



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



SPECIAL GUEST HOST  
*Greg Domville*

**JOIN US**  **LIVE**

Wednesday, July 12<sup>th</sup>

07.12.23

11:30AM PT / 2:30PM ET

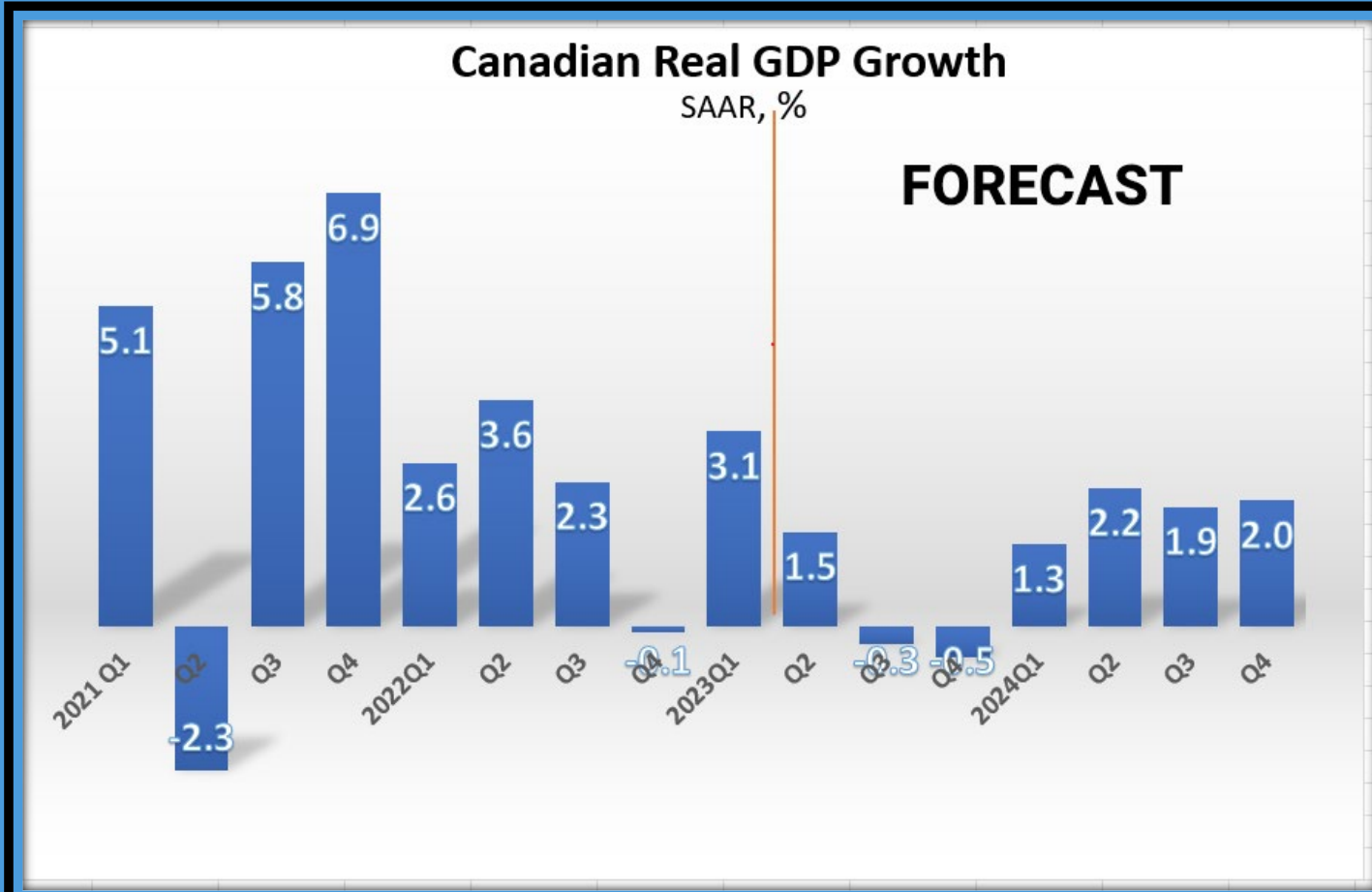
# IS THE BANK OF CANADA FINISHED HIKING RATES?

Dr. Sherry Cooper  
July 12, 2023

Year	GDP Growth (%)
2021	5.0
2022	3.4
2023	1.5
2024	1.0

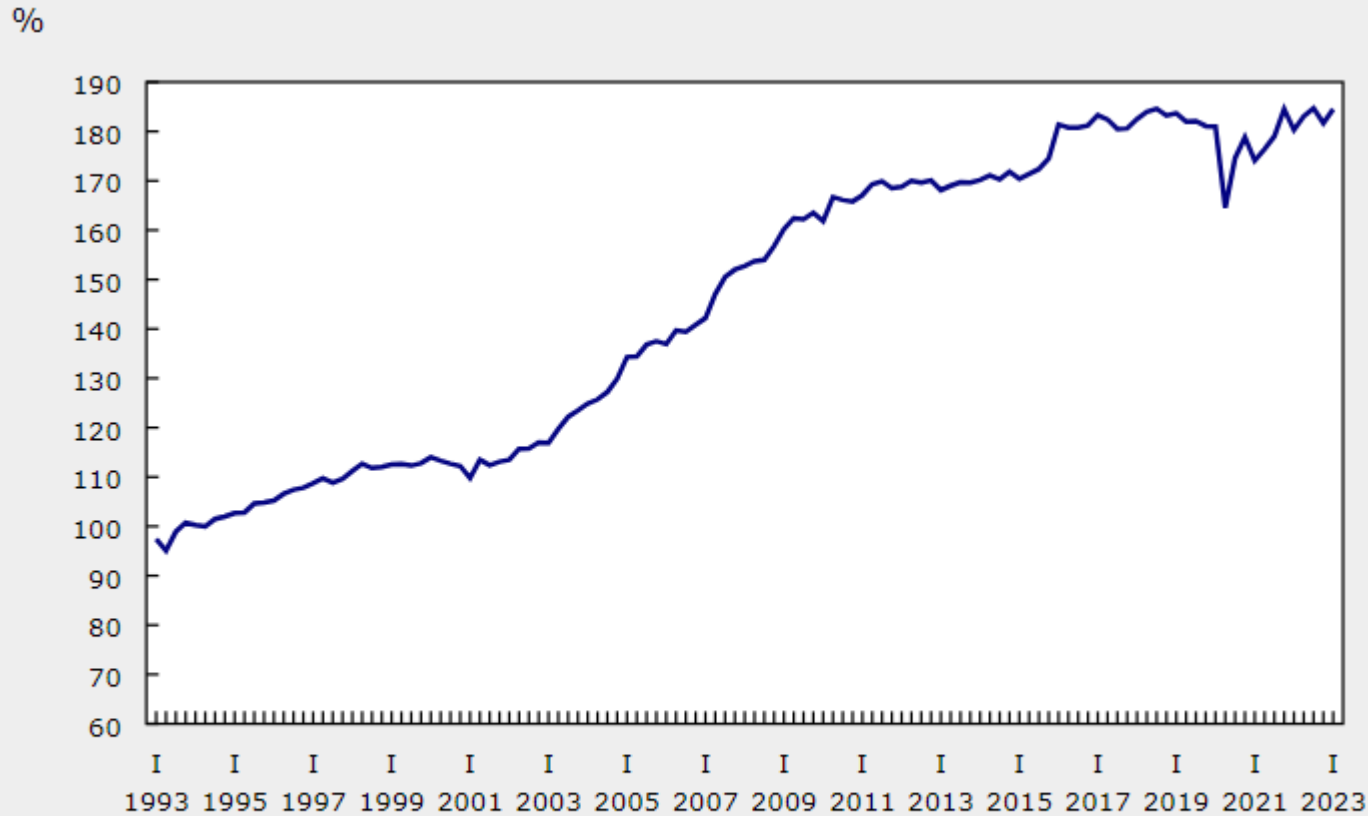
# CANADA'S ECONOMY REMAINS RESILIENT

# CANADIAN ECONOMY NOT SLOW ENOUGH YET



Bank of Canada expects growth to average about 1% through the rest of this year and the first half of 2024

# HOUSEHOLD DEBT-TO-INCOME RATIO UP

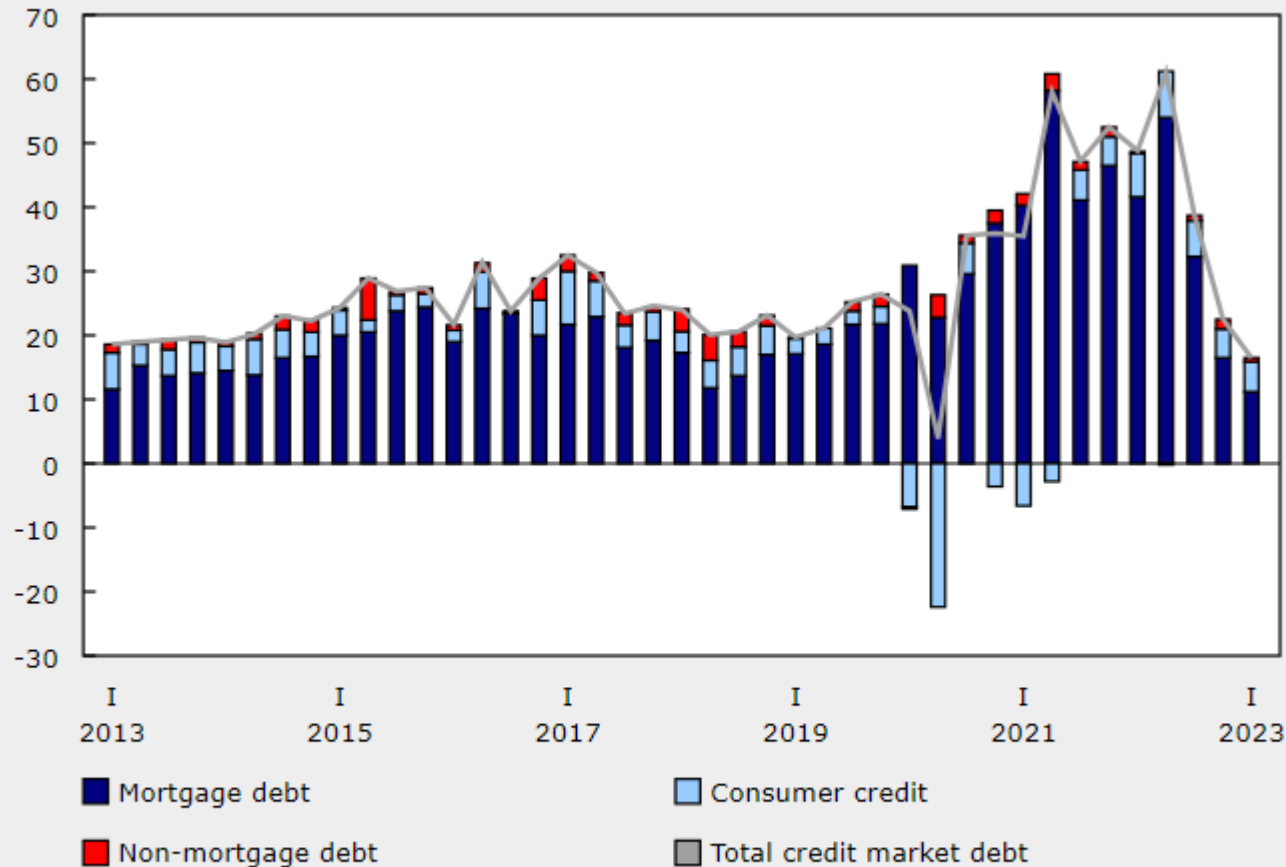


Source(s): Table [38-10-0238-01](#).

**But Household  
Net Worth Rose**

# HOUSEHOLD CREDIT MARKET DEBT Q1

billions of dollars



Source(s): Table 38-10-0238-01.

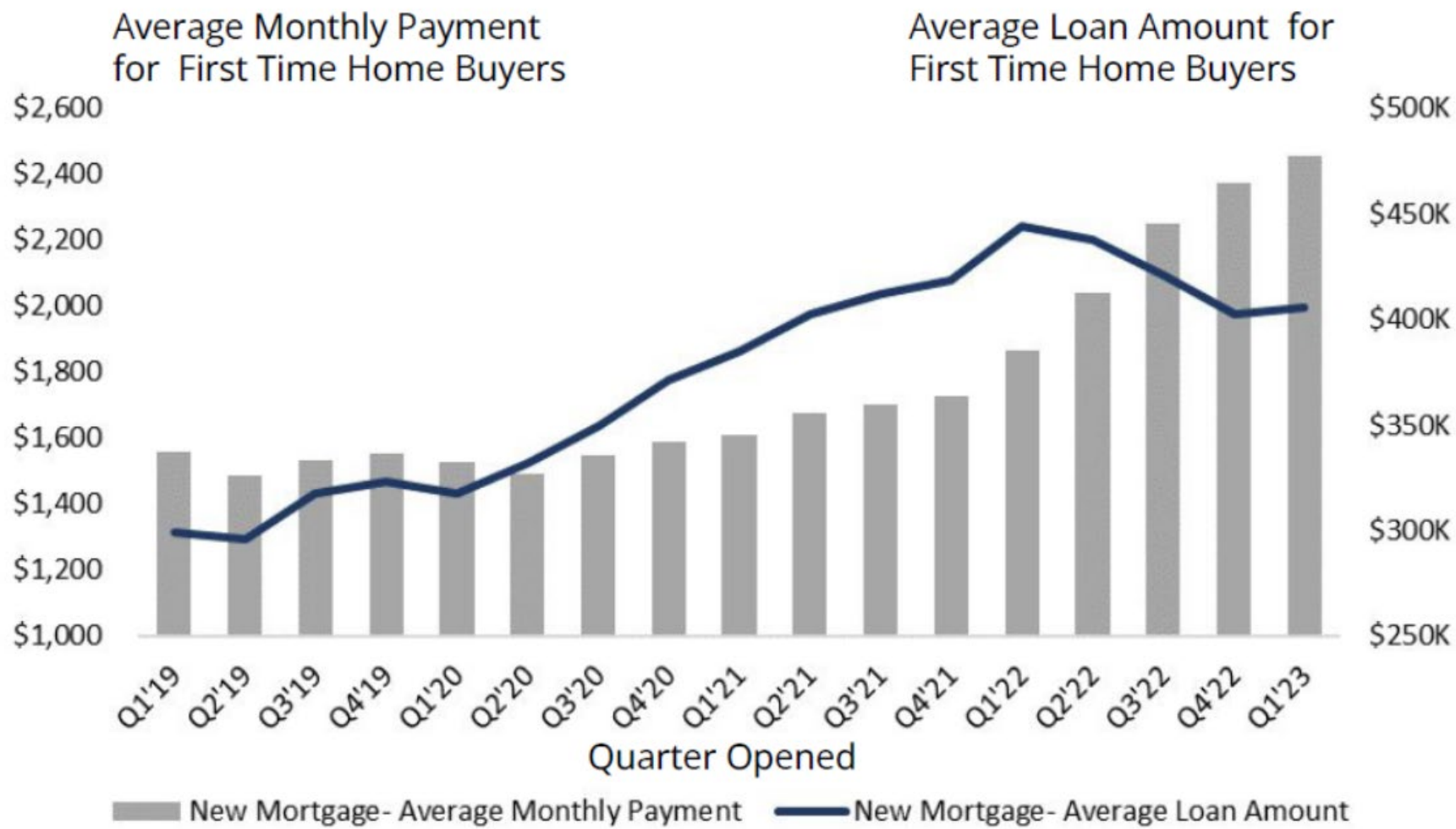
**Mortgage Originations Down 42% y/y**

**Below pre-pandemic levels in GTA and GVA**

**Fewer First-Time Homebuyers**

**May Was Strong, But Then Rate Surge**

# FIRST-TIME HOMEBUYERS SQUEEZED

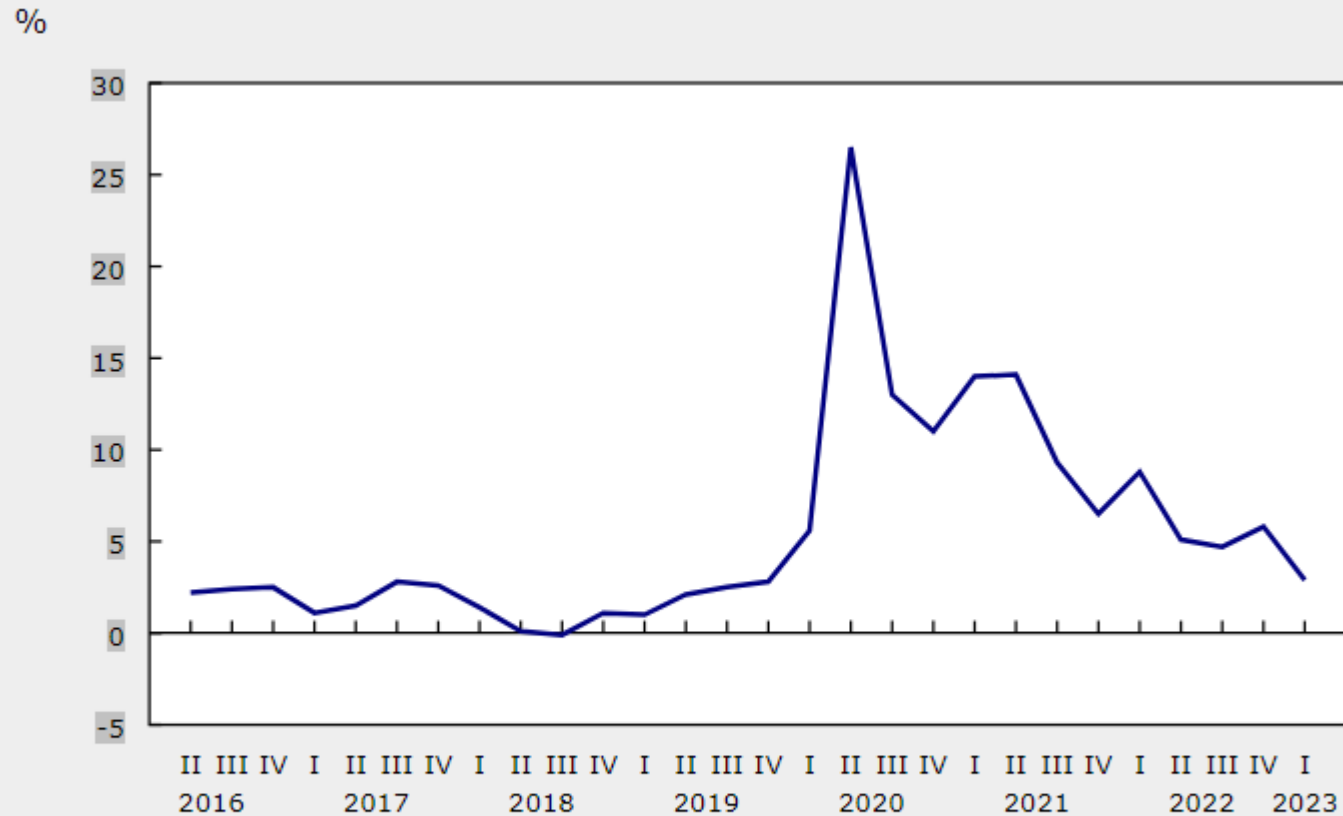


Source: Equifax Canada

# CREDIT CARD DELINQUENCIES RISING



# HOUSEHOLD SAVINGS RATE FALLS IN Q1

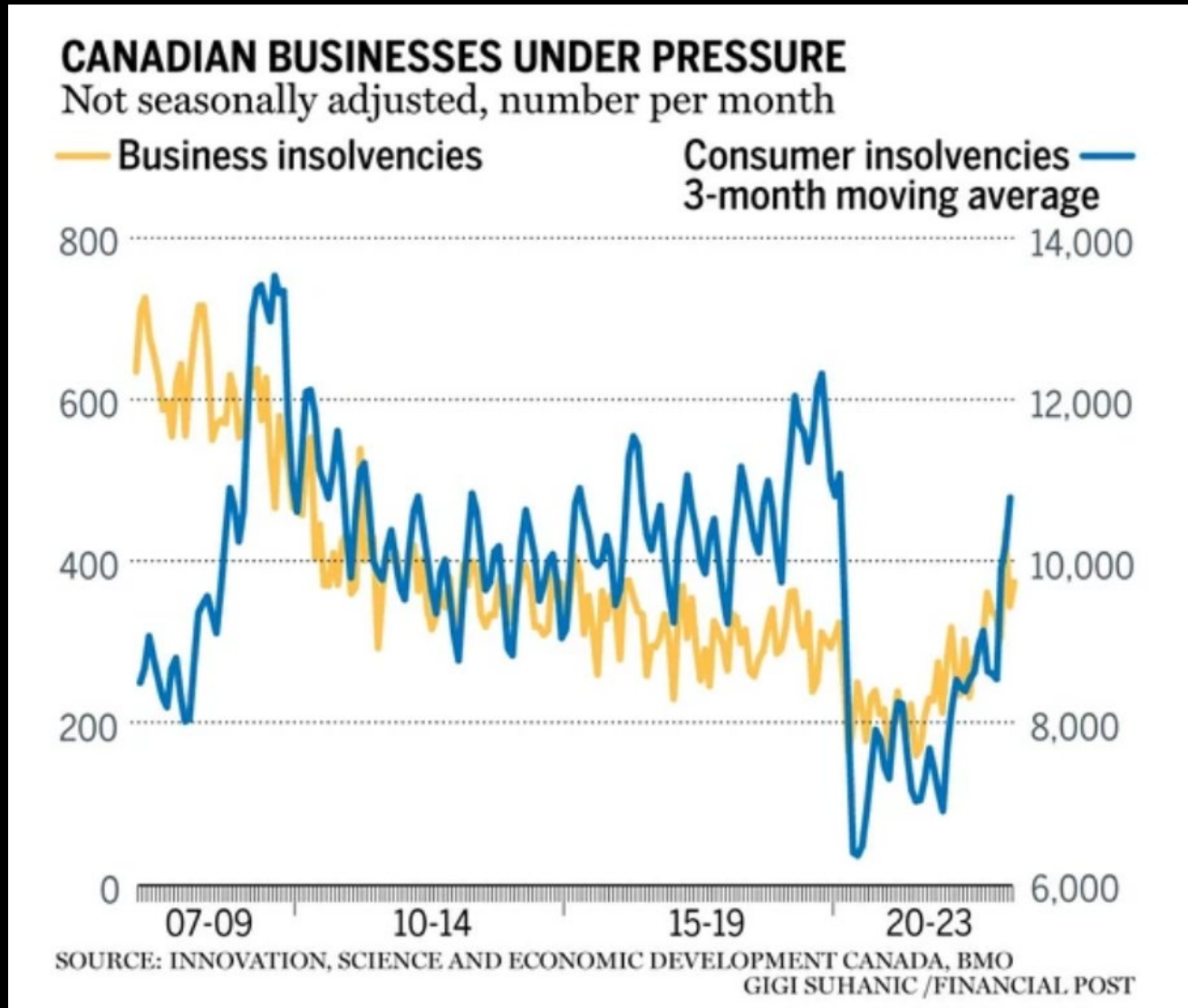


**But Consumer Spending Surged**

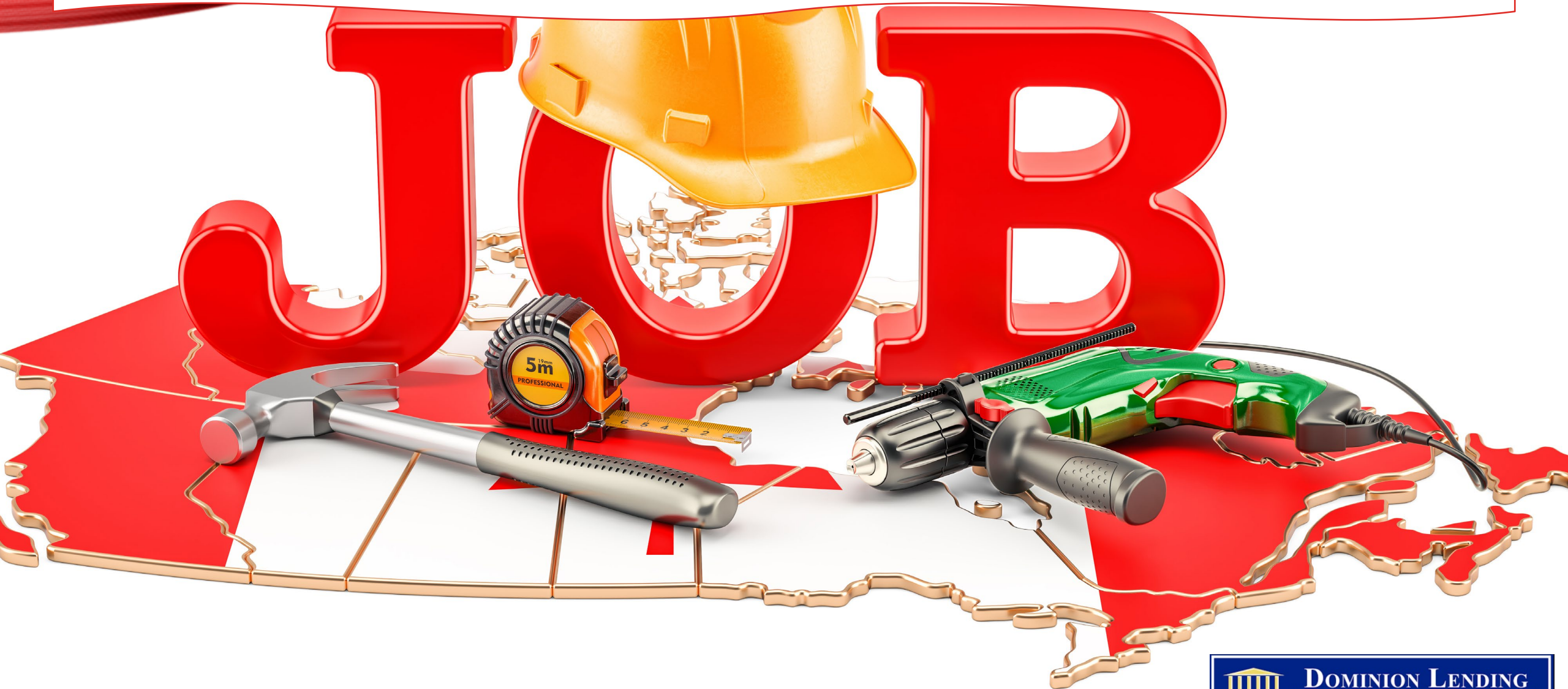
Source(s): Table [36-10-0112-01](#).



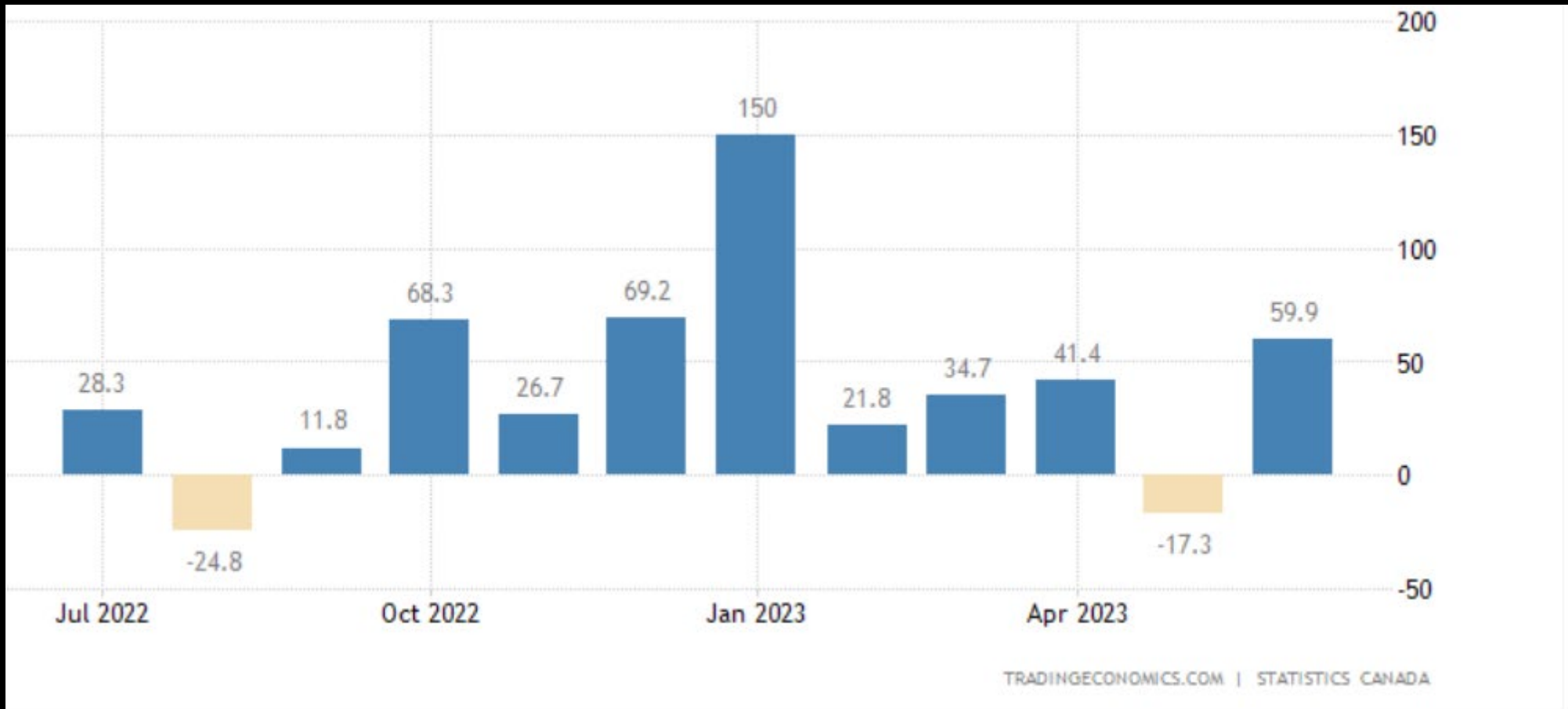
# CONSUMER AND BUSINESS INSOLVENCIES RISE



# CANADA'S LABOUR MARKET IS STILL TIGHT

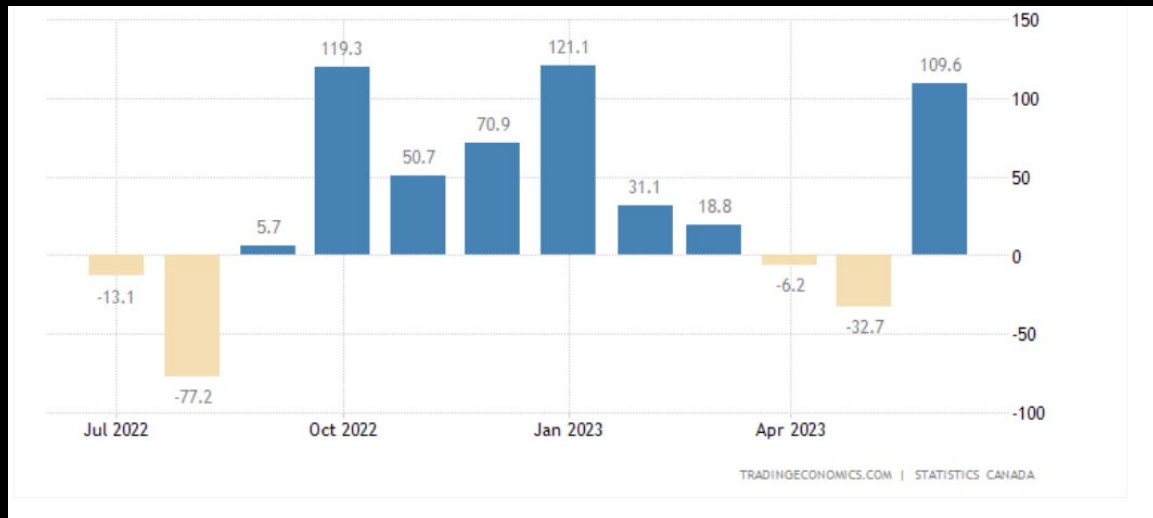


# EMPLOYMENT GROWTH IN JUNE TRIPLED EXPECTATION

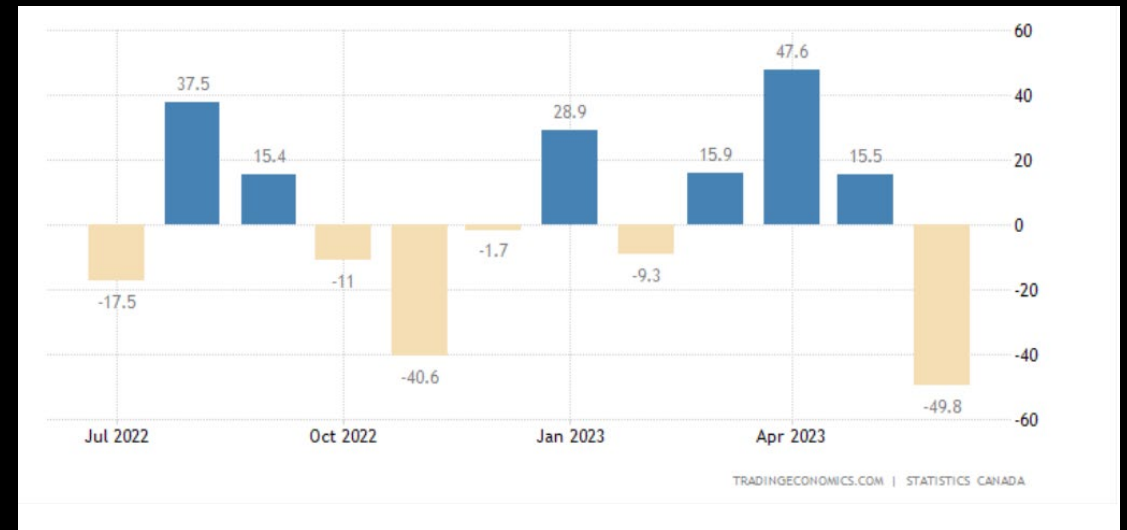


# ALL THE GAINS WERE IN FULL-TIME WORK

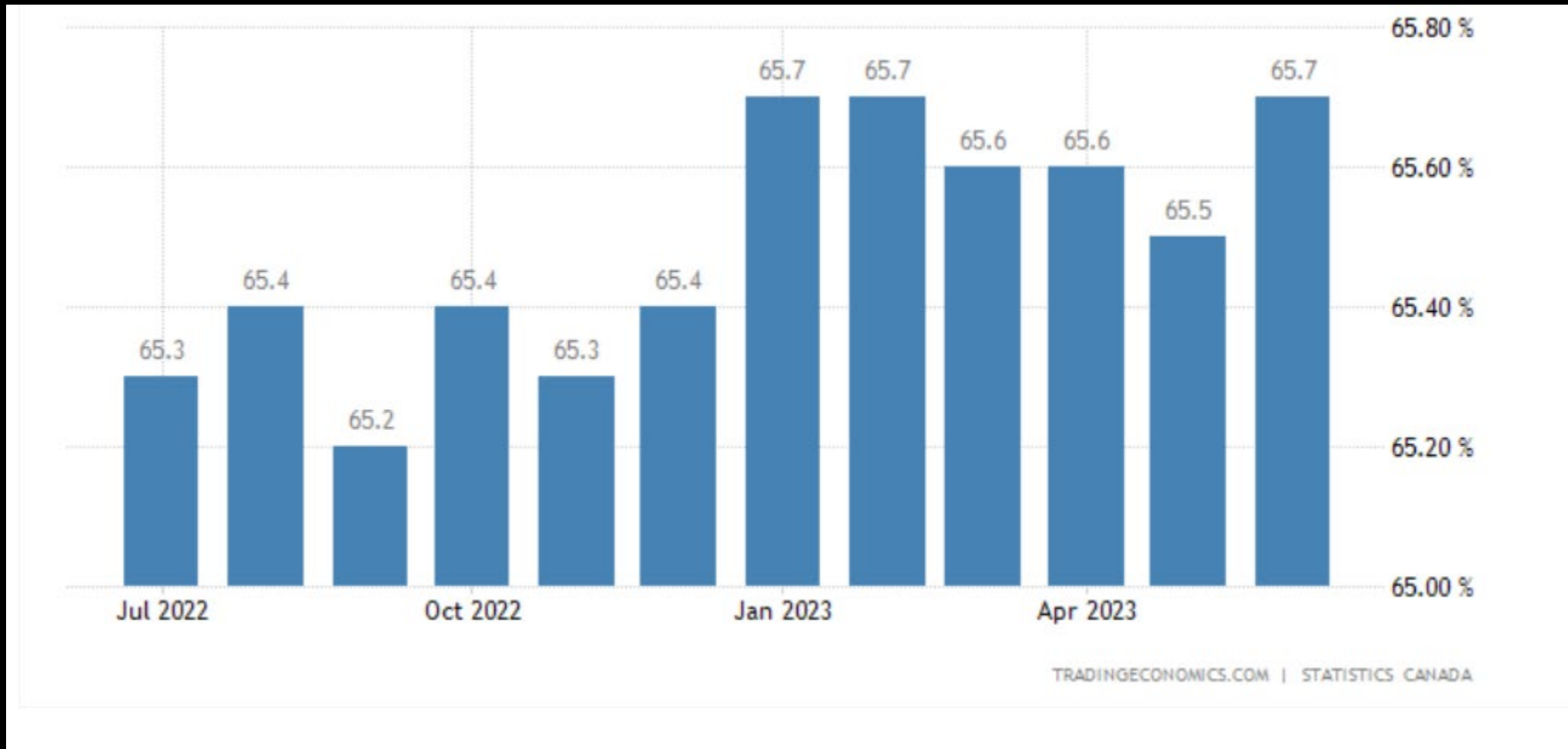
## Full-time Jobs Surged



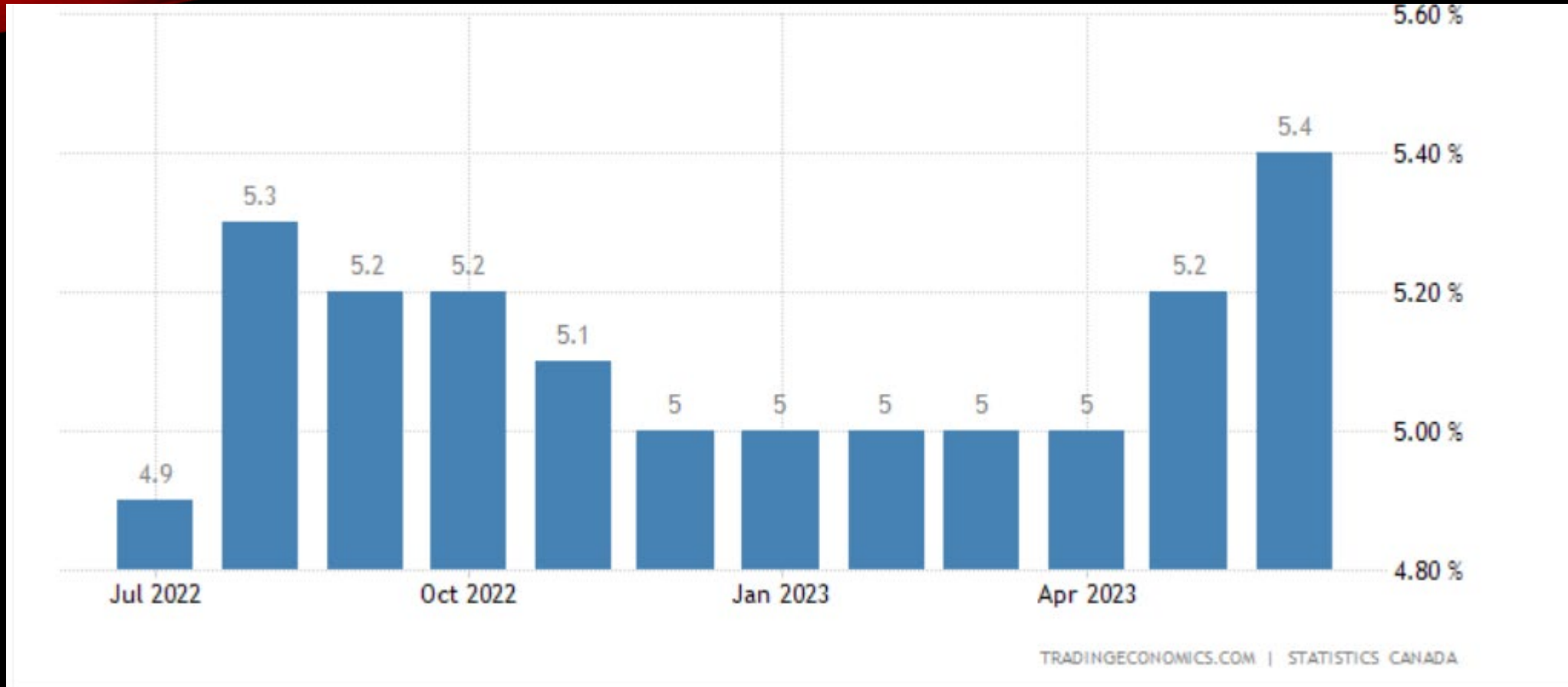
## Part-time Work Plunged



# THE LABOUR FORCE PARTICIPATION RATE SURGED IN JUNE—ADDING 31,100 NEW WORKERS

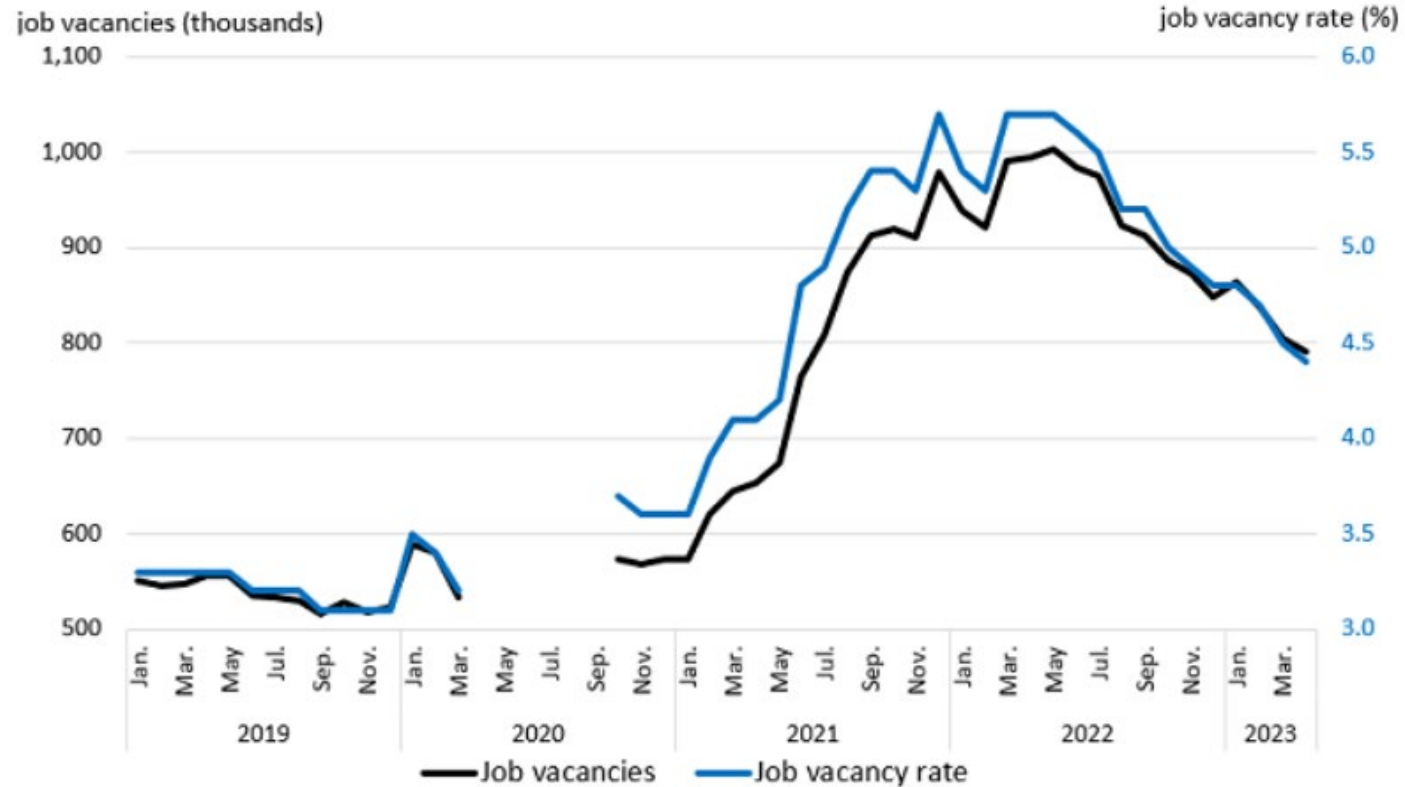


# MAY JOBLESS RATE RISES AFTER FIVE MONTHS



But 5.4% Is Still Historically Low

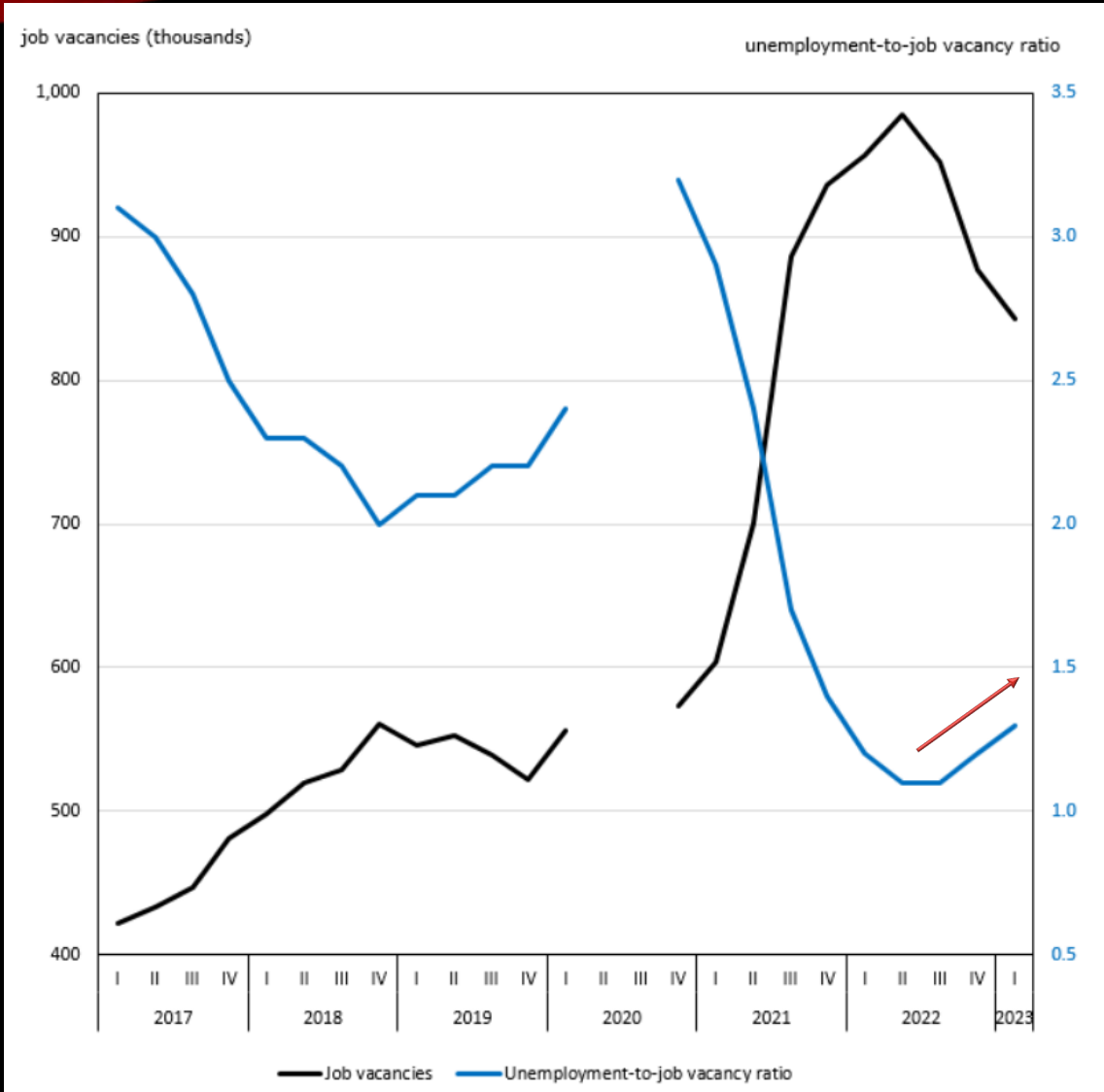
# JOB VACANCIES HAVE FALLEN FOR ALMOST A YEAR



**Note(s)** : Job Vacancy and Wage Survey data collection was suspended from April 2020 to September 2020. Therefore, data for these reference periods are not available. Data are adjusted for seasonality.

**Source(s)** : Job Vacancy and Wage Survey (5217), table 14-10-0406-01.

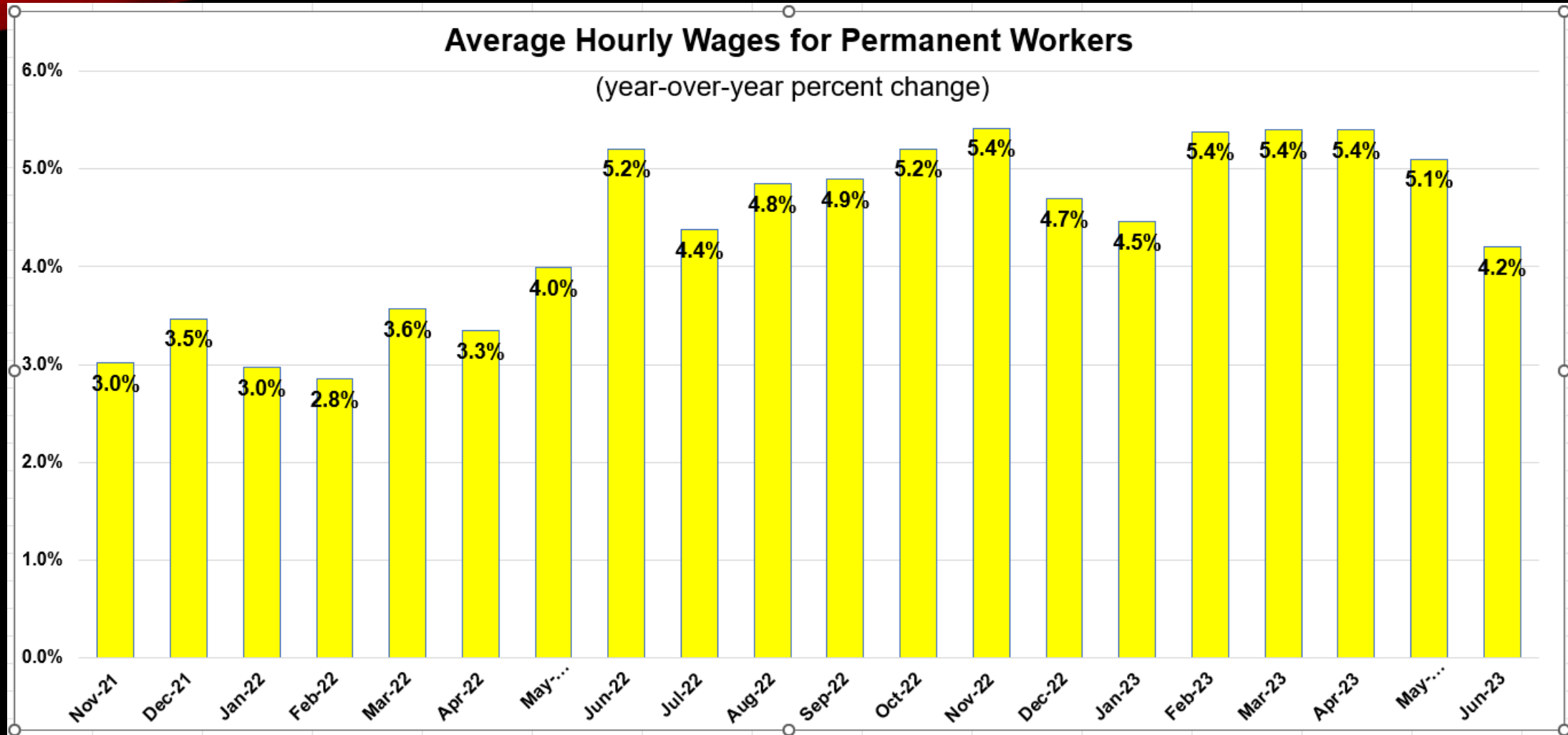
# LABOUR MARKET TIGHTNESS EASES IN Q1



The unemployment-to-job-vacancy ratio (blue line) is now rising.



# ANNUAL WAGE INFLATION DIPPED TO 4.2%



# HEADWINDS

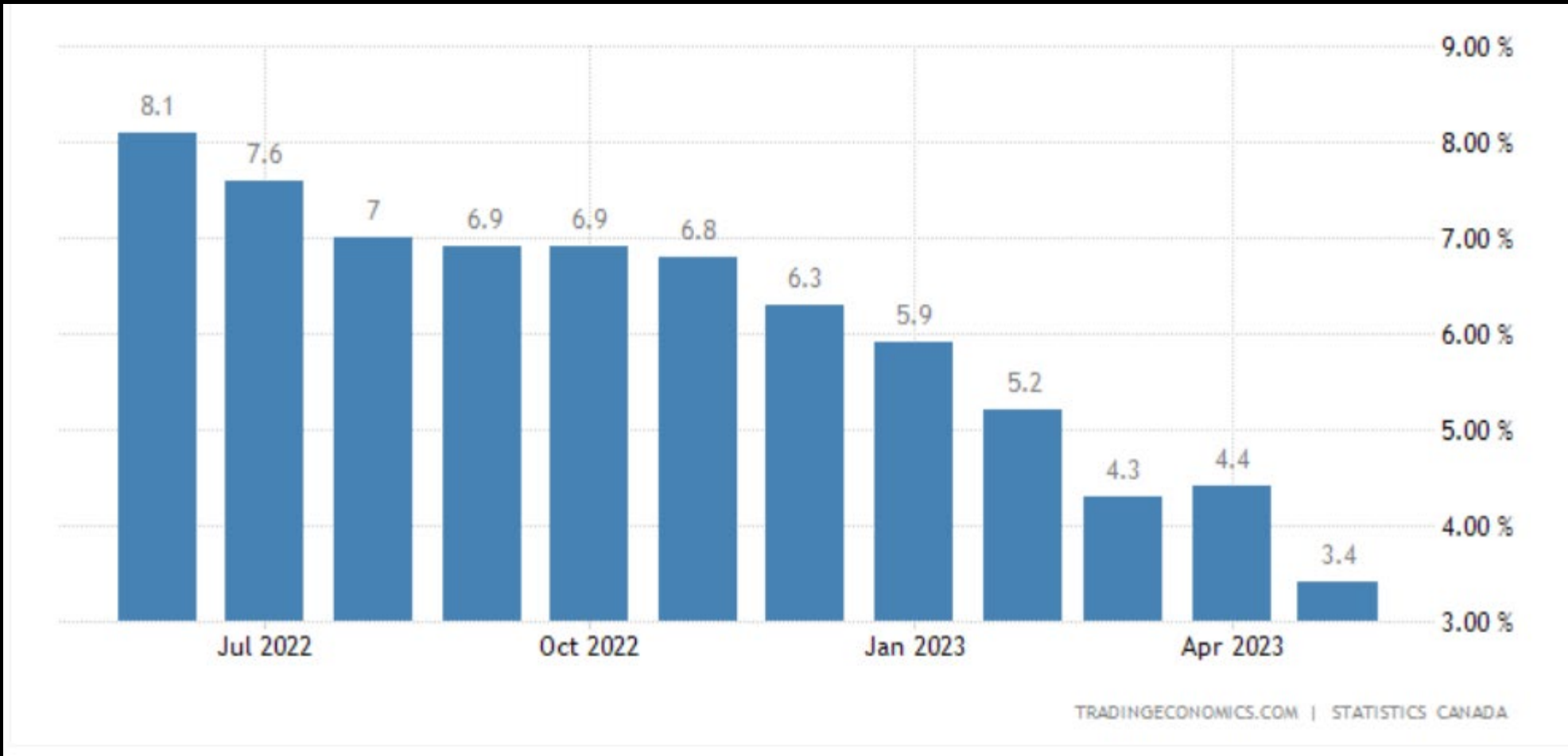
- Consumer non-mortgage debt rising
- Credit card delinquencies up sharply
- Wage gains less than price inflation
- Monthly payments on VRMs and HELOCs rise
- Early mortgage delinquencies on the rise



# INFLATION



# CANADIAN CPI INFLATION FALLS SHARPLY IN MAY



# JUNE WILL BE ANOTHER EASY MONTH FOR LOW INFLATION—THE BASE EFFECT

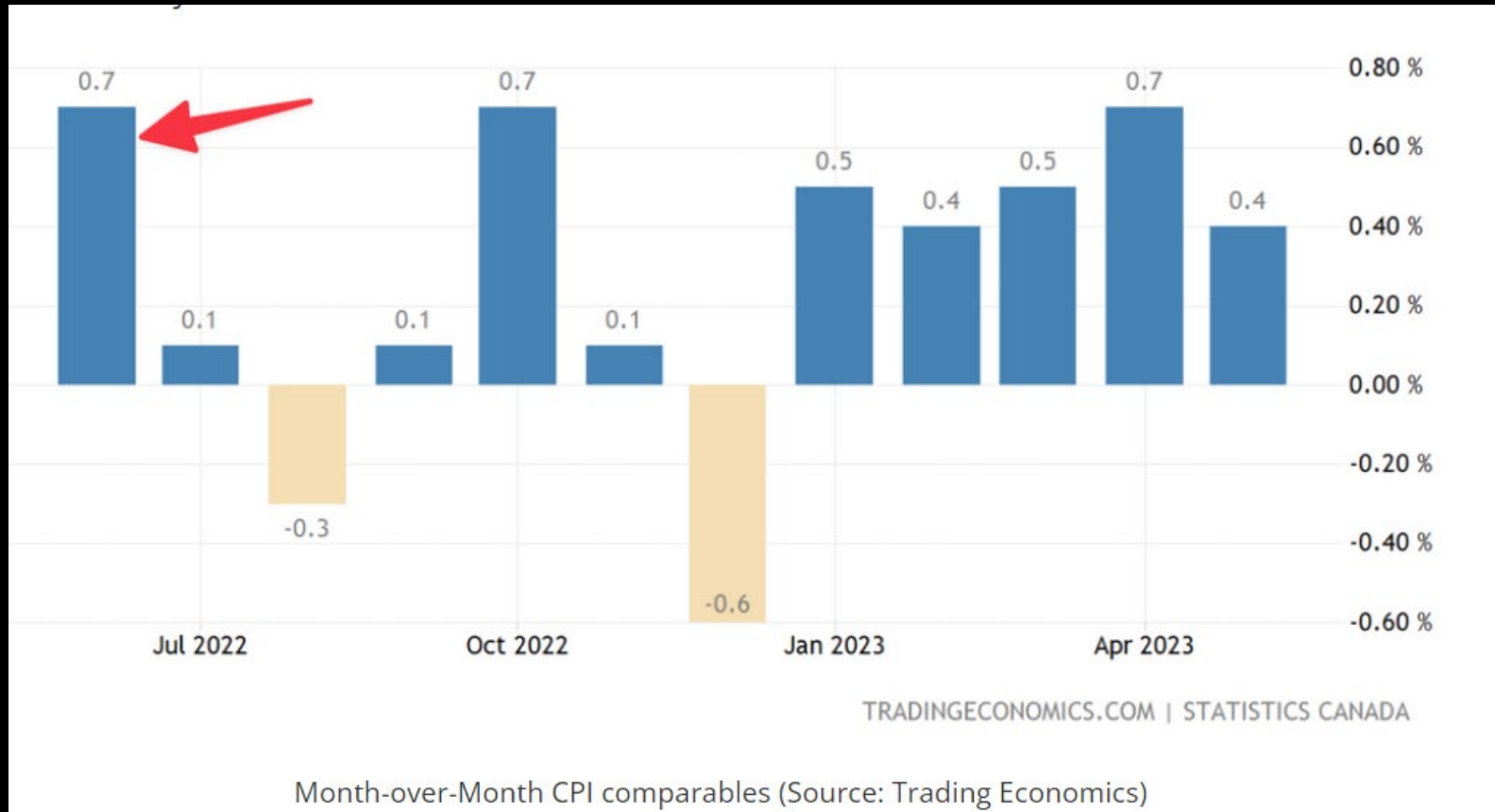
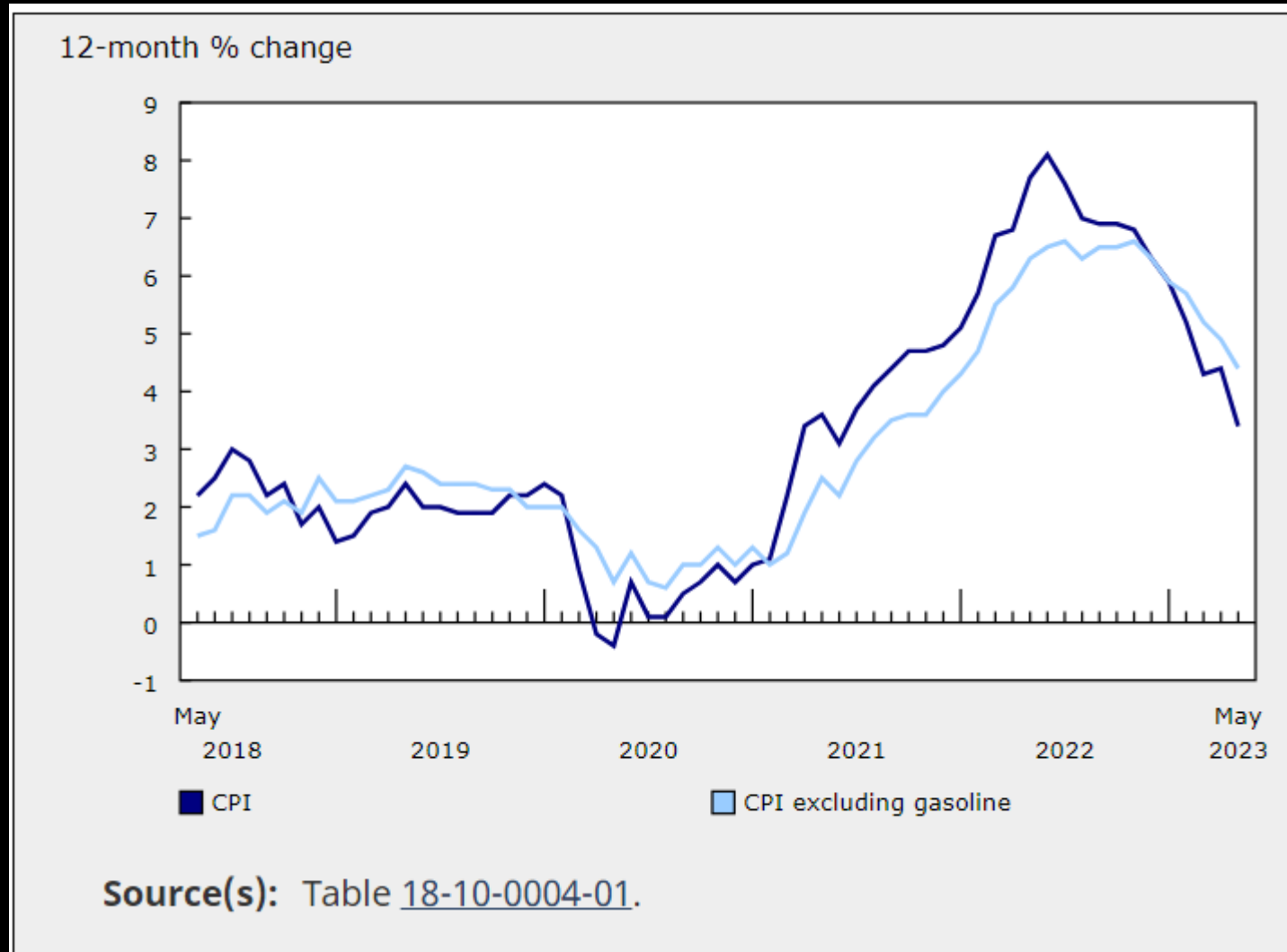


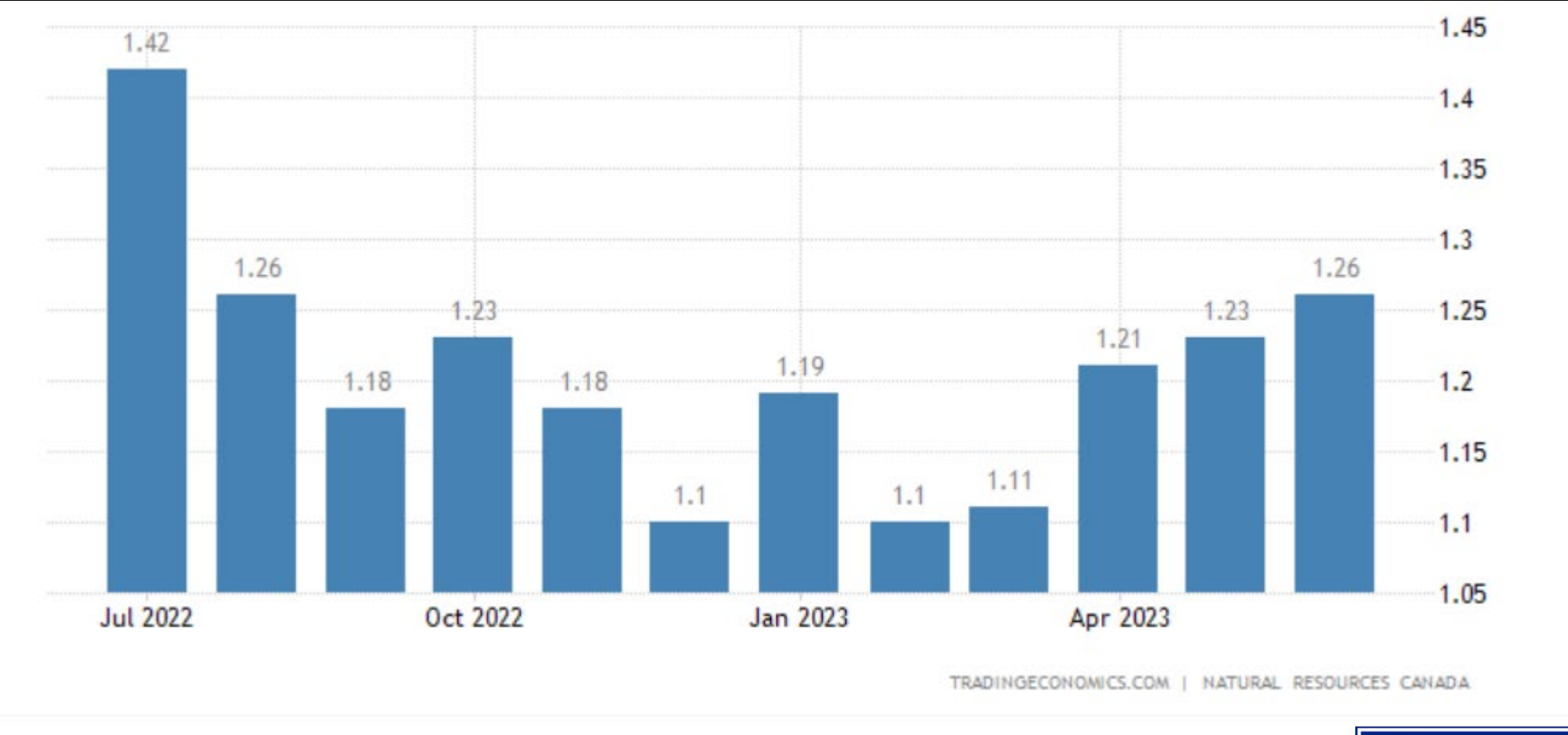
Chart Courtesy of MortgageLogic

# GASOLINE LED THE DECLINE IN MAY INFLATION

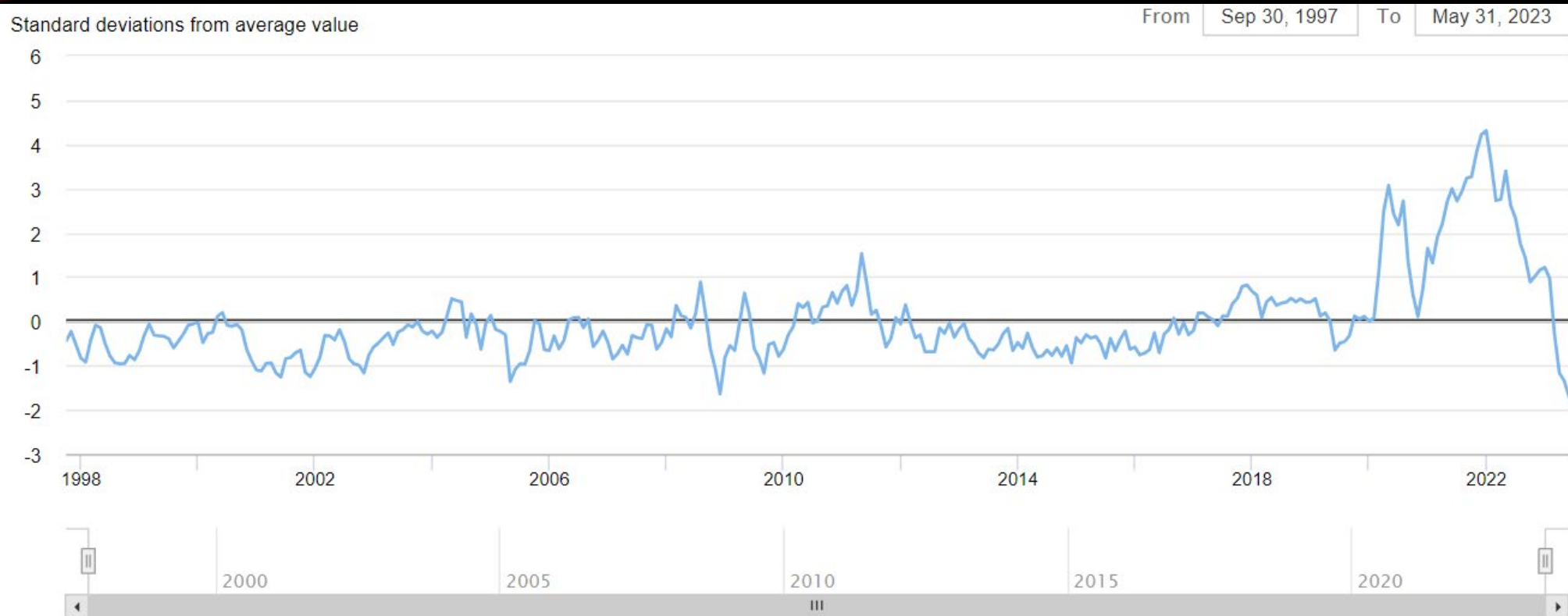


# CANADIAN GASOLINE PRICES PLUNGE YEAR-OVER-YEAR

US Dollars Per Litre



# EASING SUPPLY CHAIN DISRUPTIONS



Sources: Bureau of Labor Statistics; Harper Petersen Holding GmbH; Baltic Exchange; IHS Markit; Institute for Supply Management; Haver Analytics; Refinitiv; authors' calculations.

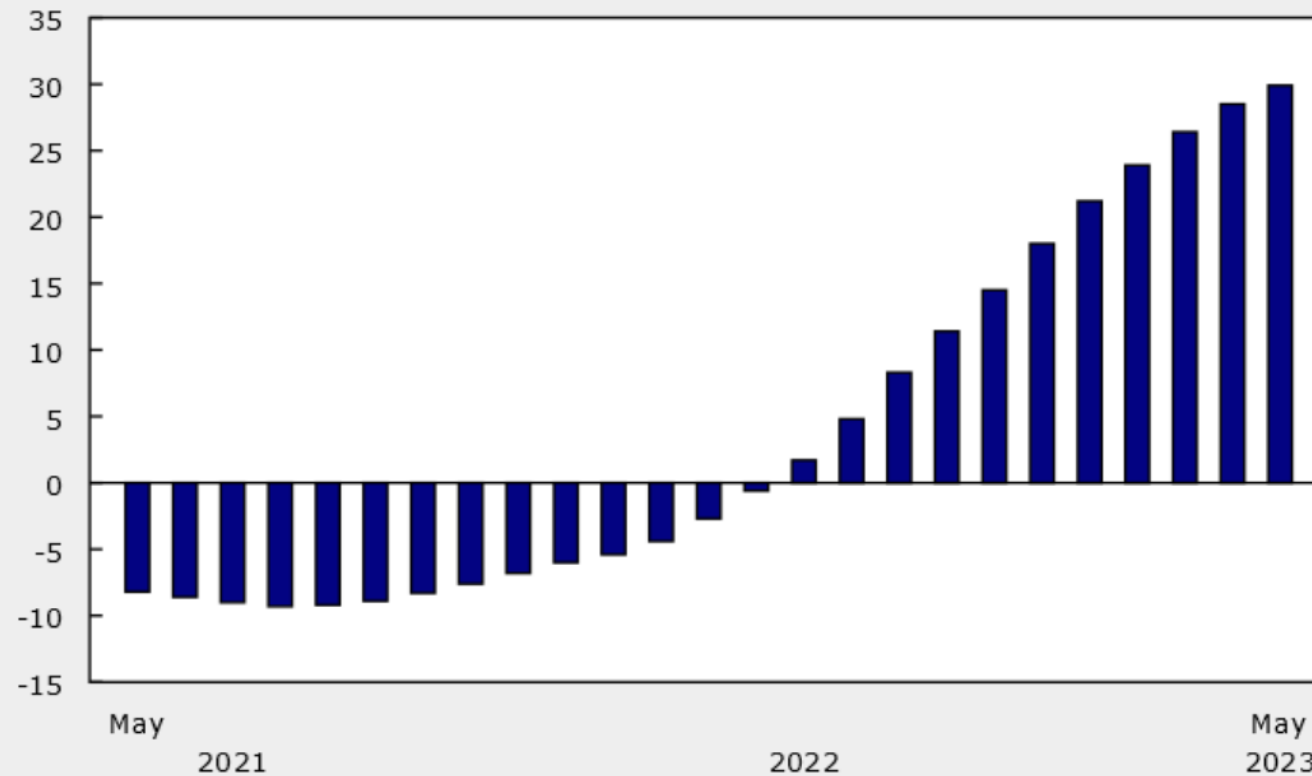
Notes: GSCPI readings for the most recent months can be revised as realized data become available, replacing the imputed values generated through principal component analysis. Further, for some series, mainly the BLS airfreight cost indices, each new release comes with revisions to up to twelve months of previous data. Thus, revisions can have an impact up to a year back in time.



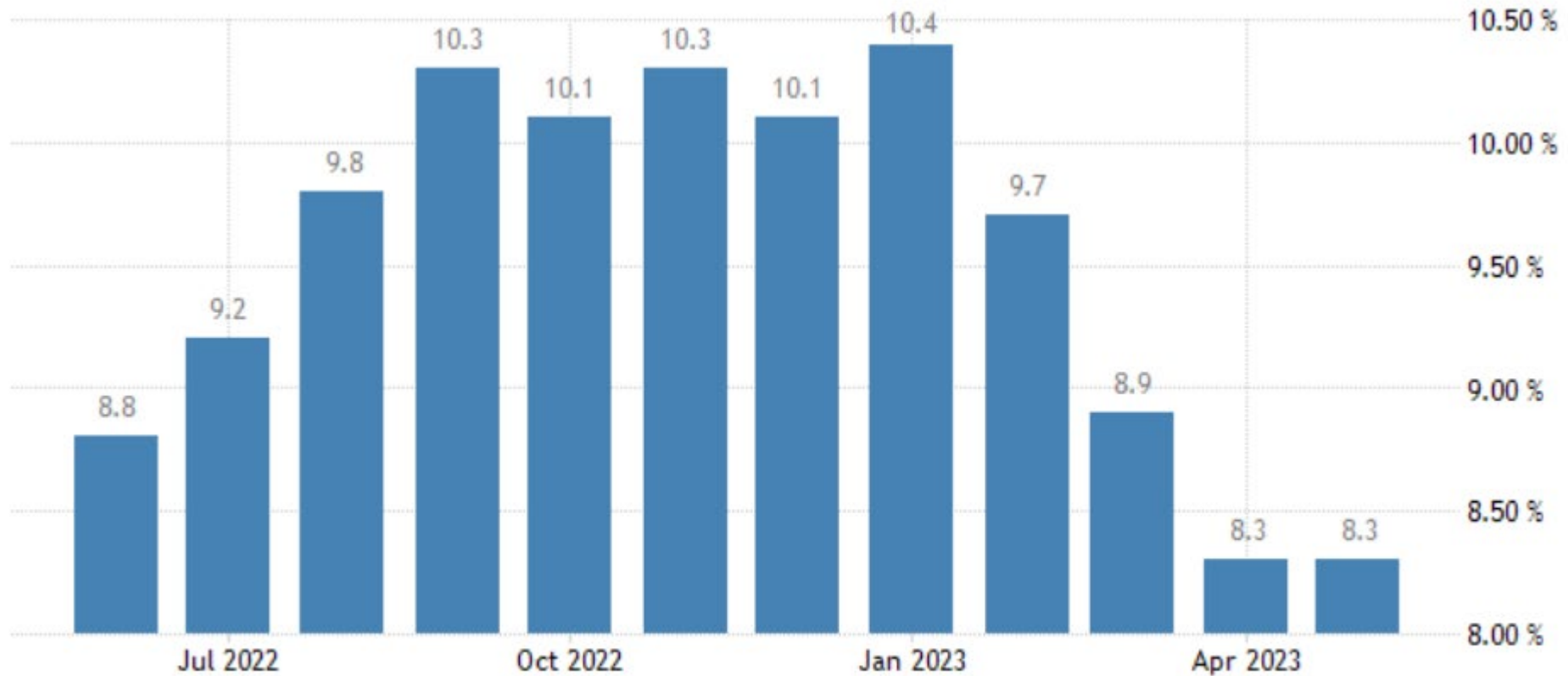
# MORTGAGE INTEREST COSTS ADD TO INFLATION

## Annual increase in mortgage interest cost

12-month % change



# FOOD INFLATION IS STICKY

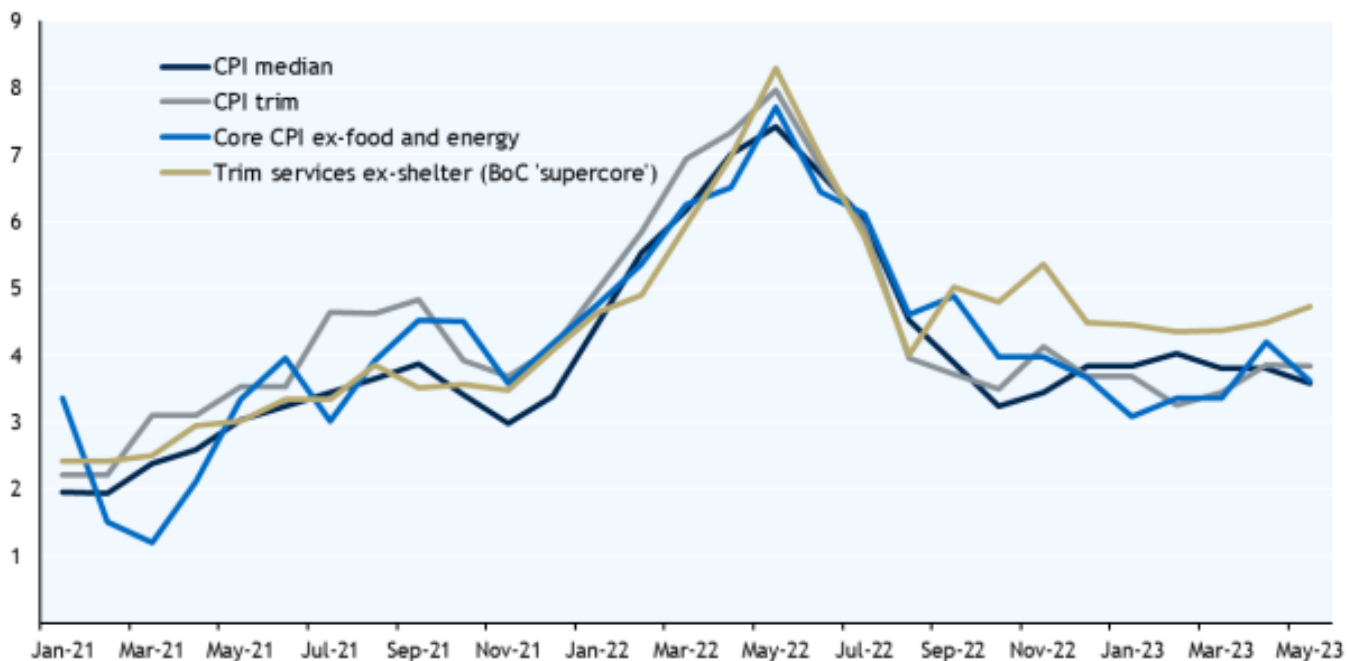


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# STICKY-PRICE INFLATION STILL RISING

## BoC's key inflation measures little changed in May

%, annualized 3-month growth, seasonally adjusted



Source: Statistics Canada, RBC Economics

**Supercore inflation equals the CPI inflation minus food, energy and shelter inflation. It is higher and stickier than the other core measures**



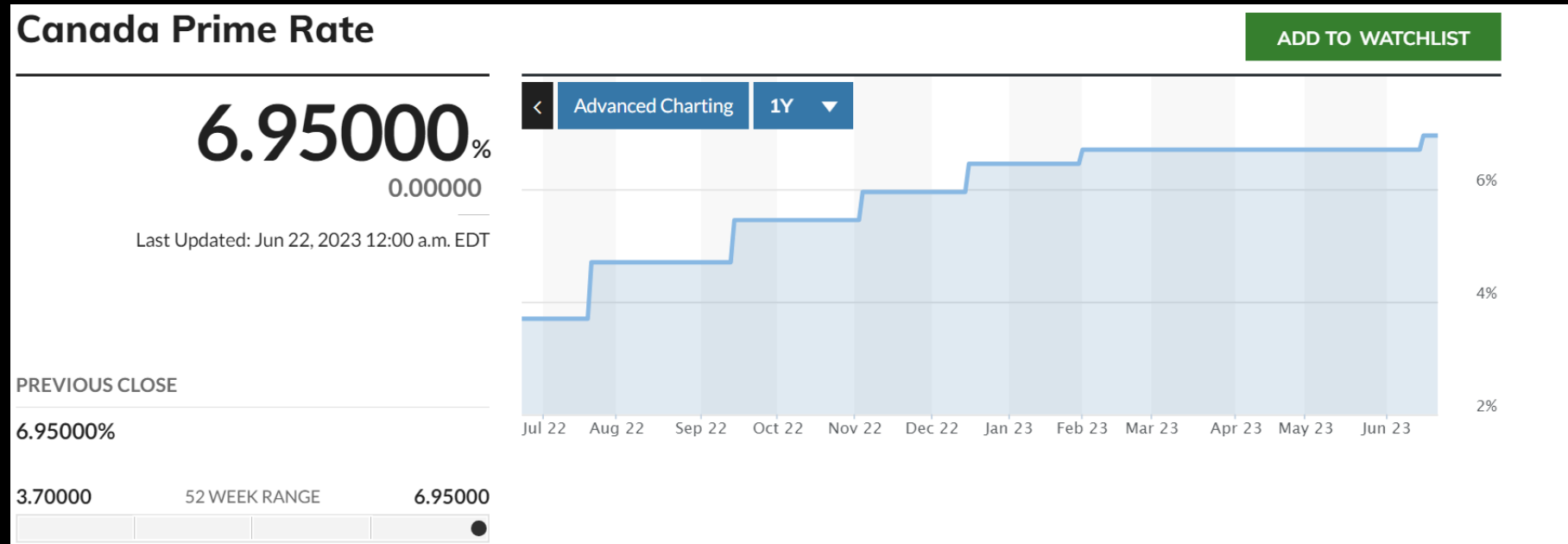
- Boc increased rates by 25 bps to 5.0%.
- Highest rate in 22 years
- **Achievement of the 2%-target postponed until mid-2025.**

# BANK OF CANADA

# BOC OVERNIGHT RATE ROSE TO 5.0%



# CANADIAN PRIME RATE WILL RISE TO 7.2%



**Variable Rates Remain Higher Than Fixed Rates**

# FIVE-YEAR YIELD HOVERS NEAR 4.0%

## Canada 5 Year Government Bond

ADD TO WATCHLIST

**3.795%**

▼ -0.148

Last Updated: Jul 12, 2023 at 12:16 p.m. EDT



PREVIOUS CLOSE

3.943%

3.783

DAY RANGE

3.953

2.513

52 WEEK RANGE

4.029



# Bond Yields Tumble After CPI

Traders betting end of hikes is near as inflation slows down



Source: Bloomberg

Bloomberg



# INVERTED YIELD CURVE USUALLY PREDICTS RECESSION



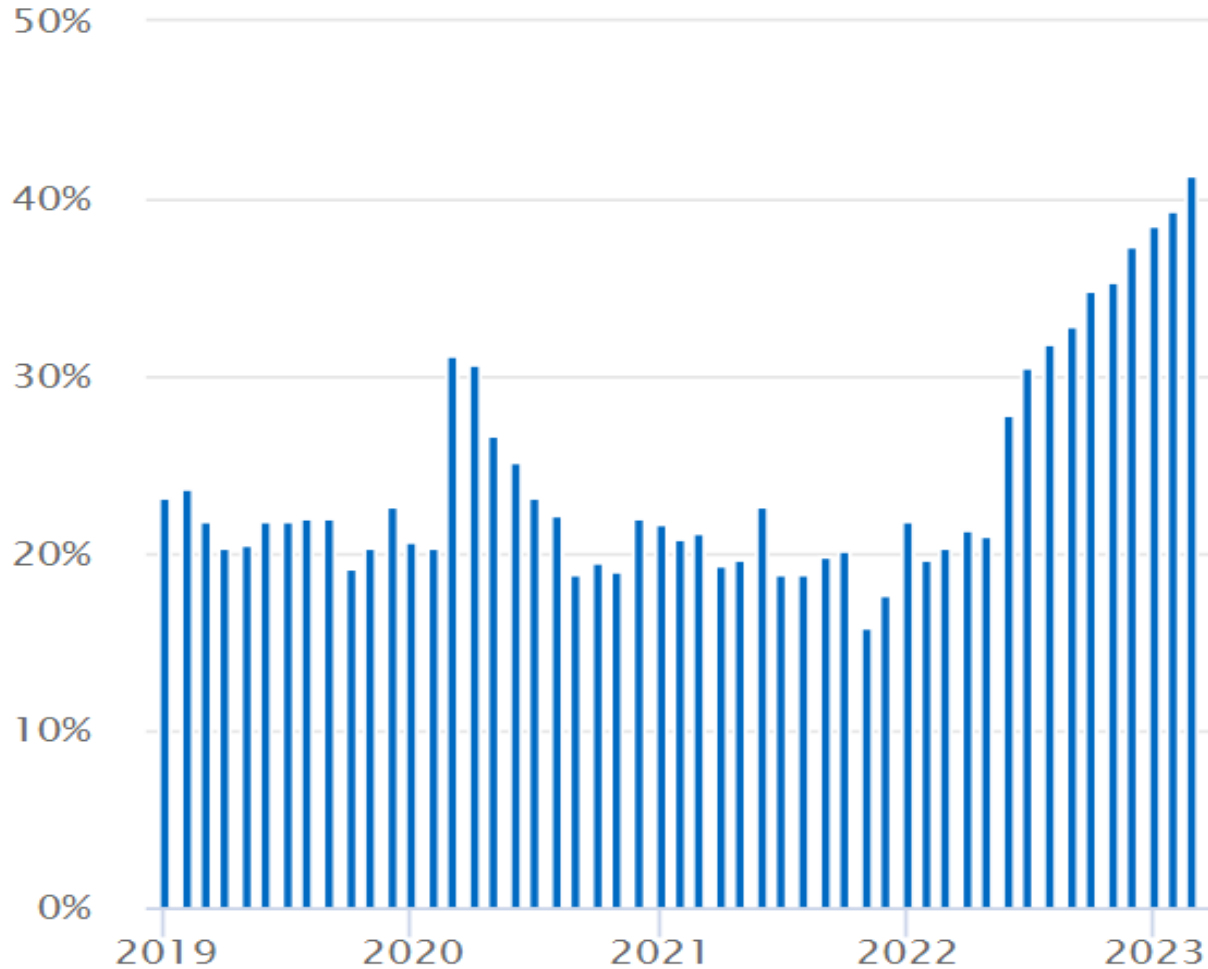
Canadian 10-year - 2-year spread (Source: Refinitiv Eikon)

Courtesy of Mortgage Logic News

## More Canadian businesses expect higher borrowing costs to cause difficulties

%, of businesses surveyed, non-seasonally adjusted

● % of businesses surveyed



Source: CIBF, RBC Economics

CREDIT  
AVAILABILITY IS  
TIGHTENING IN  
CANADA AS WELL

# HOUSING MARKETS SPOOKED BY RATE HIKES

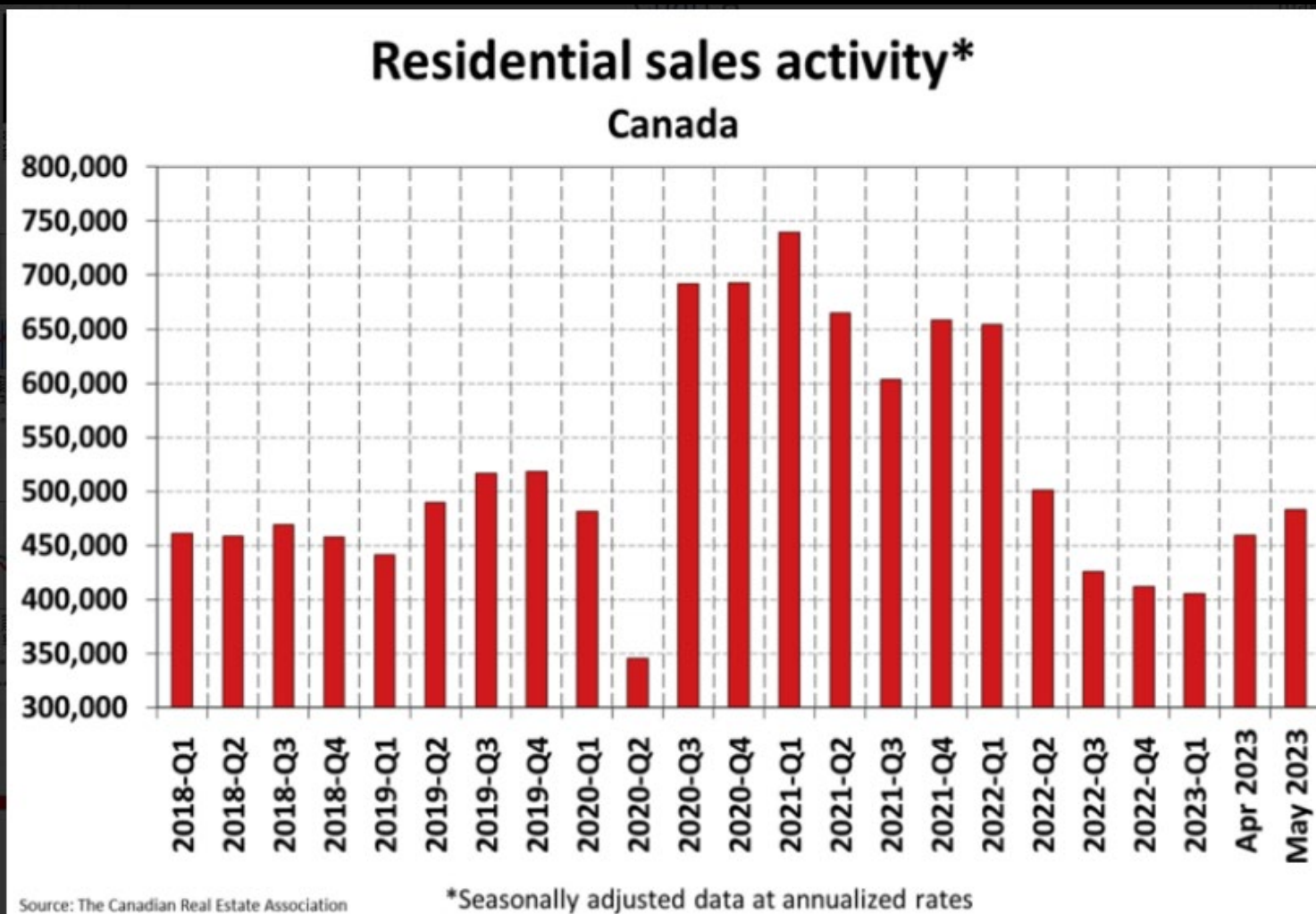


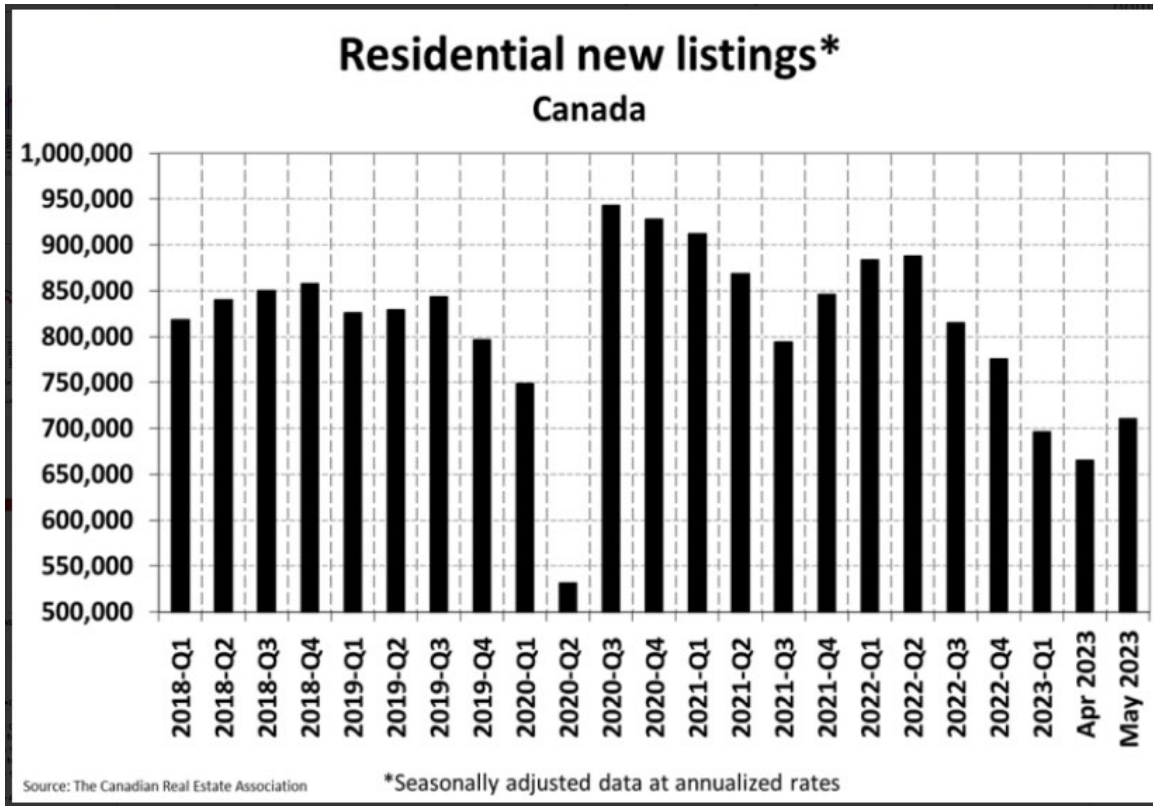
# SPRING HOUSING MARKET SALES PICK



## But June Buyers More Cautious

# MAY HOME SALES BUILD ON APRIL GAINS





New Listing Rise 6.8% m/m In  
May, But Inventories Remain  
Very Low

## Economy-wide Strains in Consumer Balance Sheets Begin to Show In Early Delinquencies

# NEW LISTINGS REVIVE IN MAY



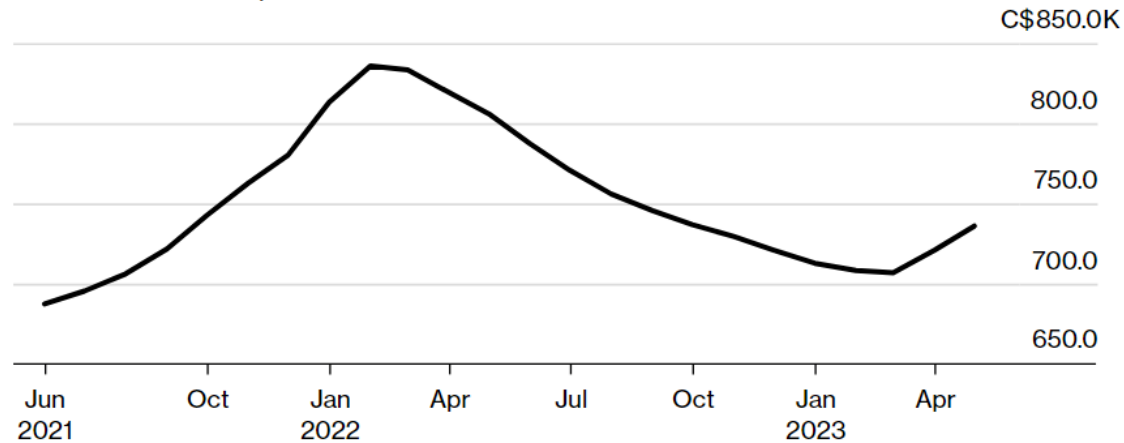
NEW LISTINGS

# HOME PRICES RISE IN MAY

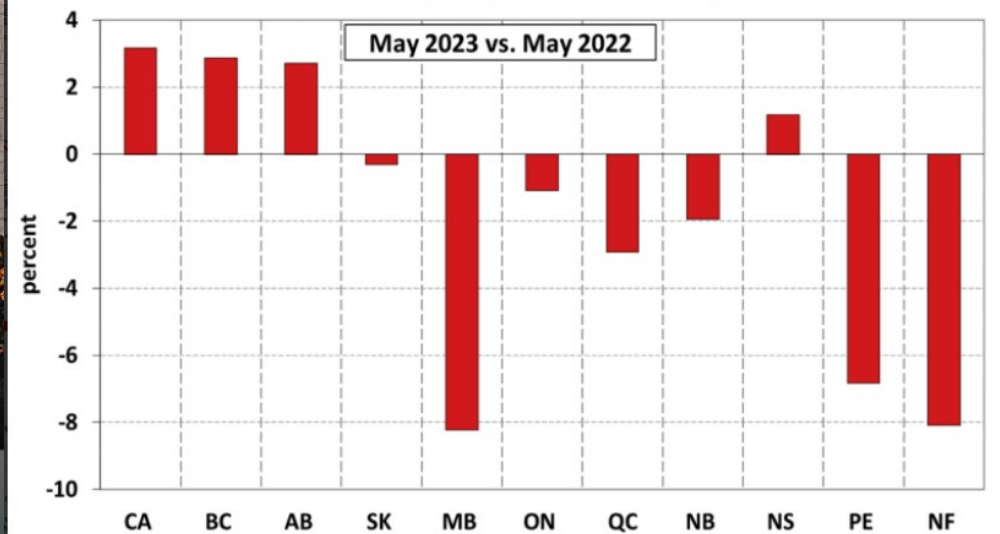
## Market Rebound

Canadian home values have surged higher in the spring

✓ Benchmark home price



## Residential average price\* Year-over-year percentage change



Source: The Canadian Real Estate Association

\*Actual (not seasonally adjusted)



CENTRES

ING

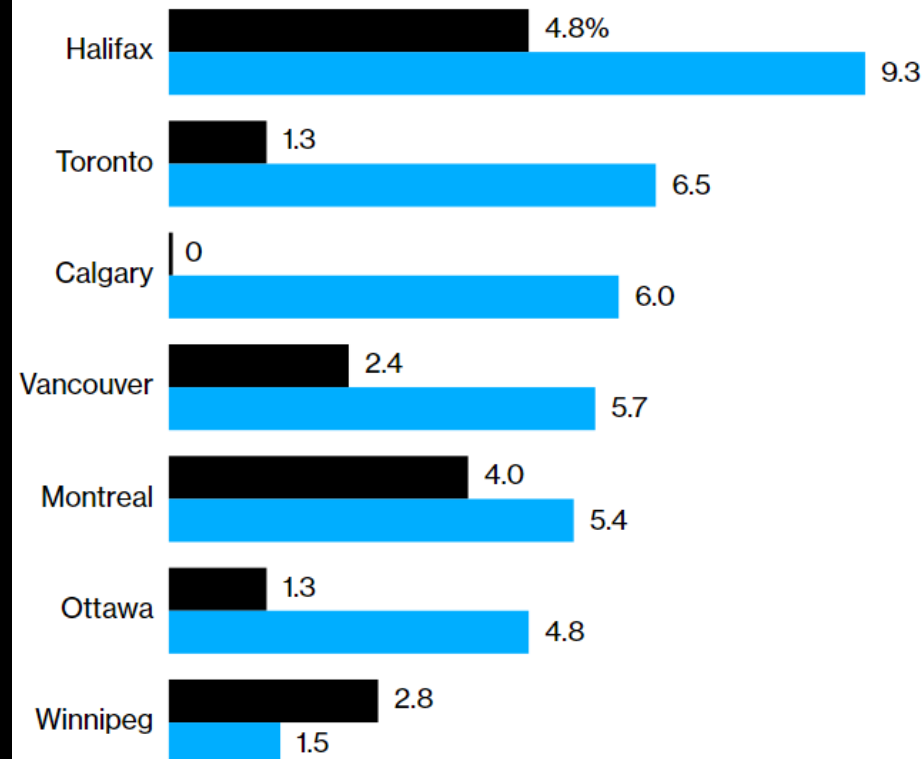


# INVESTORS HAVE NEGATIVE CARRY

## Apartment Rents Are Soaring in Canada's Cities

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

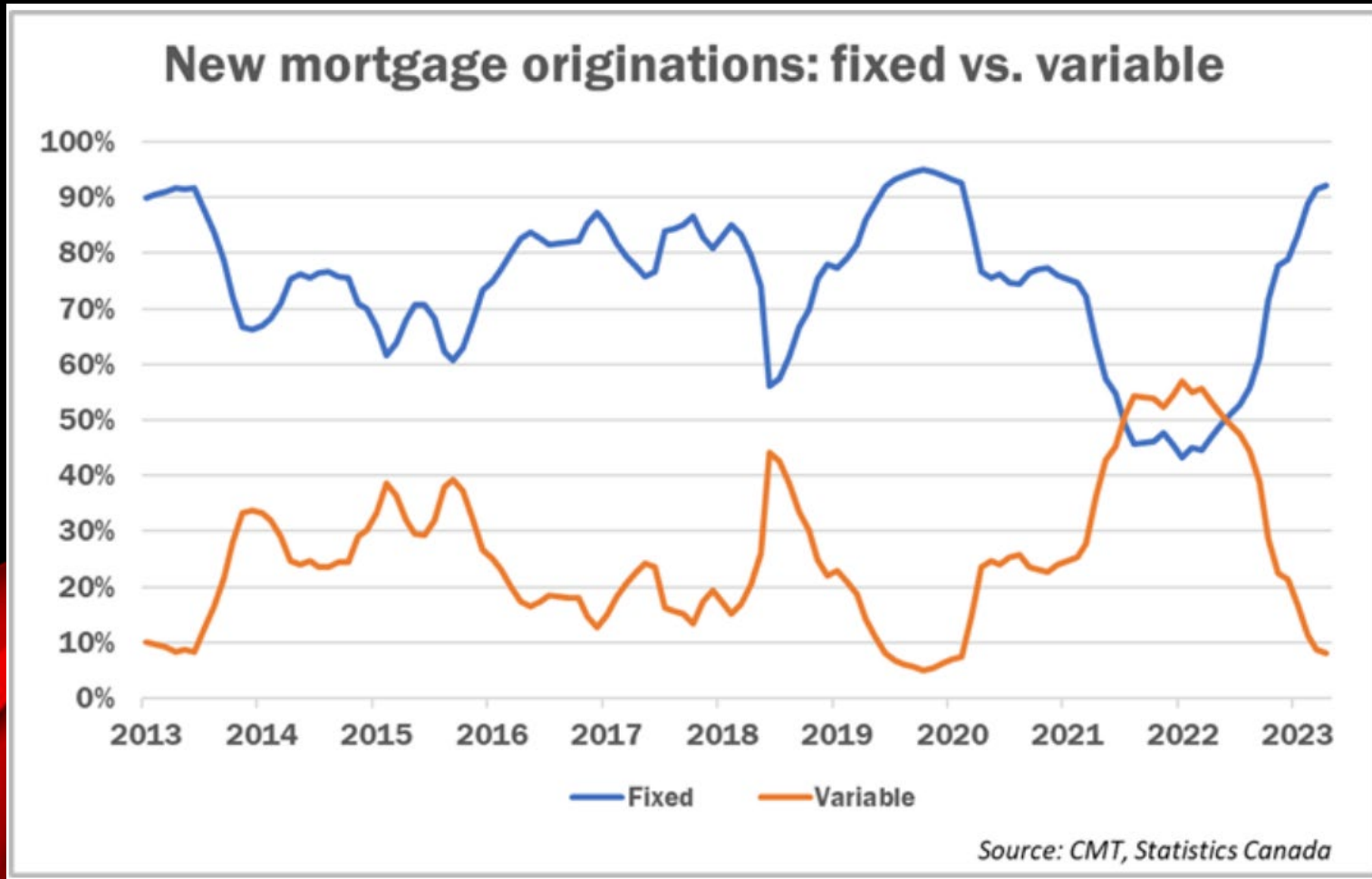
■ Oct. 2021 ■ Oct. 2022



Source: Canada Mortgage & Housing Corp., Bloomberg

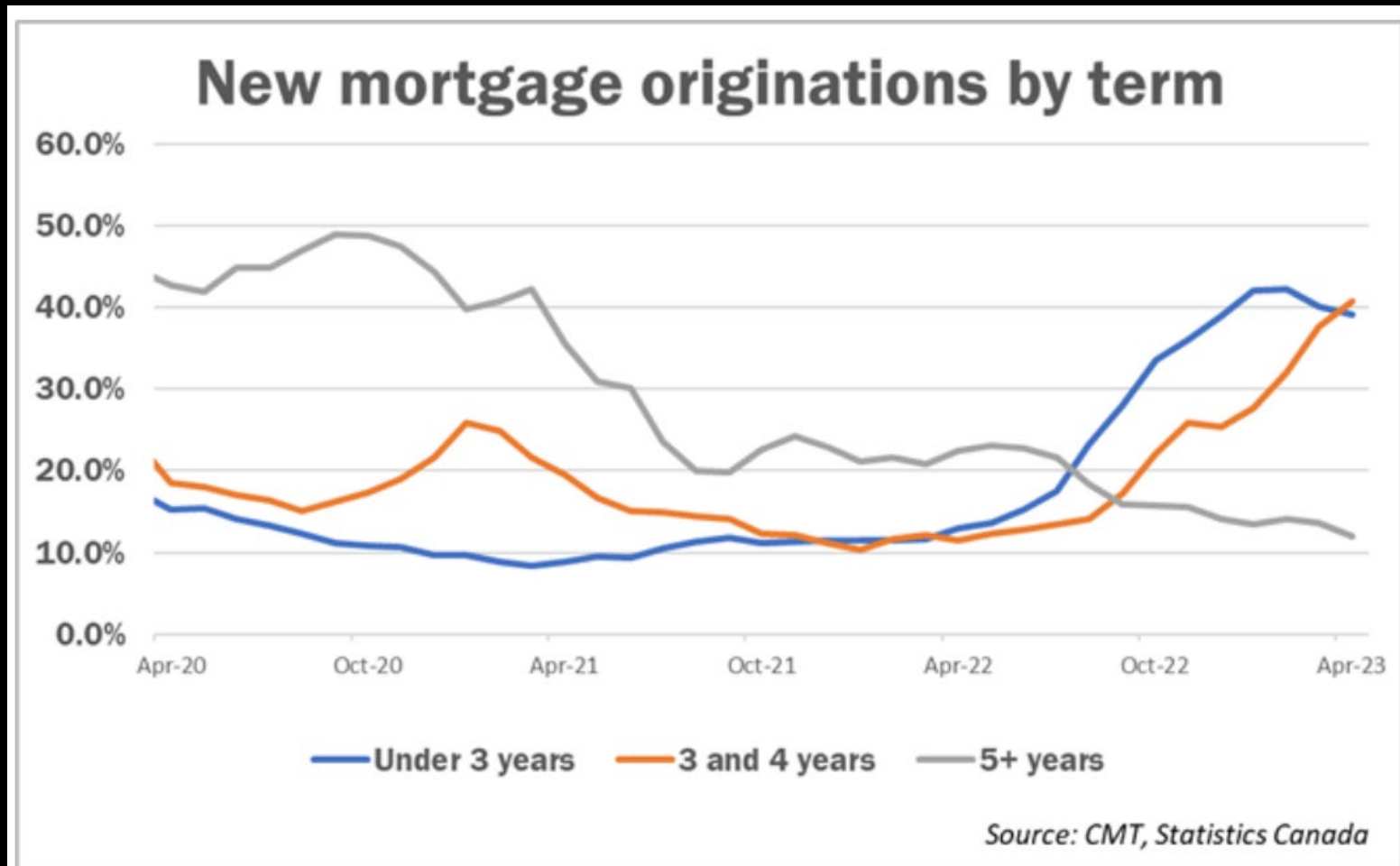
Note: For apartments in purpose-built rental buildings.

# NEW VRMS PLUNGED TO PRE-COVID LEVELS



**As of April, just 8% of new originations had a variable rate, down from a peak of almost 57% in January 2022.**

# THREE TO FOUR-YEAR TERMS ARE MOST POPULAR



A hand in a blue sleeve is shown dropping a coin into a series of stacks of coins that increase in height from left to right. In the background, there is a red silhouette of a house. The overall scene is set against a blurred background with a rainbow-colored light streak at the top.

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

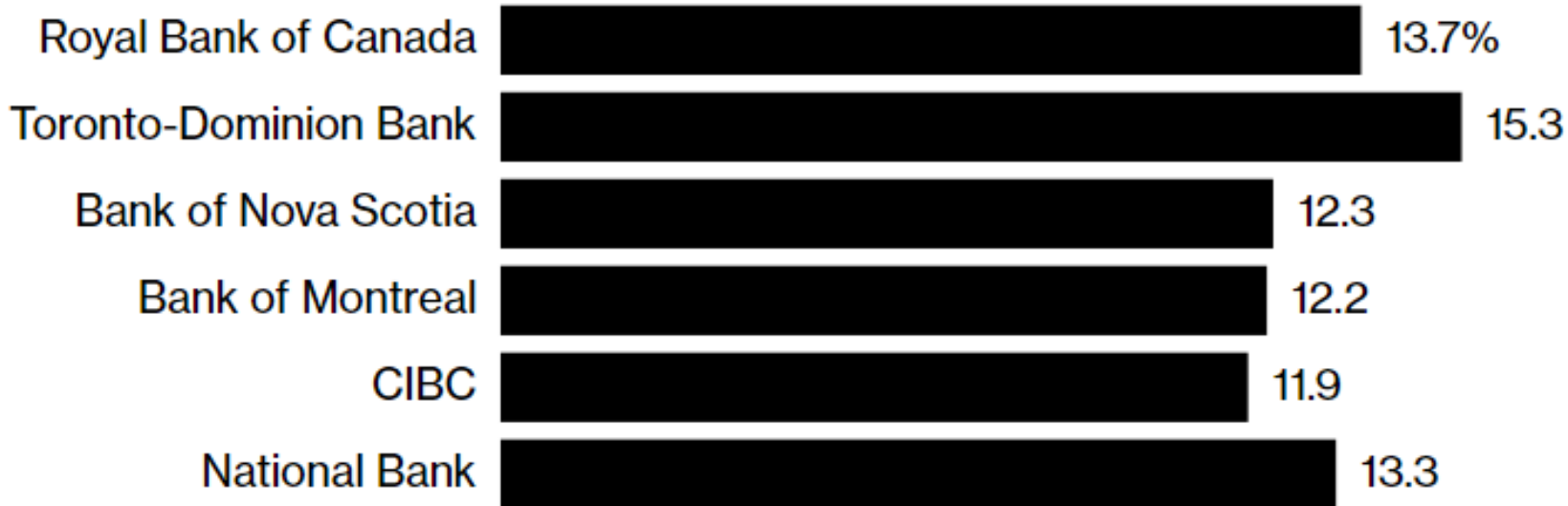
"OSFI expects a more prudent and active account management approach, including resolving negative amortization at the earliest opportunity" *Reuters*.

# OSFI Raised the Capital Requirements On Banks for the Second Time in 6 months



# CANADIAN BANKS HAVE STRONG CAPITAL LEVELS

■ CET1 ratio as of fiscal second quarter



Source: Banks' earnings reports for fiscal 2Q quarter ended April 30

The Big Six are all above the new 11.5% regulatory minimum

# SOME BIG BANKS HAVE ALLOWED NEGATIVE AMORTIZATIONS FOR VRM FIXED-PAYMENT BORROWERS

**If banks revert to the original amortization schedule for VRMs renewing in 2025-2026, monthly payments will rise by 40% or more. For fixed-rate mortgages, payments would rise by 20-25%. (BoC estimate)**

# INTEREST PAYMENTS SKY-ROCKET WITH LONGER AMORTIZATIONS



**How much total interest would you pay at 60-, 70-, 80-, and 90-year amortizations?**

	25-year	30-year	60-year	70-year	80-year	90-year
Monthly Payment	\$3,161	\$2,934	\$2,494	\$2,460	\$2,441	\$2,430
Total Payments	\$948,196	\$1,056,153	\$1,795,801	\$2,065,961	\$2,342,908	\$2,624,469
Total Interest	\$448,196	\$556,153	\$1,295,801	\$1,565,961	\$1,842,908	\$2,124,469

Data in the chart is based on a mortgage amount of \$500,000 and a mortgage rate of 5.80%. The information in this chart is for illustration purposes only and is a simplified calculation of interest paid over time.

**ratehub.ca**

*\*Please note that this is for illustration purposes only and is a simplified calculation of interest paid over time.*

From 25- to 90-year Amortization

- Monthly payment falls - 23%,
- but interest rises 374%



# FCAC'S NEW MORTGAGE RELIEF GUIDELINES

## Provide temporary mortgage relief:

- Waive prepayment penalties
- Waive internal fees and costs
- Avoid charging interest on capitalized interest
- Extend amortizations for “the shortest period possible”
- Ensure no adverse credit reporting

**This applies only to federally regulated FIs**



**HOUSING SHORTAGE WILL WORSE**

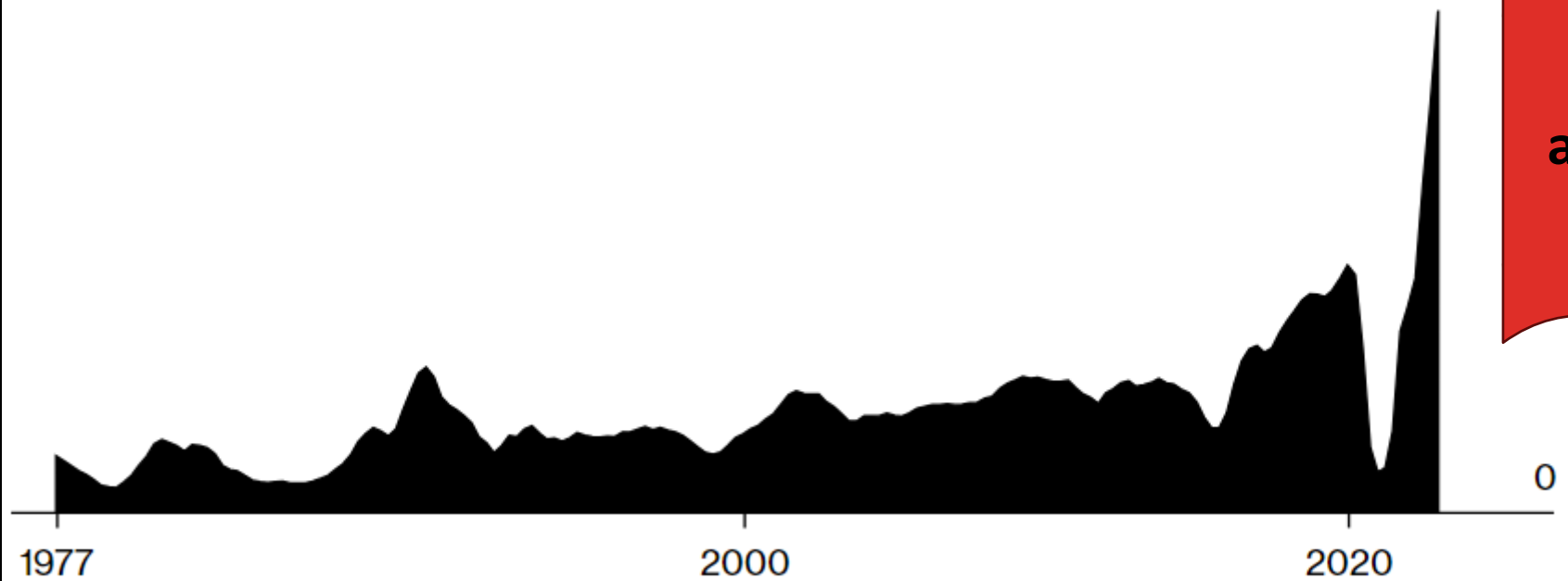


# CANADIAN ANNUAL POPULATION GROWTH IS 2.7%

## 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

The fastest pace among advanced economies and rivaling least developed nations of Burkina Faso, Burundi, and Sudan.

# RECORD-HIGH POPULATION GROWTH IN 2022, 1 MILLION (+2.7%)—STRONGEST RATE SINCE 1957

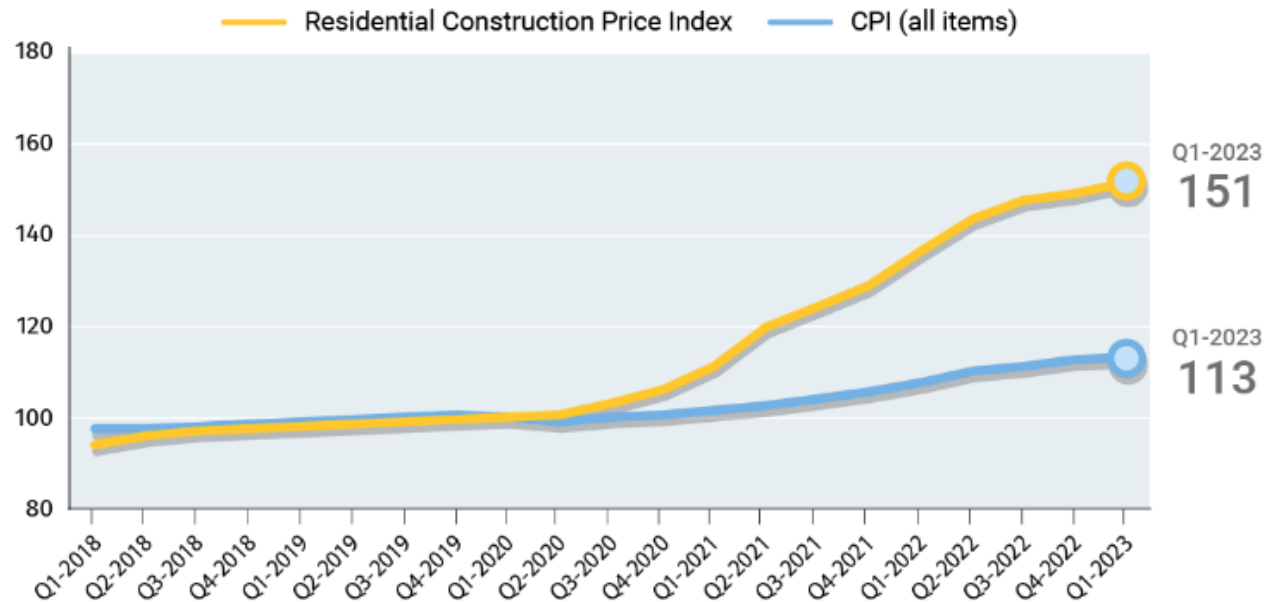
Year	Planned Permanent Immigration
2022	437,180
2023	465,000
2024	485,000
2025	500,000

In 2022, Canada welcomed 437,180 immigrants and saw a net increase of non-permanent residents estimated at 607,782—by far, the largest component of growth. Now Ottawa wants to make them permanent.

# SURGING CONSTRUCTION COSTS IMPEDE NEW HOME SUPPLY

## Growth in Canadian residential construction prices surges past CPI

CPI (all items) and Residential Construction Price Index, indexed to 100 at Q1 2020



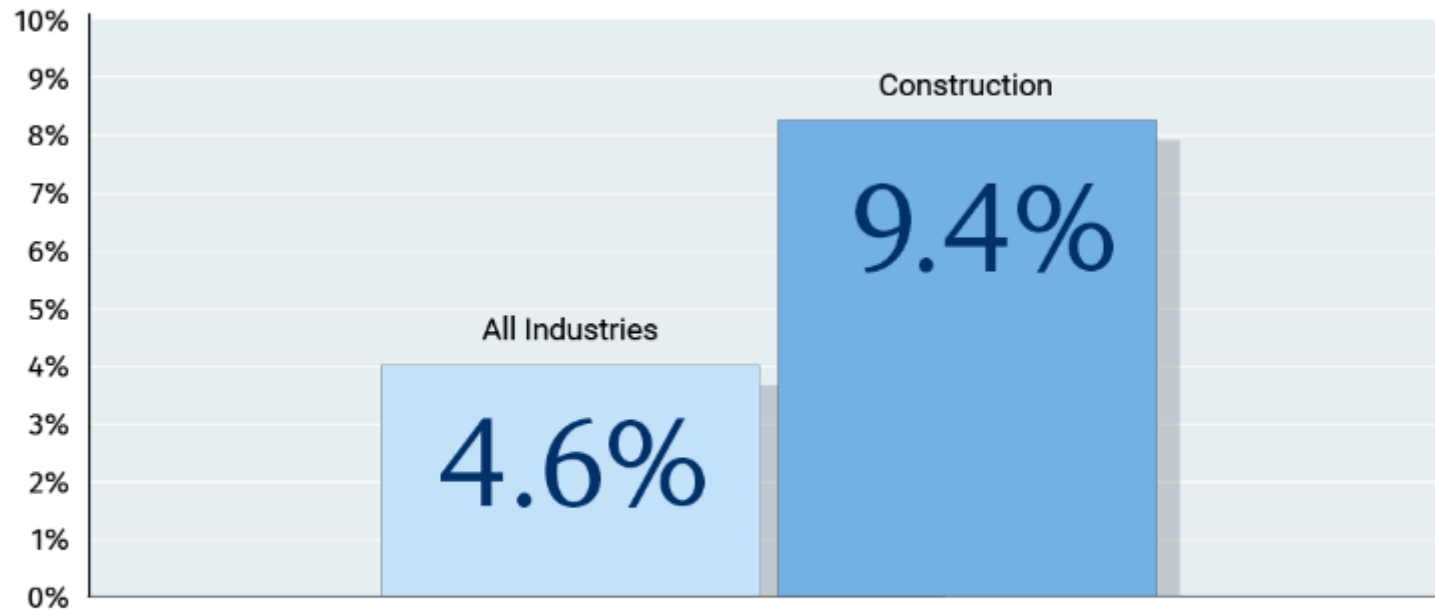
Source: Statistics Canada, RBC Economics

- Construction costs are up 51% since the start of the pandemic (Q1 2020), while the CPI is up 13%.
- Municipal development fees are tied to construction costs, so they have surged too.
- Labour shortages and rising wages (+9.4%) also limited supply.
- Expanding production of inputs like cement and lumber might be precluded by environmental impact.
- Forest fire disrupt construction and reduce the supply of lumber

# ANOTHER IMPEDIMENT TO HOME CONSTRUCTION

## Construction wage growth soars over other industries

Annual change to wages in 2022, %

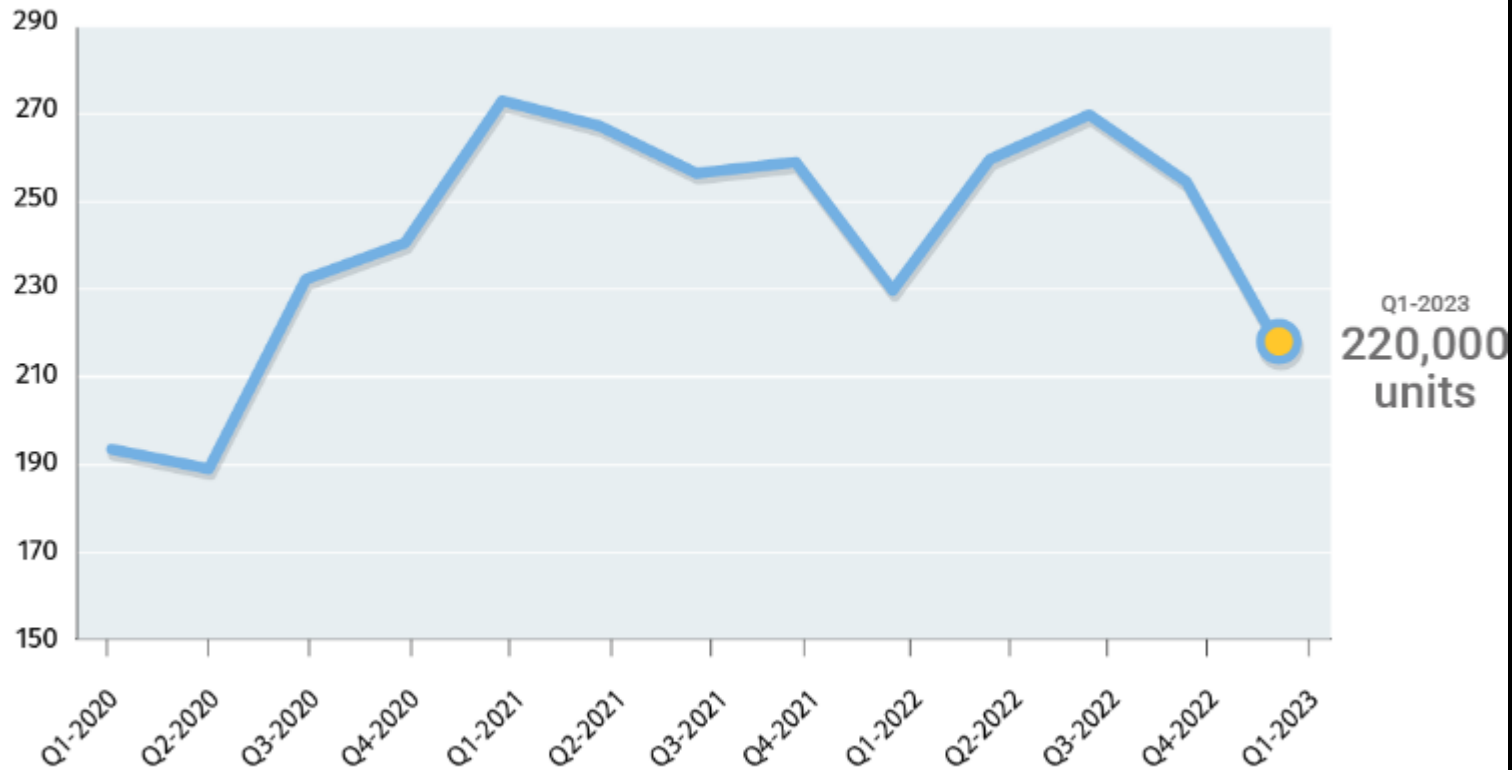


Source: Statistics Canada, RBC Economics

# HOUSING STARTS HAVE SLOWED WITH RISING COSTS FOR DEVELOPERS AND BUILDERS

## Housing starts drop to lowest level since the pandemic

Housing starts (seasonally adjusted and annualized), thousands of units



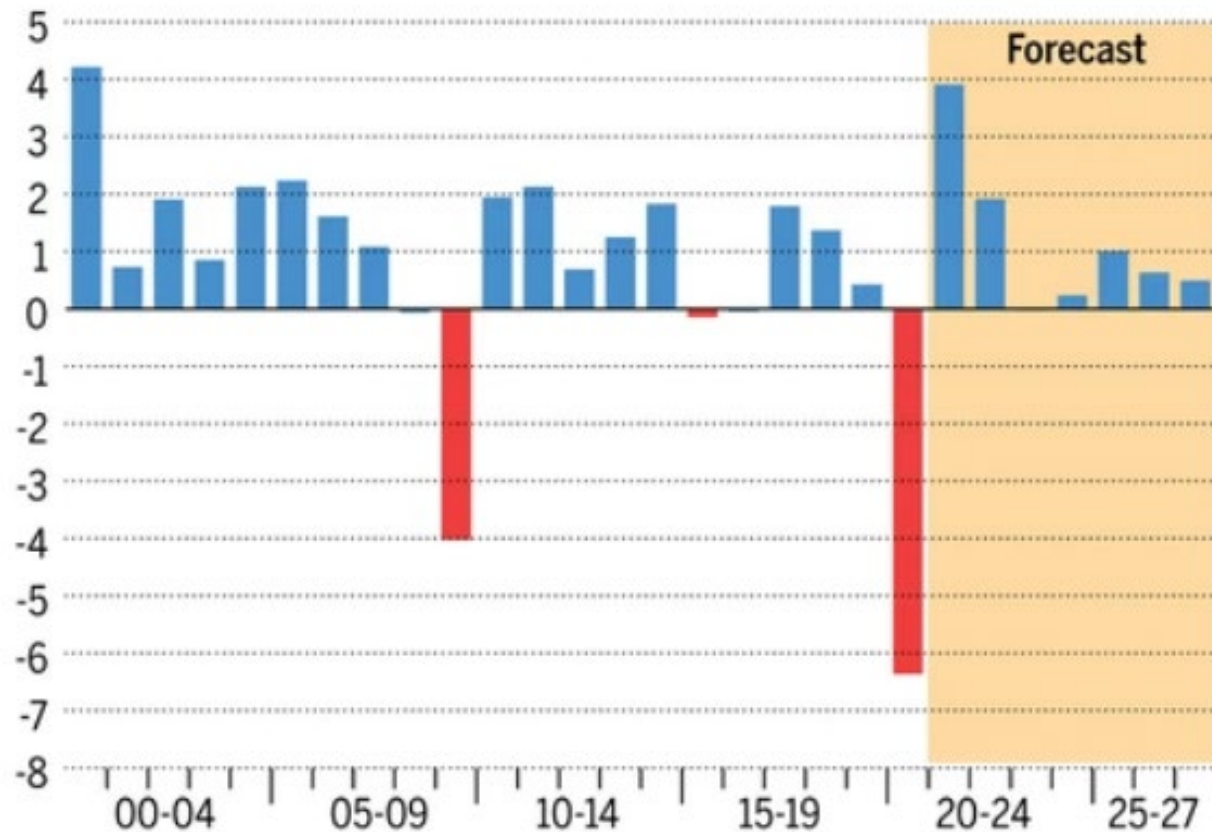
Source: CREA, RBC Economics

**Confounds**  
**Trudeau's goal to**  
**double housing**  
**construction and**  
**improve**  
**affordability**

# IMMIGRATION HAS DIMINISHING RETURNS TO GDP PER CAPITA

## DIMINISHING RETURNS

GDP per capita, constant dollars, national currency



SOURCE: INTERNATIONAL MONETARY FUND,  
CALCULATIONS FINANCIAL POST

GIGI SUHANIC / FINANCIAL POST

Our economy will grow faster,  
but our average living  
standards will stagnate.

Productivity growth is falling.

Income inequality is rising.



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