



HOUSING HIT BY RATE HIKES

Dr. Sherry
Cooper

June 8, 2022

Globalization Is Stalling



**Inflation
Surges**

- Trade Falling
- Prices Surge
- Stockpiling
- Economic Activity Slows

**Shortening
Supply Chains
and Reshoring
Jobs**

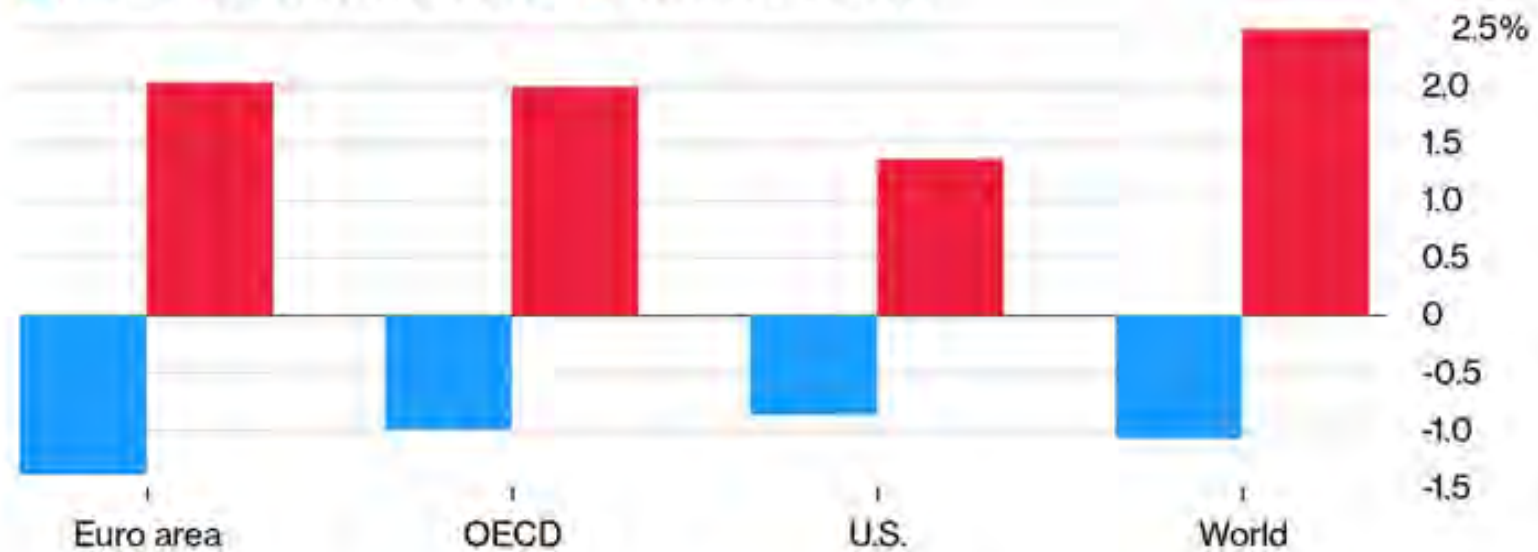


UKRAINE WAR

Possible Fallout

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

■ Simulated impact on 2022 GDP ■ ...on annual inflation



Source: Organization for Economic Cooperation and Development

Bloomberg



DOMINION LENDING
CENTRES

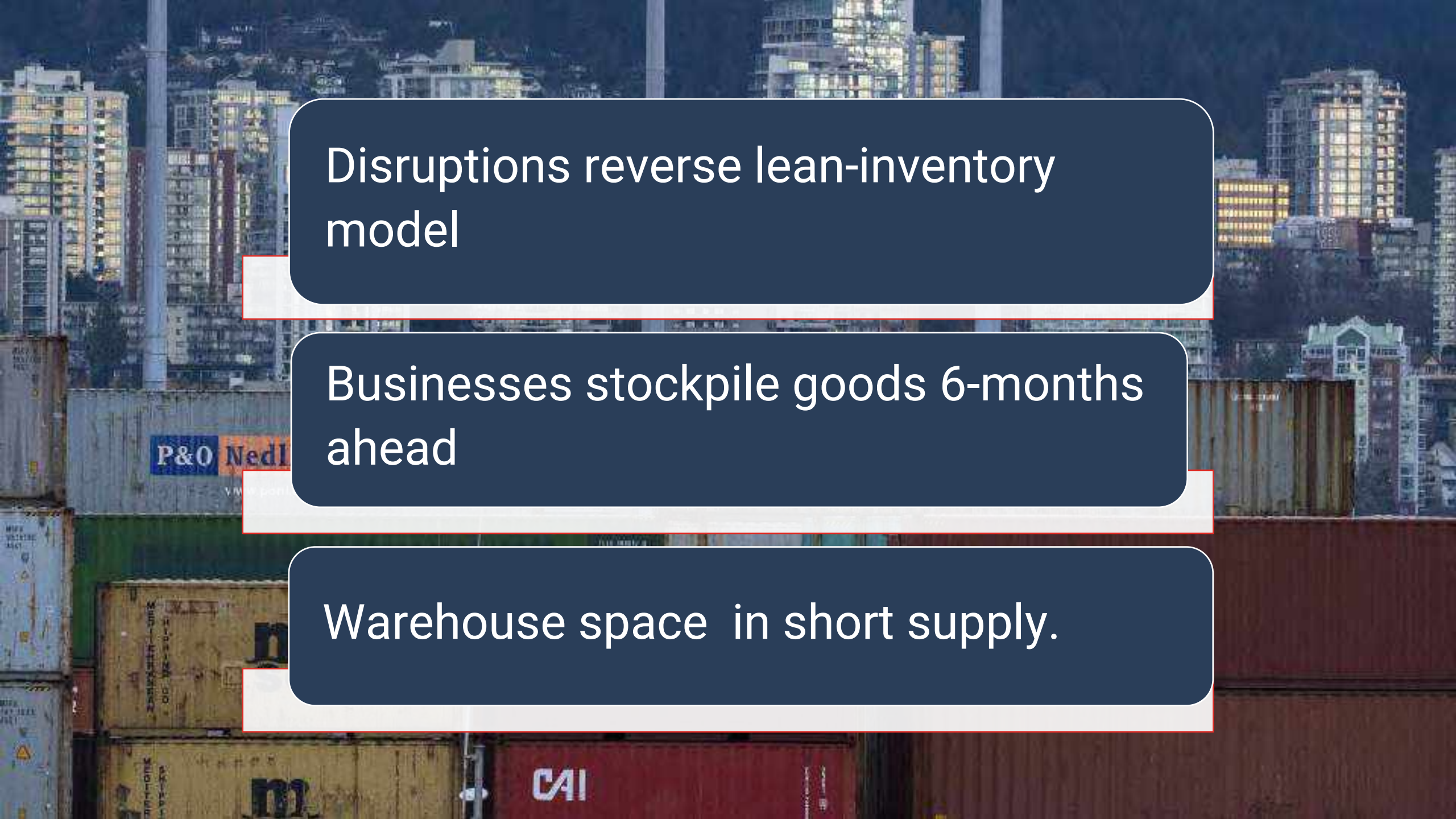
NON-TRANSITORY INFLATION MOUNTS

(De)Globalization

Untapped Supply Of Cheap Labour Slows

Net Zero Is Costly

Housing Shortage Keeps Pressure On Rents



Disruptions reverse lean-inventory model

Businesses stockpile goods 6-months ahead

Warehouse space in short supply.

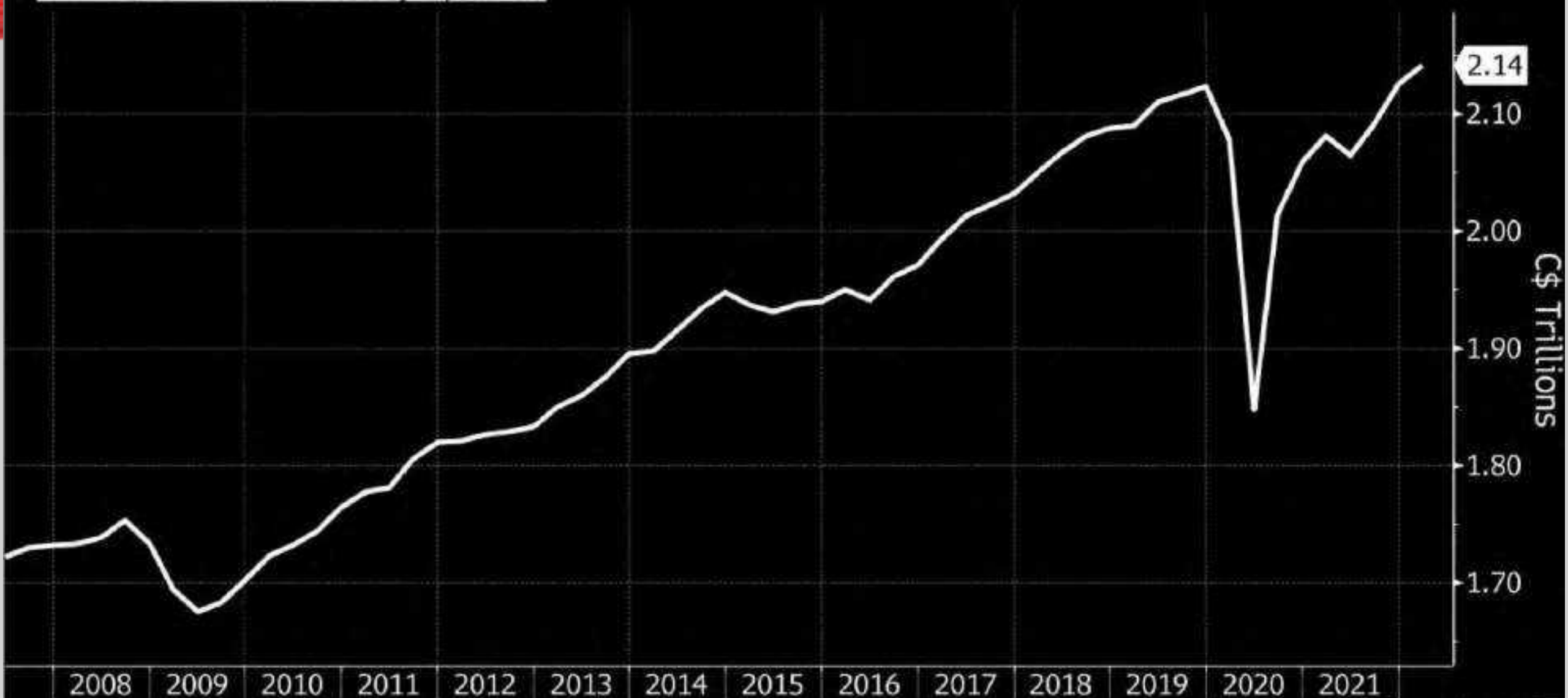
	Canadian GDP Growth
2020	-5.2%
2021	4.6%
2022f	4.1%f

Canada's Commodity-Rich Economy Is Straining At Its Limits

Still Resilient

Canada's economy continues to expand on consumption strength

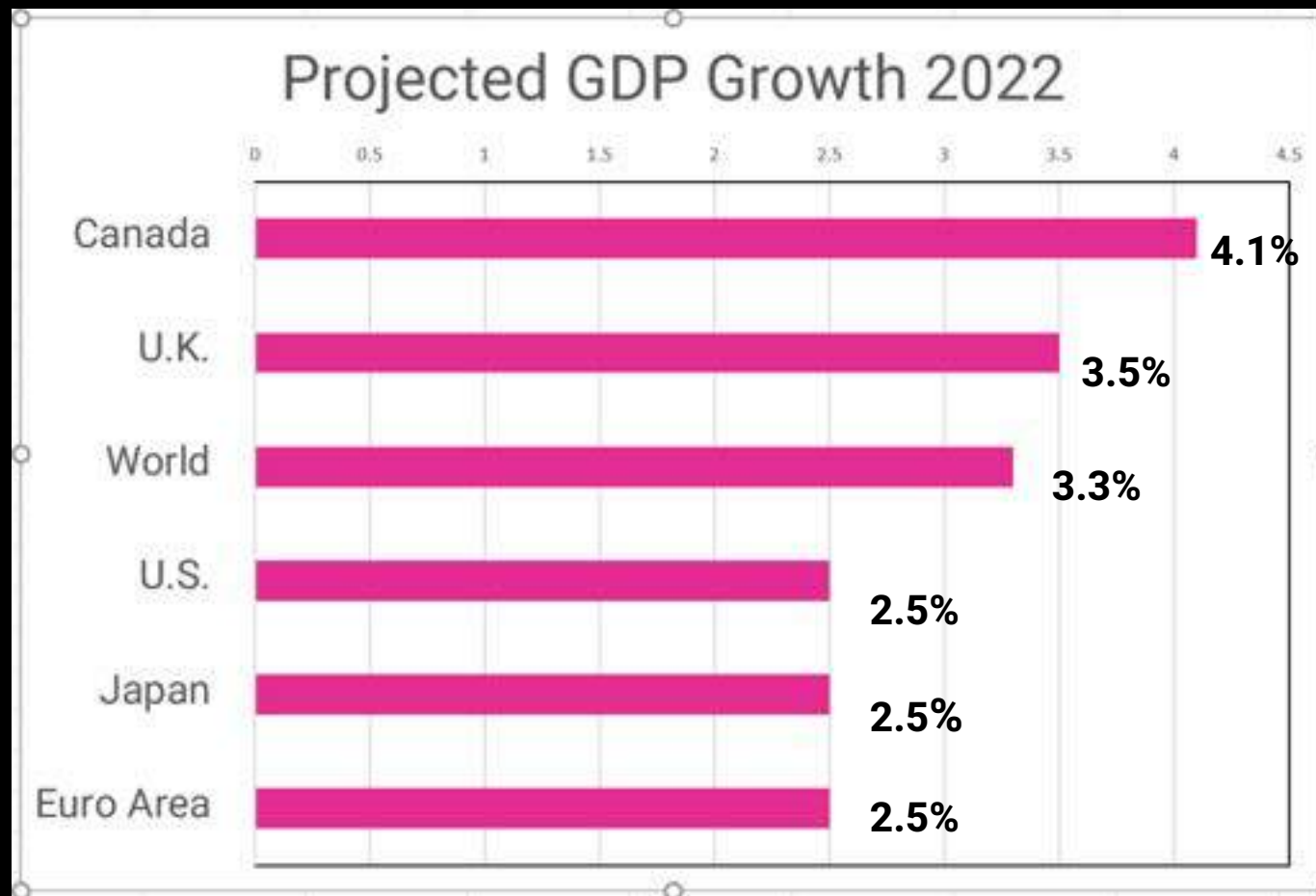
■ Canada Gross Domestic Product by Expenditure



Source: Statistics Canada

Bloomberg

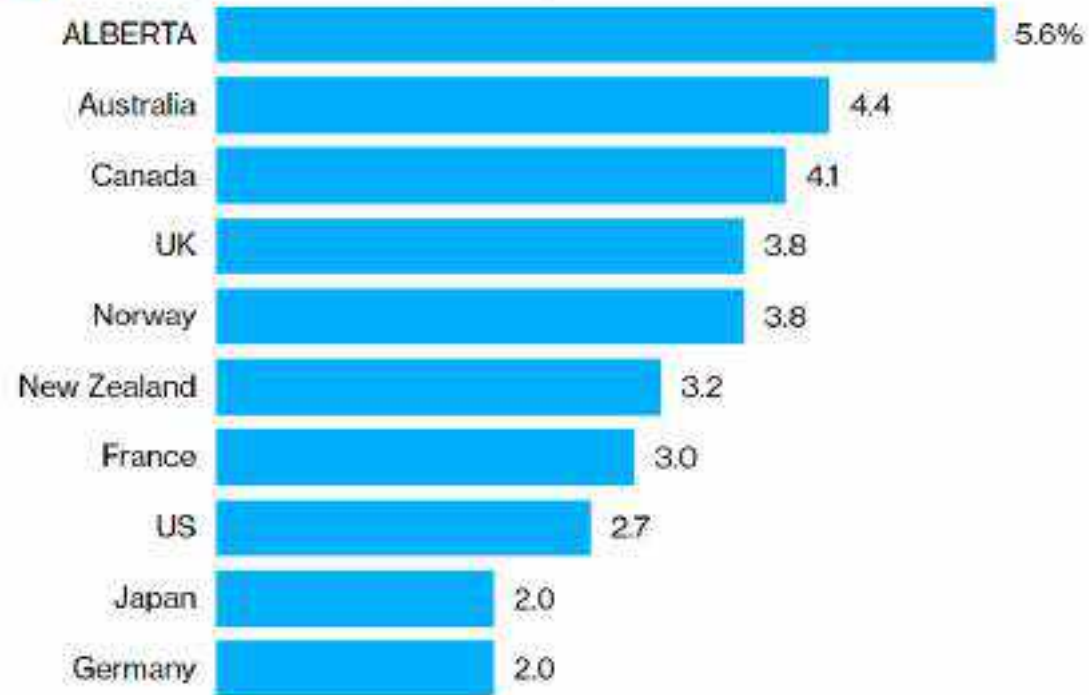
CANADA OUTPERFORMS THANKS TO COMMODITIES



Alberta is Back

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

■ Real GDP growth in 2022 (forecast)

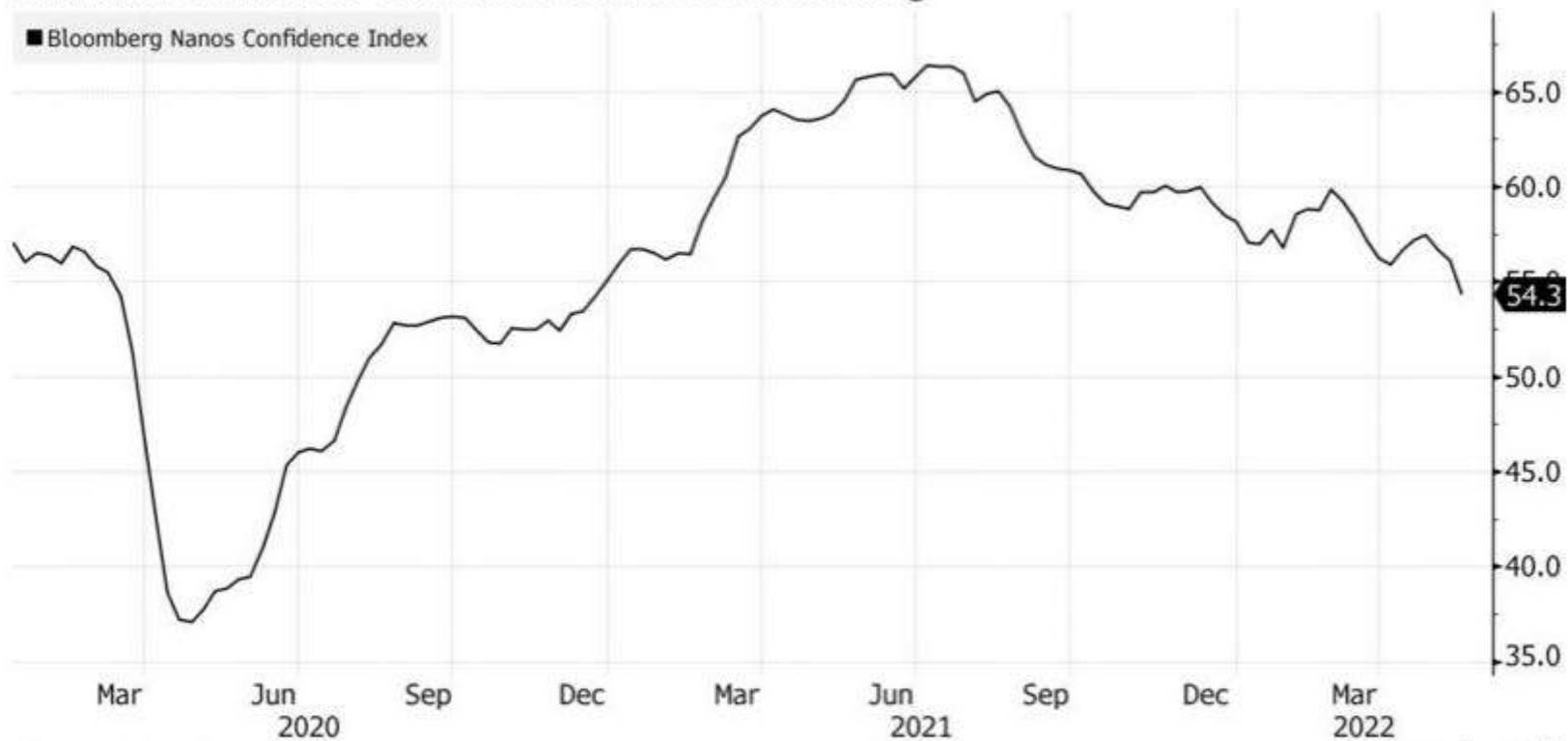


Source: Bloomberg. Alberta forecast is from TD Securities.

HIGHER INFLATION AND HIGHER INTEREST RATES DAMPEN CONSUMER SENTIMENT

Slumping Confidence

Canadian consumer sentiment weakens on housing



Source: Bloomberg/Nanos

Bloomberg

Canada Hits Full Employment With Labour Shortages

Rate Rate

JOB MARKET

EMPLOYMENT

Accounting	107	Inventory	
Administrative/Clerical	110	Legal Administrative	
Automotive	129	Legal Employment/Maintenance	
Banking	106	Installation/Management	
Biotech	150	Manufacturing	
Business Development	111	Marketing	
Business/Mktg Supply	199	Media/Journalism/Arts	
Computer/IT	115	Non-Profit & Social	
Construction	158	Other	
Consulting	118	Part-Time	
Customer Service	132	Pharmaceutical	
Design	156	Professional	
Distribution/Shipping	164	Purchasing	
Education	120		
Food/Beverage/Domestic	197		
Government Services/Resources	191		

EMPLOYMENT WELL ABOVE 2020 LEVEL

Chart 1

Employment holds steady in April

[← Back to main article](#)

[Interactive](#)

[Image](#)

thousands

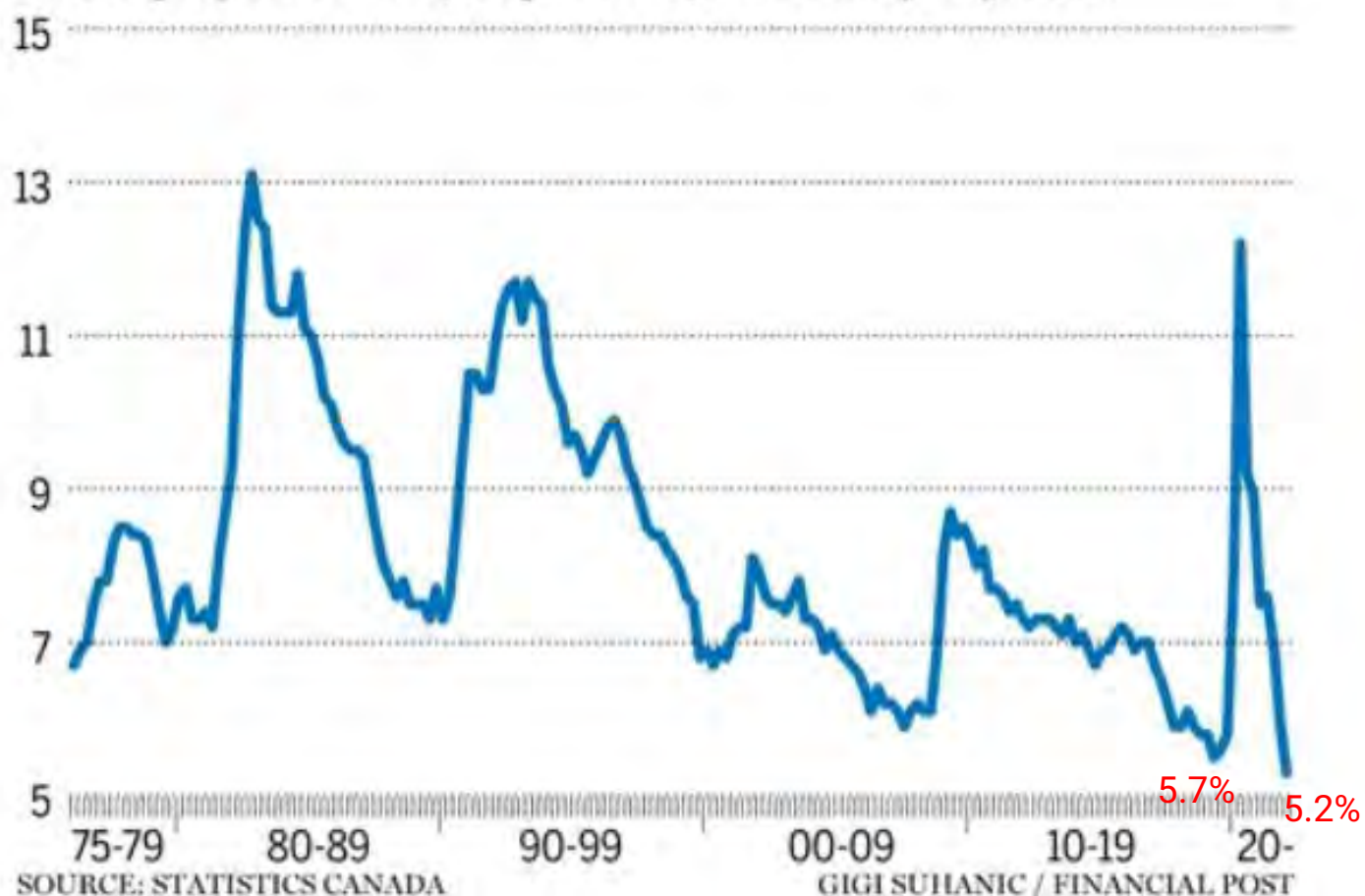


Source(s): Labour Force Survey (3701), table 14-10-0287-01.

JOBLESS RATE AT A NEW RECORD LOW

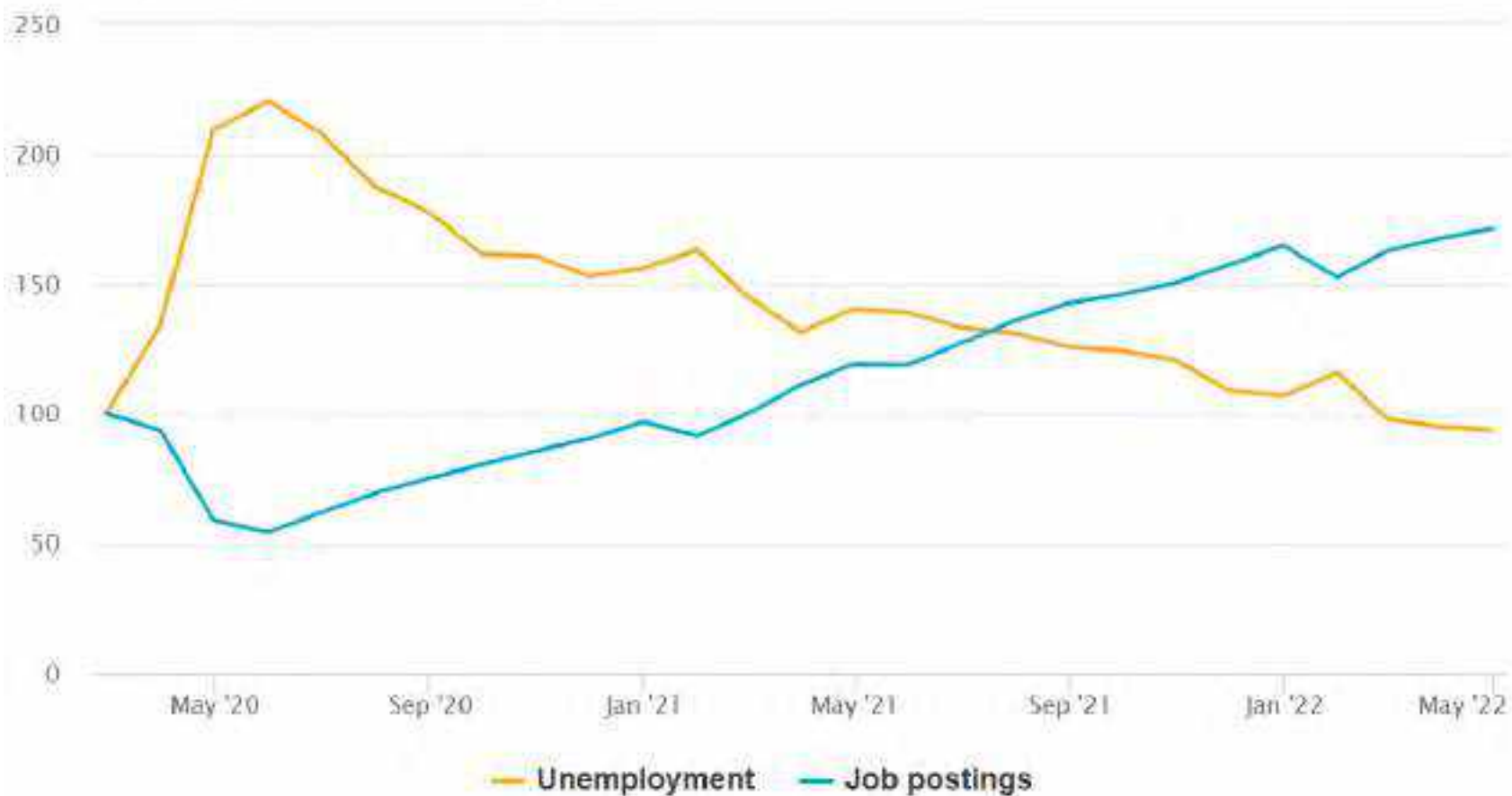
APRIL JOBLESS RATE FALLS TO 5.2%

Unemployment rate, in per cent, seasonally adjusted



Canadian job openings up, available workers down

Index = 100 in February 2020 (pre-pandemic shock)



Source: Statistics Canada, Indeed.com, RBC Economics Research

Ottawa Expands Temporary Foreign Workers Program To Reduce Labour Shortages



INFLATION OUTSTRIPPING WAGE GAINS

Year-over-year per cent change



WAGE INFLATION LIKELY TO ACCELERATE

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





INFLATION



A photograph showing the aftermath of destruction in a war-torn area. In the foreground, three people are seen from behind, looking towards a severely damaged, multi-story building. The building's structure is exposed, with missing windows and crumbling walls. Debris, including wood, metal, and rubble, is scattered across the ground in front of the building. The scene is dimly lit, suggesting an overcast day or the shadows of the ruins.

OIL, METALS, LUMBER, WHEAT, CORN, AND FERTILIZER PRICES SOAR WITH UKRAINE WAR



DOMINION LENDING
CENTRES

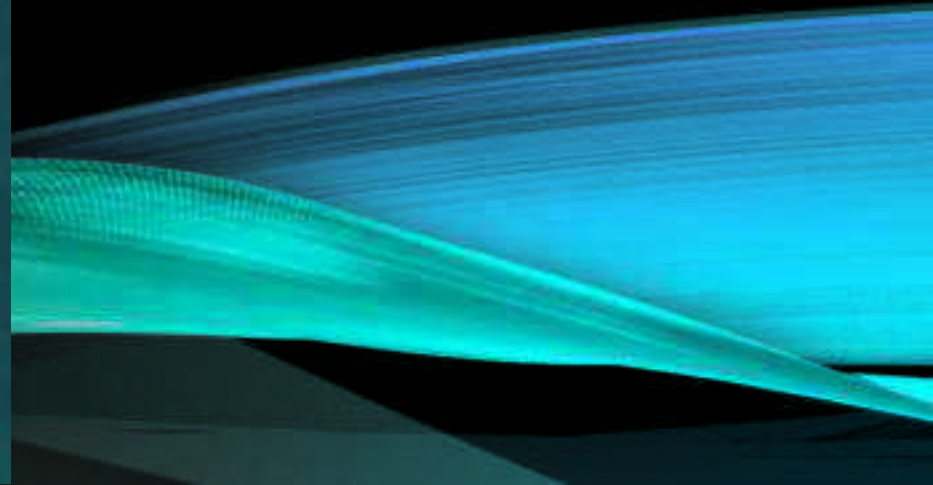


SUPPLY DISRUPTIONS CONTINUE:

Fuel shortages, food shortages, chip shortages, container shortages, labour shortages...



BUSINESSES
PAY MORE
TO SHIP
GOODS, AND
TO STORE
THEM



RECORD-LOW WAREHOUSE VACANCY RATES

Out of Room

Rents are rising as companies compete for space

■ Industrial availability rate, 1Q 2022

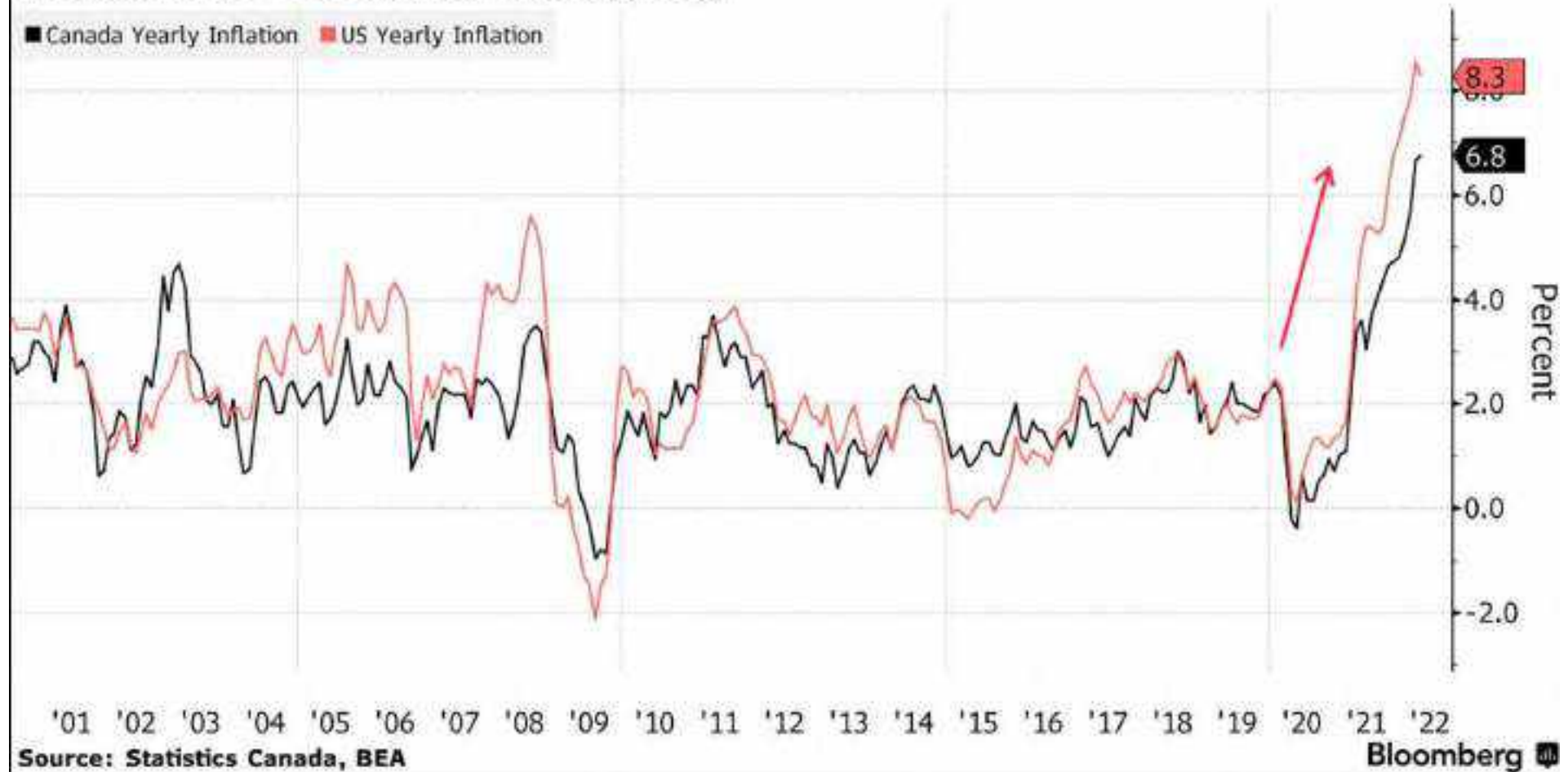


Source: Altus Group

LEASING COSTS FOR INDUSTRIAL
REAL ESTATE HAVE INCREASED 40%
IN VANCOUVER AND TORONTO IN
THE PAST THREE YEARS

Way Off Target

Canadian and US inflation running high



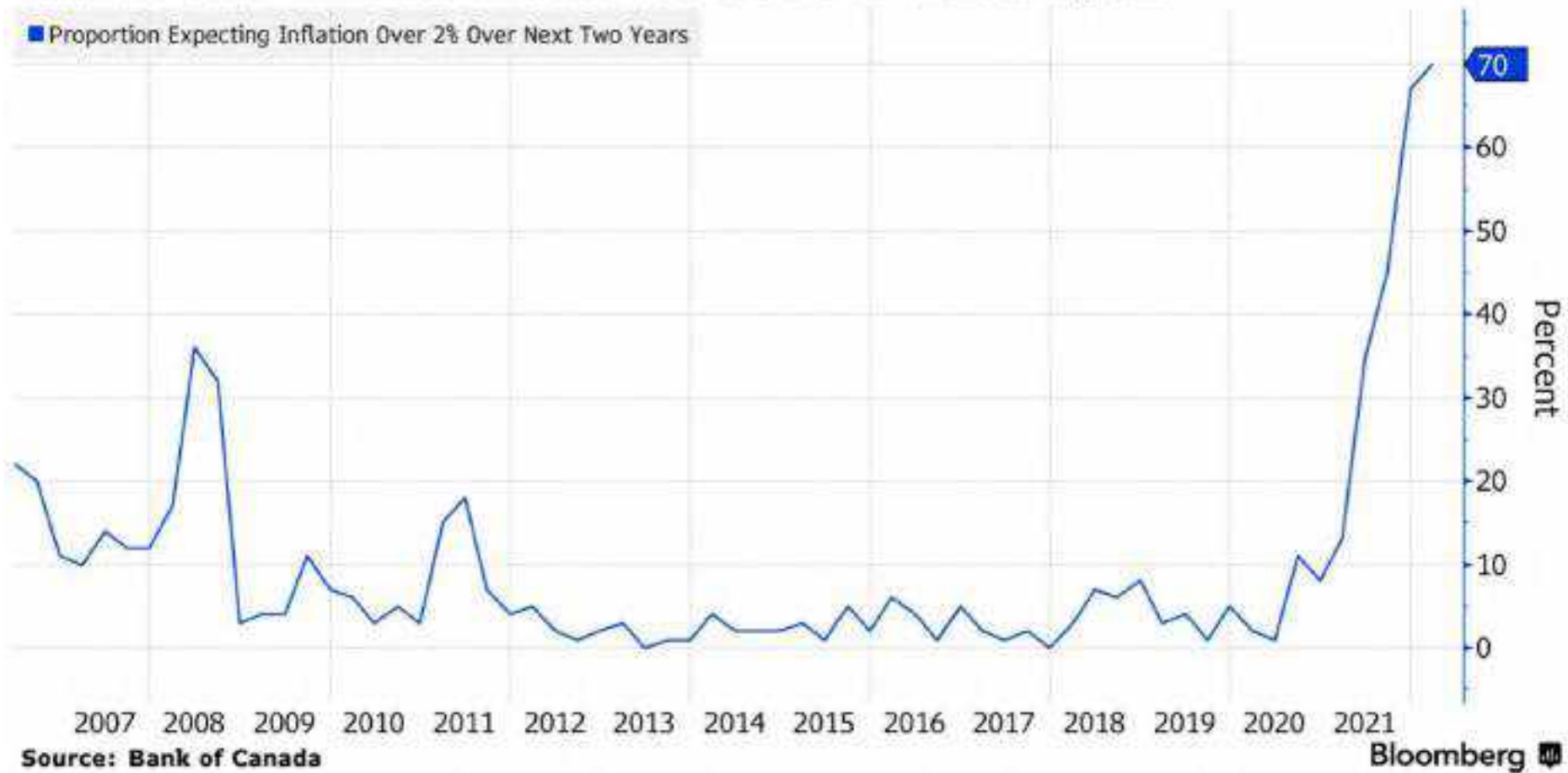
DOMESTIC INFLATION RISKS

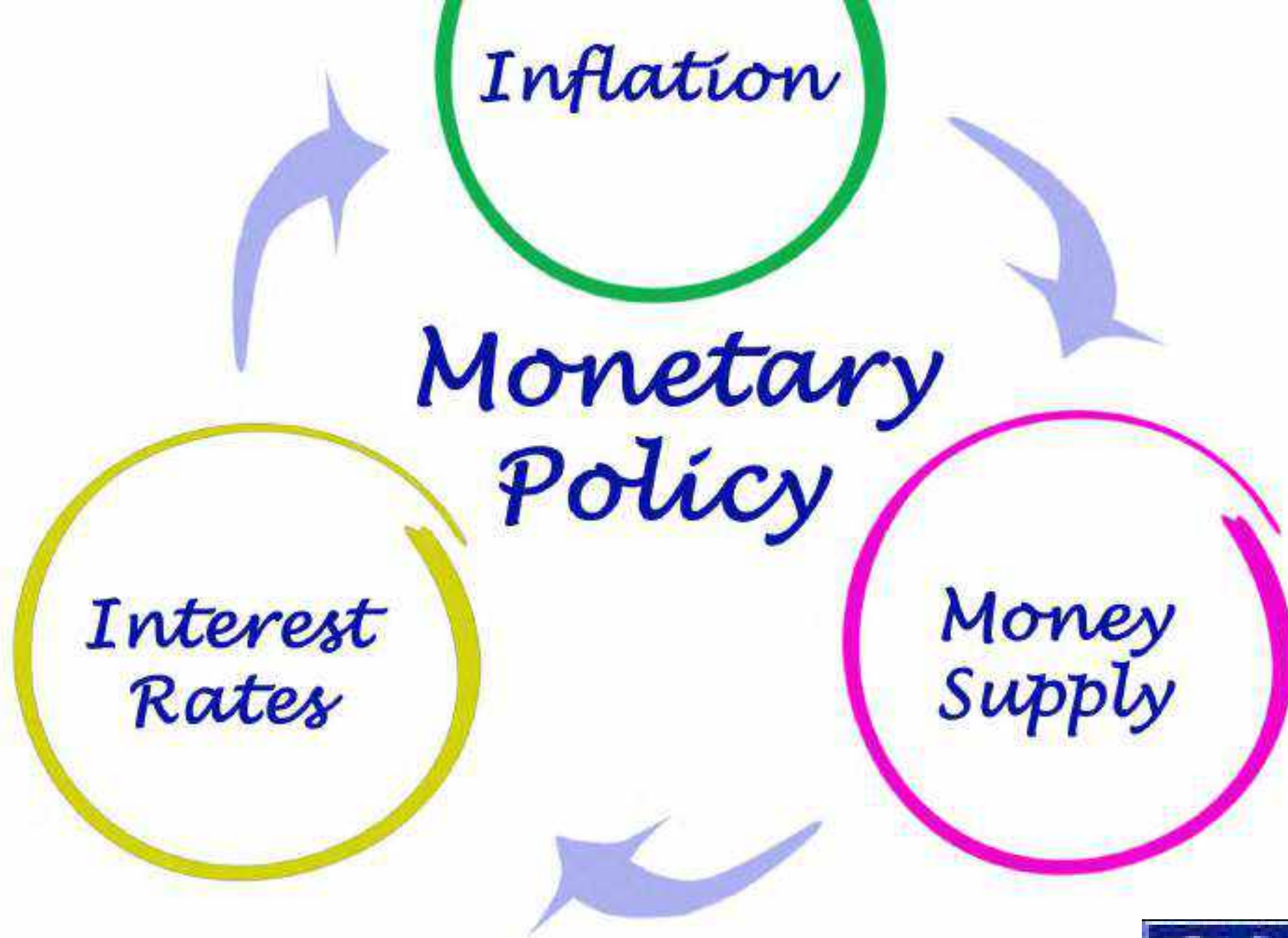


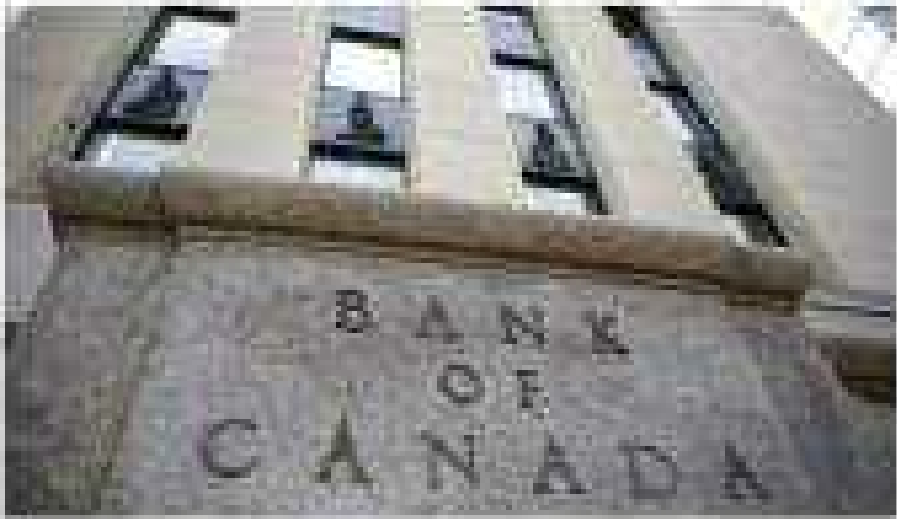
Expecting Heat

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

■ Proportion Expecting Inflation Over 2% Over Next Two Years





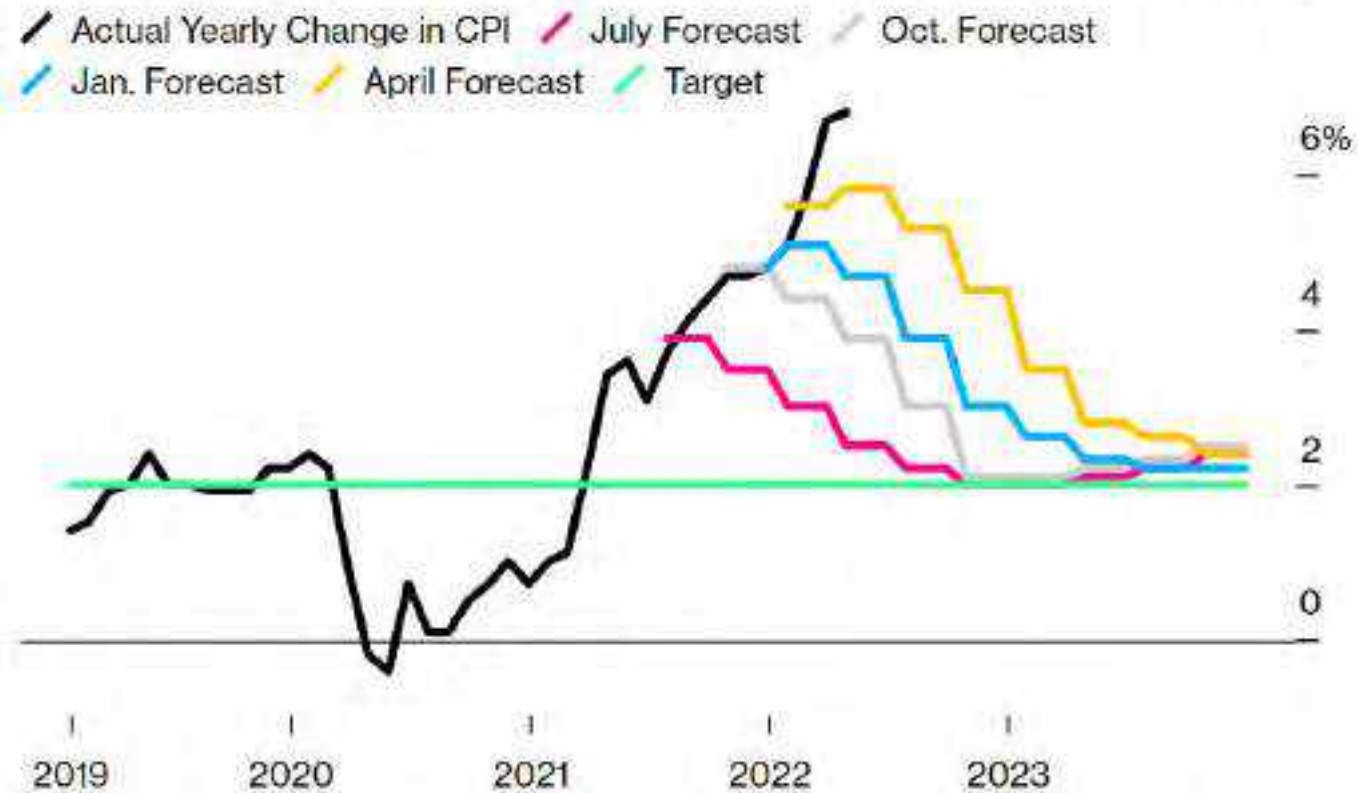


- Another 50 Bp Hike June 1
- Possible 75 Bp Hike July 13
- Quantitative Tightening

BANK OF CANADA

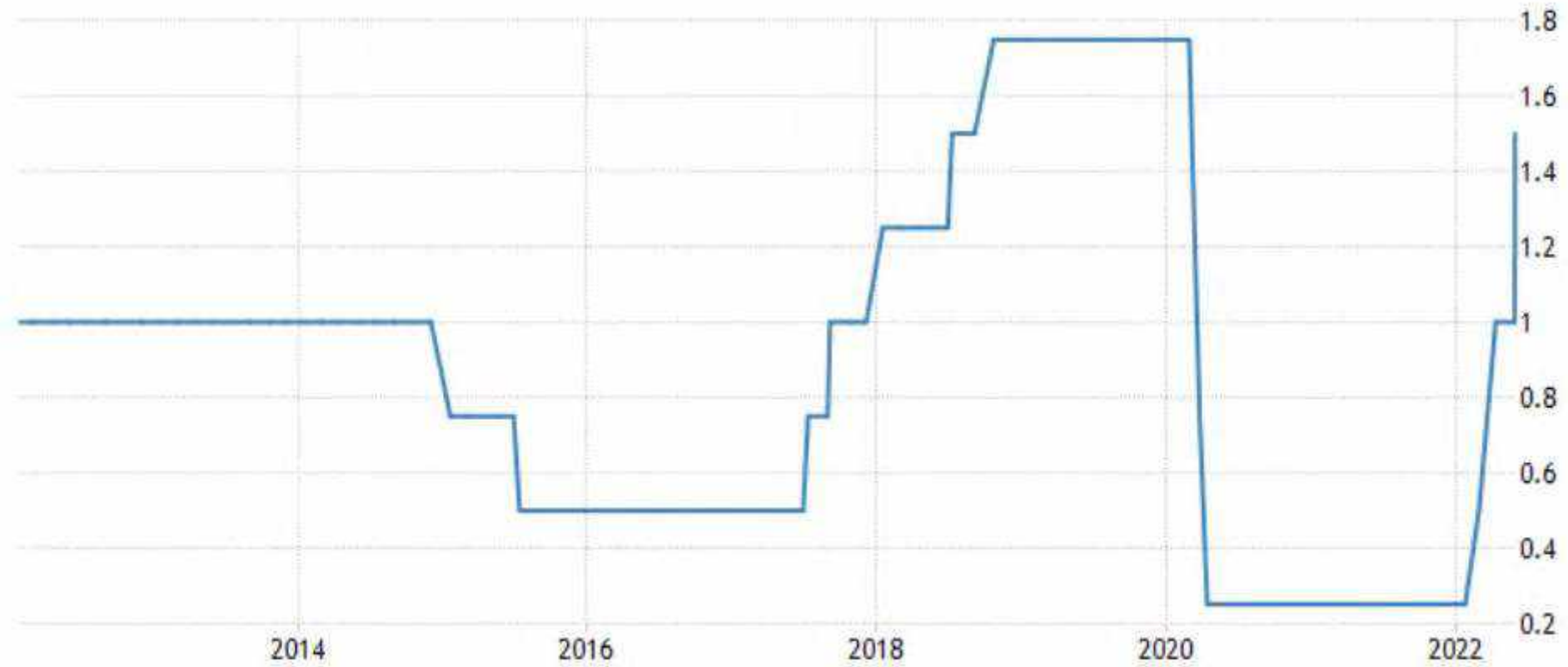
Overshooting the Mark

Inflation pressures higher than Bank of Canada's earlier forecasts



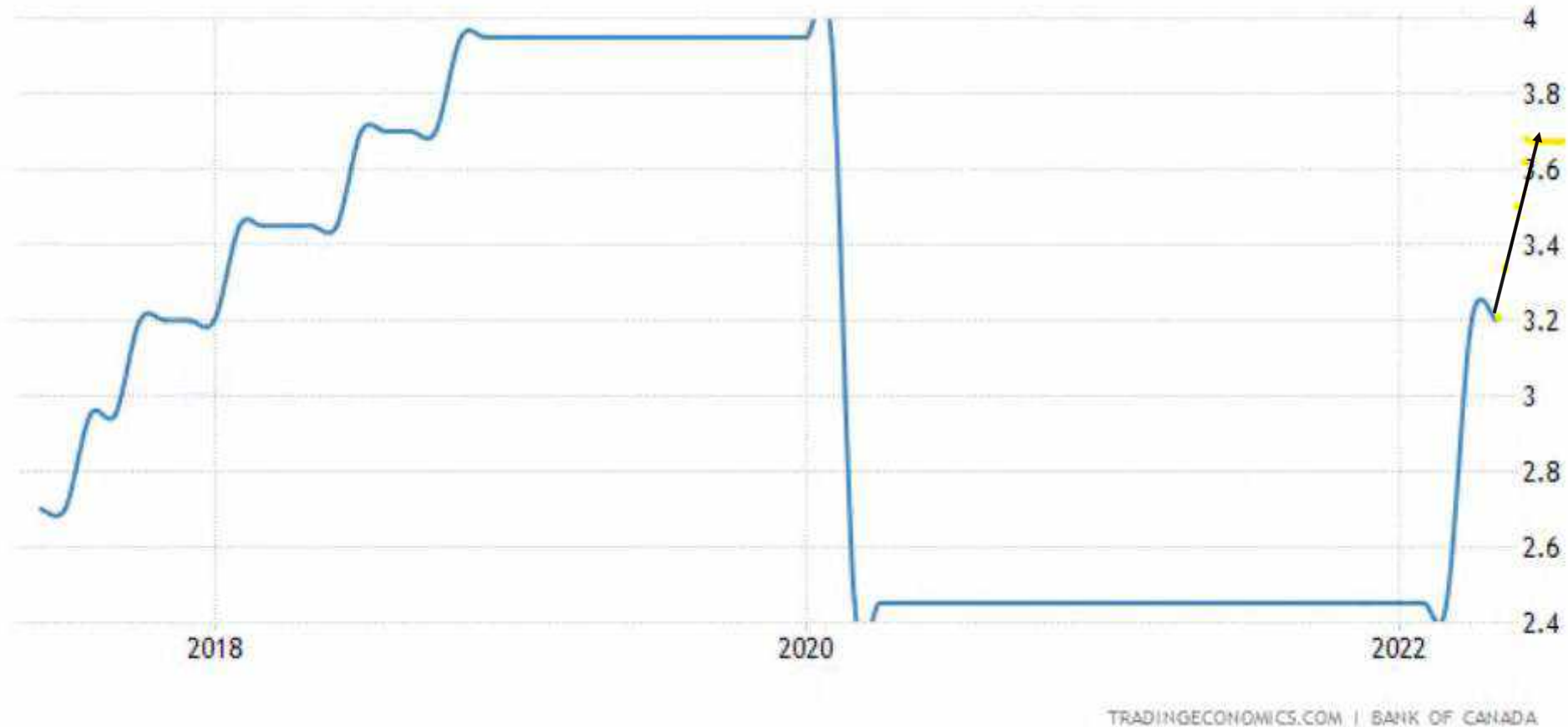
Source: Statistics Canada, Bank of Canada, Bloomberg calculations

BOC OVERNIGHT RATE



TRADINGECONOMICS.COM | BANK OF CANADA

PRIME RATE MOVES TO 3.7% JUNE 1



Headed For 4.2%-to-5.2%

5-YEAR BOND YIELD CONTINUES TO SPIKE

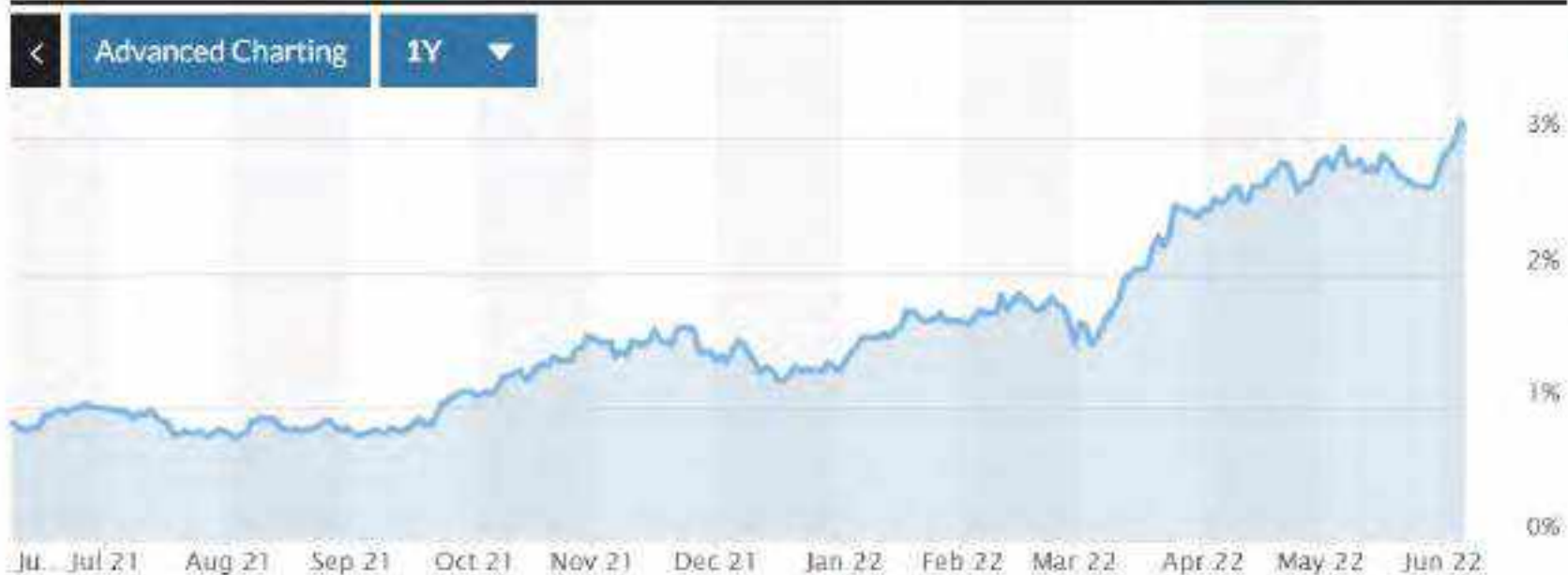
Canada 5 Year Government Bond

[ADD TO WATCHLIST](#)

3.074%

▼ -0.053

Last Updated: Jun 7, 2022 at 10:43 a.m. EDT



PREVIOUS CLOSE

3.127%

3.079

DAY RANGE

3.135

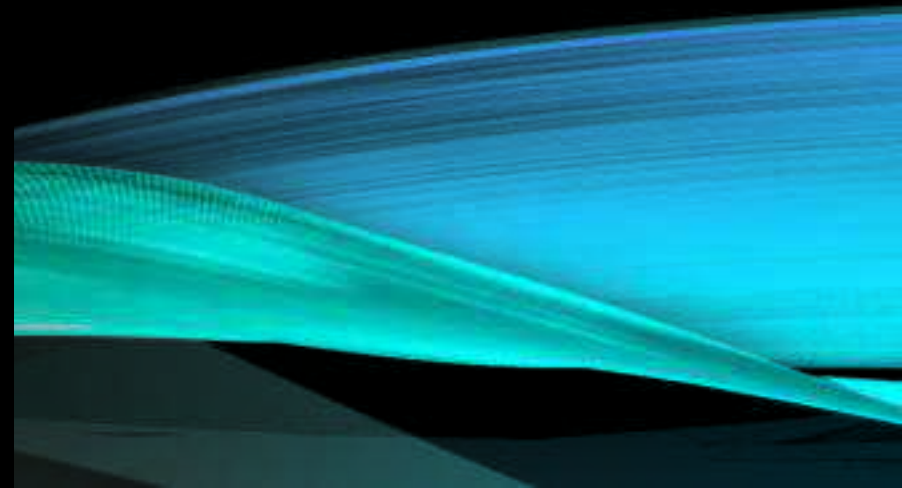
0.720

52 WEEK RANGE

3.256



BOC
HOPES
FOR A
SOFT
LANDING



**A SLOWDOWN
DOESN'T HAVE TO
MEAN A RECESSION.**



A row of suburban houses with a rainbow graphic in the top left corner. The houses have grey roofs, white trim, and various siding colors like tan, blue, and red. A white picket fence and green bushes are in the foreground. A blue banner with white text is overlaid in the center.

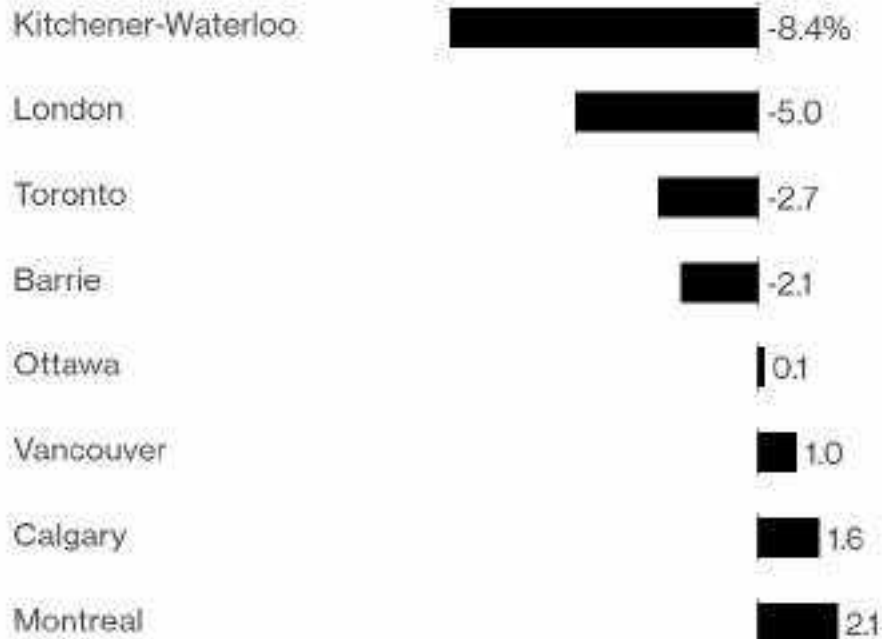
CANADIAN HOUSING MARKET

MARKETS HAVE TURNED QUICKLY

Cooling Market

Several Ontario cities saw price declines last month

Price change in single-family homes, April vs March



Source: Canadian Real Estate Association

Note: Month-over-month change in benchmark single-family home

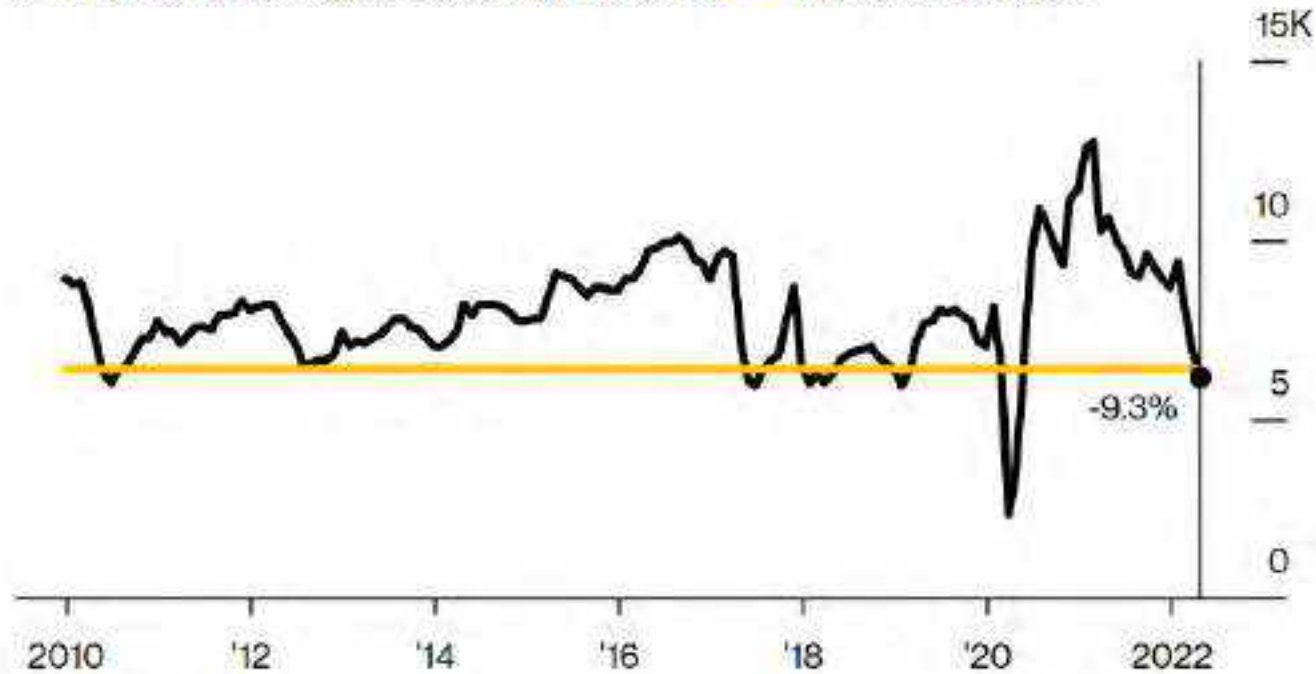
Some who recently bought new homes are struggling to offload their old ones.

TORONTO SALES FELL SHARPLY IN MAY

Sharp Decline

Toronto home sales fall below historical average in May

Monthly Home Sales, Seasonally Adjusted Historical Average



Source: CREA, TRREB

May Sales Down 39% Y/Y

New Listings Surged In May

SALES –TO-NEW LISTINGS RATIO IN BUYERS' MARKET TERRITORY

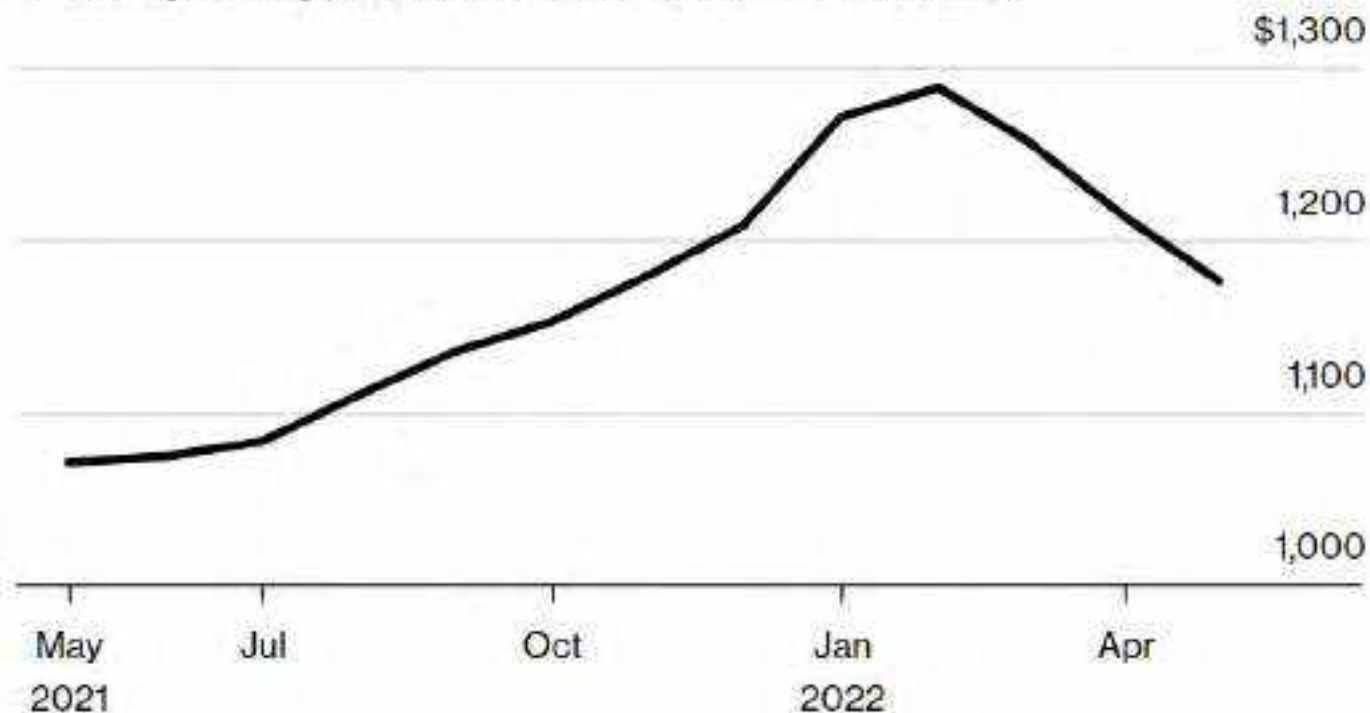


TORONTO HOME PRICE SLIDE FOR THIRD MONTH

Peak Housing in Canada's Largest City

Prices are down almost 9% since February

— Average selling price of a Toronto home (thousands of C\$)



Source: Toronto Regional Real Estate Board

Note: Seasonally-adjusted

- Prices Fell in May in Ottawa, Vancouver and Montreal
- Prices Still Rising in Calgary

Signs Of A Housing Slowdown

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



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

INVESTORS COULD MOVE TO THE SIDELINES

A white wooden signpost stands in the foreground, holding a red rectangular sign with a white border. The sign has the words 'FOR RENT' in large, white, serif capital letters. In the background, a two-story house with a white porch and red steps is visible. The house has a light-colored exterior and dark shutters. The sky is blue with some clouds.

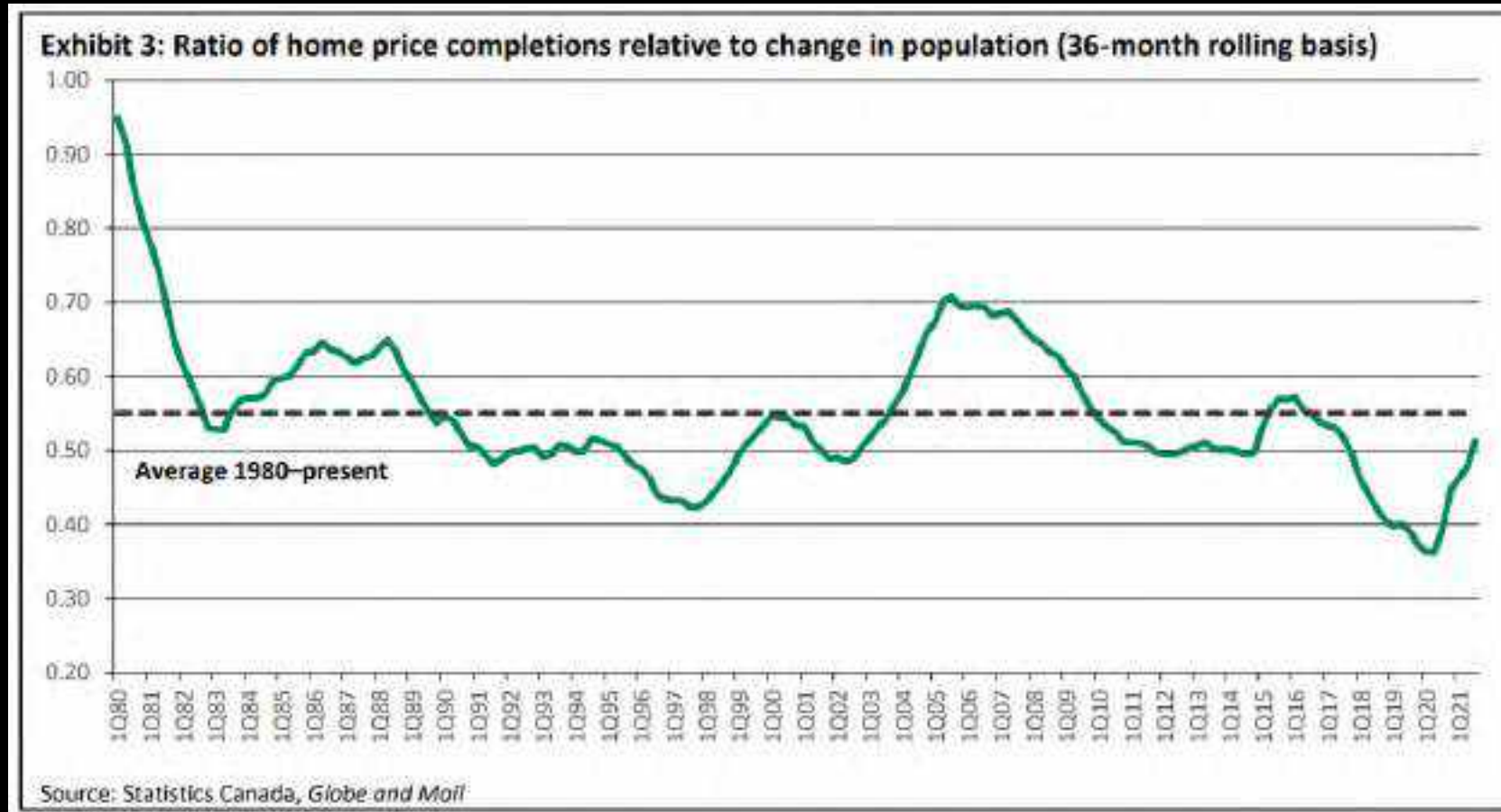
**FOR
RENT**

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

COULD SEE SEE SOME DISTRESSED LISTINGS

- 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




Immigration
Targets
Recently
Revised Up

2022-2024 Immigration Levels Plan

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	0.5



Federal Government Goal

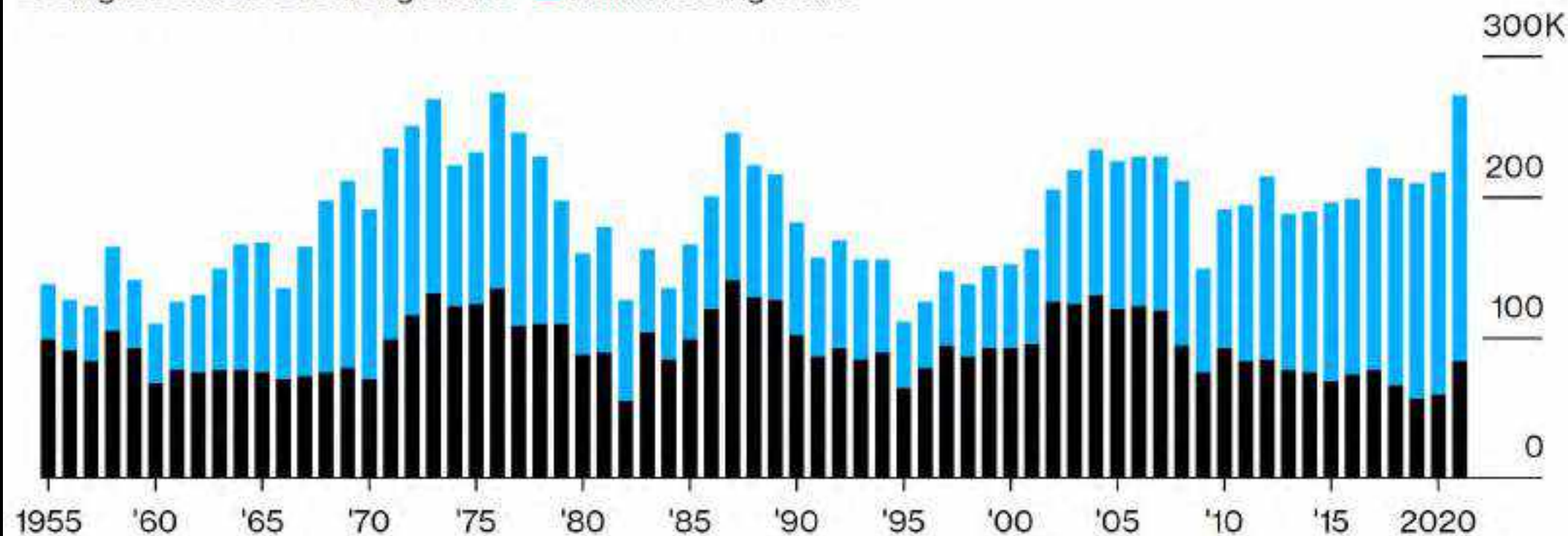
DOUBLING HOME
CONSTRUCTION OVER
NEXT DECADE

2021 HOMEBUILDING ALREADY AT 46-YEAR HIGH

Start Me Up

Canadian construction crews begin work on most homes since 1976

■ Single Detached Housing Starts ■ Multi Housing Starts



Canada Wants to Double Home Construction But Needs to Find Skilled Workers

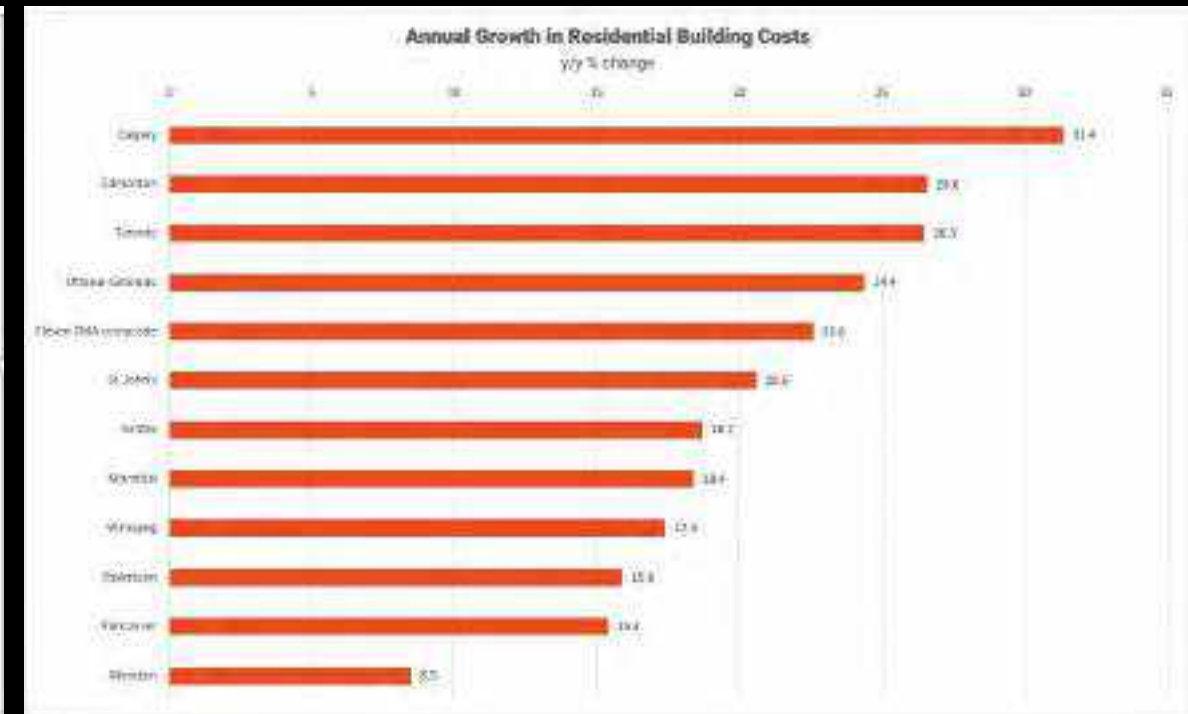


RESIDENTIAL CONSTRUCTION COSTS SURGE

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 medium-
density
development in
low-density areas

FOLLOW ME ON

#DrSherryCooper



SherryCooper.Com



Twitter.com/DrSherryCooper



Linkedin.com/DrSherryCooper



Facebook.com/DrSherryCooper



Bringing clarity to the Canadian financial landscape through tools, technology and support driven by the best economic insights.

DR. SHERRY COOPER

Chief Economist of
Dominion Lending Centres

