

HOUSING HIT BY RATE HIKES

Dr. Sherry Cooper June 1, 2022



"The long era of low inflation, suppressed volatility, and easy financial conditions is ending," said Mark Carney, the former governor of the Bank of England, and before that, the Bank of Canada. The economics of the coming period will be "more challenging," he said.

NON-TRANSITORY INFLATION MOUNTS

(De)Globalization

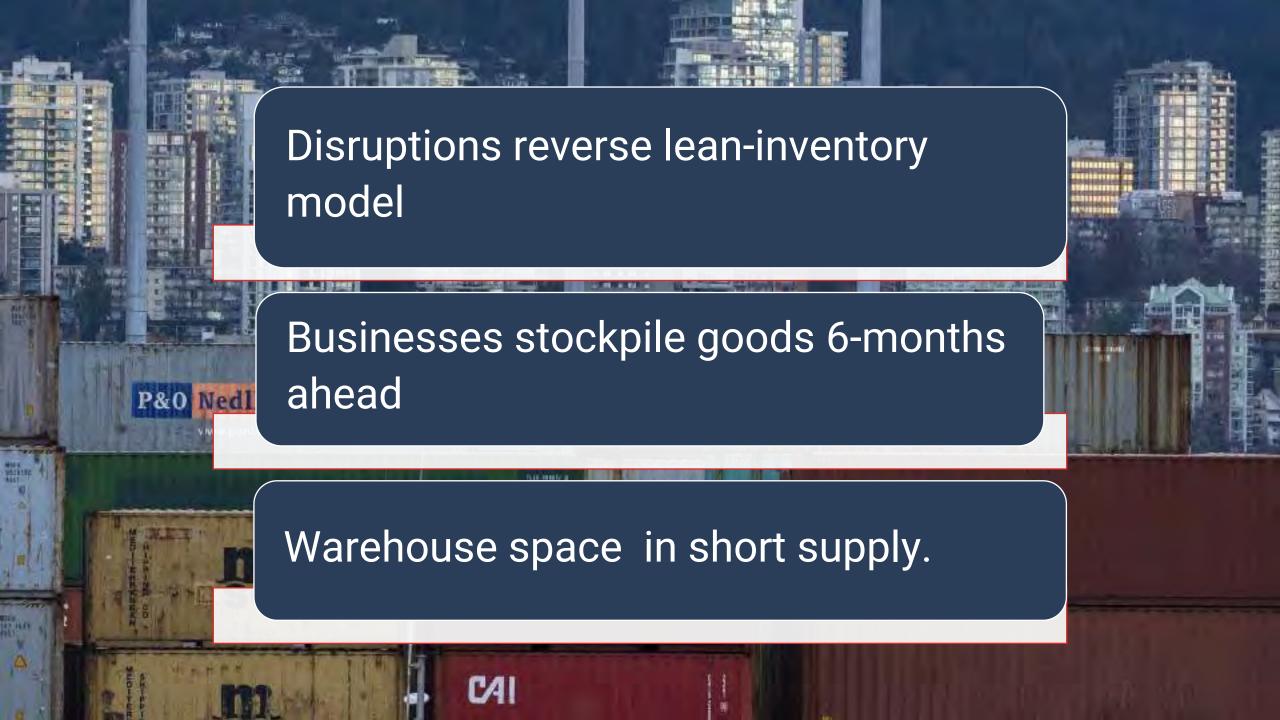
Untapped Supply Of Cheap Labour Slows

Net Zero Is Costly

Housing Shortage Keeps Pressure On Rents

Possible Offset—Productivity Growth

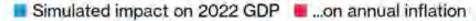


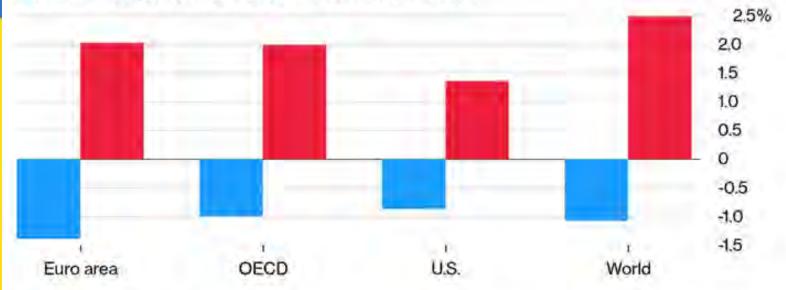


UKRAINE WAR

Possible Fallout

Repercussions of war are already weakening global growth, adding to inflation







Bloomberg



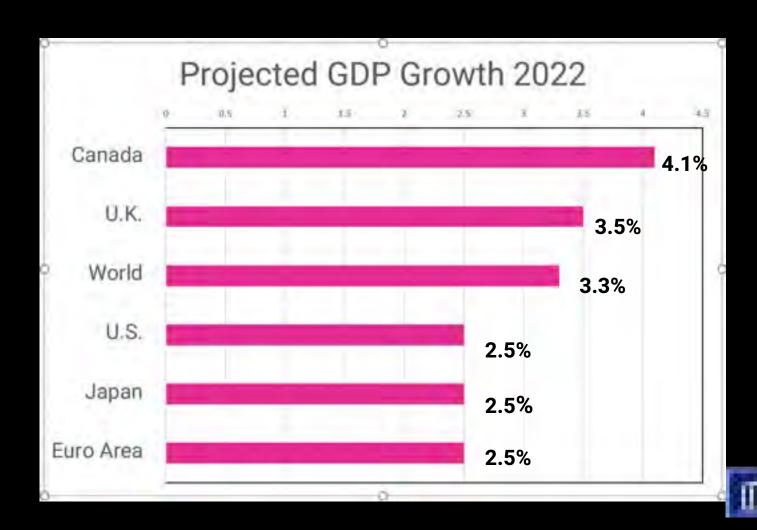


Still Resilient

Canada's economy continues to expand on consumption strength



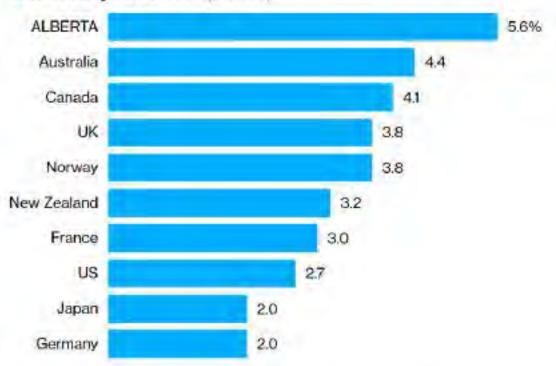
CANADA OUTPERFORMS THANKS TO COMMODITIES



Alberta is Back

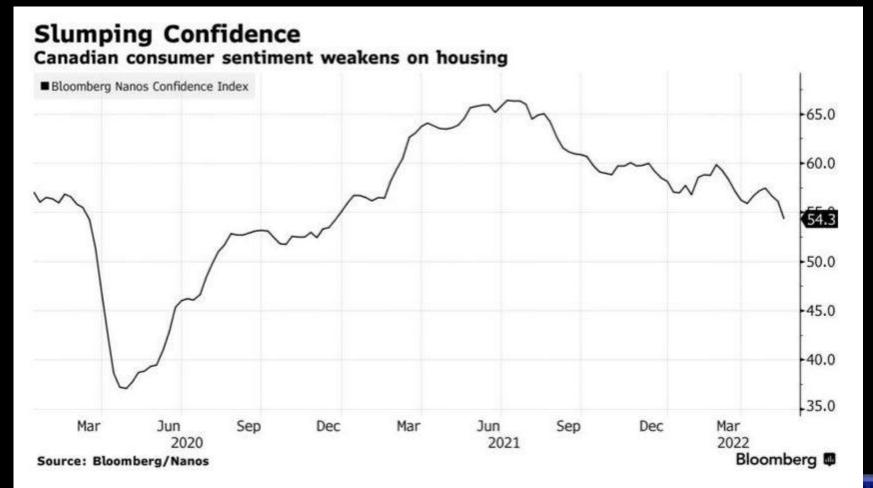
Oil, gas and grains will lead to outsized growth this year

Real GDP growth in 2022 (forecast)



Source: Bloomberg. Alberta forecast is from TD Securities.

HIGHER INFLATION AND HIGHER INTEREST RATES DAMPEN CONSUMER SENTIMENT



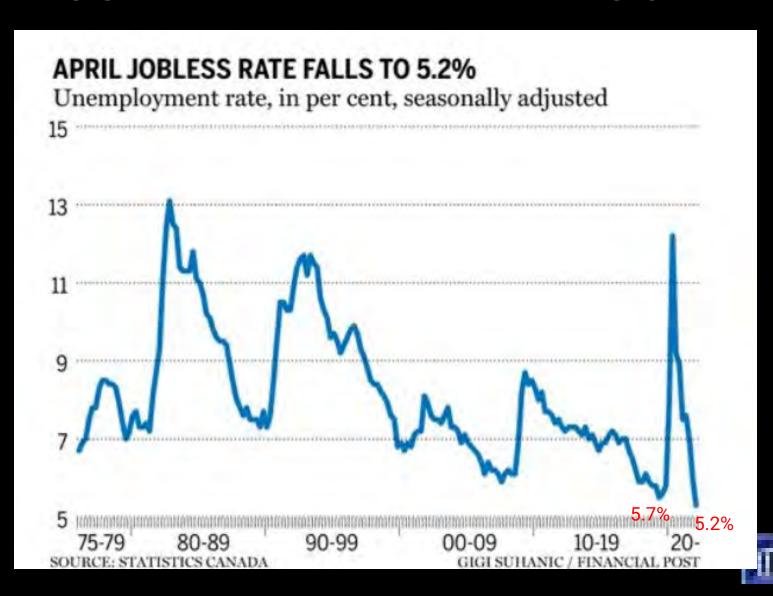
Canada Hits Full Employment With Labour Shortages

EMPLOYMENT GROWTH SLOWS IN APRIL, WELL ABOVE PRE-PANDEMIC LEVEL





JOBLESS RATE AT A NEW RECORD LOW

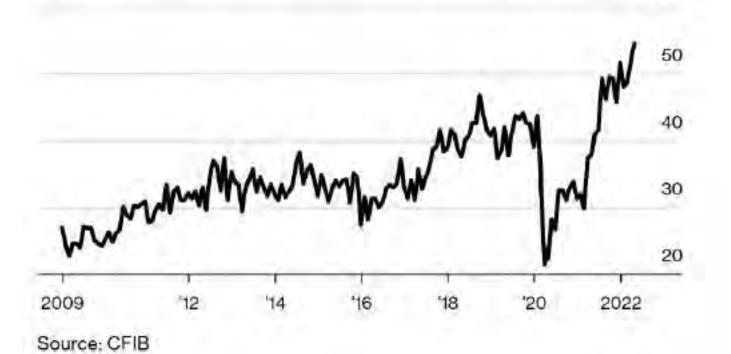


Tight Labor

Canada's small firms cite labor shortages as primary growth constraint

✓ Proportion of Respondents Citing a Shortage of Skilled Labor as Limitation

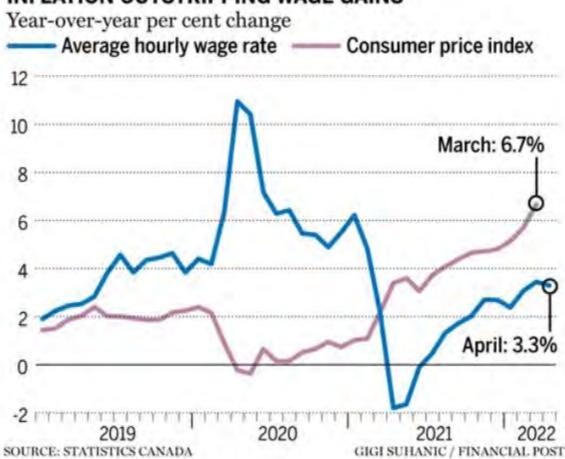
60%



Ottawa Eases Temporary Foreign Workers Program To Reduce Labour Shortages



INFLATION OUTSTRIPPING WAGE GAINS



WAGE INFLATION LIKELY TO ACCELERATE

Average offered hourly wages in the hotel and restaurant industry have surged in recent months.



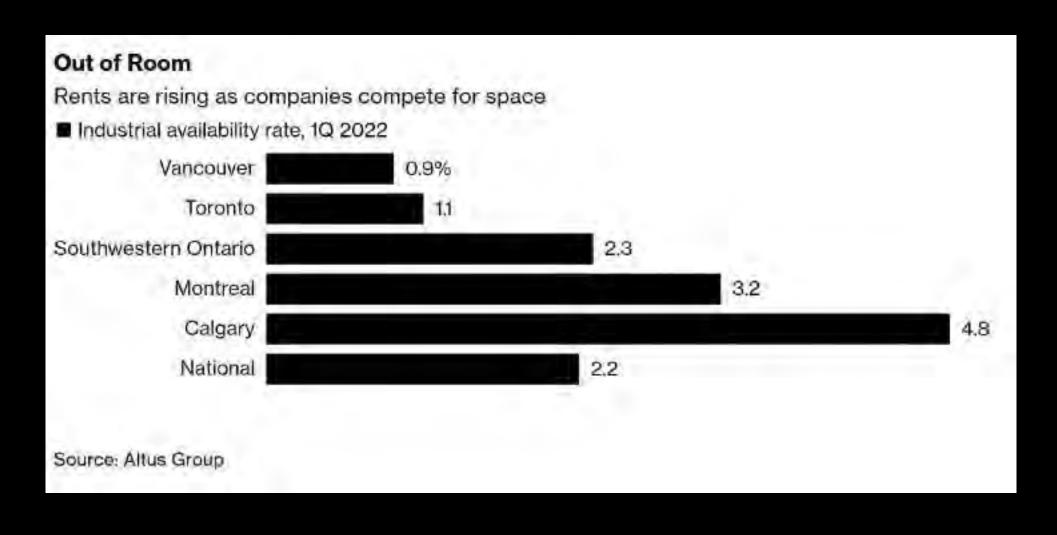




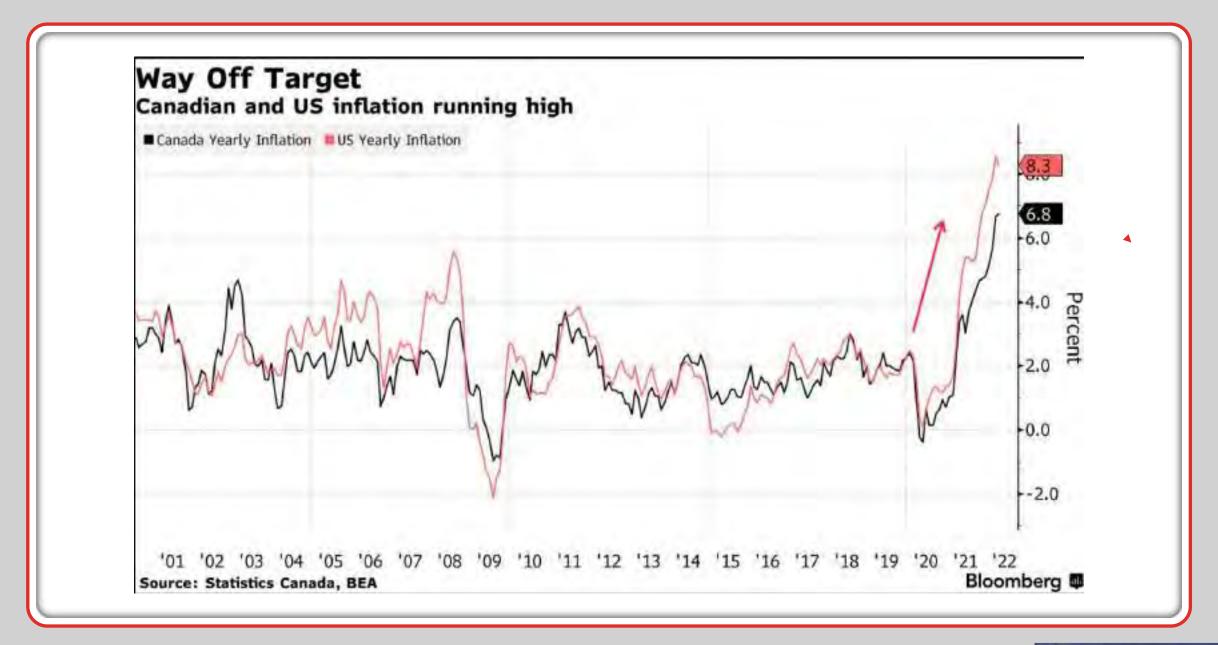




RECORD-LOW WAREHOUSE VACANCY RATES







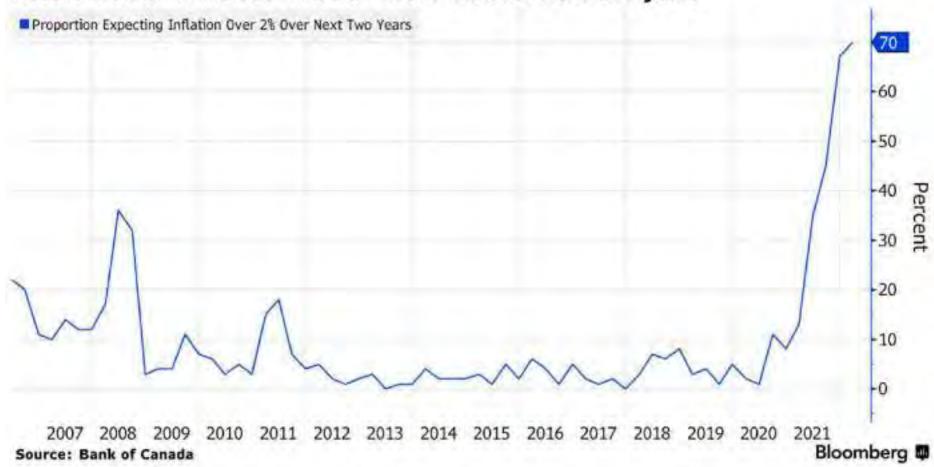
DOMESTIC INFLATION RISKS

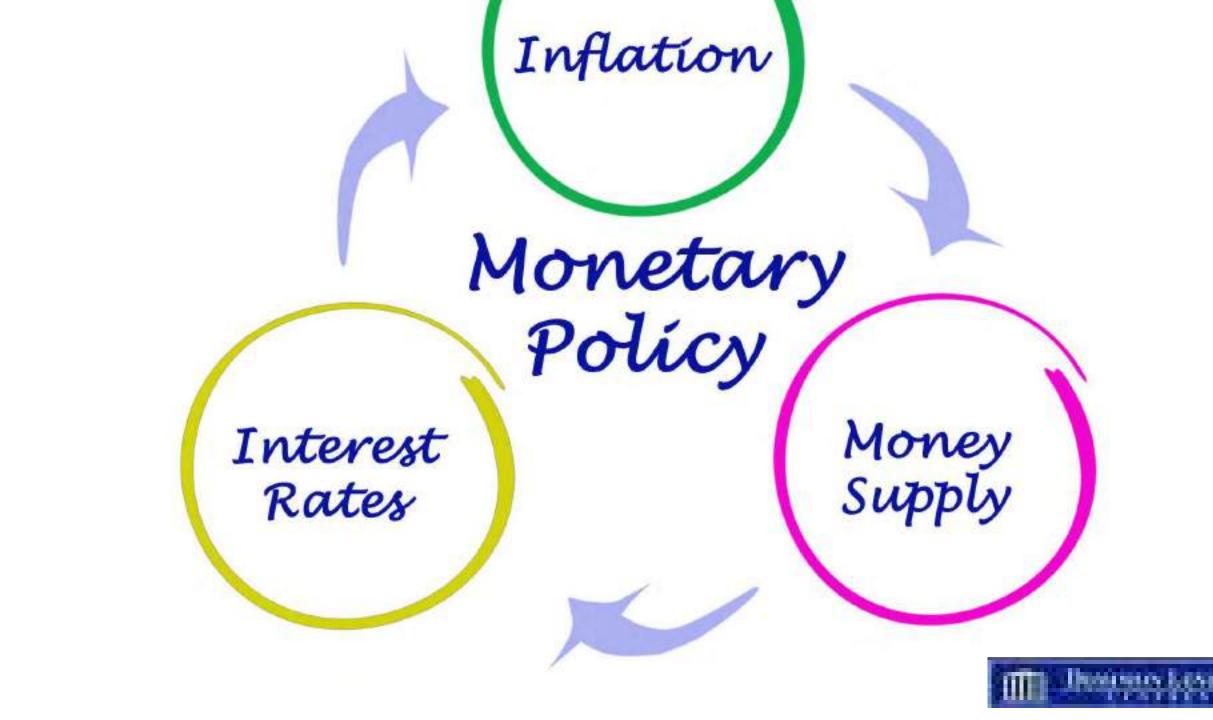




Expecting Heat

Record 70% of firms see inflation above 3% over next two years







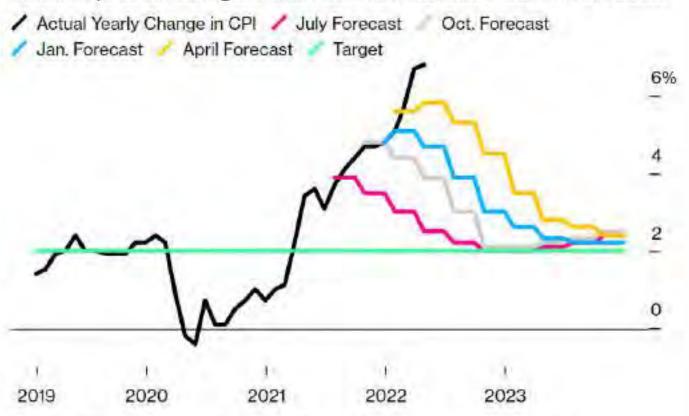
- Another 50 Bp Hike June 1
 With More To Come
- Quantitative Tightening

BANK OF CANADA



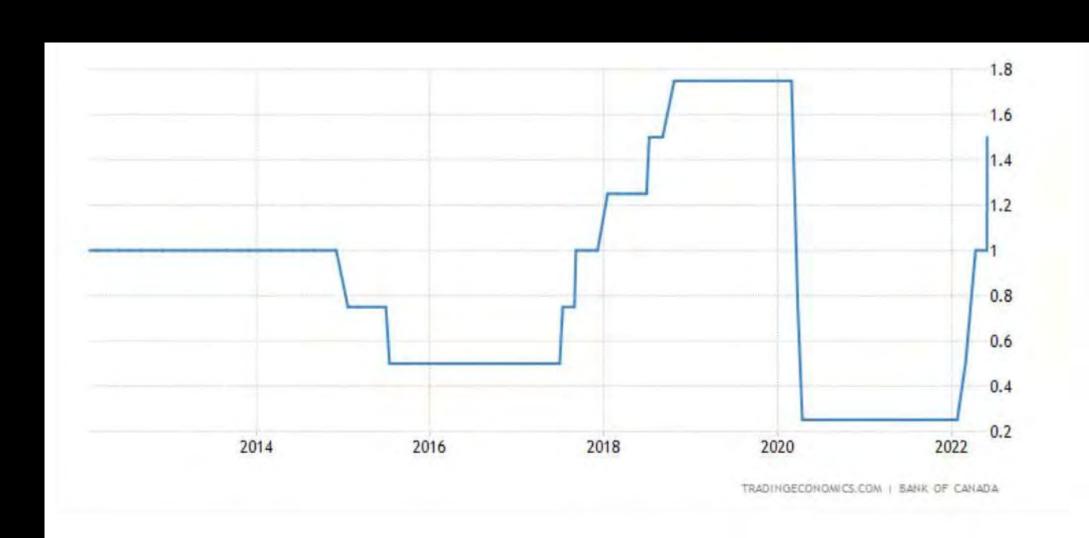
Overshooting the Mark

Inflation pressures higher than Bank of Canada's earlier forecasts

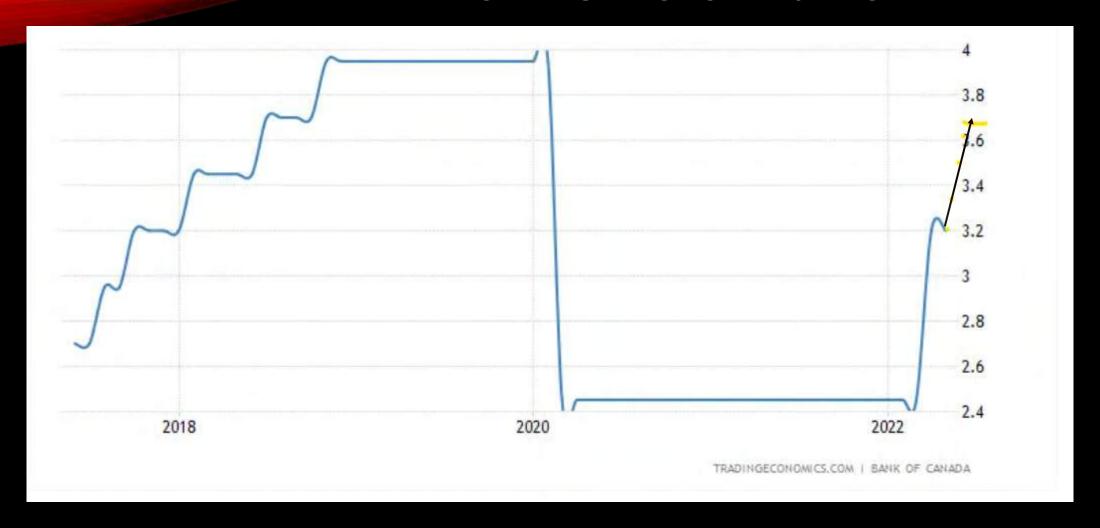


Source: Statistics Canada, Bank of Canada, Bloomberg calculations

BOC OVERNIGHT RATE



PRIME RATE MOVES TO 3.7% TODAY



Headed For 4.2%-to-5.2%

5-YEAR BOND YIELD SPIKED ON TODAY'S NEWS

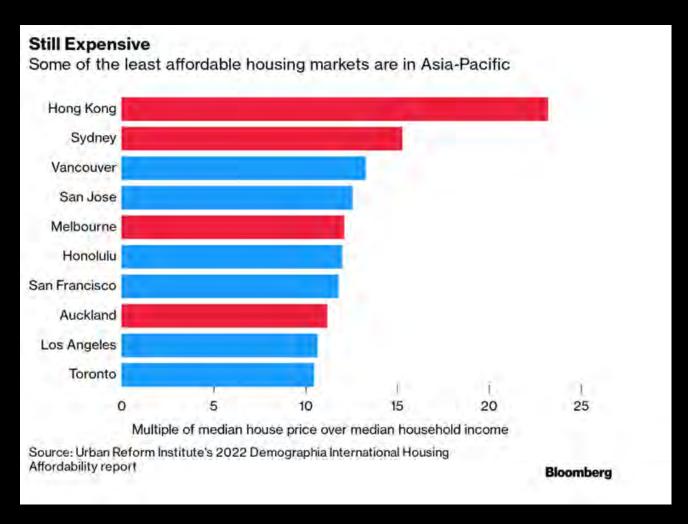








TOP TEN CITIES WITH LEAST AFFORDABLE HOUSING



Home prices have begun falling in Sydney and Hong Kong, while values in Singapore barely rose last quarter, as buyers wary of rising interest rates and economic headwinds move to the sidelines.



Sales Slow

Fewer Multiple Bidding Situations

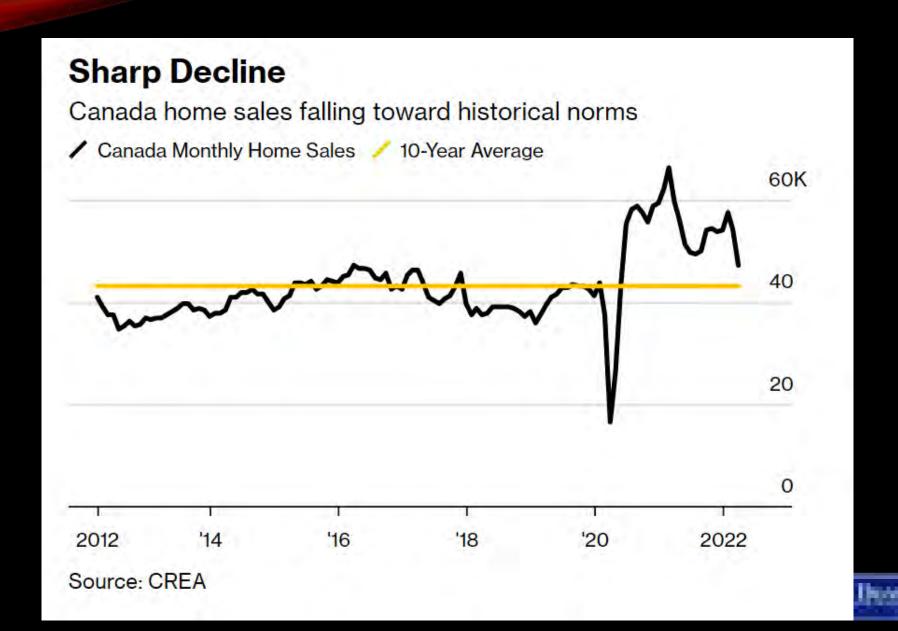
Softer Price Gains in Many Markets

New Listings Picking Up



HIGHER INTEREST RATES REMOVE SOME BUYERS FROM HOUSING MARKET AND REDUCE THE PURCHASING POWER OF OTHERS

APRIL'S NUMBER OF SALES FELL 12.6%



NEARLY AT THE END OF LOW RATE HOLDS

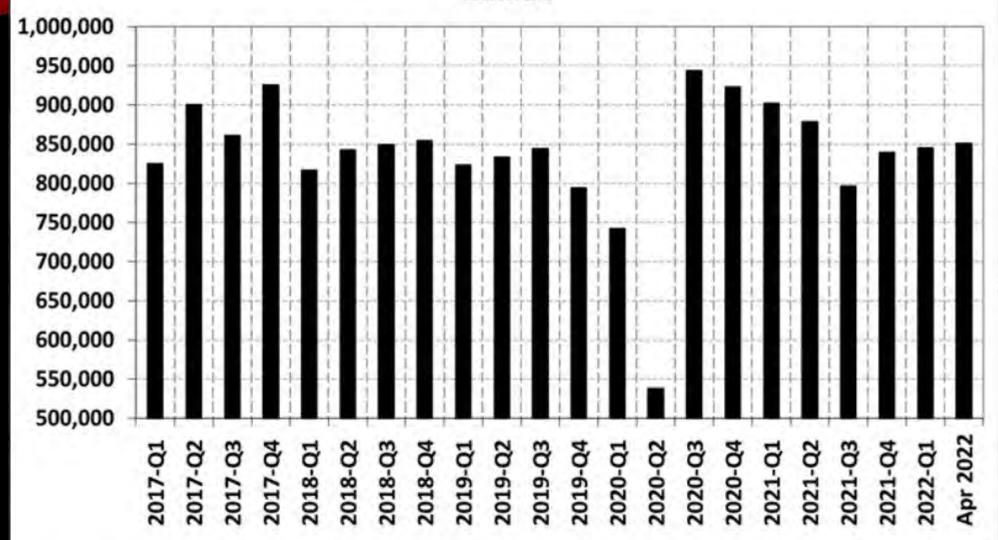
The pool of buyers with 90-to-120-day rate holds is nearly exhausted

Have mortgage approvals at rates up to 100bps below current levels

They are highly motivated buyers

Residential new listings*

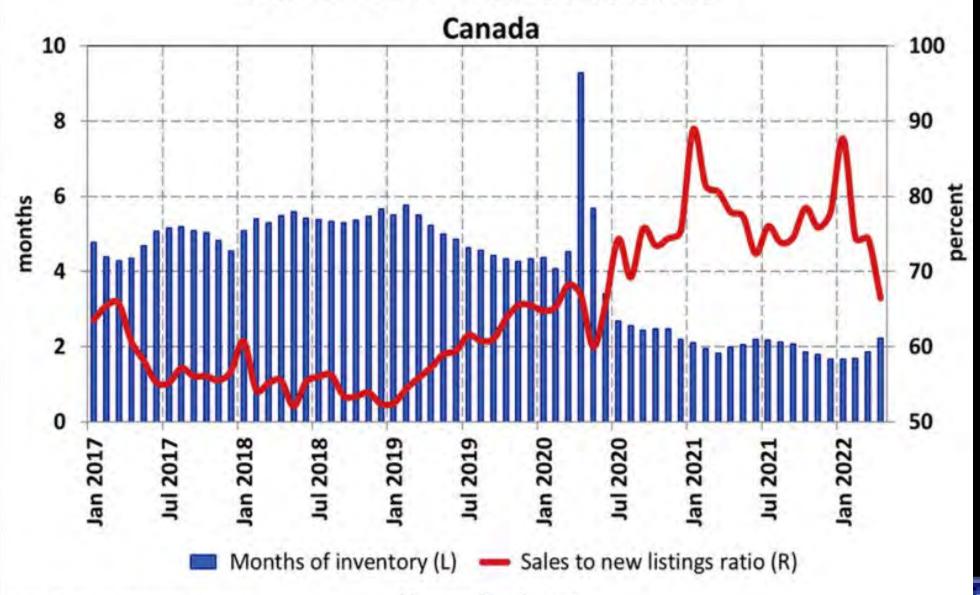
Canada



^{*}Seasonally adjusted data at annualized rates

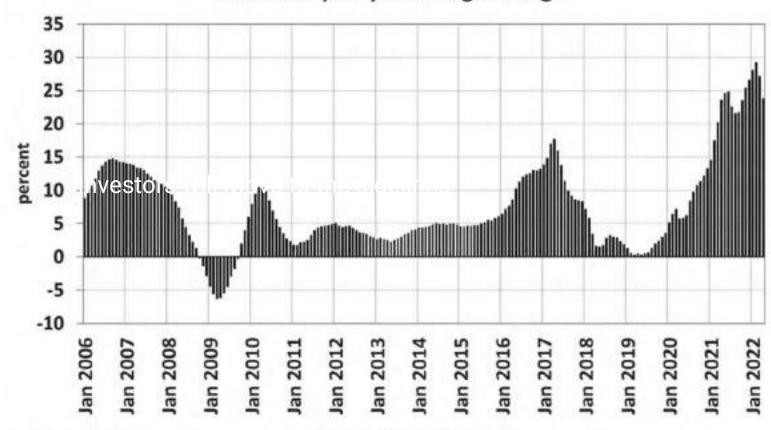


Residential market balance*





Year-over-year percentage change



Source: The Canadian Real Estate Association

* Actual (not seasonally adjusted)

MARKETS HAVE TURNED QUICKLY



Some who recently bought new homes are struggling to offload their old ones.

INVESTORS COULD MOVE TO THE SIDELINES



Mortgage payments and property taxes are rising much faster than rents in many hot markets





- Especially For Recent Investors With Short-term Financing
- Metro Toronto Is
 Already A Buyer's
 Market, According
 To BMO Research

HOMEBUILDING NOT KEEPING UP WITH NEW HOUSEHOLD FORMATION





2022-2024 Immigration Levels Plan

Immigration Targets Recently Revised Up

Immigrati on Class	2022	2023	2024
Economic	241,850	253,00	267,750
Family	105,000	109,500	113,000
Refugee	76,545	74,055	62,500
Humanitari	8,250	10,500	7,750
Total	431,645	447,055	451,000

Where will all of these people live?





Canada's population is growing at the fastest pace in the G7 and ranks seventh in the G20

	population growth rate from 2016 to 2021 (%)
Saudi Arabia	8.9
Australia	7.3
South Africa	6.8
Turkey	6.5
Indonesia	5.7
Mexico	5.6
Canada	5.2
India	5.2
Argentina	5.0
Brazil	3.8
United Kingdom	2.9
United States	2.6
China	2.0
France	1.2
South Korea	1.1
Germany	1.0

European Union

Blackstone targets Canadian real estate, opens office in Toronto



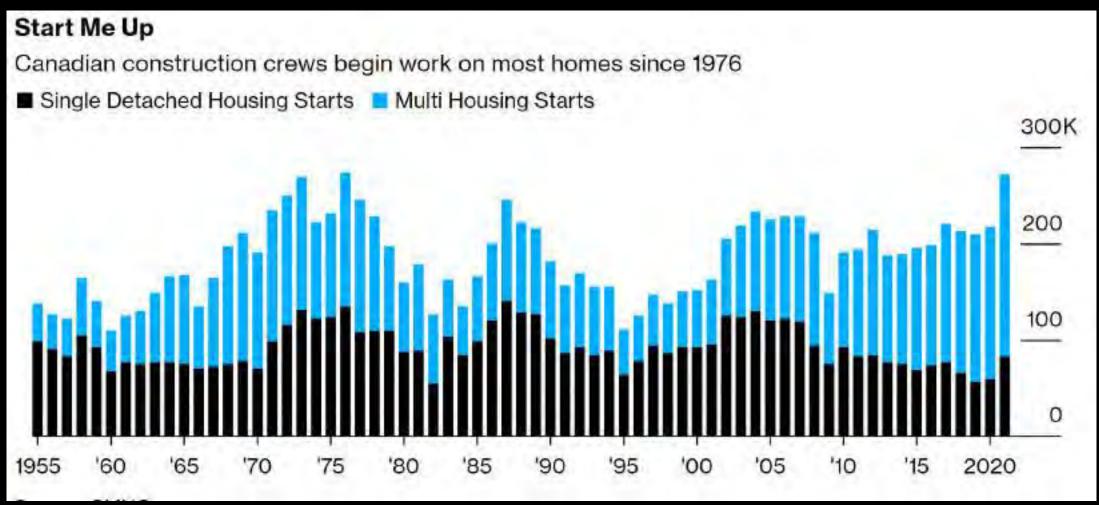
"Canada's population growth is the highest among G7 nations and is nearly double that of the U.S., and I believe that will continue to create exciting opportunities in the market."

Janice Lin, Head of Blackstone Real Estate in Canada, May 9, 2022





2021 HOMEBUILDING ALREADY AT 46-YEAR HIGH

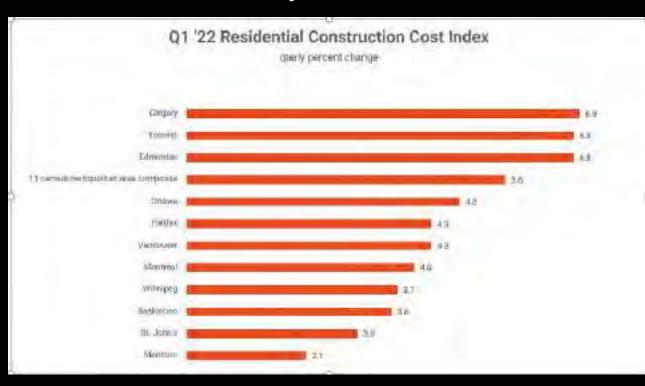


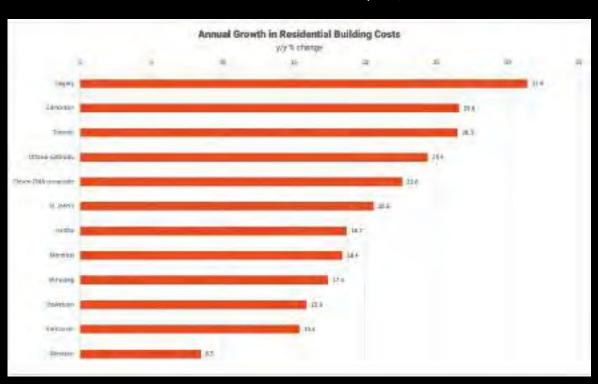


RESIDENTIAL CONSTRUCTION COSTS SURGE

Quarterly Inflation, Q1 2022

Annual Inflation, Q1 2022





ALL LEVELS OF GOVERNMENT AGREE WE NEED MORE HOUSING CONSTRUCTION

\$4 Billion Housing Accelerator Fund

Municipalities have ramped up building permit issuance

Building boom must continue

Incentives to speed up the approval processes

Rethink zoning regulations

Allow mediumdensity development in low-density areas

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