



in conversation *with*
Eddy Cocciollo and
Dr. Sherry Cooper

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Wednesday, March 8th

03.08.23

11:30AM PT / 2:30PM ET



IS THE BANK OF CANADA FINISHED HIKING RATES?

Dr. Sherry Cooper
April 12, 2023

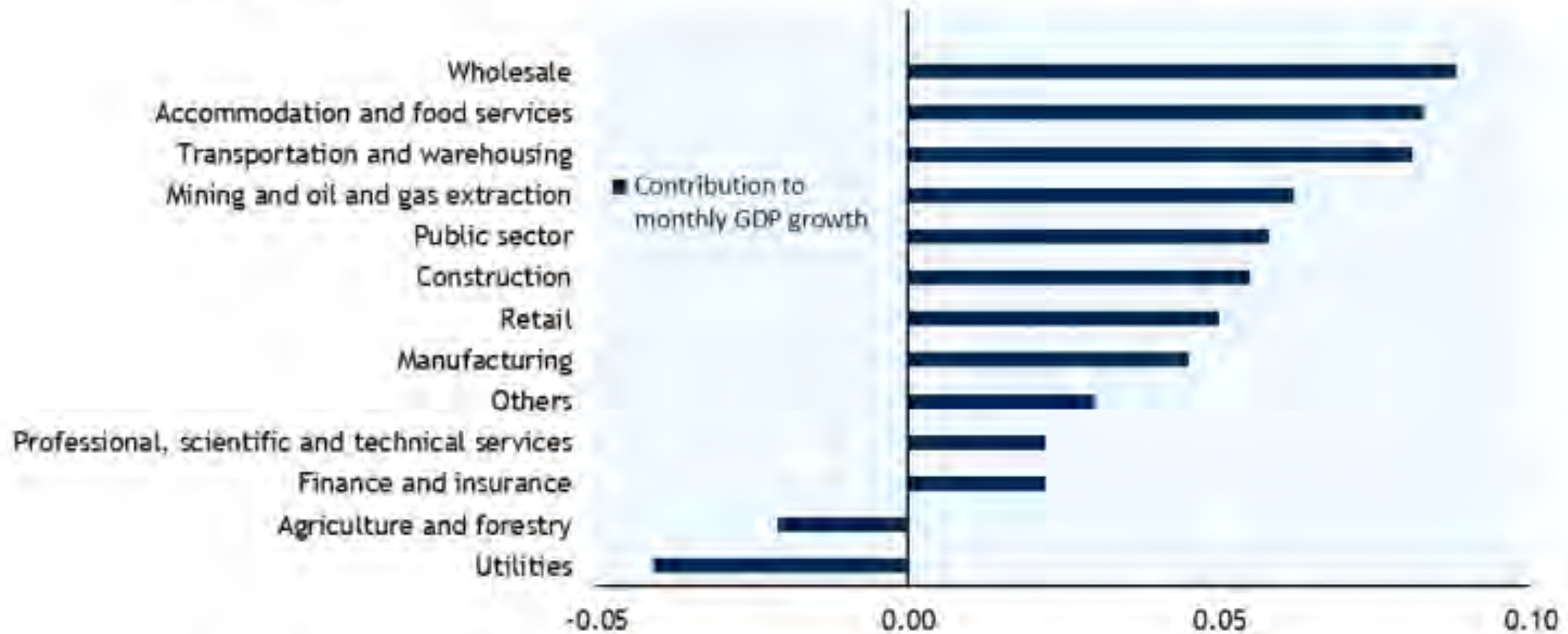
Year	GDP Growth (%)
2021	5.0
2022	3.4
2023	1.0
2024	1.3

CANADA'S ECONOMY SLOWED IN Q4— REBOUNDS IN Q1

ECONOMY IS RESILIENT

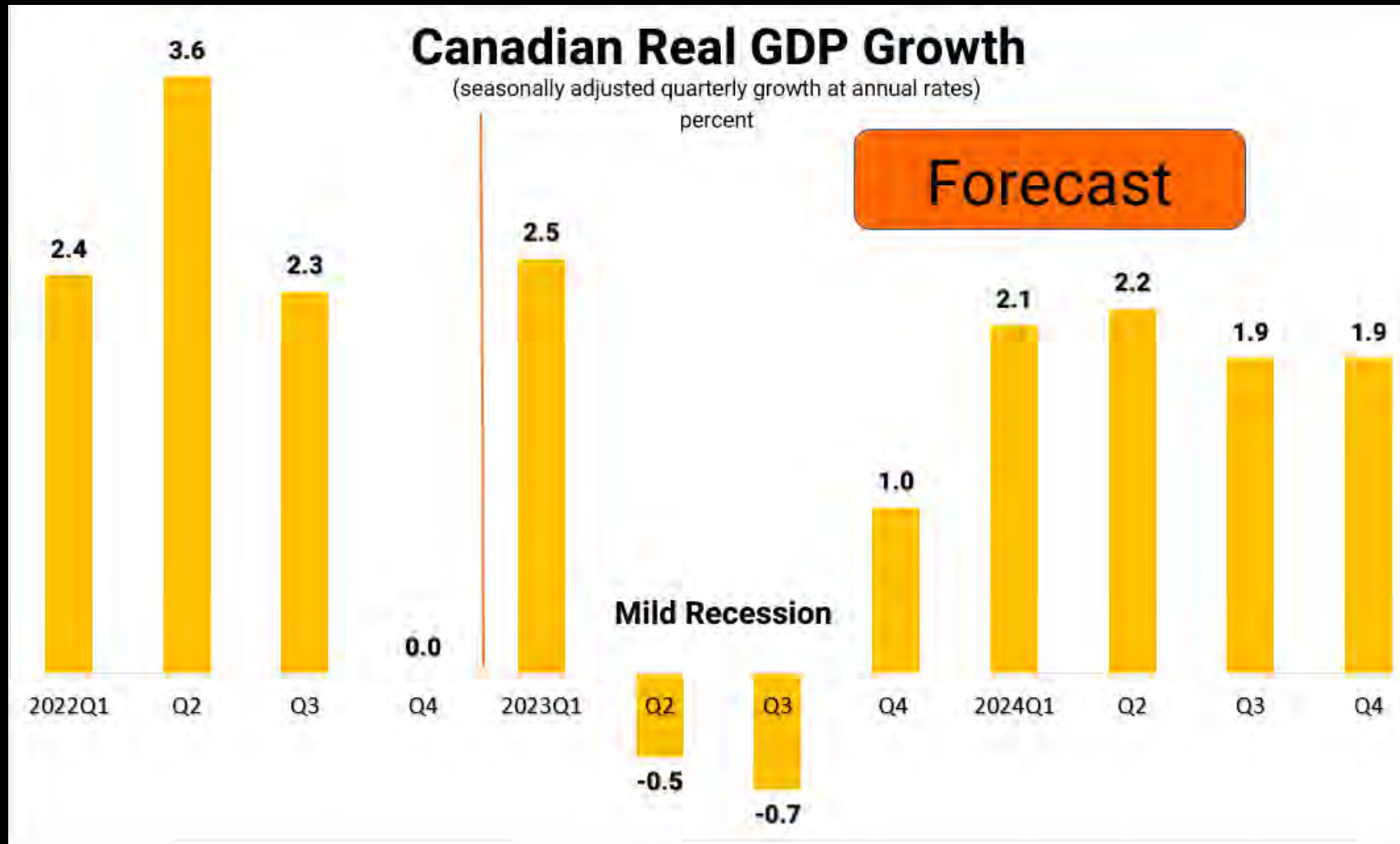
January's Canadian GDP growth widespread among sectors

percentage points



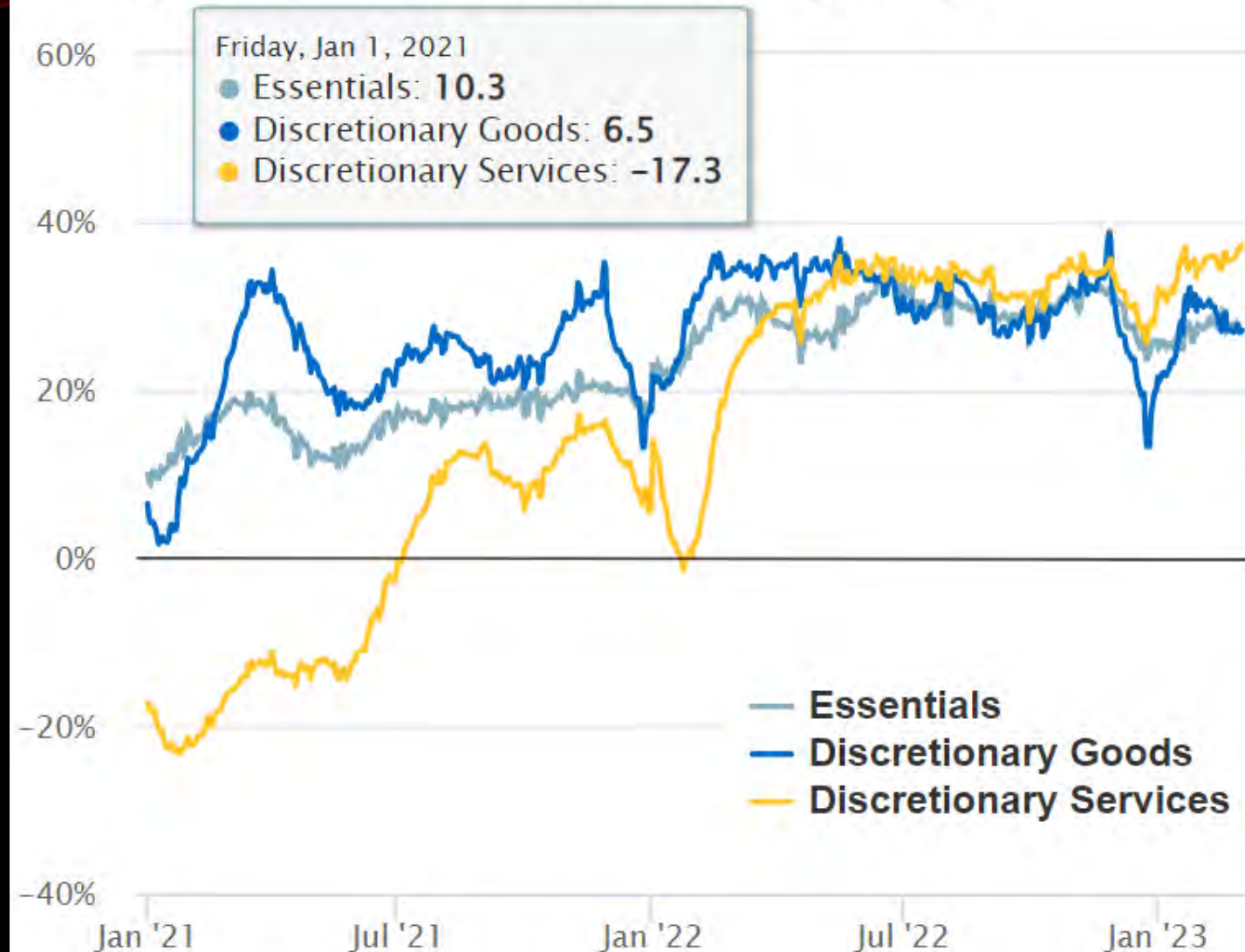
Source: StatCan, RBC Economics

CANADIAN ECONOMY SOFT LANDING



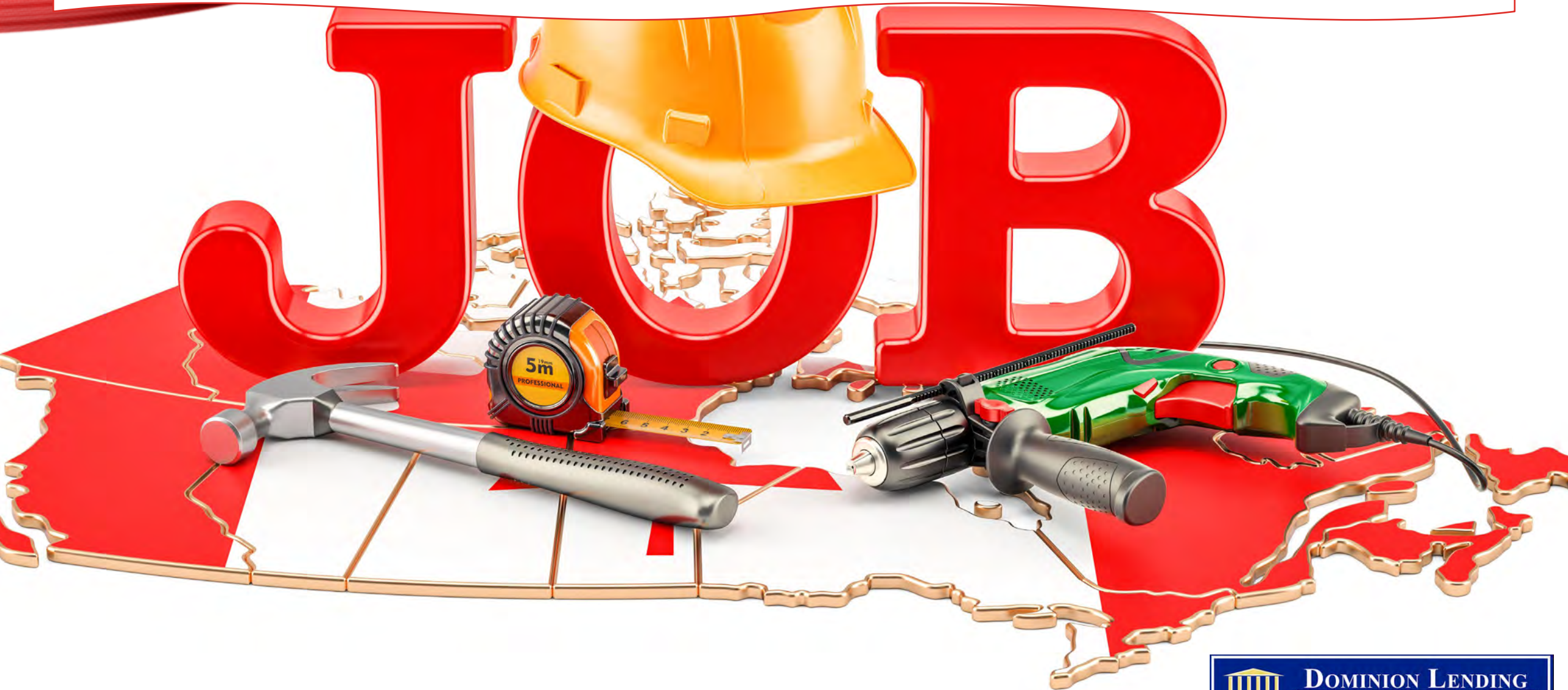
No sign of a pullback in discretionary services spending through February

% change from pre-shock levels, 28-day rolling average

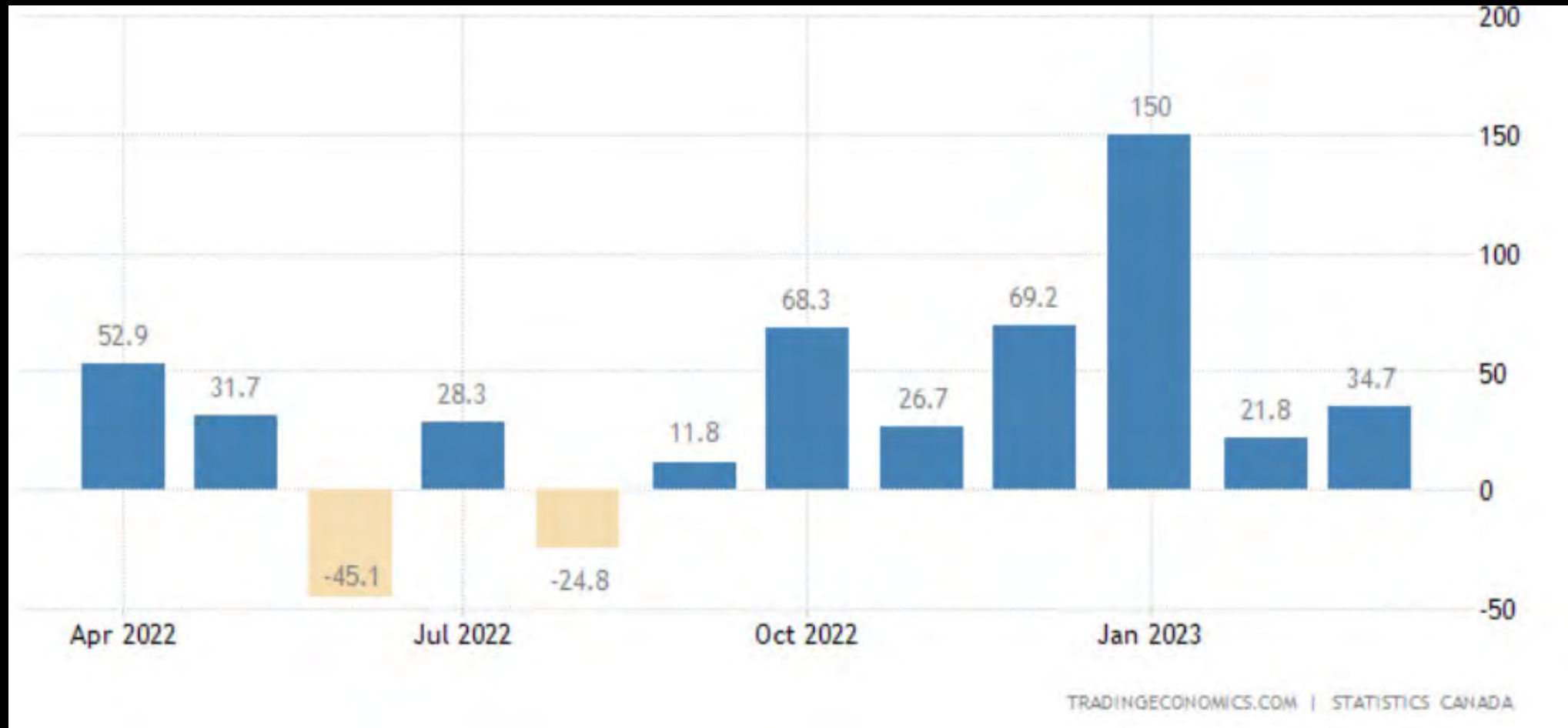


Source: RBC Data & Analytics, RBC Economics

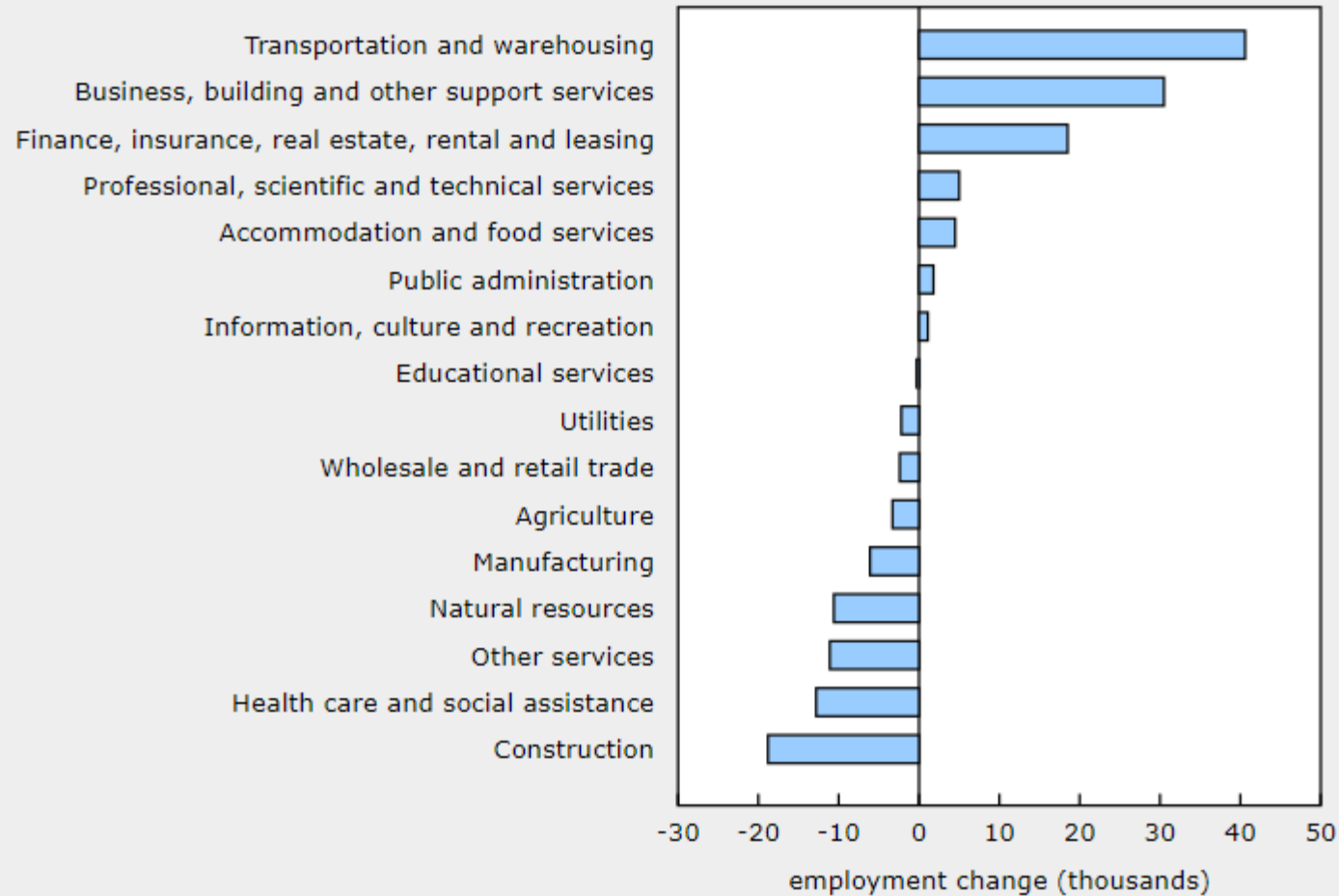
CANADA'S LABOUR MARKET IS STILL STRONG



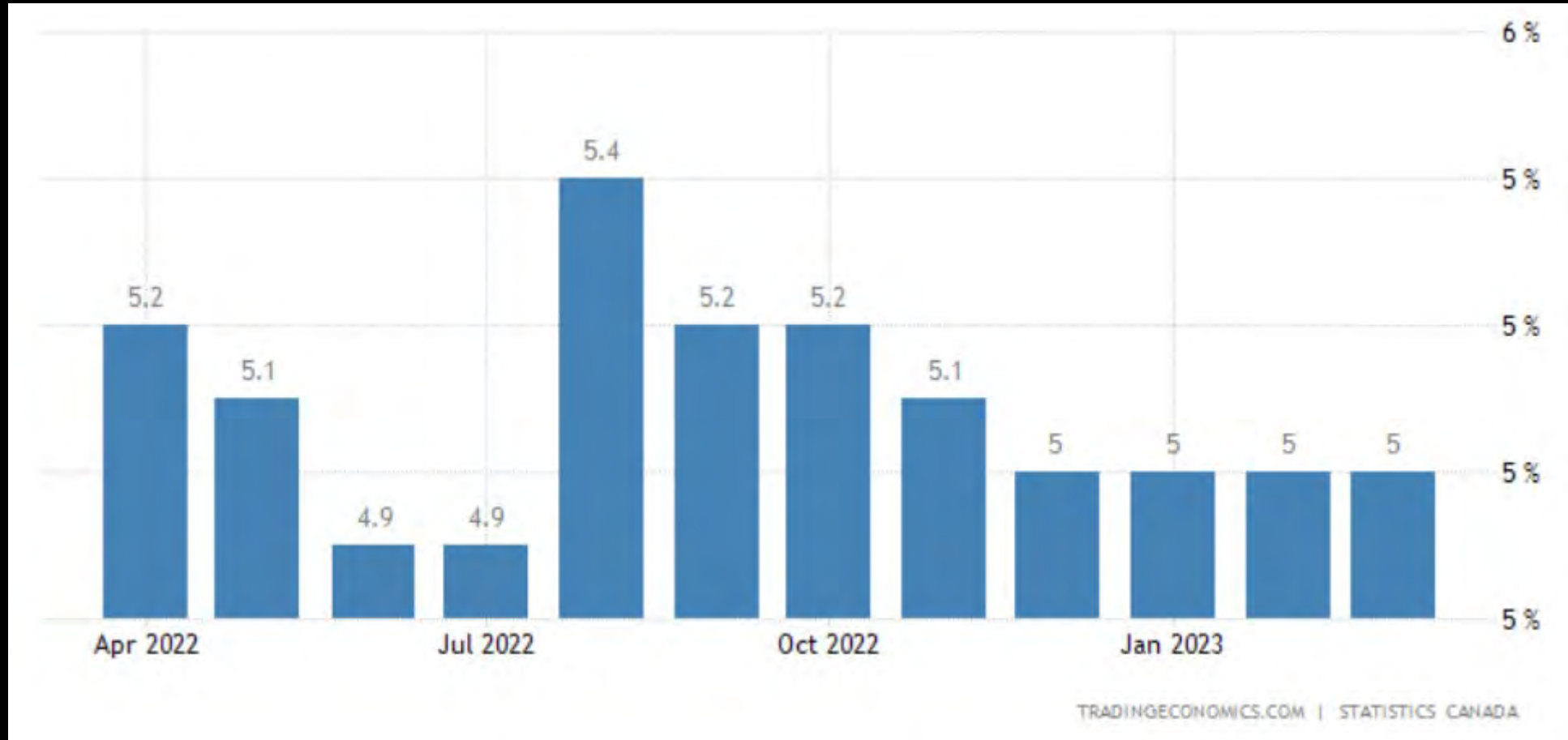
EMPLOYMENT GROWTH WORRYING TO BOC



JOBS GAIN IN MARCH CONCENTRATED IN THREE INDUSTRIES

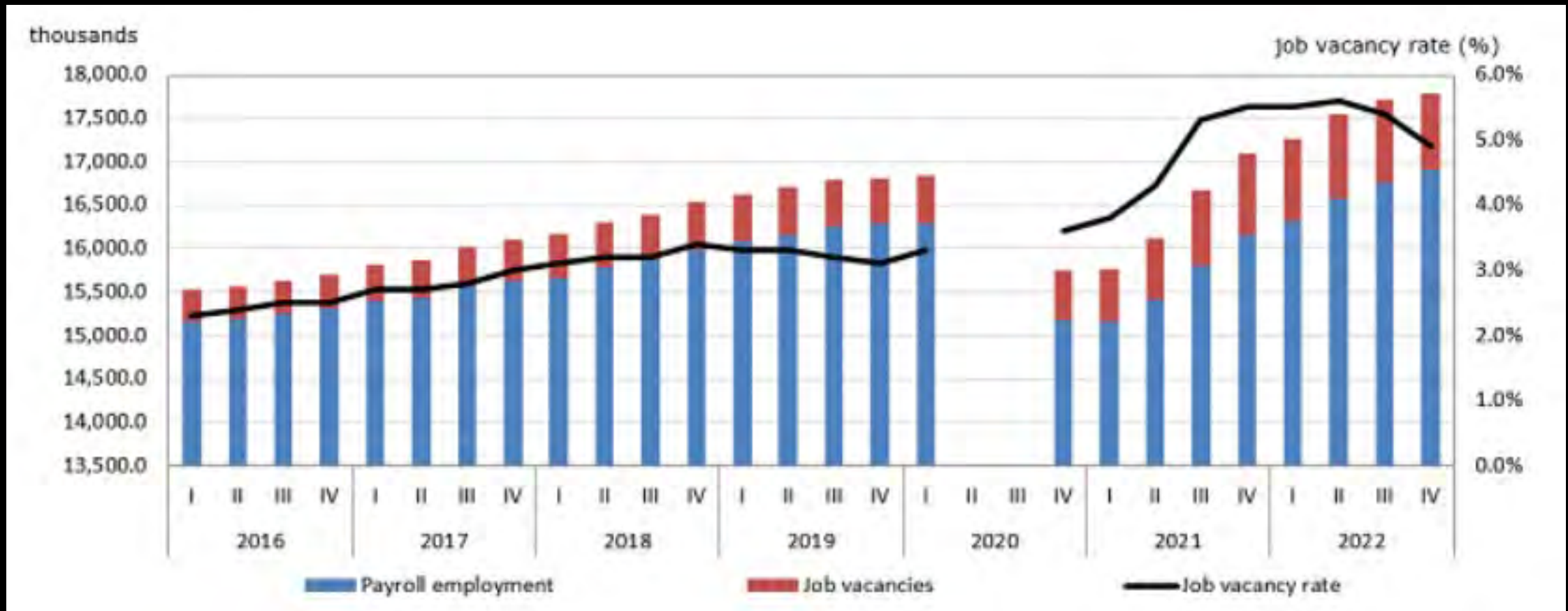


MARCH JOBLESS RATE REMAINS LOW AT 5.0%

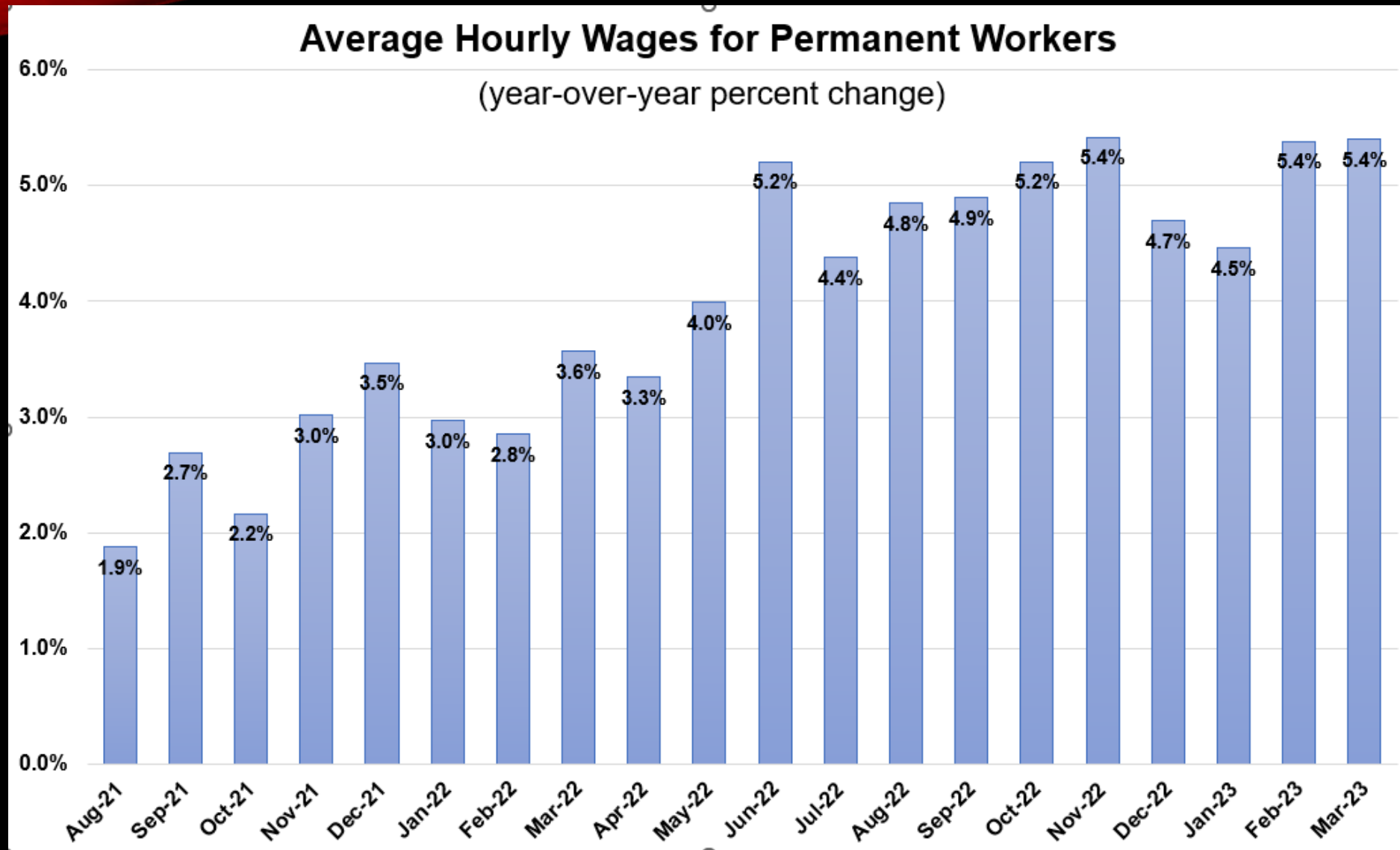


EXPECTED TO END THIS YEAR AT 6.6%

JOB VACANCIES FALL IN Q4 AS PAYROLL EMPLOYMENT INCREASES



ANNUAL WAGE INFLATION AT 5.4% IN MARCH



HEADWINDS

- Consumer non-mortgage debt rising
- Credit card delinquencies up sharply
- Wage gains less than price inflation
- Oil prices are rising again
- Monthly payments on VRMs and HELOCs rise

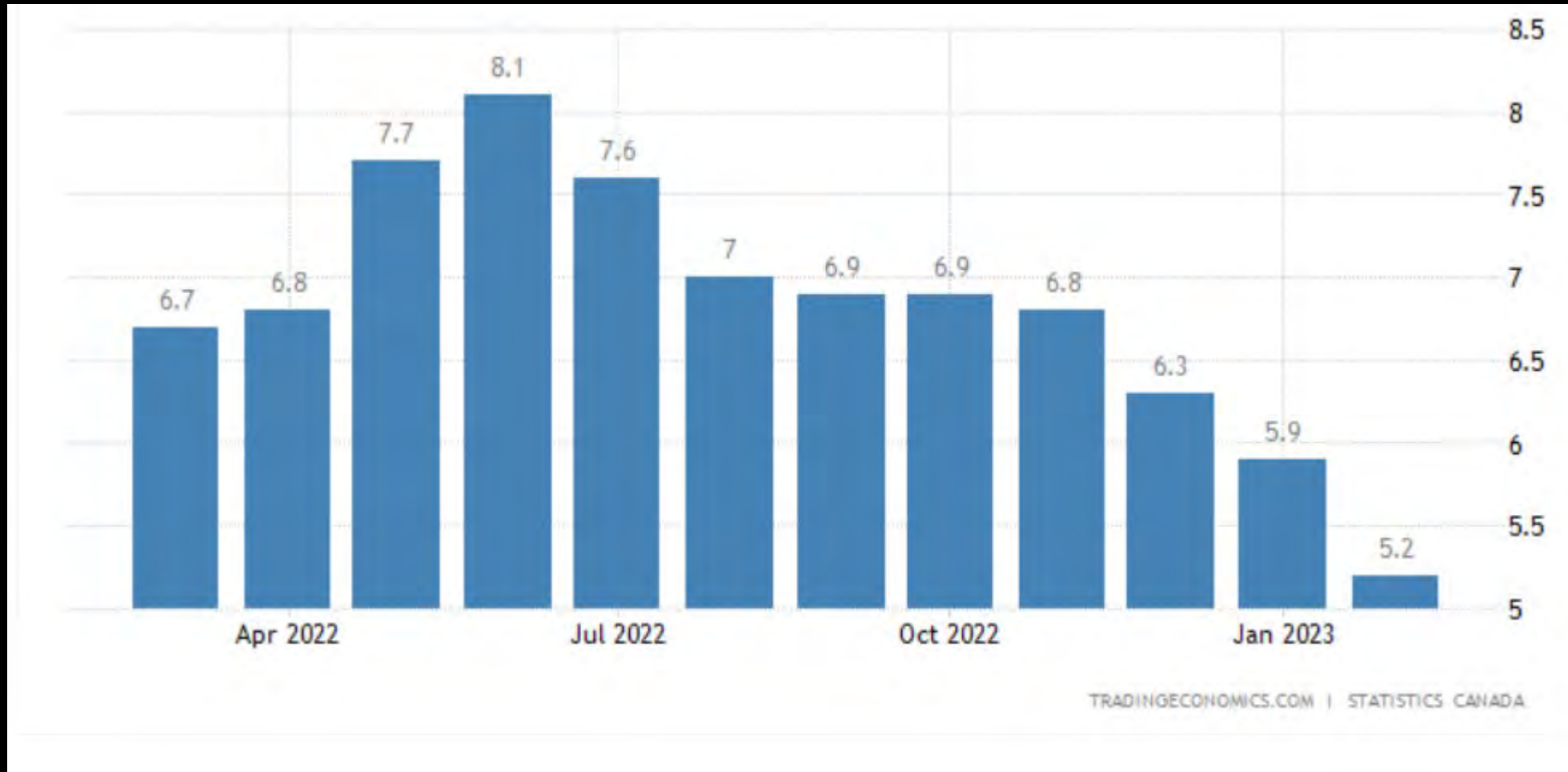


INFLATION

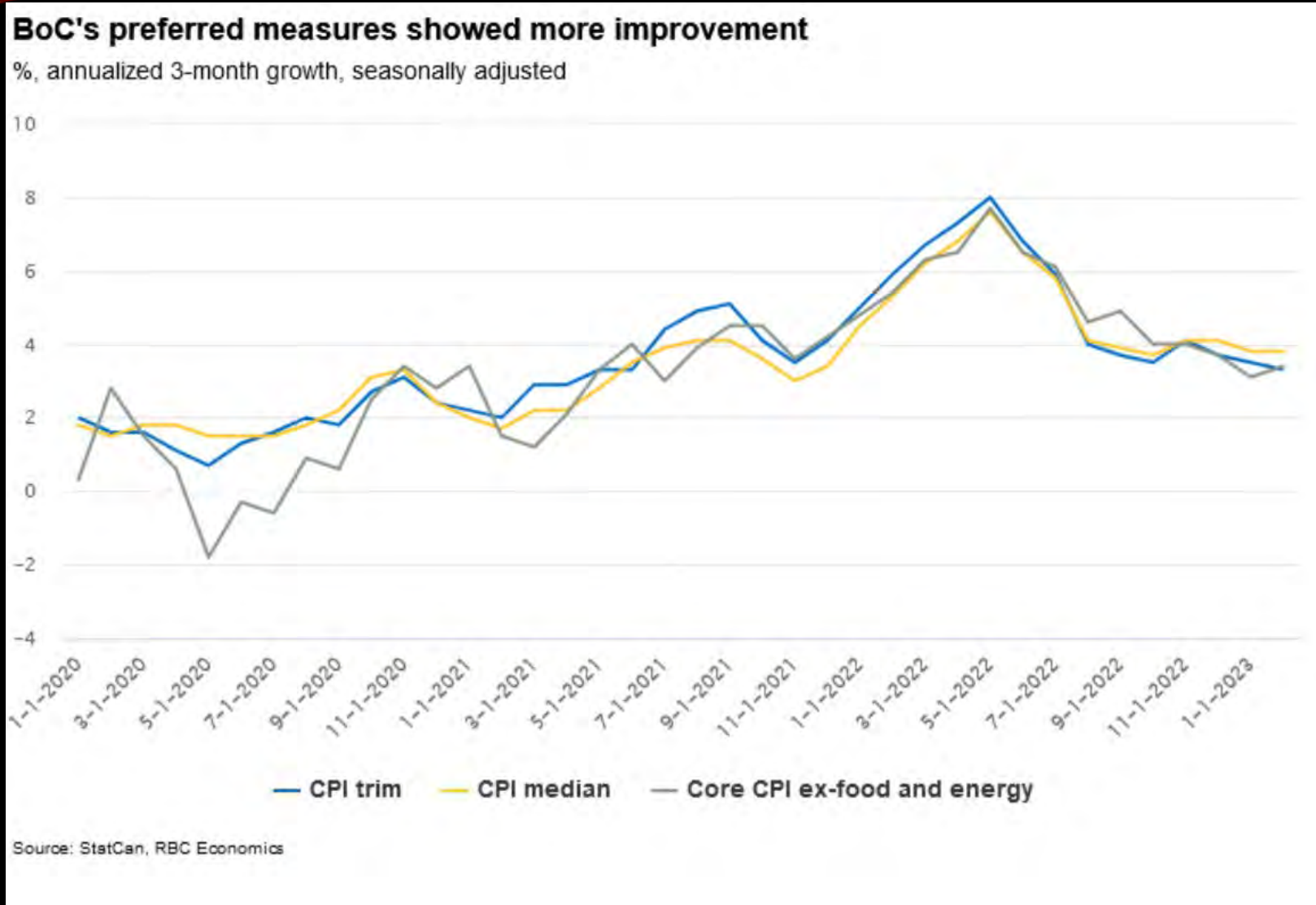


DOMINION LENDING
CENTRES

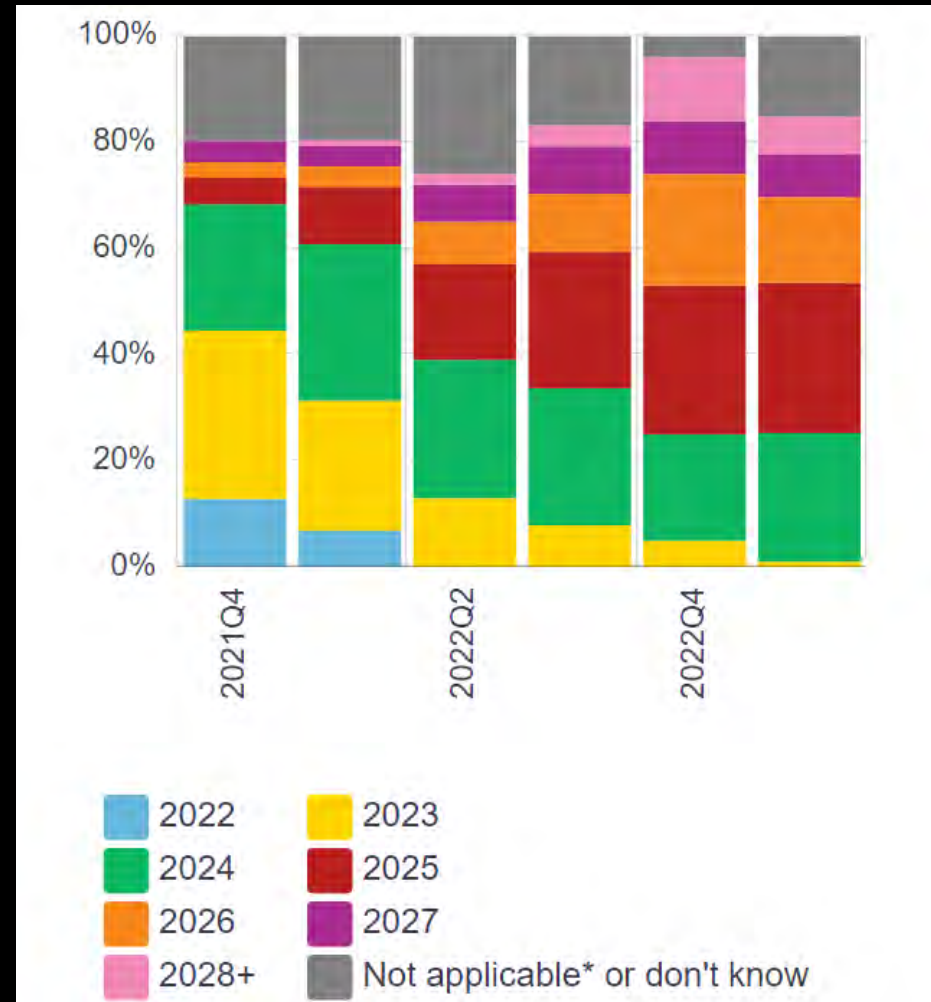
CANADIAN CPI INFLATION FELL TO 5.2% IN FEBRUARY



CORE INFLATION TICKS DOWN AGAIN IN FEBRUARY



BUSINESS THINKS INFLATION WON'T HIT THE 2% TARGET UNTIL 2025

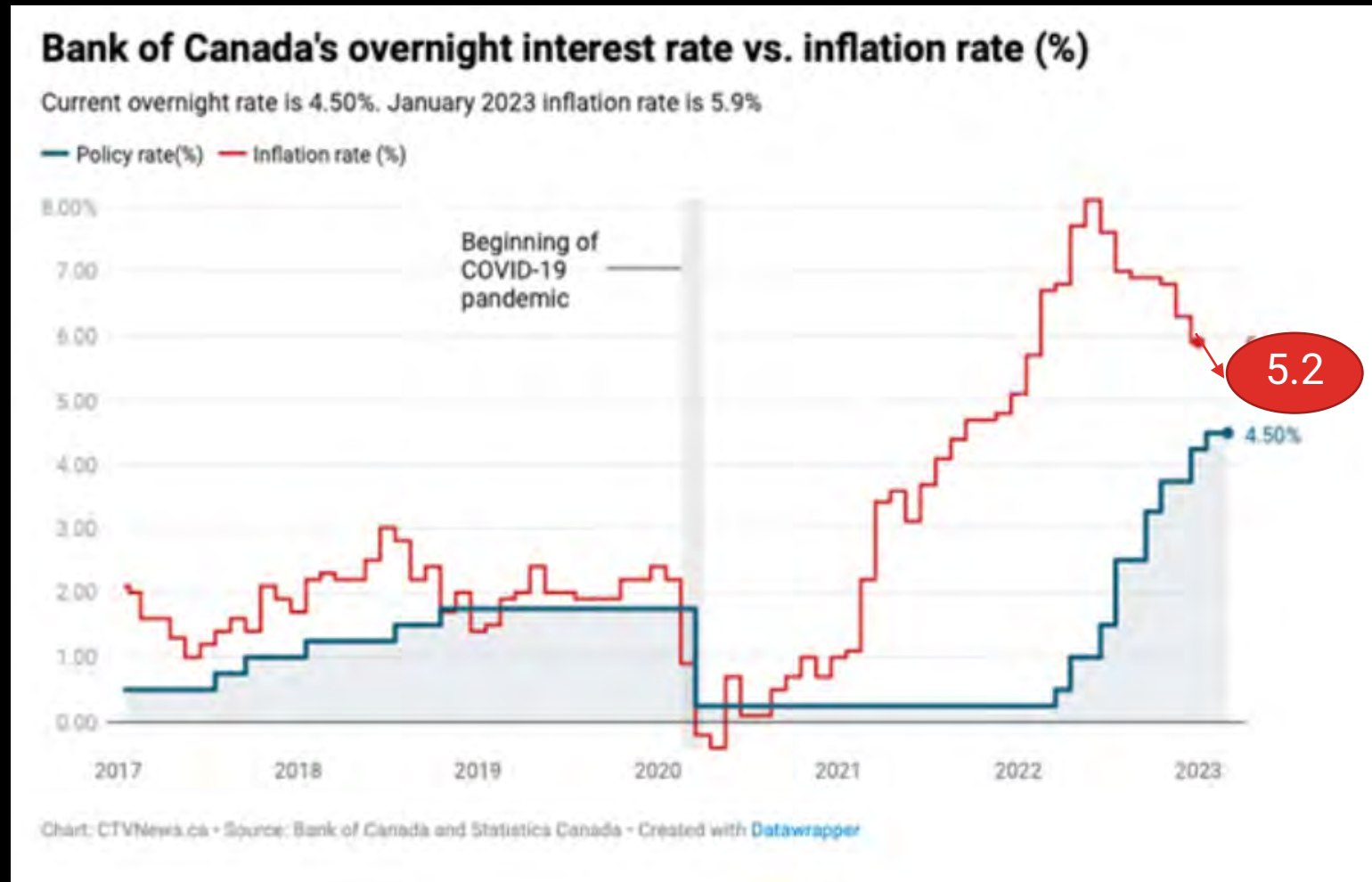




- BoC Pauses Rate Hikes
- Pause Will Continue in April
- Likely to Cut Rates in 2024

BANK OF CANADA

BOC OVERNIGHT RATE PAUSED AT 4.50%





March 8, 2023

FED CHAIR
POWELL SAID
RATES WILL RISE
FASTER, TO
HIGHER LEVELS
AND REMAIN
THERE LONGER
THAN EXPECTED

When the Fed tightens monetary policy, financial instability tends to follow

Effective federal funds rate



Source: Haver, RBC Economics

BANKING RISKS MIGHT TIGHTEN CREDIT AVAILABILITY

**So Fed Raised Rates
By Only 25 Bps on
March 22**





BANK

US Bank Turmoil Squeezes Borrowers

Tightening Credit Conditions



**BANKING
CRISIS**

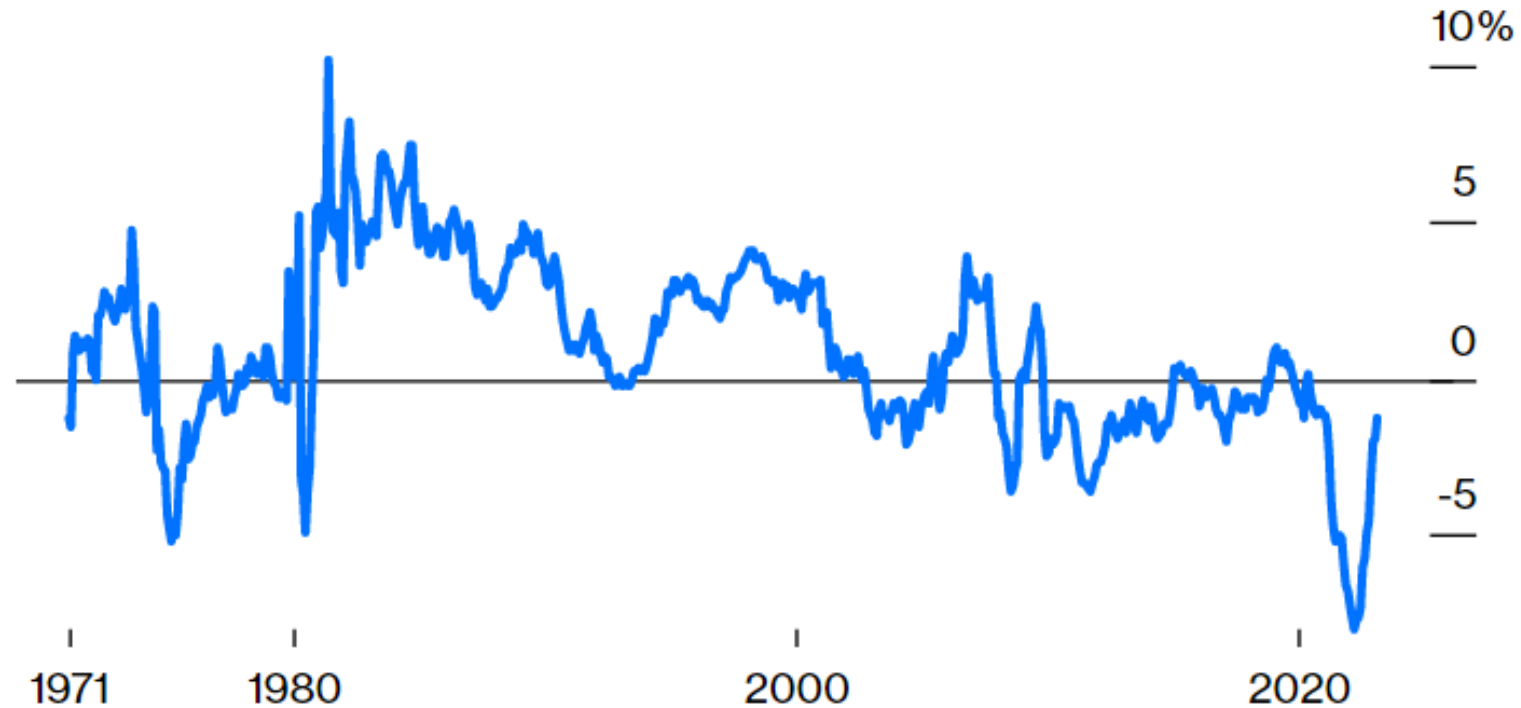
Start-Ups
Commercial Real Estate
Small Business
Consumer Loans

THE REAL POLICY RATE IS STILL NEGATIVE

Compared to Inflation, the Fed Funds Rate Is Still Negative

The Fed has tightened, but real rates hit a record low 12 months ago

Real Fed Funds (Fed Funds Rate - YoY Consumer Price Inflation)

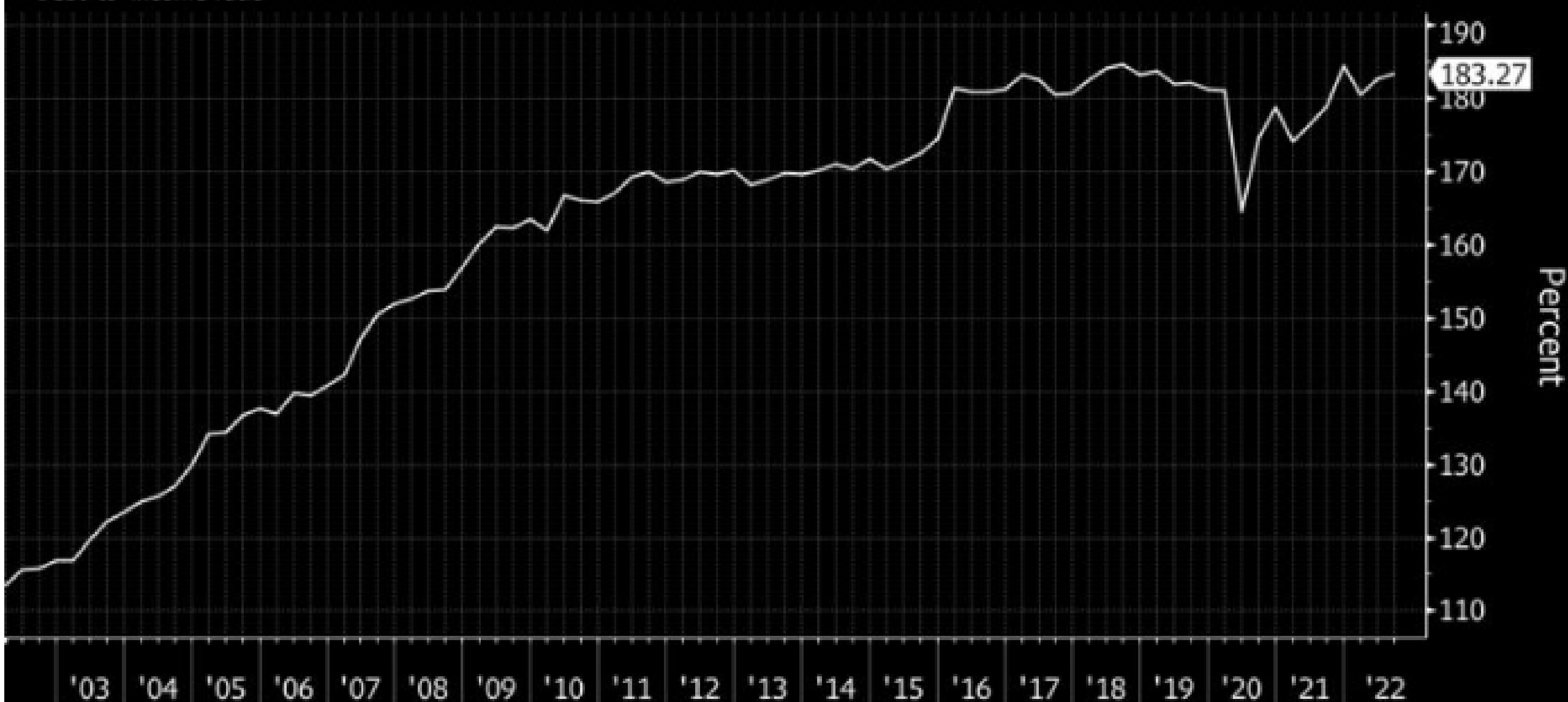


Source: Bloomberg

Canadians' debt levels are near a record

Growth in consumer debt has outpaced income

■ Debt-to-income ratio

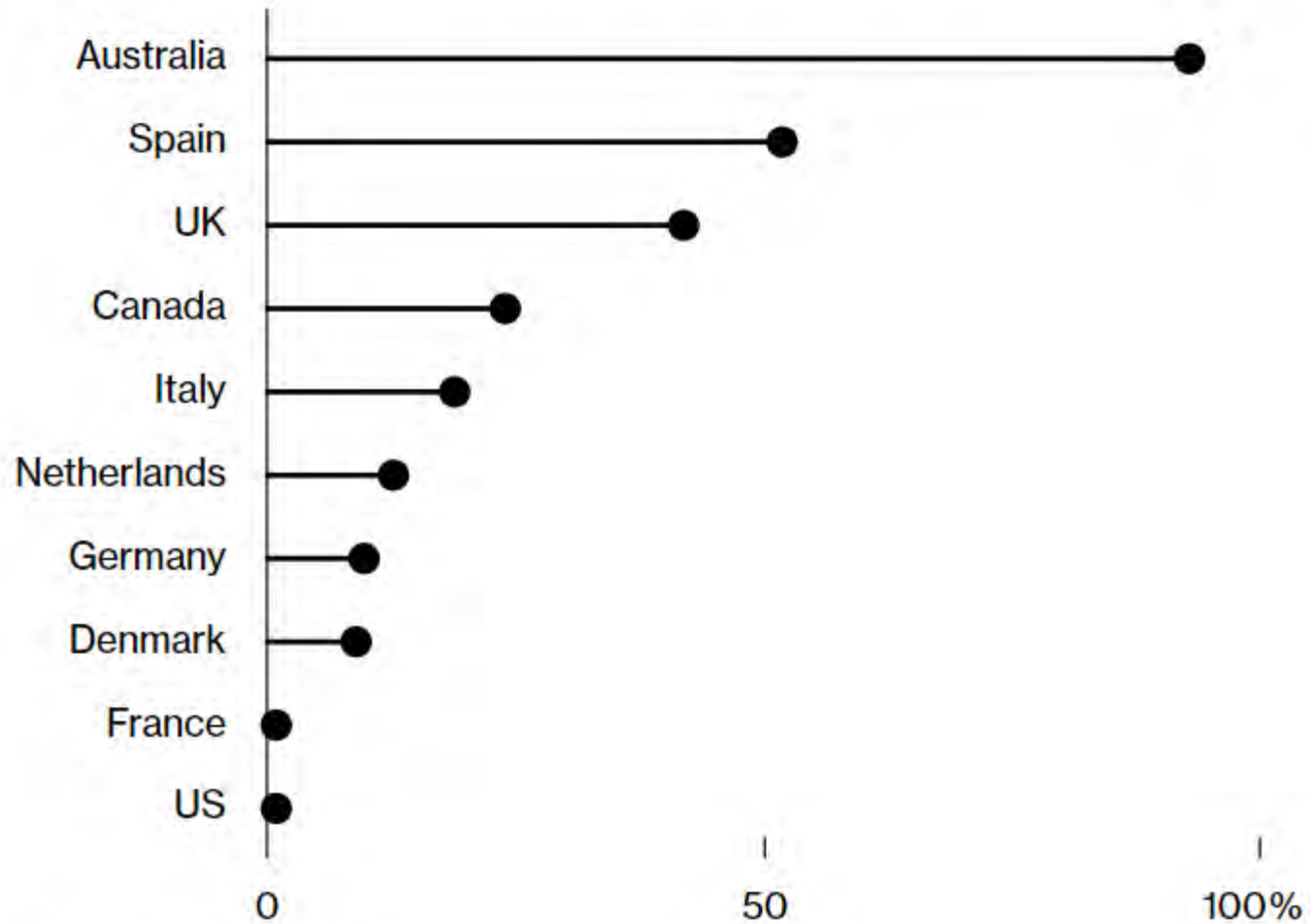


Source: Statistics Canada

Bloomberg

Rate Vulnerability

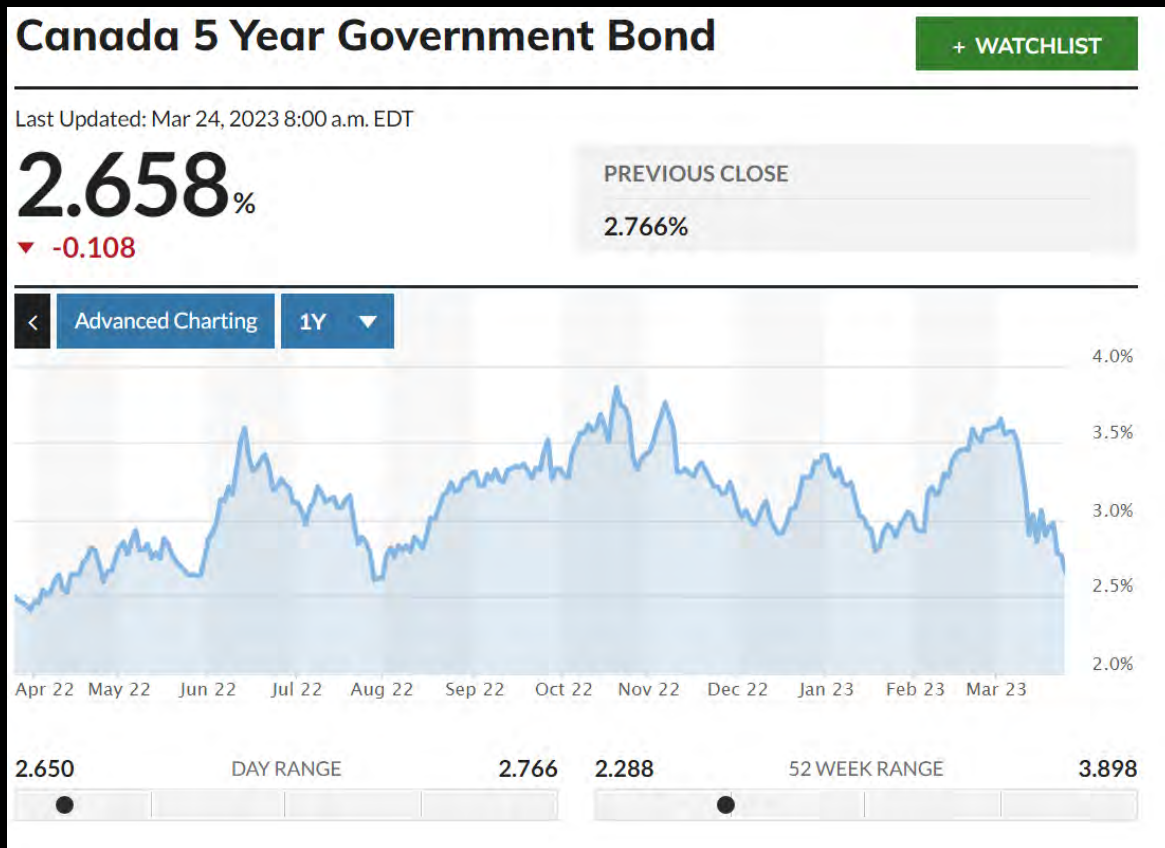
Variable-rate mortgages as a percent of 2020 new loans



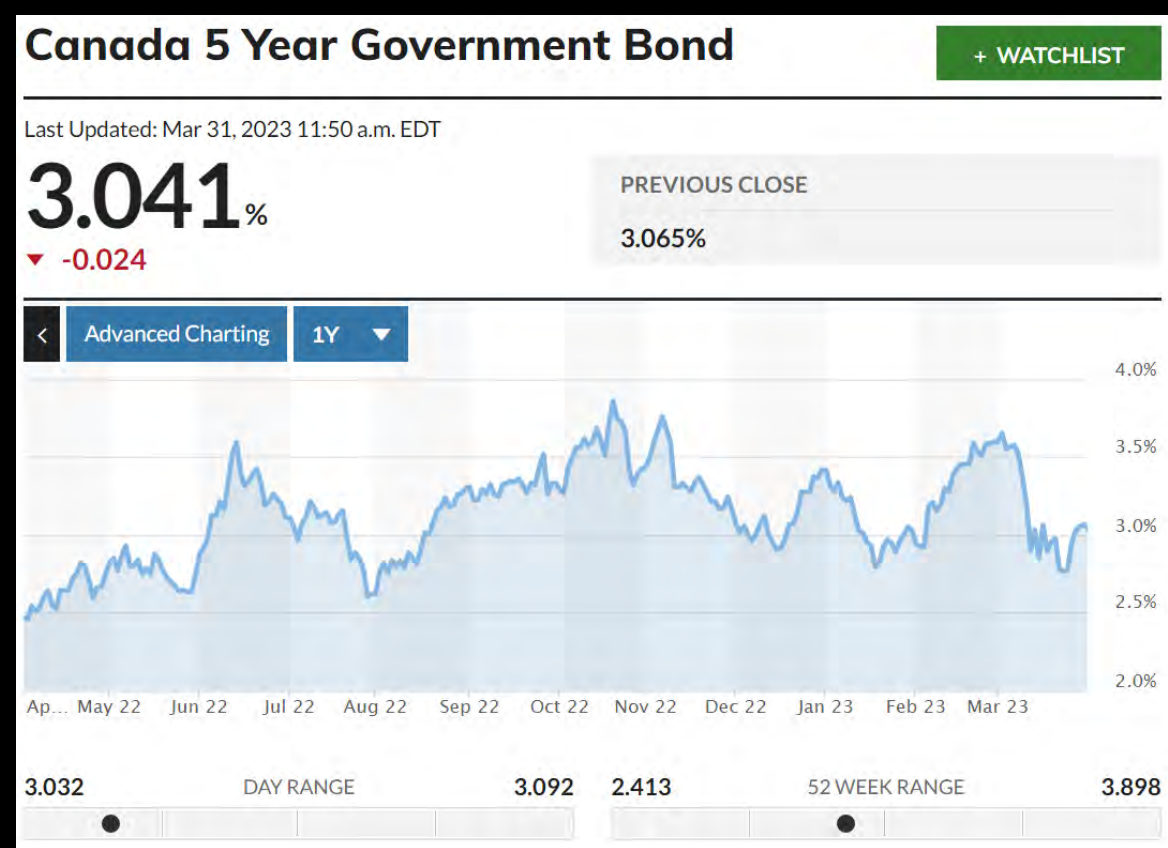
Source: Fitch Ratings, EMF

HUGE DECLINE IN 5-YEAR BOND YIELD DRIVES DOWN FIXED MORTGAGE RATES—THEN BOUNCES

March 24

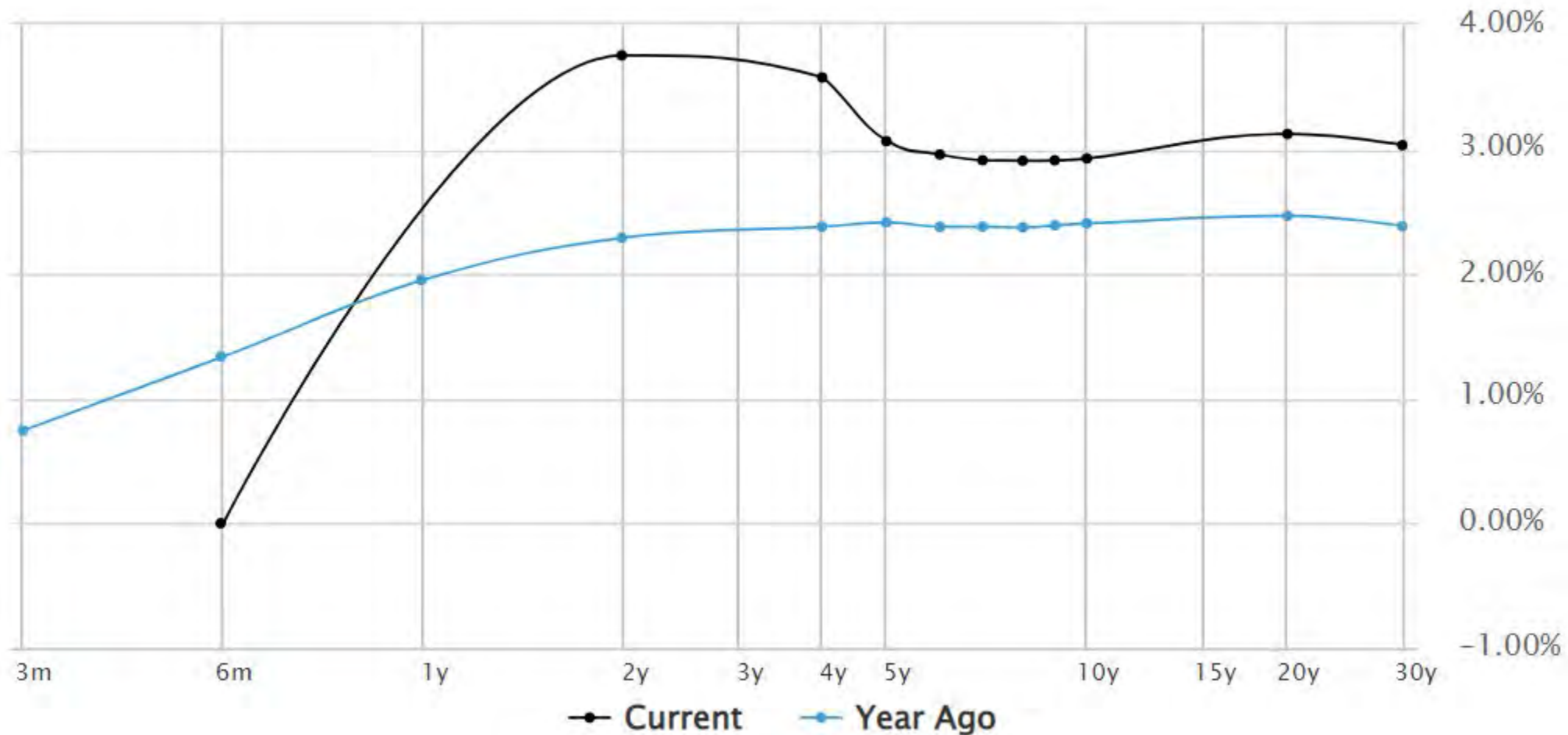


March 31



YIELD CURVE INVERSION

YIELD CURVE - CA



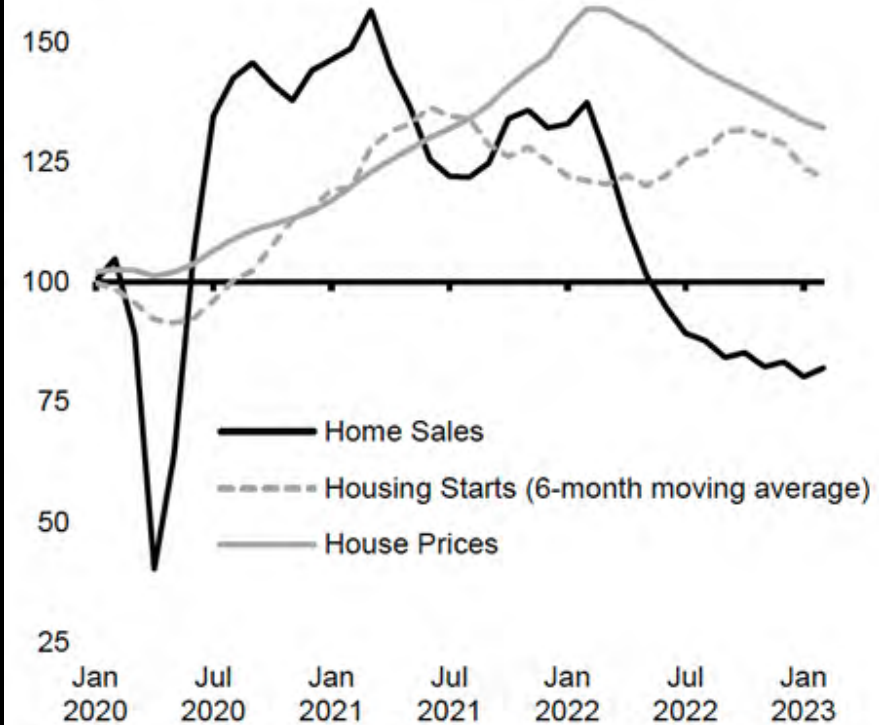
HOUSING CORRECTION--NOT A COLLAPSE



HOUSING ACTIVITY HAS SLOWED

Home Sales, House Prices and Housing Starts, Canada

index, 100 = 2019 average

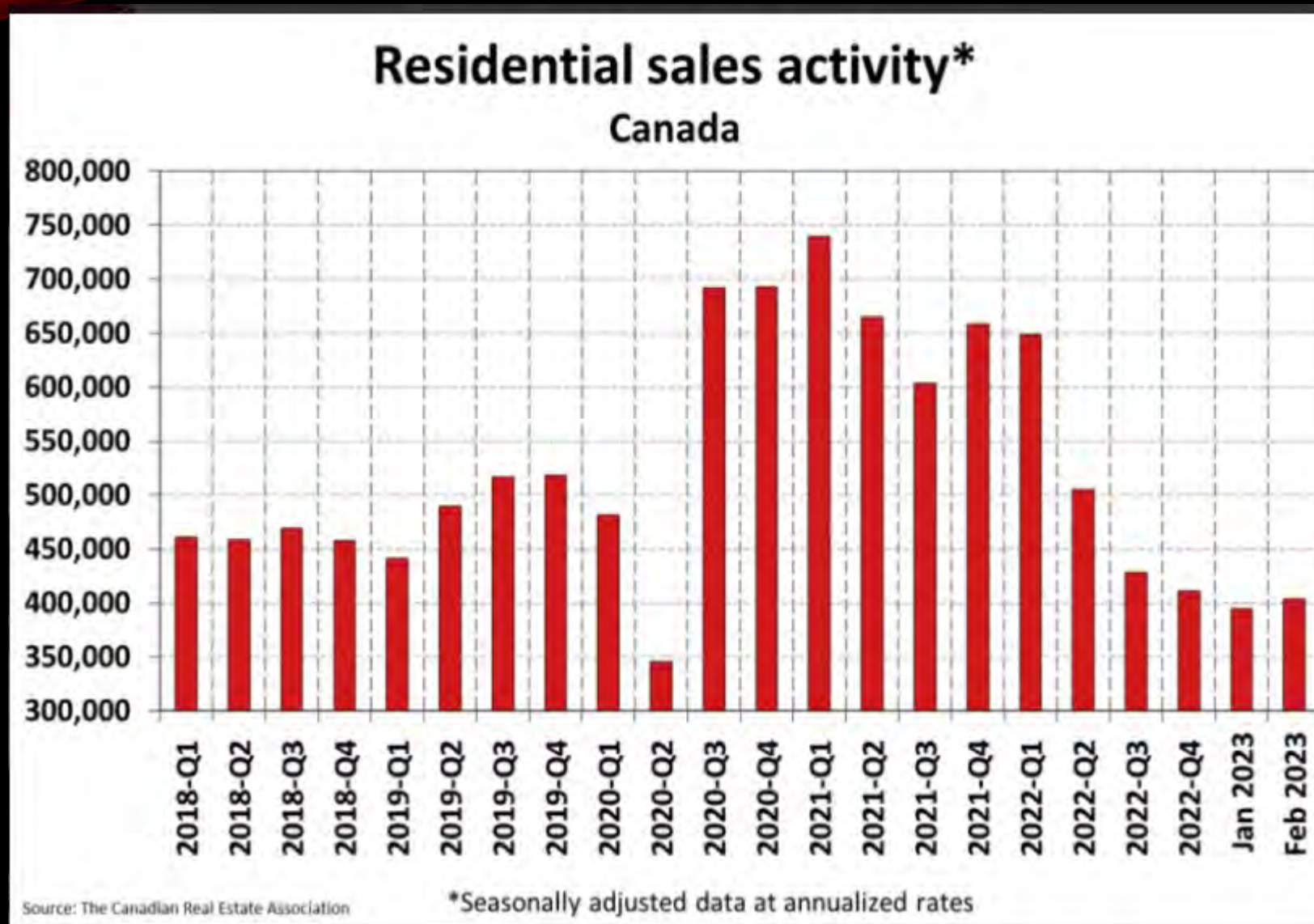


Note: Last data point is February 2023.

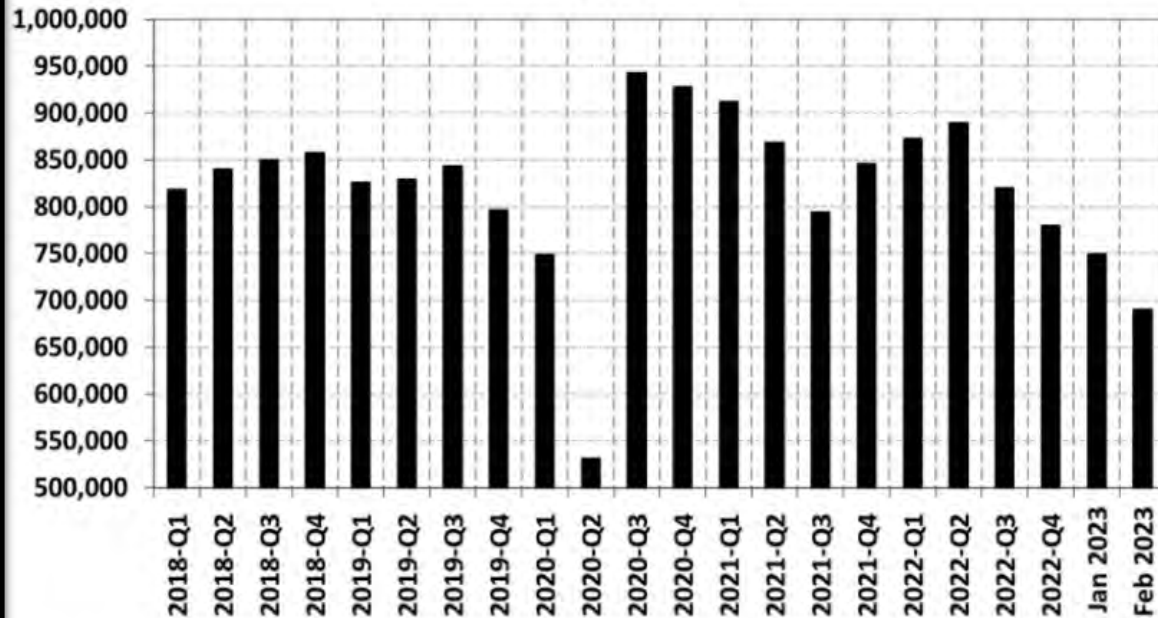
Sources: Canadian Real Estate Association; Canada Mortgage and Housing Corporation; Haver Analytics.

Source: Federal Budget 2023

HOME SALES TICK UP IN FEBRUARY



Residential new listings* Canada



Source: The Canadian Real Estate Association

*Seasonally adjusted data at annualized rates

Number of properties for sale fell
in February—well below long-term
average.
“Nothing Much to Buy”

Economy-wide Strains in Consumer Balance Sheets Remain Low

Residential market balance*

Canada



Source: The Canadian Real Estate Association

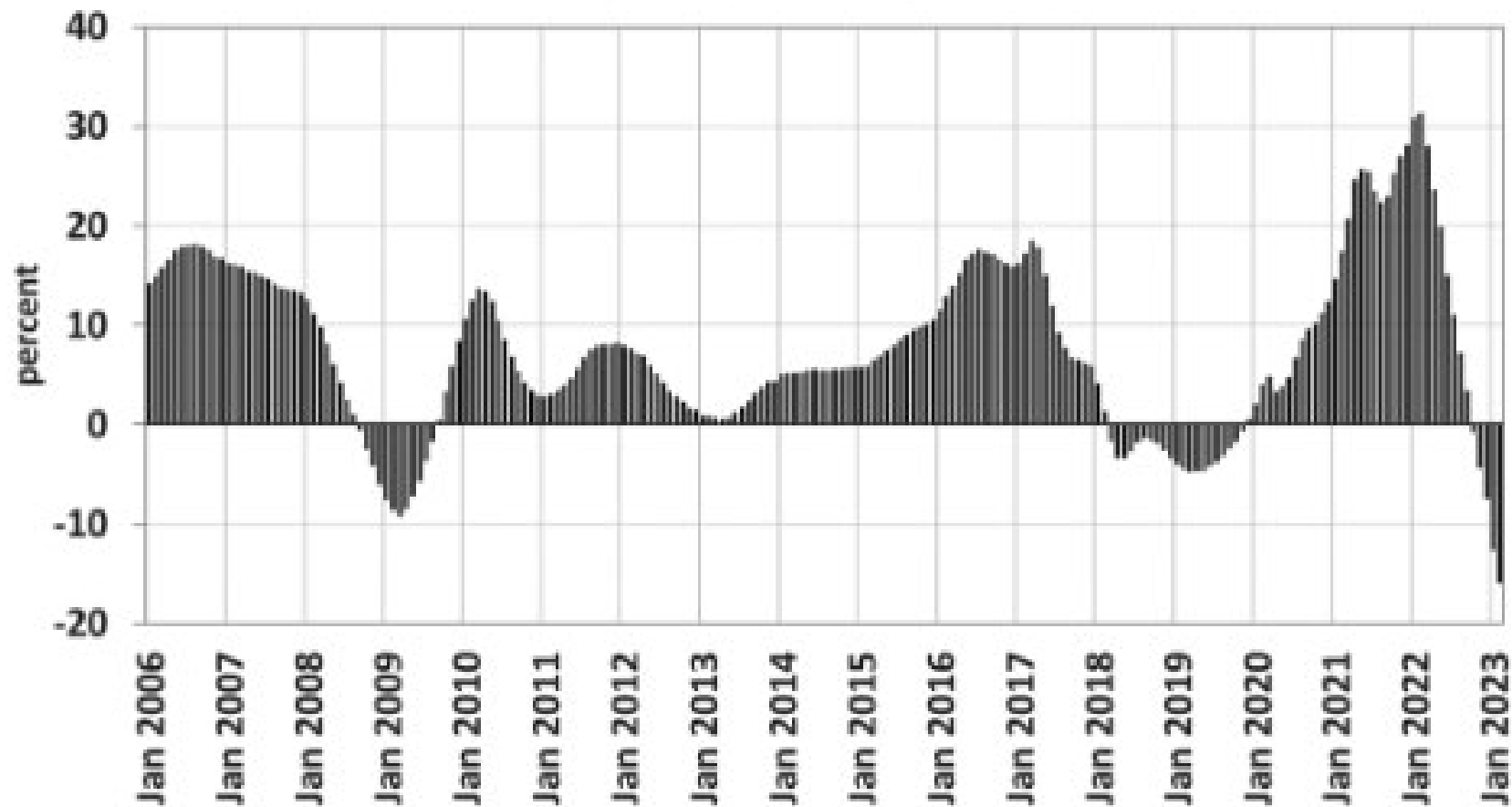
*Seasonally adjusted



MINION LENDING
CENTRES

Aggregate Composite MLS® HPI*

Year-over-year percentage change



Source: The Canadian Real Estate Association

* Actual (not seasonally adjusted)

HOME PRICE DECLINES FROM MARCH PEAK

MLS Benchmark Home Price Changes from Recent Peak

Region	March '22 Benchmark Price	Feb '23 Benchmark Price	Change from Peak
Greater Toronto	\$ 1,347,700	\$ 1,051,200	-22.0%
Canada	\$ 874,100	\$ 704,300	-19.4%
Ottawa	\$ 725,000	\$ 601,600	-17.0%
Greater Vancouver	\$ 1,345,700	\$ 1,117,300	-17.0%
Montreal	\$ 554,200	\$ 502,000	-9.4%
Quebec	\$ 327,700	\$ 312,200	-4.7%
Halifax	\$ 499,000	\$ 497,100	-0.4%
Calgary	\$ 521,400	\$ 523,600	0.4%



**RIISING
INTEREST
RATES!**

**SLOWS
HOUSING
SUPPLY AND
DEMAND**

VRMS ARE NOW ONE-THIRD OF ALL MORTGAGES OUTSTANDING

“Variable-rate borrowing represented 24.3% of new funds advanced versus fixed-rate alternatives in the fourth quarter, compared with 53.5% for variable-rate borrowing in the fourth quarter of 2021.”

Statistics Canada



**MANY VRM BORROWERS HAVE
HIT THEIR TRIGGER POINT**

SOME BIG BANKS HAVE ALLOWED NEGATIVE AMORTIZATIONS UNTIL RENEWAL

Remaining amortizations for TD residential mortgages

	Q4 2022	Q4 2021
15-20 years	13.5%	19%
20-25 years	29.5%	42.1%
25-30 years	19.2%	28.2%
30-35 years	3.7%	NA
35 years and more	25.2%	NA

Remaining amortizations for CIBC residential mortgages

	Q1 2023	Q1 2022
20-25 years	31%	45%
25-30 years	17%	27%
30-35 years	3%	NA
35 years and more	27%	NA

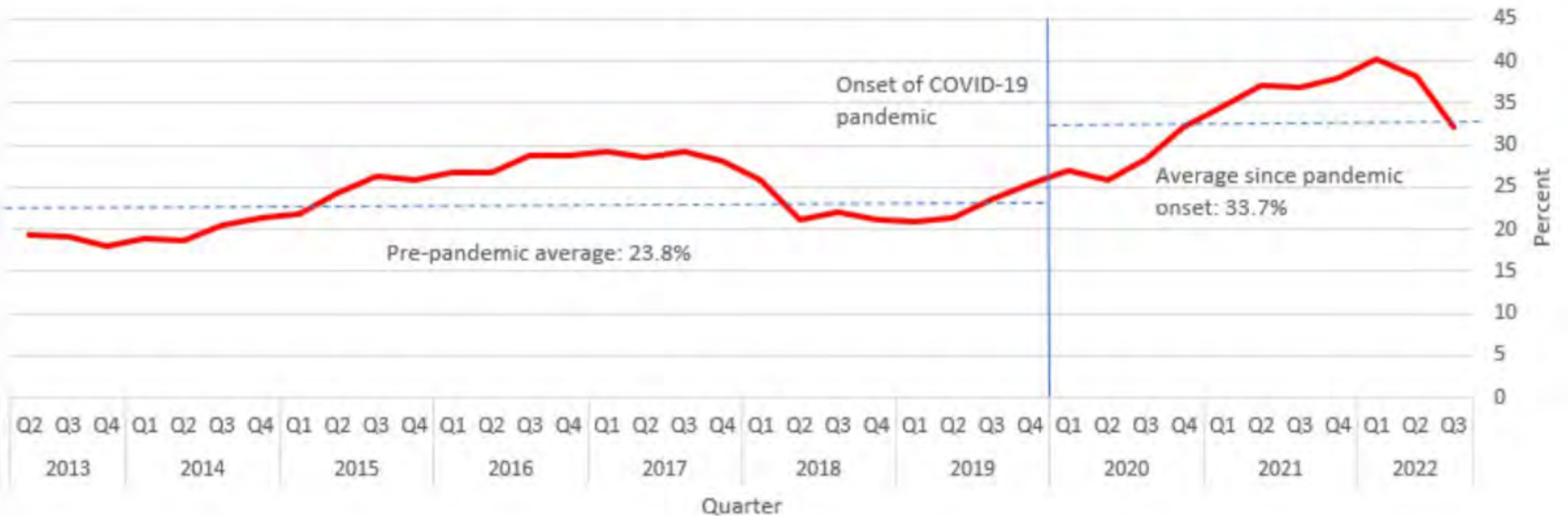
For BMO, one-third of mortgages have remaining amortizations of over 30 years-- up from zero a year ago. 20% of book renews in the next year, then the **“contract reverts to the original amortization schedule.”**

OSFI ACTION COMING



AN LTI RATIO OF 450% OR MORE IS CONSIDERED HIGH

Chart 1 - Share of high loan-to-income (>4.5x) originations, industry-wide (volume)





HOUSING ACTIVITY REBOUNDS IN 2024

RAPID POPULATION GROWTH SUPPORTS HOUSING

	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
Russian Federation	-0.2
Japan	-1.3
Italy	-2.0

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

OTTAWA BOOSTS IMMIGRATION TARGETS AGAIN

YEAR	NEW IMMIGRANTS
2021	401,000
2022	431,645
2023	465,000*
2024	485,000*
2025	500,000*

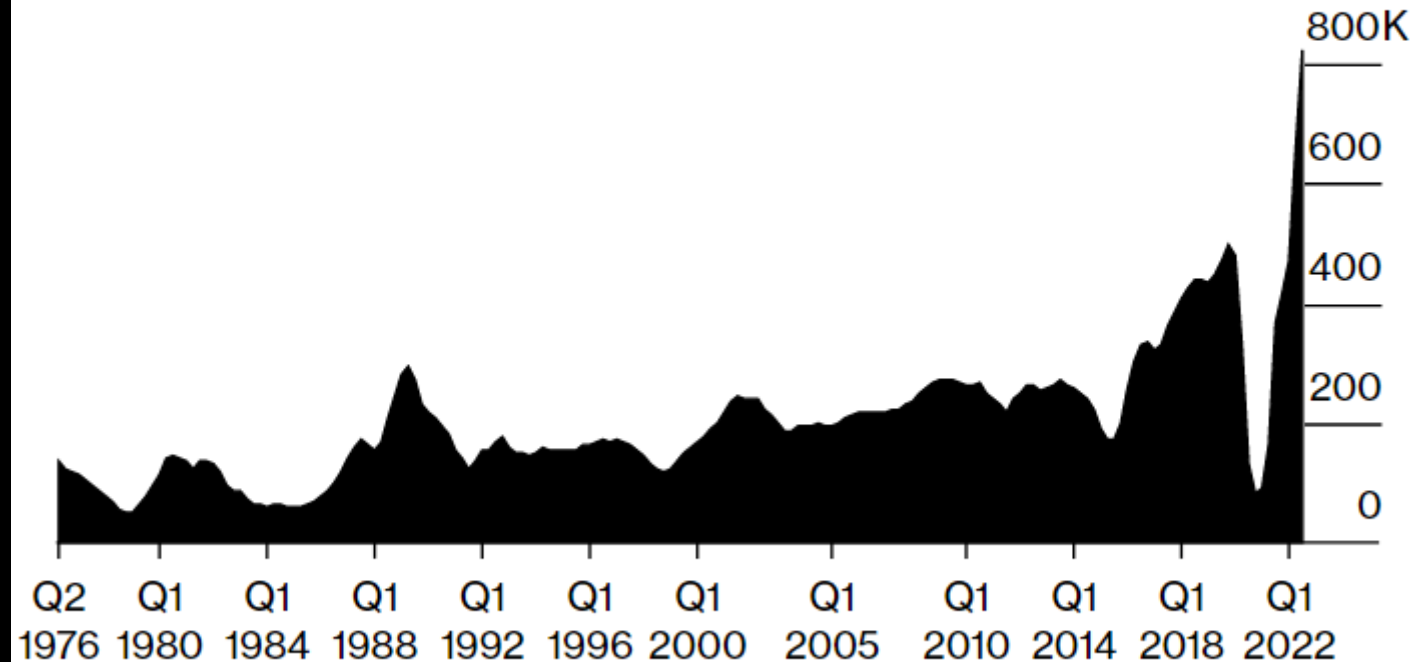
* Overall Planned Permanent Resident Admissions

FOREIGN STUDENTS AND OTHER NON-PERMANENT IMMIGRANTS NEED HOMES TOO

International Migration to Canada Spikes

Number of immigrants and non-permanent residents hits record high

■ Yearly Sum of Net International Migrants to Canada



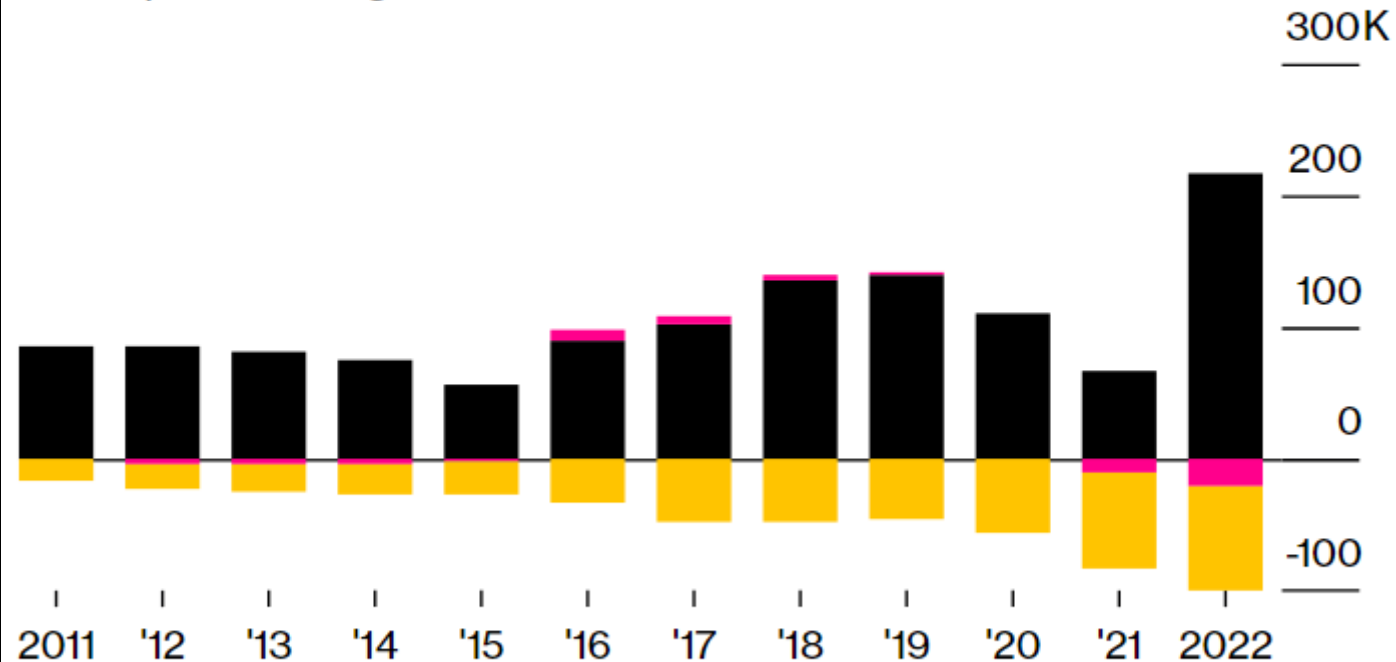
Source: Statistics Canada, Bloomberg calculations

IMMIGRATION BOOSTS URBAN POPULATION

Toronto Sees Growing Outflows Amid Housing Crunch

Nearly 100,000 people left Canada's biggest city in 2022

■ International Migration ■ Interprovincial Migration
■ Intraprovincial Migration



Source: Statistics Canada, Bloomberg calculations

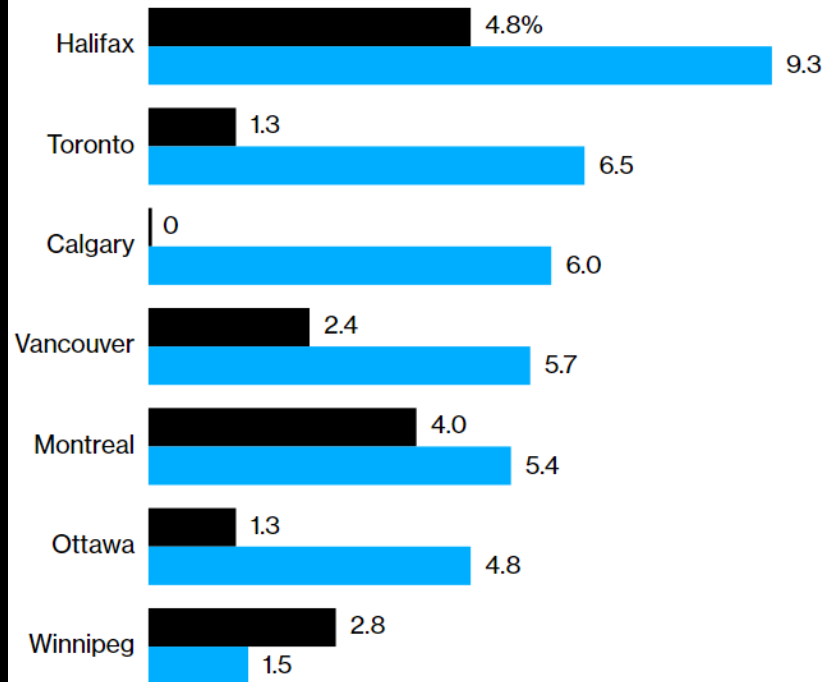
Note: Data is through the 12 months to July of each year

FASTEST POPULATION GROWTH SINCE 1970s BOOST RENTS

Apartment Rents Are Soaring in Canada's Cities

Rent increases for two-bedroom apartments, year-over-year

■ Oct. 2021 ■ Oct. 2022



Source: Canada Mortgage & Housing Corp., Bloomberg
Note: For apartments in purpose-built rental buildings.

Landlords rent controls on existing tenants. But when an apartment is vacated, the average increase for the next tenant is 18.2%

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