# Housing and Mortgage Market Review: *April 2023*

## The Bank of Canada's soft landing is on track...for now

*By Ben Rabidoux*

### Highlights on what is driving the housing and mortgage market:

- The inflation fight is progressing well, but the Bank of Canada says it may need to keep rates higher for longer to get back to target
- New listings have fallen to 20-year lows, which is putting a floor under the housing market
- A new record for population growth coupled with slowing housing starts raises risk of an even worse supply crisis down the road
- Mortgage delinquencies starting to inflect higher and could potentially double in the next year

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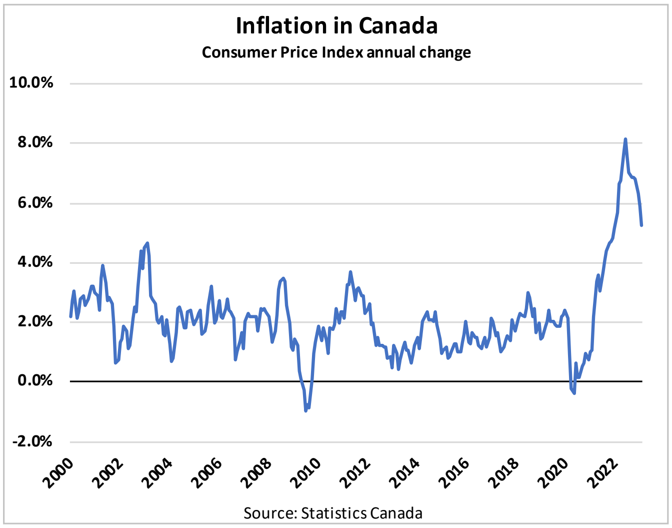
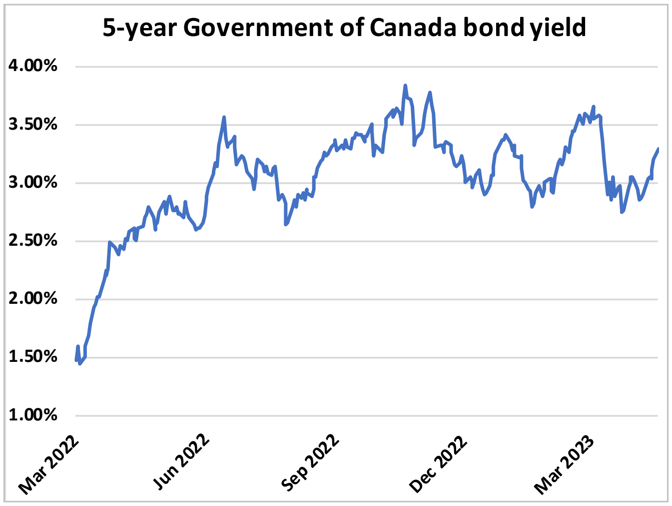
The Bank of Canada is still trying to engineer a soft landing by reining in inflation without causing too much collateral damage to the broader economy. So far inflation is slowing even as job growth continues to be on the upside, surprising forecasters.




Headline inflation continues to trend in the right direction, cooling to 4.3% year-over-year in March from 5.2% the month prior.

While that's welcome news, measures of core inflation—which strip out volatile food and energy prices and that more heavily factor into interest rate decisions—remain stubbornly high. Mortgage interest costs are up 26.4% year-over-year and up 2.5 points from the month before alone. . In fact, mortgage costs make up almost a full percent of the CPI in March, leading as one of the primary drivers of inflation.




New projections from the Bank of Canada show core inflation cooling to close to 3% by the middle of the year, but then things get tricky. From the Bank's Monetary Policy Report this week:

*"Getting inflation the rest of the way back to 2 per cent could prove to be more difficult because inflation expectations are coming down slowly, service price inflation and wage growth remain elevated, and corporate pricing behaviour has yet to normalize."*

And then in the press conference, Governor Tiff Macklem added this:

*"If monetary policy is not restrictive enough to get us all the way back to the 2 per cent target, we are prepared to raise the policy rate further to get there."*

*[...] "(Rate cuts later this year) do not look like the most likely scenario".*

Those comments had markets pricing in lower probabilities of a potential rate cut later this year. The key 5-yr bond yield jumped 25 bps to hit a 5-week high.

That leaves markets expecting a potential rate cut in late 2023 or early 2024. All of this is a good reminder that while the inflation fight is progressing well, Canada is likely facing a scenario of higher rates for a longer period of time, and it means that barring a true financial crisis, rates are not likely going to be back down close to zero for many years to come.

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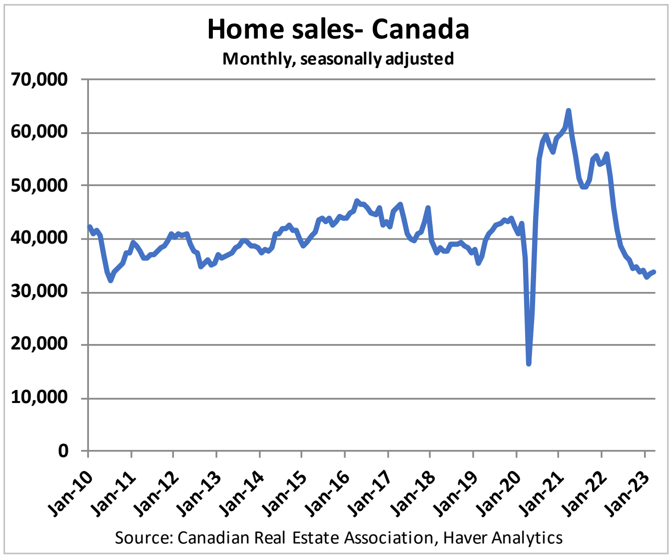
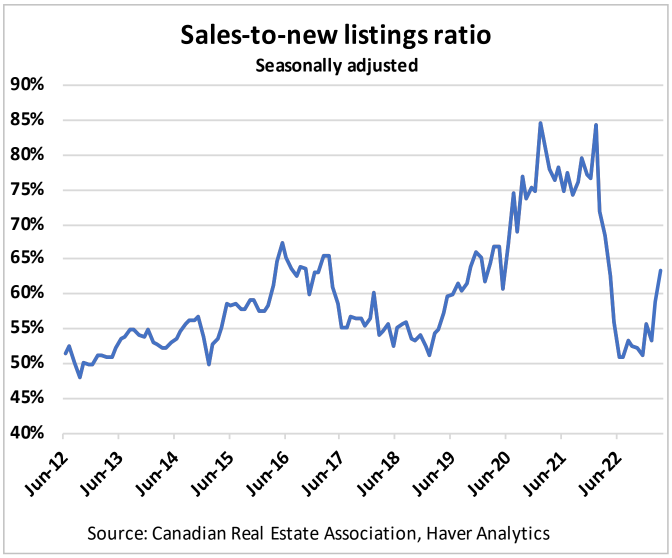
### Home sales stabilize

Home sales nationally were down 2.5% sequentially in the first quarter of 2023, but the quarter did end on a positive note with sales ticking up 1.4% month-over-month in March.



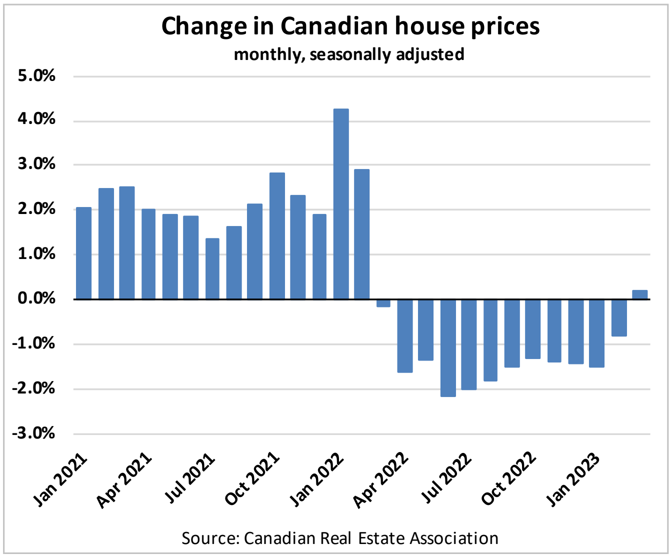

The bigger story remains the lack of resale supply coming to market. New listings tumbled by 11.4% in Q1 to hit the lowest quarterly level since 2004...second only to Q2 2020 at the onset of the COVID pandemic.

This means that even with relatively weak demand, the market balance has tightened significantly. The sales-to-new listings ratio has pushed above 60% for the first time since early 2022. That puts it firmly into seller's territory and is at a level that is typically consistent with strong price appreciation in coming months.

Already we're seeing signs that house prices are firming. The MLS House Price Index registered a positive monthly gain in March for the first time in a year.

### Population growth tops 1 million

The long-term demand story remains firmly intact in Canada. Annual population growth continues to set new records, clocking in at 1.05 million people as of Q1 2023.



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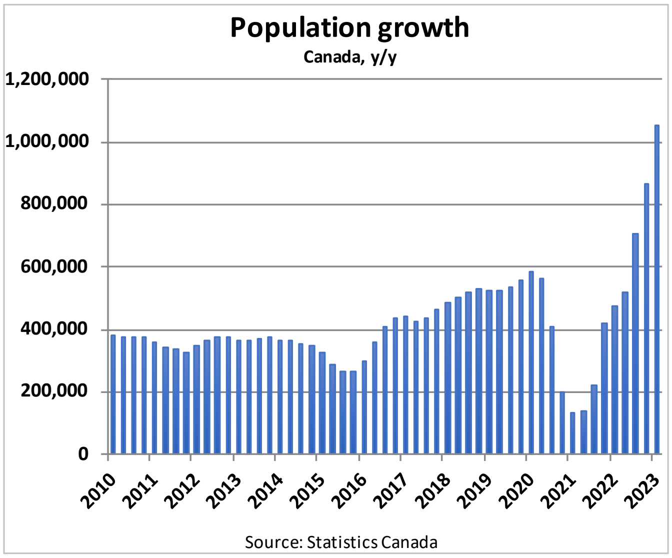
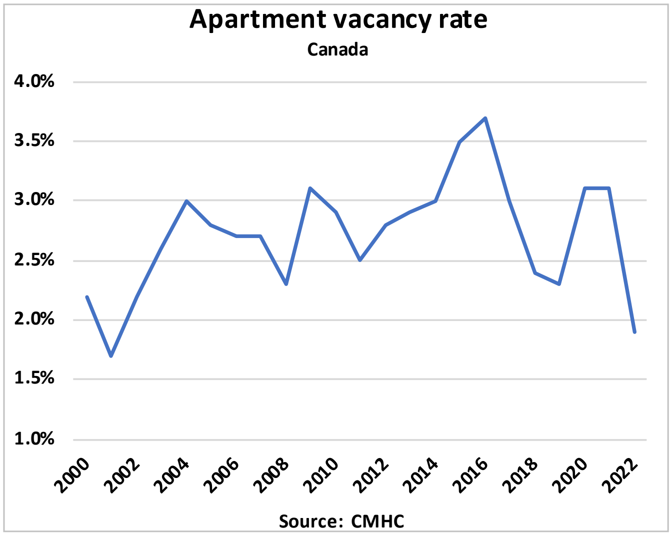
Adding significantly to population growth was the addition of over 600,000 non-permanent residents in the past year, with the majority being work permit holders and international students. This cohort comprises primarily renters, so it's perhaps not surprising that the rental vacancy rate fell to 20-year lows in 2022.

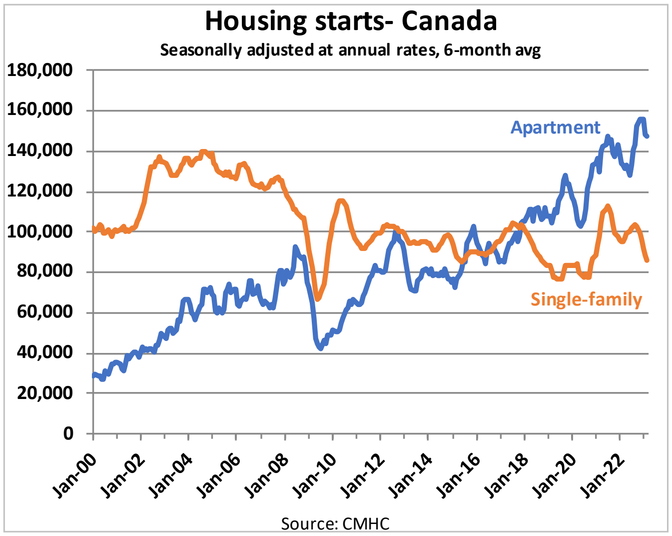
In spite of strong population growth, single-family housing starts remain well below decade averages, a sign that Canada's supply crunch may get even worse in coming years.

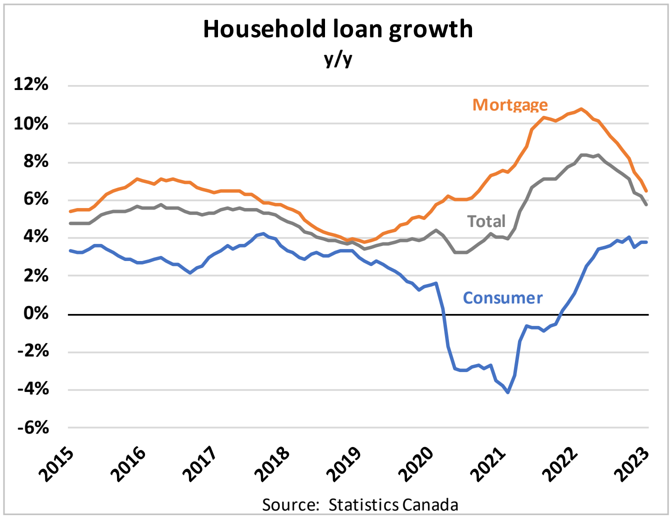
### Mortgage debt now growing slower than incomes

The growth in mortgage debt outstanding has slowed dramatically in recent months. It grew just 0.3% seasonally adjusted in February—the weakest monthly growth rate in 5 years. And on an annual basis, mortgage debt is just 6.4% higher than last year at this time. For context, aggregate disposable income is growing at nearly 9% annually. It's been a long time since household incomes outpaced mortgage debt on a sustained basis, but perhaps that's changing.



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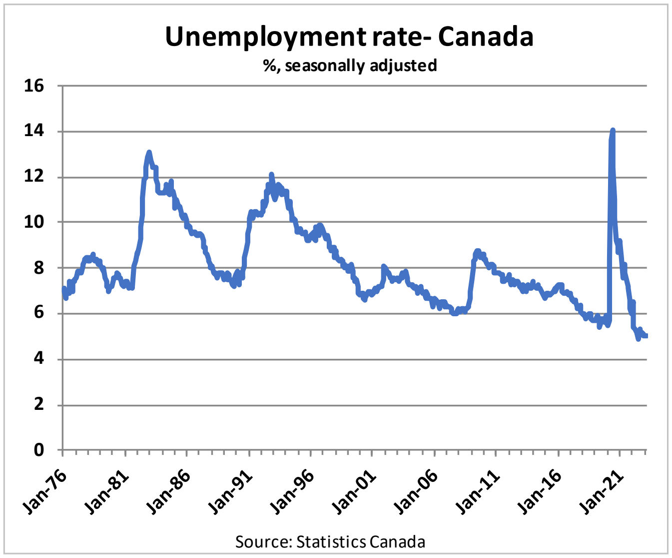
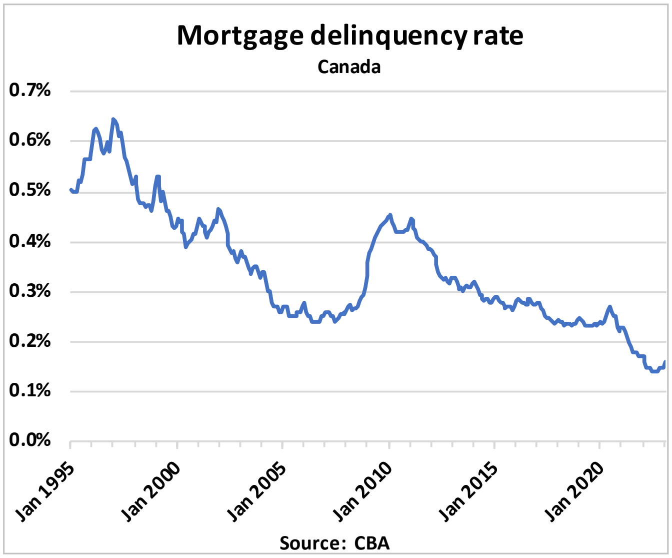
### Unemployment rate hovers near record lows

Canada's labour market continues to defy expectations of a slowdown, adding 35,000 new jobs in March compared to an anticipated gain of 10,000. That marks the fourth consecutive month where job growth has smashed expectations.

The unemployment rate held steady at 5%, just a hair above the all-time lows.




Mortgage delinquencies most closely correlate with unemployment, so it's no surprise that they remain near all-time lows. But if we look closely, we can see that delinquencies have started inflecting higher in recent months.

They remain barely a third of long-term norms, and we should expect them to roughly double in the next year as the lagged impact of higher rates and an eventual economic cooldown finally filters through to borrowers.

**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.