

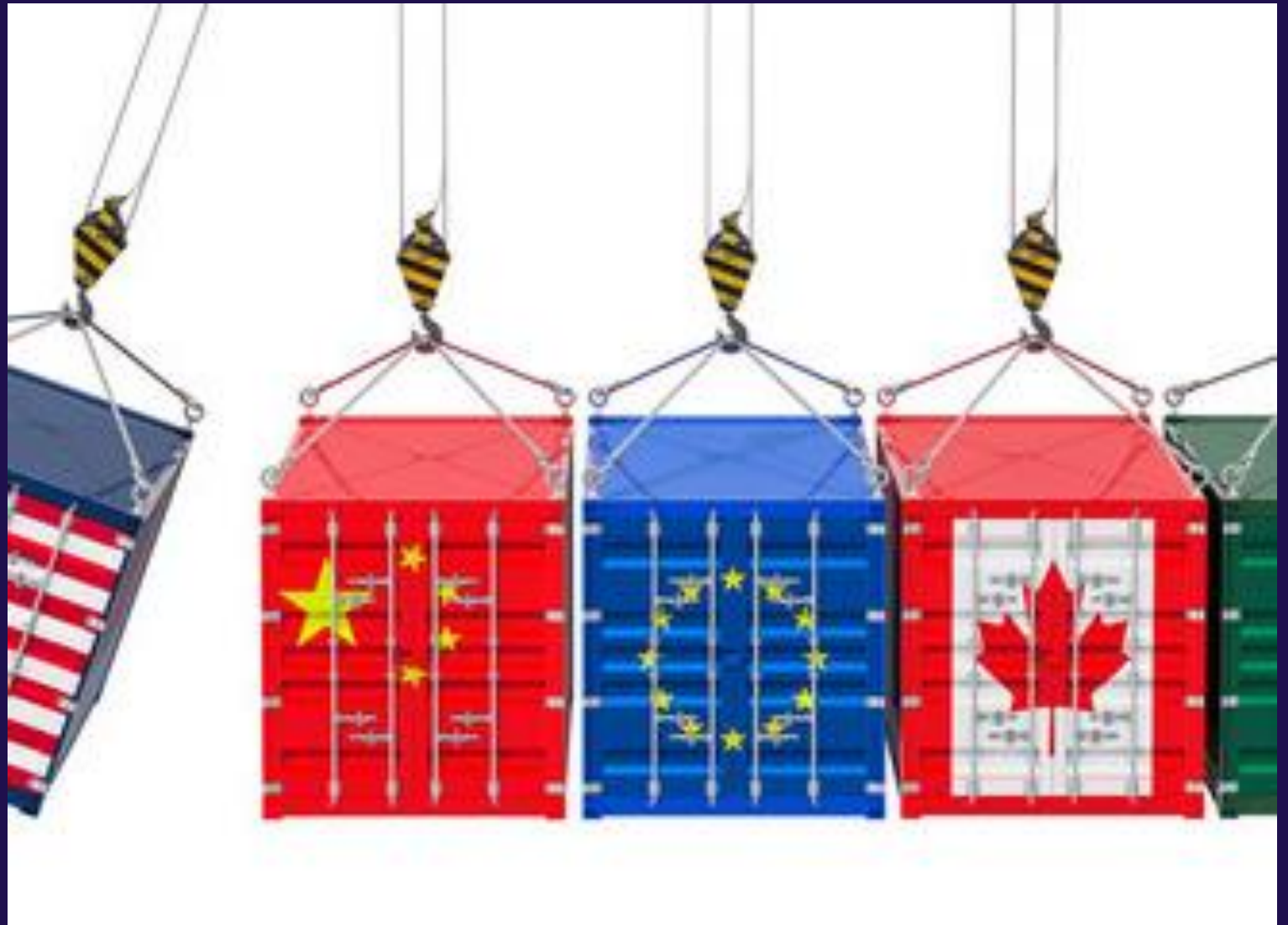
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Canada Sideswiped By Trade War

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Chief Economist
Dominion Lending Centres

Genworth
Canada

September 10, 2019



Global Economy Hit By Trade War



U.S. Still Tops Developed World

Europe and Japan Weak

Brexit Fallout

China's Growth Slowest in 30 Years

Canada's Growth Peaks in Q2

Most Central Banks Cut Rates

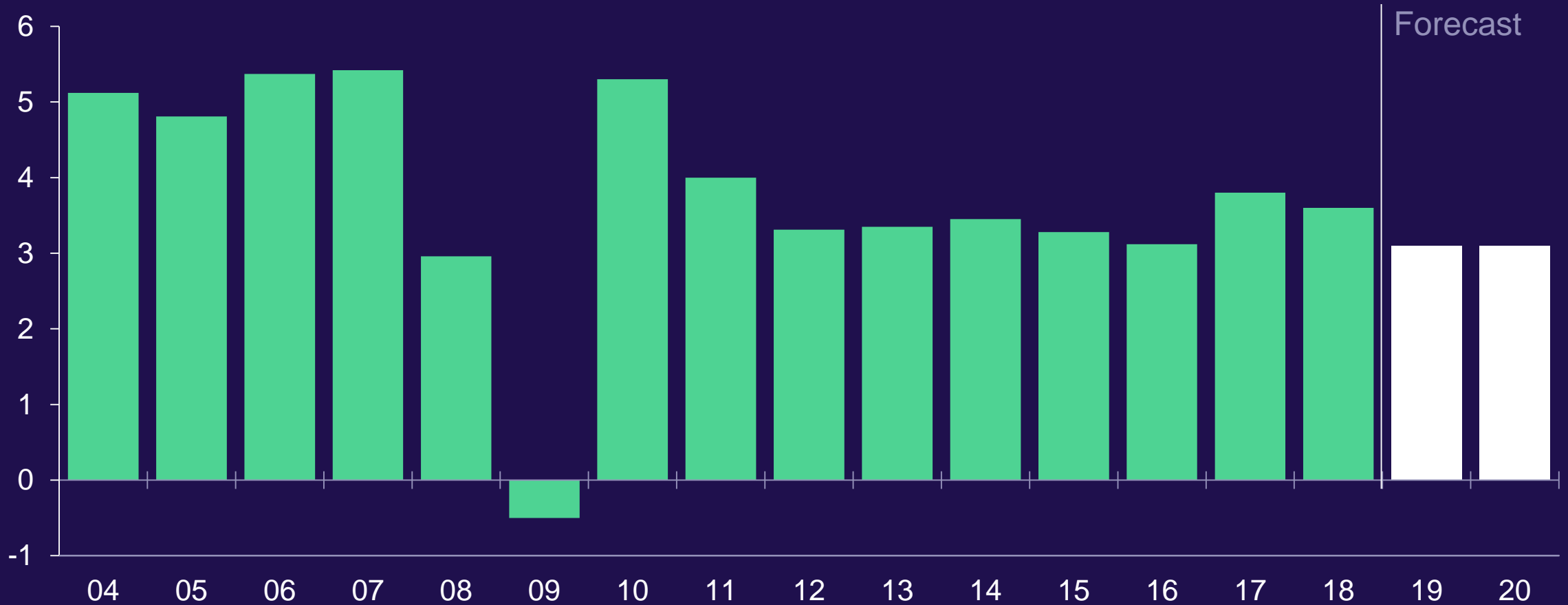
Inverted Yield Curve

Negative Interest Rates Abound

Global Growth Slows As Tensions Build

Real GDP
(year/year % change)

	2018	2019	2020
Global	3.6	3.1	3.1



Forecast = BMO Capital Markets
Source: OECD, BMO Capital Markets

Canada's Growth Peaked in Q2 At 3.7%



Q2 Exports Surge Temporary

Home Building Rebounded

Job Growth Strong

But...

Consumer Spending Slowed

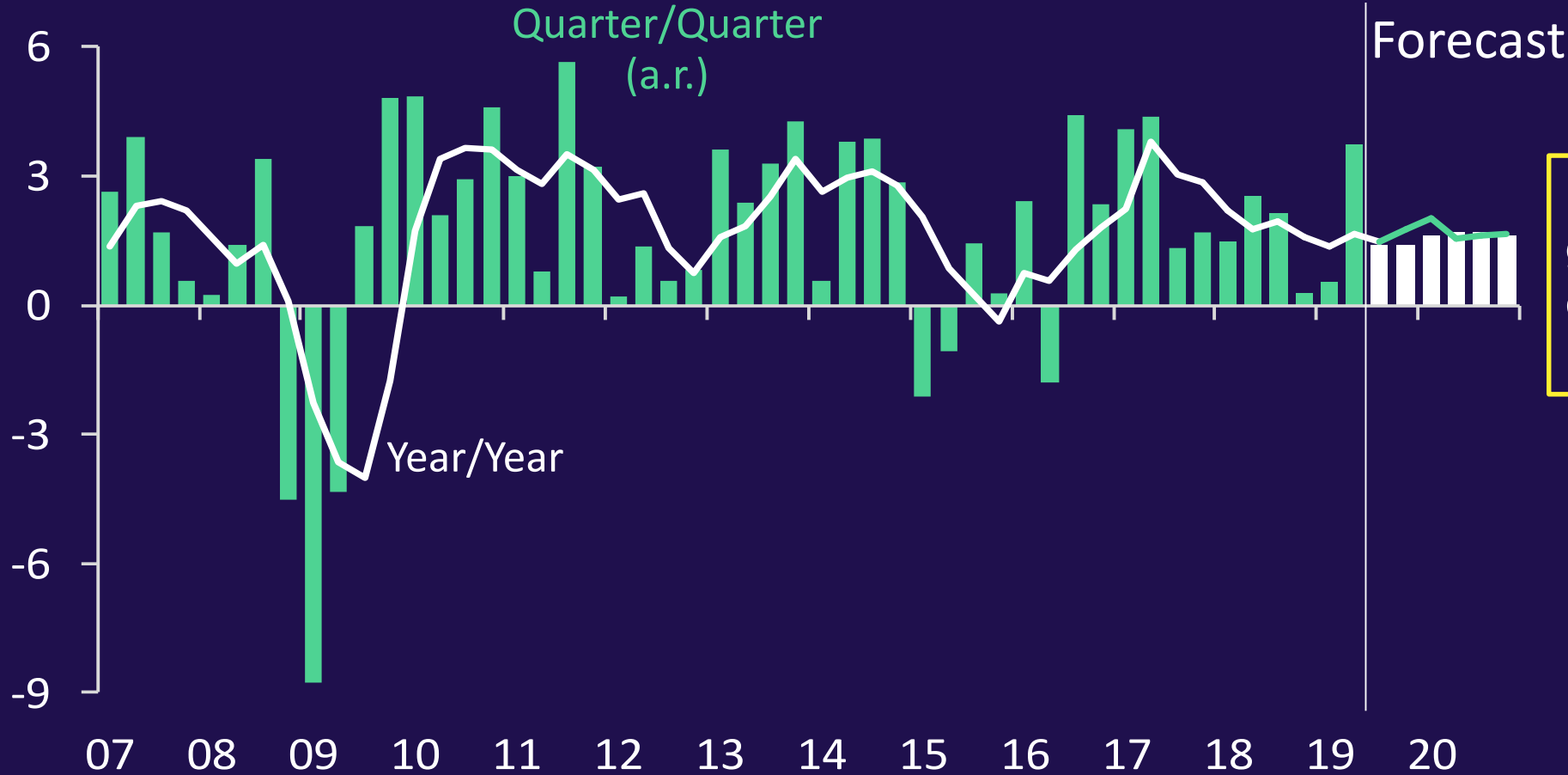
Business Investment Dismal

Trade War Uncertainty

Canadian Growth Slows From Here

Real GDP
(percent change)

2018	2019	2020
1.9	1.5	1.7

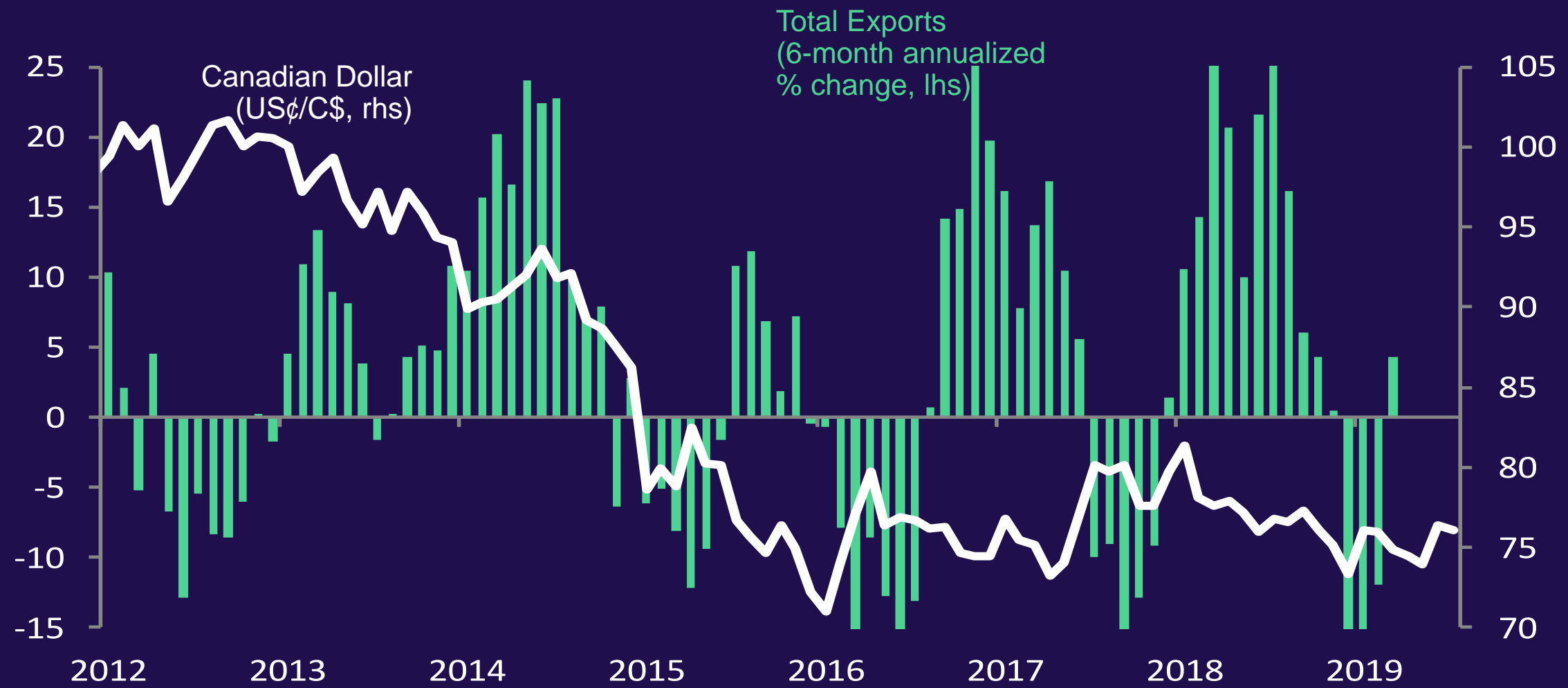


Dampened by slower US growth and China's ban on Canadian canola and beef imports.

Forecast = BMO Capital Markets Economics

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

Lower Canadian Dollar... But Exports Dragged Down By Oil Rout



Source: Haver Analytics, Statistics Canada

U.S. Growth Stumbles—Q1 at 3.1%, But Q2 Falls to 2.0%



Second Half Stalls Under 2.0%

Consumers Solid For Now

Rest of the Economy Sags

Tariffs and Waning Effect of Tax
Cut

Business Spending Weakens

Manufacturers Struggle

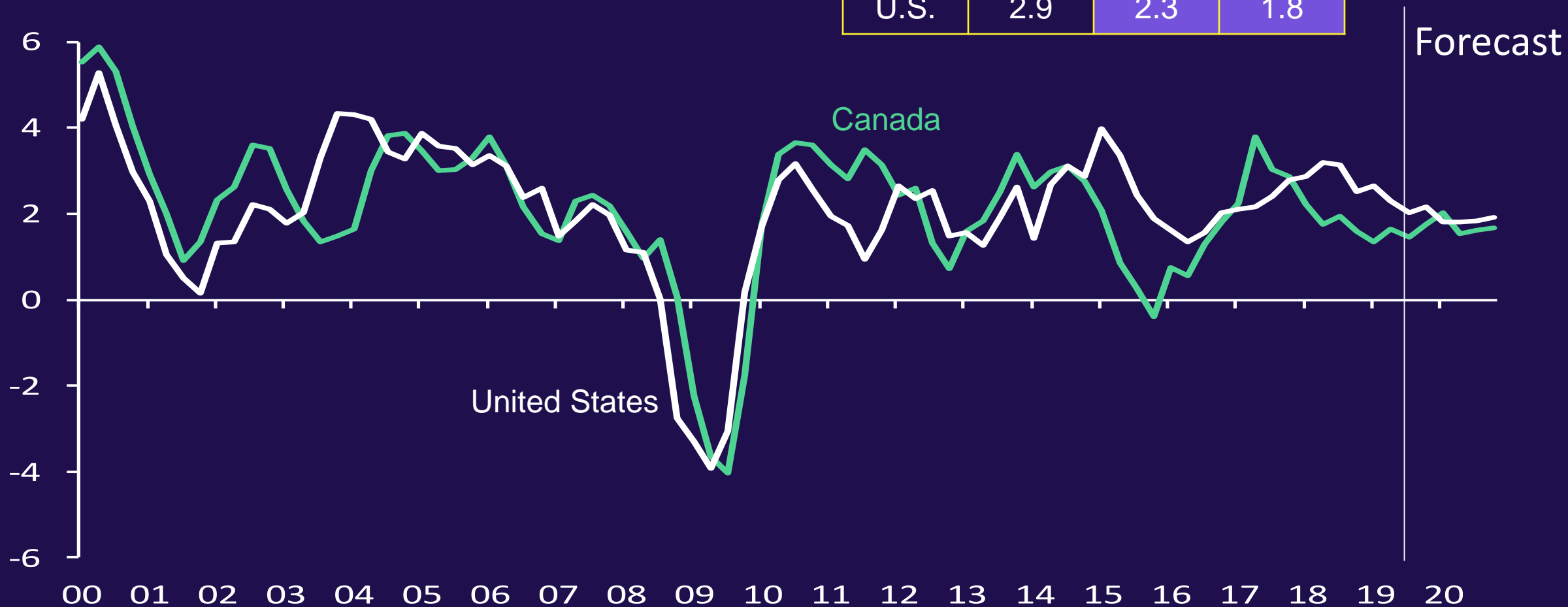
Exports Plunge

Residential Construction Shrinks

US Economy Slows Too

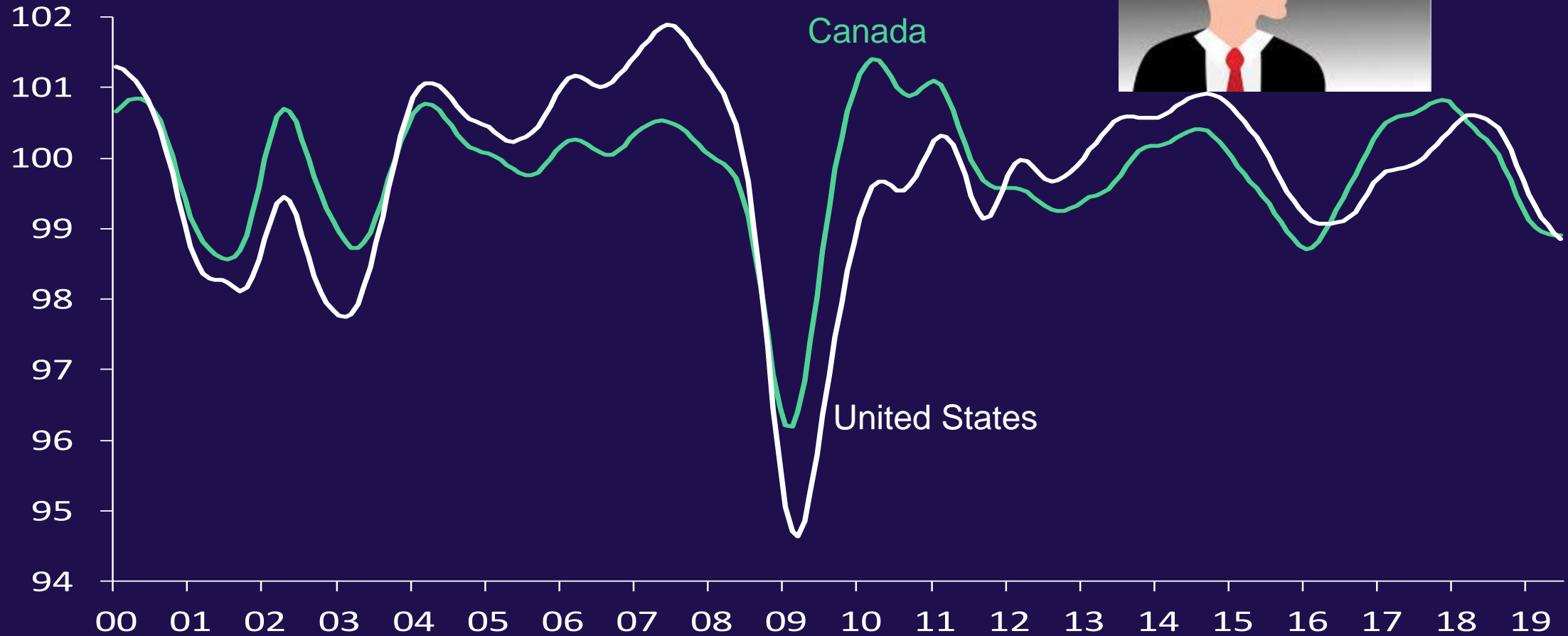
Real GDP
(year/year % percent)

	2018	2019	2020
Canada	1.9	1.5	1.7
U.S.	2.9	2.3	1.8



Consumer Confidence Weakens

OECD Consumer Confidence Index
(long-term average = 100)

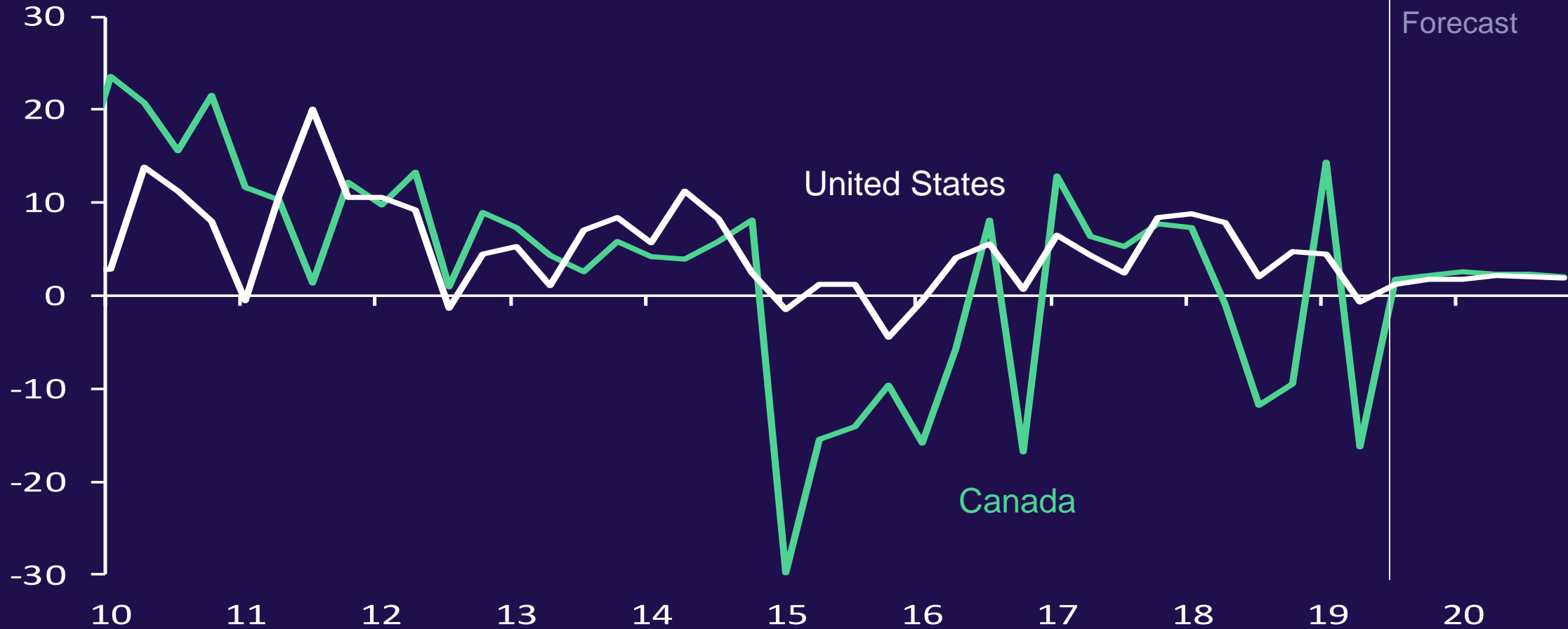


Uncertainty Drags Down Business Investment

Real Non-Residential Business Investment
(Qtr/Qtr, percent at annual rates)



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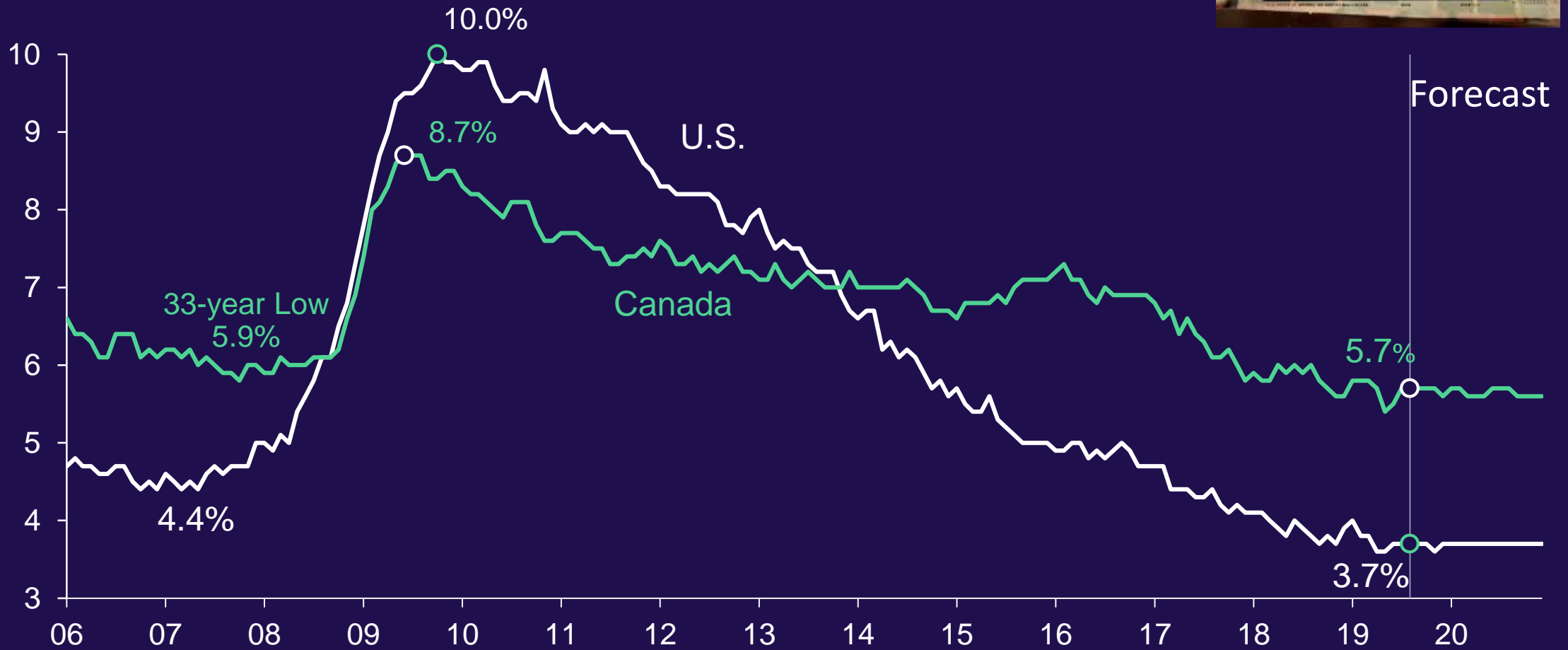


Jobless Rate At Historical Lows As Incomes Grow

(percent)



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

Loonie Tied To Oil And New NAFTA



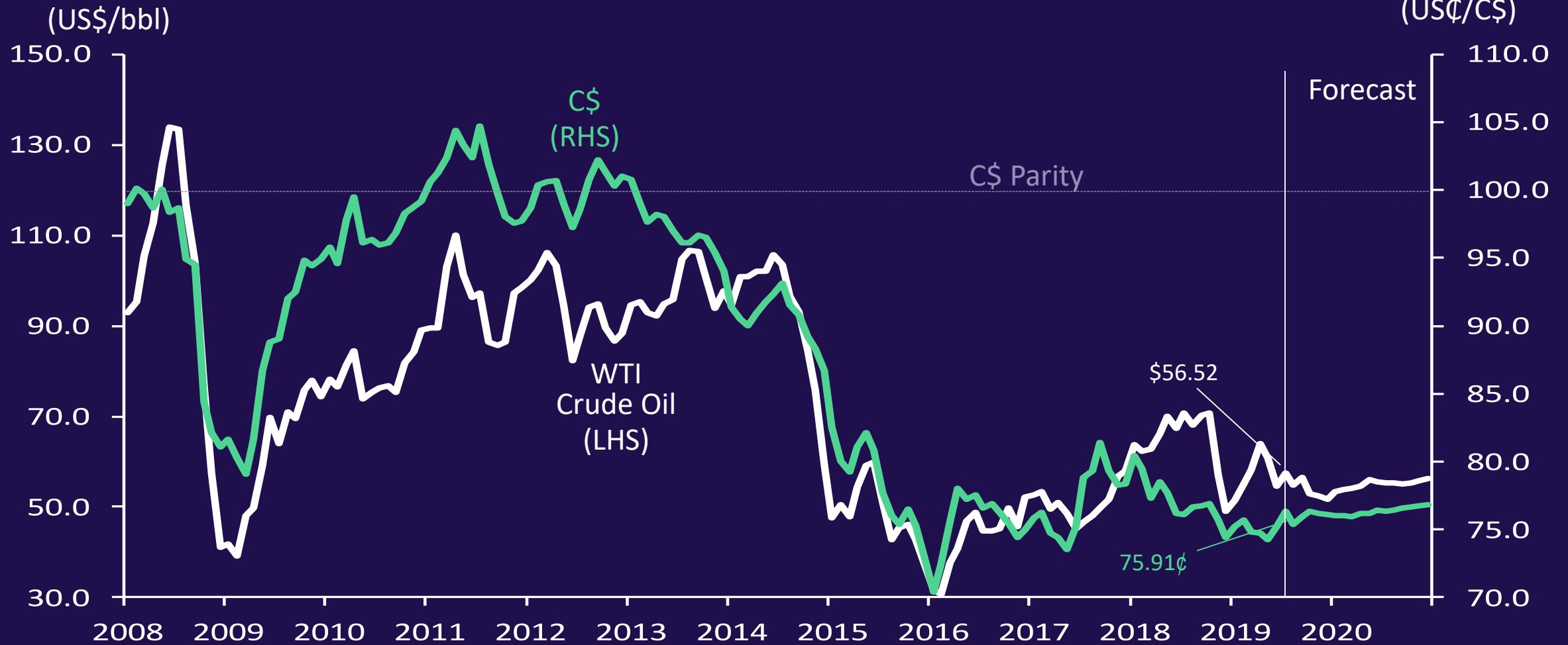
Oil Prices Down From Recent Peak
Trade War Uncertainty Escalates
USMCA in 2019?

Oil Price And The Loonie

(as of September 6, 2019)



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Forecast = BMO Capital Markets

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

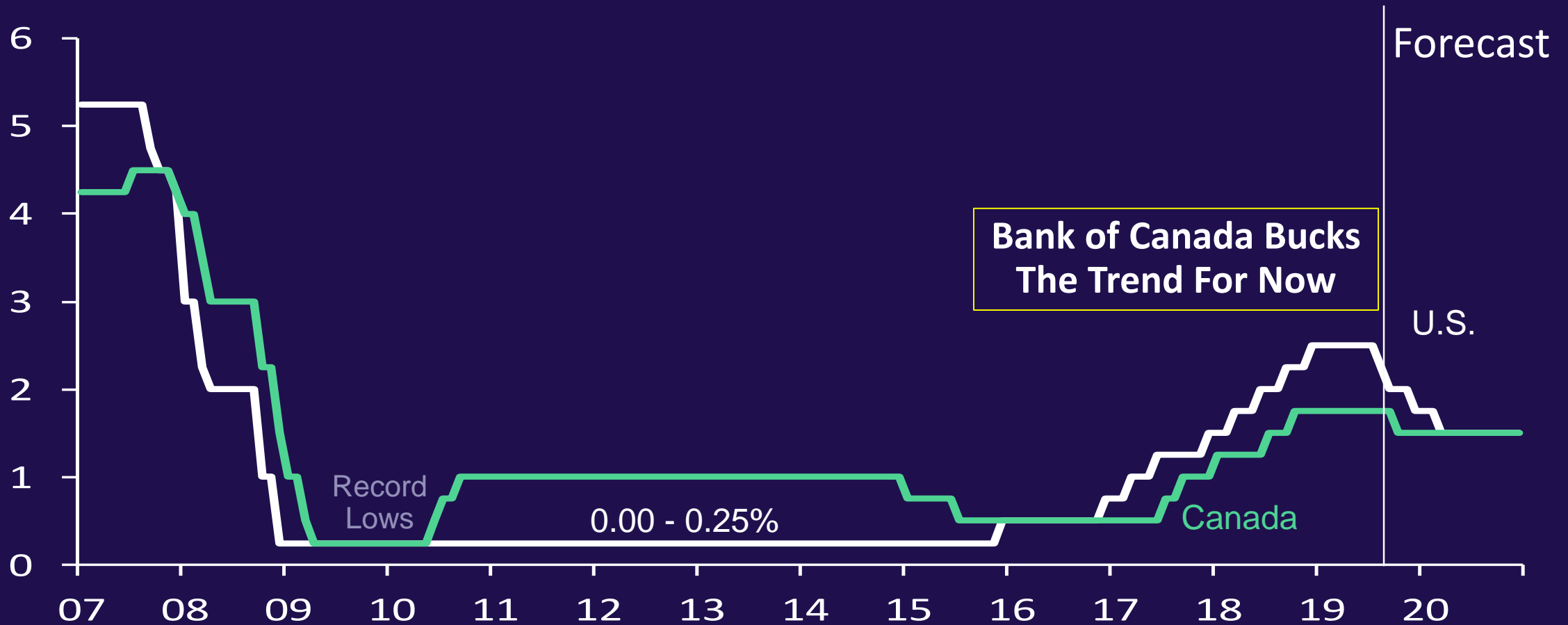
Financial Markets



Bank of Canada On Hold For Now
Fed and Other Central Banks Ease
Mortgage Rates Fall Sharply
Inverted Yield Curves

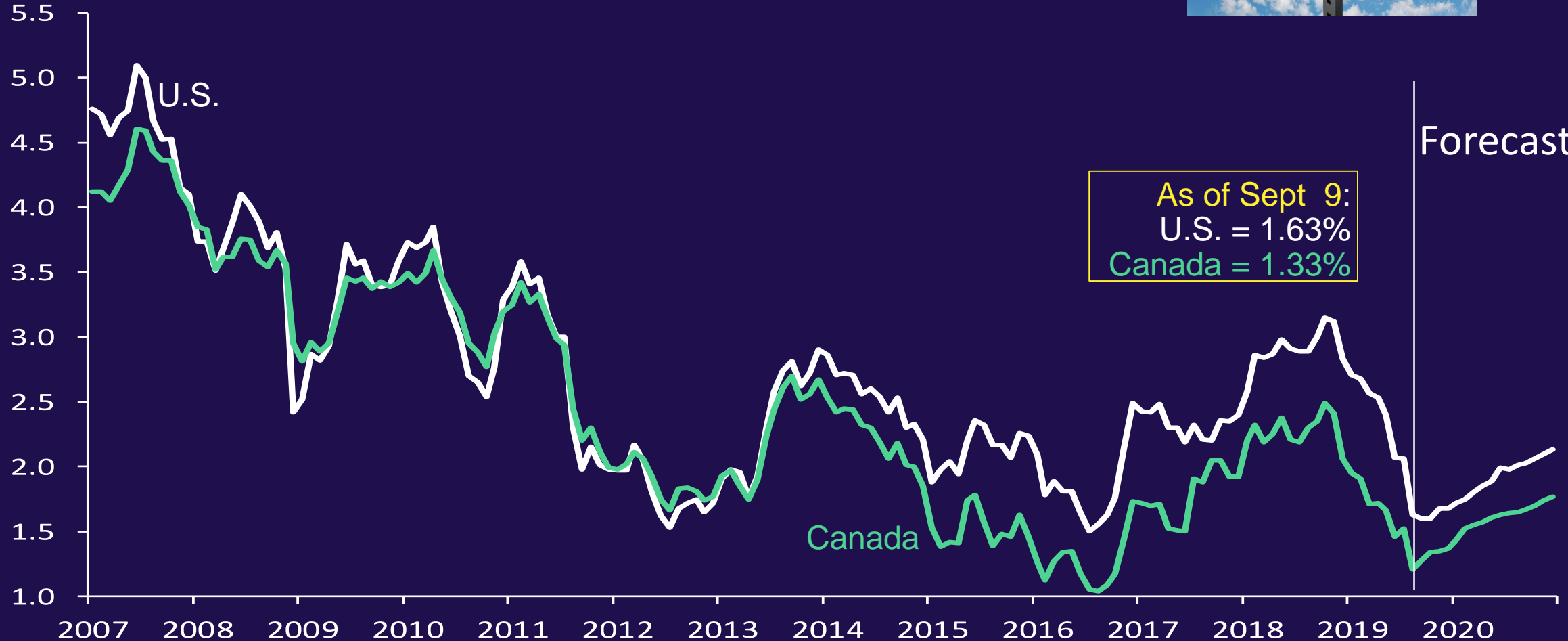
More Than 30 Central Banks Have Cut Rates in 2019

Overnight Rate
(percent)



Long Yields Plummet

10-year Bond Yields
(percent)



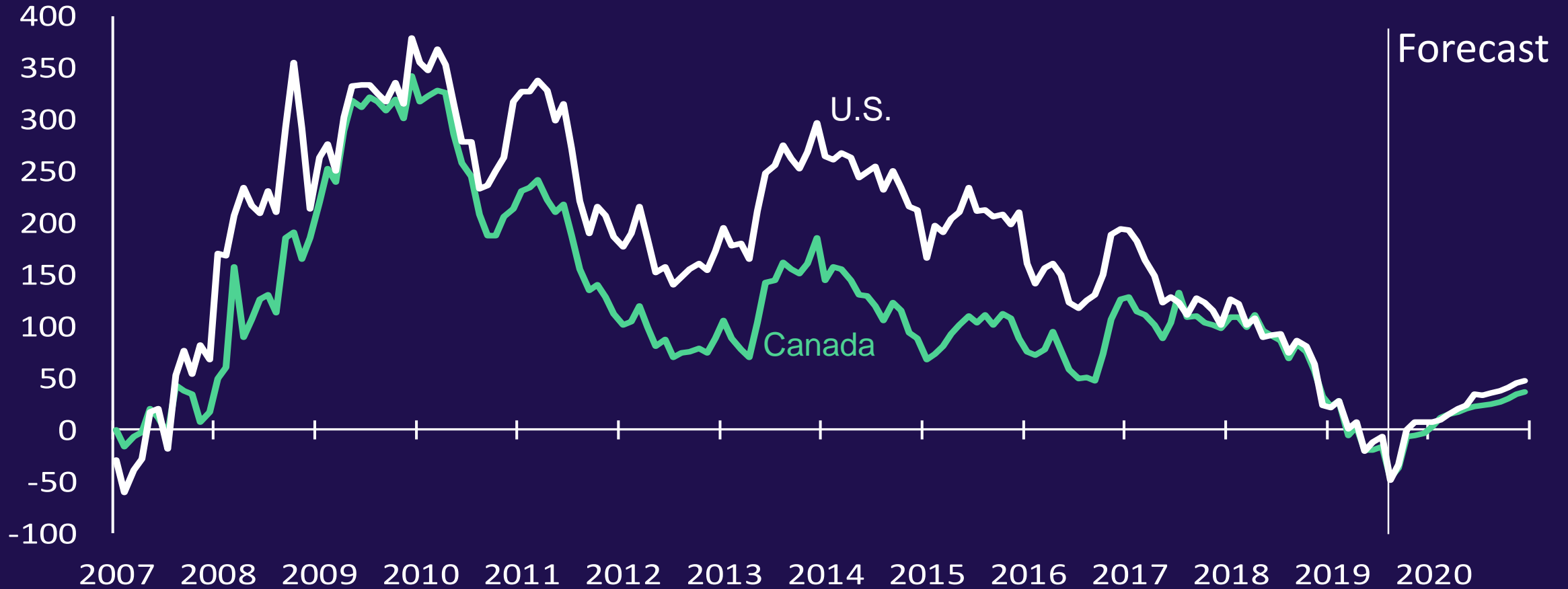
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Inverted Yield Curve in Canada & U.S.

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



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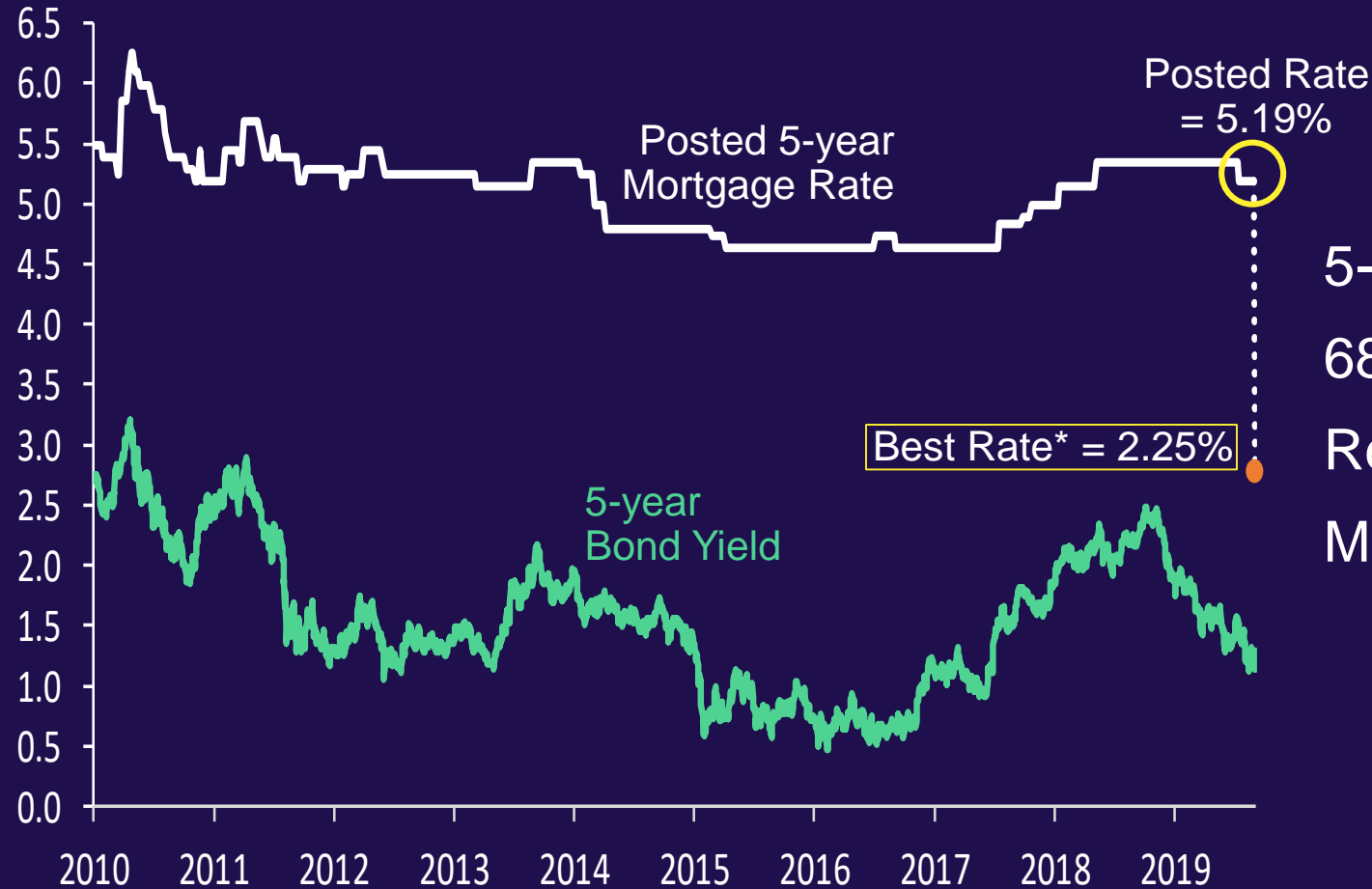


Forecast = BMO Capital Markets
Source: Bank of Canada, Federal Reserve Board

More Downside Pressure for Mortgage Rates

Canada

(percent, as of August 26, 2019)



5-year Bond Yield Falling
68% or More Fixed Rate
Resets At Stable to Lower Rates
Mortgage Rates Fall the Most

*Best Rate is Special Offer posted by RateSpy.com
Source: Bank of Canada, RateSpy.com

Long-Term Yields Are Tumbling, Especially Mortgage Rates

(Canada, percent)

Canadian	Year-End 2018	Current	BP Drop
3-Month Bill	1.64	1.62	-2
5-Year Bond	1.85	1.15	-70
10-Year Bond	1.92	1.13	-79
30-Year Bond	2.13	1.40	-73
Mortgage Rates	January 2019	August 2019	BP Drop
Best 5-year fixed	3.24	2.30	-94
Conventional High-ratio 5-Year fixed	3.44	2.49	-95
Refi 5-Year Fixed	3.67	2.49	-118

Source: Bank of Canada, RateSpy.com

Mortgage rates from RateSpy.com

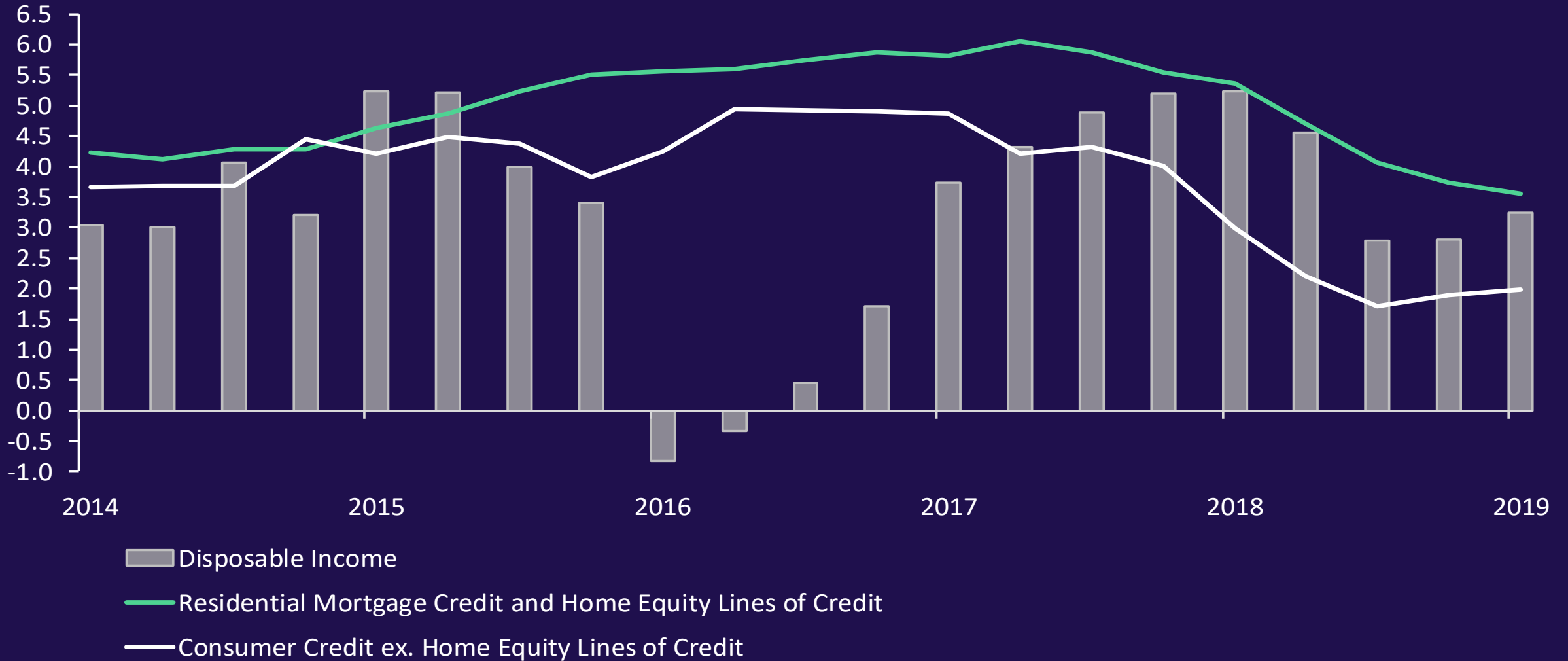
Housing Slowdown, But GTA On Uptick



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

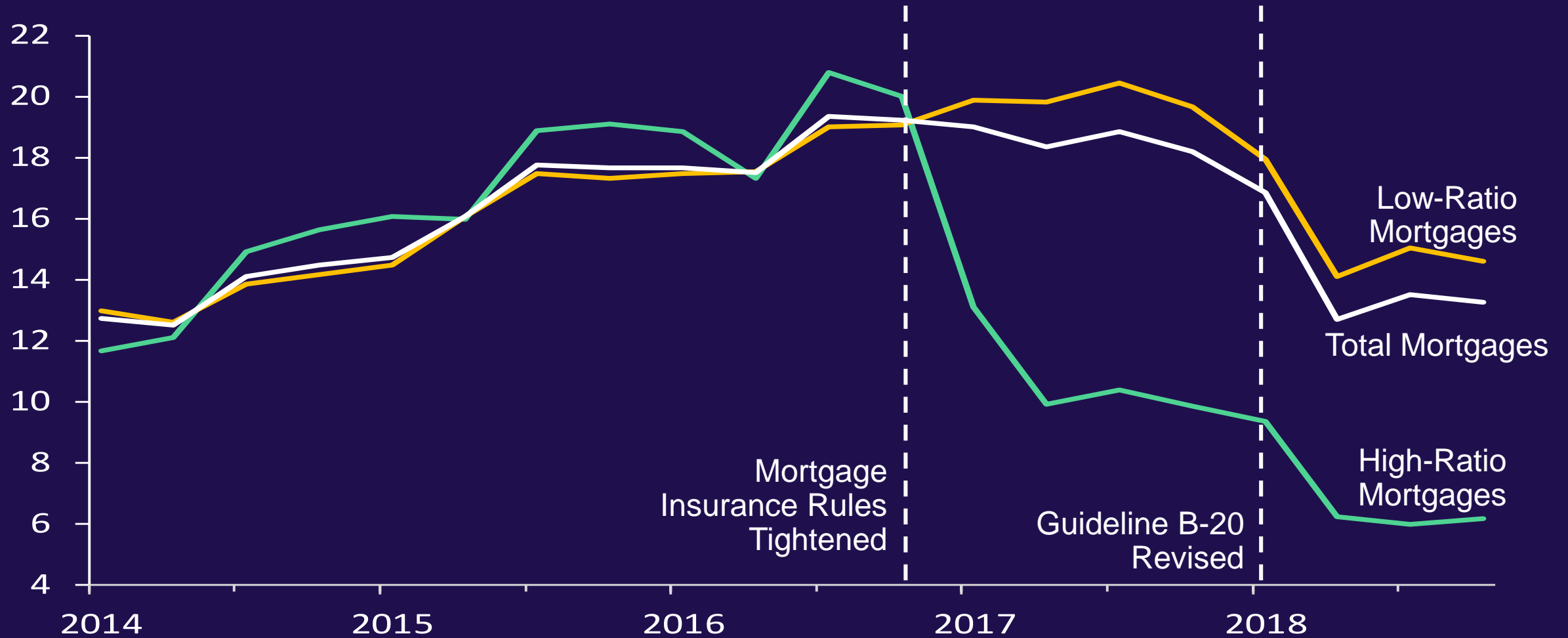
Household Credit Growth Slowed In Recent Months

(year-over-year % change)



Fewer Mortgages Are Going To Highly Indebted Borrowers

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...



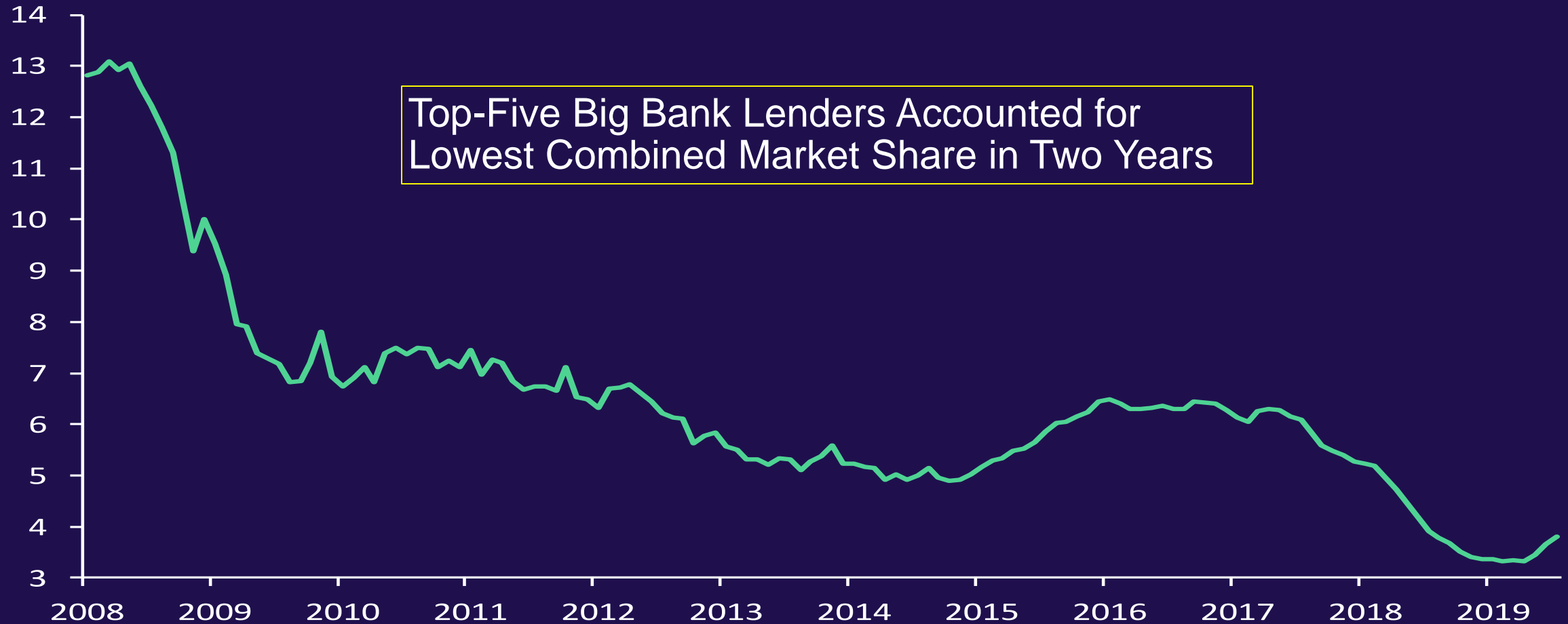
So 58% of Households Nearly Debt Free



Low Mortgage Delinquencies--.24%
Only 20%-to-30% Need Insurance
Most Loans Are Fixed Rate

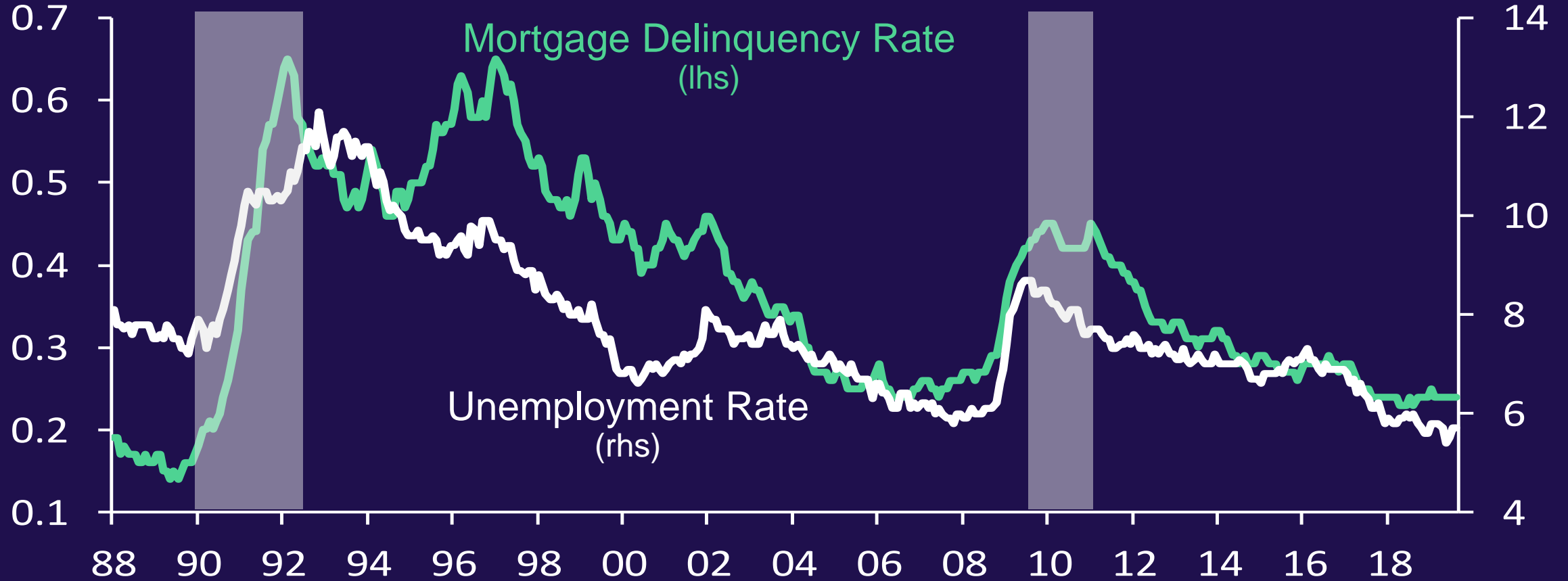
Big-Bank Home Mortgage Lending Slows

Residential Mortgage Credit
(\$ mlns, seasonally adjusted)



Mortgage Arrears Very Low

(percent)



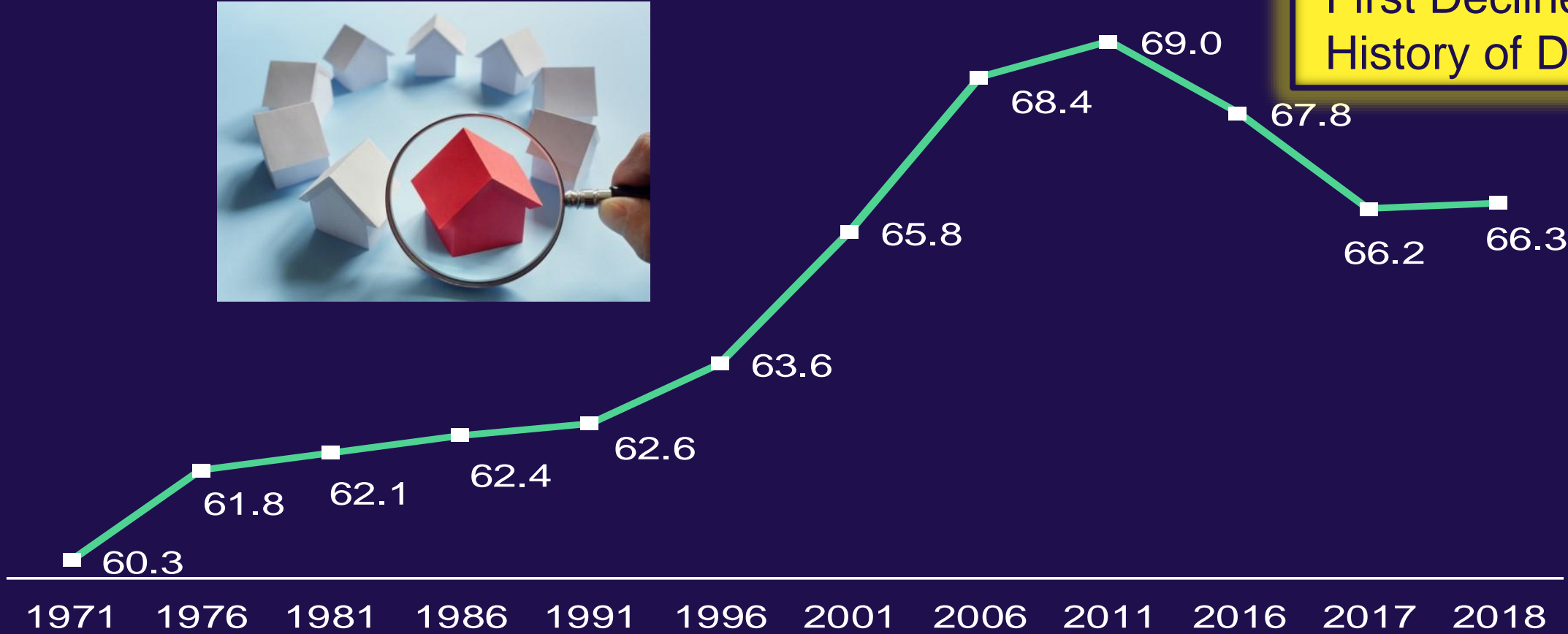
Shaded regions represent periods of Canadian recessions
Source: Haver Analytics, CBA, Statistics Canada

Canadian Homeownership Ratio Falls

Homeowners as a % of all Canadian Households
(percent)



First Decline in
History of Data

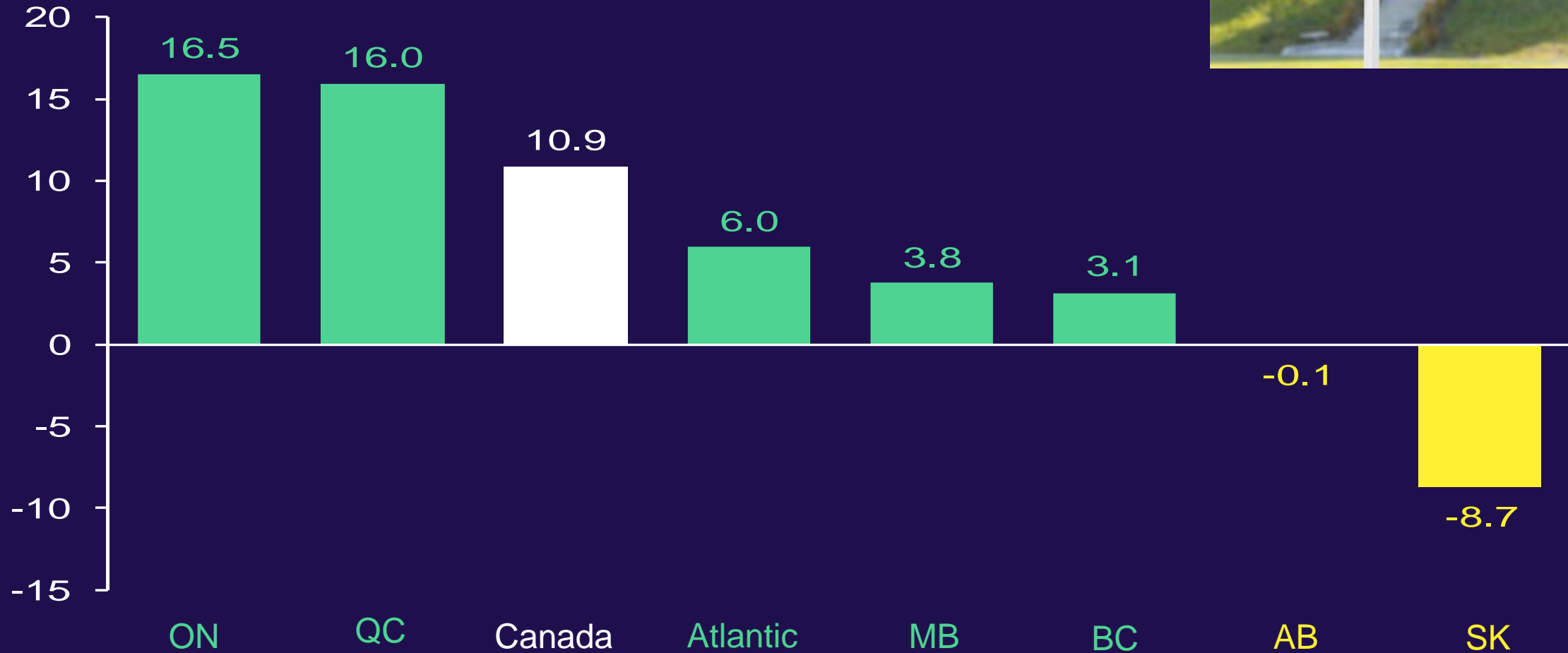


Home Sales Growth Mixed Across the Country

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



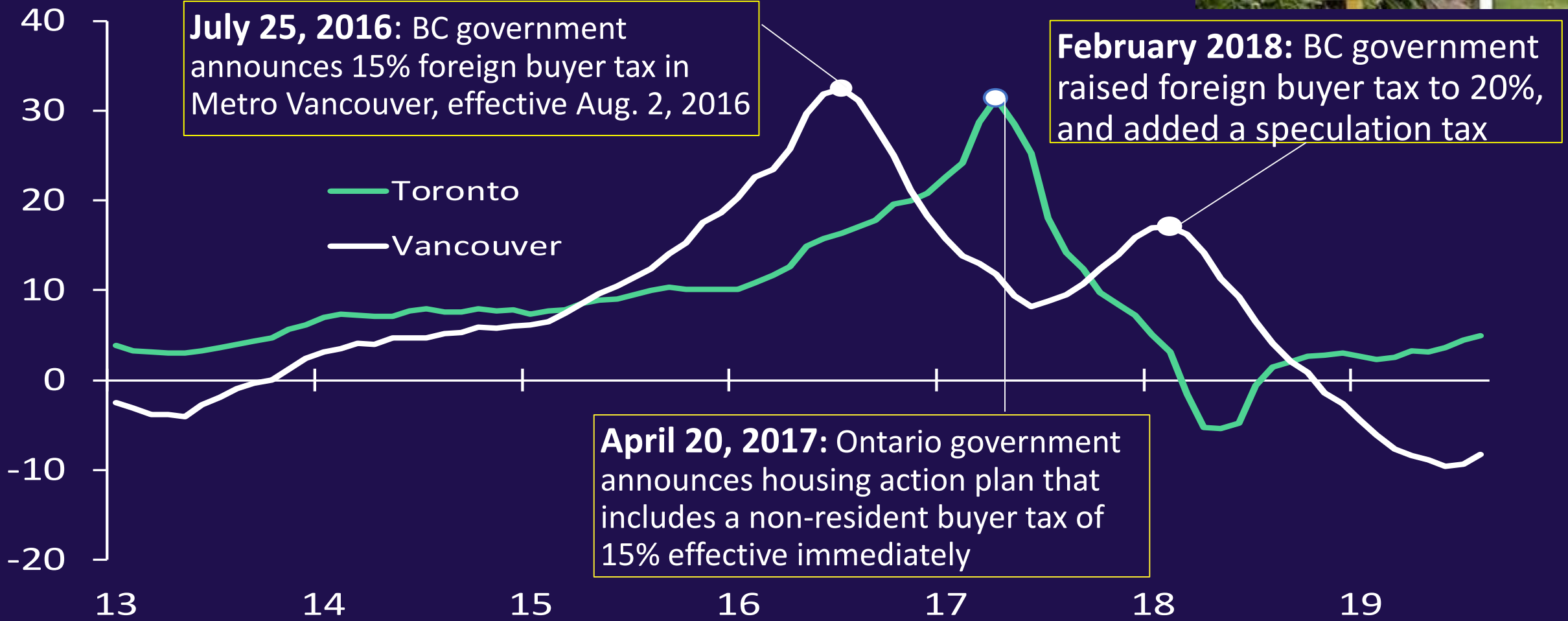
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Source: Canadian Real Estate Association, Haver Analytics

Prices Cooled In Vancouver and Toronto

Composite Home Price Index
(year/year % change)



Source: Haver Analytics, CREA, Statistics Canada

Toronto And Vancouver Housing Markets Now Balanced

Sales-to-New Listings Ratio (July 2019)



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