

# THE EDGE REPORT

Week of June 1, 2026

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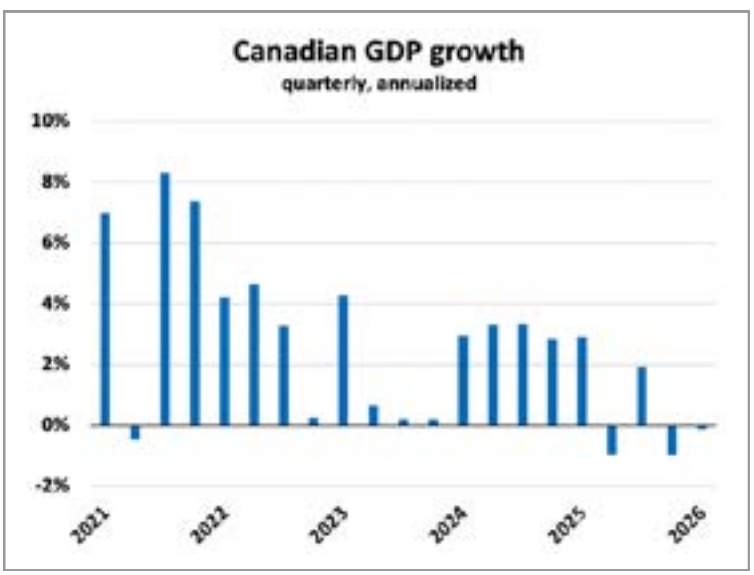
FSRA # 12543

# 1) *Macro-watching: Technical recessions, payrolls, and rate hikes*

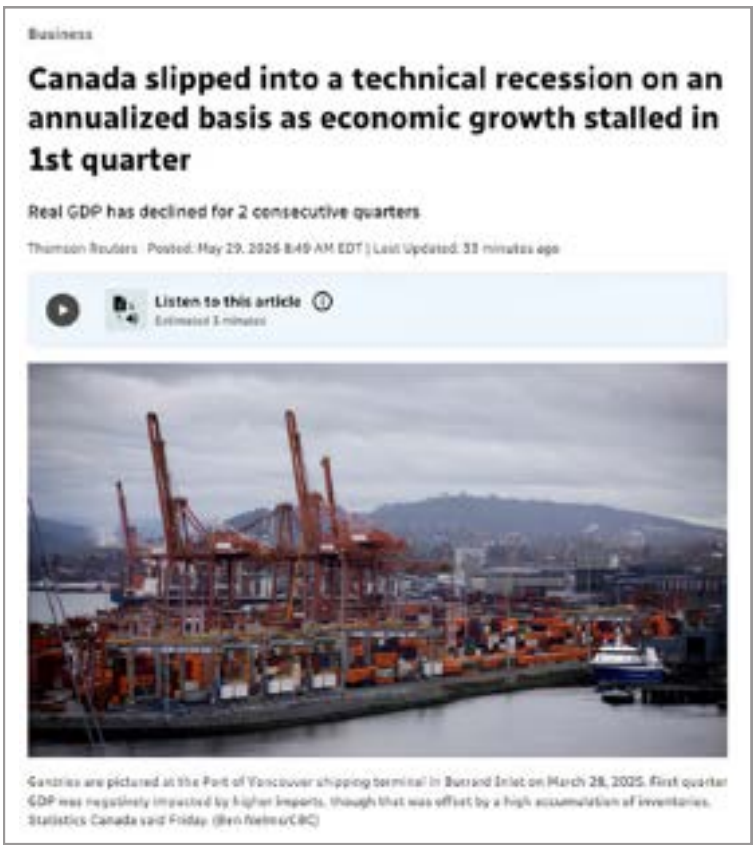
**Canada enters technical recession**

We begin this week's note with a roundup of the important macro data.

At the top of the list is the Q1 GDP data which came in at -0.1% annualized vs expectations for a 1.5% increase. The decline is effectively a rounding error but it is a decline nonetheless, and that makes it the second in a row that the third in the past 4 quarters.




This is the first time we've posted consecutive declines since 2020….prior to that, the oil price decline back in 2015. And with that, we now meet the technical definition of a recession. These headlines will not help consumer and business confidence, unfortunately:



Business

**Canada slipped into a technical recession on an annualized basis as economic growth stalled in 1st quarter**

Real GDP has declined for 2 consecutive quarters

Thomson Reuters · Posted: May 29, 2020 8:49 AM EDT | Last Updated: 33 minutes ago

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Gantries are pictured at the Port of Vancouver shipping terminal in Burrard Inlet on March 28, 2025. First quarter GDP was negatively impacted by higher imports, though that was offset by a high accumulation of inventories, Statistics Canada said Friday. (Ben Nelms/CBC)



**Canada's economy shrinks again, raising spectre of recession**

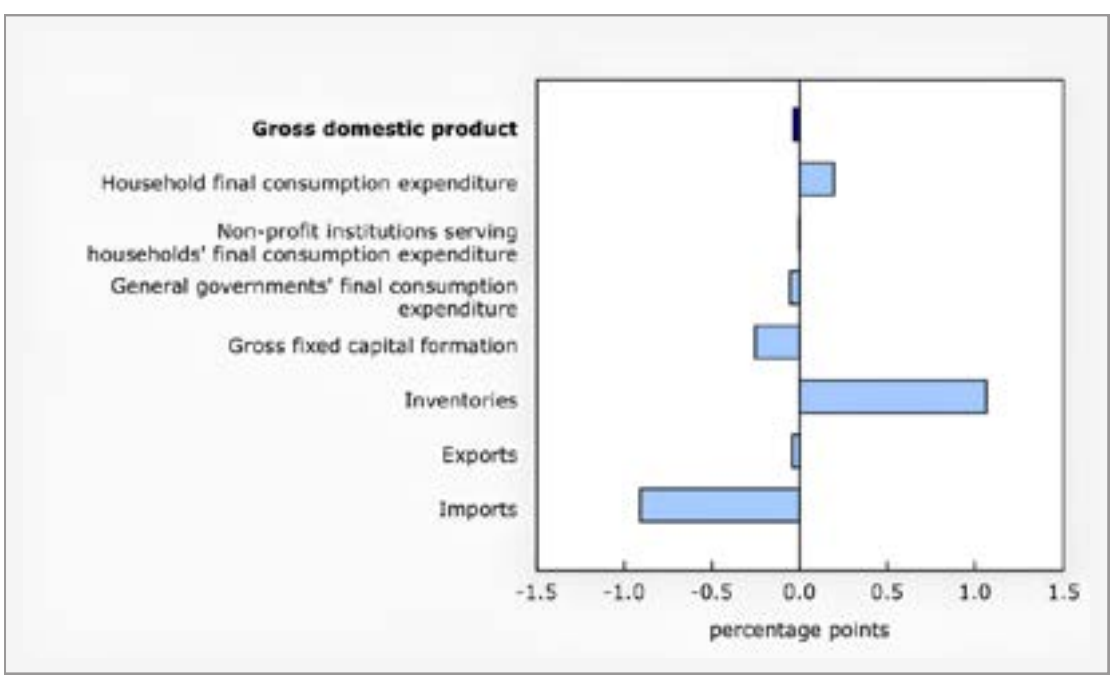
Paula Tran

Fri. May 29, 2020 at 8:46 a.m. EDT • 1 min read

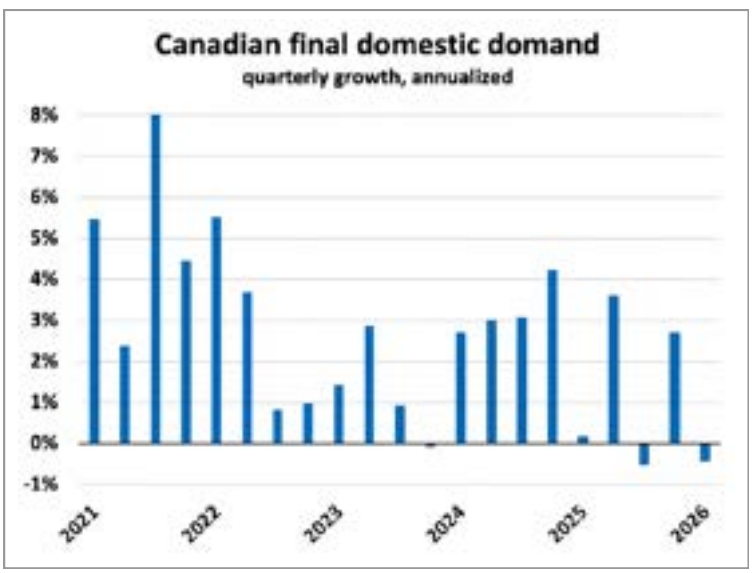


This is the first time the Canadian economy experienced two consecutive quarters of negative growth since 2020. (Credit: Peter J. Thompson/National Post)

What's concerning is that Q1 was negative even with an unexpected and sizable build in inventories…which are always a wildcard in the GDP calculations. They were offset by a curiously large jump in gold imports:

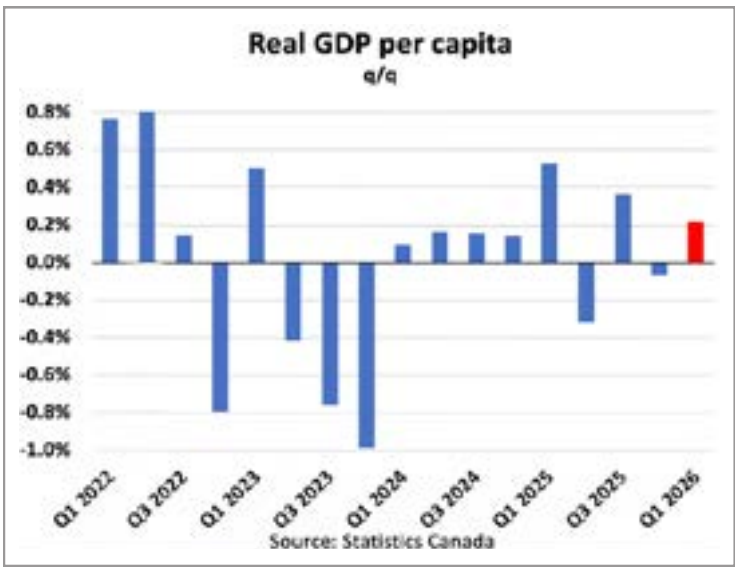


Strip out volatile inventories and net trade, and final domestic demand (a better barometer for the true state of the economy) was negative for the second quarter in the past 3:




The was some good news. For starters, the advanced estimates for April point to a 0.4% m/m increase in GDP…a solid handoff to Q2.

Second, Canada's population declined 0.25% in Q1, which means output actually increased in per capita terms. It's not all bad news…

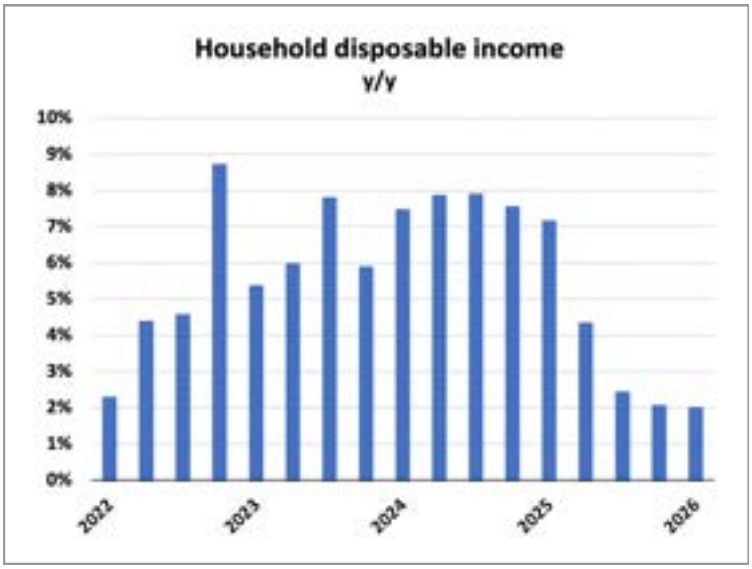



**Signs of consumer stress**

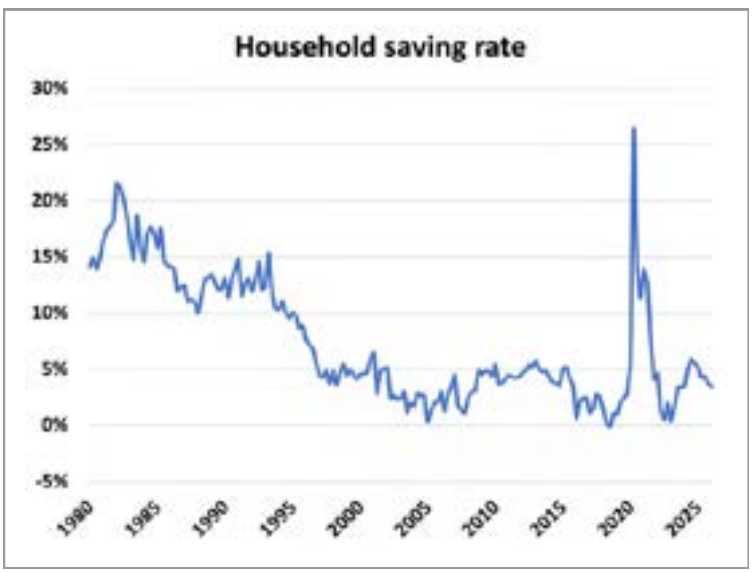
The Q1 GDP report also contains information on household incomes and savings trends, which matters for real estate watchers.

Of note, household consumption was actually up a solid 1.5% last quarter but there are signs under the surface that consumer spending may taper out.

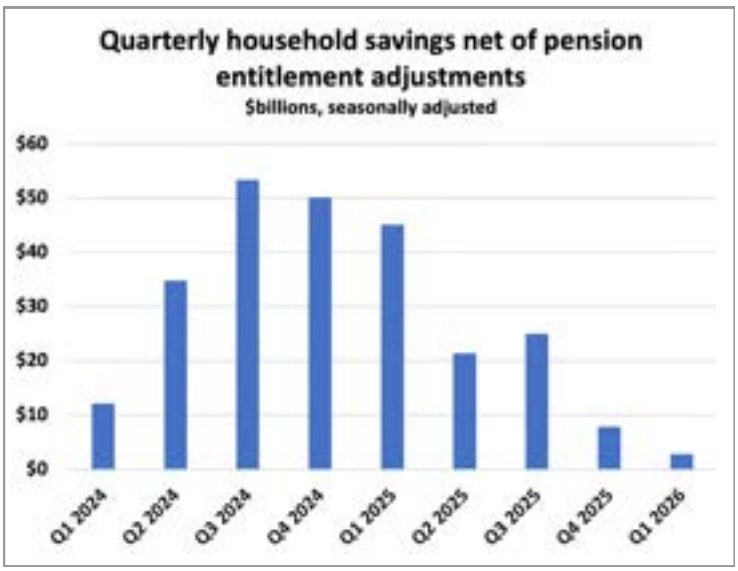
For starters, aggregate disposable incomes were up just 2.0% y/y, a notable deceleration off the 7.1% clip registered in Q1 last year. This also means that household debt rose faster than incomes last quarter, and the widely followed debt-to-income ratio definitely ticked up. We'll get that official data later this month.




Further, the household savings rate is slowing. It came in at 3.5% in Q1, but that doesn't tell the real story…




Captured in the savings rate is the change in CPP and other pension benefits, but for the most part these aren't "voluntary" savings. Strip out these pension entitlement adjustments and you're left with a proxy for "active" household savings. Those amounted to just over $2 billion in Q1, a 94% decline relative to the same quarter last year.




**Latest jobs data also disappoints**

The string of soft labour market data continued last week. The payroll report for March showed a 32k m/m contraction in employment…the third decline in the past 4 months.

If there's good news to be found, it's that the February data was revised from an atrocious -60k m/m to just a terrible -38k. So there's that at least.

Declines were widespread across industries with 11 of 20 sectors in the red. The notable outlier was public admin which added 4k positions on the month.

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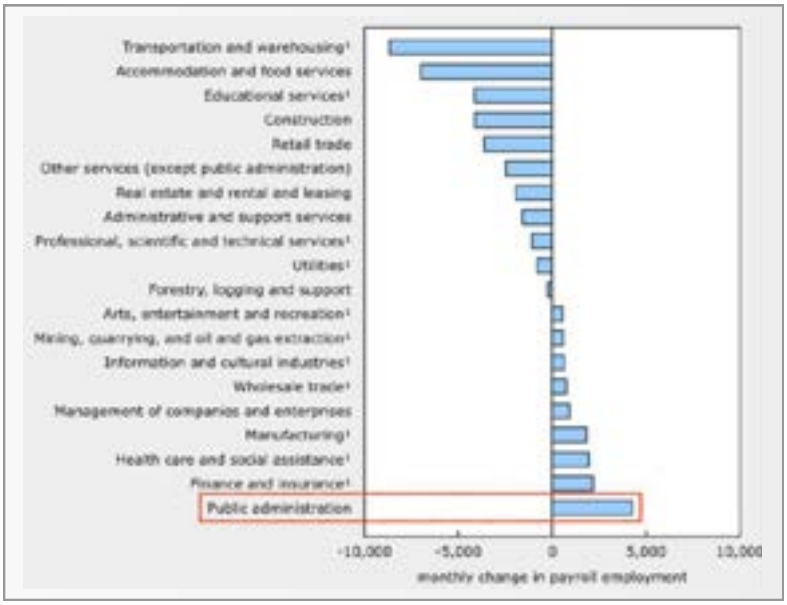
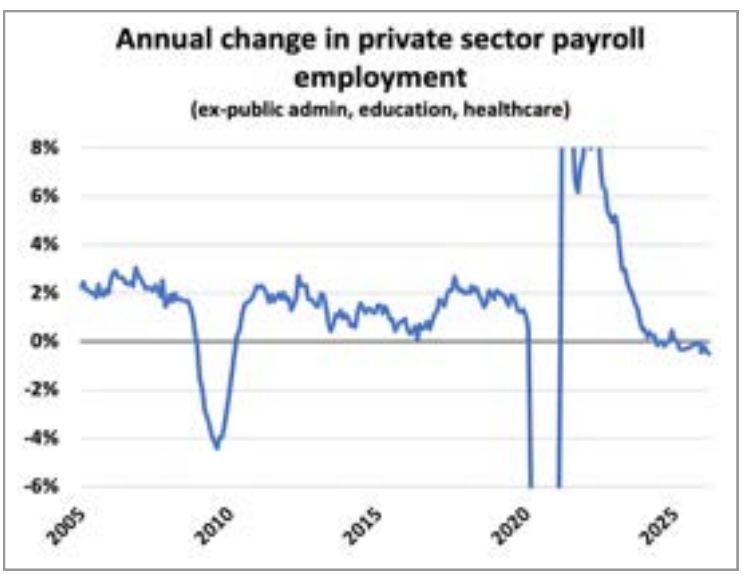


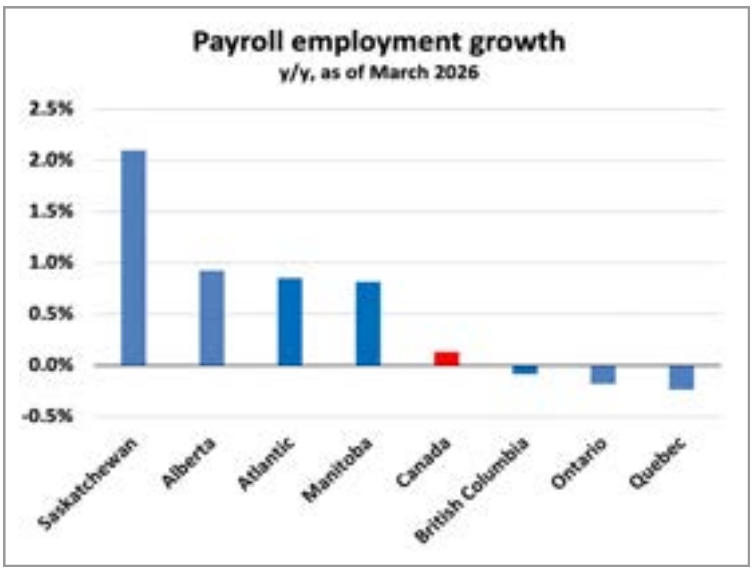

Backing out public admin, payrolls were down -34k m/m in March and -41k in February.

It's clear the private sector is hurting, and payrolls continue to print negative on a y/y basis which has never before happened outside of a recession:



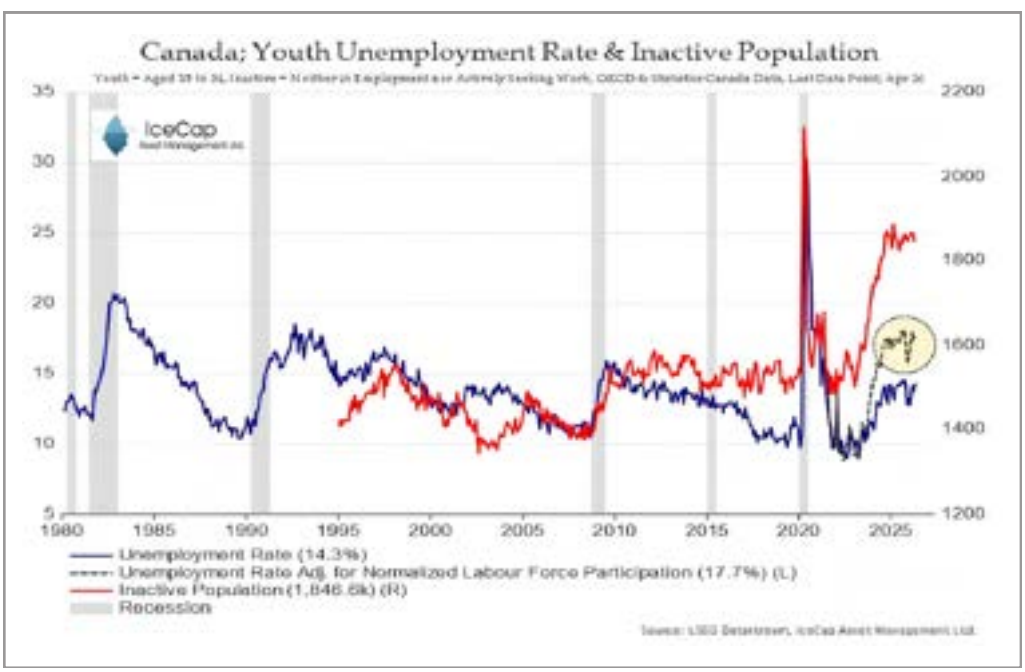

Job losses were also widespread across the country, with all major provinces posting declines in March. Ontario led the way at -15.4k m/m while Alberta, Quebec, and BC all shed roughly 6k positions. The y/y growth in headline payroll employment continues to skew positive in the resource-rich provinces and negative in central Canada and BC:




**Bank of Canada comments on youth unemployment**

Sticking with the labour market for a moment, my friend Rich Diaz from Ice Cap Asset Management had a great chart recently showing the trend in youth unemployment. While the official under-25 unemployment rate is elevated, it's actually dramatically understated due to a steep falloff in the participation rate in that cohort.

Adjusting the participation rate back to long-term norms, the youth unemployment rate is back to levels last seen in the deep recession of the early 1990s:

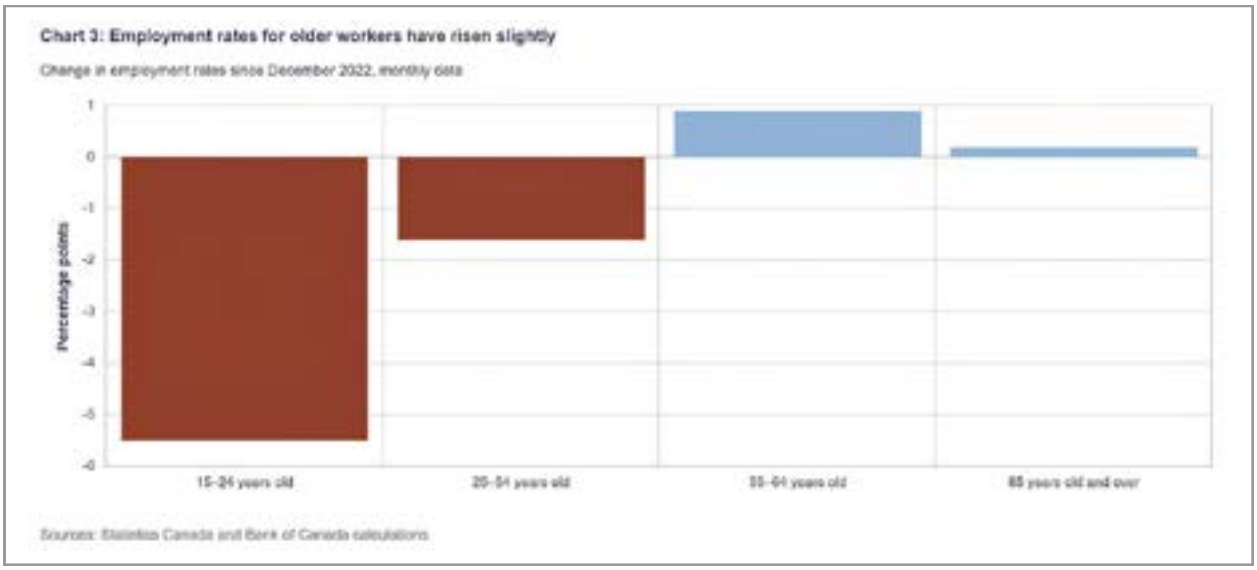


This has not escaped the notice of the Bank of Canada. Deputy Governor Nicolas Vincent gave a speech[1] this week addressing these concerning trends:

[…] Over the past few years, the layoff rate in Canada has been low and relatively stable. In other words, firms have not become more inclined to lay off workers. Yet, over the same period, Canada's unemployment rate has risen, from about 5% in early 2023 to 6.9% last month. How can unemployment have risen without a corresponding increase in layoffs?

The answer is linked to hiring. Since 2022, unemployed workers have found it much harder to find a job, and today that ability is close to its lowest point in 30 years. When it's harder to find a job, the number of unemployed people rises, even with relatively few job losses.

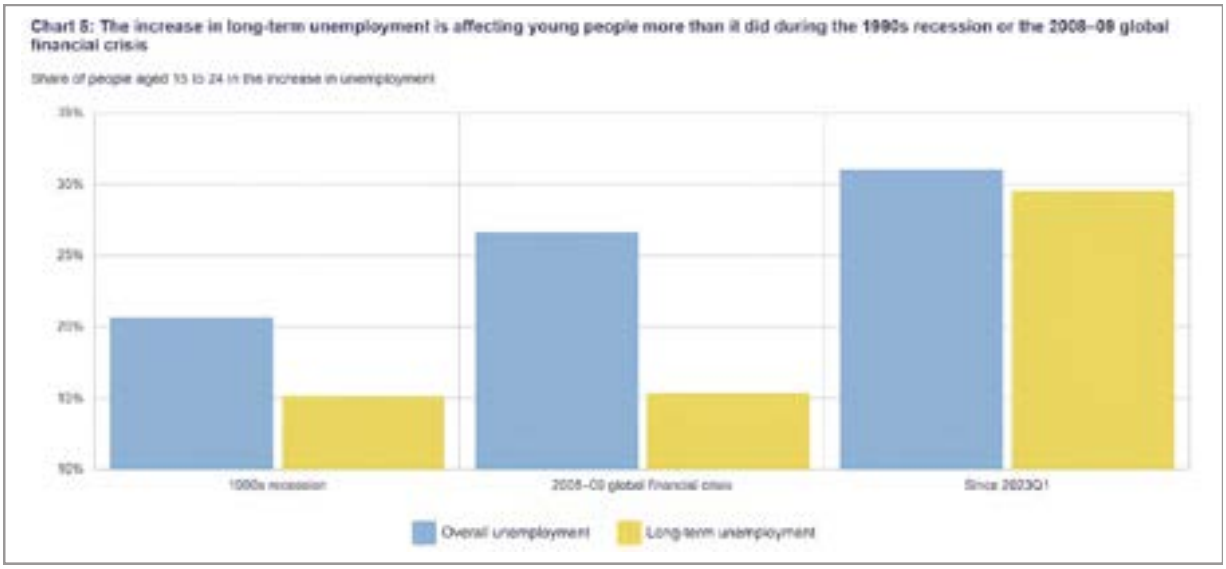
[…] This could help explain the diverging trajectories of employment rates across age groups. As this chart shows, since 2022, employment rates have increased slightly for workers aged 55 and over, while clearly falling for others.




[…] If you don't have a job, it's taking longer to find one. In fact, going back to the early 2000s, the share of unemployed people who have been looking for work for more than six months has never been higher than in the past year, aside from during the pandemic

[1] https://www.bankofcanada.ca/wp-content/uploads/2026/05/remarks-260526.pdf

[…] Not only are young people overrepresented in the ranks of the unemployed, but they also make up almost a quarter of the long-term unemployed—a share that has more than doubled since 2022. In fact, their contribution to the rise in overall long-term unemployment exceeds what we saw during the recession in the early 1990s and in the global financial crisis of 2008–09




[…] One possible factor is demographics. Between 2022 and 2024, there was a large influx of young people from abroad. This intensified competition in Canada for lower-skill and entry-level jobs. Following that period of rapid growth, immigration has been reduced substantially. So we can hope to see an eventual normalization in the youth unemployment rate.

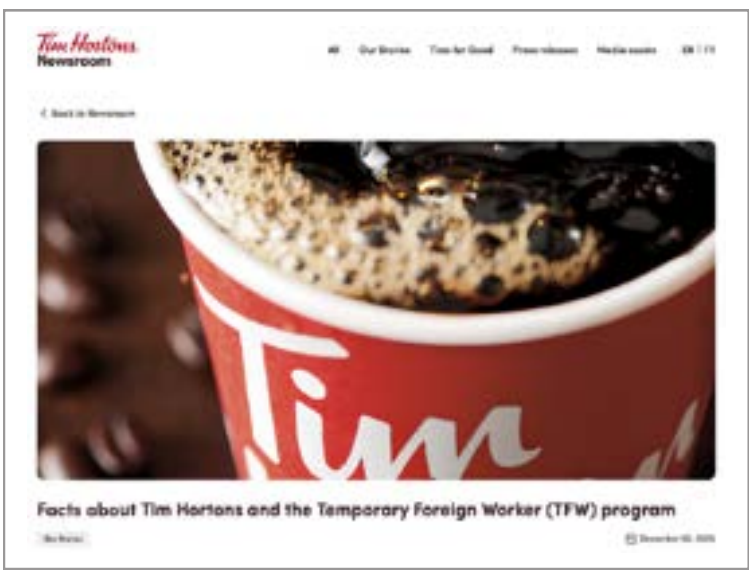
Even the BoC is acknowledging that Canada's immigration system ran amok for a couple years following the pandemic.

Public sentiment has shifted hard, and the government is now course-correcting. Companies are getting the message.

Consider Tim Hortons, which had garnered criticism for its use of temporary foreign workers and took considerable flak when back in December it came to light that it had put considerable resources towards lobbying for a loosening in temp worker rules:




That led to them issuing a statement later that month reassuring Canadians that they were still committed to hiring locals.




With Canadians still pissed about the immigration debacle, same-store sales running at just 1.6% y/y last quarter (ie negative in real terms), and with Dunkin Donuts set to push into Canada in late 2026, Tim Hortins is now in damage control mode and looking to bolster its image:




From the article:

> Restaurant chain Tim Hortons is planning to dial back its use of Ottawa's Temporary Foreign Worker program to staff restaurants and commit to hire up to 10,000 local workers as it embarks on a push to expand the number of Tims locations across the country this year.

The chain's new approach to hiring is a stark reversal from its previous tenor. For years, Tim Hortons was
one of the biggest proponents of the TFW program, a controversial immigration stream that expanded in popularity during the pandemic and came to symbolize some of the failings of the Trudeau-era immigration strategy.

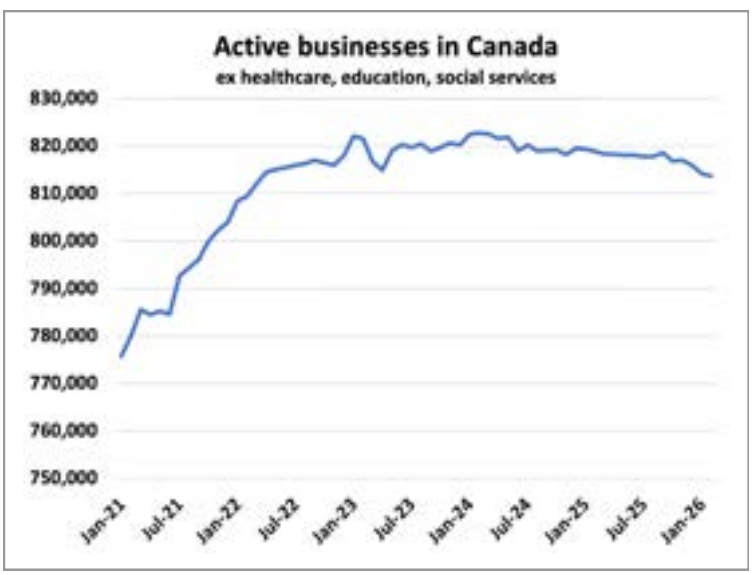
Restaurant Brands International Inc., Tim Hortons' parent company, is also pledging to stop lobbying the federal government to expand the TFW program, citing the high youth unemployment rate.

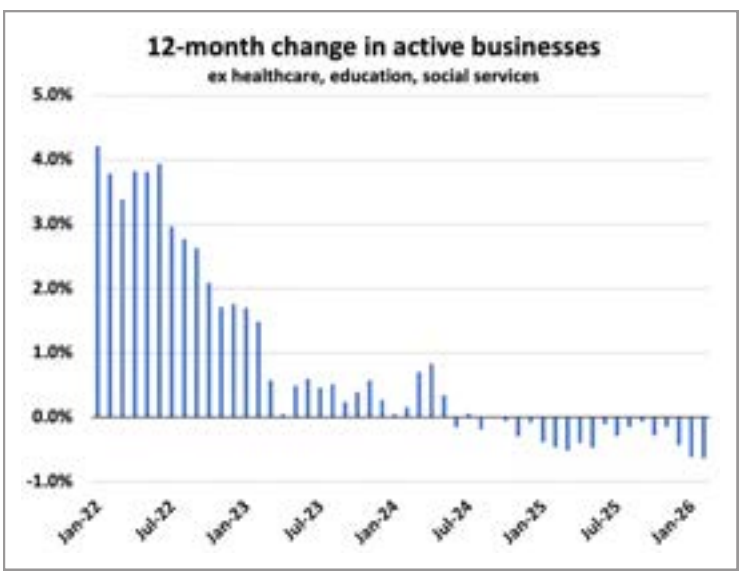
"We have not lobbied the government since last year and we won't be lobbying them on TFWs any time soon given our commitment to hire locally everywhere possible," said Duncan Fulton, chief corporate officer of Restaurant Brands.

**Active businesses hit 18-month lows**

The number of active businesses across the country fell to 18-month lows in February according to new data released this week.

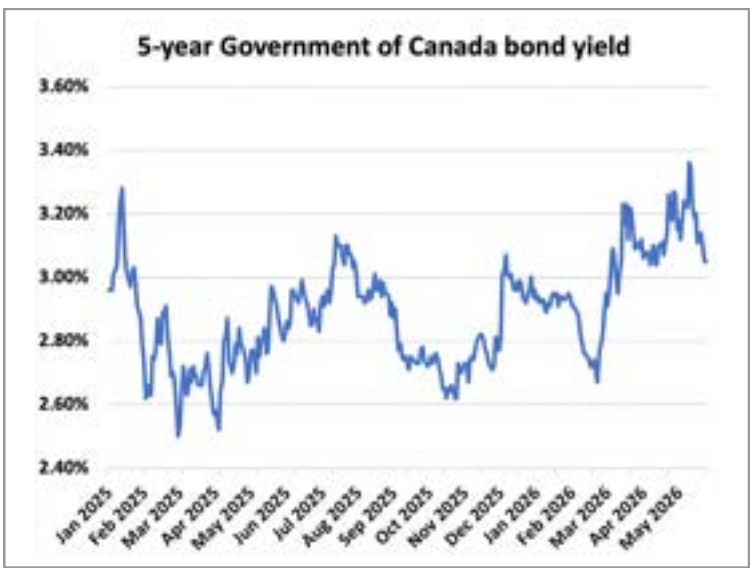
Here again we see signs of very soft private sector trends. Stripping out healthcare, education, and social services, the number of active businesses have declined for 4 of the past 5 months and are down 0.6% y/y:



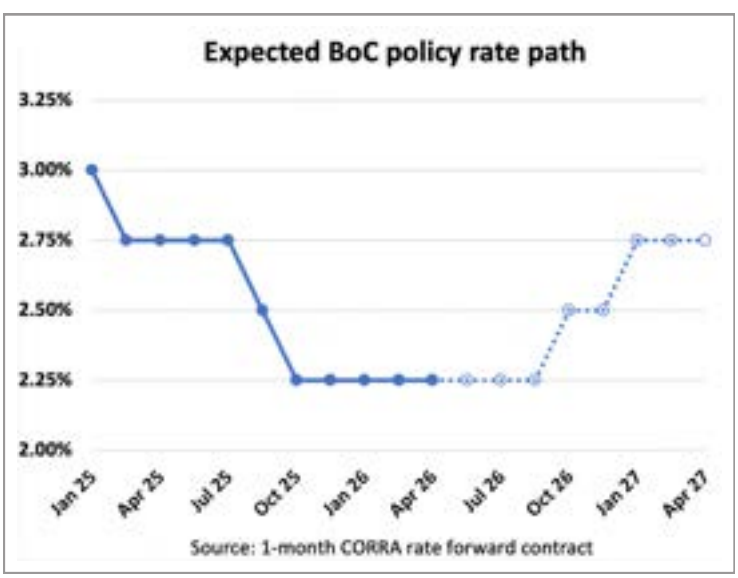



**What it all means for rates**

The data flow was decidedly soft last week. Coupled with oil prices that fell from $95 to $87 over the week (before jumping again to $90 this morning), bond yields fell hard as markets ratcheted down rate hike expectations. The 5- year yield fell 10bps from Wednesday and is down 30bps (0.3%) from the recent highs just two weeks ago.




Unfortunately markets aren't convinced it will be enough yet to keep the Bank of Canada entirely on the sidelines. The odds of rate hikes fell, but they do still lean towards two in 2026:



**On deck this week**

Thursday:

- US initial jobless claims

Friday:

- US payroll employment
- Canada Labour Force Survey. Markets are expecting a 8k increase in employment and flat unemployment rate

## 2) *Credit check: Impaired loans trend higher in Q1, other tidbits from bank earnings*

**Impaired mortgage loans trend higher in Q1**

The big banks all reported earnings last week. Results were mixed, but matters for this publication are the credit-related trends in their loan books.

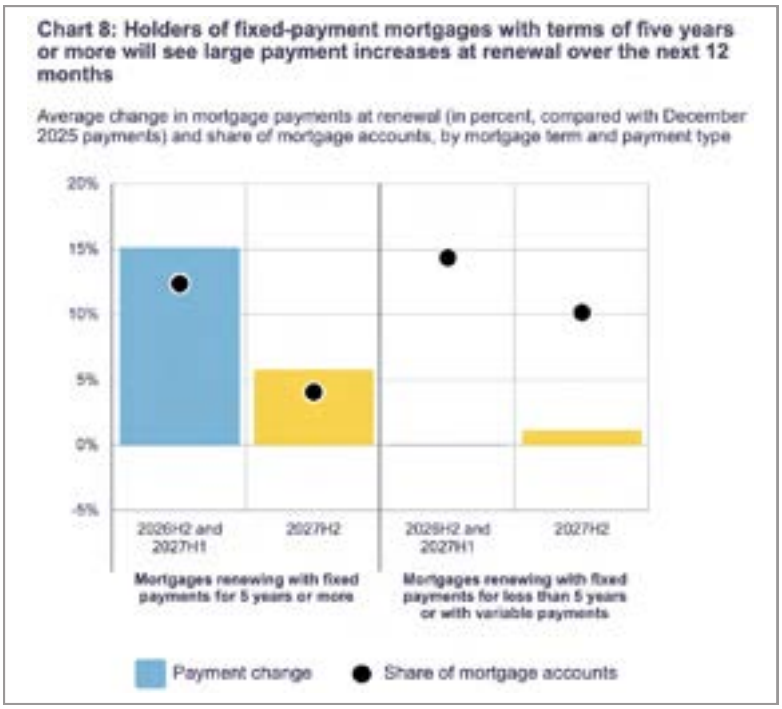
We begin with mortgage delinquencies. Of those that break down their domestic exposure, RBC leads at a 0.58% delinquency rate followed by BMO (0.51%) and CIBC (0.47%).

| | Q2 2025 | Q3 2025 | Q4 2025 | Q1 2026 | Q2 2026 |
|---|---|---|---|---|---|
| RBC | 0.44% | 0.46% | 0.49% | 0.56% | 0.58% |
| BMO | 0.33% | 0.37% | 0.40% | 0.46% | 0.51% |
| CIBC | 0.33% | 0.36% | 0.38% | 0.43% | 0.47% |
| NA | 0.15% | 0.17% | 0.19% | 0.20% | 0.21% |
| TD | 0.11% | 0.13% | 0.15% | 0.18% | 0.20% |

Rising delinquencies will continue right through this year and likely well into 2027 as move through the final phase of the great "mortgage renewal wave".

The Bank of Canada's latest Financial Stability Report [2], released on Wednesday, commented on this trend:

> Over the next 12 months, the last of the five-year, fixed-payment mortgages taken out during the pandemic will renew. This group represents about 12% of all outstanding mortgages in Canada. On average, these borrowers will see their payments increase by about 15%
>
> The remaining renewals over the same period, which represent about 14% of outstanding mortgages, are variable-payment mortgages and shorter-term, fixed-payment mortgages that were taken out after rates rose in 2022 and 2023. These borrowers, on average, will not see their payments change at renewal.
>
> By the second half of 2027, nearly all mortgage holders facing large payment increases will have renewed.




My own math has it slightly higher. I estimate the change in payments at renewal for a loan originated 5 years prior (and assuming best rates then vs best rates today regardless of fixed or variable) is currently $85/month for every $100,000 originally borrowed. That amounts to a 24% increase in payments for those borrowers:

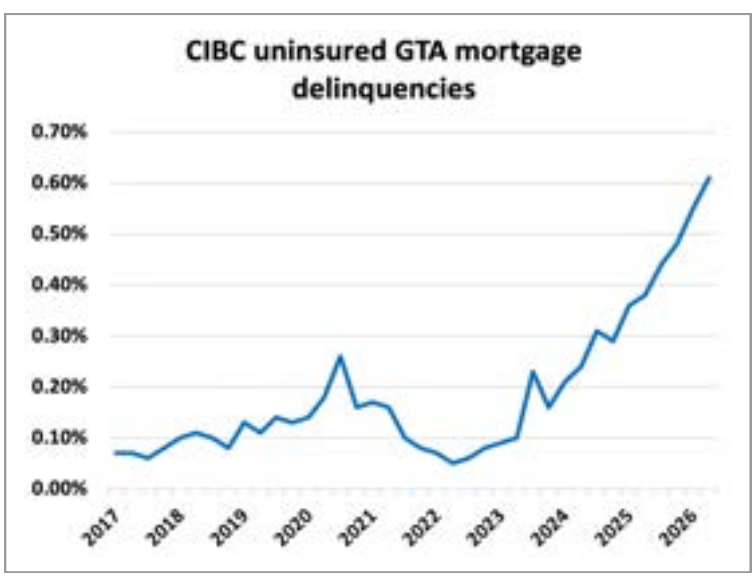
[2] https://www.bankofcanada.ca/wp-content/uploads/2026/05/fsr2026.pdf

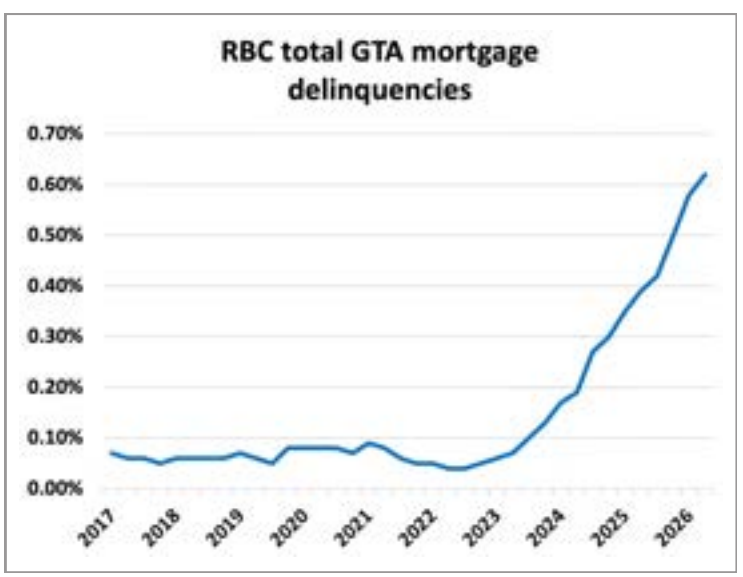



However, it's clear from the data that by early Q2 of next year, the renewal gap will once again flip negative and we will be fully through the great 2026 renewal wave.

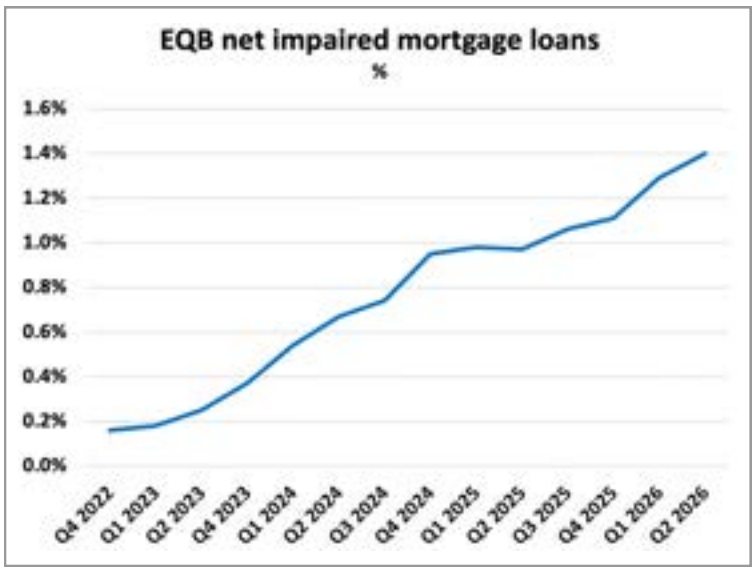
**Toronto and Vancouver see delinquencies jump**

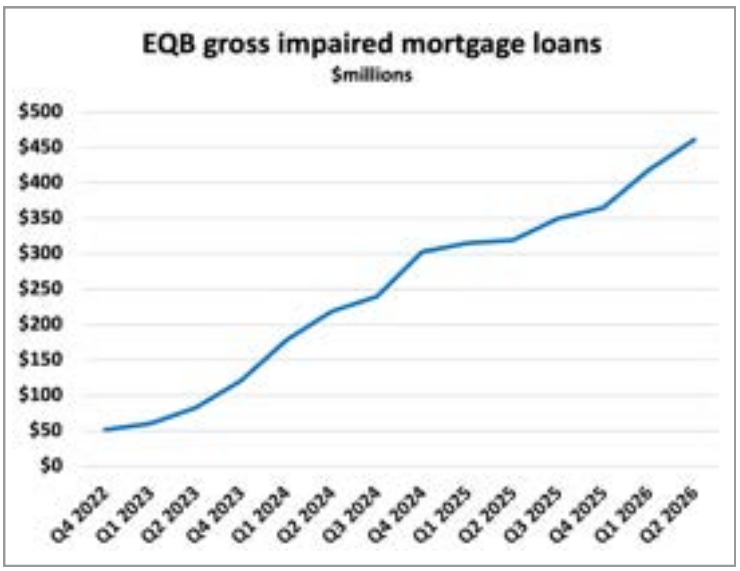
Rising mortgage delinquencies continue to be driven by Toronto and Vancouver. RBC and CIBC are the two big banks that break down their respective exposure to those two key markets. Both reported delinquencies in Toronto running in the 0.6% range in Q1….a 10-fold increase off the 2022 lows:



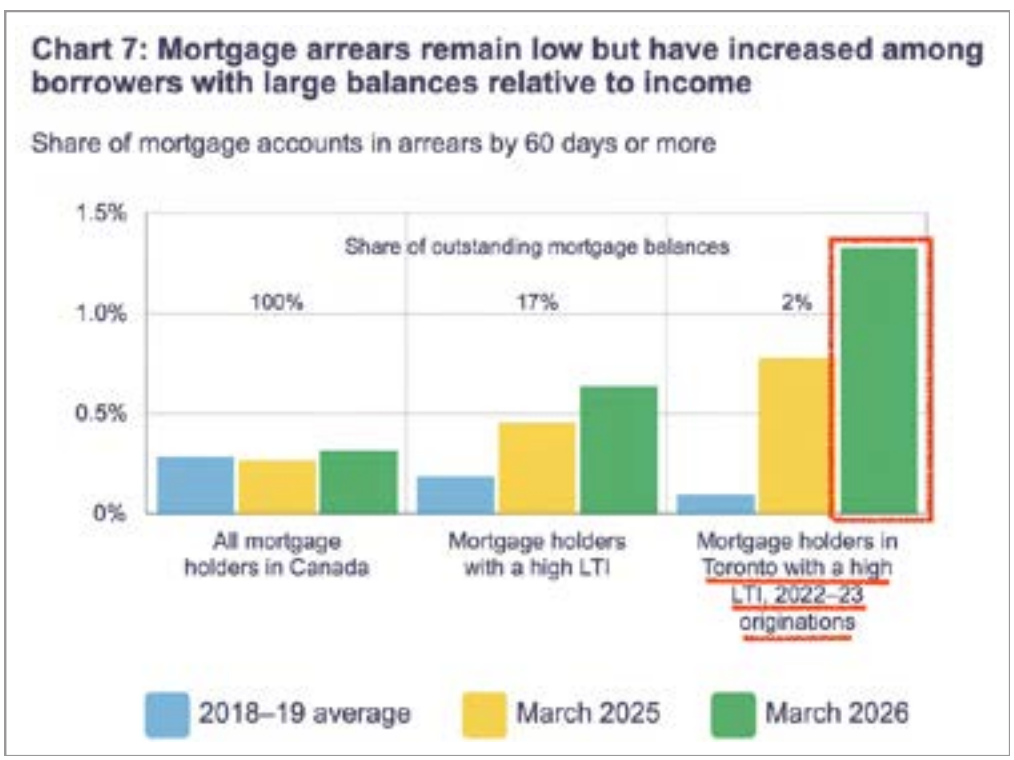




Confirming the trend, Equitable Bank reported a 10% q/q and 44% y/y increase in delinquent mortgage loans last quarter while the impaired loan ratio rose 11bps sequentially to hit 1.4%. For reference, 60% of their RESL book is in Ontario.



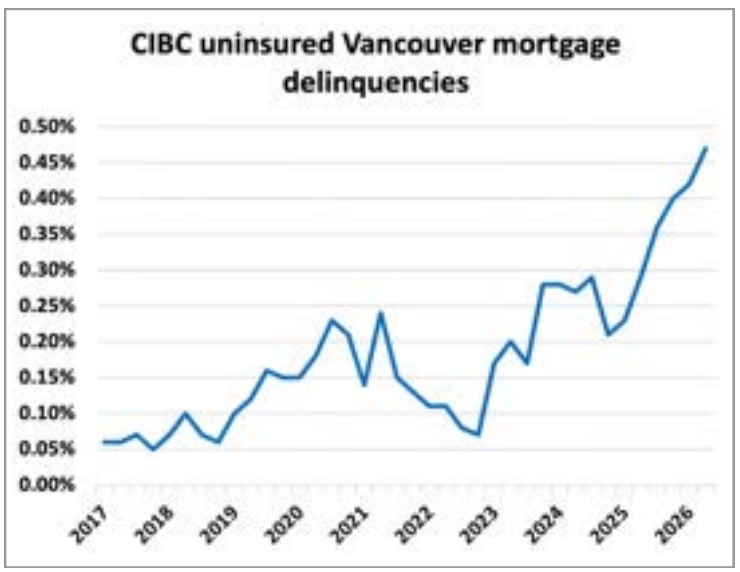

Perhaps the most striking data point this week with regards to mortgage stress in the GTA comes from that same BoC report mentioned above. It found that the share of delinquent mortgages in Toronto originated in with a loan-to-income ratio in excess of 450% has risen 13-fold from just 0.1% in 2018/2019 to 1.3% today:

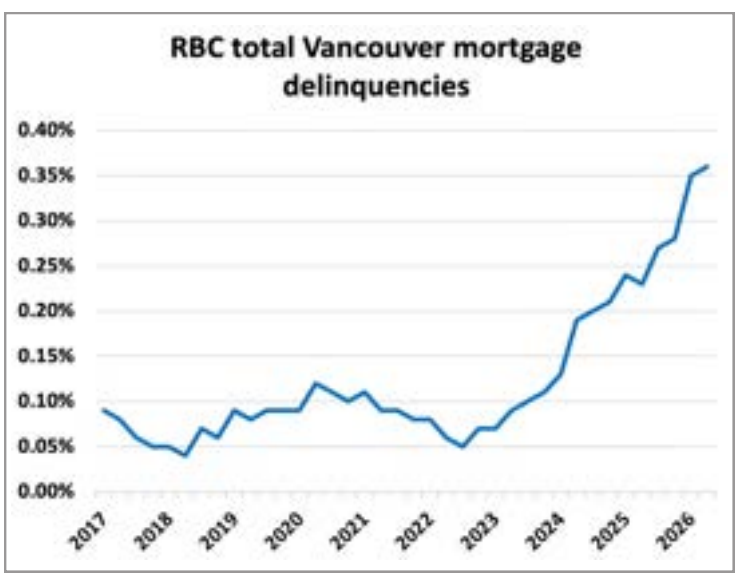


Related, from CBC[3] reporting on an Equifax report this week:

> **Canadians increasingly struggle to keep up with mortgage payments, report says**
>
> […] Equifax Canada's Market Pulse report, published Tuesday, said mortgage delinquency balances were up 32 per cent nationally in the first quarter compared with the same period last year, with Ontario and British Columbia leading provinces at 52 per cent and 36 per cent, respectively.
>
> "This missed payment level highlights severe financial strain in high-priced markets,"
>
> […] Ron Butler, principal broker at Toronto-based Butler Mortgage and host of the *Angry Mortgage* podcast, said a "perfect storm" of factors has combined to cause the delinquencies.
>
> The most important, he said, is the decline in home values over the last few years.
>
> "Because when people are impacted by general unaffordability or by any kind of unemployment or underemployment, they could always reach into their house, from about 2009 straight through till 2023," he said.
>
> "That's all gone now ... everybody who bought from 2020 to 2022, their house is worth much less than they paid for them in Ontario."

Things are marginally better in Vancouver, but the trend here is also sharply higher and likely to get worse based on the fact that it now leads Canada in metro-level price declines over the past 3 and 6 months:




[3] https://www.cbc.ca/news/business/mortgage-delinquencies-up-9.7212533

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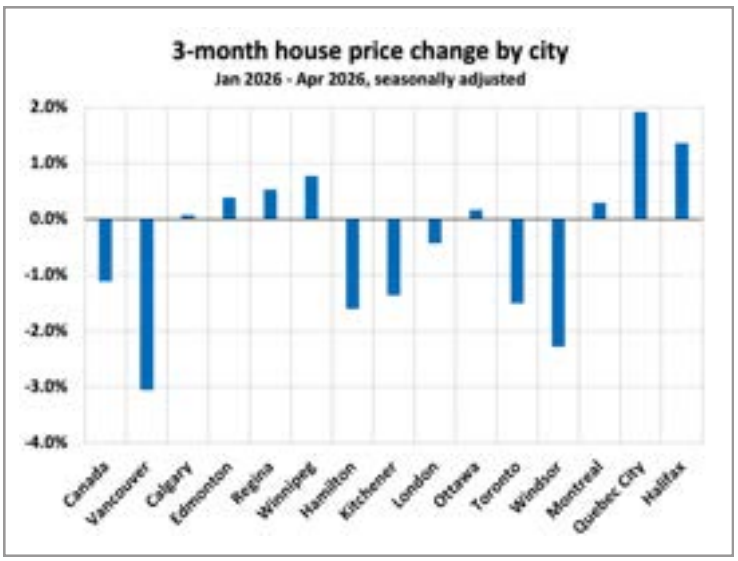
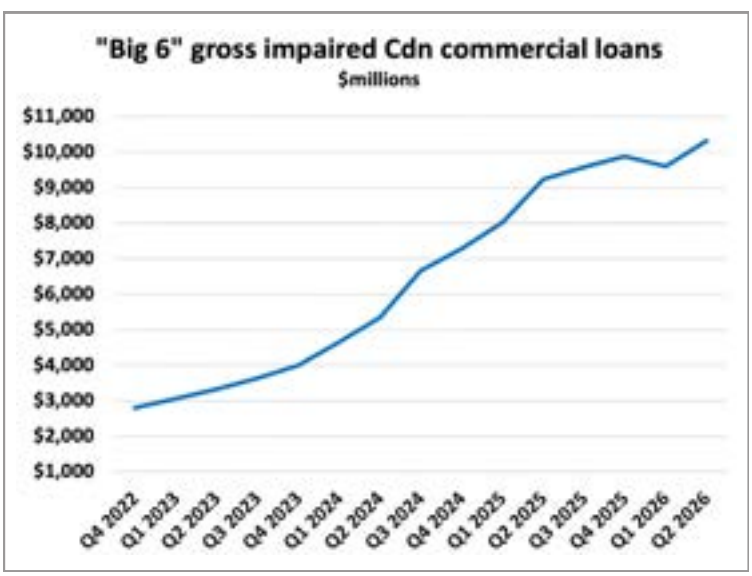
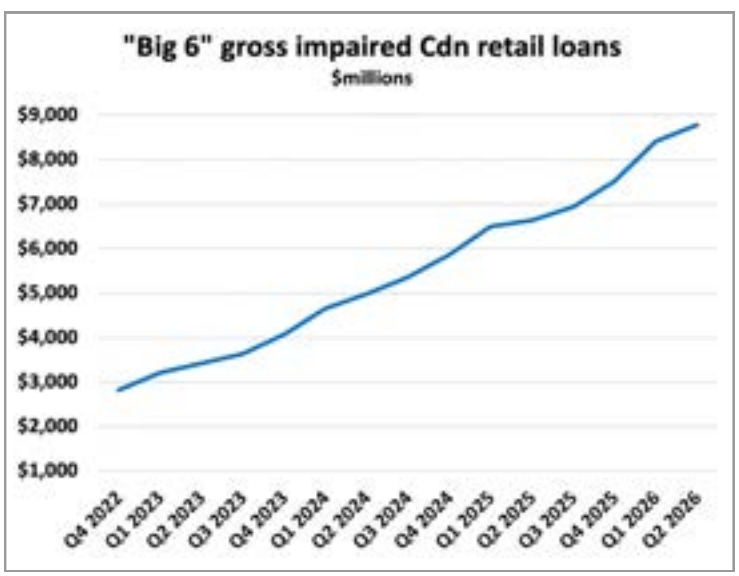



**Domestic GILs rise across bank portfolios**

The big 6 banks all reported earnings this week. Results were mixed overall, but what jumped out was a continued increase in domestic GILs (gross impaired loans) last quarter, consistent with a general softening in the Canadian economy.



On the consumer/retail side, GILs were up 4.2% sequentially and 32.2% y/y across the big 6:

**GILs- Canada consumer + residential mortgage loans**

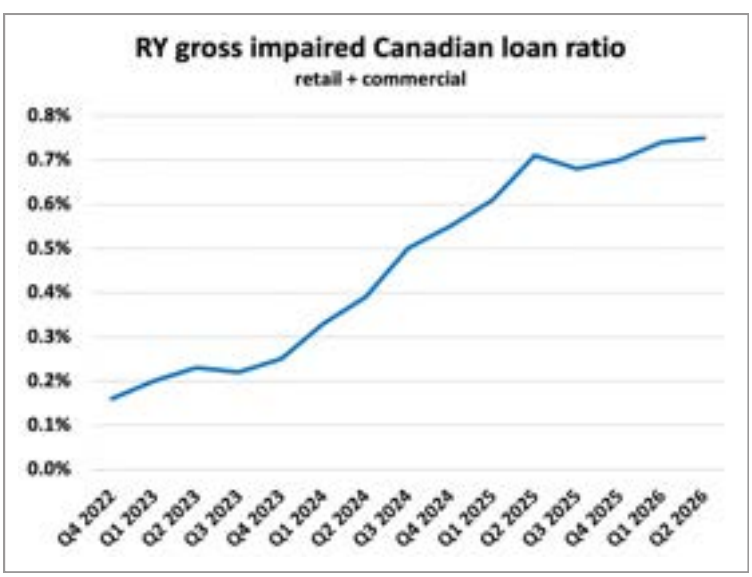
| | **RY** | **TD** | **BMO** | BNS | **CM** | **NA** |
|---|---|---|---|---|---|---|
| Q/Q | +4.5% | +6.5% | +8.1% | -5.2% | +7.2% | +8.2% |
| Y/Y | +37.0% | +36.6% | +27.7% | +22.6% | +34.2% | +34.6% |

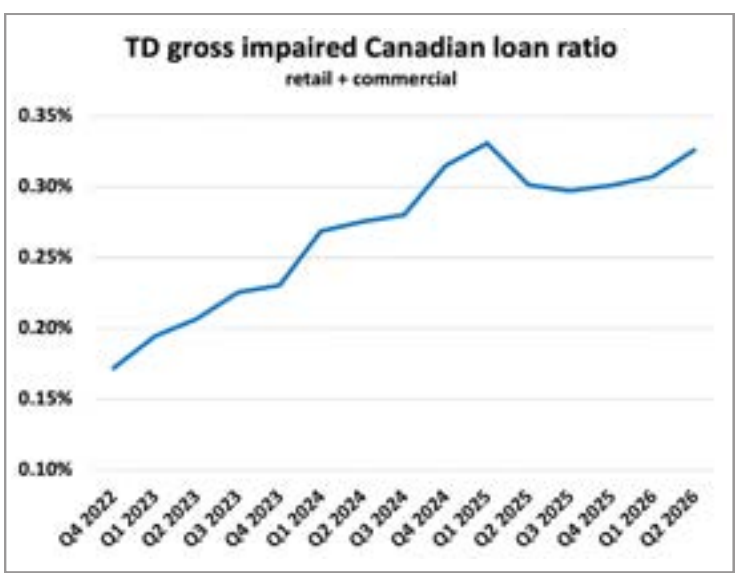
On the wholesale/commercial side, GILs were up 7.4% q/q and up 11.6% y/y:

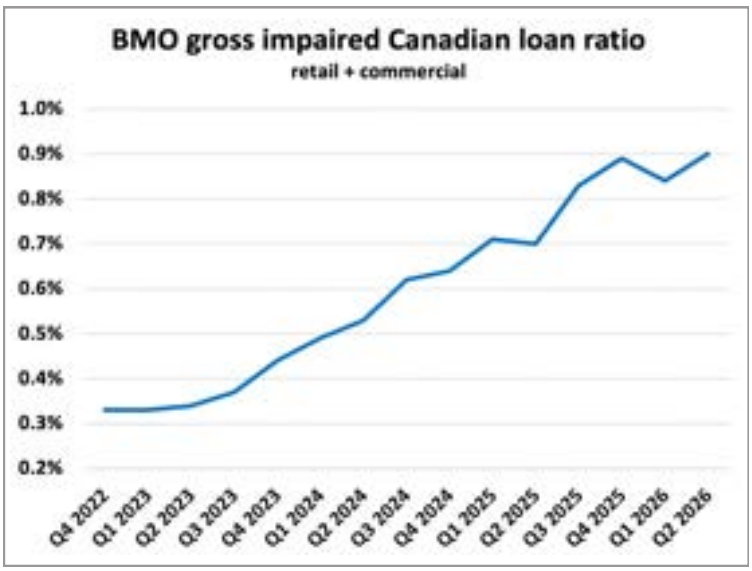
**GILs- Canada wholesale/commercial**

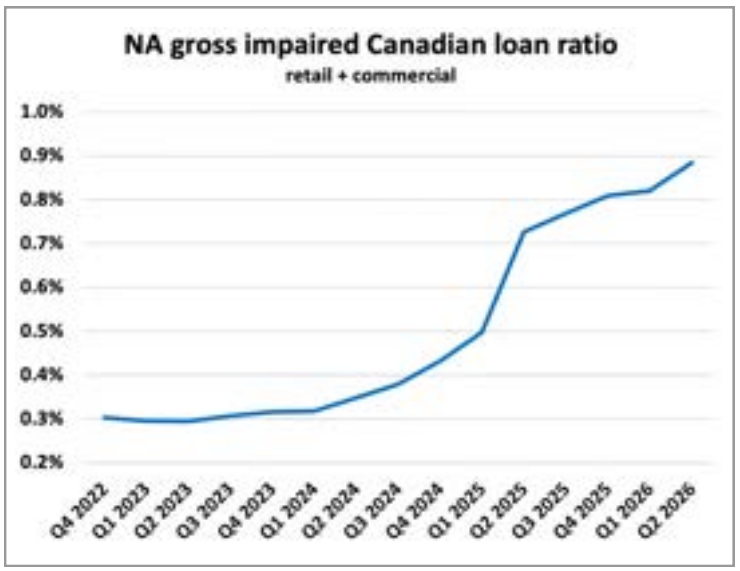
| | **RY** | **TD** | **BMO** | BNS | **CM** | **NA** |
|---|---|---|---|---|---|---|
| Q/Q | +1.1% | +6.8% | +6.7% | +21.2% | +12.2% | +11.5% |
| Y/Y | -5.4% | -4.0% | +29.0% | +19.0% | +27.9% | +31.1% |

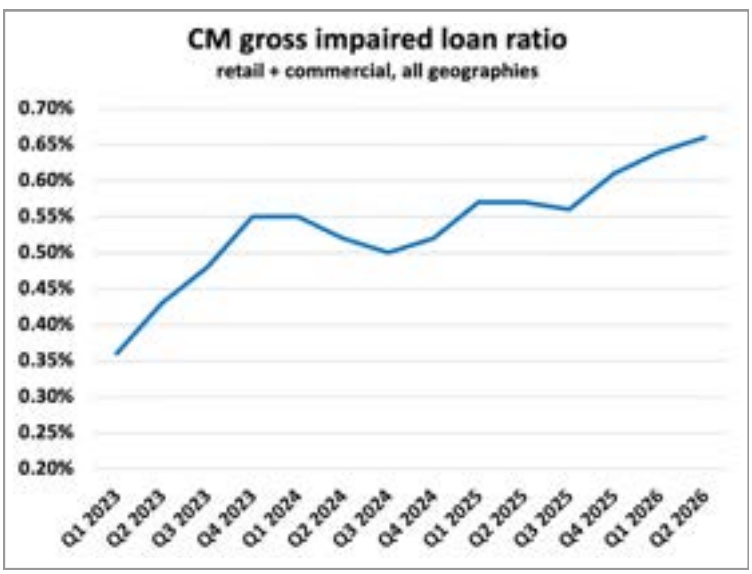
The trend by lender is shown below:

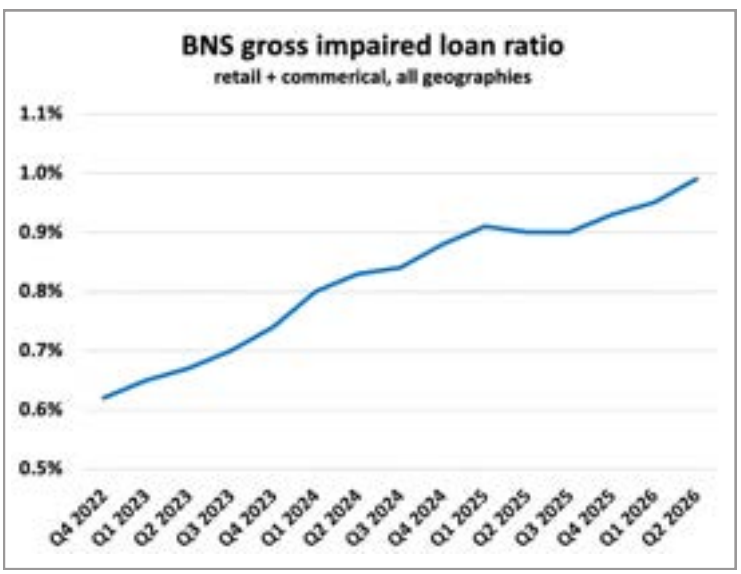


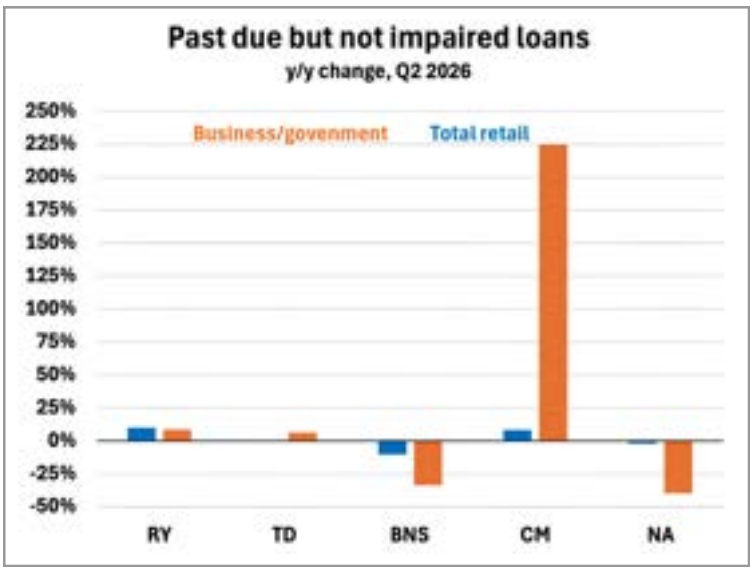


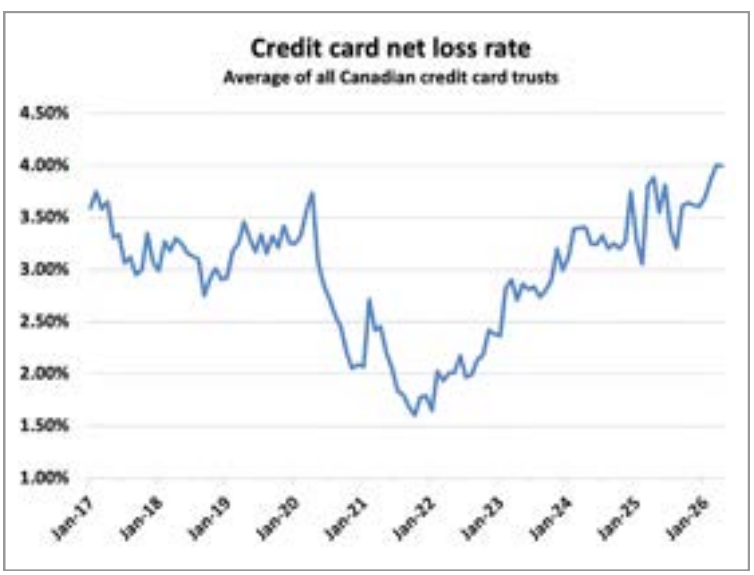




The good news is that early stage delinquencies, which predict the trend in GILs, were generally down y/y last quarter, notably at National and BNS. The big exception was CIBC:




**Card charge-offs remain high in April**

Canadian credit card trust net loss rates held at decade highs of 4% on average in April:



Canadian Tire's Glacier Trust continues to post a +6% loss rate while BMO's Master Trust is just under 5%:

| | Cards II - CIBC | Eagle -PC | Glacier- Canadian Tire | Golden RBC | Master - BMO | Trillium - BNS | Evergreen - TD | Average |
|---|---|---|---|---|---|---|---|---|
| Apr-24 | 2.74% | 3.88% | 5.81% | 2.44% | 4.54% | 2.20% | 2.23% | **3.41%** |
| May-24 | 1.77% | 4.00% | 5.54% | 2.40% | 4.42% | 2.34% | 2.26% | **3.25%** |
| Jun-24 | 2.00% | 4.09% | 5.59% | 2.33% | 4.14% | 2.38% | 2.17% | **3.24%** |
| Jul-24 | 1.94% | 4.12% | 5.40% | 2.57% | 4.88% | 2.23% | 2.13% | **3.32%** |
| Aug-24 | 1.98% | 3.75% | 5.60% | 2.31% | 4.39% | 2.15% | 2.24% | **3.20%** |
| Sep-24 | 2.10% | 3.65% | 5.54% | 2.26% | 4.60% | 2.47% | 2.13% | **3.25%** |
| Oct-24 | 2.16% | 3.37% | 5.61% | 2.58% | 4.43% | 2.11% | 2.15% | **3.20%** |
| Nov-24 | 2.09% | 3.62% | 5.45% | 2.76% | 4.09% | 2.44% | 2.43% | **3.27%** |
| Dec-24 | 2.00% | 3.55% | 5.60% | 2.61% | 6.34% | 3.80% | 2.34% | **3.75%** |
| Jan-25 | 2.03% | 3.50% | 5.47% | 2.23% | 4.72% | 2.87% | 2.12% | **3.28%** |
| Feb-25 | 2.36% | 4.28% | 5.65% | 2.28% | 1.55% | 2.85% | 2.42% | **3.06%** |
| Mar-25 | 2.47% | 3.99% | 6.47% | 2.40% | 5.62% | 3.33% | 2.34% | **3.80%** |
| Apr-25 | 2.58% | 4.25% | 5.88% | 2.94% | 5.71% | 3.60% | 2.23% | **3.88%** |
| May-25 | 2.35% | 4.03% | 4.69% | 2.73% | 5.56% | 3.18% | 2.30% | **3.55%** |
| Jun-25 | 2.64% | 4.18% | 4.90% | 3.37% | 5.88% | 3.31% | 2.40% | **3.81%** |
| Jul-25 | 2.39% | 3.67% | 4.66% | 2.36% | 5.64% | 2.68% | 2.19% | **3.37%** |
| Aug-25 | 2.33% | 3.70% | 4.36% | 2.47% | 4.84% | 2.61% | 2.14% | **3.21%** |
| Sep-25 | 2.41% | 3.86% | 5.26% | 2.85% | 6.04% | 2.79% | 2.07% | **3.61%** |
| Oct-25 | 2.43% | 3.57% | 5.09% | 3.00% | 6.01% | 3.21% | 2.18% | **3.64%** |
| Nov-25 | 2.44% | 3.44% | 5.80% | 2.79% | 5.27% | 3.32% | 2.28% | **3.62%** |
| Dec-25 | 2.65% | 3.04% | 5.57% | 2.80% | 6.09% | 2.83% | 2.23% | **3.60%** |
| Jan-26 | 2.69% | 3.75% | 5.80% | 2.99% | 5.21% | 3.20% | 2.18% | **3.69%** |
| Feb-26 | 3.05% | 4.15% | 6.29% | 2.95% | 4.75% | 3.11% | 2.75% | **3.86%** |
| Mar-26 | 3.19% | 4.33% | 5.85% | 3.58% | 5.44% | 3.40% | 2.20% | **4.00%** |
| Apr-26 | 3.12% | 4.62% | 6.22% | 3.26% | 4.77% | 3.53% | 2.46% | **4.00%** |
| | | | | | | | | |
| y/y (bps) | 54 | 37 | 34 | 32 | -94 | -7 | 23 | **11** |

# 3) Odds and ends: Real estate sentiment perks up, rental incentives surge

**Real estate outlook improves**

It's not clear how this will fare given the "recession talk", but the outlook for housing seems to be brightening based on new survey results. The real estate outlook component of the Bloomberg Nanos Confidence Index has jumped over the past 5 weeks.

Granted this data is NOT seasonally adjusted and there's always a spring pickup, but it is still notably that we're already above the peak registered in spring 2025:




**Rental incentives surge**

A quick temperature check on the rental market. We start with a report from Rentals.ca:

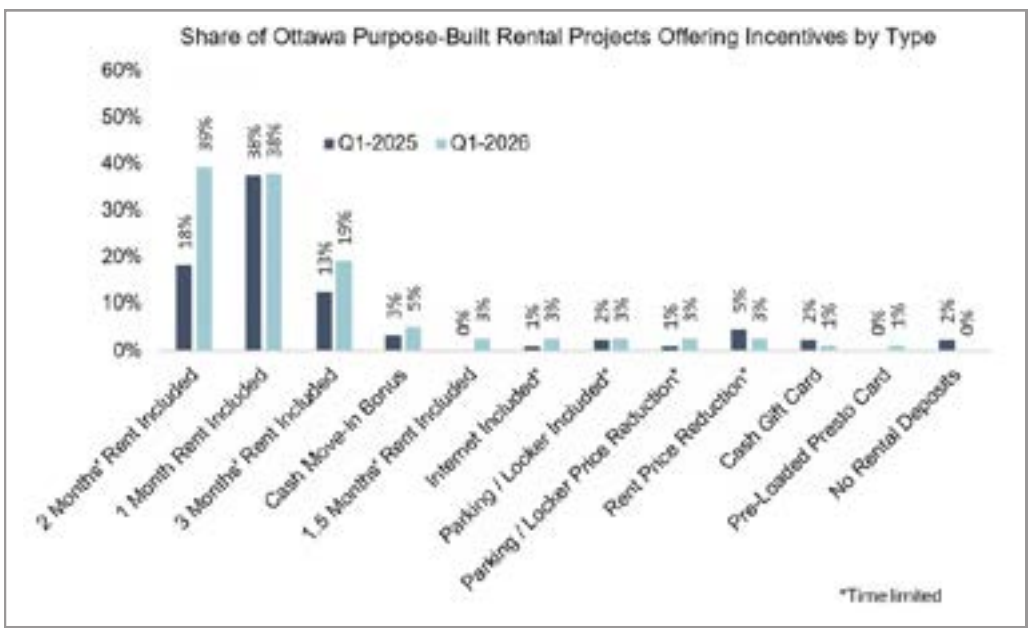
> **Rental Incentives Surge as Canada's Rental Market Softens** [4]
>
> As rents decrease and vacancy increases in Canada with population declines and more rental supply coming to market, move-in incentives have become a key factor for renters searching for a new home and property owners looking to attract tenants.

[4] https://rentals.ca/blog/rental-incentives-surge-as-canadas-rental-market-softens

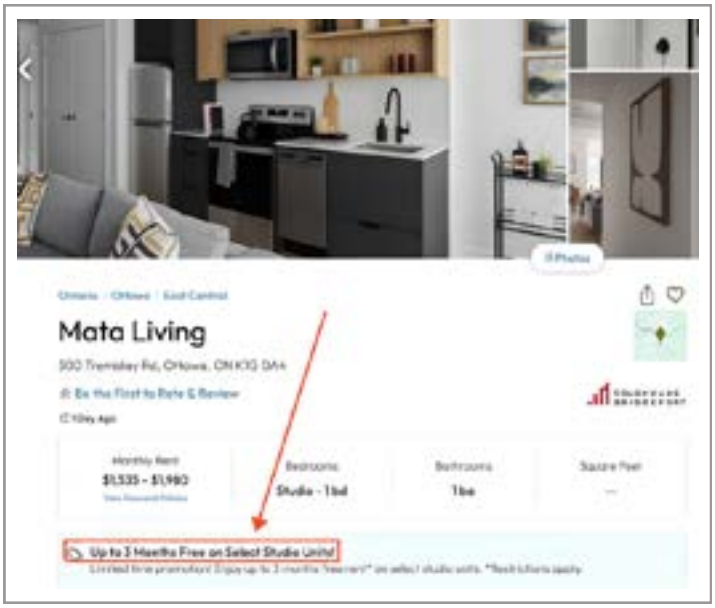
[…] In Q1, a 66% share of projects offered incentives, up from a 62% share a year ago and a 32% share two years ago. The most common incentive offered in Q1 was two months' free rent, at a 47% share of projects, up from 32% in 2025 as building managers added an extra month to their incentive packages.

For the average unit, incentives reduced the effective face rent by 13%, or $379 per month. This was an increase from the average incentive discount of $292 in 2025 and $163 in 2024.

In the Ottawa rental market, the vacancy rate in stabilized buildings reached 3.2% in Q1, double the rate of two years ago. While purpose-built rents remained relatively stable at $3.28 per square foot, incentive adjusted rents fell to $2.91 per square foot, an 11.4% discount from the asking price.




I can confirm that Ottawa, long considered the most stable rental market in the province, is seeing an increase in rental incentives:







Meanwhile in Toronto:

**Toronto landlords are offering free rent, Wi-Fi and even cash. Renters still aren't impressed**[5]

For anyone apartment hunting in Toronto right now, the listings look surreal: months of free rent, free Wi-Fi, free laundry, gift cards, cash bonuses, even free pizza. In a city where renters have spent years competing for overpriced, undersized units, landlords are suddenly trying a little harder to get people in the door.

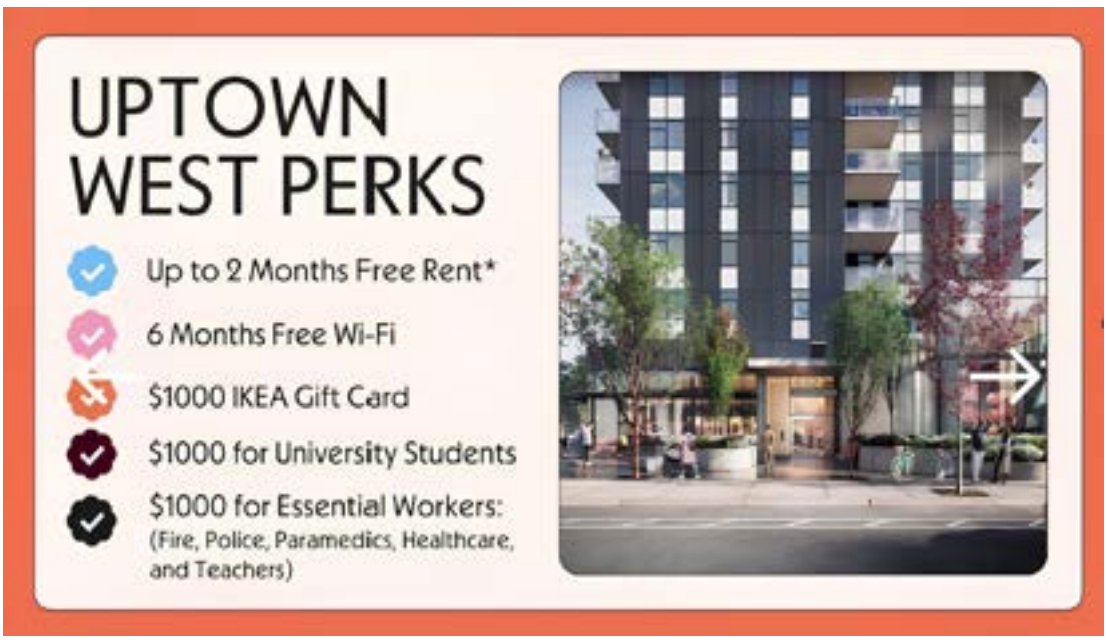
[…] the vacancy rate in stabilized Greater Toronto and Hamilton Area rental buildings completed since 2000 rose to 5.4 per cent in the first quarter of 2026, up from 3.6 per cent a year earlier and 2.6 per cent two years ago. It is the highest vacancy rate seen since the pandemic-era rental market of early 2021. Meanwhile, 66 per cent of rental buildings are offering incentives in the first quarter, more than double the 32 per cent share recorded two years ago. The most common offer has been two months of free rent, available at 47 per cent of properties.

[…] "Renters are biting, but mostly with their feet," Couture said. "Turnover has gone up because the free months only come with a new lease, so to capture them, you have to move." And then possibly move again and again.

[5] https://ca.news.yahoo.com/toronto-landlords-are-offering-free-rent-wi-fi-and-even-cash-renters-still-arent-impressed-182253203.html

That churn has costs, too. Moving is expensive and stressful for tenants, and turnover is expensive for landlords. According to Couture, the fact that one month of free rent has become less common while two months has grown suggests renters have already done the calculation.

Finally, this new Vancouver rental is offering just about everything but the kitchen sink:




Related, this morning's GDP and income data showed that rents paid as a share of aggregate consumption expenditures remains WAY above long-term norms suggesting that the correction in rents may have a ways to go:



As a reminder, these high rents are a large part of why young buyers are having a hard time saving a down payment. As they correct, it will pave the way for more first-time buyers get into the market. It's a good news story for the real estate market over the longer term, just not for investors in the near term.

**New home sales perk up following HST holiday**

Back in March, the Ontario provincial government announced the removal of the 13% HST on new home purchases priced below $1.5 million.

This announcement came barely a week after a "vulture" fund was created by former government insiders to purchase $1.3 billion of unsold new condo inventory. $300 million of that came via mez financing provided directly by the government, with only $6 million of that $1.3B being capital from the founders. Interesting timing, interesting structure…but I digress.

We knew the HST exemption would move the needle on the new home market, and we saw that in the April data released this week.

New condo sales were up 39% y/y last month, but that still leaves them at absurdly low levels. It barely registers.




This will pick up as these vulture funds kick into gear. From what I'm hearing, the clearing price for these bulk purchases is somewhere in the $725/foot range, or $100 below current resale….which tells you how desperate these developers are for liquidity.

Counter-intuitively, the HST rebate makes it harder for preconstruction buyers to assign their units and potentially raises the odds that they default at closing. Consider:

> **Ontario HST rebate gives developers an 'edge' over investors seeking to offload new homes**
>
> Ontario's promised HST rebate on new housing is creating an uneven playing field between developers, who are offloading unsold homes faster thanks to the tax cut, and preconstruction buyers who would also like to sell but are largely excluded from the government relief, some industry watchers say.

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[…] Under the plan, buyers can get a rebate of up to 13 per cent of the home price if they purchase a newly built property they intend to live in or rent out for the long-term. But the rules outlined so far by the Ontario government exclude what are known as assignment sales if the original purchase happened before before April 1, 2026, among other restrictions.

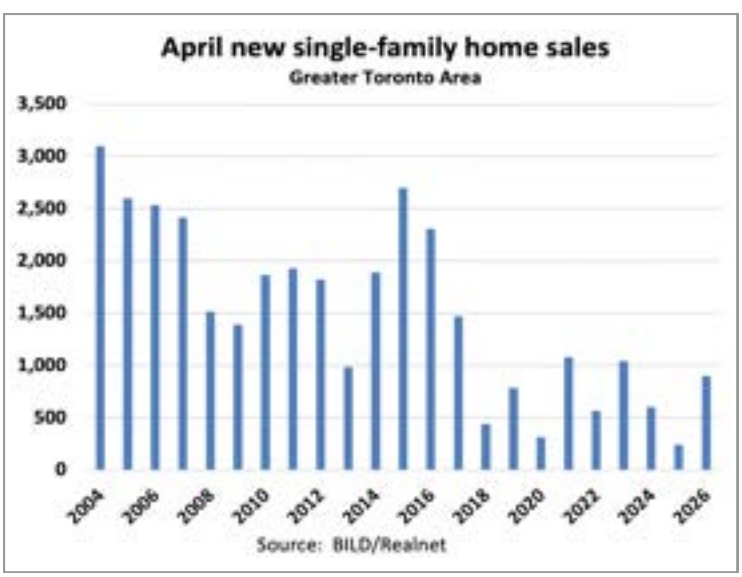
[…] The new rebate rules mean developers with unsold units can now promise prospective buyers that they will get a hefty discount off the total price of the home.

But preconstruction homebuyers – most of whom are investors – who are currently struggling to close on units that are nearly ready to be occupied cannot take advantage of that tax cut to entice other buyers to take those properties off their hands, said Leor Margulies, a real estate lawyer with Robins Appleby LLP.

[…] Mr. Taub said the steady stream of troubled preconstruction buyers who have been seeking his legal counsel ahead of closing hasn't let up.

"We are still receiving the same kind of flow…trying to find a way to negotiate out of their closings," he said.

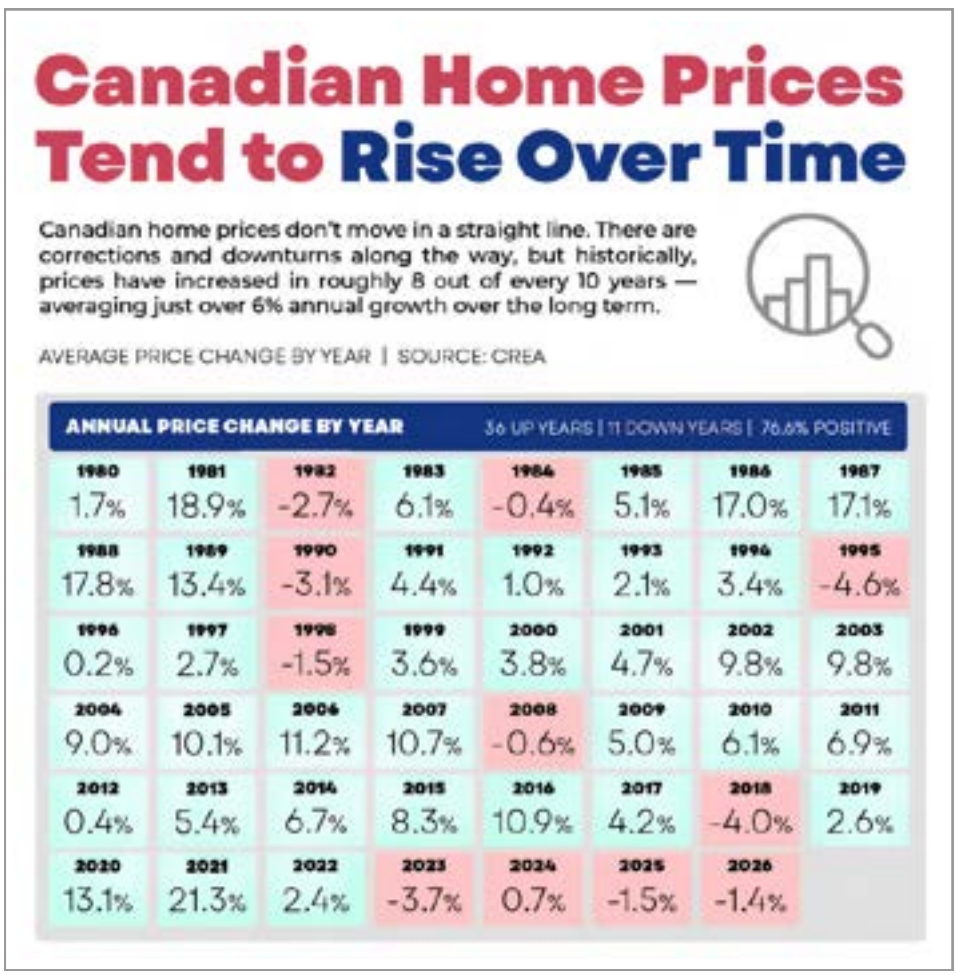
Turning to the single-family market, things are decidedly rosier. Here sales were up 274% y/y and came in ABOVE decade averages last month:




The lows are likely in for the new home market, and I expect we'll see solid y/y increases going forward.

**Infographic highlight**

The latest batch of infographics was released last week. Subscriber Tim M sent me the idea for this one, which I really liked:




It's a good reminder that all things are cyclical, but one thing that isn't is the constant trend in currency debasement. In Canada since 1980, the money supply has grown from $126 billion to $2.8 TRILLION. That's a compound annual growth rate of 7%....which is only slightly above the 6% average gain in house prices mentioned in the graphic above.




For any asset where supply is relatively inelastic, the long-term price trend will approximate the increase in the money supply minus productivity gains. So if the money supply rose by 10% and productivity by 3%, we would expect those assets over time to appreciate by 7%, as an example.

The point here is real estate does benefit over the LONG term from the tailwinds of currency debasement, something that's easy to forget when we're in year 4 of a housing down cycle.