The

nesto-meter

with consulting economist,
Francis Gosselin, Ph.D., ASC.

nesto
Mortgage Experts™

nesto’s Special Quarterly Economic Forecast With Francis Gosselin:

August 2023

This issue of nesto’s monthly mortgage report is a special one. Why? Our consulting economist, Francis Gosselin, Ph.D., ASC, has joined us once again to discuss what’s in store as we move into the second half of 2023.

Within the coming pages, you will first find this August 2023 quarterly report, followed by the beloved, cyclical nesto monthly report with all its data and insights.

We hope you enjoy!

nesto's 2023 Economic Forecast and Report

Predictions At A Glance:

	Craig Wright (RBC)	Benjamin Tal (CIBC)	Beata Caranci (TD)	Francis G x nesto
Real estate prices and variations	Increase	Greater stability.	Increase	Increase
TL;DR: Real estate values will tread water or even rise slightly, before resuming a more balanced rate of growth from 2024 onwards.				

	Douglas Porter (BMO)	Pierre Cléroux (BDC)	Derek Holt (Scotiabank)	Francis G x nesto
Interest Rates	No change	No change	No change	No change
TL;DR: We therefore believe that the Bank of Canada will maintain its rate at 5% until 2024.				

	Benjamin Tal (CIBC)	Robert Hogue (RBC)	Douglas Porter (BMO)	Francis G x nesto
Inflation	Can rise or fall.	Possible stability.	Pessimistic. Can rise or fall.	Return to the target range by 2025.
TL;DR: As we move closer to the 2% target, inflation indicators will fluctuate up and down.				

	Derek Holt (Scotiabank)	Pierre Cléroux (BDC)	Beata Caranci (TD)	Francis G x nesto
Unemployment	Unemployment will rise.	Unemployment will rise.	Unemployment will rise.	At or slightly above 5%
TL;DR: We anticipate that the indicator will continue to evolve within the 5-6% range until the end of 2023.				

About the author: Francis holds a Ph.D. in economics from the University of Strasbourg. For the last 15 years, he has led and been part of teams that have worked with multinational companies and public organizations throughout the world in the development of their strategic plans, innovation processes and change management. He has spearheaded the economic research units, publishing and strategic development teams in several consulting firms including SAGE and Acronym. An expert generalist, his professional experiences range from finance, to media, to real estate, education & agribusiness. Francis is a well-known economic columnist and commentator, public speaker & facilitator. As a strategy and policy forecaster, he sits on several boards and advisory committees.

Making Sense of the Housing Market in a Fluctuating Economy: 2023 Predictions

Hello, again:

Last April, we published our first whitepaper, “Making Sense of the Housing Market in a Fluctuating Economy: 2023 Predictions”, bringing together the forecasts of 15 of the country's most renowned economists, and drew up a portrait of the Canadian economy as well as real estate market.

Since then, the market has continued to evolve, revealing economic decisions that are sometimes surprising, sometimes inexplicable. Contrary to expectations, the real estate market is holding up well, as are employment, consumption and GDP as a whole.

As we predicted in the spring, property prices have remained relatively stable since last March. Despite the increased pressure generated by rising rates, the housing supply situation in Canada is generating inflationary pressure on prices. The net result is a slowdown in sales, though, combined with relatively stable prices in most Canadian cities and suburbs.

Faced with this macroeconomic resilience, the Bank of Canada chose to raise its key rate twice by a quarter-point, on June 7 and July 12. Like BMO's Douglas Porter and TD's Beata Caranci, we predicted an extension of the Bank's January pause. Only Derek Holt at Scotia had correctly anticipated the two subsequent increases. This additional pressure on borrowers is slow to take effect, but we should see the tides change within the next few months.

We had correctly predicted a return of inflation within the 1-3% range; at 2.8%, we're almost there. The next few months will undoubtedly be more complicated. This is largely due to the resilience of the job market. Although "encouraging" signs of a lull are beginning to emerge, we had anticipated that the unemployment rate would continue to hover around 5%. The next few months will be decisive in this respect, too.

That's why this quarterly update is so important. In collaboration with our consulting economist Francis Gosselin, Ph.D., ASC, we offer you this second edition of the nesto quarterly report. The purpose of this report is to update the most recent economic forecasts, in order to better guide you through the fall of 2023 and beyond.

It is based on the analysis of predictions by Canada's leading economists, as well as nesto's own internal outlook.

As we did in April, we have reviewed forecasts for real estate prices, interest rates, inflation, employment and GDP growth.

Key Takeaways

More interested in the highlight reel than the full report? We have your back. Here are the conversation-sparking takeaways:

- The issue of insufficient housing supply in the face of consistent demand and high immigration to Canada will not change significantly over the next year or more, as labour costs, financing costs and the price of materials make housing projects more perilous for developers. **In the short term, real estate values will tread water or even rise slightly, before resuming a more balanced rate of growth from 2024 onward.**

- The Bank also looks after the stability of the economic system, and the successive as well as rapid constraints that have been imposed could have very negative impacts on the Canadian economy. **We therefore believe that the Bank of Canada will maintain its rate at 5% until 2024.**

- As we move closer to the 2% target, inflation indicators will fluctuate up and down. The strictly downward trend observed since mid-2022 is coming to an end, and we could see it pass the 3% mark again before coming down again.

- **We anticipate that the indicator will continue to evolve within the 5-6% range until the end of 2023.**

- **It's highly likely that Canada won't escape a "technical" recession** (i.e. a shallow drop in GDP for two or more consecutive quarters).

REAL ESTATE PRICES: SUPPLY AND DEMAND IN PERPETUAL IMBALANCE

After the publication of scenarios predicting a steep fall in real estate prices, most Canadian economists and financial institutions seem to have come around.

Benjamin Tal, Managing Director and Deputy Chief Economist at CIBC Capital Markets, anticipates a rollercoaster ride for Canadian real estate. According to Tal, the coming months will be marked by greater stability, which could encourage more sellers to put their properties up for sale, some of whom will do so out of obligation due to rising borrowing costs.

Even so, the RBC Economics team led by Craig Wright anticipates a rebound in real estate values as early as 2024.

The same is true of TD, where chief economist Beata Caranci predicts a decline in the number of transactions in the second half of 2023, although the ratio of sales to new listings still remains favorable to sellers. Caranci also anticipates that we will see property values increase in the short term.

Francis Gosselin/nesto: We're seeing the same market indicators as the leading economists at Canadian financial institutions. Although demand is continuous, notably due to rising market rents, the number of transactions could drop significantly without having a major impact on real estate prices. The issue of insufficient housing supply in the face of consistent demand and high immigration to Canada will not change significantly over the next year or more, as labour costs, financing costs and the price of materials make housing projects more perilous for developers. **In the short term, real estate values will tread water or even rise slightly, before resuming a more balanced rate of growth from 2024 onward.**

A STRANGE GUESSING GAME: THE BANK OF CANADA AT A CROSSROADS

Economists generally agree that the primary economic role of the state and its institutions is to define a level, predictable playing field for all economic players.

While the impressive rate hikes decreed by the Bank of Canada since March 2022 were necessary to combat inflation, the mystery surrounding the decisions made by its Governing Council - and the inability of the country's top economists to anticipate them - contributes to uncertainty and unpredictability, and has a significant negative impact on productivity, investment and the well-being of Canadians.

Following its latest meeting, the Bank of Canada's Governing Council indicated that it had discussed the possibility of keeping its rate constant, before finally opting for a quarter-point increase. In the wake of this, BMO Chief Economist Doug Porter said it was "unlikely" that US and Canadian rates would rise again after July. He is joined by Derek Holt, Vice-President and Head of Capital Markets Economic Research at Scotiabank. The monthly employment data for July published by Statistics Canada at the beginning of August attest to the veracity of this hypothesis, with a few thousand fewer jobs and a third consecutive month of rising unemployment in the country. Porter and his team anticipate that the key rate will decline very slowly until the 2% target inflation rate is fully met. BDC's chief economist, Pierre Cléroux, adopts a very "strategic" analytical framework when analyzing the Bank of Canada's language. The Bank does not wish to add to uncertainty or create expectations in the markets. He echoes the interpretation of Benjamin Tal at CIBC: by announcing a return to the 2% target in 2025, as the central bank did in July, it is buying itself time. Conversely, when the central bank announced a pause last January, it was quickly converted into market enthusiasm.

Both are of the opinion that the Bank of Canada will not raise its rate in September, but will keep it at around 5% until the second quarter of 2024 to ensure that CPI growth is "completely dead" before cutting the key rate, explains Tal. RBC's deputy chief economist, Robert Hogue, is more pessimistic, anticipating that the Federal Reserve will get the ball rolling in the second quarter of 2024, while the Bank of Canada will begin its easing in the second half of next year.

TD's Beata Caranci does not rule out further hikes in Canada before the end of 2023.

Francis Gosselin/nesto: We largely share the view – same as most of the macroeconomist community – that the Bank of Canada has done enough...if not a little too much. We were wrong in our March 2023 prediction on their next move, but this time it's hard to imagine Tiff Macklem's team embarking on a more restrictive policy again, when all indicators point to the target being within reach. The Bank also looks after the stability of the economic system, and the successive as well as rapid constraints that have been imposed could have very negative impacts on the Canadian economy. **We therefore believe that the Bank of Canada will maintain its rate at 5% until 2024.**

PRICES QUIETLY STABILIZING... BUT IS IT ENOUGH?

In Canada, overall inflation has fallen from 8.1% year-over-year in June 2022 to 2.8% year-over-year in June 2023. A significant part of the residual increase is now linked to the rapid rise in mortgage interest costs and housing prices, which is a direct consequence of the Bank of Canada's action.

In addition to the headline inflation indicator, the Bank of Canada also monitors indicators such as core inflation (the more volatile components of headline inflation are removed). As BDC's Pierre Cléroux writes, core inflation remains above the 2% target but has fallen rapidly over the past year. However, he does not comment on the future trajectory of inflation.

CIBC's Benjamin Tal expresses with more conviction what many economists observe and fear, namely that the Bank of Canada has developed a biased approach in its reading of national inflation statistics. The Bank ignores a number of negative indicators, concentrating instead on those that demonstrate the strength of the economy. "Its main task now is to manage the extent to which the target has been exceeded, i.e. to over-weaken the economy in the name of the war on inflation.

"Before long, the current disinflationary forces will be too noticeable to ignore, even for a biased bank," he says.

BMO's Doug Porter is less enthusiastic, pointing out that an important part of the normalization of prices stems from the significant drop in the price of oil, which has started to rise again since last spring (+11% since July 1).

He also points out that in his last statement, Tiff Macklem did not close the door on further rate hikes, particularly in view of a new deadline for reaching the 2% target, now set for "mid-2025".

Finally, RBC's Robert Hogue points out an important element in the likely progression of the consumer price index: businesses are not expecting to raise prices at the same pace as in the past year. Consumers, for their part, seem to have internalized the projected rise in housing prices, but their expectations for food, motor vehicles and energy are more moderate.

Hogue also points out that the impact of rising rates on property prices - for variable-rate holders and for households renewing their loans under the new financing conditions - will also eventually be absorbed by the market and will no longer be reflected at the same level in price rises, particularly from January 2024 onwards. From September 2022 to January 2023, the Bank of Canada raised its key rate by 2% in 4 months. Since then, it has risen by only 0.5%.

Francis Gosselin/nesto: As we move closer to the 2% target, inflation indicators will fluctuate up and down. The strictly downward trend observed since mid-2022 is coming to an end, and we could see it pass the 3% mark again before coming down again. **The Bank of Canada is more pessimistic than most economists, including ourselves, in predicting a return to the target in 2025.**

A MUCH *TOO* RESILIENT JOB MARKET?

The job market in Canada, particularly in Quebec, which leads the way among the provinces, is relatively constrained, and the situation seems to be resisting all the macroeconomic pressures that would normally correct and stabilize it.

Both TD's Beata Caranci and Scotia's Derek Holt point out that changes in the unemployment rate often follow a period of slower growth, which is also slow to emerge. Both nevertheless anticipate that jobs will be lost over the next few months, although they do not say when or to what extent.

Pierre Cléroux of the BDC points to the projected growth of the Canadian population as helping to alleviate the current labour shortage, but which could translate into a rise in the unemployment rate, as the employment of immigrants is perceived as a more complex process.

Remember that, according to Statistics Canada, the country had over a million vacancies to fill at the start of 2022. It's likely that the job market will start by absorbing the potential unemployed from these vacancies before seeing a significant rise in the national unemployment rate.

Francis Gosselin/nesto: We continue to believe that the Canadian labor market will first absorb the surplus of job vacancies before showing any significant signs of rising unemployment. **We anticipate that the indicator will continue to evolve within the 5-6% range until the end of 2023.**

RECESSION OR NOT? IS THE PROSPECT OF A SOFT LANDING STILL ON THE HORIZON?

The central banks' balancing act has given way to an almost compulsive obsession with fighting inflation, which many feel has come at the expense of considerations relating to the economic health and well-being of countries - the risk of causing a deep recession still not being ruled out.

Each new rise increases this probability," explains BDC's Pierre Cléroux. Preliminary reports do point to a more pronounced slowdown in economic activity. However, BDC remains optimistic that a recession can be avoided altogether.

CIBC's Benjamin Tal points out that the growth seen in recent months is essentially the product of the large wave of immigration observed in Canada. Productivity, on the other hand, has not improved, which explains why GDP growth has been accompanied by stagnation, or even a decline, in GDP per habitant.

Tal also explains that the uncertainty caused by central banks, and the meteoric rise in interest rates, has prompted many companies to slow their investments and take advantage of passive returns on their liquid assets. This could have disastrous consequences for Canadian productivity down the road.

RBC's Robert Hogue and BMO's Doug Porter anticipate a slight slowdown, followed by a resumption of growth, all in the third or fourth quarter of 2024. Whatever happens, if there is a recession, it will be short-lived, with no major consequences for economic stability.

Francis Gosselin/nesto: It's highly likely that Canada won't escape a "technical" recession (i.e. a shallow drop in GDP for two or more consecutive quarters). However, this will not have a major impact on households or businesses, as it will mark the start of a period of relative stagnation over the next year.

Final Thoughts:

In short, as of today, the housing supply is not able to match demand, inflation continues to fall (and will continue to, albeit in a wayward manner), indicators show that a ‘technical’ recession will likely come to fruition, and there is the potential for a sustained prime rate through the rest of 2023.

If you’re homeowner: While we anticipate a pause in Bank of Canada prime rate increases, it would be smart for you to lock your rate today to ensure the best rate at renewal.

If you’re a first time buyer: Stay tuned for a market that is more balanced, with lower prices in 2024. Be prepared for more competition at that time though.

We will see you next quarter to see what, if any, of these items have changed.

Written by: Francis Gosselin, PhD, nesto consulting economist
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nesto's mortgage trends August 2023

01 Rates

Fixed rates and variable rates continued to increase, with variable rates reaching the 6.00% mark.

02 Mortgage Type Trends

Refinances continue on their steady incline, coming close to their peak in March 2022. This is likely the result of renewers having difficulty qualifying, or looking to take out equity prior to proposed OSFI changes coming into place.

03 Purchase Timing Intent

The large gap between users who are 'just looking' vs 'ready to buy' remains consistent in both ON and QC, aligning very closely with the national data (61% vs. 39%).

04 Property Value And Down Payment

Despite a drop in down payment value across Canada, homebuyers are still putting down larger down payments on cheaper houses. Likely to curb their qualifying mortgage amount to stress test their mortgage.

Section 01

Rates

01

Key Takeaways

July proved to be a rollercoaster for rate changes due to two consecutive rate hikes by the Bank of Canada. Across Canada, nesto logged 4 changes to its best, fixed rate mortgage.

If you're homeowner: Be sure to lock in your low rate with nesto to prevent an increase later on.

If you're a first time buyer: Speak with a nesto mortgage expert to better understand what rate increases mean for your monthly payment and how to secure a low rate guarantee.

A. Volatility

Number of lowest rate changes per month

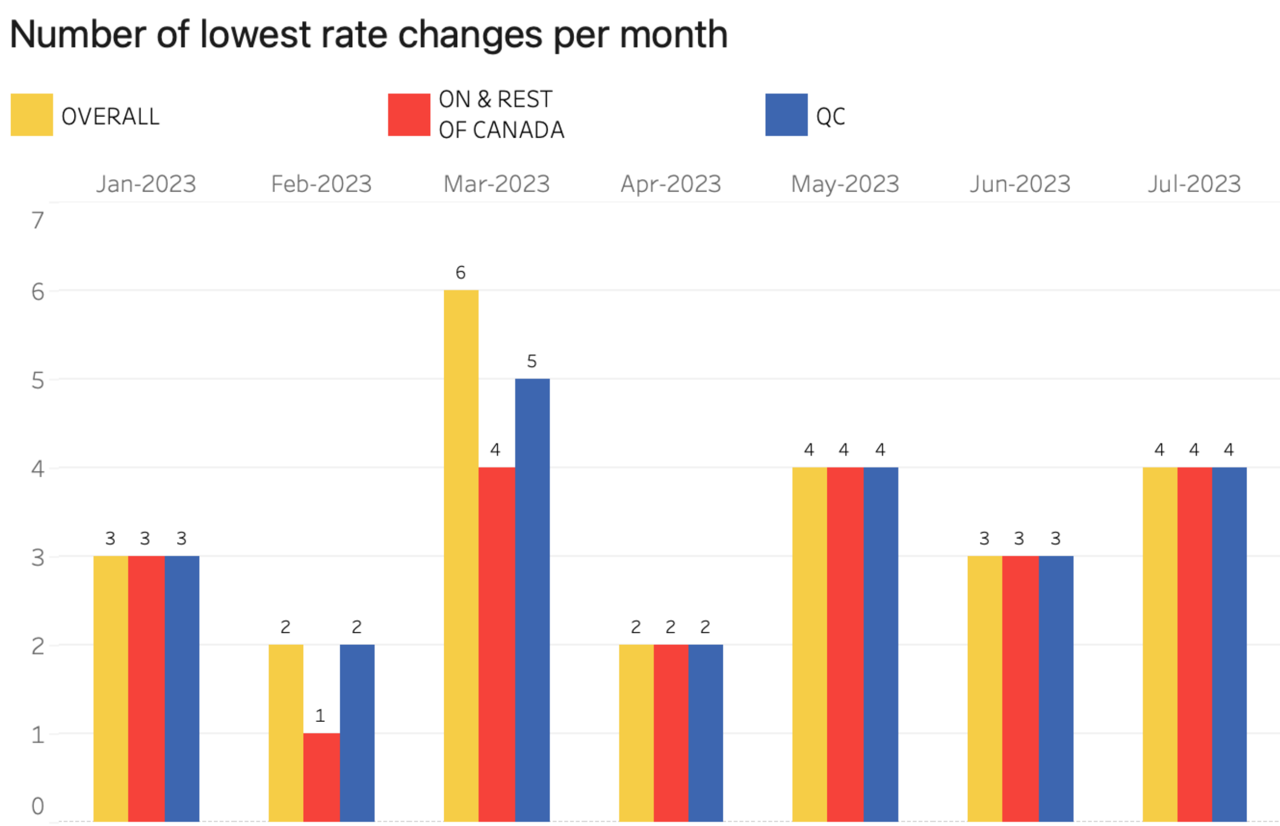


Fig. 1: Number of times the lowest rates offered by nesto to its borrowers changed per month across provinces between January 2023 and July 2023.

Key Data To Know	TL;DR
In July 2023, we saw the number of changes to nesto's lower rate increase to 4 changes again for all of Canada. In light of the BoC's unexpected rate hike announcement on June 7th, it makes sense that there were slightly more changes to nesto's lowest rate in July.	**In July 2023, we saw the number of changes to the nesto's lowest rate increase to 4 changes across Canada.**

Volatility - by type

Number of lowest rate changes per month (fixed vs variable)

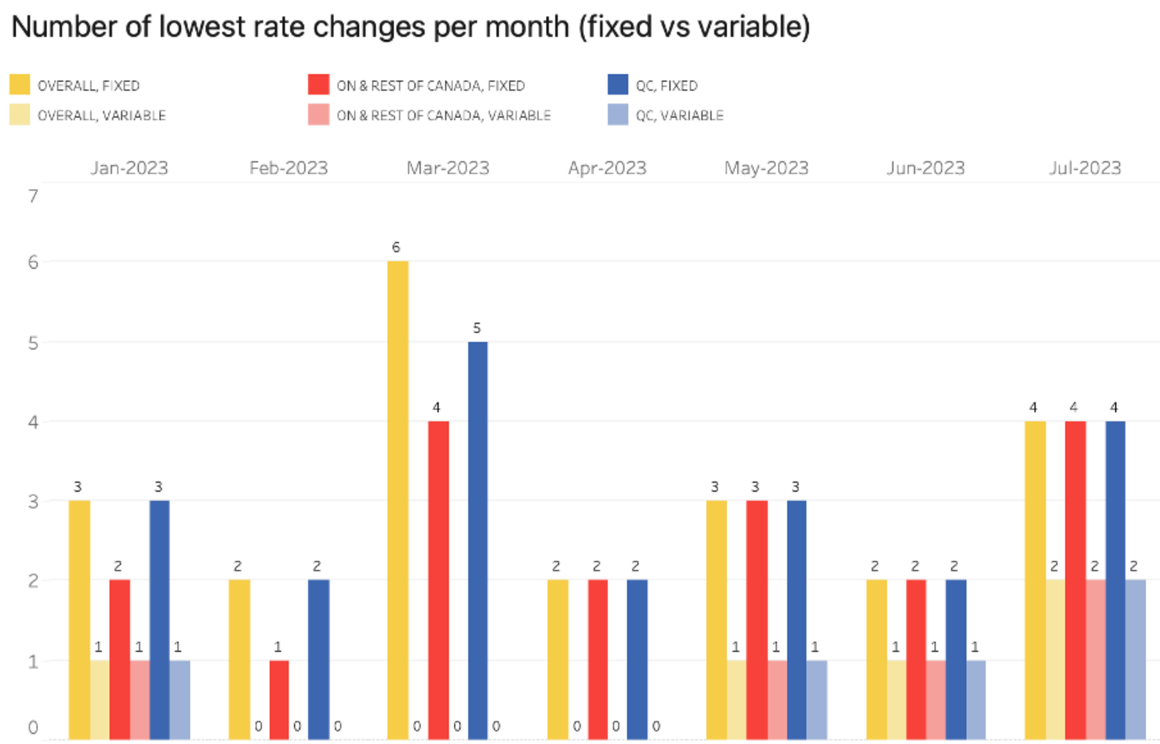
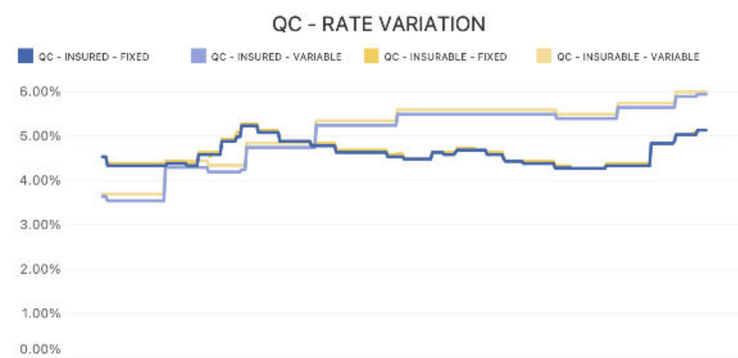


Fig. 2: Number of times the lowest rates offered by nesto to its borrowers changed per month across provinces between January 2023 and July 2023, comparing fixed to variable rates.

Key Data To Know	TL;DR
In July 2023, we saw an increase in the number of changes to nesto's lowest rate; 4 changes to the fixed rate and 2 changes to the variable rate. Interesting over the past four months, rate changes have been consistent across Canada, be it between QC, ON, or the rest of the country.	**The number of changes to nesto's fixed rate increased to 4 changes and to 2 changes for variable rates in July 2023.**

B. Variance: Lowest Rates

QC - Rate Variation



ON & Rest of Canada - Rate Variation

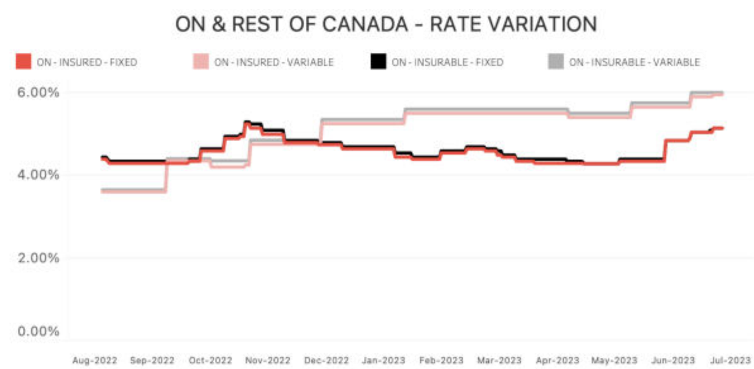


Fig. 3: These graphs show the rate variance in Quebec compared to Ontario and the rest of Canada.

Key Data To Know	TL;DR
Now let's talk about variance! At the start of 2023, variable rates overtook fixed rates by 100 bps, and in May, we see that this gap has remained consistent. In June 2023, after reaching a relative plateau, the fixed rate experienced an increase, suddenly narrowing the wide gap between the fixed rate and the variable rate that had remained consistent since the beginning of the year. In July 2023, fixed and variable rates continued climbing, with variable rates reaching the 6.00% mark.	**In July 2023, fixed rates and variable rates continued to increase, with variable rates reaching the 6.00% mark.**

Section 02

Mortgage Type Trends

02

Key Takeaways

For the first time since early 2023, new purchase applications outnumbered those of renewals or refinances. At the same time, we noticed that refinancing increased against renewing. This signals that homeowners are more likely to be refinancing their homes to avoid payment shocks.

Purchase vs. Renewal vs. Refinance

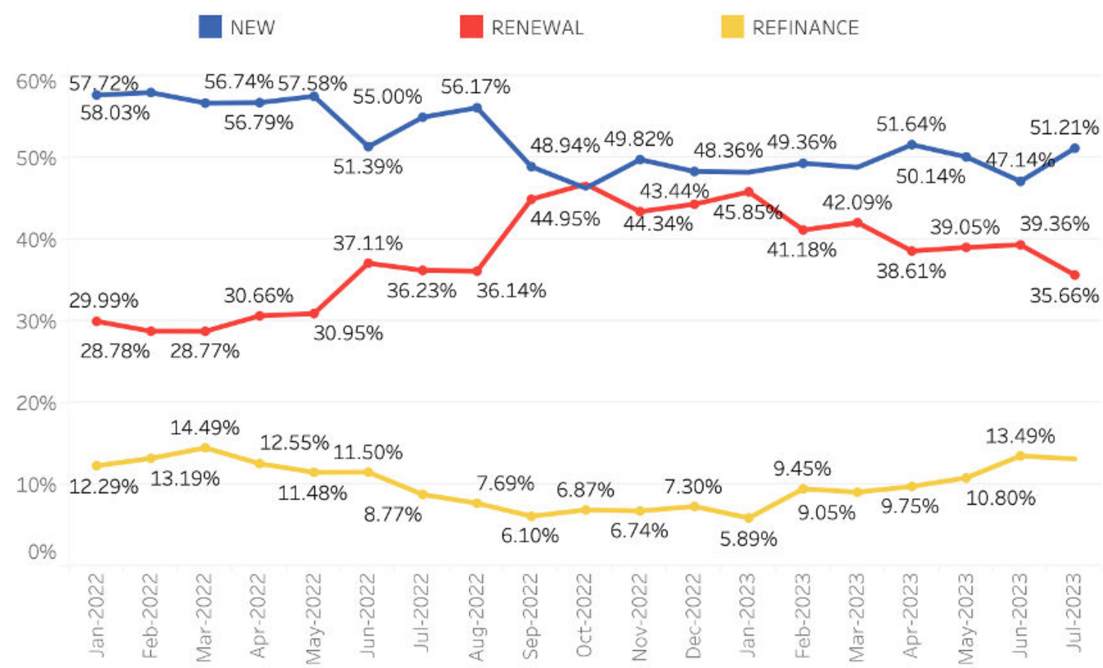


Fig. 4: Trends for the proportion of purchases (new mortgages) vs renewals vs refinances from January 2022 to July 2023.

Key Data To Know

In July 2023, purchases continued their very steady incline (up to 51% of applications), as renewals declined further (down to 35% of applications); this has been the general trend since October 2022, when the two inverted trajectories. This is likely due to difficulties by clients who may not be able to qualify to transfer their for multiple reasons. These reasons may be due to hitting their trigger rate or trigger point making it difficult to transfer a larger ballooned mortgage balance.

In turn, refinances moved forward in their upward trajectory, reaching 13% of applications. Refinance numbers are coming very close to their earlier peak in March 2022, likely due to rate hikes pushing potential renewers into refinancing their homes to avoid payment shocks.

TL;DR

Refinances continue on their steady incline in July 2023, likely the result of renewers trying to avoid higher interest rates.

Section 03

Purchase Timing Intent

03

Key Takeaways

If you zoom out, you'll see that unlike 2022, when most were 'ready to buy' rather than 'just looking', the majority of this year has an overwhelming amount of people 'just looking'. So, it was unsurprising, in July 2023, we saw this gap widen the most since April, with those 'ready to buy' a mere 36% to the 64% that were 'just looking'.

Purchase Timing Intent

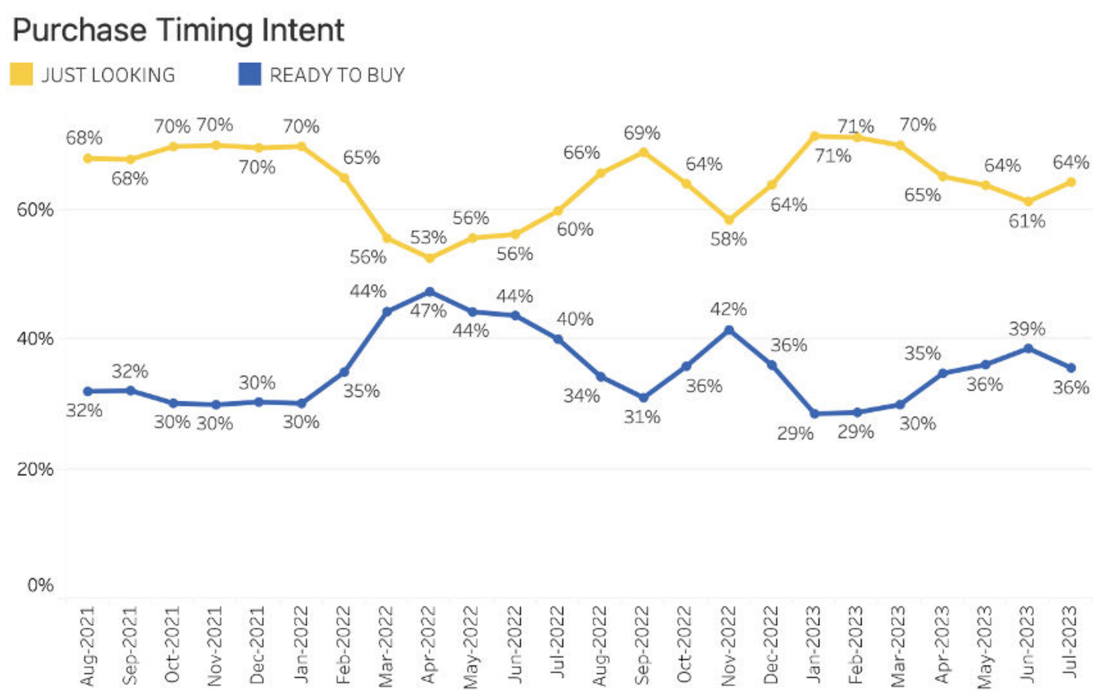


Fig. 5: Purchase intent: proportion of users "ready to buy" vs "just looking" in their mortgage journey with nesto, illustrated over the last two years from August 2021 to July 2023.

Key Data To Know

Despite this consistent divide between those ready to buy and those waiting, we can notice how buyer intent has kept shifting in small peaks and dips since last year.

Previously, it seemed like the gap between the two groups had begun to close slowly. This likely occurred as financial experts at the time were surmising that the Bank of Canada was finished with their rate hikes. Following back-to-back rate hikes in June and July, however, the gap in buyer intent slightly widened again in July 2023, as expected.

TL;DR

Following the rate hike in June, however, the gap in buyer intent slightly widened again in July 2023, as expected.

Purchase Timing Intent - By Province

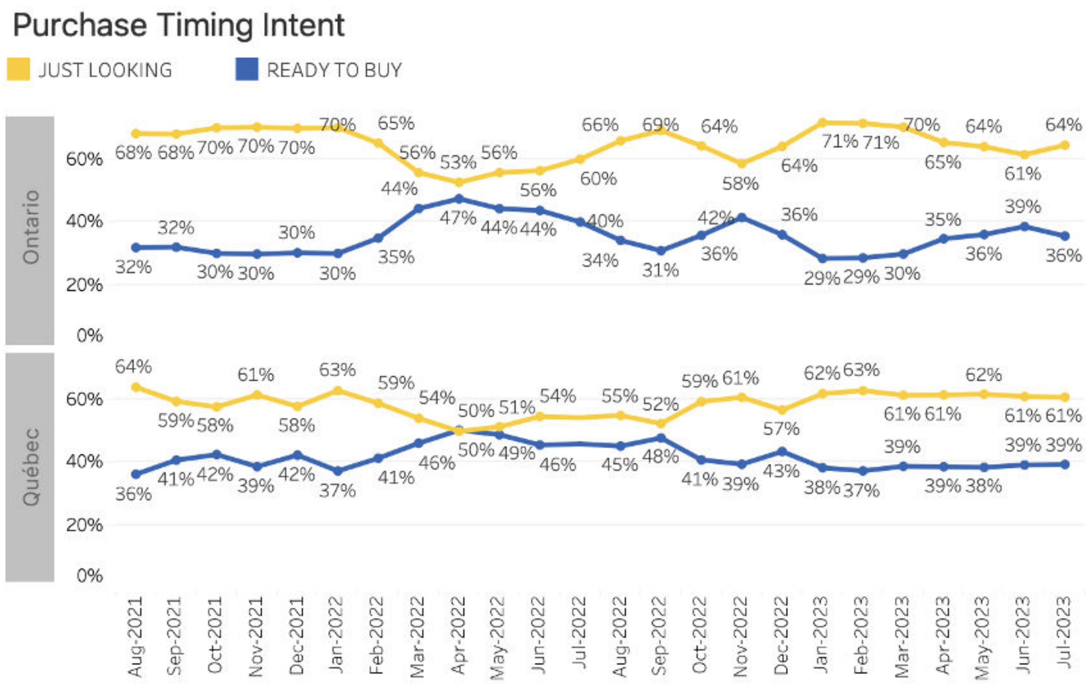


Fig. 6: Purchase timing intent proportion of those "ready to buy" vs "just looking" in nesto's mortgage process from August 2021 through July 2023 in Quebec and Ontario.

Key Data To Know

In July 2023, in terms of buyer intent, the provincial data from ON matched the national data perfectly, while QC data remained completely stable. In both QC and ON, users who are 'just looking' continue to hold a majority stake.

This time last year, we noted how QC users are typically more likely to be looking to buy compared to their ON counterparts. This difference was attributed to a lower average purchase price in QC compared to ON. Now, in June 2023, the QC and ON numbers are much more aligned.

TL;DR

The large gap between users who are 'just looking' vs 'ready to buy' remains consistent in both ON and QC, aligning very closely with the national data.

Section 04

Property Value And Down Payment

04

Key Takeaways

Across Canada, nesto has been seeing a steep decline in median purchase price since April 2023. This storyline continued in July 2023, when median prices fell from $450,000 to $425,000. A $25,000 decline in one month, and a $75,000 decline since late spring.

For homeowners, as prices drop, be sure to talk with a nesto mortgage expert to secure a low rate guarantee and enjoy savings.

Property Value and Down Payment

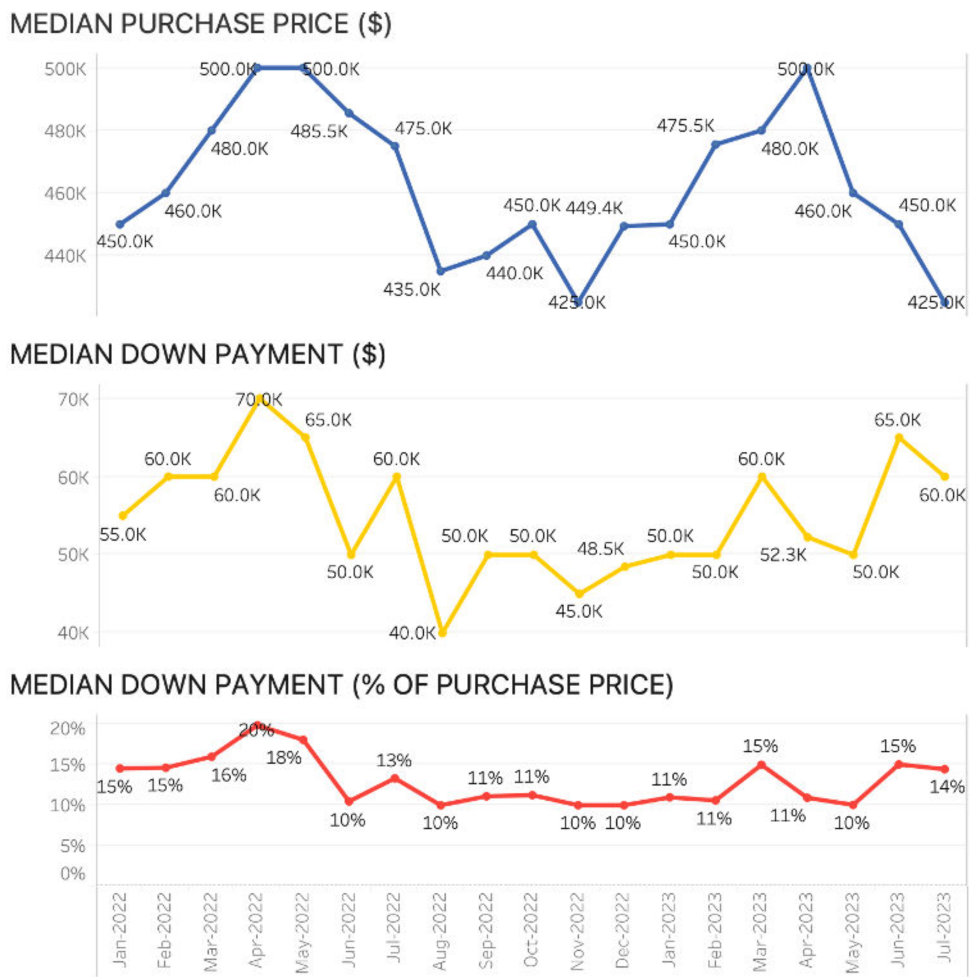


Fig. 8: This chart shows a slight shift in the recent cooling market, with the median purchase price up by $20,000.

Key Data To Know

Home prices took a nosedive in May 2023 and this downward trend continued further in June 2023. The median down payment in both dollar value and percentage increased, jumping from $50K to $65K and 10% to 16%. It seems that homebuyers are putting down larger down payments on cheaper houses. This can be indicative of the overall price of homes dropping, as well as cautionary buyers who are shopping at lower price points due to inflationary pressures. Additionally, the higher down payment could be a way for new homeowners to cope with the higher mortgage carrying costs - by minimizing their mortgage balance as much as possible on the onset.

TL;DR

Home prices took a nosedive in May 2023 and this downward trend continued further in June 2023, with median home price dropping down to $450K from last month's $459.5K.

By Province

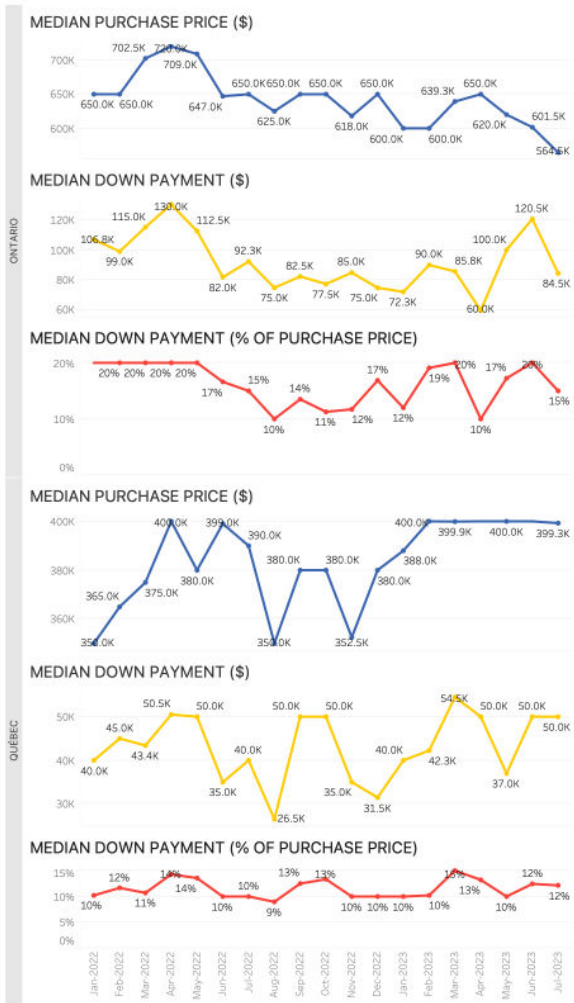
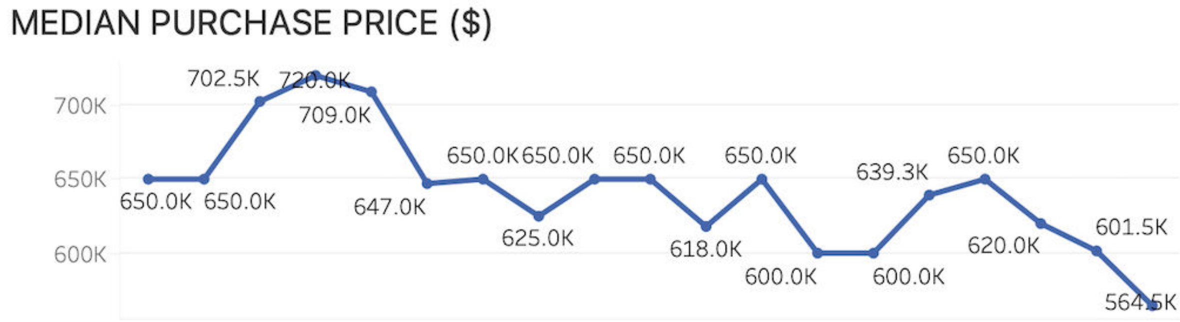


Fig. 9: Graph of intended purchase prices vs down payment (in dollars and percentage) from January 2022 through July 2023 in Ontario and Quebec.

Key Data To Know	TL;DR
Starting with ON, the data coming out of the province aligns with what we were seeing in the national data in July 2023. Purchase price continued to plummet, down to $564K from $601K last month. In line with the national data as well, the median down payment in both dollar value and percentage decreased in July, down to $84.5K from $121K in June and down to 15% from 20% in June.Meanwhile, in QC, the median purchase price has plateaued at $400K for the third month in a row. The median down payment in both dollar value and the percentage has also remained consistent since June 2023 at $50K and 12%, respectively.	**Despite dips in down payment value across QC, ON, and AB, homebuyers are still putting down larger down payments on cheaper houses.**

By Province: ON [1/3]

Median Purchase Price ($)



Median Down Payment ($)

Median Down Payment (% of Purchase Price)

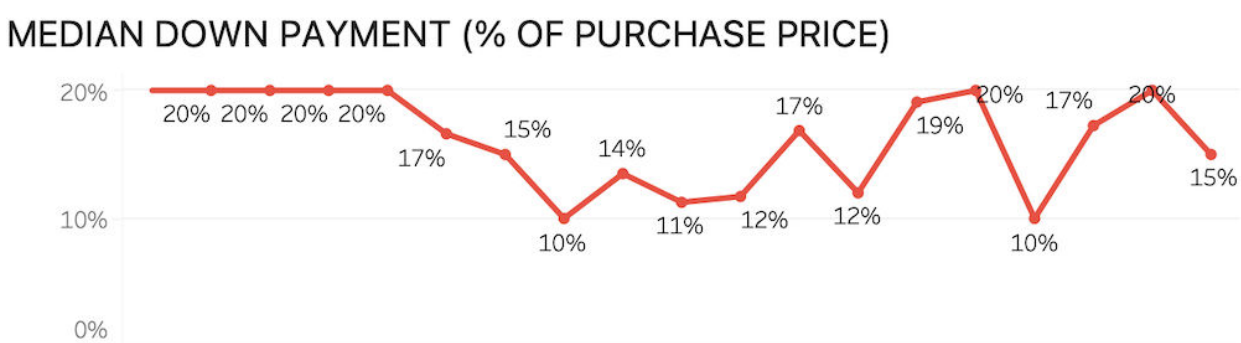
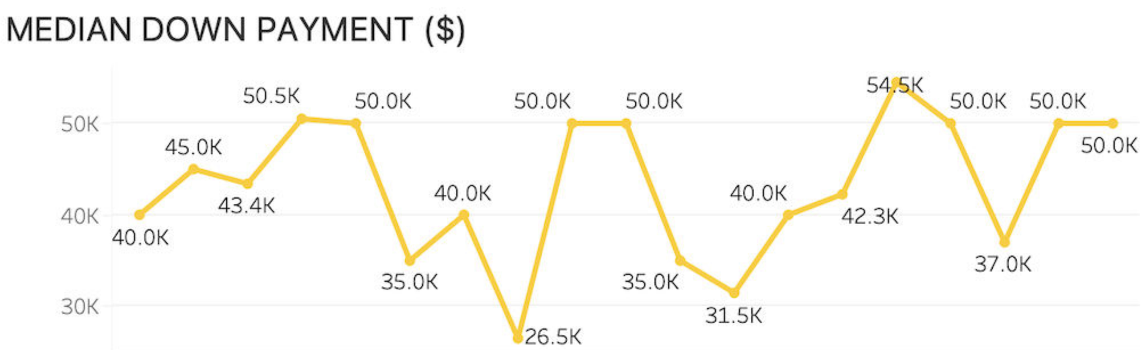


Fig. 9.1: Graph of intended purchase prices vs down payment (in dollars and percentage) from January 2022 through July 2023 in Ontario.

By Province: QC [2/3]

Median Purchase Price ($)

Median Down Payment ($)



Median Down Payment (% of Purchase Price)

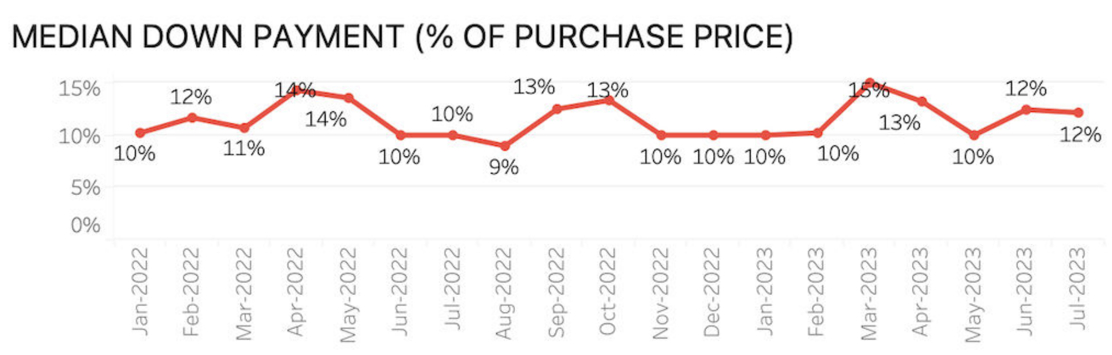


Fig. 9.2: Graph of intended purchase prices vs down payment (in dollars and percentage) from January 2022 through July 2023 in Quebec.

By Province: AB [3/3]

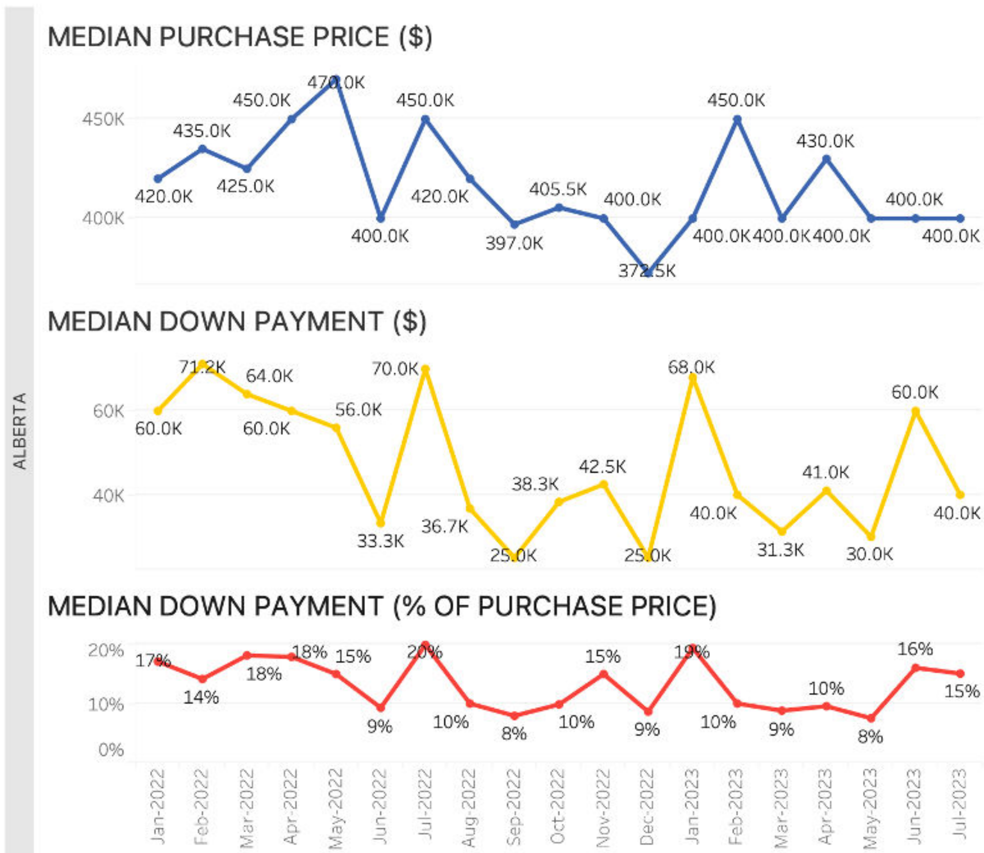


Fig. 9.3: Graph of intended purchase prices vs down payment (in dollars and percentage) from January 2022 through July 2023 in Alberta.

Key Data To Know	TL;DR
AB's purchase price has remained stable at $400K since June 2023. After a dramatic increase in June, we see a median down payment drop in both dollar value and percentage in July 2023, down to $40K and 15%, respectively.	**In AB home prices plateau at 400K but down payments further drop in July 2023.**

Methodology

The data used for this study comes from nesto's online application and is solely based on the experience of nesto.ca customers/users, not the national market as a whole.

Data is collected from thousands of monthly users declaring their intent or completing online applications across Canada. The data is anonymized and aggregated for analysis.

Data presented within our Rate volatility and variances report refer to nesto's "best rate" at any given moment. nesto's best rate comes from any one of our many lending partners at any given moment.

Author: Chase Belair,
Co-Founder and Principal Broker at nesto

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