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CONNECTIVITY SYSTEMS

CANADA'S RECORD  
ECONOMIC GAP  
WITH THE US

S-T RATES FALL,  
BUT BOND YIELDS  
RISE WITH TRUMP  
POLICIES

Dr. Sherry Cooper  
November 19, 2024



Year	GDP Growth (%)
2022	3.8
2023	1.2
2024	1.1
2025	1.8
2026	2.3



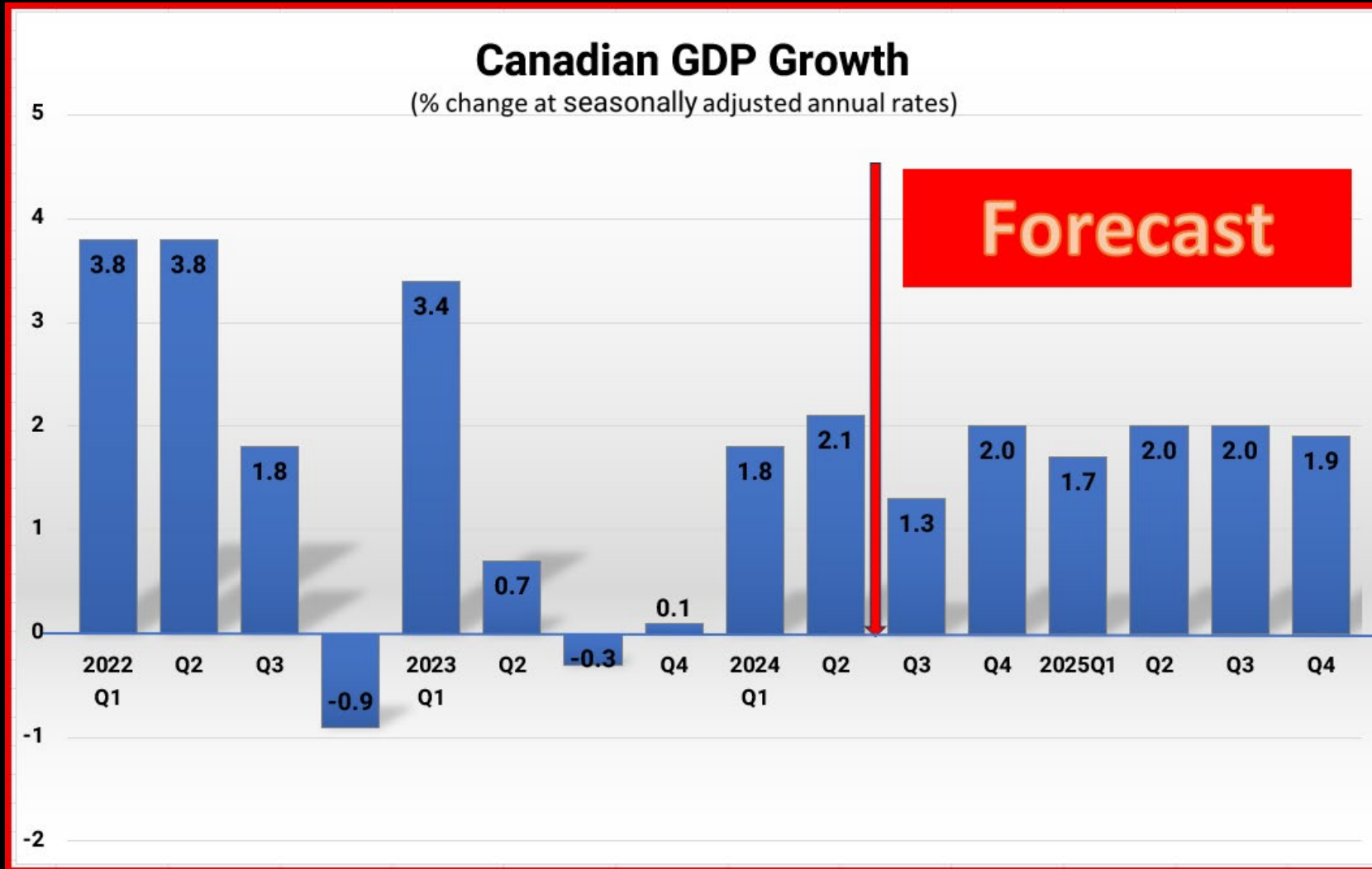
# SOFT LANDING



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# CANADIAN GDP GROWTH A BIT STRONGER THAN EXPECTED IN Q2



# CANADIAN GDP PER CAPITA GROWTH FALLS FOR FIFTH CONSECUTIVE QUARTER

**Record Canadian GDP underperformance stretching on**  
5-year percent change in per-capita real GDP



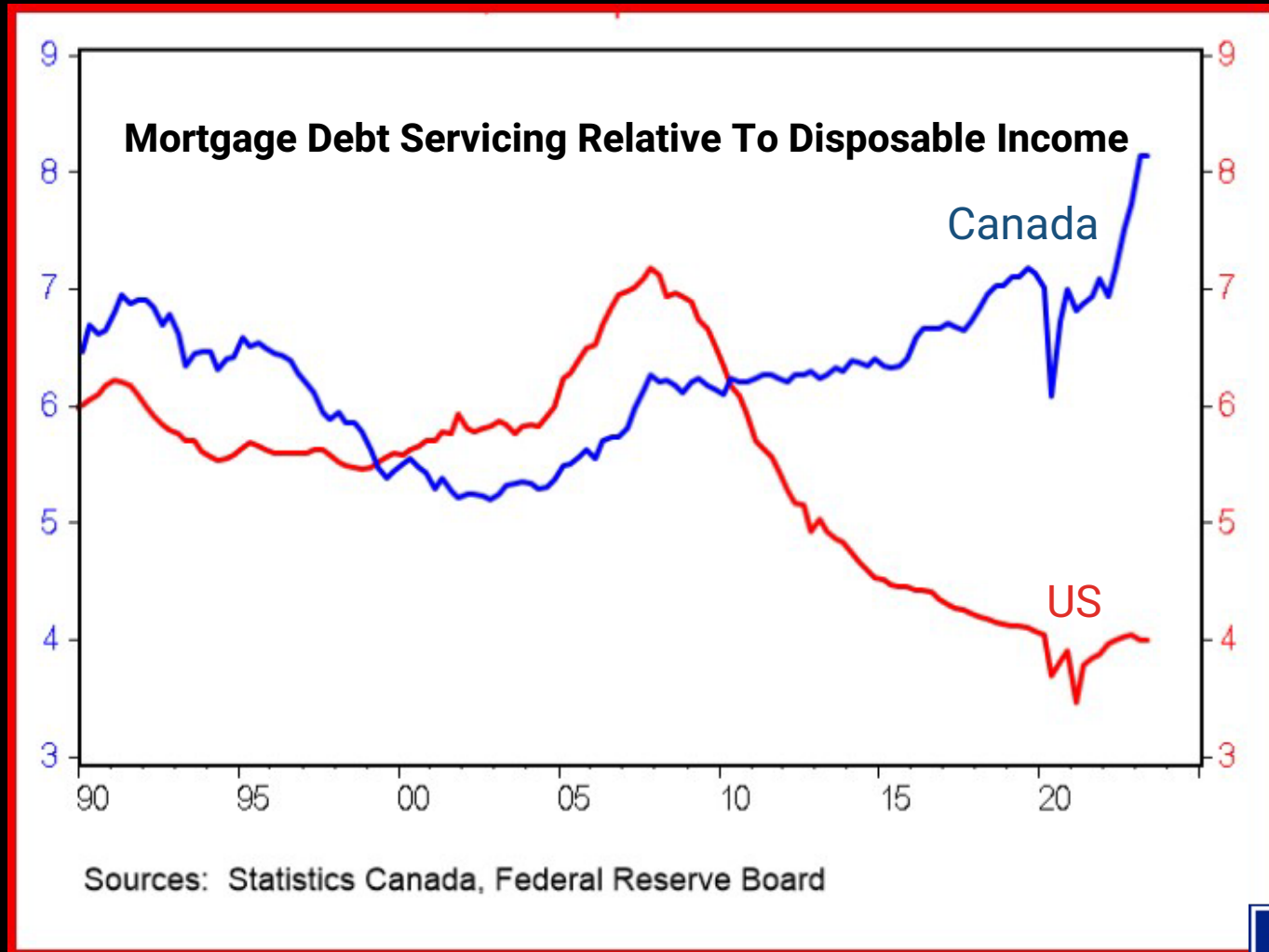
Source: Statistics Canada, Bureau of Economics Analysis, RBC Economics

Royal Bank of Canada

The stunning divergence between the US and Canada is unprecedented in modern history



# MORTGAGE PAYMENTS RELATIVE TO AFTER-TAX INCOME





# U.S. ELECTION RESULTS





# SEISMIC SHIFTS COMING WITH TRUMP TRIFECTA

Tax Cuts

Tariffs

Immigration

Deregulation

Federal  
Reserve

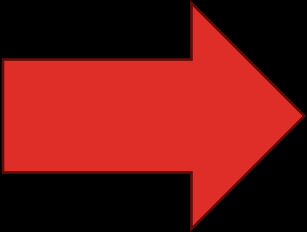


**Proposed Tax Cuts:** Extend expiring tax reductions, cut corporate taxes, no tax on tips, overtime and Social Security

**Tariffs:** 60% on China, 20% on all other countries

**Immigration** quotas and Massive Deportation: Expensive

**Regulation:** End of antitrust push at SEC. Deregulation by Musk and Ramaswamy



Stocks strong, but long-term borrowing costs surge. US dollar rises, budget deficits and inflation could increase as well. Financial conditions tighten.





**WEAK JOB CREATION  
IN OCTOBER**

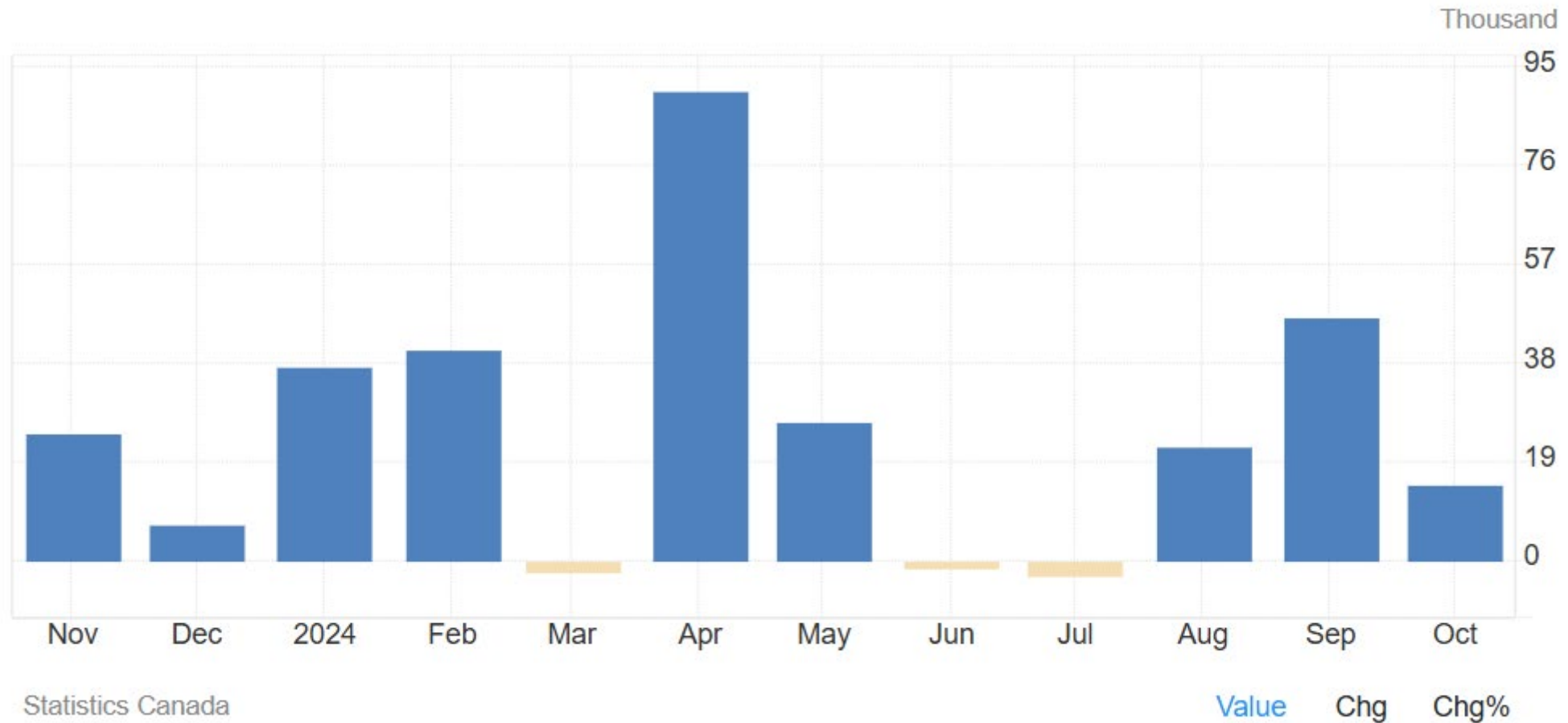
**CANADA'S EMPLOYMENT DATA DISAPPOINT IN  
OCTOBER**



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# WEAK CANADIAN JOB DATA IN OCTOBER

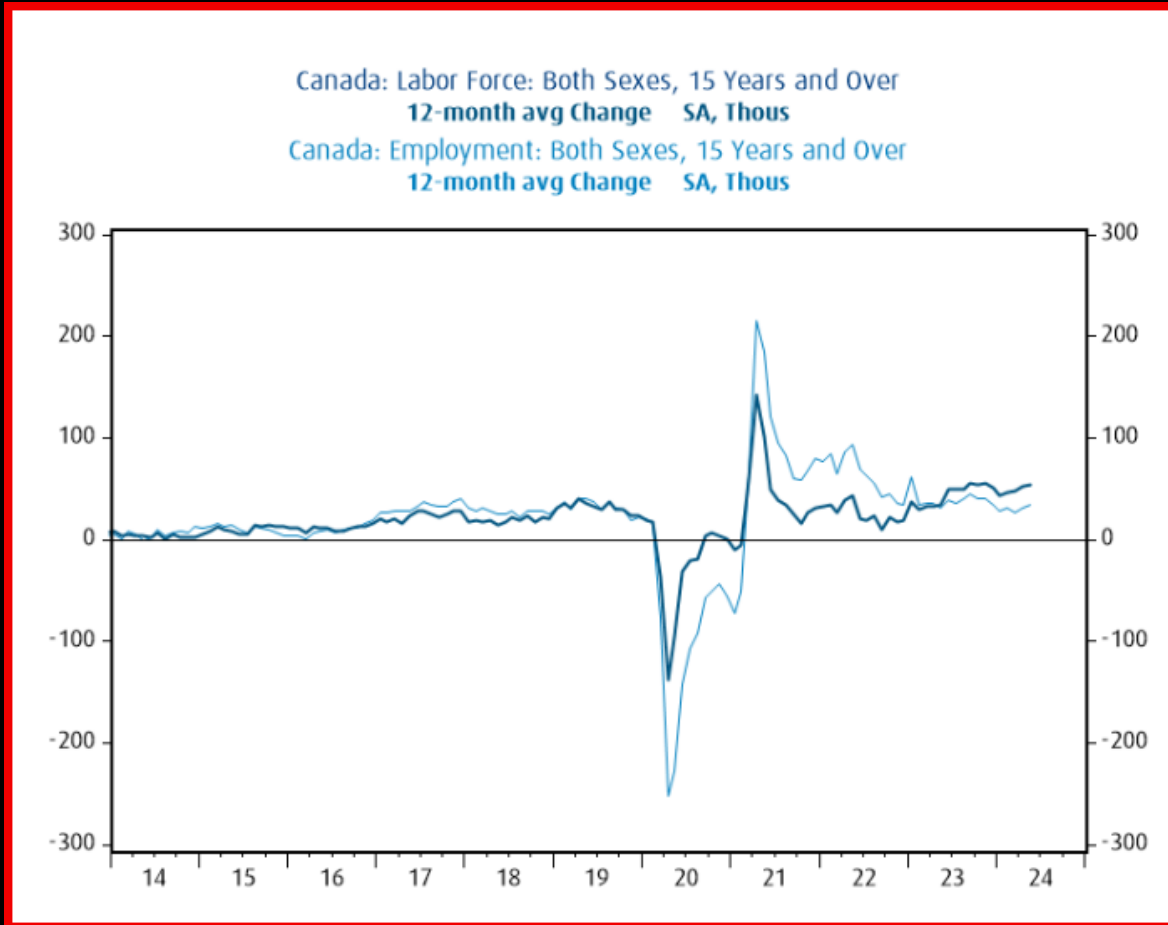


# THE OCTOBER UNEMPLOYMENT RATE HELD STEADY AT 6.5%





# THE WORKING-AGE POPULATION GREW FASTER THAN EMPLOYMENT IN THE PAST YEAR



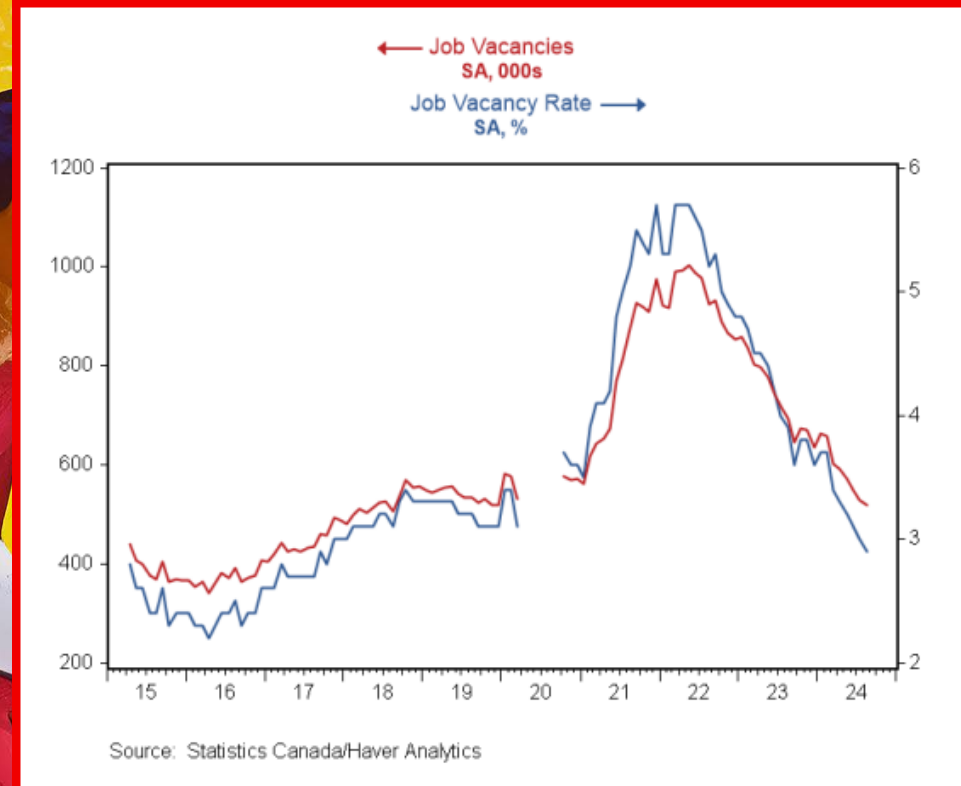
- While employment growth averaged **26K** per month
- Labour force growth averaged **125K** per month
- Newcomers and youth are hardest hit

# WAGE INFLATION STICKY





# JOB VACANCIES FALL



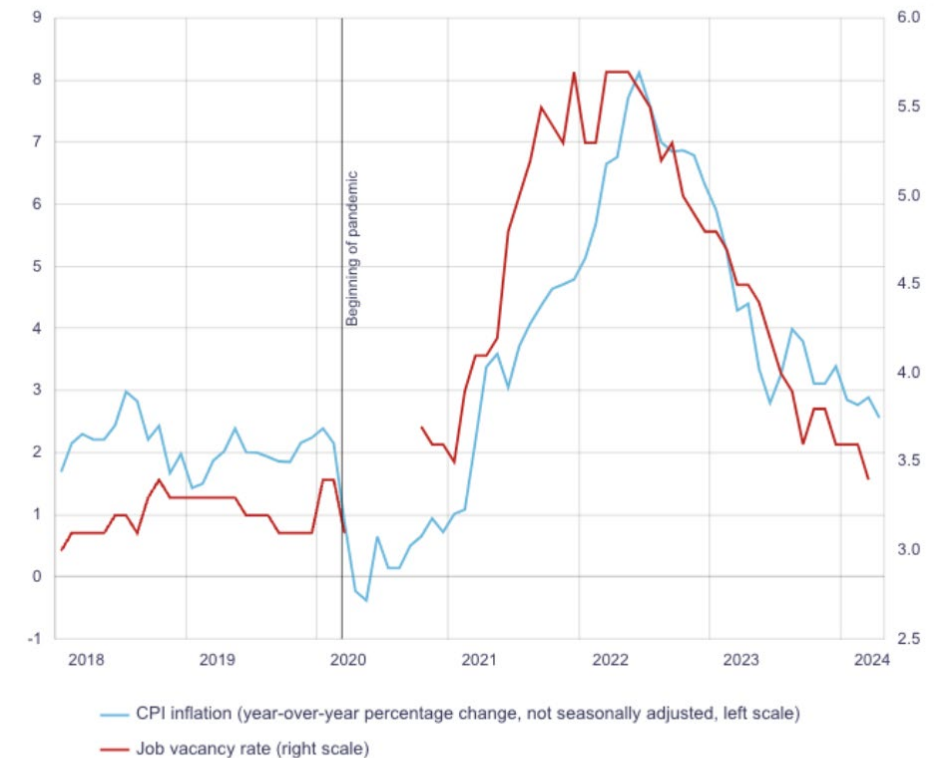
Courtesy of Mortgage Logic News



# JOB VACANCIES PLUNGE & LEAD INFLATION DOWN



Chart 1: Job vacancies and inflation peaked and declined roughly in tandem



Note: Data from the Job Vacancy and Wage Survey (JVWS) are not available from April 2020 to September 2020 due to suspension of the survey early in the pandemic.

Sources: Statistics Canada and Bank of Canada calculations

Last observation: JVWS, March 2024; CPI, April 2024

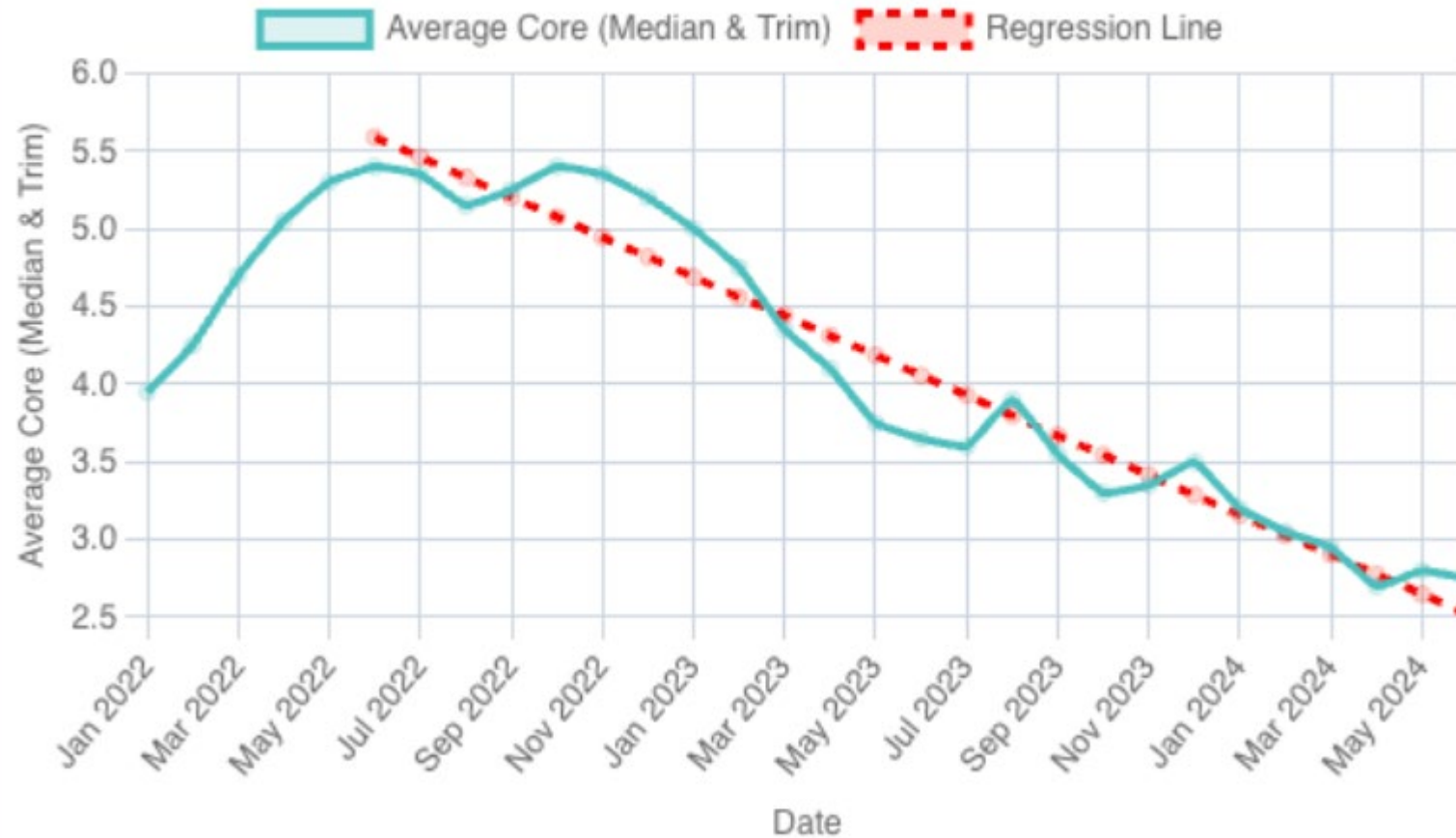
Image source: Bank of Canada

Courtesy of Mortgage Logic News



# INFLATION HAS CLEAR DOWNWARD MOMENTUM

Average Core (Median & Trim) with Regression Line from June 2022 to Present



Courtesy of Mortgage Logic News



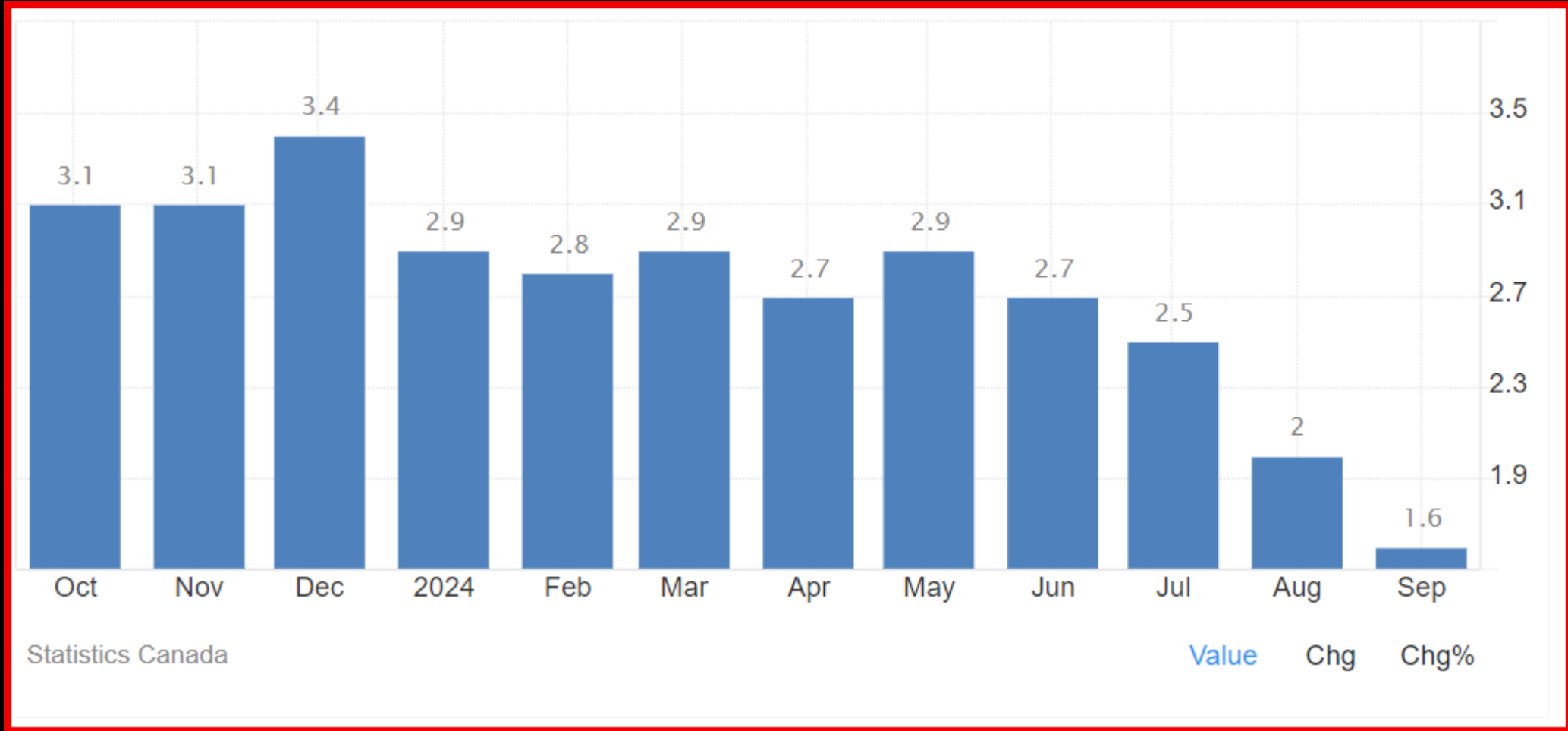


# Inflation Falls to 1.6% in September





# CANADIAN INFLATION FELL TO 1.6% Y/Y IN SEPTEMBER



# BOC CORE INFLATION MEASURES HELD STEADY IN SEPTEMBER

CPI Trimmed-Mean Y/Y remained unchanged at 2.4% in September

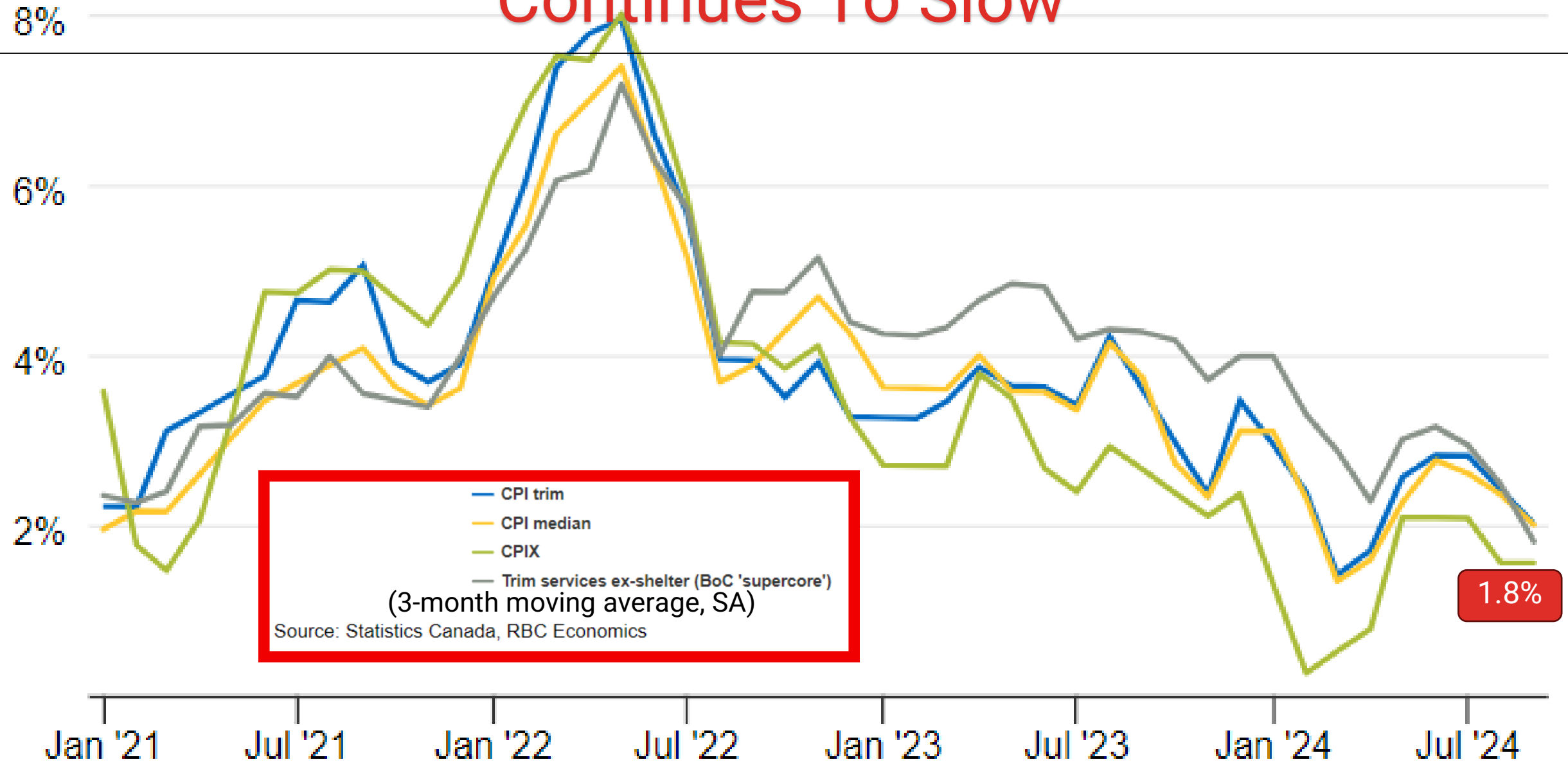


CPI Median Y/Y was unchanged at 2.3% in September

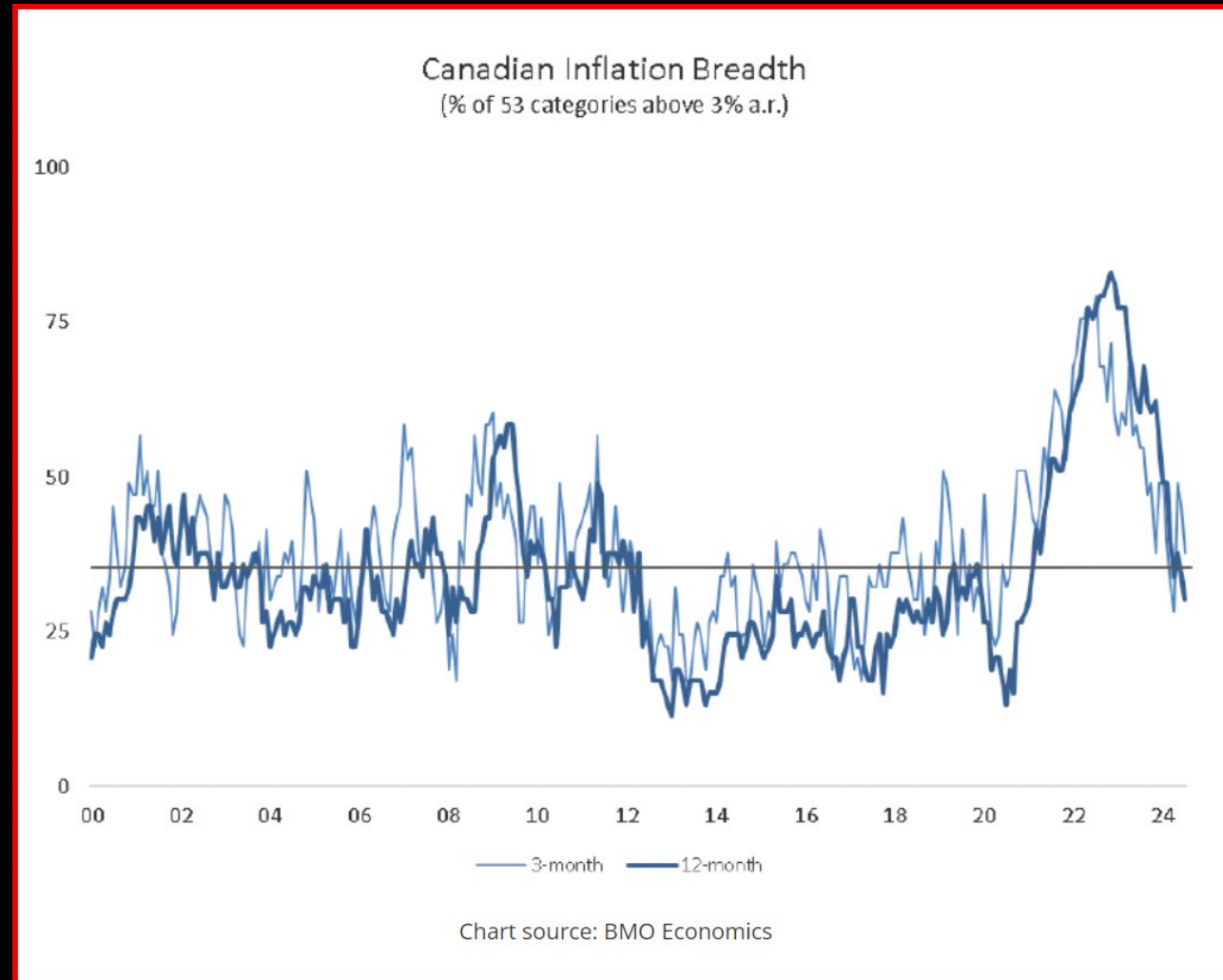




# Growth In BoC's Preferred Core Measures Continues To Slow



# ONLY 38% OF PRODUCT PRICES ARE RISING MORE THAN 3%







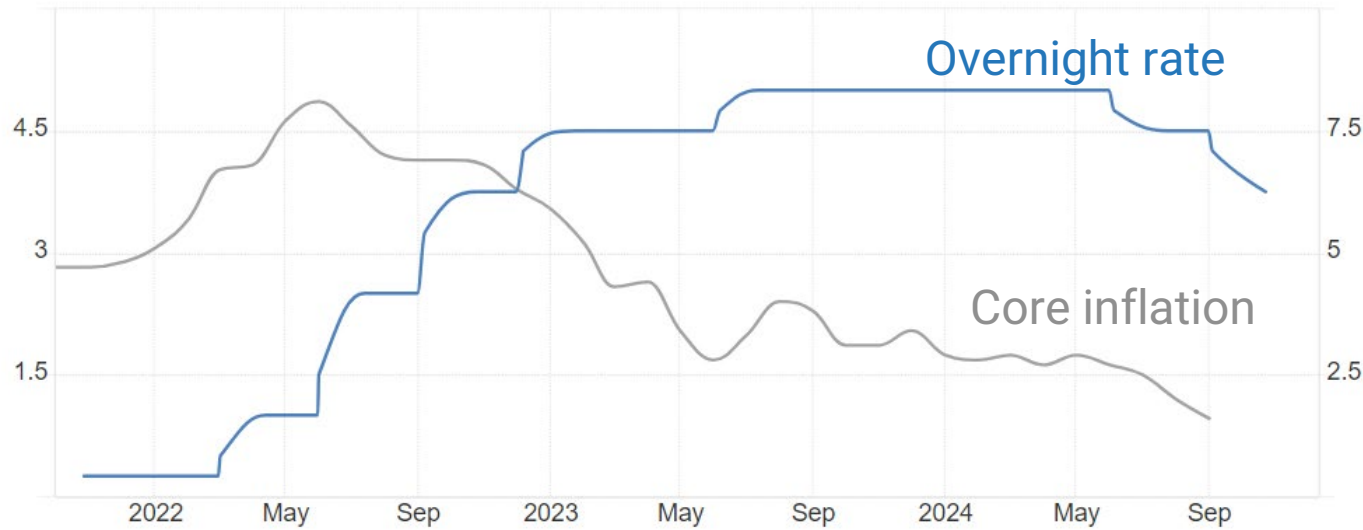
- **BoC Cuts Overnight Rate By 50 bps to 3.75%**
- **Monetary Policy is Still Restrictive**
- **Further Declines Coming, Taking the Policy Rate to 2.5% by Spring 2025**

An artistic, painterly illustration of the Bank of Canada building. The building is a large, light-colored 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**



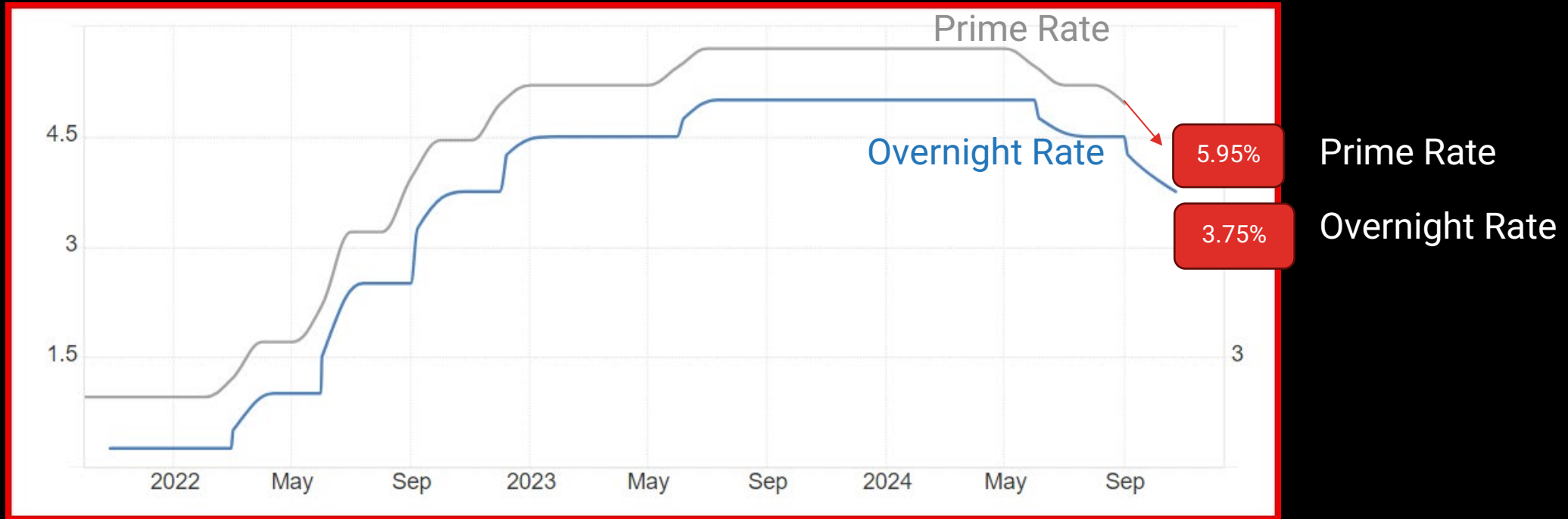
# MONETARY POLICY REMAINS RESTRICTIVE



- The Overnight Rate is still **145** bps above the current core CPI inflation rate.
- The average real rate of the past 30 years is just **60** bps.
- Overnight rate is likely headed for **2.50%** by spring 2025.

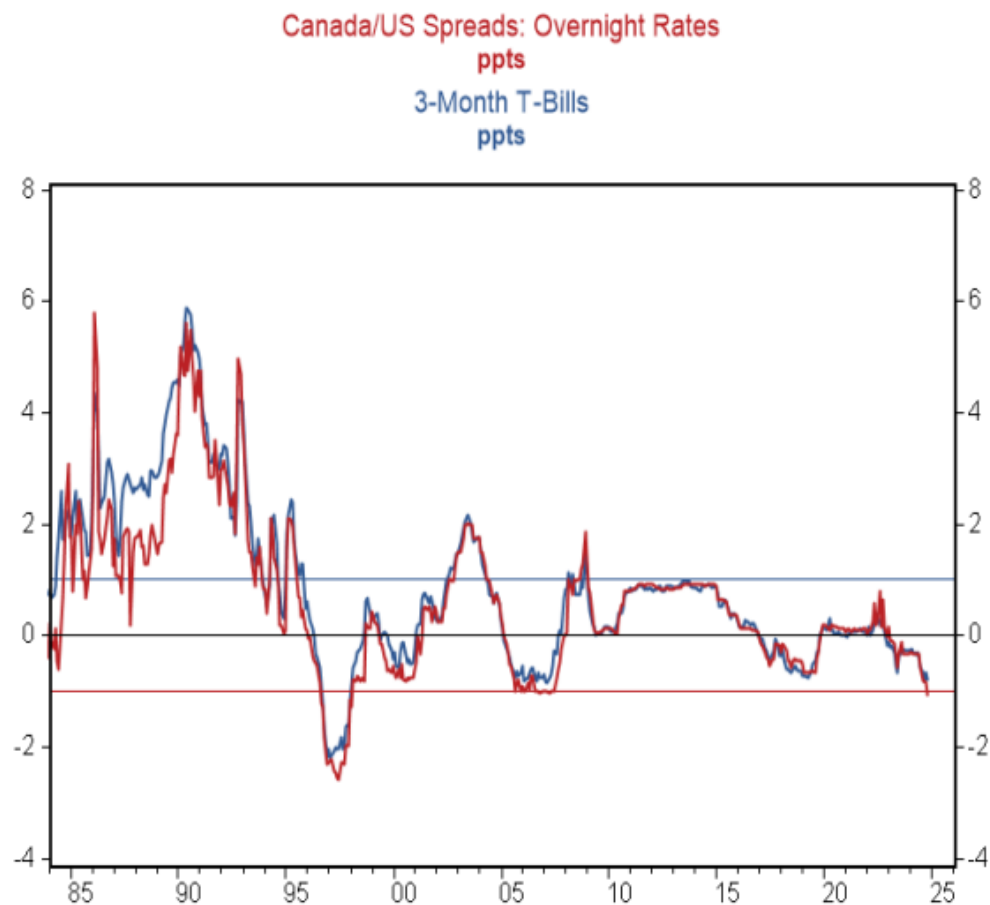


# BOC CUTS RATES BY 50 BPS TO 3.75%



Decline in Floating Rates With The BoC Rate Cut

# CANADIAN AND US CENTRAL BANK POLICIES DIVERGE



BMO  Capital Markets®

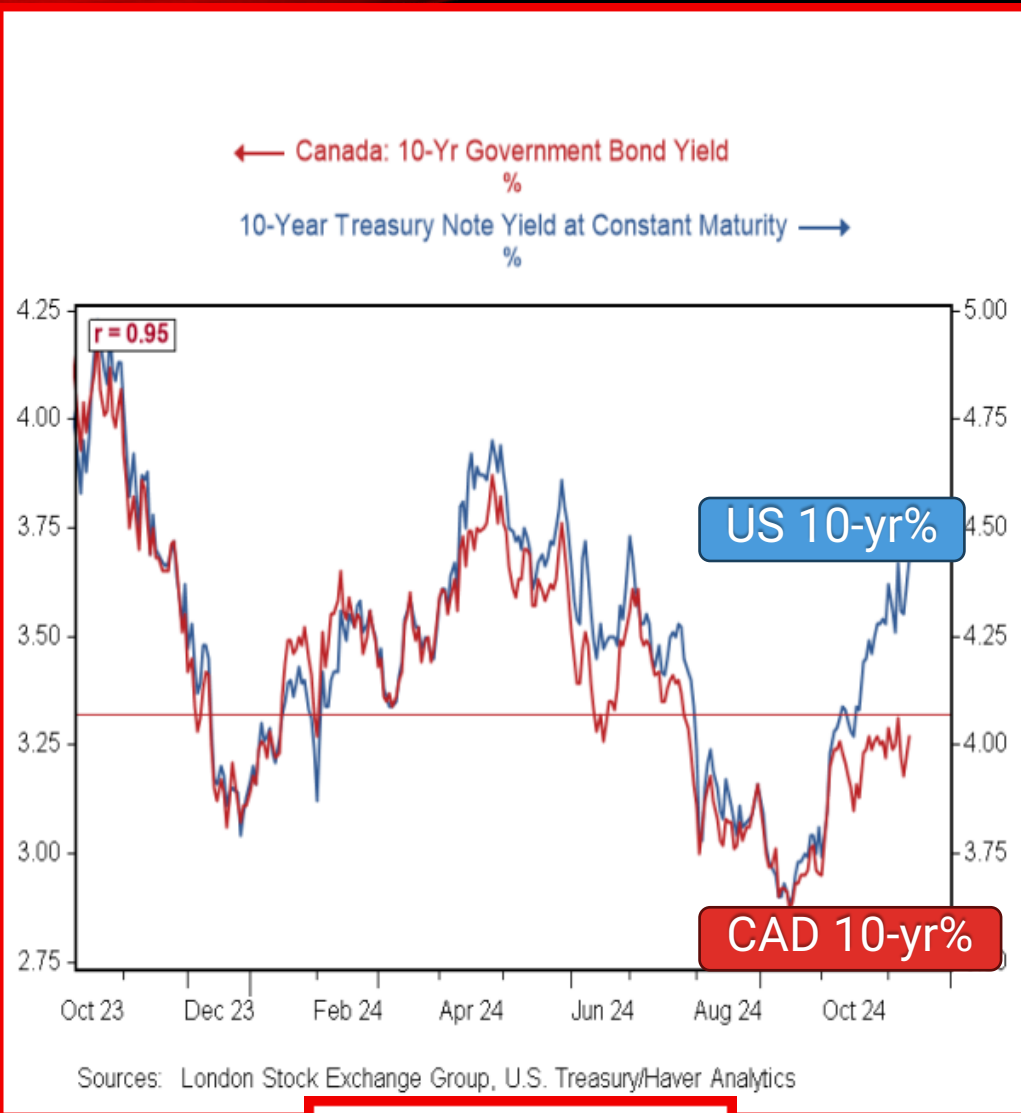
Overnight Rate  
Spreads Canada/US  
are about -100 bps



# FIVE-YEAR YIELD HAS RISEN IN THE PAST MONTH OWING TO THE US



# PARTING WAYS



US 10-year bond yield is flirting with post-election highs of 4.45%, up more than 80bps in less than two months. Canadian 10-year bond yield is at 3.27%-up about 40bps, an unprecedented gap.



# ONE MORE BOC DECISION DATE THIS YEAR

December 11

## 2025 Decision Dates

January 29

March 12

April 16

June 4

July 30

September 17

October 29

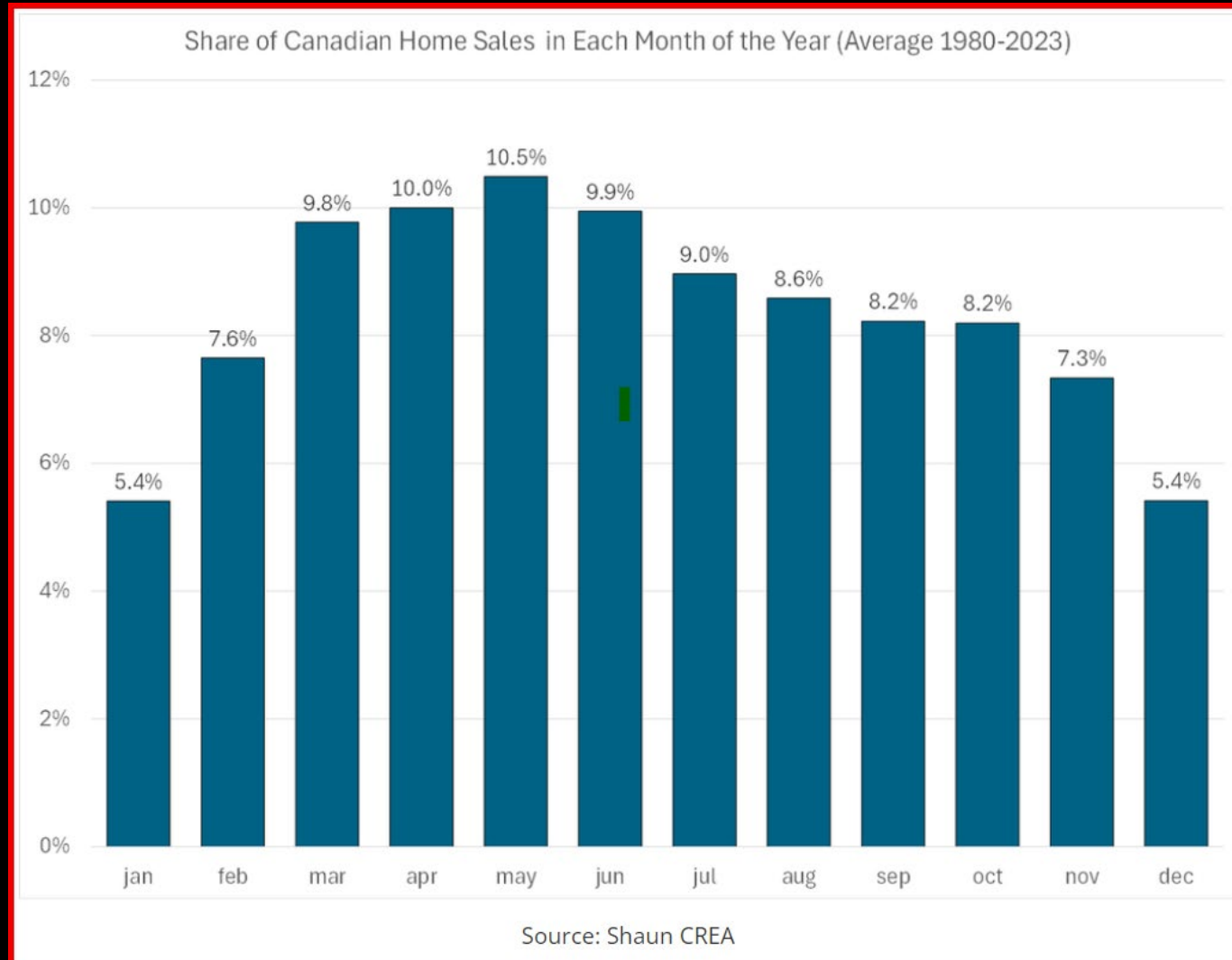
December 10

2.50%

Strong Spring Selling  
Season Coming!

Overnight Rate Headed for 2.50% by Spring 2025.  
Above Pre-Covid Rate of 1.75%.

# MONTHLY PATTERN OF HOME SALES



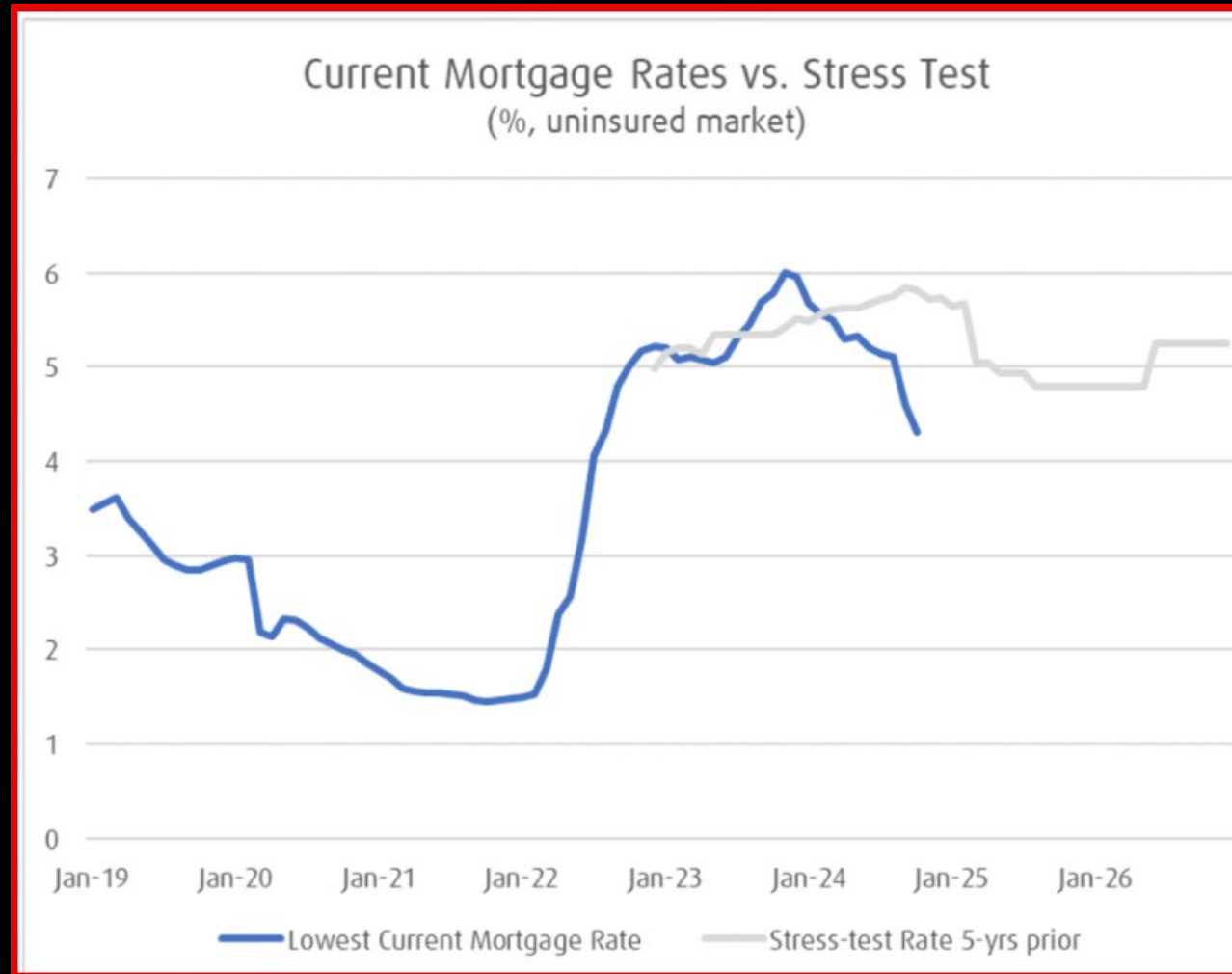




# PAYMENT SHOCK:

Half of Canadian  
mortgages come up for  
renewal in the next two  
years

# CLIFF MYTH





# Canadian Home Sales Surge in October and Early November



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# OCTOBER HOME SALES ROSE SHARPLY REACHING ITS 10-YEAR MONTHLY MOVING AVERAGE



Source: The Canadian Real Estate Association

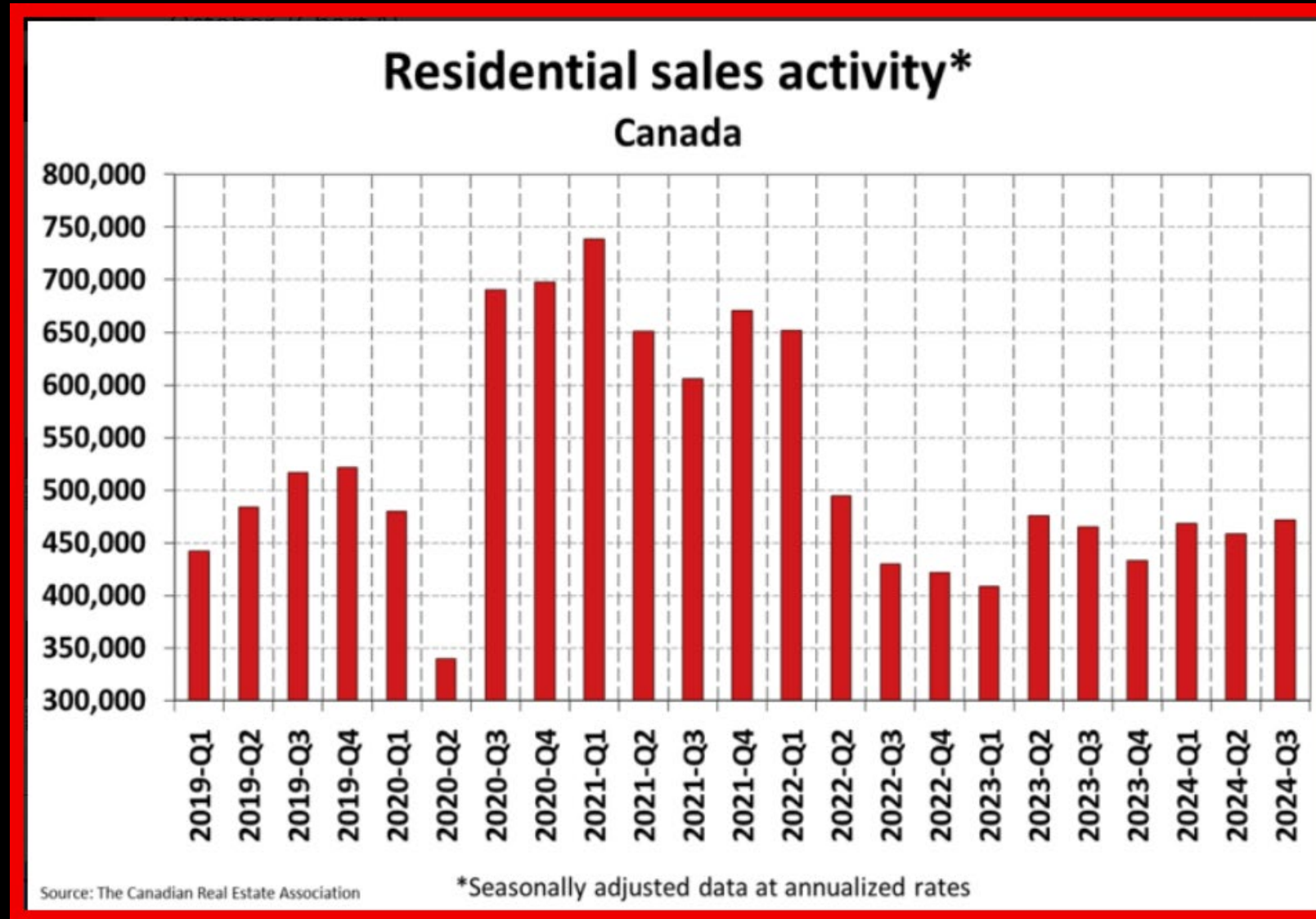
\* Canada; seasonally adjusted



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# MONTHLY HOME SALES EDGE UPWARD IN Q3

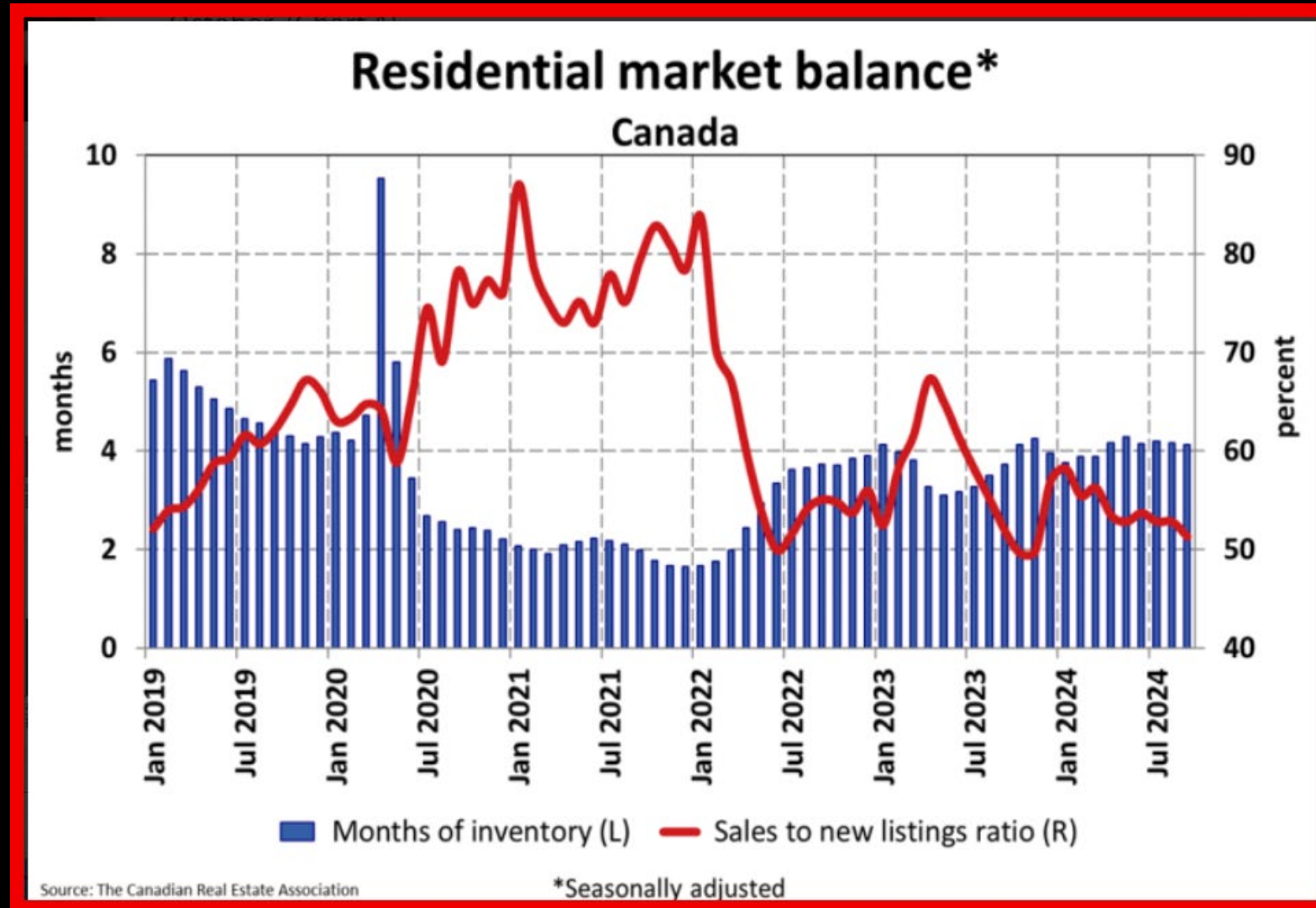


# NEW LISTINGS SURGE IN Q3 AND DECLINE IN OCTOBER



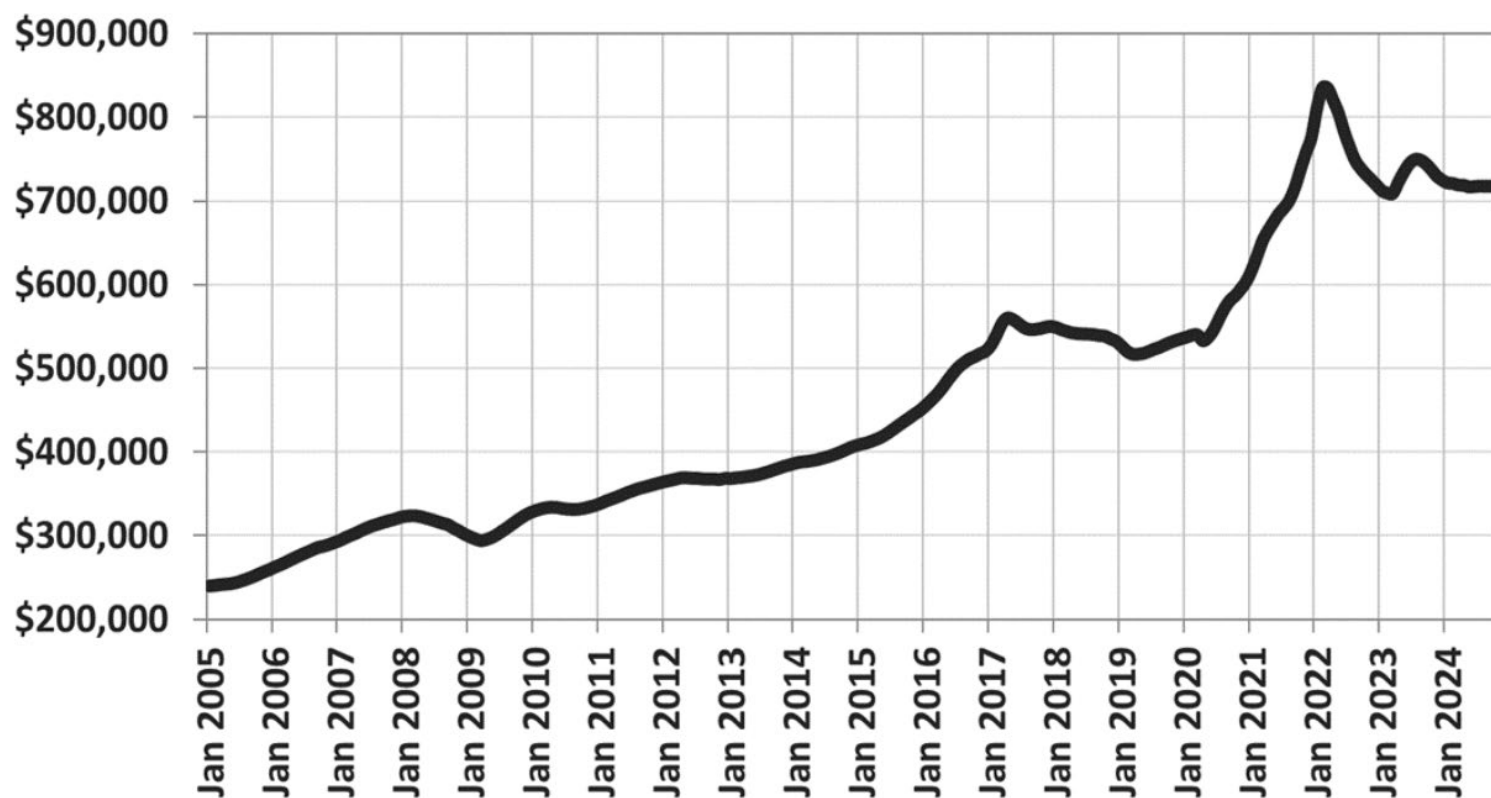


# SALES-TO-NEW-LISTINGS EDGE UPWARD IN OCTOBER



# HOME PRICES EDGE DOWNWARD IN OCTOBER

**MLS® HPI Benchmark Price\***  
Aggregate Composite



Source: The Canadian Real Estate Association

\* Seasonally adjusted

Posts the smallest decline in price since May



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# RECENT CHANGES IN MORTGAGE RULES

30-year amortizations expanded to all first-time homebuyers and all purchasers of new builds

Increased the \$1 million price cap for insured mortgages to \$1.5 million. Roughly 20% of housing is priced between \$1-to-\$1.5 million.

Total LTV > 80%--5% downpayment on \$500K, 10% on the portion of the purchase price between \$500K and \$1.5 million=\$125K (versus \$300K)

Lender switches are allowed without the federal mortgage stress test for all insured and uninsured mortgages. (This may be extended to insurable mortgages as well)

Insured refinancing allowed to build up to three independent add-on units to already owner-occupied homes for long-term rental (max 90% LTV, 30-year amortization, up to \$2 million in total property value)



# Mortgage Originations-- Fixed vs Variable

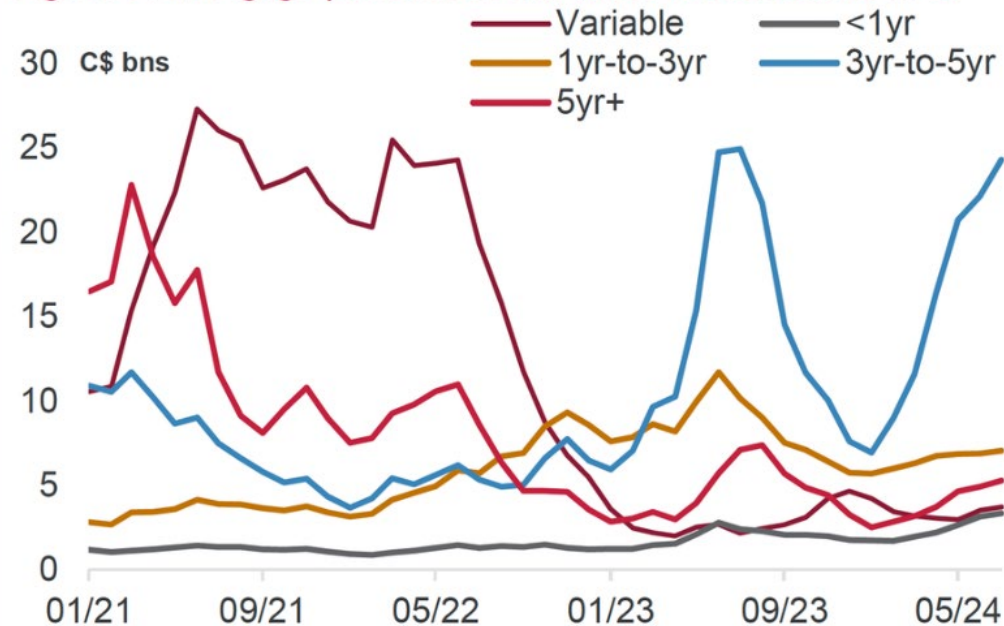


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# Mortgage Originations-- Variable vs. Fixed

Figure 3: Mortgage production has been concentrated in 3s



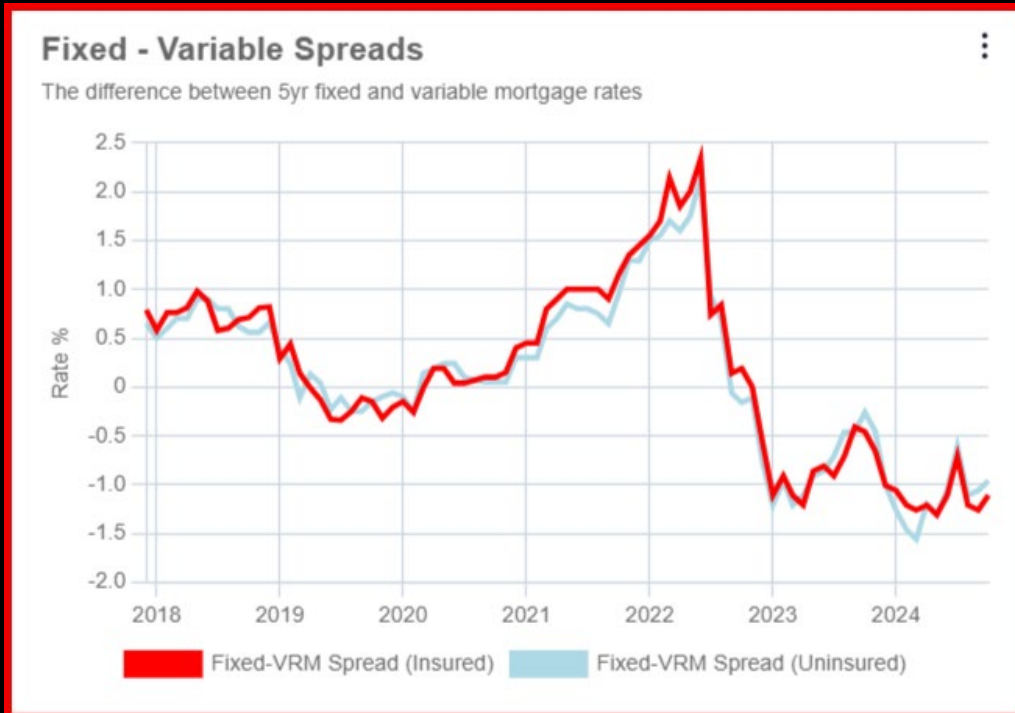
Source: Bloomberg, CIBC Capital Markets

90% of new mortgage borrowing is in 3- to 5-year fixed-rate loans.

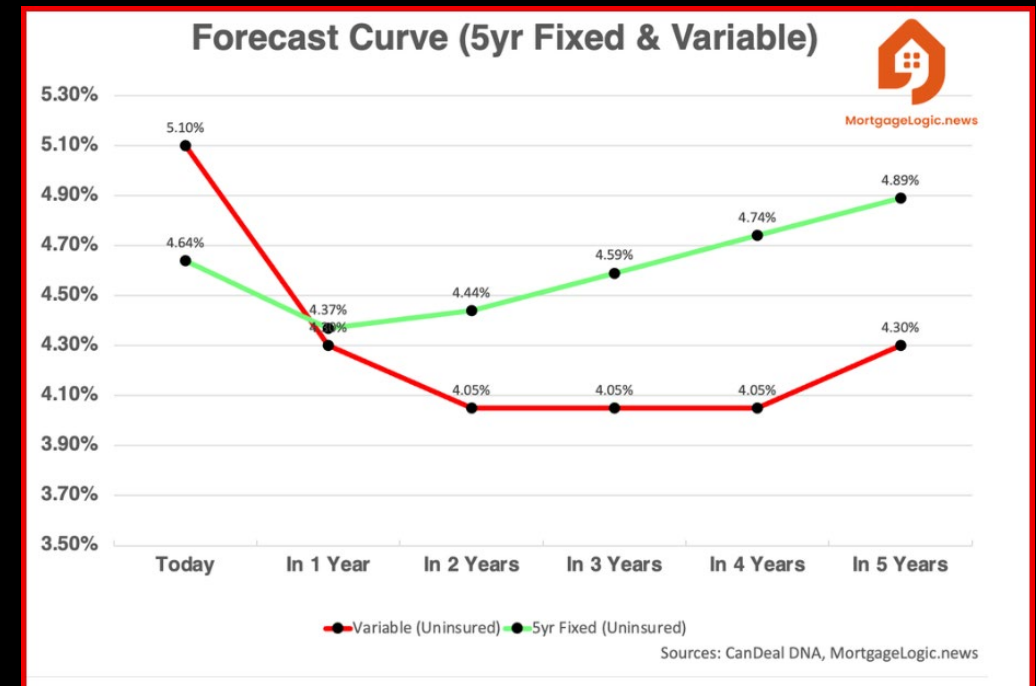
Courtesy of Mortgage Logic News

# EACH BOC RATE CUT ADDS FUEL TO REAL ESTATE DEMAND

## Fixed vs Variable Spread Narrowing



## Fixed vs Variable Cross Over



Courtesy of Mortgage Logic News



# HOUSING SHORTAGE

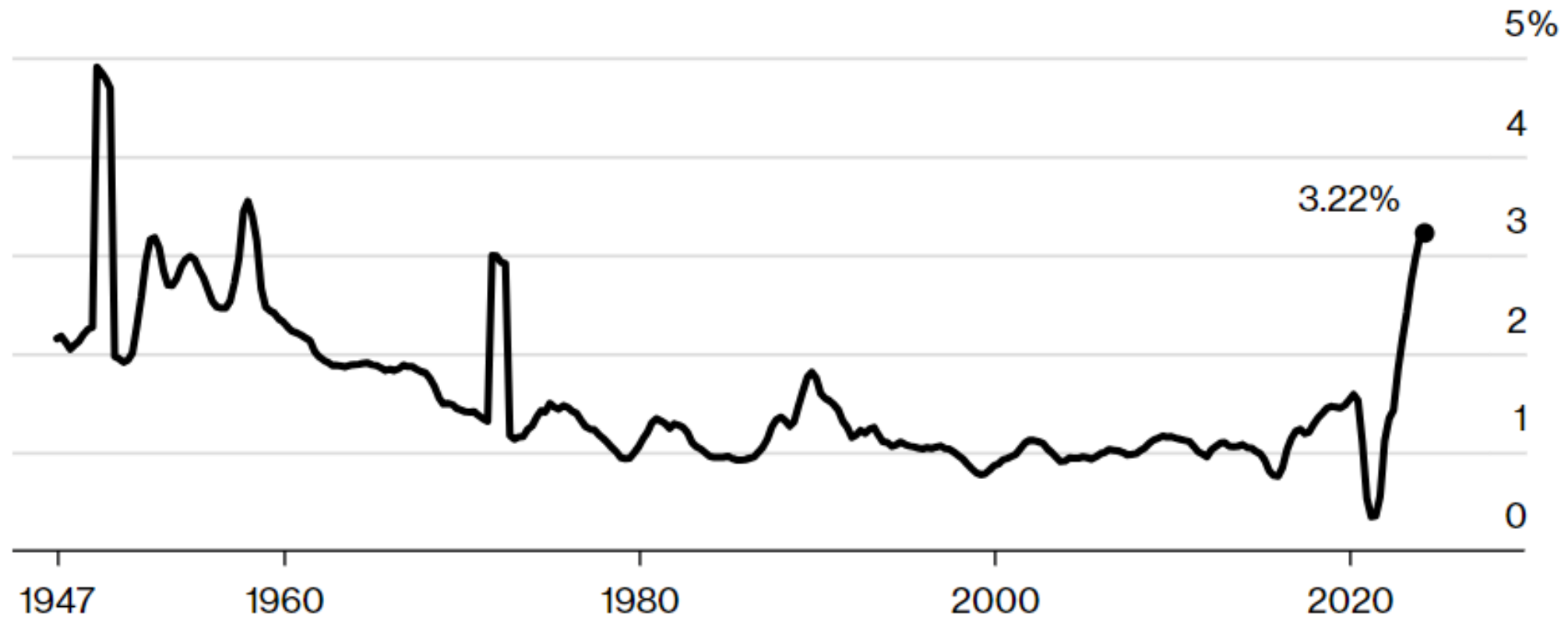


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## Canada's Population Growth Rate Hits 66-Year High

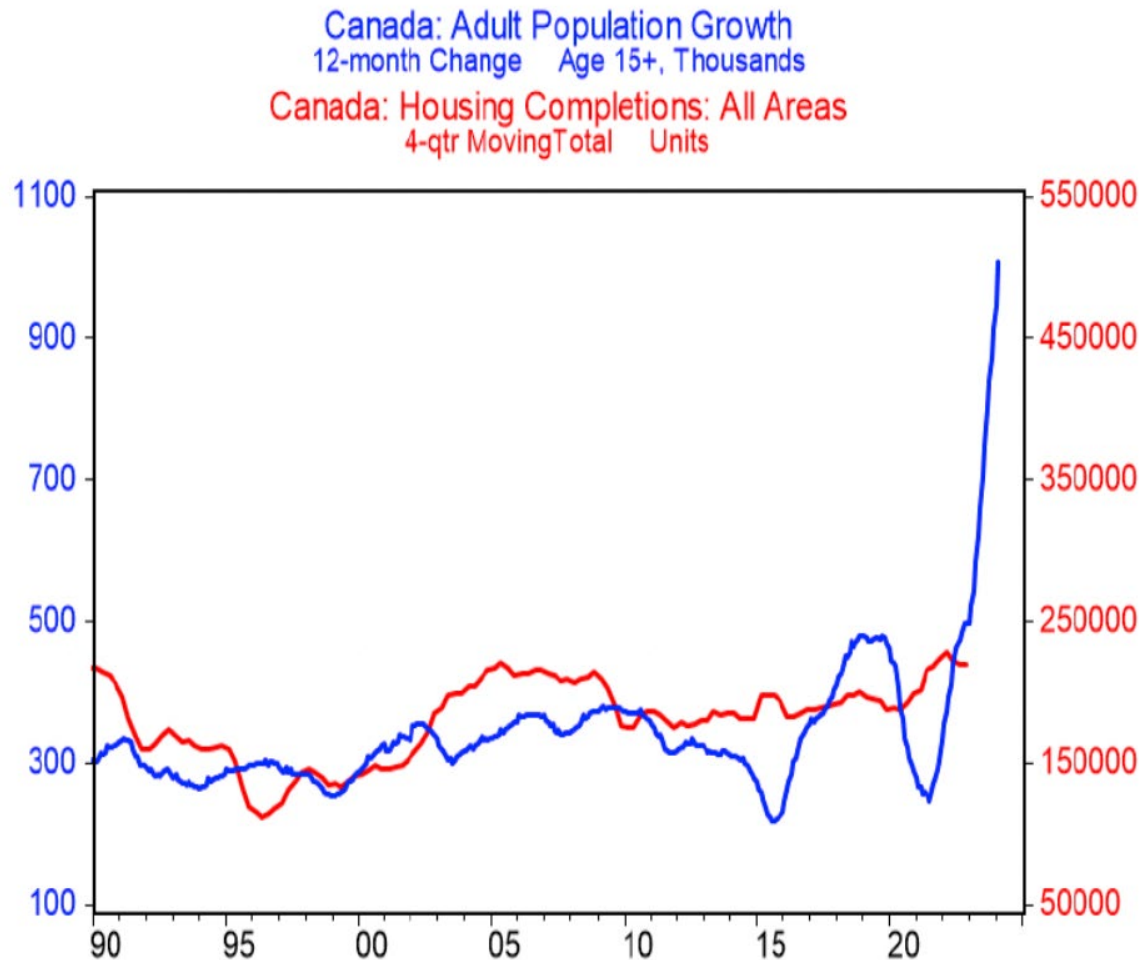
／ Population growth, year-over-year



Source: Statistics Canada, Bloomberg calculations



# NO WAY TO MEET HOUSING DEMAND

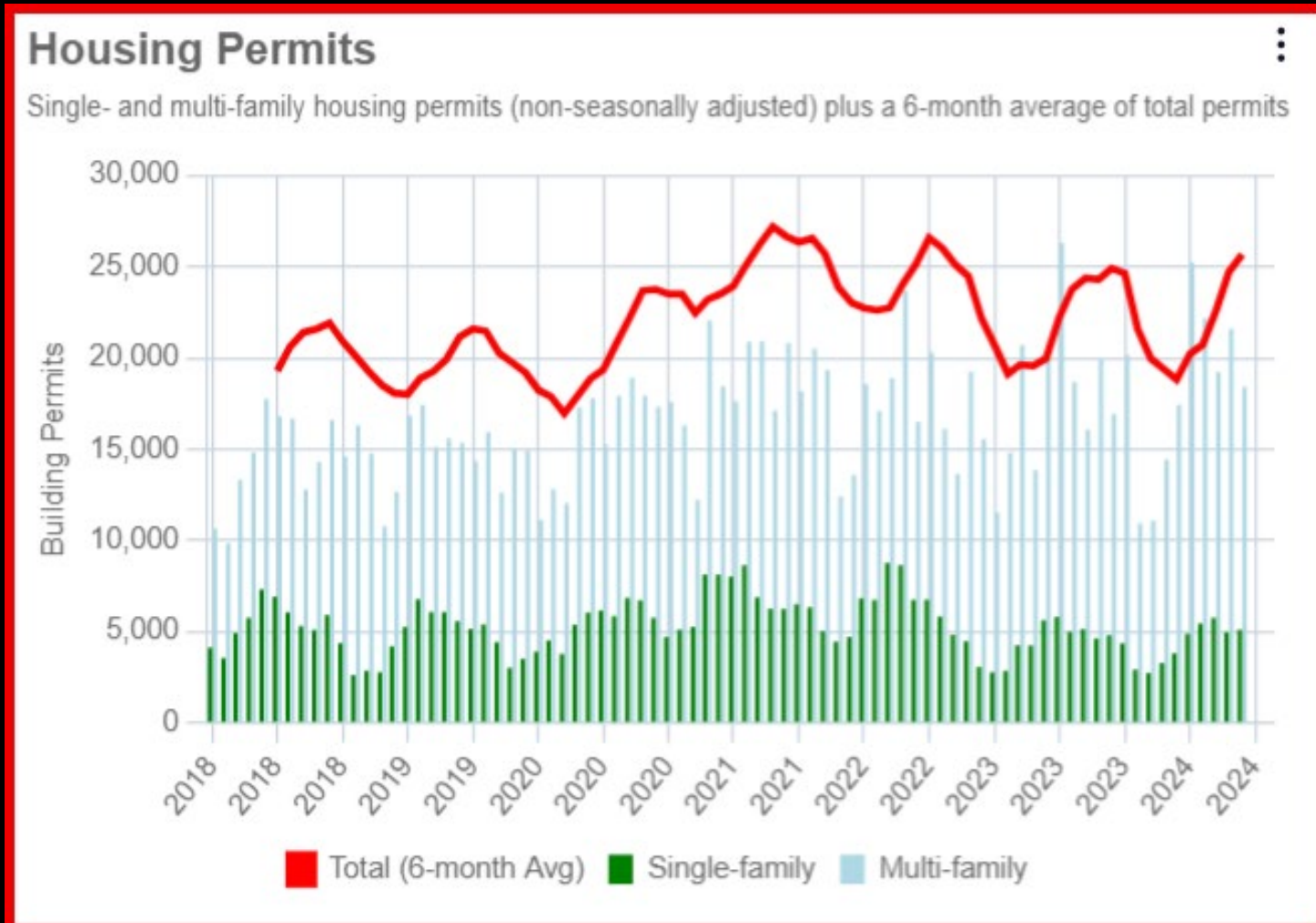


Sources: Statistics Canada, Canada Mortgage and Housing Corporation

**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

# MULTI-FAMILY BUILDING PERMITS DWARF SINGLE-FAMILY PERMITS



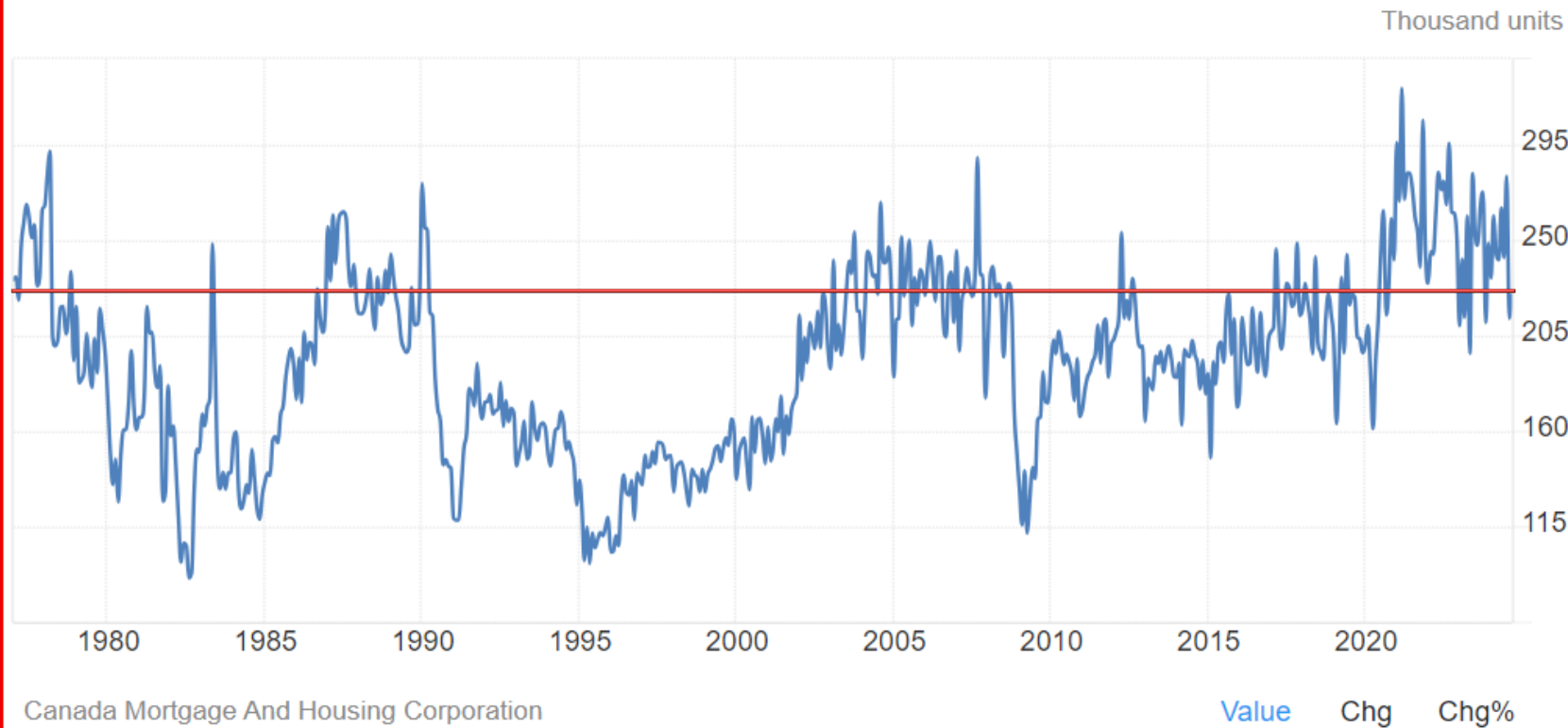
Courtesy of Mortgage Logic News



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# HOUSING STARTS ARE WOEFULLY INADEQUATE



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



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# IMMIGRATION TARGETS SLASHED





# PLANNED PERMANENT IMMIGRATION CUT



Year	Planned Permanent Immigration
2023	465,000
2024	485,000
2025	395,000
2026	380,000
2027	365,000

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



# TEMPORARY ENTRANTS DWARF PERMANENT ONES



**More than 800,000 temporary workers and foreign students were accepted in the year ending 2023**



# Ottawa Plans To Slash the Number Of Temporary Residents

**Temporary residents make up 7.2% of the population today.**

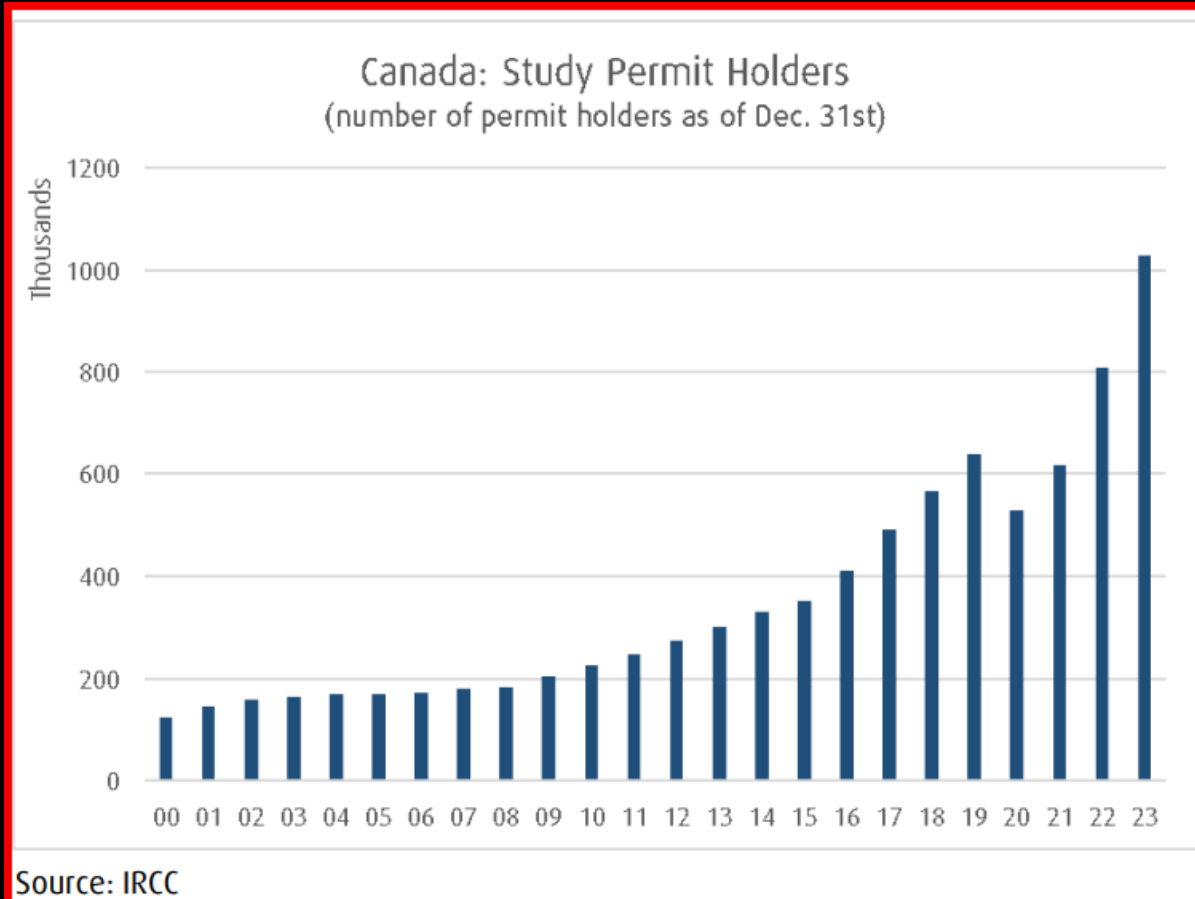
**The government wants it at 5.0% by 2026.**

**Many NPRs will have to leave if they aren't granted permanent residency**

**But the target for new permanent residents has been cut as well.**



# ALREADY CAPPING STUDENT PERMITS AT 364K A YEAR



Down from over 1 million foreign student permits issued last year

*Will they do this? What will the fallout be—unintended consequences?*




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THIS DOESN'T ADD UP?







**An estimated 1.26 million people will  
have expired temporary residency  
permits in 2025**





# Mass Deportations In Canada?...It's already difficult to track down failed refugee claimants

The refugee board already has 250K pending claims in the system

The law should be changed to issue removal orders automatically as soon as permits expire.

Would preclude migrants from becoming asylum seekers.

3,650 removal orders have been issued this year.



# WHAT ABOUT LABOUR SHORTAGES IN THE TRADES AND IN HEALTHCARE?

Seasonal  
Workers?

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



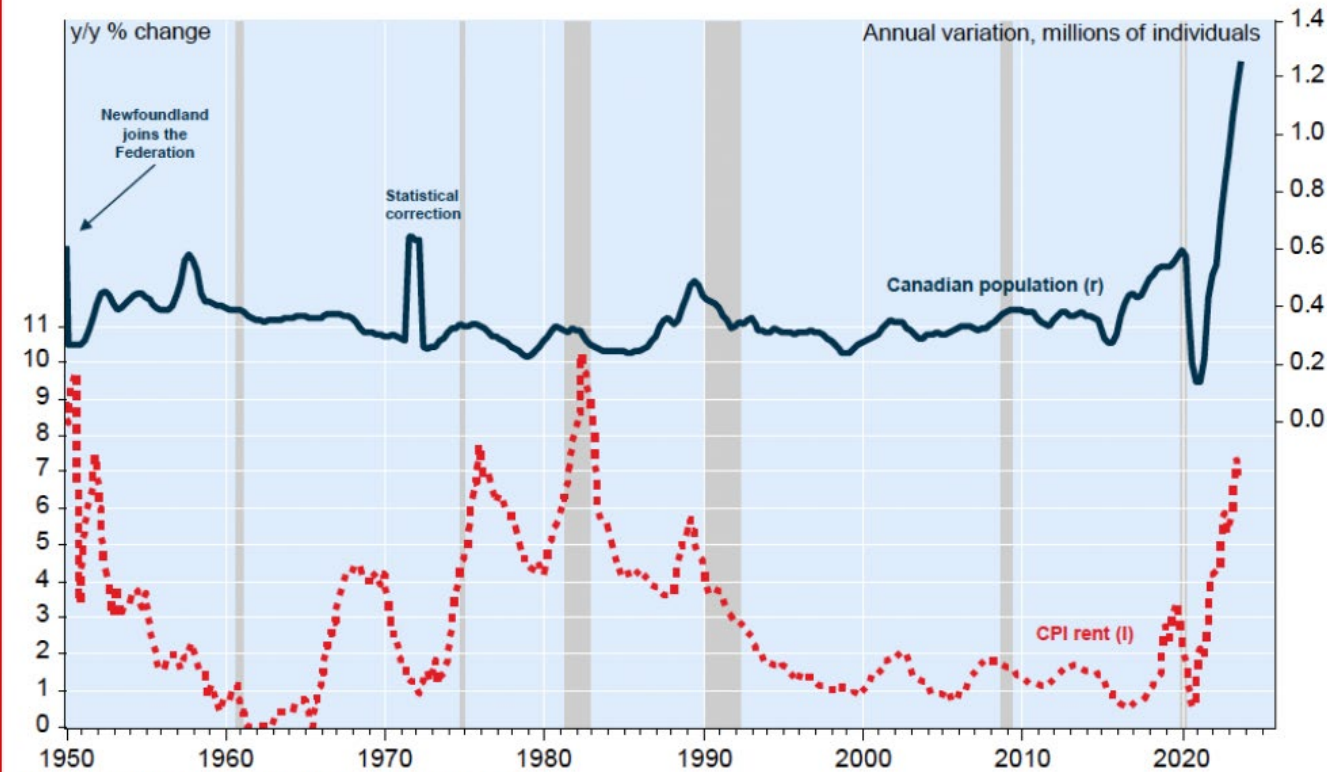
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# IMMIGRATION ACCELERATED RENT INFLATION

## Canada: Population boom keeps inflation resilient

Annual growth in total population and rent component in CPI



NBF Economics and Strategy (data via Statistics Canada)

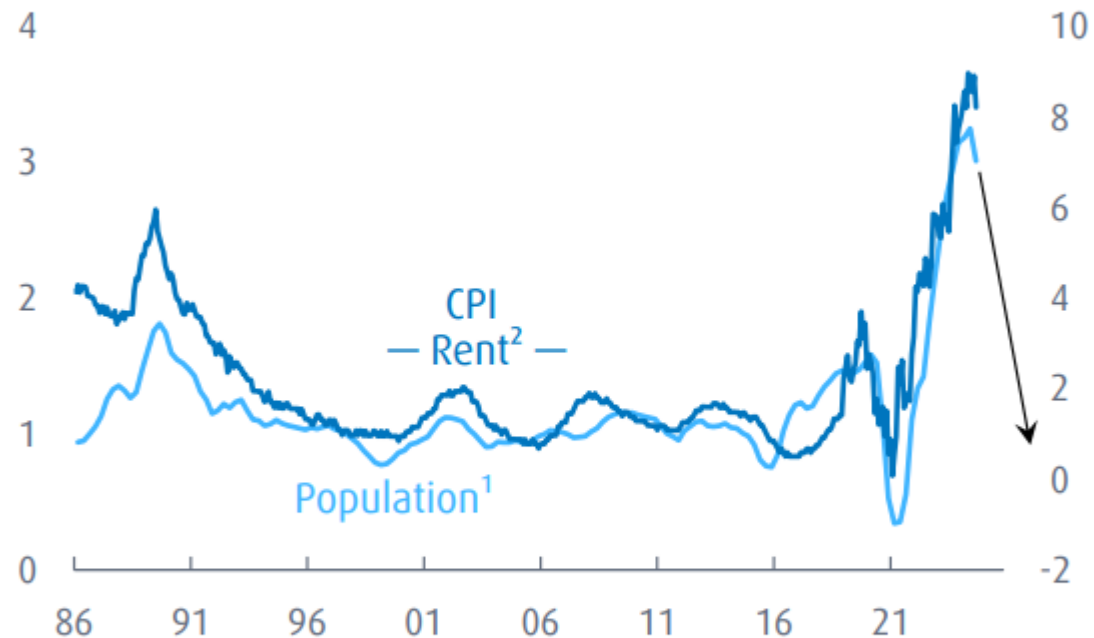
Source: National Bank Financial

Courtesy of Mortgage Logic News

# DOES THIS WORK IN REVERSE?

## Peak Rent

Canada (y/y % chng)



Sources: BMO Economics, Haver Analytics, Statistics Canada <sup>1</sup> (lhs); <sup>2</sup> (rhs)



**NOW  
WHA?**

**NOW  
WHAT?**





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