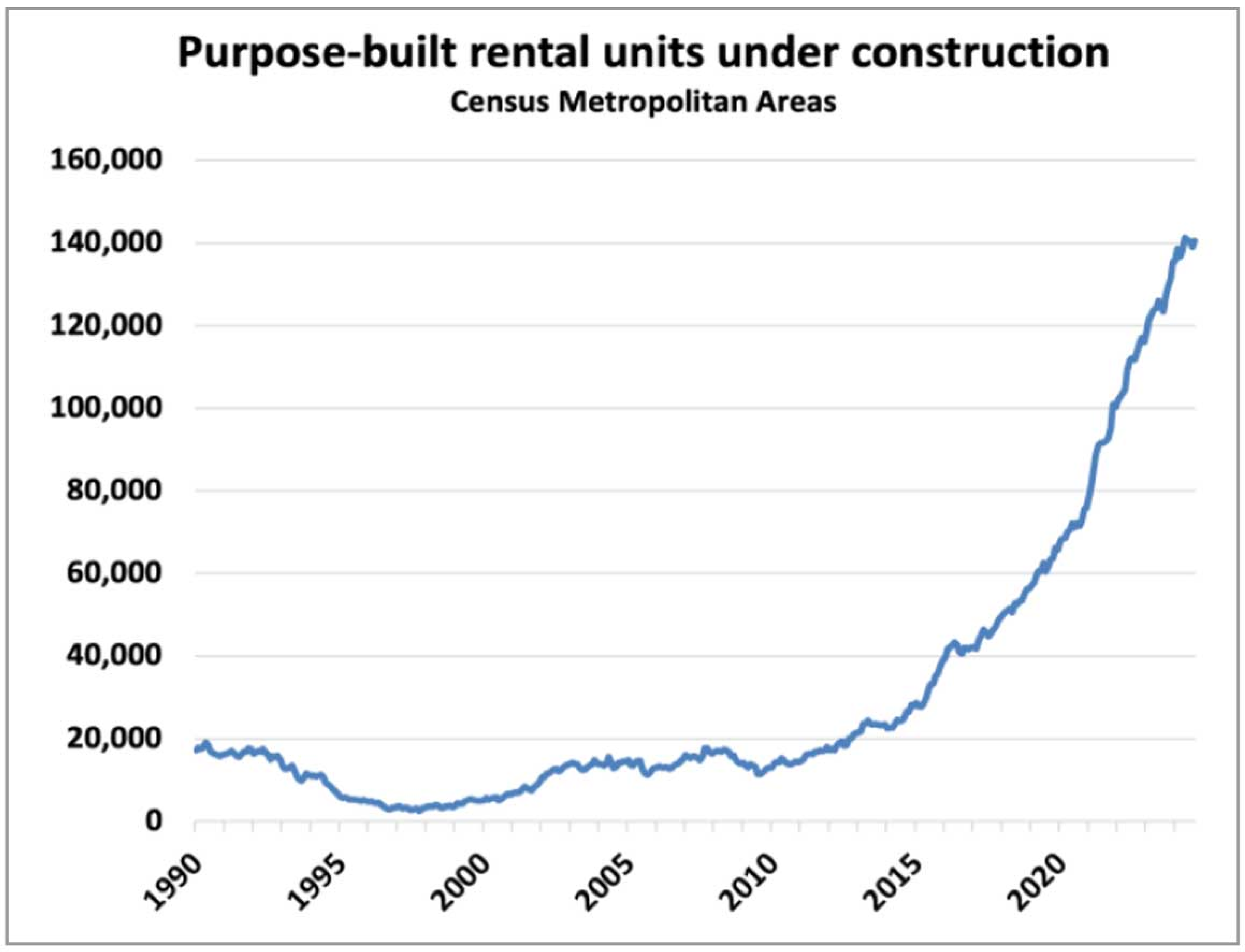
[4] https://rentals.ca/national-rent-report



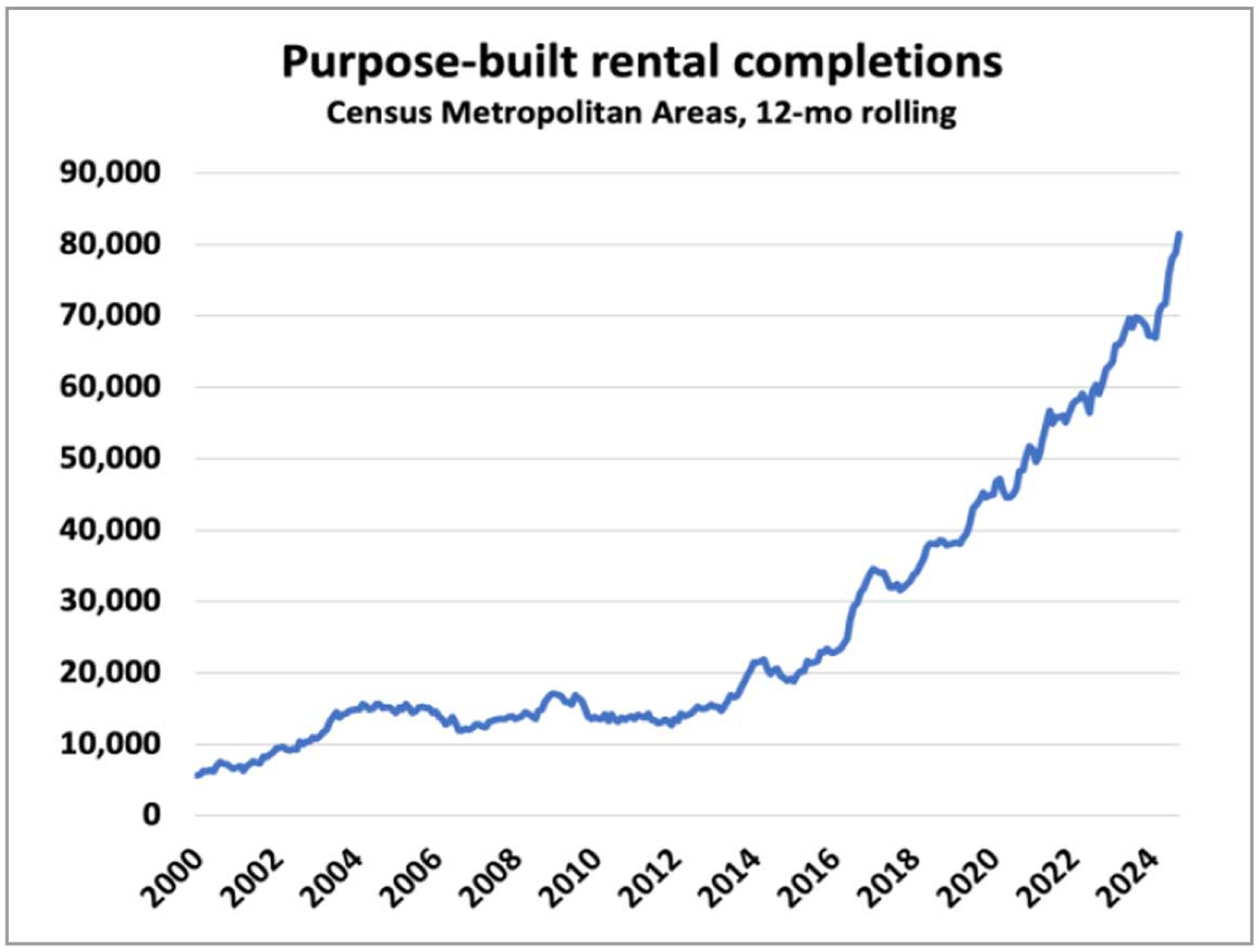


I see 4 reasons why rents are softening faster than most would have expected, and why it should continue:

i) Surging new completions

We've now had 81,000 purpose-built rental completions in the past year, a record by a wide margin. On top of that was another 60,000 condo completions, with roughly half of those entering the long-term rental pool.

In spite of that surge in completions, we still have 140,000 rental units in the construction pipeline with more added every month:

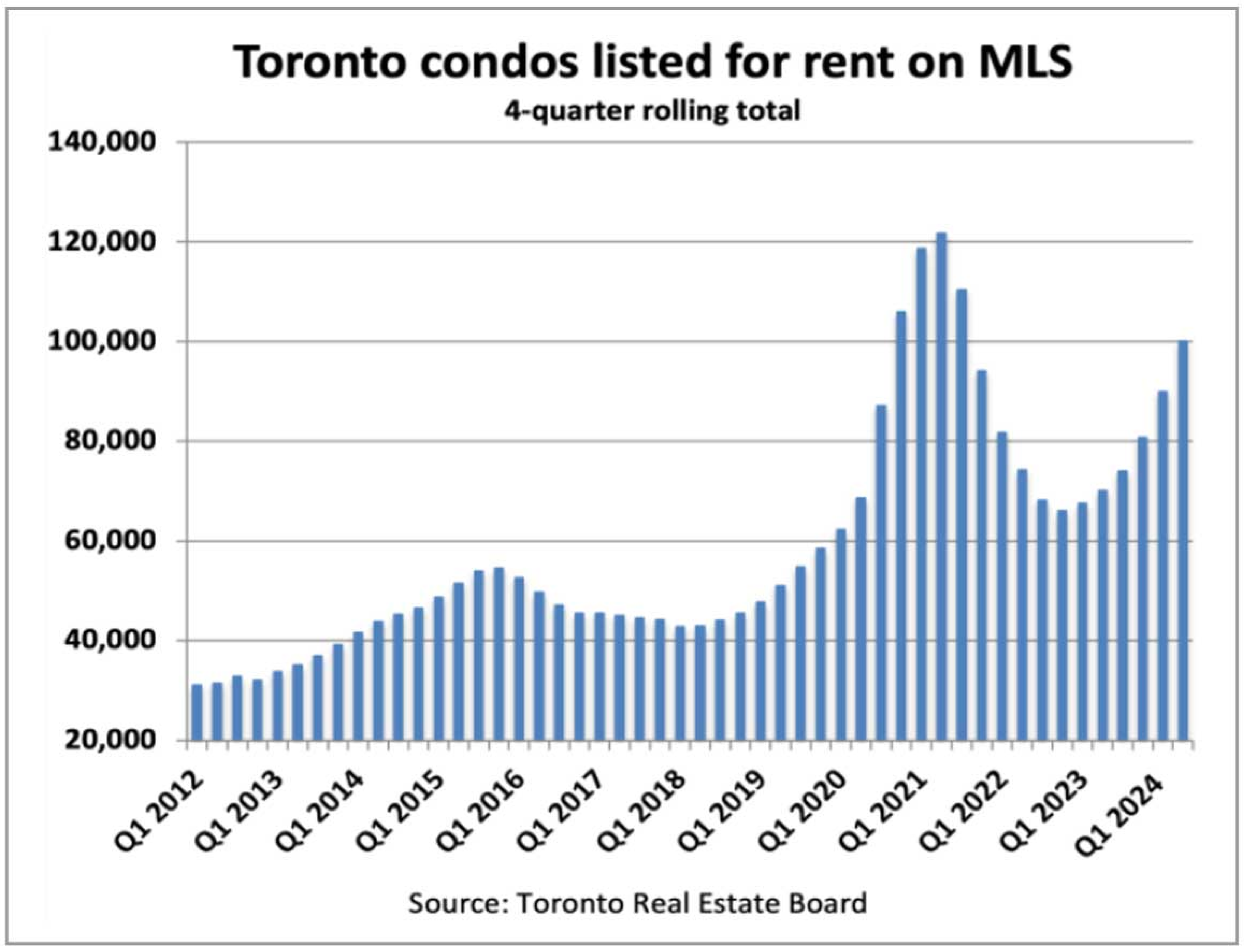


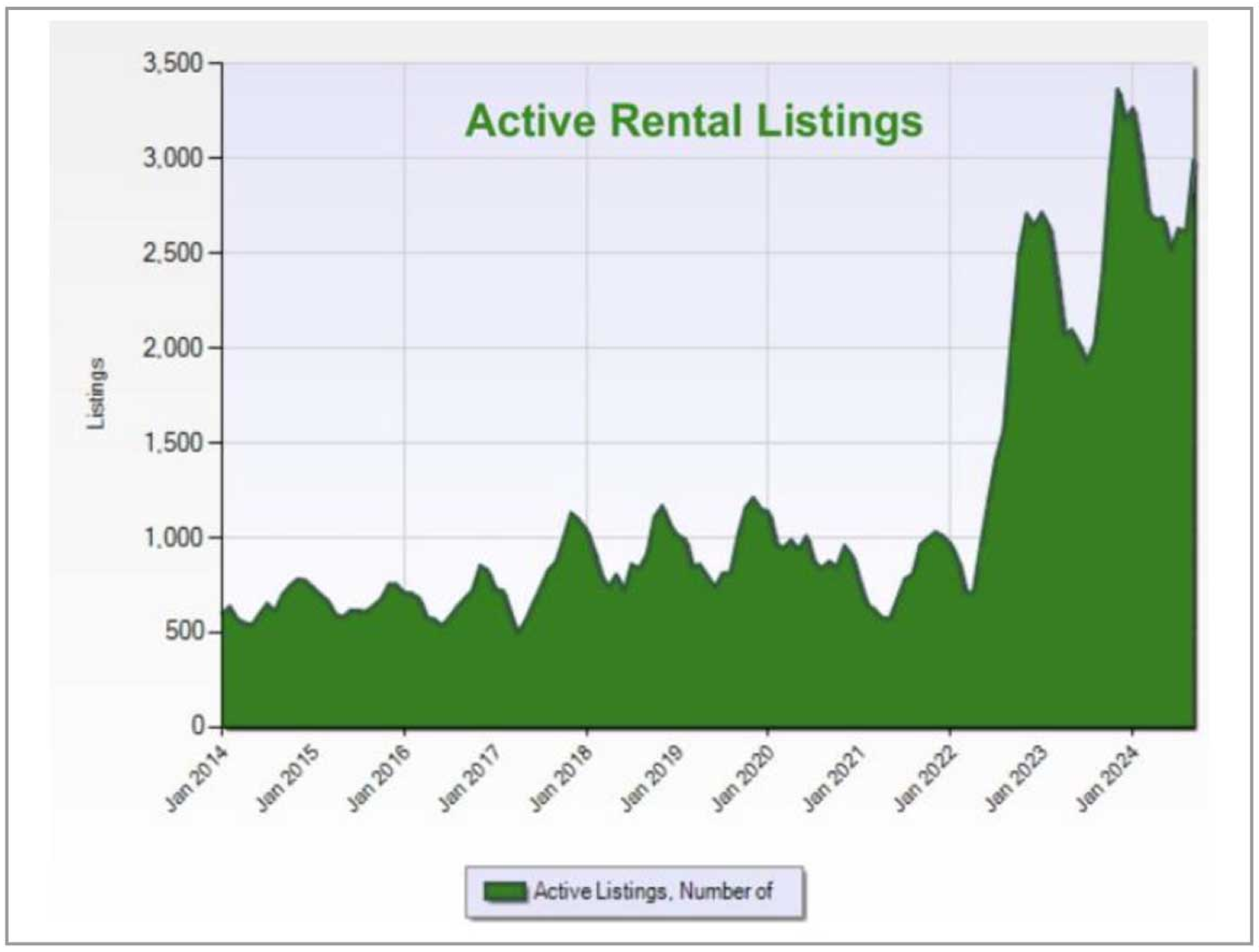
ii) Slowing non-permanent resident growth

We don't have to overthink this: The incredibly tight rental market of the past few years is directly related to Canada's absurd "laissez faire" approach to temporary resident admissions. That's now changing in a big way. New rules around temporary workers and international students are set to hammer the growth in that cohort, which has accounted for roughly 2/3 of total population growth over the past 2 years.

iii) Abundance of rental listings

Shown below is the trend in rental listings on the MLS systems in the "ITSO" boards, a collection of a dozen or so real estate boards in southern Ontario outside of Toronto. You can see that monthly new rental listings surged right as interest rate hikes started and the current housing downturn took hold. Active rental listings have tripled relative to 2022 levels.





I think these are "trapped" homeowners, many of them investors/flippers, who are trying not to sell into a soft market and are instead renting them out until the market recovers.

We see a similar dynamic in Toronto where condo rental listings have risen sharply:

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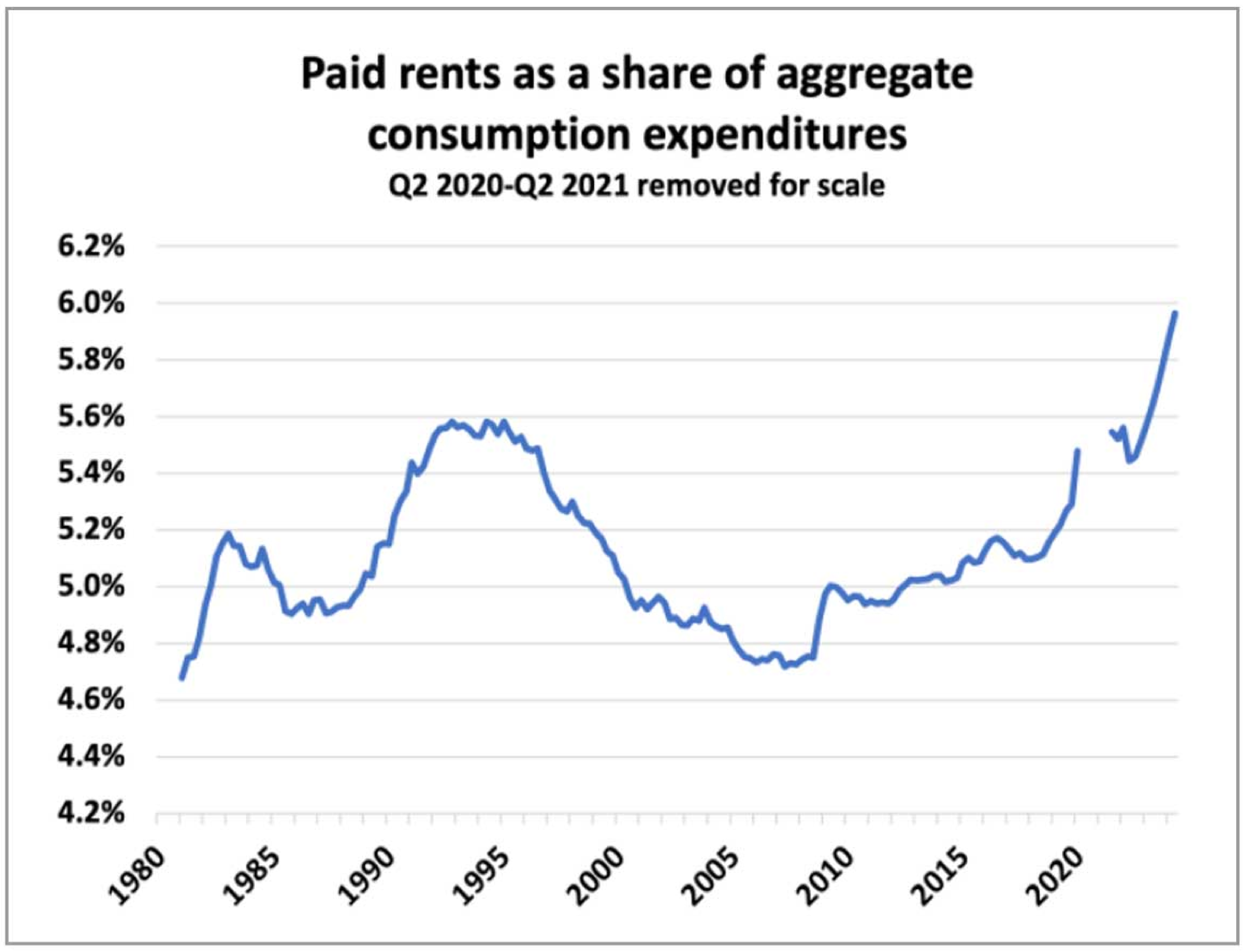
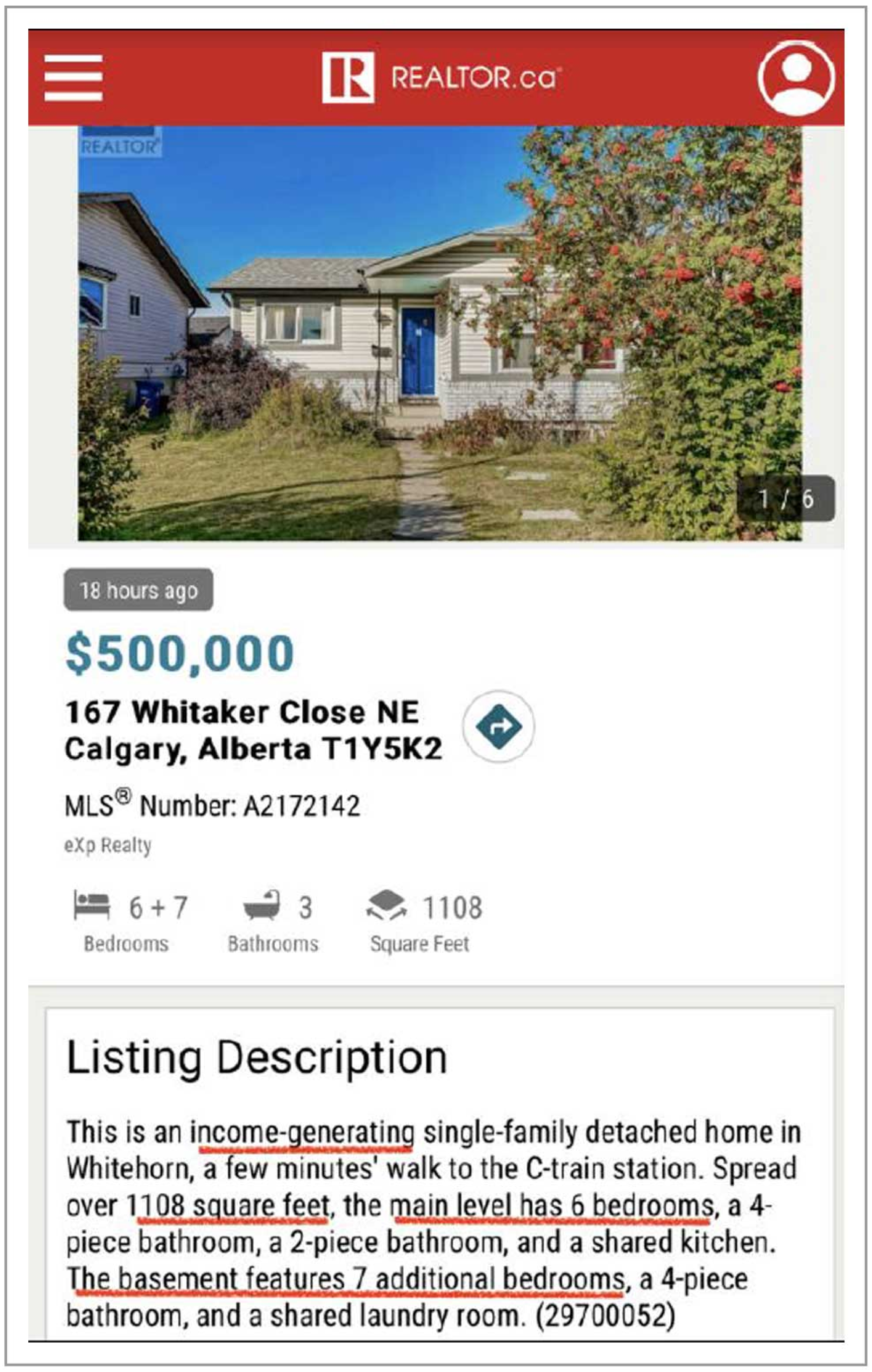
iv) Affordability is constraining household information

Paid rents as a share of consumption expenditures are at record highs, which is to say that at the national level, we've never seen this much income being spent on rents. I believe the challenging affordability situation of the past couple years is now constraining household formation, with more kids living at home or with roommates. I can't prove it, but I'm hearing it anecdotally... particularly when it comes to new college/university graduates.



As an extremely example, consider this "income generating" home listed for sale in Calgary: 13 bedrooms in 1100 square feet. The floor plan is wild:



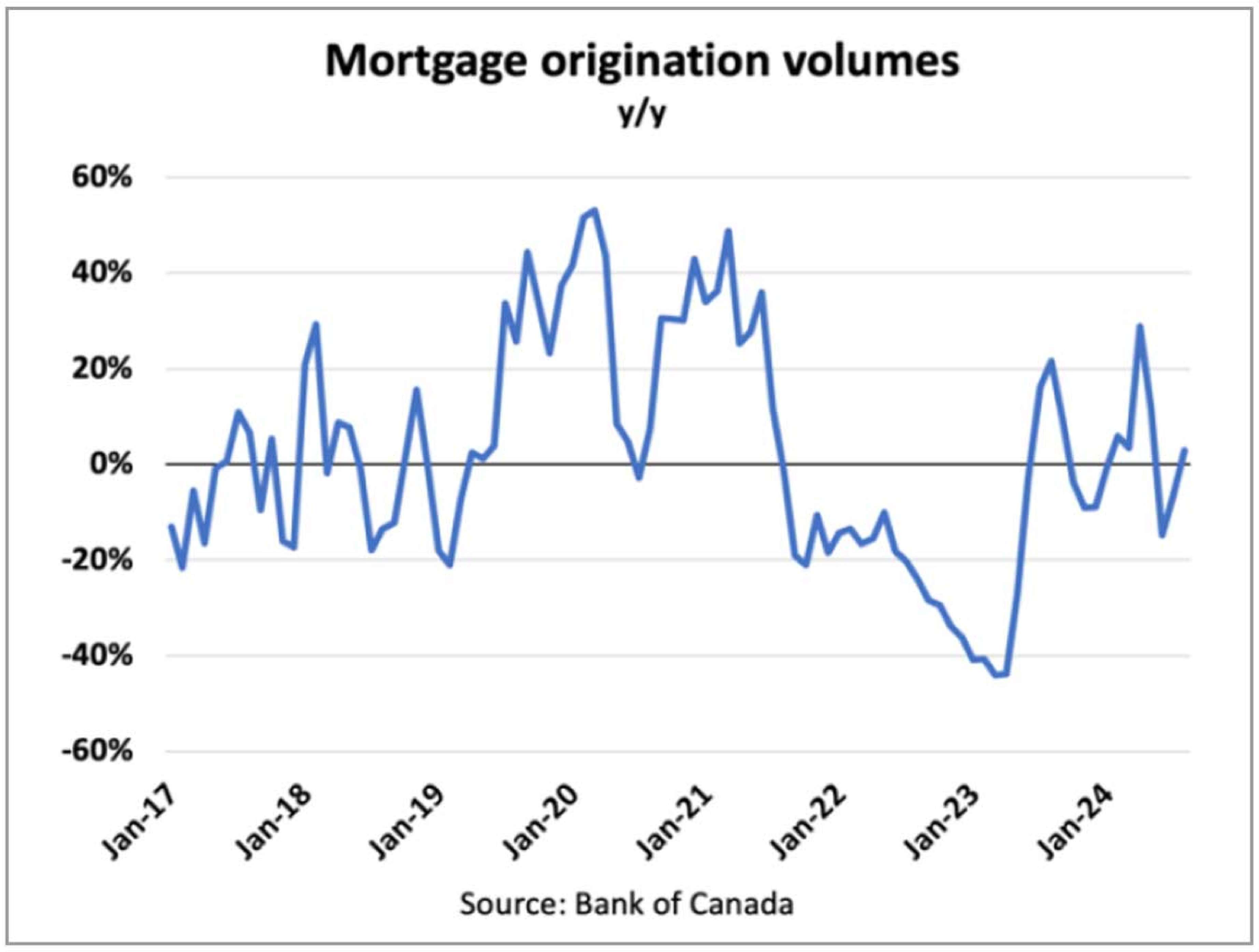
In a market with more affordable rents, how many of these 13 renters would have formed a separate household? It's an interesting thought.

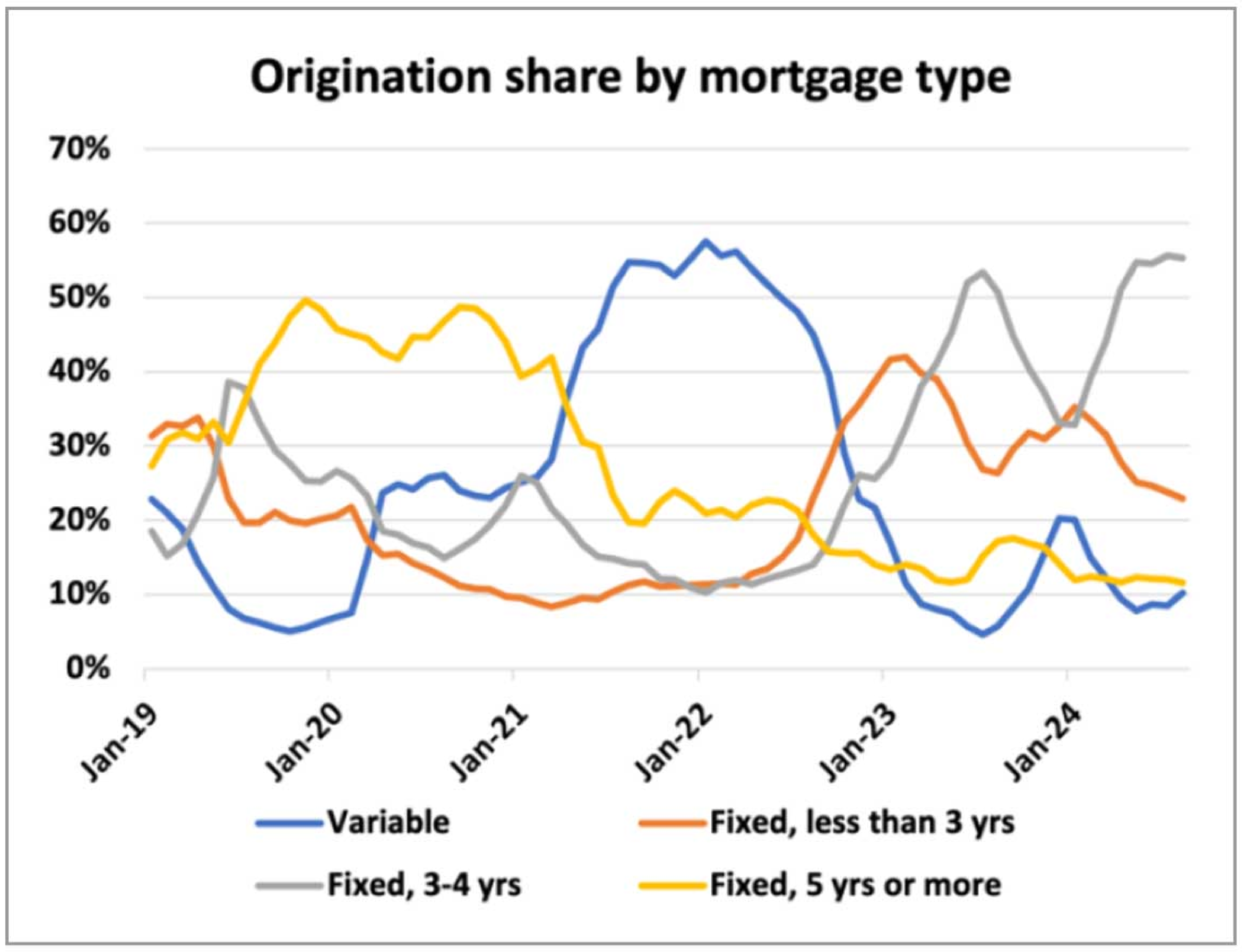
Of course this also highlights how our booming non-permanent resident cohort is impacting the resale market as well. After all, you may not be able to generate cash flow by renting to 1 family, but cram it full of 13 students and you've got a money-maker.

3) *Mortgage update: Originations rise in August*

Mortgage demand rebounds

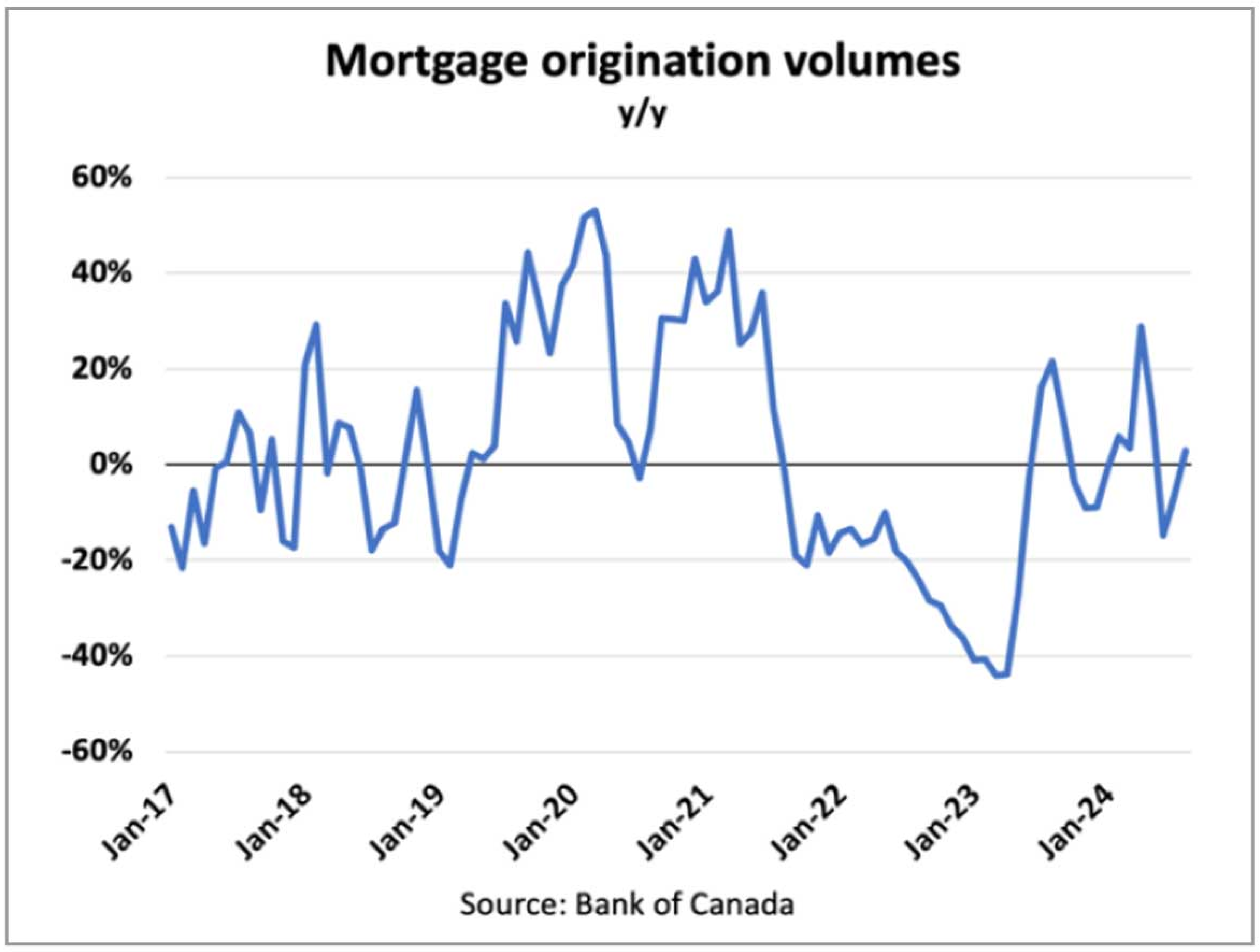
Mortgage originations rose 3% y/y in August, led by an uptick in variable originations which surged 85% y/y. Still, they only accounted for 10% of total volumes last month compared to 55% for 3-4 yr fixed rate products:

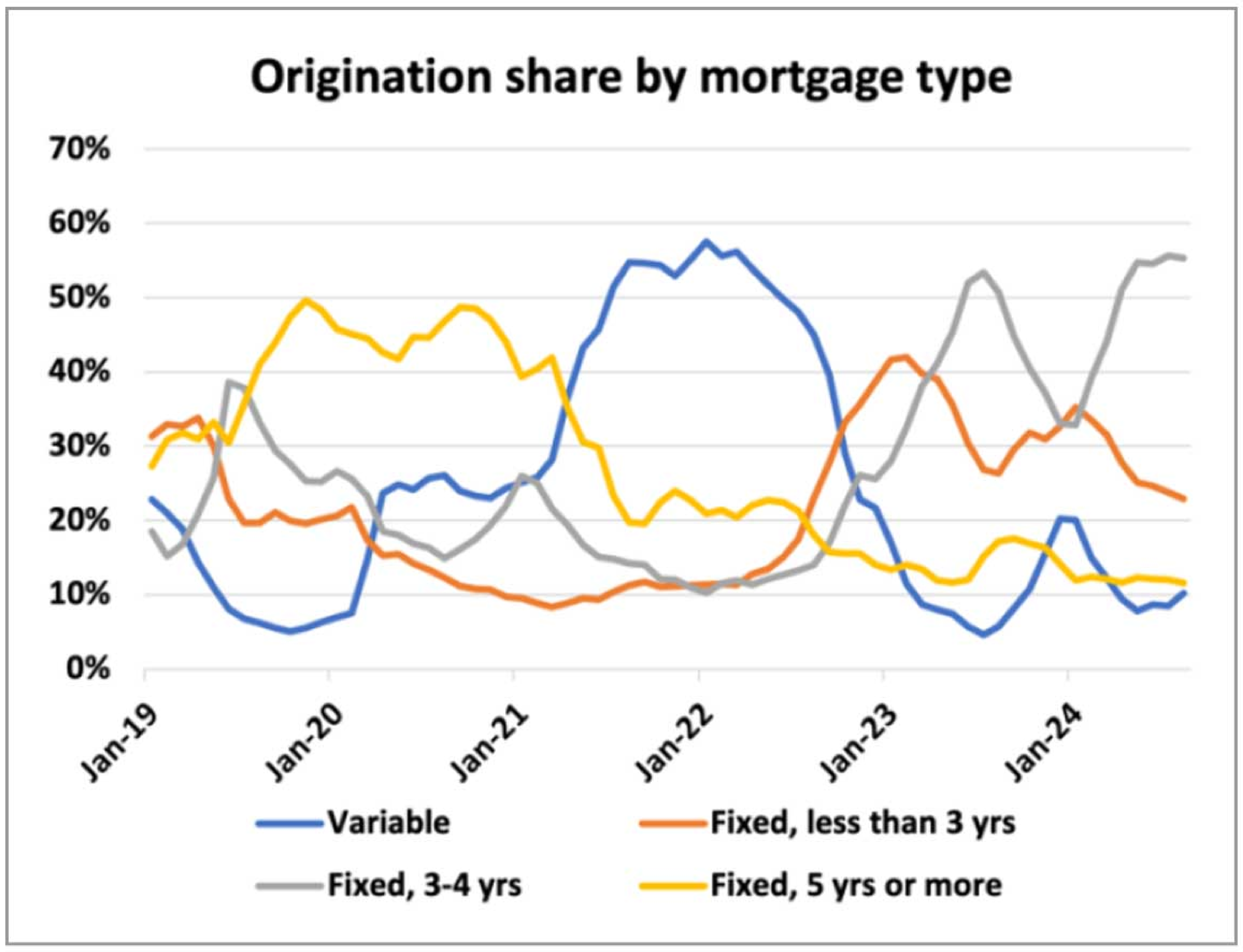




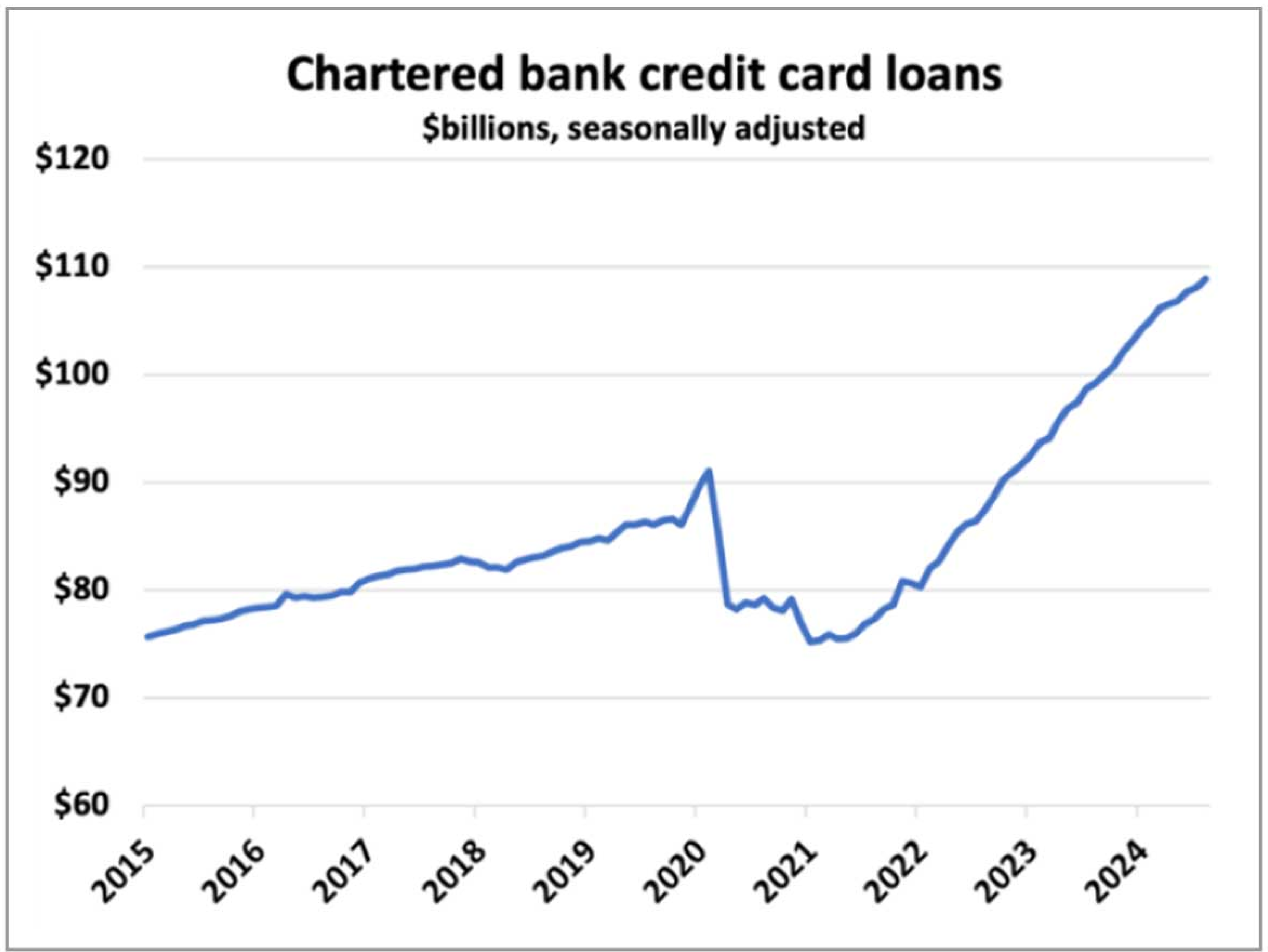
<u>Intel from trusted mortgage contacts is that inquiries and pre-approvals have risen sharply in recent weeks. I think we'll see that filter through to greater mortgage and home sale activity through the remainder of the year.</u>

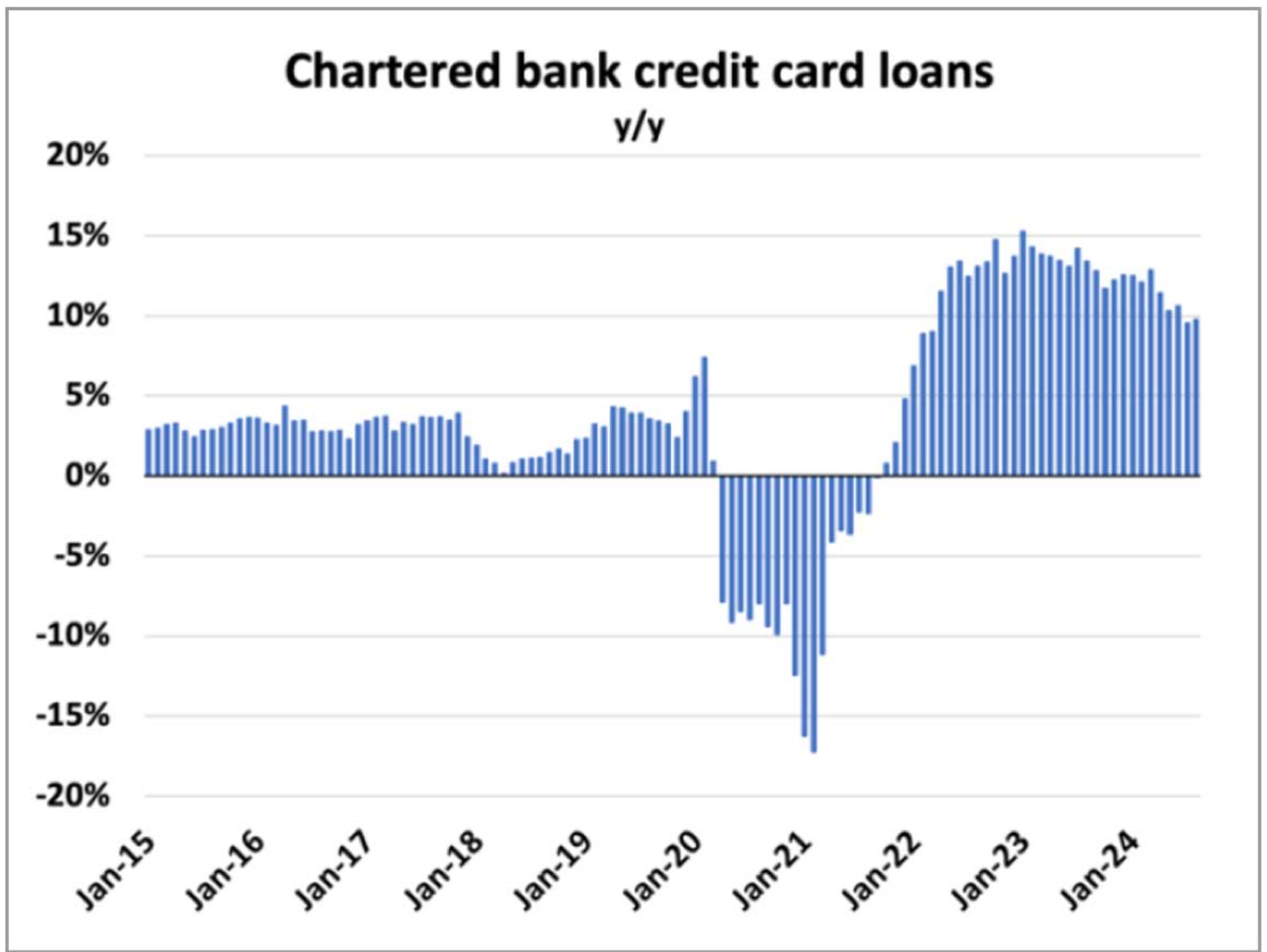
Residential mortgage growth is still stuck at just 3.5% y/y, which for reference is only HALF of the growth rate of aggregate household disposable income. In other words, we're seeing a de-leveraging taking place in real time as incomes rise much faster than debt levels:





At this point, if OSFI is still concerned about the mortgage space, they really ought to be looking instead at credit card debt which jumped ANOTHER 0.7% nationally last month and is growing in 3x the rate of lower-interest mortgage debt:





And yet, OSFI is still tinkering. Which brings us to the following...

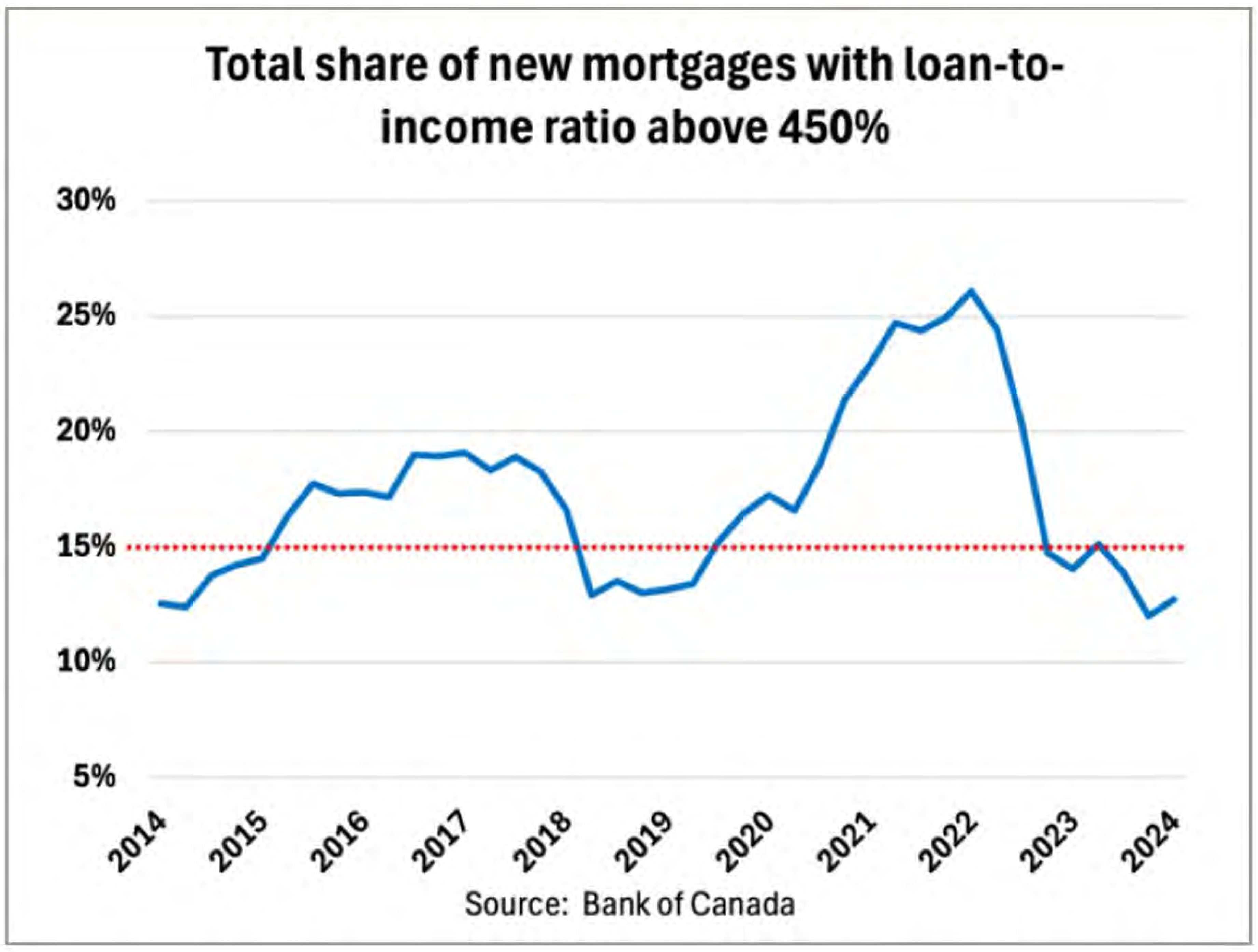
OSFI comments on loan-to-income limits

OSFI's LTI limits are set to kick in on November 1. Peter Routledge spoke at a Global Risk Institute event earlier this month and dropped a tidbit that caught some folks in the mortgage space a bit off guard.

From Rob McLister and the always-excellent MortgageLogic.news:

> Routledge casually tossed another truth grenade at the event - this time regarding the LTI limit.
>
> "The loan-to-income test is pretty simple. It says every quarter a bank or a lender can only lend 15% of their mortgages in that quarter to borrowers with loan-to-incomes higher than 450%. That is a very effective ceiling that stops the build of risk concentration."
>
> Say what , now? Where did that 15% come from?
>
> When OSFI floated its LTI concept in January 2023, it proposed a "credible, industry-wide LTI volume limit." Its example of credible was limiting quarterly originations so that no more than '20 to 30 %" of mortgages (by total dollar value) could exceed 4.5x (450%) of borrower income.

That's quite the change, and if implemented as suggested here, it would absolutely cut the legs out from under any future frothy, speculative booms. For example, in 2016-2017 and 2020-2022, the share of new loans with LTIs above 450% rose to 19% respectively. How different would the housing landscape look today if OSFI I had curbed the buildup in leverage during those periods?



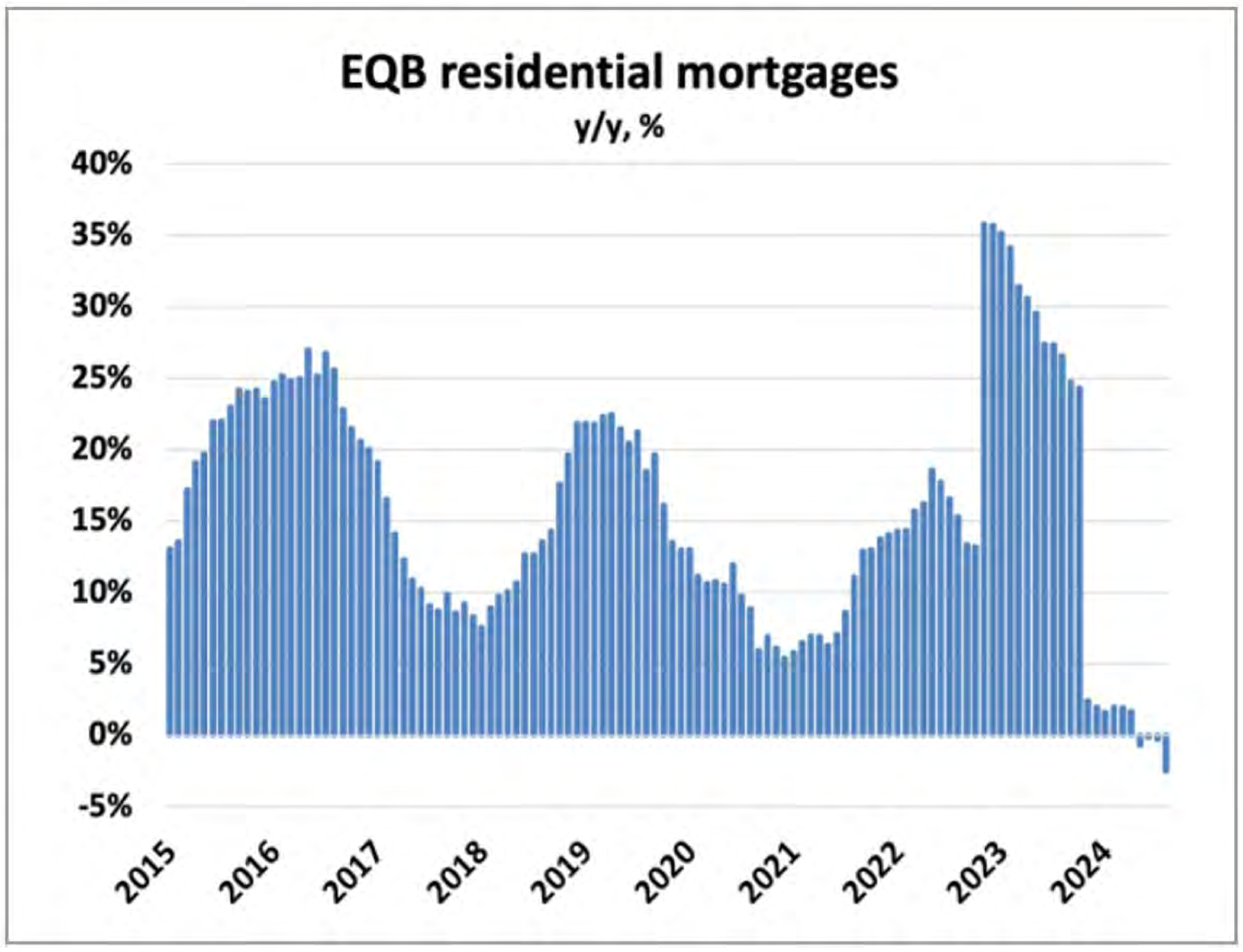
This is a big deal, and it would cap the ability of Canadians to add substantial leverage in future periods of low rates.

Takeaways from OSFI bank data

Chartered bank balance sheet filings for August were released last week. Some takeaways.

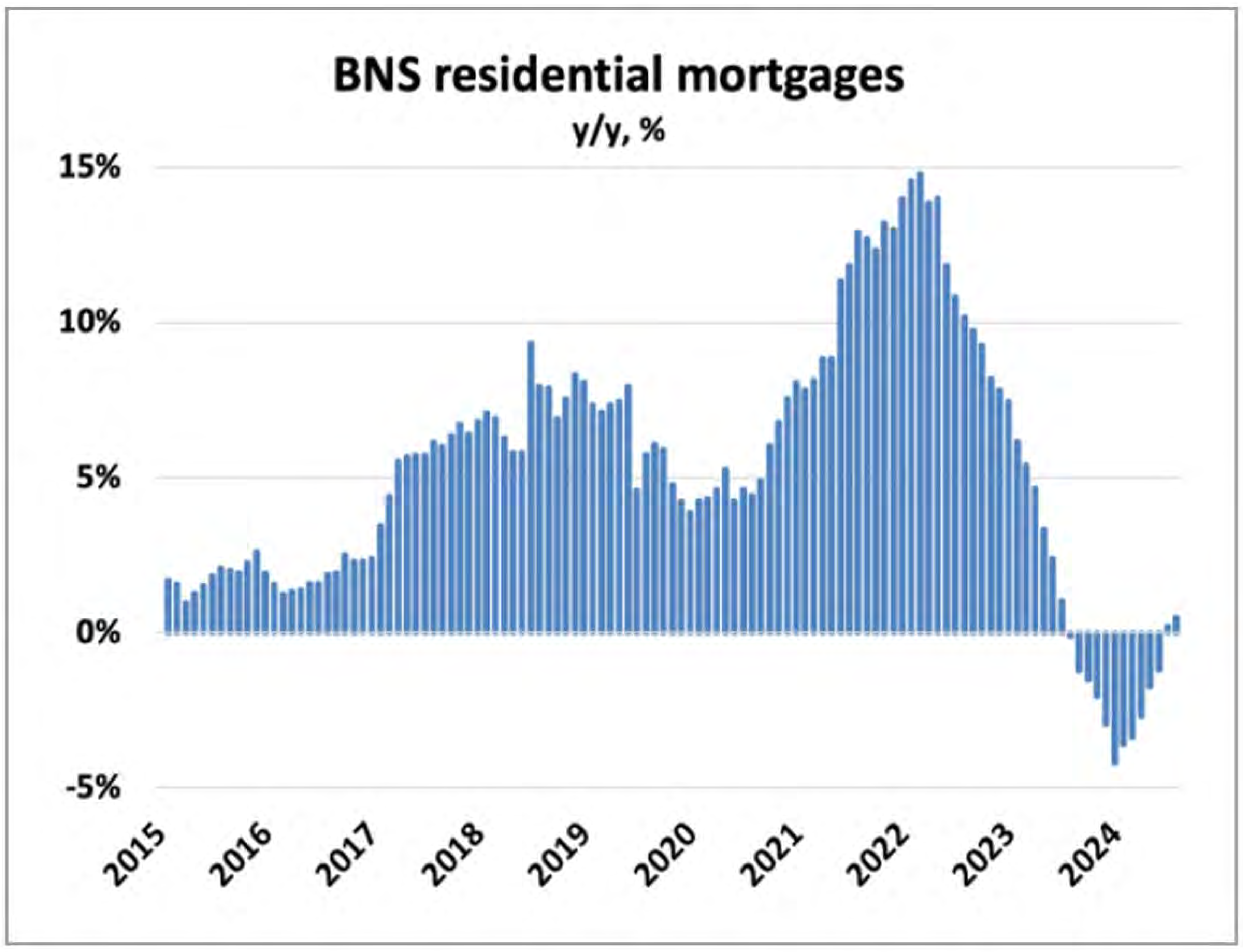
i) Non-prime lending continues to contract

Equitable Bank (EQB) saw uninsured loan growth fall 1.3% mm, the largest monthly decline since June 2020. That puts the y/y growth trend in its residential loan book at -2.5%, the weakest in at least the past decade:



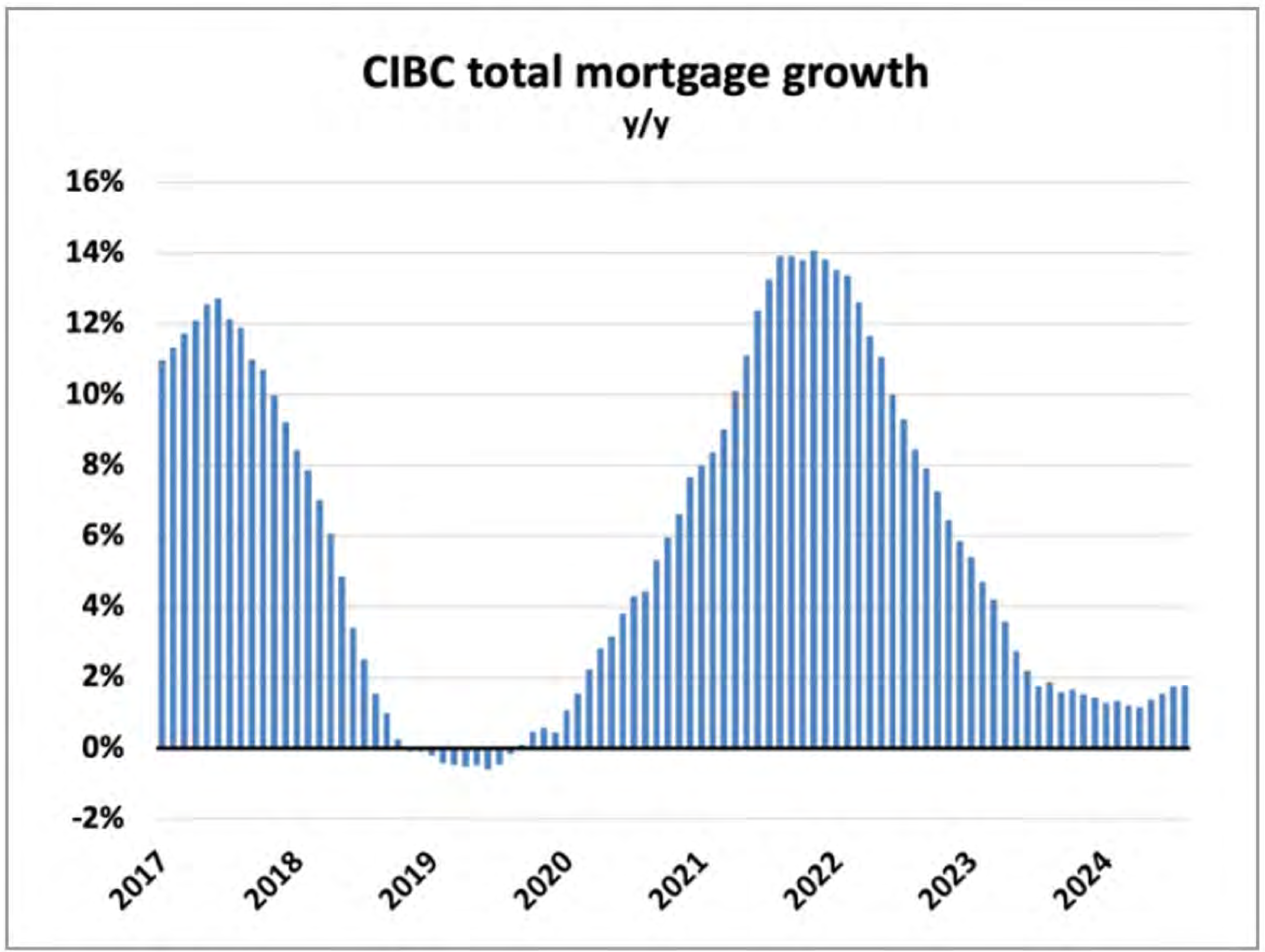
ii) BNS falters

After expanding for four consecutive months through spring, BNS' residential mortgage book has now contracted for 2 of the past 3 months. The y/y growth rate did tick up in August but only to a paltry 0.5%.



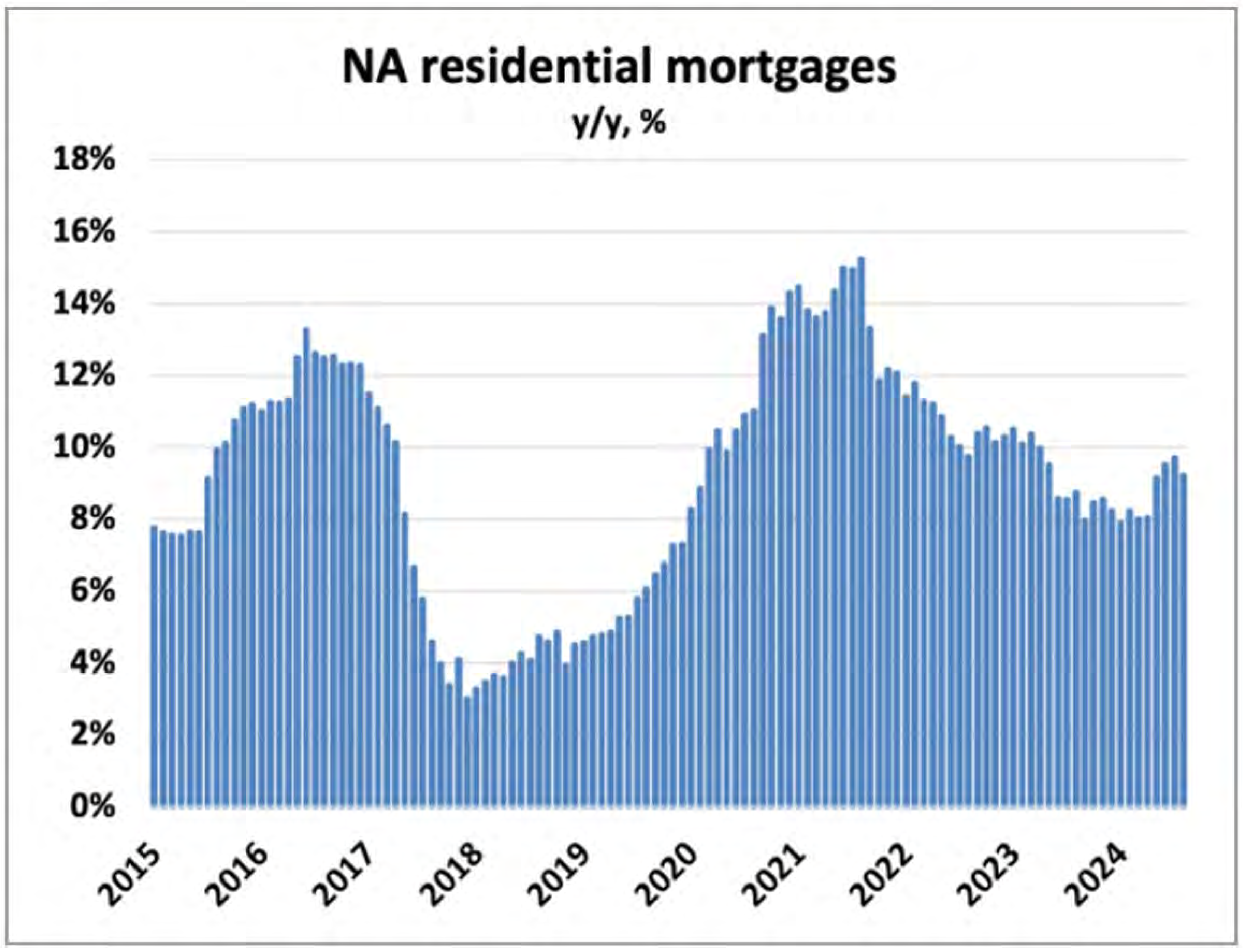
iii) CIBC sees strongest growth since mid-2022

Their y/y growth rate is still just a measly 1.8%, but CIBC did manage a 0.4% monthly expansion in their resi mortgage book in August, the best showing in 2 years.



iv) National Bank: One of these things is not like the others

National Bank's residential mortgage loan book is up a solid 9.2% y/y, propelled by an absurdly high 11.8% expansion in insured mortgages. Chartered banks as a whole have seen a 1.4% annual contraction in this segment, for reference.



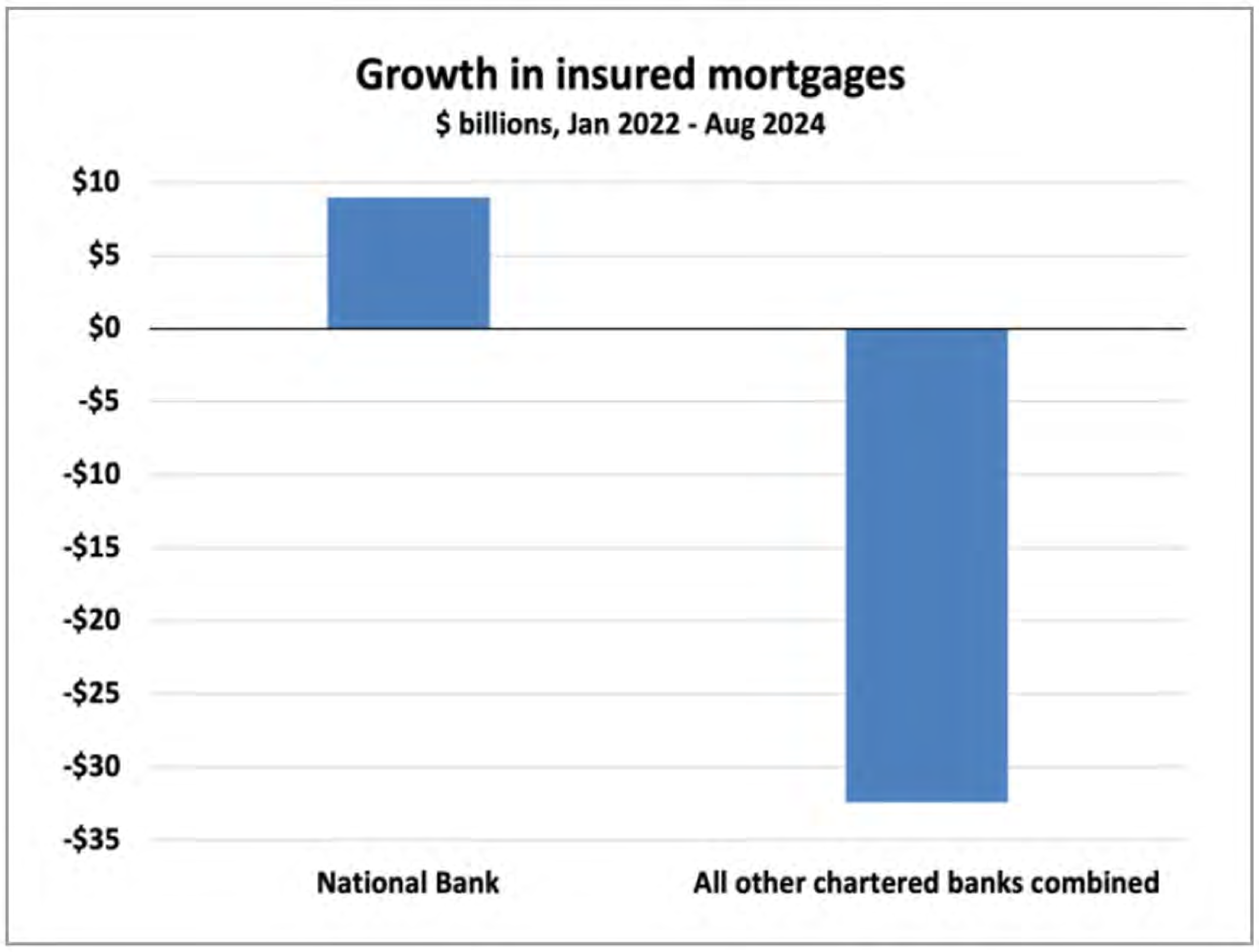
Last month, National saw 1.1% m/m growth in their insured mortgage book at the same time that their peer group saw a 0.2% contraction. Since the start of 2022, their insured loan book has grown by 26.4%.

It's just so far out of line with their peers that it ought to raise some questions, particularly since insured lending is a commoditybusiness with very few "edges" outside of lowering spreads, paying higher commissions, or having looser systems in place to catch document fraud.

Higher leverage, lower rates, and less underwriting due diligence makes the insured segment a target for would-be fraudsters, and it would behoove all banks to have particularly stringent risk management in that segment.

NA	+26.4%
BMO	+0.5%
TD	-1.0%
RY	-4.4%
All banks	-5.1%
BNS	-14.0%
CM	-21.2%

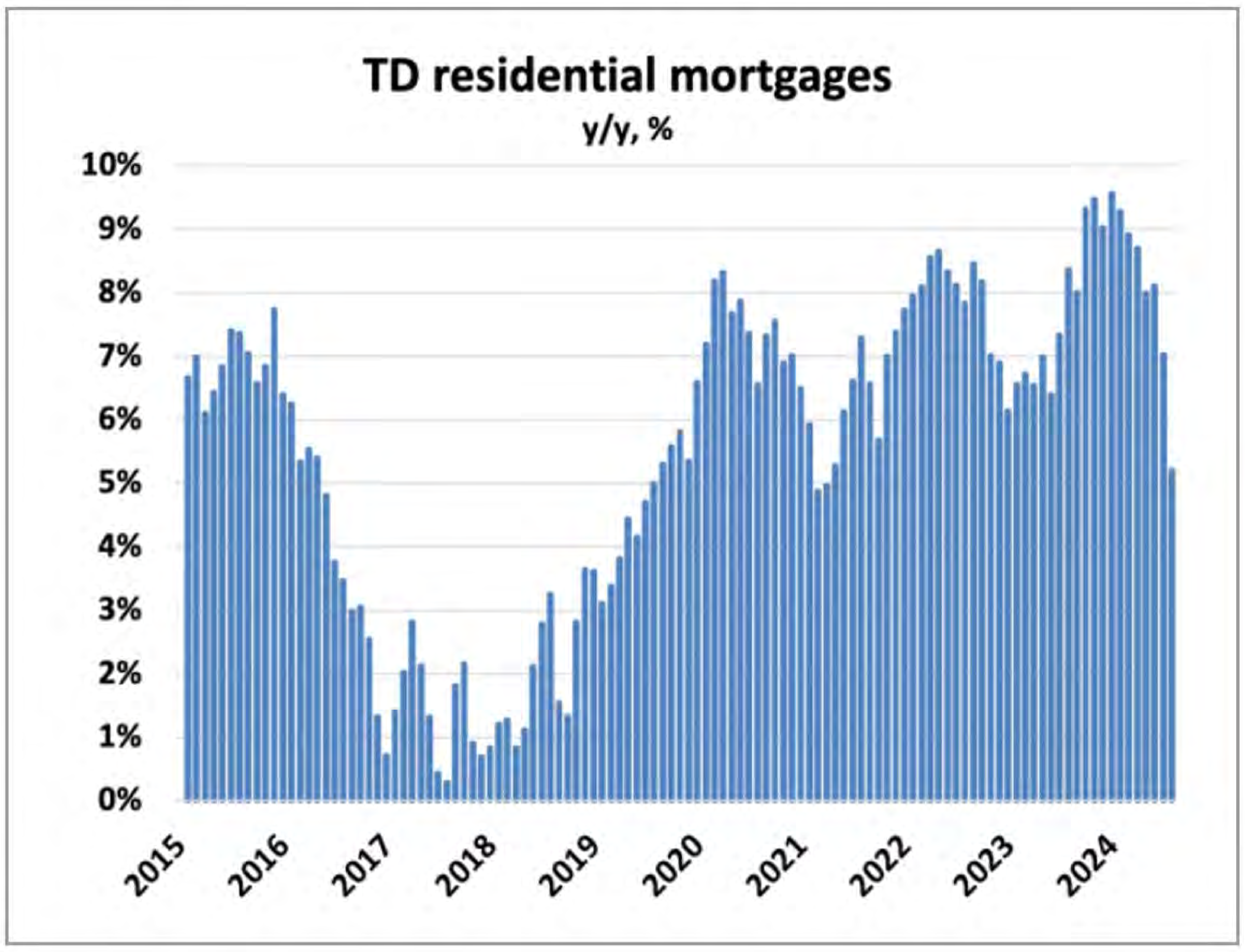
To put it differently, insured loans on National's balance sheet have grown by neary $10B since the start of 2022 while all other chartered banks combined have seen a cumulative decline of $32B:



Inquiring minds want to know how exactly they're pulling this off, and I don't buy that this is simply a story of more penetration in a lower-priced market like Quebec. That does not fully compute, particularly as we see other niche lenders like Canadian Western Bank, with major penetration in lower-priced Alberta, see their insured loan book fall 14% y/y.

v) Big slowdown at TD

TD's resi loan book fell on a m/m basis in August, the first decline since December of last year. That took their annual growth rate from 7.0% in July 5.2% in August:



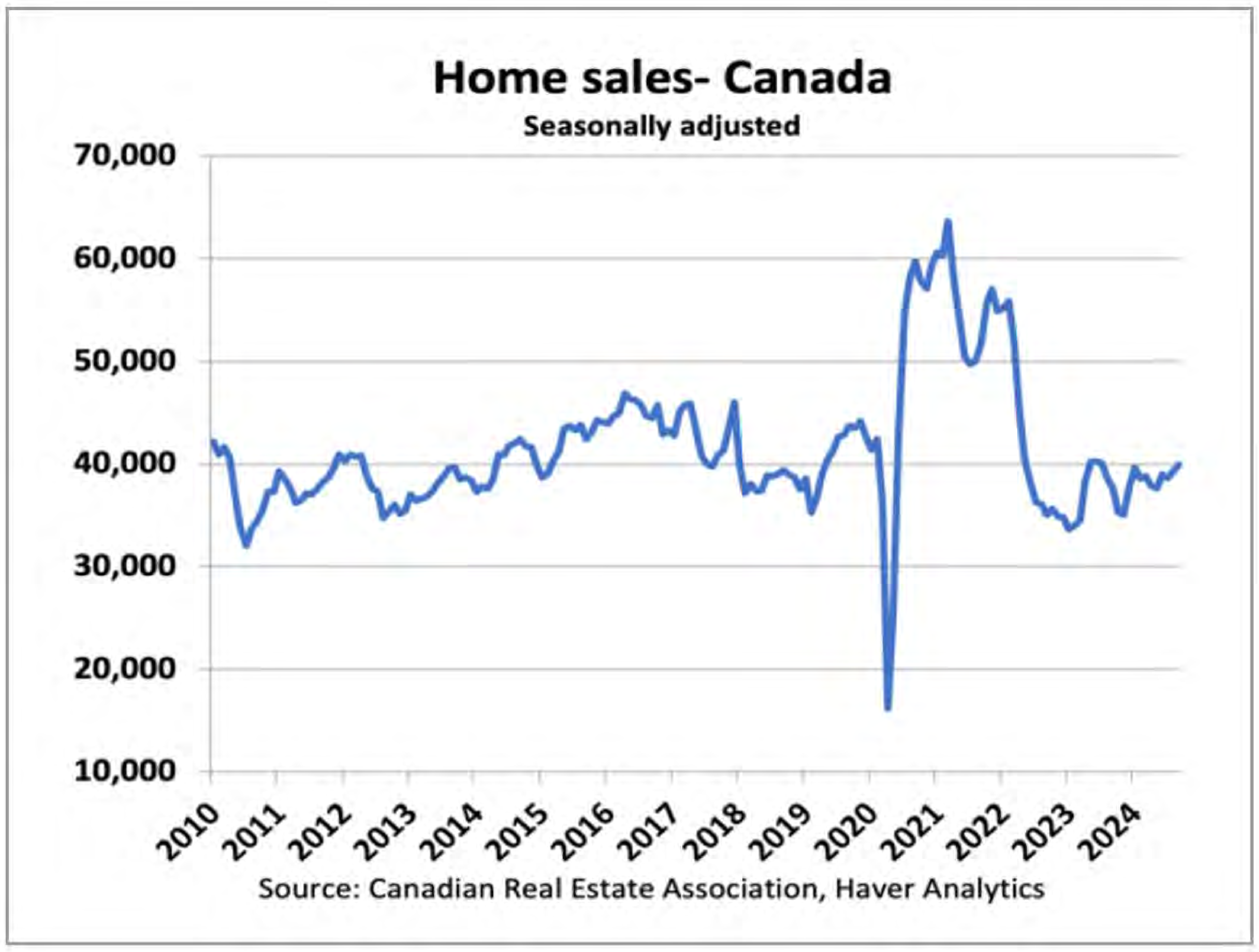
4) *Home sales and new listings rise in September*

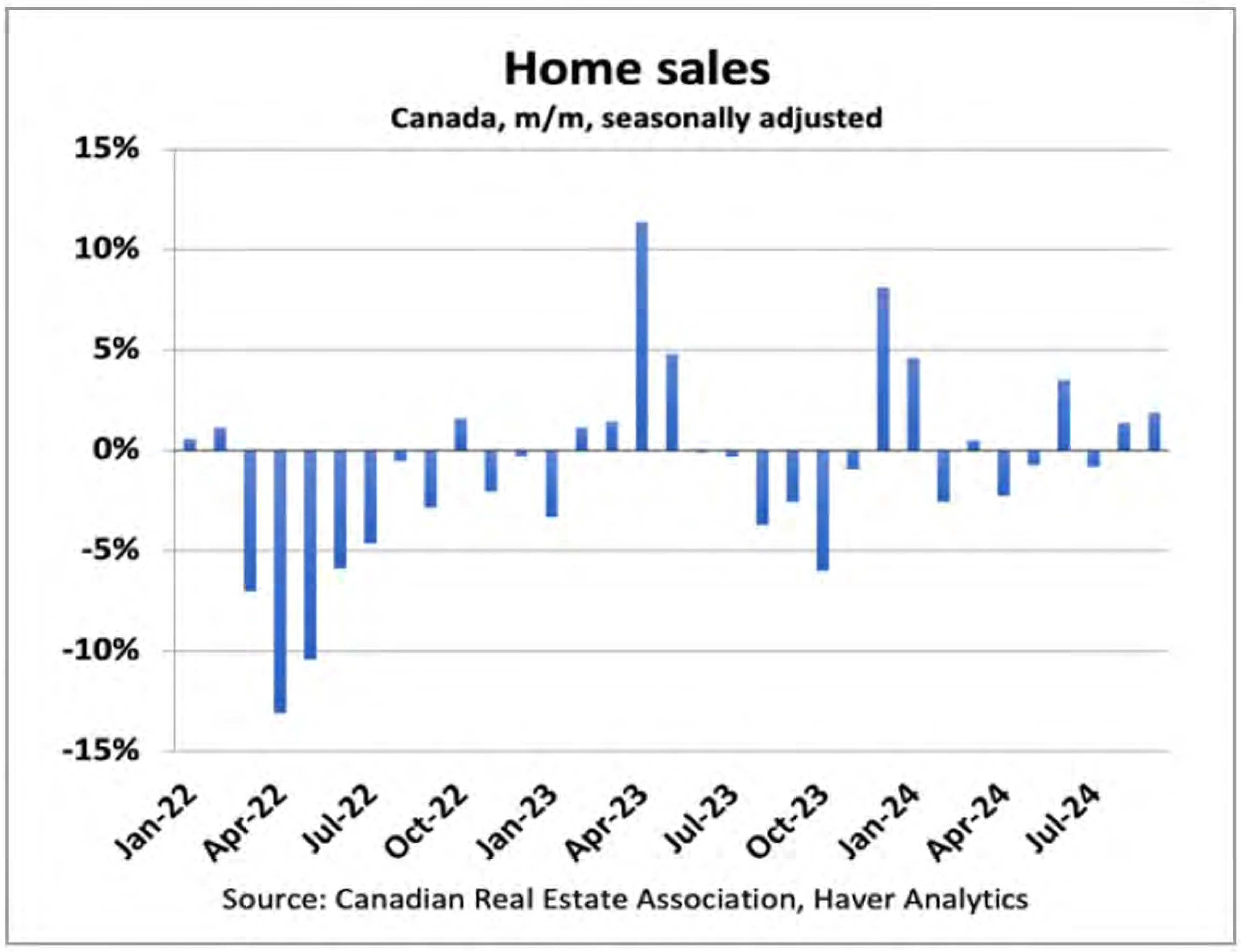
The key data from last month is summarized below:

	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	+6.2%	+1.9%	+7.4%	+4.9%	+17.8%	+1.1%	-3.6%	+0.1%
BC	-1.8%	+0.6%	+6.6%	+3.5%	+28.0%	+1.9%	-2.8%	-0.2%
AB	-2.9%	-2.4%	+9.8%	+2.4%	+0.2%	+2.4%	+6.7%	+0.3%
ON	+8.2%	+4.0%	+7.2%	+7.7%	+27.8%	+0.9%	-4.4%	-0.3%
QC	+18.6%	+3.8%	+9.7%	+2.9%	+17.1%	+1.1%	+5.7%	+1.6%

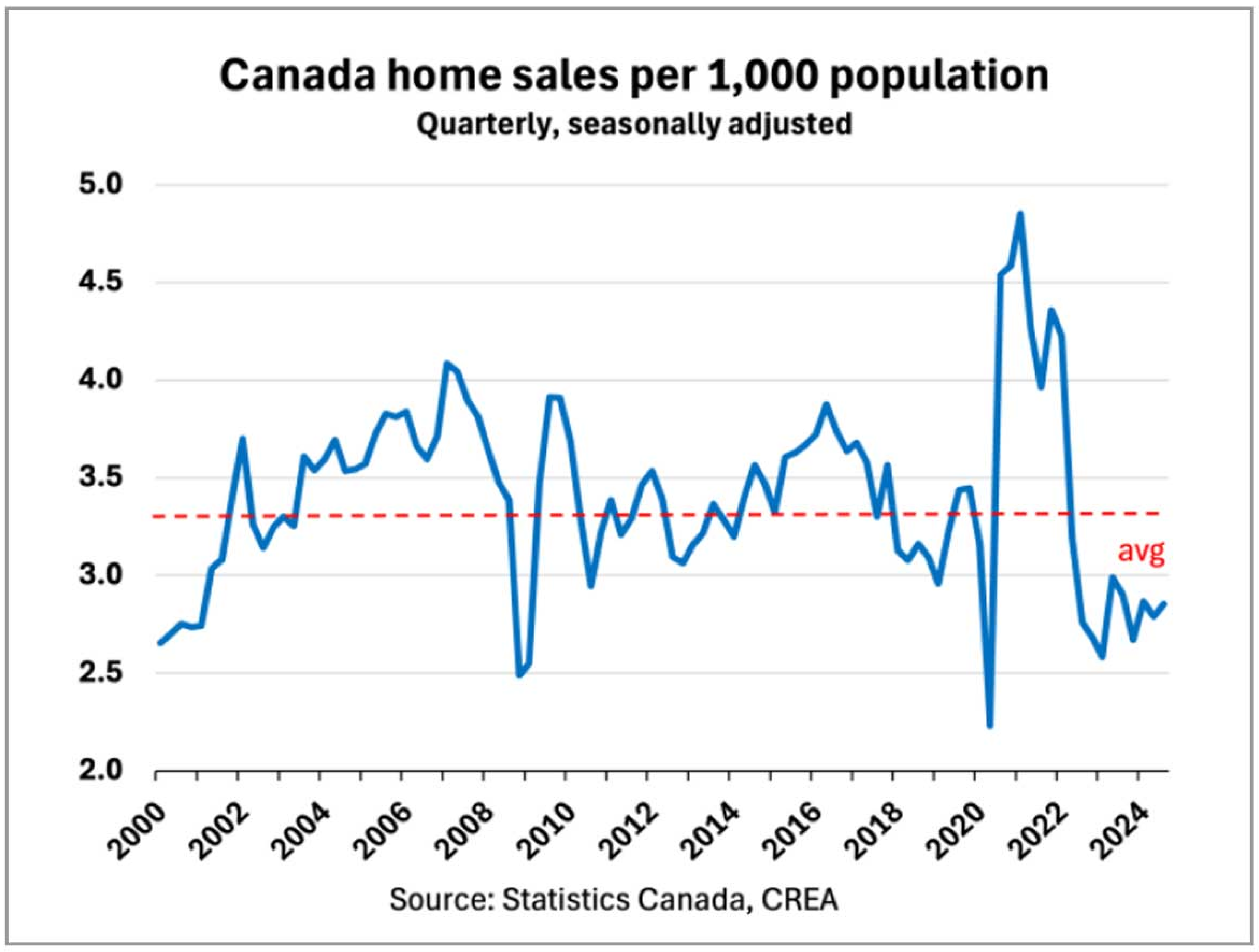
Sales rise on improving confidence, lower rates

Seasonally adjusted home sales were up 1.1% m/m nationally led by a 4.0% surge in Ontario and a 3.8% increase in Quebec where sales have now risen 12% in the past 4 months.



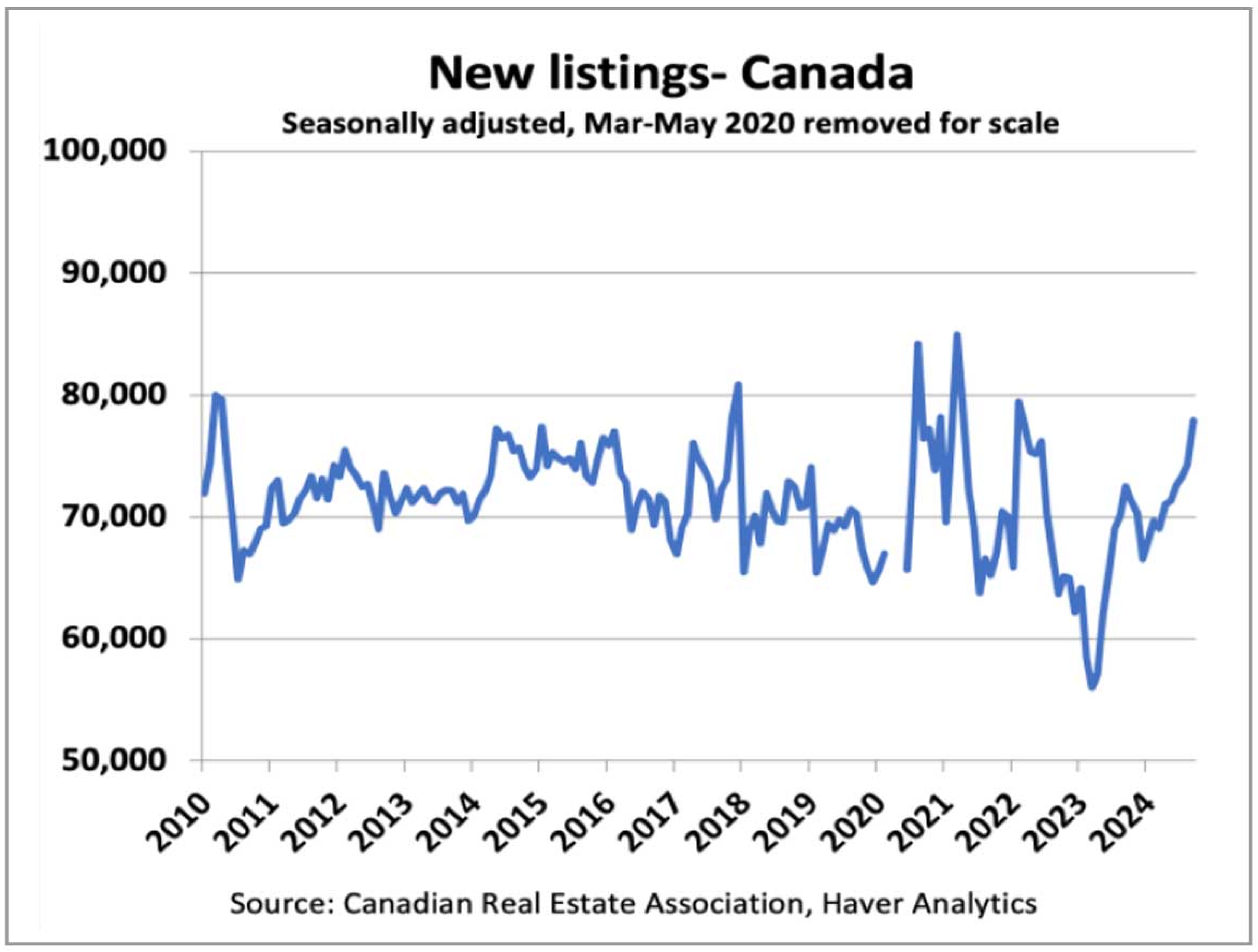


With Q3 numbers in the bag, I've updated the per capita sales chart below. The trend remains at levels last seen in 2020 and 2009 prior to that. It's worse in Ontario, the epicentre of the current downturn, where per capita sales are below Financial Crisis levels even after improving modestly in Q3:

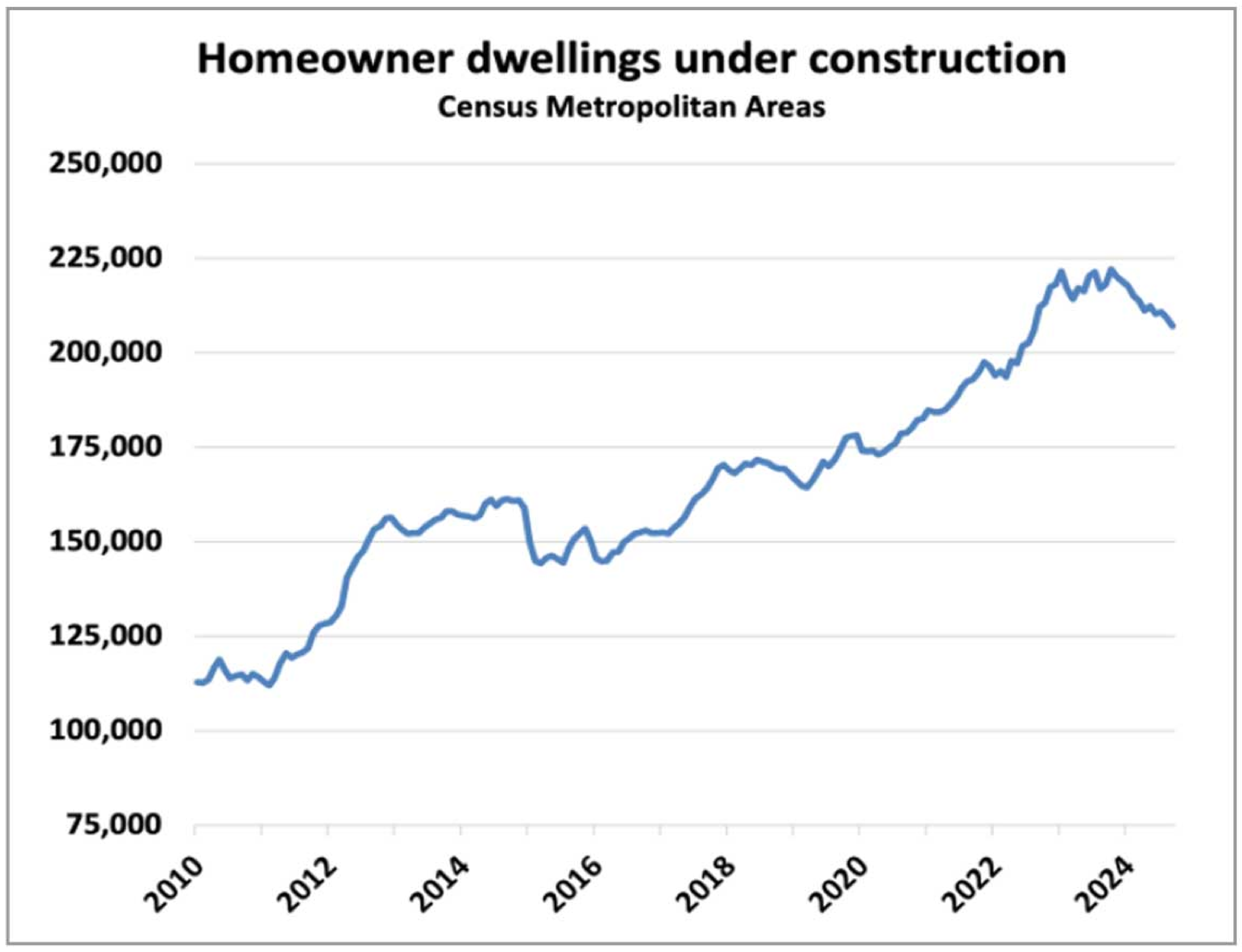


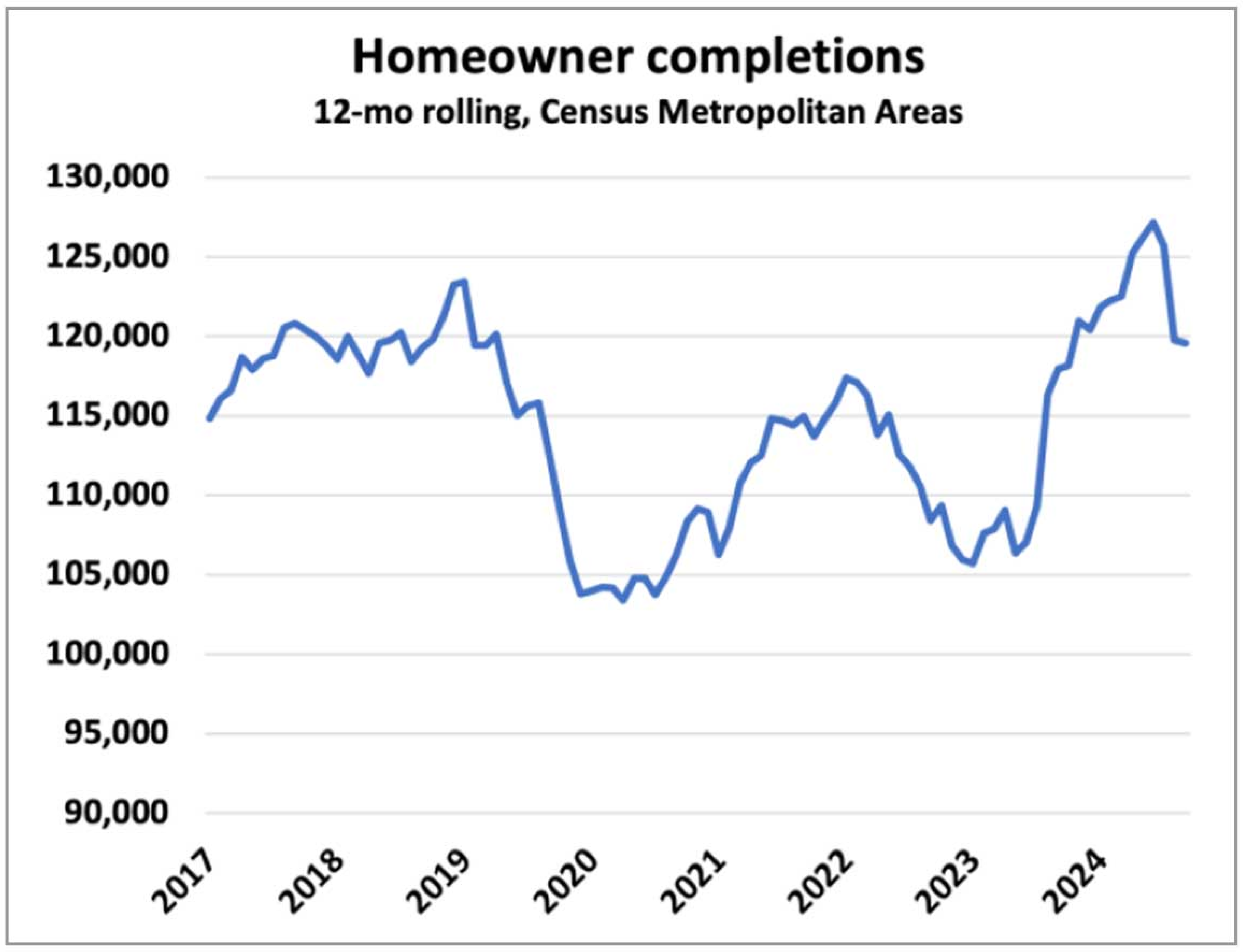
New listings spike

All eyes should be on the supply side, and it's notable that new listings rose 4.9% m/m in September driven by a massive 7.7% surge in Ontario. It was the second highest September tally on record next only to 2020.

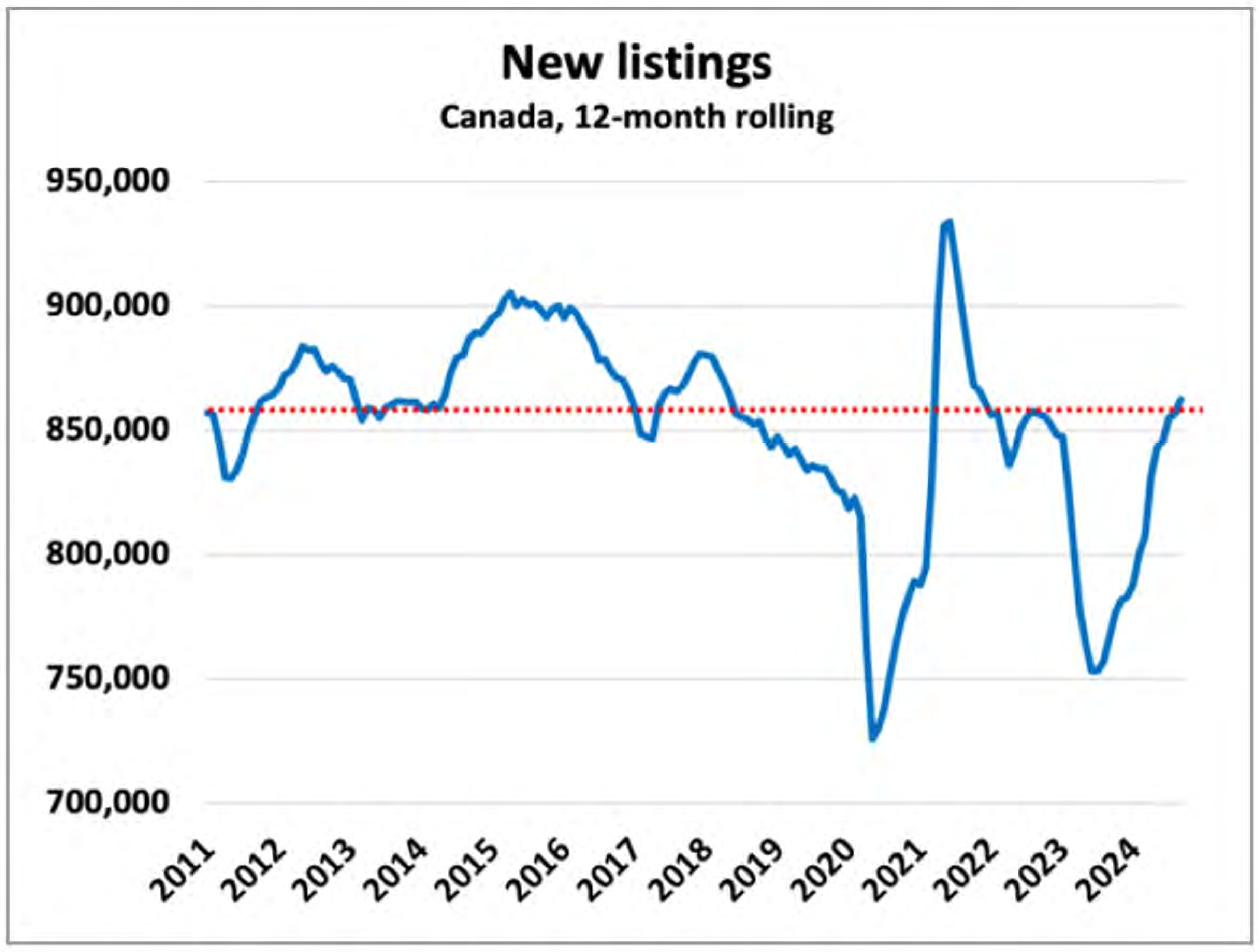


There are two reasons to think the trend will continue for most of the next year. The first is that we still have a near-record supply of "homeowner" dwellings (ie not purpose-built rentals) in the construction pipeline. Completions are only at average levels over the past decade which suggests that we should see a strong flow of new supply completed over the next year:

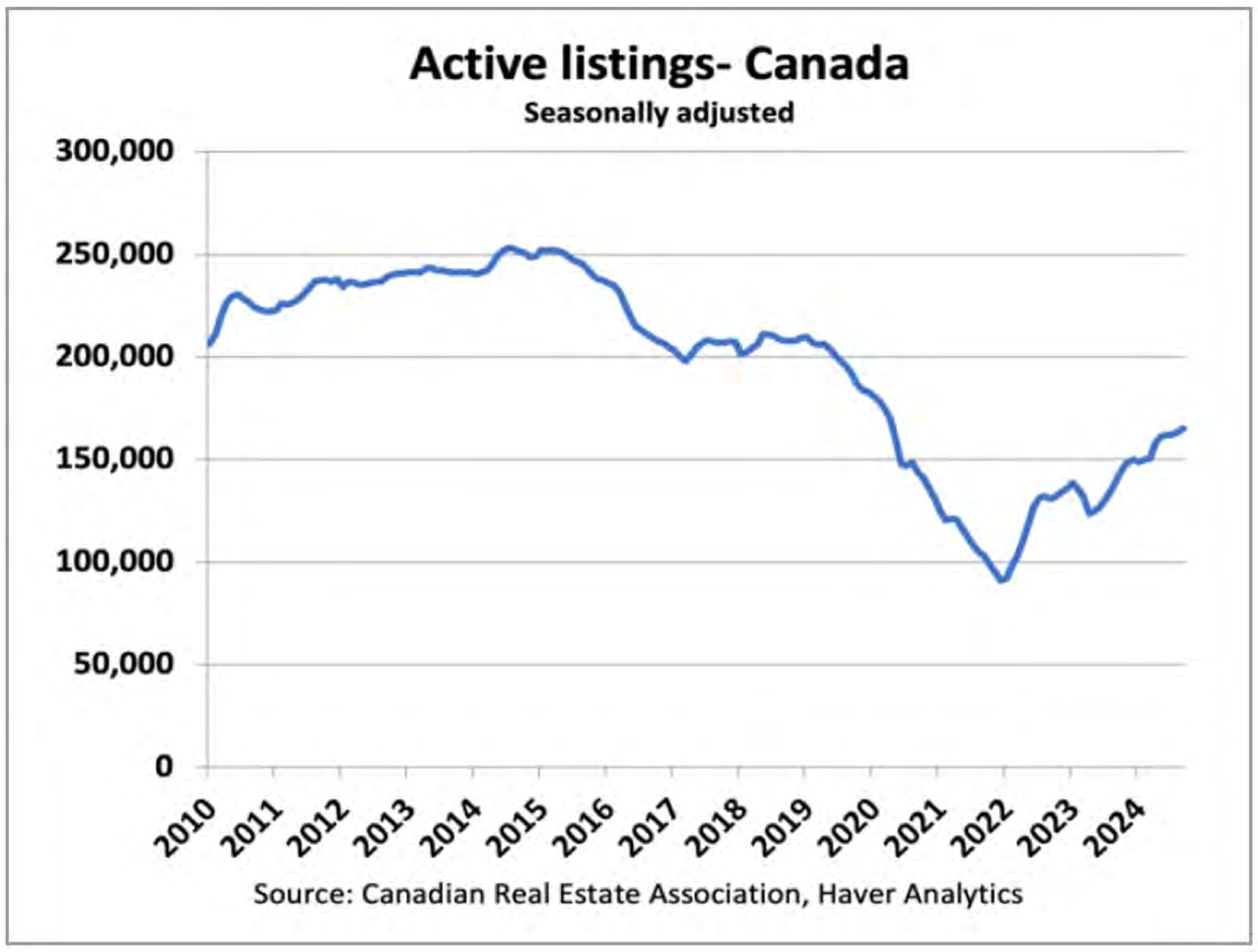


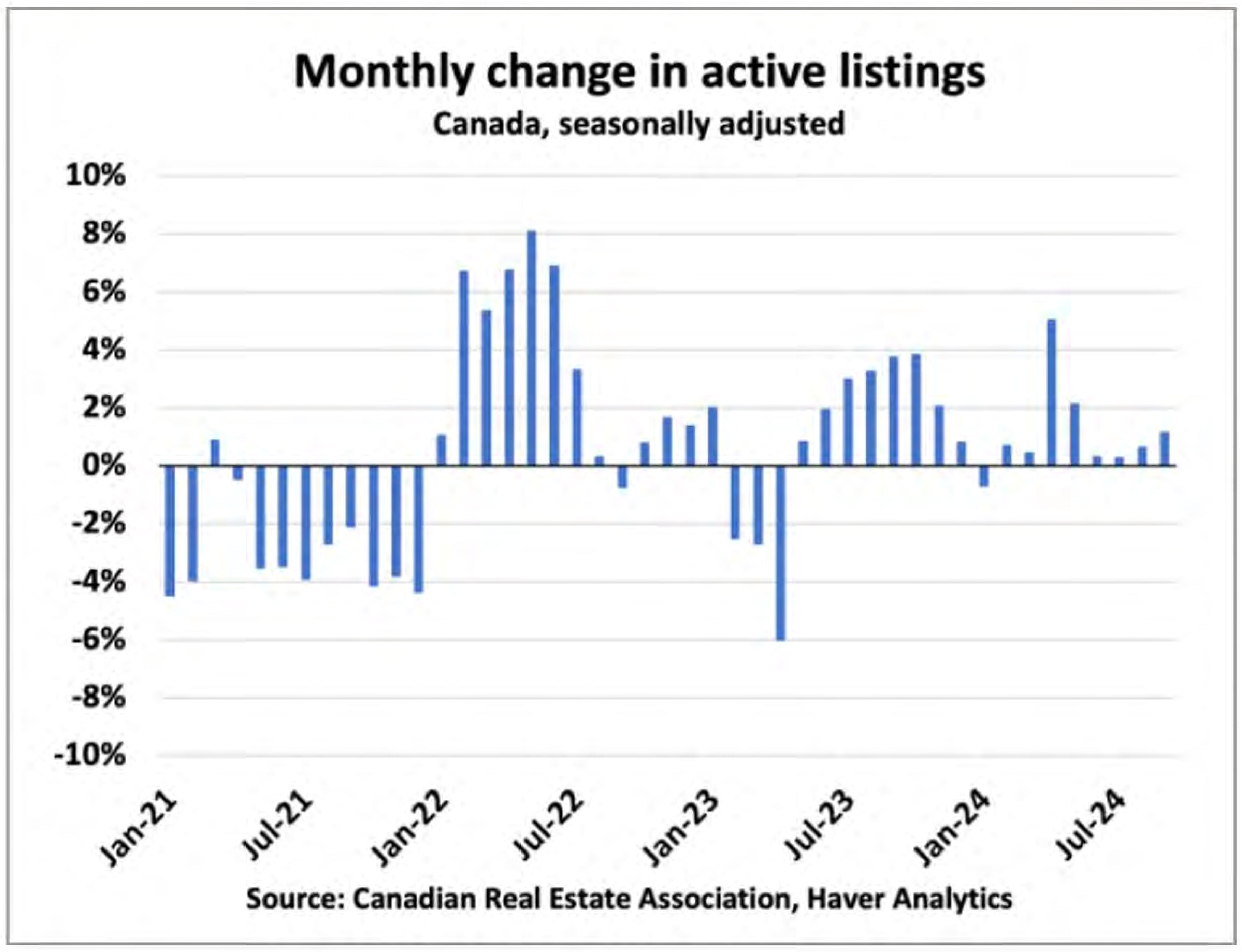


The second is a trend I've flagged many times before, namely that new listings are only now back to average levels after hovering near 20-year lows through 2023 and early 2024. This data seriess has a strong mean-reverting tendency, and we should expect a very healthy level of new listings for most of the next year:



With new listings outpacing sales, we continue to see an accumulation of active inventory. The number of homes currently for sale rose 1.1% m/m, the 8th consecutive increase and the 16th in the past 17 months. BC saw inventory rise 1.9% while it jumped 2.4% in Alberta:





Market balance deteriorates

The sales-to-new listings ratio deteriorated to 51% from 53% in August, well below the decade average of 61%. It's much worse in Ontario where that ratio fell to just over 40% last month and remains at levels last seen during the Finacial Crisis:

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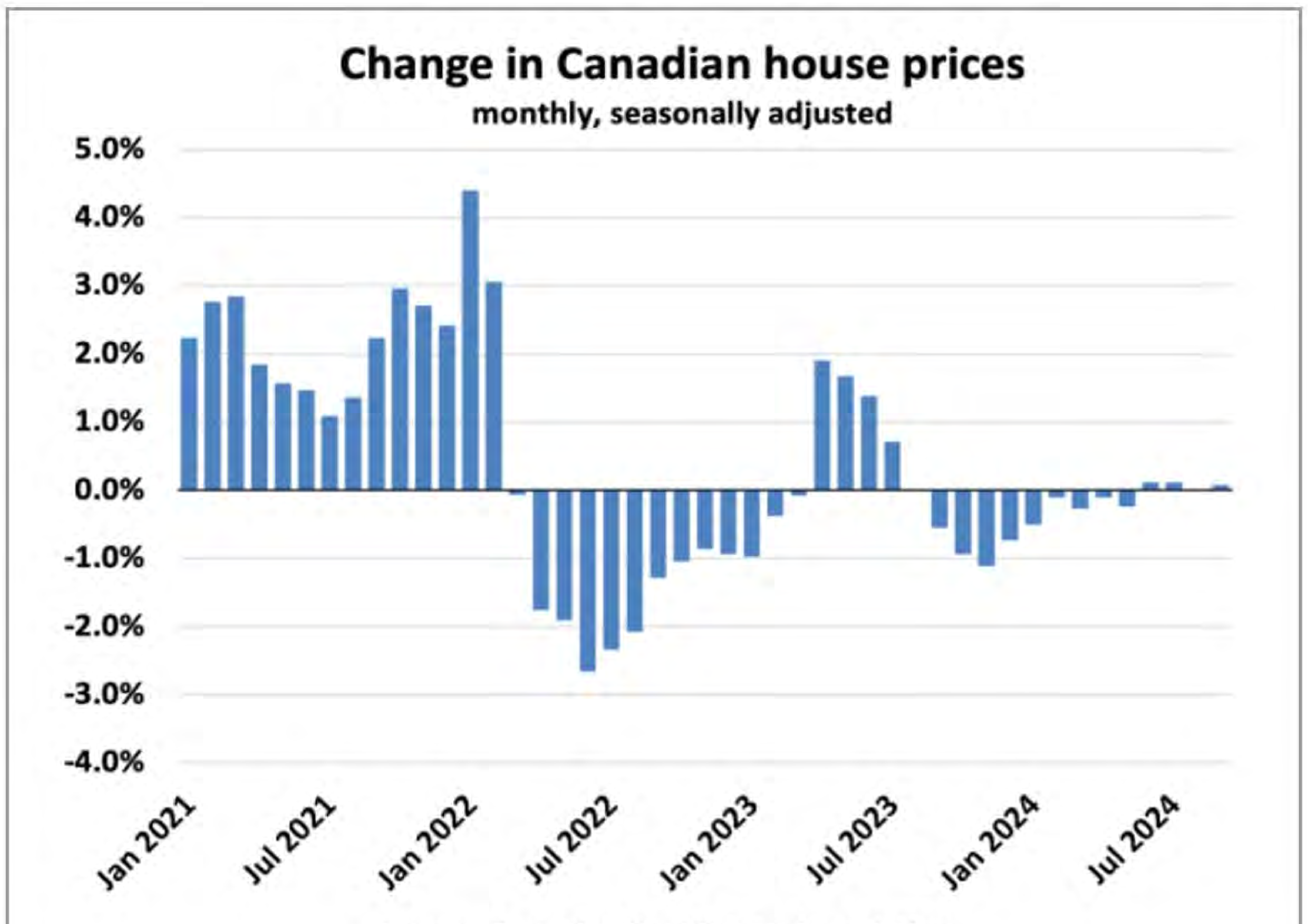
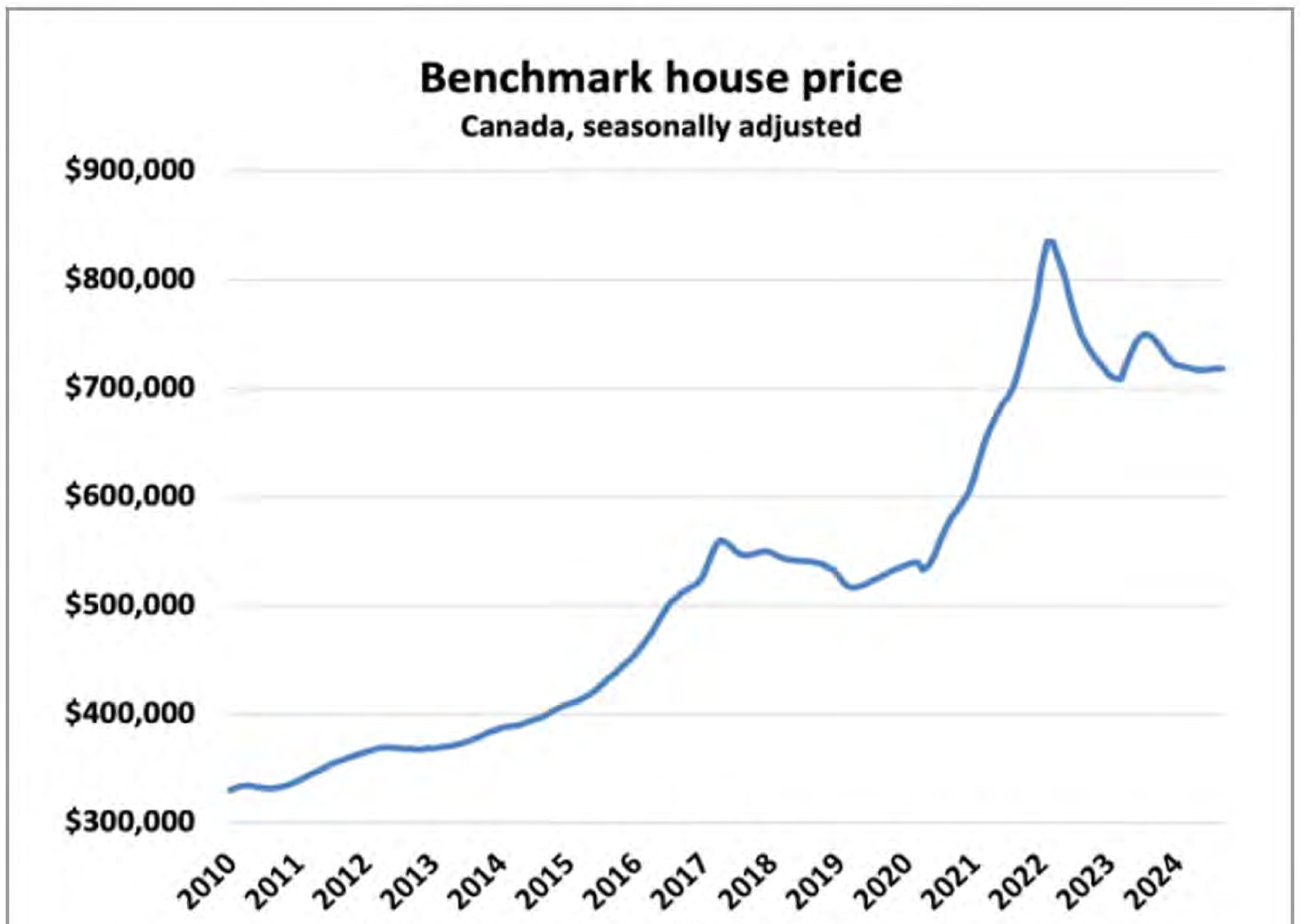
Prices tick up nationally but fall in Vancouver and Toronto

The seasonally adjusted House Price Index rose 0.1% m/m in September but was down 0.3% for the condo segment across the country:

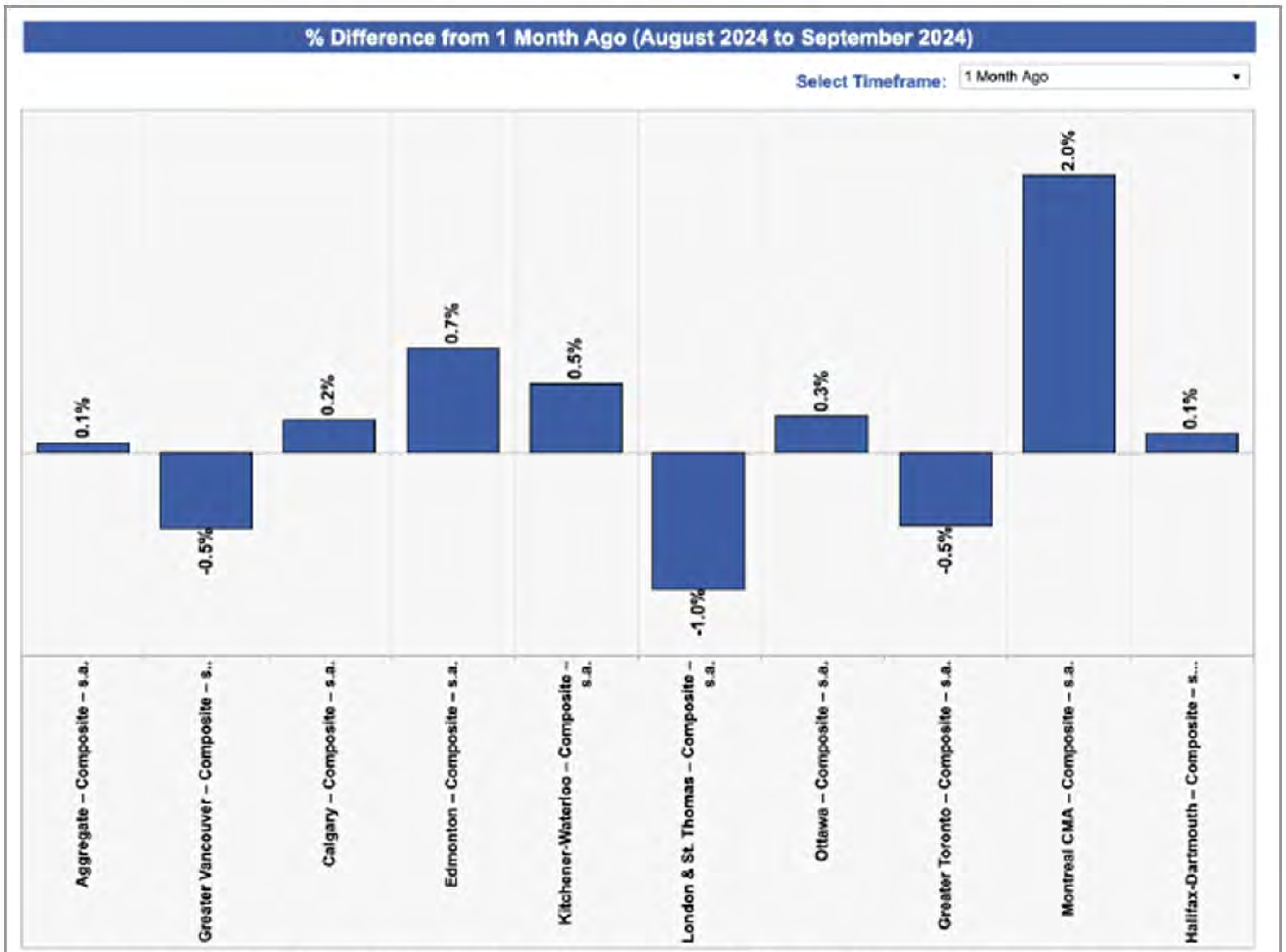


Source: Canadian Real Estate Association



Source: Canadian Real Estate Association

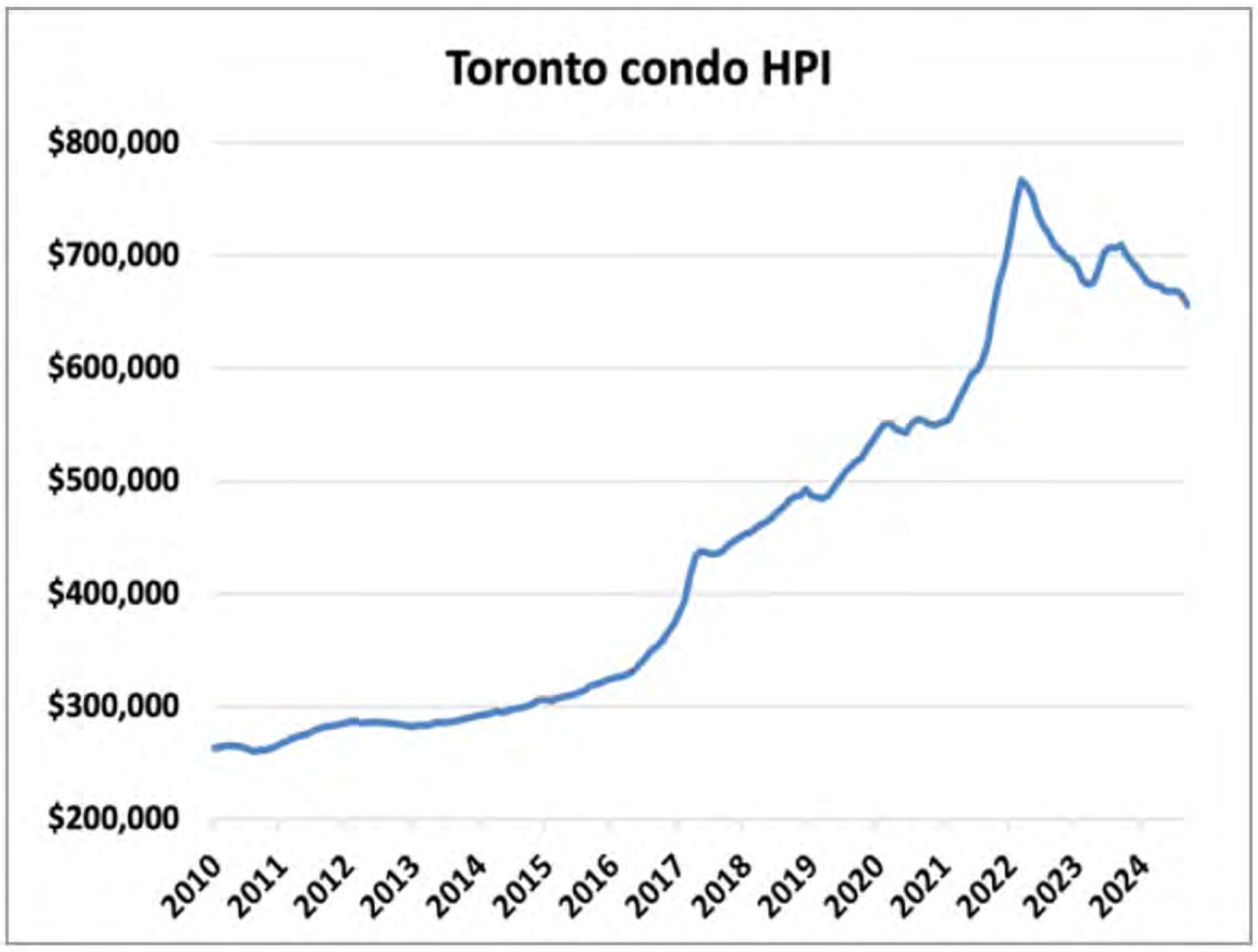
The national index hides some sharp regional variations, notably a 0.5% decline in both Vancouver and Toronto offset by a monster 2.0% increase in Montreal:



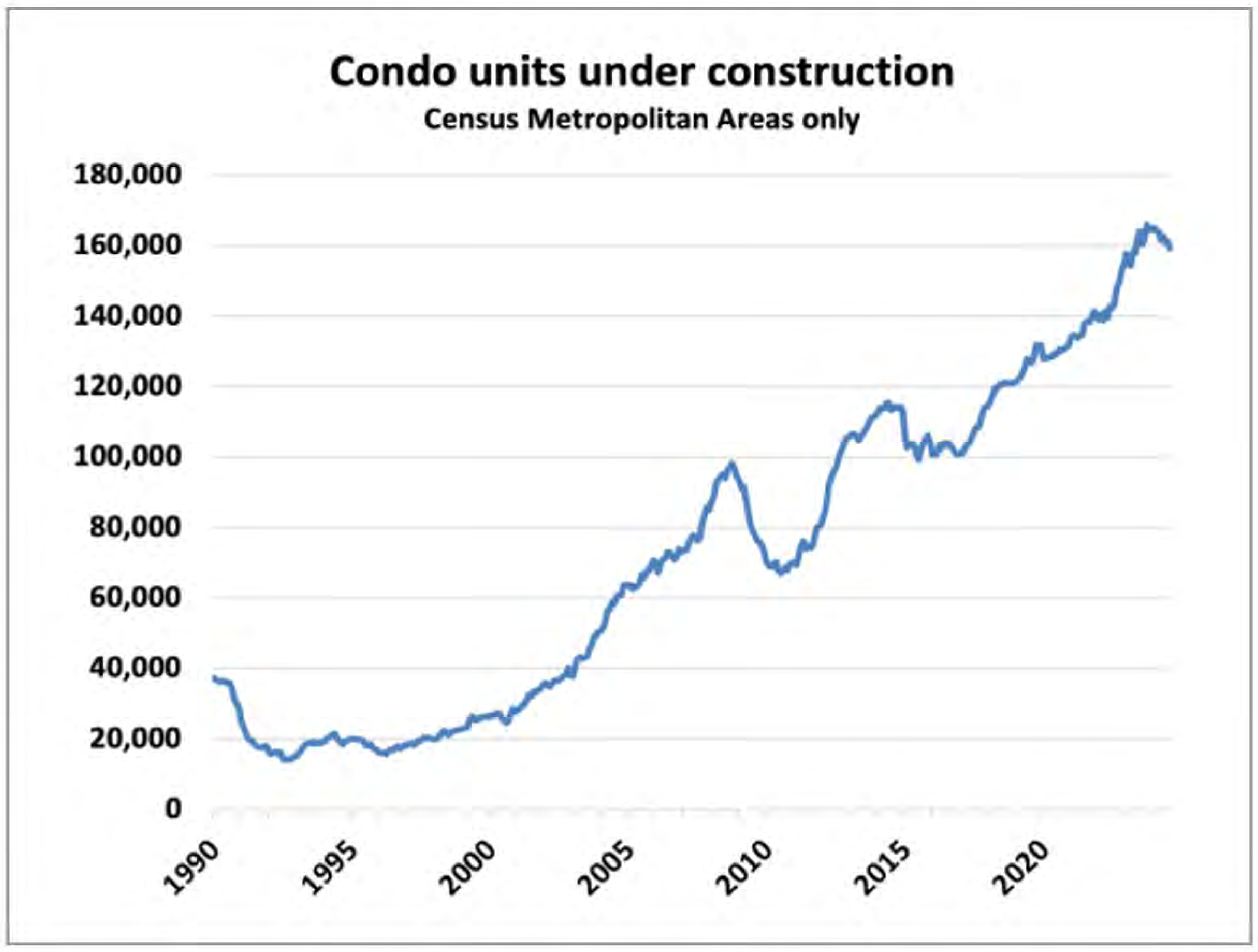
Note: Aggregate and provincial MLS® HPI time series include data for all participating boards/associations. The data is revised back to January 2005 as additional boards/associations join the MLS® HPI. Actual MLS® HPI data may follow a seasonal pattern. These patterns are removed from seasonally adjusted MLS® HPI data when they are statistically significant.

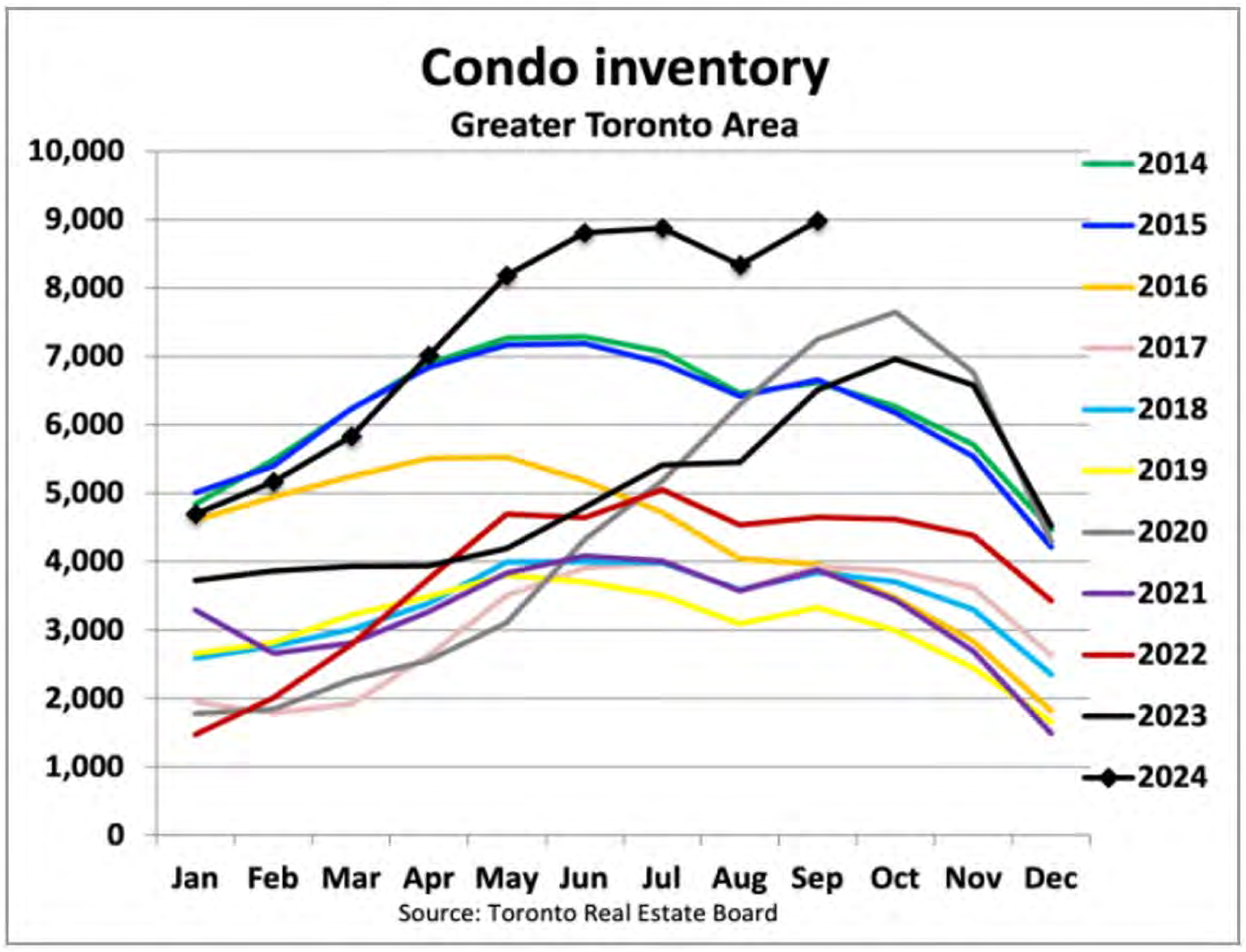
As an aside, Quebec's markets are starting to look really interesting with a notable uptick in demand, stable inventory, and falling new construction activity in the condo and single-family segment. Along with Saskatchewan, it may be a sleeper for strong performance in 2025.

Back to the condo segment. Prices in Toronto are starting to gap lower, which makes the appraisal gap on new builds that much worse. Condo prices posted a seasonally adjusted 1.3% monthly decline in September and are now at the lowest levels since the fall of 2021:

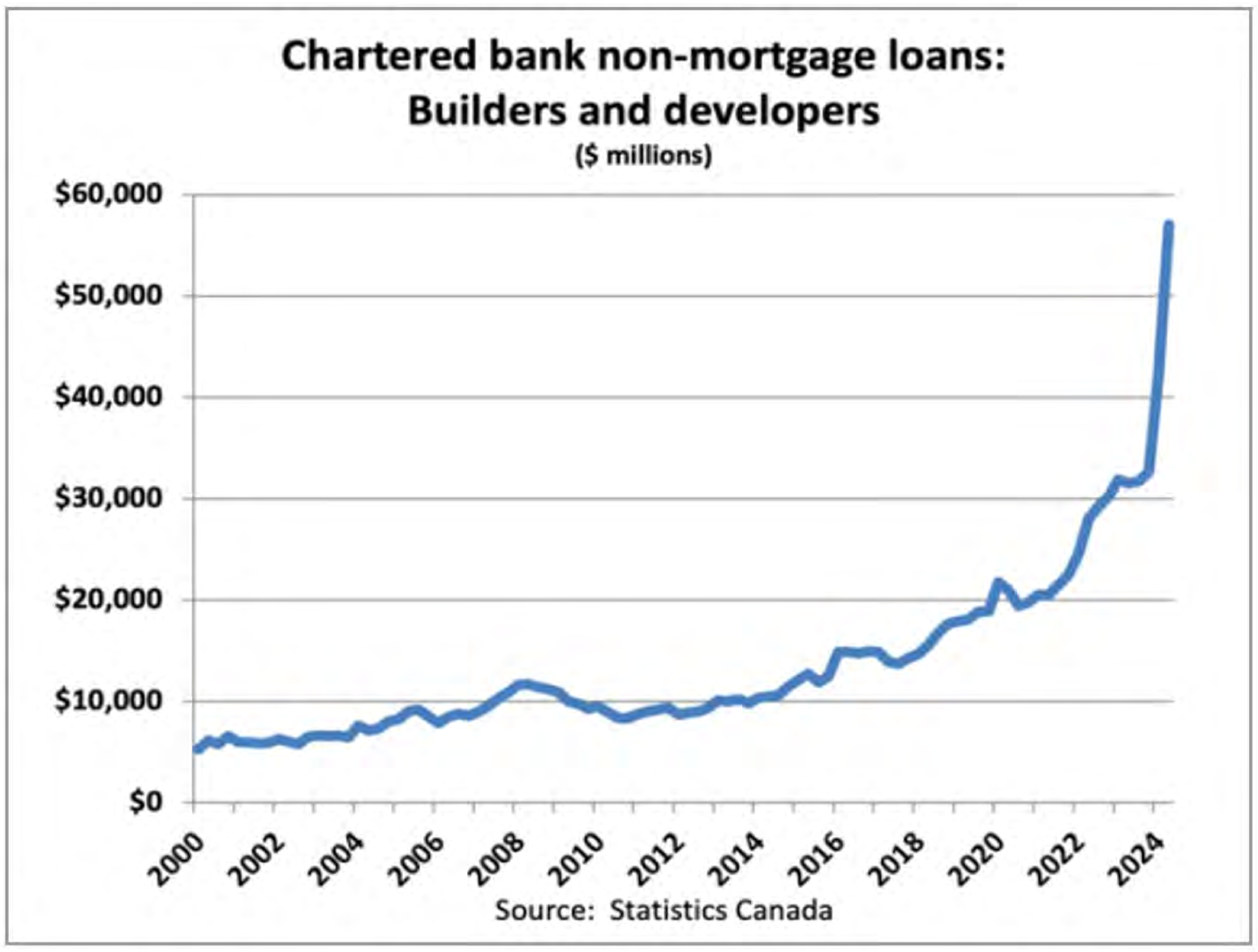


We have 160,000 new condos in the construction pipeline across the country (below left), most of them have been contractually purchased at prices well above current resale values and slated for delivery over the next few years, with many of those entering a resale market where supply is smashing records in places like Toronto (below right).





This is an issue, particularly given the exposure at Canadian banks:



I believe the looming issues in the preconstruction condo market will require some form of government intervention, perhaps in the form of a CMHC-backed, zero interest inventory loan program. That will likely be a story for next year.

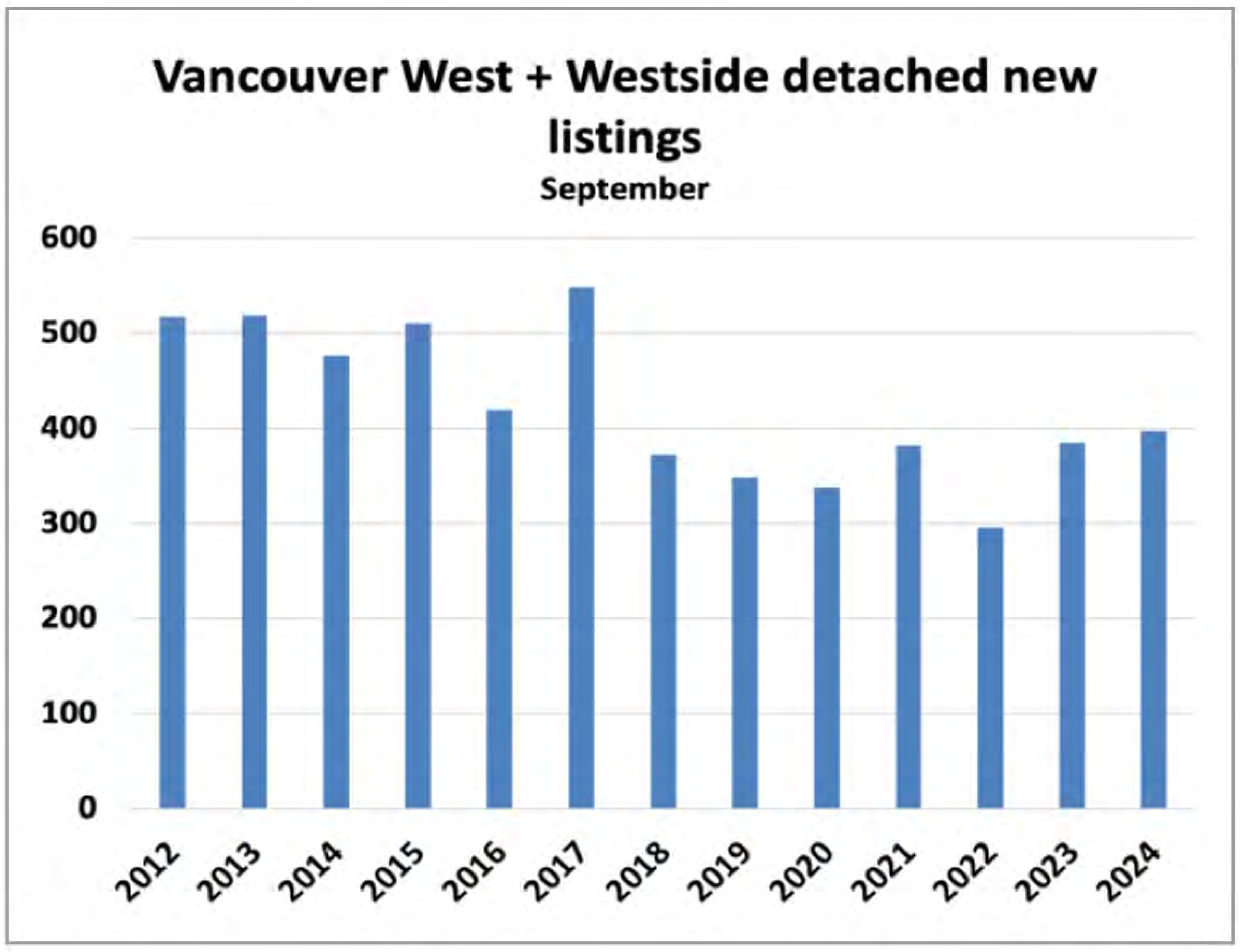
To watch: China moves to tax ultra-rich for overseas investment gains

An interesting development. From Bloomberg[5]:

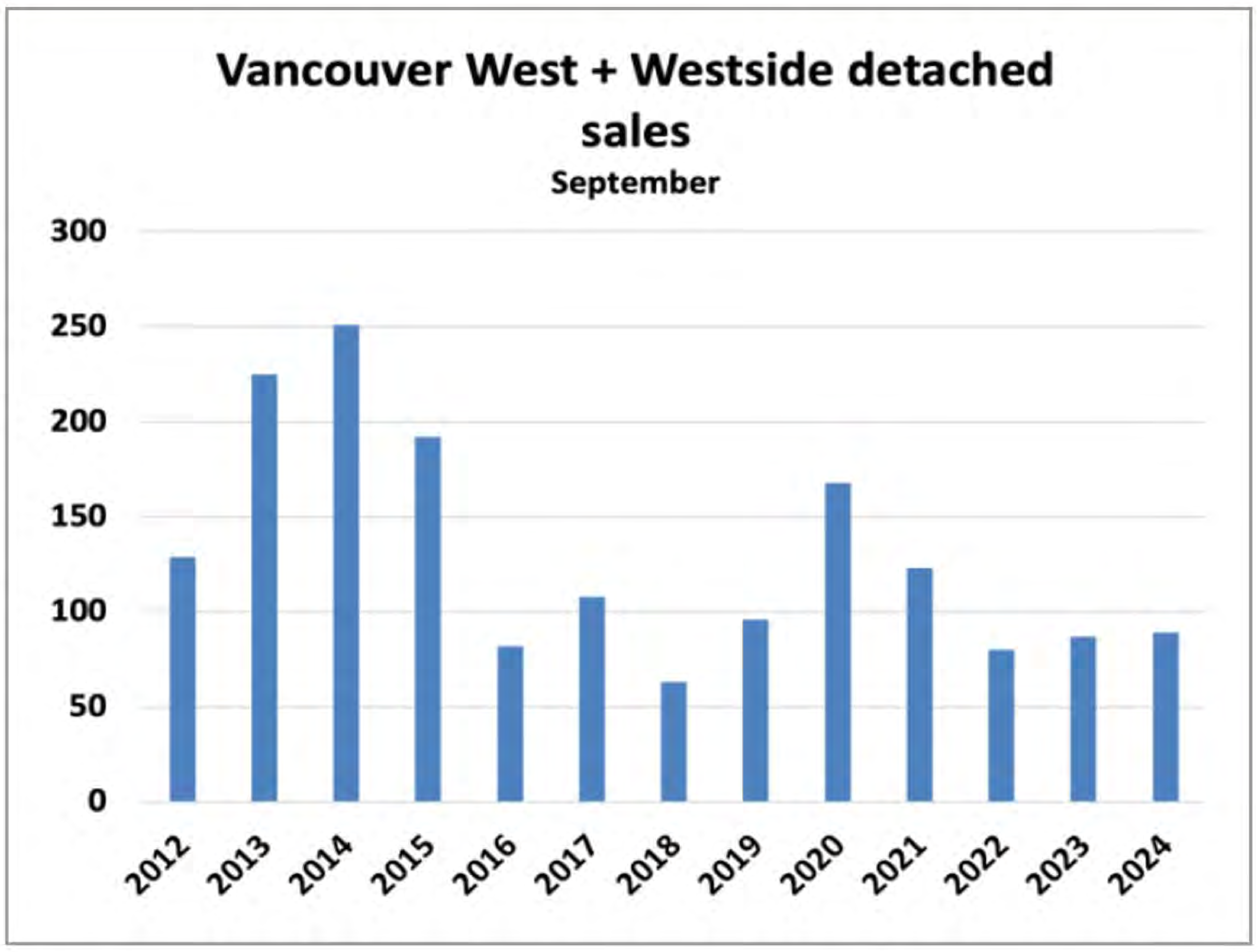
> China has begun enforcing a long-overlooked tax on overseas investment gains by the country's ultra-rich, according to people familiar with the matter.
>
> Some wealthy individuals in major Chinese cities were told in recent months to conduct self-assessments or summoned by tax authorities for meetings to evaluate potential payments, including those in arrears from past years, said the people, asking not to be identified discussing a private matter.
>
> [...] The individuals contacted are facing up to 20% levies on investment gains, and some are also subject to penalties on overdue payments, said the people, adding that the final amount is negotiable.

BC's new beneficial ownership registry could prove quite helpful here for prying eyes in Beijing.

The proxy for Chinese capital flows into Canadian real estate remains detached housing in two expensive enclaves in Vancouver, namely Vancouver West and the Westside. I monitor these areas closely every month. We did see a 7-year high in new listings in September, but they remain well below levels seen from 2012-2017. Still, if there's any impact from these new measures, I expect to see them here first:



[5] https://www.bloomberg.com/news/articles/2024-10-15/china-moves-to-tax-the-ultra-rich-for-overseas-investment-gains

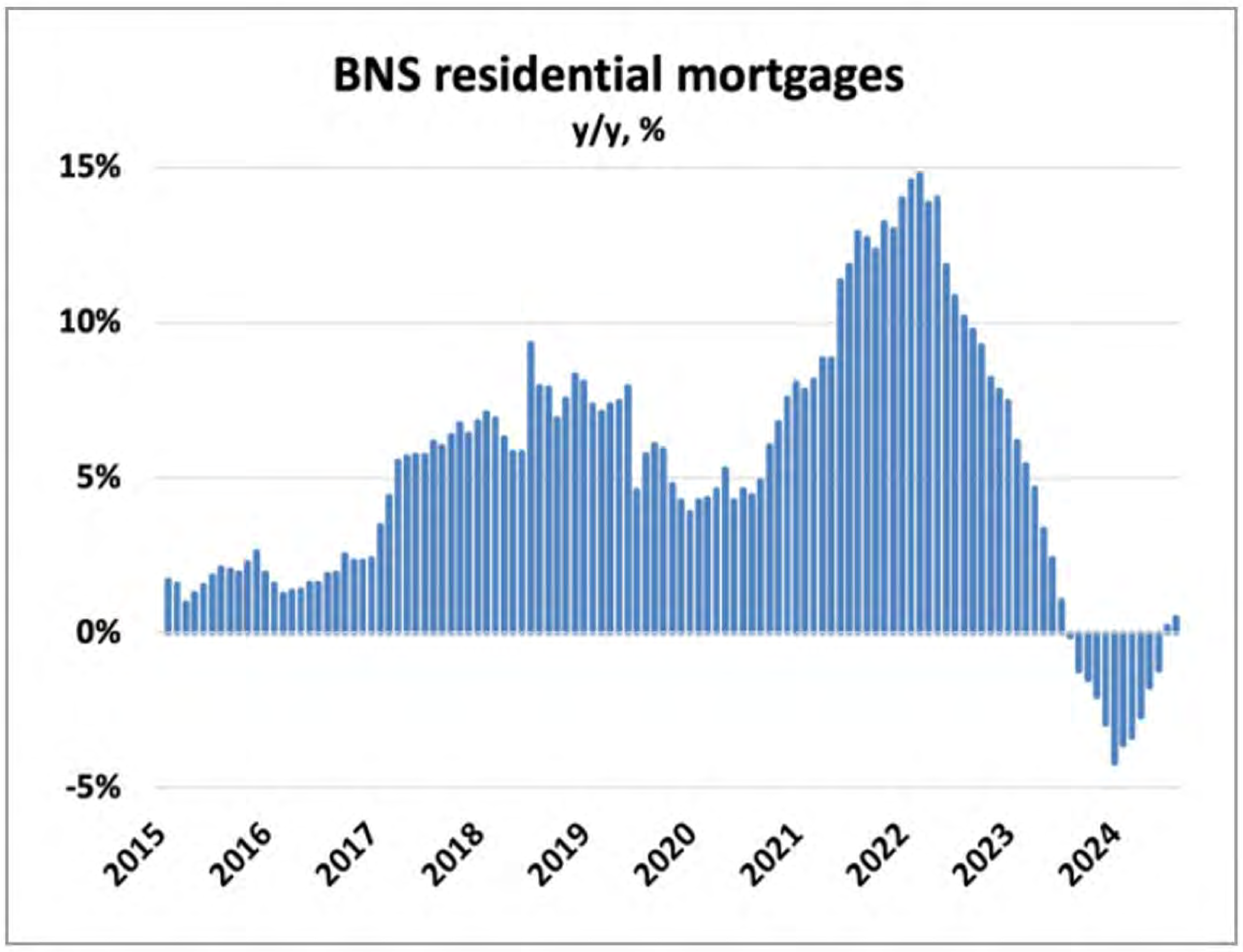


That assumes there are gains to tax. The reality is that since the Chinese spigots were turn off around 2017, house price gains in those areas, as well as Markham and Richmond Hill in the GTA, have been almost non-existent. Consider the Vancouver West home below which sold last in 2013 for $5.3 million and just sold again in September for $5.45 million... a significant loss over 11 years once real estate fees are included:

5) *Consumer check: Insolvencies rise in August*

Another busy month for trustees in August

It was another fairly busy month for insolvency trustees in August. Consumer filings were up 8.9% y/y nationally but the dollar volume of liabilities in those filings rose 30%... a sign that more indebted consumers are running into problems. It was the second busiest August on record next only to 2009:



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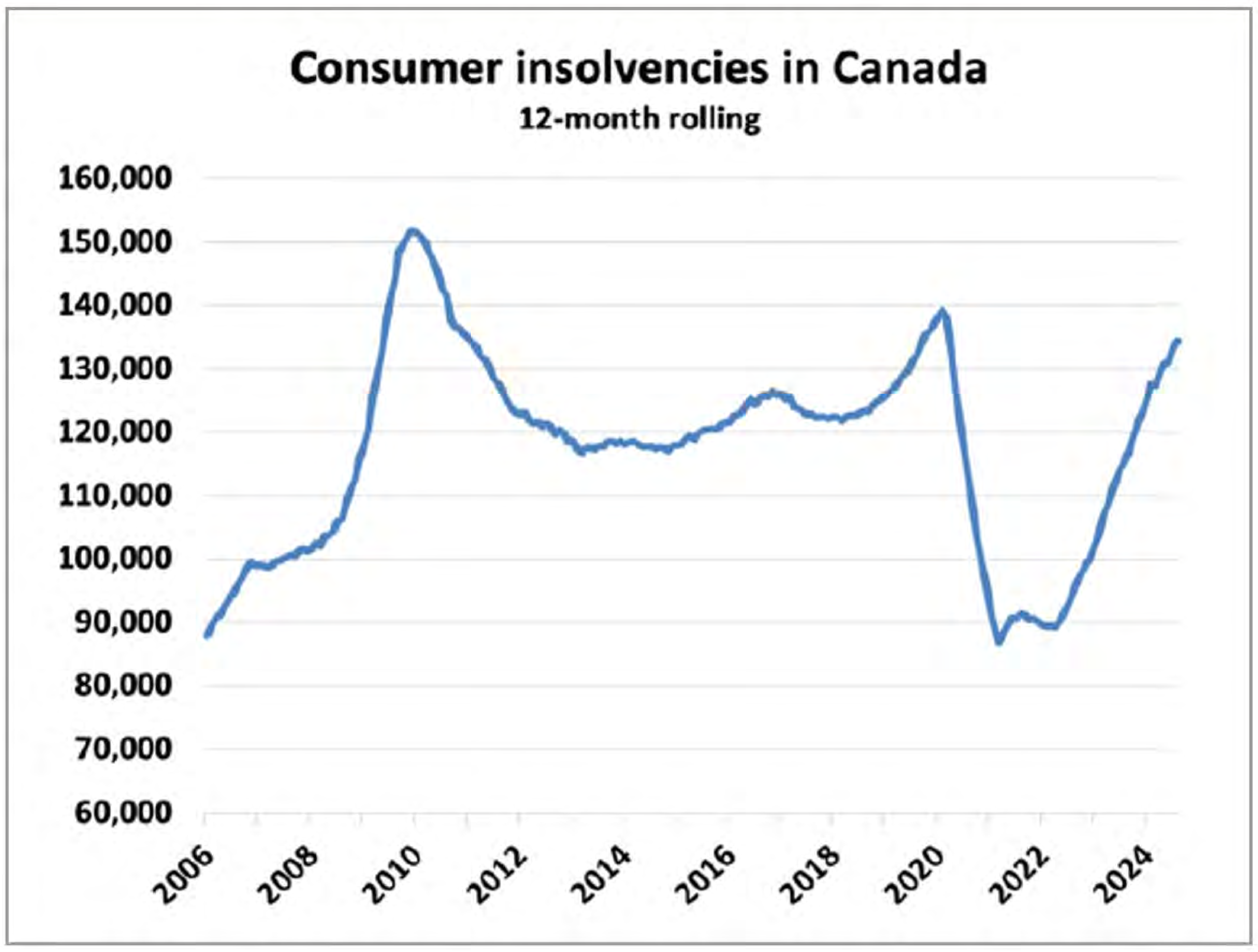
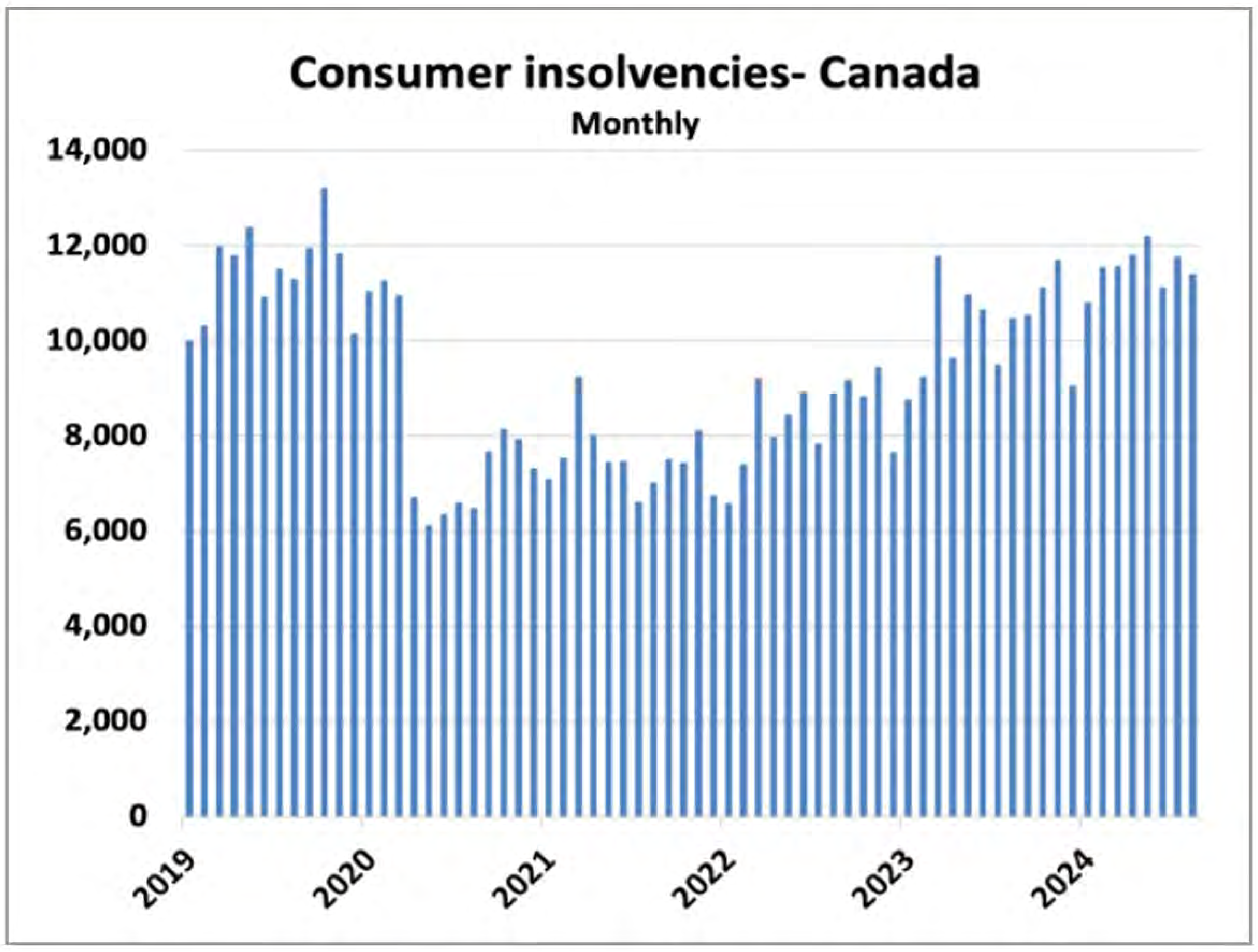
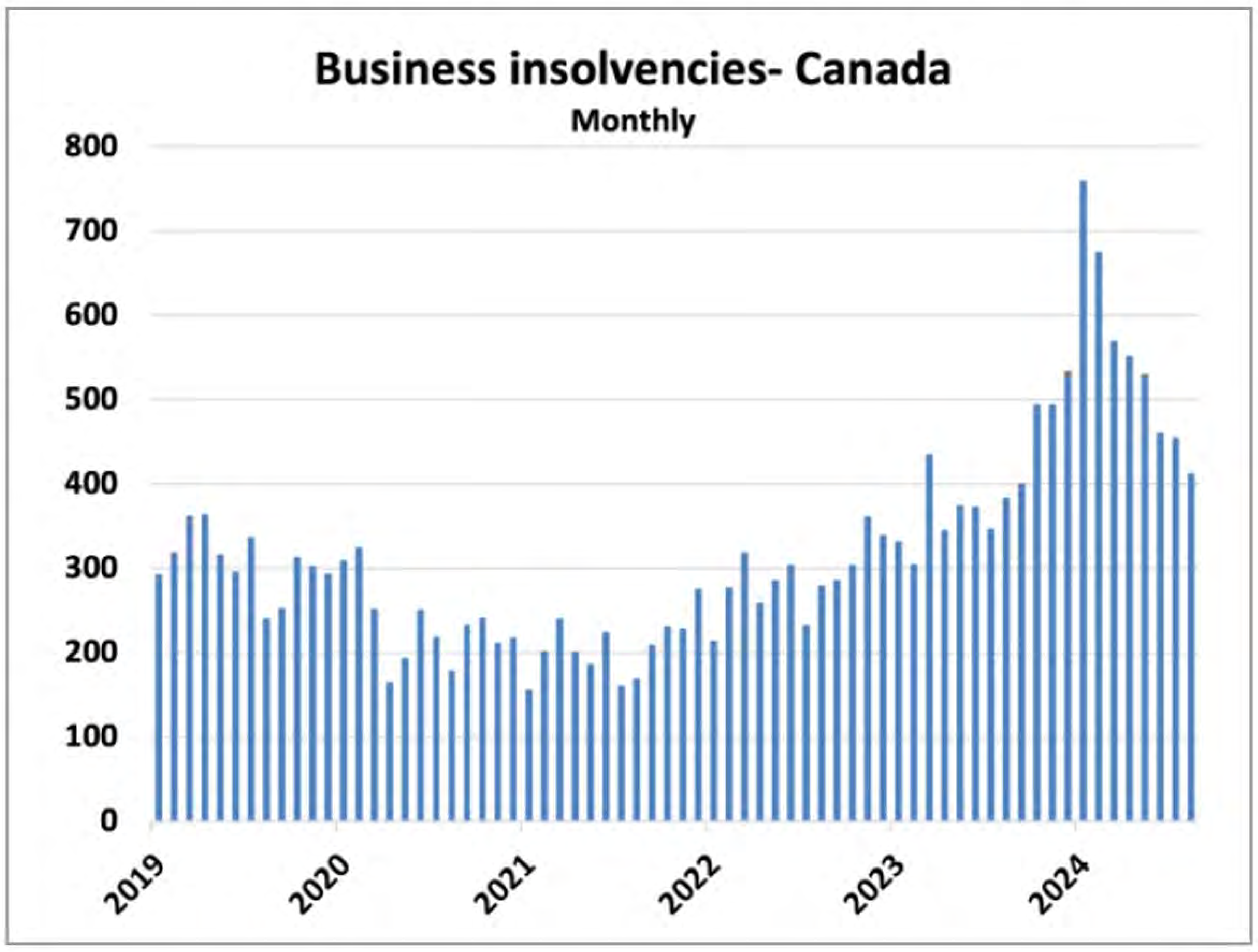
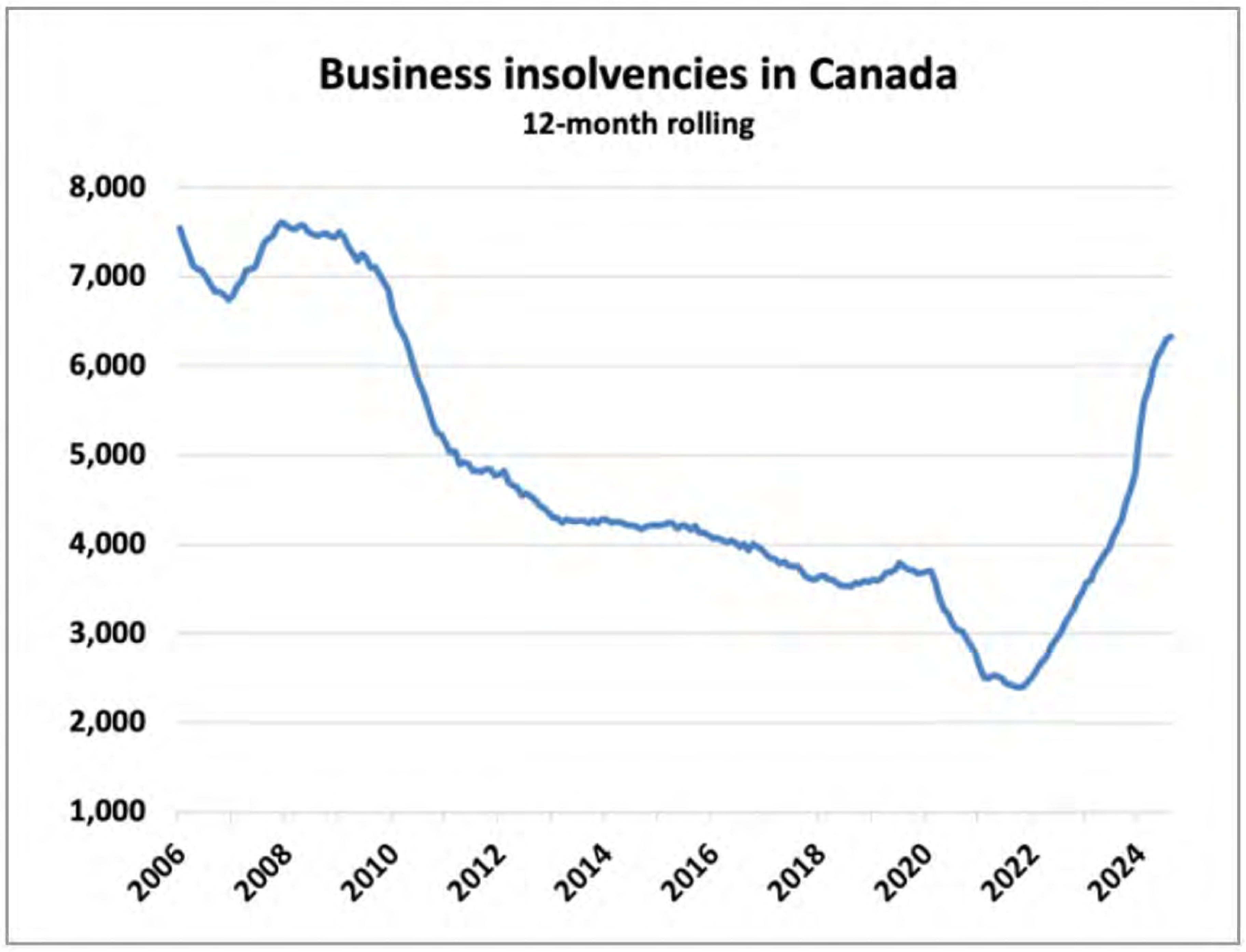


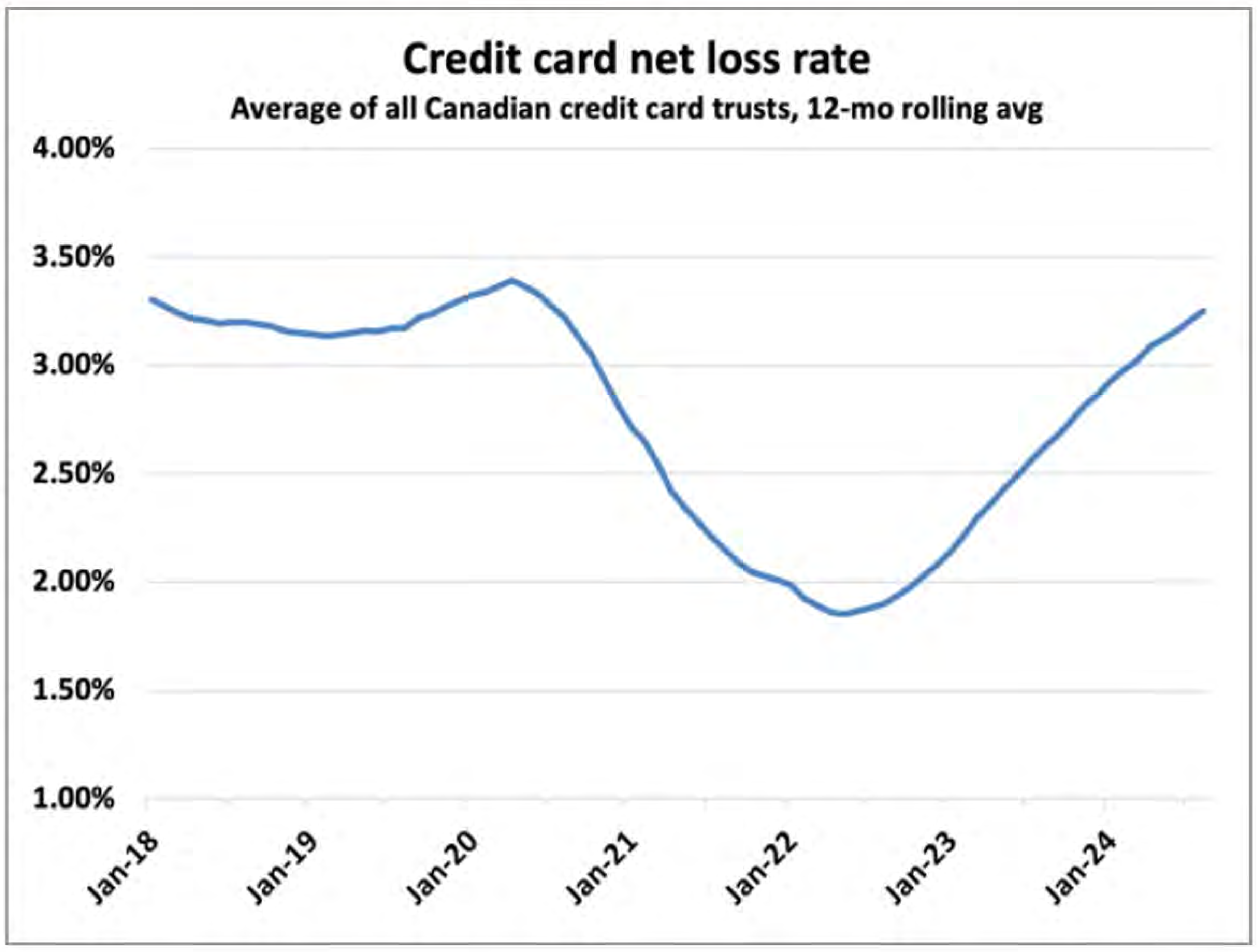


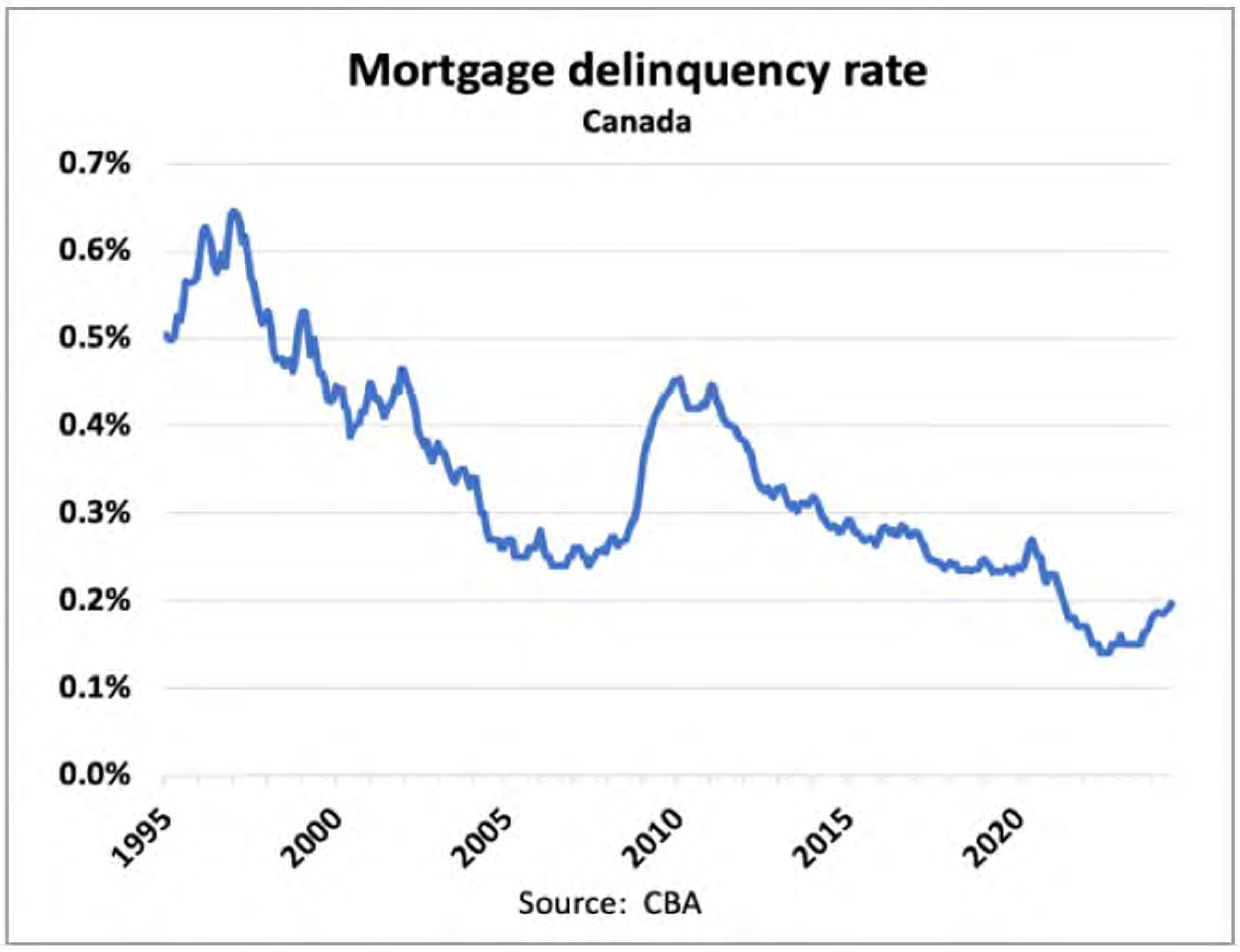
On the business side, filings were up 7.6%y/y but continue to slow off the elevated levels from earlier this year:

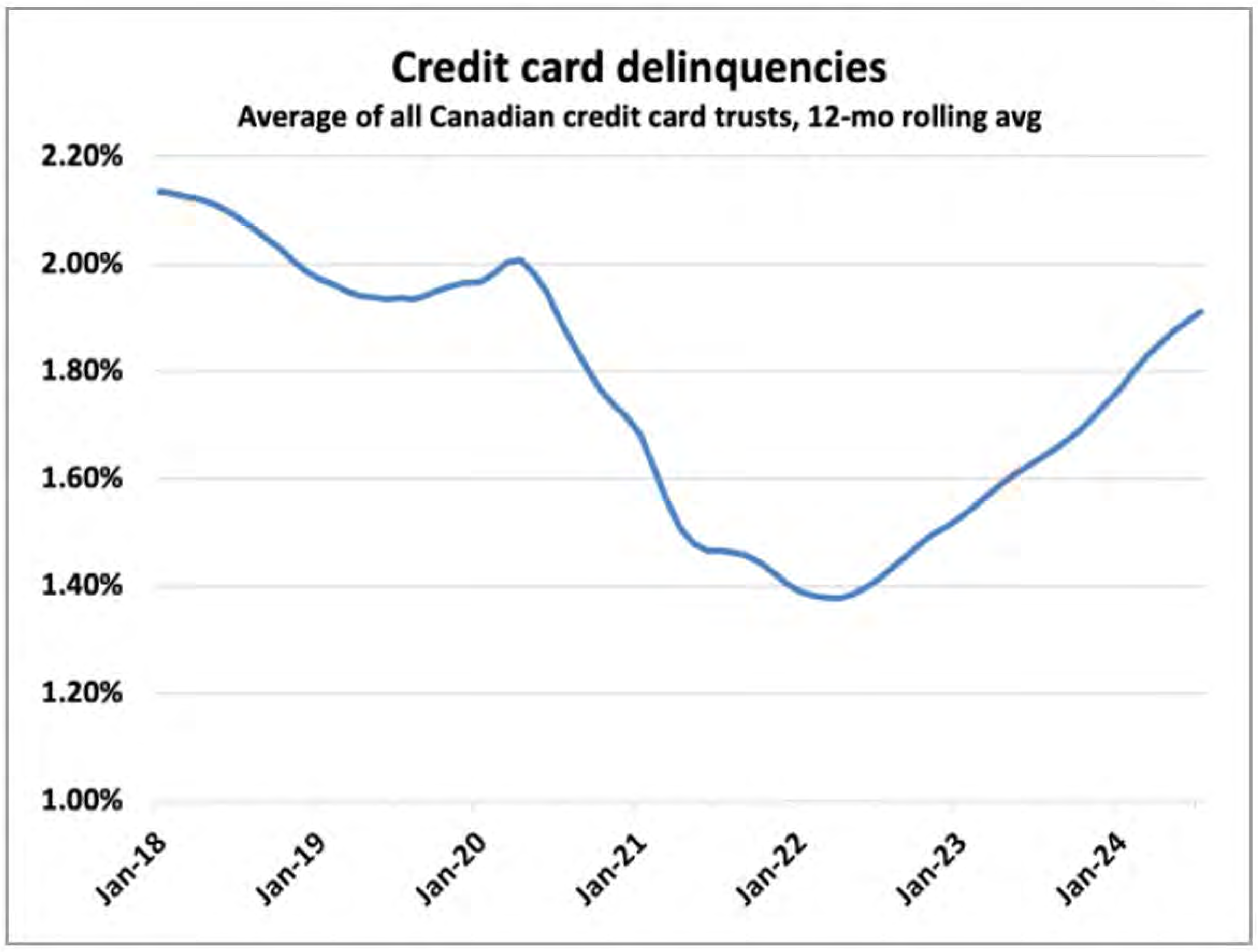




The best description of consumer credit trends in Canada is still "normalizing, not alarming". We're seeing delinquencies and loss rates on credit cards back to pre-COVID levels, but not at levels that point to major credit issues anywhere in the system.







If there'sone fly in the ointment it's Ontario - the epicentre of the current downturn - which just saw the largest monthly increase in delinquent mortgages in the past decade. Something to watch.

Further, consider the latest Canadian Banker Association data which showed 90+ delinquencies still hovering at just 20bps nationally as of July. That is still shockingly low given we've just been through the most rapid interest rate hiking cycle on record.

Granted, the data lags badly and is somewhat misleading due to extensive loan modification and "extend and pretend" practices from the big banks to alleviate "financial hardships" for borroweres, which do not shop up as official delinquencies... but still!

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