



INTEREST
RATES HAVE
PEAKED?

WHEN WILL
THE BoC START
EASING?

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

season finale!

JOIN US  **LIVE**

Wednesday, Dec 6th

12.06.23

11:30AM PT / 2:30PM ET



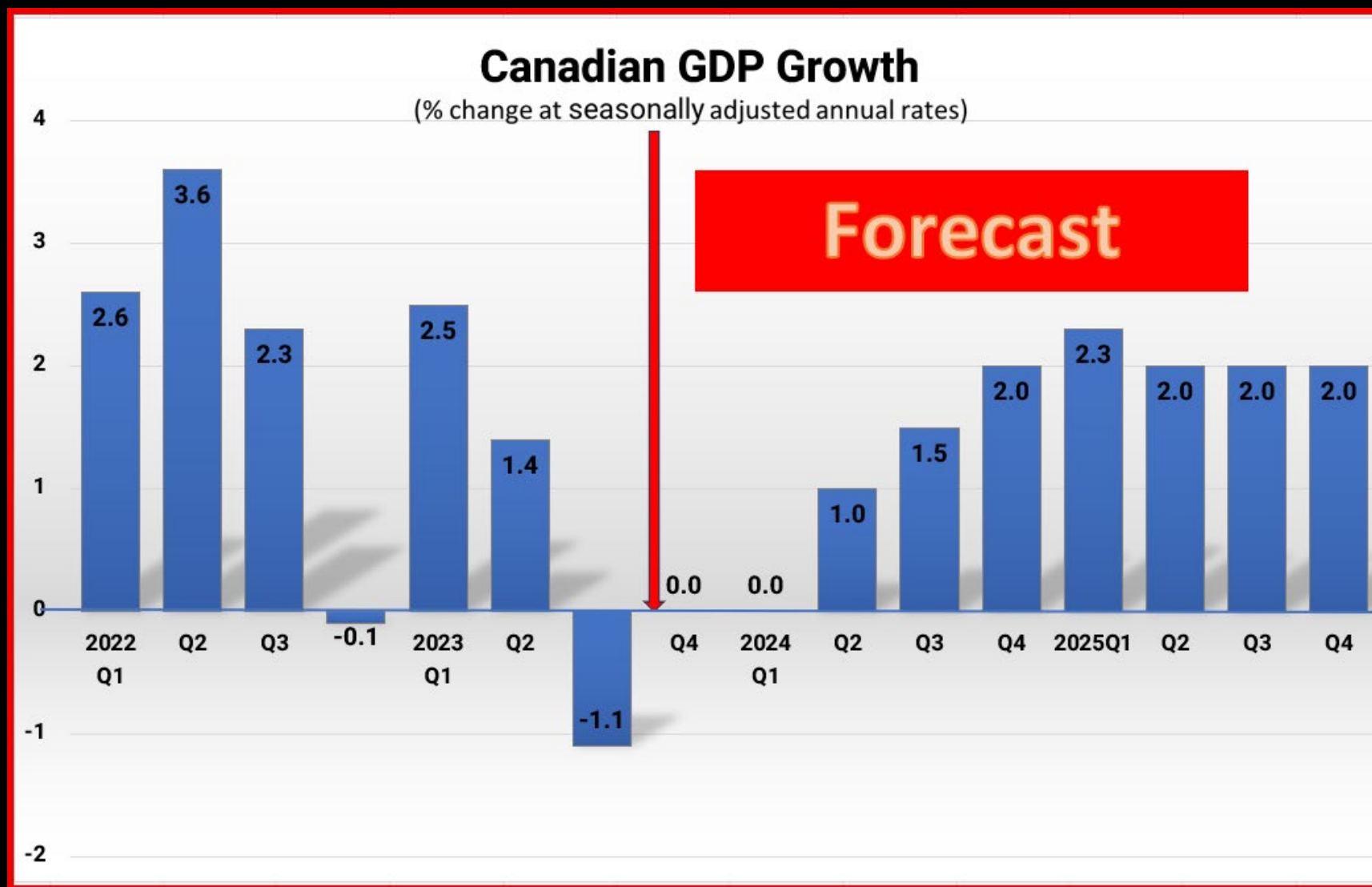
Dr. Sherry Cooper
December 6, 2023

Year	GDP Growth (%)
2022	3.8
2023	1.0
2024	0.5
2025	2.0

SOFT LANDING

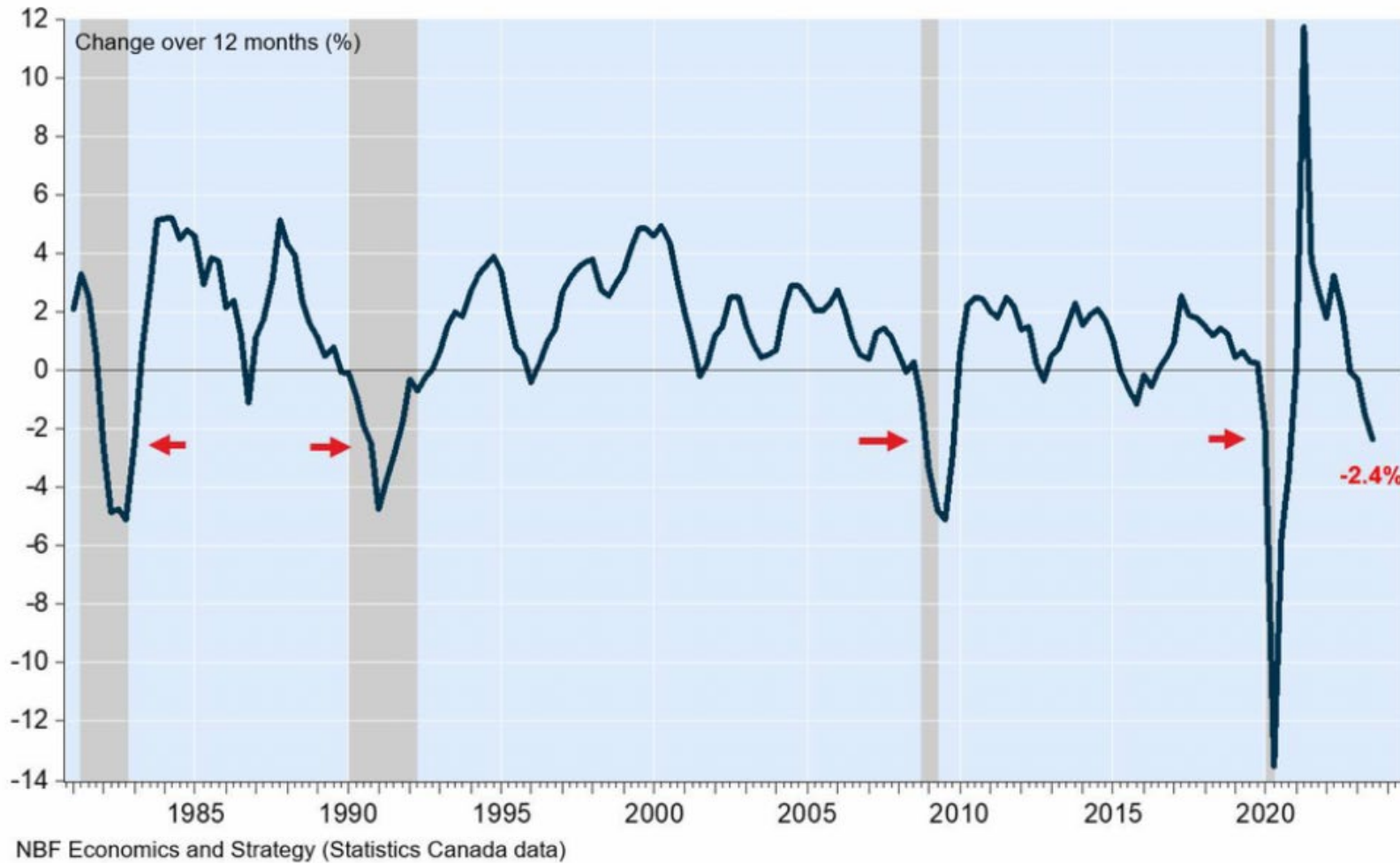


CANADIAN GROWTH DECELERATES



Canada: GDP per capita down 2.4% year-on-year

Year-on-year change in real GDP per capita

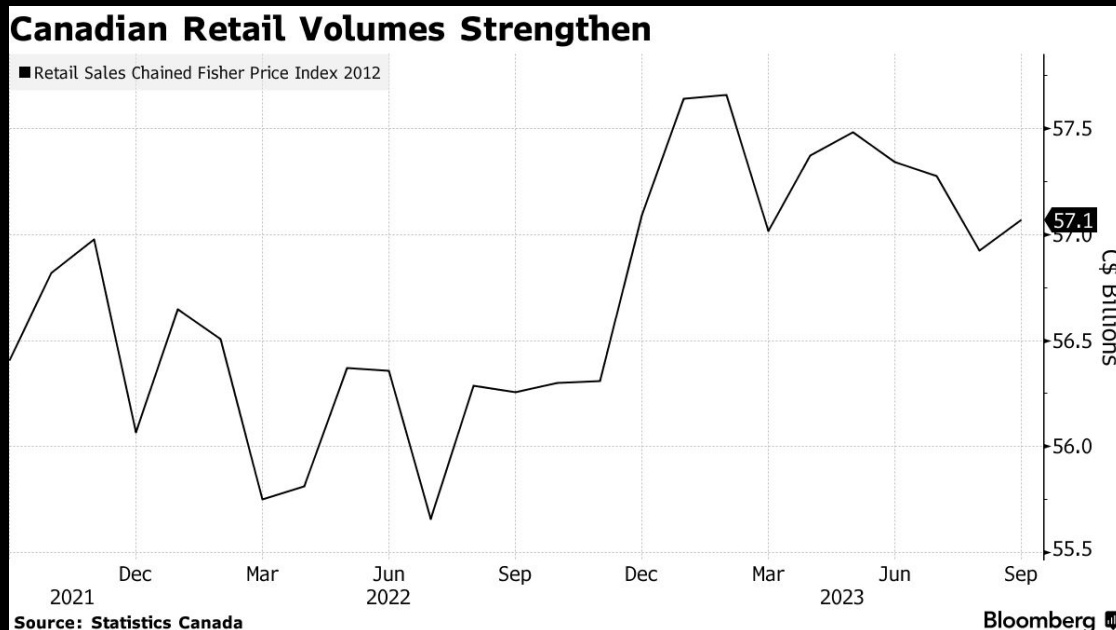


Population growth inflates economic growth. Per-capita measures might be more meaningful.

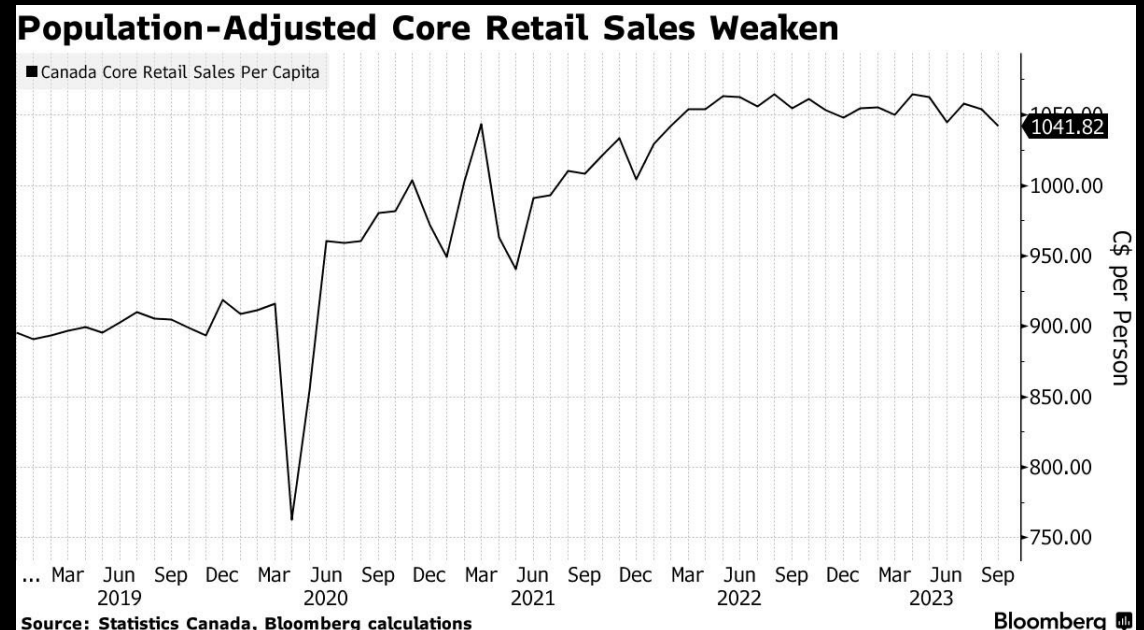
Chart courtesy of National Bank Economics and Mortgage Logic News

WEAK CONSUMER SPENDING CEMENTS BOC PAUSE

Headline Retail Sales Edge Upward



Core Population Adjusted Retail Sales Decline

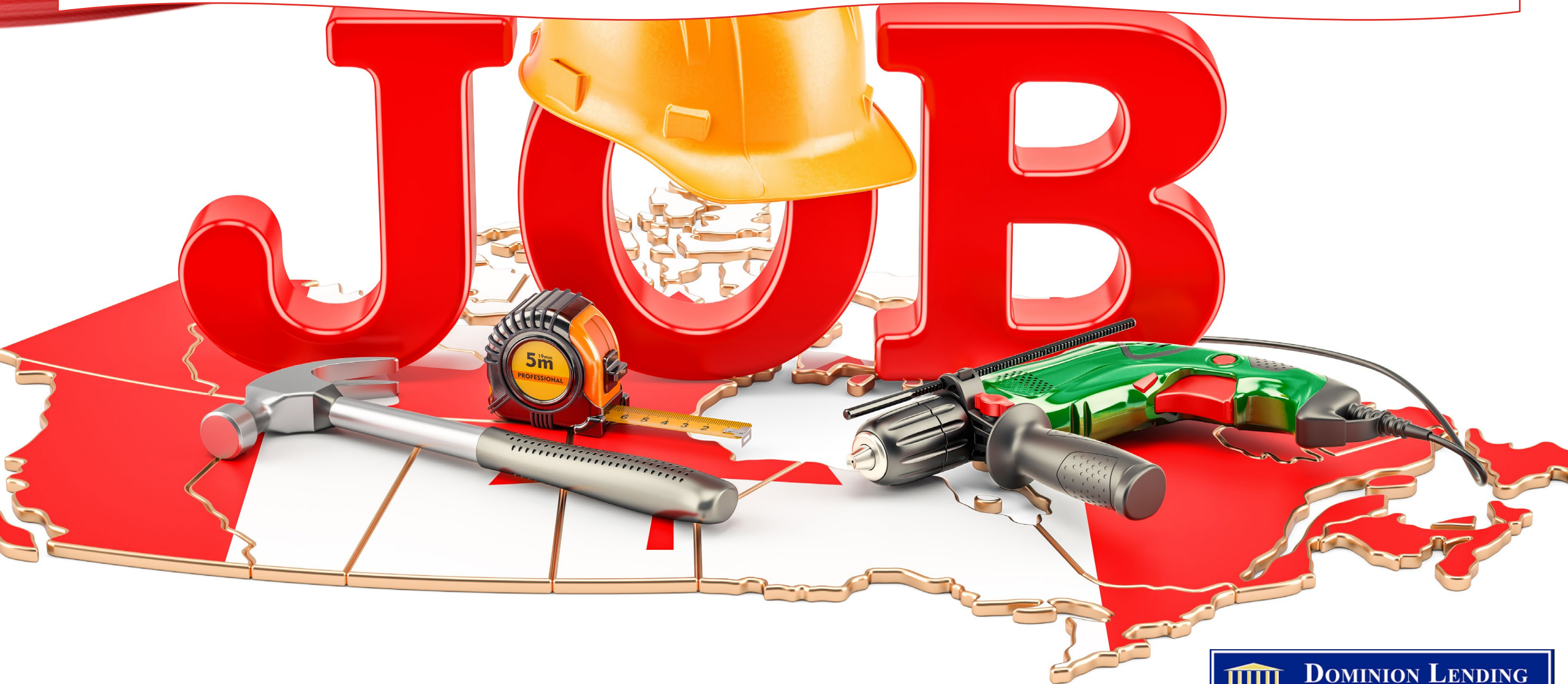


CREDIT CARD AND AUTO LOAN DELINQUENCIES RISING

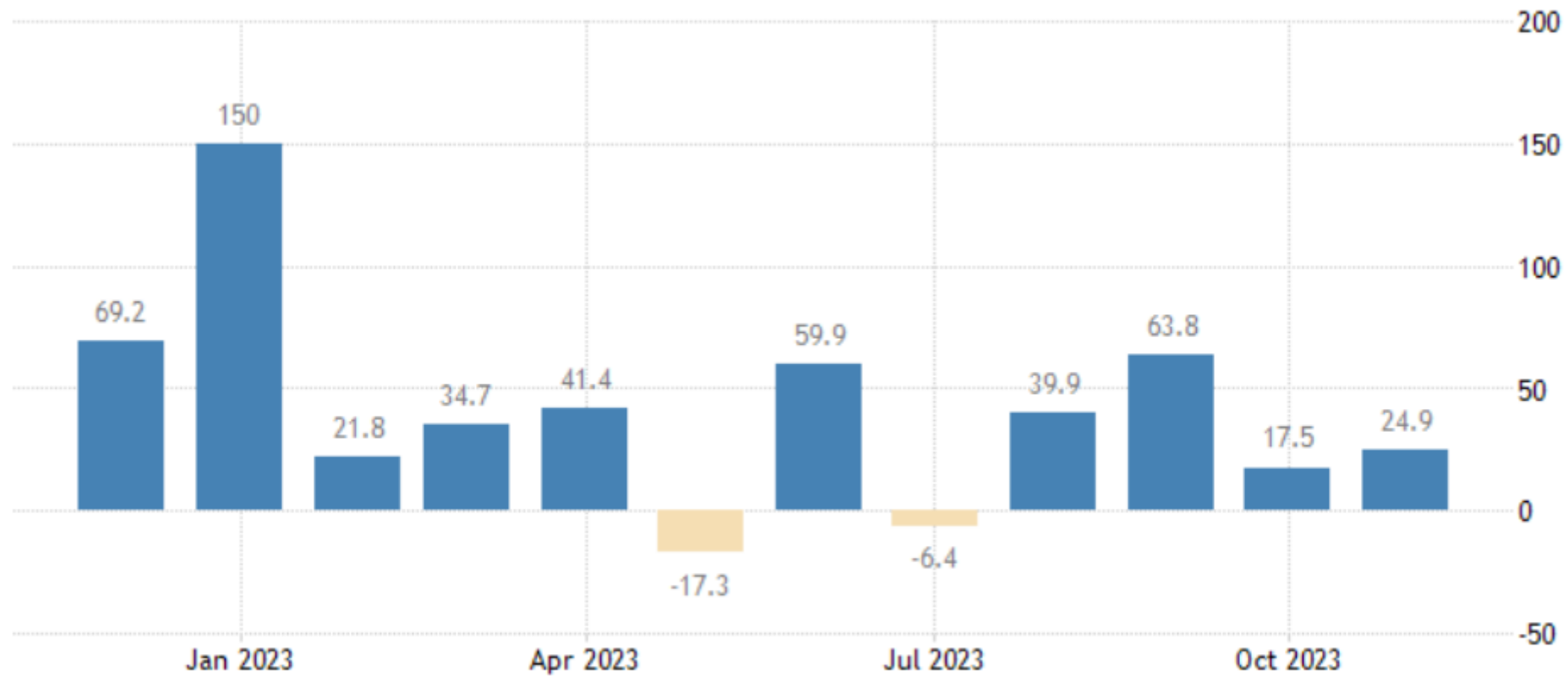


DOMINION LENDING
CENTRES

CANADA'S LABOUR MARKET WEAKENS

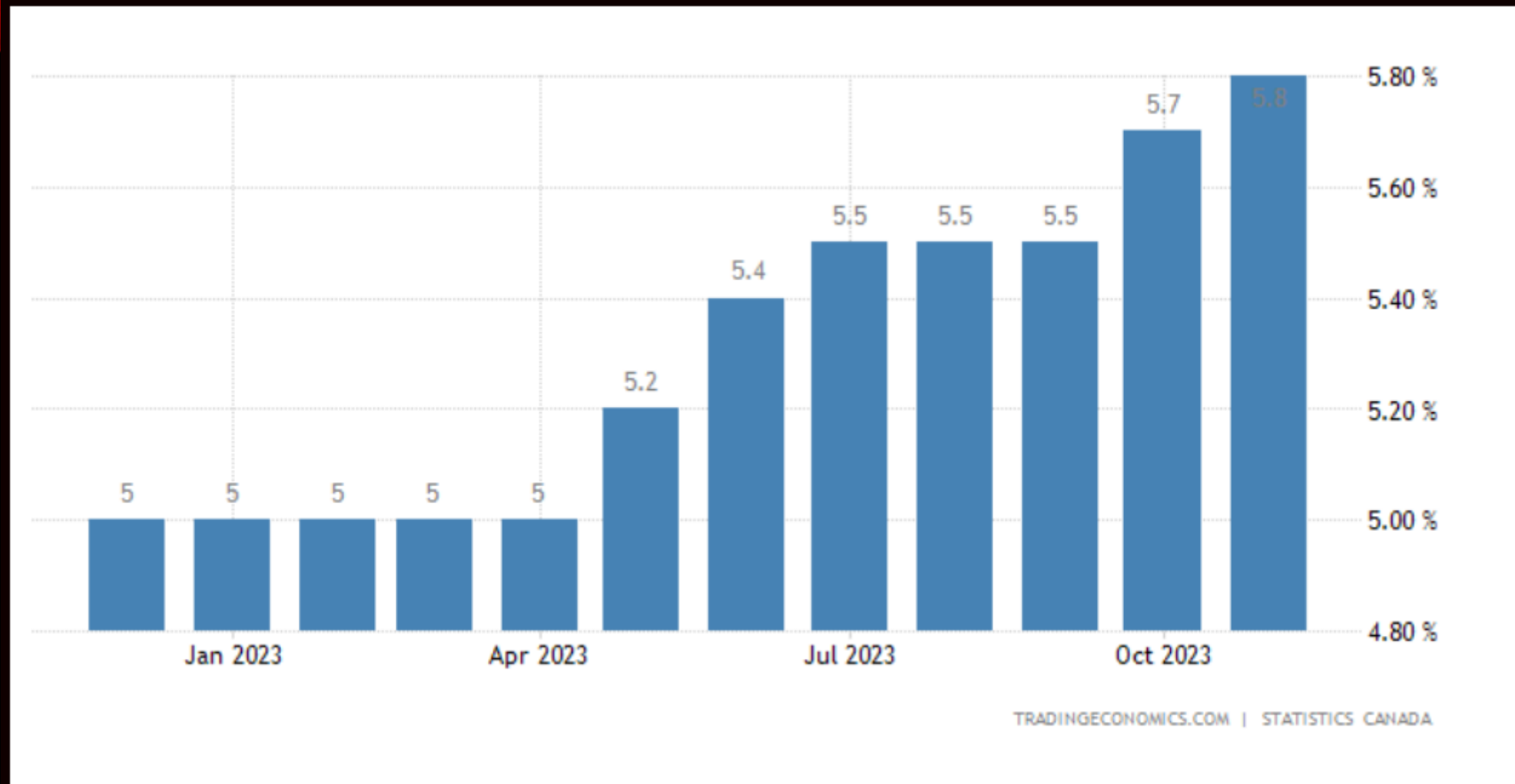


CANADA'S JOB GROWTH INCREASED IN NOVEMBER

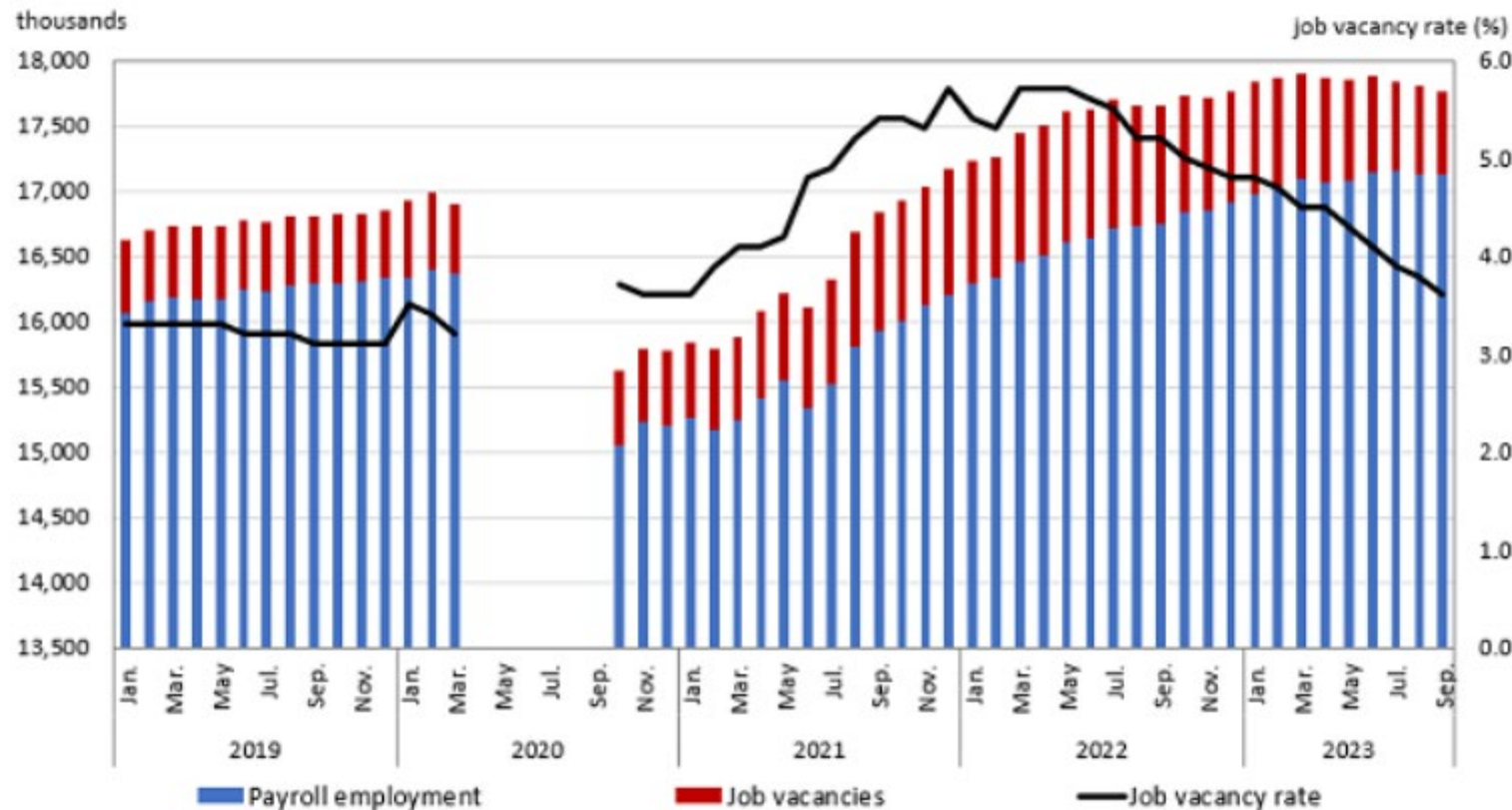


TRADINGECONOMICS.COM | STATISTICS CANADA

THE JOBLESS RATE RISES IN NOVEMBER TO 5.8%



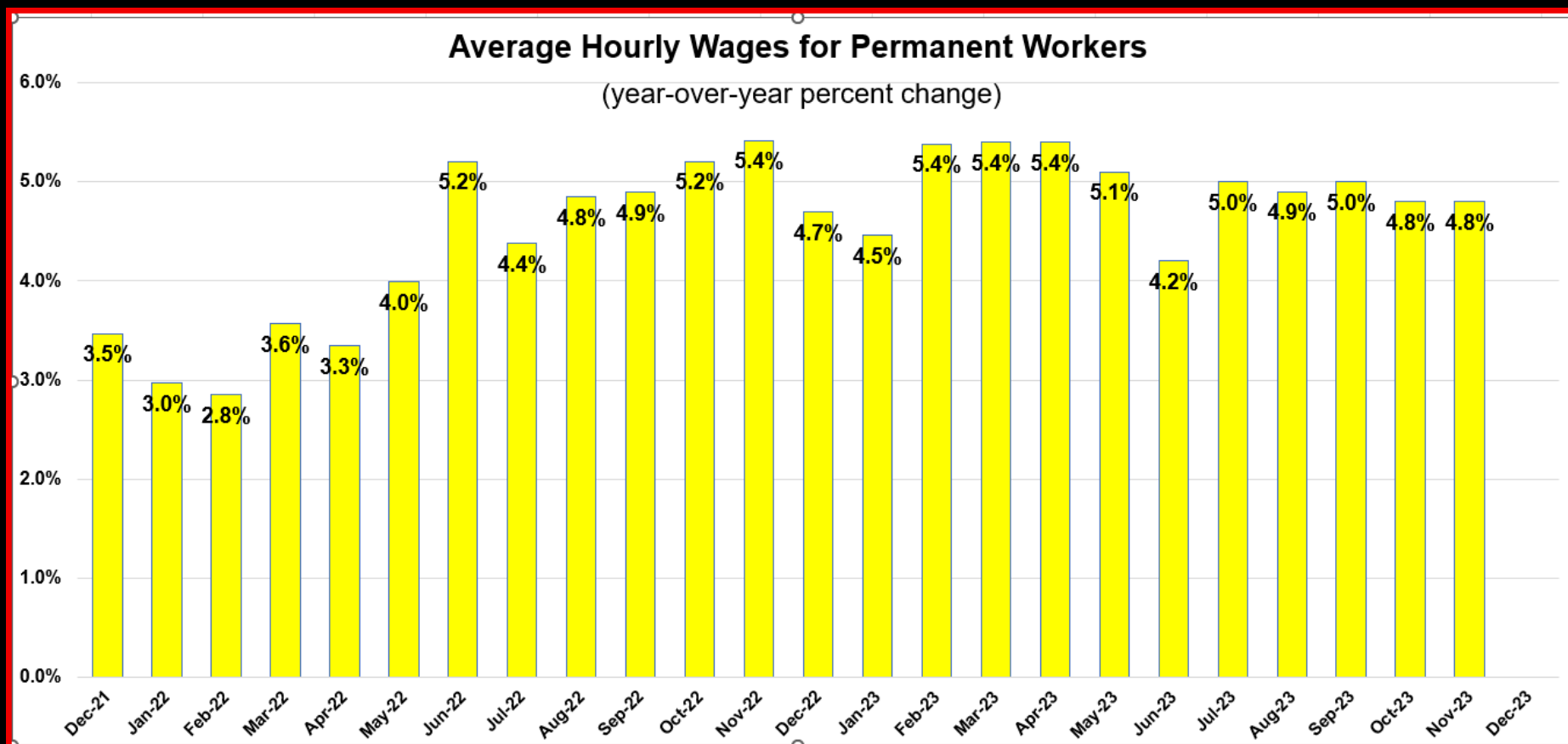
JOB VACANCIES REMAIN ON DOWNWARD TREND



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 seasonally adjusted.

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

NOVEMBER WAGE INFLATION IS STILL HIGH AT 4.8%



HEADWINDS

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



The image features a close-up of the Canadian flag, showing the red and white sections with the maple leaf. The flag is draped and wrinkled. In the background, a dark grey surface is covered with a fine, white, cracked texture, resembling shattered glass or dry earth. The word "INFLATION" is written in large, white, block letters across the middle of the image, with the cracked texture appearing to run through and over the letters.

INFLATION

CANADIAN CPI INFLATION FELL FURTHER IN OCTOBER



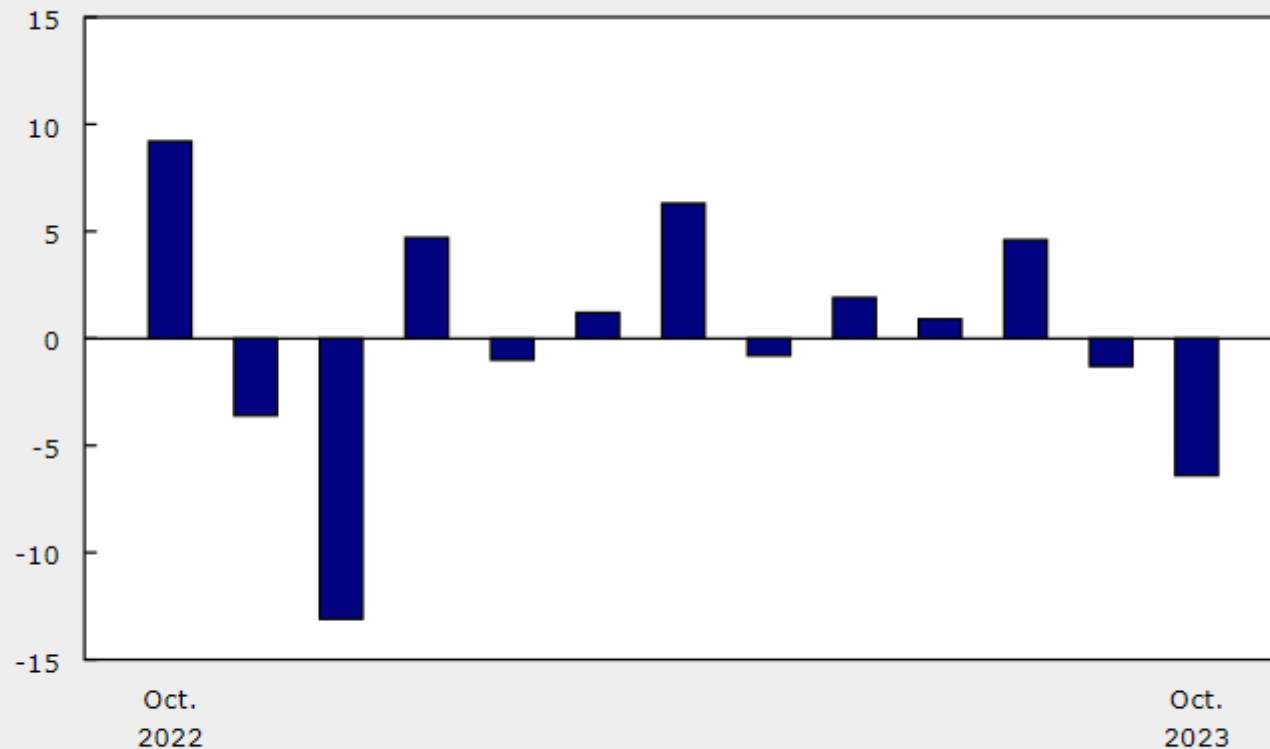
TRADINGECONOMICS.COM | STATISTICS CANADA



DOMINION LENDING
CENTRES

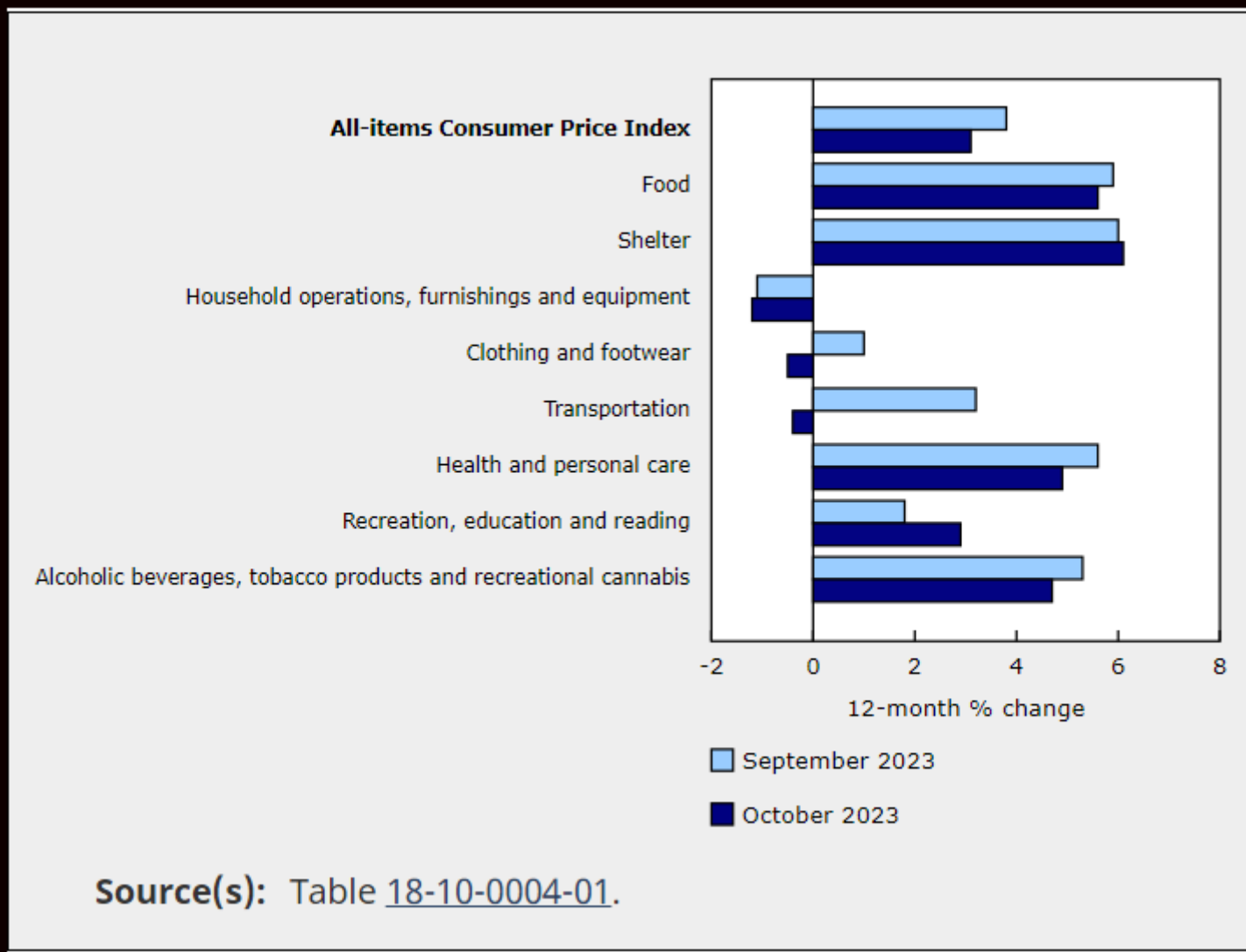
GASOLINE PRICES FELL SHARPLY IN OCTOBER

1-month % change

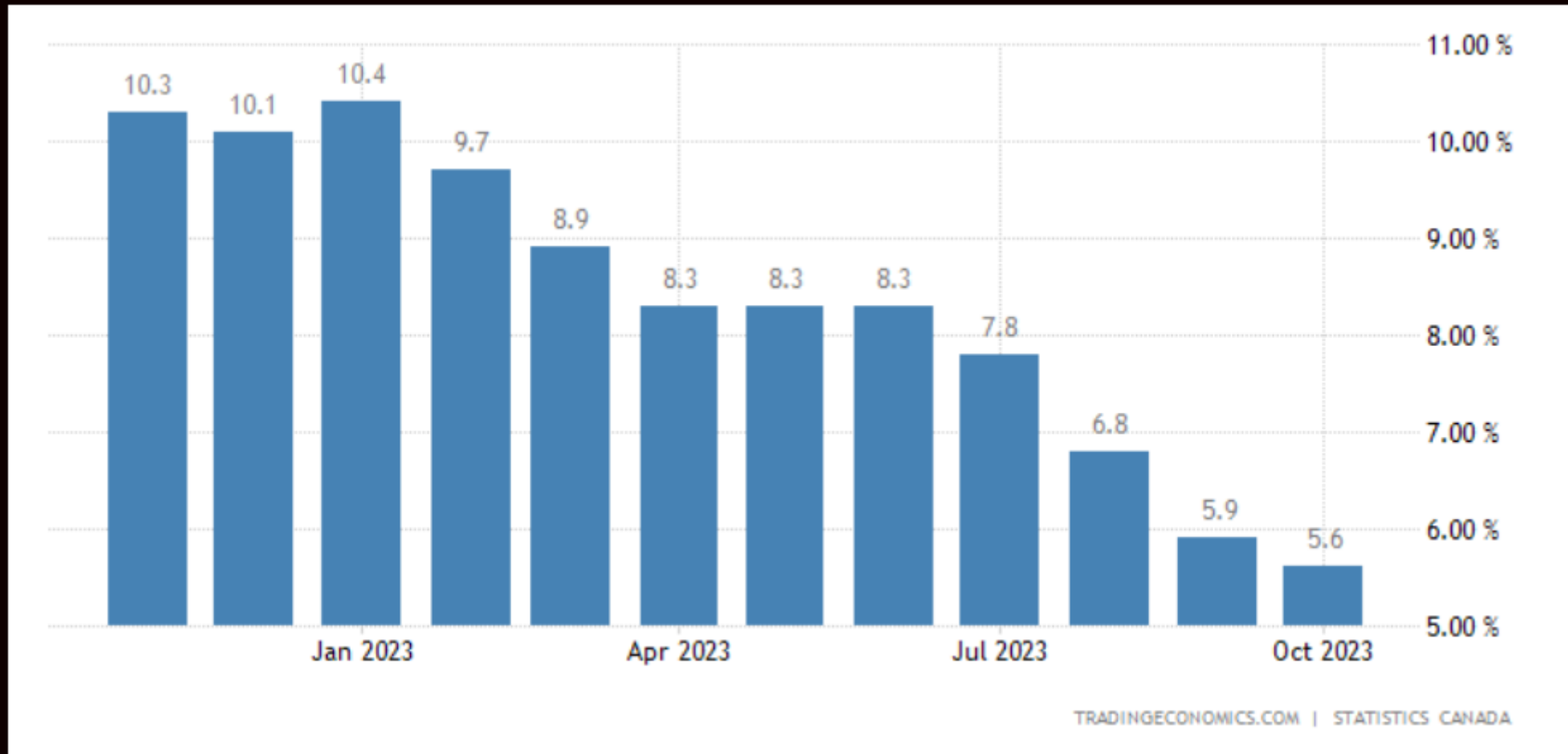


Source(s): Table [18-10-0004-01](#).

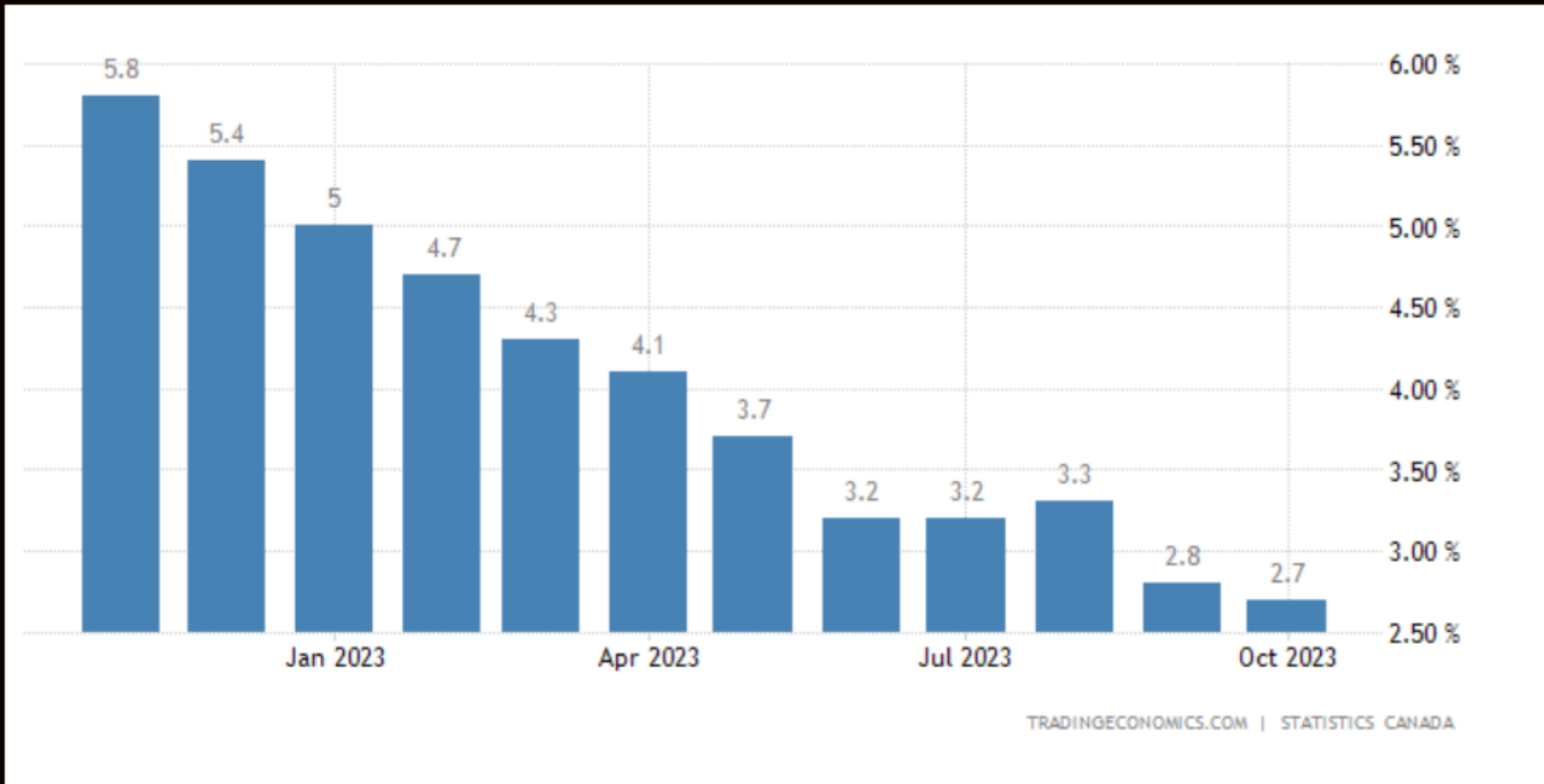
FOOD AND SHELTER PRICES REMAIN THE LARGEST CONTRIBUTORS TO INFLATION



FOOD INFLATION FELL FOR THE FOURTH CONSECUTIVE MONTH

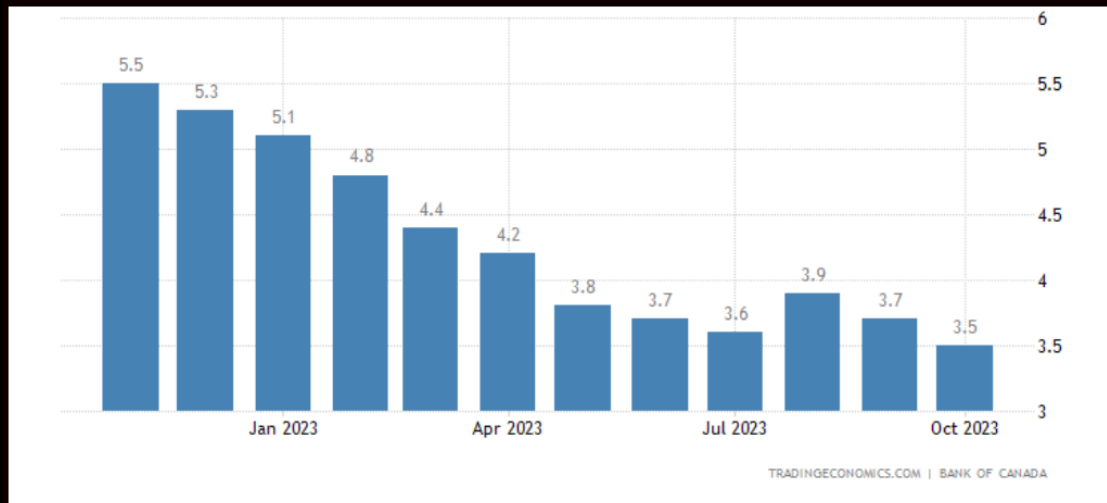


CPI EXCLUDING FOOD AND ENERGY FELL TO 2.7% LAST MONTH

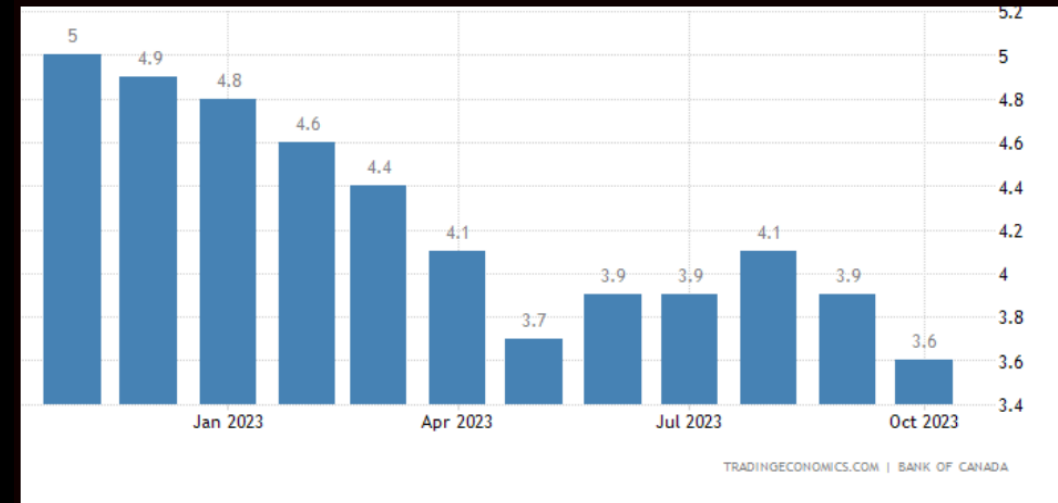


CORE INFLATION MEASURES FELL AGAIN IN OCTOBER

CPI Trimmed-Mean



CPI Median

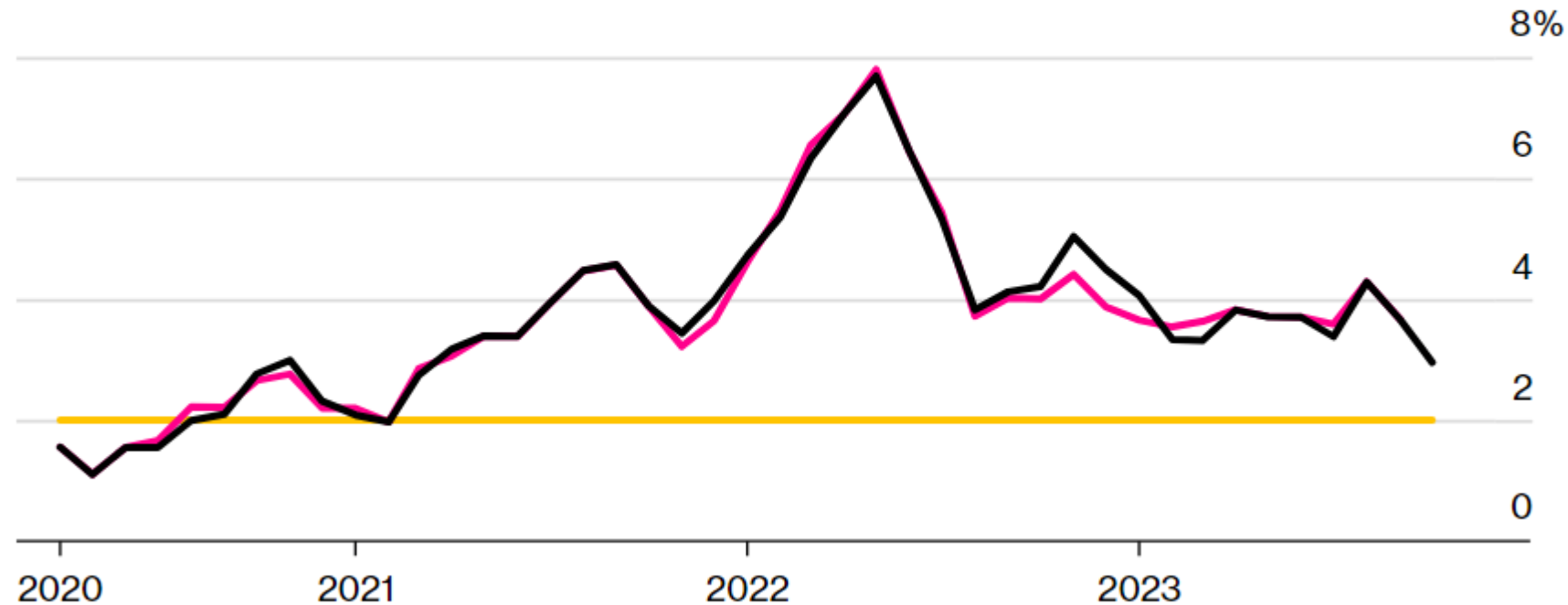


RECENT CORE INFLATION MEASURES DECLINE

Core Inflation Proves Less Sticky in Canada

Closely watched measures of underlying price pressures ease

- Average of trim and median core inflation measures, 3-month moving annualized
- Pre-Revision
- Bank of Canada inflation target



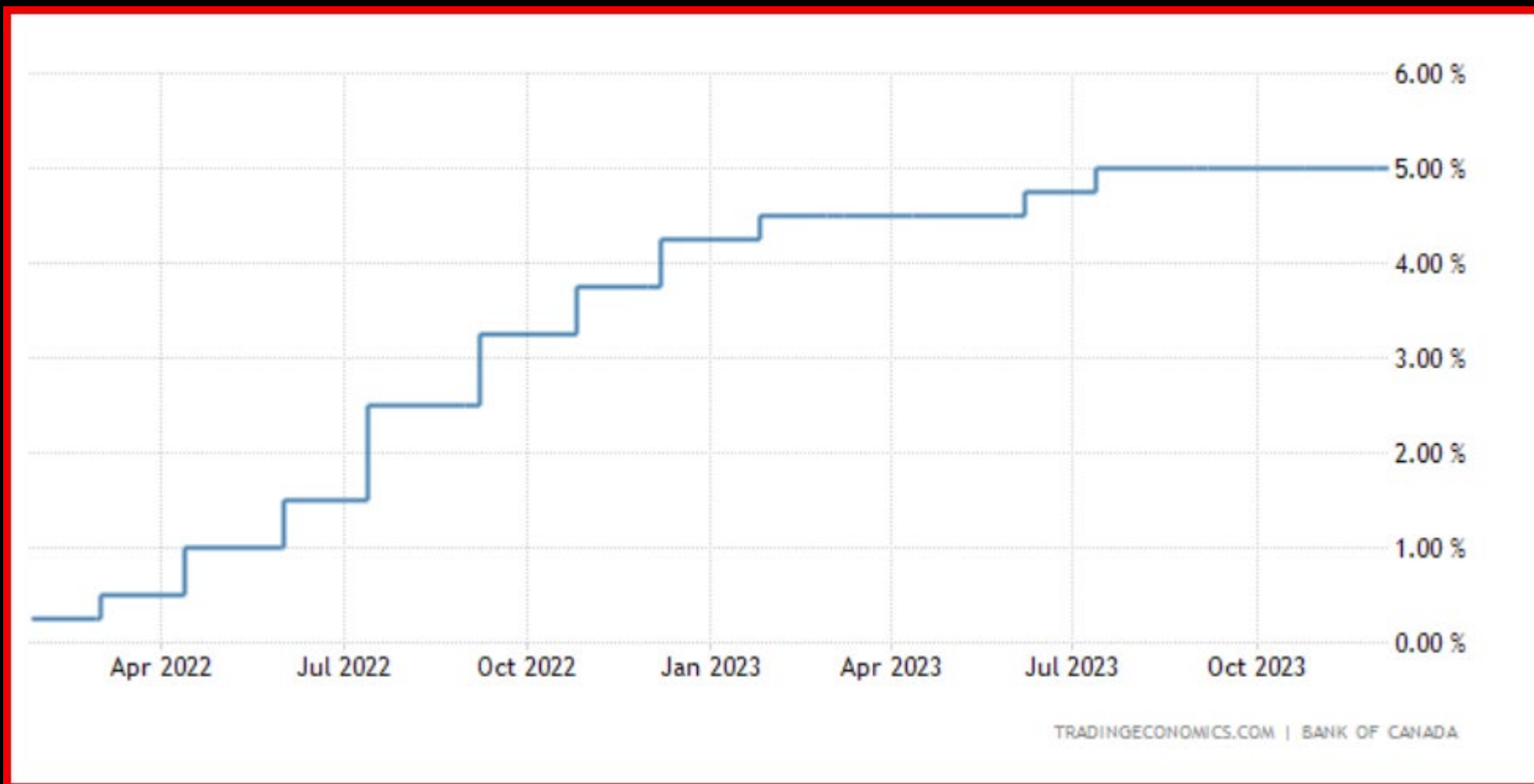
Source: Statistics Canada, Bloomberg calculations



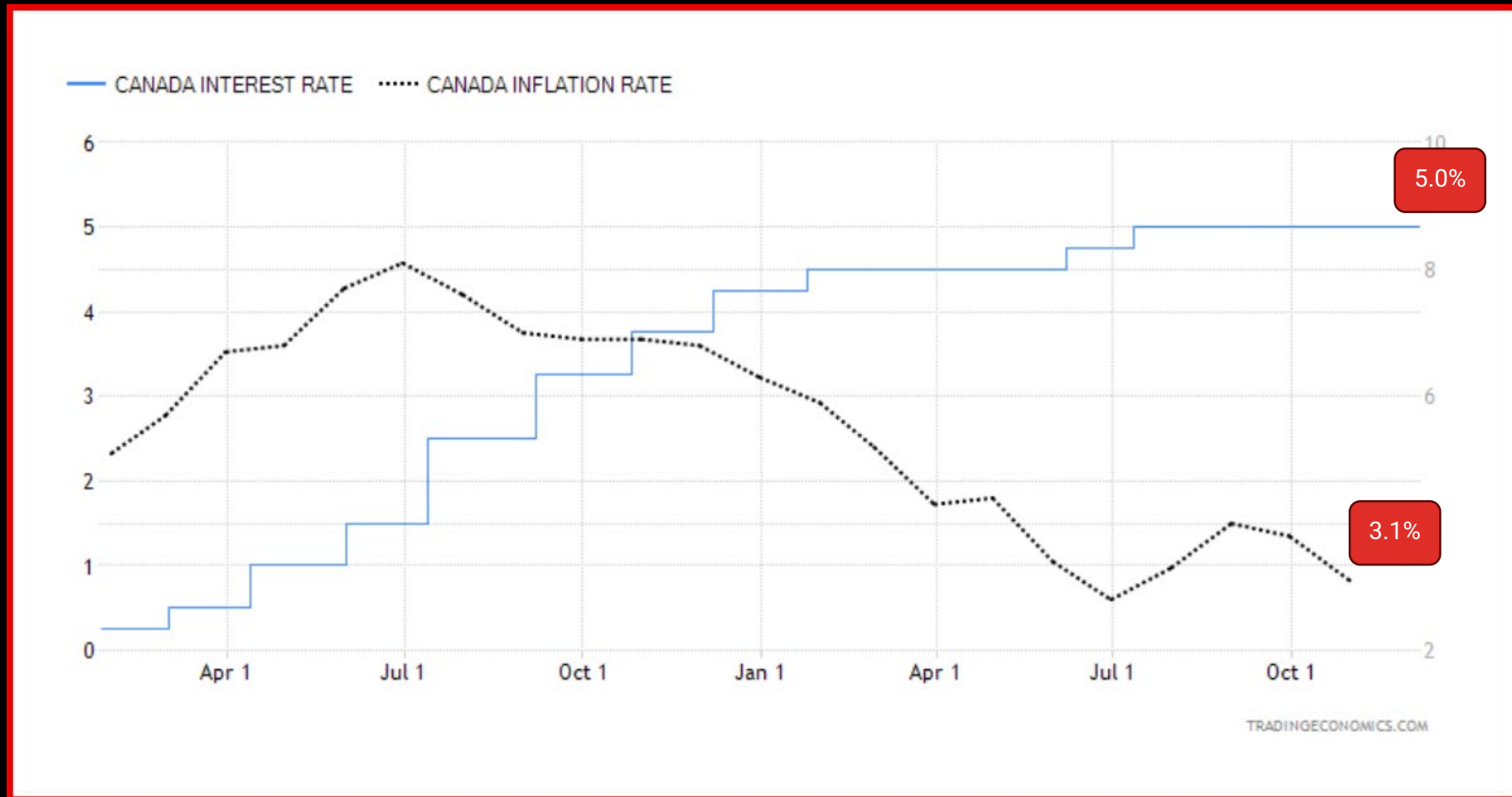
- BoC holds rates steady at 5%
- Less Hawkish Statement
- Continues Quantitative Tightening

BANK OF CANADA

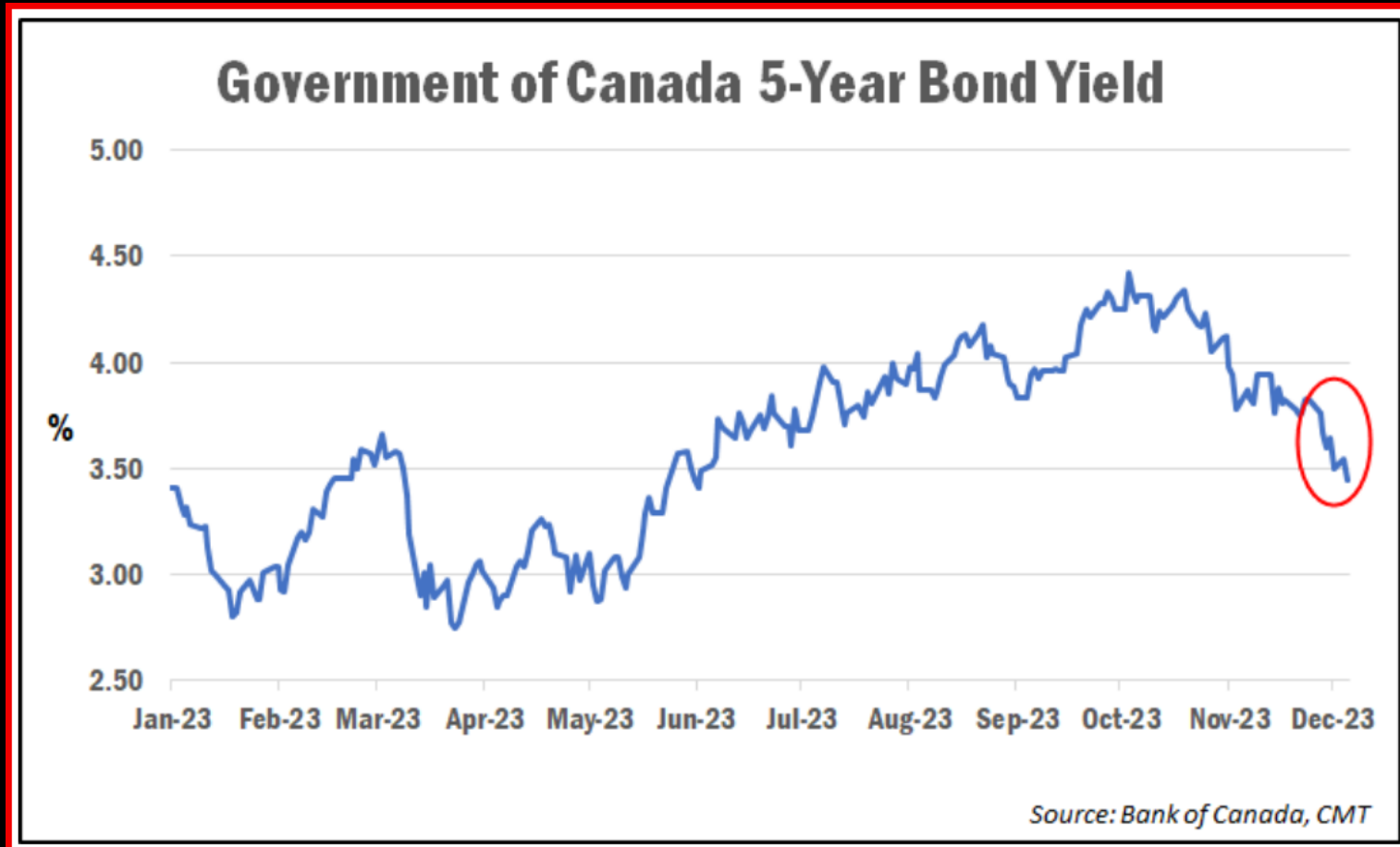
BOC HOLDS RATES STEADY AT 5.0%--FOR THE THIRD MEETING IN A ROW



INFLATION RATE WELL BELOW OVERNIGHT RATE



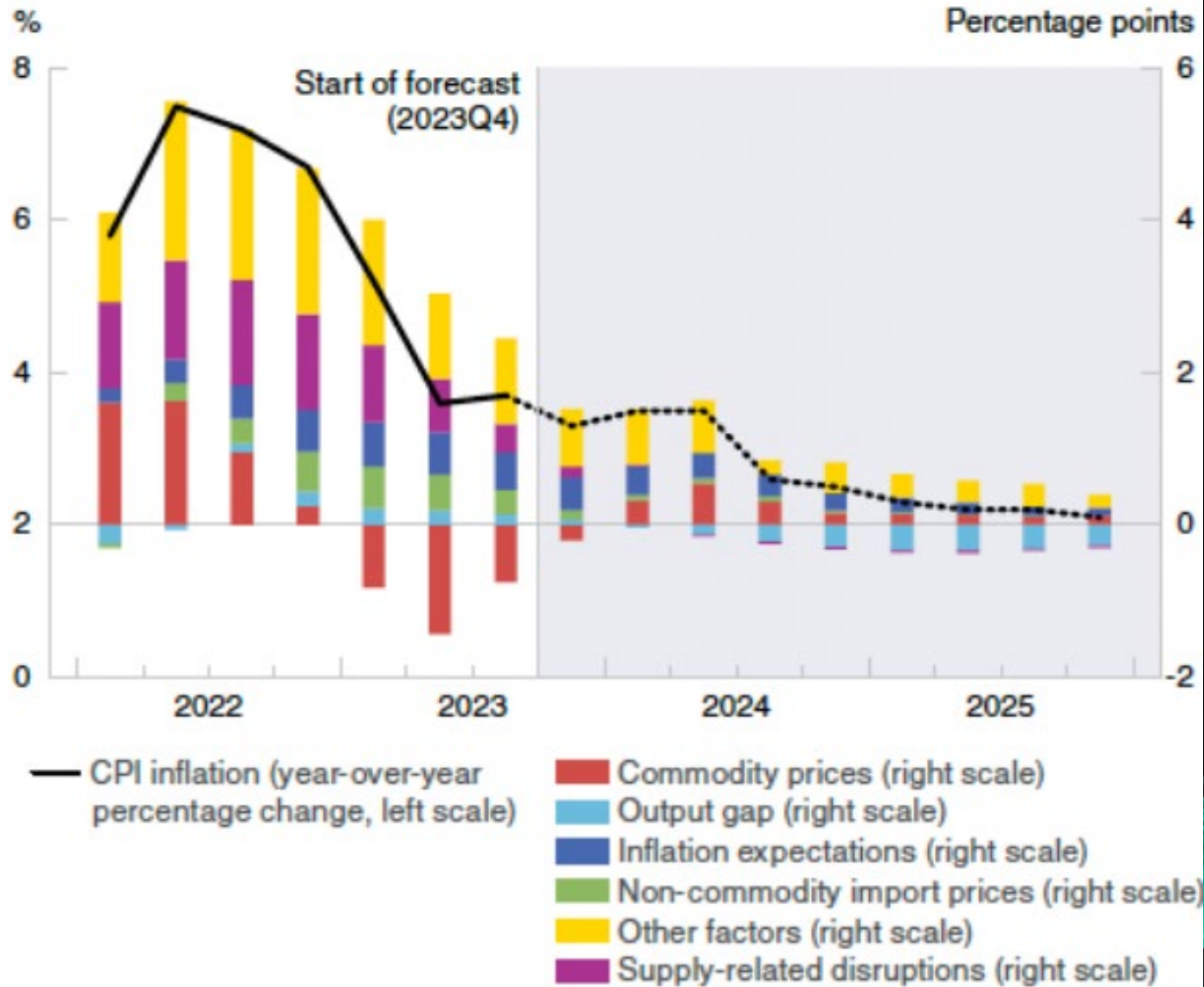
FIVE-YEAR YIELD DOWN NEARLY 100 BPS SINCE EARLY OCTOBER



Fixed mortgage rates have fallen, but not by as much.

Chart 18: CPI inflation is forecast to return to target by the end of 2025

Contribution to the deviation of year-over-year inflation from 2%, quarterly data



BOC SAID IN
OCTOBER
THAT 2%
INFLATION
TARGET
WON'T BE
HIT UNTIL
THE END OF
2025

PRIME RATE STEADY

Canada Prime Rate

[ADD TO WATCHLIST](#)

7.20000%
0.00000

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

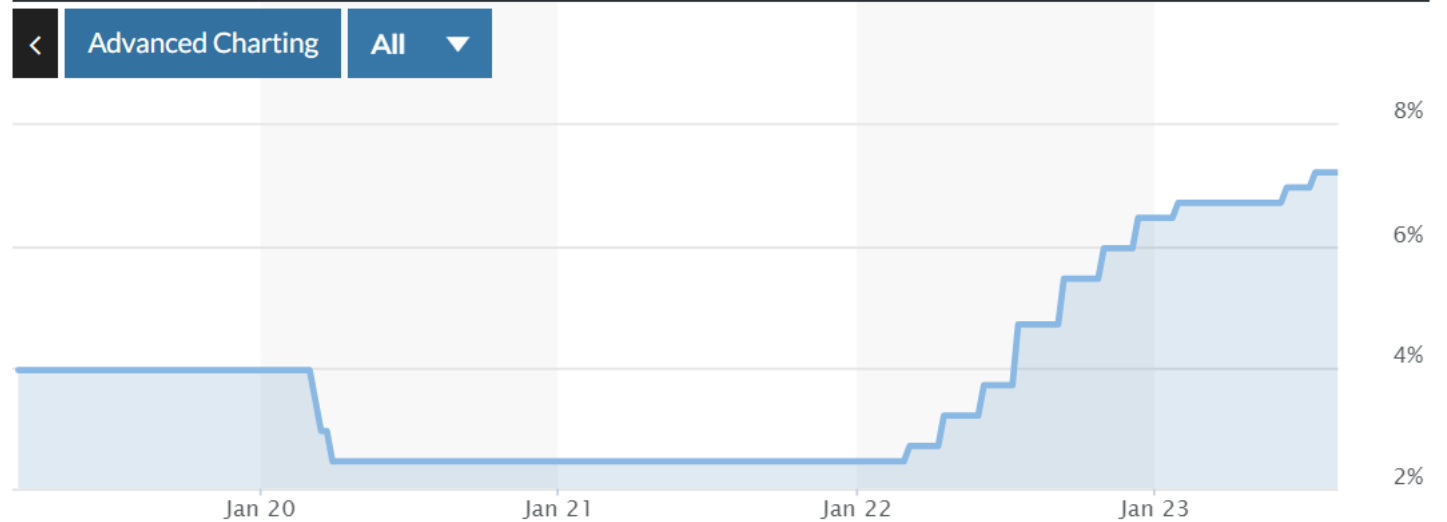
PREVIOUS CLOSE

7.20000%

4.70000

52 WEEK RANGE

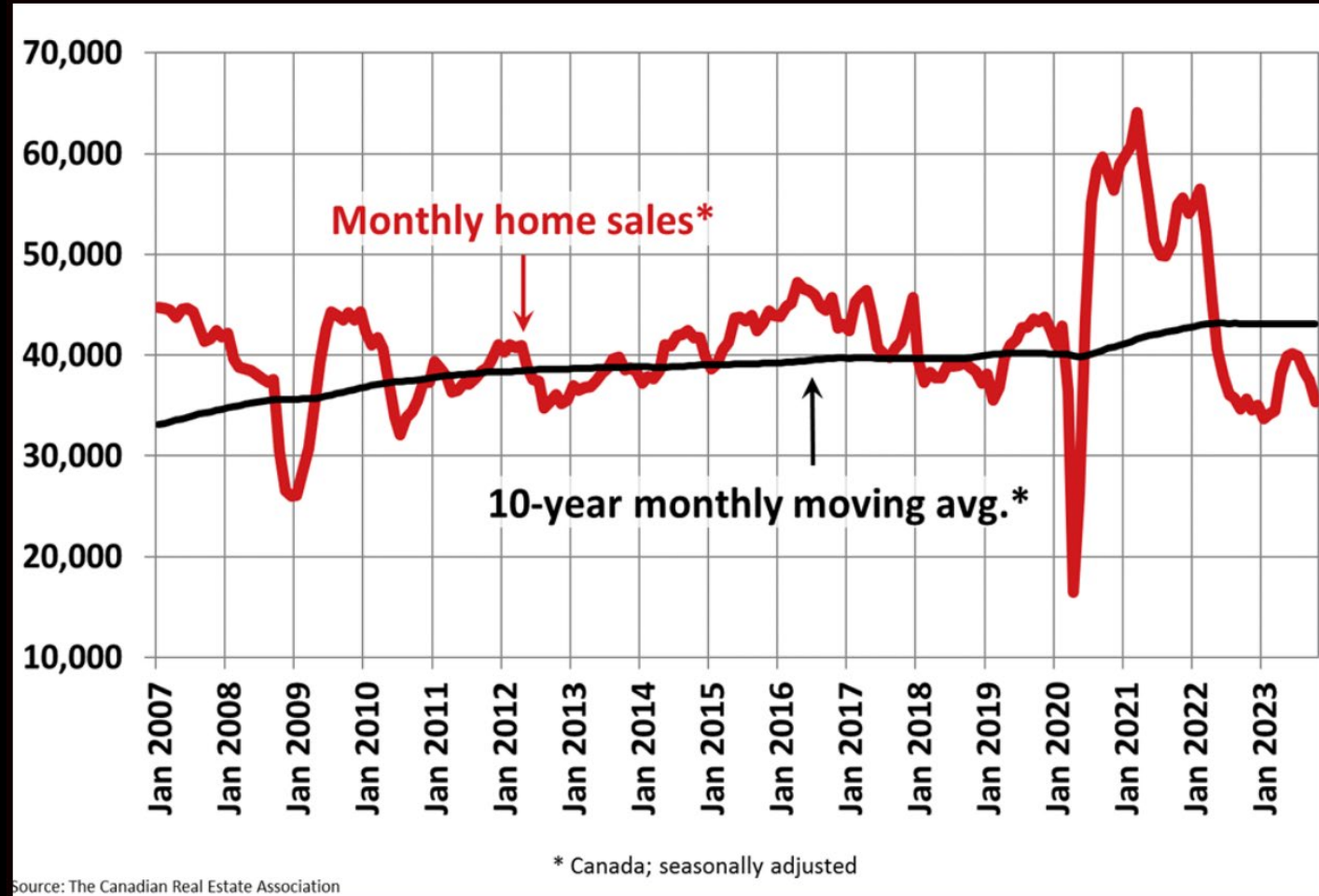
7.20000



HOUSING MARKETS



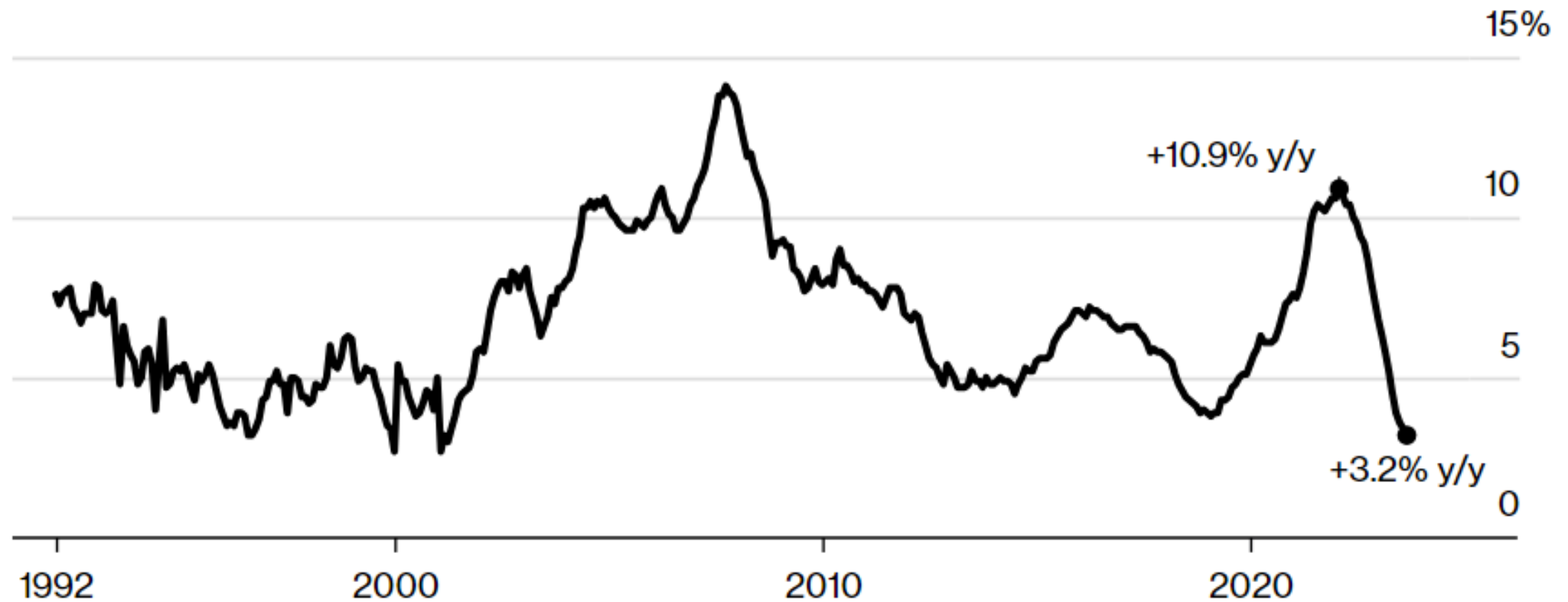
HOME SALES DECLINED FOR THE FOURTH CONSECUTIVE MONTH IN OCTOBER



DOMINION LENDING
CENTRES

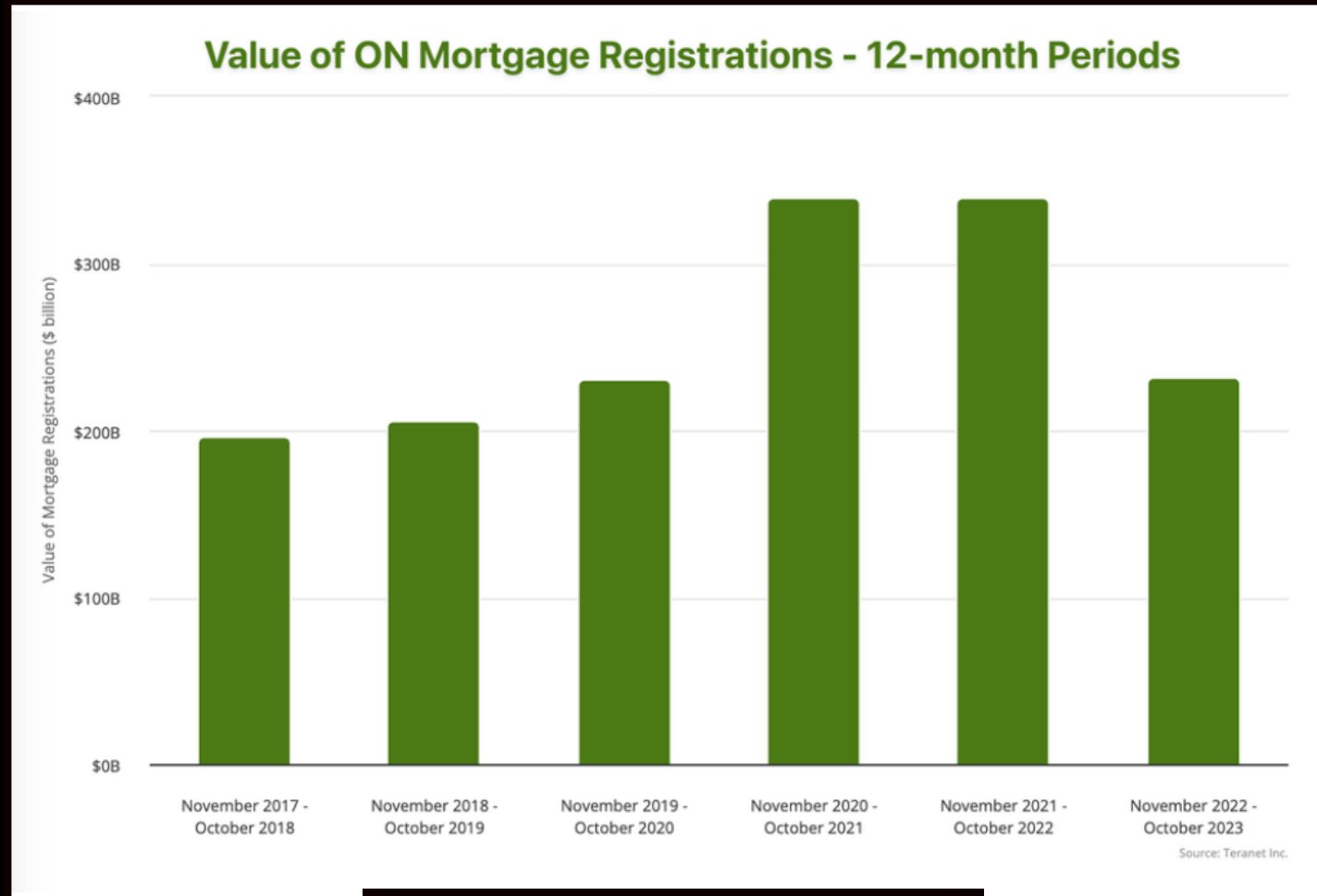
Canada Mortgage Growth Weakens as Rates Climb

Residential mortgage growth decelerates to slowest since 2001



Source: Statistics Canada, Bloomberg calculations

MORTGAGE ORIGINATIONS IN ONTARIO FELL MORE THAN 30% IN THE PAST YEAR



Courtesy of Mortgage Logic News

NEW LISTINGS FELL IN OCTOBER



Residential market balance*

Canada



Source: The Canadian Real Estate Association

*Seasonally adjusted

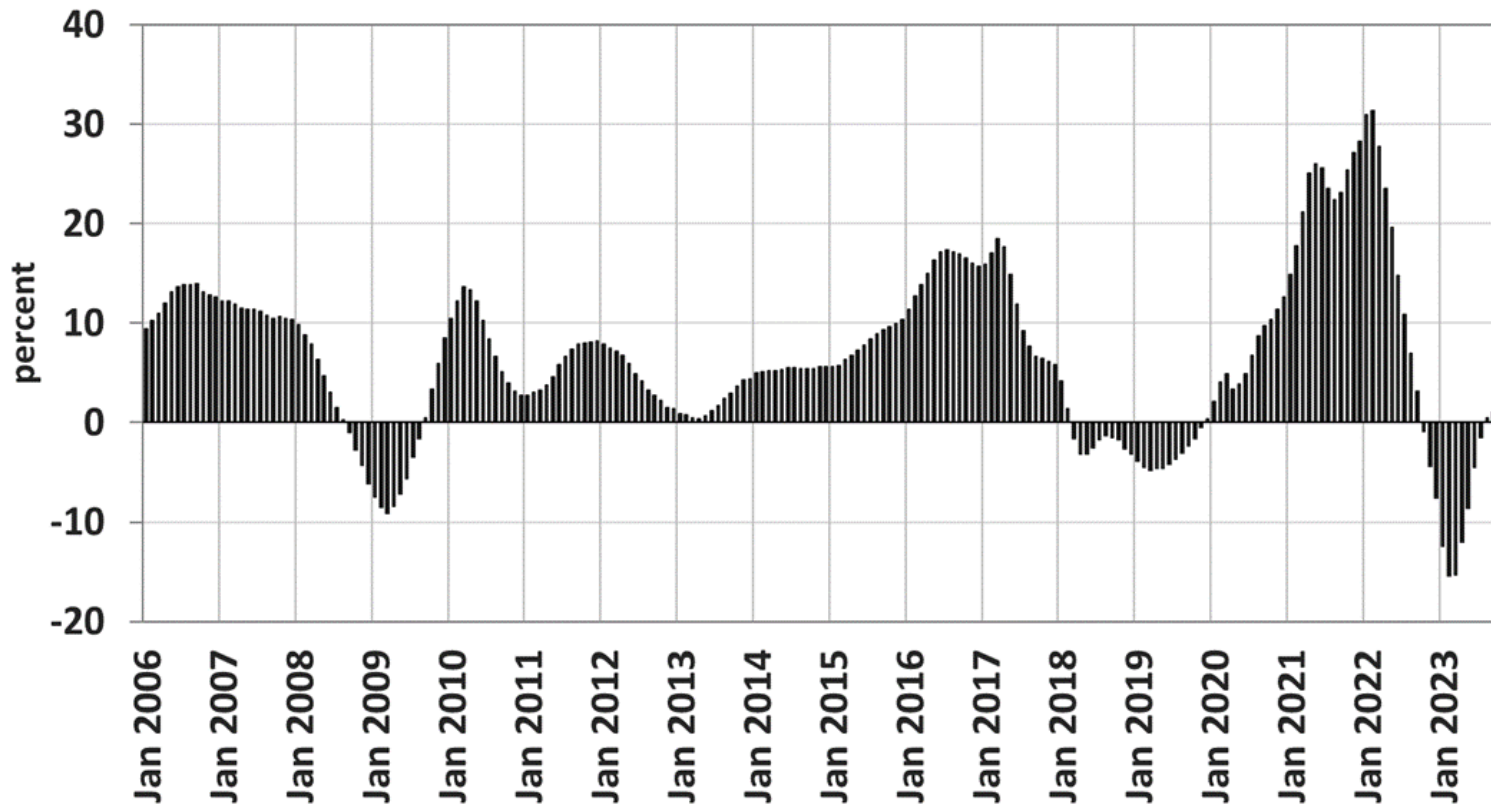


DOMINION LENDING
CENTRES

HOME PRICES EDGE UP Y/Y BECAUSE OF BASE EFFECTS

Aggregate Composite MLS® HPI*

Year-over-year percentage change



Source: The Canadian Real Estate Association

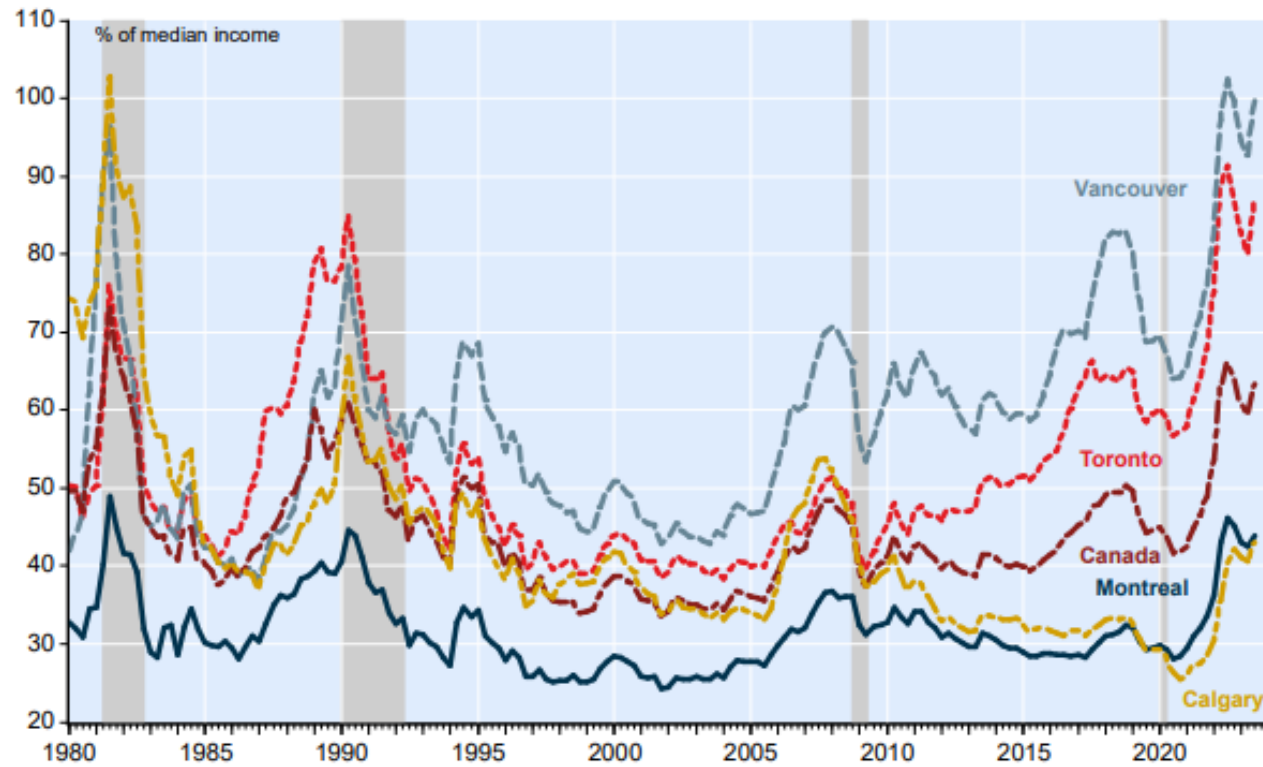
* Actual (not seasonally adjusted)

ONTARIO LED
MONTHLY DECLINES
AS PRICES
SOFTENED IN PARTS
OF BC

HOUSING AFFORDABILITY THE MAJOR CAUSE OF WEAK SALES

Canada : Perspective on housing affordability

Monthly mortgage payment on median home price, all types of dwellings (25 year amortization, 5-year term)



NBF Economics and Strategy (data via Statistics Canada, Teranet-National Bank, CREA)



DOMINION LENDING
CENTRES

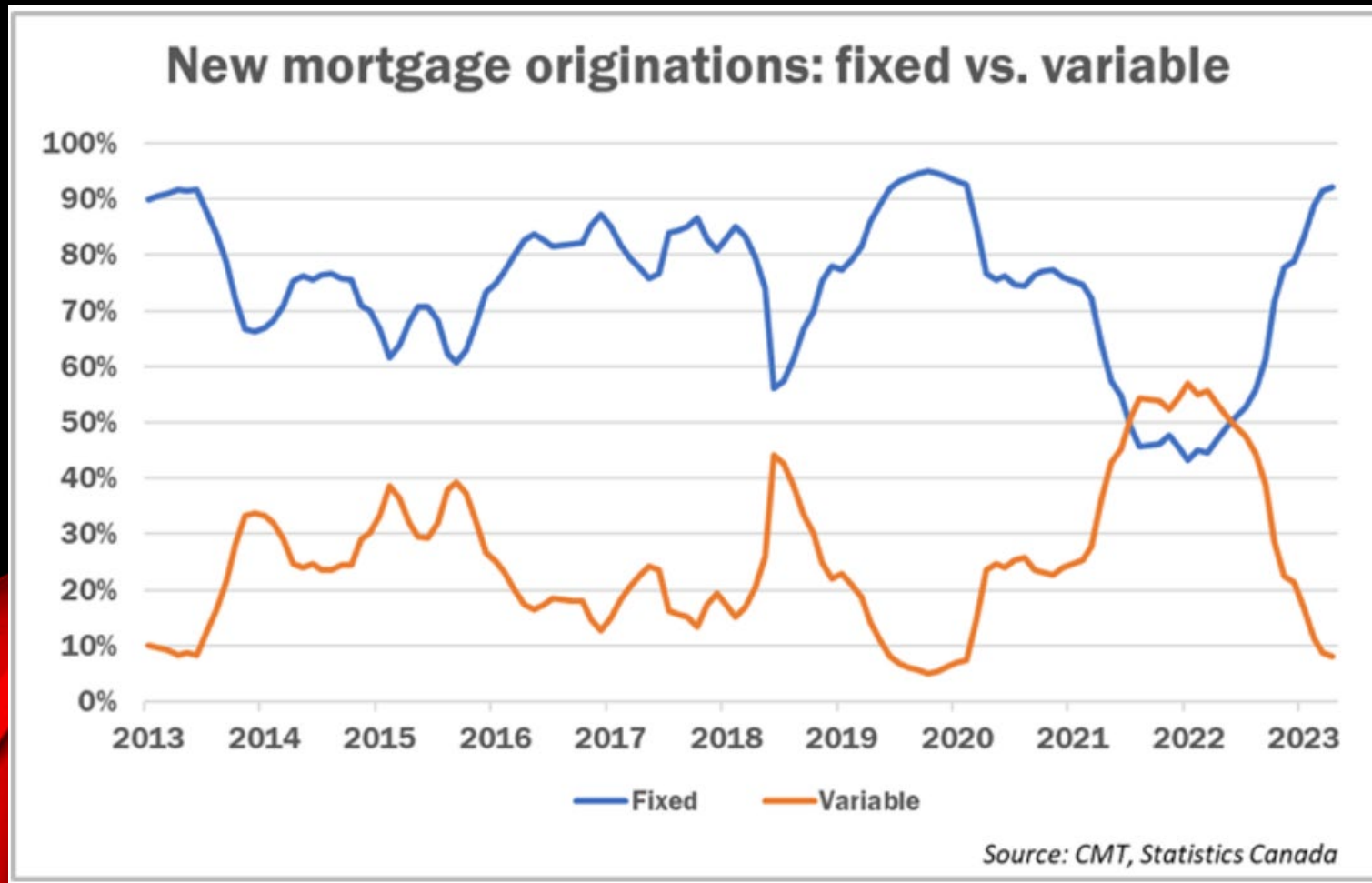
Mortgage Originations-- Fixed vs Variable

ARMs Are Now More Attractive



DOMINION LENDING
CENTRES

FIXED MORTGAGE RATES BECAME MORE POPULAR



Originations
Variable rate loan share was 8.3% in September--down from 57% in July 2020.



PAYMENT SHOCK

60% of Canadian
mortgages come up for
renewal in the next 3
years.

OSFI CALLS FIXED-PAYMENT VRMS (VFMS) A “DANGEROUS PRODUCT”

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

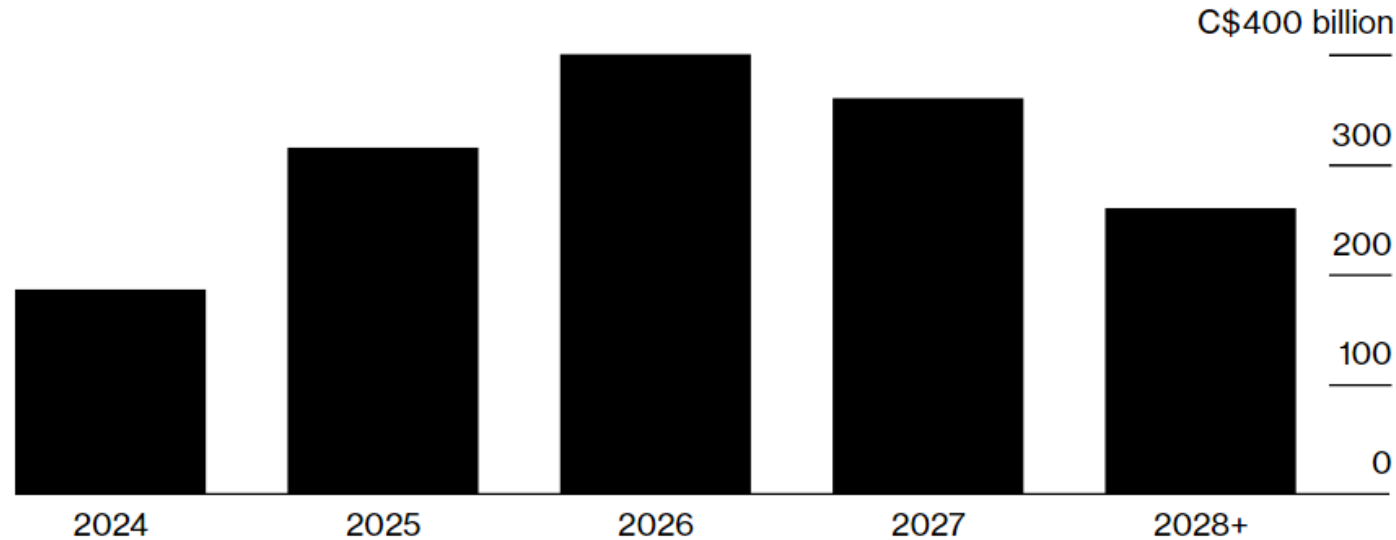
OSFI WANTS THESE PRODUCTS TO BE LESS PREVALENT

IF RATES FALL BY 100 BPS, MORTGAGE PAYMENTS RISE BY MORE THAN 20% IN 2024 AND 2025

A Wave of Canadian Mortgages Set to Renew

Loans totaling about C\$900 billion will renew from 2024 through 2026

■ Mortgages up for renewal



Source: RBC Capital Markets

By 2026, when C\$400 billion worth of mortgages are set to renew — including a large proportion of negatively amortizing loans — the increase in monthly payments could be as high as 48%.

CAVEATS



- Borrowers were stress tested for 200 bps cushion
- Wages have risen
- Potential rate cuts lower payments
- Amortizations could be extended
- Cut-backs in discretionary spending
- Government anti-default measures

Rising Unemployment Could Be The Biggest Risk

OSFI DISCOURAGING FIXED-PAYMENT VRMS

Starting in 2024:

- OSFI will increase capital requirements on negative amortization mortgage balances with LTVs above 65%.
- Impacts BMO, CIBC, RBC and TD



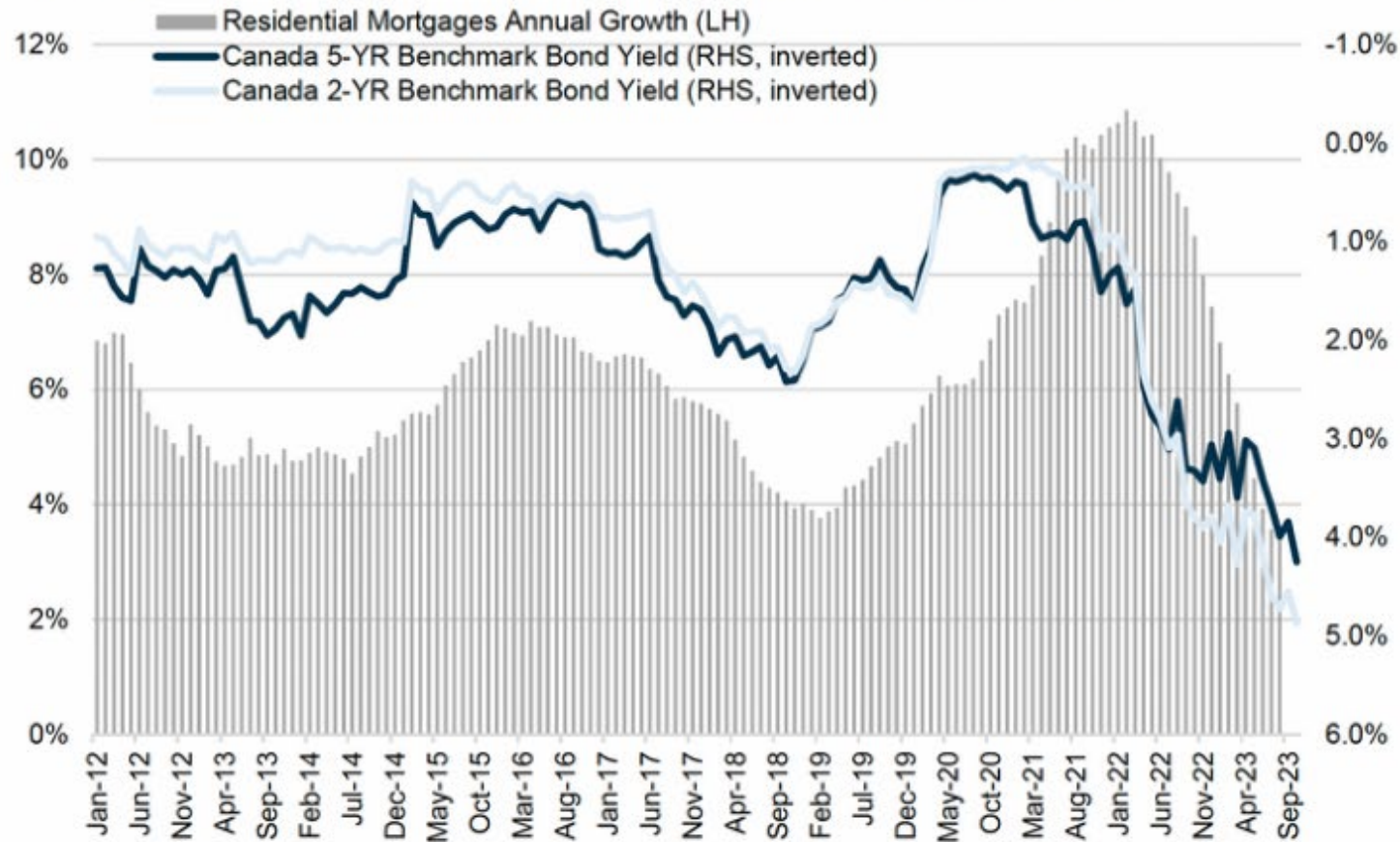
ARREARS AT BANKS ARE AT HISTORIC LOWS



**But are rising at
private lenders**

BOND YIELDS DETERMINE GROWTH IN RESIDENTIAL MORTGAGES

Annual residential mortgage growth vs. benchmark bond yield, last 10 years



Source: StatsCan, Refinitiv. Chart courtesy of National Bank Economics and Mortgage Logic News



HOUSING SHORTAGE WILL WORSEN

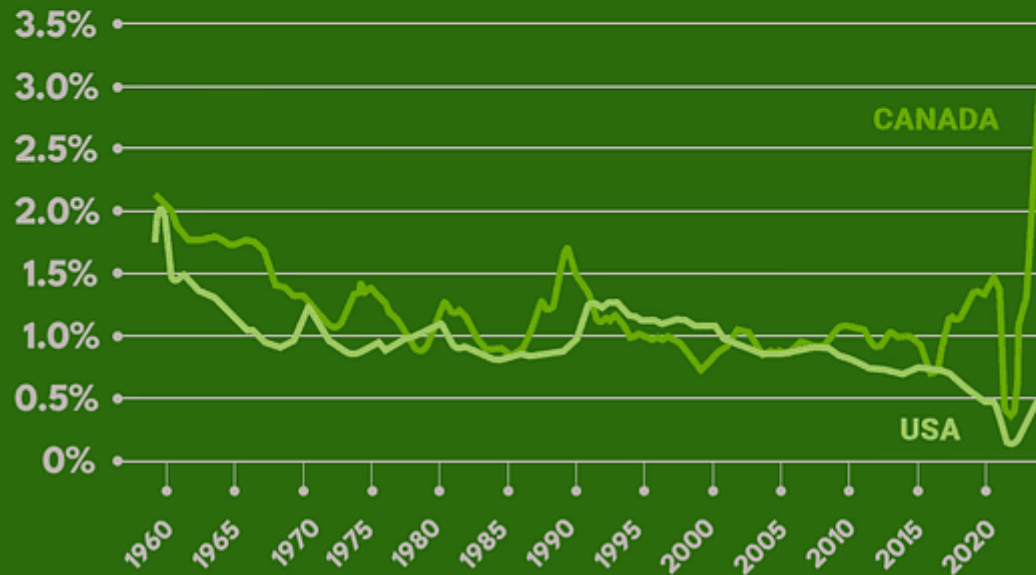
CANADIAN ANNUAL POPULATION GROWTH IS 3.1%

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.**



**DOMINION LENDING
CENTRES**

PLANNED PERMANENT IMMIGRATION RISING



Year	Planned Permanent Immigration
2023	465,000
2024	485,000
2025	500,000
2026	500,000

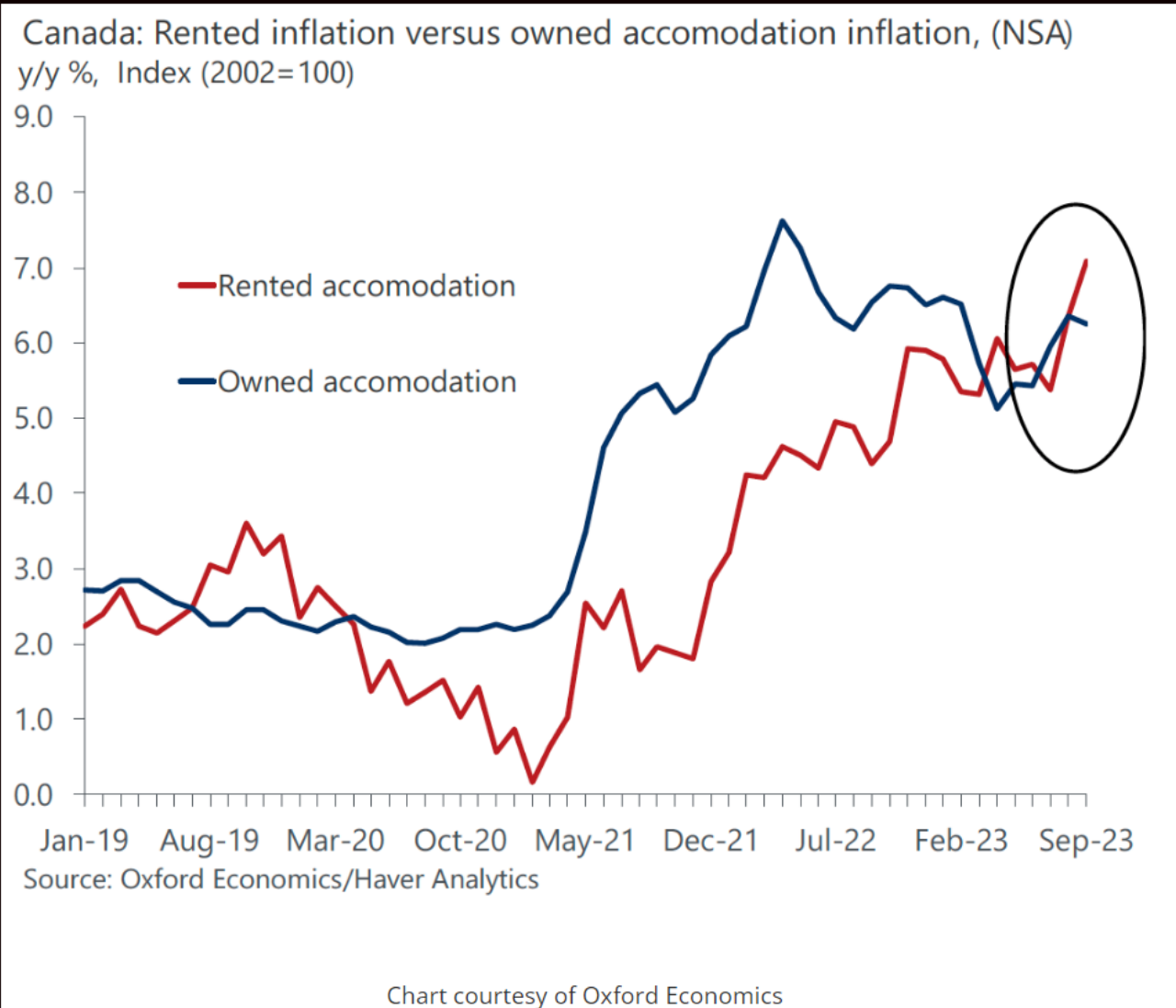
These numbers are dwarfed by the influx of foreign students hoping to get permanent residency.

TEMPORARY WORKERS ARE A MAJOR ADD-ON



60% of population growth in the past year is from temporary residents-- missing 1 million people in the economic data.

IMMIGRATION ACCELERATES RENT INFLATION



Courtesy of Mortgage Logic News

37% OF CANADIAN HOUSEHOLDS ARE RENTERS

- Annual rent inflation in October was 8.2%—the highest level in over 40 years
- Caused by the unprecedented rise in the working-age population—up 874,000 over the past year
- At the October pace, there is only **one housing start per every 4.2 people** entering the working-age population
- This is five standard deviations from the historical ratio of **1 housing unit started for every 1.8 people**
- No choice but to bid up the price of the dwindling inventory of rental units
- The current divergence between rental inflation (8.2%) and CPI inflation (3.1%) is the **highest in over 60 years.**

HOUSING STARTS INCREASE IN OCTOBER

HOUSING STARTS UP 1% IN OCTOBER

Seasonally adjusted annual rate, thousands of units



SOURCE: BLOOMBERG

GIGI SUHANIC / FINANCIAL POST

Thanks To
Elimination Of
GST On New
Construction

NEED 100,000 NEW CONSTRUCTION WORKERS

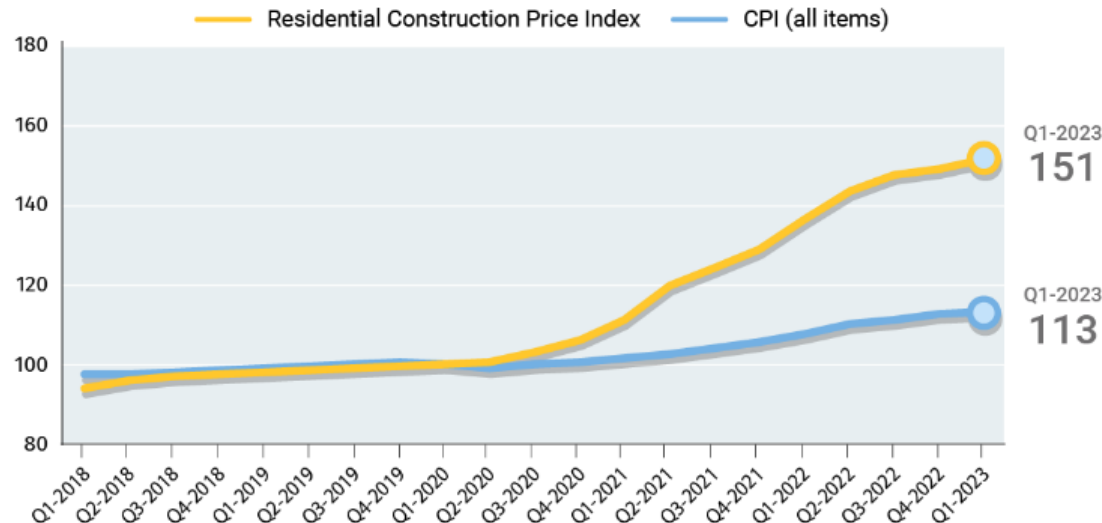


Most will be temporary foreign workers hoping to become citizens.

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.

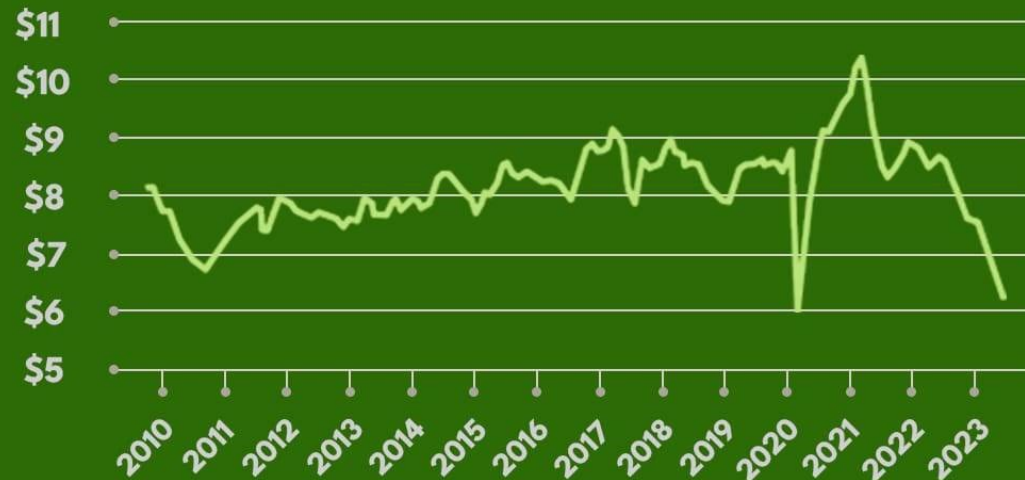
HST Eliminated On New Residential Rental Construction including for Students and Seniors

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

FOLLOW ME ON

#DrSherryCooper



SherryCooper.Com



Twitter.com/DrSherryCooper



Linkedin.com/DrSherryCooper



Facebook.com/DrSherryCooper