



1000 x 193

DOMINION LENDING
CENTRES

BOC EASING
TRAJECTORY

CANADA'S
SOFT LANDING



Neighbourhood



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CENTRES

FSRA #11764 | INDEPENDENTLY OWNED & OPERATED

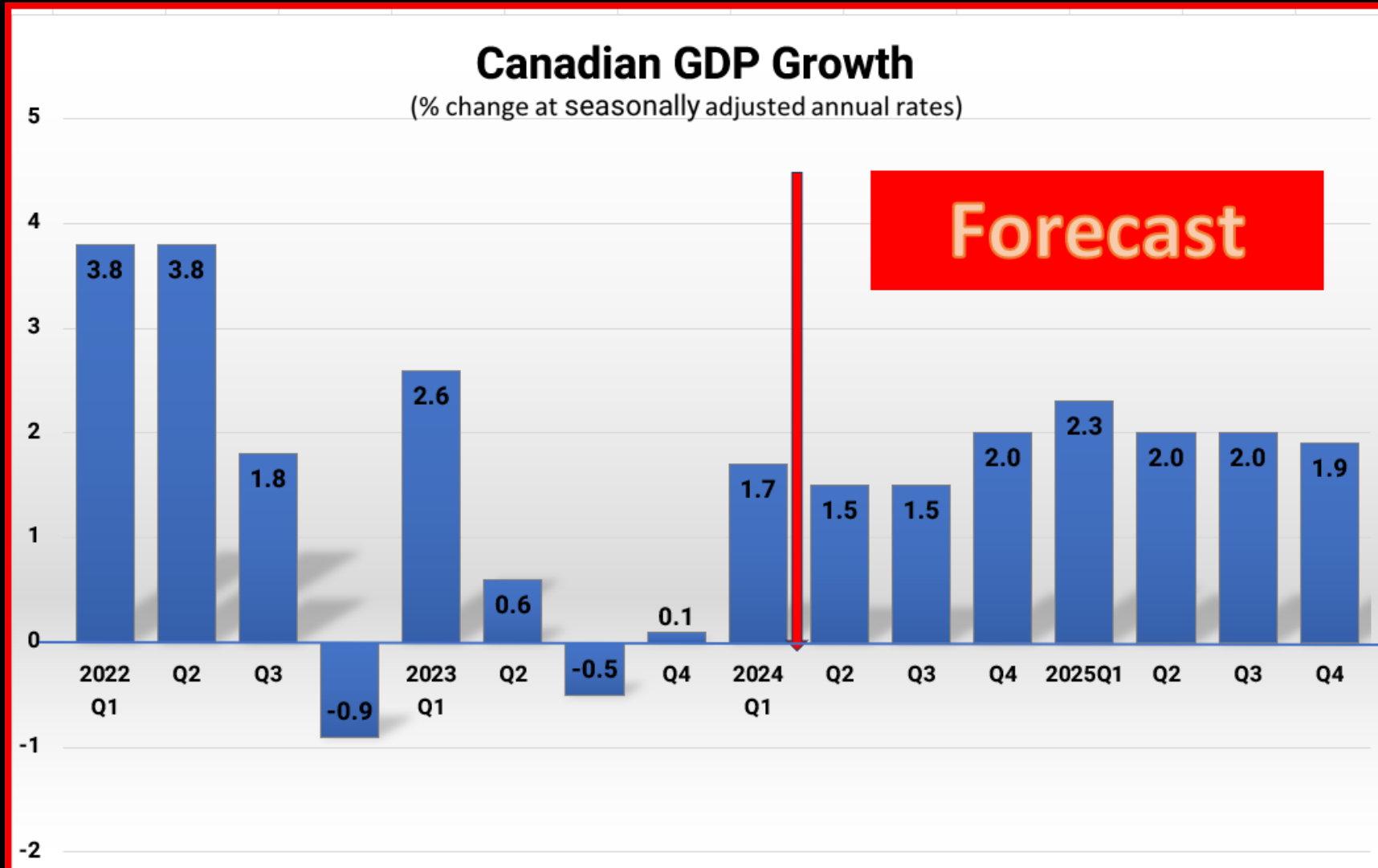
Dr. Sherry Cooper
June 13, 2024

Year	GDP Growth (%)
2022	3.8
2023	1.2
2024	1.0
2025	2.0

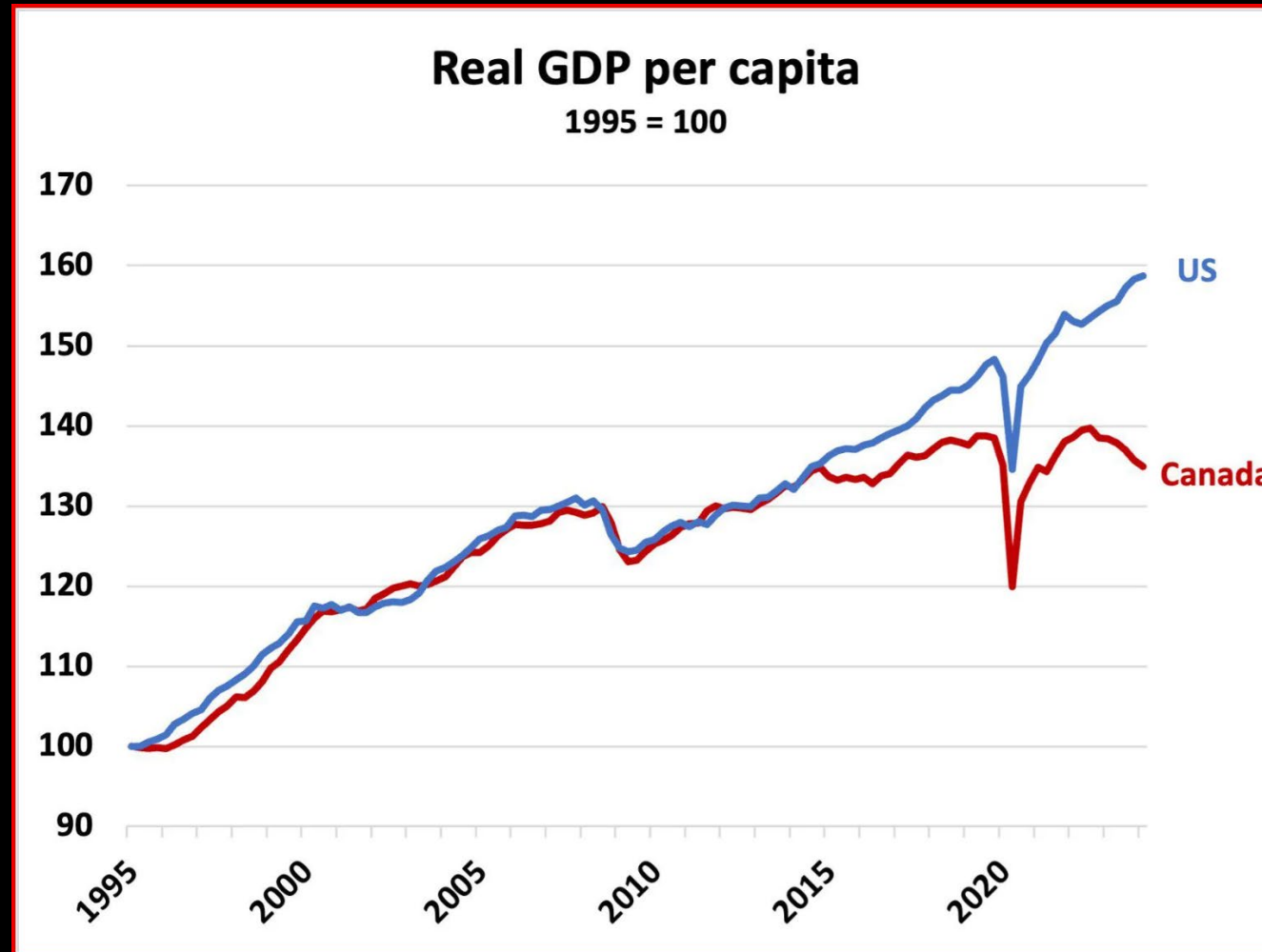


SOFT LANDING

CANADIAN GDP GROWTH WEAKER-THAN-EXPECTED IN Q1



GDP PER CAPITA GROWTH IS STILL FALLING



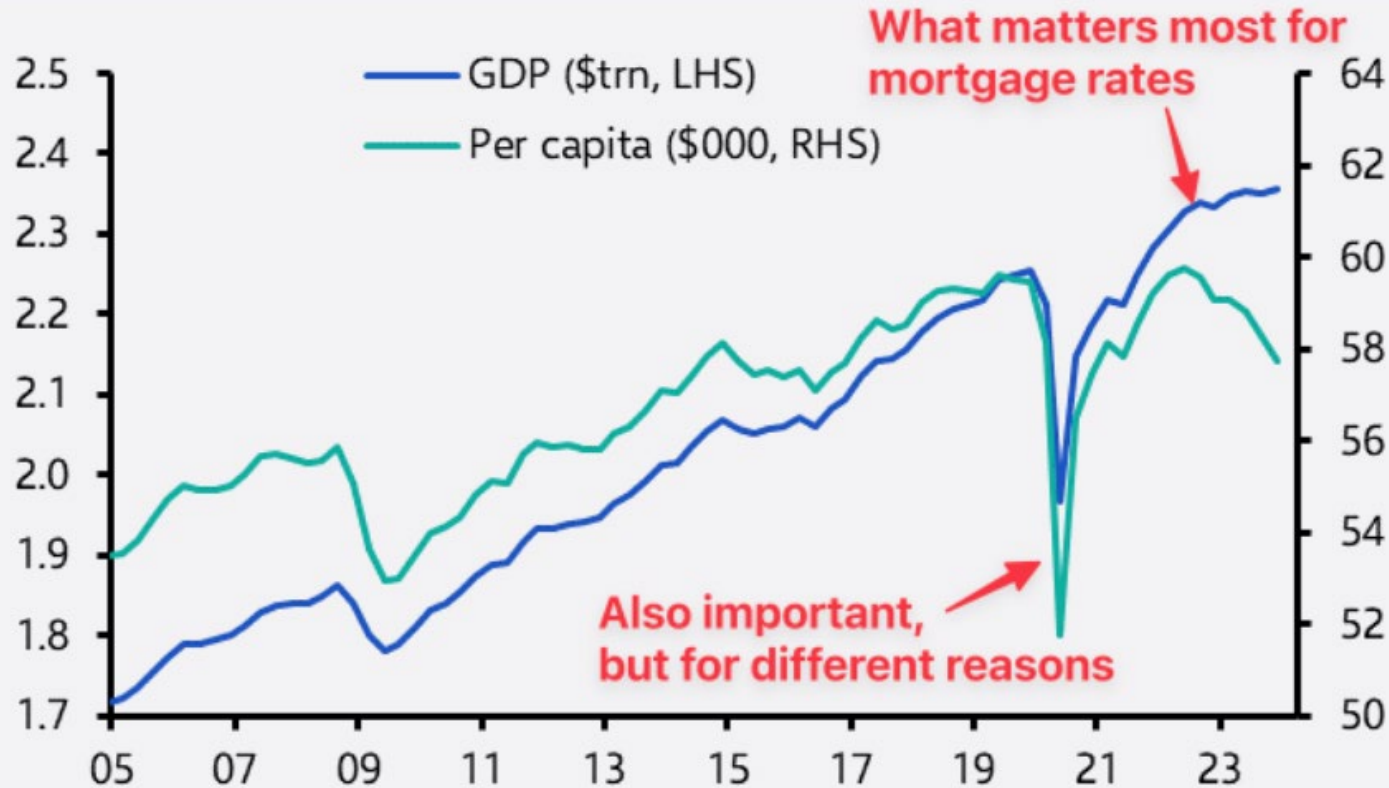
Canadian per-capita GDP little-changed from a decade ago

Per-capita real GDP, index = 100 in Q2 2022



Source: Statistics Canada, RBC Economics Research

Chart 1: GDP & GDP Per Capita

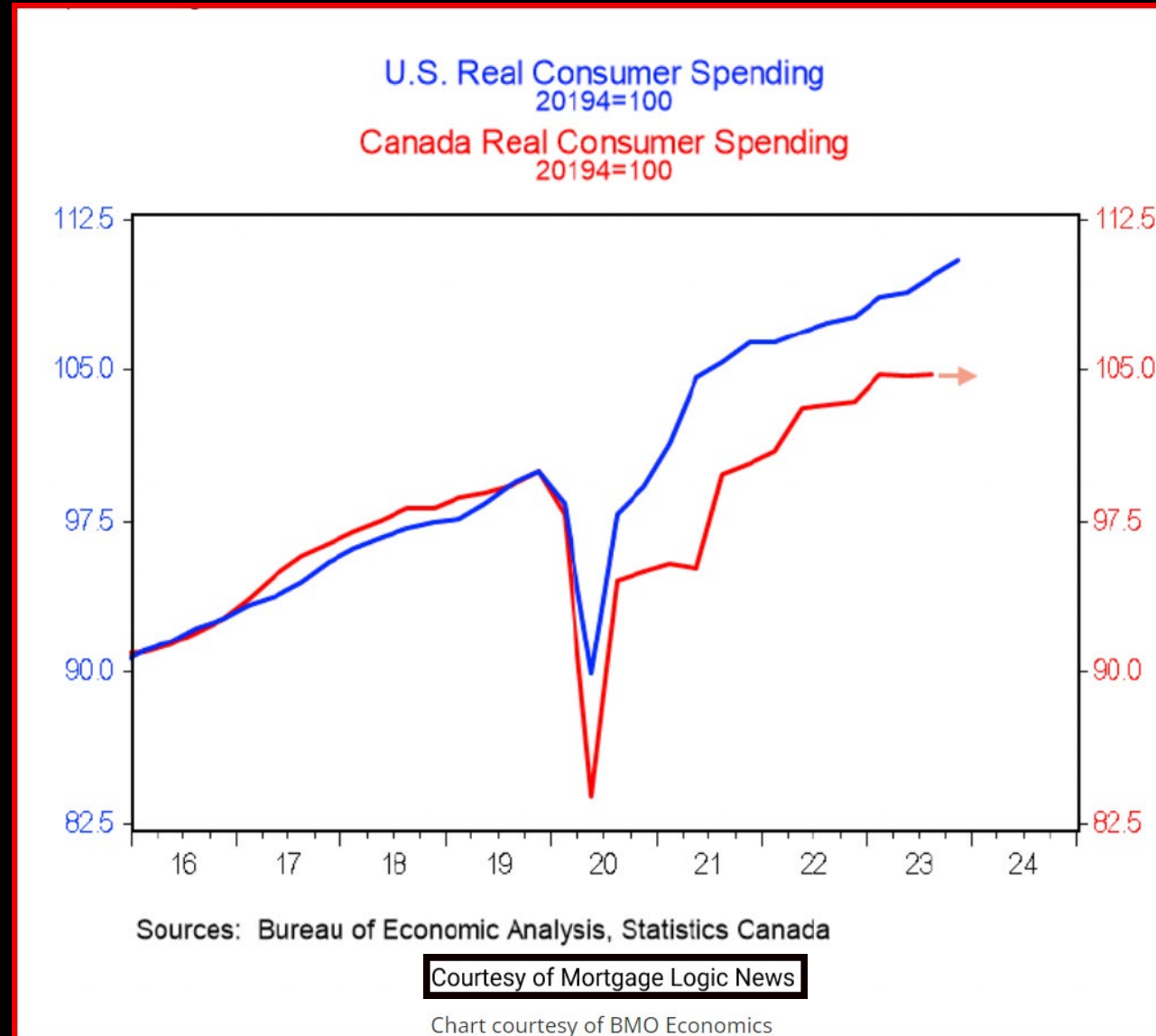


Sources: Refinitiv, Capital Economics

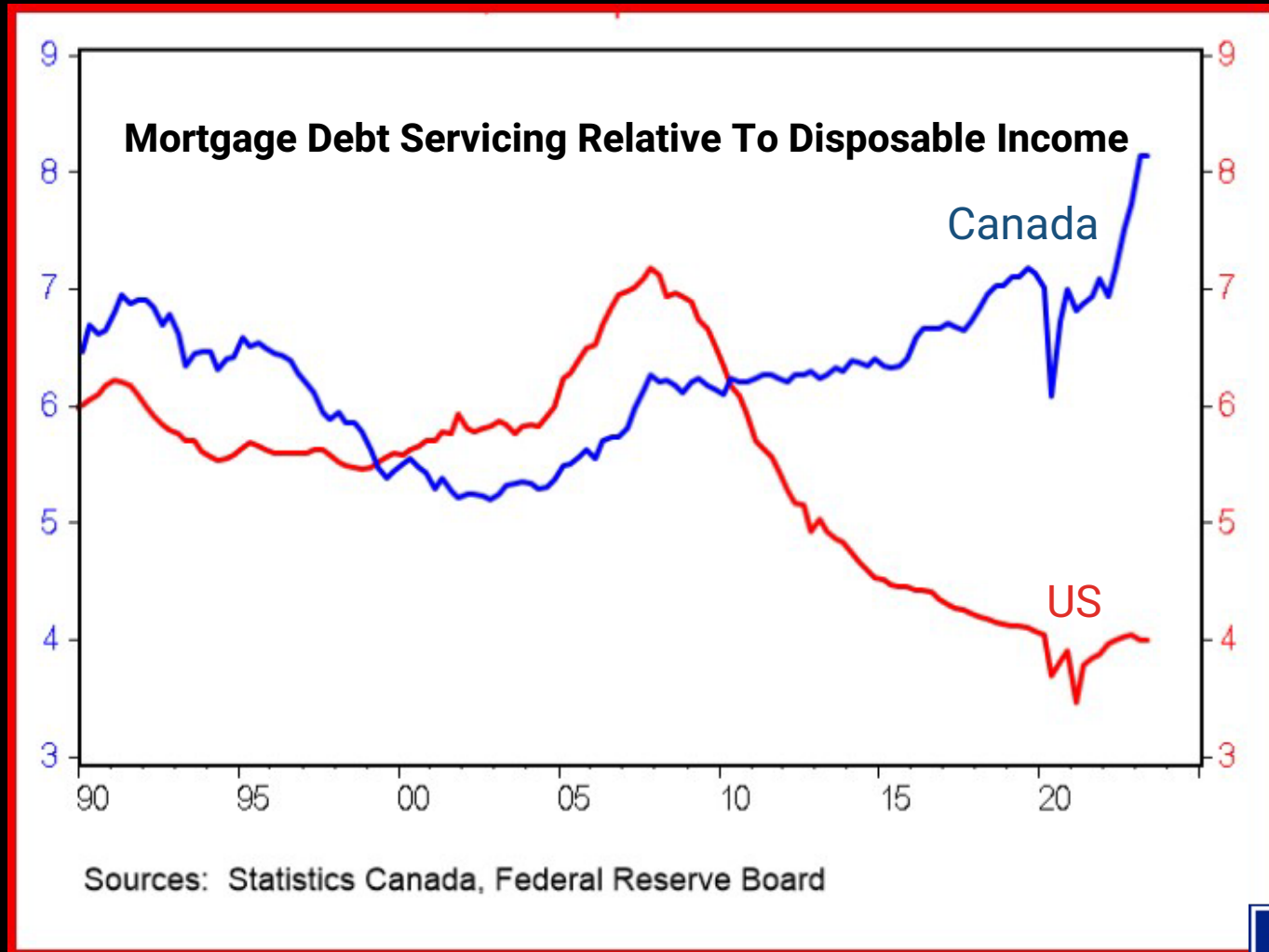
Courtesy of Mortgage Logic News

Population surge inflates economic growth. Per-capita measures show -2.3% y/y in Q4.

CANADIAN CONSUMER MORE INTEREST-SENSITIVE

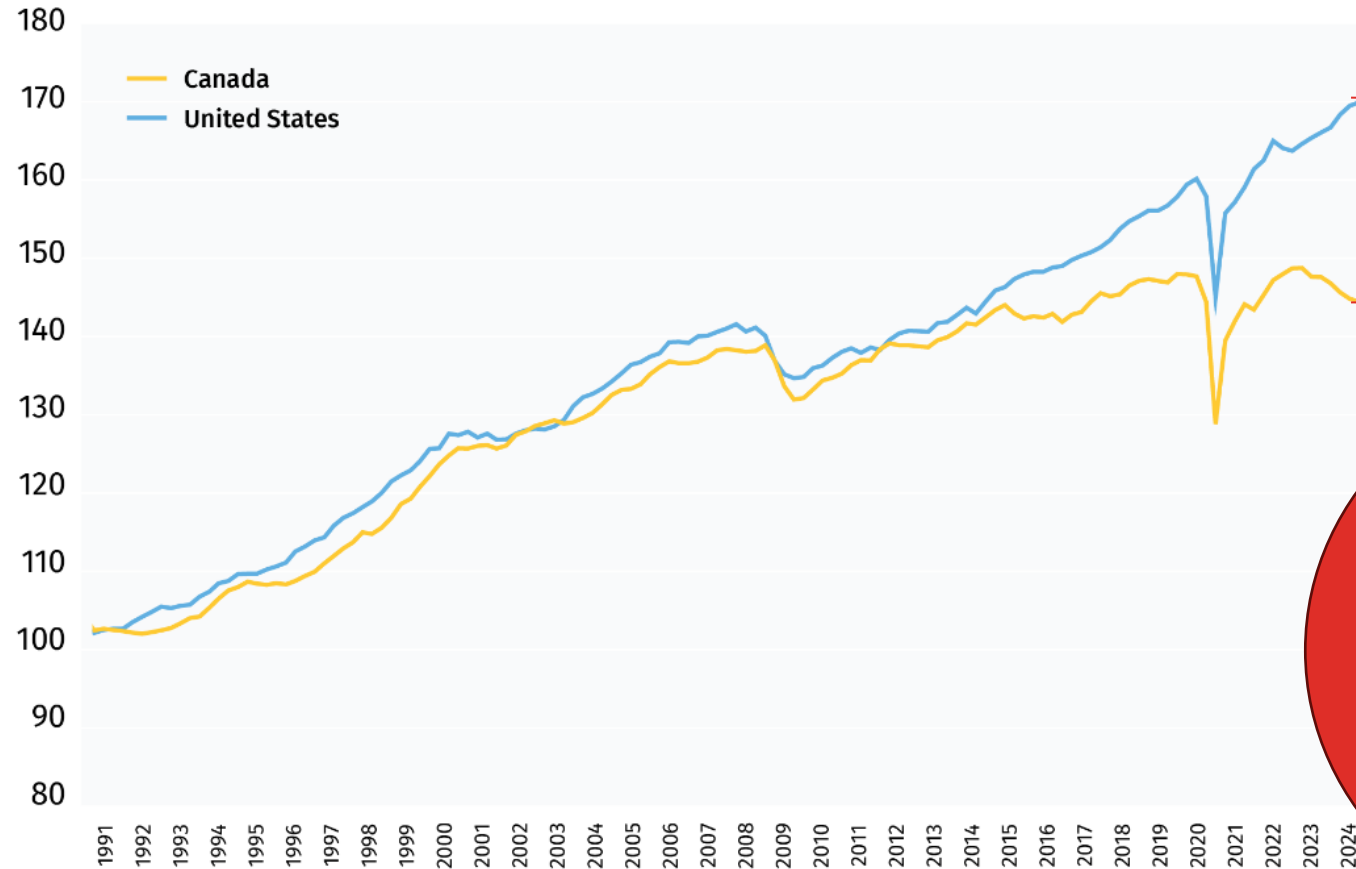


MORTGAGE PAYMENTS RELATIVE TO AFTER-TAX INCOME



Canadian and U.S. economy parting ways after decades of parallels

Per-capita real GDP, indexed at 1991 = 100



Source: Haver, RBC Economics

10%
gap

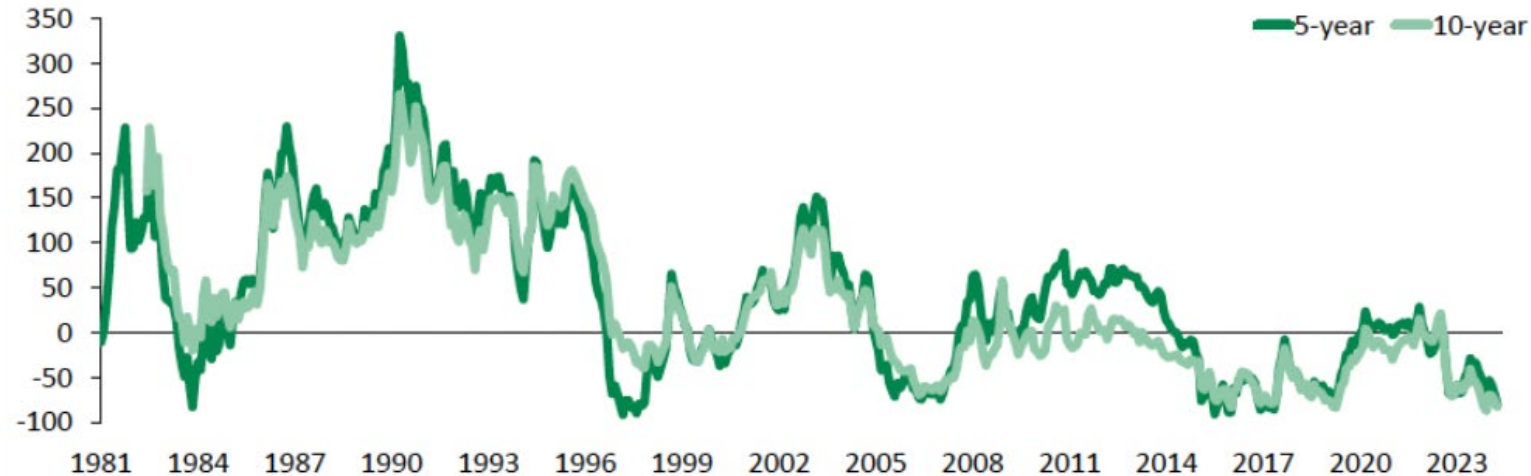
The US is outperforming Canada in demand for services and government spending. Q1 saw the biggest gap since 1965.

CANADIAN BOND YIELDS HAVE RARELY BEEN SO LOW RELATIVE TO US YIELDS

Canadian Bond Yields Have Rarely Been So Low Relative to US Bonds

Canadian and US yield spreads

Basis points



Datastream and Desjardins Economic Studies

Chart courtesy of Desjardins Economics

Canadian-US Yield Gap Could Widen Further If:

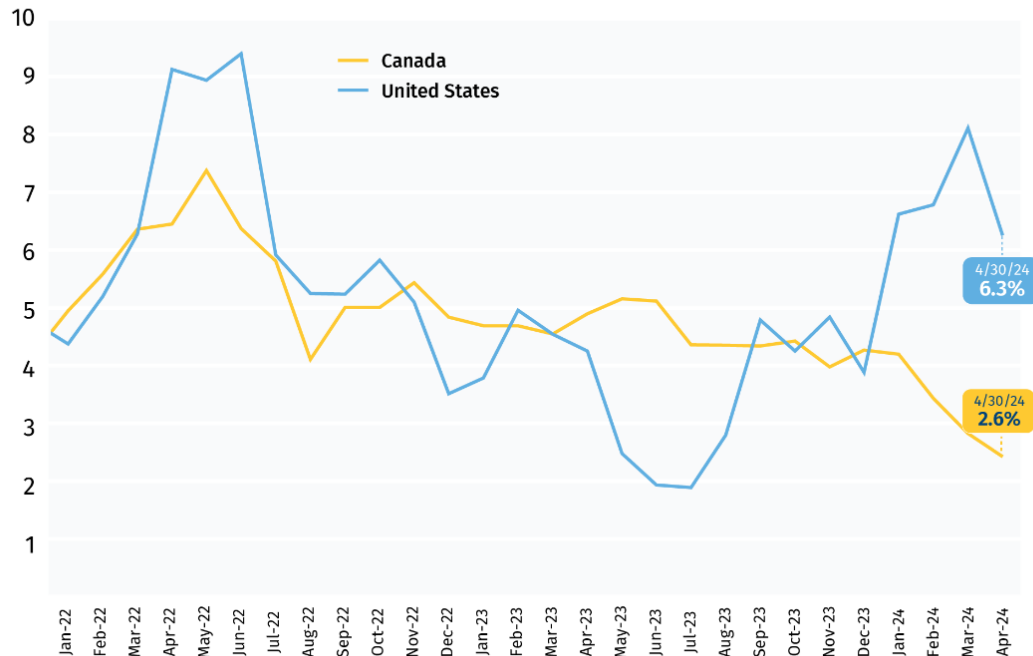
- The US Economy Continues To Outperform
- US Inflation Remains Above Canadian Inflation

Courtesy of Mortgage Logic News

INFLATION READINGS HAVE ALSO DIVERGED

Core services inflation readings are also diverging

Three-month annualized % of "super core" inflation measures



Source: Statistics Canada, Bureau of Labor Statistics, RBC Economics

Total Core Inflation Rates Also Diverge

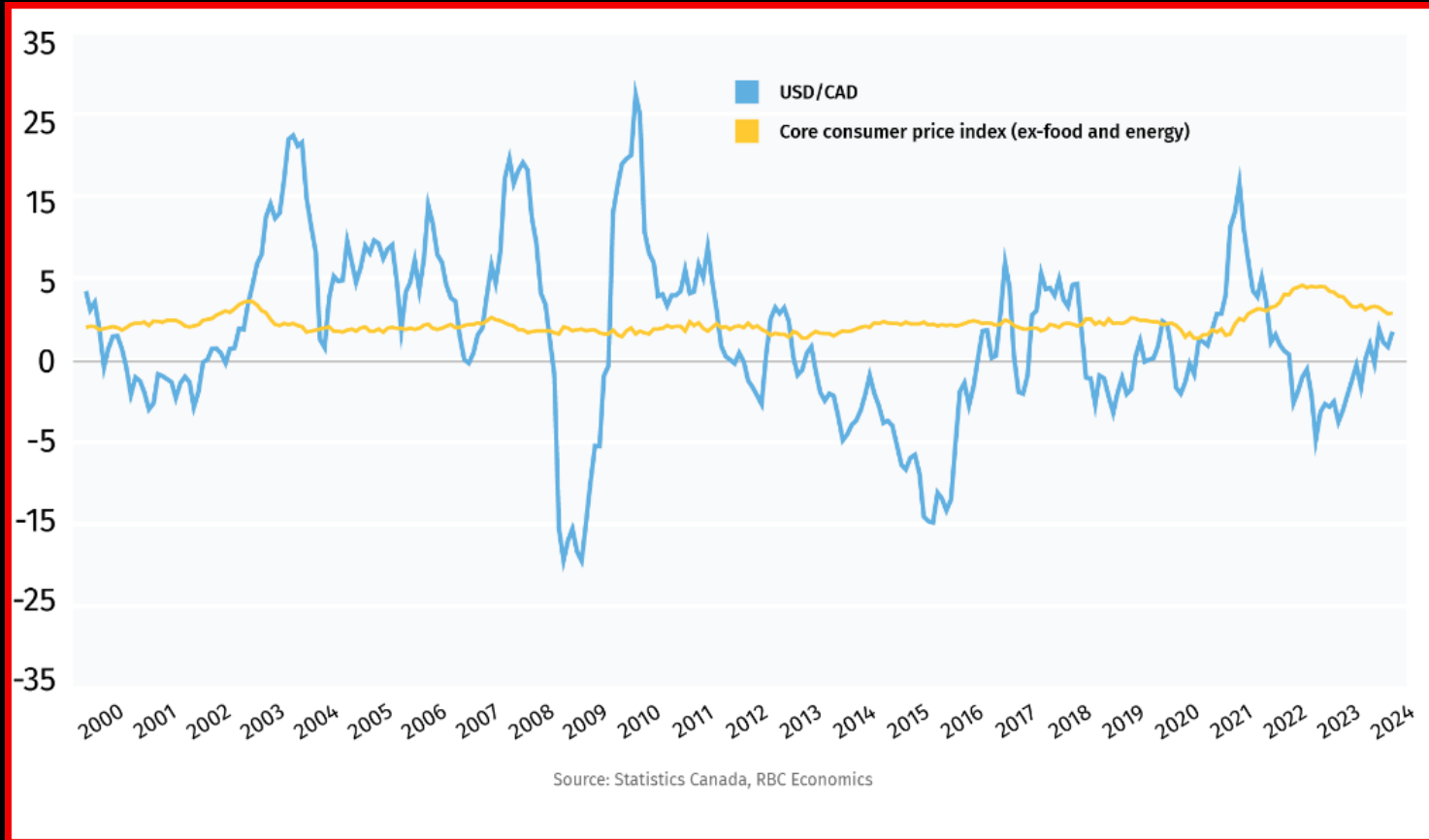


CALLS FOR A DIVERGENCE IN MONETARY POLICY ACTIONS

THE CANADIAN DOLLAR WILL NOT STOP BOC EASING




CORE INFLATION IN CANADA HAS NOT BEEN SENSITIVE TO THE EXCHANGE RATE



CAD Is Up Versus
the Renminbi



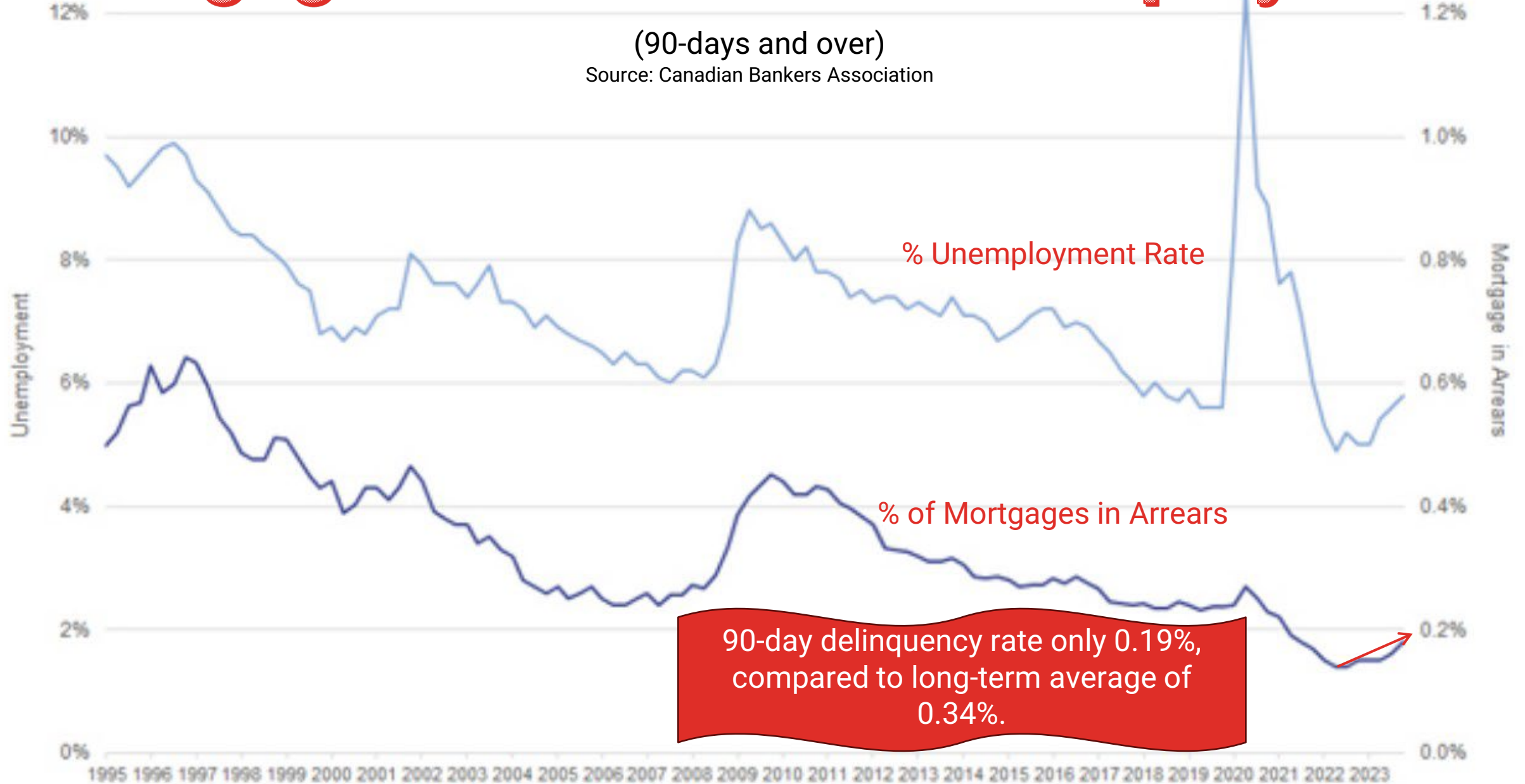
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RISING MORTGAGE ARREARS

Mortgages in Arrears vs Unemployment

(90-days and over)
Source: Canadian Bankers Association



CREDIT CARD DELINQUENCIES RISING

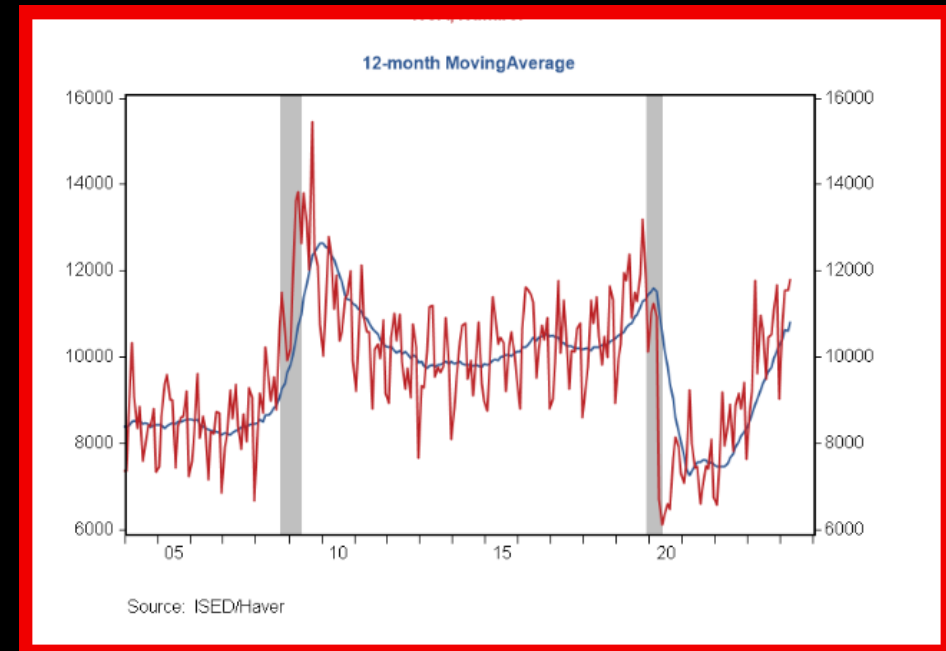


UPWARD TREND IN INSOLVENCIES

Insolvencies Filed By Businesses



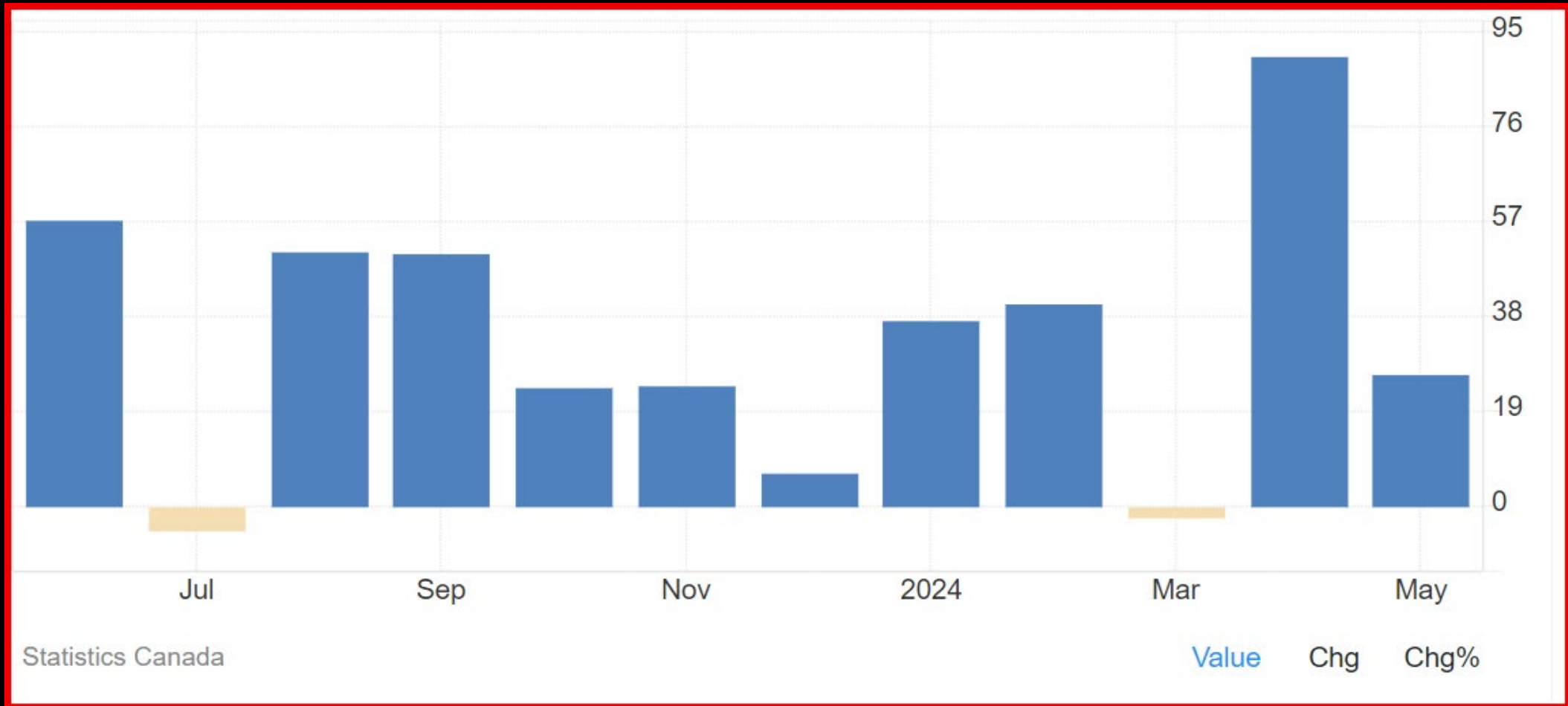
Insolvencies Filed By Consumers



CANADA'S LABOUR MARKET MIXED

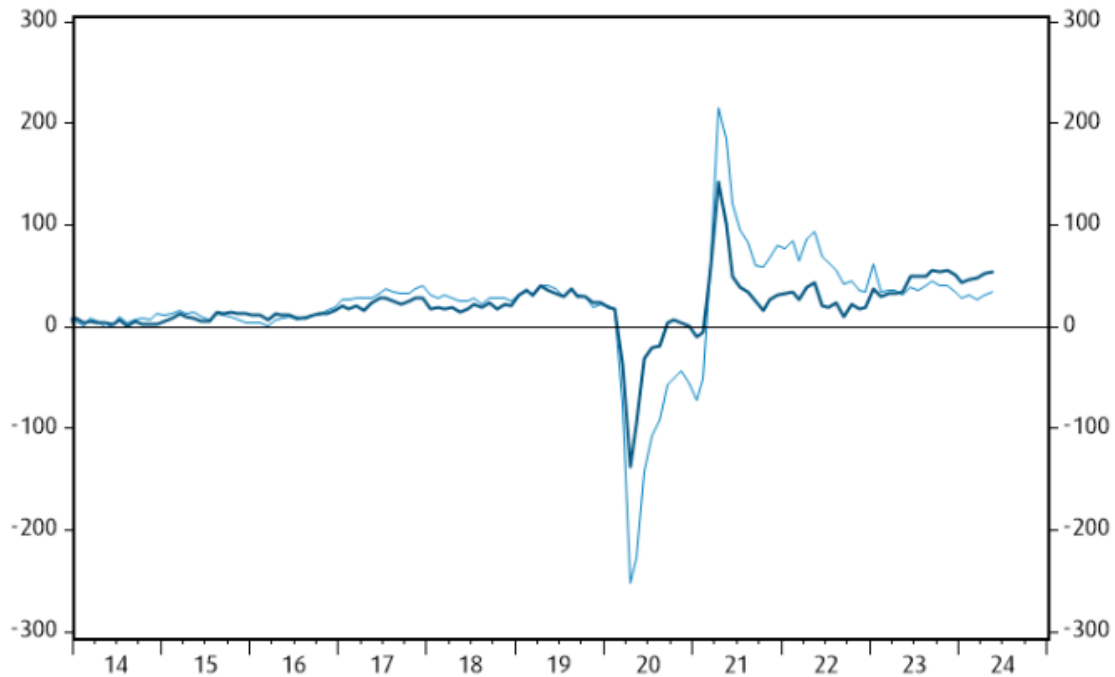


EMPLOYMENT WAS UP 26.7K IN MAY



THE WORKING-AGE POPULATION IS GROWING FASTER THAN NET NEW JOB GROWTH

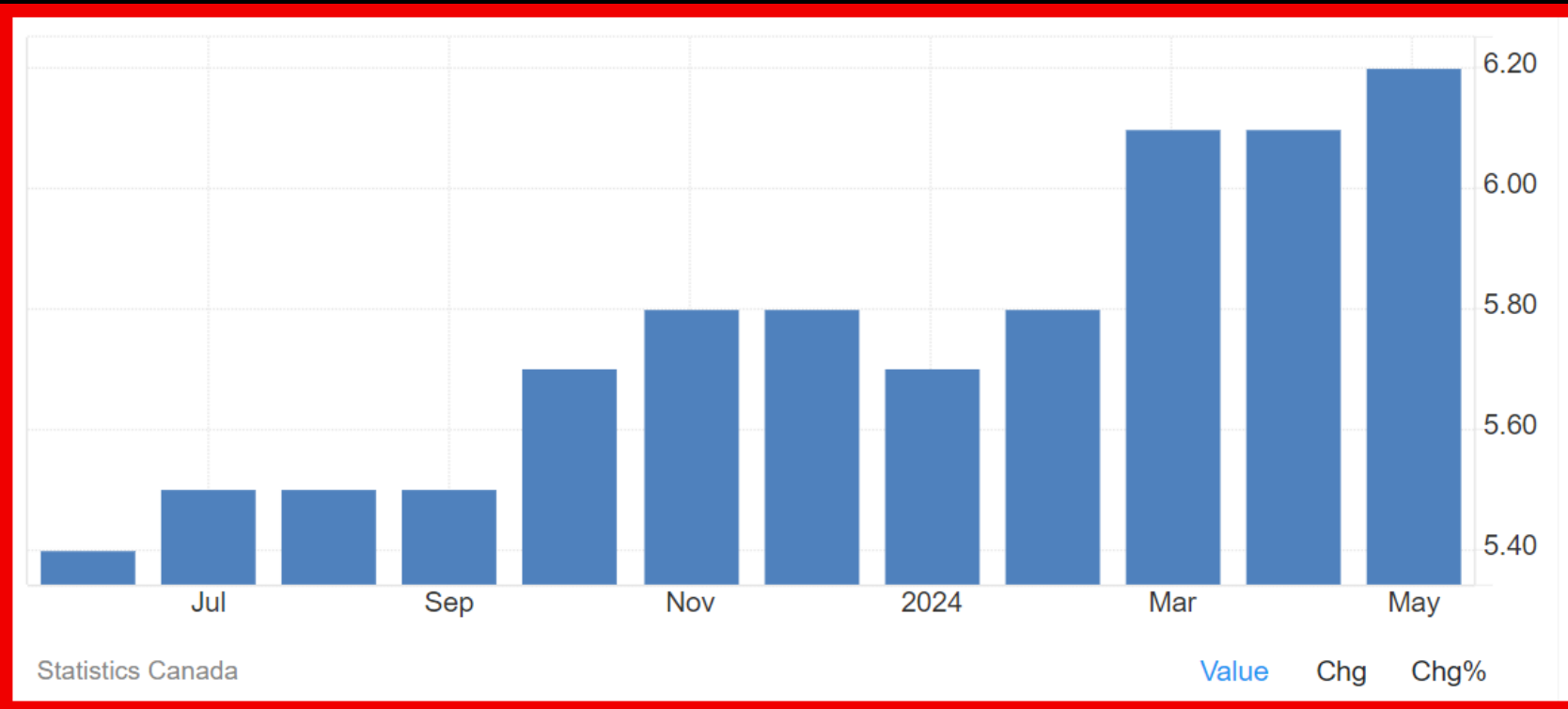
Canada: Labor Force: Both Sexes, 15 Years and Over
12-month avg Change SA, Thous
Canada: Employment: Both Sexes, 15 Years and Over
12-month avg Change SA, Thous



Over the past year,

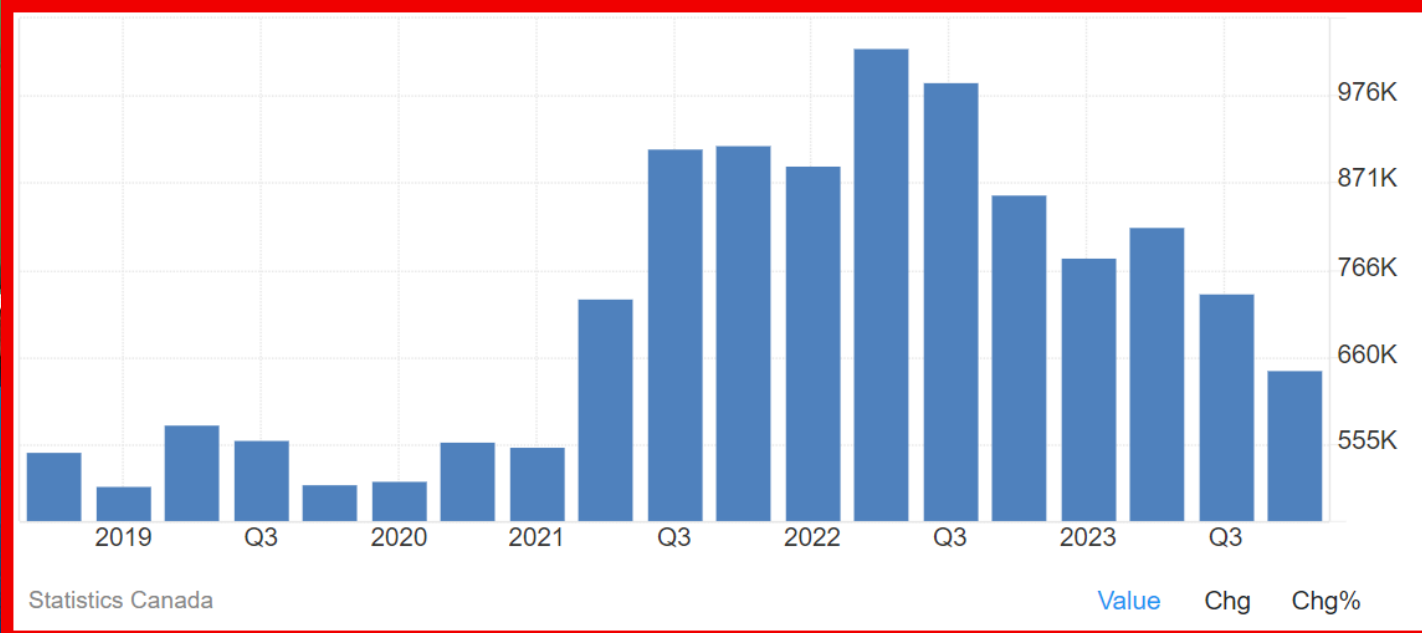
- Labour force growth averaged 54K per month
- While employment growth averaged 30K per month

HENCE, THE MAY UNEMPLOYMENT RATE ROSE TO 6.2%-- UP 0.9 PERCENTAGE POINTS IN ONE YEAR

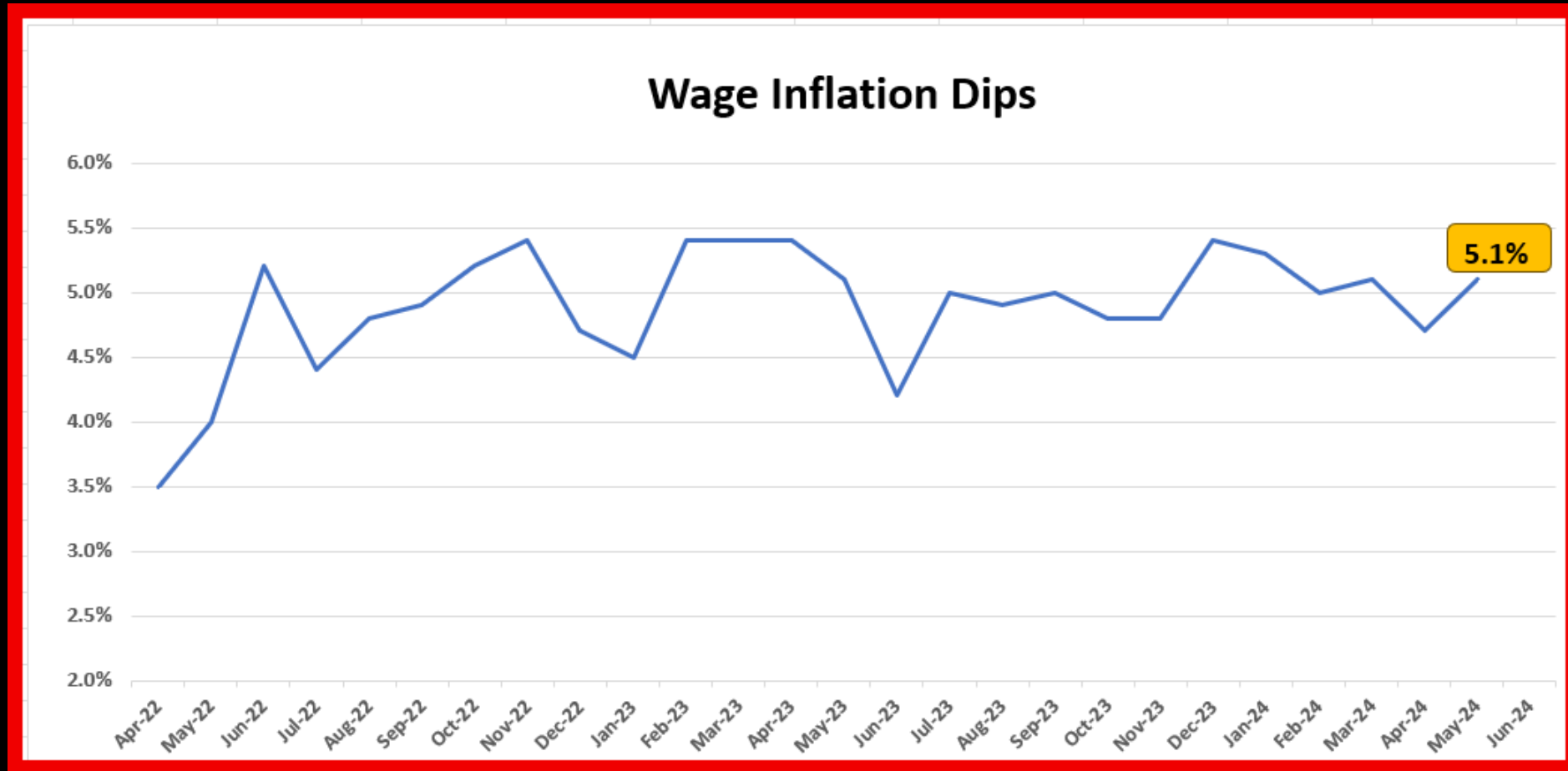


Will eventually put downward pressure on wage inflation

JOB VACANCIES FALL



WAGE INFLATION RISES TO 5.1% IN MAY

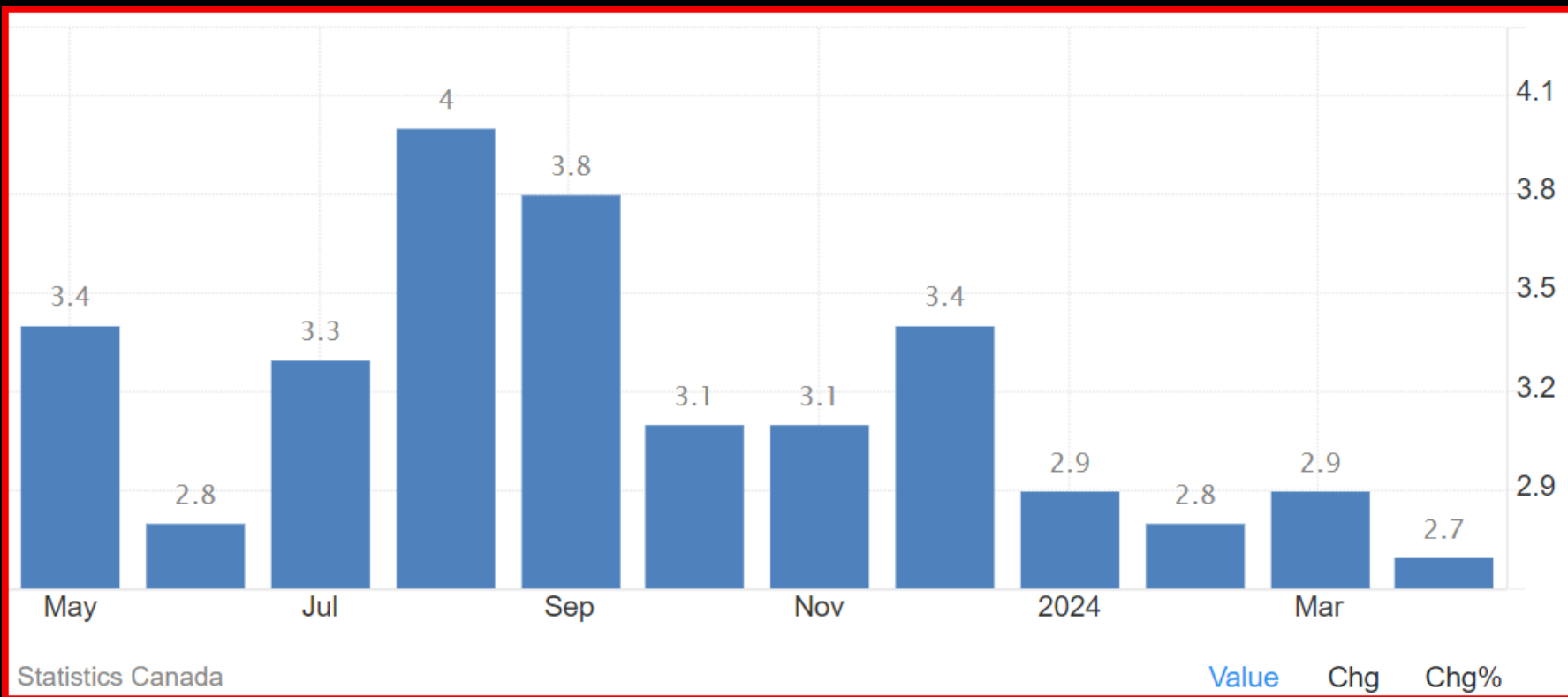


INFLATION FALLS TO 2.7% IN APRIL



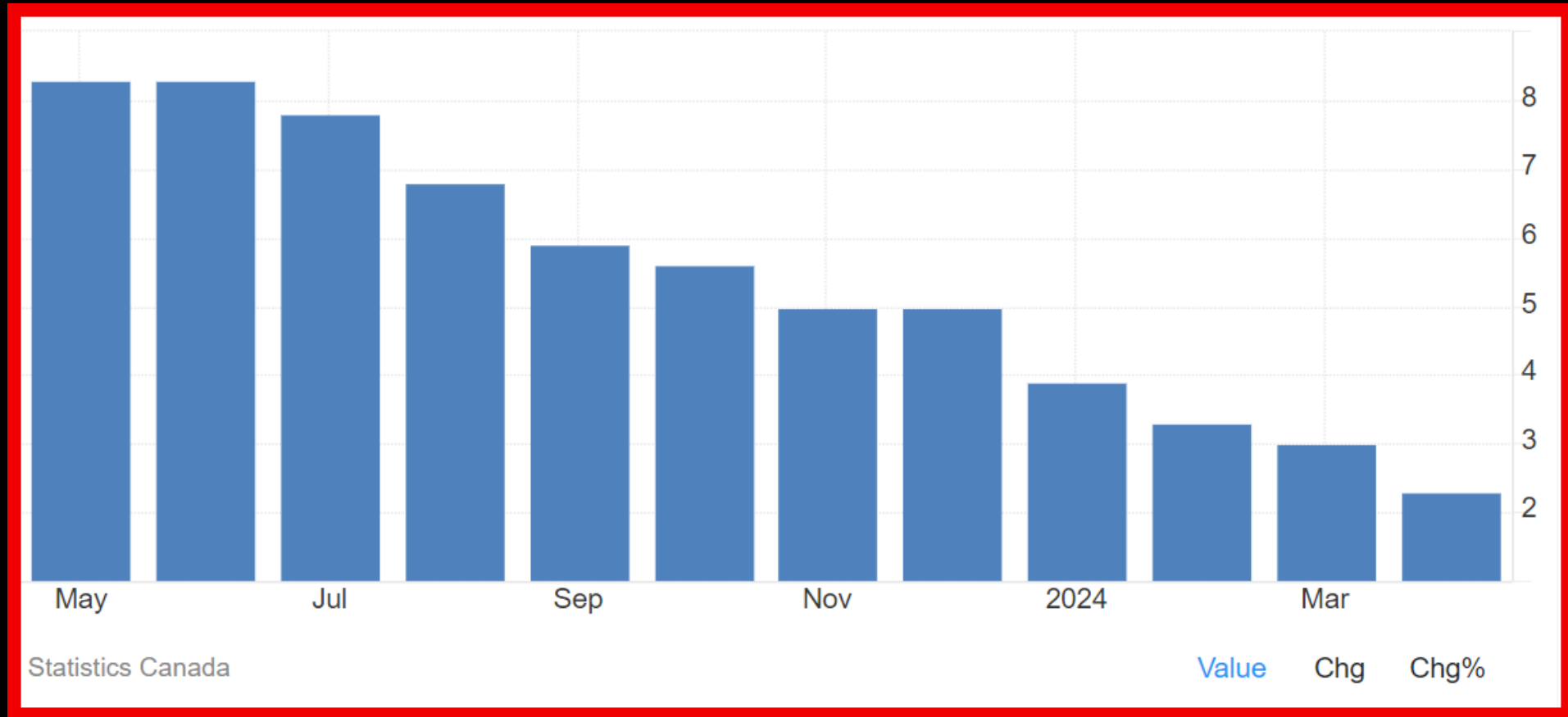
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CANADIAN INFLATION AT 2.7% Y/Y IN APRIL

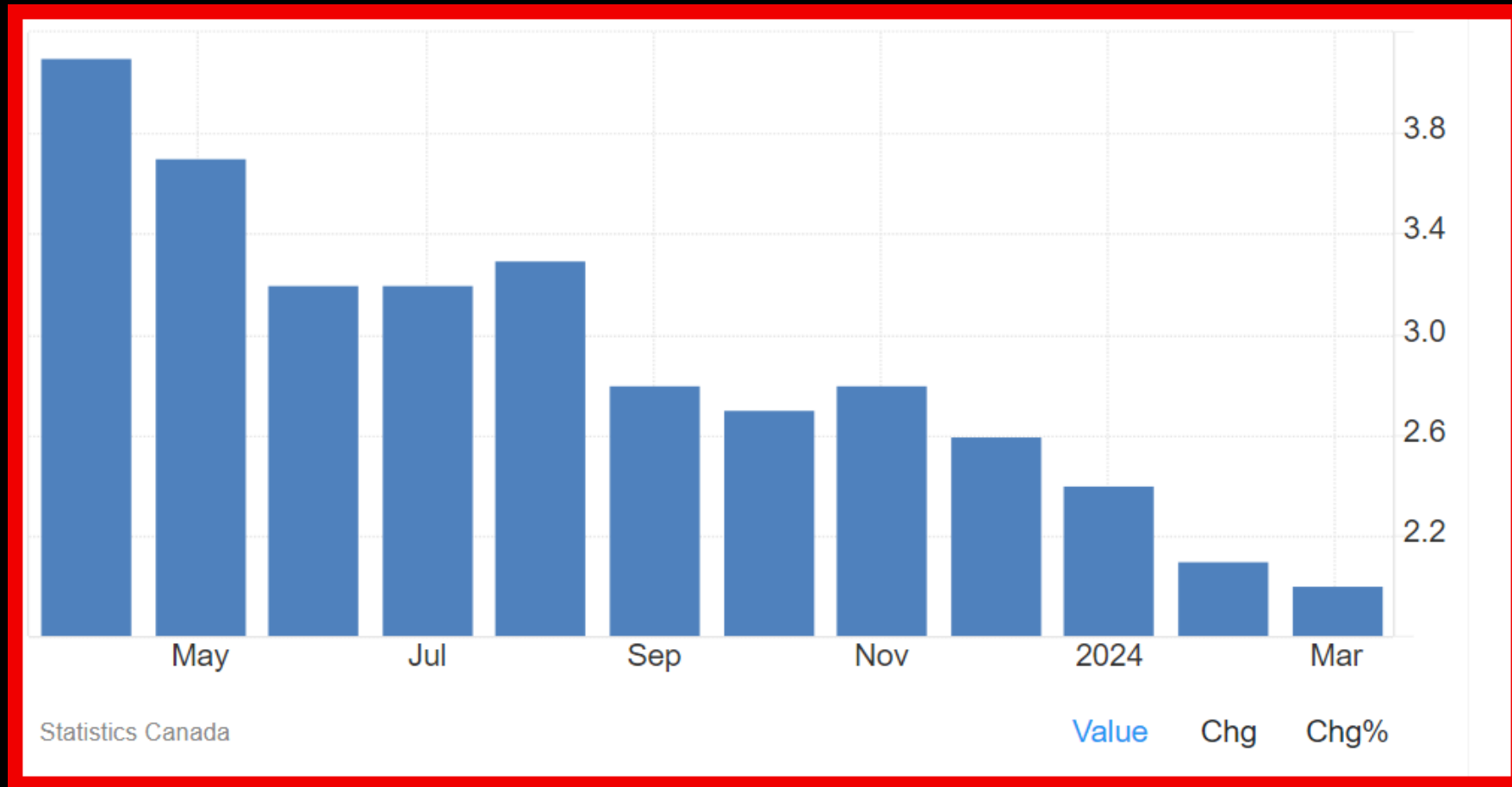


Monthly Uptick
Owing to Rise in
Gasoline Prices,
Which Fell in May

FOOD INFLATION DECELERATED TO 2.3% Y/Y IN APRIL

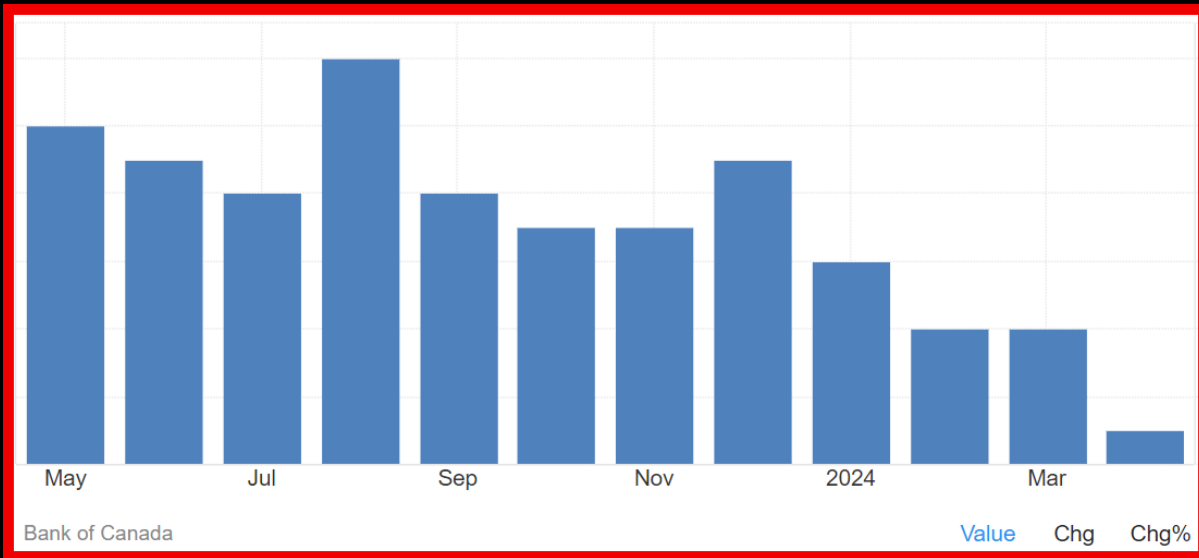


CPI EXCLUDING FOOD AND ENERGY FELL TO 1.6% Y/Y IN APRIL

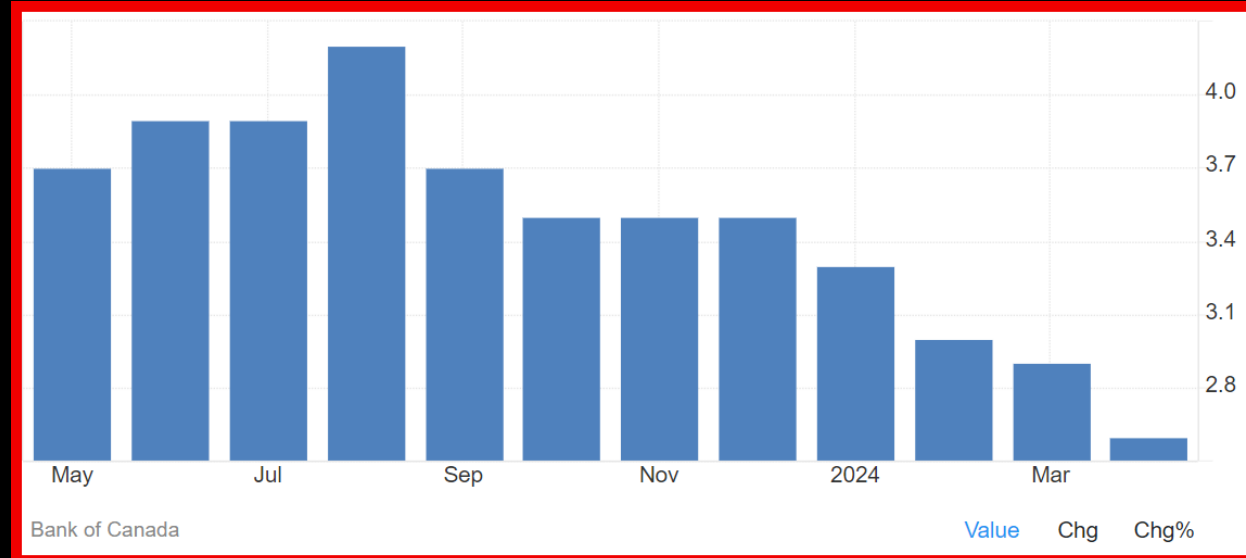


BOC CORE INFLATION MEASURES FALL IN APRIL

CPI Trimmed-Mean Y/Y Fell to 2.9%



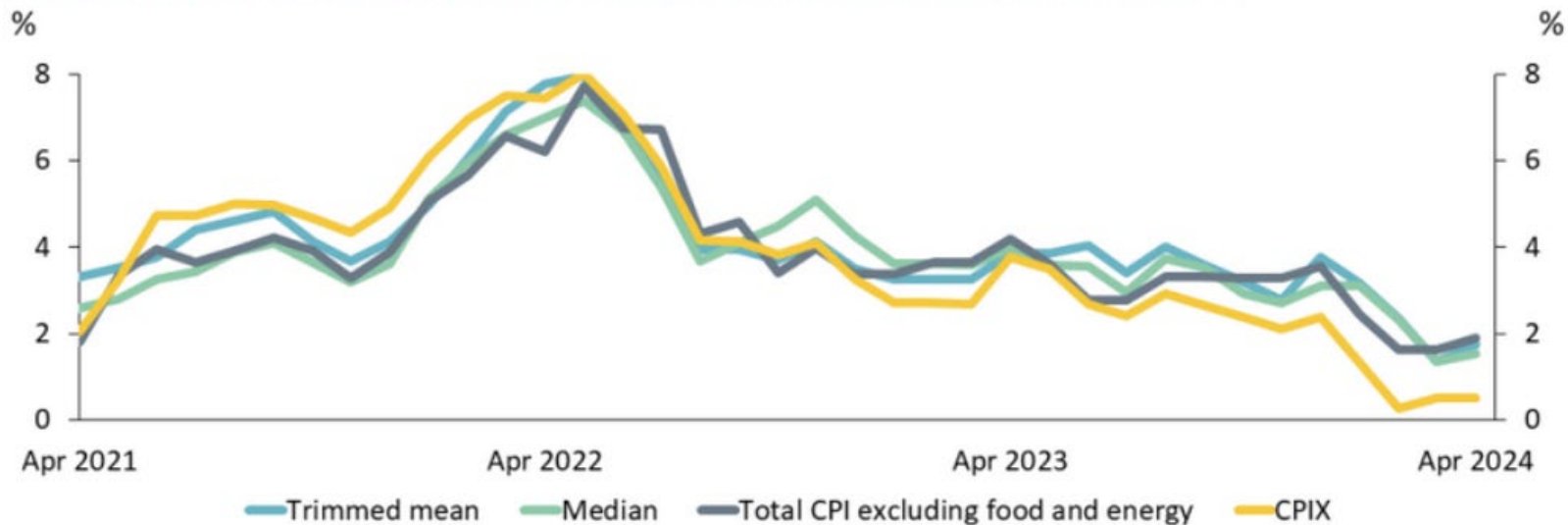
CPI Median Y/Y Fell to 2.6%



3-MONTH INFLATION EDGED UP SLIGHTLY IN APRIL

Core Measures of Inflation Stalled but Remained Low in April

3-month annualized change in Bank of Canada core inflation measures



CPIX: CPI excluding 8 most volatile components & indirect taxes

Statistics Canada and Desjardins Economic Studies

CPIX at only
1.6% y/y in
the past 3
months.

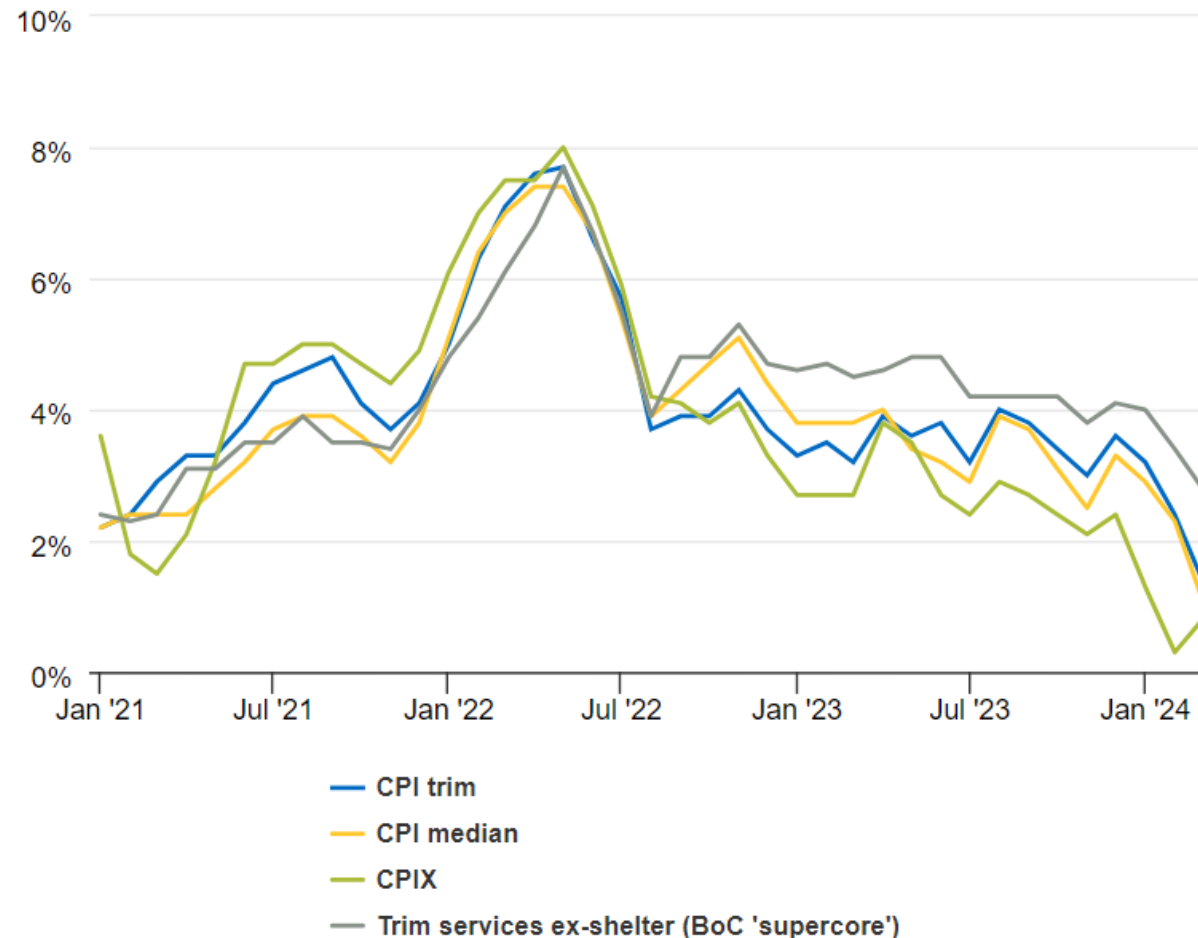


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EXCLUDING SHELTER, INFLATION IS JUST 1.2%

BoC's preferred inflation gauges continue to look better

%, annualized three-month growth, seasonally adjusted

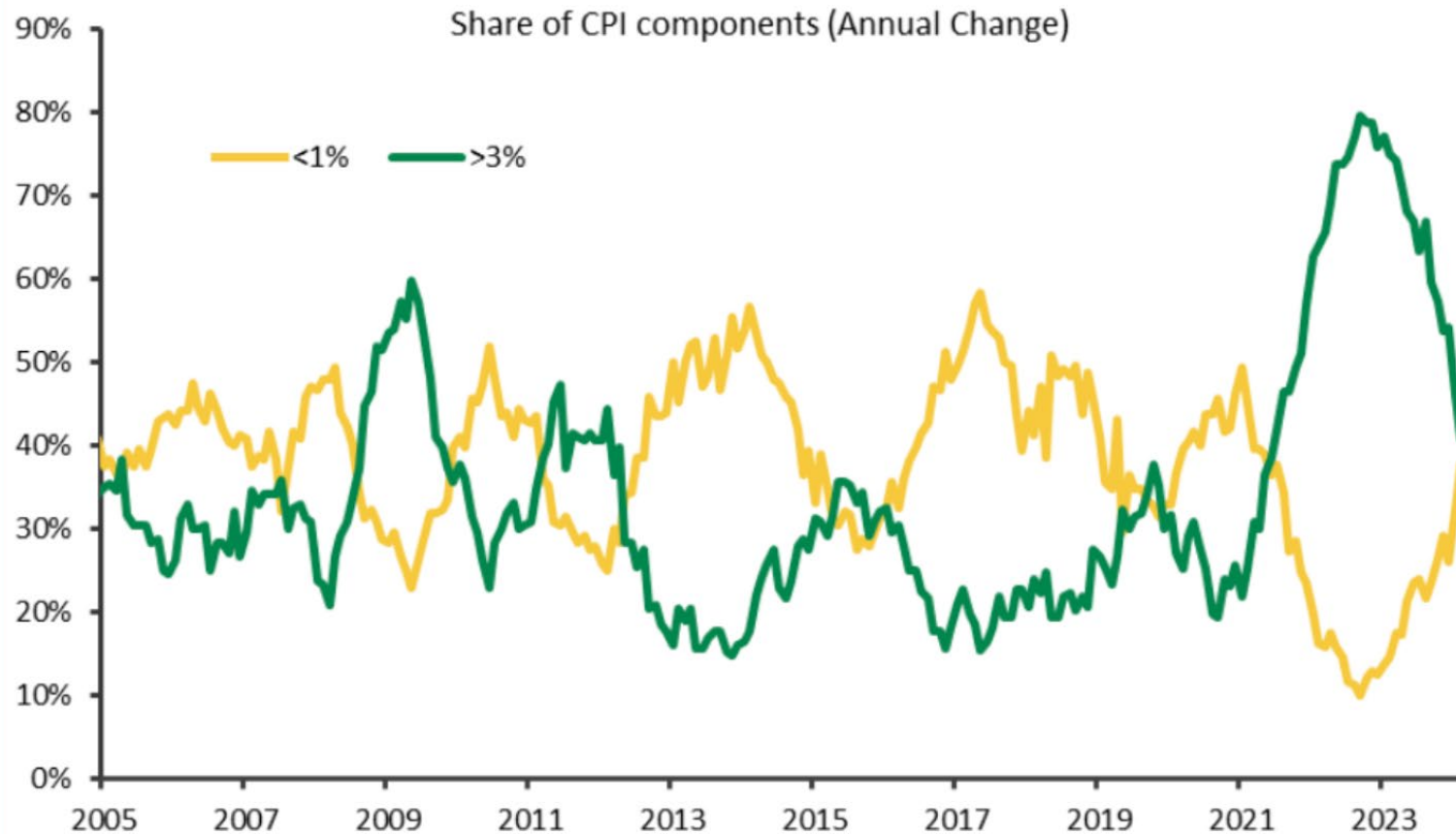


Source: Statistics Canada, RBC Economics



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Share of CPI components with inflation rates above 3% continued to move lower in February



Sources: Statistics Canada & Desjardins Capital Markets

Courtesy of Mortgage Logic News



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- BoC Cuts Overnight Rate By 25 bps to 4.75% (In the US, Fed funds is at 5.25%-to-5.5%)
- Monetary Policy is Still Restrictive
- Further Declines Coming, Taking the Policy Rate to 3.0% By the End of 2025

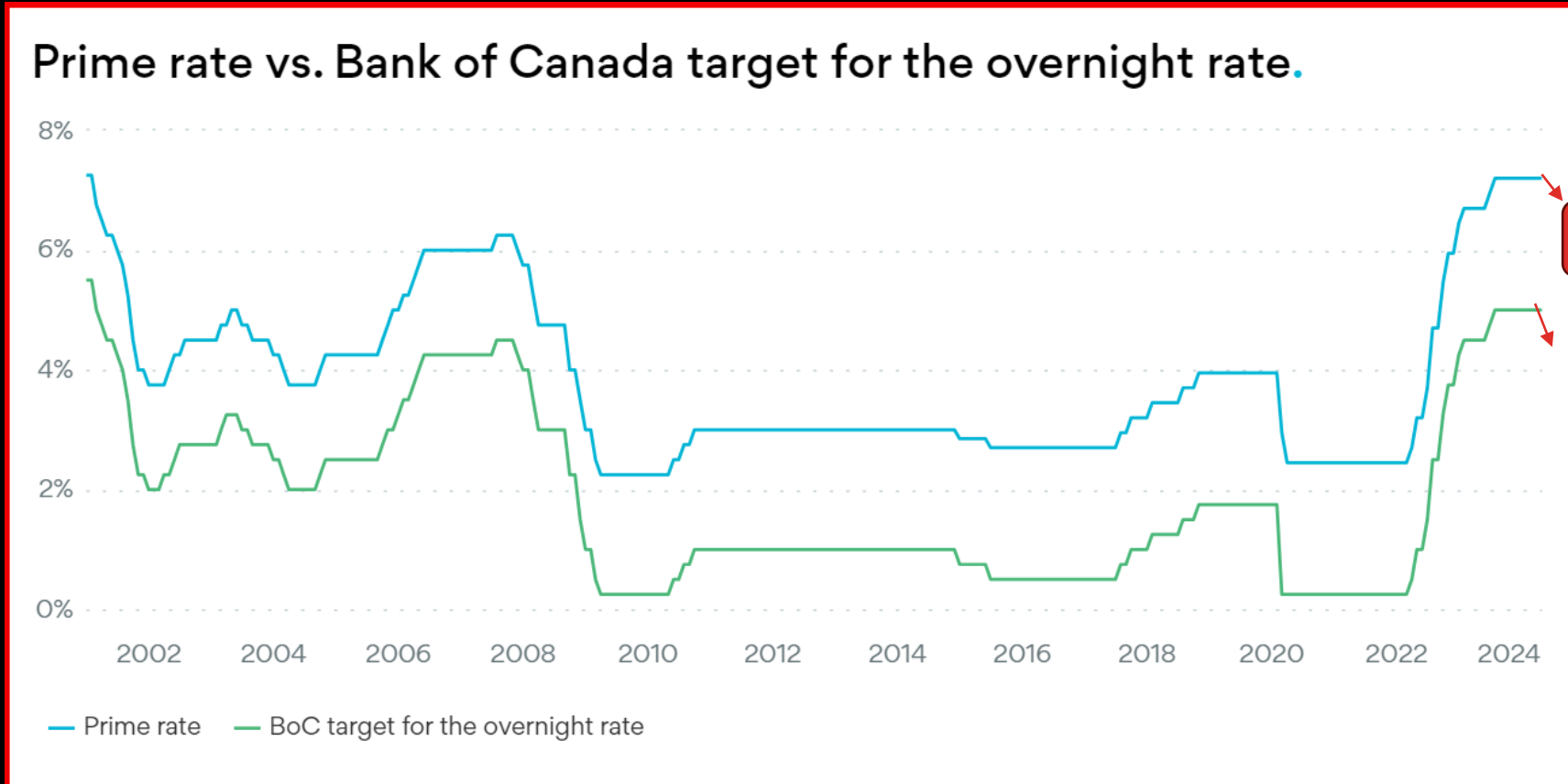
An artistic, painterly illustration of the Bank of Canada building. The building is a large, white, classical-style structure with a prominent portico supported by columns. It is surrounded by trees with vibrant autumn foliage in shades of red, orange, and yellow. The scene is set against a bright, sunny background.

BANK OF CANADA



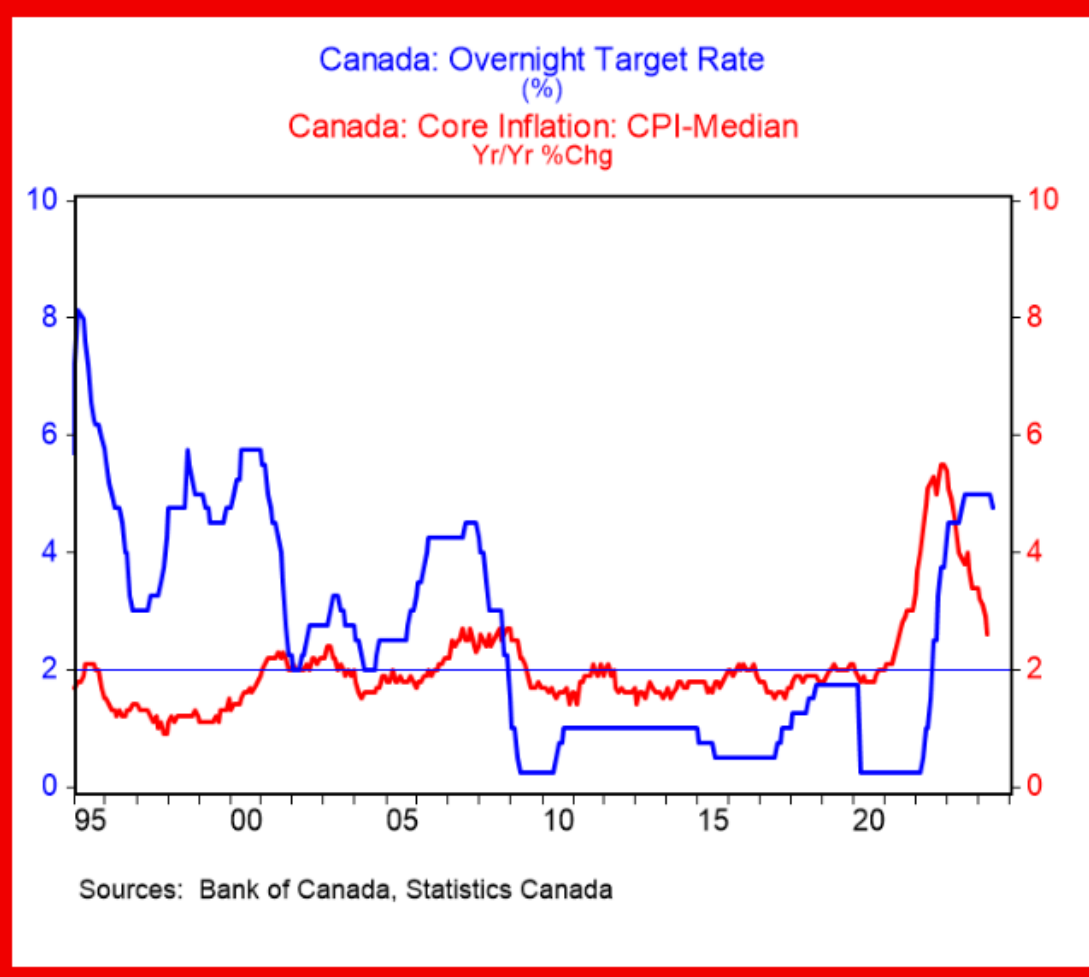
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BOC CUTS RATES BY 25 BPS TO 4.75%



Decline in Floating Rates With The BoC Rate Cut

MONETARY POLICY REMAINS RESTRICTIVE



- The Overnight Rate is still 215 bps above the current median CPI inflation rate.
- The average real rate of the past 30 years is just 60 bps.
- Overnight rate is likely headed for 3.0% by the end of 2025

FIVE-YEAR YIELD TRENDING DOWNWARD



Reduces Fixed Mortgage Rates

FOUR MORE BOC DECISION DATES THIS YEAR

- July 24
- September 4
- October 23
- December 11

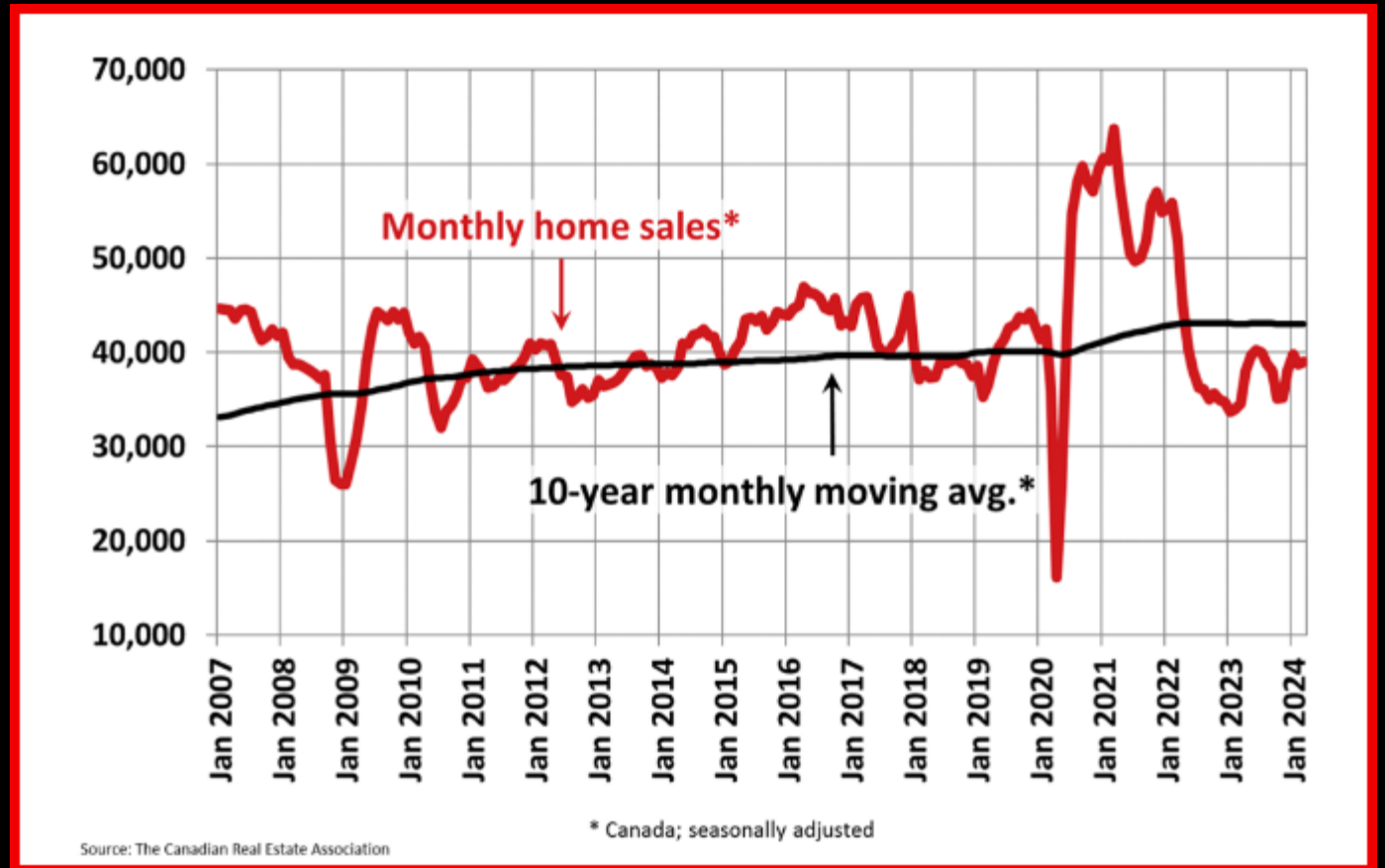
Overnight Rate Headed for 3.0% by the end of 2025.
Above Pre-Covid Rate of 1.75%.

HOUSING MARKETS



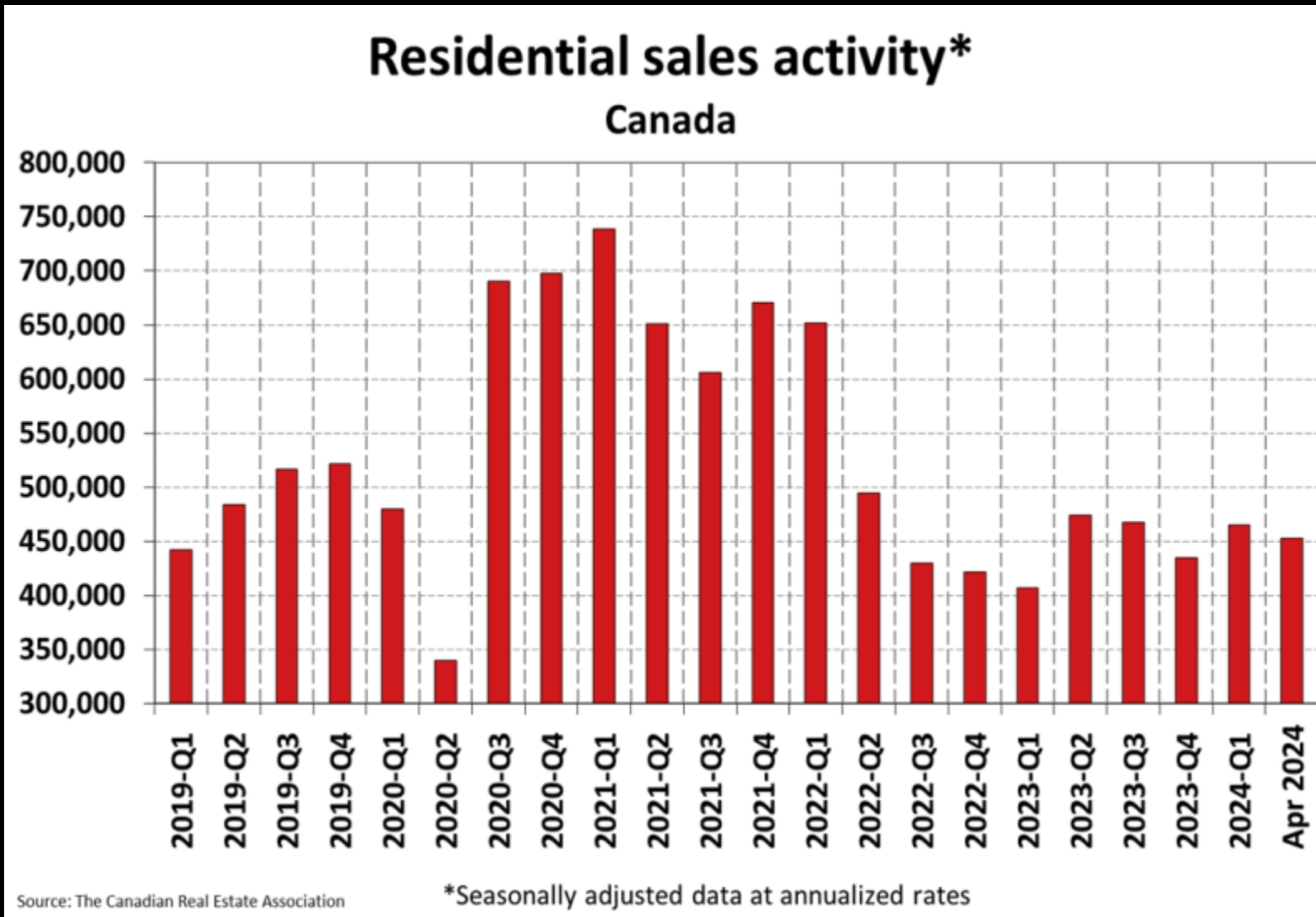
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HOME SALES REMAIN BELOW THE 10-YEAR MONTHLY AVERAGE IN APRIL



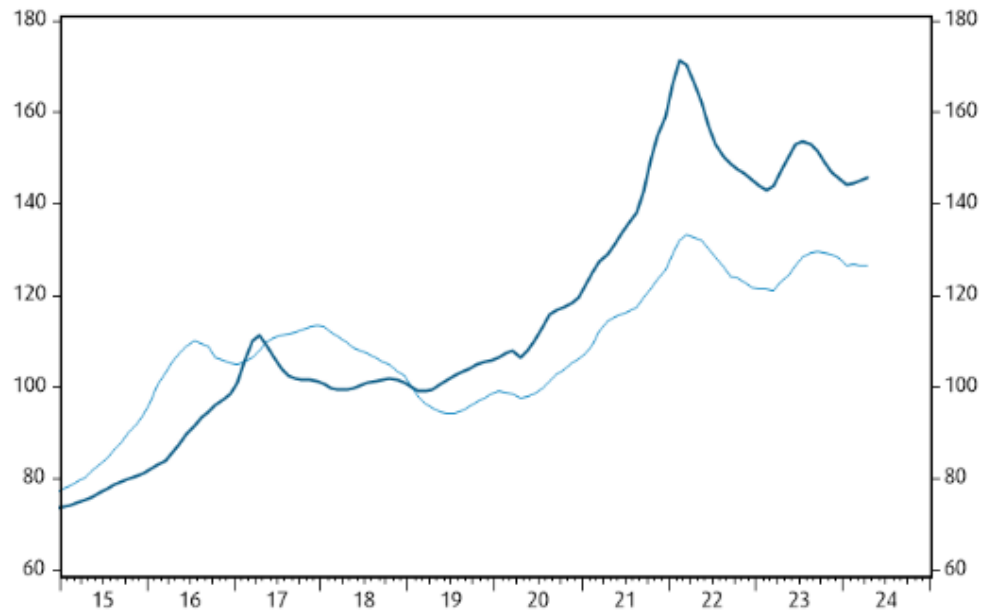
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HOME SALES FLAT-LINE



DUD OF A SPRING SELLING SEASON

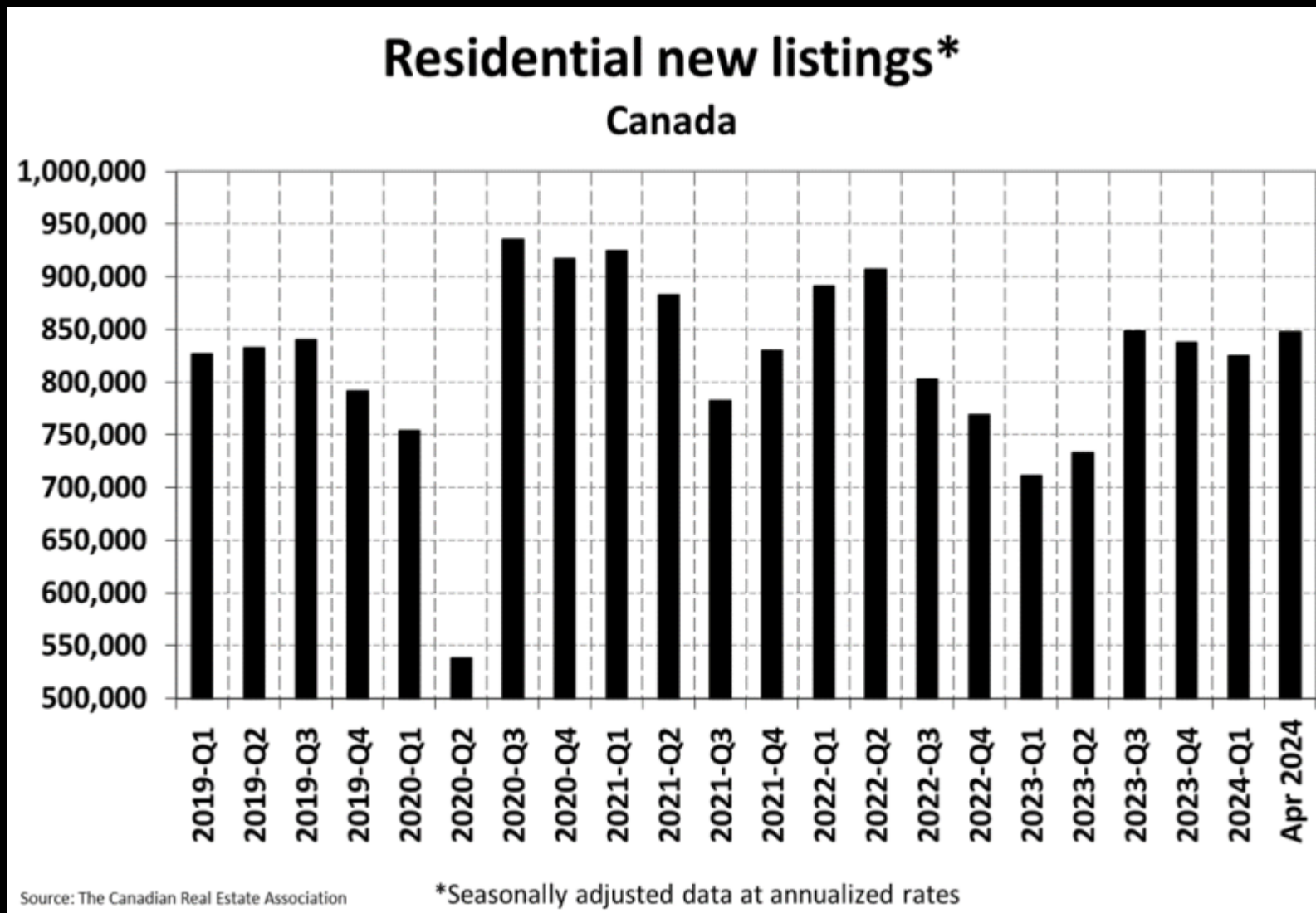
MLS Home Price Index: Composite: Greater Toronto
SA, 2019Q1=100
MLS Home Price Index: Composite: Greater Vancouver
SA, 2019Q1=100



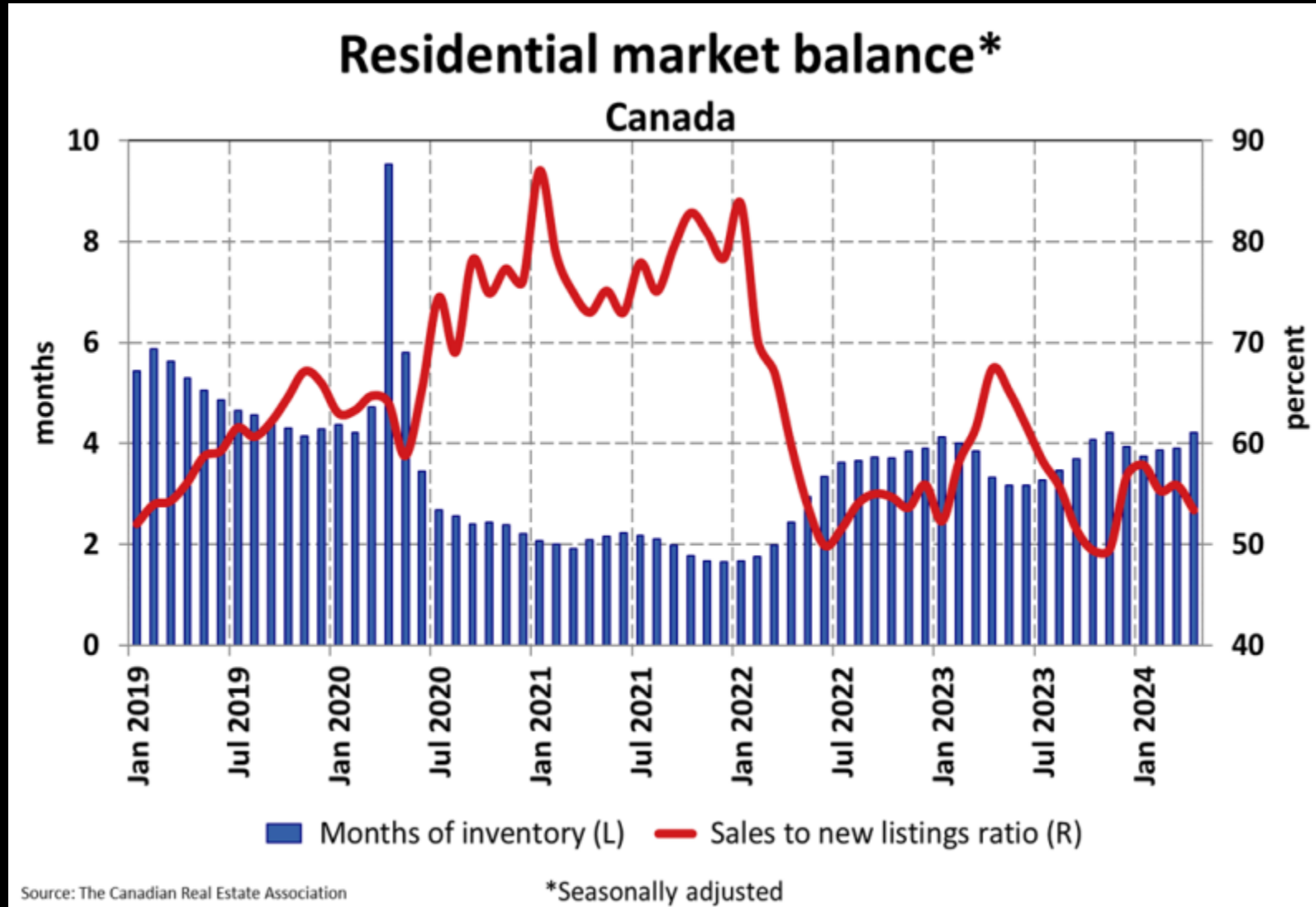
Source: The Canadian Real Estate Association/Haver Analytics

- Vancouver home sales were down 20% y/y in May
- Toronto is similarly quiet
- Prices are plodding sideways
- Long path back to early 2022 highs
- Big news is supply continues to build
- Active listings up 46% y/y in Vancouver
- Toronto will post record-high resale condo inventory (boosted by June 25 capital gains tax increase)
- Toronto single-family inventory also swells, especially in cottage country

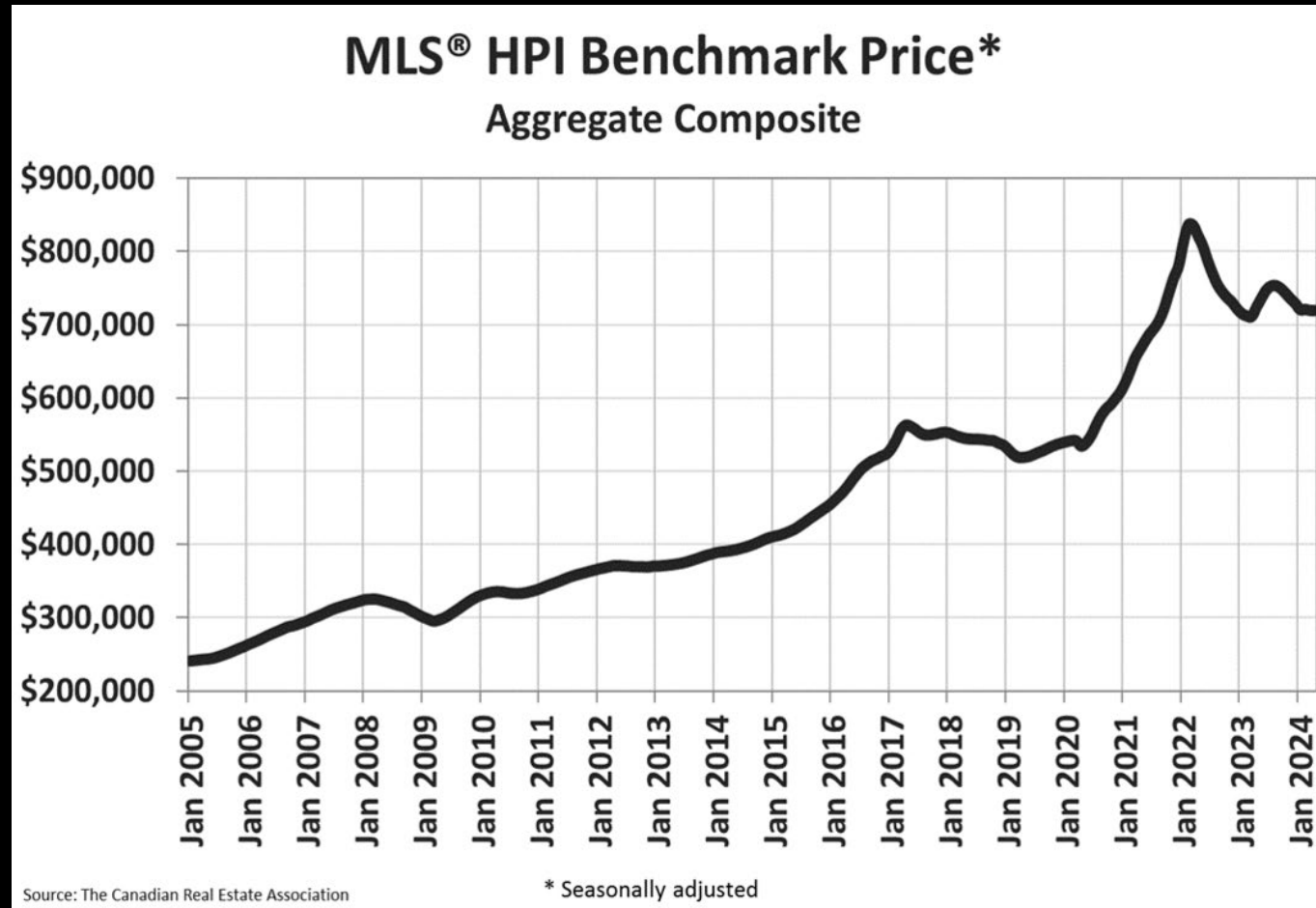
NEW LISTINGS PERK-UP IN APRIL



MONTHS OF INVENTORY ROSE IN APRIL

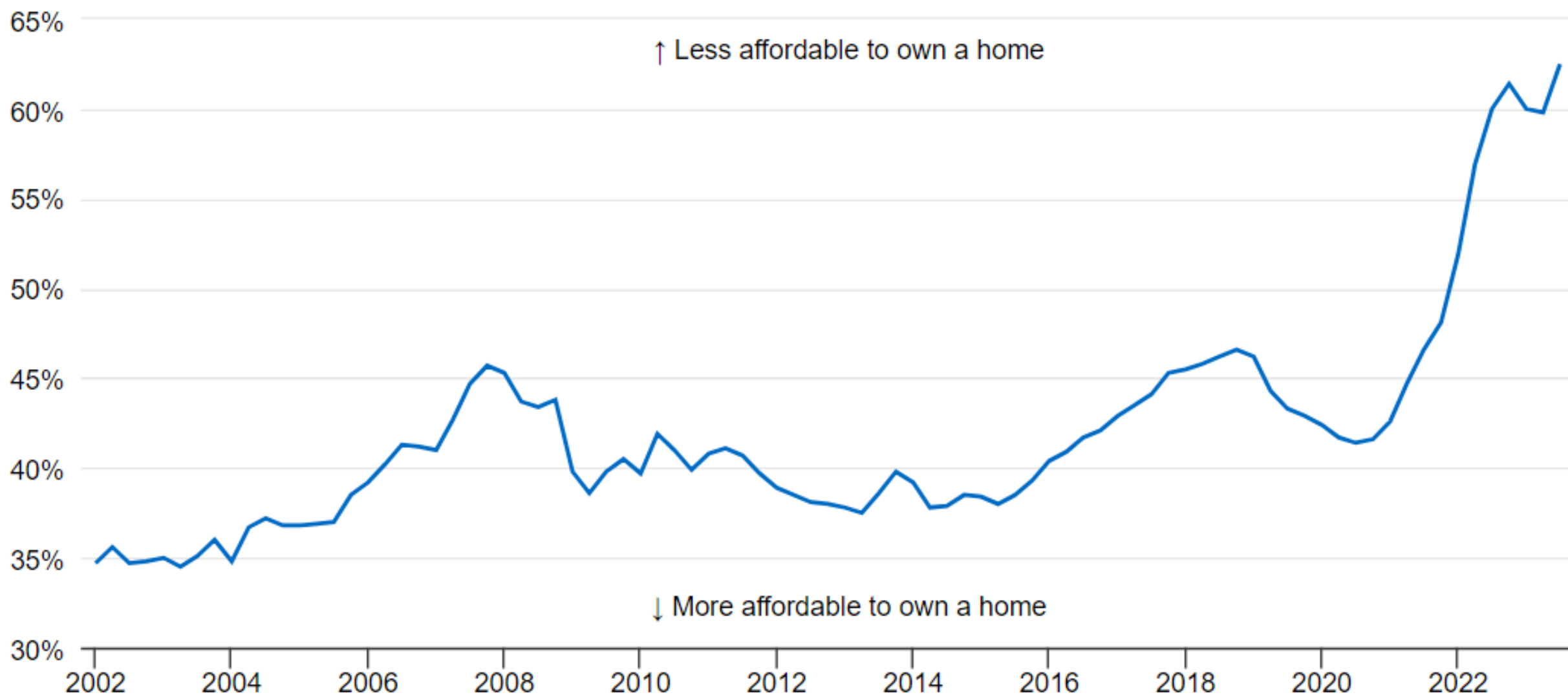


HOME PRICES FLAT AGAIN IN APRIL



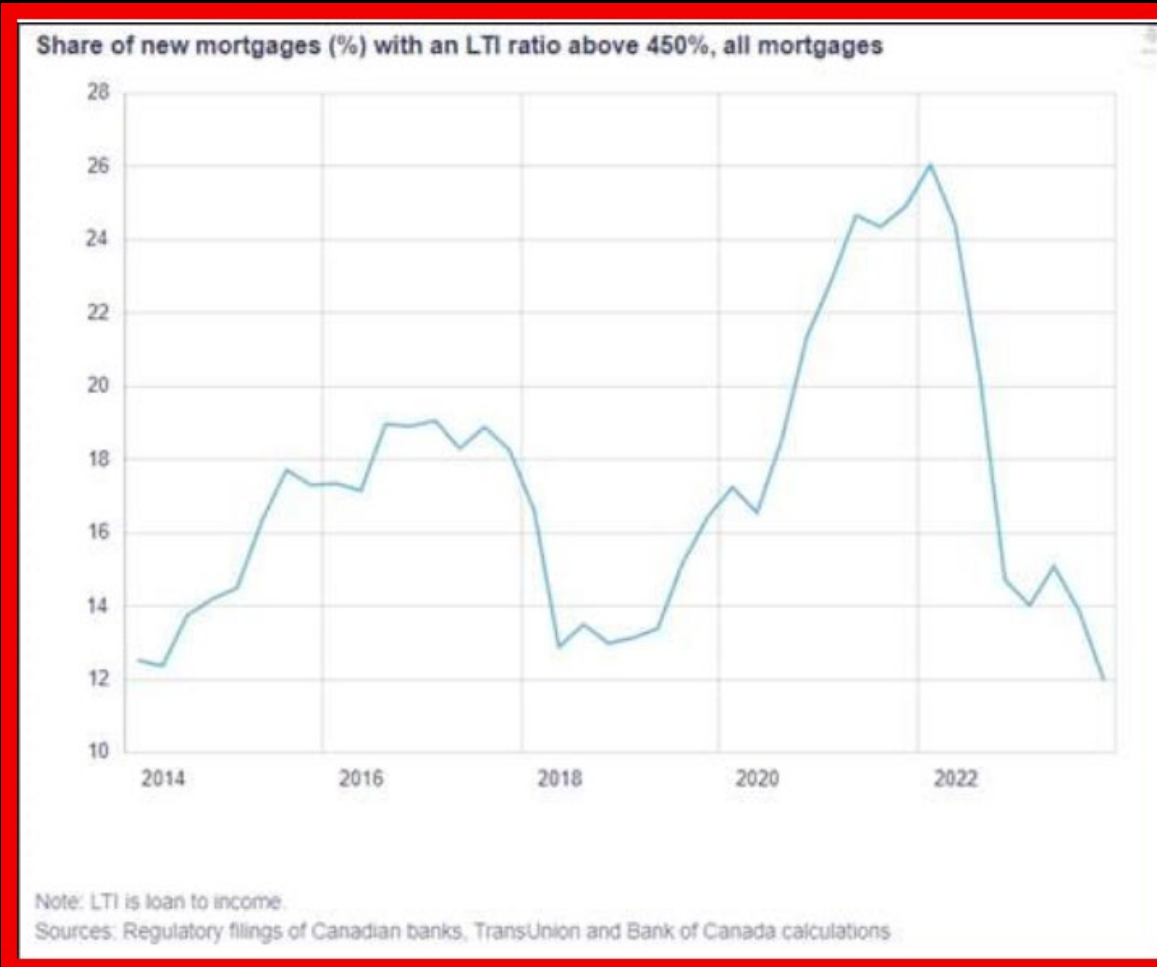
Owning a home has never been so unaffordable in Canada

Ownership costs of an average home as % of median household income



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

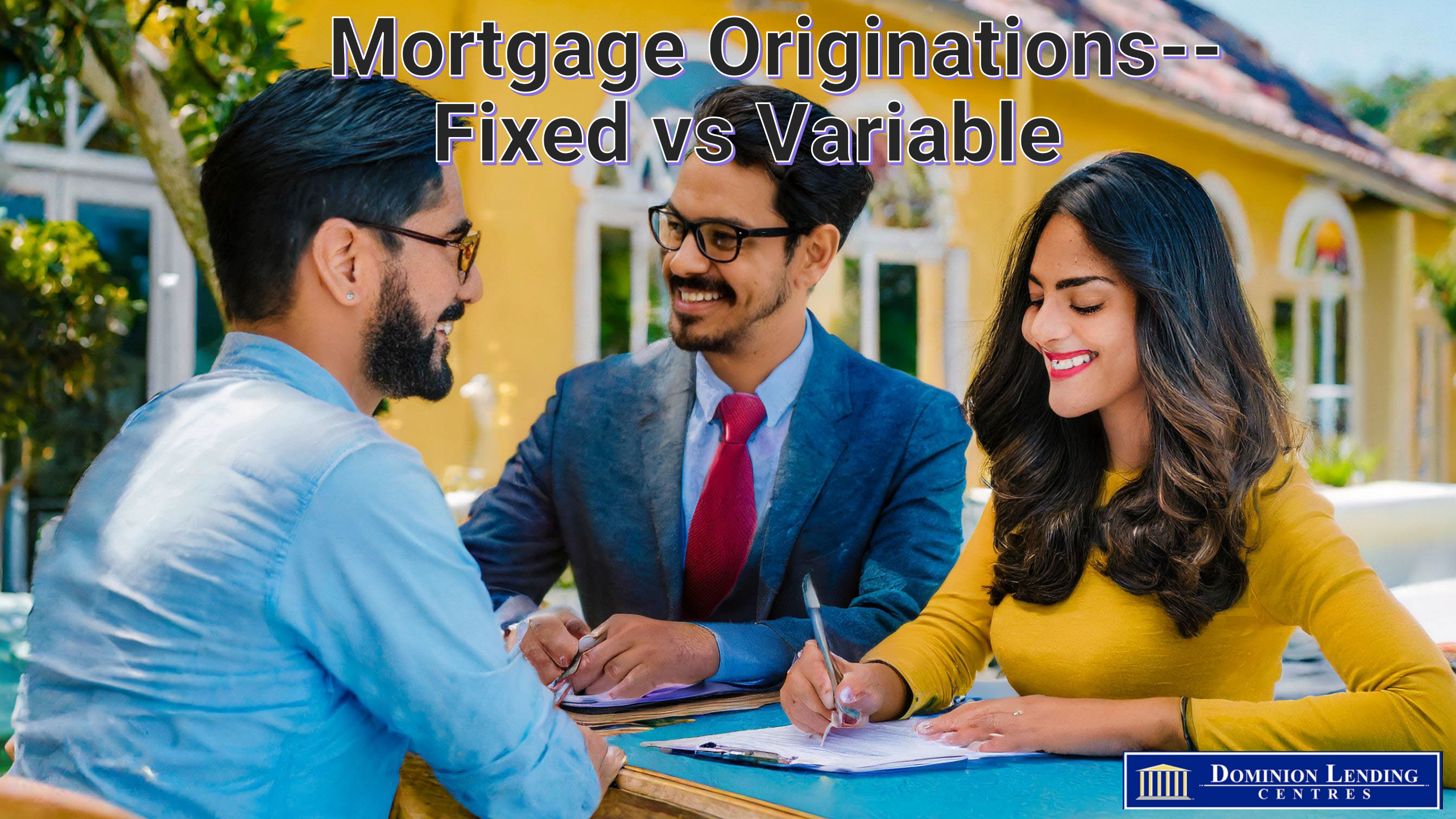
SHARE OF ALL NEW MORTGAGES WITH A LOAN-TO-INCOME RATIO ABOVE 450% AT RECORD LOWS



- Yet OSFI is imposing LTI limits

Courtesy of Mortgage Logic News

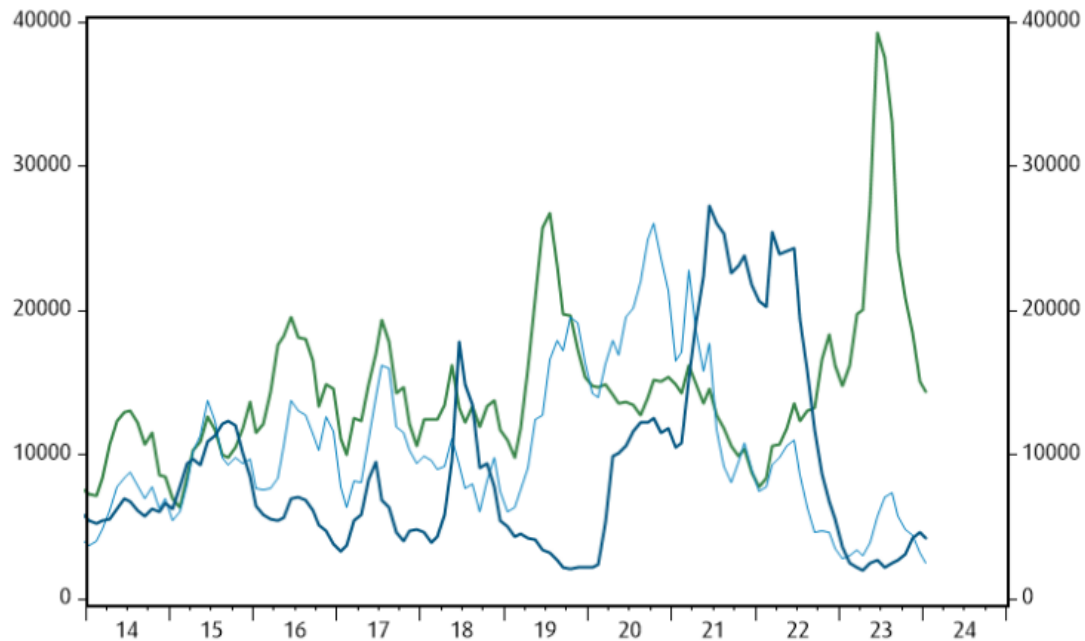
Mortgage Originations-- Fixed vs Variable



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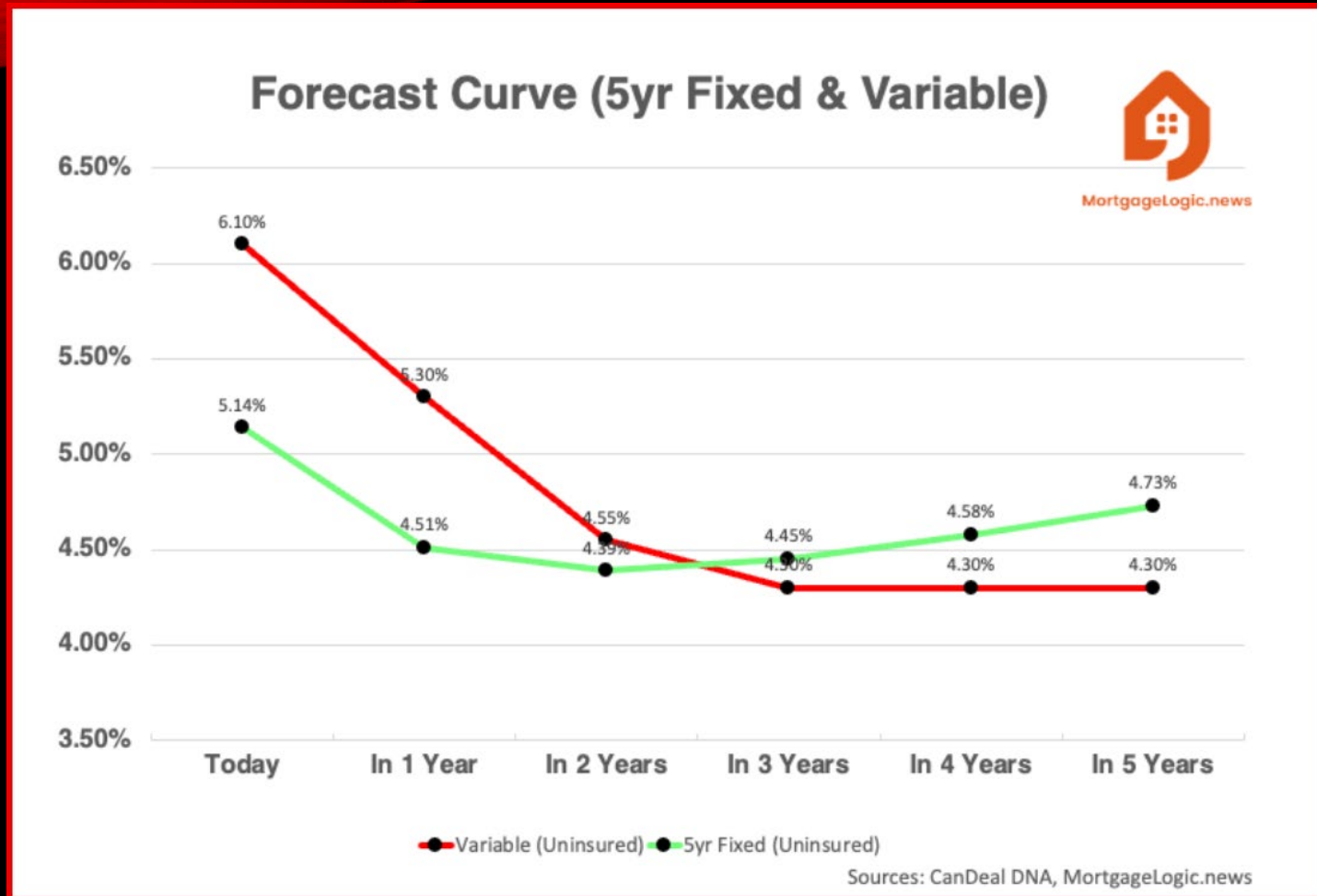
Mortgage Originations-- Fixed vs Variable

Canada new mortgage lending: Variable (\$mlns)
Canada new mortgage lending: 5-yr+ fixed (\$mlns)
Canada new mortgage lending: Short-term fixed (\$mlns)



70% of new mortgage borrowing is in shorter-term (1-4 years) fixed rate space.

THIS WEEK'S HYPOTHETICAL BORROWING COST



Inflation risk still lurks, and
term selection
Is largely about risk
management

Several Rate Cuts are needed to Justify Variable Rate Mortgages



PAYMENT SHOCK

More than 70% of
Canadian mortgages
come up for renewal in the
next 3 years.

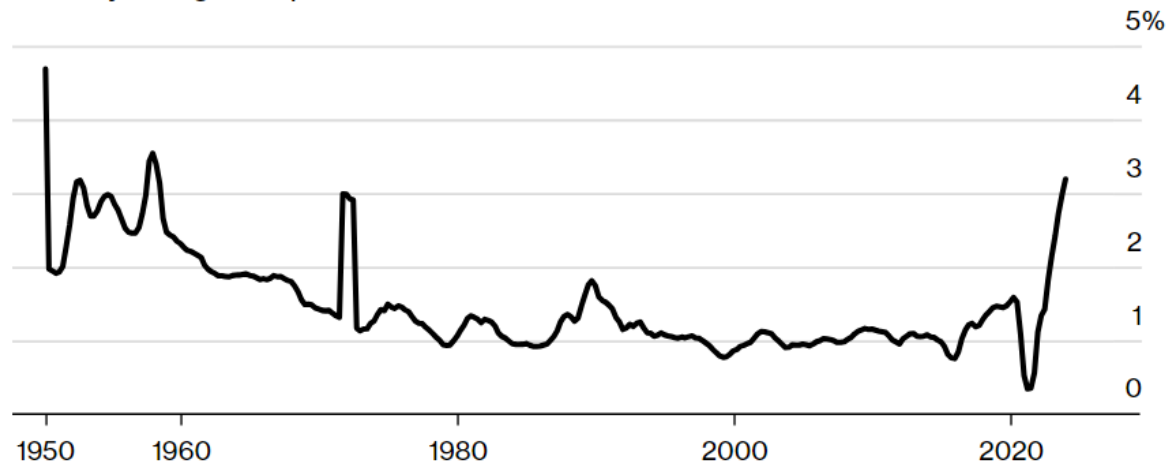
Immigration



CANADA ADDS A RECORD 1.3 MILLION PEOPLE IN 2023

Canada's Population Growing at Fastest Pace Since 1950s

✓ Yearly Change in Population



Source: Statistics Canada

The fastest pace among advanced economies and rivalling least developed nations.



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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 and temporary workers hoping to get permanent residency.

Canada: Components of Population Growth, Permanent and Non-Permanent Residency

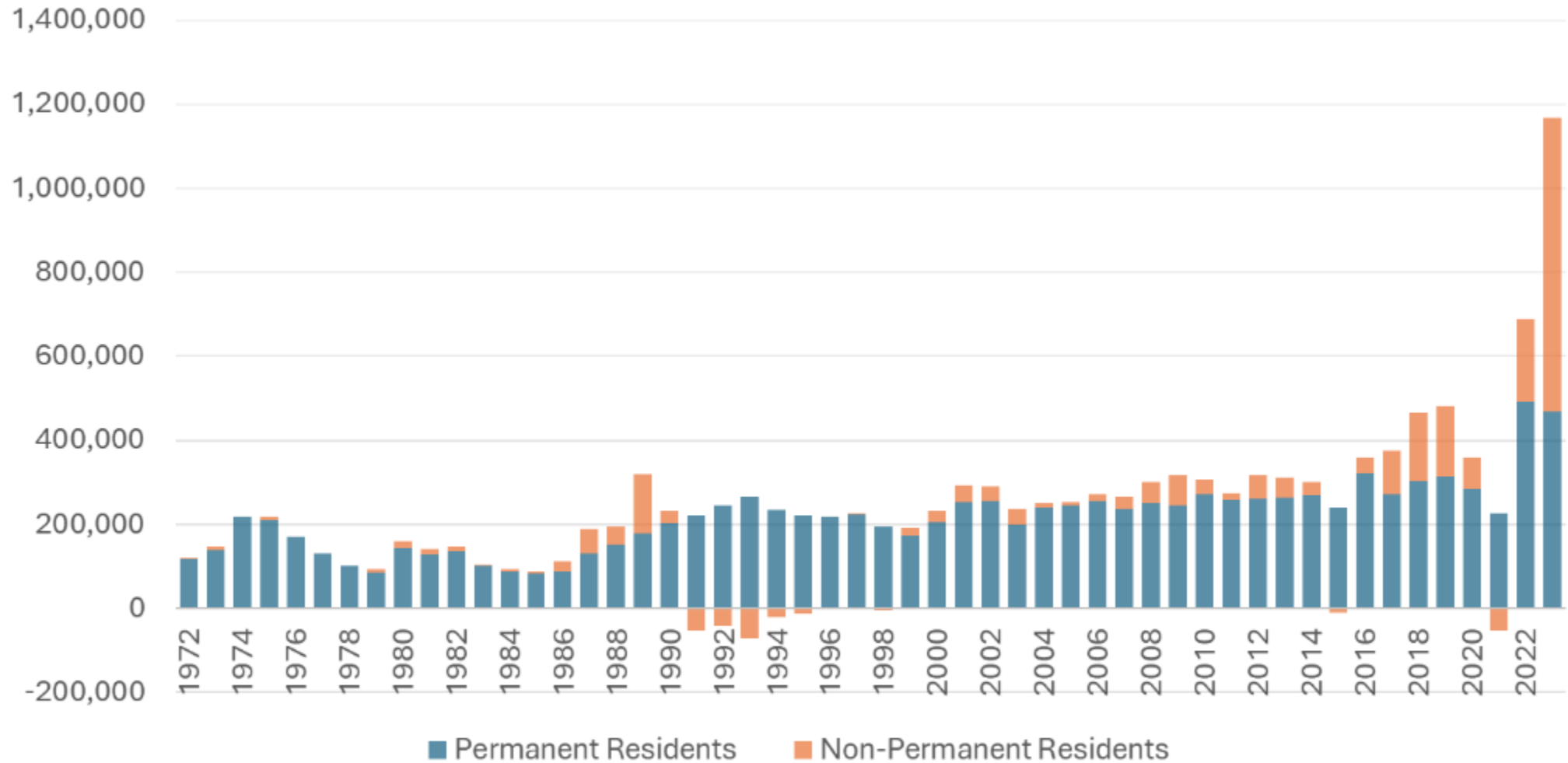
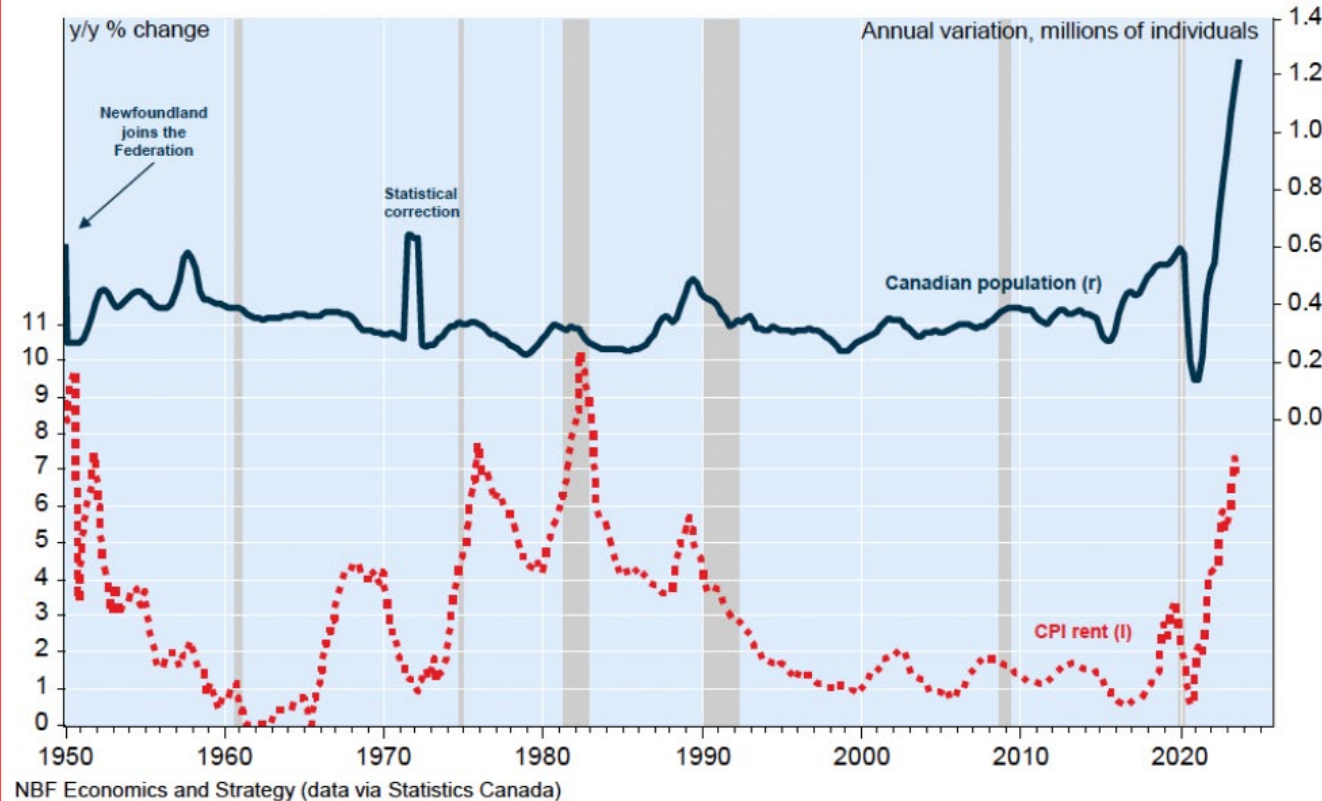


Chart courtesy of Dr. Mike Moffatt (Source: X)

IMMIGRATION ACCELERATES RENT INFLATION

Canada: Population boom keeps inflation resilient

Annual growth in total population and rent component in CPI



Source: National Bank Financial

Courtesy of Mortgage Logic News

Government Cap On Temporary Residents

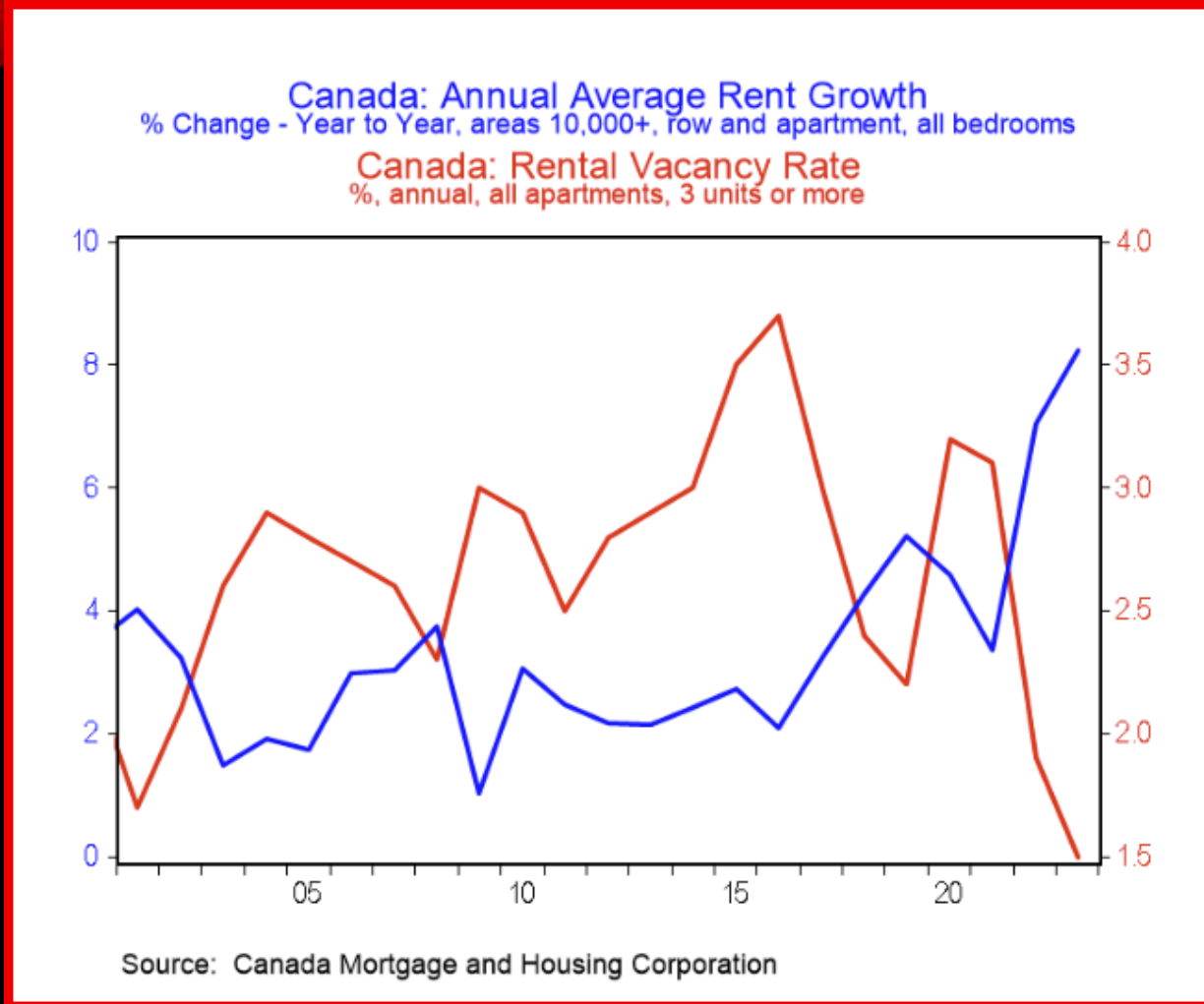


TEMPORARY RESIDENT INFLOWS CUT

- Reduces Housing Demand
- Slows The Economy
- Tempers Interest Rates

But Population Growth Will Remain Well Above
Home Completions

RENT INFLATION IS PEAKING



Source: BMO Economics

- Population Growth Will Slow From 3% to 1% 2025
- Construction of Rental Units Is At Record Highs

ANNUAL RENT HIKES AVERAGED 9.1% IN THE PAST THREE YEARS

Average Asking Rent
All Property Types, Canada



Source: Urbanation Inc, Rentals.ca Network

Including the 2020 and 2021 Covid declines, the five-year average annual rent growth falls to 4.7%.



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YEAR-OVER-YEAR RENT INCREASES IN MAY

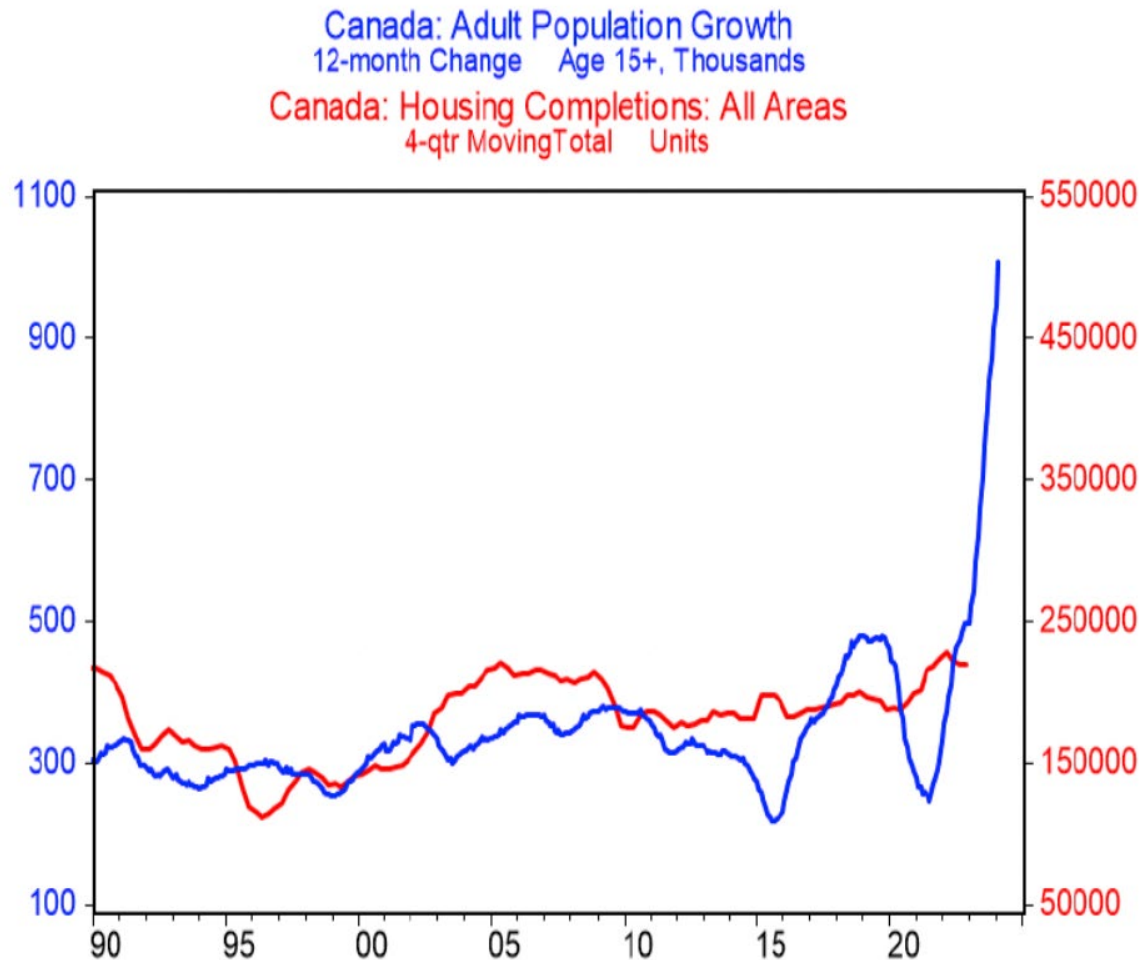
	Average Asking Rent in May	Year-over Year Increase
Vancouver, BC	\$3,008	-4%
Toronto, ON	\$2,784	-1%
Ottawa, ON	\$2,190	+3%
Montreal, QC	\$2,037	+6%
Calgary, Alberta	\$2,093	+8%
Winnipeg, MB	\$1,636	+10%
Halifax, NS	\$2,209	+17%
Waterloo, ON	\$2,338	+19%
Quebec City, QC	\$1,995	+20%
Regina, SK	\$1,381	+22%

HOUSING SHORTAGE REMAINS



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NO WAY TO MEET HOUSING DEMAND



Sources: Statistics Canada, Canada Mortgage and Housing Corporation

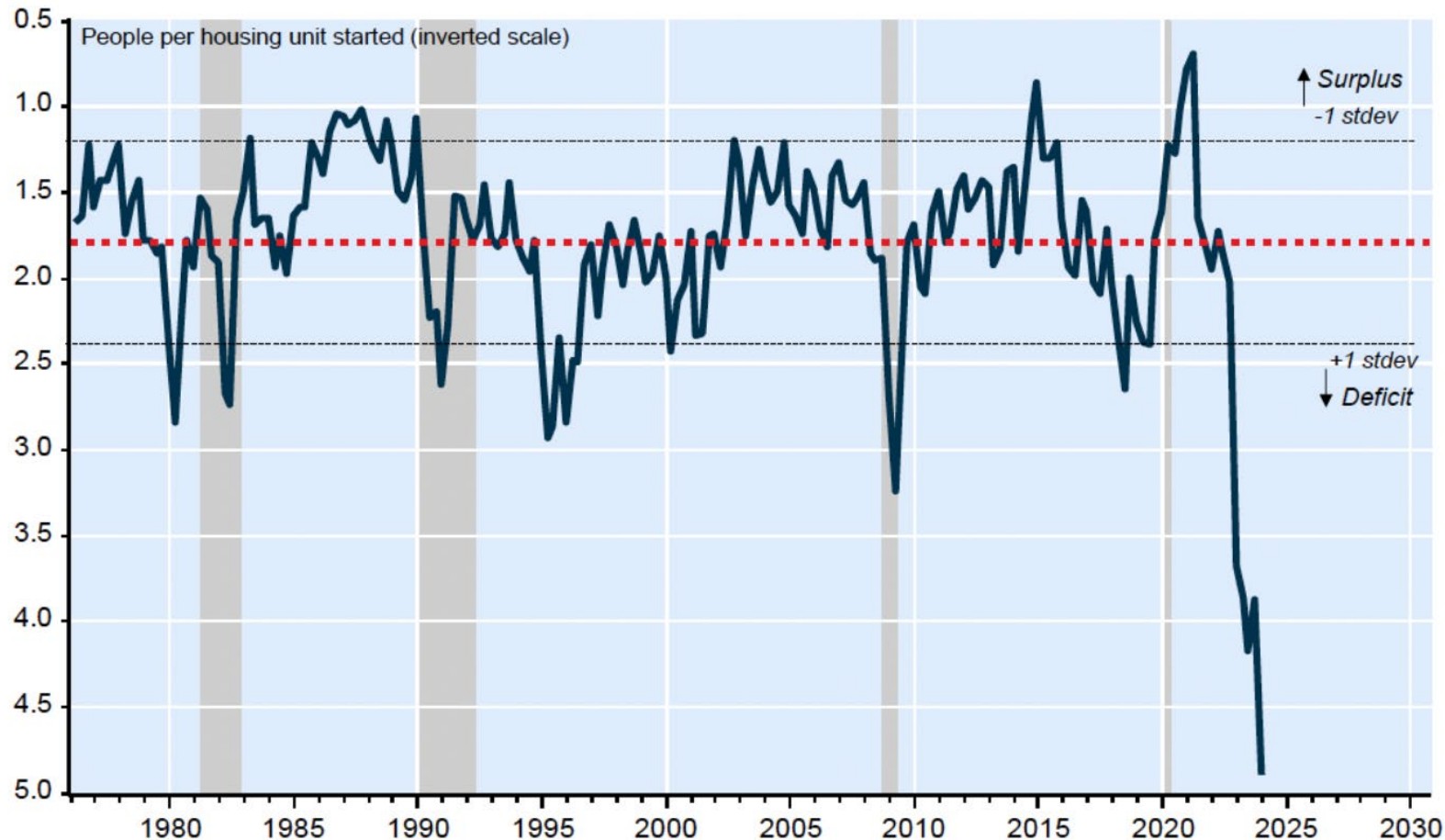
It would take 500K housing completions per year to meet the surge in housing demand. We have never seen even half that amount in a single year.

Courtesy of Mortgage Logic News And BMO

ONLY ONE HOUSING START PER 4.9 PEOPLE IN WORKING-AGE POPULATION

Canada: Housing supply deficit hit new record in 2024Q1

Ratio of growth in working-age population to housing starts (quarterly data)

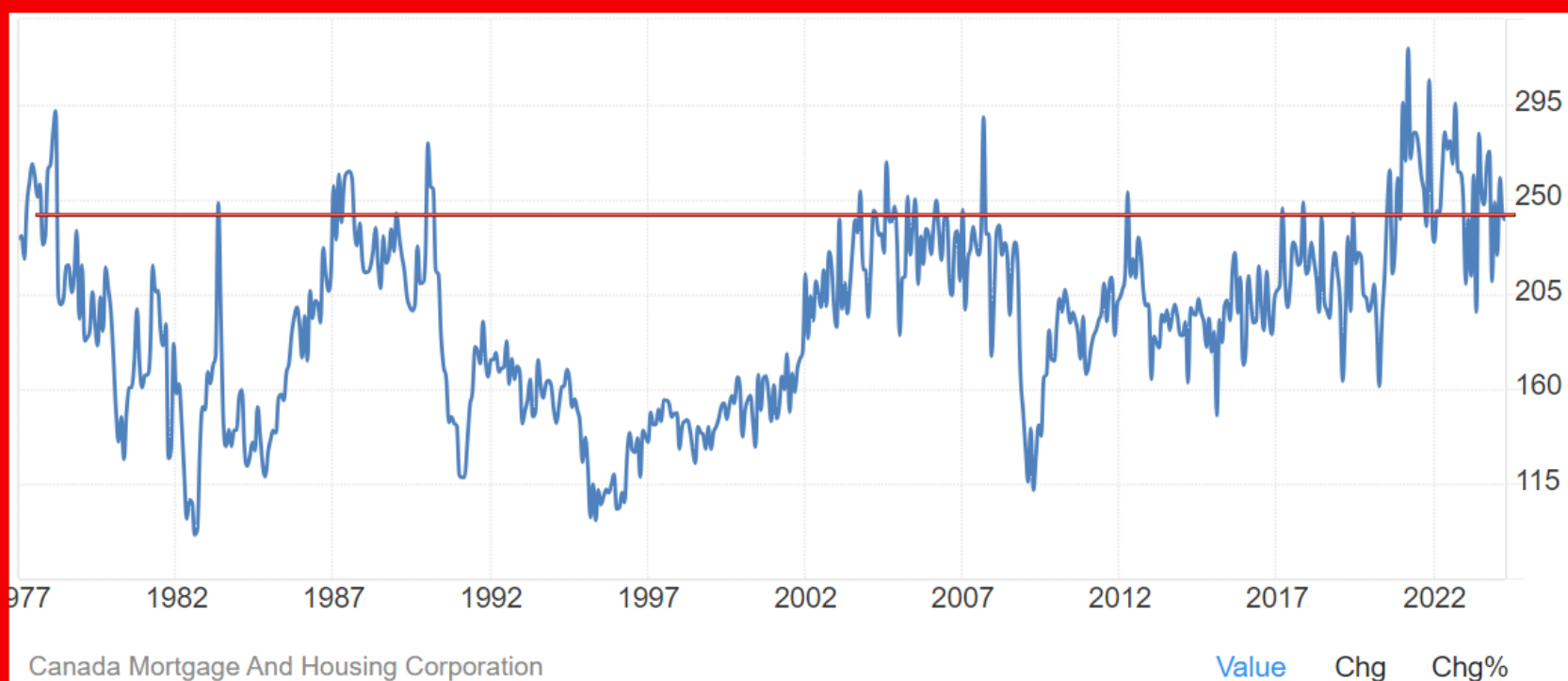


NBF Economics and Strategy (data via Fred and Statcan)

Courtesy of Mortgage Logic News

The historical norm is one start per 1.8 working-age people

HOUSING STARTS ARE WOEFULLY INADEQUATE



The same level of starts as in the 1970s, with nearly double the population



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NEED 100,000 NEW CONSTRUCTION WORKERS



**Most will be temporary foreign
workers hoping to become
citizens.**

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