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# Canadian Economy Shines

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September 26, 2017



# Global Economy Strengthens



Synchronized Global Recovery

Canada with 3.0+% growth

U.S. At 2.1%

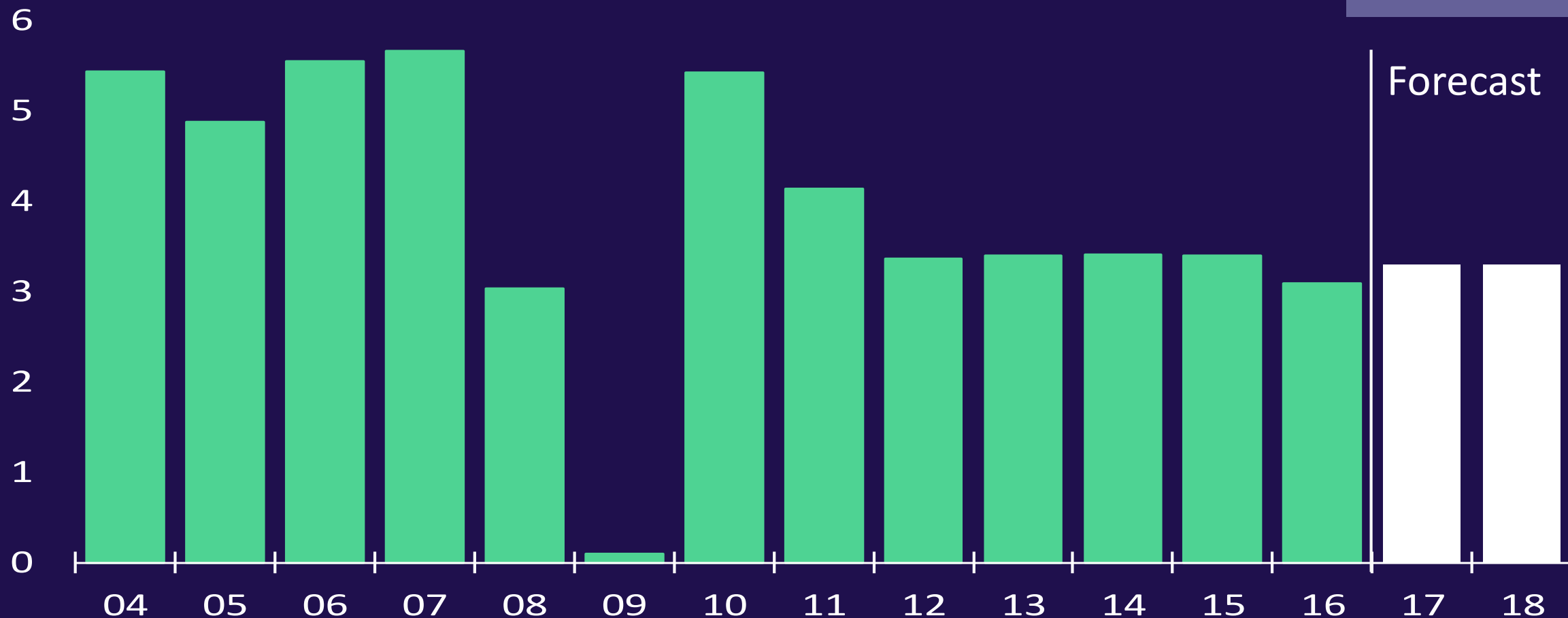
Europe Stable at 2.0%

China Headed for 6.8% Growth

# Global Growth Edges Upward in 2017

Real GDP  
(year/year % change)

	2016	2017	2018
World	3.1	3.3	3.3



Forecast = BMO Nesbitt Burns Economics  
Source: IMF World Economic Outlook Database



# U.S. Economy Still Tepid

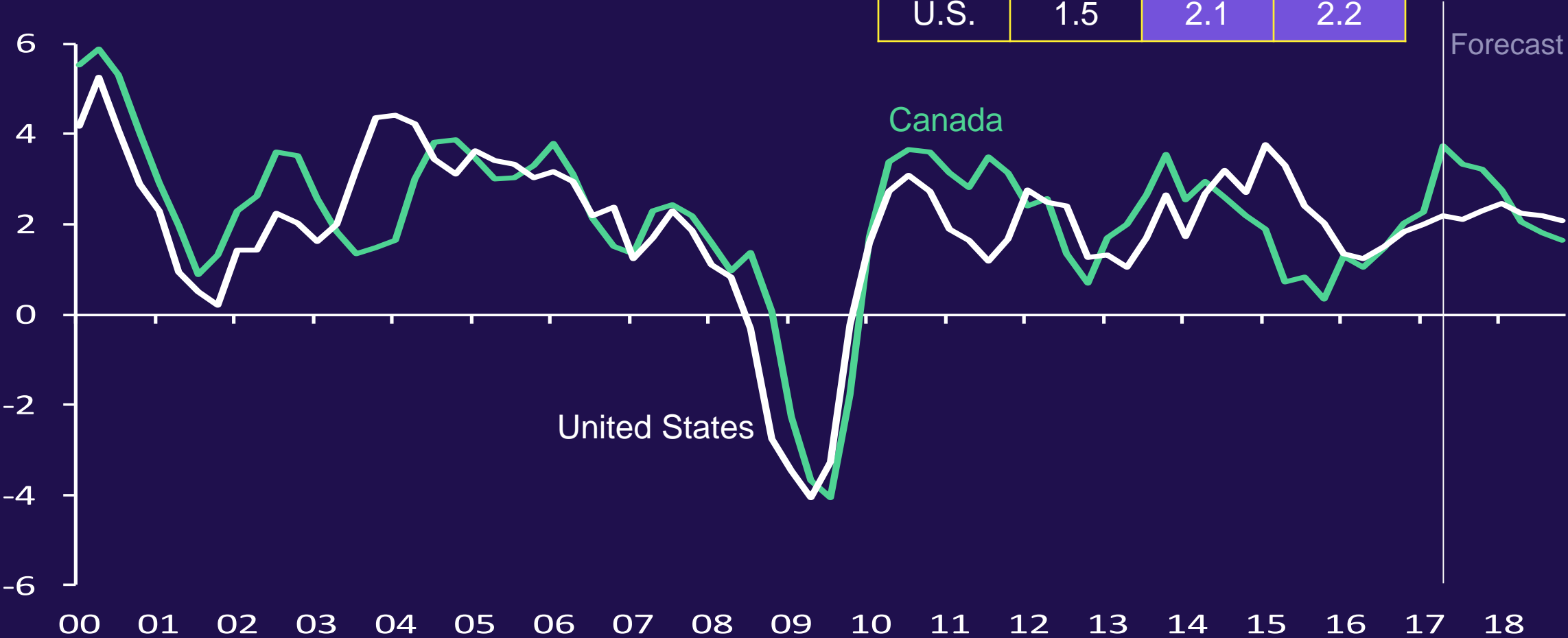


Business Investment Improves  
Exports Solid  
Residential Construction Softens  
Retail Stores Consolidate  
Labour Shortages  
Fed Reduces Liquidity  
Fiscal Uncertainty

# U.S. Growth Barely Above 2.0%

Real GDP  
(year/year % percent)

	2016	2017	2018
Canada	1.5	3.1	2.1
U.S.	1.5	2.1	2.2



# Consumer Growth Strengthens in Canada, Slows in U.S.

Real Personal Consumption Expenditure

(year/year % change)

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Source: Haver Analytics, Bureau of Economic Analysis, Statistics Canada

# Unemployment Rate

(percent)

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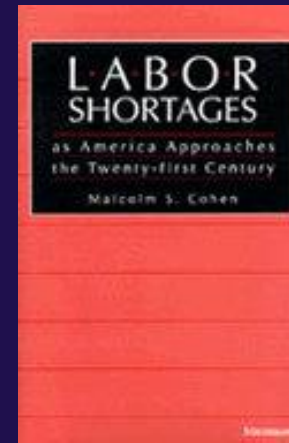
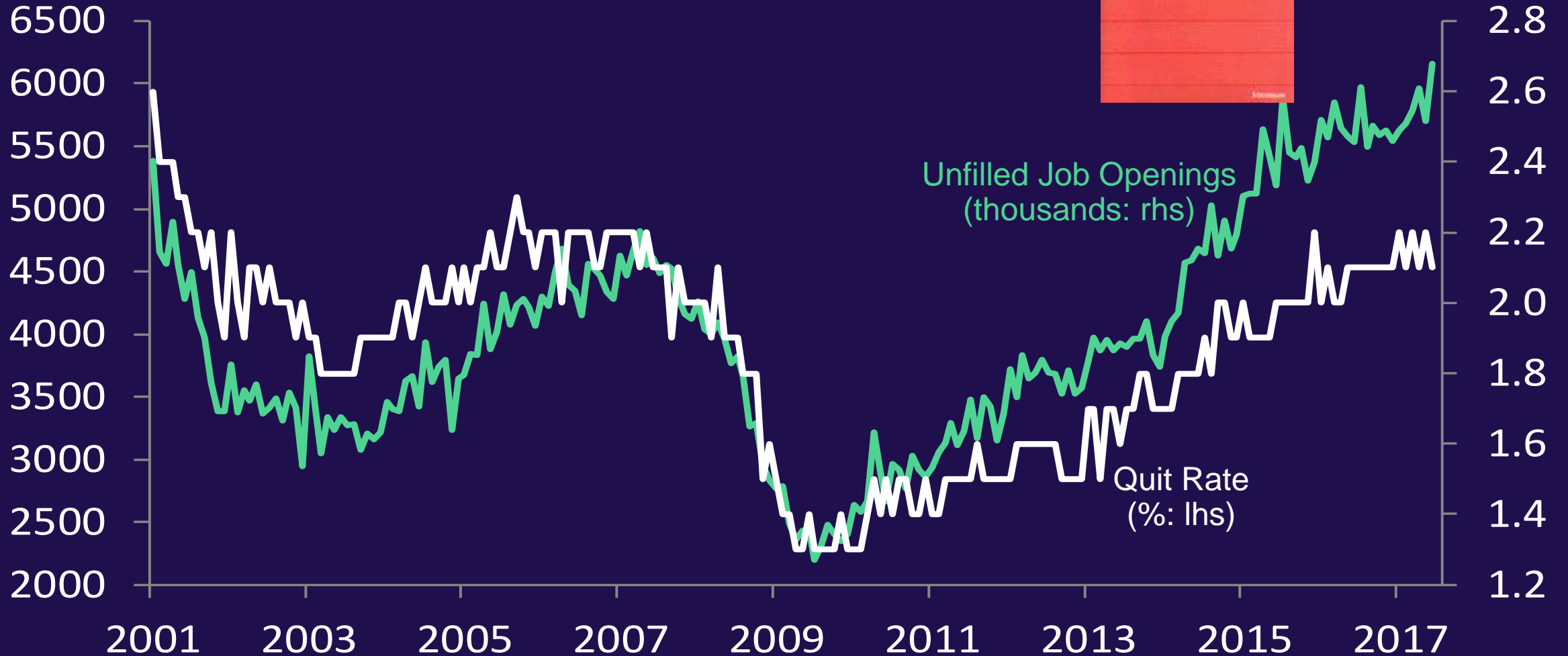


Source: Haver Analytics, Statistics Canada, Bureau of Labor Statistics

# U.S. Labor Market Very Tight

Job Openings and Labor Market Survey (JOLTS)

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# Yet 15% of Prime Age Men in U.S. Not Working

Labor Force Participation Rate: Men: 25-54 Years

(percent, not seasonally adjusted)



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# Canada's Positive Surprises



Job Growth Strong

Exports Up

Consumers Spending

Alberta Begins Recovery

But...

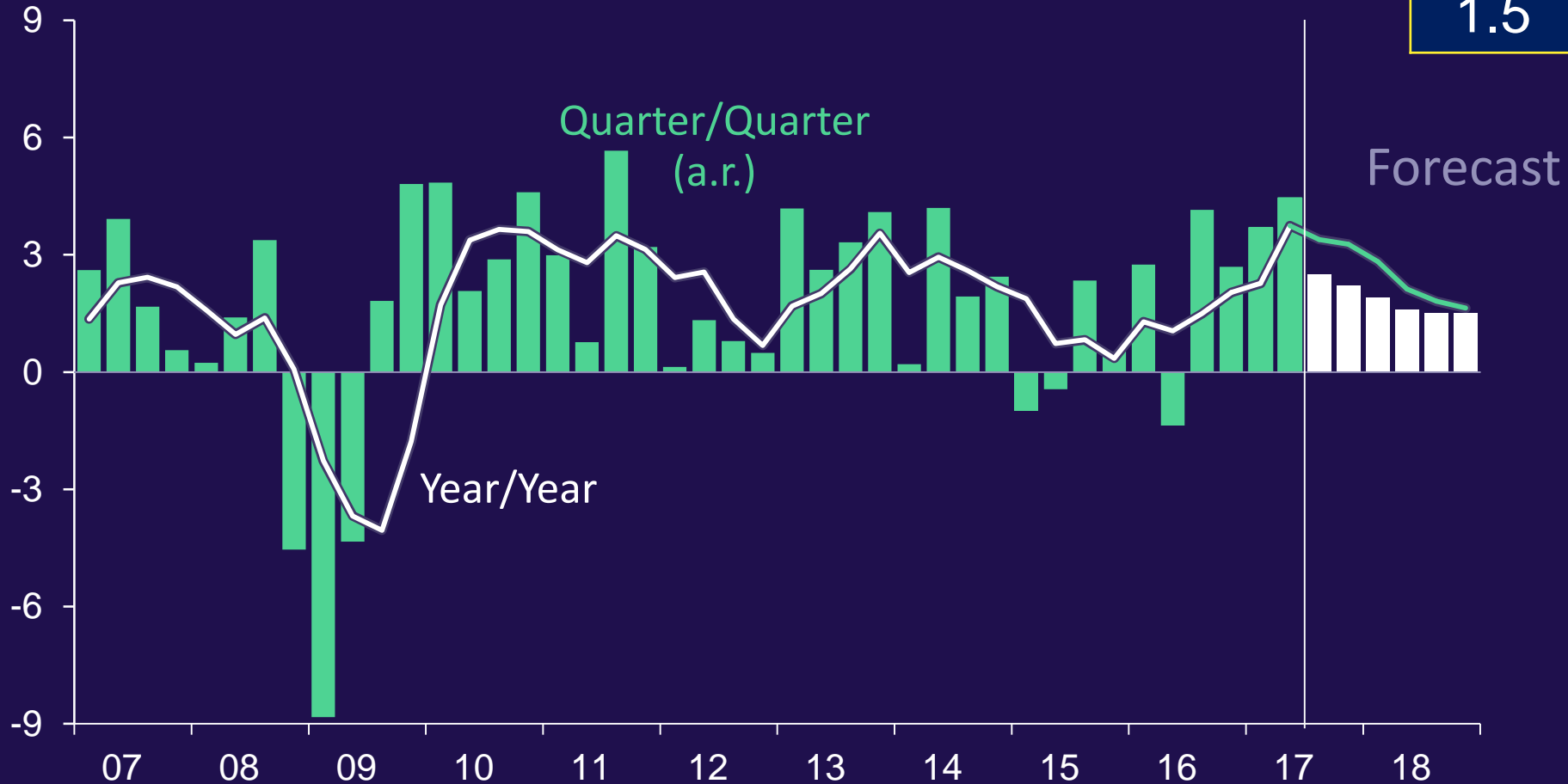
NAFTA Looms Large

Housing Slows

# Canadian Growth Improves In 2017

Real GDP  
(percent change)

2016	2017	2018
1.5	3.1	2.1

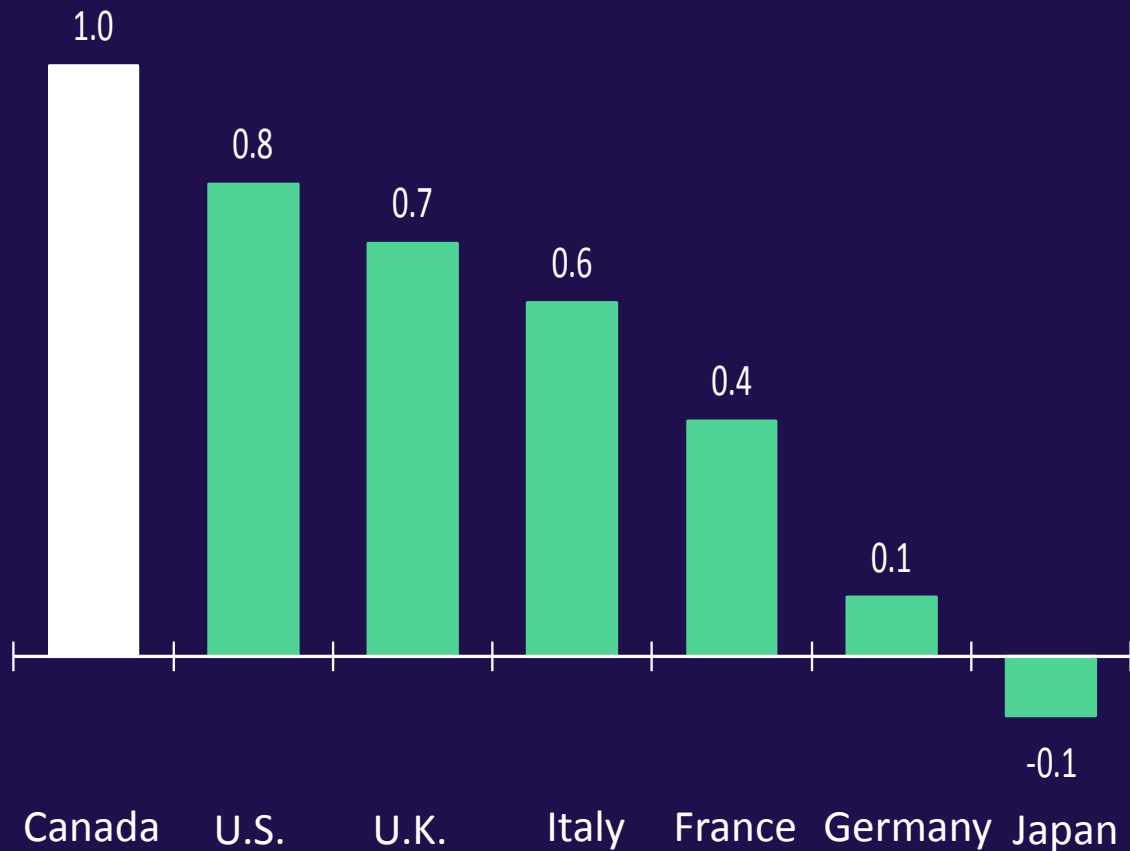


Forecast = BMO Capital Markets Economics

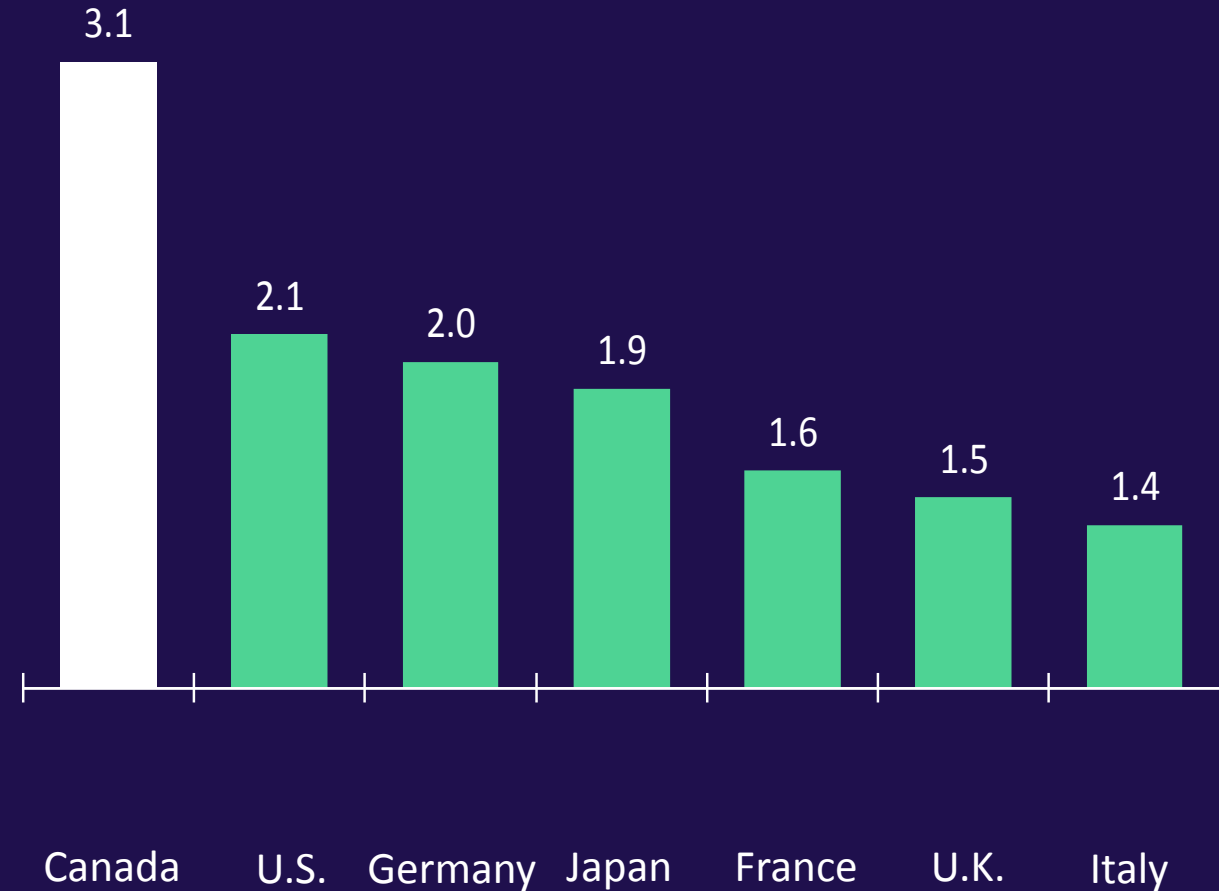
Source: Haver Analytics, Statistics Canada, Royal Bank of Canada Economics

# Canada Leads G7 In Population and GDP Growth

Population Growth  
(annual average growth from 2011-2016, % change)



Real GDP Growth 2017  
(annual percentage change)

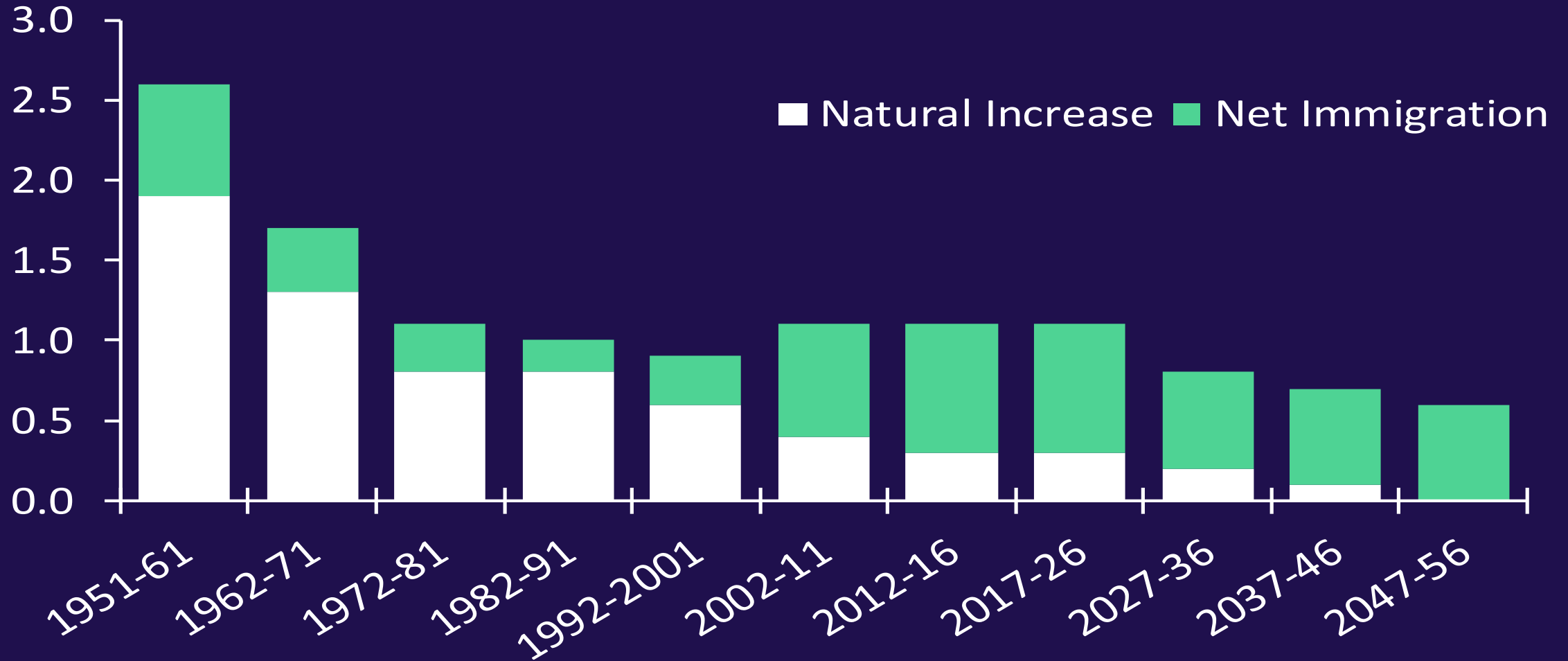




# Immigration Dominates Canadian Population Growth

Annual Population Growth

(annual average growth, percentage change)



# People Left Oil-Torn Provinces For Ontario and B.C.

Interprovincial Migrants  
(level, 4-quarter moving average)

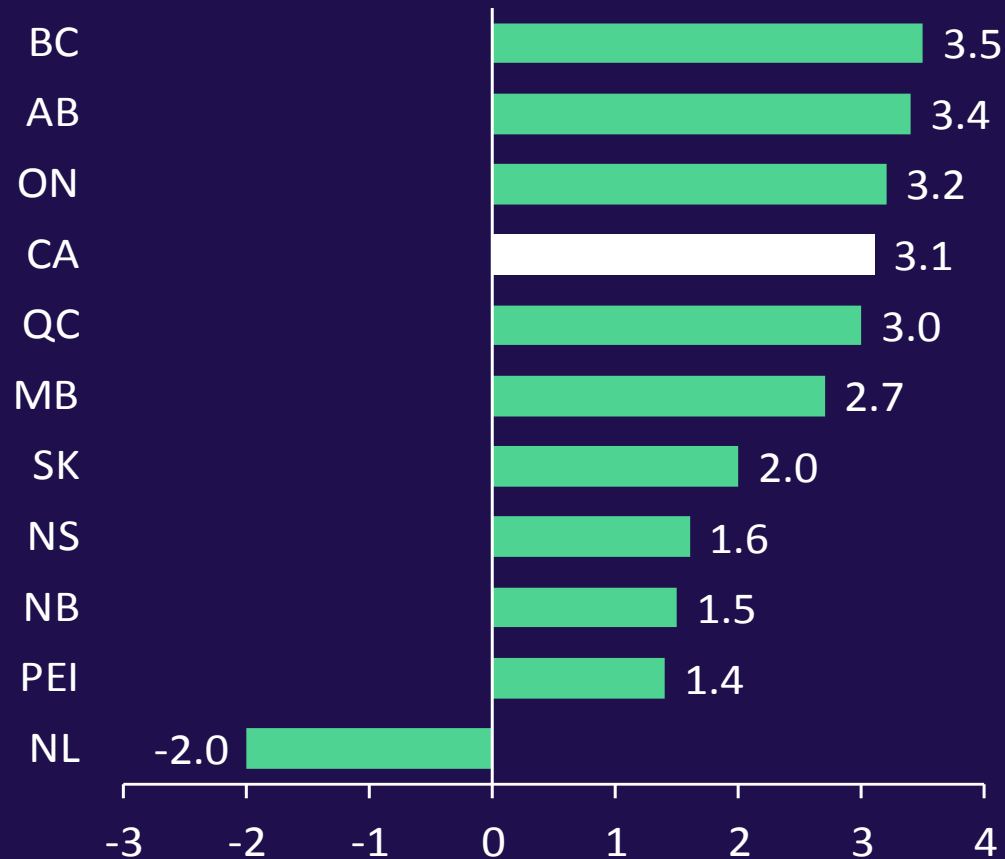


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# B.C. on Top As Alberta Climbs Back

Canada: Real GDP Provincial Forecast  
(year/year % change)

2017



2018



# Loonie Rises As U.S. Dollar Falls



Canadian Economy Outperforms  
U.S. Tepid Growth  
Trump Factor  
N. Korea Concerns  
U.S. Congressional Gridlock

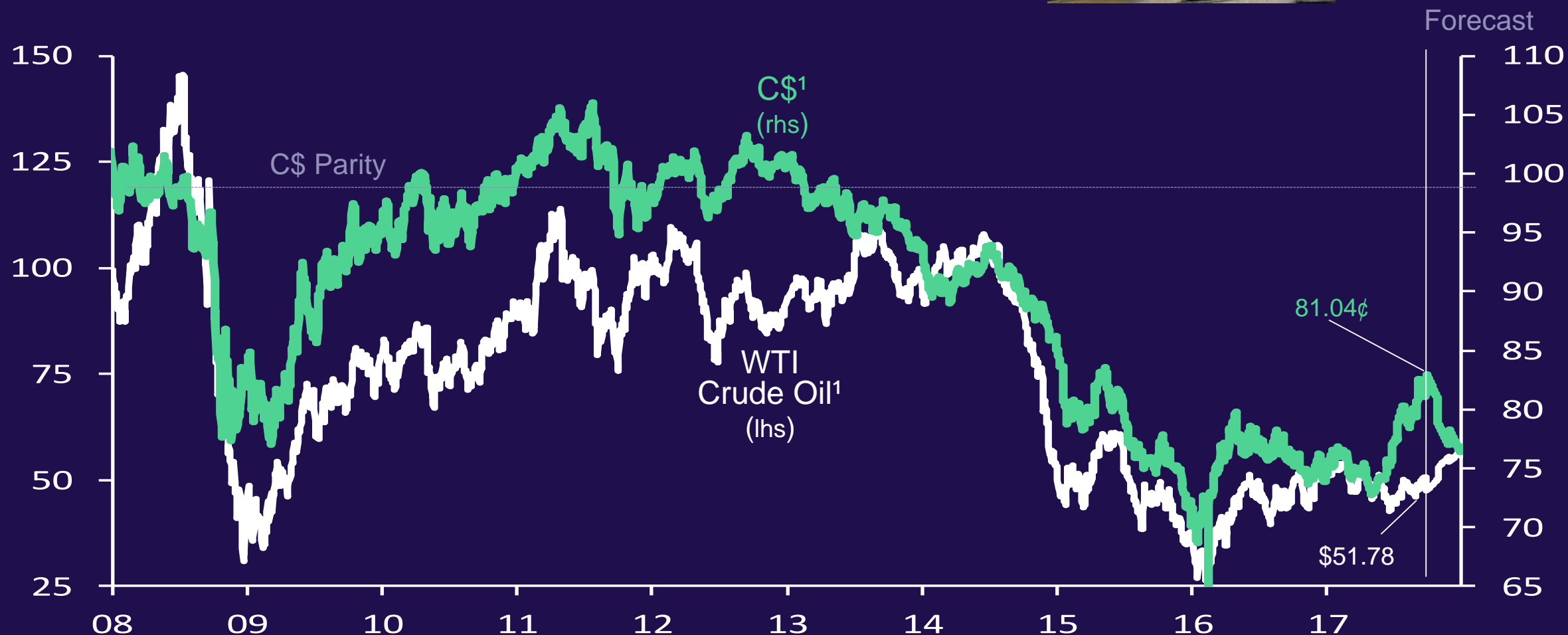


# Oil Price And The Loonie

(as of September 25, 2017)

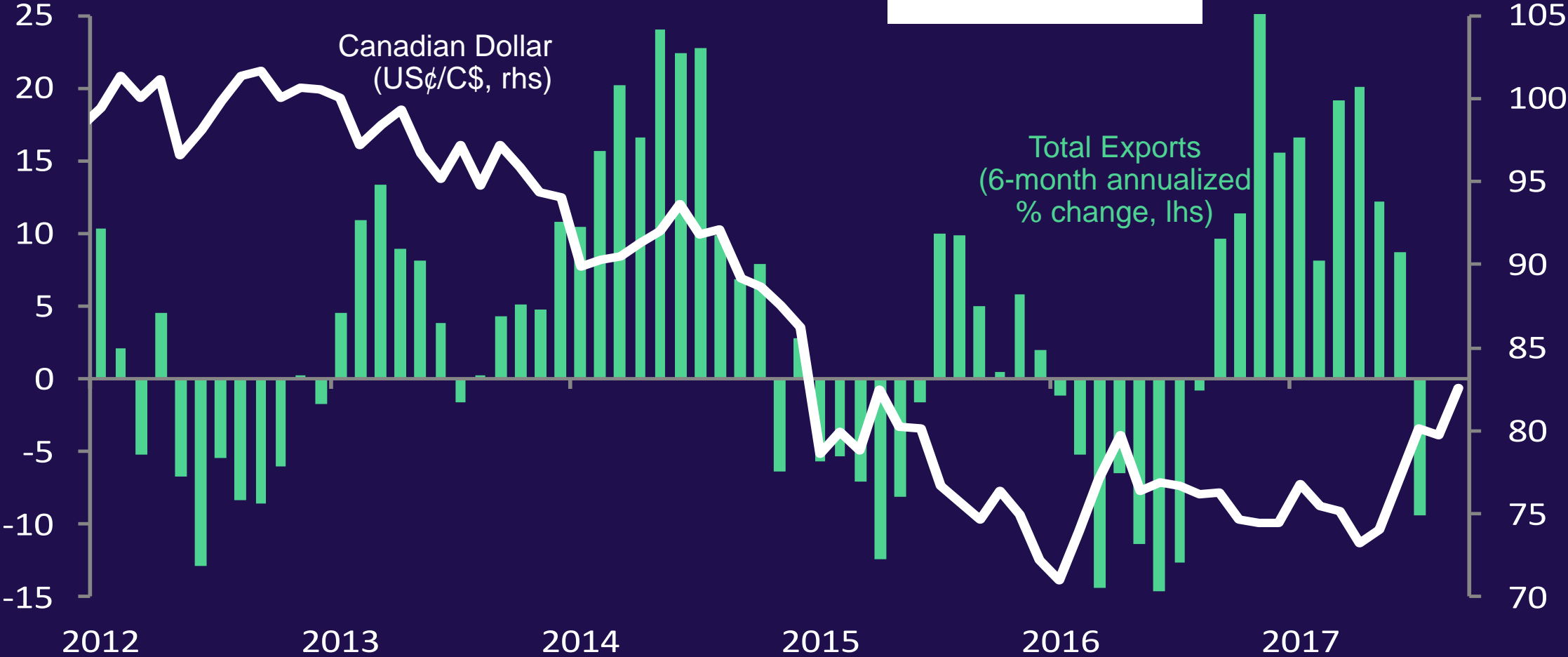


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Forecast = BMO Capital Markets      <sup>1</sup> (US\$/bbl)      <sup>2</sup> (US¢/C\$)  
Source: Haver Analytics, Bank of Canada, Bloomberg, U.S. Energy Information Administration

# Exports Strong For Now



# U.S. Hangs Tough On NAFTA

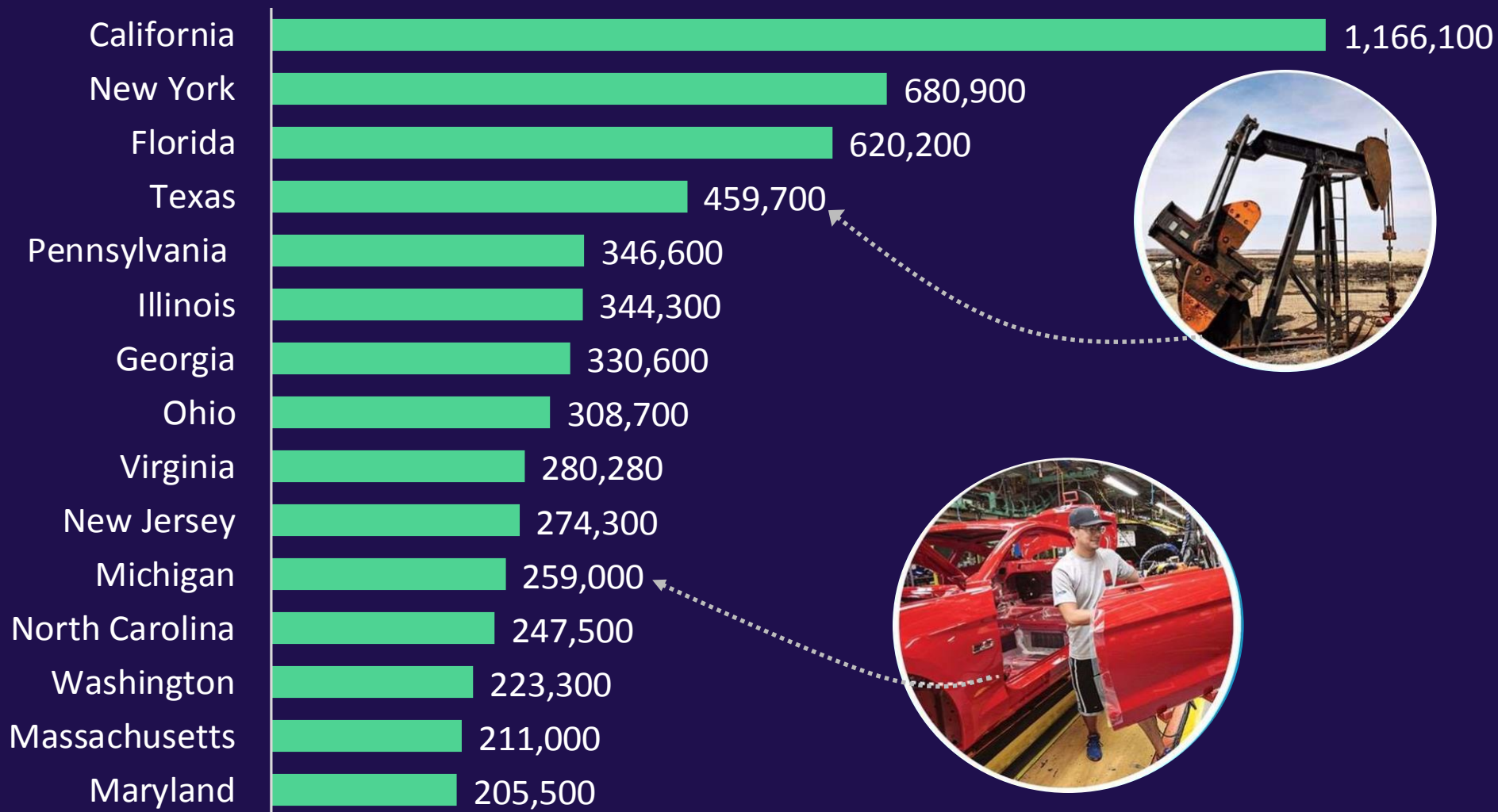
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Trump Threat All Talk  
U.S. Wants Massive Overhaul  
Talks Will Get Messy

# U.S. Jobs Created By Trade with Canada

Total Number of Jobs





# Financial Markets



Bank of Canada Hikes Rates

Fed Reducing Liquidity

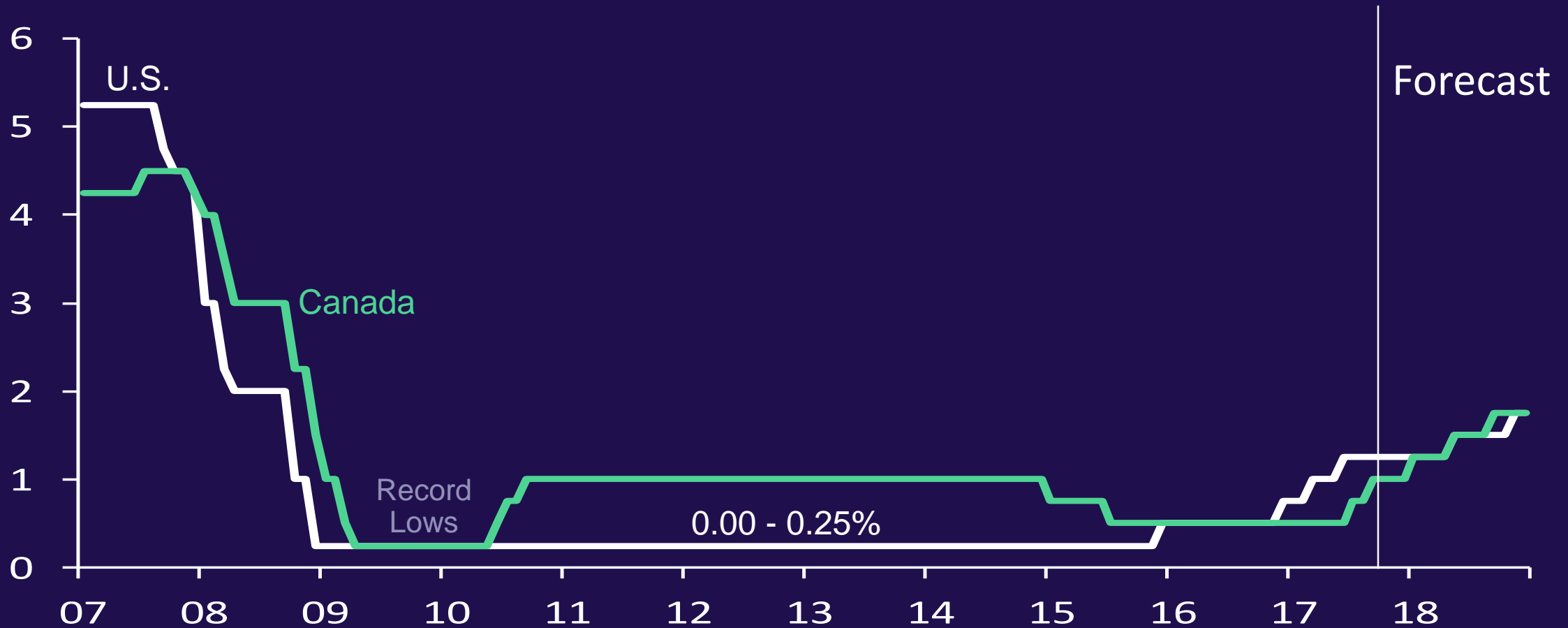
Mortgage Rates Rising

# Bank Of Canada Hikes Rates

Overnight Rate  
(percent)



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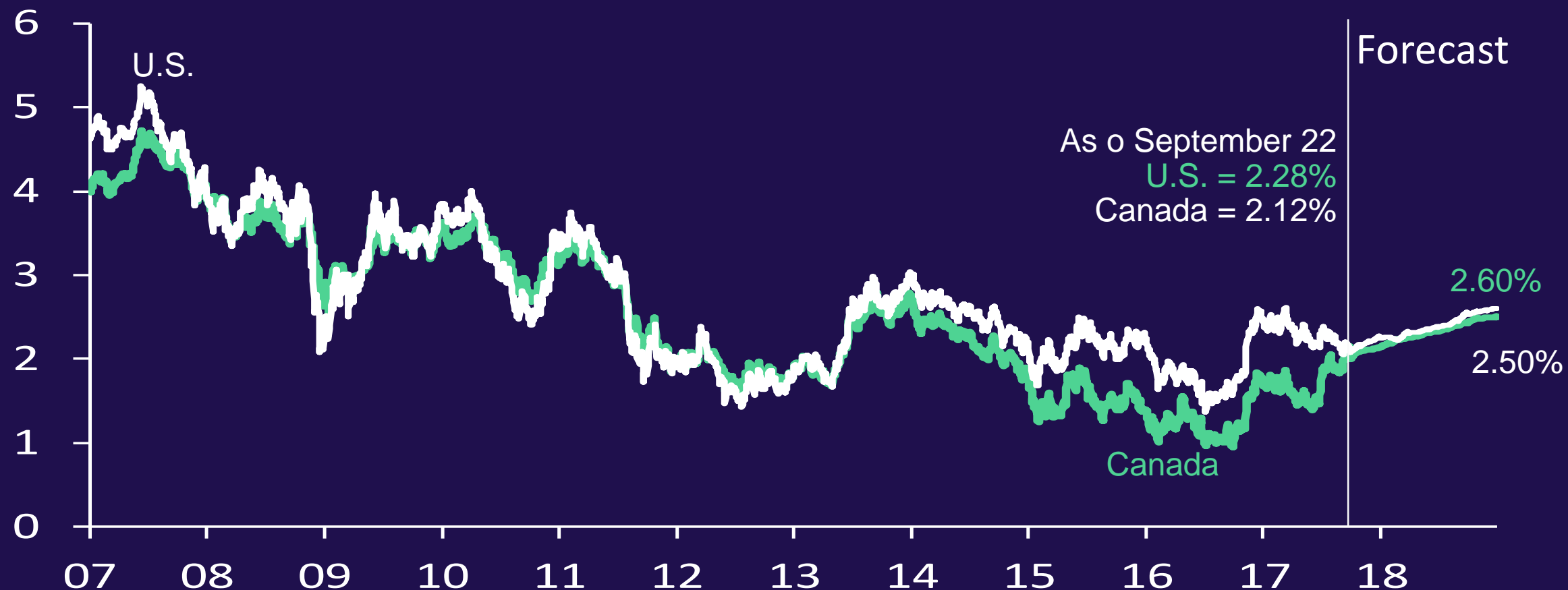
Forecast = Sherry Cooper Assoc.  
Source: Haver Analytics, Bank of Canada, Federal Reserve Board

# Long Yields Edge Upward On Fed Rate Hikes

10-year Bond Yields  
(percent)



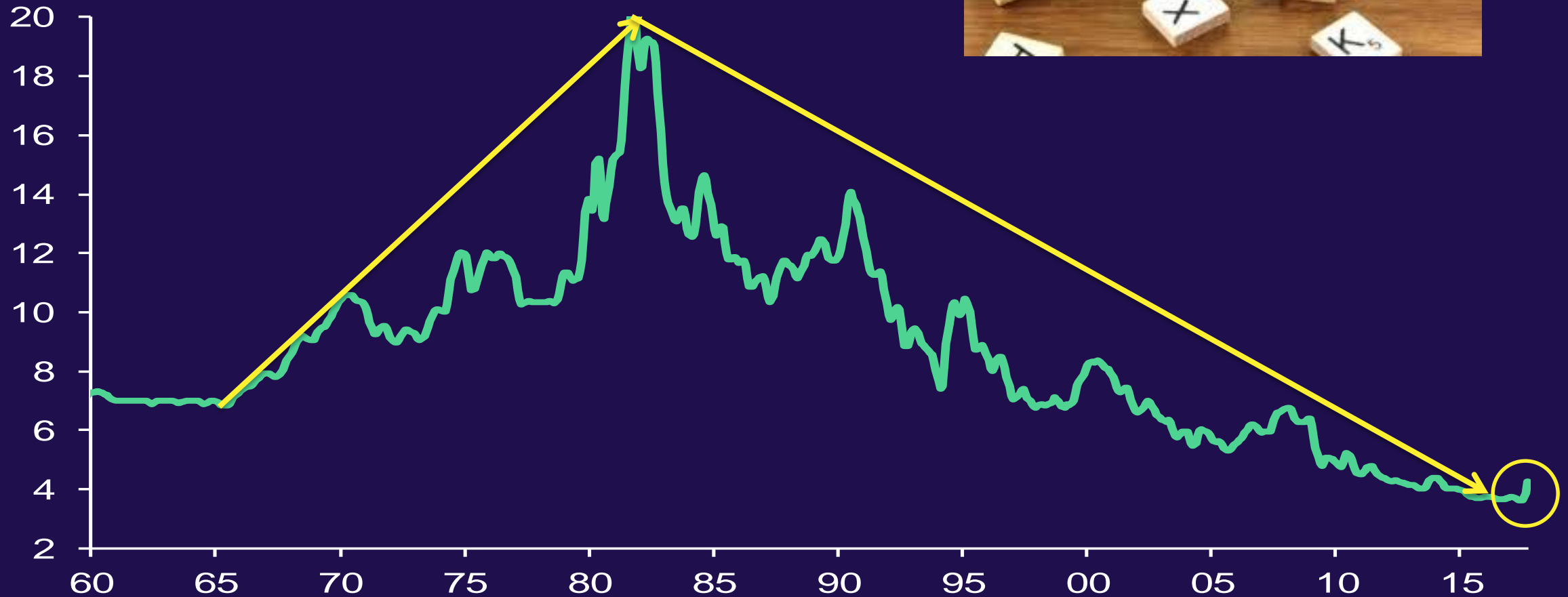
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Forecast = BMO Capital Markets  
Source: Bank of Canada, Federal Reserve Board

# Mortgage Rates Have Bottomed

Posted 5-Year Fixed Mortgage Rate  
(percent, 3-month moving average, as of September 22)



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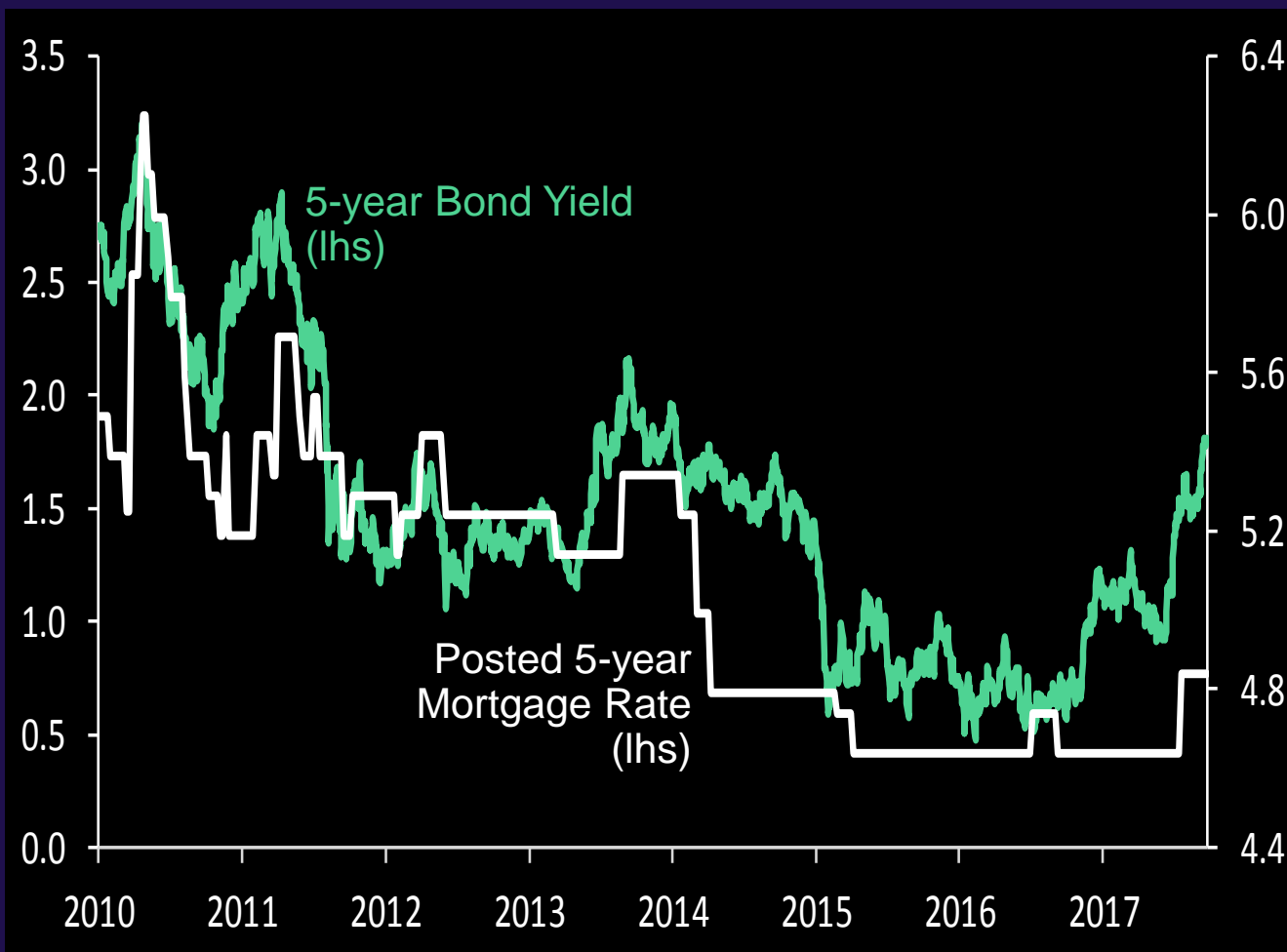


# Upside for Mortgage Rates

(percent) as of Sept 22



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More Upward Pressure  
68% or More Fixed Rate  
Renewals Still At Lower Rates  
New Buyers Most Hurt  
Resets Rise If Rates Up 50bps More

# Housing Looms Large But Vulnerable



Huge Part of Economy  
Overblown Bubble Worries  
Exaggerated Debt Concerns  
Govt Clamps Down  
Probably More To Come  
Housing Slows  
Markets Now Balanced

CMHC Changes Benefit The Big Banks Over Alternative Lenders

# Growth Housing Led...But Slowing

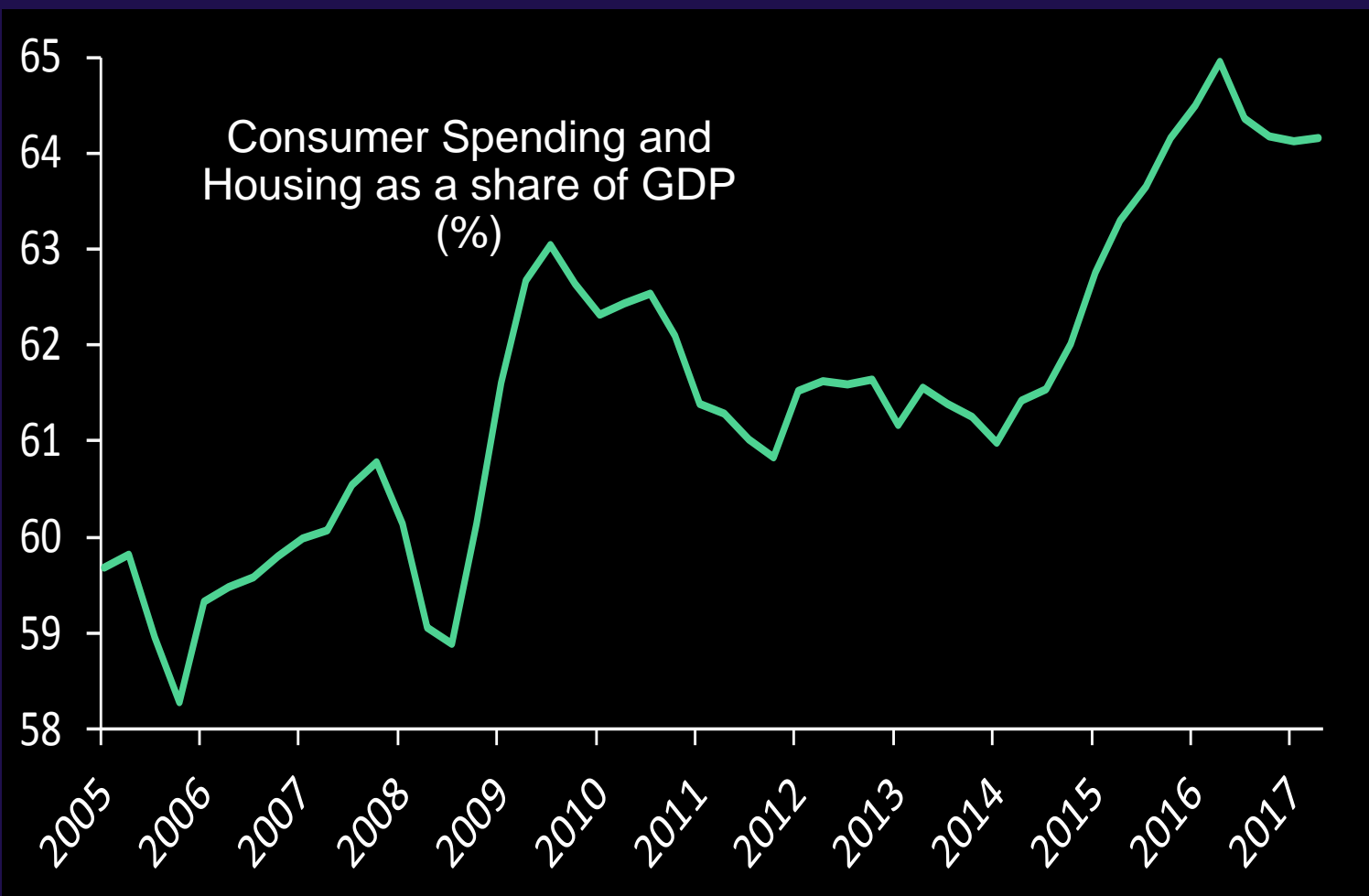
Canada  
(percent)



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# Housing Growth Slows...Tightening Continues

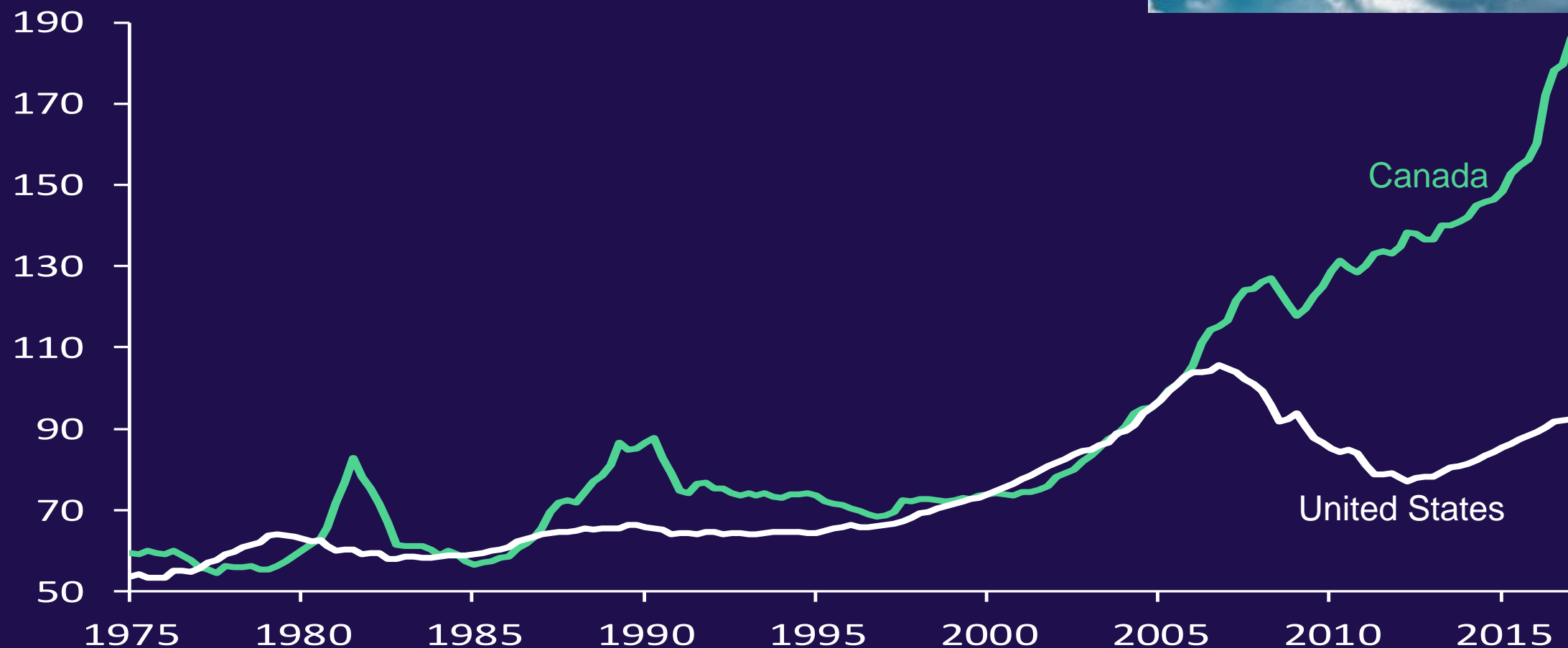


Credit Conditions Tightened  
Banks Downgraded  
Insured Mortgages Decline  
Appraisers Lowering Values  
Second Mortgage Demand Up  
Another OSFI Move Coming?  
Risk Sharing With CMHC

# Debt-Financed Bubble Worry

Real House Price Index

(index, 2005 = 100, seasonally adjusted)



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# Rising Risks: Record High Debt-to-GDP

Household Debt as a Percentage of GDP

(March 2005 = 100)

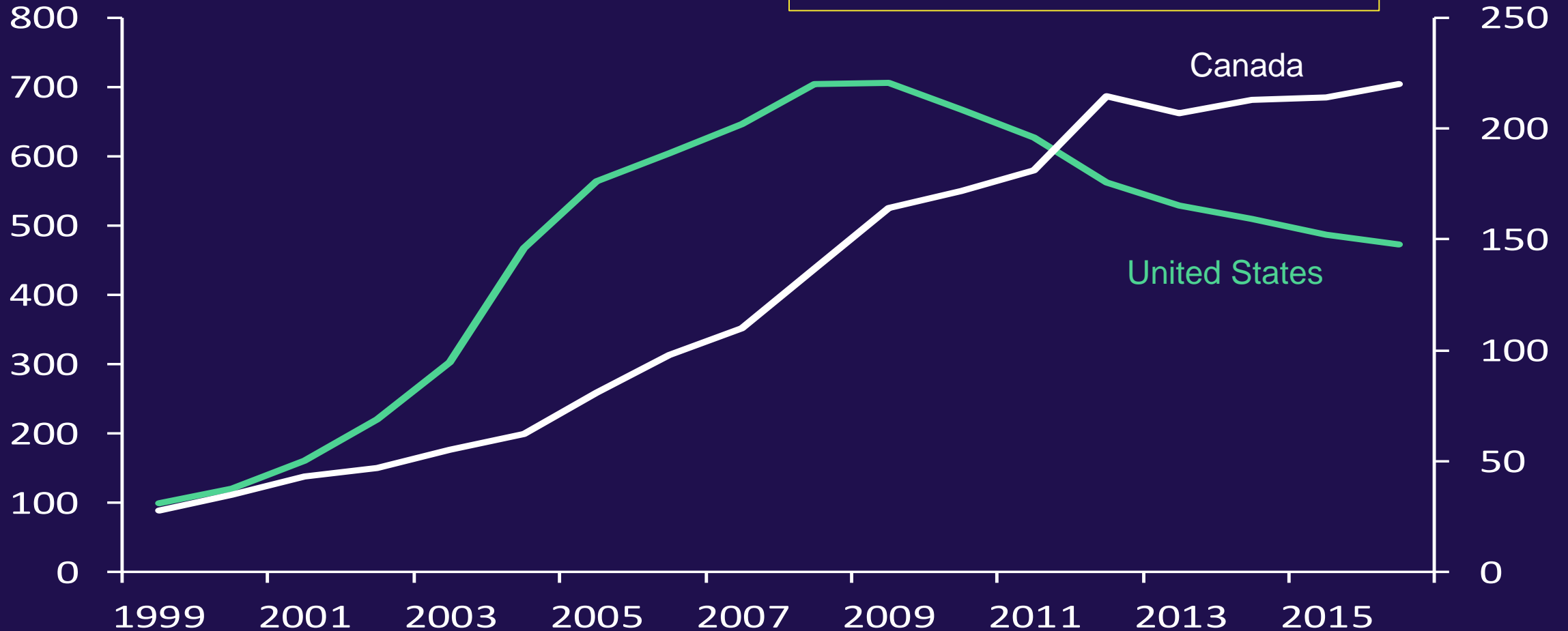


Source: Bloomberg, International Monetary Fund (IMF)

# Canadians Rely Heavily on HELOCs

Home Equity Line of Credit (HELOCs)  
(local currency, \$blns)

Variable-Rate Tied To Prime



# Canadian Homeownership At A Record High

Homeowners as a % of all Canadian Households  
(percent)



Likely 70% of  
Households  
Own Homes  
Now

# Over-Extended Debtors A Small Segment



40% of Homeowners Are Mortgage-Free  
33% of Households Are Debt-Free  
25% Have Less Than \$25k in Debt...

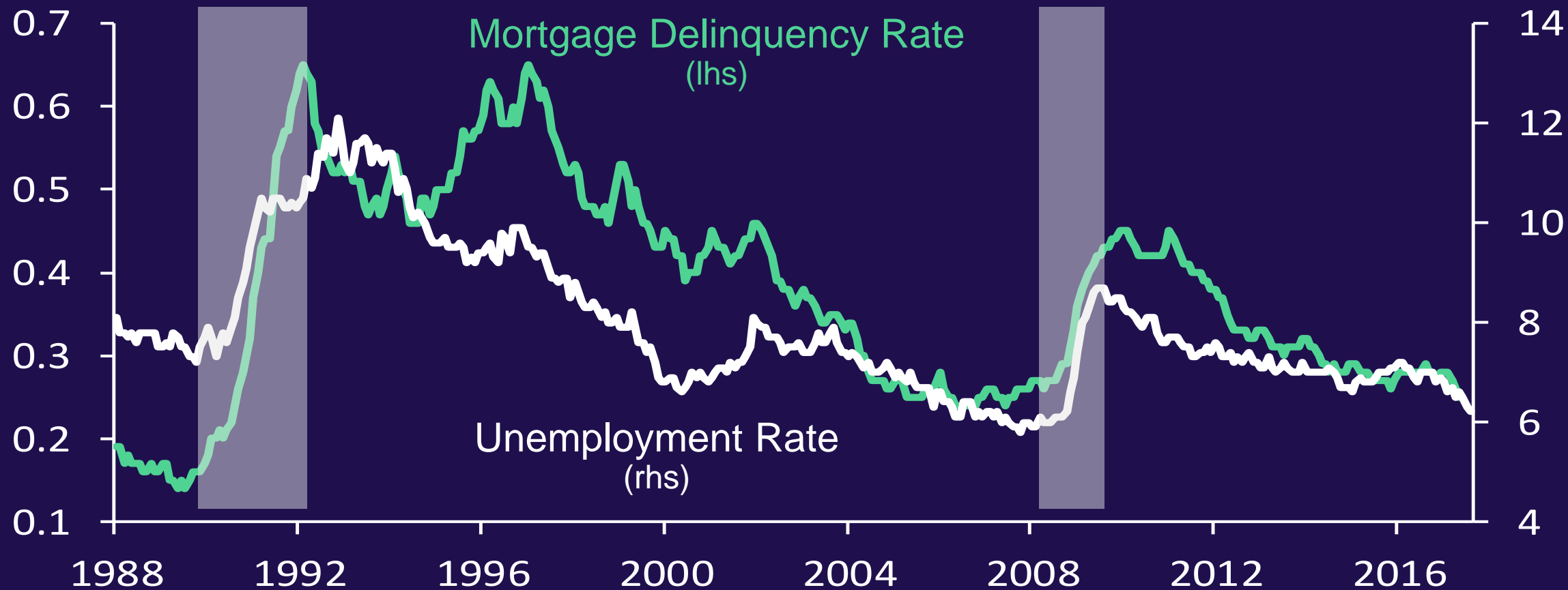
So 58% of Households Nearly Debt Free

Hence, Low Mortgage Delinquencies  
Only 20%-to-30% Need CMHC Insurance  
Most Loans Are Fixed Rate



# Mortgage Arrears Very Low

(percent)



Shaded regions represent periods of Canadian recessions  
Source: Haver Analytics, CBA, Statistics Canada

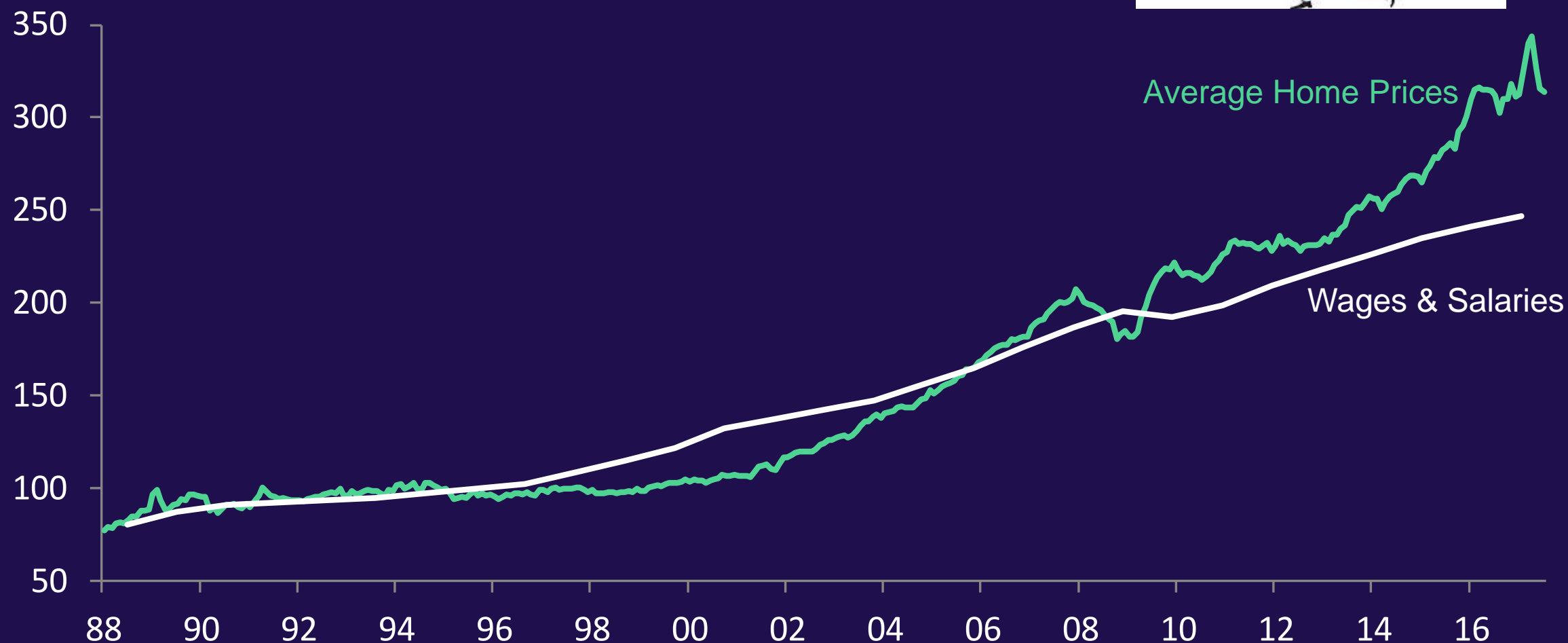


# But Unaffordable In Vancouver and Toronto

(seasonally adjusted: January 1995 = 100)

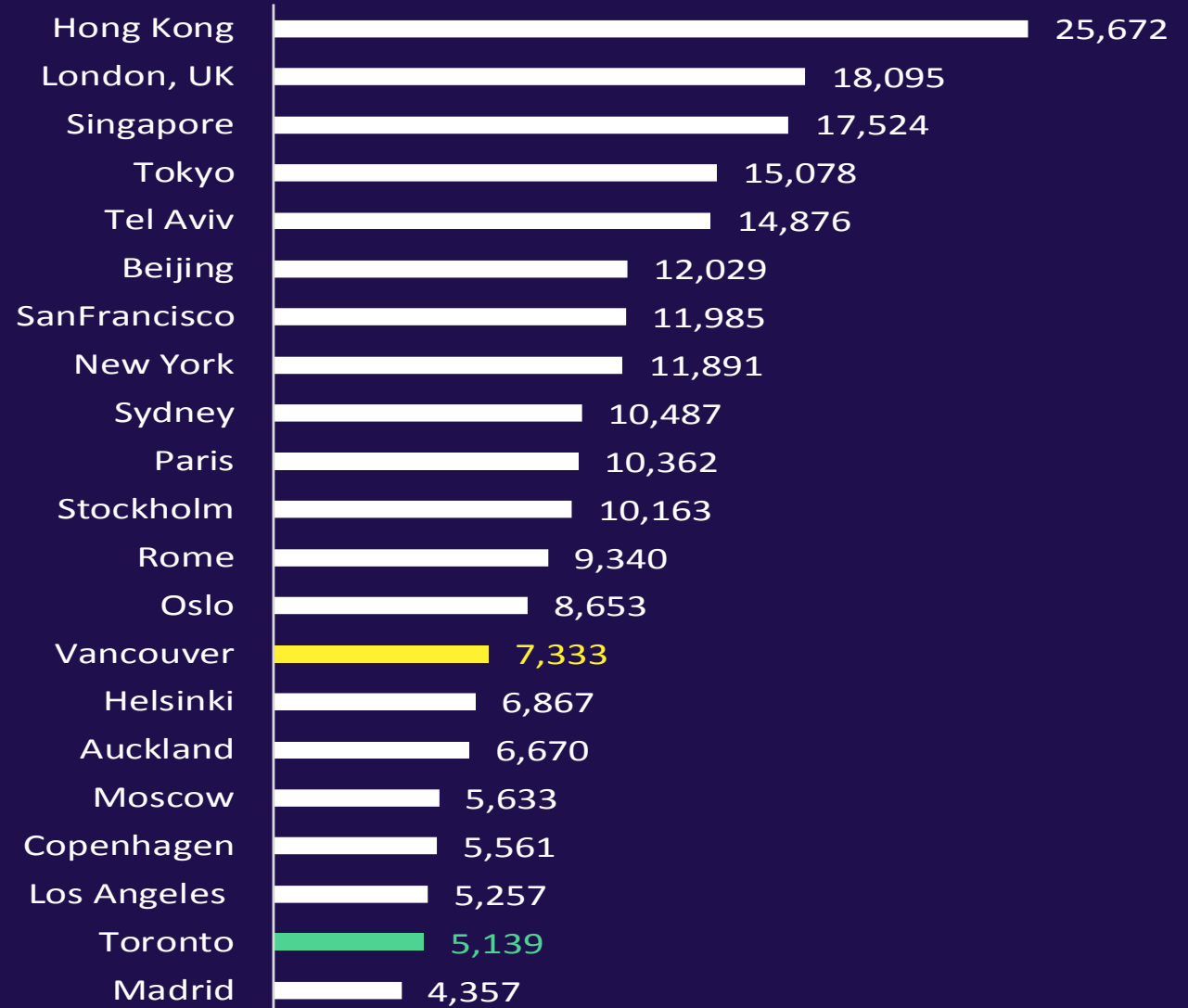


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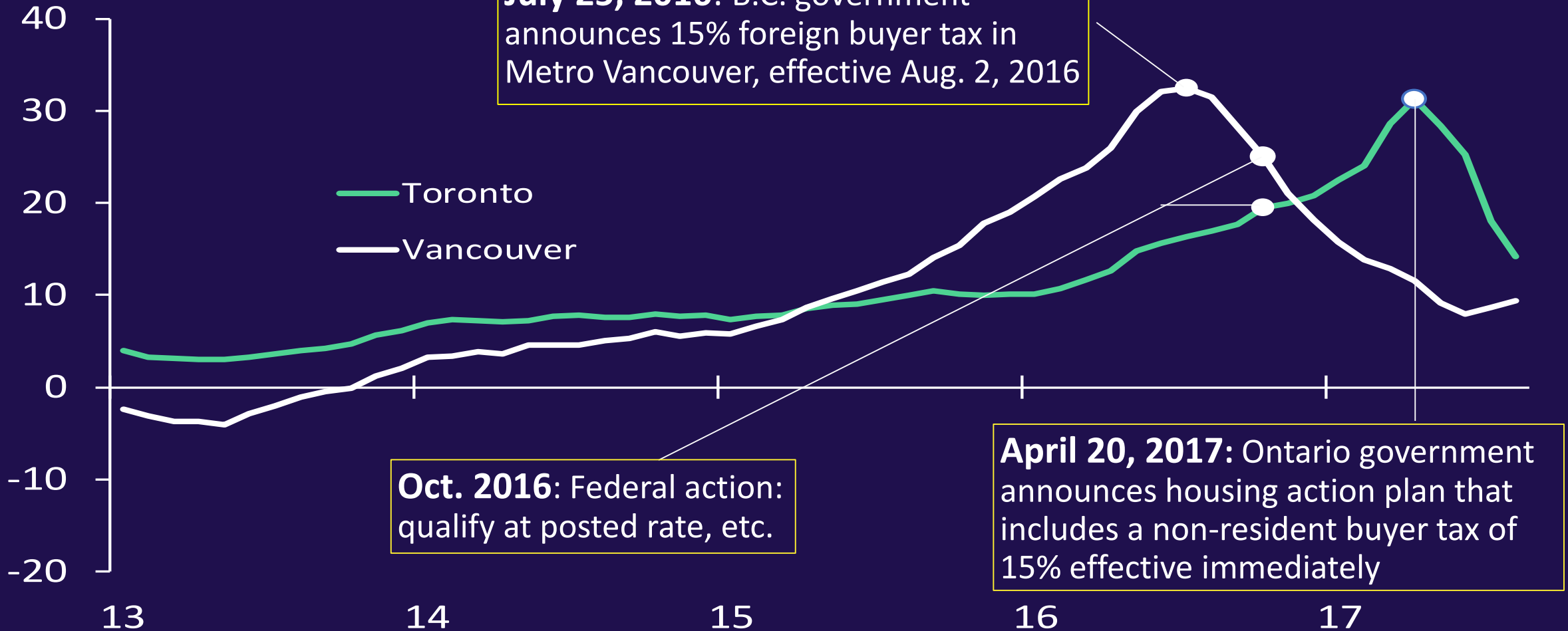
# Toronto and Vancouver Prices Lag Global Cities

Buyer price per square meter, Apartment  
(US\$/square meter)



# The Cooling Vancouver and Toronto Price Gains

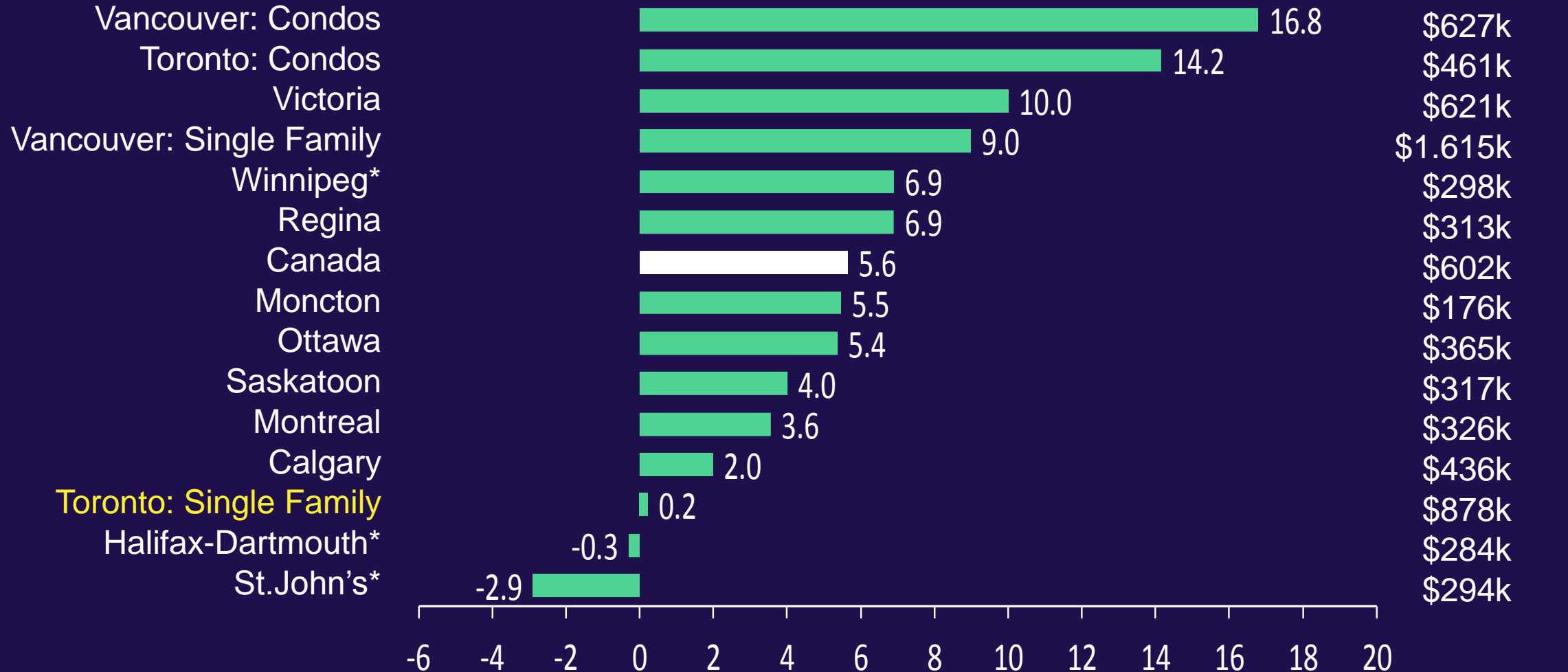
Composite Home Price Index  
(year/year % change)



# Condo Prices Hold Better Than Single Family Homes

MLS® Home Price Index (HPI)

(6-month percentage change: as of August 2017)



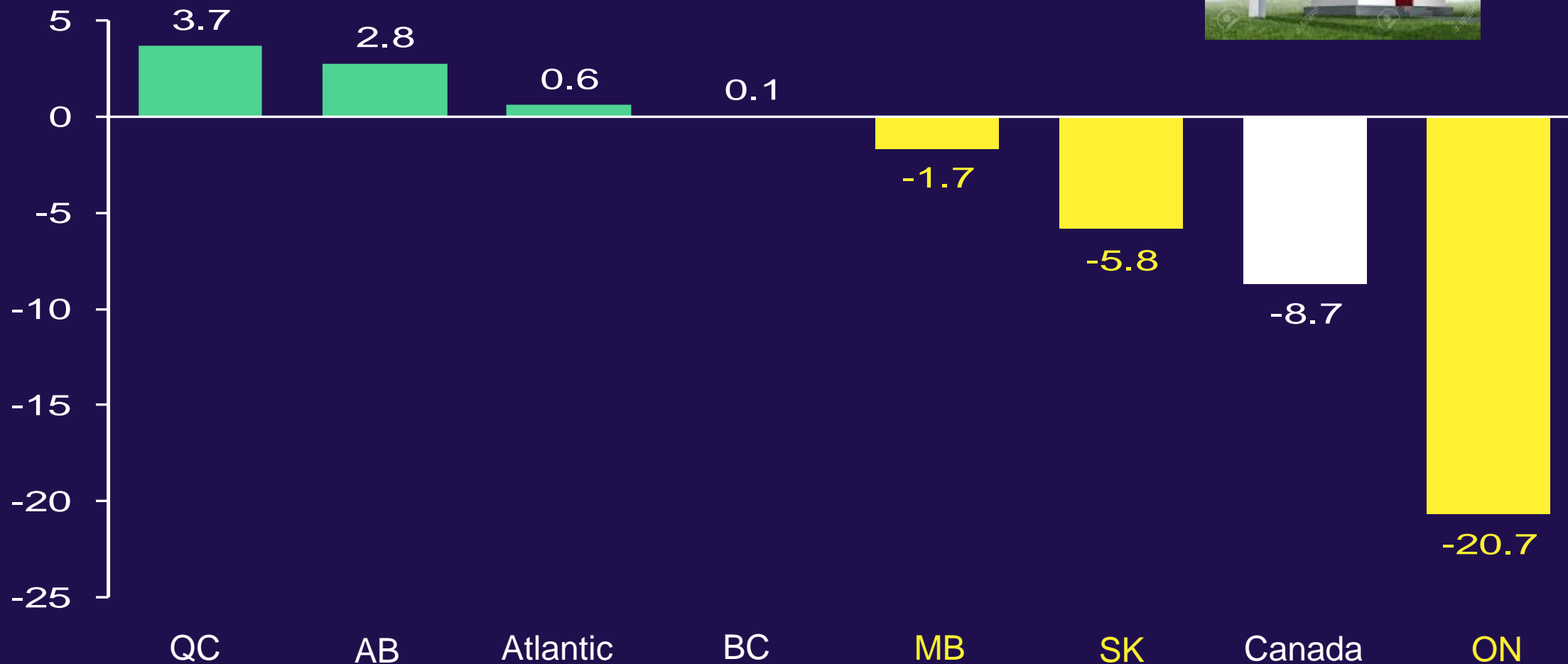
\*Using average home prices; year/year % change  
Source: Canadian Real Estate Association (CREA)

# Home Sales Decline In ON and B.C.

Existing Home Sales  
(year/year % change, August 2017)



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Source: Canadian Real Estate Association, Haver Analytics



# Toronto Markets Now Balanced

Toronto Area Sales to New Listings Ratio  
(ratio)



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# Vancouver Markets Now Balanced

Vancouver Area Sales to New Listings Ratio  
(ratio)



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# Home Price Forecast

CREA House Price Index  
(year/year % change)



Average Existing Home Prices (year-over-year % change)		
	Vancouver	Toronto
2017	2.8	10.4
2018	4.9	-5.8

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White bars indicate forecasts. Forecast provided TD Economics (as of August 2017)  
Source: CREA, Haver Analytics

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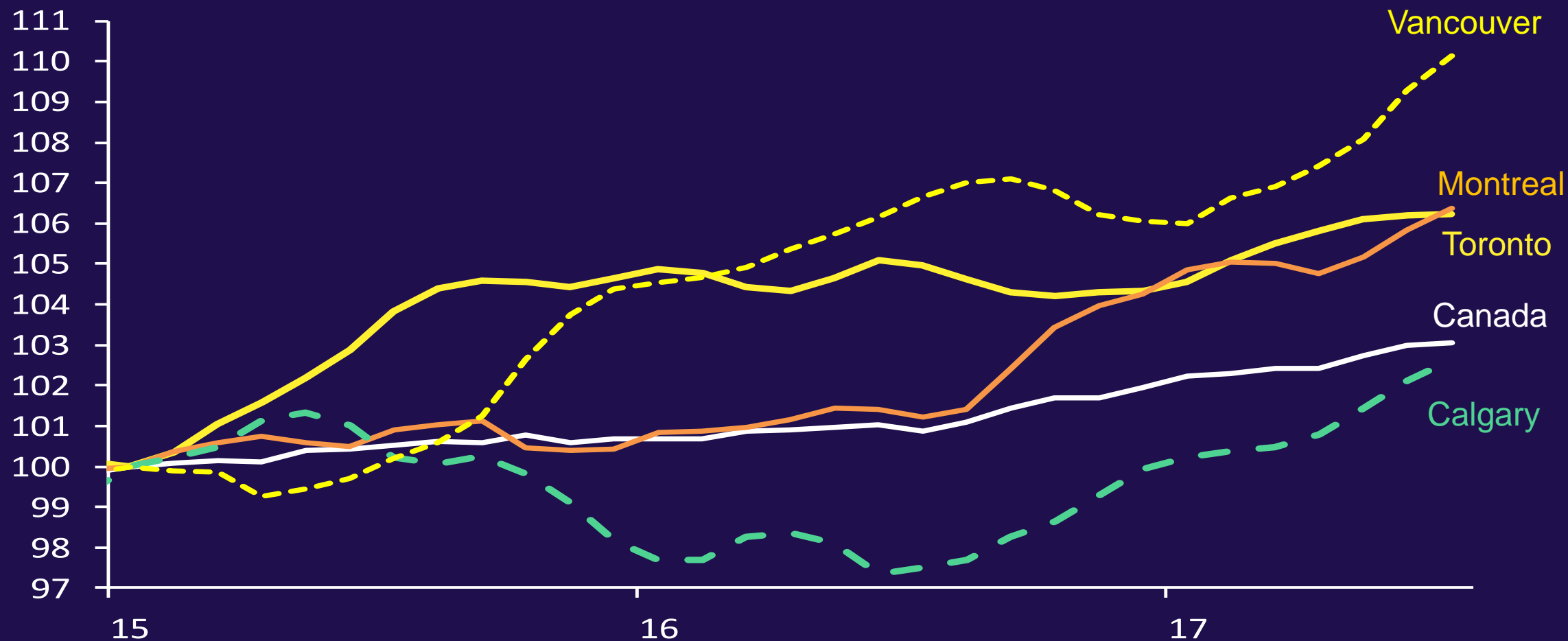
# Job Creation In Major Canadian Cities

Employment Level

(index: January 2015 = 100)



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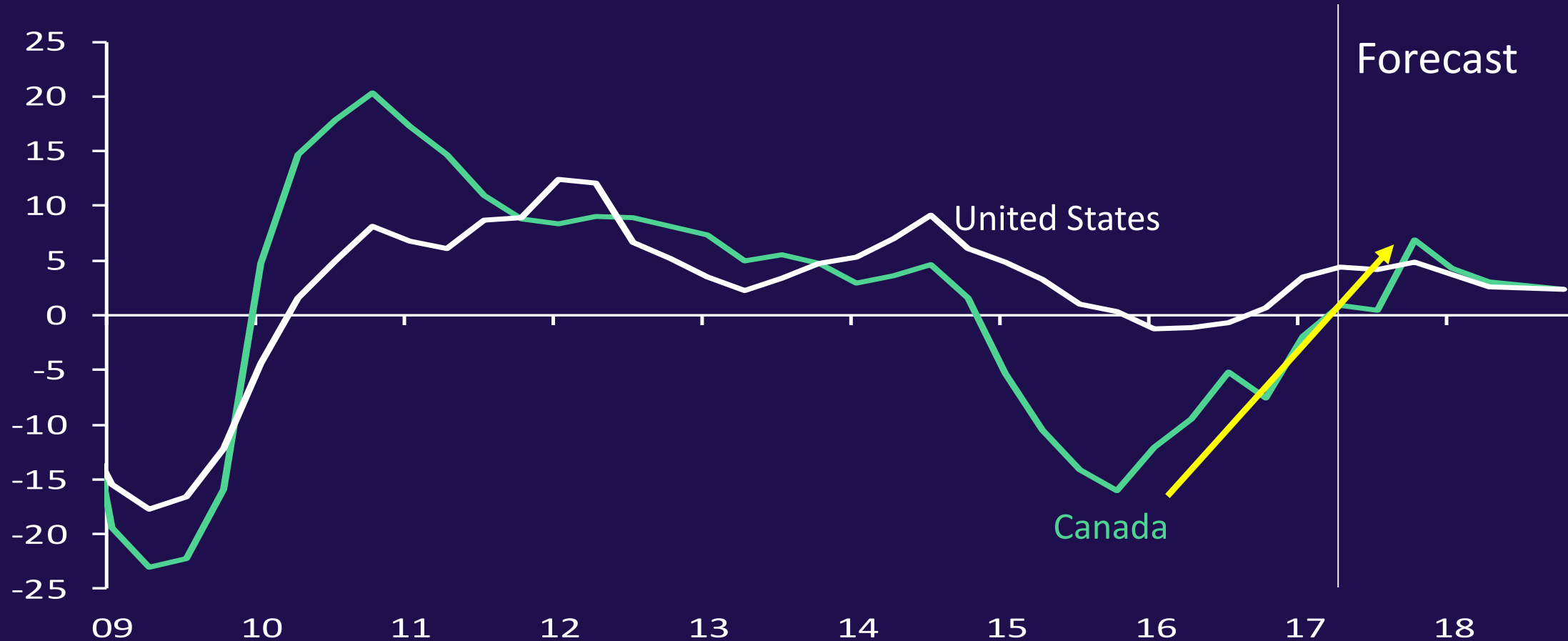


# Business Investment Finally Grows In Canada

Real Non-Residential Business Investment  
(year/year % percent)



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Forecast = BMO Capital Markets Economics  
Source: Haver Analytics, Statistics Canada, Bureau of Economic Analysis