



DOMINION LENDING
CENTRES

RATE HIKES SLOW HOUSING



Dr. Sherry Cooper
October 26, 2022

GLOBALIZATION STALLS

A central illustration of a globe with a blue and green grid. A person is sitting on the globe using a laptop, and another person is pointing at it. A white airplane is flying over the globe. A gold coin with a dollar sign is floating above the globe. Green plants are growing from the globe. Red location pins are placed on the globe. Large red arrows form a circular path around the globe.

-Trade Disrupted
-Shortages Emerge
-Prices Surge

Shortening
Supply Chains
and Reshoring
Jobs



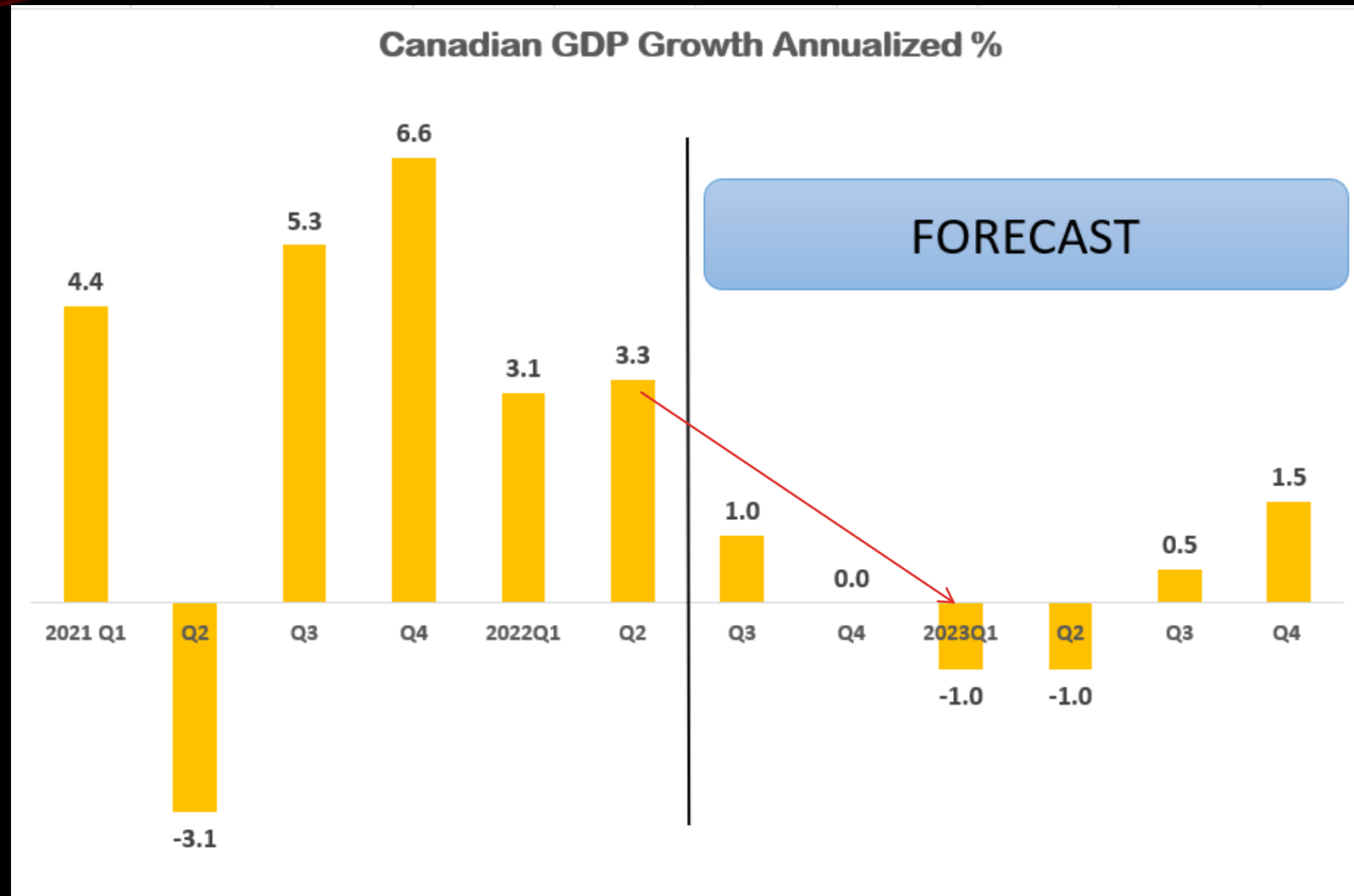


	Canadian GDP Growth
2021	4.5%
2022f	3.2%f
2023f	1.0%f

Canada's Economy Slows in 2022H2, Recession in Early 2023



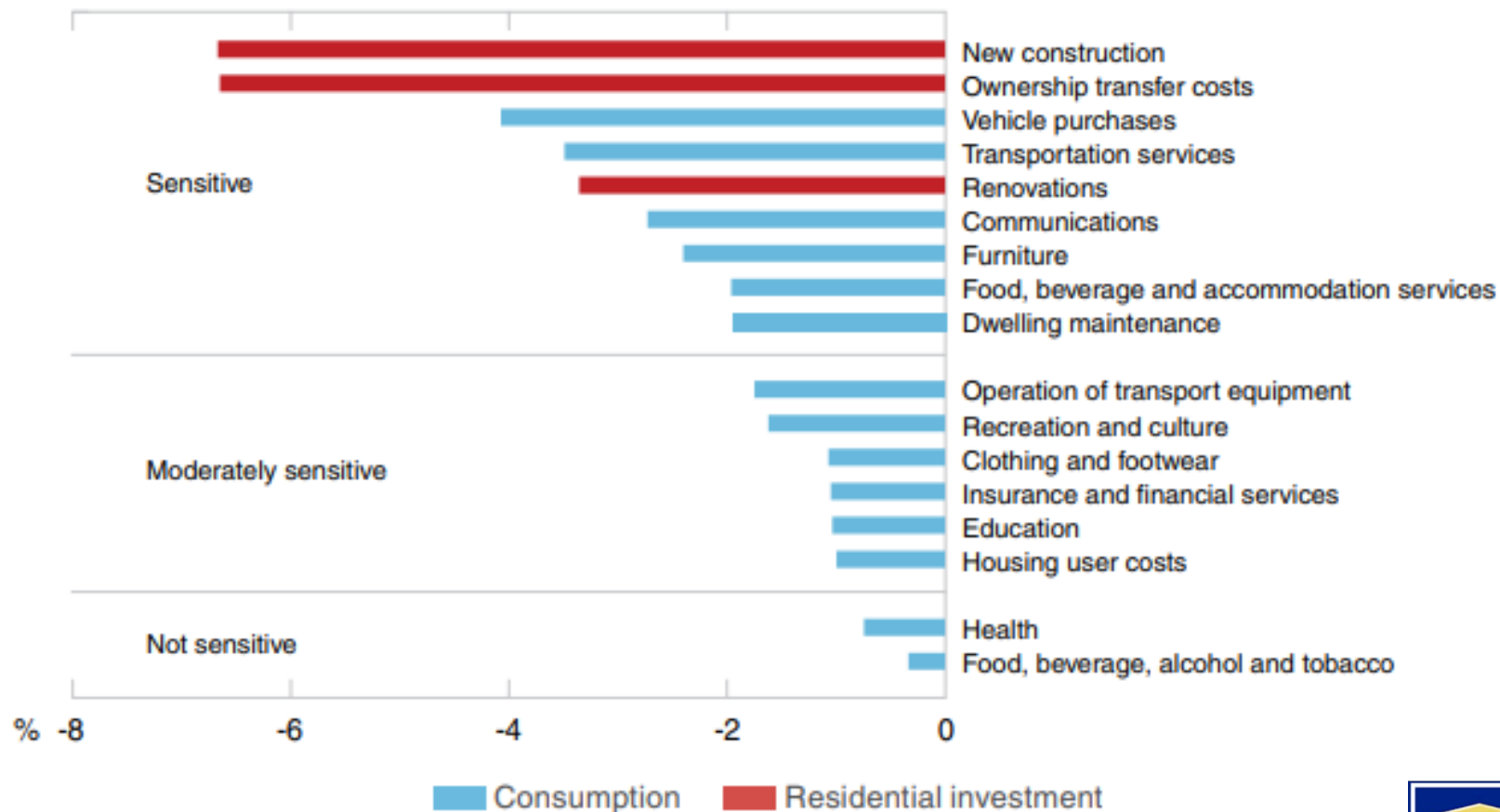
CANADIAN ECONOMIC SLOWDOWN



INTEREST RATE SENSITIVITY OF CANADIAN HOUSEHOLD SPENDING

Chart 15: Rising rates affect spending on housing and big-ticket consumption items

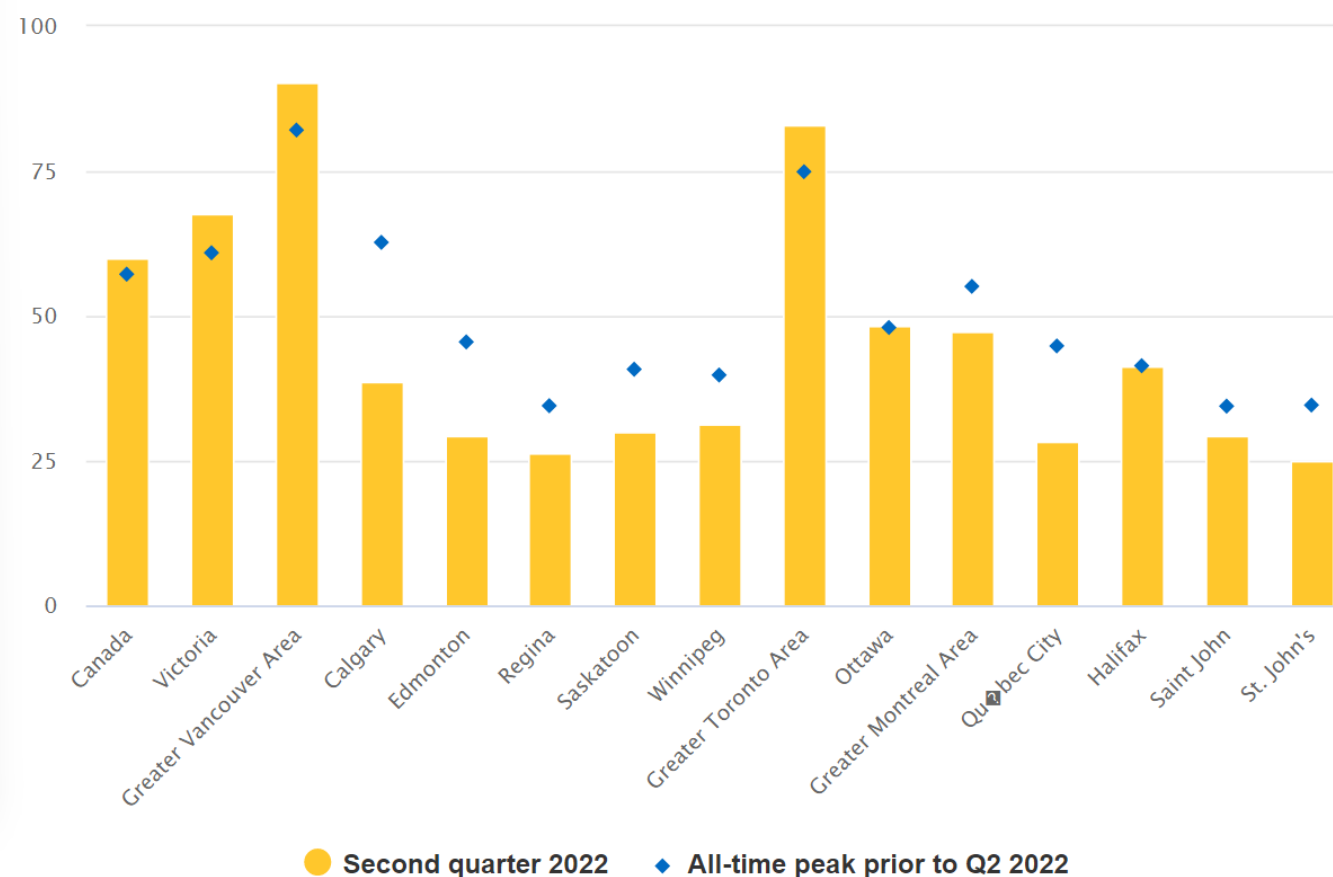
Estimated peak-level impact of a 100-basis-point contractionary monetary policy shock



DISAPPEARING AFFORDABILITY SLOWS HOUSING ACTIVITY

Affordability reaches worst-ever levels in BC, Ontario and parts of Atlantic Canada

RBC aggregate affordability measure, %

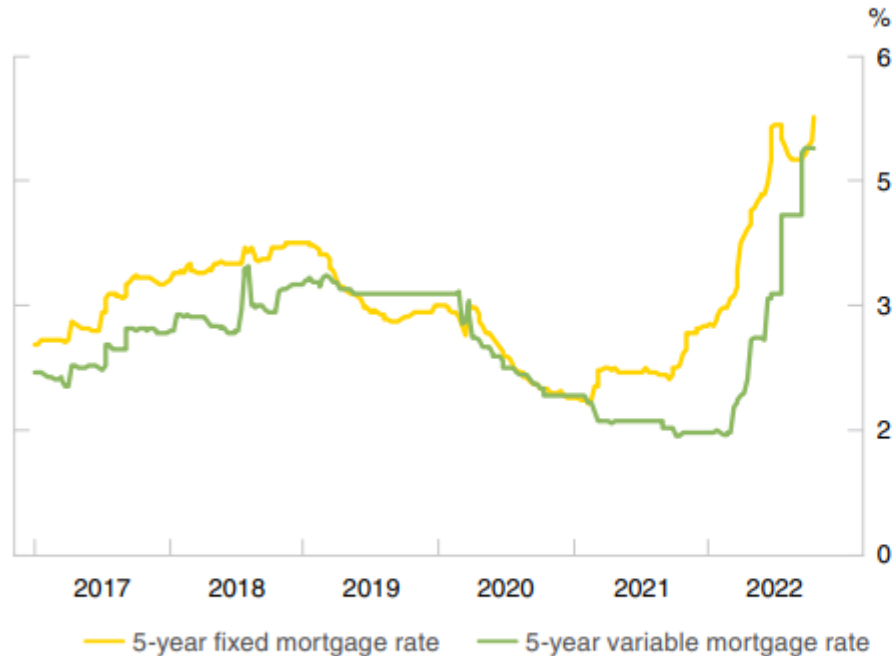


Source: RPS, Statistics Canada, Bank of Canada, RBC Economics

DROP IN AFFORDABILITY SLOWS HOUSING DEMAND

Chart 16: As mortgage rates rise, housing market activity contracts

a. Interest rates, weekly data



b. Housing market statistics, seasonally adjusted, monthly data



Note: Residential resales are seasonally adjusted at annual rates.

Sources: Canadian Real Estate Association, Lender Spotlight and Bank of Canada

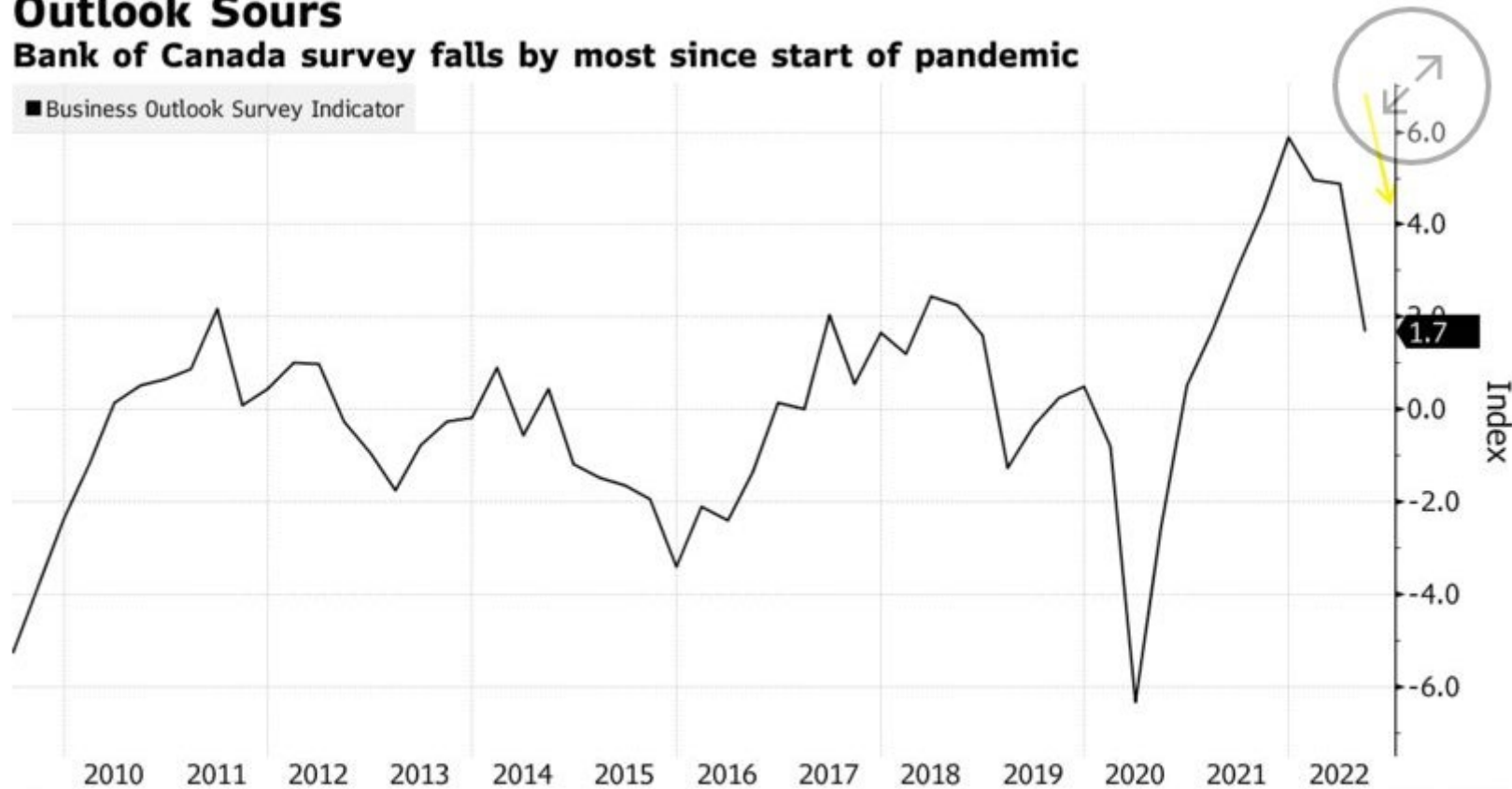
Last observations: panel a, October 18, 2022; panel b, September 2022

BUSINESS OUTLOOK DETERIORATES IN Q2

Outlook Sours

Bank of Canada survey falls by most since start of pandemic

■ Business Outlook Survey Indicator



Source: Bank of Canada

Bloomberg



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SIGNS OF ECONOMIC SLOWDOWN IN CANADA

Residential
Investment Falls
27.4% in Q2

Job Growth
Slows in
June through
September

Housing Activity
Retreats
Sharply

Consumer and
Business
Spending Softens

Household
Wealth Falls

Slowdown in
Global Demand
Weakens
Exports



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CANADA'S LABOUR MARKET IS VERY TIGHT

Staffing Shortages

STAFFING SHORTAGES

Staffing Shortages

Staffing Shortages

Staffing Shortages

Staffing Shortages

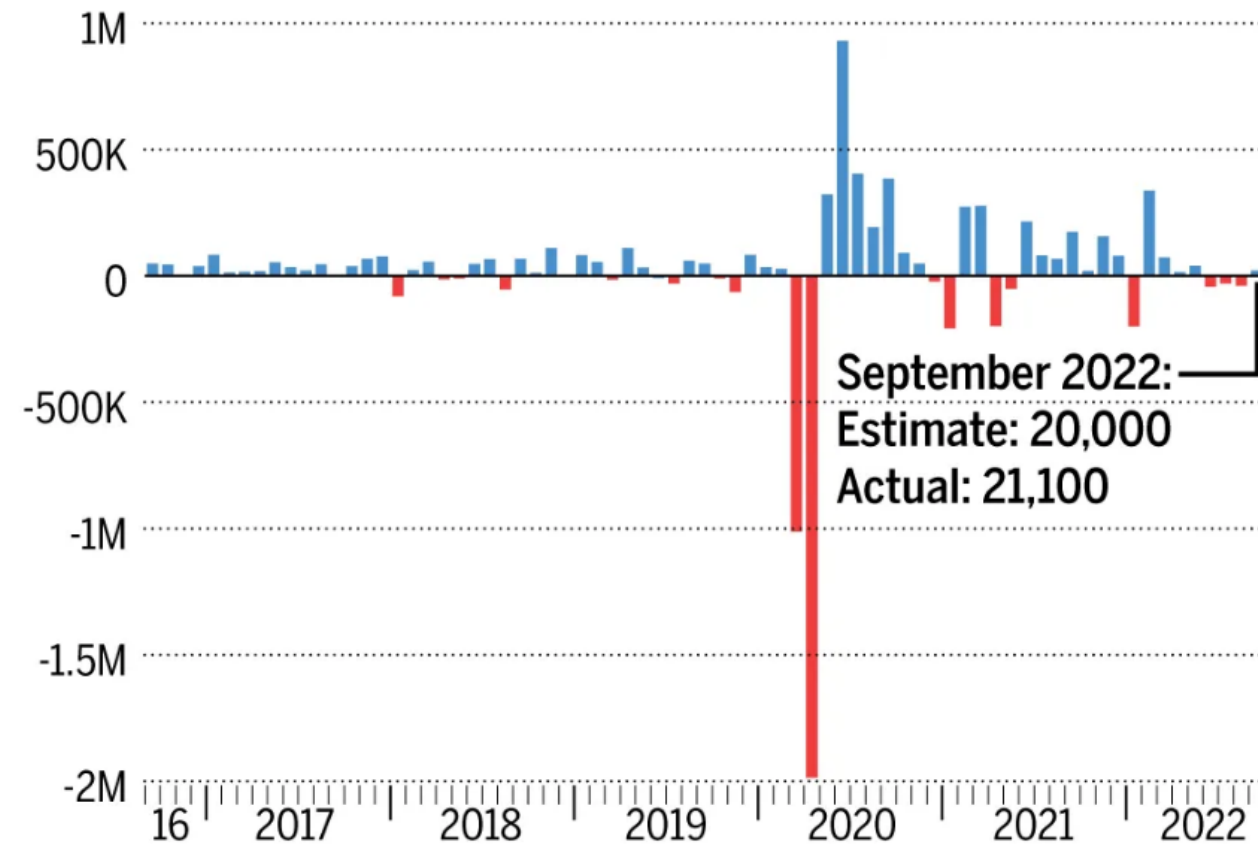


**DOMINION LENDING
CENTRES**

EMPLOYMENT ROSE IN SEPTEMBER

JOBS NUMBERS NARROWLY BEAT ESTIMATES

Net change in labour force employment, seasonally adjusted



SOURCE: BLOOMBERG

GIGI SUHANIC / FINANCIAL POST

JOBLESS RATE FELL TO 5.2%, REVERSING SOME OF SEPTEMBER RISE

JOBLESS RATE FALLS FROM 5.4% TO 5.2%

Unemployment rate, per cent, seasonally adjusted



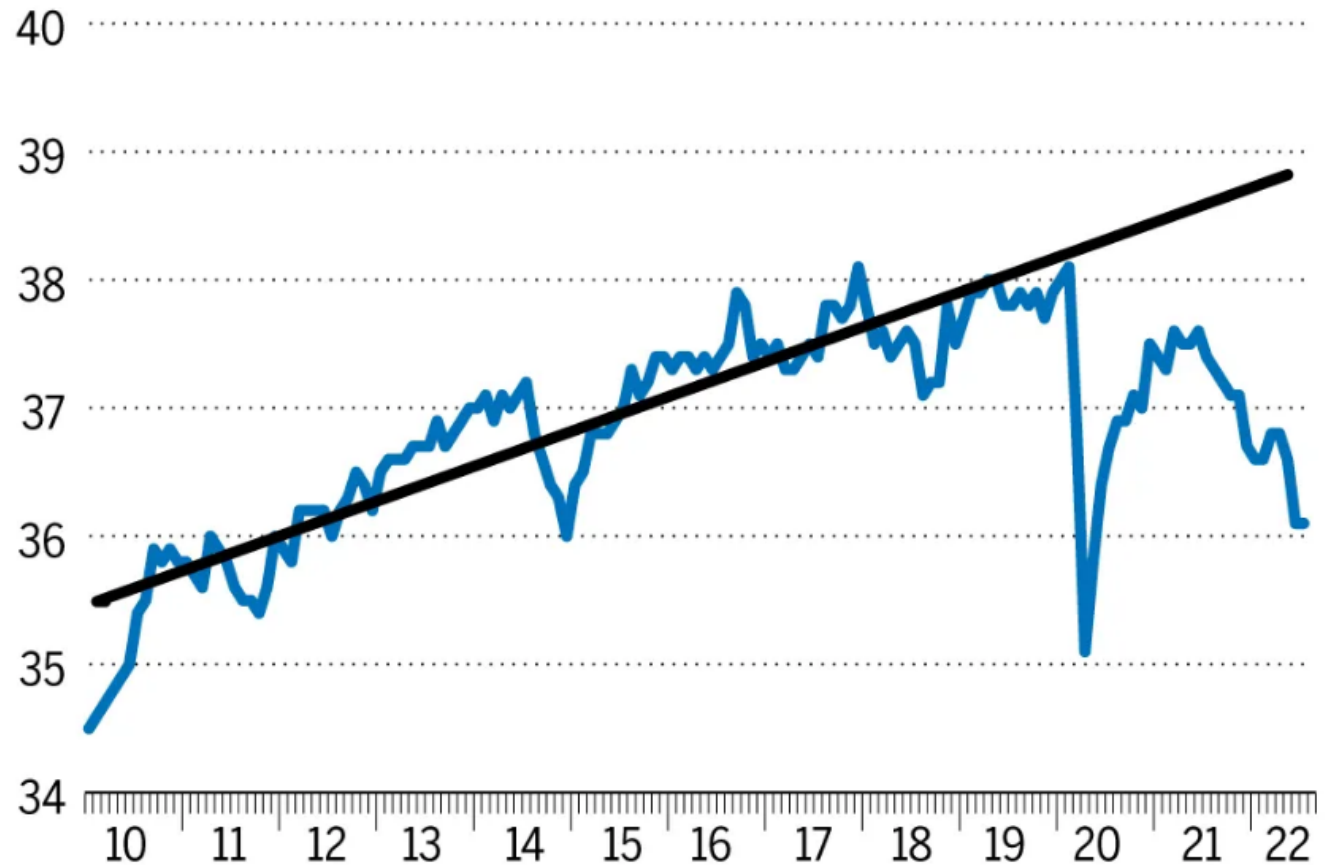
SOURCE: BLOOMBERG

GIGI SUHANIC / FINANCIAL POST

LABOUR FORCE PARTICIPATION RATE FALLING AS BOOMERS RETIRE

AGING OUT

— Participation rate, per cent, both sexes, age 55 and up
— Trend line, 2010-2019 extended

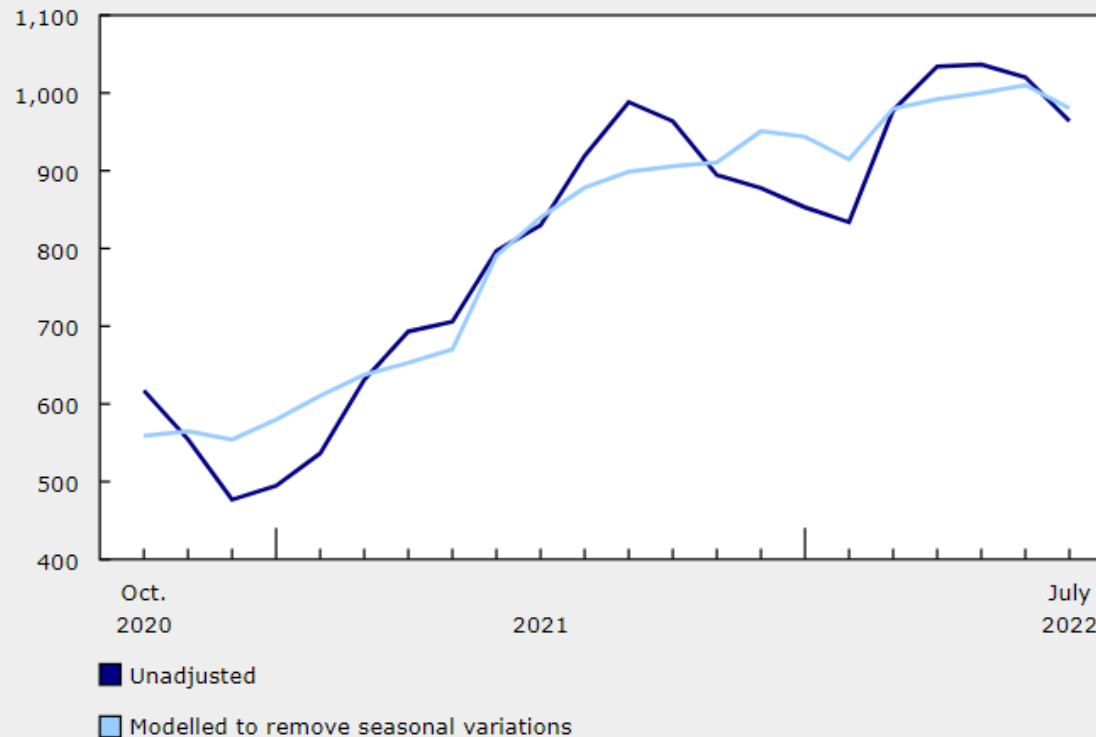


SOURCE: STATISTICS CANADA, DELOITTE

GIGI SUHANIC / FINANCIAL POST

JOB VACANCIES EDGE DOWNWARD, BUT REMAIN ELEVATED

job vacancies (thousands)



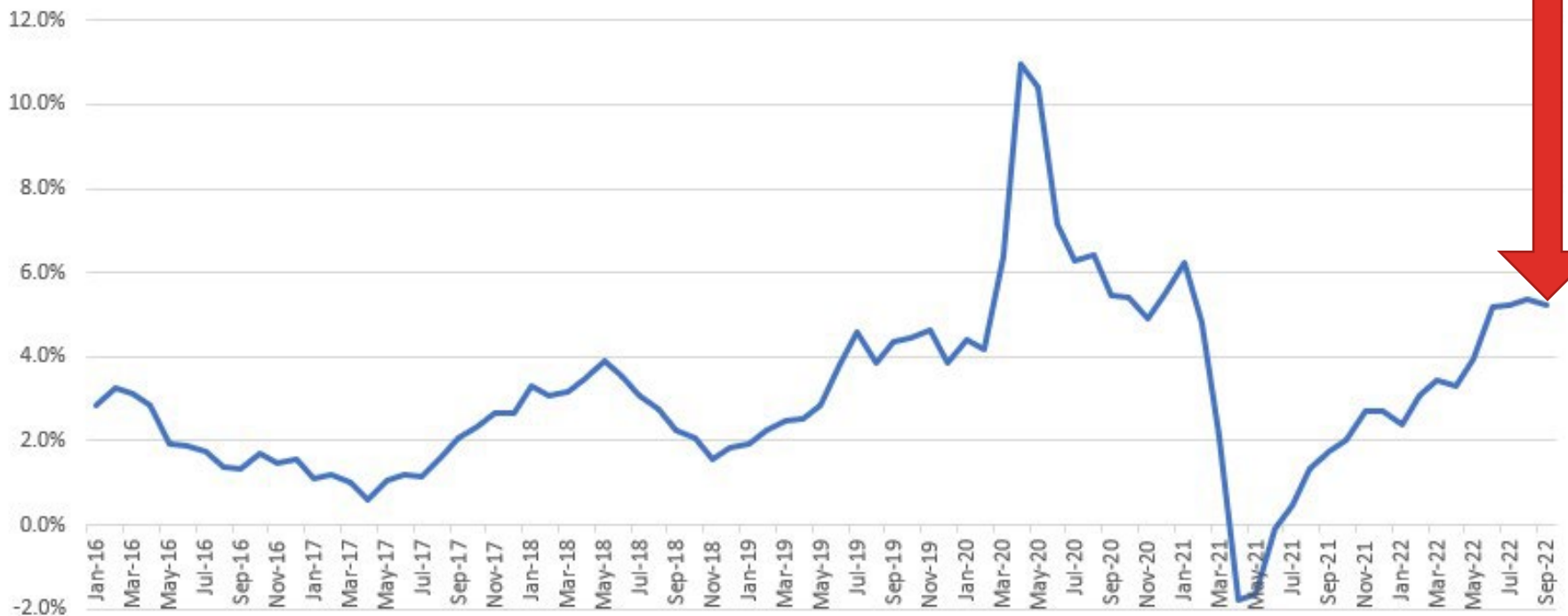
Source(s): Job Vacancy and Wage Survey ([5217](#)), custom tabulation.

Businesses Cannot Find Workers

ANNUAL WAGE INFLATION ABOVE 5%

**Rose to 5.2% in
September for 4th
Consecutive
Month > 5%**

Average Hourly Earnings, y/y % change



INFLATION

The image is a conceptual representation of inflation. It features several stacks of dark, metallic coins in the foreground. In the background, there is a blurred city skyline. Overlaid on the scene are various financial graphics: a large red arrow pointing upwards and to the right, a blue line graph showing fluctuations, a white candlestick chart, and a black line graph. The word 'INFLATION' is written in large, bold, black capital letters across the center of the image.

CANADIAN INFLATION FELL BY LESS THAN EXPECTED IN SEPTEMBER

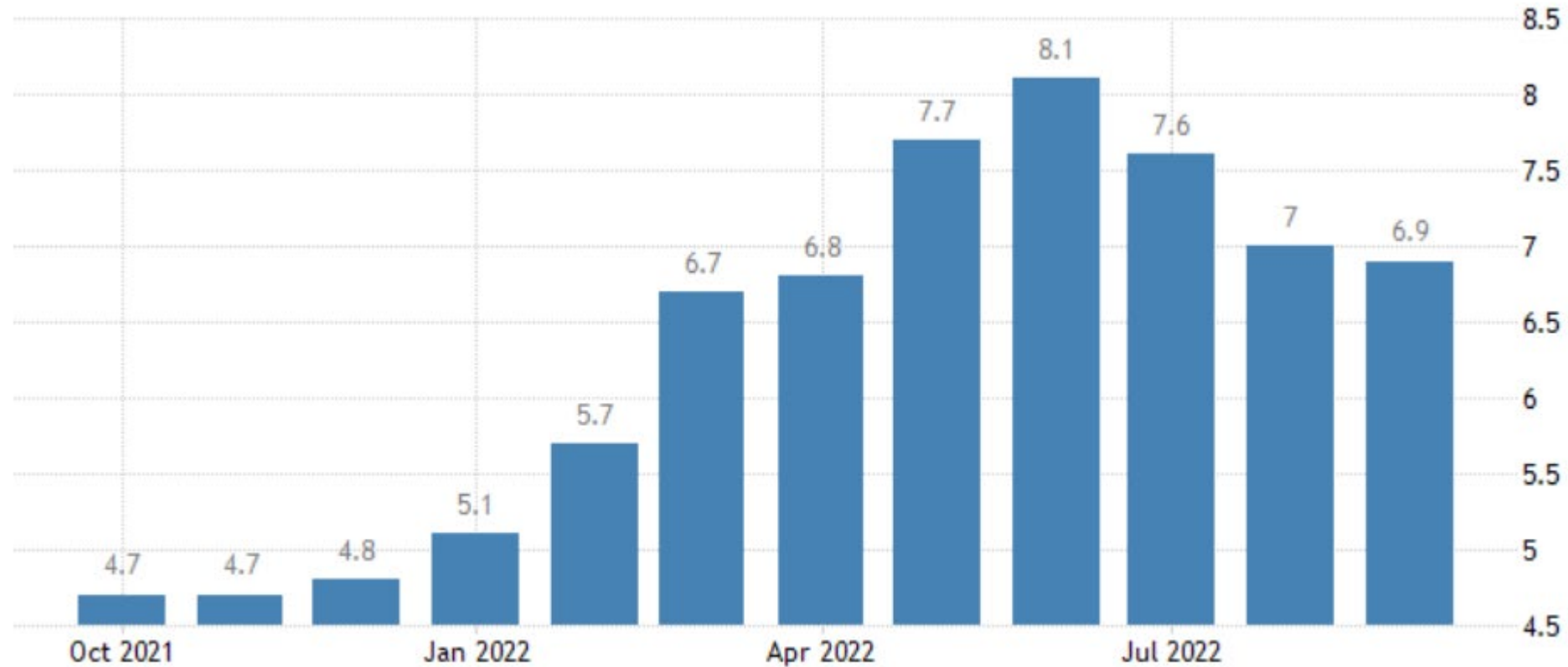
Way Off Target

Canada inflation falls by less than expected



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CANADIAN CPI INFLATION AT 6.9% IN SEPTEMBER



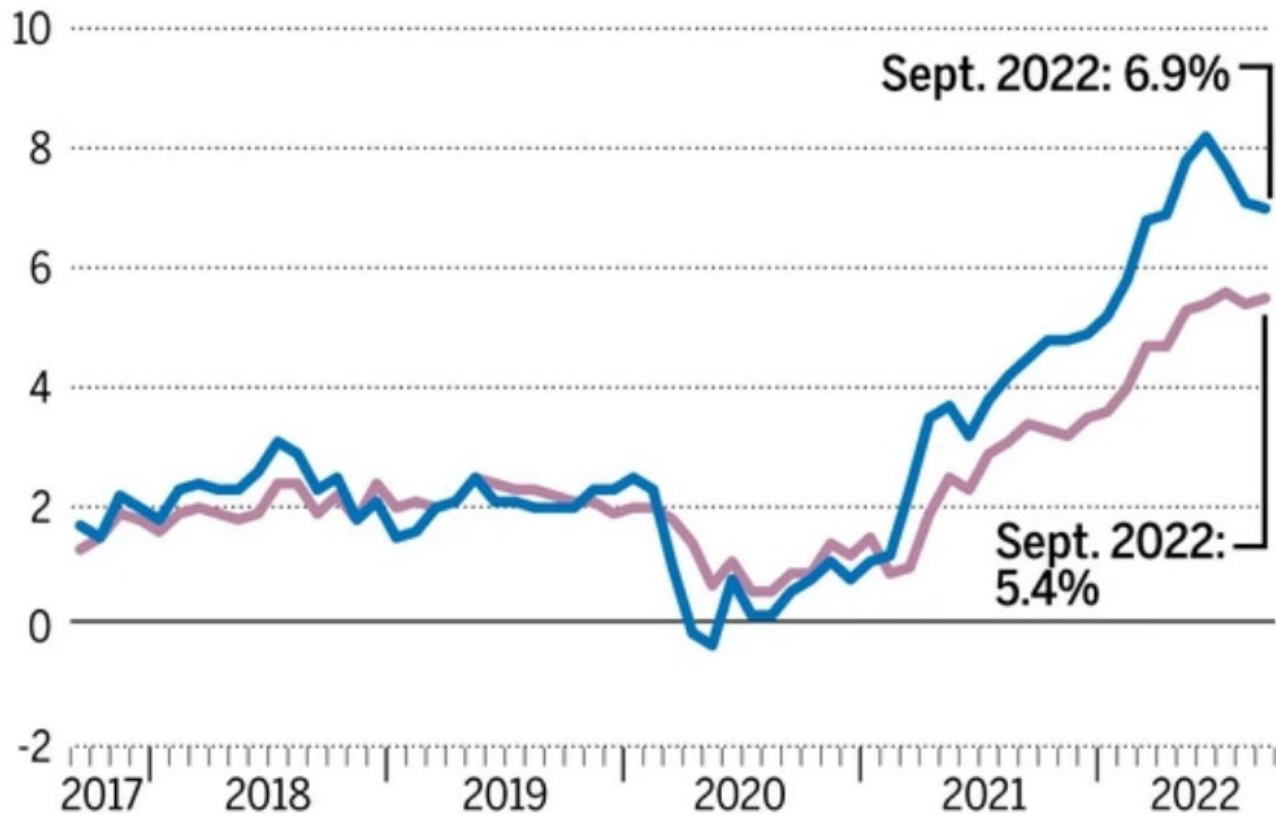
TRADINGECONOMICS.COM | STATISTICS CANADA

SEPTEMBER CORE INFLATION EDGED UPWARD

INFLATION PICTURE A MIXED BAG

Year-over-year per cent change

— Consumer price index — CPI, excluding food and energy



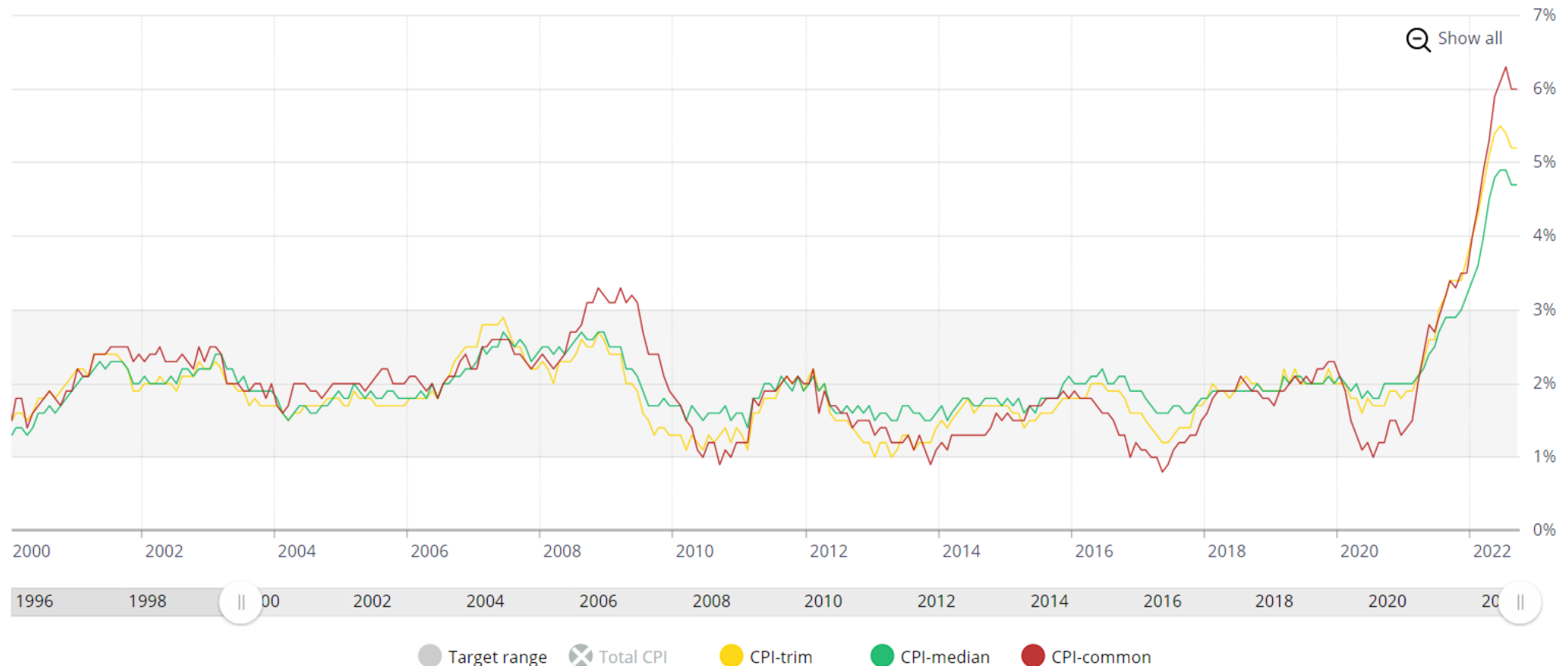
SOURCE: STATISTICS CANADA

GIGI SUHANIC / FINANCIAL POST

BANK OF CANADA CORE INFLATION MEASURES

Key Inflation Indicators and the Target Range

Total CPI, CPI-trim, CPI-median, CPI-common and Target Range



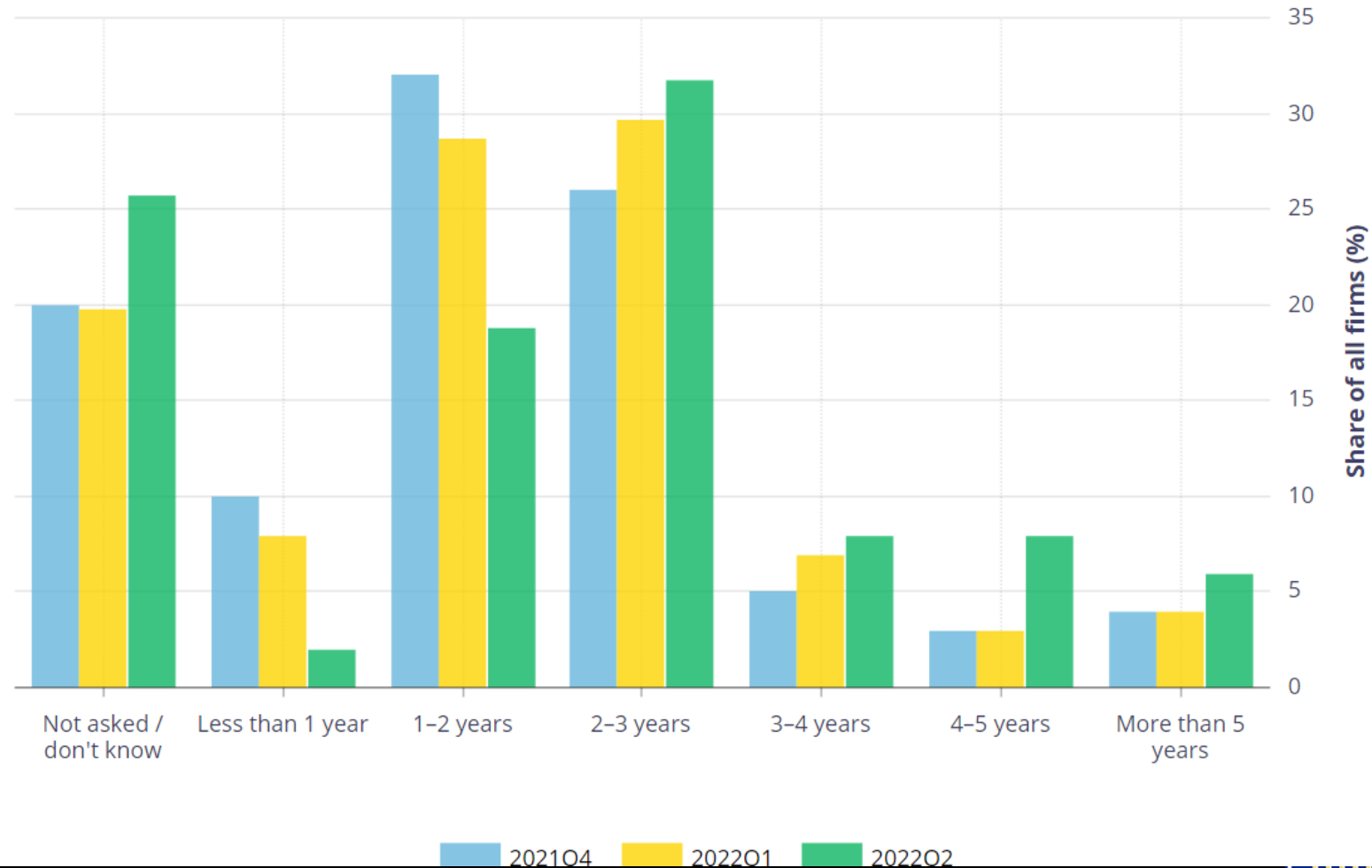
LARGEST YTD RENT INCREASES IN CANADA

Municipality	Rent Increases
	%
London, ON	26.5
Calgary, AB	24.7
Vancouver, BC	24.4
Toronto, ON	24.2
Hamilton, ON	21.0

INFLATION EXPECTATIONS RISE

Chart 11: More firms see inflation remaining above target for at least three years

How long do you expect inflation to remain substantially above 2%?

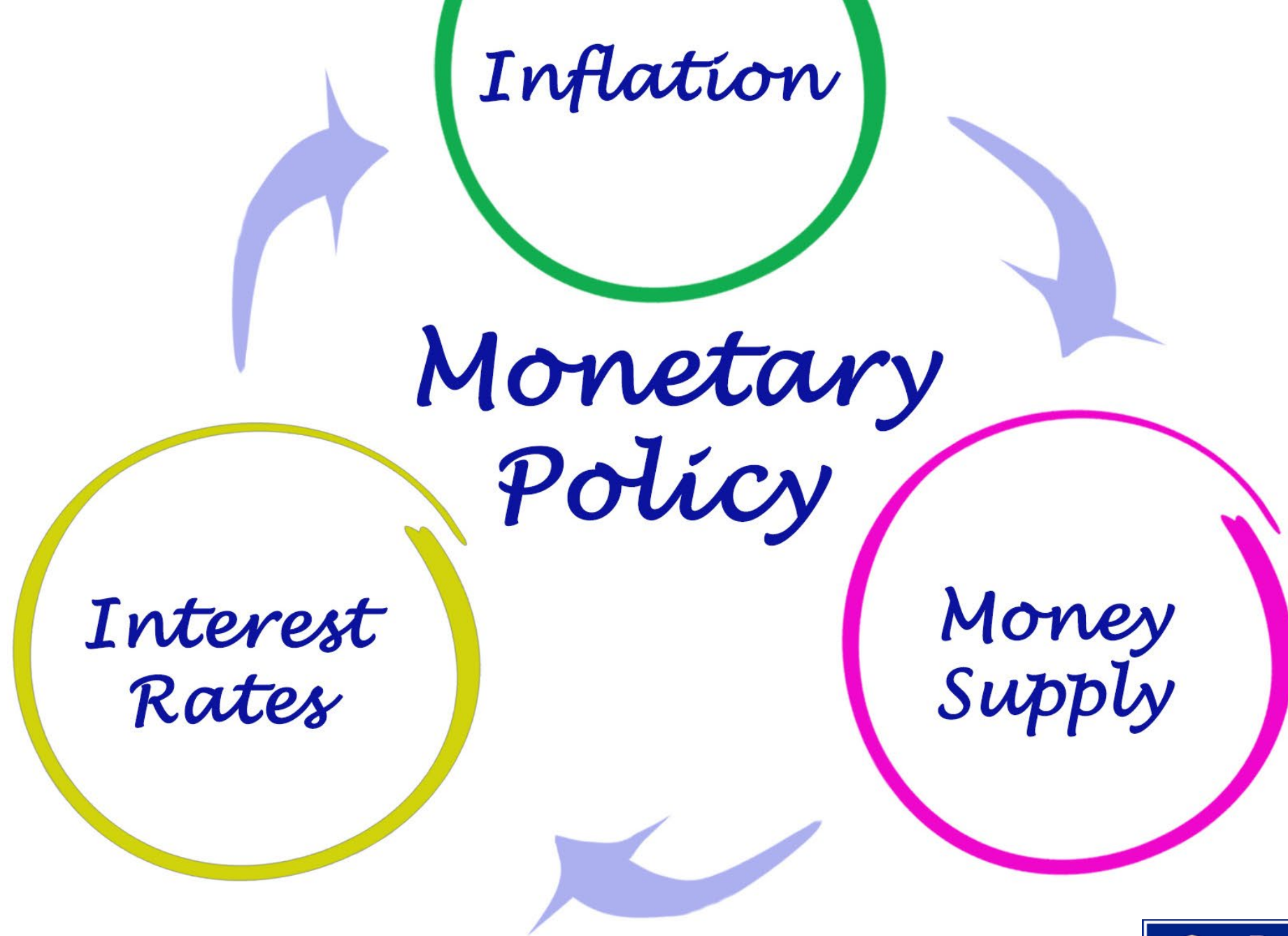


RISK INFLATION BECOMES UNMOORED

Wages Surge 5.2%

Inflation Expectations Rise

Homeownership Costs & Rents





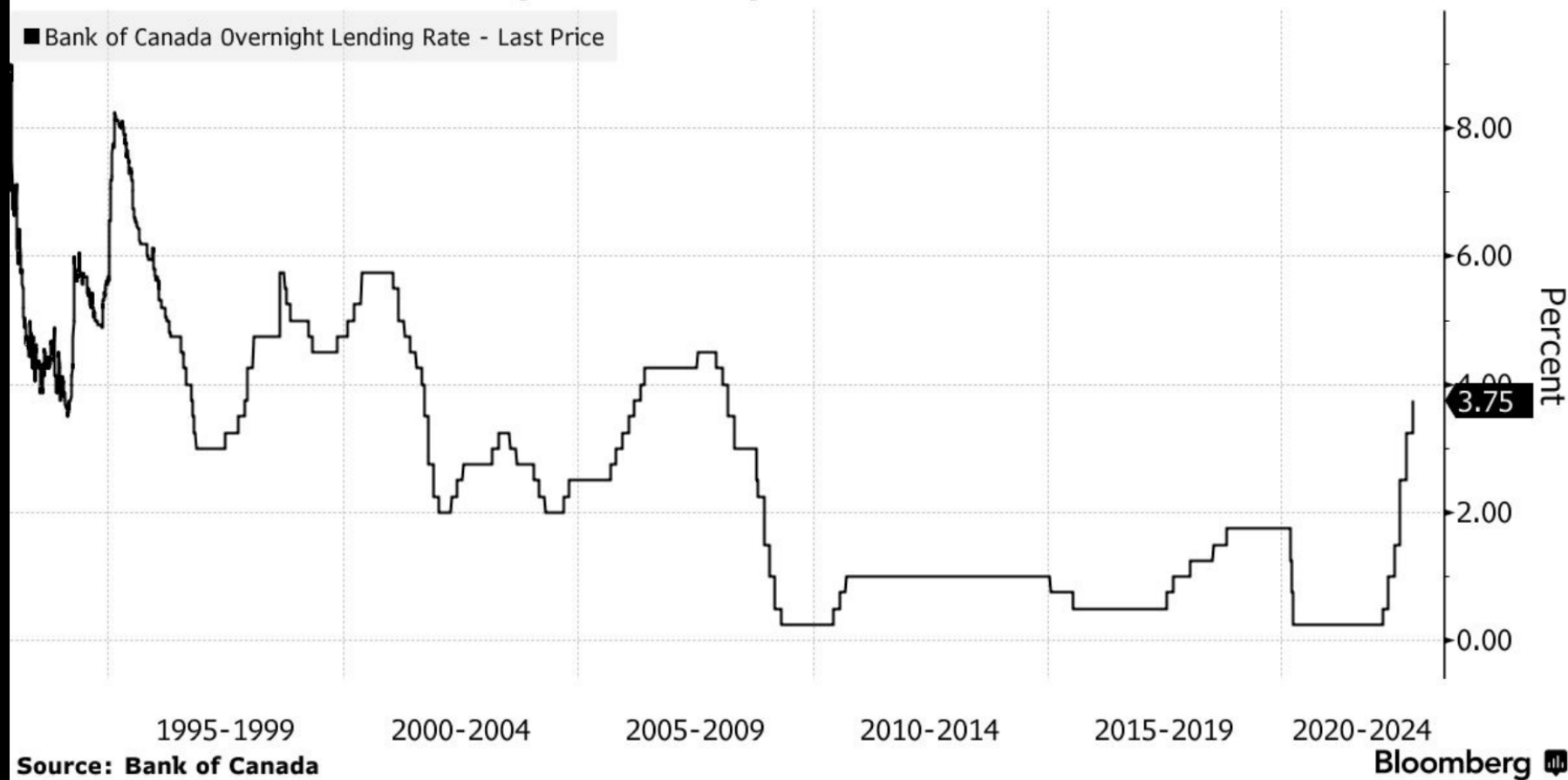
- 50 Bps Hike Oct 26
- Overnight Rate at 3.75%
- Quantitative Tightening
- Overnight Rate Rises to 4% By Yearend

BANK OF CANADA

BOC OVERNIGHT RATE UP 50 BPS TO 3.75%

Rates Rising

Bank of Canada has hiked by 350 basis points since March



PRIME RATE WILL MOVE TO 5.95%

Canada Prime Rate

[ADD TO WATCHLIST](#)

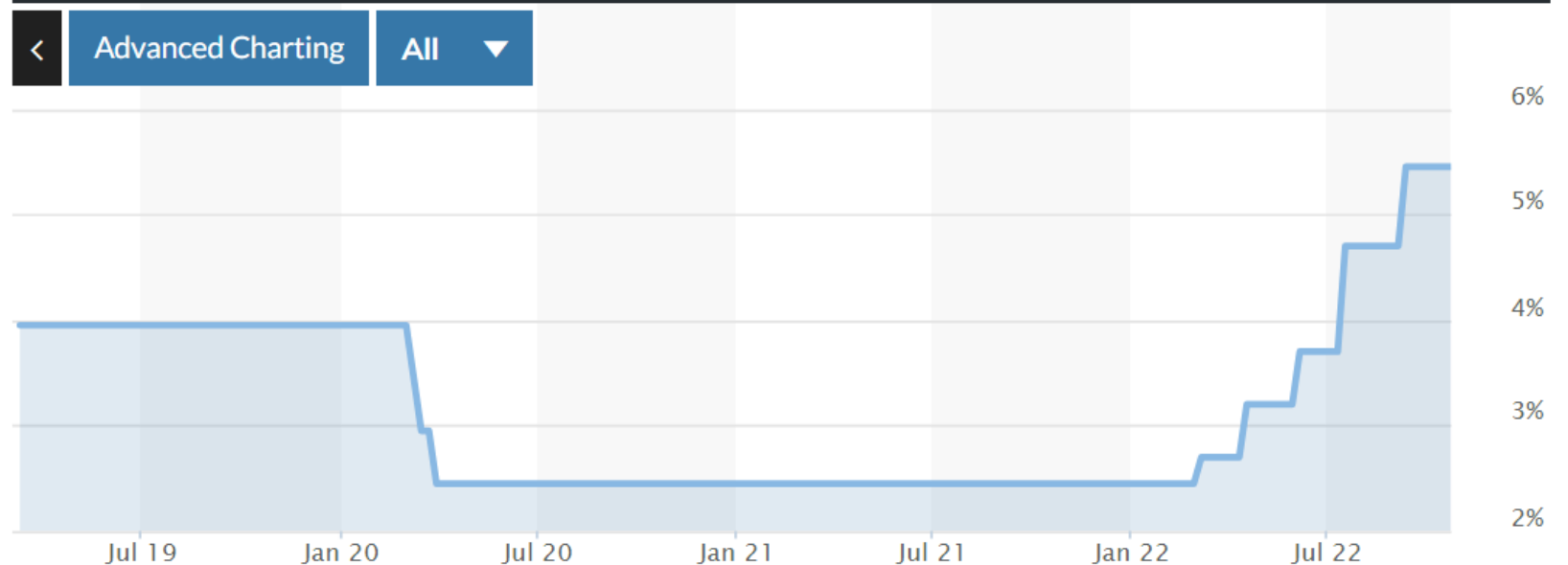
5.45000%

0.00000

Last Updated: Oct 25, 2022 12:00 a.m. EDT

PREVIOUS CLOSE

5.45000%



5-YEAR BOND YIELD FELL NEARLY 25 BPS TODAY

Canada 5 Year Government Bond

[ADD TO WATCHLIST](#)

3.412%

▼ -0.247

Last Updated: Oct 26, 2022 at 12:21 p.m. EDT

PREVIOUS CLOSE

3.659%

3.400

DAY RANGE

3.669

1.154

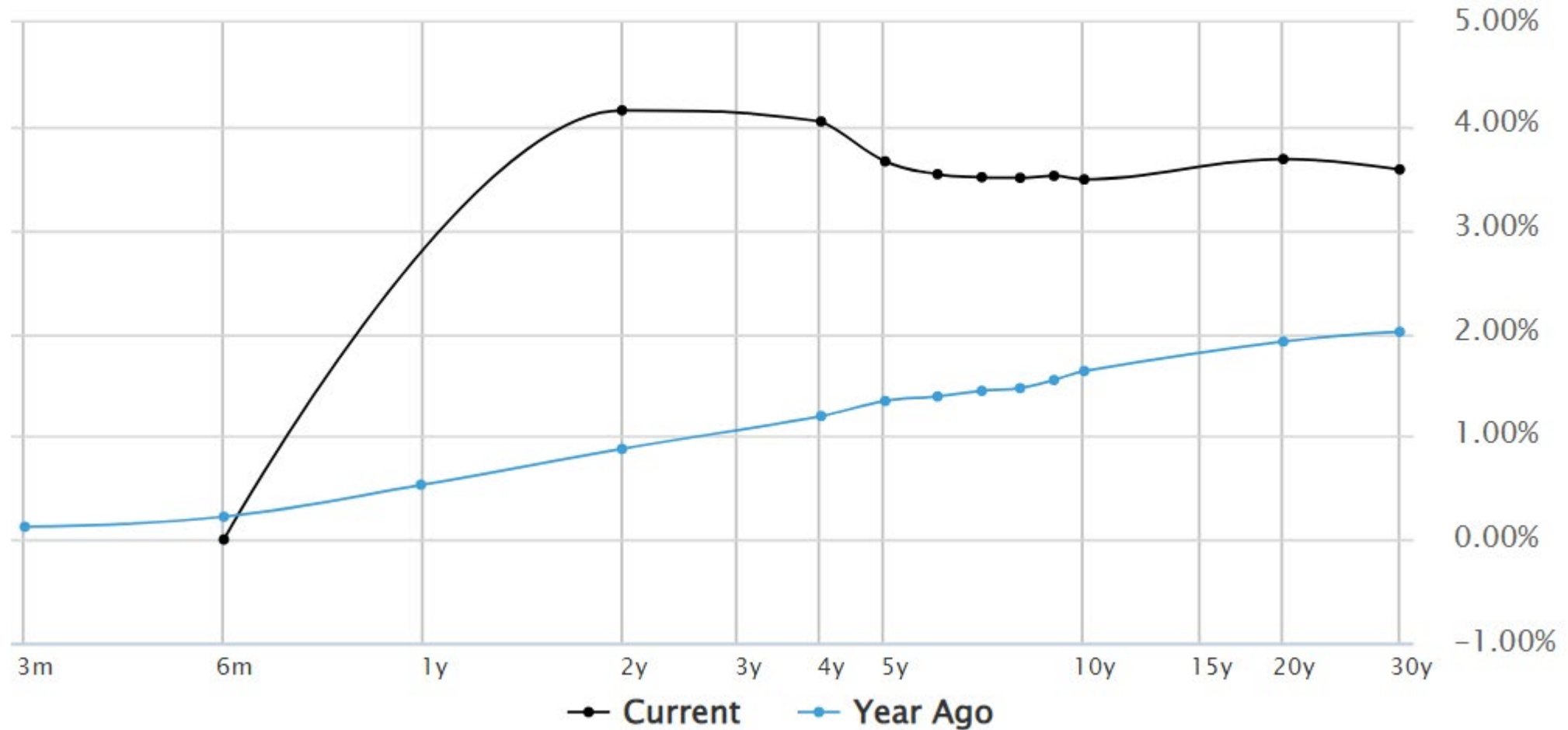
52 WEEK RANGE

3.898

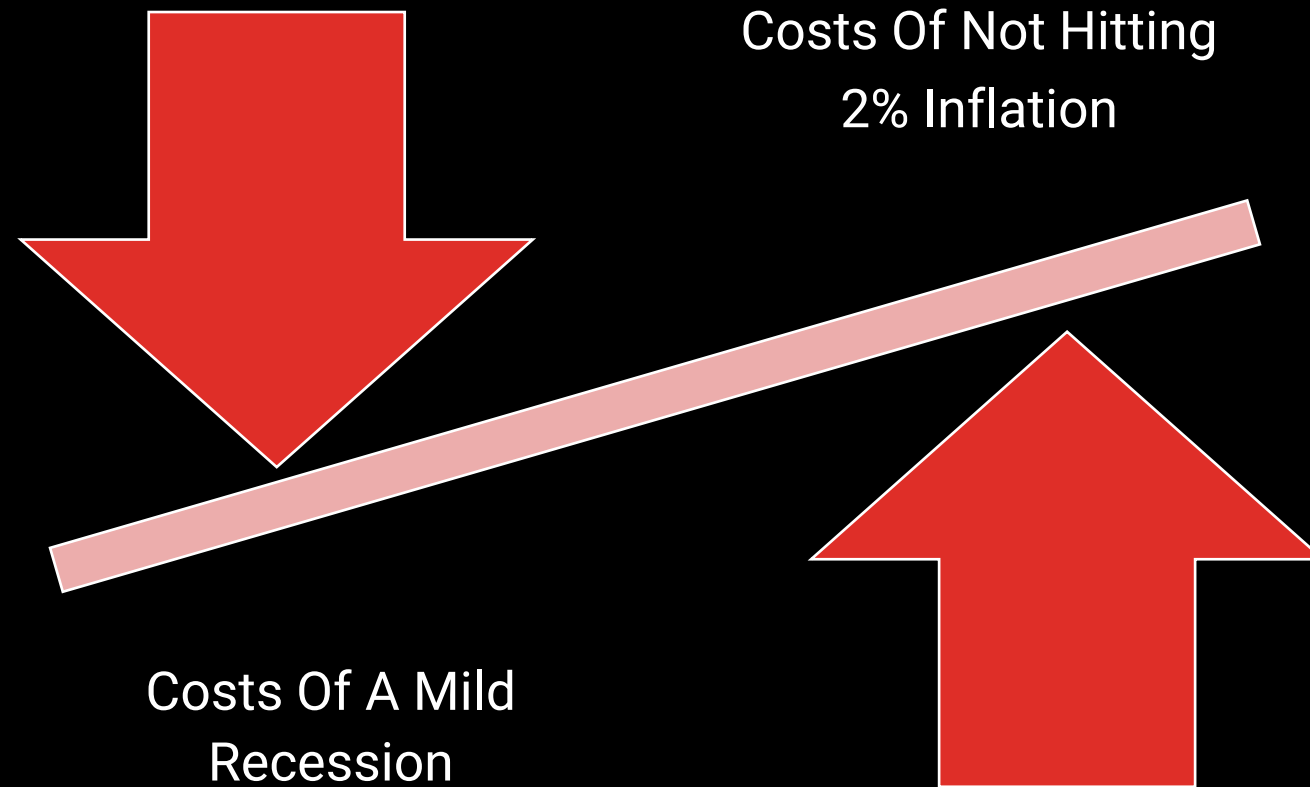


THE CANADIAN YIELD CURVE IS INVERTED

YIELD CURVE - CA



INFLATION VERSUS RECESSION



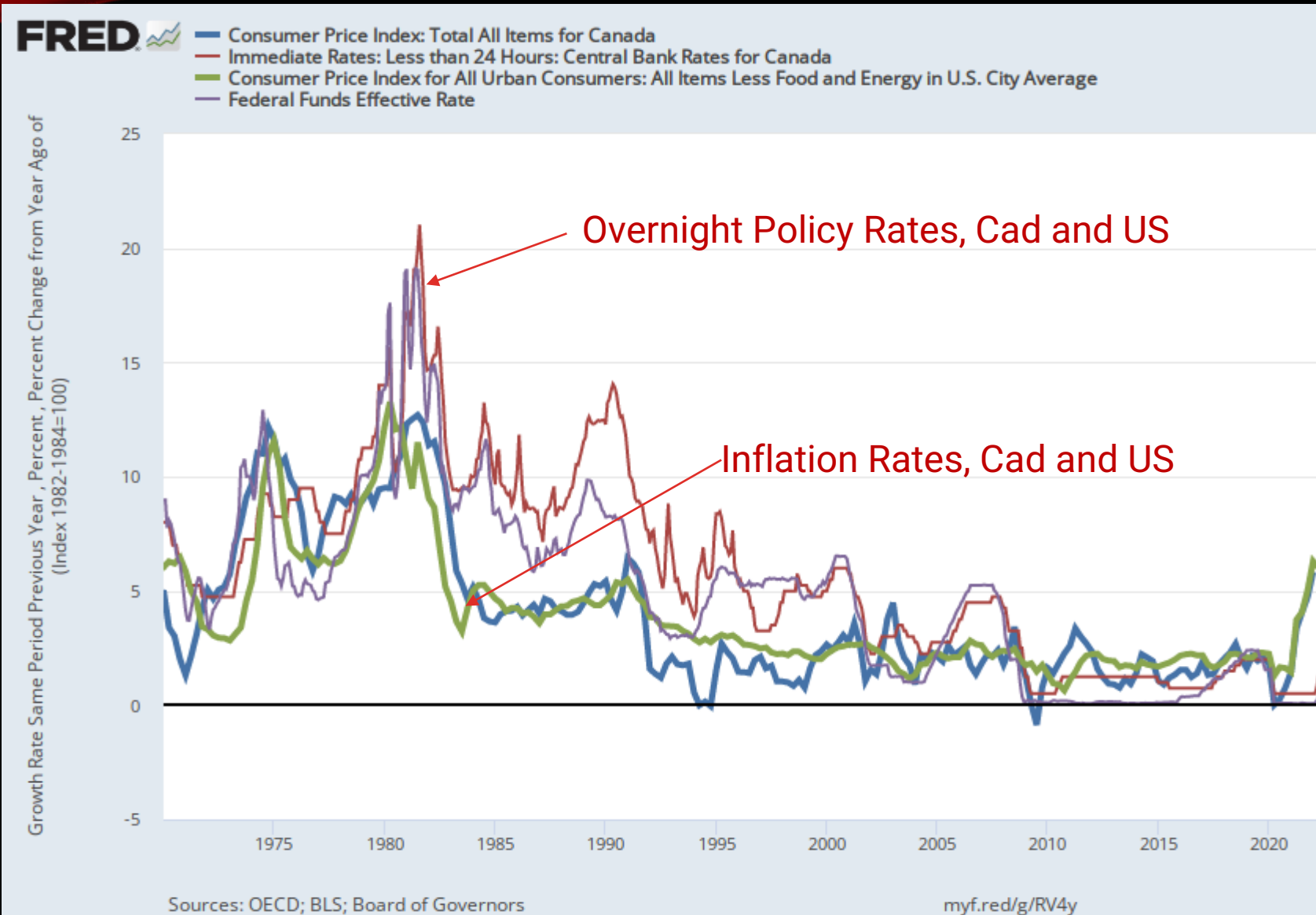


**AT LEAST A MILD
RECESSION IS LIKELY
NEXT YEAR**



BoC will tighten until they're highly confident that they've done enough — that the labour market has sufficient slack to keep inflation low and stable, and that easing financial conditions won't lead to an inflation rebound.

GREAT INFLATION SURGE (1975-1995)



INFLATION WAS OFTEN BELOW 2% TARGET FOR 30 YEARS



A suburban street scene with white houses and greenery. A large yellow text box is overlaid in the center, containing the text "CANADIAN HOUSING MARKET". In the foreground, a red gravel area has the word "SOLD" painted in white. The top of the image features a colorful, abstract graphic element.

CANADIAN HOUSING MARKET

HOUSING CORRECTION--NOT A COLLAPSE





**RIISING
INTEREST
RATES!**

**SLOWS
HOUSING
SUPPLY**

SOME DISTRESSED NEW LISTINGS

- Especially For Recent Investors With Short-term Financing

WAVE OF PROJECT DELAYS OR CANCELLATIONS

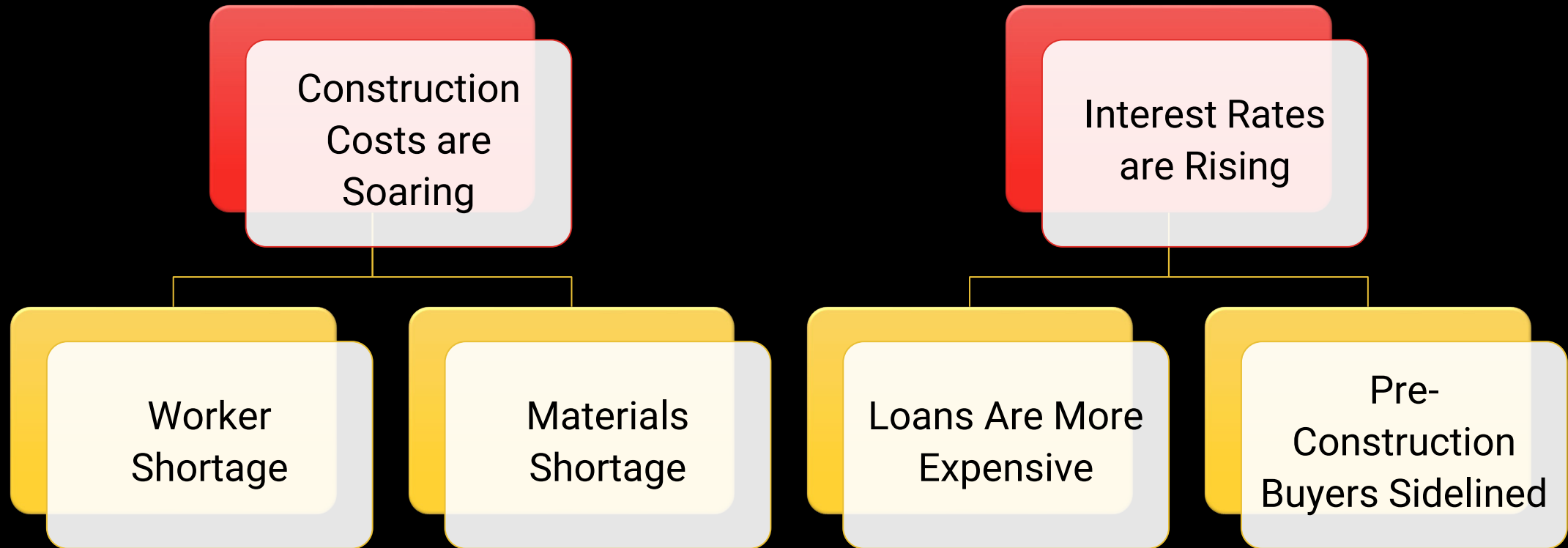
Out of the 30,000 condo units that were supposed to be launched in 2022 in the GTA, no fewer than 10,000 have been cancelled or put on hold.

Situation in the purpose-built rental space is even worse.

Developers choosing to sit on their hands, rather than engaging in a money-losing projects.

Tight rental markets will become even tighter.

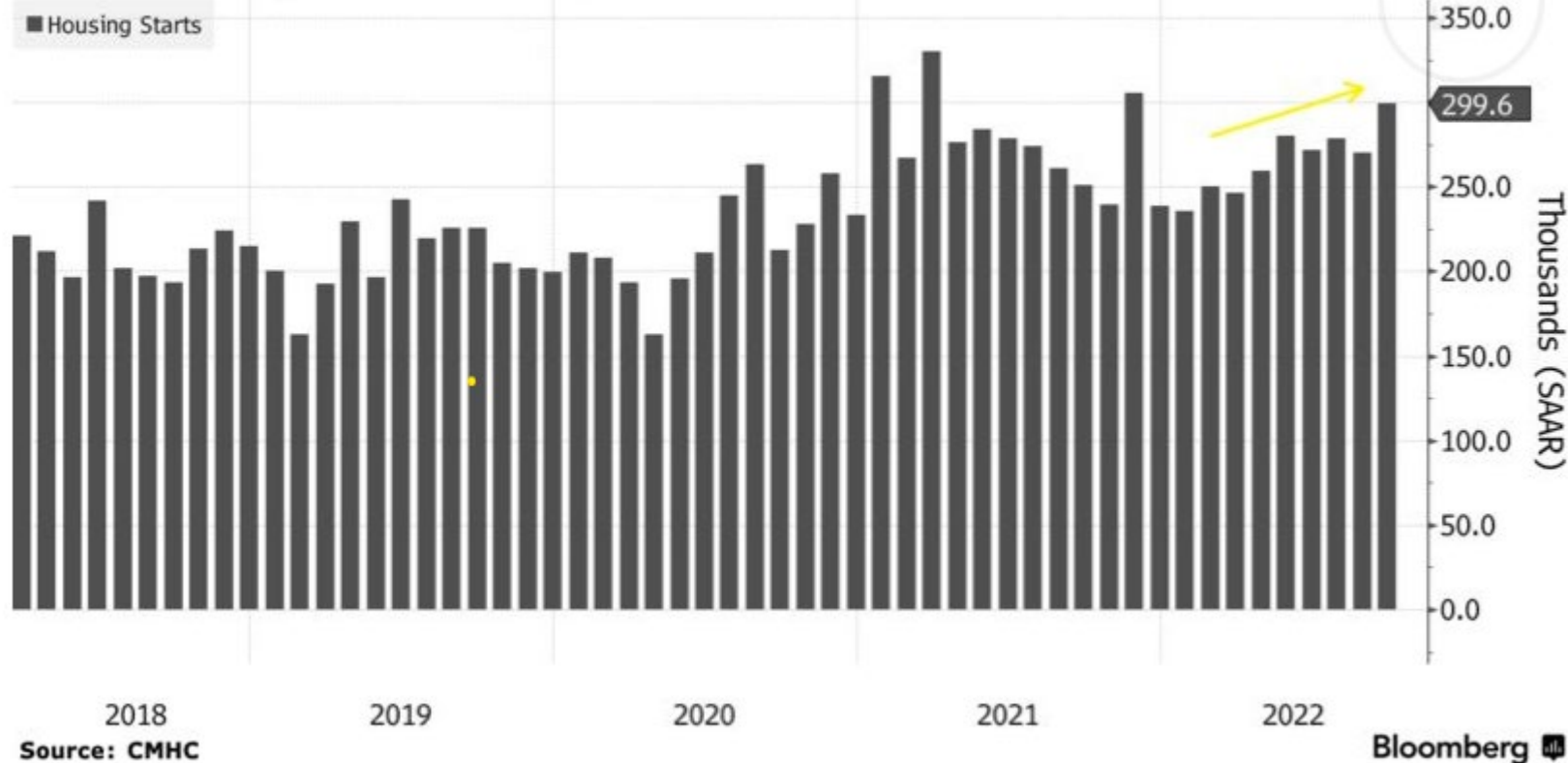
HOUSING DEVELOPERS EXPECTED TO CANCEL SOME PROJECTS



HOUSING STARTS JUMP IN SEPTEMBER, DEFYING EXPECTATIONS

Time to Build?

Canada housing starts climb higher



Leading Gains,
Condo
Construction
in Ontario
Climbed 48%
in September

ONTARIO ANNOUNCES PLAN TO MEET 1.5 MILLION NEW HOME TEN-YEAR TARGET

Cut development costs

Allow up to three units on a single lot

Reduce inefficiencies that delay construction

Support greater density near transit

Use provincial lands for affordable housing

Could trigger jurisdictional disputes

Raised the tax on homes purchased by foreigners to 25%

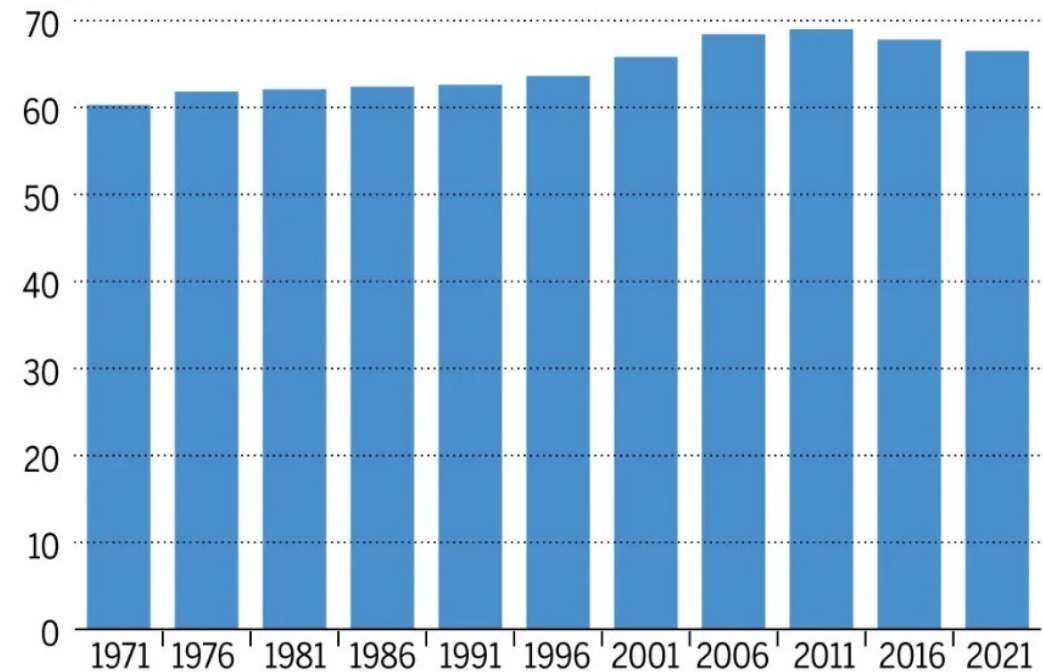


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CANADIAN HOMEOWNERSHIP FALLS TO 66.5%

HOMEOWNERSHIP RATE IN CANADA FALLS

In per cent



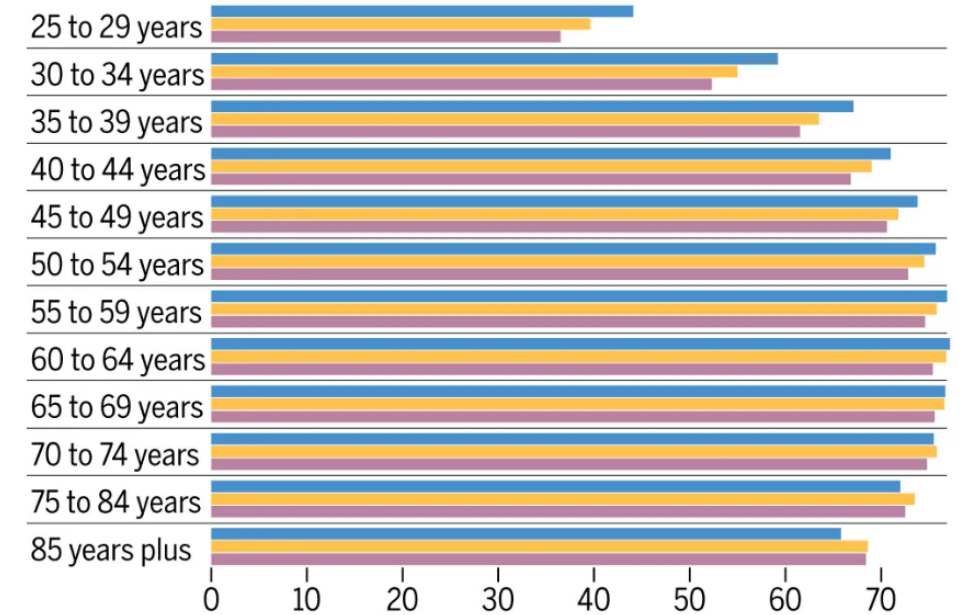
SOURCE: STATISTICS CANADA

GIGI SUHANIC / FINANCIAL POST

FEWER YOUNGER CANADIANS OWN HOMES

Homeownership rate per cent, by age group

■ 2011 ■ 2016 ■ 2021



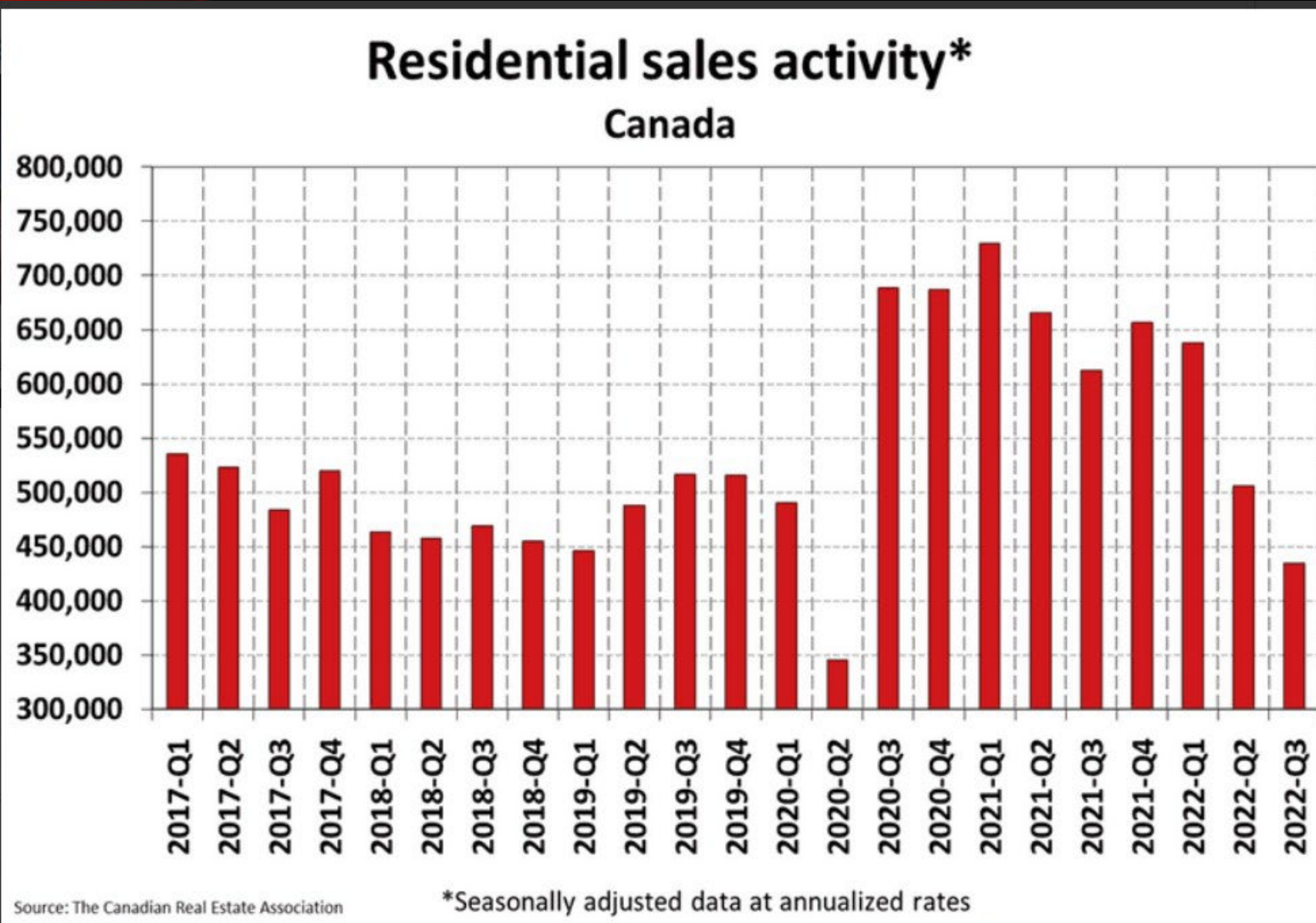
SOURCE: STATISTICS CANADA

GIGI SUHANIC / FINANCIAL POST



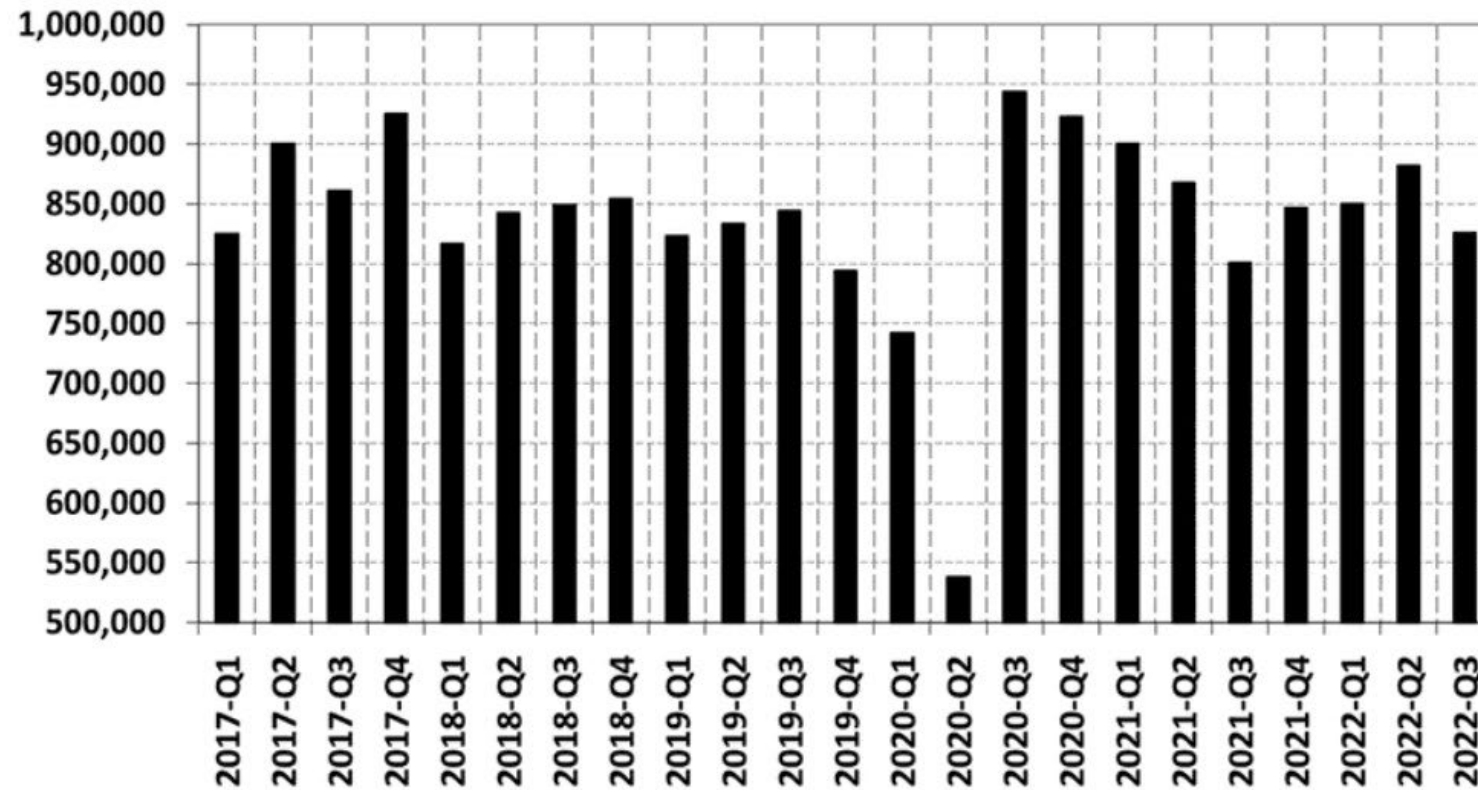
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HOME SALES FALL SHARPLY IN Q3



Residential new listings*

Canada



Source: The Canadian Real Estate Association

*Seasonally adjusted data at annualized rates



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Residential market balance*

Canada

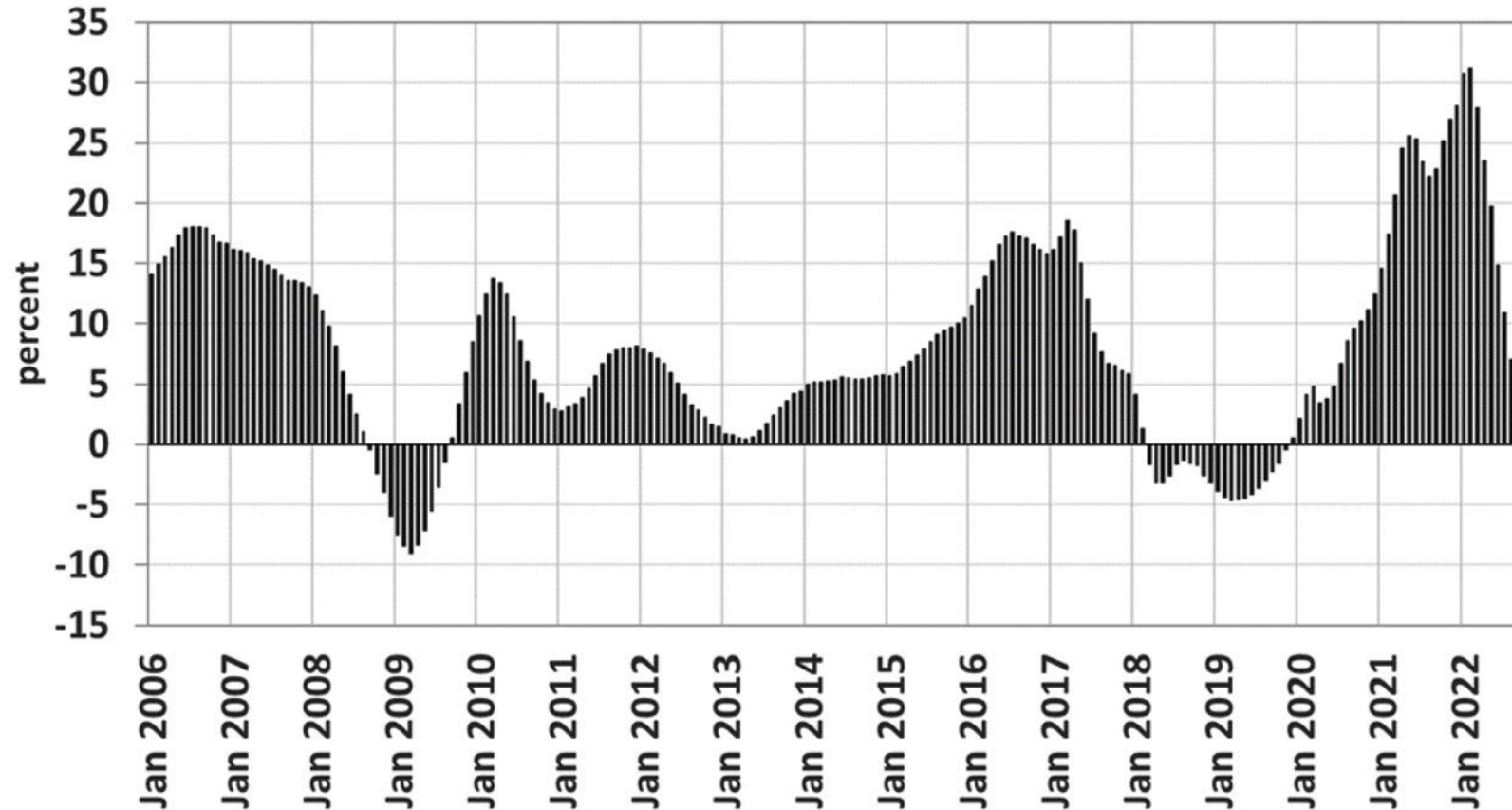


Source: The Canadian Real Estate Association

*Seasonally adjusted

Aggregate Composite MLS® HPI*

Year-over-year percentage change

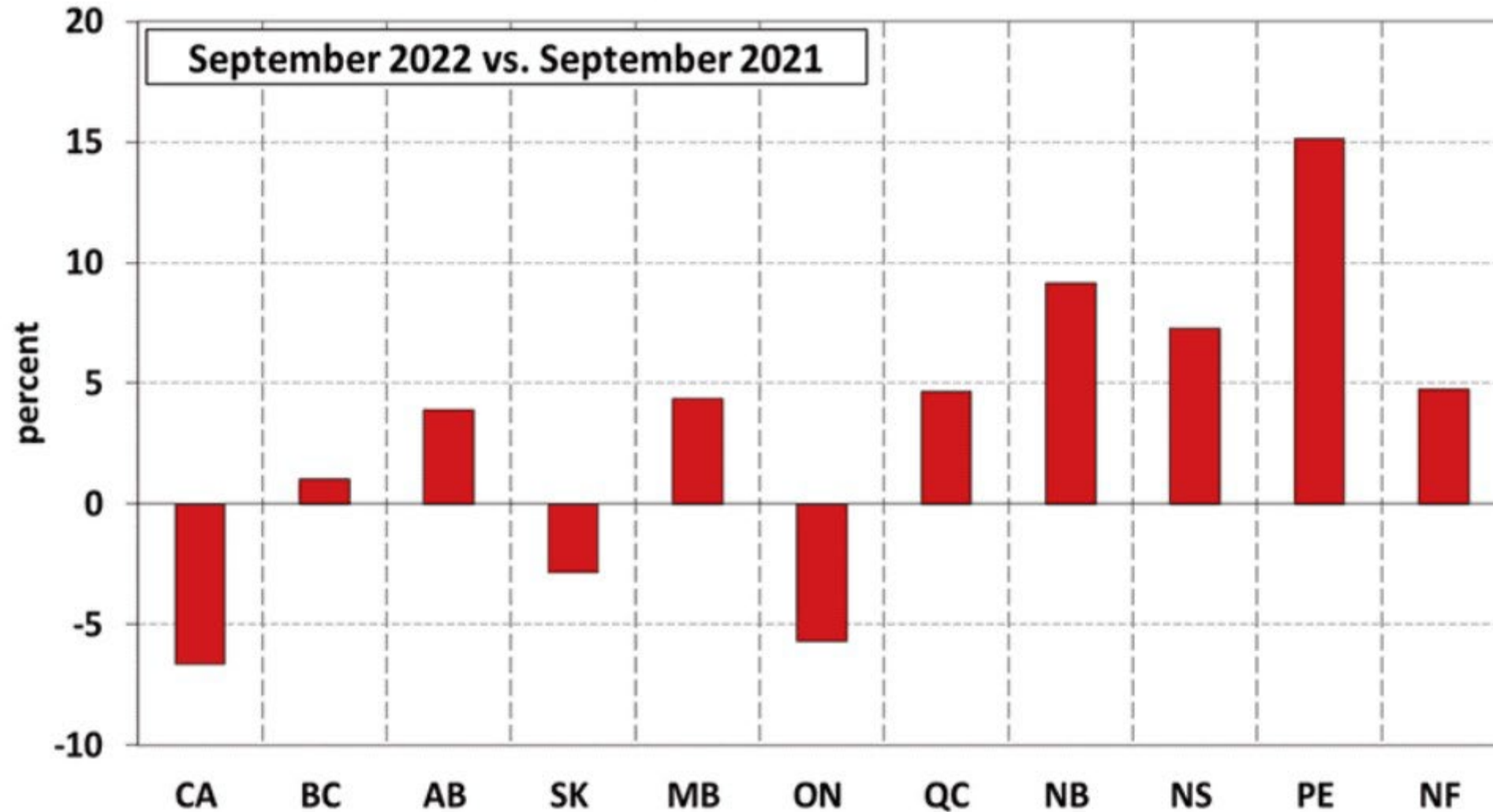


Source: The Canadian Real Estate Association

* Actual (not seasonally adjusted)

Residential average price*

Year-over-year percentage change



Source: The Canadian Real Estate Association

*Actual (not seasonally adjusted)

HOME PRICE DECLINES FROM MARCH PEAK

Home Price Declines From Recent Peak				
Region	March '22 Average Price	Sept '22 Average Price	Change from Peak	
Greater Toronto	\$ 1,347,700	\$ 1,156,100	-14.2%	
Greater Vancouver	\$ 1,345,700	\$ 1,167,700	-13.2%	
Canada	\$ 874,100	\$ 766,000	-12.4%	
Ottawa	\$ 725,000	\$ 663,600	-8.5%	
Montreal	\$ 554,200	\$ 519,500	-6.3%	
Quebec	\$ 327,700	\$ 323,500	-1.3%	
Halifax	\$ 499,000	\$ 500,600	0.3%	
Calgary	\$ 502,800	\$ 521,300	3.7%	



FALLING HOME PRICES CAUSE APPRAISAL GAPS IN SOME REGIONS

FIXED-PAYMENT VRMS COULD HIT TRIGGER POINT

Hits Trigger Rate When
Interest Portion Exceeds
the Monthly Payment

Means Payment
Insufficient To Cover
Interest

Mortgage Starts to Grow—
Negative Amortization

In March 2020, Prime Fell
to 2.45%

Royal Bank says 80,000 VRMs will
hit trigger point by yearend

Now Prime is At 5.45+
.50= **5.95%**

The Trigger Point Is Hit
When The Principal
Amount (+ Deferred
Interest) Hits the Original
Principal Amount

**90+ day delinquencies remain at
a near-30-year-low.**

WHEN TRIGGER POINT IS HIT BORROWERS HAVE THREE OPTIONS*

**Each bank has slightly different Trigger Point definitions and approaches to managing the Trigger Point problem. You have to contact your individual lender and you should!*

Make	Make a lump-sum payment against loan amount
Convert	Convert to a new loan at a fixed rate
Increase	Increase monthly payment to pay principal within the remaining original payment period

BOC SEES A SIZABLE PULLBACK IN HOUSING ACTIVITY OVER THE NEXT YEAR



Home resales and prices decline



Residential construction and renovations weaken



Stabilizes in late 2023 as population and income growth boost housing demand



Growth resumes in 2024

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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.

