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# Canadian Housing Soft Landing

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June 14, 2019



# Canada's Economic Slowdown



Job Growth Strong

Consumer Spending Stable

New Home Building Bottoms

But...

Housing Activity Slowed

Business Investment Dismal

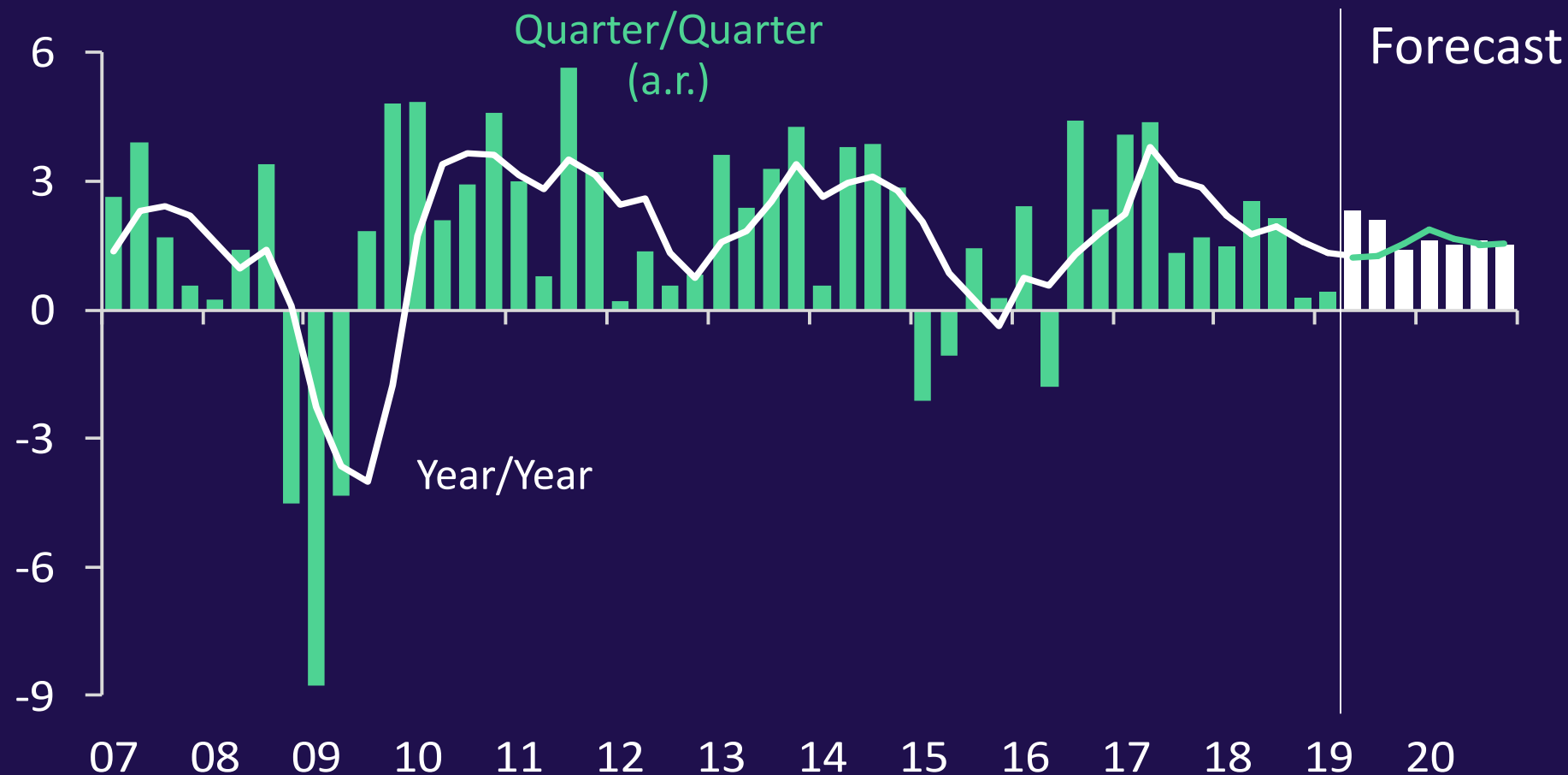
Trade War Uncertainty

# Canadian Growth Slowed in 2019 First-Half

Real GDP  
(percent change)

2018	2019	2020
1.9	1.4	1.7

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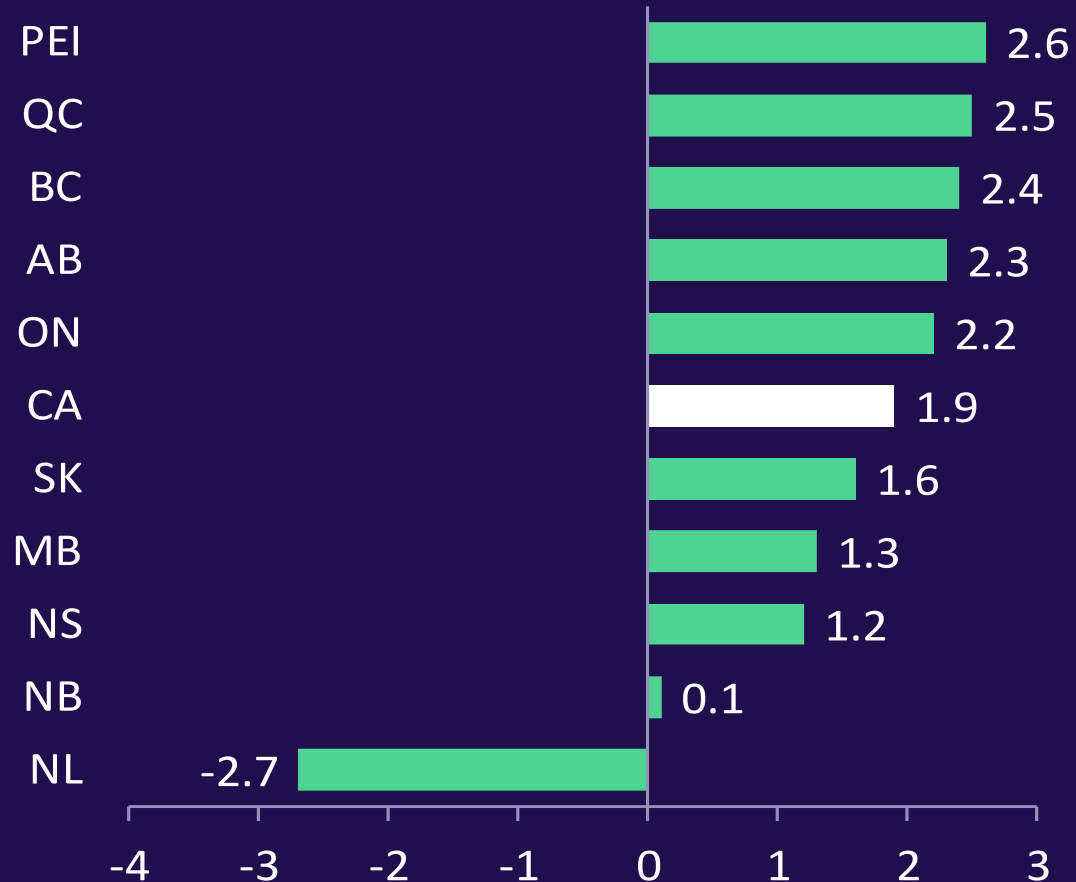
Forecast = BMO Capital Markets Economics

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

# Newfoundland comeback, But BC, ON and QC Lead

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

2018



2019



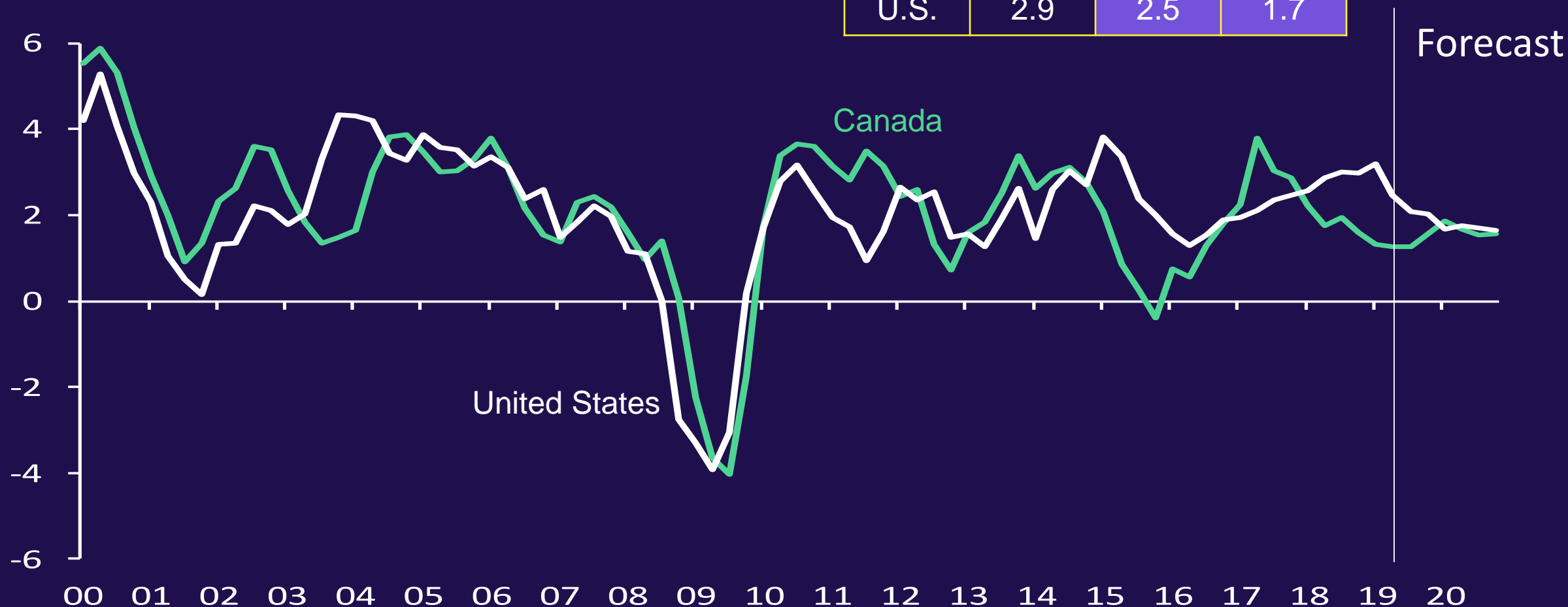
Forecast = BMO Capital Markets Economics

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

# Canada Underperforms US

Real GDP  
(year/year % percent)

	2018	2019	2020
Canada	1.9	1.4	1.7
U.S.	2.9	2.5	1.7



# Jobless Rate At Historical Lows

(percent)



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

# Loonie Tied To Oil And New NAFTA



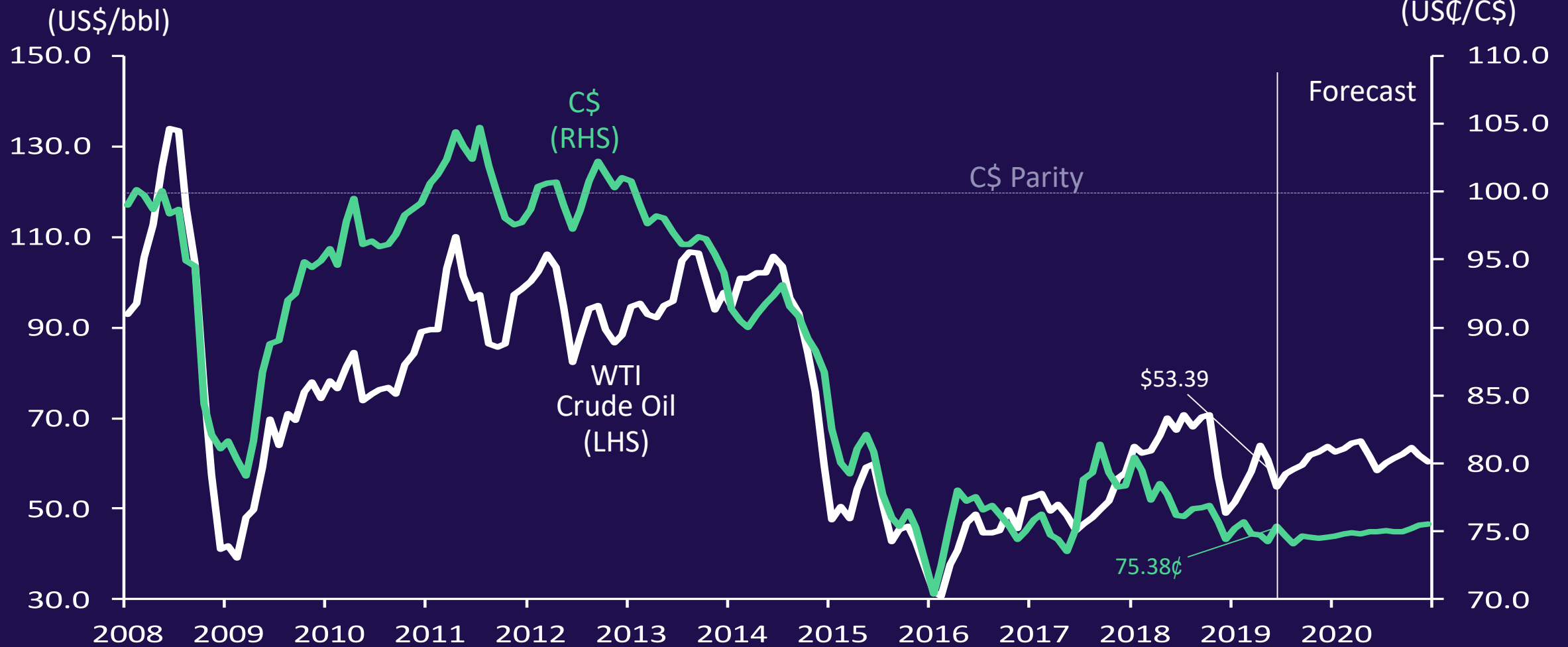
Oil Prices Down From Recent Peak  
Trade War Uncertainty Escalates  
USMCA 2019?

# Oil Price And The Loonie

(as of June 10, 2019)



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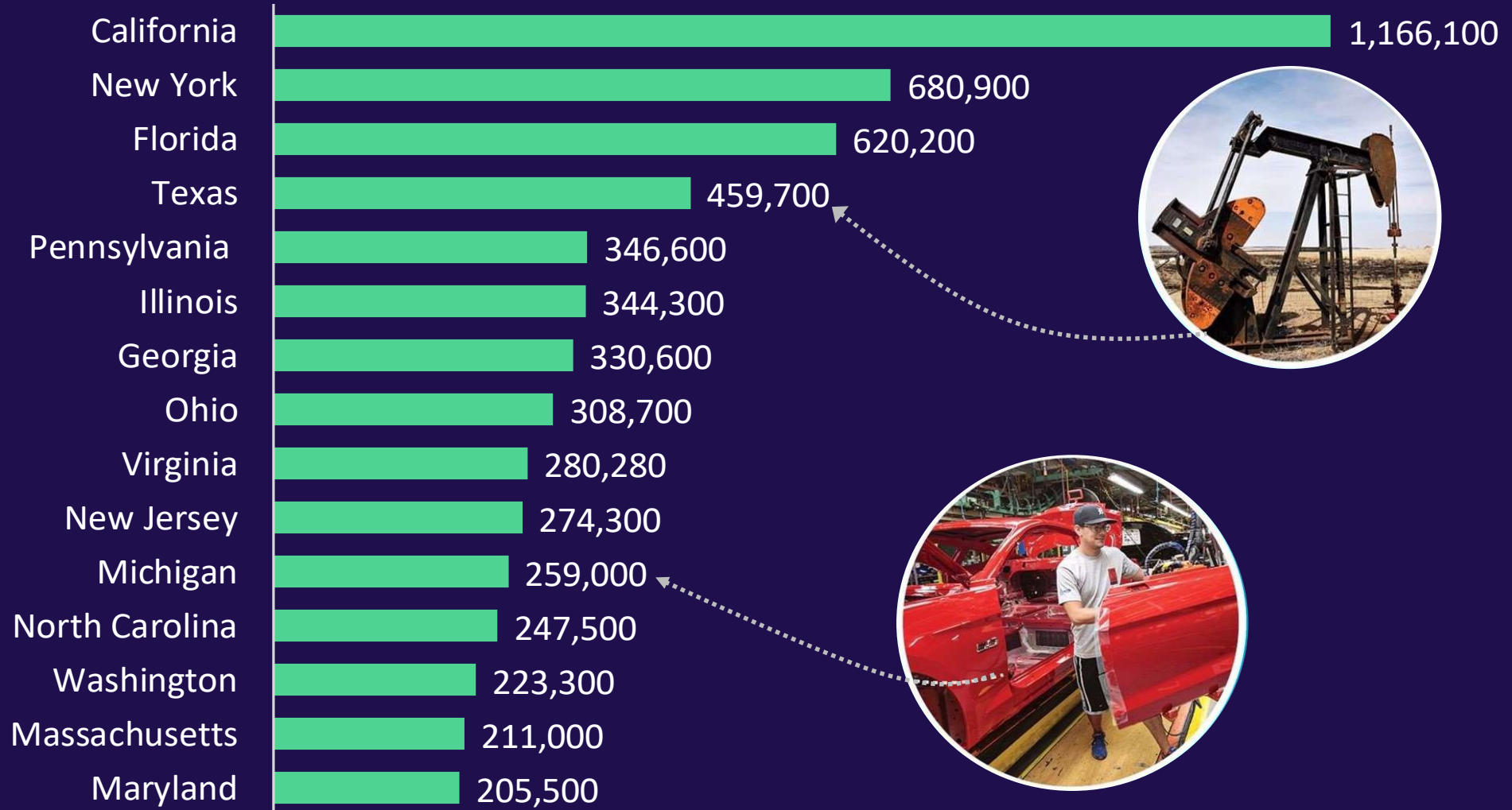


Forecast = BMO Capital Markets

Source: Haver Analytics, Bank of Canada, Bloomberg, U.S. Energy Information Administration

# U.S. Benefited From NAFTA

Total Number of Jobs Created By Trade With Canada



# Financial Markets



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Bank of Canada On Hold

Fed On Hold

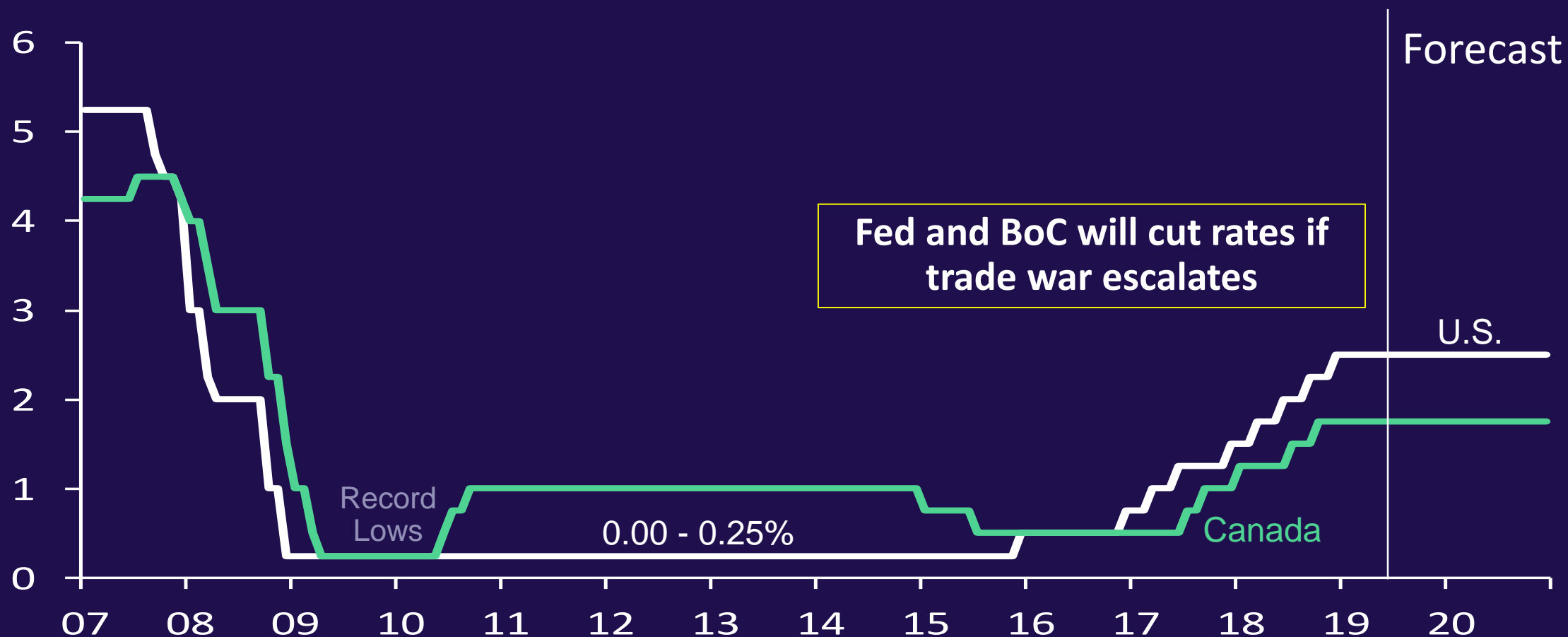
Mortgage Rates No Longer Rising

# Central Banks On Hold

Overnight Rate  
(percent)



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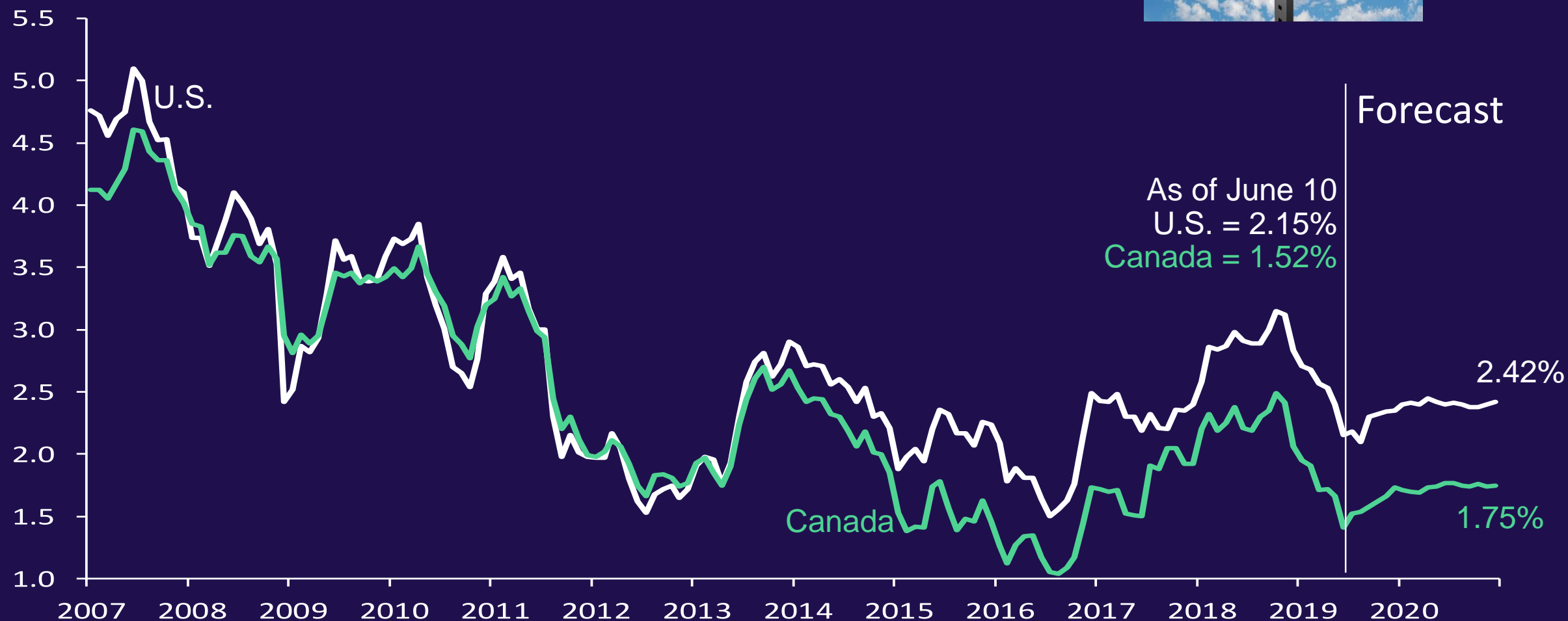


Forecast = Sherry Cooper Assoc.

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

# Long Yields Falling All Year

10-year Bond Yields  
(percent)



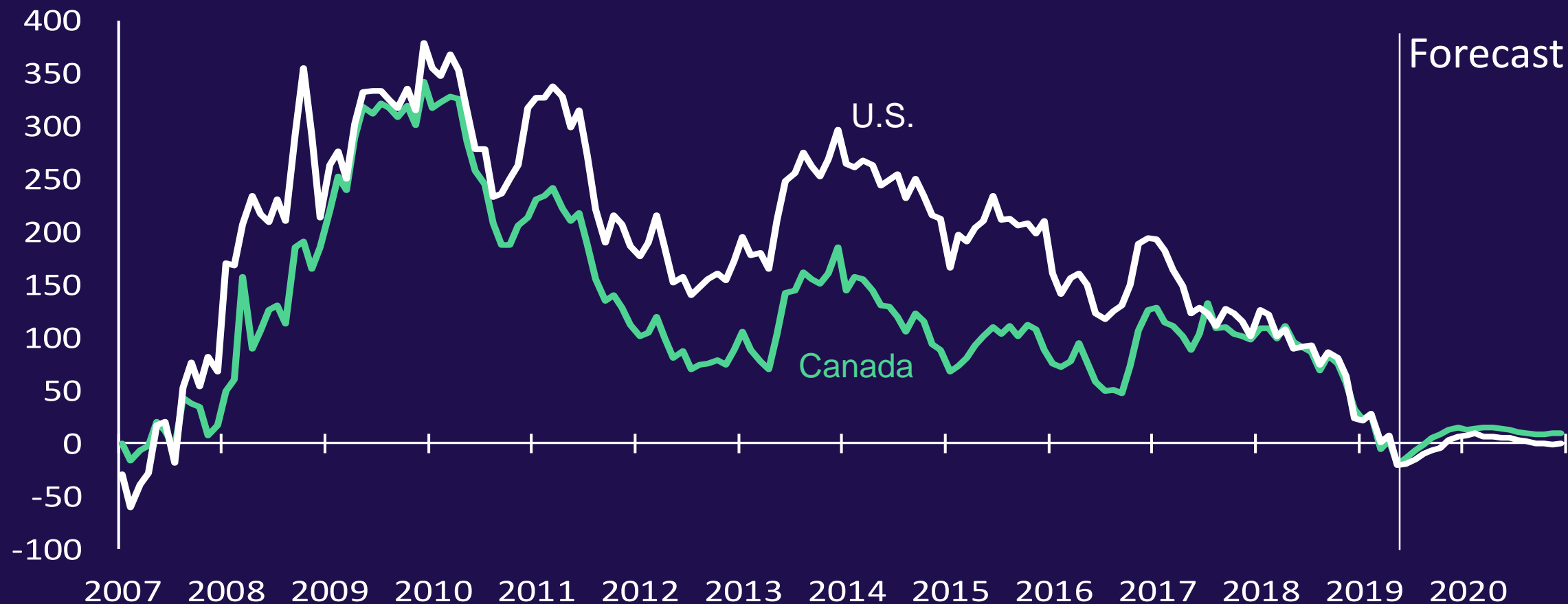
Forecast = BMO Capital Markets  
Source: Bank of Canada, Federal Reserve Board



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# Inverted Yield Curve in Canada & U.S.

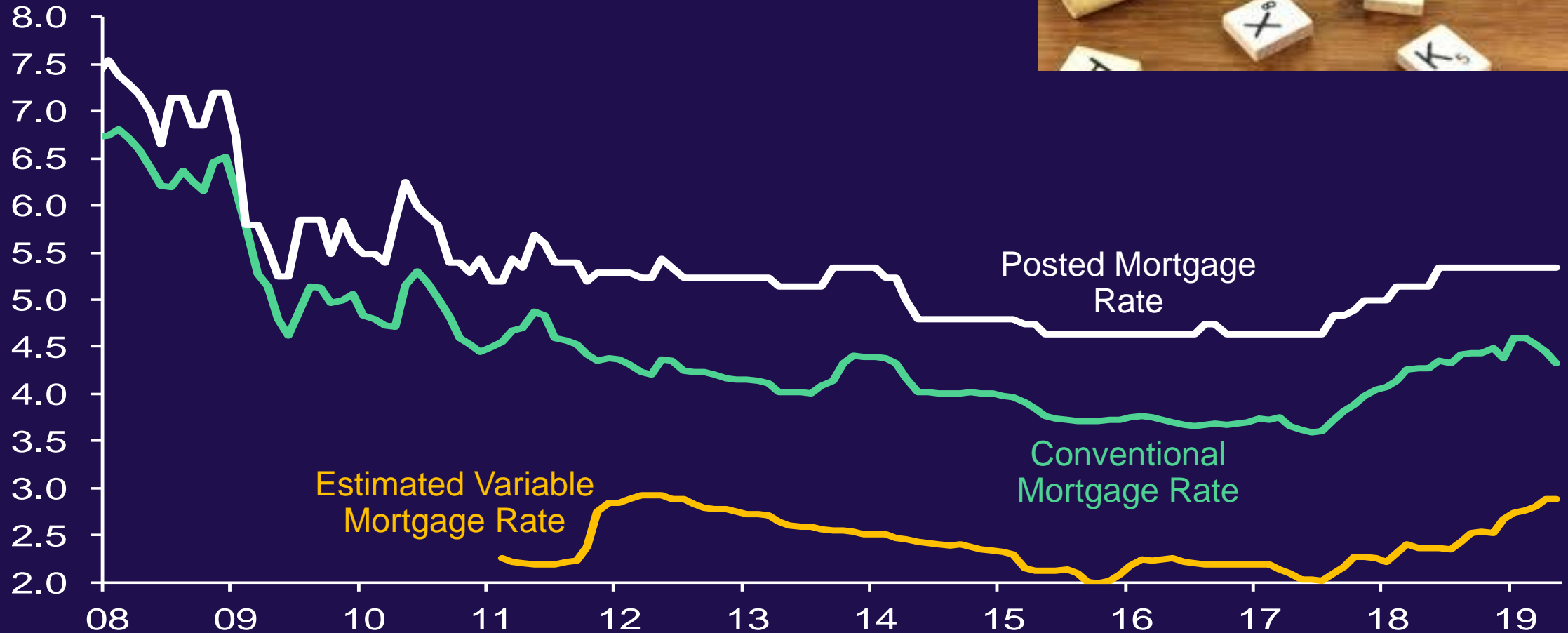
10-year Bond Yields minus 90-Day Bill Rates  
(percent)



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# Mortgage Rates Have Edged Downward

Canada  
(percent)



Source: Haver Analytics

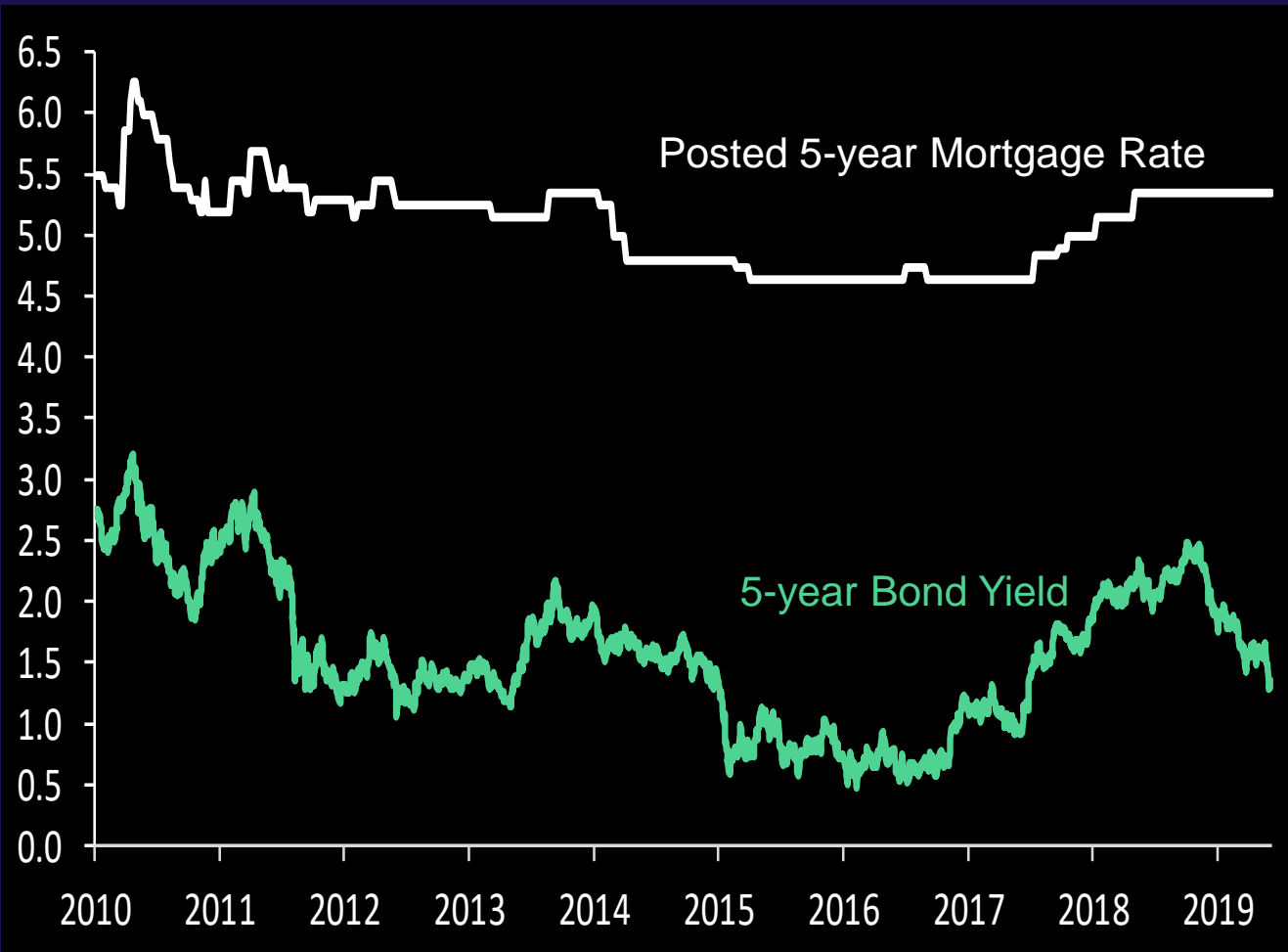


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# More Downside Pressure for Mortgage Rates

Canada

(percent, as of June 10, 2019)



5-year Bond Yield Falling  
68% or More Fixed Rate  
Resets At Roughly Stable Rates

# Housing Slowdown, But GTA On Uptick

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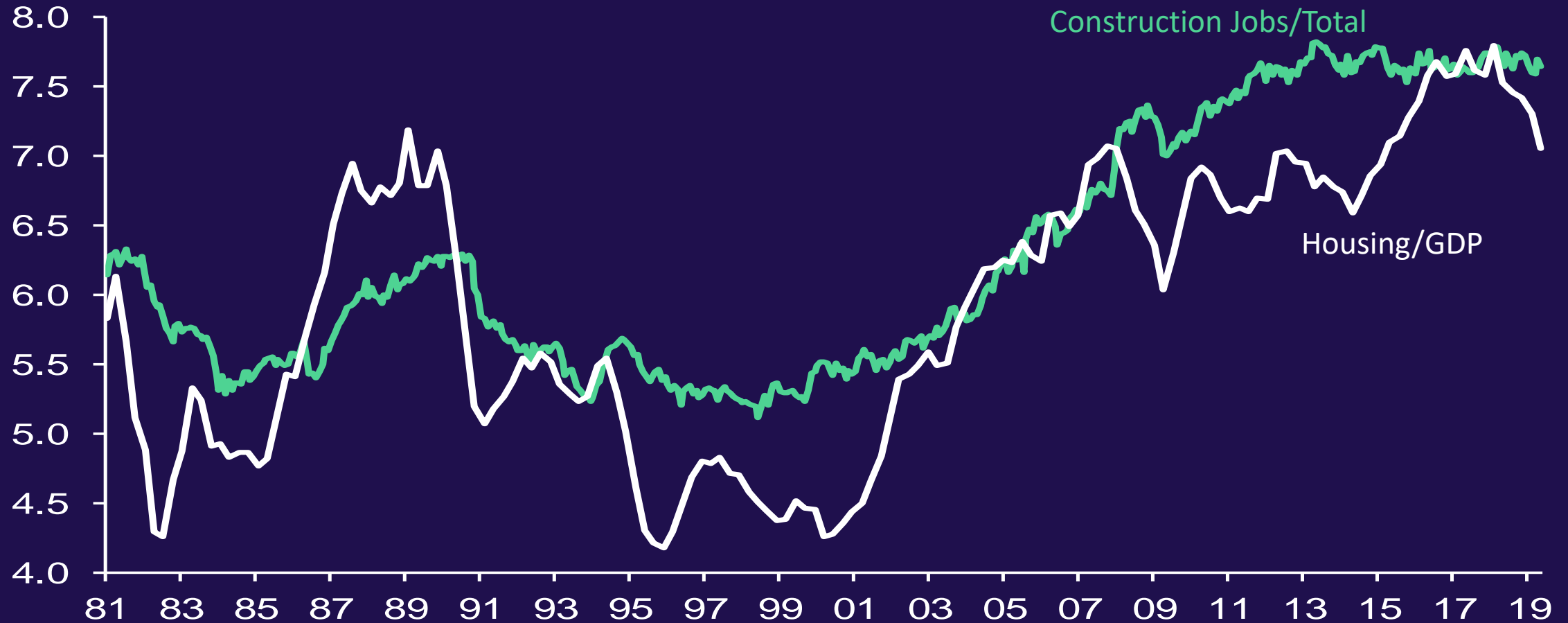
BC Raises Foreign Buyers Tax  
Introduces Speculation Tax  
Property Registry Coming  
OSFI Stress Testing  
Housing Slows in BC  
Golden Horseshoe Turns Corner  
Markets Balanced IN GTA  
Buyers' Market in GVA

# Housing Led Growth... But No Longer

Canada  
(percent)



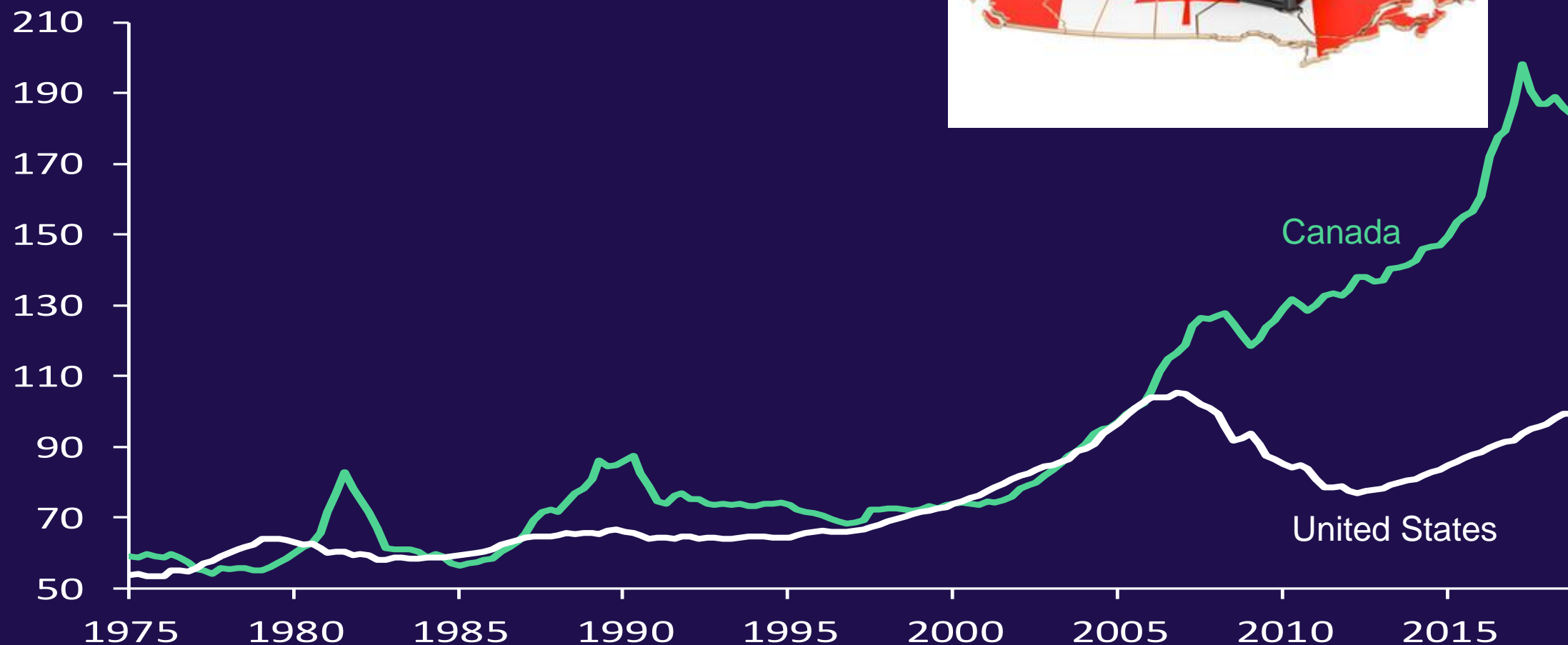
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# Debt-Financed Bubble Worry

Real House Price Index

(index, 2005 = 100, seasonally adjusted)



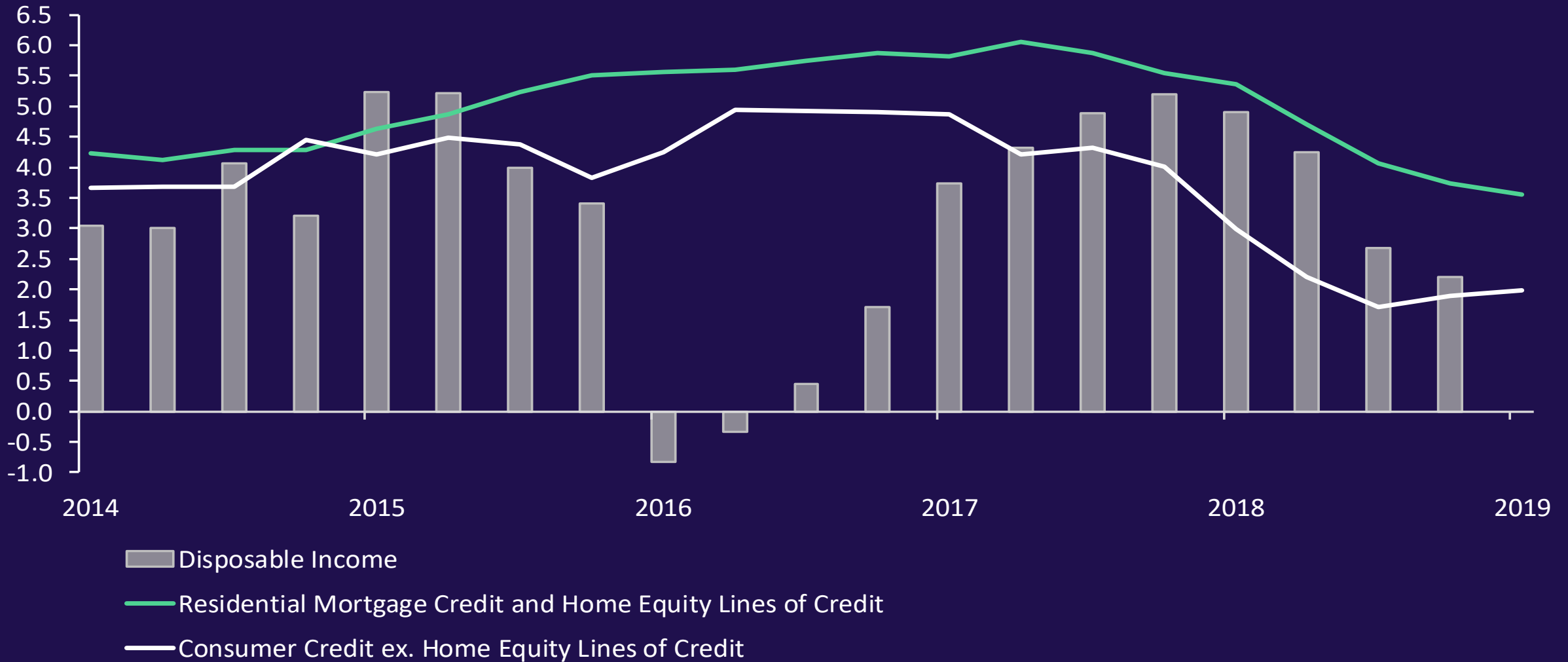
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Source: Mack, A., and E. Martínez-García. 2011. "A Cross-Country Quarterly Database of Real House Prices: A Methodological Note." Globalization and Monetary Policy Institute Working Paper No. 99, Federal Reserve Bank of Dallas

# Household Credit Growth Slowed In Recent Months

(year-over-year % change)

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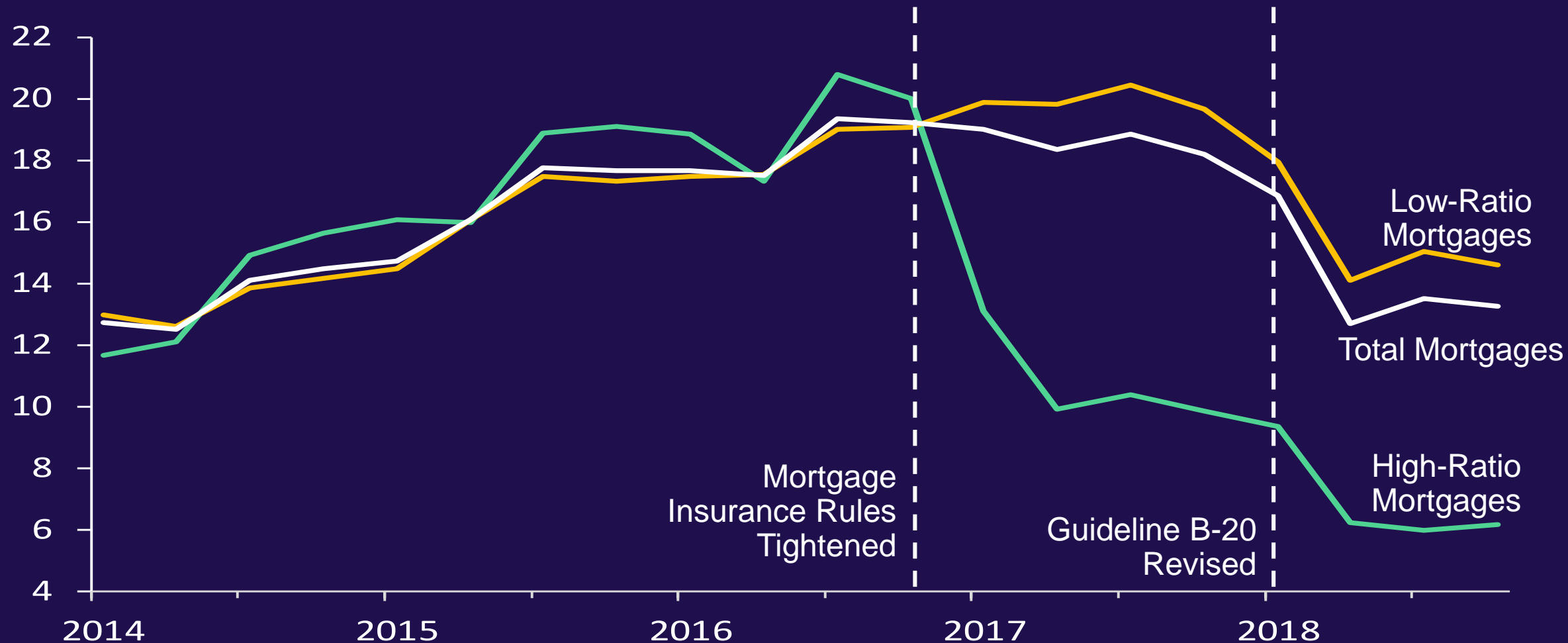


Source: Bank of Canada Financial System Review (2019)

# Fewer Mortgages Are Going To Highly Indebted Borrowers

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Share of New Mortgages with Loan-to-Income Ratios Greater than 450%



Notes: Data include purchases and refinances originated by federally regulated financial institutions. High-ratio mortgages have a loan-to-value ratio greater than 80 per cent and must be insured. Low-ratio mortgages have a loan-to-value ratio of 80 per cent or less. B-20 is the mortgage underwriting guideline for federally regulated lenders.

Source: Bank of Canada – “Financial System Review – 2019”

# 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

Low Mortgage Delinquencies--.24%

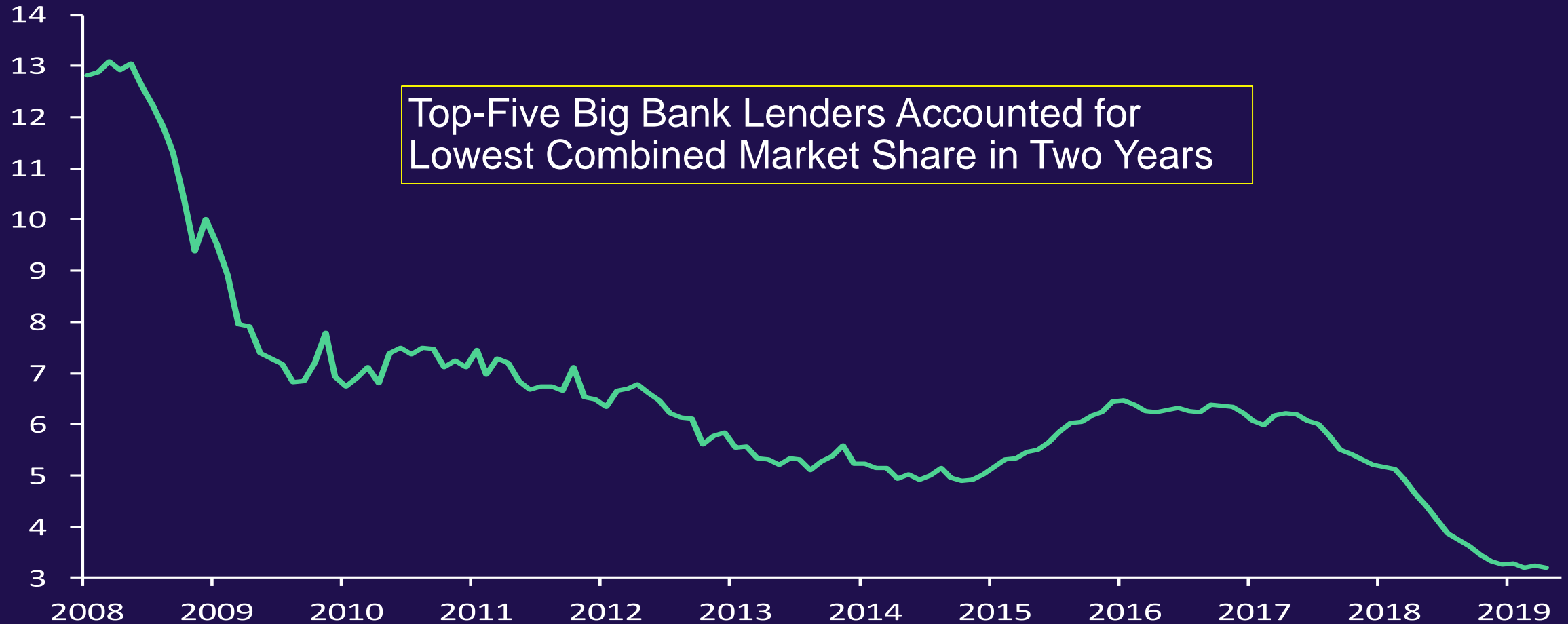
Only 20%-to-30% Need CMHC Insurance

Most Loans Are Fixed Rate



# Big-Bank Home Mortgage Lending Slows

Residential Mortgage Credit  
(\$ mlns, seasonally adjusted)



## Bank Mortgage Books Are Still Solid



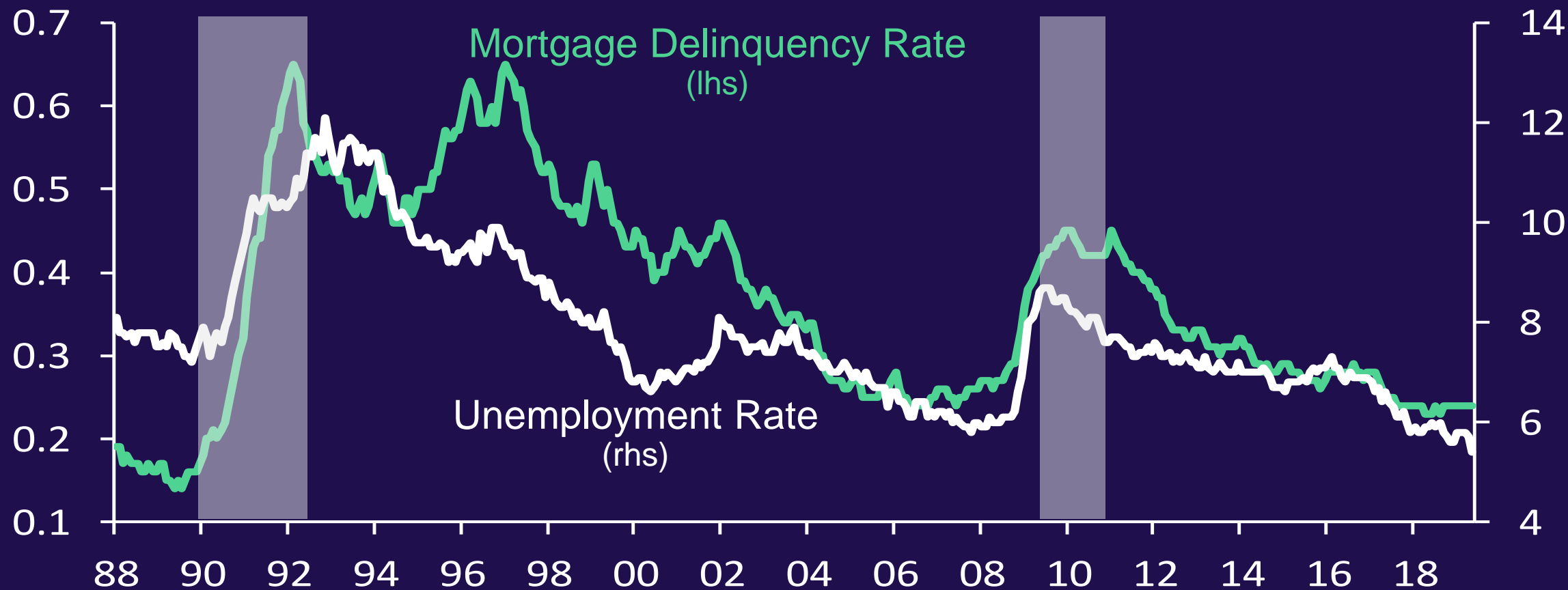
More Than 99% of Royal Bank's Uninsured Mortgage Portfolio Borrowers Have Credit Scores >650

And a LTVs of <75%

Its Average Uninsured Mortgage Has Almost 50% Equity

# Mortgage Arrears Very Low

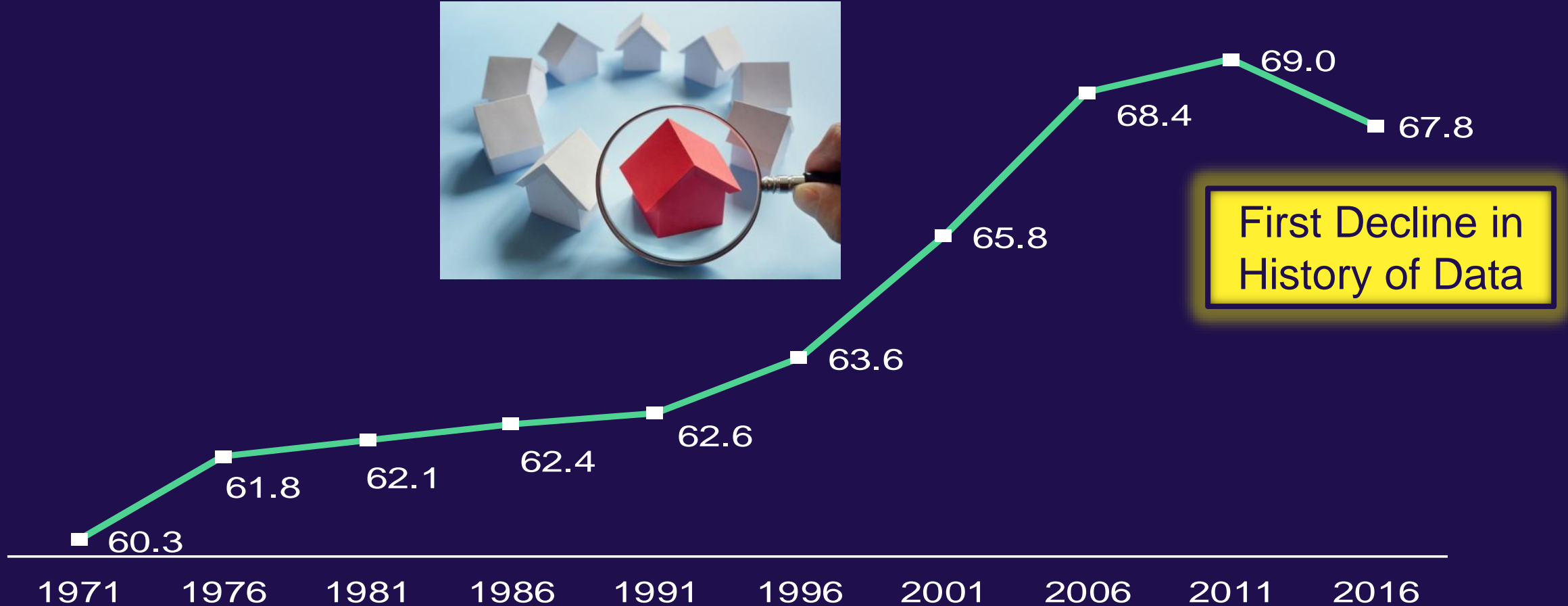
(percent)



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

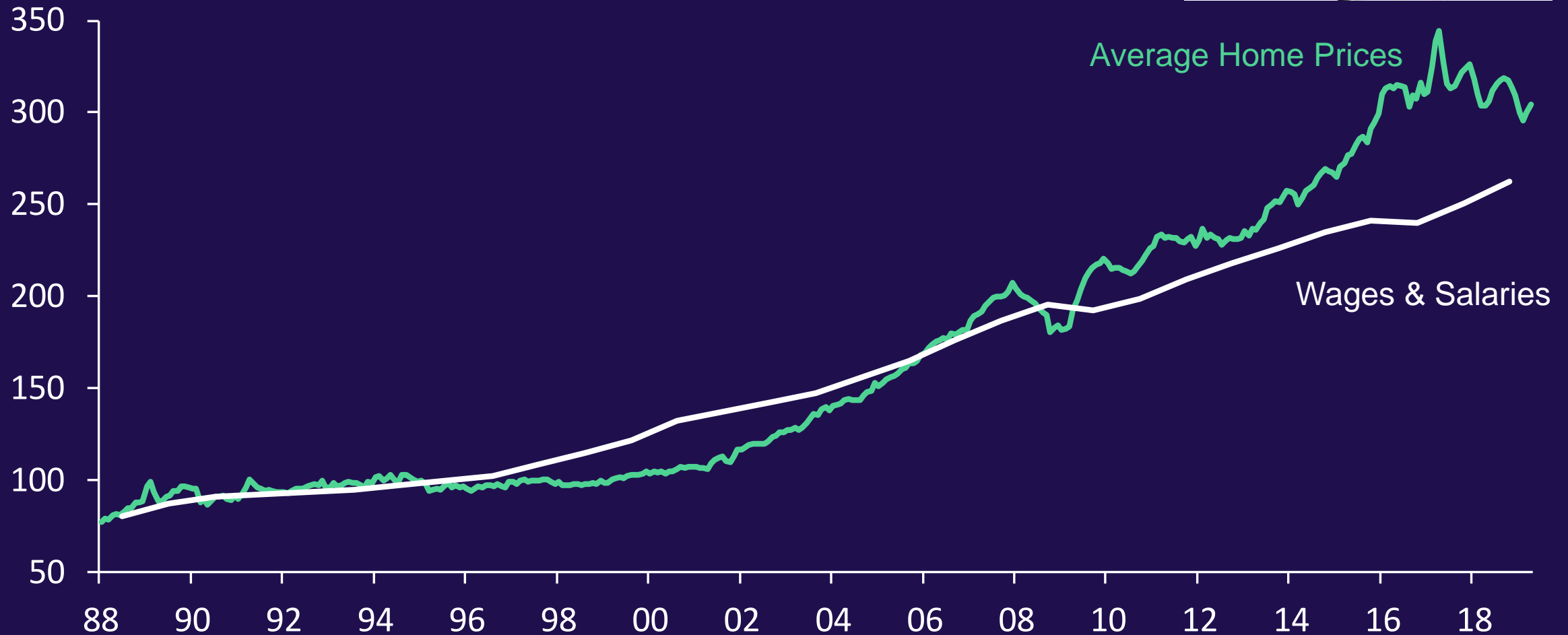
# Canadian Homeownership Ratio Falls

Homeowners as a % of all Canadian Households  
(percent)



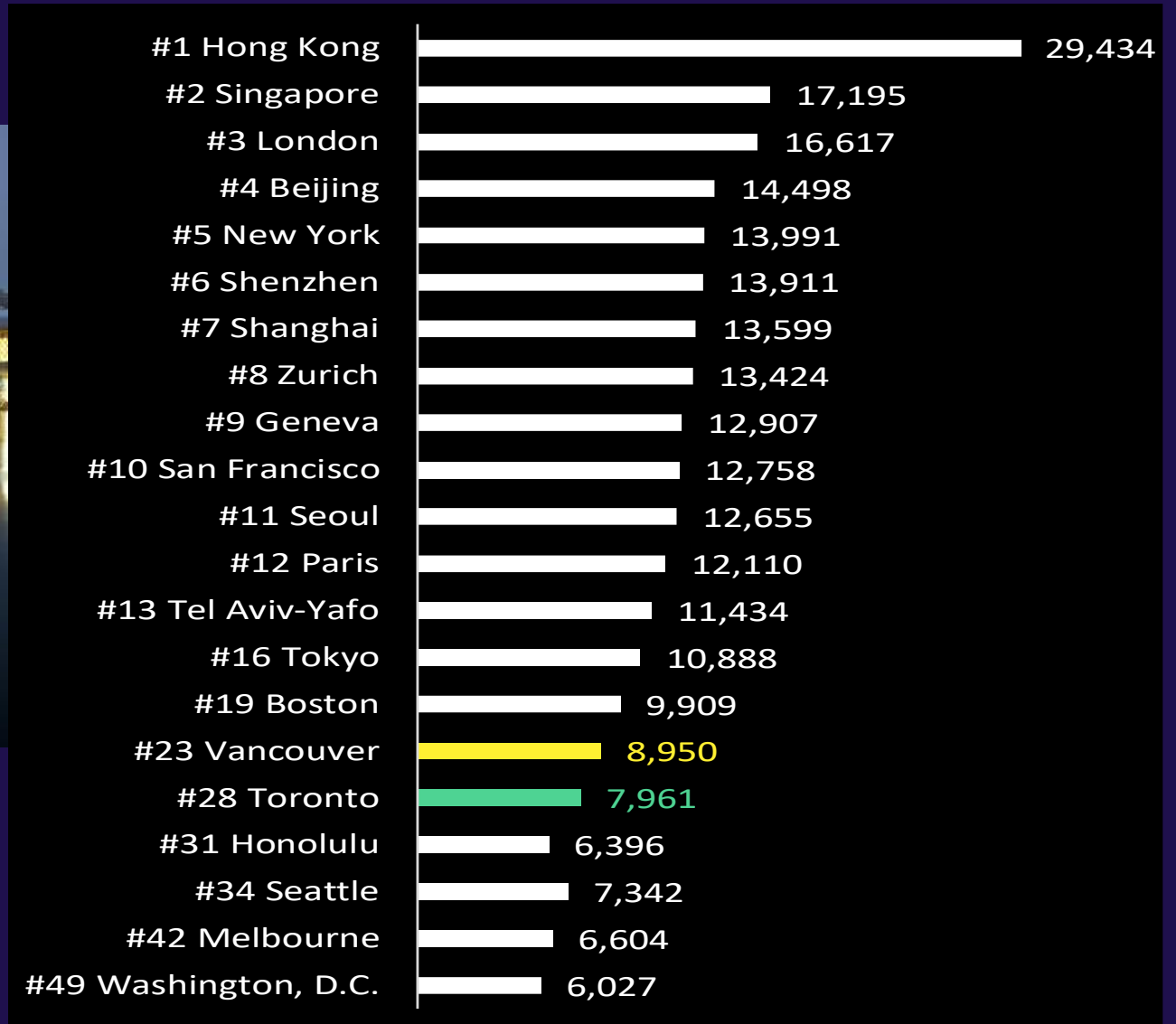
# Housing Unaffordable In Vancouver and Toronto

(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 BC, Improve in ON

Existing Home Sales  
(year/year % change, April 2019)

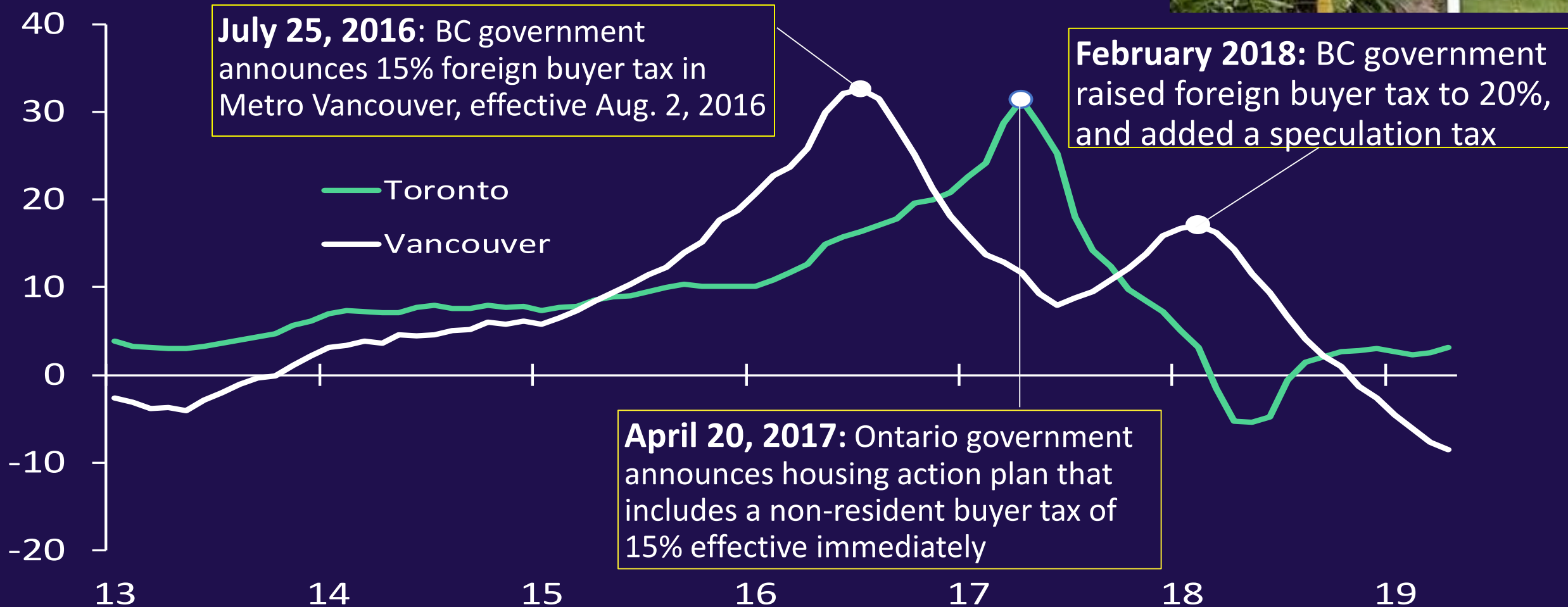


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# The Cooling Vancouver and Toronto Price Gains

Composite Home Price Index

(year/year % change)



# Toronto Markets Now Balanced

(ratio, April 2019)



## Toronto Area Sales-to-New-Listings Ratio



# Vancouver Now A Buyers' Market

(ratio, April 2019)



## Vancouver Area Sales-to-New-Listings Ratio

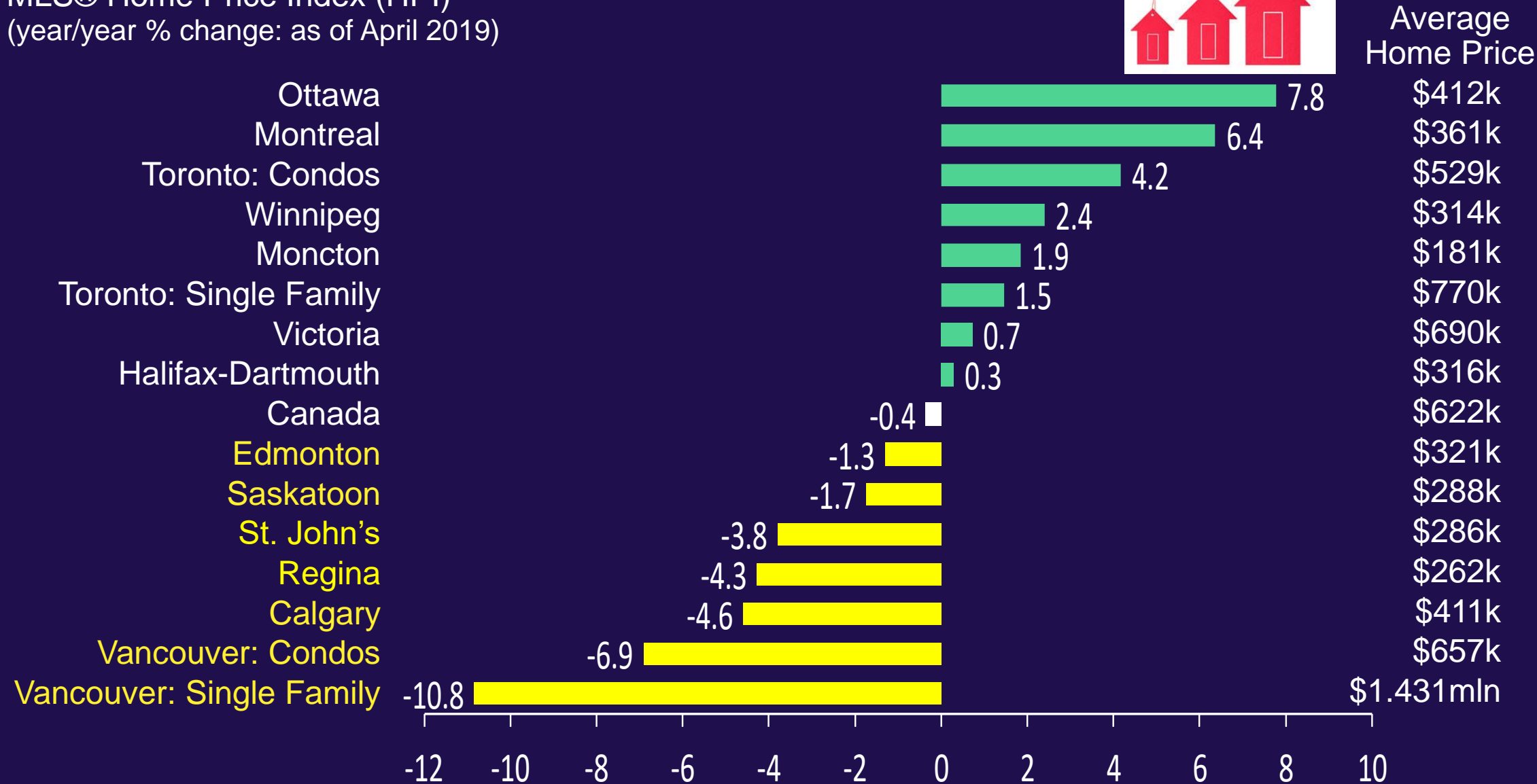


# Condos Outperform Single-Family Homes

MLS® Home Price Index (HPI)  
(year/year % change: as of April 2019)



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Source: Canadian Real Estate Association (CREA)

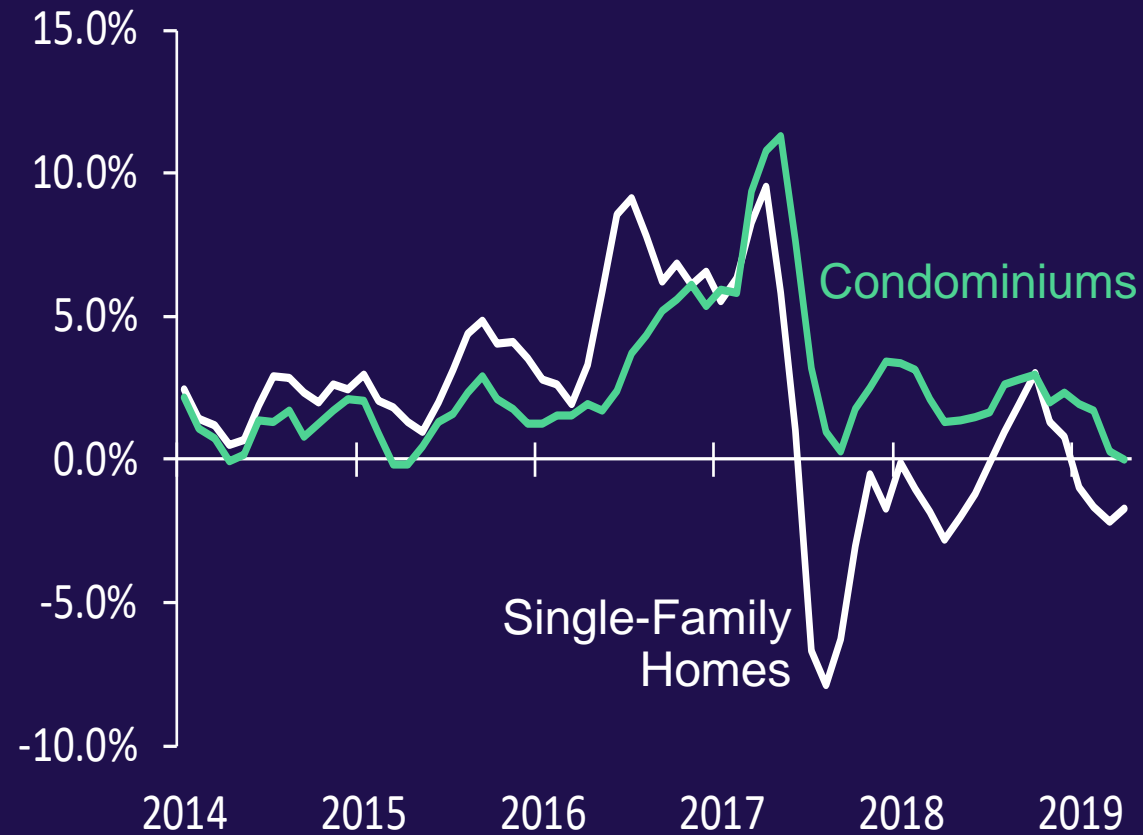
# Markets For Single-Family Homes In The GTA and GVA Have Softened

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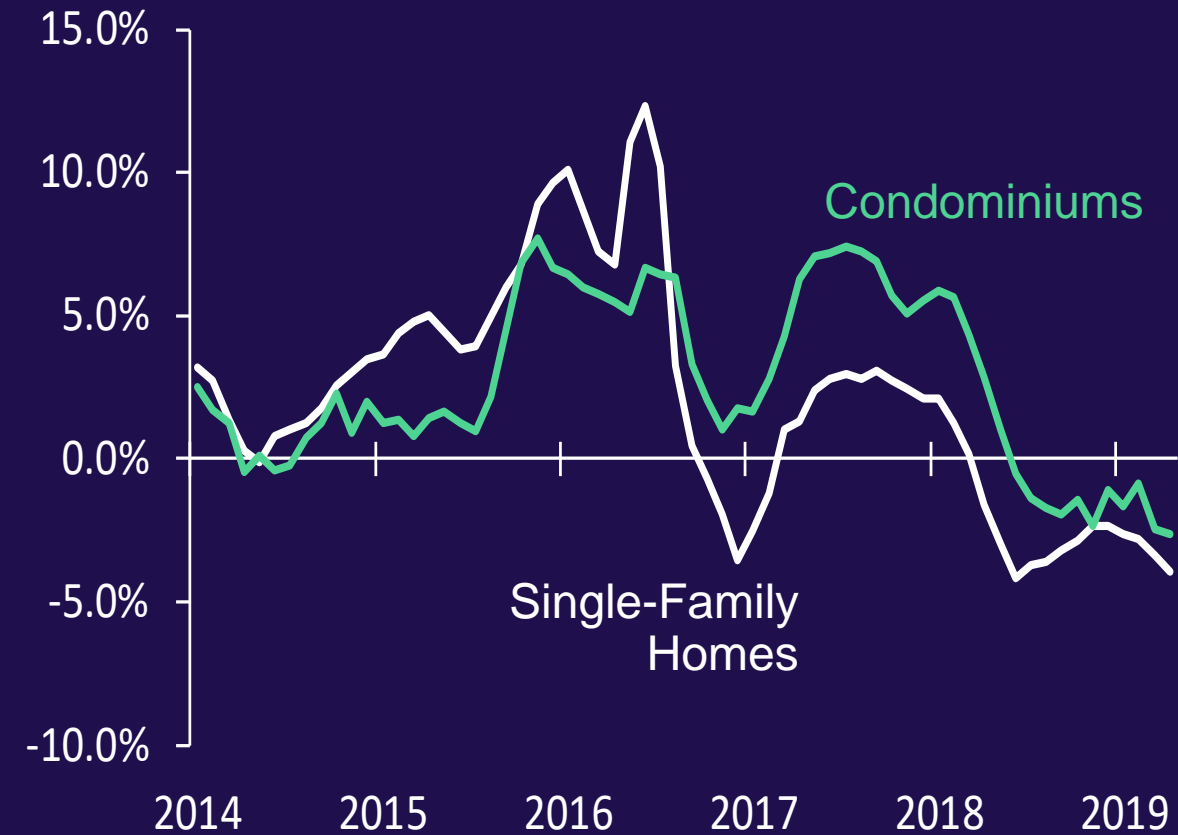
Home Price Index

(3-month annualized percent change, seasonally adjusted)

## Greater Toronto Area



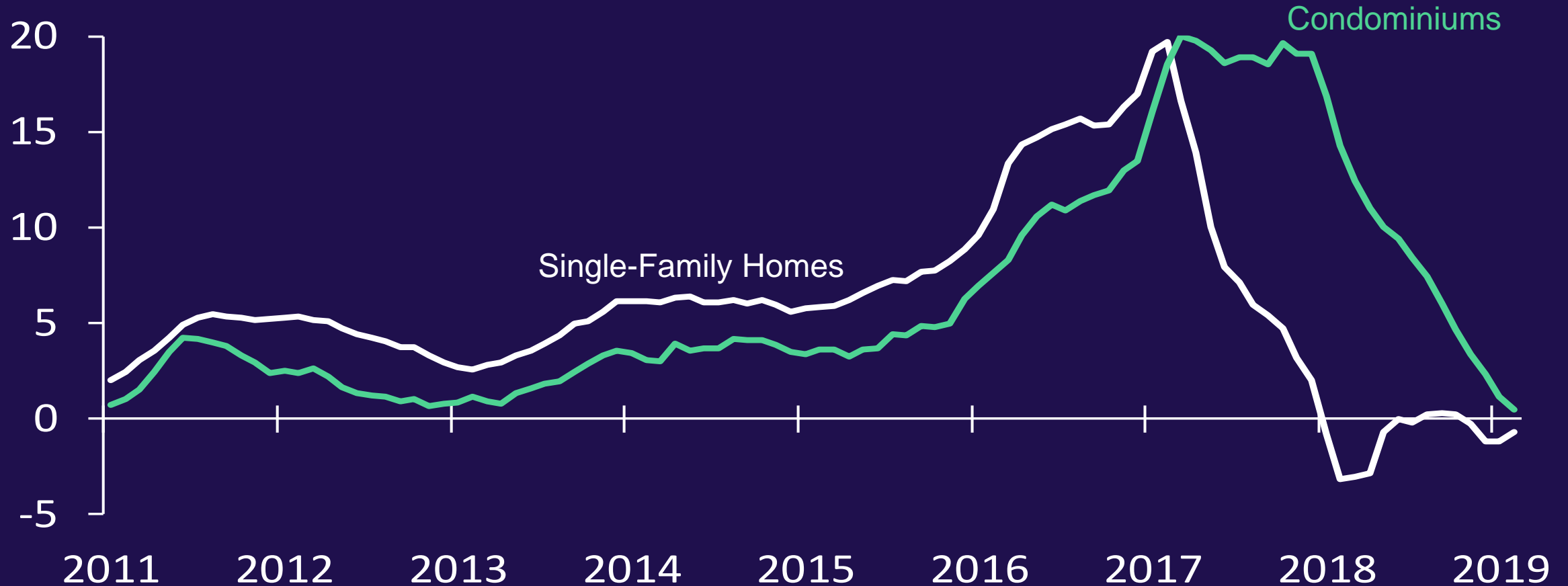
## Greater Vancouver Area



# Prices For Single-Family Homes Grew Faster Than Condo Prices In Canada Until Early 2017

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House Price Index  
(year/year % change)



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