



HOW CLOSE ARE  
WE TO THE PEAK  
IN RATES?

WHEN WILL THE  
BoC START  
EASING?

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

**JOIN US**  **LIVE**

**Wednesday, Oct 25<sup>th</sup>**

**10.25.23**

**11:30AM PT / 2:30PM ET**



**Dr. Sherry Cooper**  
**October 25, 2023**



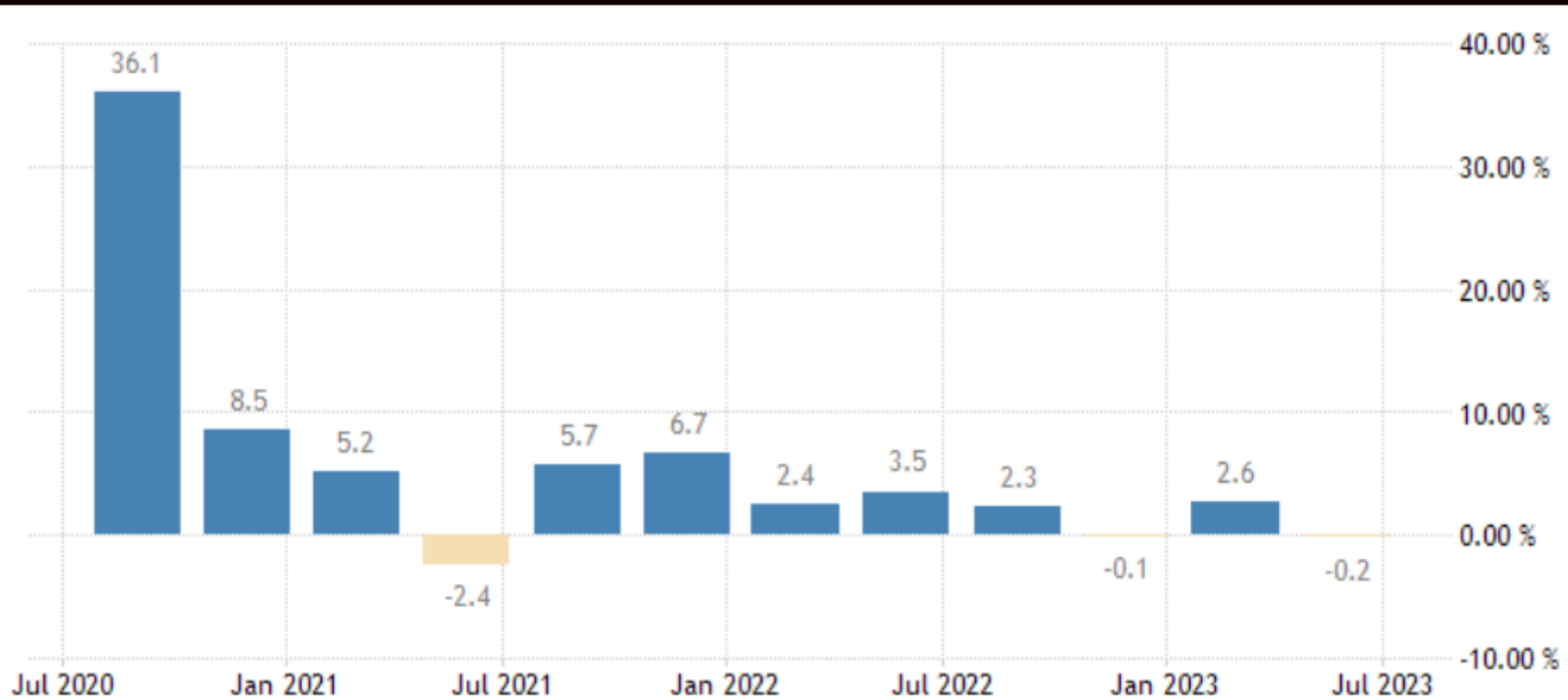
Year	GDP Growth (%)
2021	5.0
2022	3.4
2023	1.1
2024	0.6
2025	2.5

# LONG-AWAITED SLOWDOWN



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# ECONOMY CONTRACTS IN Q2



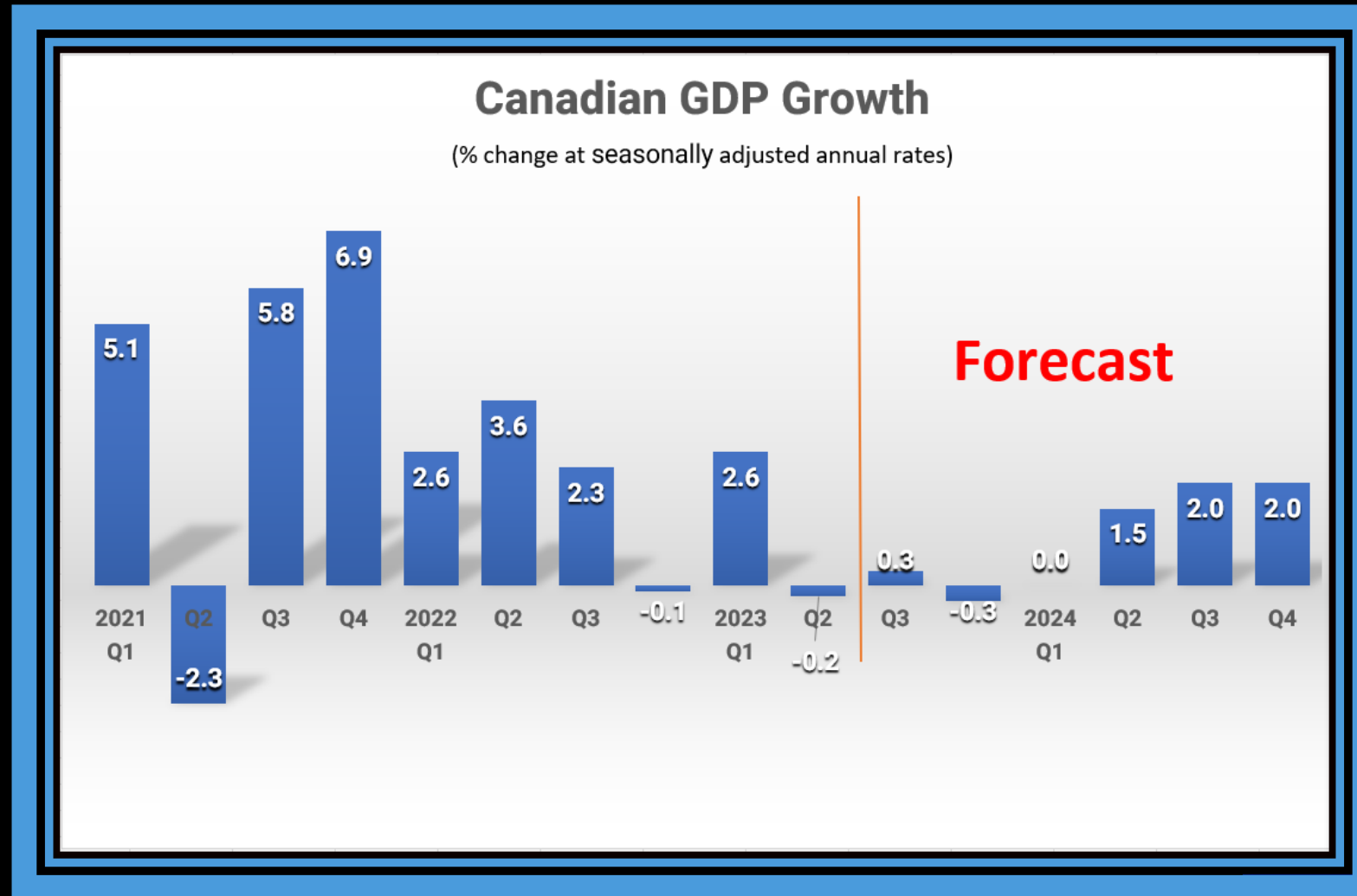
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# CANADIAN GROWTH DECELERATES



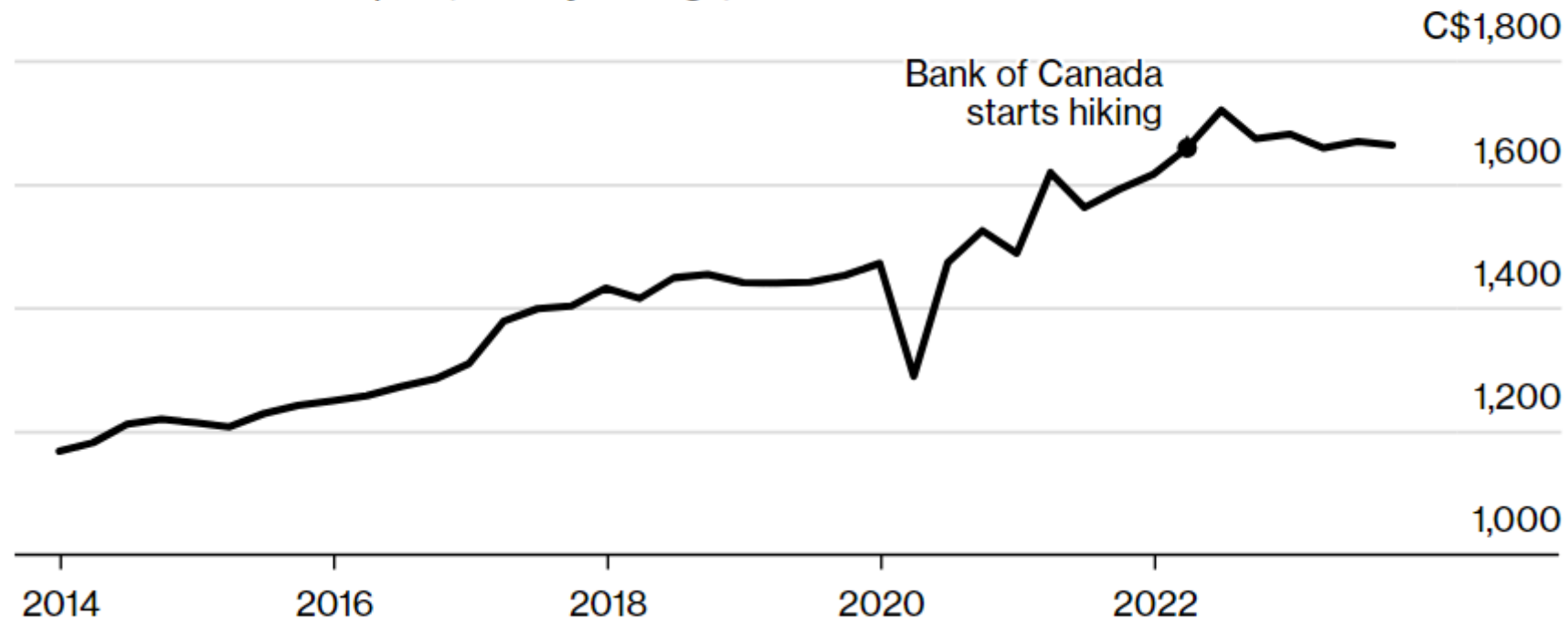


# WEAK RETAIL SALES CEMENT BOC PAUSE

## Canada Consumption Flat

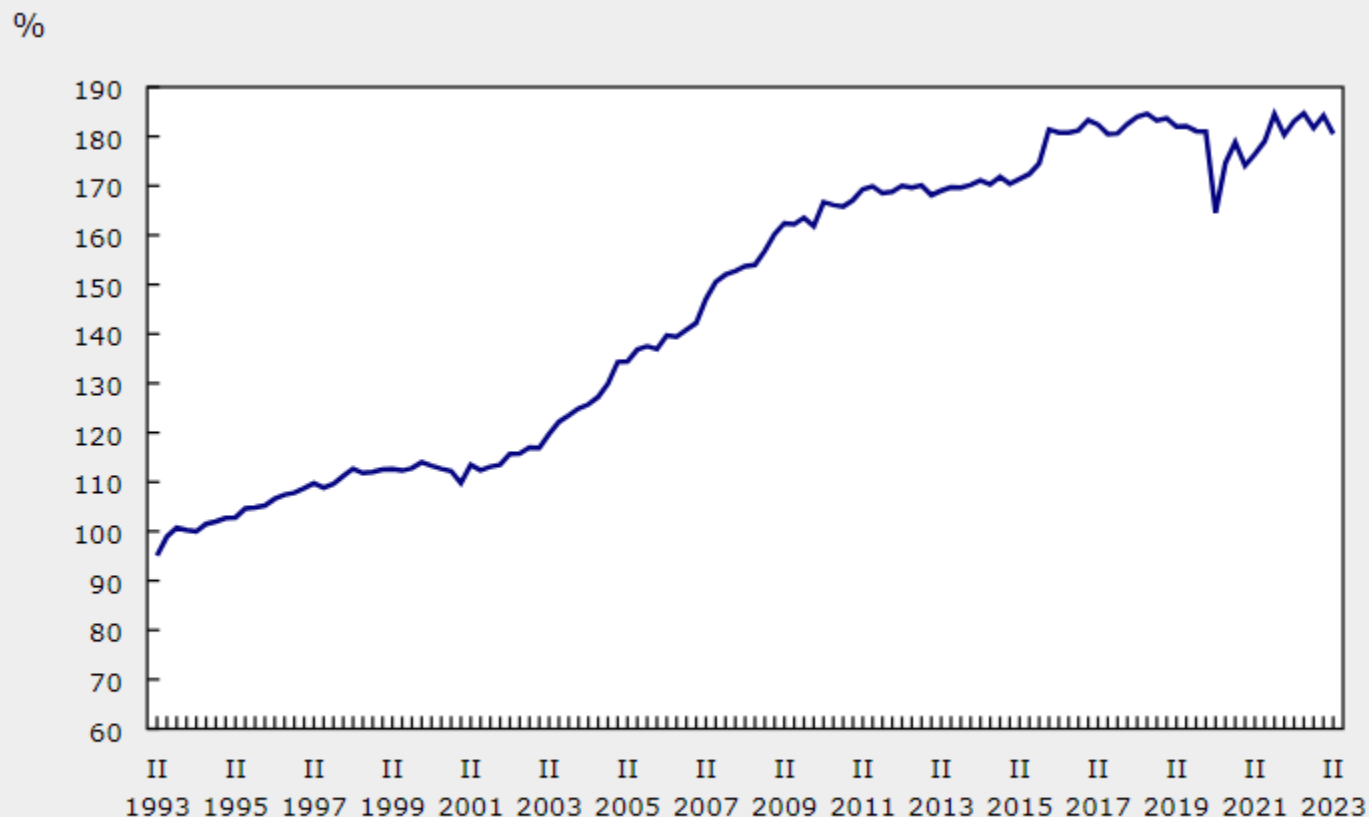
Retail sales are weak after accounting for record population gains

/ Retail Sales Per Capita (monthly average)



Source: Statistics Canada, Bloomberg calculations

# HOUSEHOLD DEBT-TO-INCOME RATIO UP



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

**But Household  
Net Worth Rose**

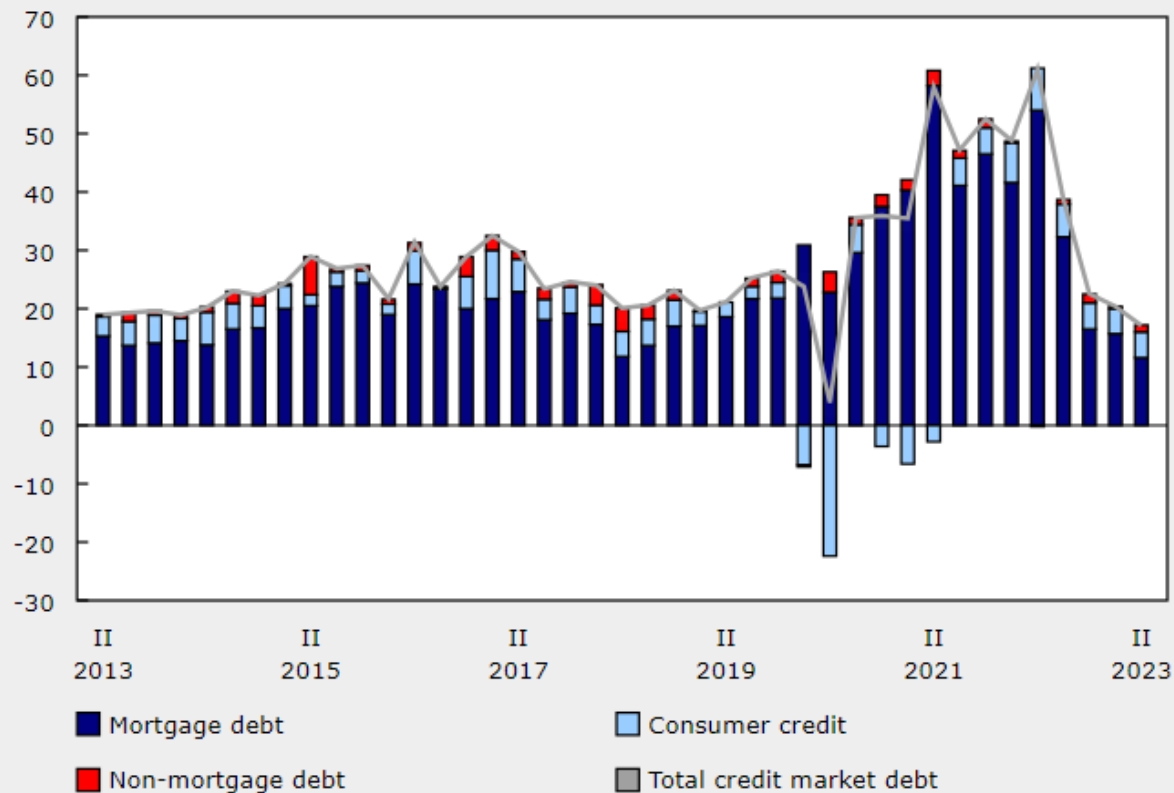


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# HOUSEHOLD BORROWING PLUMMETS WITH HIGHER RATES

billions of dollars



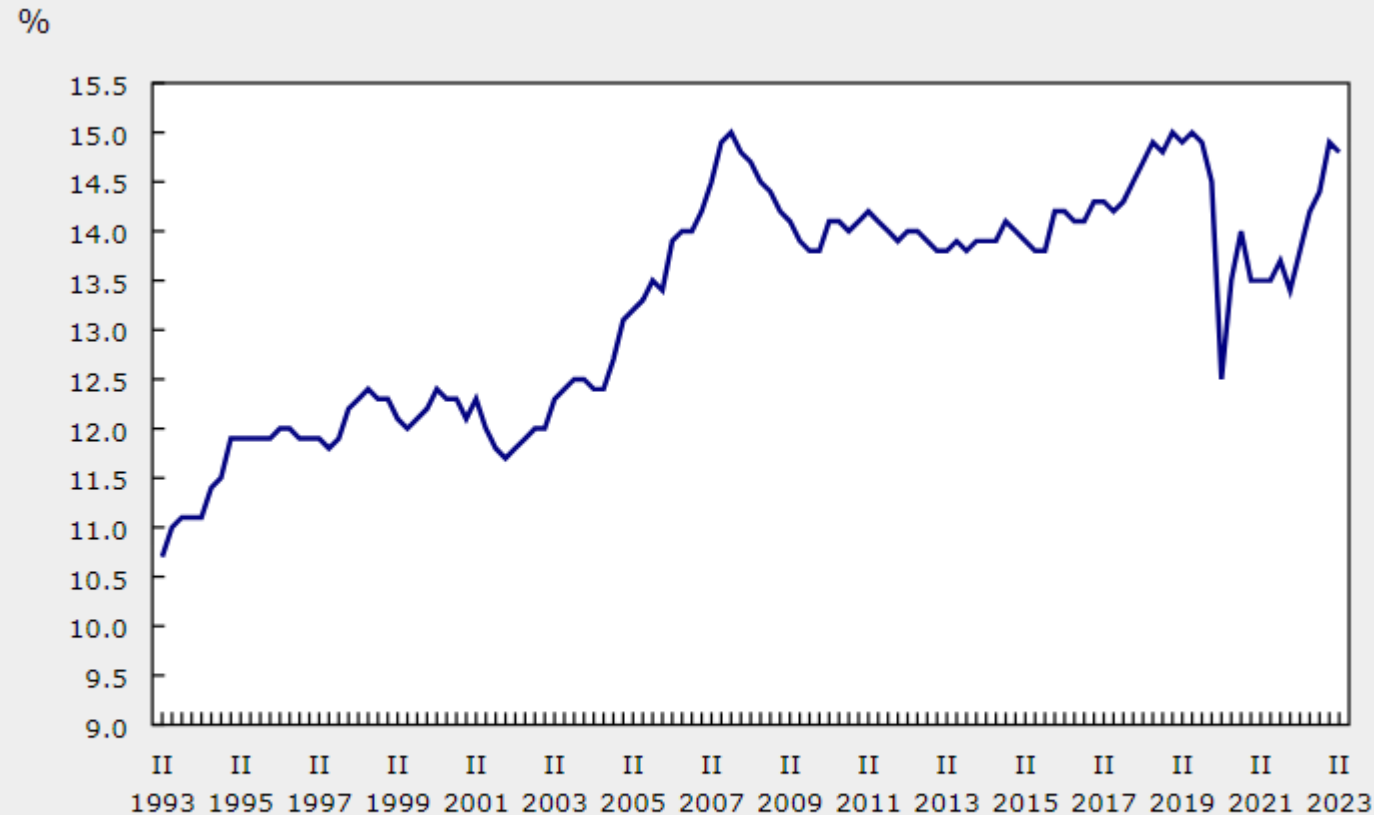
Source(s): Table [38-10-0238-01](#).

**Mortgage Originations Fell to An 18-year Low.**

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

**Originations by First-Time Homebuyers up 59% from Q1 level**

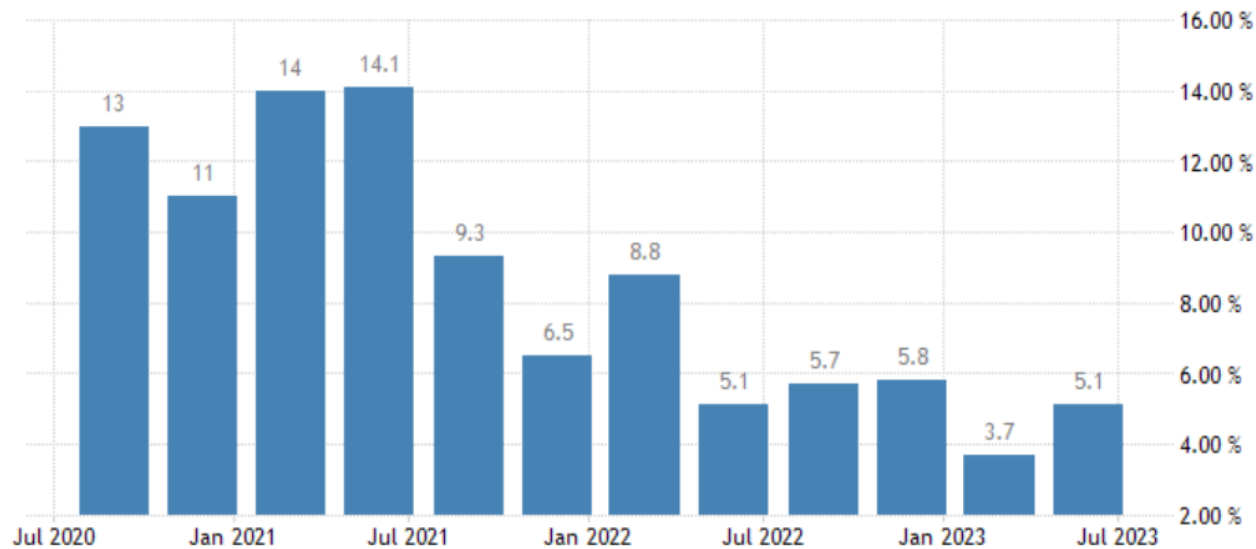
# HOUSEHOLD DEBT SERVICE RATIO RISING SHARPLY



**Source(s):** Table 11-10-0065-01.



# SAVINGS RATE EDGES UP IN Q2



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**As Consumer Spending Slows**



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# CONSUMER CONFIDENCE FALLS



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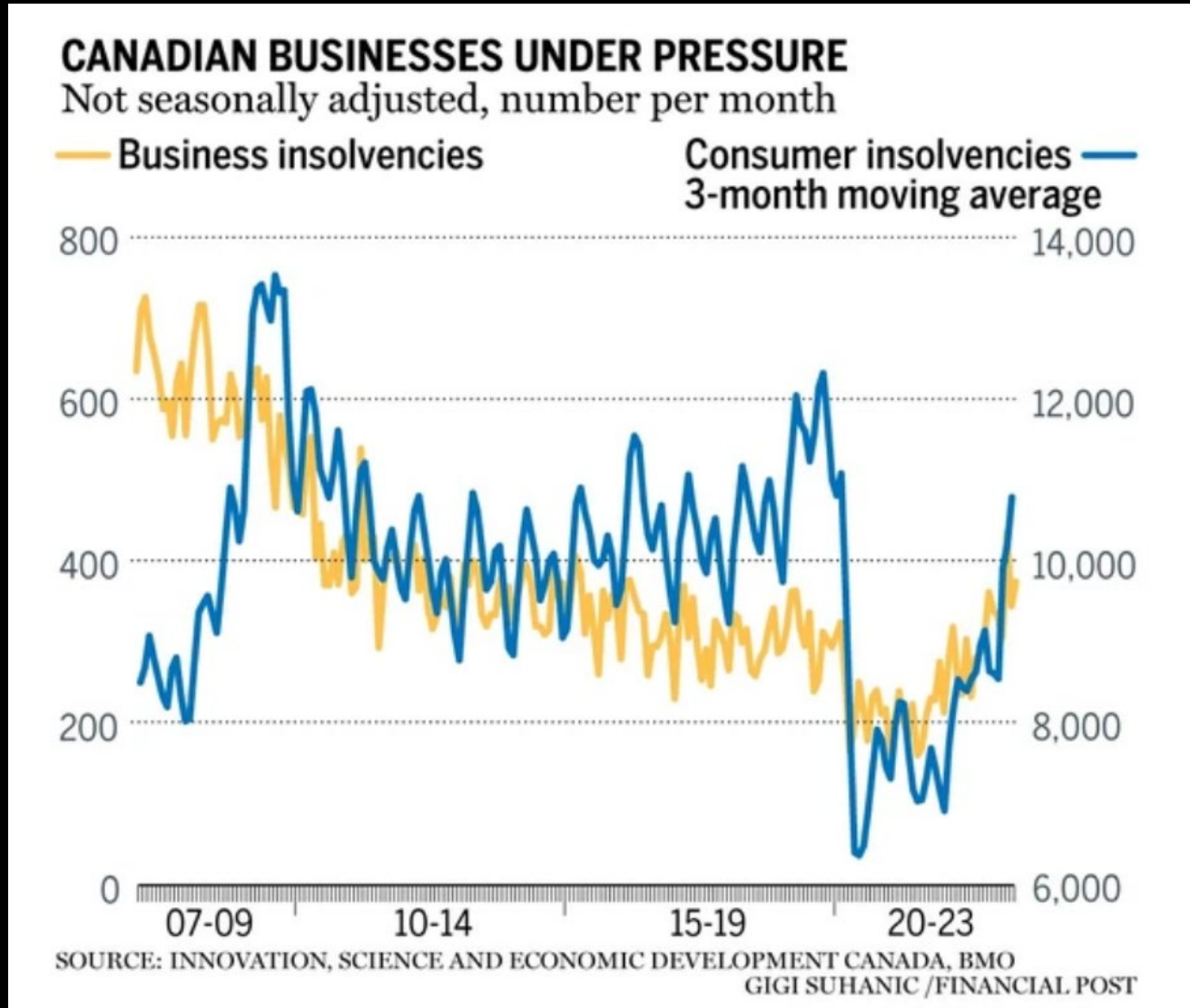
# CREDIT CARD DELINQUENCIES RISING

Credit Card  
Balances Hit a  
Record High



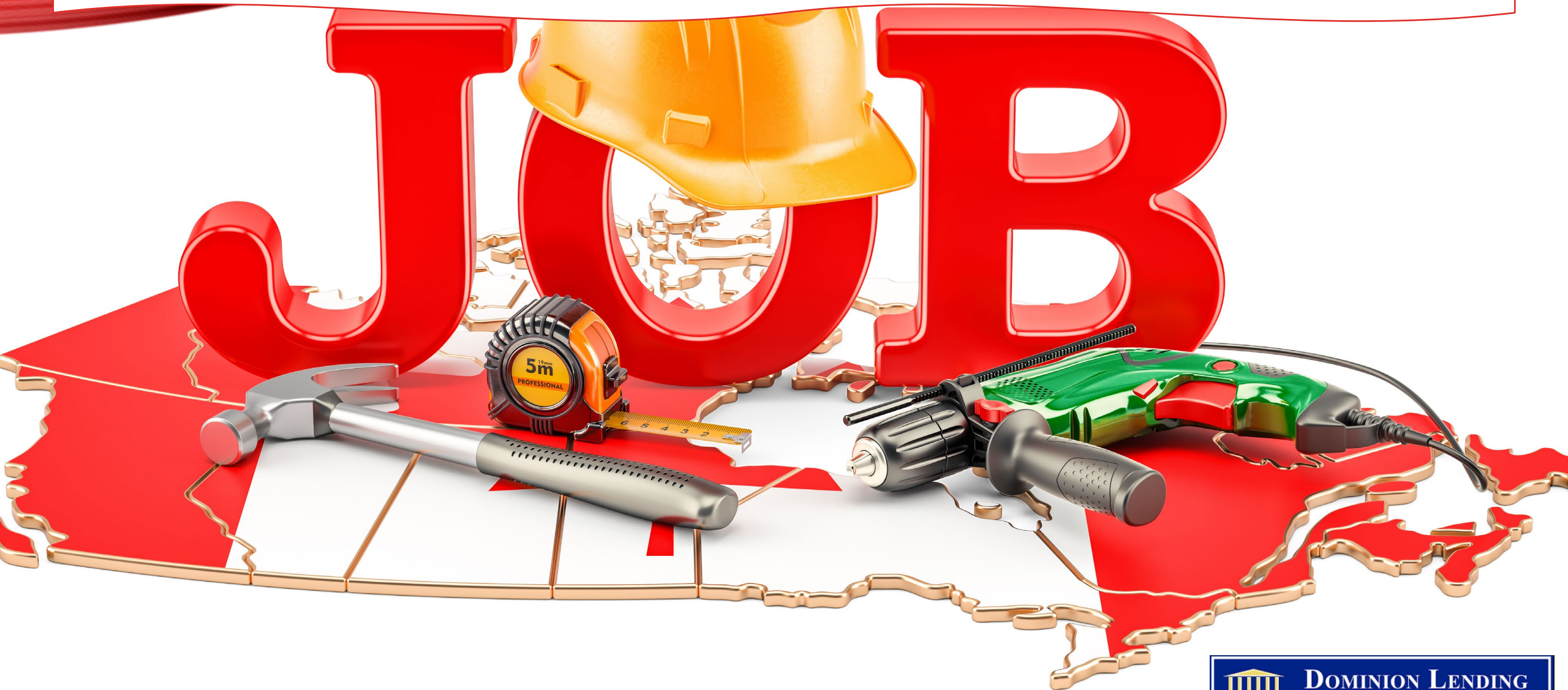
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# CONSUMER AND BUSINESS INSOLVENCIES RISE

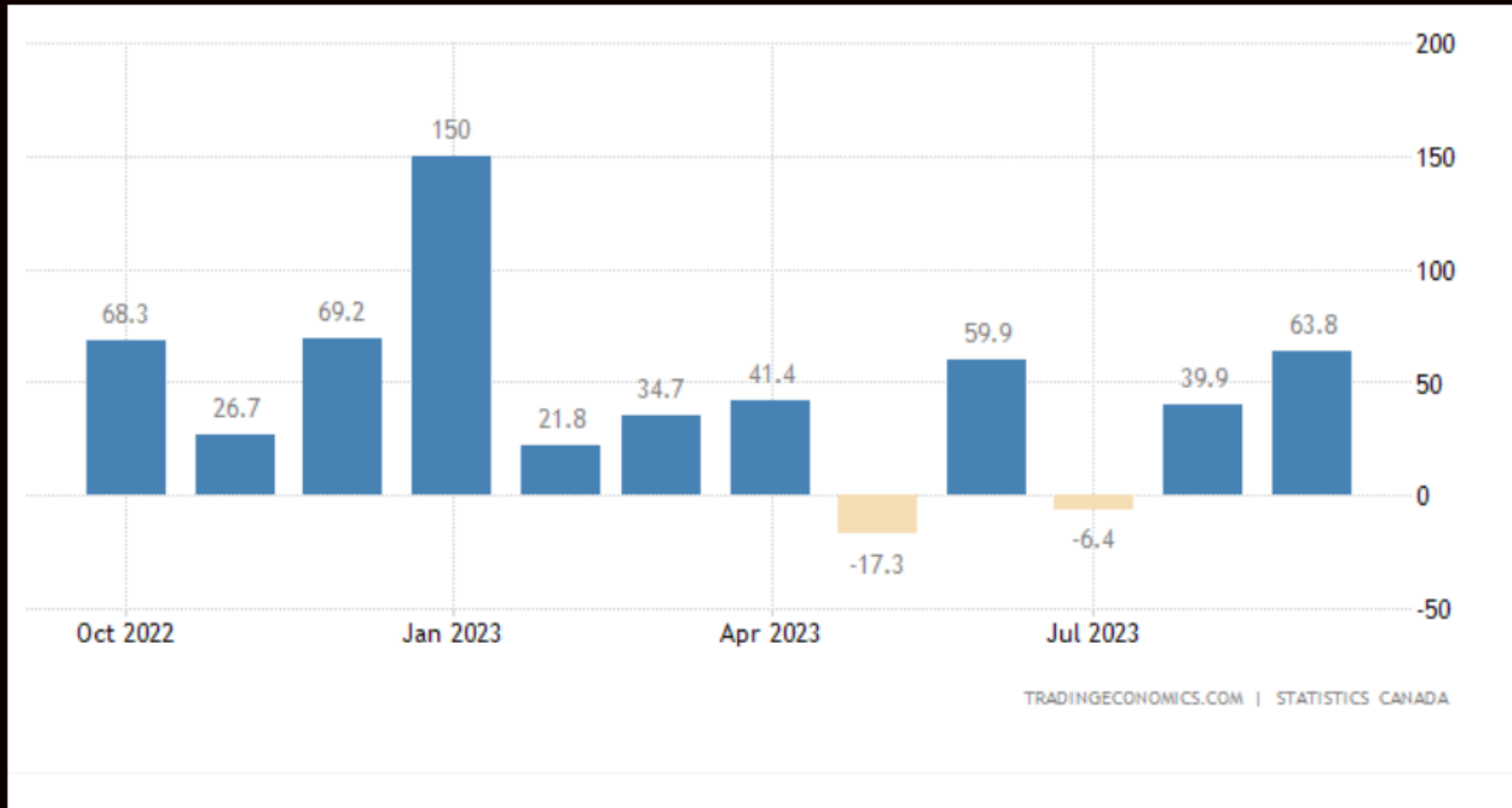




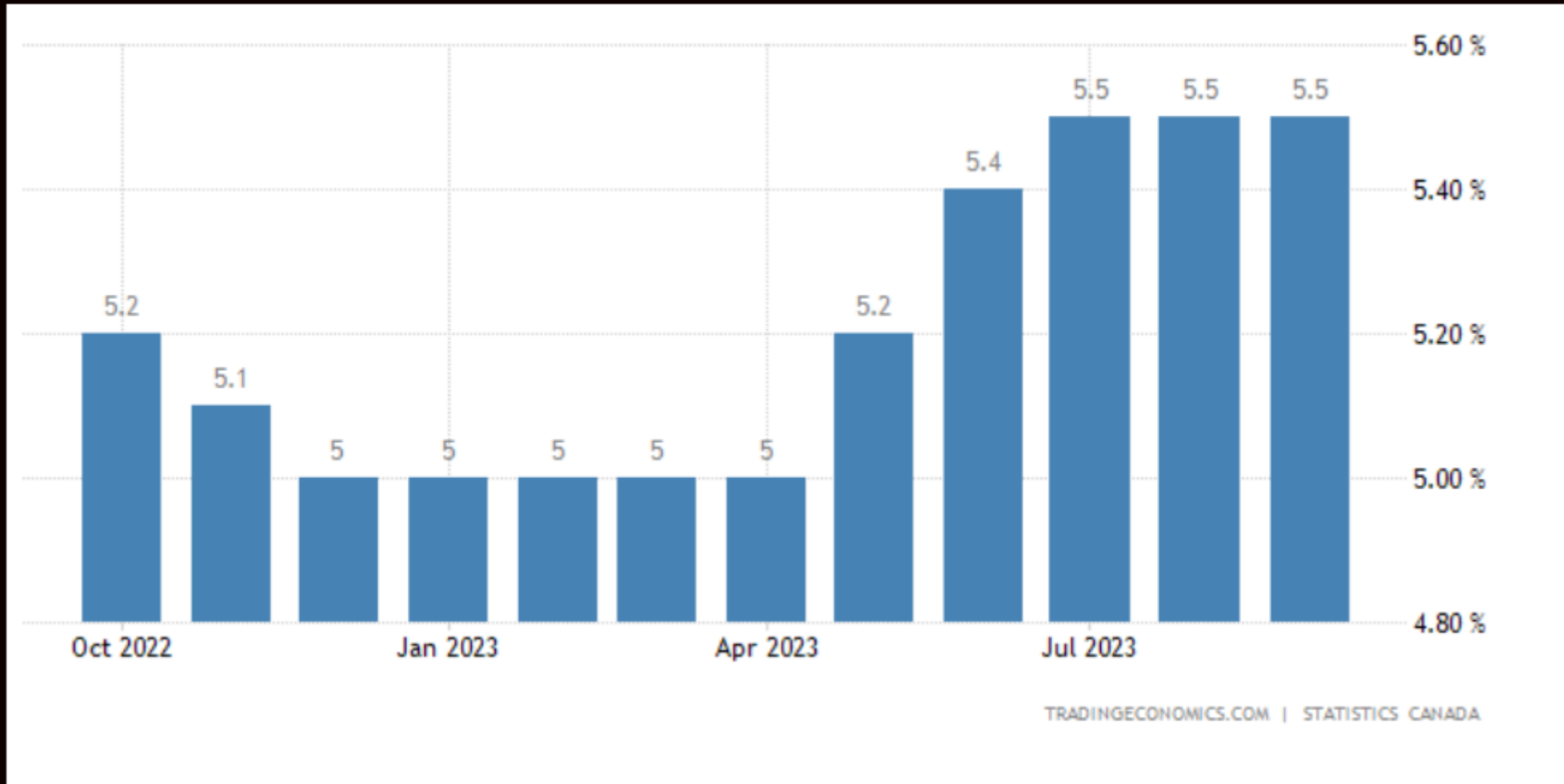
# CANADA'S LABOUR MARKET EASES



# EMPLOYMENT VERY STRONG IN SEPTEMBER

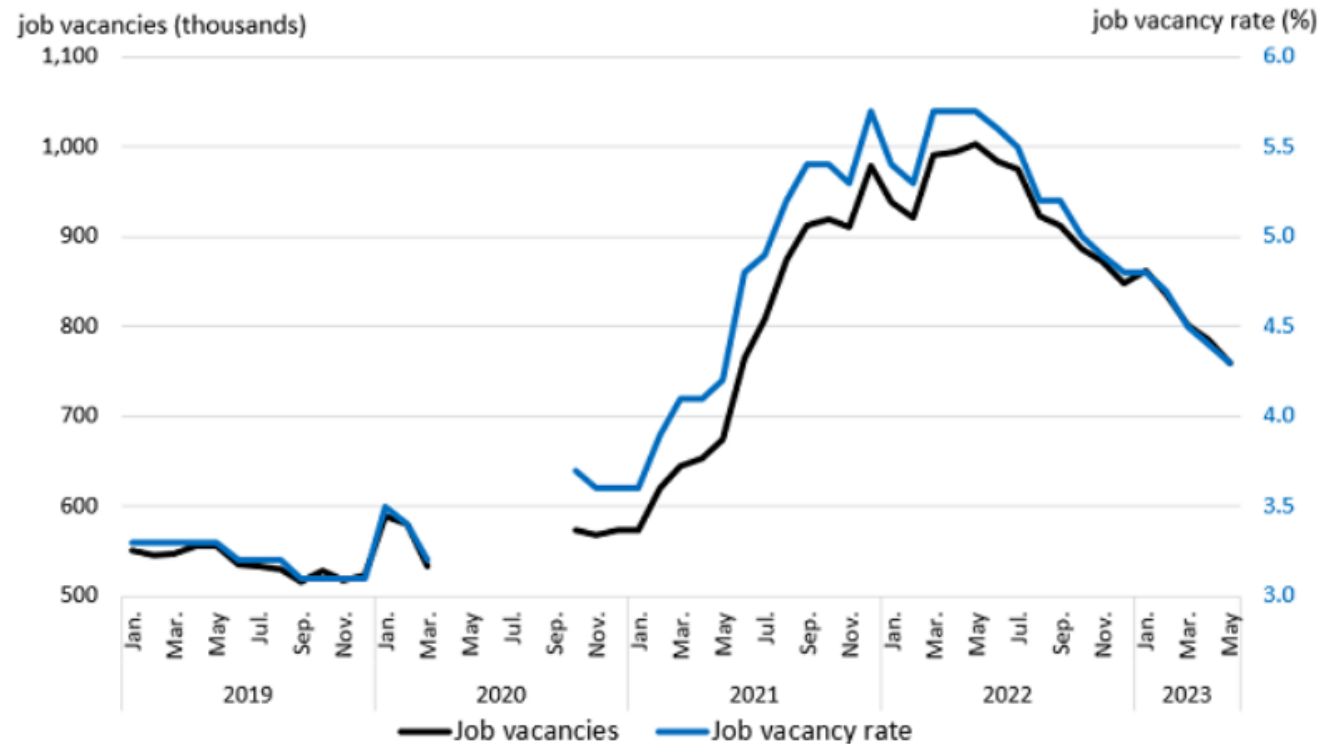


# THE JOBLESS RATE HELD STEADY IN SEPTEMBER



# JOB VACANCIES HAVE FALLEN FOR A YEAR

[← Back to main article](#)



**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.

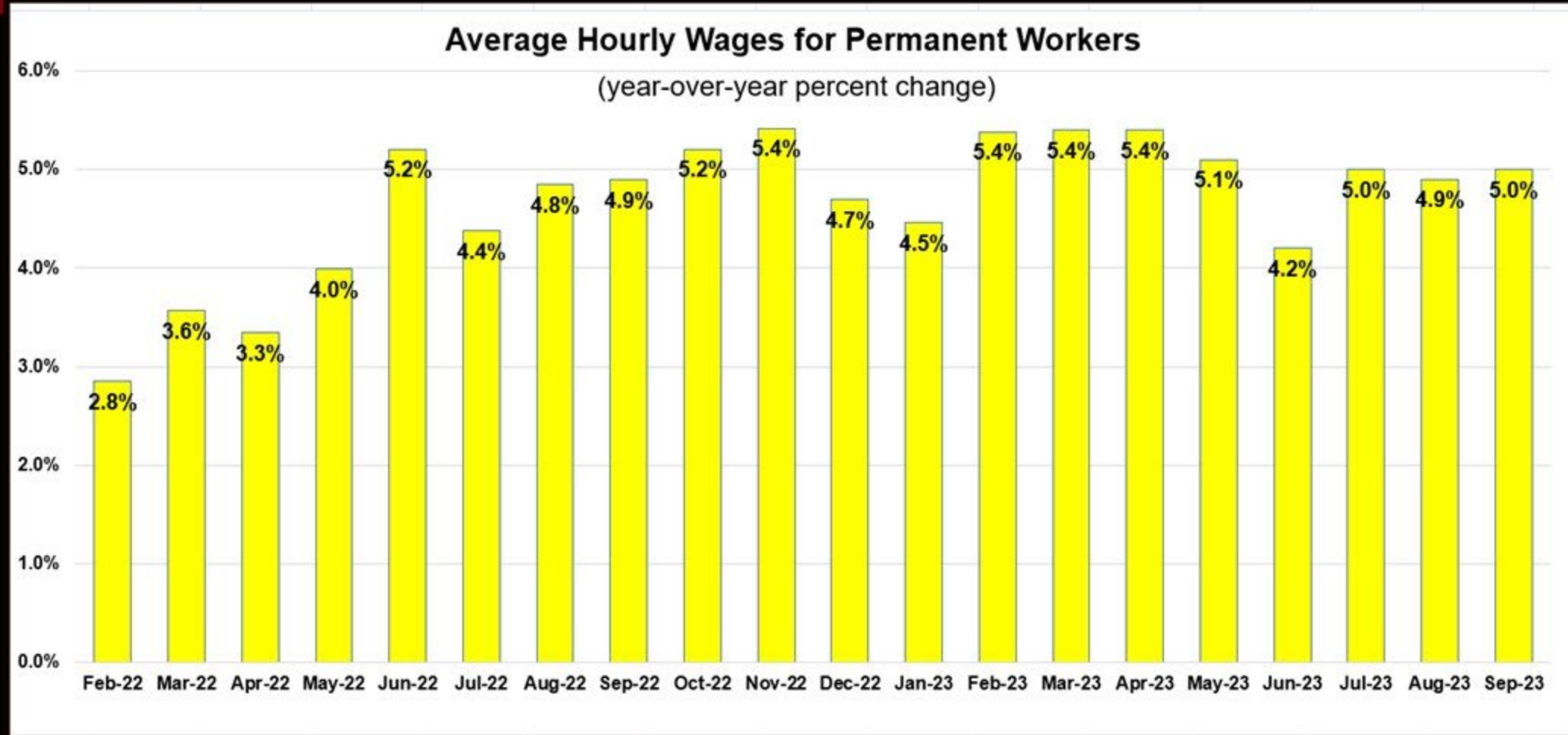
**Source(s)** : Job Vacancy and Wage Survey (5217), table 14-10-0406-01.



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# ANNUAL WAGE INFLATION STICKY AT 5.0%



# HEADWINDS

- Consumer non-mortgage debt rising
- Credit card delinquencies up sharply
- Monthly payments on ARMs and HELOCs rise
- Early mortgage delinquencies rise

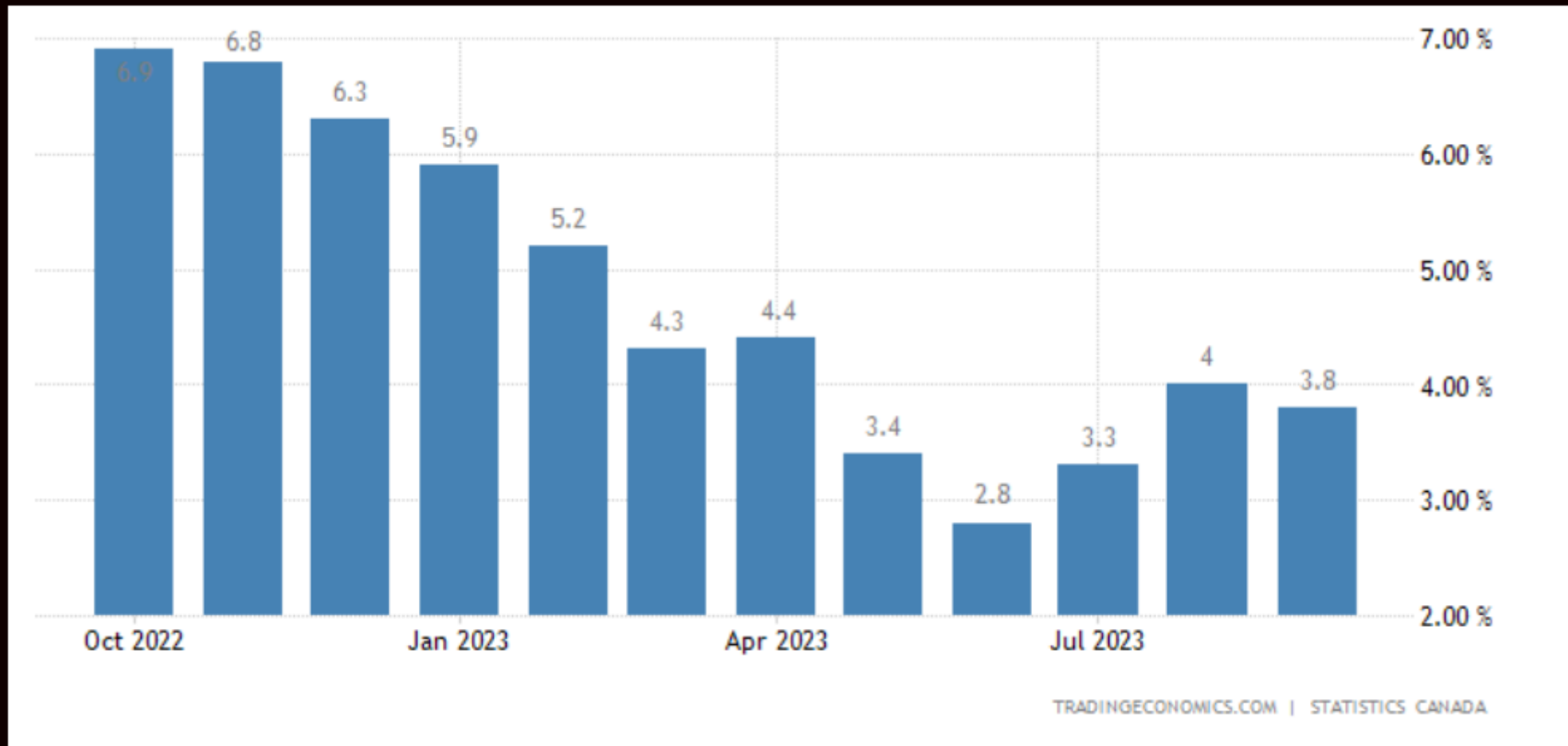




A Canadian flag is draped across the top left of the image, with its red and white colors and maple leaf design visible. The background is a dark grey surface with a cracked, stone-like texture.

# INFLATION

# CANADIAN CPI INFLATION DIPS IN SEPTEMBER

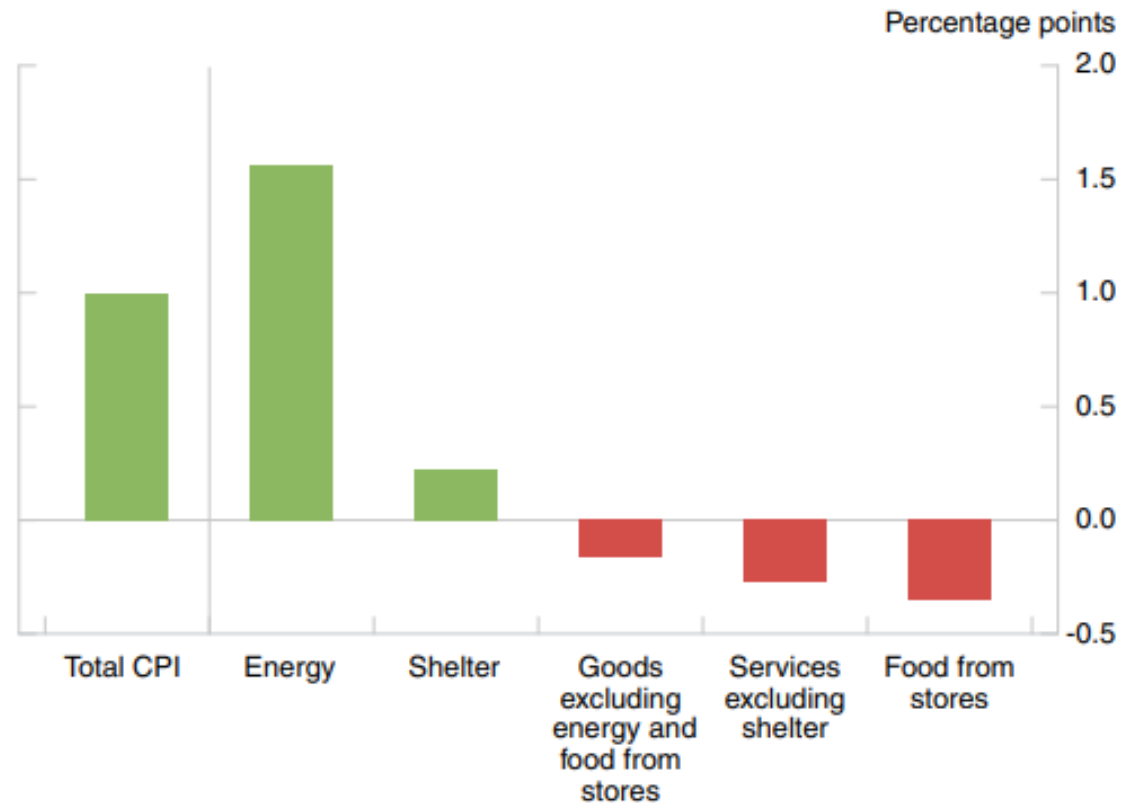




# ENERGY PRICES HAVE DRIVEN INFLATION SINCE JUNE

**Chart 8: Energy prices have largely driven inflation dynamics since June**

Contribution to change in year-over-year CPI inflation from June to September 2023, monthly data



Sources: Statistics Canada and Bank of Canada calculations

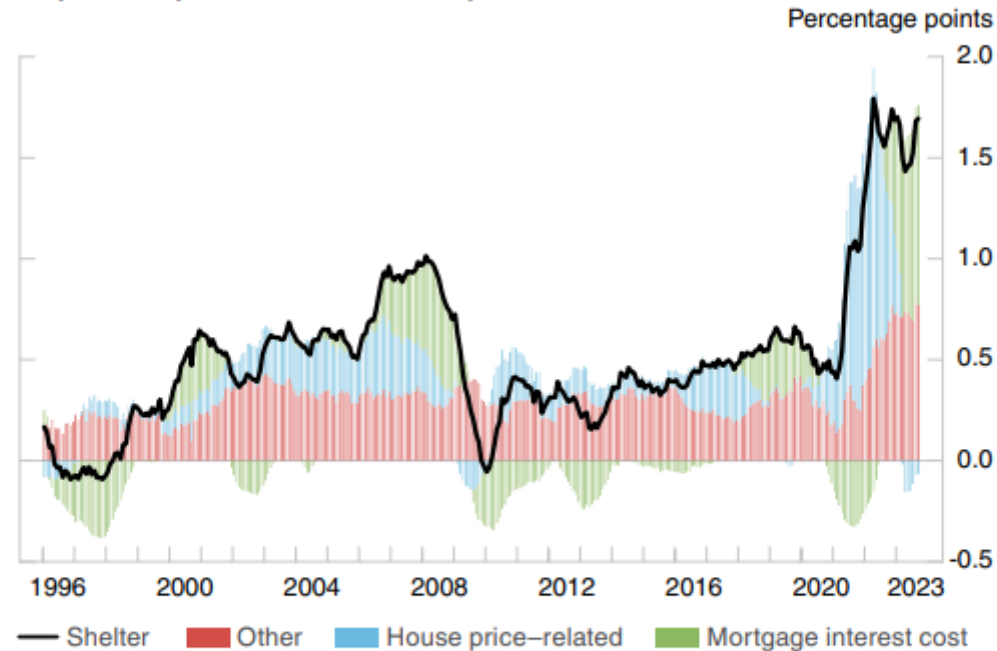
Last observation: September 2023

A broadening  
Middle East  
War could  
increase oil  
prices

# SHELTER PRICE INFLATION HIGH, BUT STEADY

**Chart 9: Shelter price inflation is high, reflecting increases in mortgage interest and other housing costs**

Contributions to year-over-year CPI inflation, monthly data



Note: "House price-related" includes homeowners' replacement cost and other owned accommodation expenses. "Other" includes rent, homeowners' home and mortgage insurance, homeowners' maintenance and repairs and property taxes and other special charges.

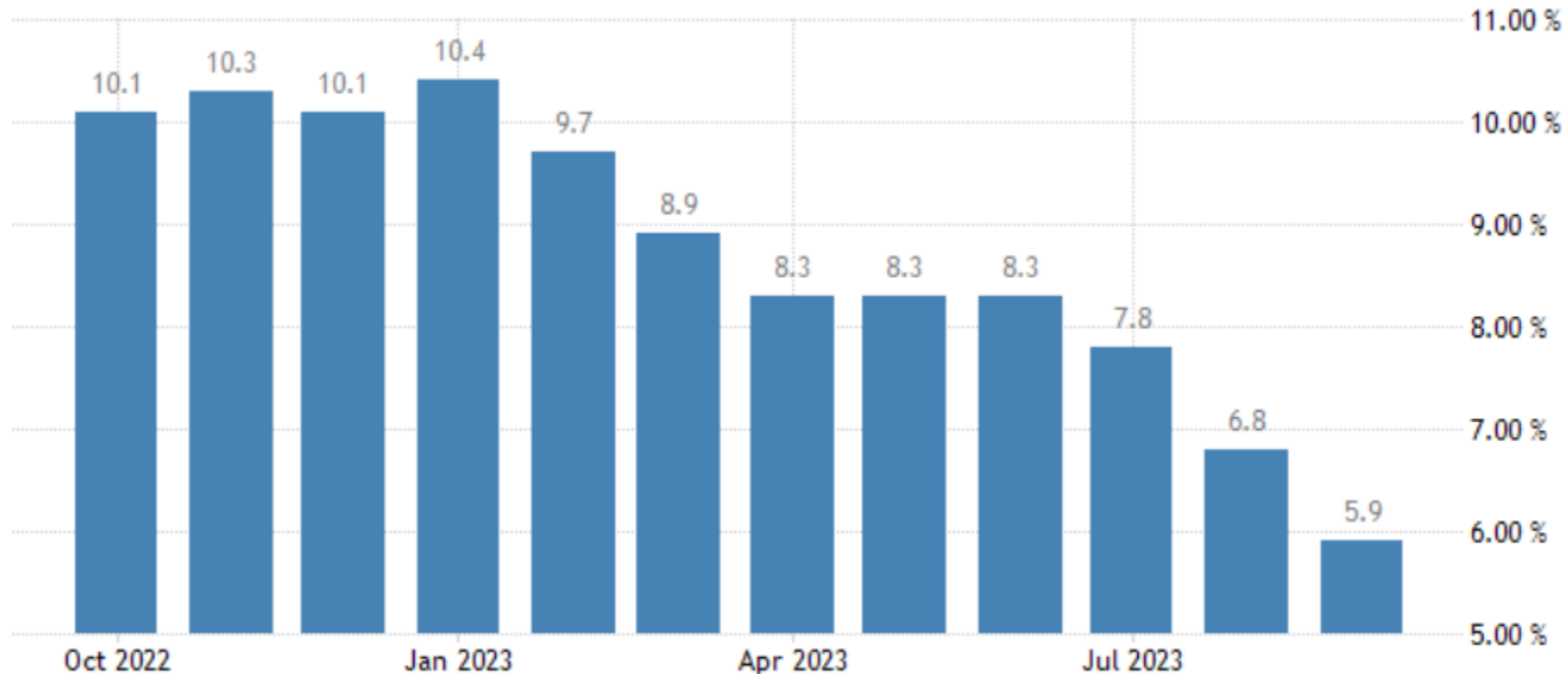
Sources: Statistics Canada and Bank of Canada calculations

Last observation: September 2023



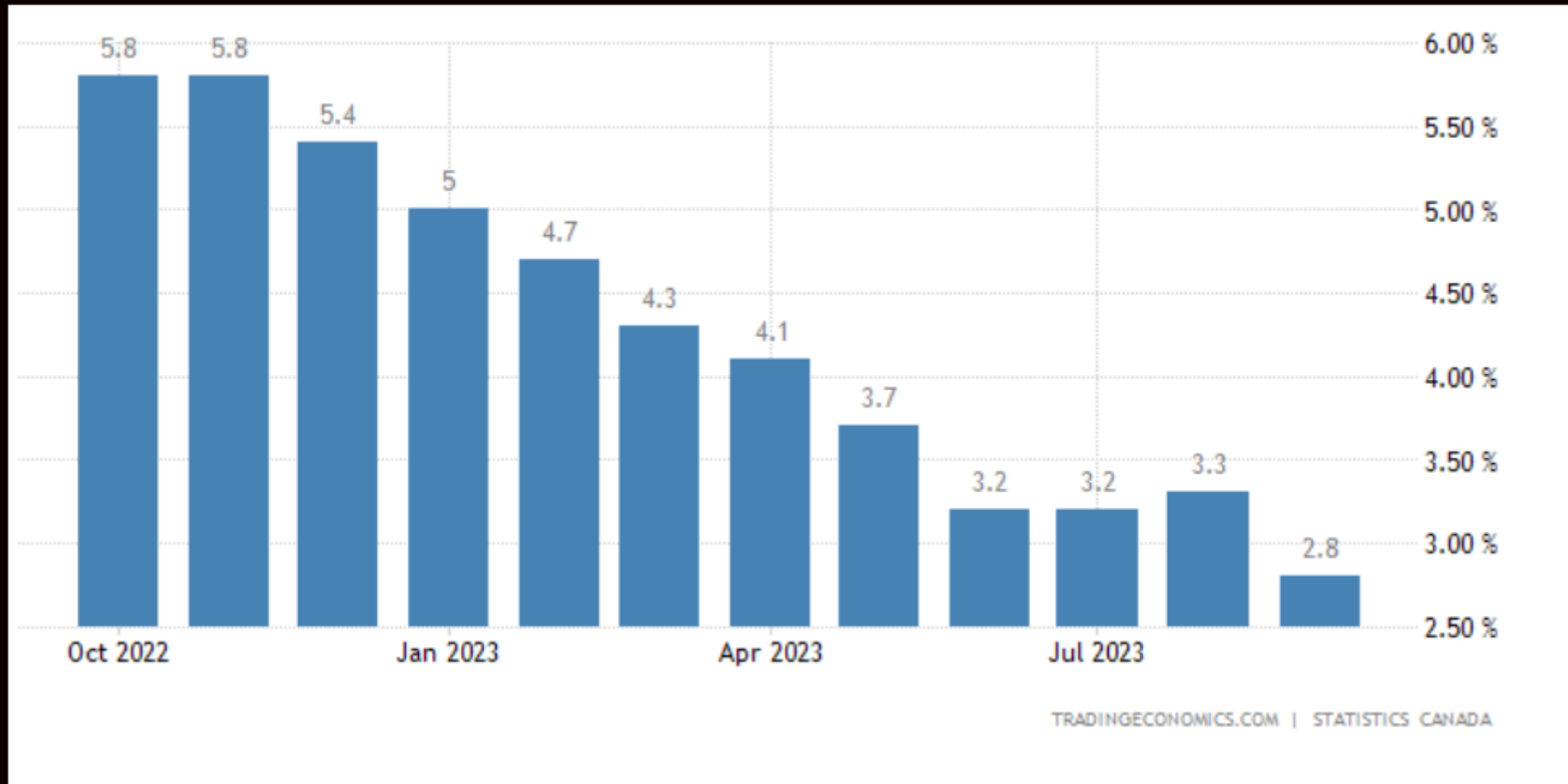
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# FOOD INFLATION COMING DOWN



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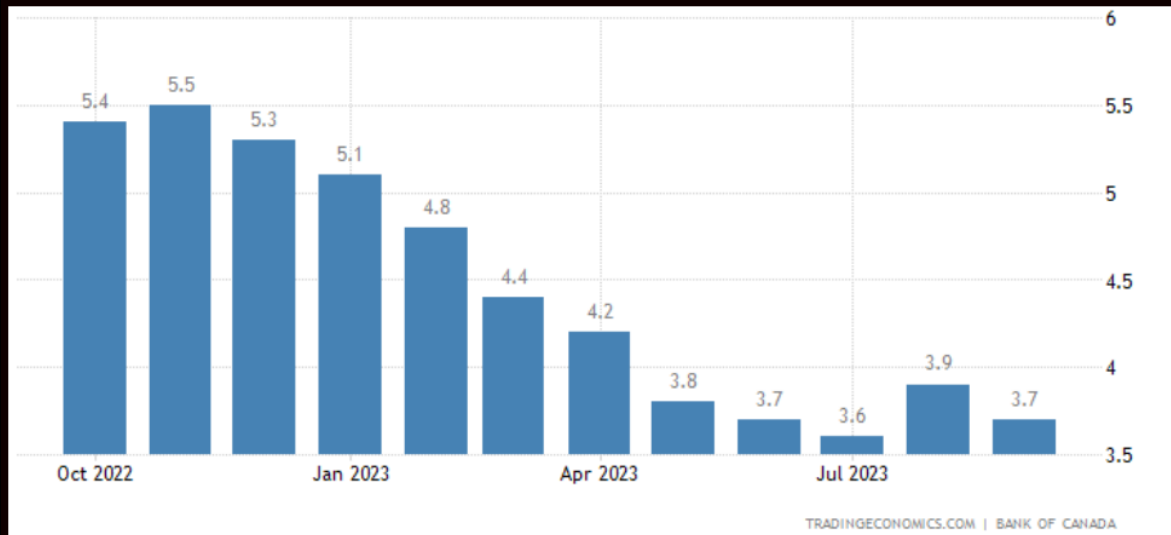
# CPI EXCLUDING FOOD AND ENERGY FALLS SHARPLY IN SEPTEMBER



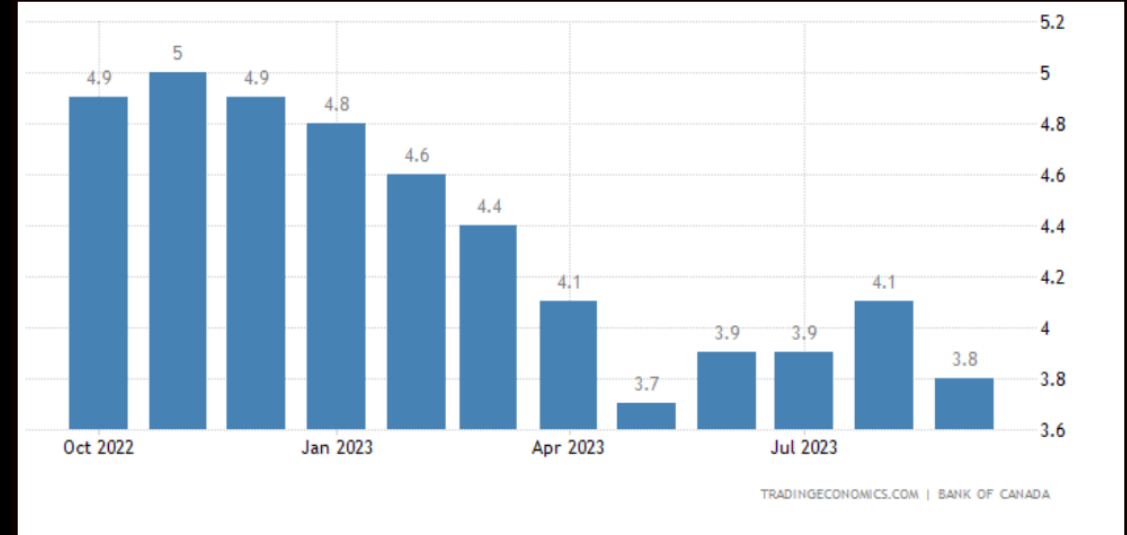


# CORE INFLATION MEASURES FALL IN SEPTEMBER

## CPI Trimmed-Mean



## CPI Median

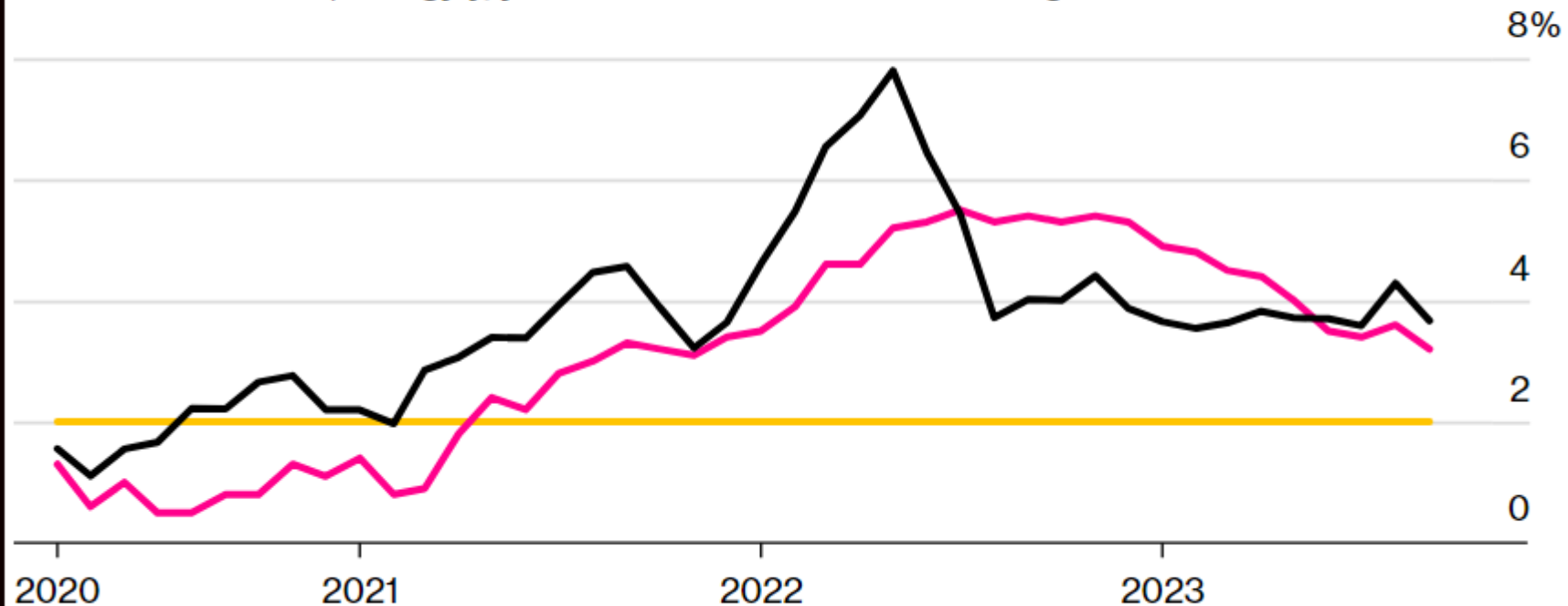


# RECENT CORE INFLATION MEASURES SOFTEN

## Core Inflation Proves Sticky in Canada

Closely watched measures of underlying price pressures are still too high

- Average of trim and median core inflation measures, 3-month moving annualized
- Inflation ex. food, energy y/y
- Bank of Canada inflation target



Source: Statistics Canada, Bloomberg calculations



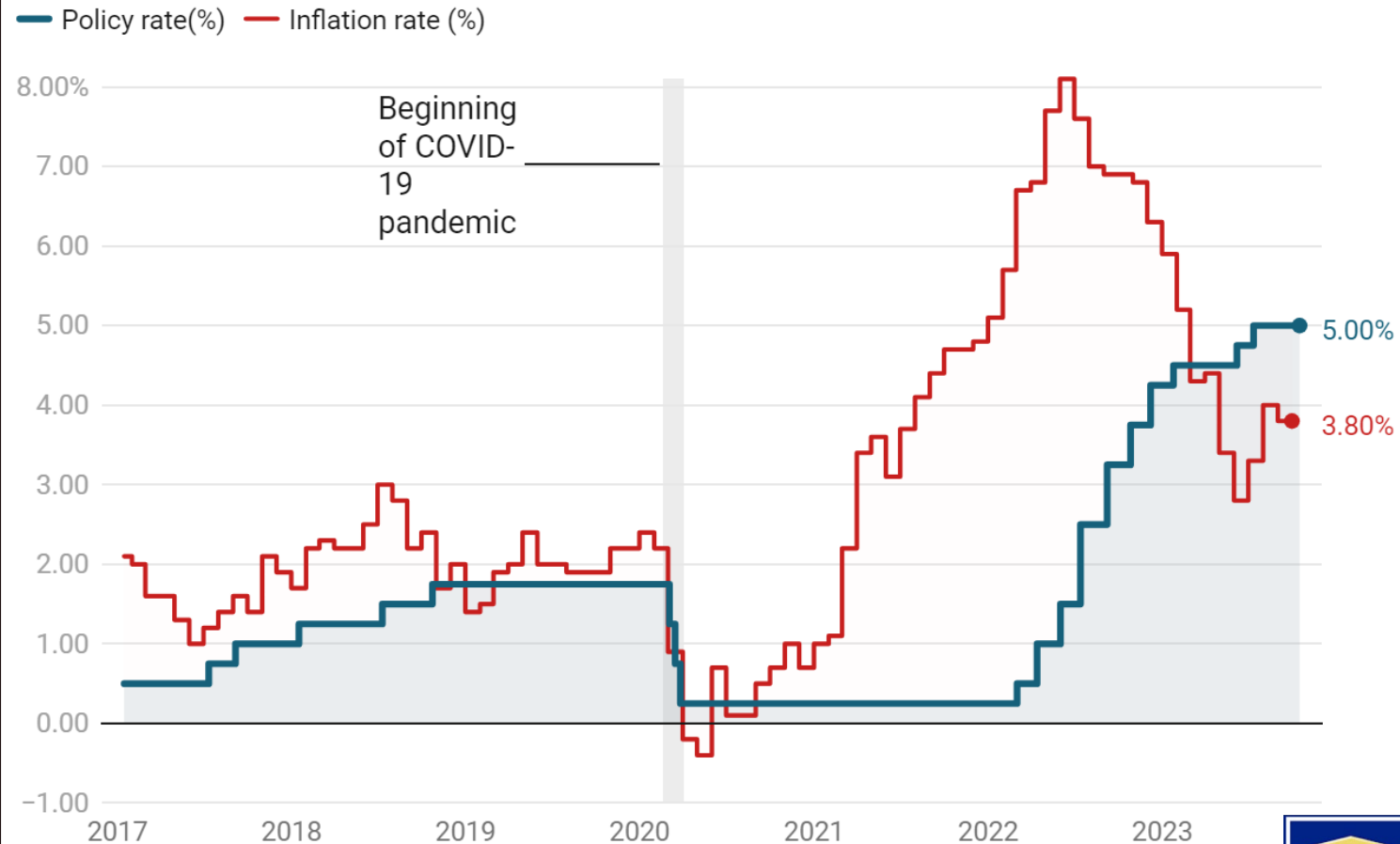
- BoC holds rates steady at 5%
- Hawkish Statement
- Continues Quantitative Tightening

# BANK OF CANADA

# OVERNIGHT RATE EXCEEDS INFLATION RATE

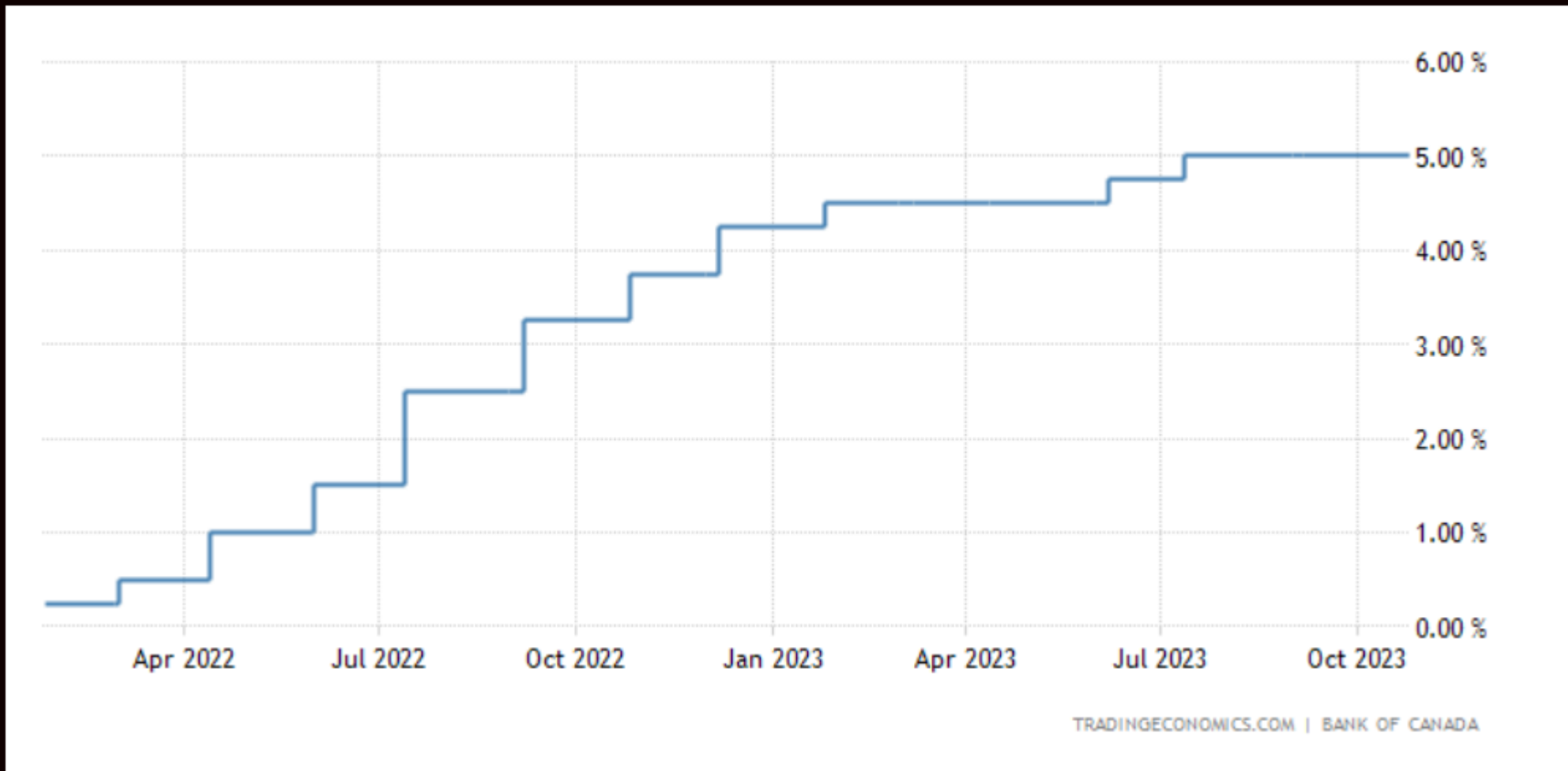
## Bank of Canada's overnight interest rate vs. inflation rate (%)

Current overnight rate is 5.0% as of Oct. 17, 2023. September 2023 year-over-year inflation is 3.8%





# BOC OVERNIGHT RATE STEADY 5.0%--FOLLOWING TEN RATE HIKES



# PRIME RATE STEADY

## Canada Prime Rate

[ADD TO WATCHLIST](#)

**7.20000%**  
0.00000

Last Updated: Aug 15, 2023 12:00 a.m. EDT

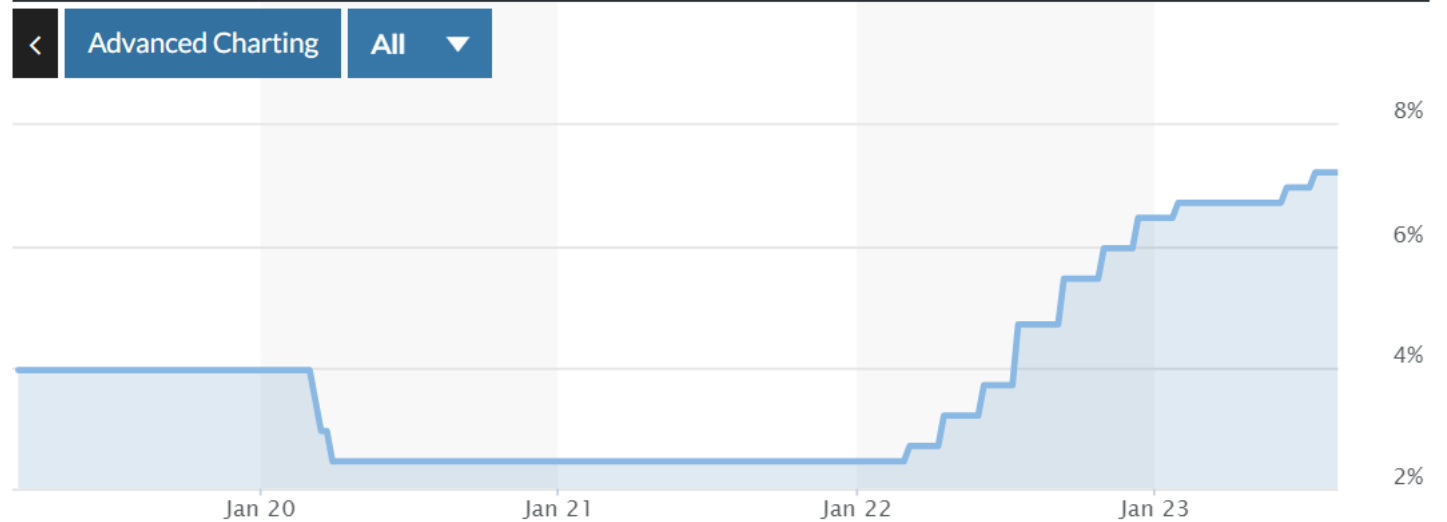
PREVIOUS CLOSE

7.20000%

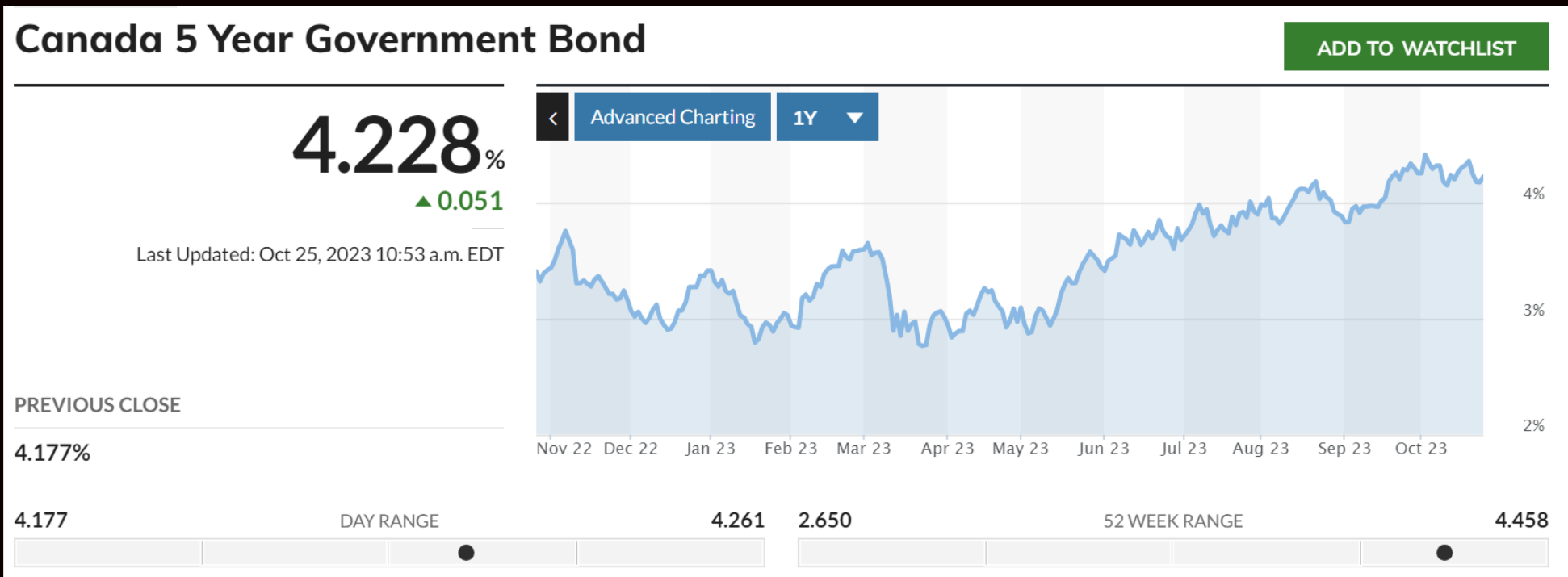
4.70000

52 WEEK RANGE

7.20000



# FIVE-YEAR YIELD AT 4.23%



# FOREIGN SELLING OF US BONDS, 5% Q3 GROWTH AND HUGE BUDGET DEFICIT PUSH RATES UP

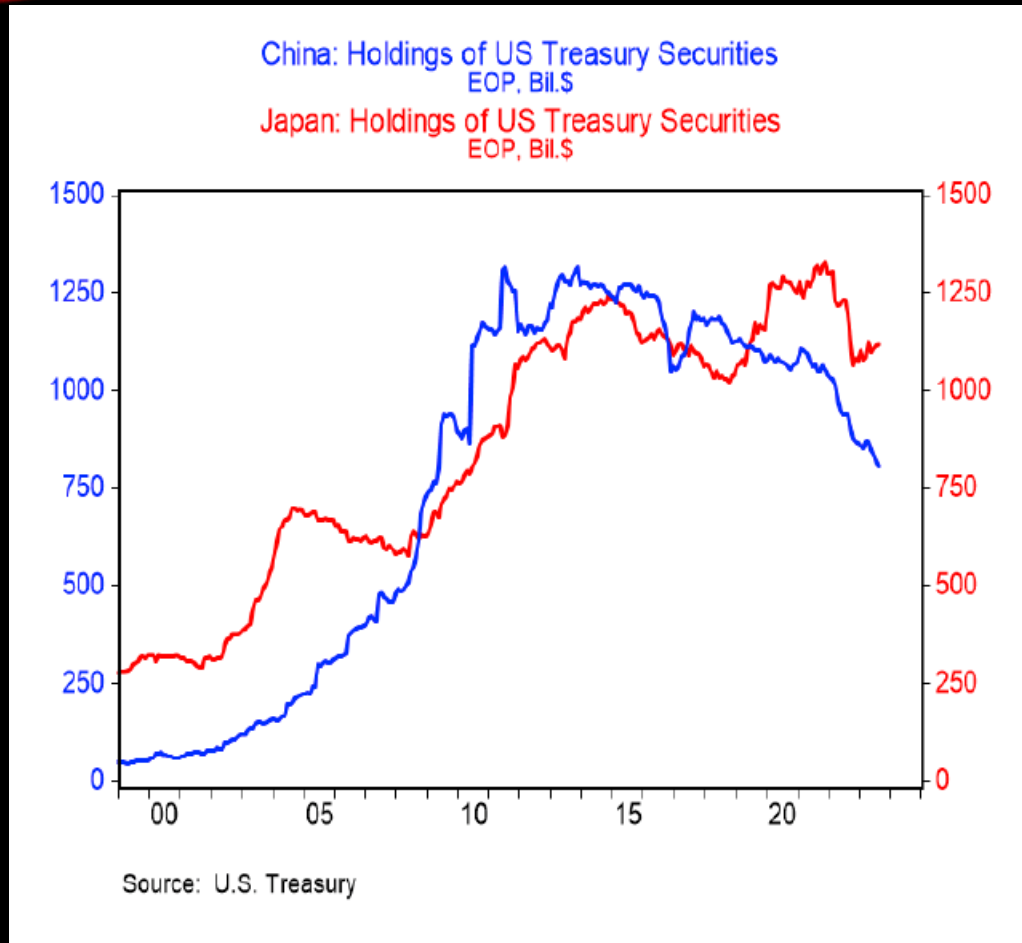


Chart Courtesy of Mortgage Logic  
News and BMO

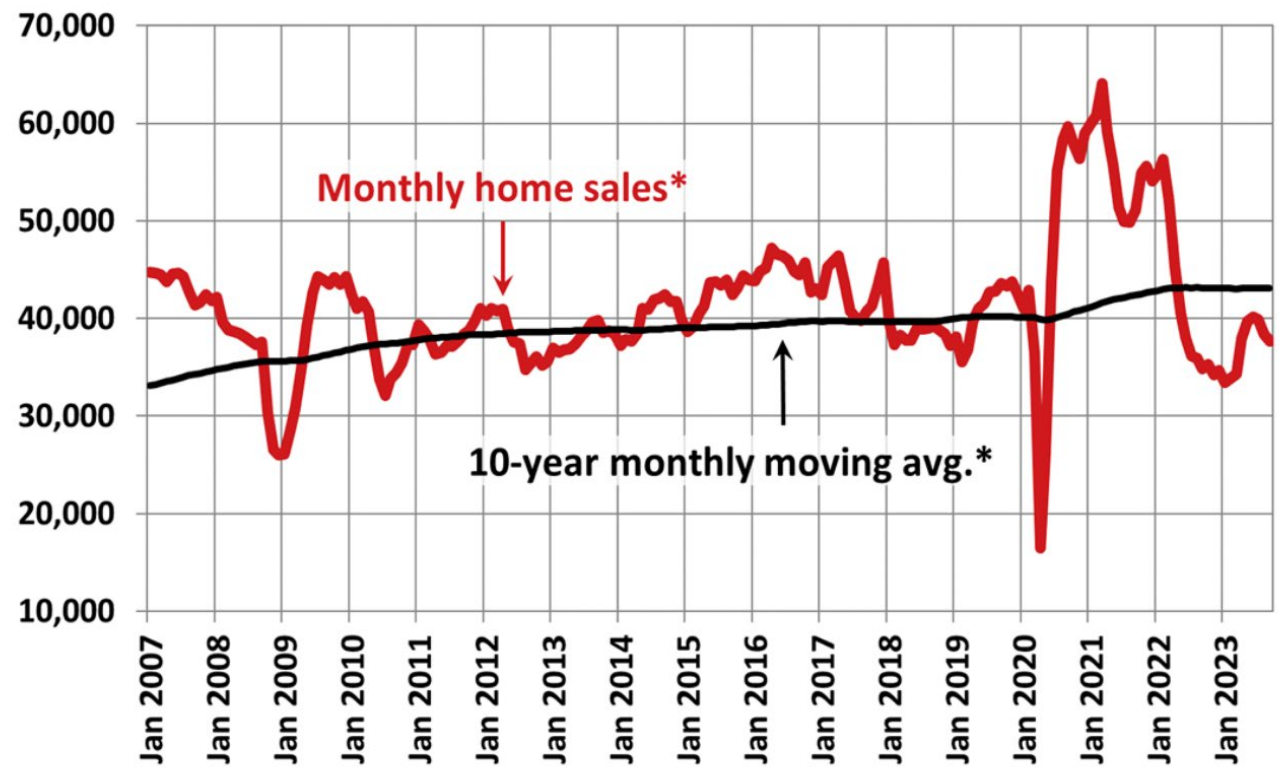




# HOUSING MARKETS SPOOKED BY RATE HIKES



# HOME SALES DECLINED FOR THIRD CONSECUTIVE MONTH IN SEPTEMBER



Source: The Canadian Real Estate Association

\* Canada; seasonally adjusted



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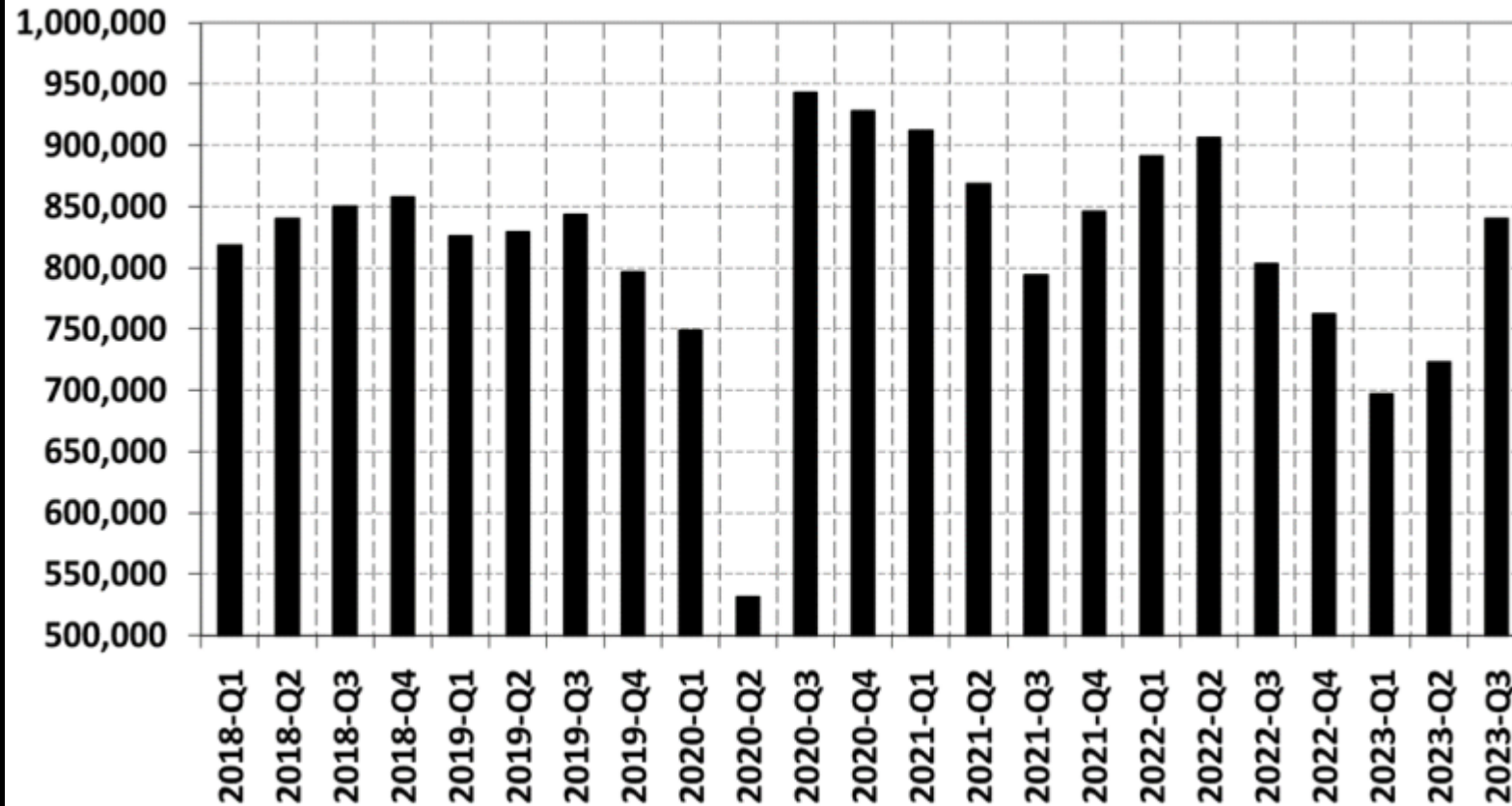


# NEW LISTINGS UP 35% SINCE MARCH



## Residential new listings\*

Canada



Source: The Canadian Real Estate Association

\*Seasonally adjusted data at annualized rates

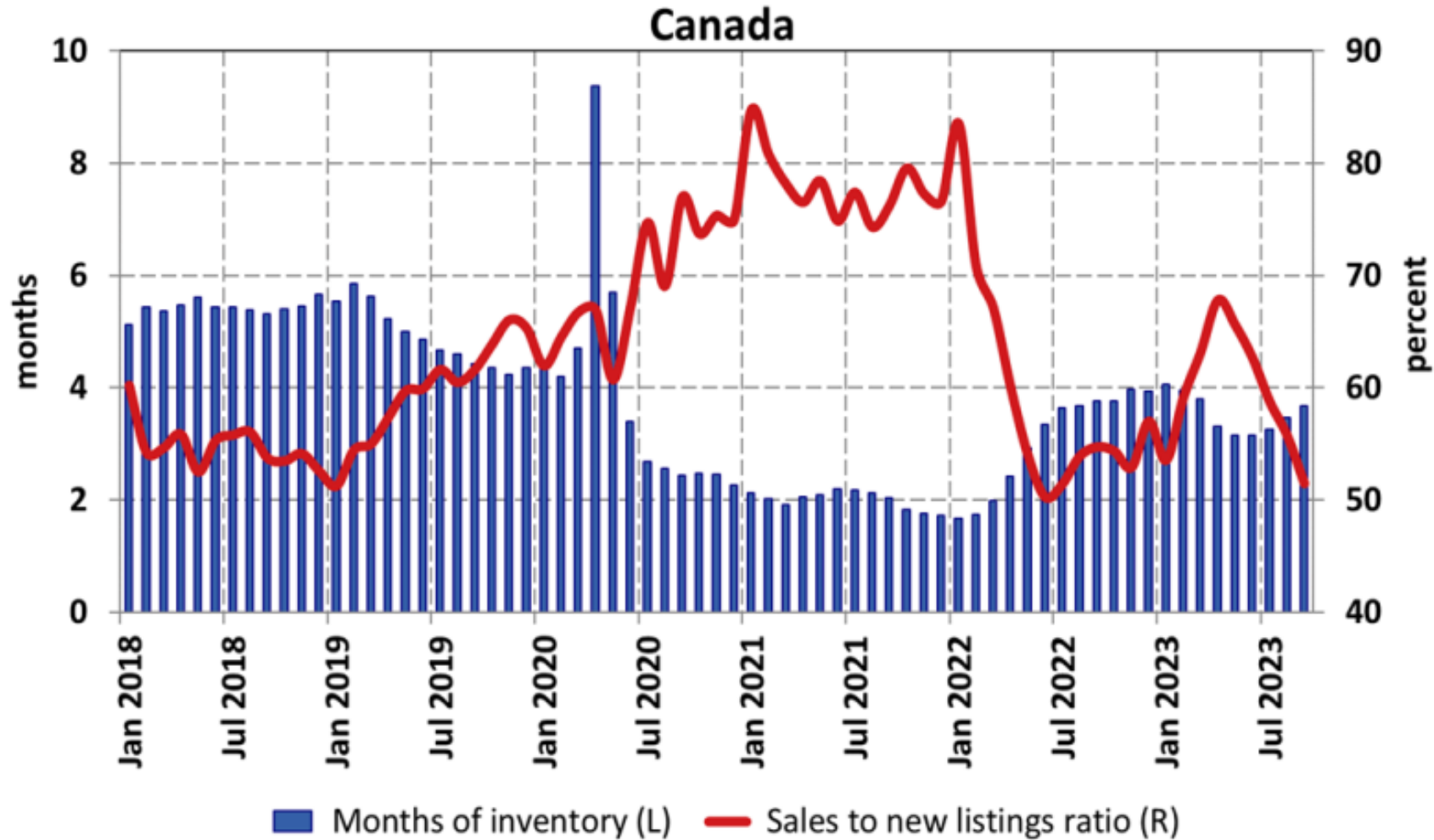
New Listings Surge  
6.9% n September



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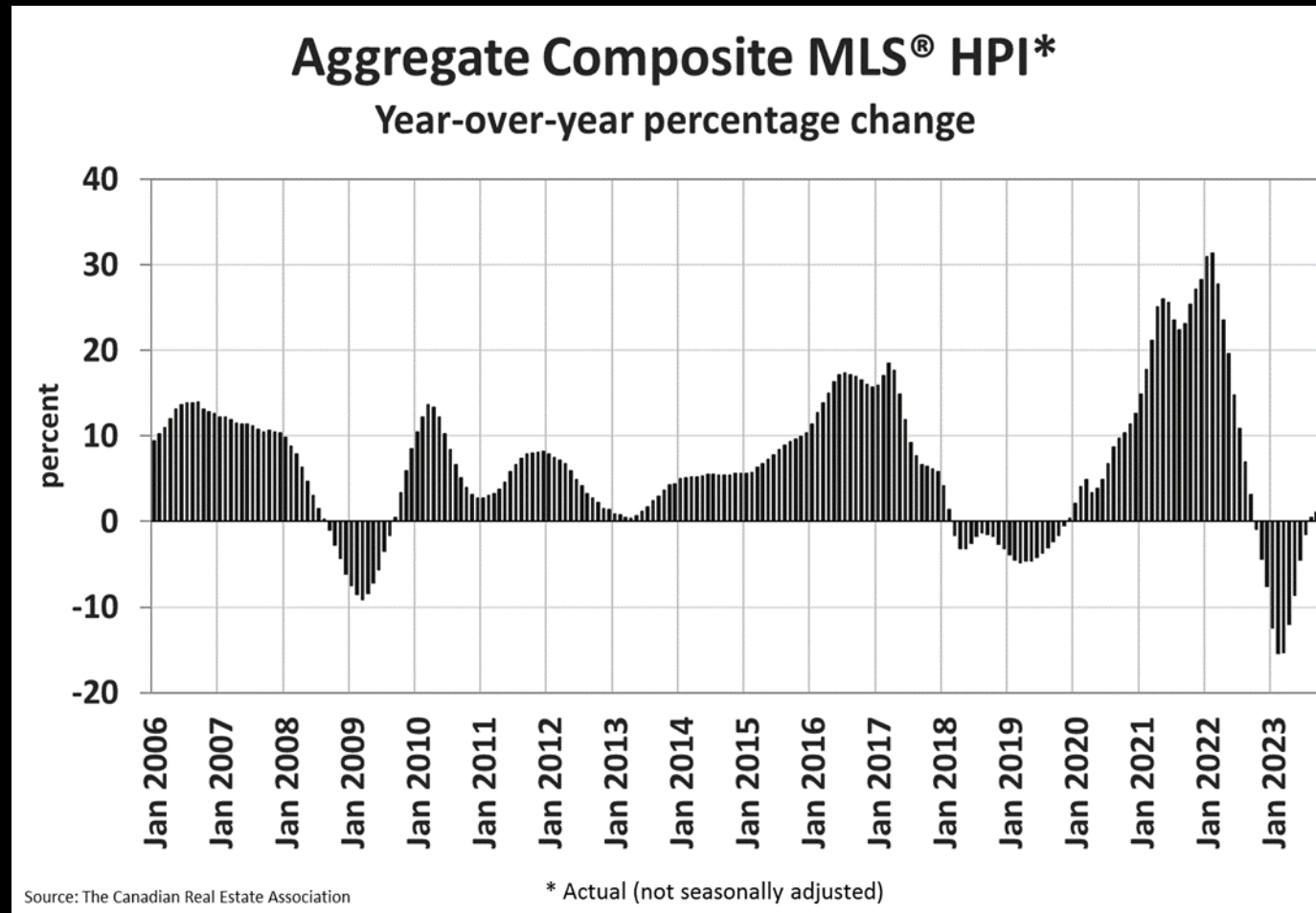
# Residential market balance\*



Source: The Canadian Real Estate Association

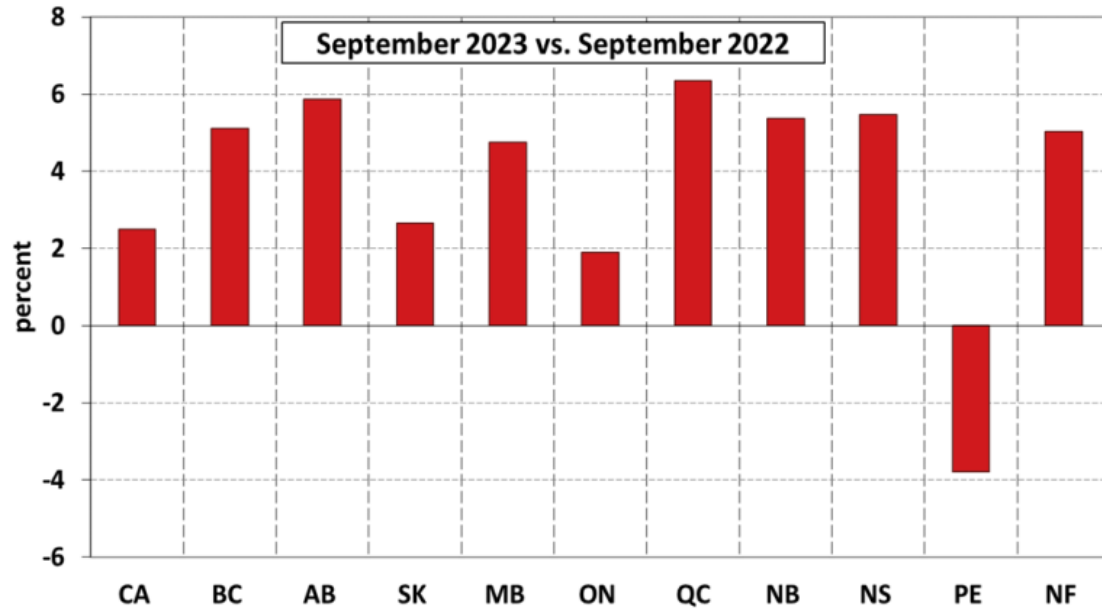
\*Seasonally adjusted

# HOME PRICES EDGE UP Y/Y BECAUSE OF BASE EFFECTS



# HOME PRICES RISE Y/Y IN SEPTEMBER

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



Source: The Canadian Real Estate Association

\*Actual (not seasonally adjusted)

MLS® HPI edged down 0.3% month-over-month  
in September



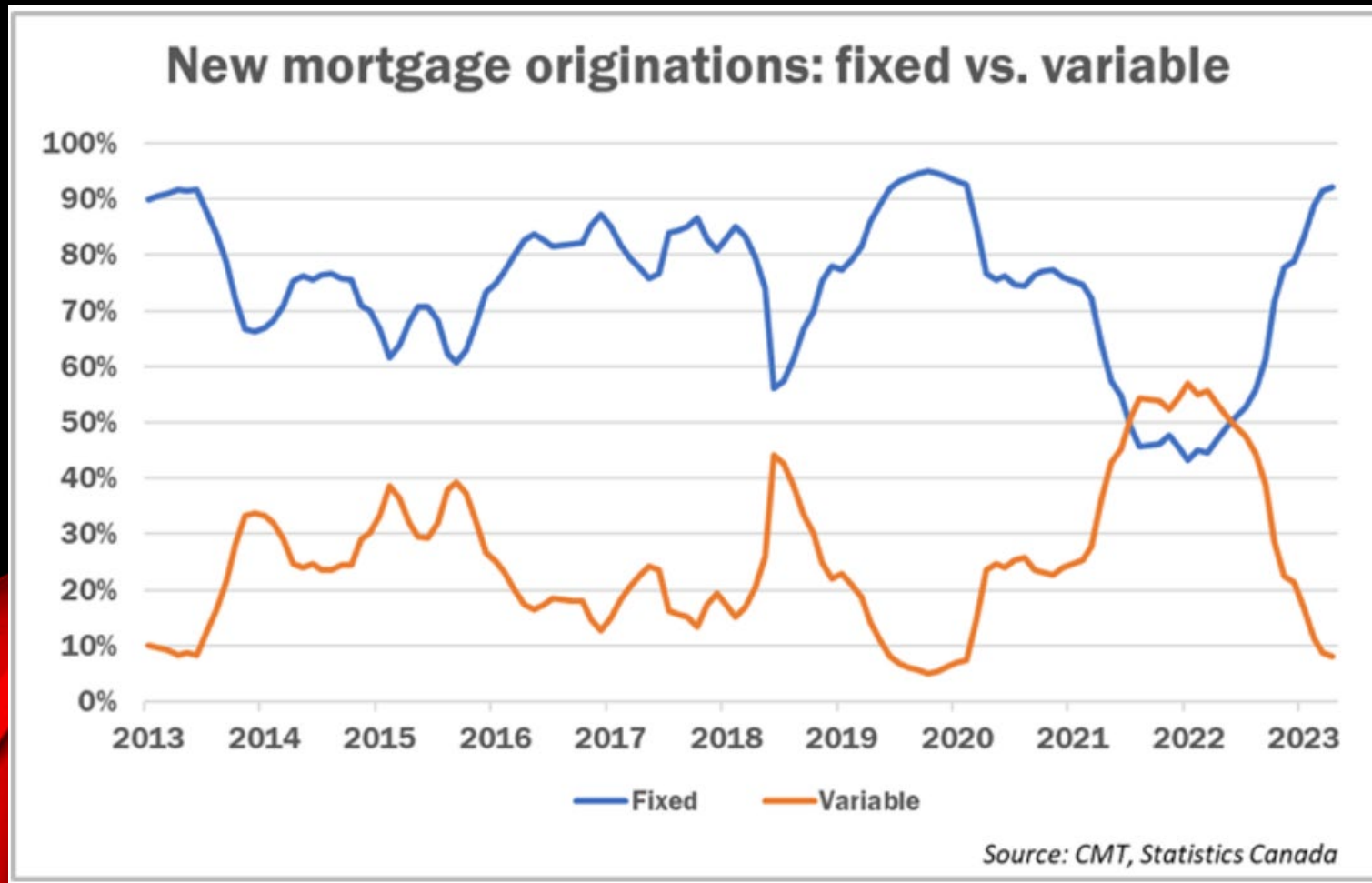
# Mortgage Originations-- Fixed vs Variable



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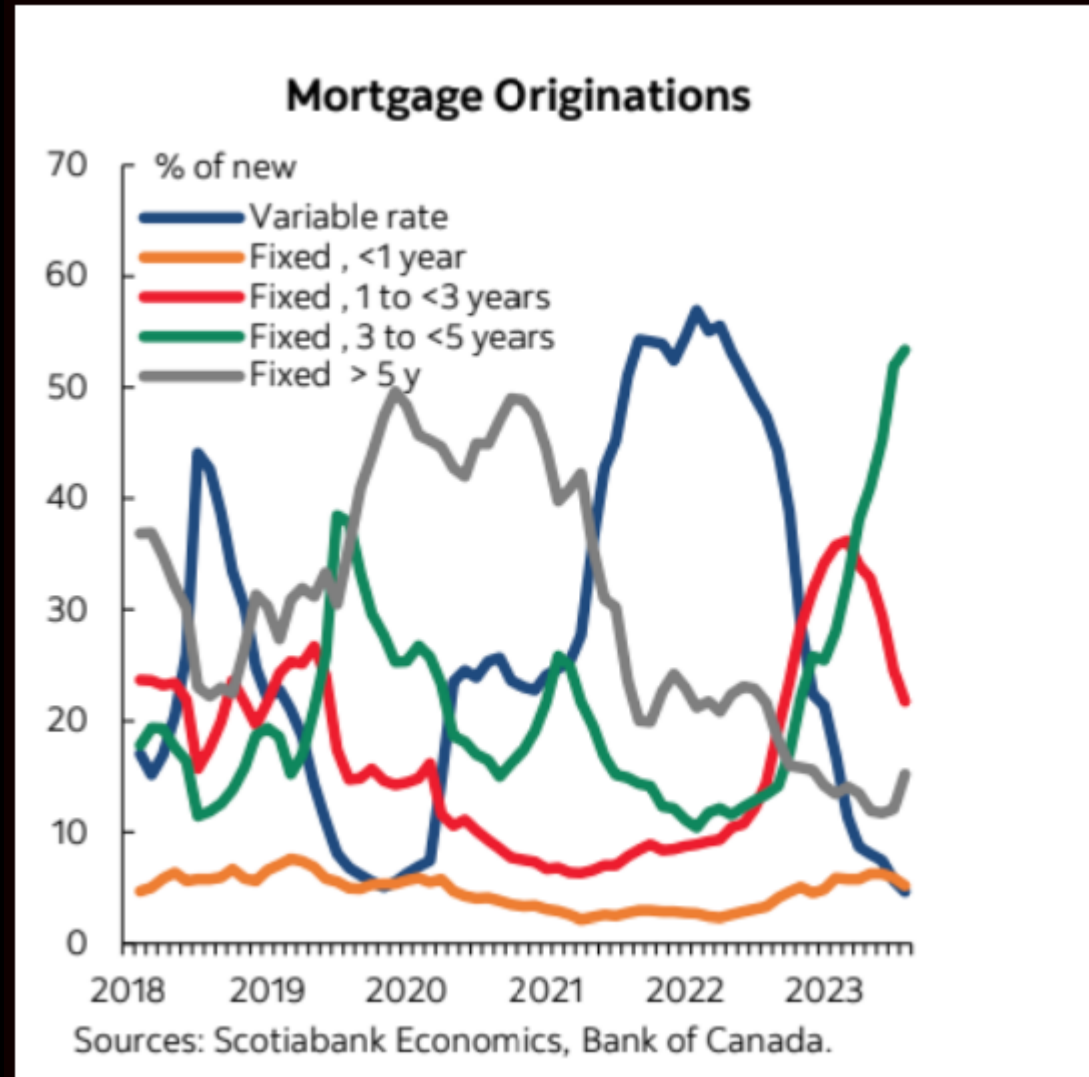


# FIXED MORTGAGE RATES MORE POPULAR



**Originations**  
Variable rate loan share rose to 13% in July, up from 8% in April and down from 57% in July 2020.

# THREE TO FOUR-YEAR TERMS ARE MOST POPULAR







# RATE PAIN FOR THOSE WITH UPCOMING RENEWALS

**Mortgage Rates  
Will Double From  
About 3%**



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# VRM BORROWERS HIT THEIR TRIGGER POINT



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# 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)**



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"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



# OSFI IS CONCERNED ABOUT FIXED-PAYMENT VRMS (VFMS)

- 17% of all mortgages outstanding are VFMs
- 12.4% of these have amortizations longer than 35 years
- Huge payment shock at renewal

OSFI WANTS THESE PRODUCTS TO BE LESS PREVALENT  
November 1: higher capital requirements on VFMs that have been negatively amortized for three consecutive months with LTVs over 65%.





**HOUSING SHORTAGE WILL WORSEN**



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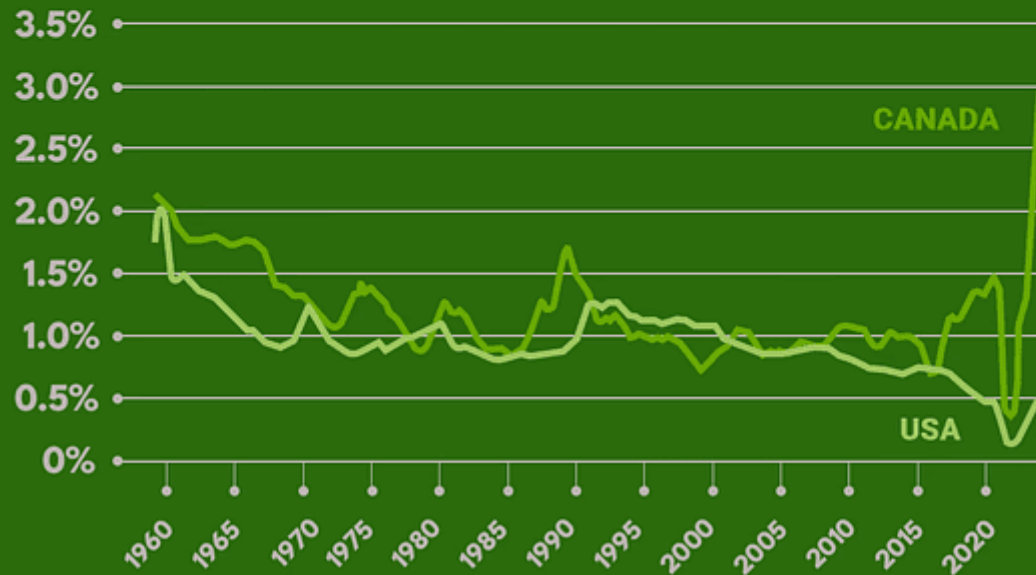
# CANADIAN ANNUAL POPULATION GROWTH IS 3.1%

## Incredible Population Growth

Canada's population grew by a record 1.2 million people or 3.1% in the past year. That's a rate of growth that is 6 times higher than in the United States.



POPULATION GROWTH, Y/Y | SOURCE: STATISTICS CANADA, US CENSUS



**The fastest pace among advanced economies and rivaling least developed nations.**



# PLANNED PERMANENT IMMIGRATION RISING



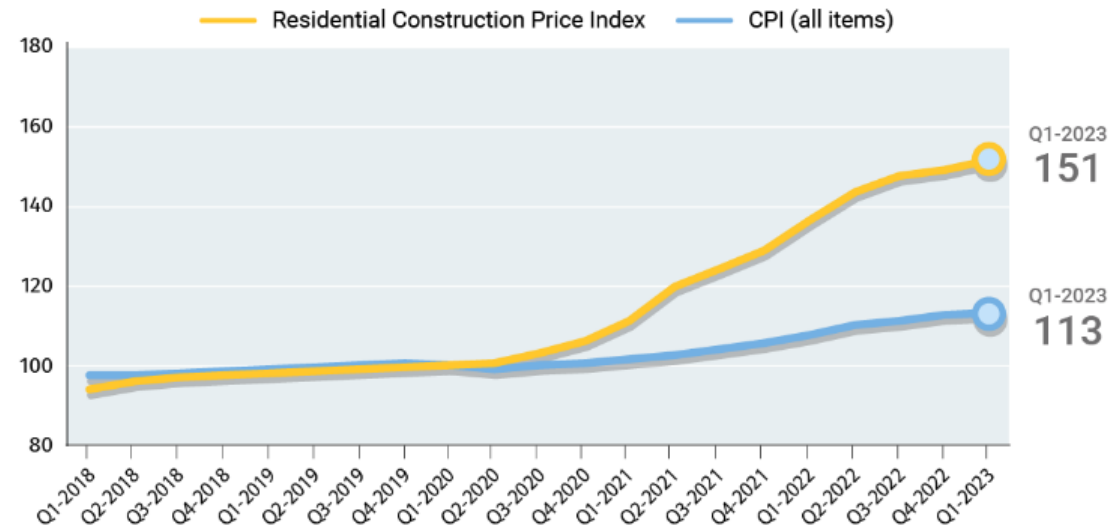
Year	Planned Permanent Immigration
2022	437,180
2023	465,000
2024	485,000
2025	500,000



# 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 have increased 51% since Q1 2020, while CPI is up 13%.
- Municipal development fees have also surged.
- Labour shortages and rising wages (+9.4%) limit supply.
- Environmental impacts limit production of cement and lumber.
- Forest fires disrupt construction and reduce the supply of lumber.

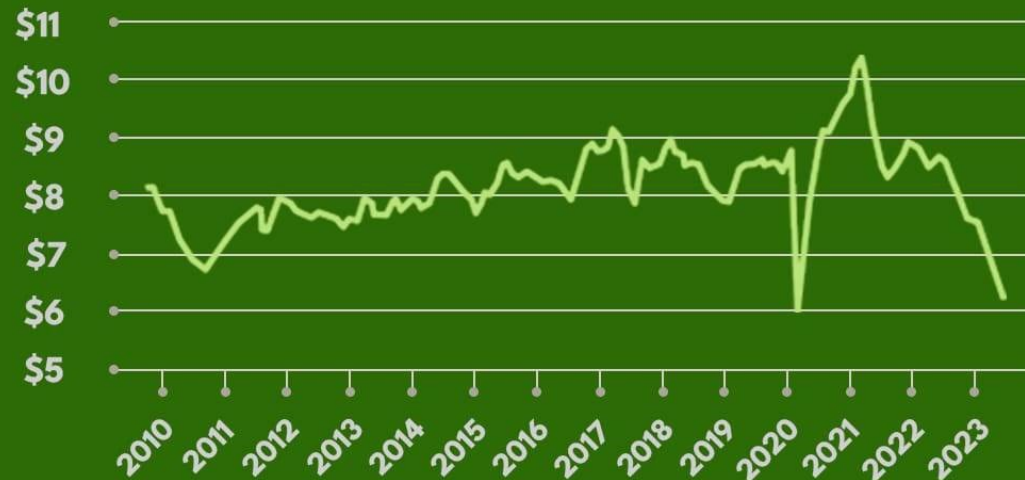
HST Eliminated On New Residential Rental Construction

## Construction Investment Dwindles

Investment in housing, both new construction and renovations, has fallen to lows last seen in the depths of the COVID downturn, signaling a potential supply crunch down the road.



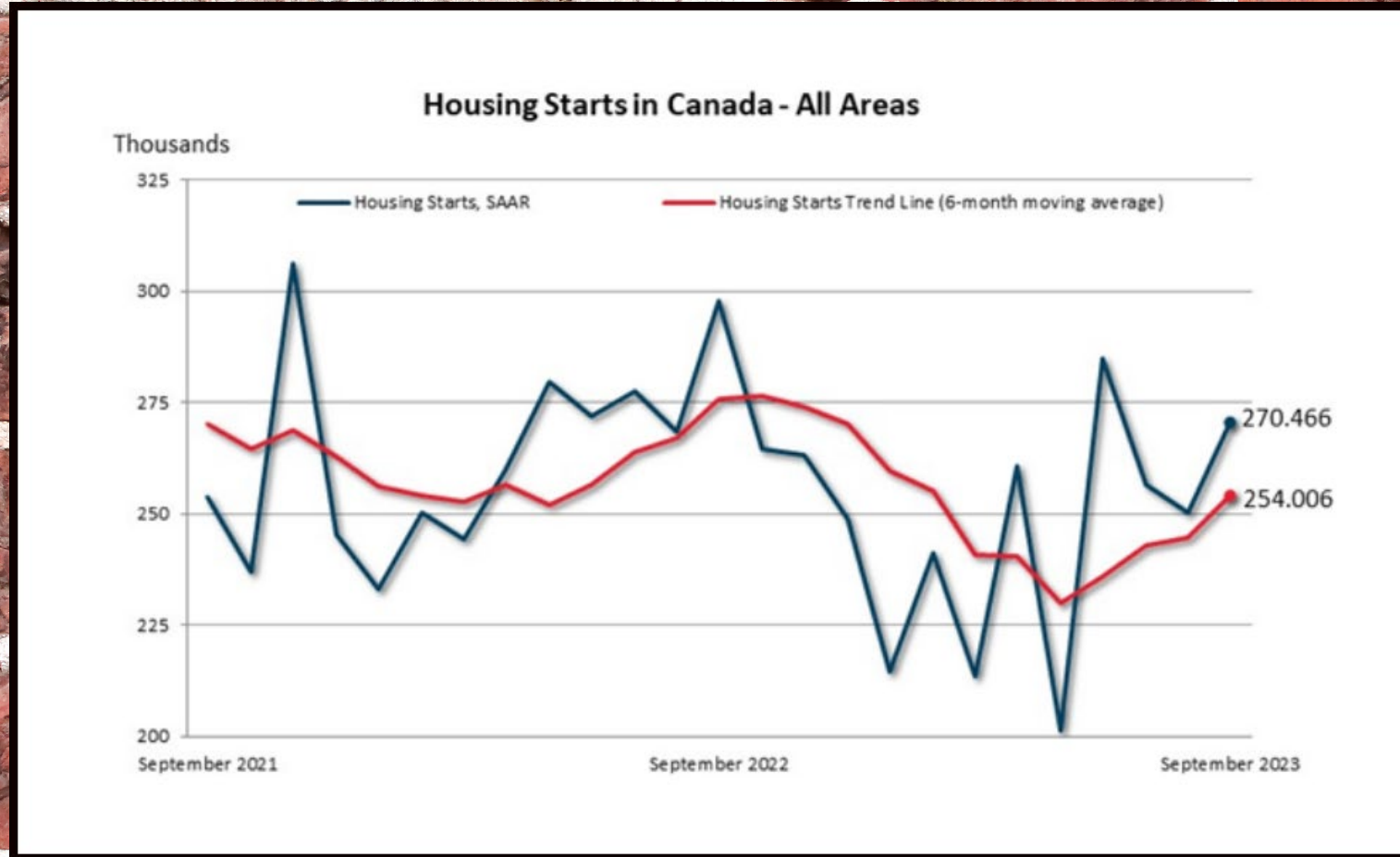
RESIDENTIAL BUILDING CONSTRUCTION SPENDING, \$BILLIONS | SOURCE: STATISTICS CANADA



# RESIDENTIAL CONSTRUCTION HITS NEW POST- PANDEMIC LOWS



# HOUSING STARTS INCREASE IN SEPTEMBER





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