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Canadian Housing In Flux

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Canada's Positive Surprises



Job Growth Strong

Alberta Begins Recovery

But...

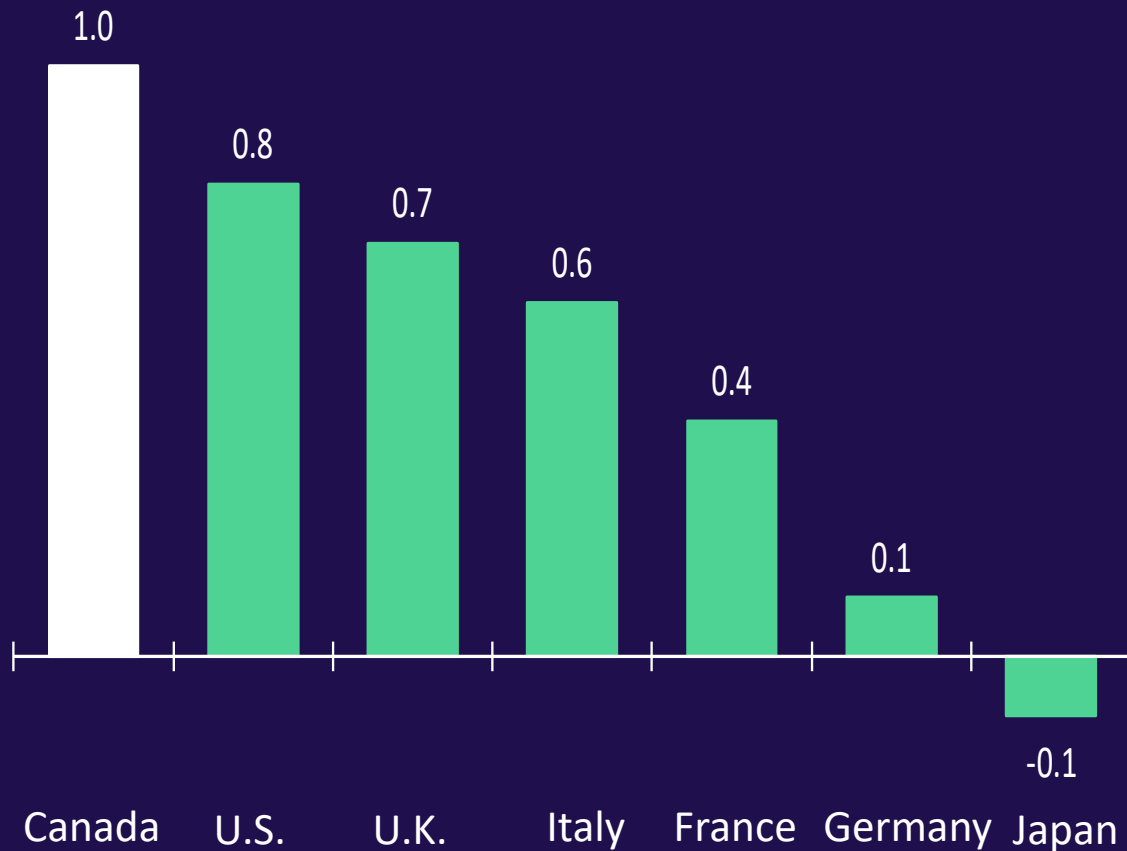
NAFTA Looms Large

Housing Slows

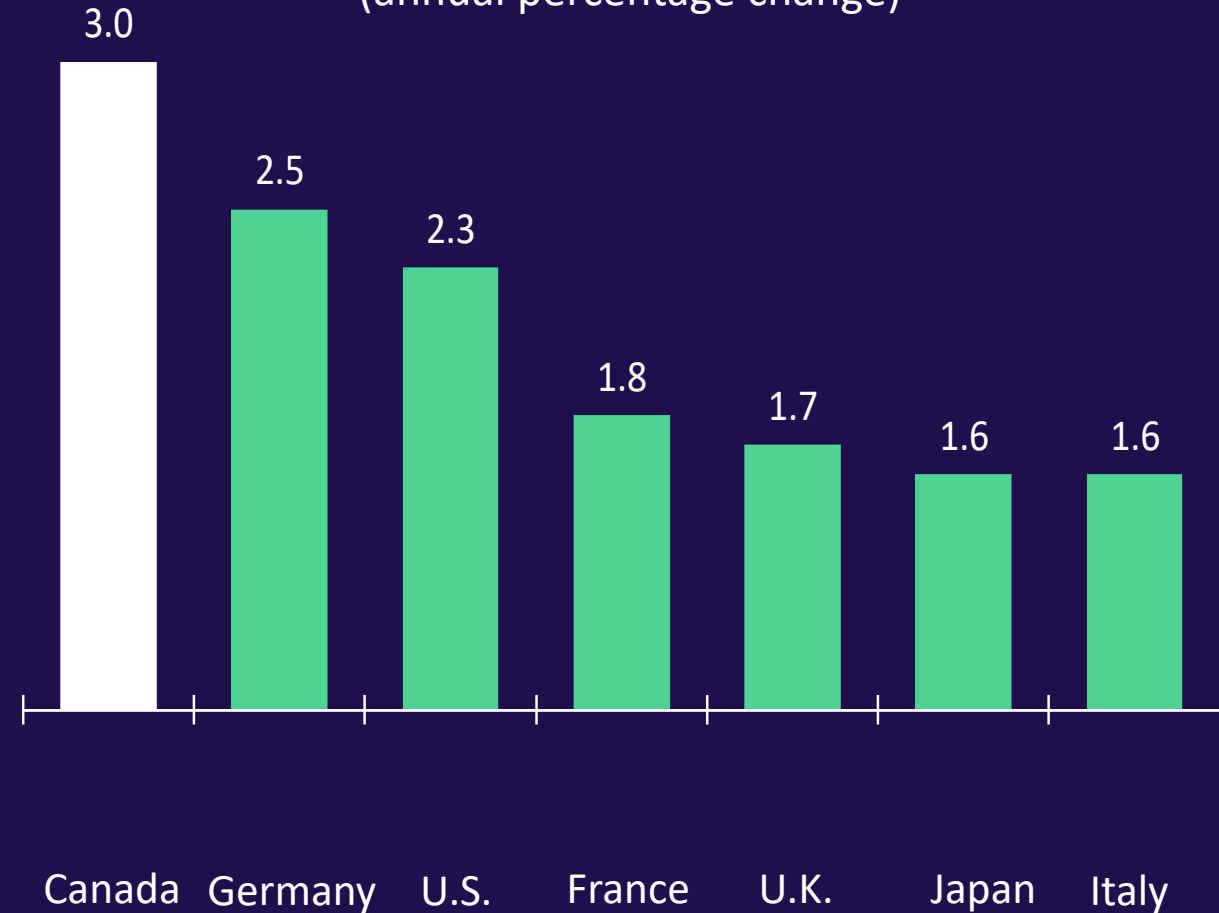
Consumers Spending Slows

Canada Led G7 In Population and GDP Growth Last Year

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



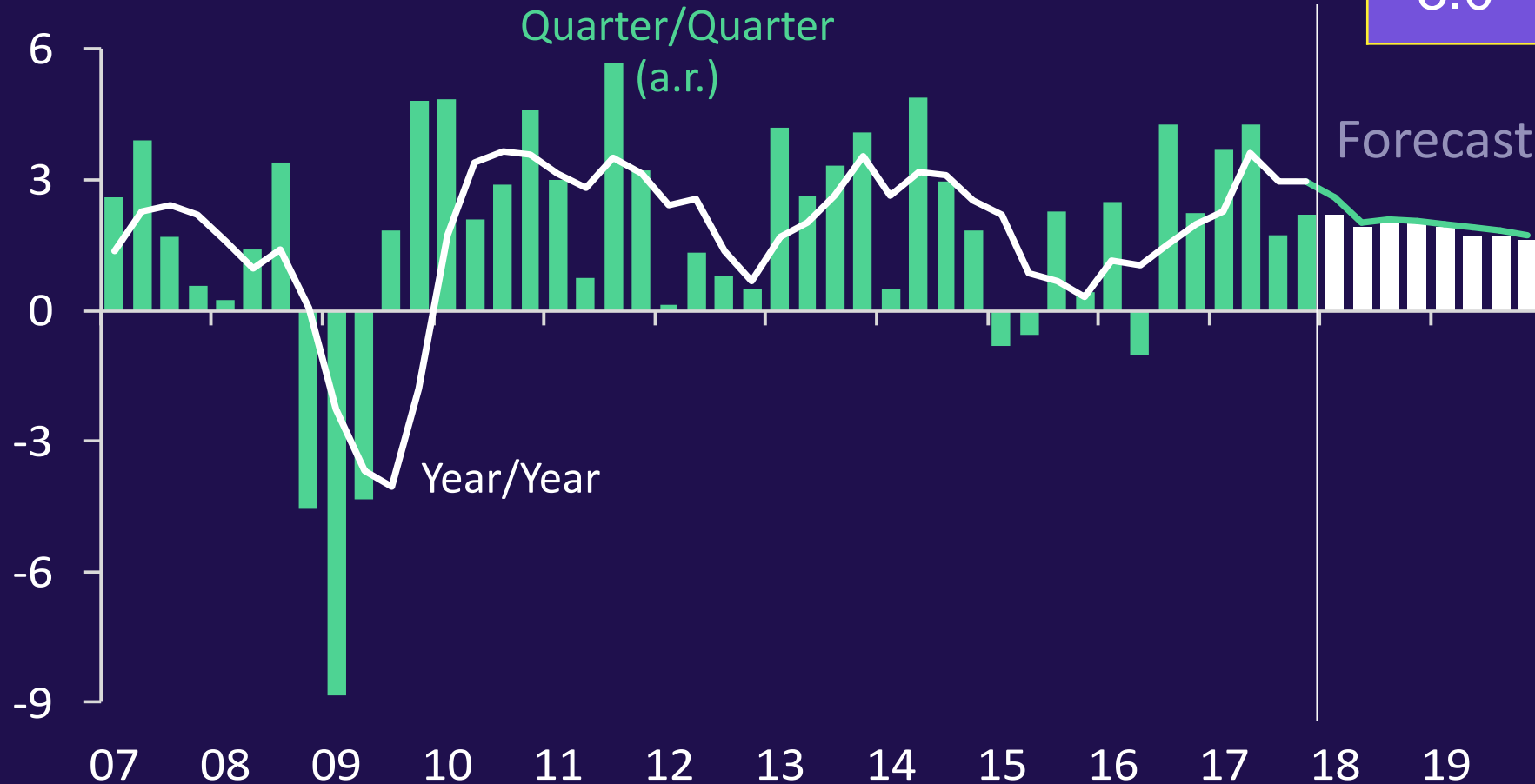
Real GDP Growth 2017
(annual percentage change)



Canadian Growth Slows in 2018

Real GDP
(percent change)

2017	2018	2019
3.0	2.2	1.8



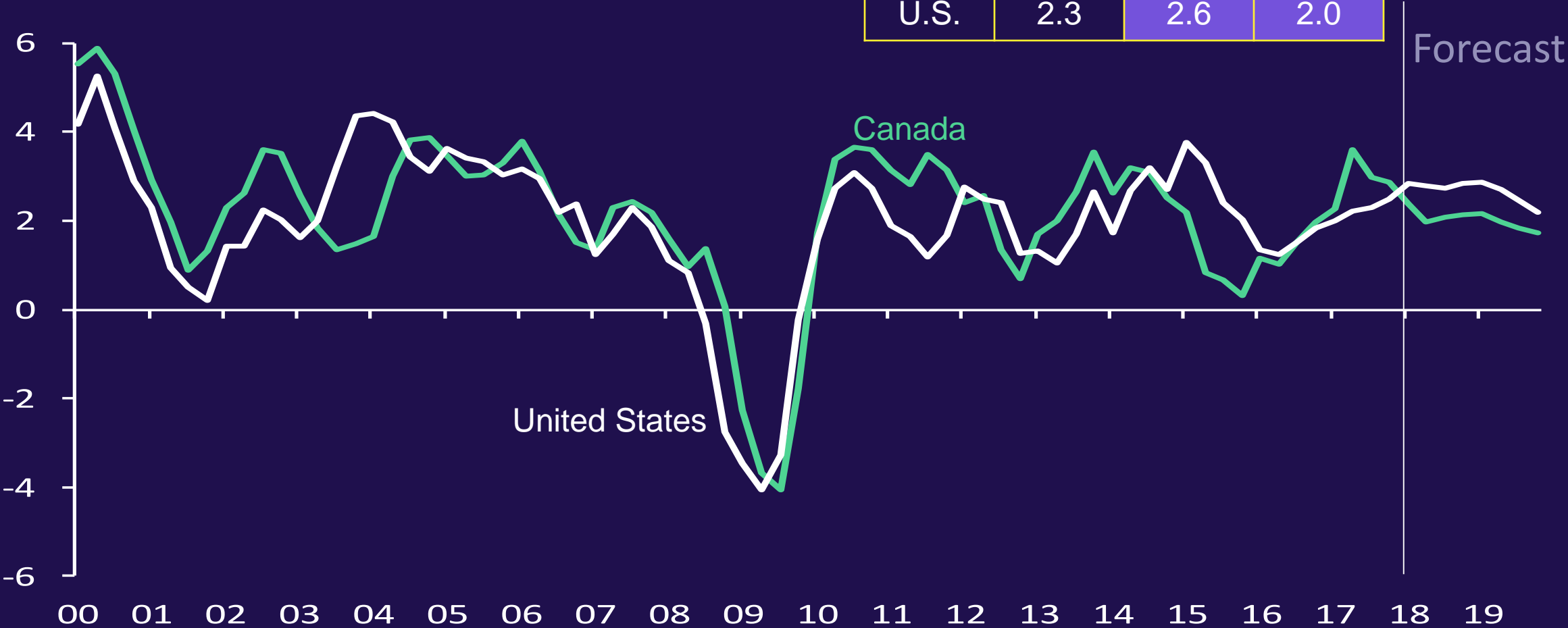
Forecast = BMO Capital Markets Economics

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

U.S. Growth Moves Up

Real GDP
(year/year % percent)

	2017	2018	2019
Canada	3.0	2.2	1.8
U.S.	2.3	2.6	2.0



Unemployment Rate

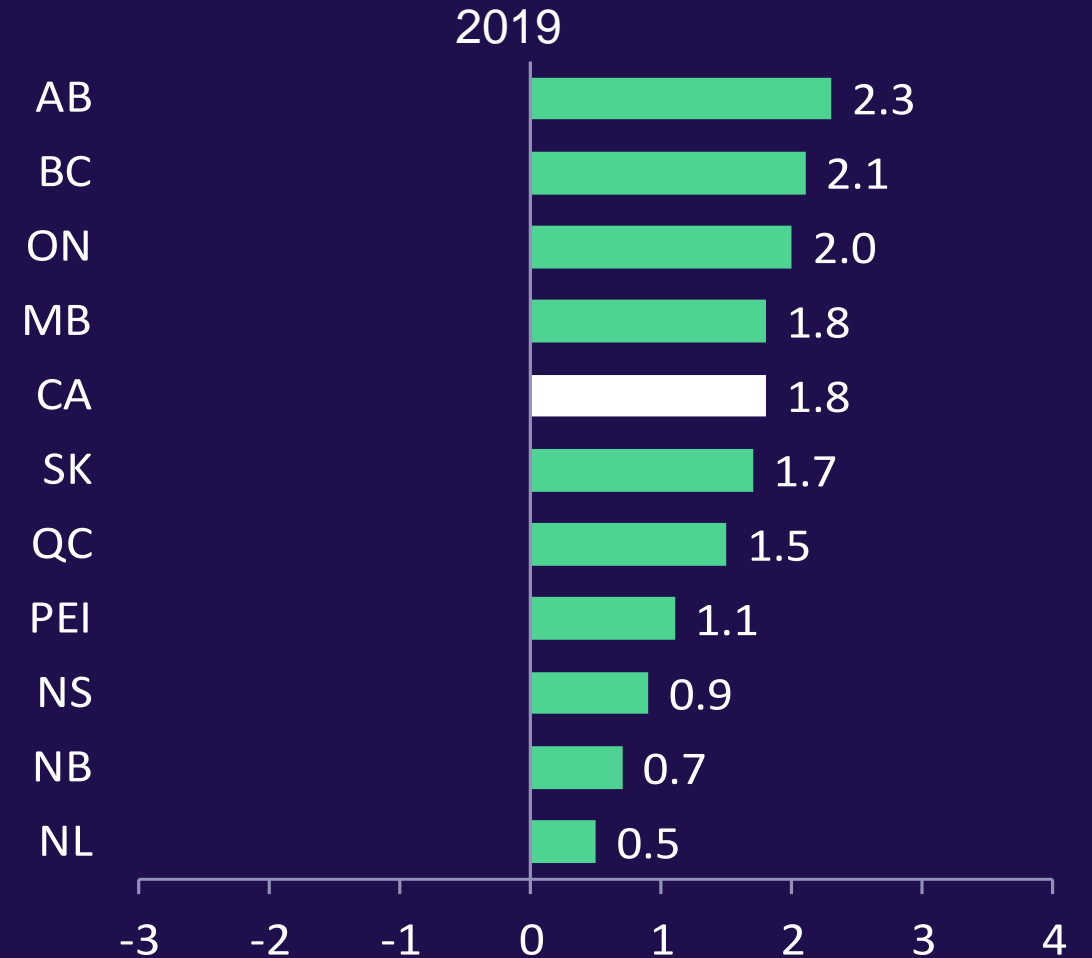
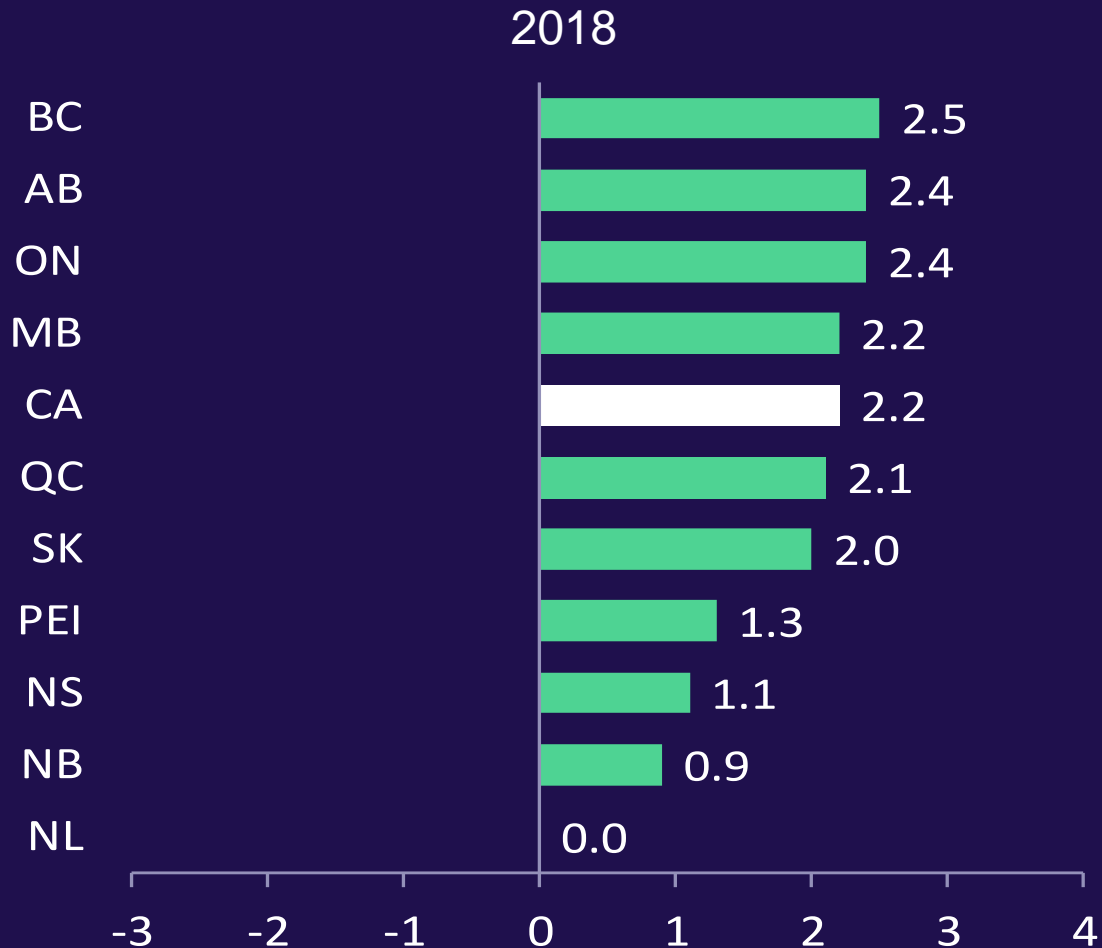
(percent)

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B.C. on Top As Alberta Climbs Back

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



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

Interprovincial Migrants
(level, 4-quarter moving average)



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Financial Markets



Bank of Canada Cautious

Fed Raises Rates

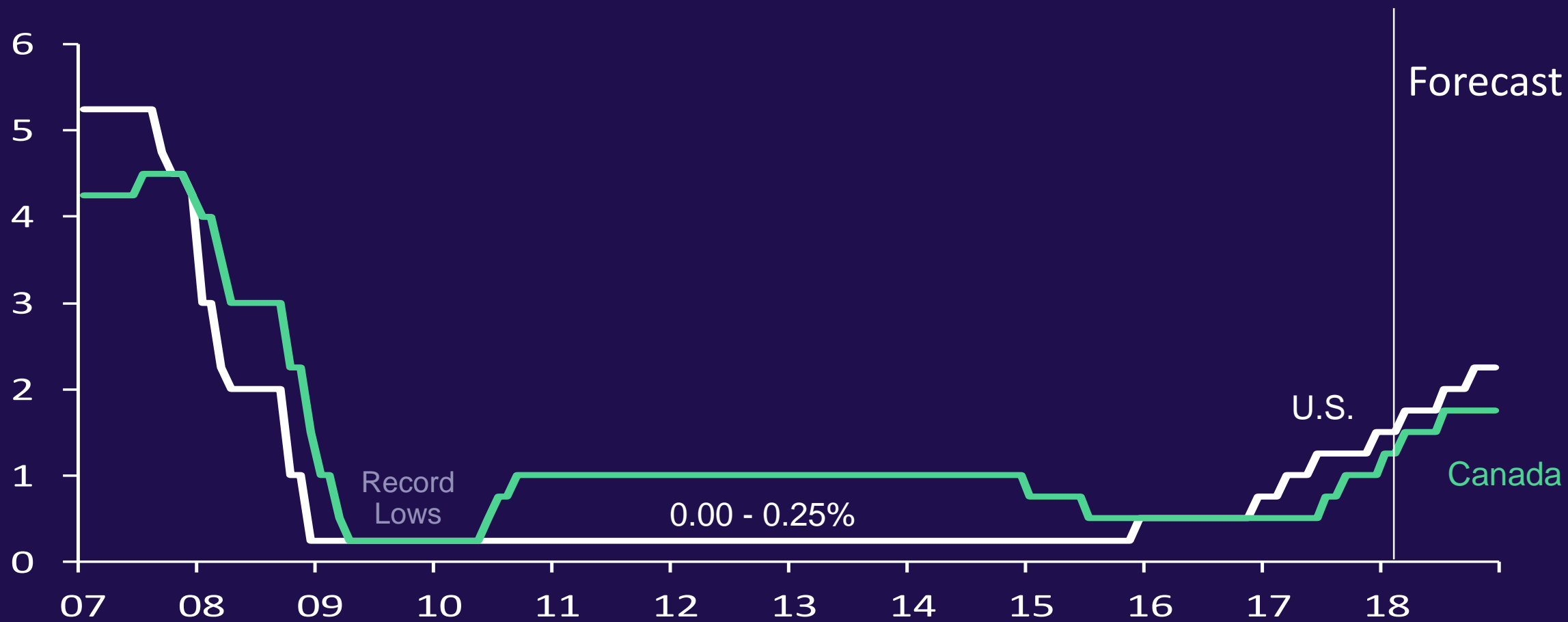
Mortgage Rates Rising

Bank Of Canada Hikes Rates

Overnight Rate
(percent)



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Forecast = Sherry Cooper Assoc.

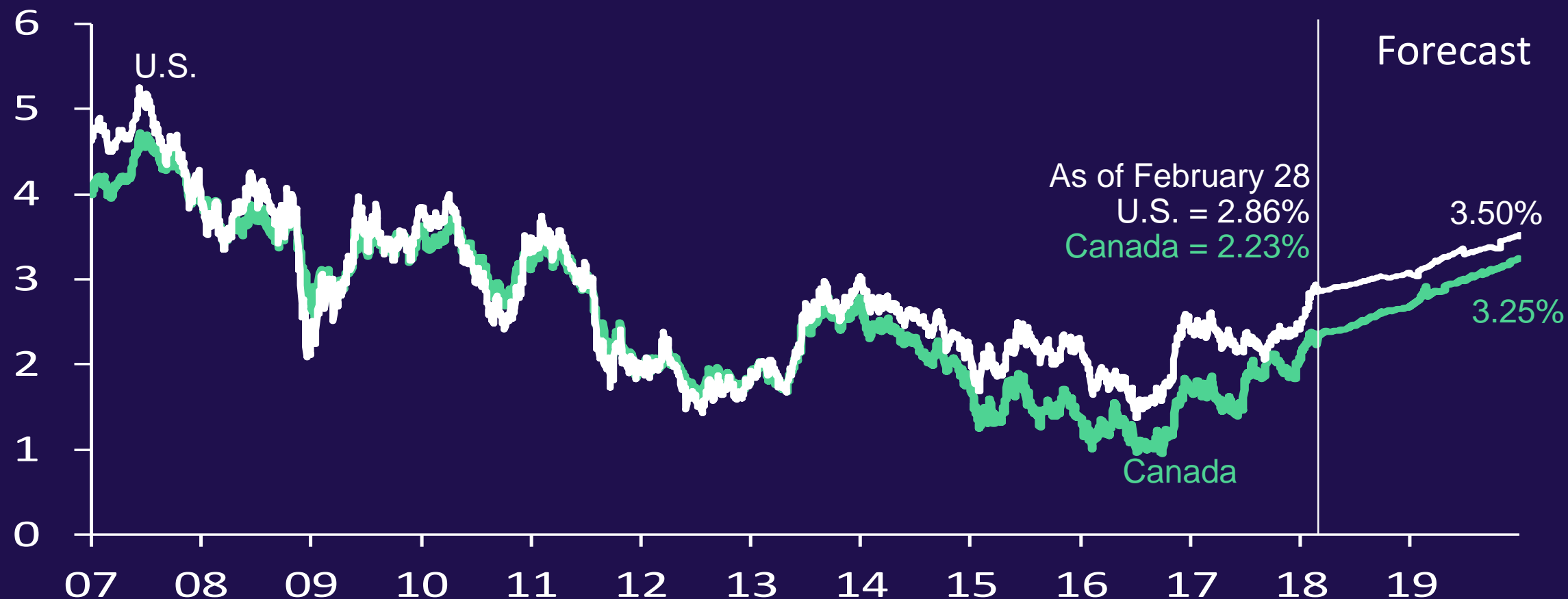
Source: Haver Analytics, Bank of Canada, Federal Reserve Board

Long Yields Edge Upward On Fed Rate Hikes

10-year Bond Yields
(percent)



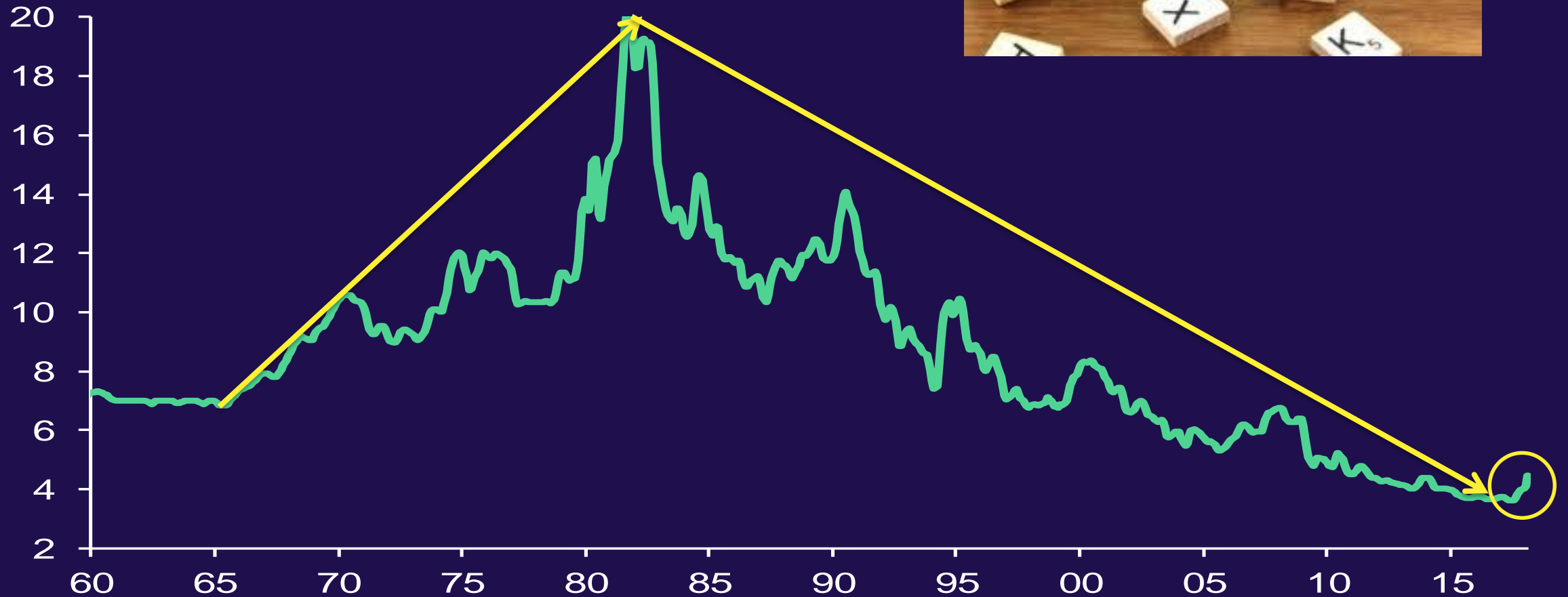
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Forecast = BMO Capital Markets
Source: Bank of Canada, Federal Reserve Board

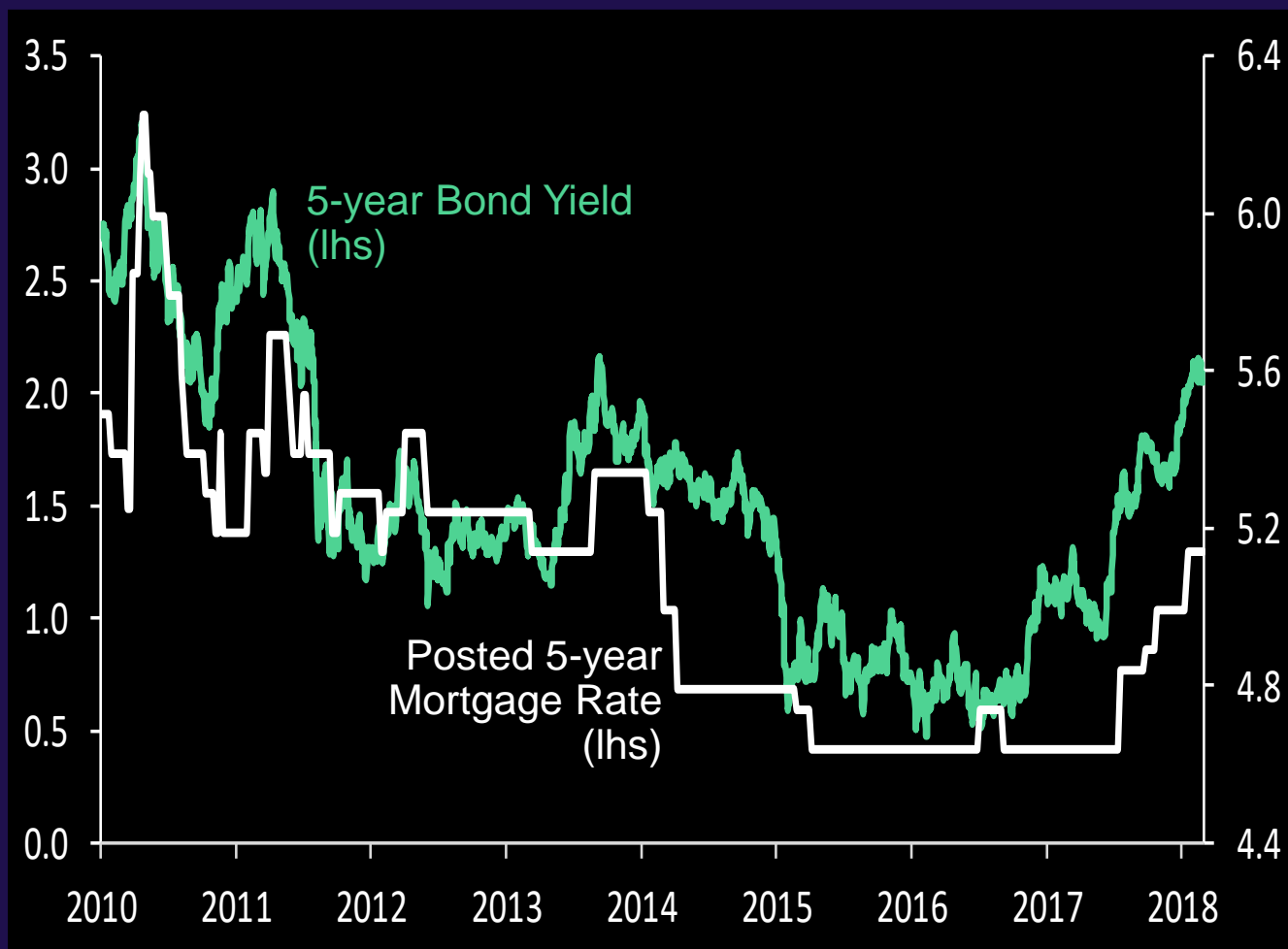
Mortgage Rates Have Bottomed

Posted 5-Year Fixed Mortgage Rate
(percent, 3-month moving average, as of February 28, 2018)



Upside for Mortgage Rates

(percent) as of February 28, 2018



More Upward Pressure
68% or More Fixed Rate
New Buyers Hurt The Most
Resets Soon At Higher Rates

Housing Looms Large But Vulnerable



Huge Part of Economy
Overblown Bubble Worries
Exaggerated Debt Concerns
Govt Clamps Down
OSFI Stress Testing
Housing Slows
Markets Now Balanced

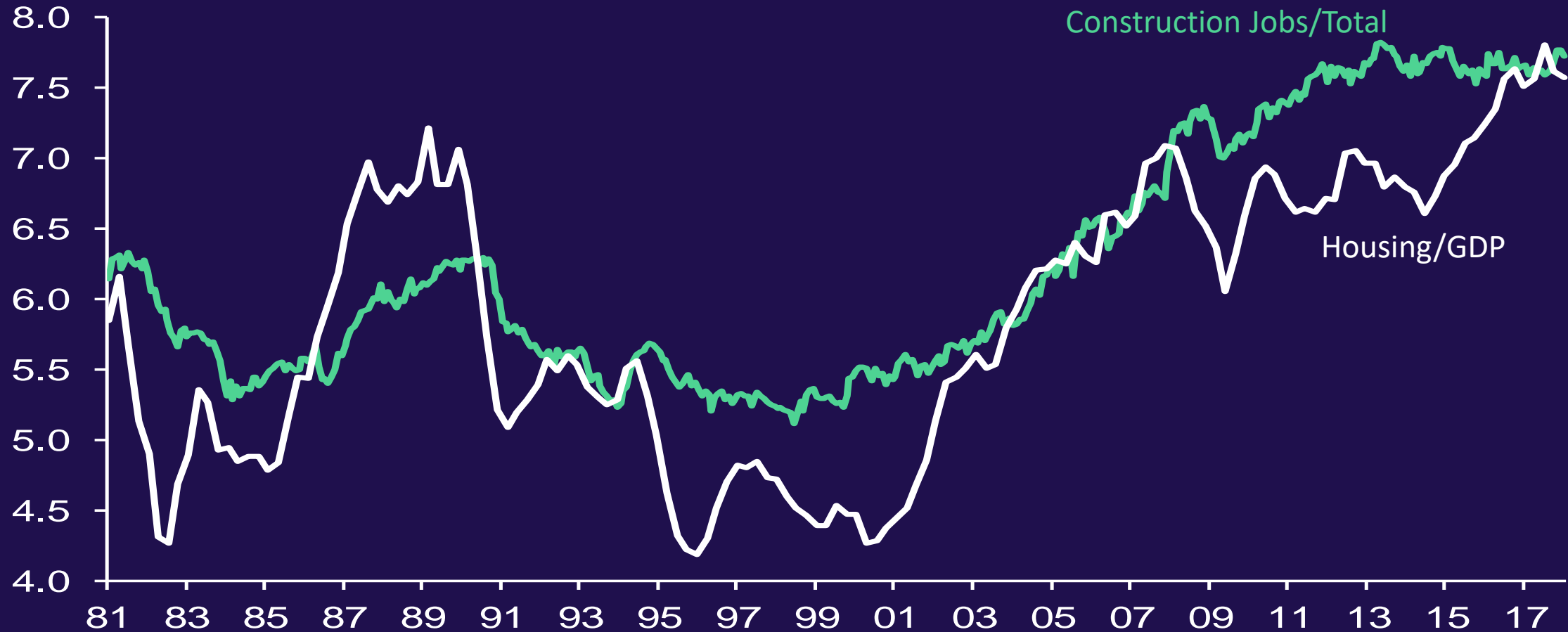
CMHC Rule Changes Benefit Big Banks Over Alternative Lenders

Growth Housing Led...But Slowing

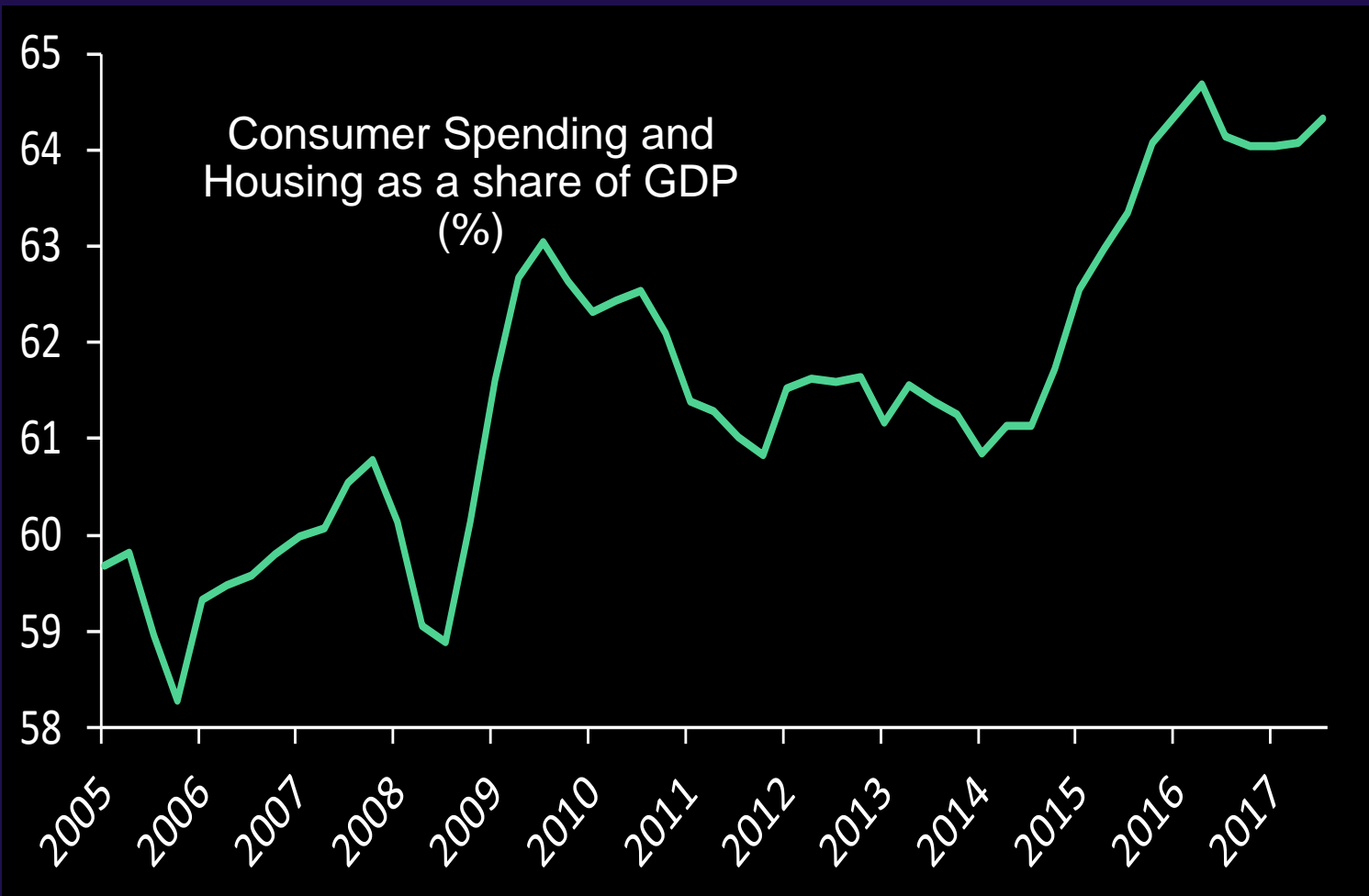
Canada
(percent)



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Housing Growth Slows...Tightening Continues

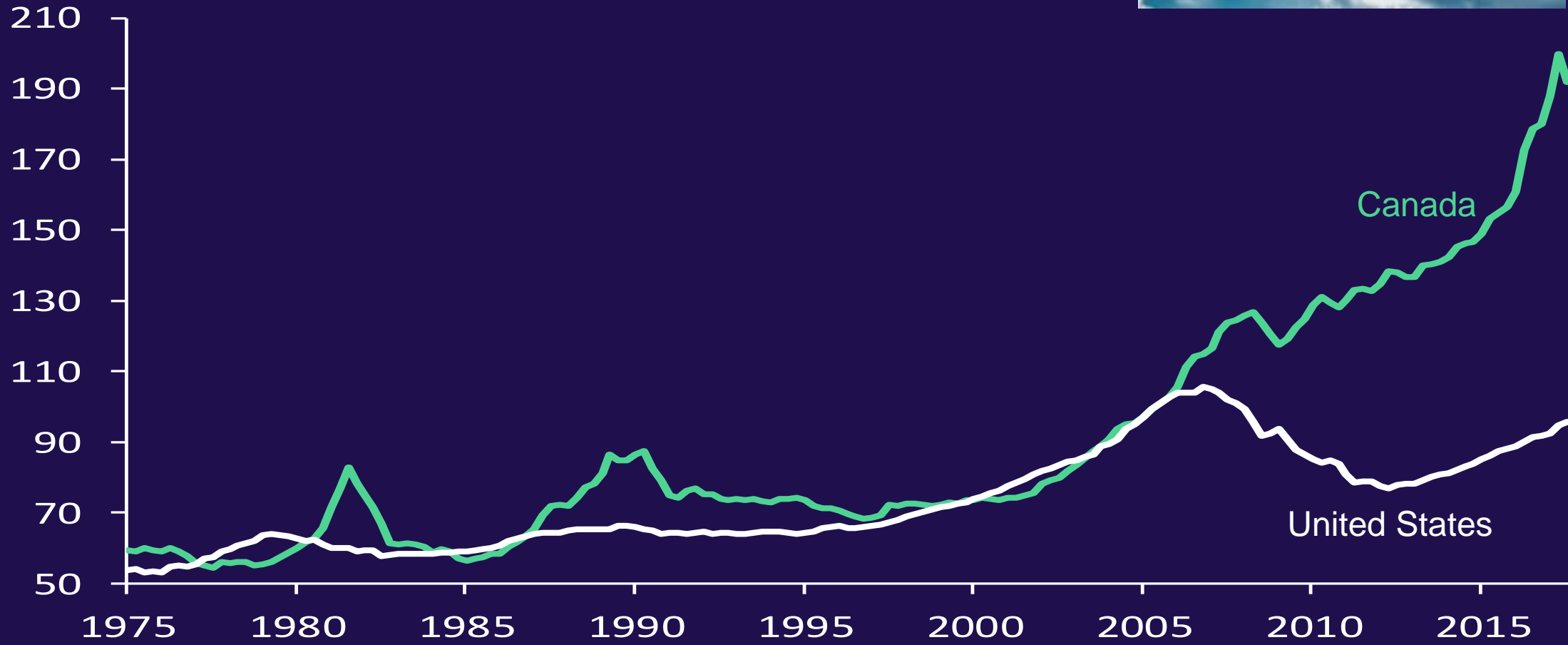


Credit Conditions Tightened
Banks Downgraded
Insured Mortgages Decline
Appraisers Lowering Values
Another OSFI Move
Risk Sharing With CMHC

Debt-Financed Bubble Worry

Real House Price Index

(index, 2005 = 100, seasonally adjusted)

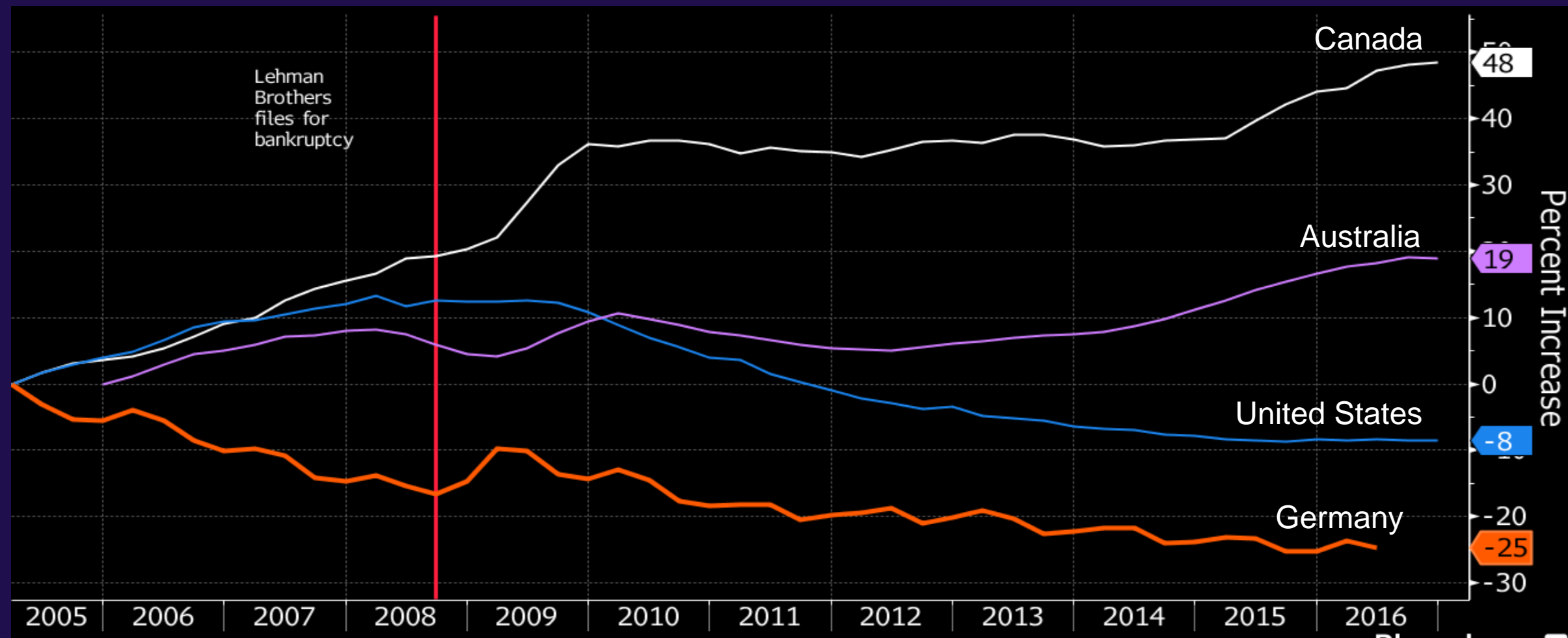


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Rising Risks: Record High Debt-to-GDP

Household Debt as a Percentage of GDP

(March 2005 = 100)



Source: Bloomberg, International Monetary Fund (IMF)

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



Bank Mortgage Books Are Rock Solid



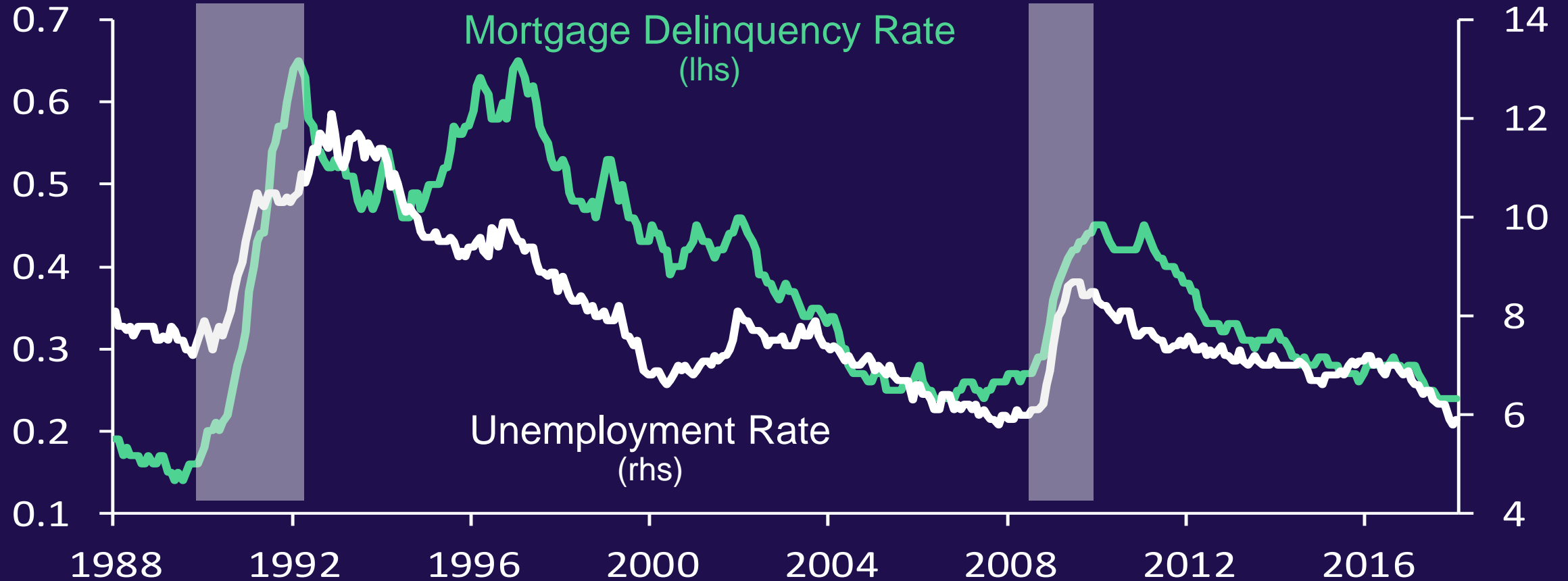
More Than 99% of Royal Bank's Uninsured Mortgage Portfolio Borrowers Have Credit Scores >650

And a LTVs of <75%

Its Average Uninsured Mortgage Has Almost 50% Equity

Mortgage Arrears Very Low

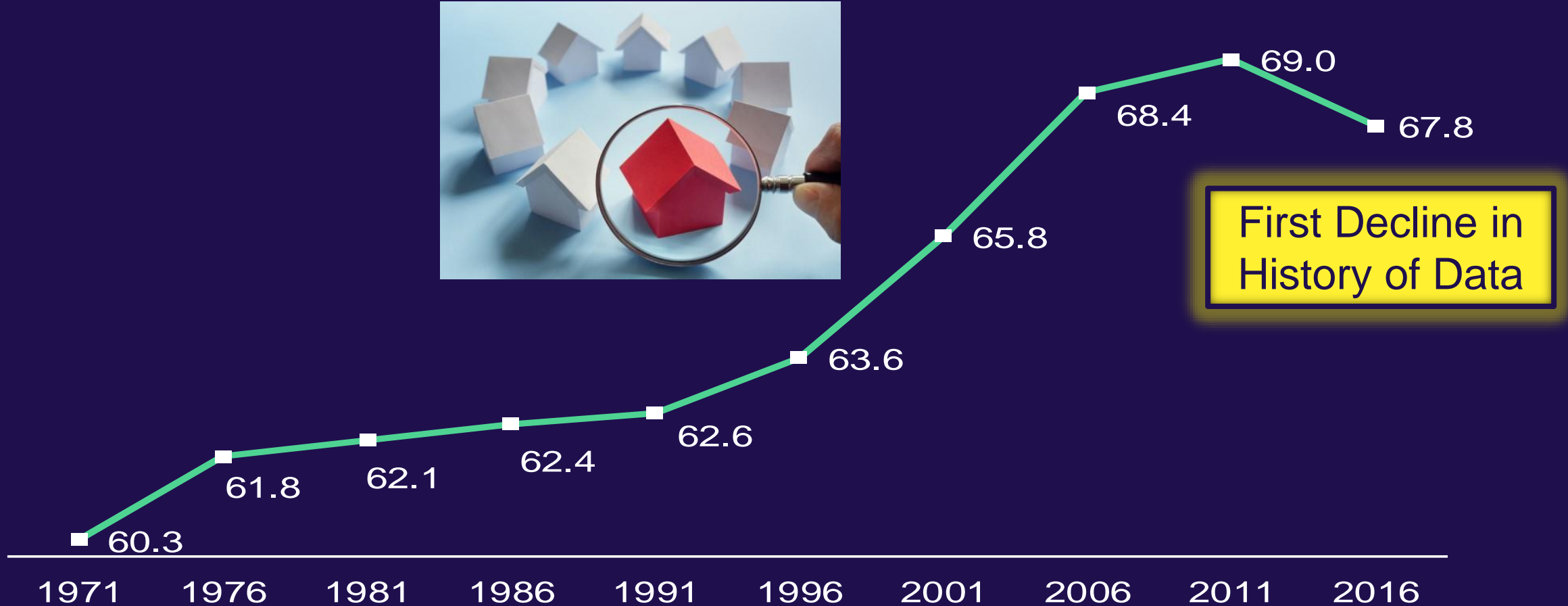
(percent)



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

Canadian Homeownership Ratio Falls

Homeowners as a % of all Canadian Households
(percent)



But Unaffordable In Vancouver and Toronto

(seasonally adjusted: January 1995 = 100)

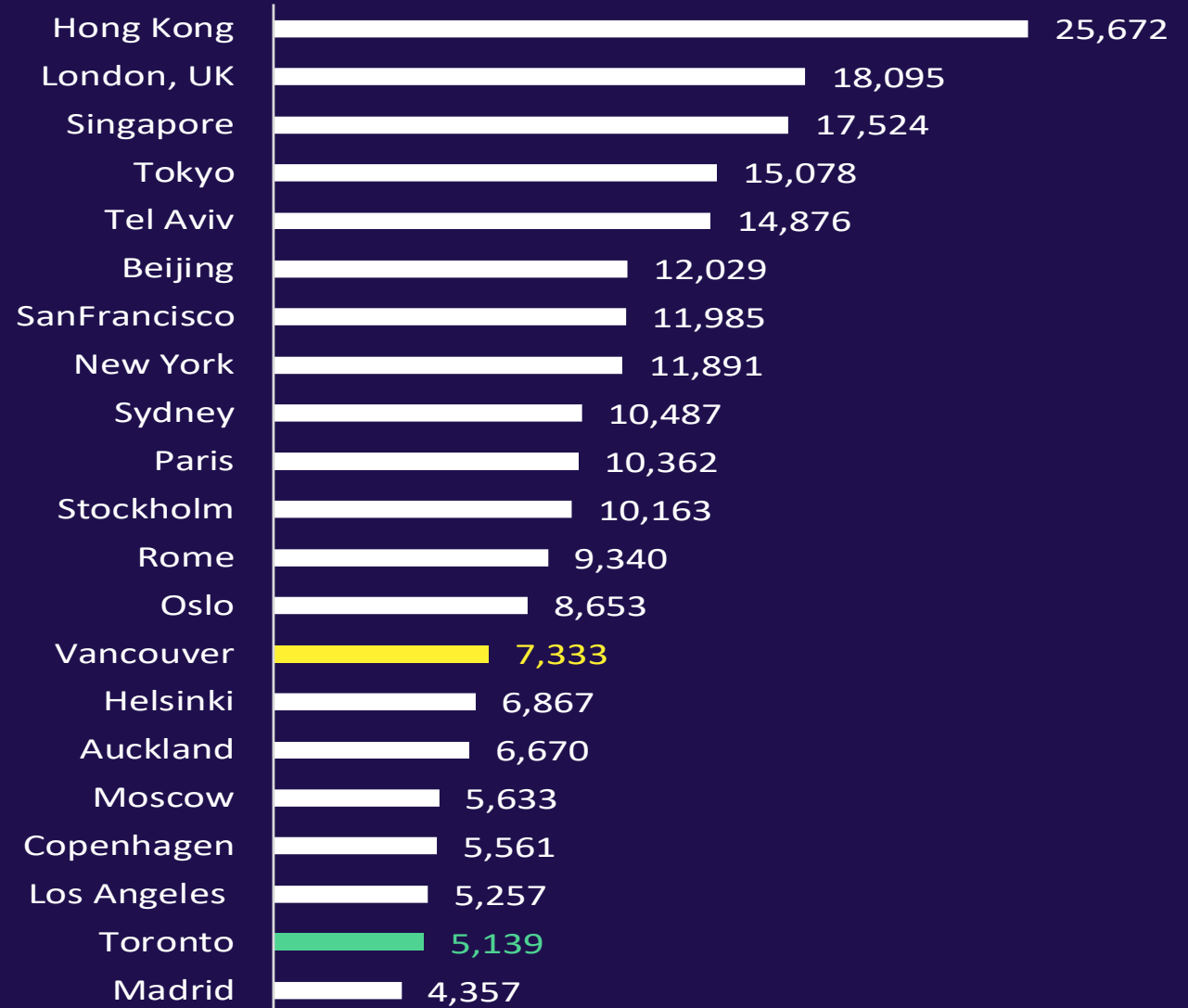


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Toronto and Vancouver Prices Lag Global Cities

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



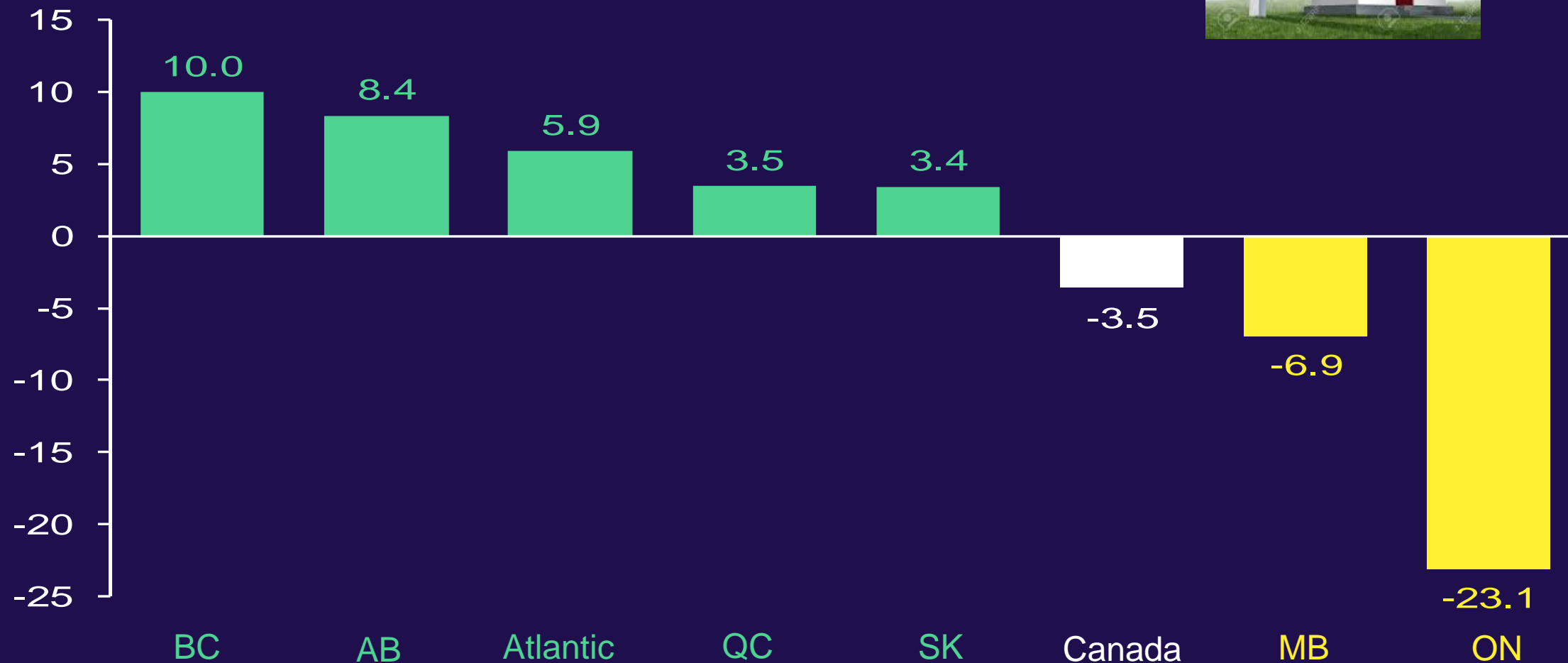
Home Sales Decline In ON and B.C.

Existing Home Sales

(year/year % change, January 2018)



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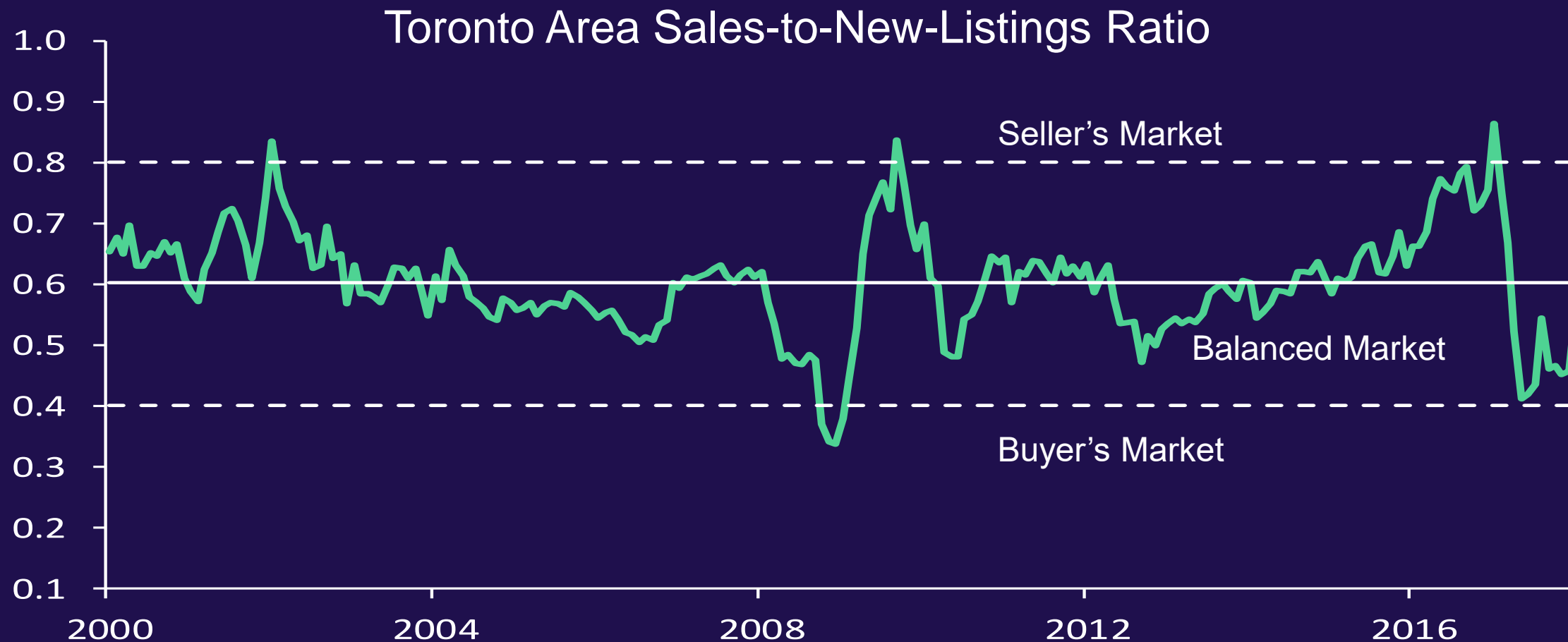
Source: Canadian Real Estate Association, Haver Analytics

Toronto Markets Now Balanced

(ratio, January 2018)



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Vancouver Markets Now Balanced

(ratio, January 2018)



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Vancouver Area Sales-to-New-Listings Ratio

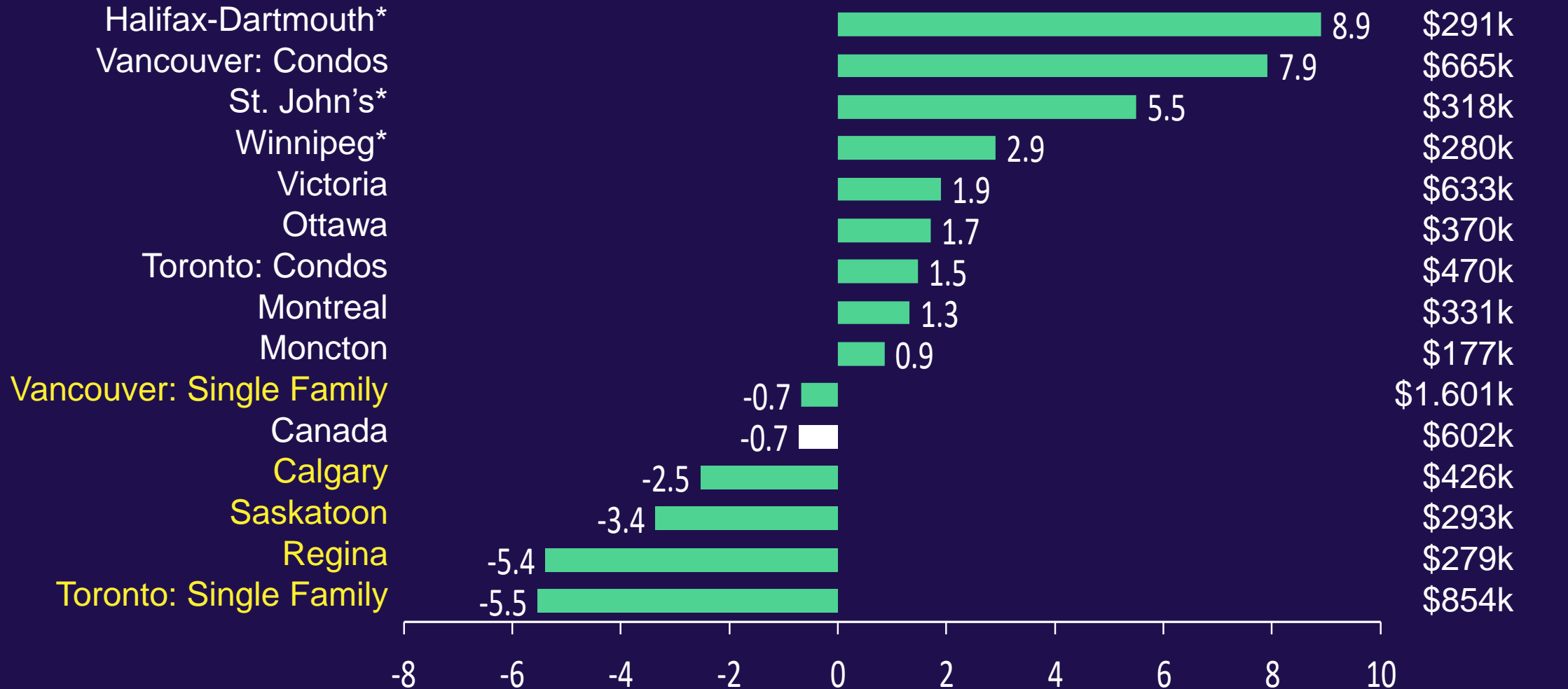


Source: Canadian Real Estate Association, Haver Analytics

Condo Prices Hold Better Than Single Family Homes

MLS® Home Price Index (HPI)

(6-month percentage change: as of January 2018)



*Using average home prices; year/year % change. Data as of December 2017

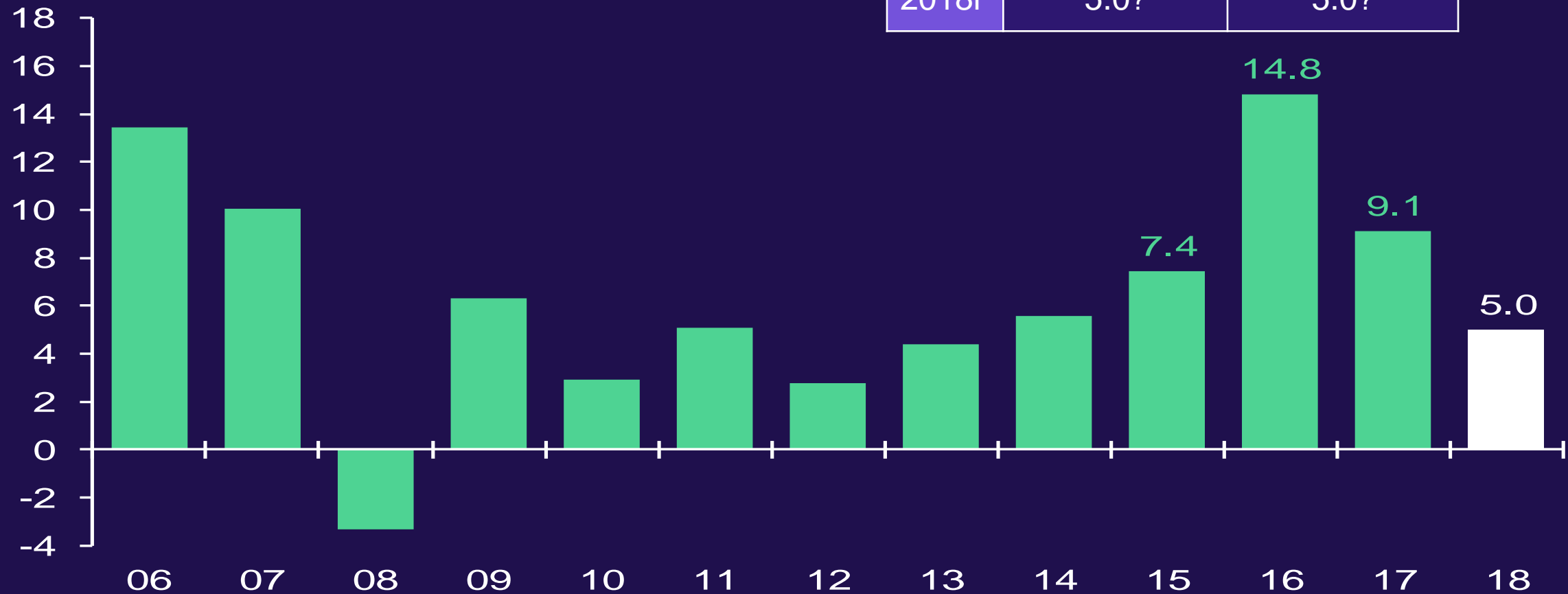
Source: Canadian Real Estate Association (CREA)

Home Price Forecast

MLS Home Price Index
(year/year % change, annual, December)

MLS Home Price Index (year-over-year % change, Dec.)		
	Vancouver	Toronto
2017	15.9	7.2
2018f	5.0?	5.0?

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White bar indicates forecast.
Source: CREA, Haver Analytics

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March 1, 2018



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