WEEKLY COMMENTARY

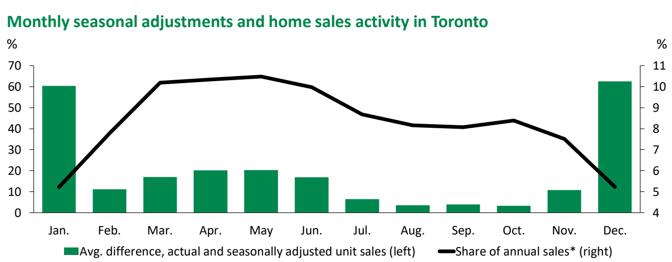
Is Toronto's Housing Market Headed for Resurgence or Relapse?

By Marc Desormeaux, Principal Economist

The first housing market data of 2024 for the Toronto region—due out in early February—raises many questions. Following the surprising surge in sales that closed out 2023, could we now be seeing an inexorable return of bidding wars and runaway price gains to Canada's largest city? After all, didn't home sales take off the minute bond rates started coming down early last year, as they're now doing? And isn't a seller's market more likely now that the Bank of Canada appears more open to moving interest rates lower than it has at any point this cycle? It's understandable that people would see these signs and expect a redux of frothy market conditions in The Big Smoke. But a closer look at the situation shows more caution is warranted.

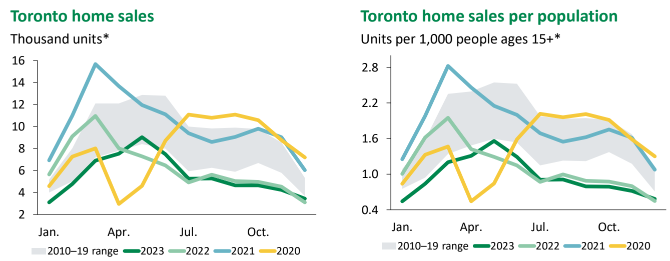
Sales activity isn't nearly as strong as recent headline growth rates imply. For one thing, seasonal adjustments to Toronto home purchases have historically been larger in December than in any other month, so we should take last month's 21% gain with a grain of salt. By the same token, January 2024 data may not bring much more clarity (graph 1). And despite the year-over-year increase registered in December 2023, sales were well below the levels typical in the decade before the pandemic. They were especially weak on a per-population basis (graph 2).

Graph 1
Big Seasonal Adjustments Come in Quiet Months



* 1988–2023, non-seasonally adjusted.
Canadian Real Estate Association and Desjardins Economic Studies

Graph 2
Toronto Home Sales Were Well below Seasonal Norms



* Non-seasonally adjusted data.
Statistics Canada, Canadian Real Estate Association and Desjardins Economic Studies

Maybe more importantly, while the housing market has responded to multiple rounds of aggressive monetary policy tightening, the broader economy still hasn't felt the full impact. As we discussed last fall, the health of the Ontario labour market will likely be a major driver of Toronto home sales activity and price movements in the next few years. Our latest Economic and Financial Outlook projected declining real Canadian GDP and rising unemployment in the first half of 2024, largely because of the accumulated weight of higher interest rates. We also expect Ontario to feel that downturn more acutely than most provinces. Indeed, Canada's largest province has now experienced employment losses in three consecutive months, and the job vacancy rate has come down much more quickly in Ontario than elsewhere in Canada.

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As the economy recovers and rates come down, Toronto's housing market will be subject to both tailwinds and headwinds. On the positive side, the wave of millennials set to enter their prime homebuying years offers fundamental support for housing demand. Moreover, the Bank of Canada's latest survey of consumer expectations released last week showed a rising share of renters who intend to purchase a home in the next 12 months. That included a particularly striking upward trend among newcomers, leaving expectations for price growth near their historical average. But many households also indicated that despite the possibility of some borrowing cost relief this year, previous interest rate hikes had only begun to impact their financial position. The recently announced cap on international students could also disproportionately impact future newcomer admissions and rental demand in Ontario, which educates an outsized share of foreign-born students. Finally, our work shows that youth are increasingly moving out of higher-priced Ontario markets like Toronto to more affordable parts of Canada.

Of course, over the longer run Ontario's particularly acute housing supply shortfall will likely put a floor under Toronto home prices. While we welcome government attention to reducing barriers to new building, a range of challenges facing the residential construction sector means the gap won't likely be closed anytime soon. But there is still a lot more that can be done.

As we start 2024, it's too soon to tell whether Canada's largest housing market is headed for a resurgence or a relapse. To accurately assess that, we'll need a few more months of housing and economic data. What is clear at this stage is that affordability issues are still very much on the minds of Canadians, and likely will be for years to come.

What to Watch For

By Randall Bartlett, Senior Director of Canadian Economics, Tiago Figueiredo, Associate – Macro Strategy, Marc Desormeaux, Principal Economist, Marc-Antoine Dumont, Economist, and Francis Généreux, Principal Economist

UNITED STATES

TUESDAY January 30 - 9:00	
November	**y/y**
Consensus	n/a
Desjardins	5.68%
October	**4.87%**

S&P/Case-Shiller index of existing home prices (November) – Existing home prices kept rising into Q3. Although the 0.6% gain in October wasn't as strong as in previous months, it was still impressive given the high interest rate environment. We expect growth to have slowed again in November, but the month-over-month change likely stayed positive. We're forecasting an increase of 0.3%. This would bring the year-over-year change in the S&P/Case-Shiller index to 5.7% in November, up from 4.9% in October.

TUESDAY January 30 - 10:00	
January	
Consensus	113.0
Desjardins	115.0
December	**110.7**

Conference Board consumer confidence index (January) – US consumer sentiment has surged since the end of November. Falling gas prices, a strong job market, a drop in inflation expectations, a late-2023 stock market rally and some lower retail interest rates have fuelled rising consumer confidence. The Conference Board Index advanced 9.7 points in December, its biggest monthly gain since March 2021. Based on the University of Michigan's consumer sentiment index, which rose 17.5 points in 2 months, that momentum likely continued into January. We therefore expect the Conference Board confidence index to climb to 115.0.

WEDNESDAY January 31 - 14:00	
January	
Consensus	5.50%
Desjardins	5.50%
December 13	**5.50%**

Federal Reserve meeting (January) – Fed officials have left US key rates unchanged since July 2023. The target range for the federal funds rate has remained between 5.25% and 5.5% ever since. We expect the Fed to keep the target rate where it is through the first half of 2024, including the first Fed meeting of the year. Inflation is improving, but nevertheless remains too high for us to expect monetary policy to ease anytime soon. In addition, the economy and the labour market aren't signalling a sudden slowdown that would prompt the Fed to react quickly. But another rate hike doesn't seem to be in the cards either, especially not while real interest rates are still rising as inflation comes down. Furthermore, quantitative tightening is continuing at a solid clip, although the Fed may start talking about slowing down the process of shrinking its balance sheet. We therefore expect the rate pause to continue and would be surprised if the Fed clearly signals a potential change in the target rate.

THURSDAY February 1 - 10:00	
January	
Consensus	47.3
Desjardins	46.3
December	**47.2**

ISM Manufacturing index (January) – After holding steady at 46.7 in November, the ISM Manufacturing index inched up to 47.4 in December, its highest level since September. But this gain is likely to be short-lived. Regional manufacturing indexes published to date for January suggest there are some challenges. The New York Fed Empire State Manufacturing Survey even tumbled to its lowest level since it was first conducted in 2001, if we exclude the record lows brought on by the pandemic back in the spring of 2020. It's nevertheless possible that this plunge—and the weakness in other indexes—was exacerbated by the cold snap in mid-January. That said, we expect the ISM Manufacturing index to slide just over one point, from 47.4 to 46.3. This would be its lowest reading since June 2023.

FRIDAY February 2 - 8:30	
January	
Consensus	178,000
Desjardins	175,000
December	**216,000**

Job creation according to the establishment survey (January) – US job growth surprised to the upside again in December, beating the consensus forecast with a gain of 216,000. We expect hiring to have been slightly more modest in January, but don't foresee a major drop-off. Low unemployment claims in the first few weeks of the month even suggest some upside risk. However, our forecast is for approximately 175,000 new jobs in January. But keep in mind that this month's print will include the annual revision of the establishment survey results, which might change things. We expect unemployment to tick up to 3.8%.

CANADA

WEDNESDAY January 31 - 8:30

November	
Consensus	n/a
Desjardins	0.1%
October	**0.0%**

Real GDP by industry (November) – Real GDP is expected to have advanced by 0.1% in November, in line with Statistics Canada's flash estimate. It's a rare month when we have all the data used to calculate monthly output, so we have more conviction in our forecast than we might normally. Goods-producing sectors look as though they were the primary drivers of growth in November, with manufacturing, agriculture and resource production likely leading the move higher. In services-producing sectors, the advance will probably have been more modest. This should be thanks to gains in wholesale trade, public administration and transportation and warehousing partly offset by notable weakness in retail sales and other sectors linked to more discretionary spending. Looking ahead to December real GDP, we anticipate that Statistics Canada will publish a flash estimate of 0.1%. If that's the case, Q4 annualized growth in real GDP by industry would be around 0.5%, depending on revisions to October. That would translate into an advance in real GDP by expenditure in the 0% to 0.5% range for the final quarter of 2023, slightly better than the projection for a flat print published by the Bank of Canada earlier this week.

OVERSEAS

TUESDAY January 30 - 5:00

Q4 2023	**q/q**
Consensus	-0.1%
Q3 2023	**-0.1%**

Eurozone: Real GDP (fourth quarter, preliminary) – The eurozone economy looked like it was halfway to a technical recession when real GDP dipped 0.1% on a non-annualized basis in the third quarter of 2023. But that was such a modest decline that for now it seems more appropriate to talk about the economy levelling off than to call it an actual recession. We'll have to wait and see whether eurozone real GDP lost more ground in the final quarter of 2023. The German economy probably contracted, but the other eurozone countries may have kept the region from tipping into recession.

TUESDAY January 30 - 20:30

January	
Consensus	n/a
December	**50.3**

China: Composite PMI (January) – China's composite PMI edged lower in December, slipping from 50.4 in November to 50.3. Most of the pullback was in the manufacturing sector (-0.4), with new orders, finished goods exports and production all slowing. This meant the manufacturing index was below the 50-point threshold (indicating a contraction in manufacturing activity) for eight out of the twelve months of 2023. As for the non-manufacturing sector, the index's volatility since last August has highlighted the cracks in the Chinese economy. But the government keeps piling on the stimulus. The January 2024 data will show us how effective its latest measures have been.

THURSDAY February 1 - 5:00

January	**y/y**
Consensus	2.7%
December	**2.9%**

Eurozone: Consumer Price Index (January, preliminary) – The downshift in eurozone headline inflation was impressive in 2023. Annual inflation started the year at 8.6% and ended it at "just" 2.9%. That said, the December print was somewhat disappointing, with the month-on-month and year-on-year figures up from the surprisingly weak November reading. Preliminary January data will tell us whether headline and core inflation kept moving toward the European Central Bank's target or whether the path to controlling inflation meandered more than expected, as it did in December.

THURSDAY February 1 - 7:00

February	
Consensus	5.25%
Desjardins	5.25%
December 14	**5.25%**

United Kingdom: Bank of England meeting (February) – Like most other major central banks, the Bank of England (BoE) has taken a wait-and-see approach. The BoE sees that inflation is down. It ticked slightly higher in December, but only after falling more than expected in November. The central bank nevertheless believes inflation is still too high to plan for any rate cuts in the near future. The BoE expects economic growth to stall, and the latest data appeared to confirm this. Monthly GDP came in slightly higher than expected in November, but retail sales plunged in December. Given the circumstances, we don't see the BoE changing course on monetary policy, although the central bank's officials may soon soften their still-hawkish stance. The next Monetary Policy Report will tell us more about what the BoE is expecting.

Economic Indicators

Week of January 29 to February 2, 2024

Day	Time	Indicator	Period	Consensus	Desjardins forecast	Previous reading
UNITED STATES						
MONDAY 29	---	---				
TUESDAY 30	9:00	S&P/Case-Shiller home price index (y/y)	Nov.	n/a	5.68%	4.87%
	10:00	Consumer confidence	Jan.	113.0	115.0	110.7
WEDNESDAY 31	8:30	Employment cost index (q/q)	Q4	1.0%	1.0%	1.1%
	9:45	Chicago PMI	Jan.	48.1	48.0	47.2
	14:00	Federal Reserve meeting	Jan.	5.50%	5.50%	5.50%
	14:30	Speech by Federal Reserve Chair J. Powell				
THURSDAY 1	8:30	Initial unemployment claims	Jan. 22–26	210,000	212,000	214,000
	8:30	Nonfarm productivity – preliminary (ann. rate)	Q4	2.1%	2.8%	5.2%
	8:30	Unit labor costs – preliminary (ann. rate)	Q4	1.8%	0.9%	-1.2%
	10:00	Construction spending (m/m)	Dec.	0.5%	0.4%	0.4%
	10:00	ISM Manufacturing index	Jan.	47.3	46.3	47.2
	---	Total vehicle sales (ann. rate)	Jan.	15,700,000	15,300,000	15,830,000
FRIDAY 2	8:30	Change in nonfarm payrolls	Jan.	178,000	175,000	216,000
	8:30	Unemployment rate	Jan.	3.8%	3.8%	3.7%
	8:30	Average weekly hours	Jan.	34.3	34.3	34.3
	8:30	Average hourly earnings (m/m)	Jan.	0.3%	0.2%	0.4%
	10:00	University of Michigan consumer sentiment index – final	Jan.	78.8	78.8	78.8
	10:00	Factory orders (m/m)	Dec.	0.3%	0.2%	2.6%
CANADA						
MONDAY 29	---	---				
TUESDAY 30	---	---				
WEDNESDAY 31	8:30	Real GDP by industry (m/m)	Nov.	n/a	0.1%	0.0%
THURSDAY 1	---	---				
FRIDAY 2	---	---				

Note: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Standard Time (GMT - 5 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of January 29 to February 2, 2024

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
MONDAY 29							
Japan	18:30	Unemployment rate	Dec.	2.5%		2.5%	
TUESDAY 30							
France	1:30	Personal consumption expenditures	Dec.	0.0%	1.1%	0.7%	-1.1%
France	1:30	Real GDP – preliminary	Q4	0.1%	0.7%	-0.1%	0.6%
Germany	4:00	Real GDP – preliminary	Q4	-0.3%	-0.2%	-0.1%	-0.4%
Italy	4:00	Real GDP – preliminary	Q4	0.0%	0.3%	0.1%	0.1%
Eurozone	5:00	Consumer confidence – final	Jan.	n/a		-16.1	
Eurozone	5:00	Industrial confidence	Jan.	-9.0		-9.2	
Eurozone	5:00	Services confidence	Jan.	8.4		8.4	
Eurozone	5:00	Economic confidence	Jan.	96.2		96.4	
Eurozone	5:00	Real GDP – preliminary	Q4	-0.1%	0.1%	-0.1%	0.0%
Japan	18:50	Industrial production – preliminary	Dec.	2.5%	0.1%	-0.9%	-1.4%
Japan	18:50	Retail sales	Dec.	0.1%	4.9%	1.1%	5.4%
China	20:30	Composite PMI	Jan.	n/a		50.3	
China	20:30	Manufacturing PMI	Jan.	49.2		49.0	
China	20:30	Non-manufacturing PMI	Jan.	50.6		50.4	
WEDNESDAY 31							
Japan	0:00	Consumer confidence	Jan.	37.5		37.2	
Japan	0:00	Housing starts	Dec.		-6.6%		-8.5%
United Kingdom	2:00	Nationwide house prices	Jan.	0.1%	-1.0%	0.0%	-1.8%
Germany	2:00	Retail sales	Dec.	0.5%	-1.9%	-2.2%	-1.5%
France	2:45	Consumer price index – preliminary	Jan.	0.0%	3.2%	0.1%	3.7%
Italy	4:00	Unemployment rate	Dec.	7.5%		7.5%	
Germany	8:00	Consumer price index – preliminary	Jan.	0.1%	3.0%	0.1%	3.7%
Brazil	16:30	Central Bank of Brazil meeting	Jan.	11.25%		11.75%	
Japan	19:30	Manufacturing PMI – final	Jan.	n/a		48.0	
THURSDAY 1							
Sweden	3:30	Bank of Sweden meeting	Feb.	4.00%		4.00%	
Italy	3:45	Manufacturing PMI	Jan.	46.9		45.3	
France	3:50	Manufacturing PMI – final	Jan.	43.2		43.2	
Germany	3:55	Manufacturing PMI – final	Jan.	45.4		45.4	
Eurozone	4:00	Manufacturing PMI – final	Jan.	46.6		46.6	
United Kingdom	4:30	Manufacturing PMI – final	Jan.	47.3		47.3	
Eurozone	5:00	Consumer price index – preliminary	Jan.	-0.4%	2.7%	0.2%	2.9%
Eurozone	5:00	Unemployment rate	Dec.	6.4%		6.4%	
Italy	5:00	Consumer price index – preliminary	Jan.	0.4%	0.9%	0.2%	0.6%
United Kingdom	7:00	Bank of England meeting	Feb.	5.25%		5.25%	
FRIDAY 2							
France	2:45	Industrial production	Dec.	0.2%	-0.4%	0.5%	0.6%

NOTE: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Times shown are Eastern Standard Time (GMT - 5 hours).