Housing and Mortgage Market Review: *September 2023*

Inflation headache for the Bank of Canada

Higher-than-expected inflation last month is continuing to prove problematic for the Bank of Canada, and has led markets to raise the odds of an additional rate hike next month, while rate cuts now aren't expected until late 2024 at the earliest.

Highlights:

- **Inflation** surprised to the upside in August again, raising the possibility of an additional Bank of Canada rate hike
- **Mortgage origination growth** is at its lowest level since 2001, begging the question of what impact anticipated regulatory changes may have
- **Housing market** affordability constraints are leading to a slowdown in activity

Inflation headache for the Bank of Canada

Higher-than-expected inflation keeps rate hikes in play

For the second straight month, Canada's inflation rate surprised to the upside in August. The headline Consumer Price Index (CPI) rose to 4.0%, up from 3.3% in July and considerably higher than consensus expectations of 3.8%.

More importantly, the seasonally adjusted CPI rose 0.6% and has now risen at a 7% annualized clip over the past two months. At the same time, measures of core inflation (which the Bank of Canada focuses on) accelerated to 4.0% from 3.8% previously.

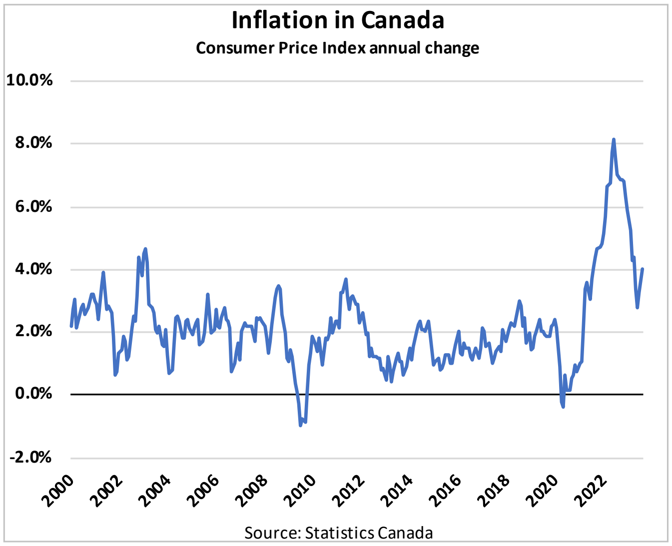
As a result, markets are now pricing in another rate hike by Q1 next year and are now not expecting rate cuts until late 2024 at the earliest.

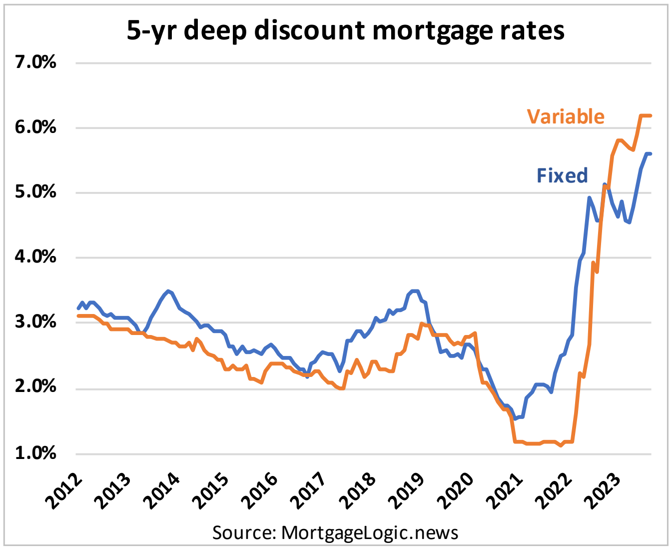
Unfortunately, inflationary pressures are proving to be more persistent than the Bank of Canada anticipated, and that means continued rate volatility and probably one more rate hike by year-end before inflation is brought back under control.

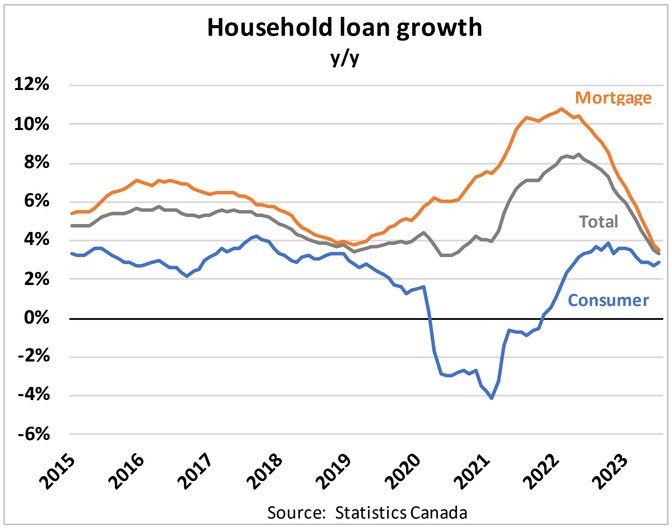
Mortgage market update

Deep-discounted mortgage rates have been effectively unchanged over the past two weeks, but with the 5-year bond yield reaching fresh 15-year highs after the CPI report, we may see upward pressure on fixed rates in coming weeks.

With housing affordability still constrained, mortgage credit growth has fallen to just 3.5% year-over-year as of July, the weakest growth rate since 2001. That puts mortgage growth below the post-B20 lows in 2019 and begs the question of just what OSFI is hoping to accomplish if they further tighten the B20 regulations.







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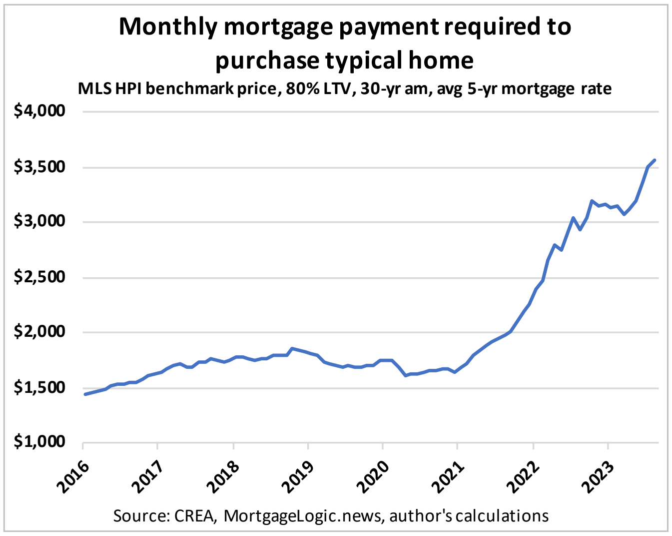
New mortgage originations remained 38% below peak levels in July but were 19% higher than last year at this time...the first year-over-year increase since mid-2021.

There's been a notable skew towards 3- and 4-year fixed rate products in recent months. They now account for 53% of all new originations, up from just 10% in 2022. Meanwhile, variable rate loans, which had accounted for nearly 60% of origination in early 2022, have fallen to just 5% of new loans today.

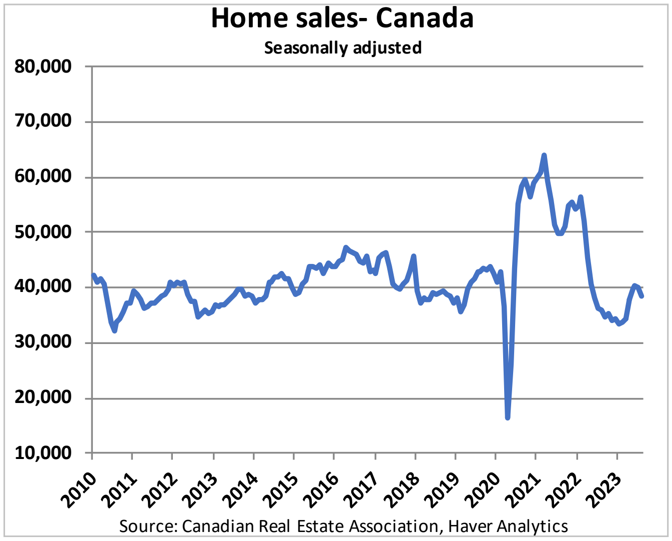


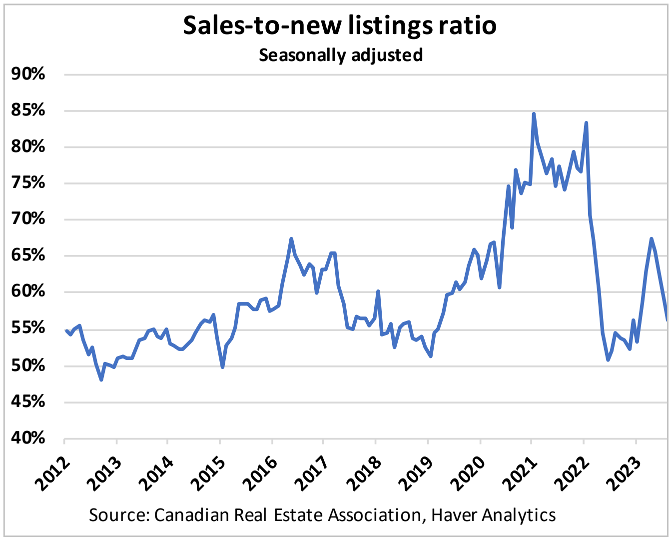
Affordability constraints intensify

Housing affordability remains deeply problematic in many parts of the country. The monthly mortgage payment required to purchase the typical home rose to fresh highs last month of just under $3,600...up 21% annually and up 80% over the past two years.

Reflecting the challenging affordability backdrop, seasonally adjusted home sales across the country slid 4.1% month-over-month in August led by a 10.7% drop in British Columbia and a 6.2% decline in Ontario...the largest drops for both provinces since June 2022.

New listings rose 0.8% on a monthly basis, which helped push the sales-to-new listings ratio, a simple measure of supply and demand, down to 56%.





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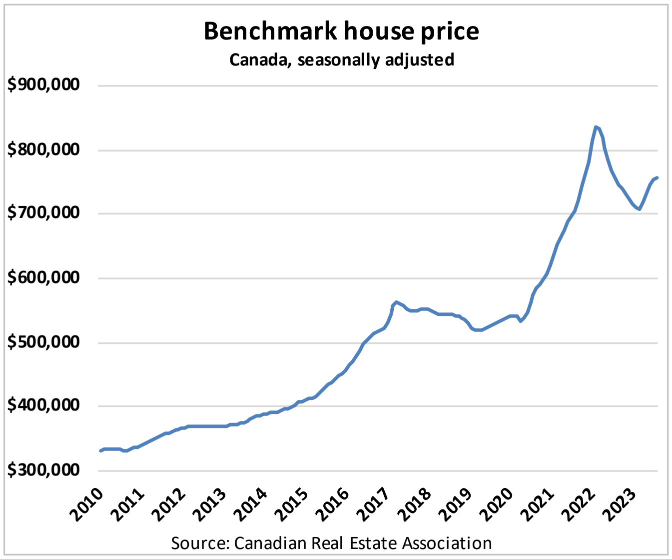
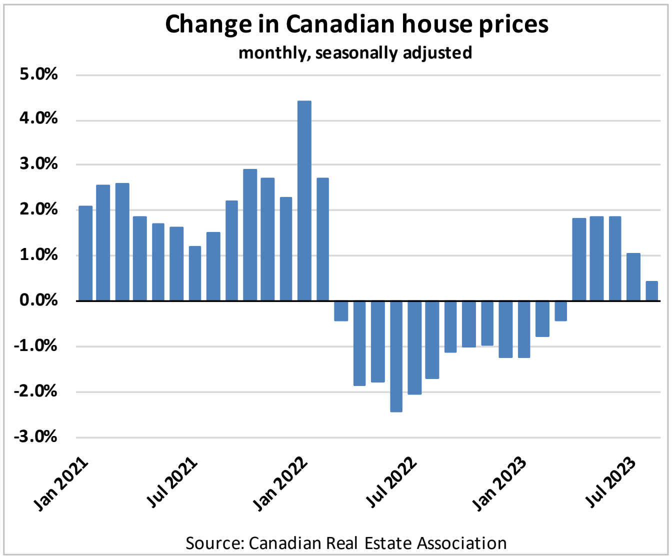
The MLS House Price Index ticked up 0.4% in August and has now risen 7.2% since bottoming in March.

Still, the trend here is very clear. Price gains are decelerating sharply under the weight of rising supply and weakening demand. It looks likely that prices will again turn negative as soon as next month.





Any forecasts contained in this report are accurate as of the date indicated.