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Canadian Housing Soft Landing

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May 9, 2018



Canada's Economic Slowdown



Job Growth Strong
Alberta In Recovery
But...

Housing Slows

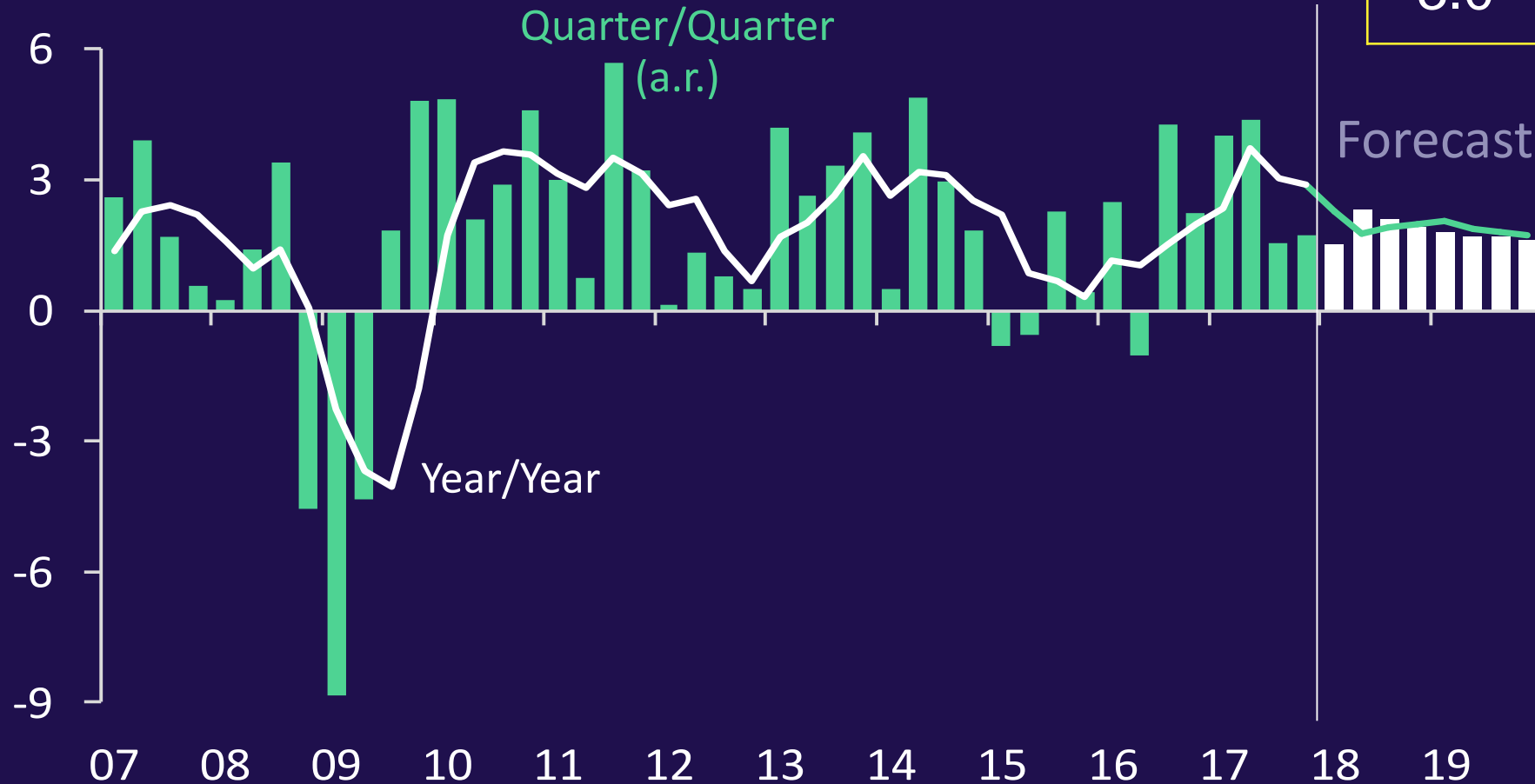
Consumers Spending Slows

NAFTA Uncertainty

Canadian Growth Slows in 2018

Real GDP
(percent change)

2017	2018	2019
3.0	2.0	1.8

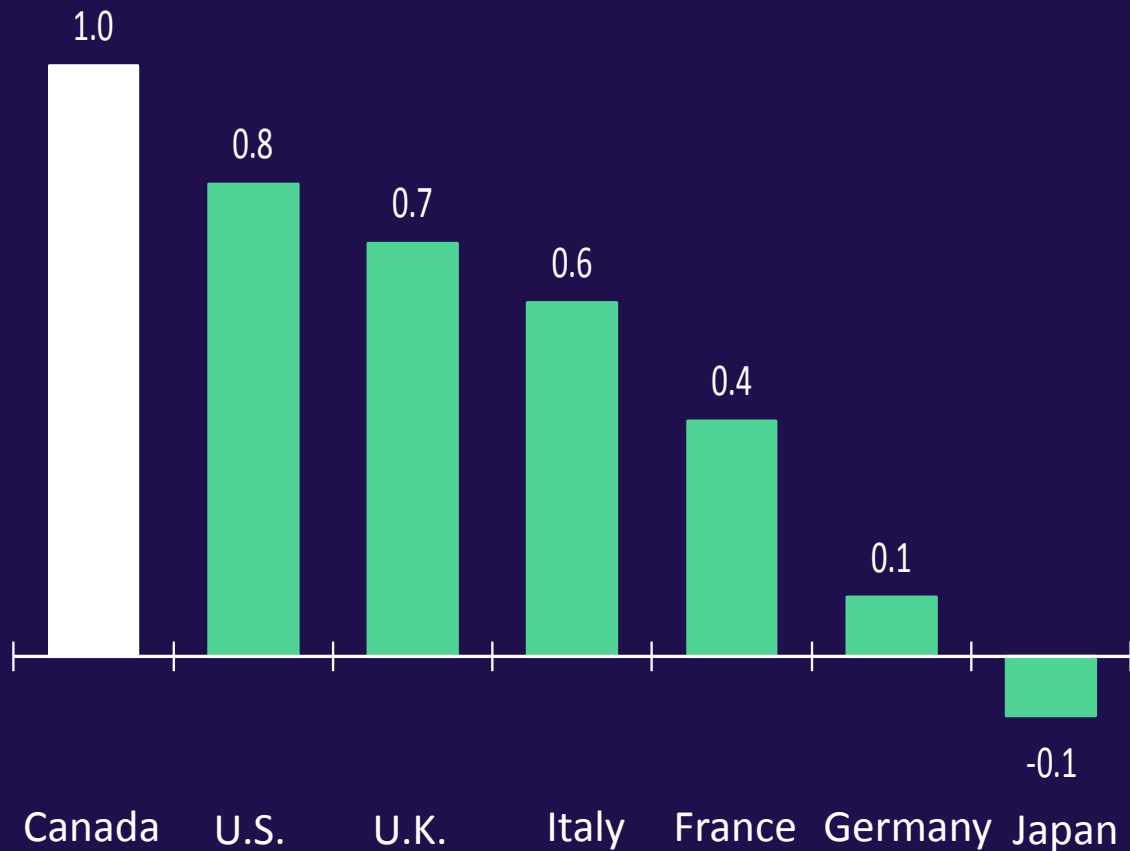


Forecast = BMO Capital Markets Economics

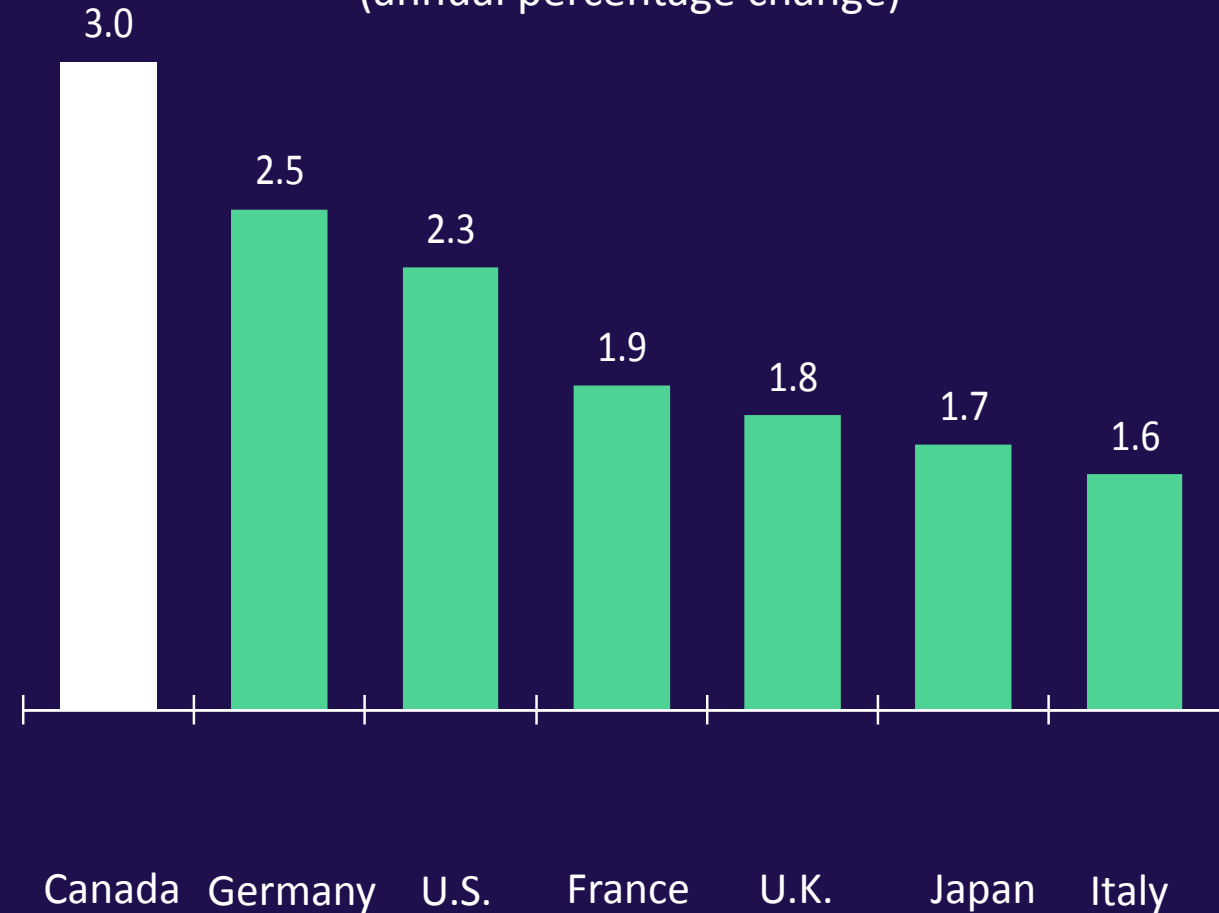
Source: Haver Analytics, Statistics Canada, Royal Bank of Canada Economics

Canada Led G7 In Population and GDP Growth In 2017

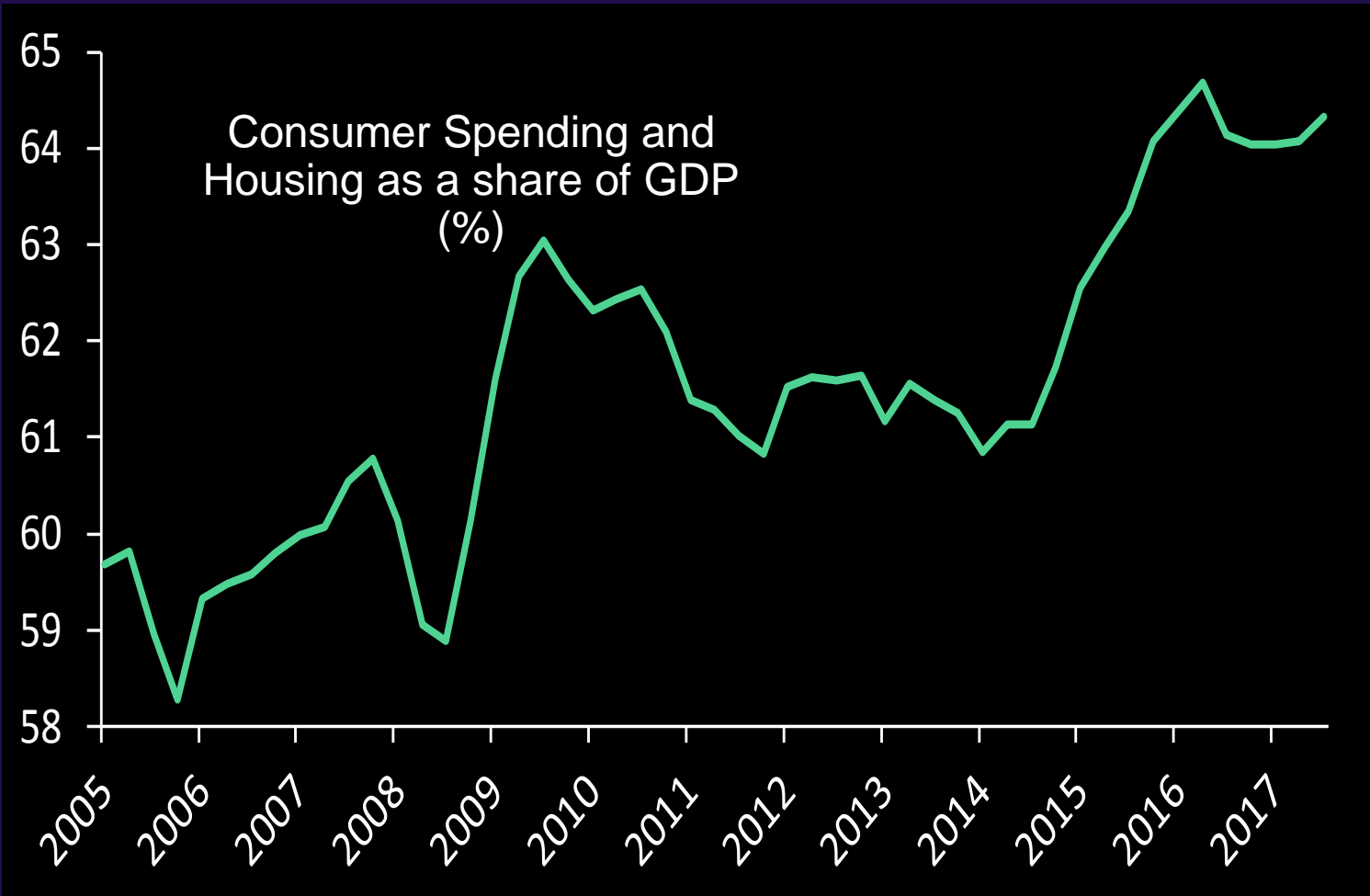
Population Growth
(annual average growth from 2011-2016, % change)



Real GDP Growth 2017
(annual percentage change)



Housing and Consumption Growth Slows

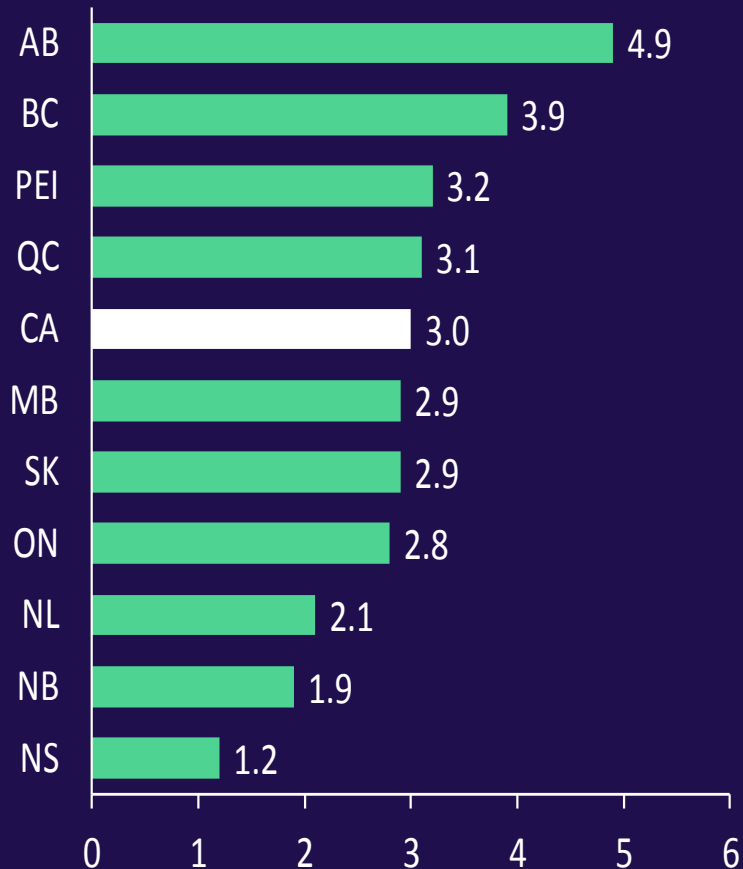


Credit Conditions Tightened
Insured Mortgages Decline
Appraisers Lowering Values
B-20 Hits 1-in-3 Borrowers
Risk Sharing With CMHC

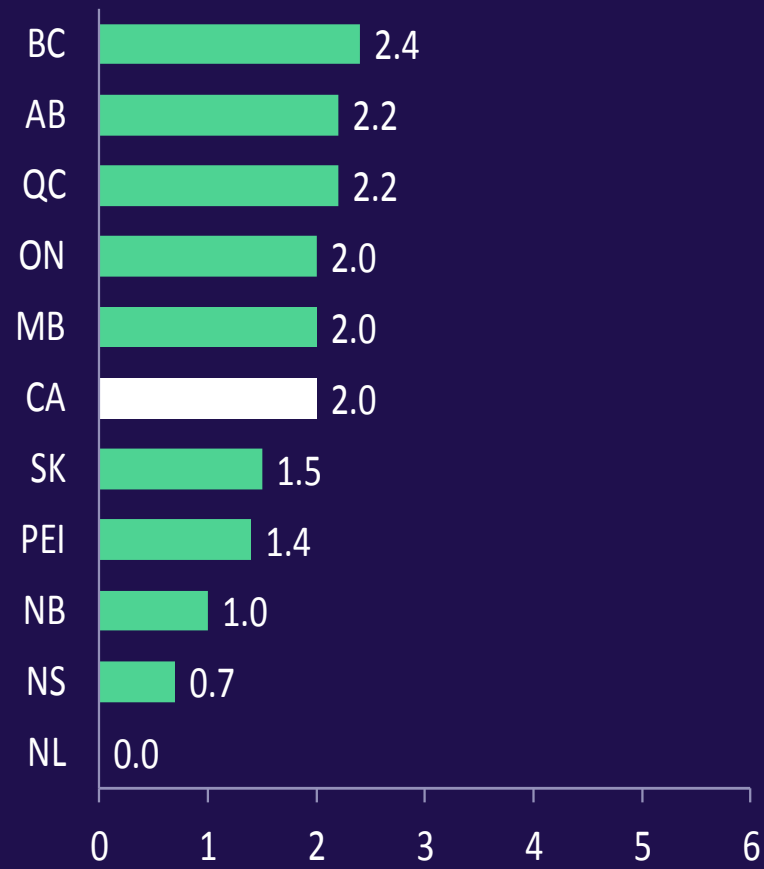
B.C. on Top As Alberta Climbs Back

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

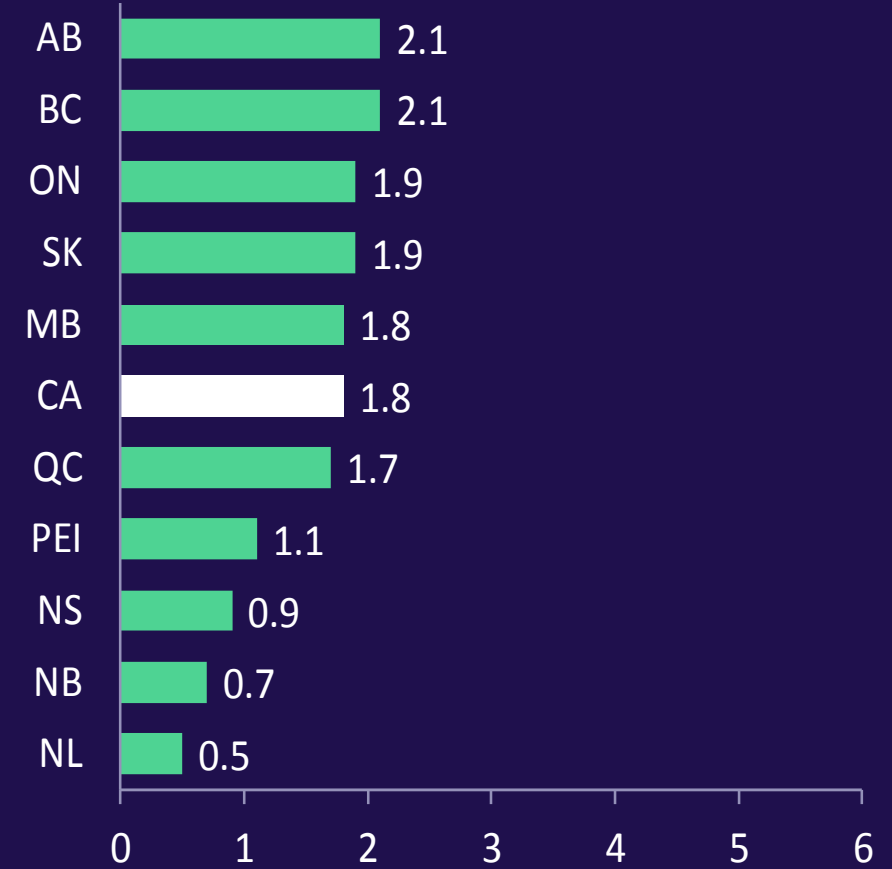
2017



2018



2019 (F)



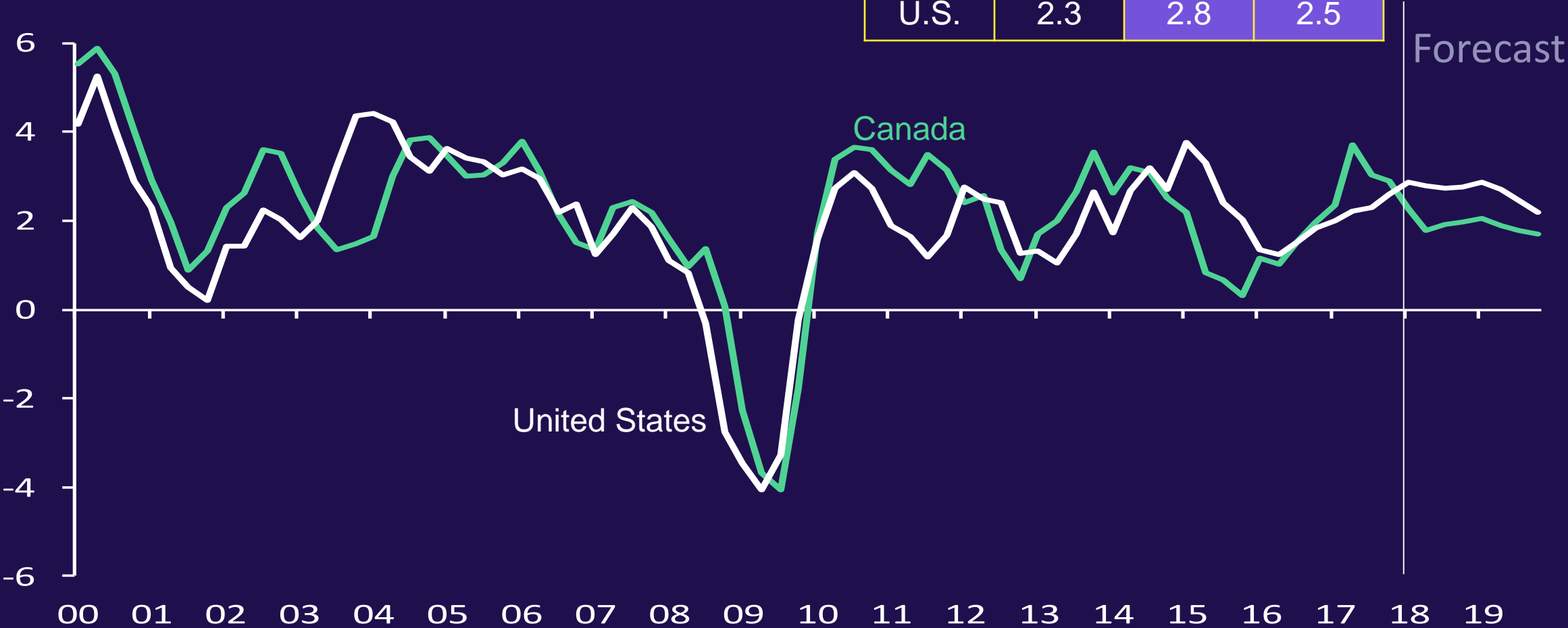
Forecast = BMO Capital Markets Economics

Source: Statistics Canada, Haver Analytics, BMO Capital Market Economics

U.S. Growth Moves Up

Real GDP
(year/year % percent)

	2017	2018	2019
Canada	3.0	2.0	1.8
U.S.	2.3	2.8	2.5



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

Unemployment Rate

(percent)

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

Loonie Tied To Oil And NAFTA



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Oil Prices Up

Potential Trade War

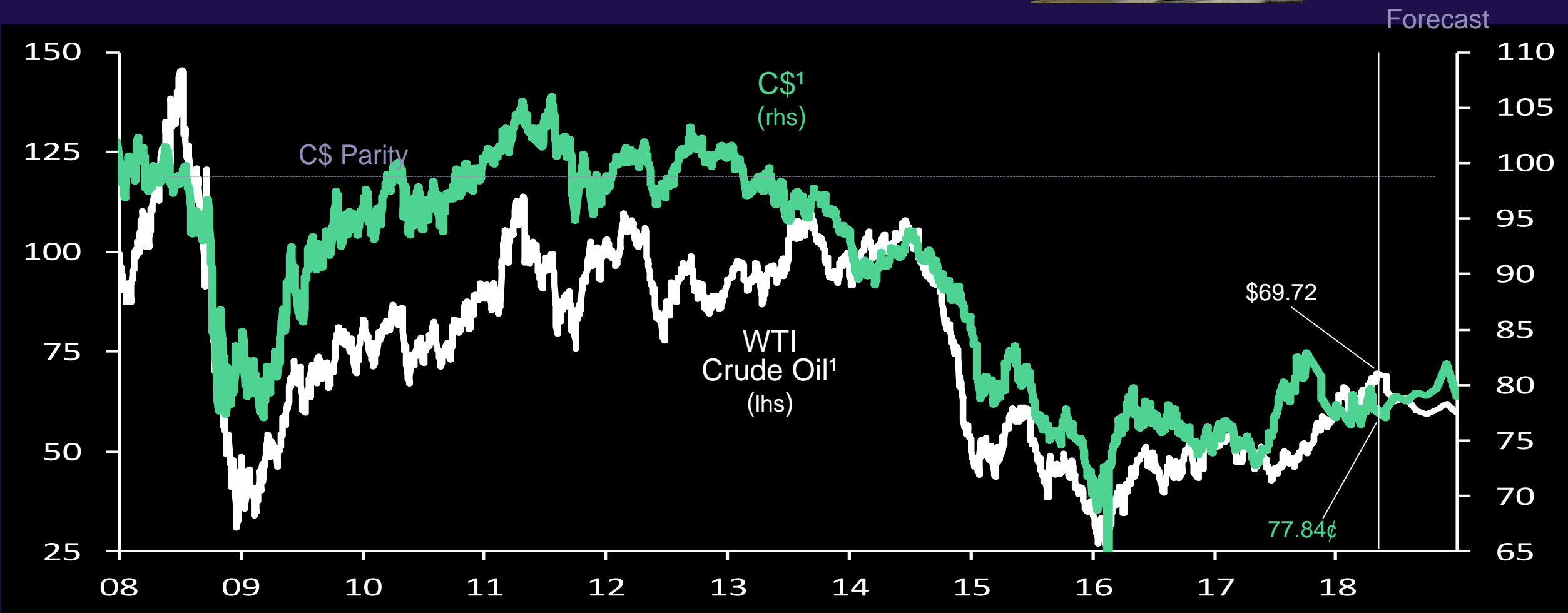
NAFTA Uncertainty

Oil Price And The Loonie

(as of May 4, 2017)



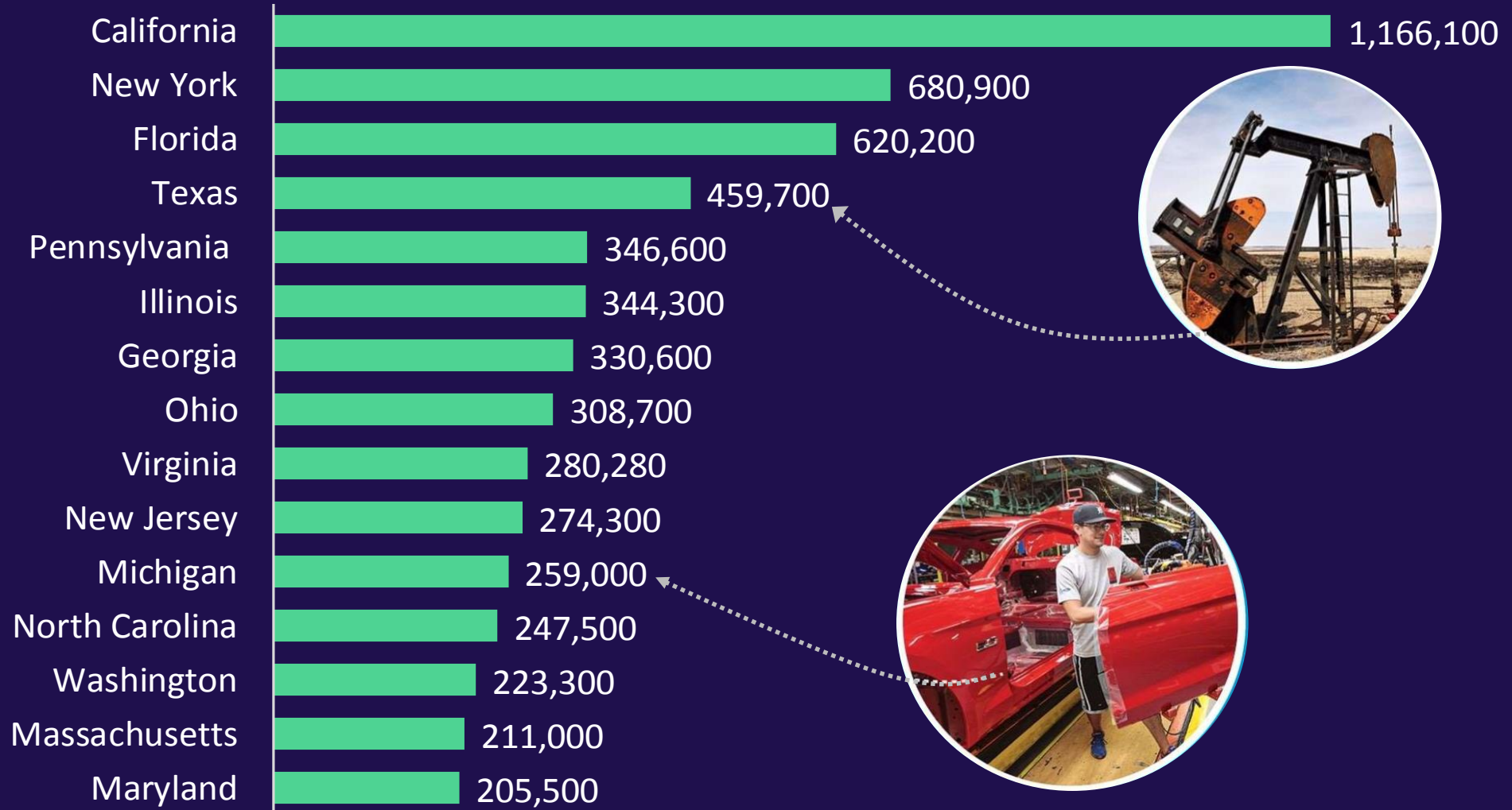
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Forecast = BMO Capital Markets ¹ (US\$/bbl) ² (US¢/C\$)
Source: Haver Analytics, Bank of Canada, Bloomberg, U.S. Energy Information Administration

U.S. Benefits From NAFTA

Total Number of Jobs Created By Trade With Canada



Financial Markets



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Bank of Canada Cautious

Fed Will Raise Rates Gradually

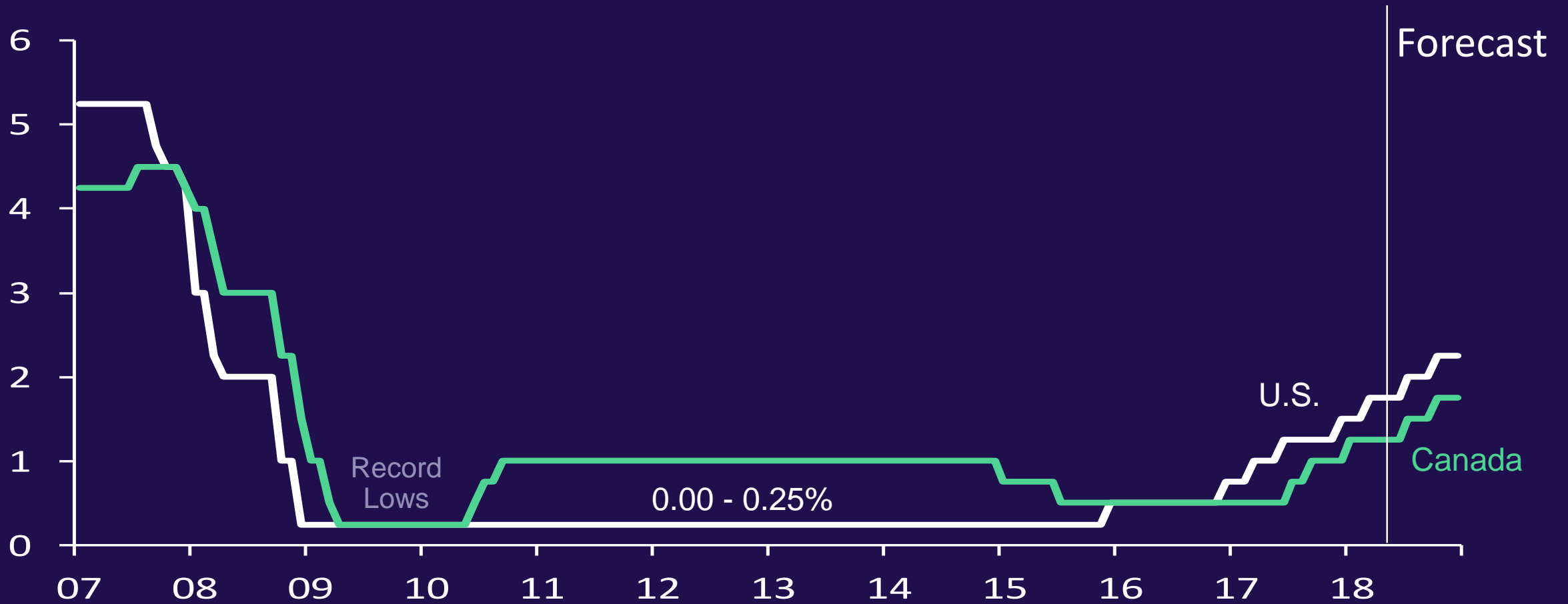
Mortgage Rates Rising

Bank Of Canada Hikes Rates

Overnight Rate
(percent)



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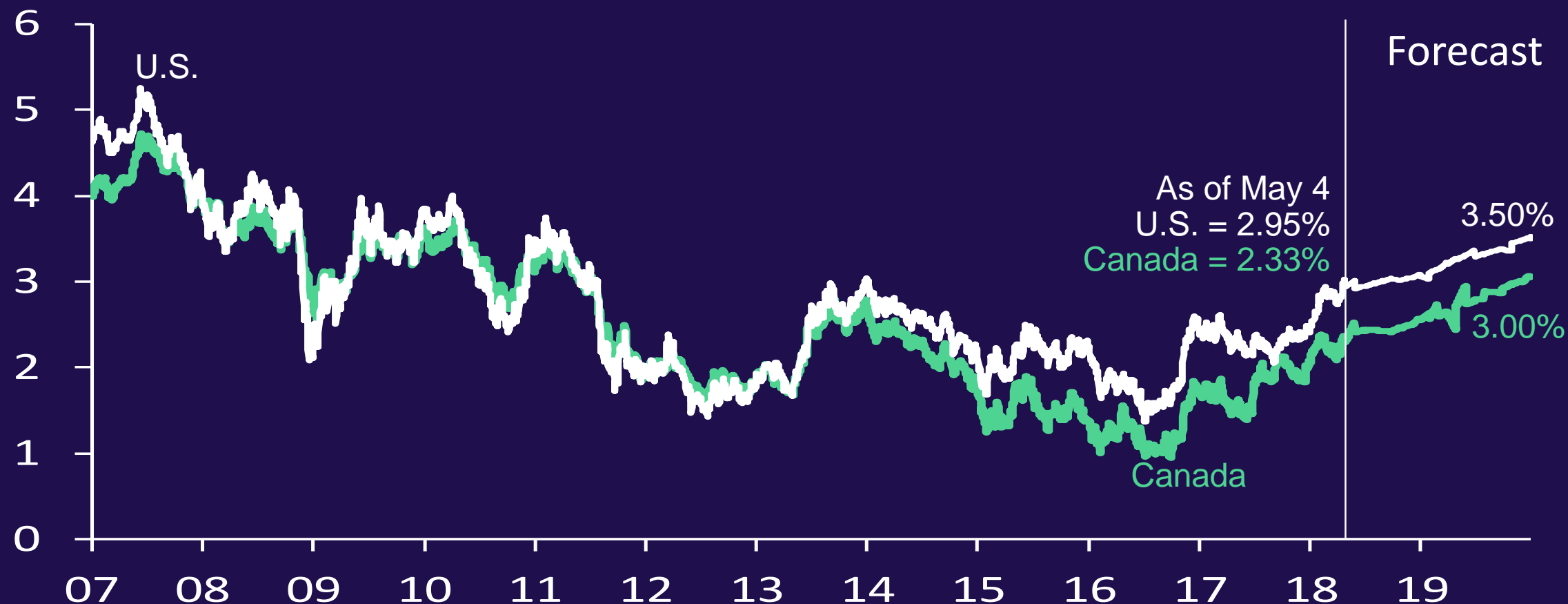
Forecast = Sherry Cooper Assoc.
Source: Haver Analytics, Bank of Canada, Federal Reserve Board

Long Yields Edge Upward On Fed Rate Hikes

10-year Bond Yields
(percent)



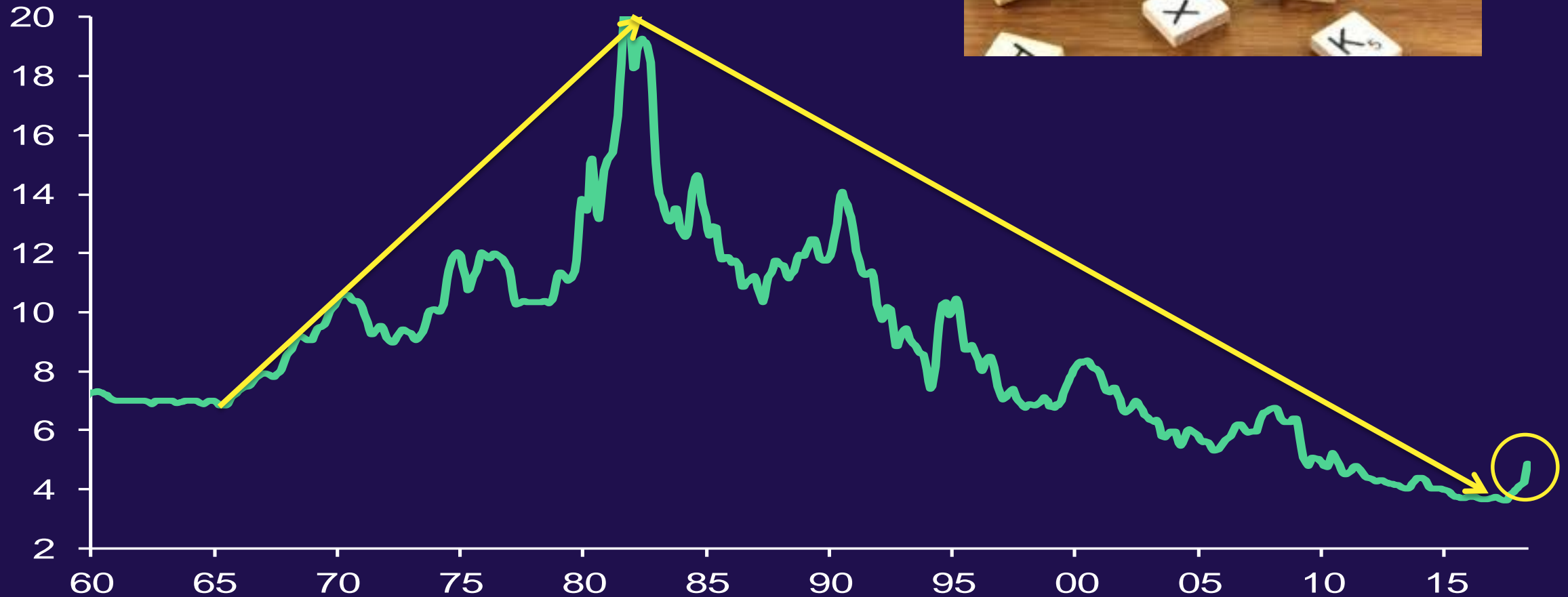
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Forecast = BMO Capital Markets
Source: Bank of Canada, Federal Reserve Board

Mortgage Rates Have Bottomed

Posted 5-Year Fixed Mortgage Rate
(percent, 3-month moving average, as of May 4, 2018)



Upside for Mortgage Rates

(percent) as of May 4, 2018



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More Upward Pressure
68% or More Fixed Rate
New Buyers Hurt The Most
47% of Mortgages Due To Reset

Housing Looms Large But Vulnerable



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

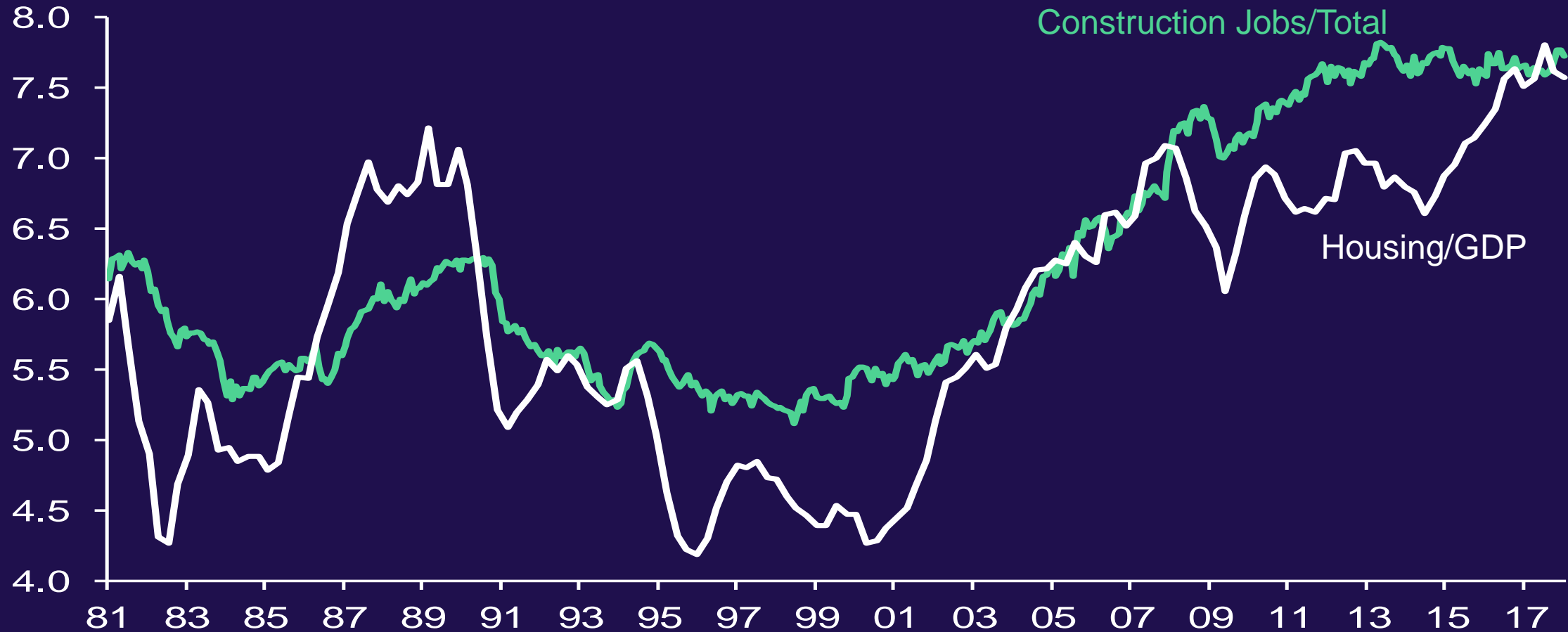
CMHC Rule Changes Benefit Big Banks Over Alternative Lenders

Growth Housing Led...But Slowing

Canada
(percent)



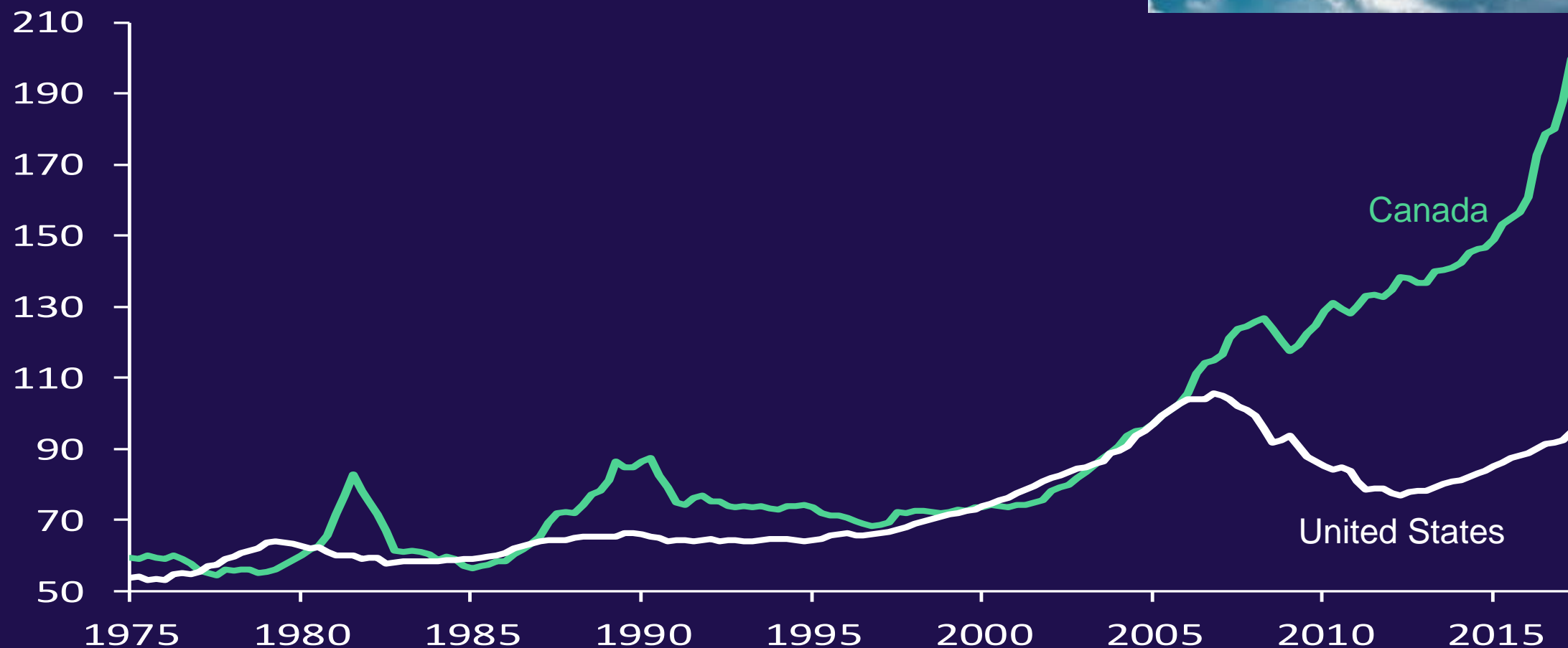
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Debt-Financed Bubble Worry

Real House Price Index

(index, 2005 = 100, seasonally adjusted)

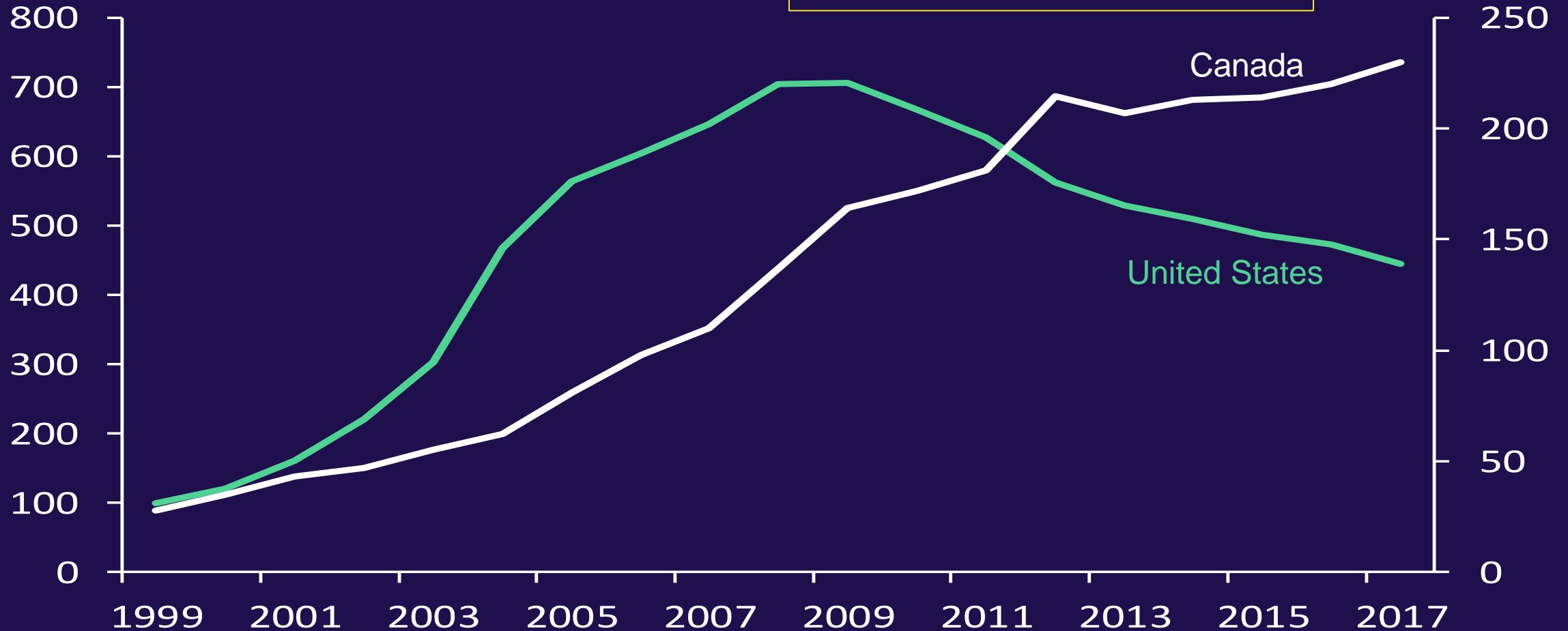


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Canadians Rely Heavily on HELOCs

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

Variable-Rate Tied To Prime



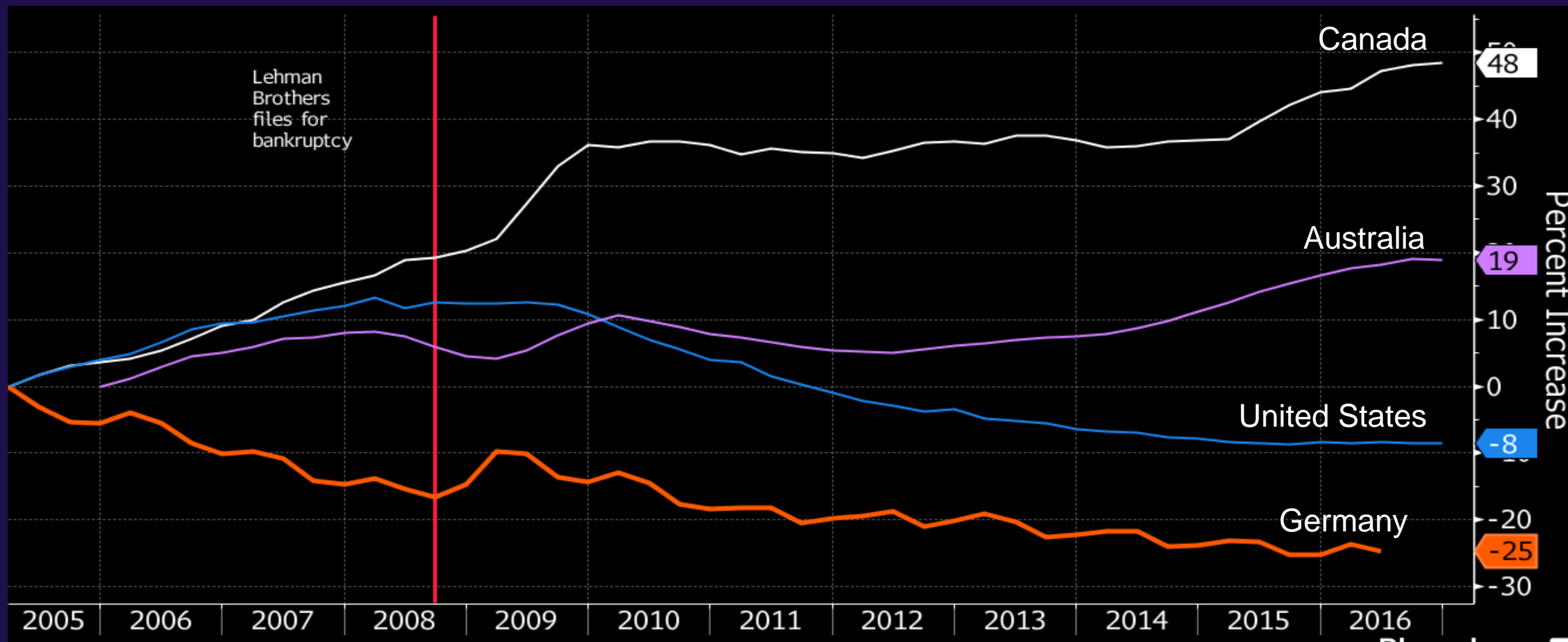
Rising Risks: Record High Debt-to-GDP

Household Debt as a Percentage of GDP

(March 2005 = 100)



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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



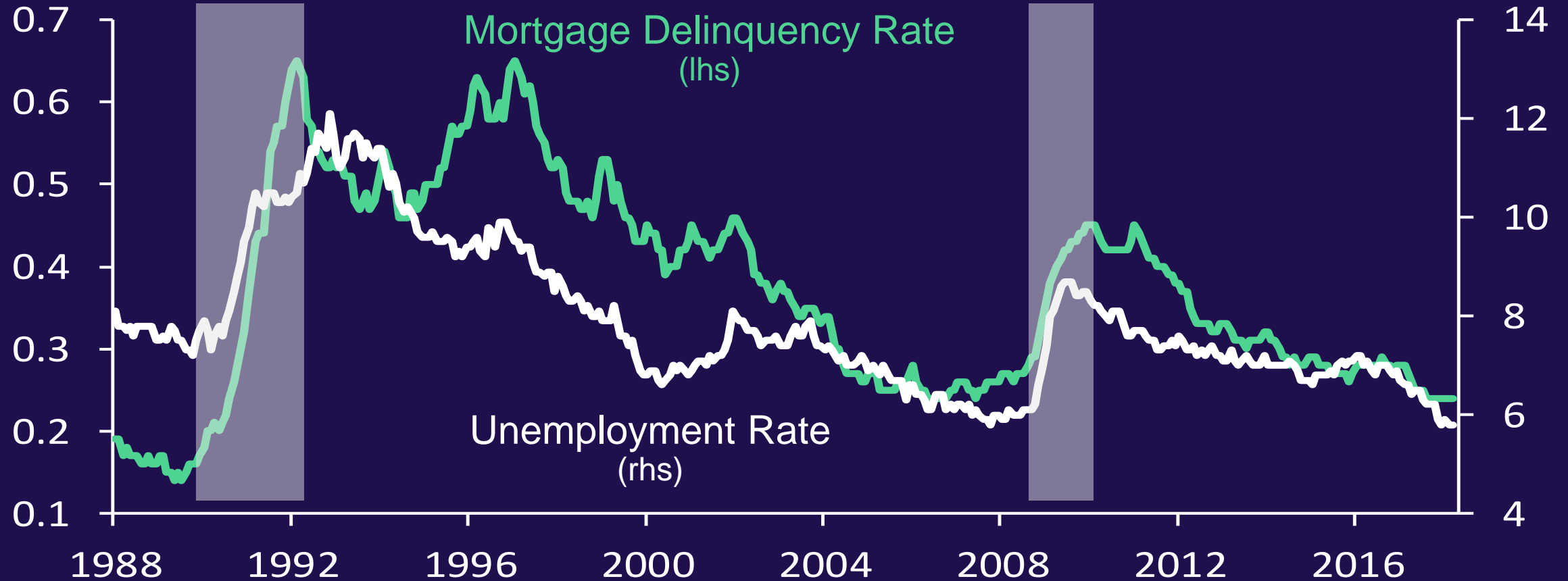
More Than 99% of Royal Bank's
Uninsured Mortgage Portfolio
Borrowers Have Credit Scores >650

And a LTVs of <75%

Its Average Uninsured Mortgage Has
Almost 50% Equity

Mortgage Arrears Very Low

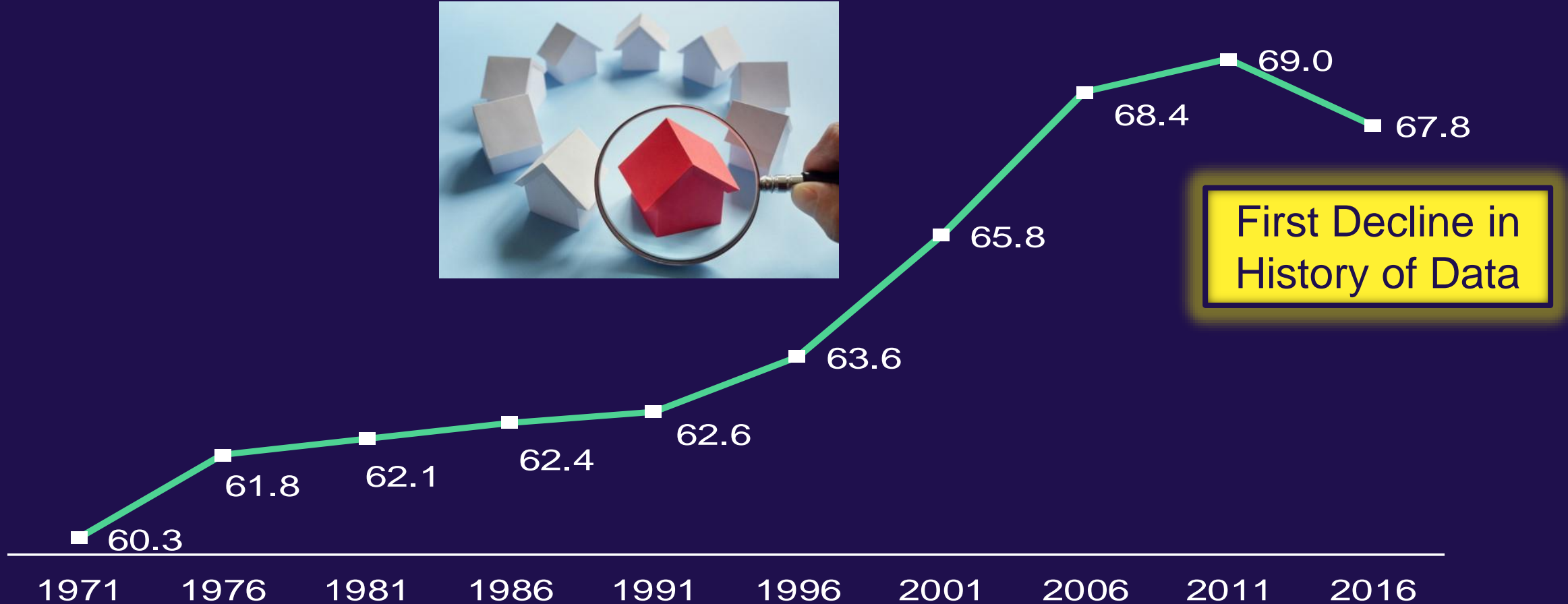
(percent)



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)



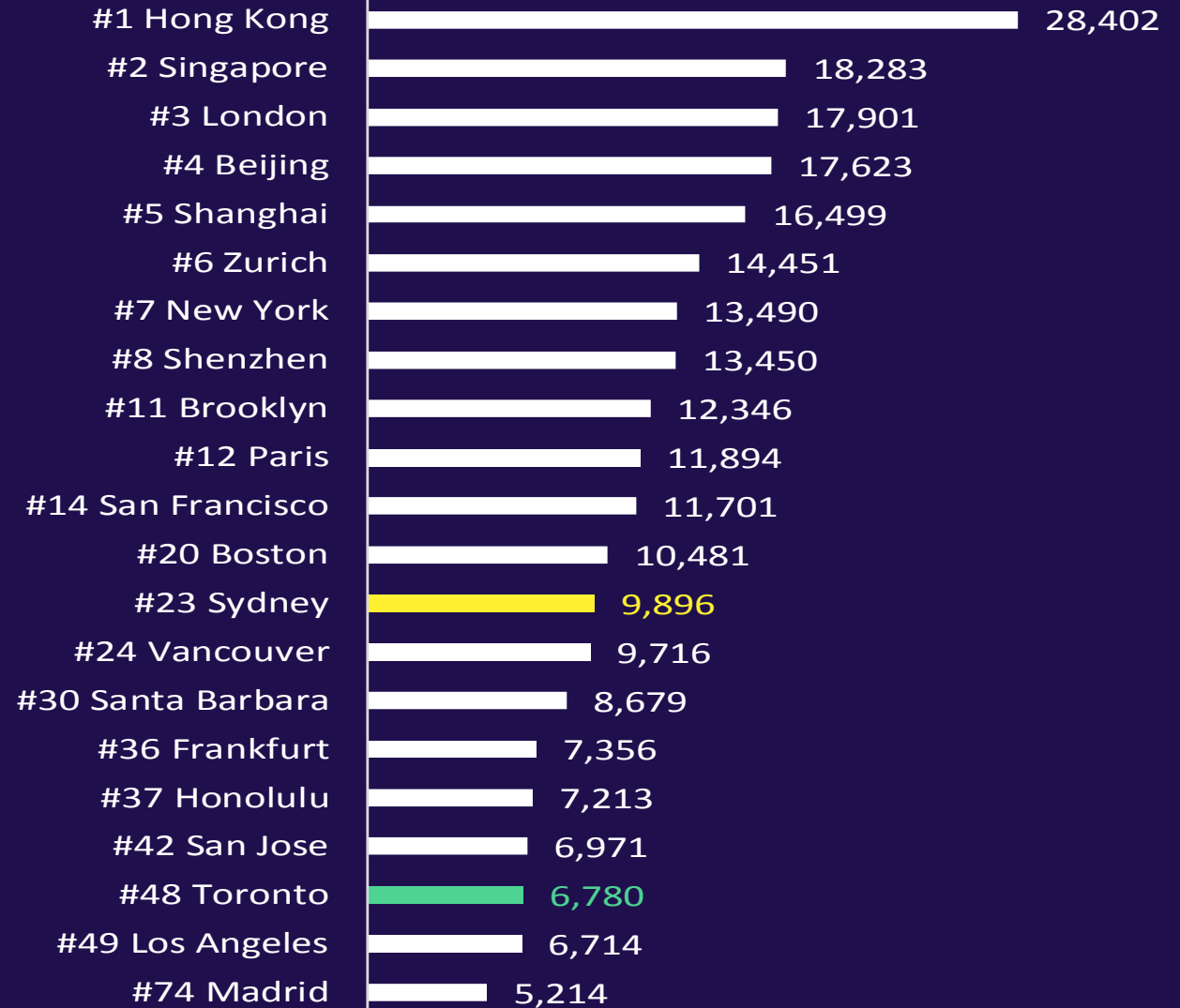
Housing Unaffordable In Vancouver and Toronto

(seasonally adjusted: January 1995 = 100)



Toronto and Vancouver Prices Lag Global Cities

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

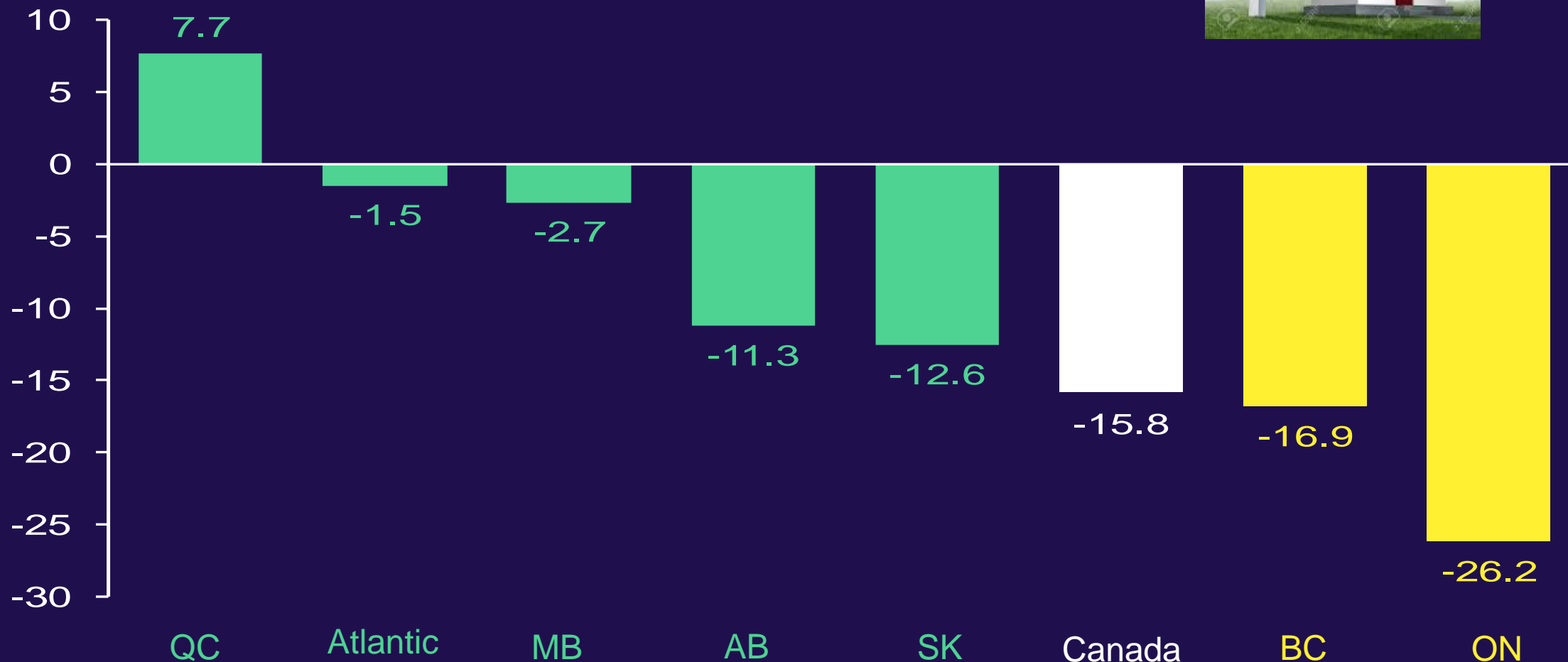


Home Sales Decline In ON and B.C.

Existing Home Sales
(year/year % change, March 2018)



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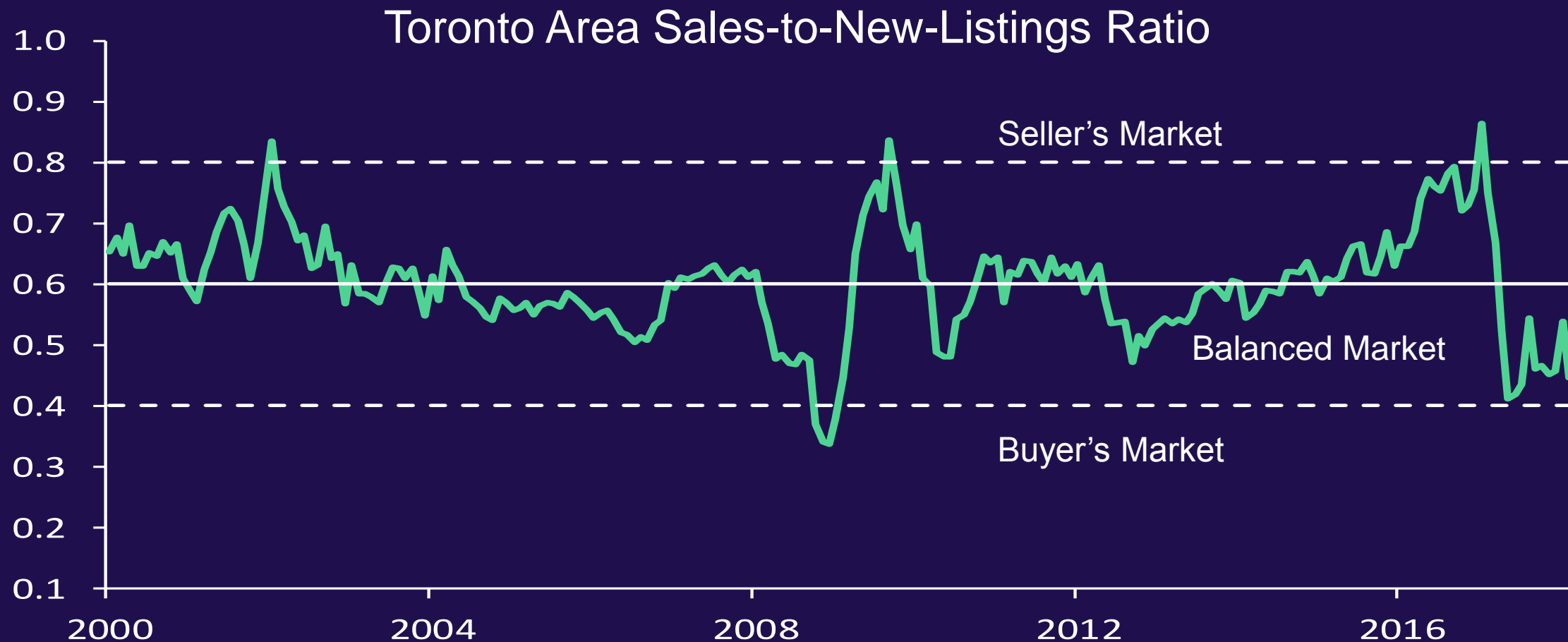
Source: Canadian Real Estate Association, Haver Analytics

Toronto Markets Now Balanced

(ratio, March 2018)



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Vancouver Markets Now Balanced

(ratio, March 2018)



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Vancouver Area Sales-to-New-Listings Ratio

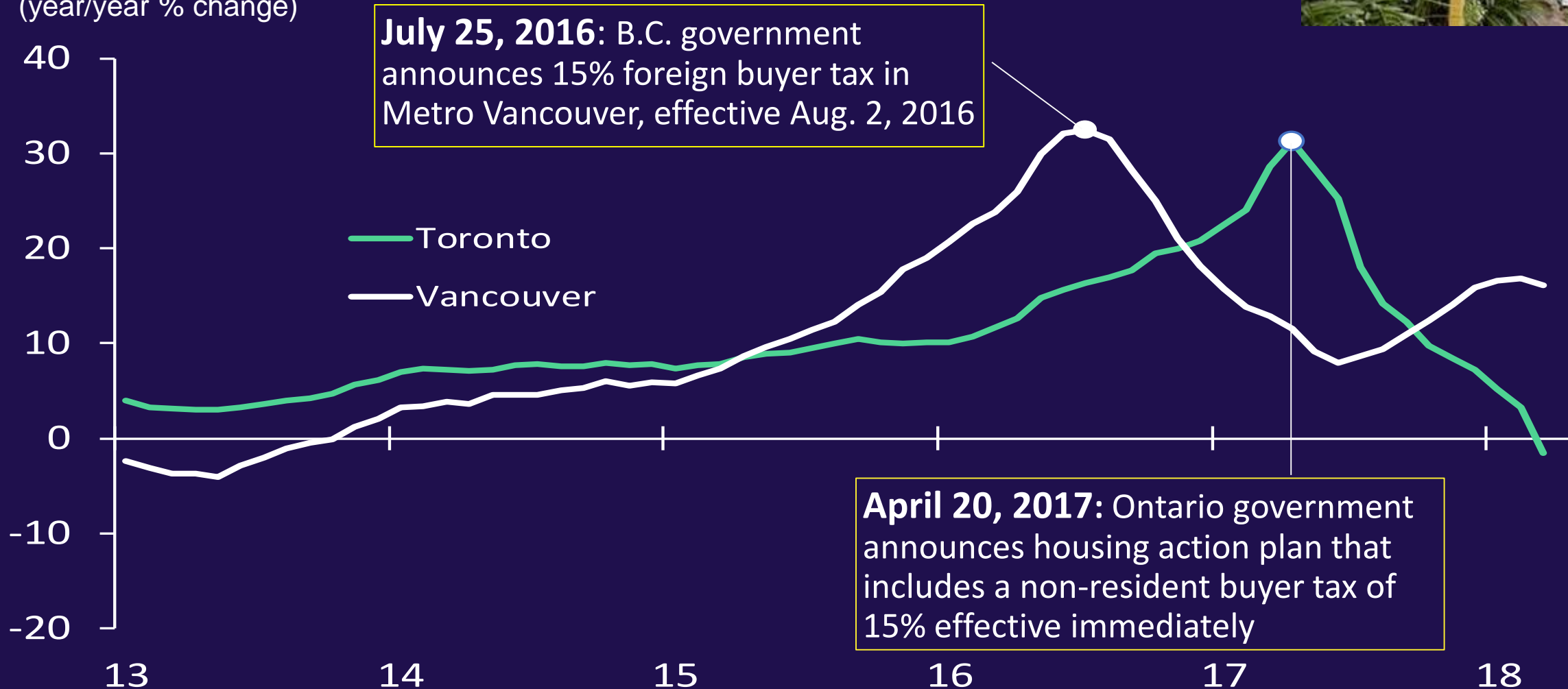


Source: Canadian Real Estate Association, Haver Analytics

The Cooling Vancouver and Toronto Price Gains

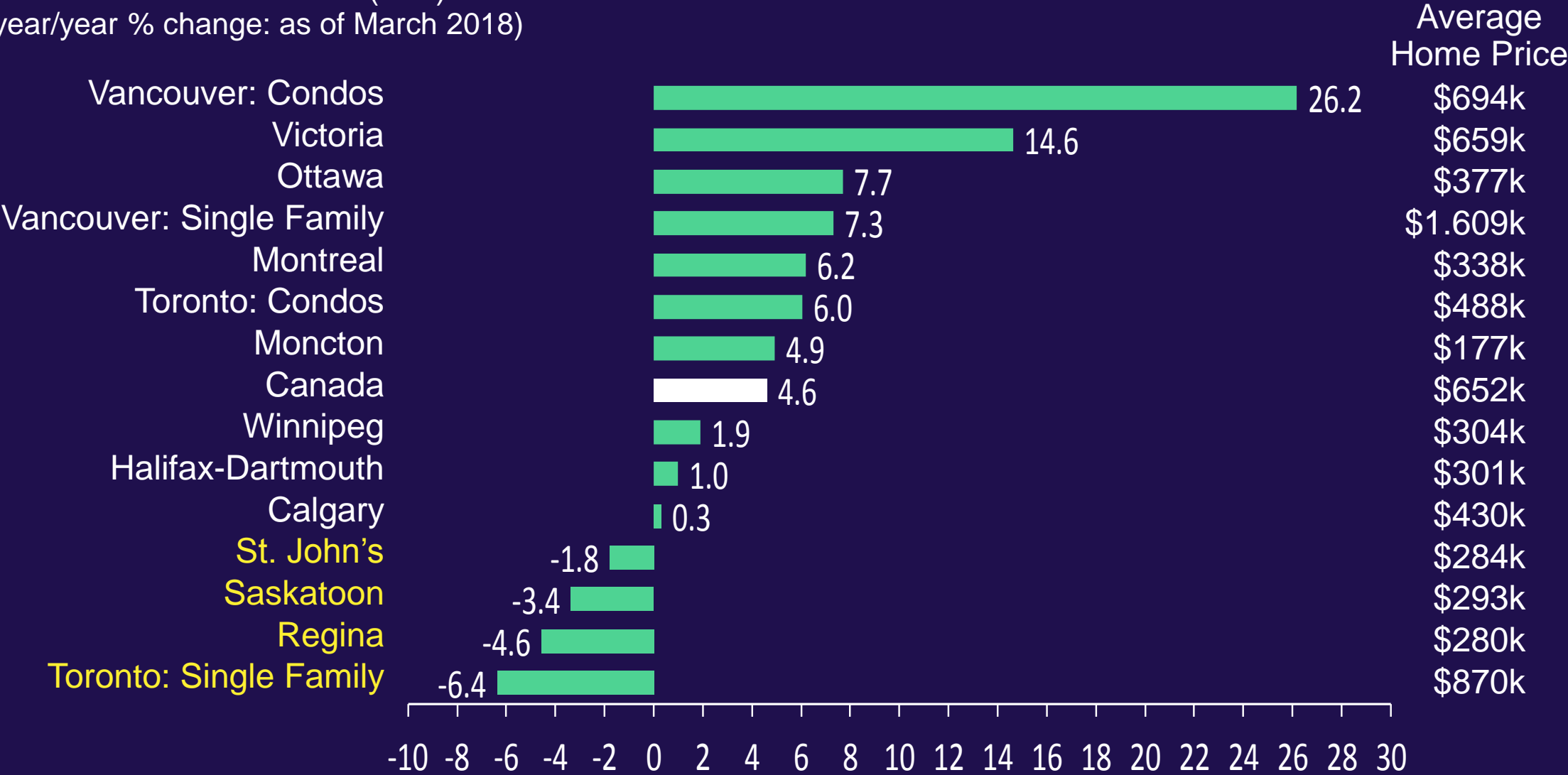
Composite Home Price Index

(year/year % change)



Condos Outperform Single-Family Homes

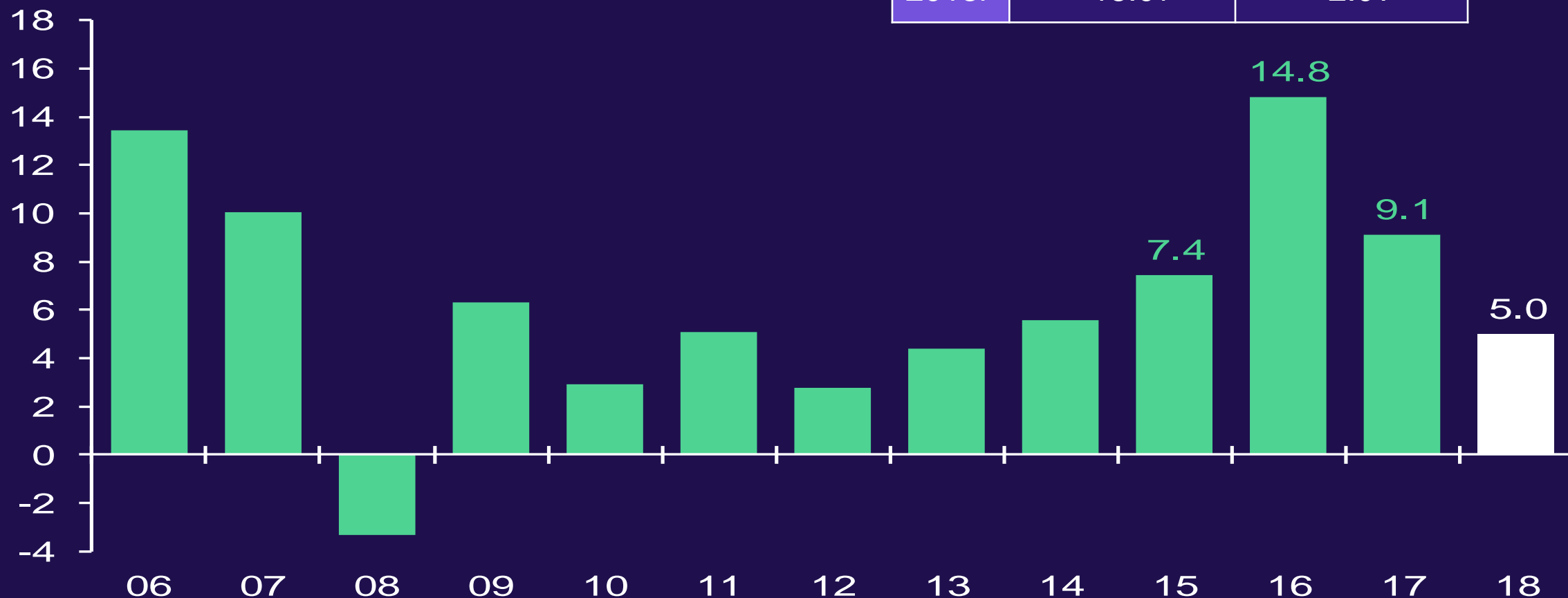
MLS® Home Price Index (HPI)
(year/year % change: as of March 2018)



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	15.0?	2.0?

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White bar indicates forecast.
Source: CREA, Haver Analytics

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