Housing and Mortgage Market Review

The Bank of Canada signals more rate hikes to come

By Ben Rabidoux

Mortgage Professionals Canada is pleased to share the October 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.

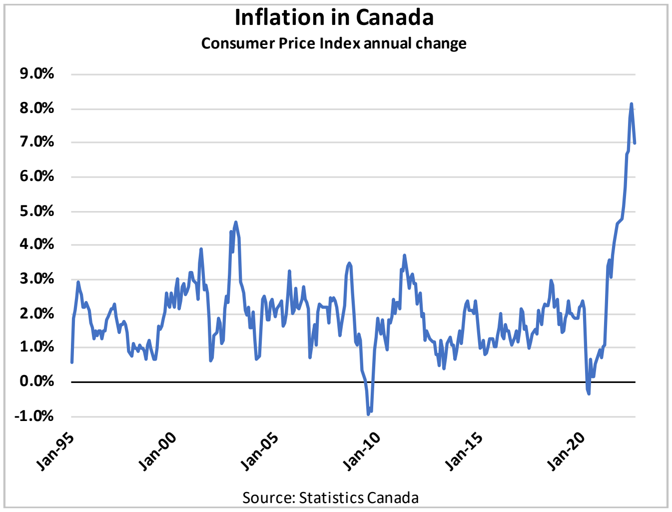
We look forward to arming our members with powerful insight into the housing and mortgage markets and hope you enjoy this latest report.

The Bank of Canada signals more rate hikes to come

Headline inflation is finally showing signs of cooling, having fallen from an annualized rate of 8.1% in June to 7% in August.

That's good news, but the Bank of Canada is not quite ready to ease up on rate hikes yet. In a speech earlier this month, Governor Tiff Macklem made it clear that the Bank is closely monitoring two key indicators: core inflation and inflation expectations.

Core inflation measures are still averaging over 5%, well above the Bank's target of 1-3%.



Meanwhile, inflation expectations continue to rise. We learned this week that Canadian consumers now expect inflation to average 5.2% over the next two years. This is a problem for the Bank of Canada. From Governor Macklem's speech:

> *Keeping longer-term expectations of inflation well anchored is paramount so that, as inflation pressures ease, inflation returns to the 2% target.*
>
> *The longer high inflation persists and the more pervasive it becomes, the greater the risk that high inflation becomes entrenched.*

When consumers believe that inflation will remain high in the future, they are more likely to spend more today. After all, why save now when your dollars will buy you less later? This can create a self-feeding dynamic where inflation expectations drive spending, which in turn drives higher inflation.

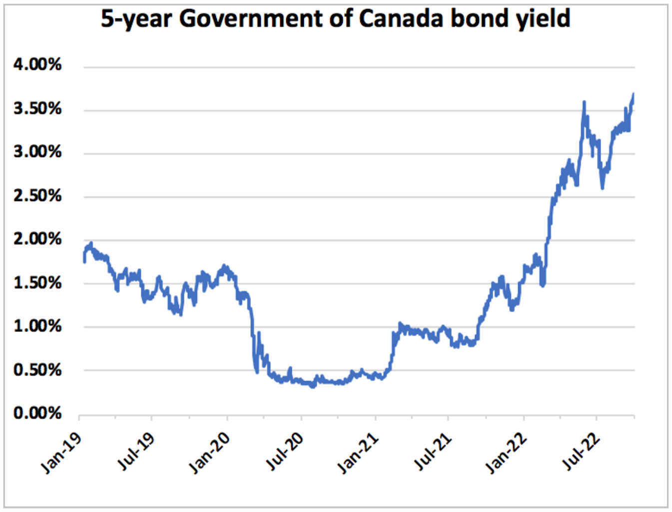
Until core inflation AND inflation expectations show clear signs of returning to the Bank's target, they will continue on their tightening path. Governor Macklem was very clear on this:

> *[…] the clear implication is that further interest rate increases are warranted. Simply put, there is more to be done.*

That message couldn't be clearer. We haven't seen the end of rate hikes yet.

The Bank of Canada signals more rate hikes to come

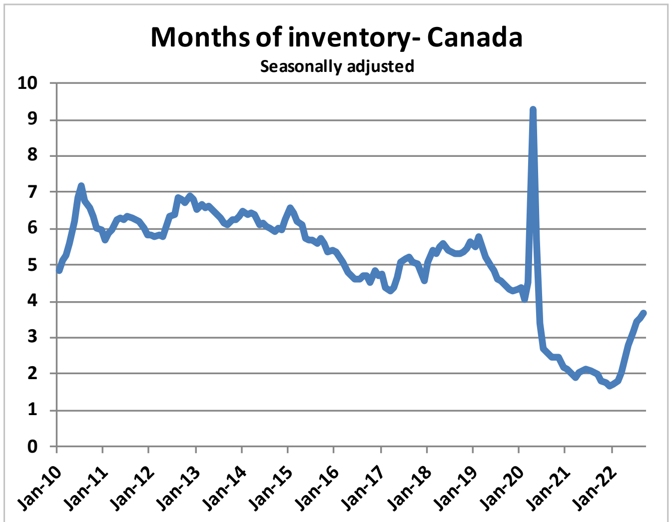
The bond market got the message with the all-important 5-yr bond yield surging to fresh 14-year highs following the speech, which in turn drove another round of fixed mortgage rate hikes.



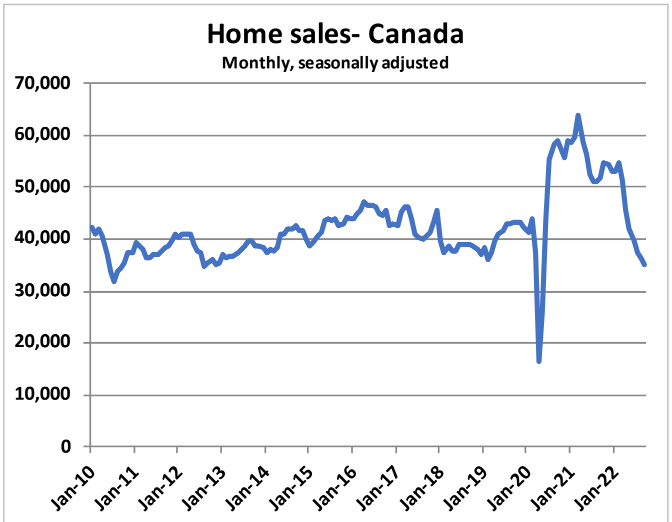
Home sales slip again in September

Seasonally adjusted home sales fell by 3.9% nationally in September and were down 32% compared to last year at this time. Outside of March and April 2020, this was the lowest monthly tally in the past decade.

The good news is that new listings remain quite low at nearly 6% below decade averages after falling another 0.8% month-over-month in September. This dynamic is helping to keep a lid on active listings and, in turn, is keeping the market relatively well balanced. The months of inventory measure continues to rise, but is still below long-term averages.



Source: Canadian Real Estate Association, Haver Analytics



Source: Canadian Real Estate Association, Haver Analytics

House prices remain under pressure, with the MLS House Price Index registering a 1.4% decline in September, bringing the cumulative decline to 8.8% from peak levels.

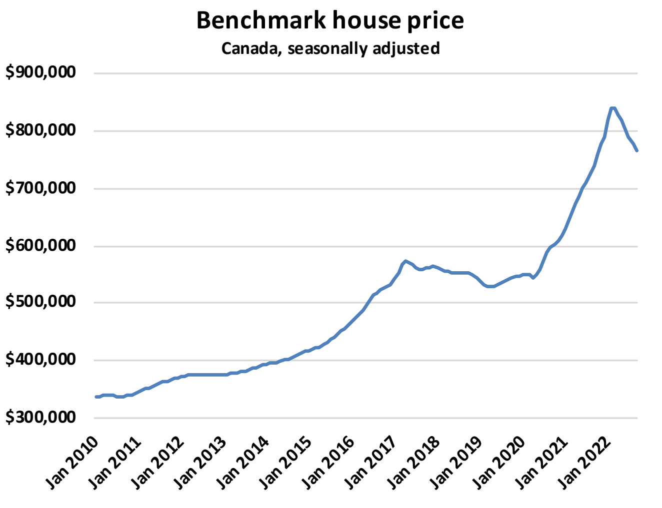
Housing and Mortgage Market Review

The Bank of Canada signals more rate hikes to come

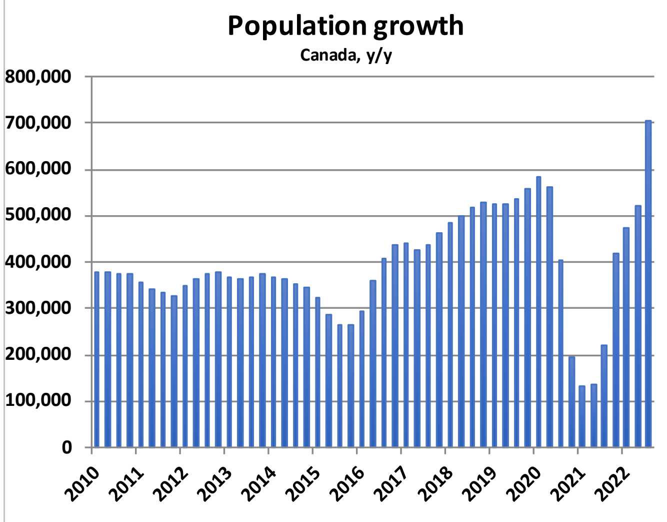
Record population growth points to solid long-term fundamentals

The deterioration in housing affordability may constrain demand over the short to medium term, but record population growth will ultimately underpin demand over the longer term. Canada's population has grown by a record 700,000 over the past year as of Q3.

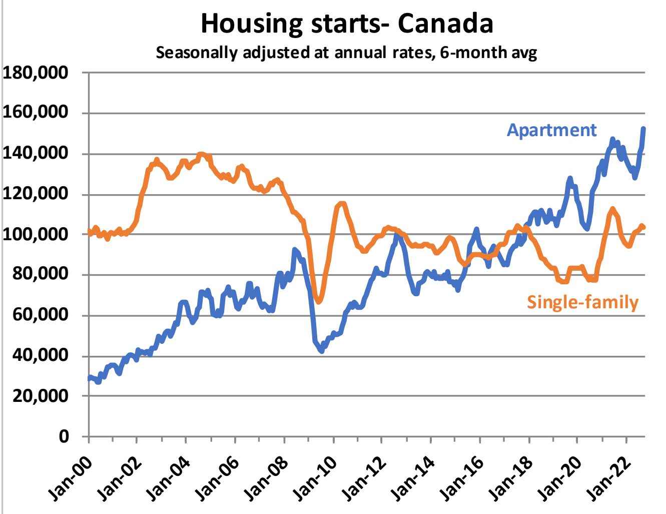
Meanwhile, single-family housing starts remain below average levels from 2000-2010 in spite of the record population growth.



Source: Canadian Real Estate Association



Source: Statistics Canada



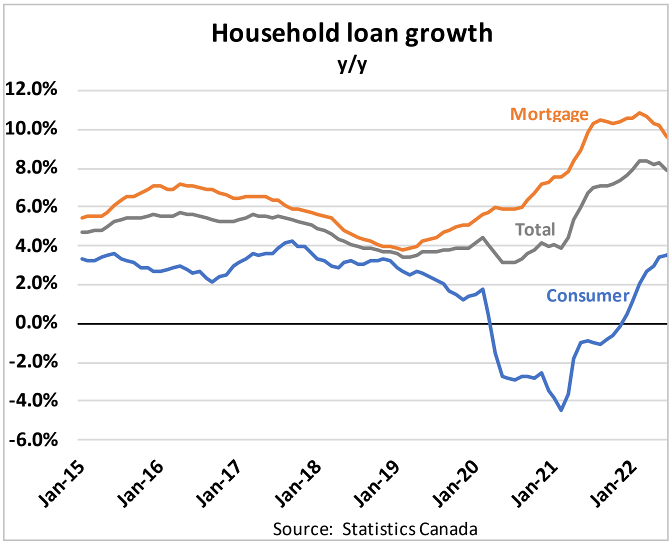
Source: CMHC

Mortgage growth slows in July

Rising interest rates have significantly curbed mortgage demand. The most recent data, as of July, saw outstanding mortgage balances grow 0.7% month-over-month, the lowest monthly increase since mid-2020. Growth will likely slow much further from here as July mortgage figures reflect resale activity as far back as April. Home sales have fallen significantly since then.

Housing and Mortgage Market Review

The Bank of Canada signals more rate hikes to come



Mortgage debt is still growing at over 9% year-over-year, but that figure will likely be cut in half over the next six months on account of lower demand. Originations fell 24% year-over-year in August, the steepest annual decline in over a decade.

Borrowers continue to opt for variable-rate mortgages, accounting for 44% of new originations in August. That's down from the peak of 57% in January, but still double the levels seen pre-COVID.

The big increase has been in shorter-term (less than 3 years) fixed-rate mortgages, which have jumped from 11% of new originations in December 2021 to 23% in August.

That means nearly three quarters of new mortgage originations are either variable or short-term fixed rates. The Bank of Canada may be warning that more rate hikes are in order, but consumers are clearly not buying it.

**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.