

Descending from peak rates: What's next for the economy and housing markets?

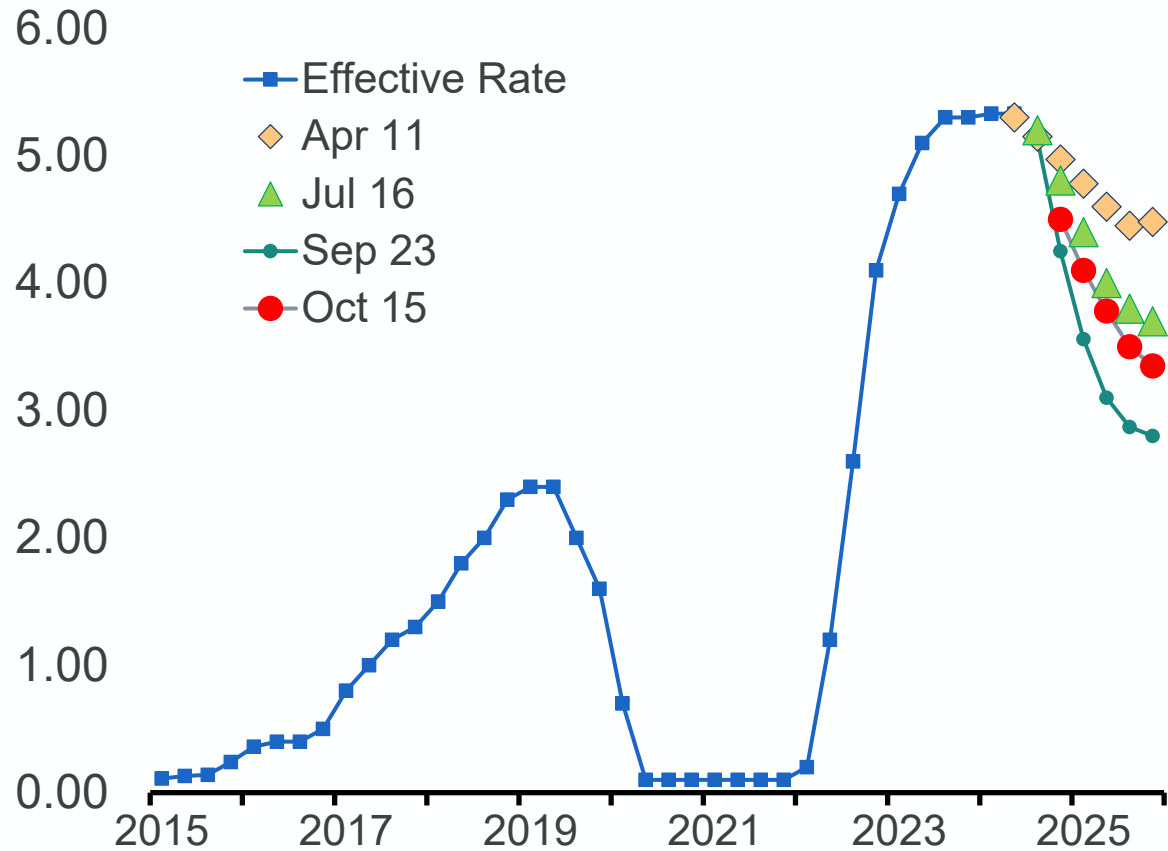
Bryan Yu
AVP & Chief Economist
Central 1

Today

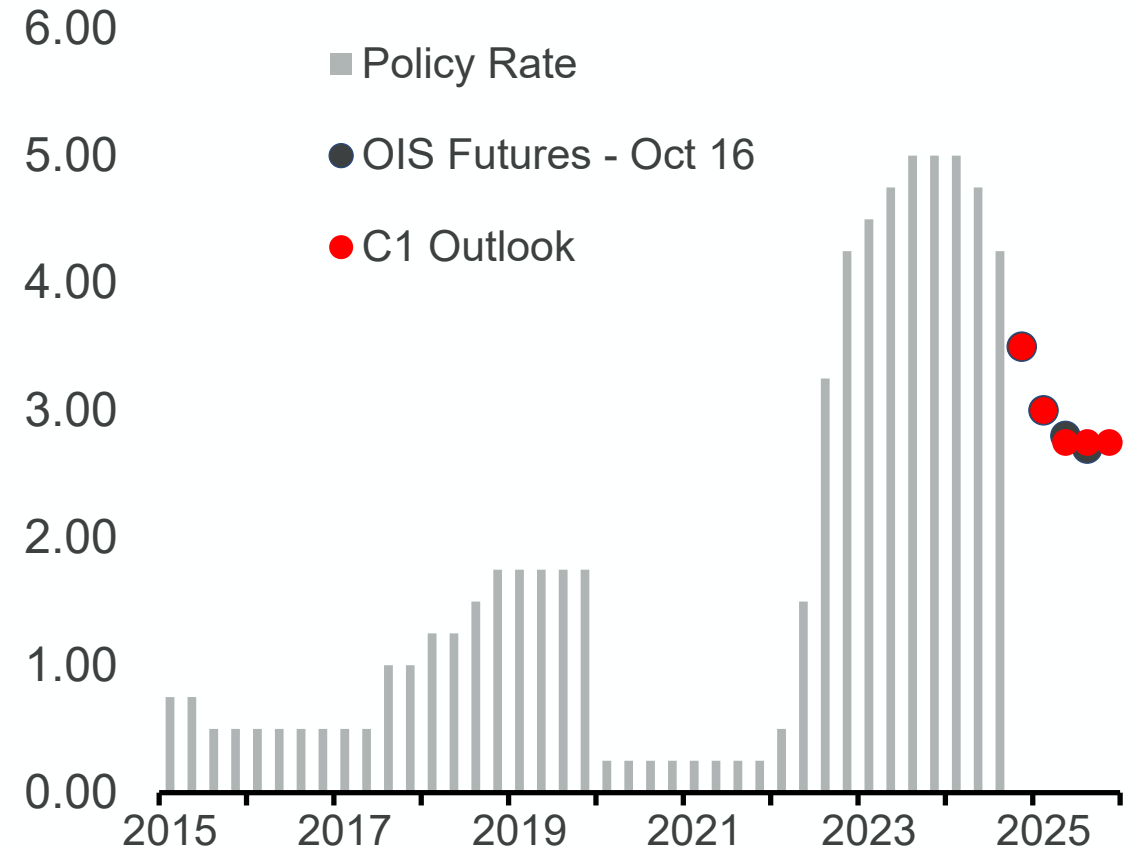
- From Slow to Fast, Turning the dial on Interest Rates
- Fairytale soft landing or recession turn?
- Re-awakening the housing market
- Credit Unions

How fast can we slash and how low can we go?

Effective federal funds rate, CME Futures Settlement

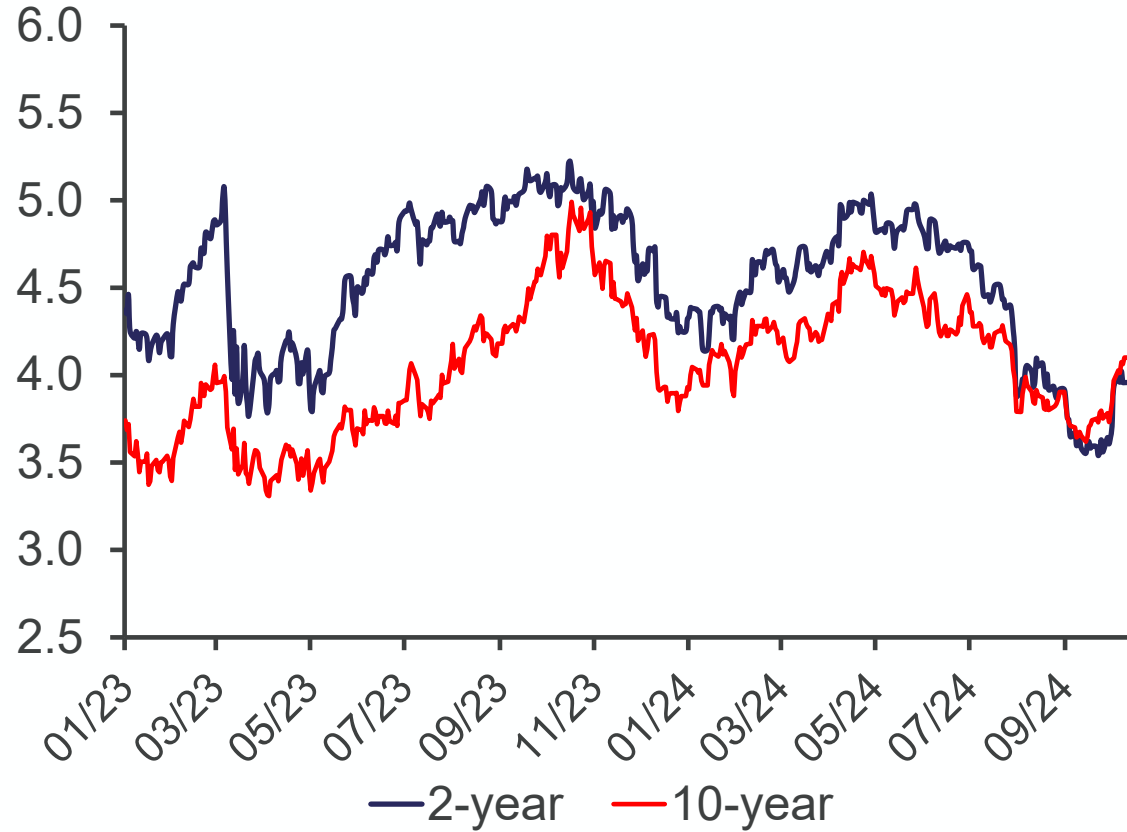


Bank of Canada Target Overnight Rate

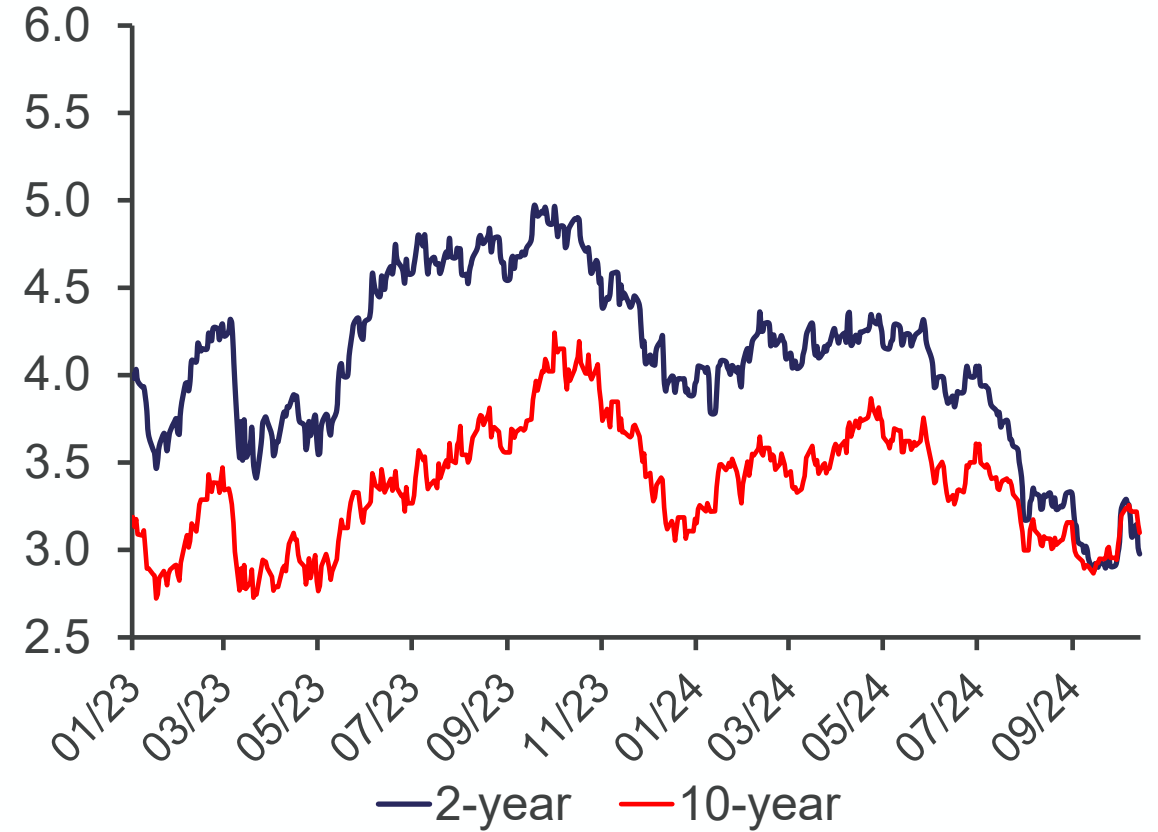


Yield curve inversion comes to a close

U.S. Treasuries, Per cent

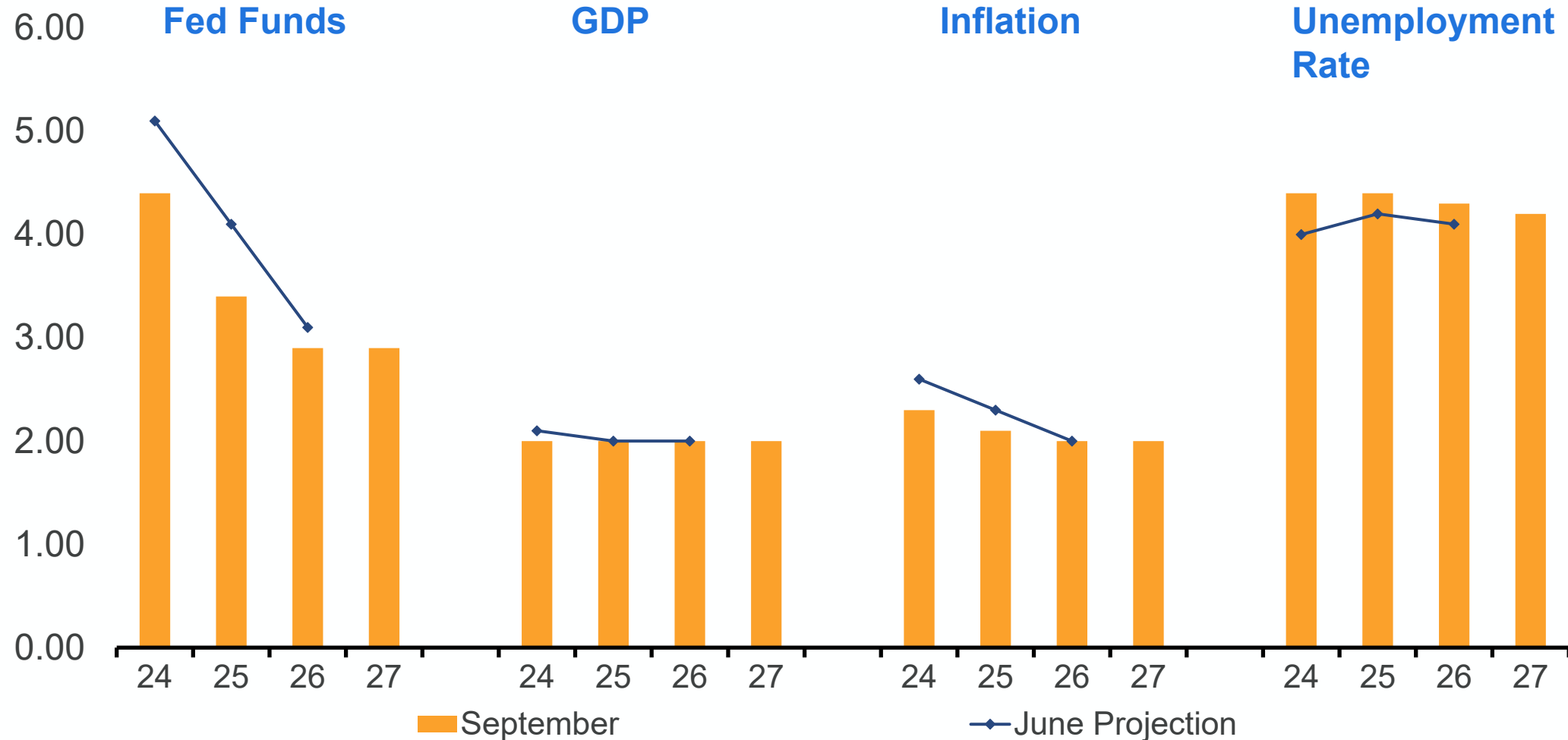


Canada Bond yield, Per cent



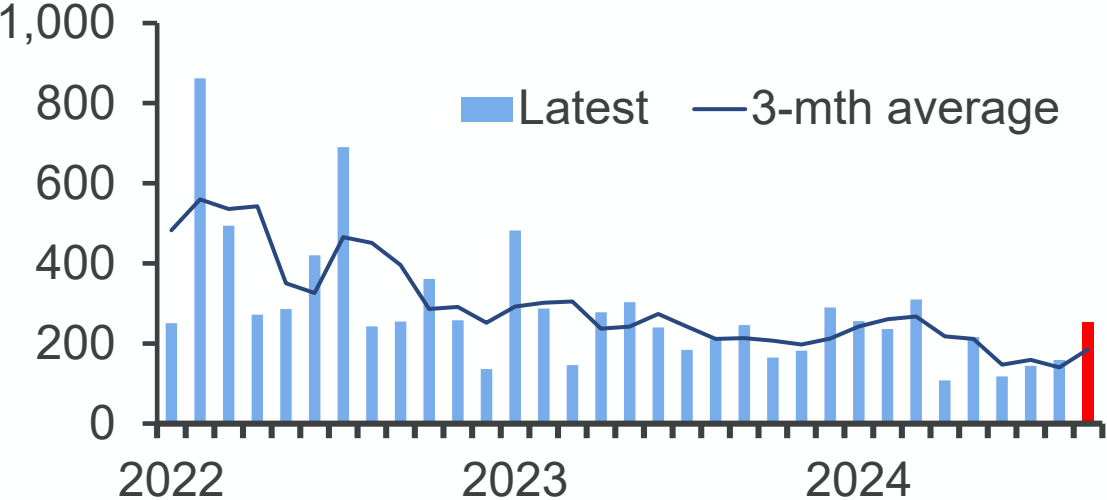
U.S. Fed targets the soft landing

US FOMC mid-point projections

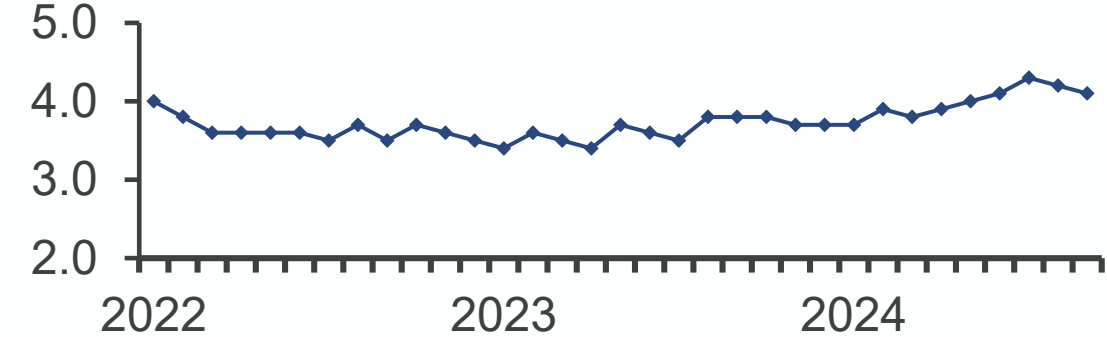


U.S. economy shows it still has legs, limits cuts

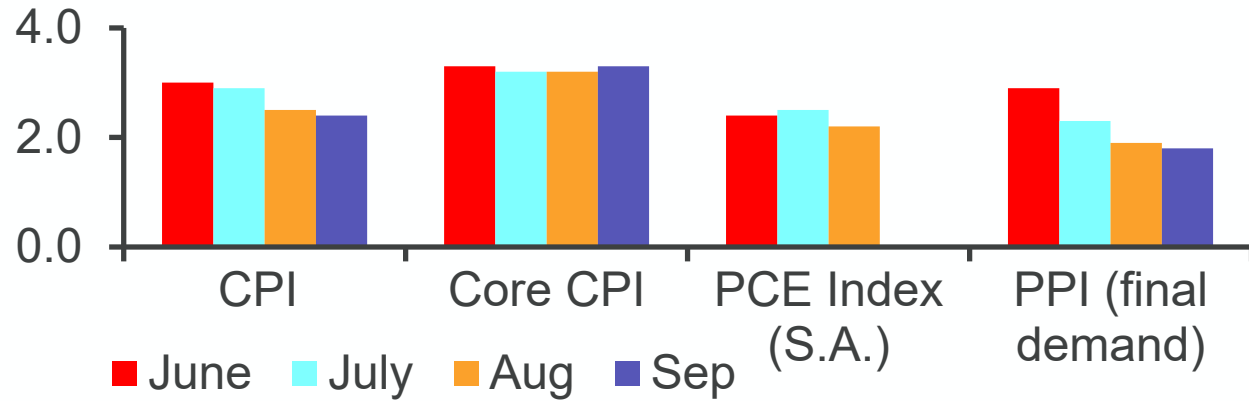
Non-farm payrolls, m/m change



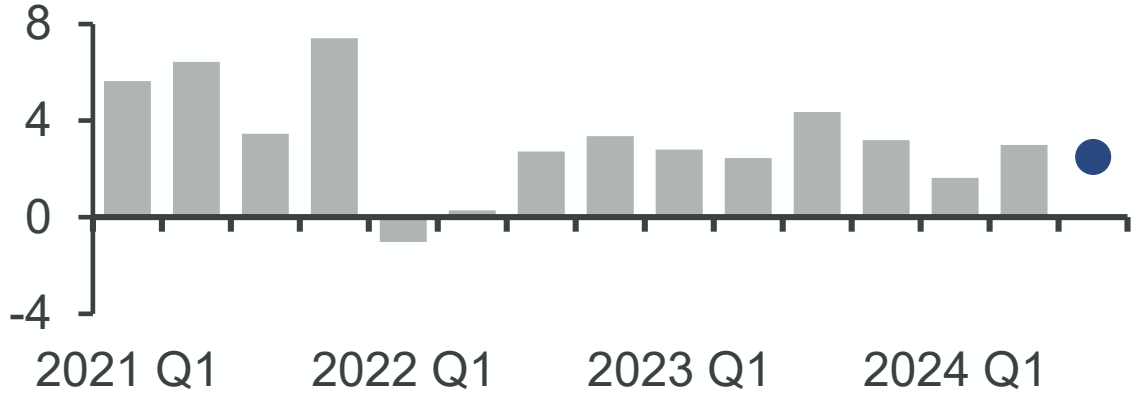
Unemployment rate



Inflation measures



GDP, annualized quarterly change

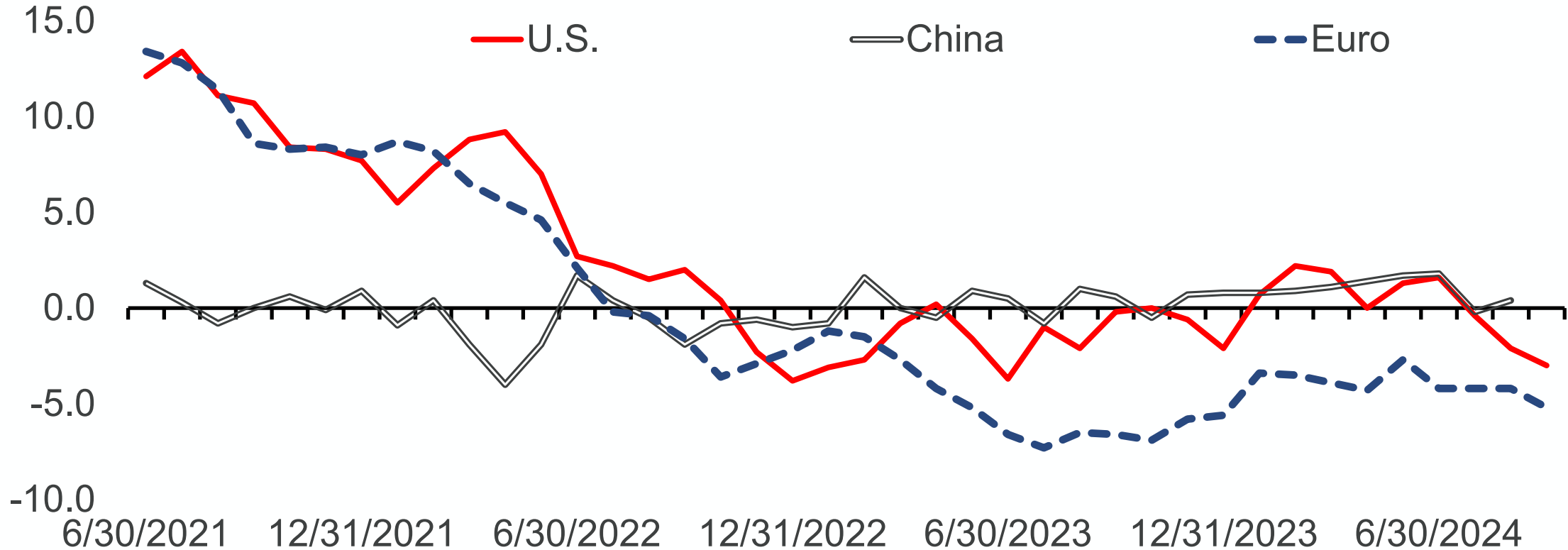


Source: BEA, Central 1



Global growth trends are weak

Manufacturing Purchasing Managers' Indices,
Composite, Deviation from 50

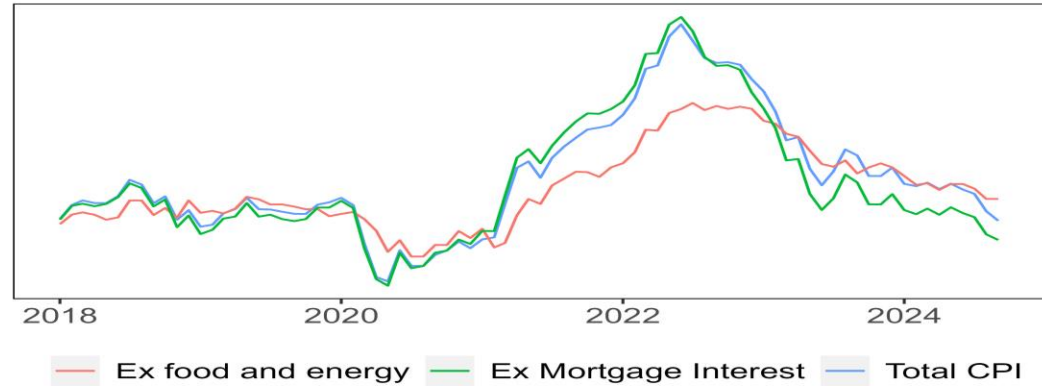


From too hot, to too cold... inflation sinks to 1.6%

Key Indicators

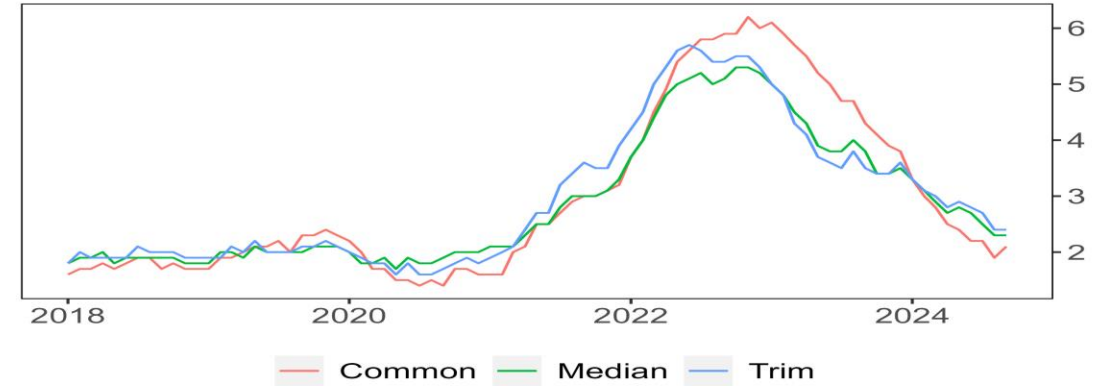
CPI Inflation, y/y % change

Last data point: 2024-09-01



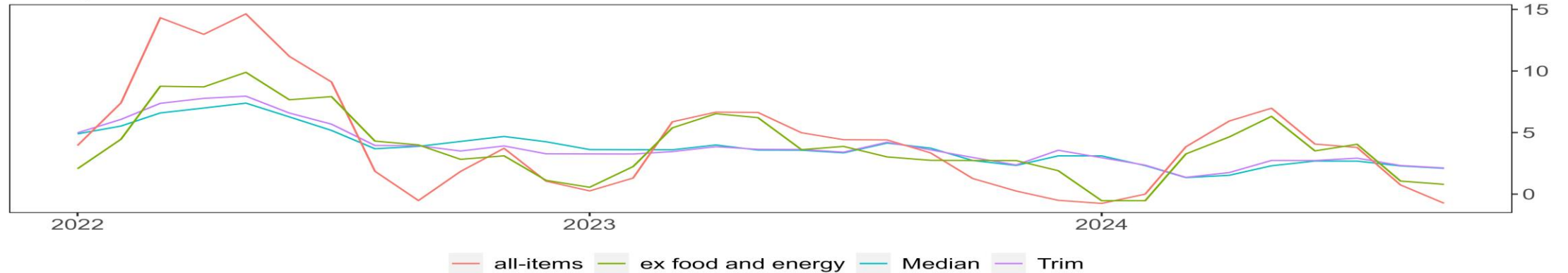
Bank of Canada Core Inflation, y/y % change

Last data point: 2024-09-01



3m annualized inflation, s.a. % change

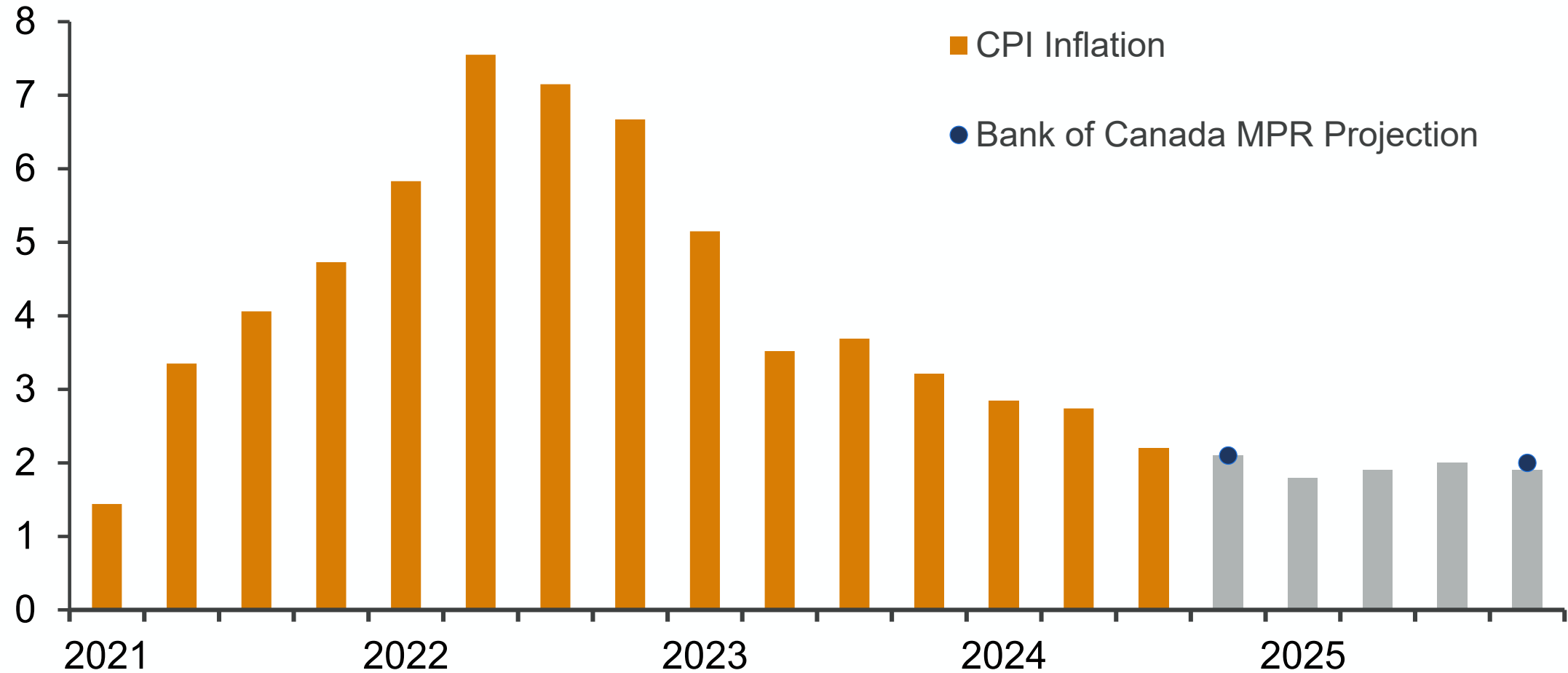
Last data point: 2024-09-01



Statistics Canada, Central 1

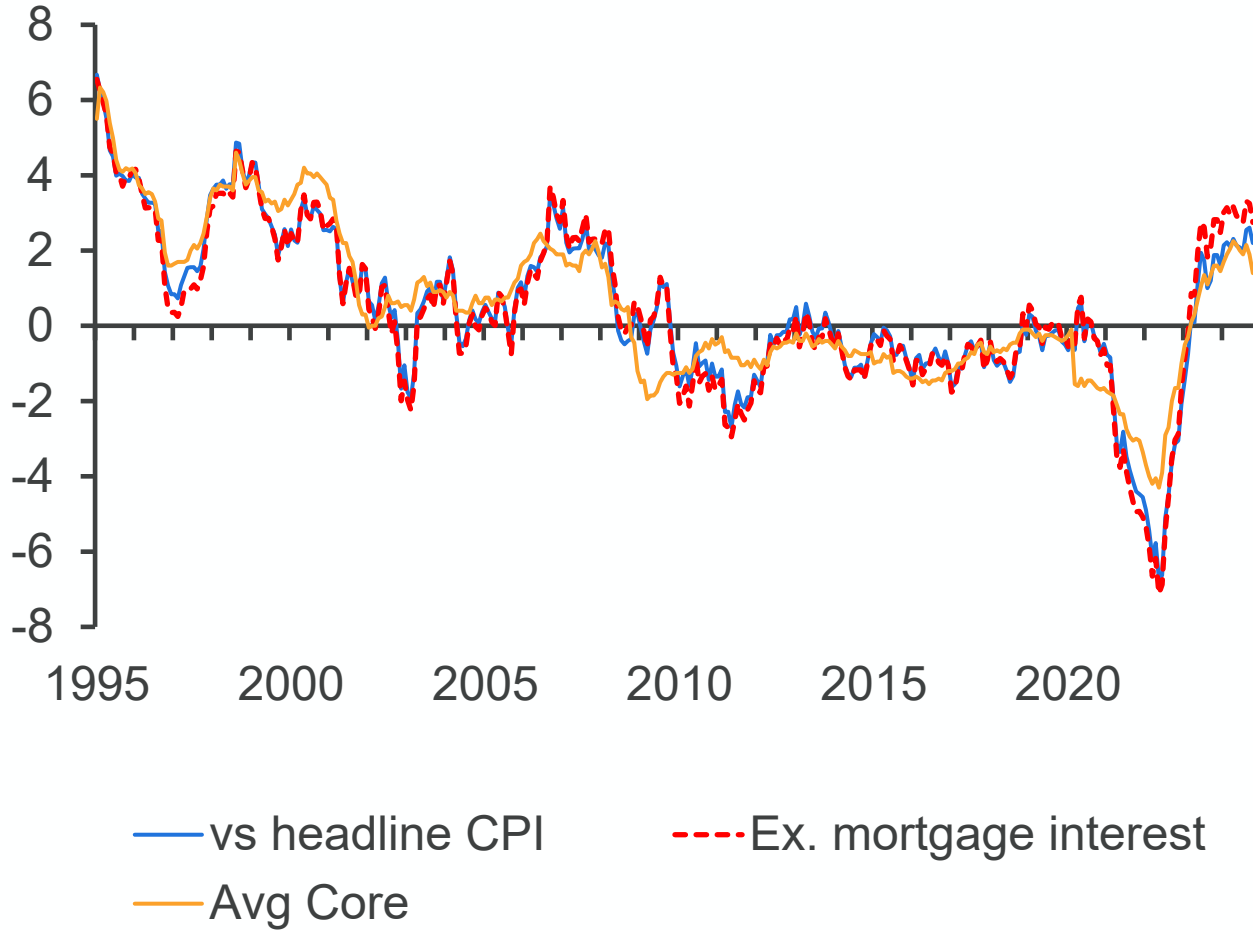
Bank of Canada sees balanced inflation risks

Inflation, y/y % change

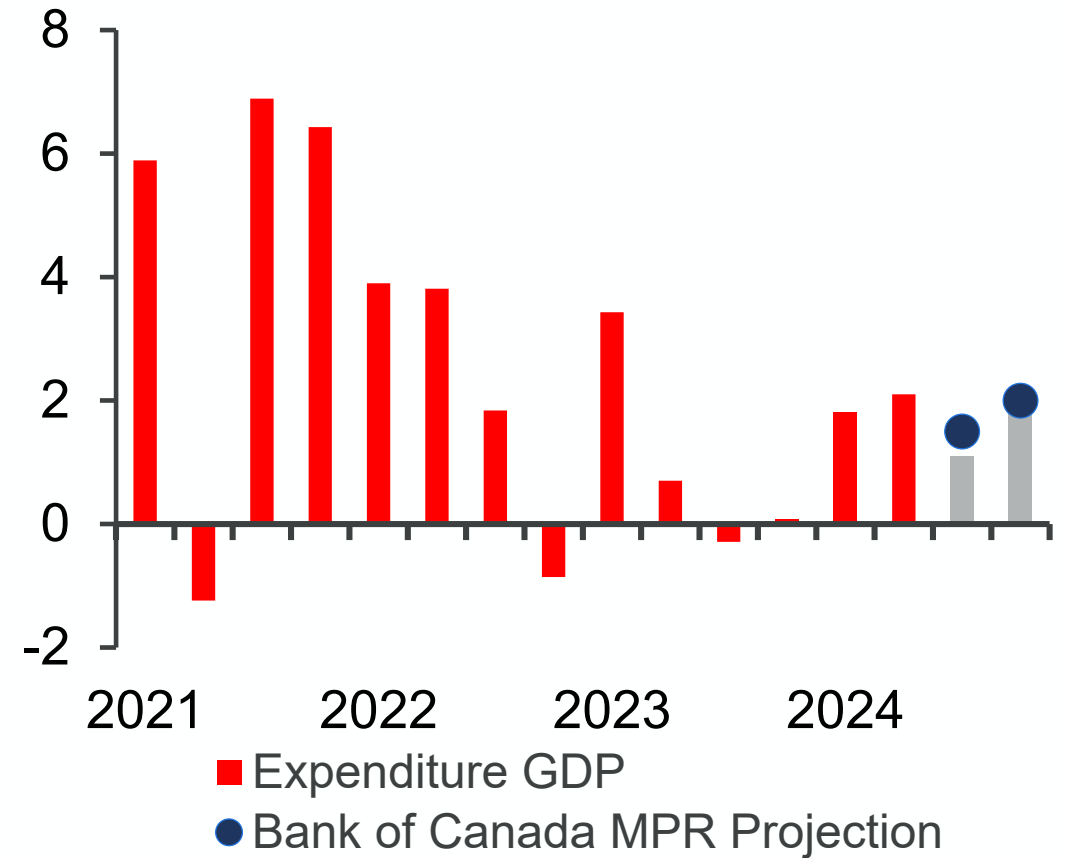


Real interest rates highest since '07, eyes on economy and labour markets

Real interest rate, trailing CPI



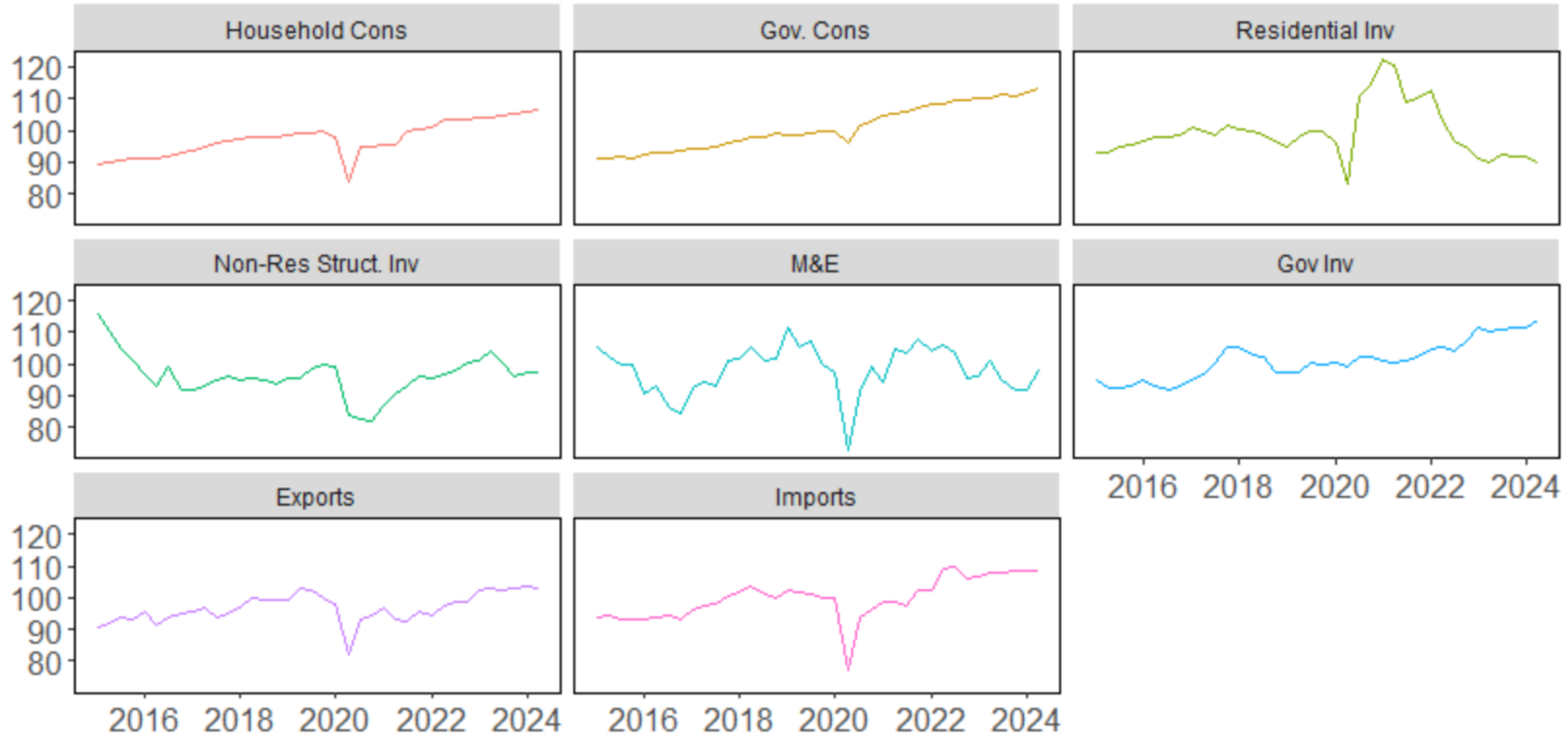
Expenditure GDP, % ch annualized



Growth in consumption, government

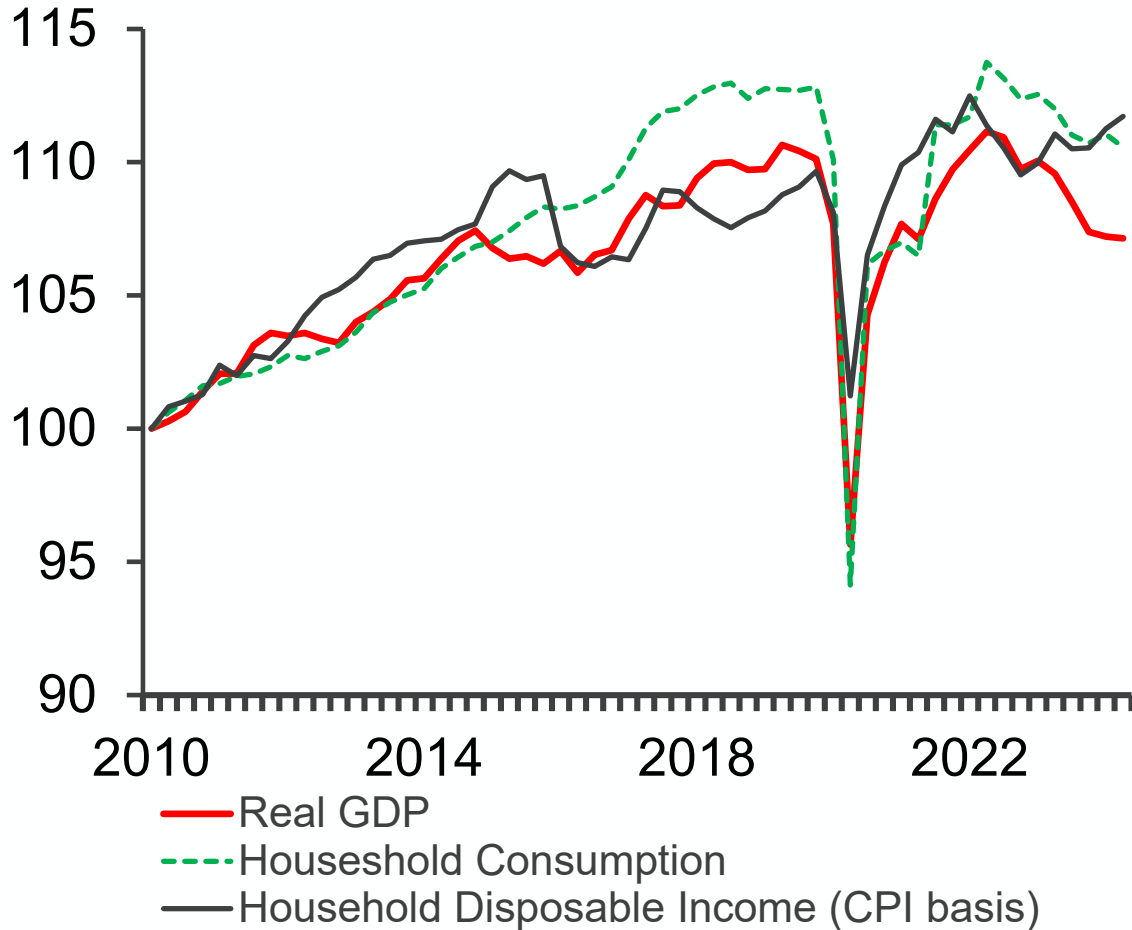
GDP By Expenditure, SAAR, Q4/19 = 100

Last data point: 2024-04-01

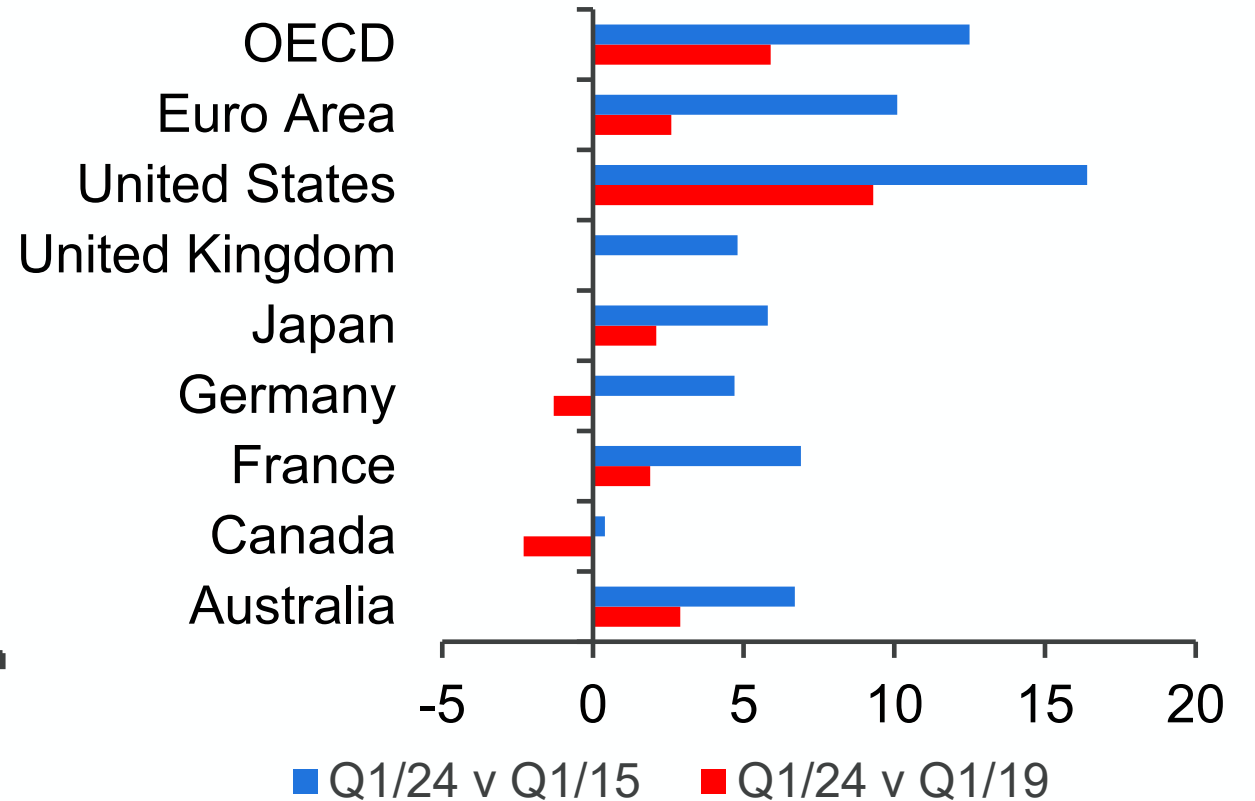


Headline GDP masks slack in the economy and global underperformance

Per Capita measures, 2010 = 100

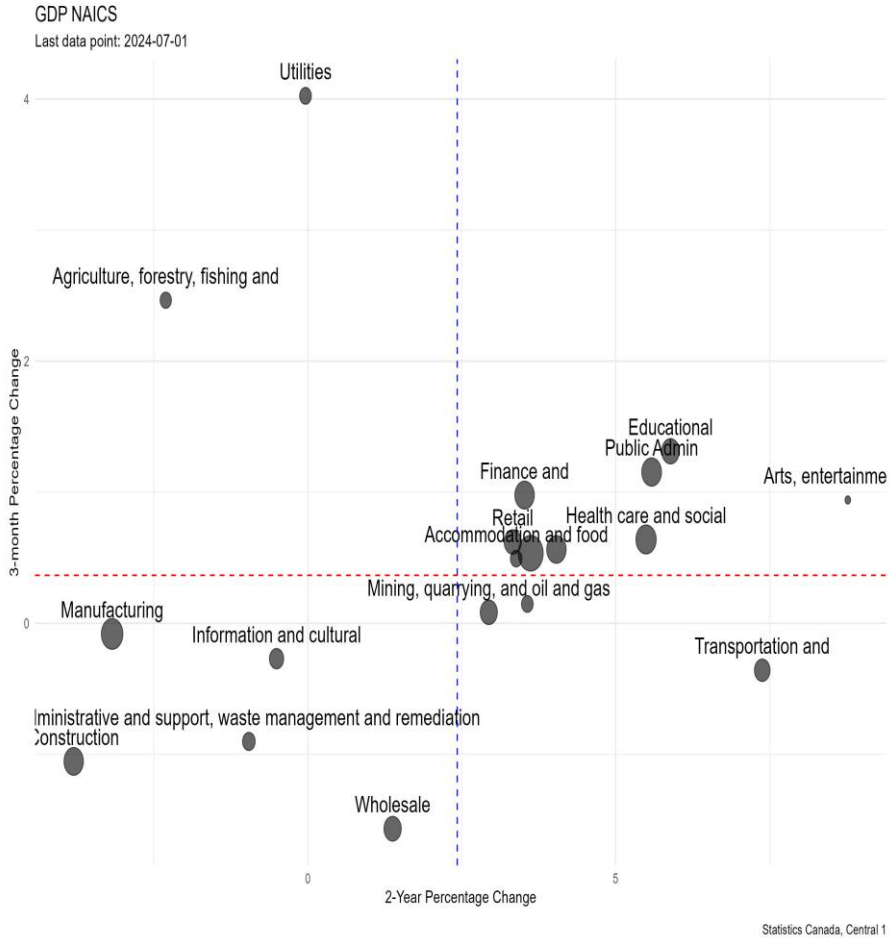


Per Capita GDP , % change

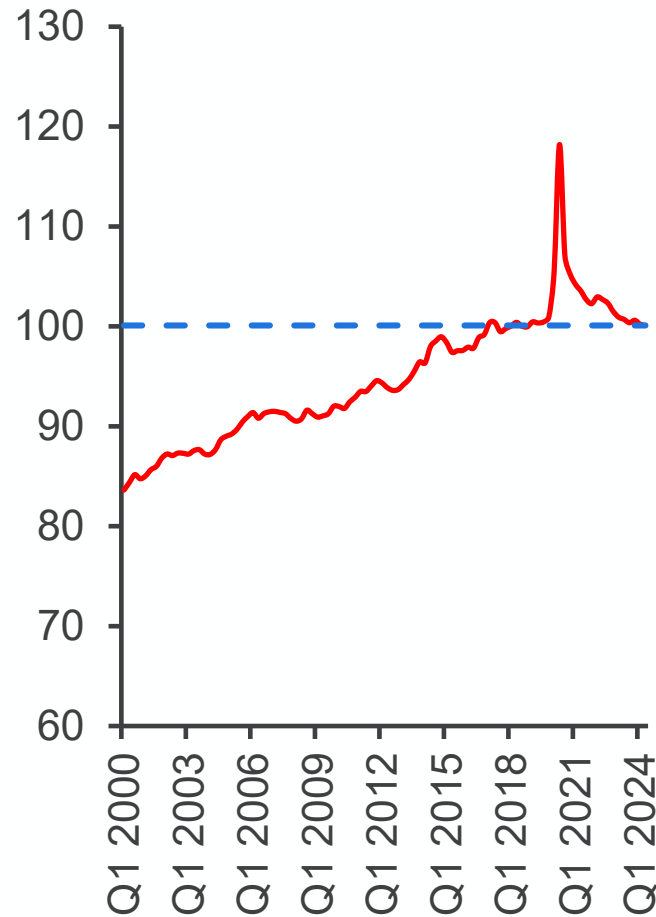


Low growth: Lack of investment and gains in low productivity sectors

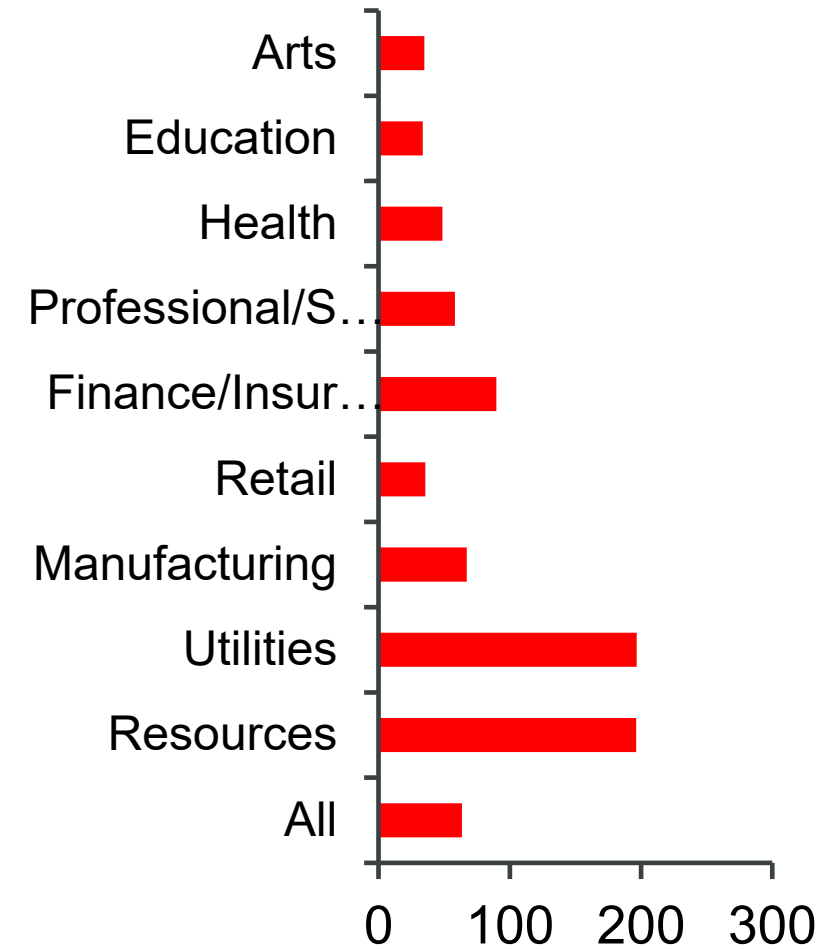
Canada GDP NAICS by Sector



Labour productivity, index



Productivity, GDP \$/hour

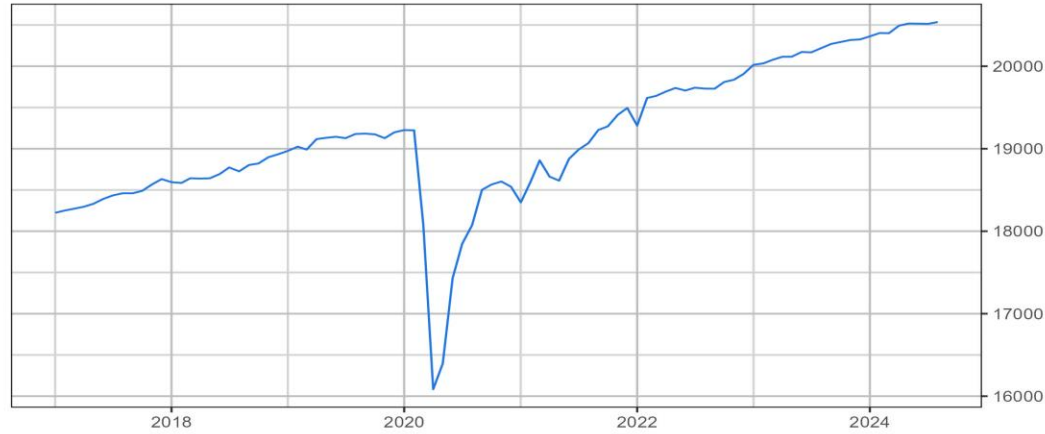


Labour market slack on the rise

Canada Labour Market Indicators

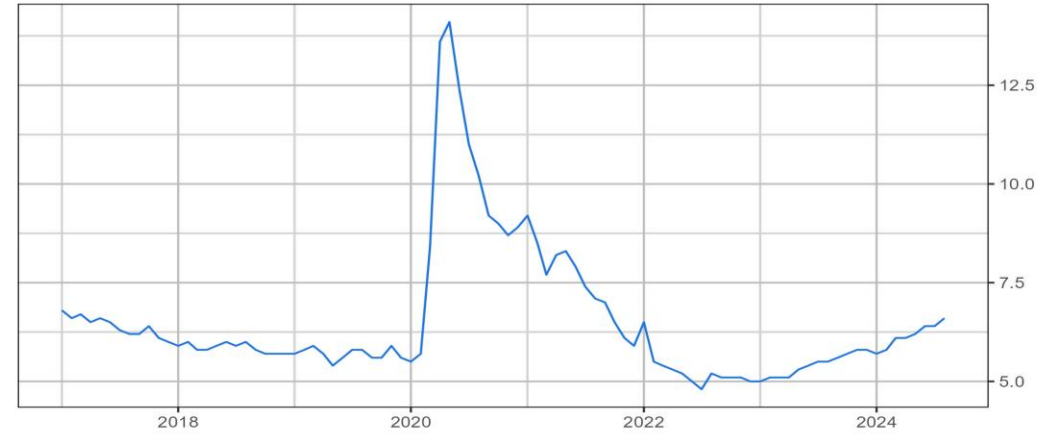
LFS Employment (000s)

Last data point: 2024-08-01



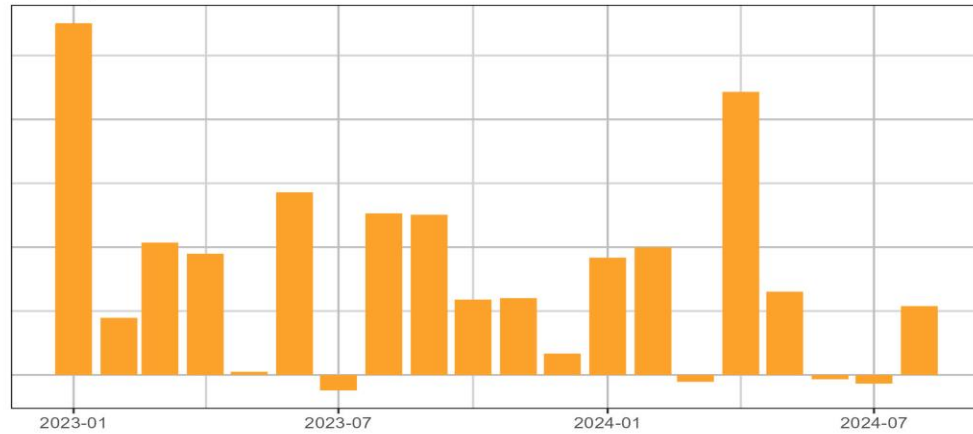
Unemployment rate (%)

Last data point: 2024-08-01



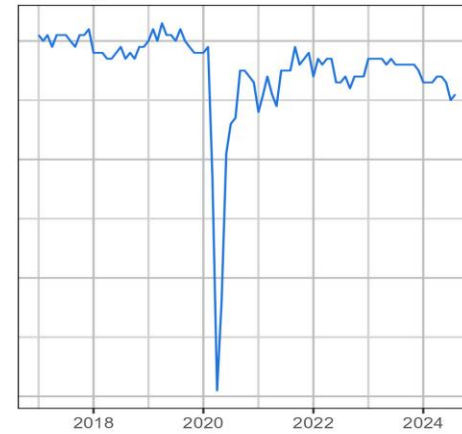
Monthly Employment change (%)

Last data point: 2024-08-01



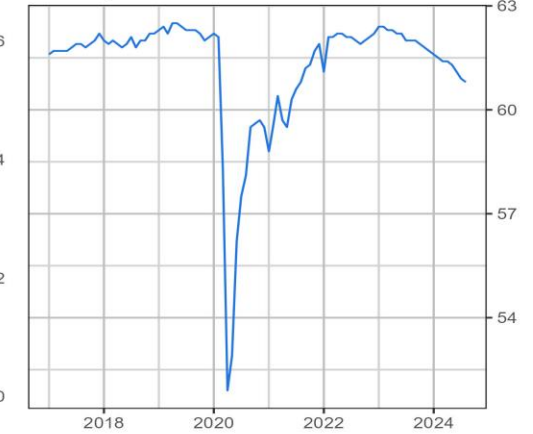
Participation rate (%)

Last data point: 2024-08-01



Employment rate (%)

Last data point: 2024-08-01

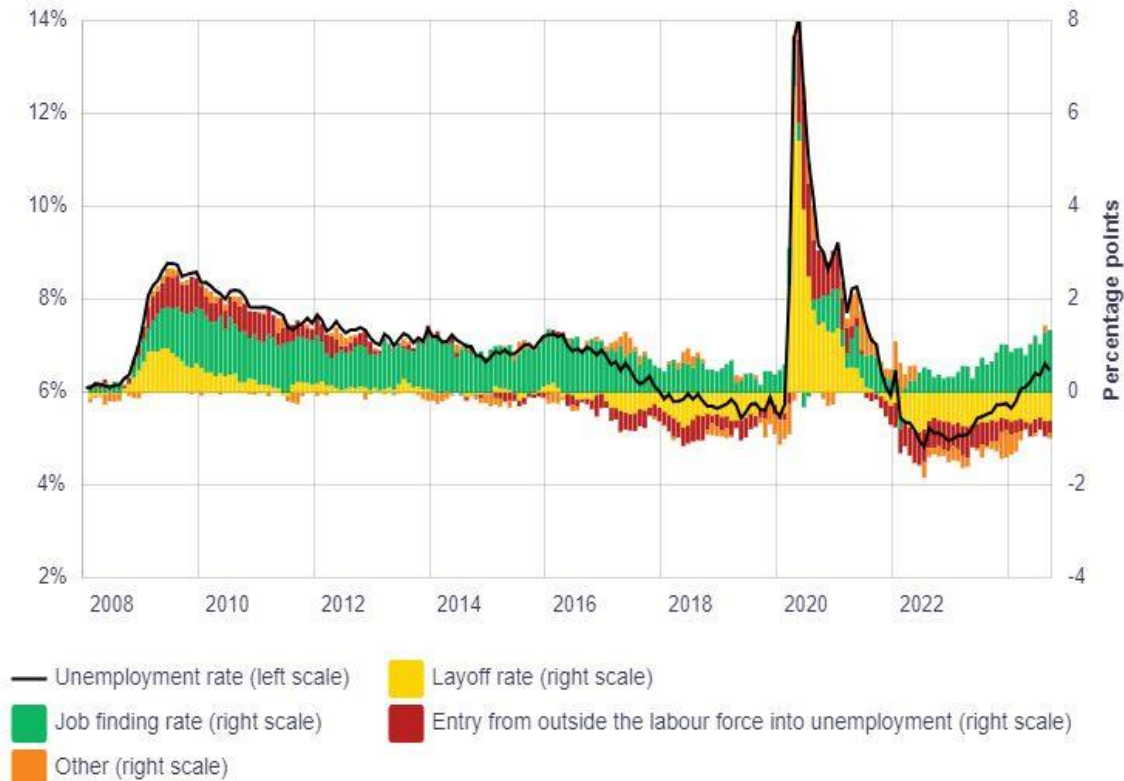


Statistics Canada, Central 1

Bank of Canada: Unemployment rate driven by lack of hiring and less by layoffs

Chart 23: The unemployment rate has risen mainly because jobs are hard to find, but layoffs remain low

Contribution of flows to unemployment rate change since January 2008, monthly data

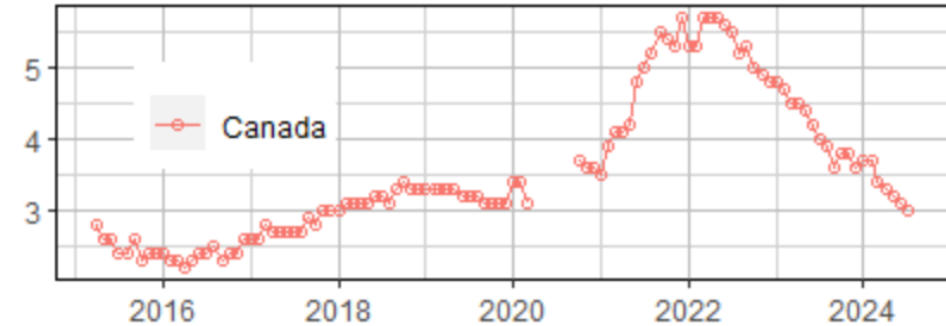


Note: Other refers to all other instances where people can flow in and out of unemployment. For example, this category includes quits and movements of the unemployed out of the labour force.
Sources: Statistics Canada and Bank of Canada calculations
Last observation: September 2024

Canada Wage Pressures

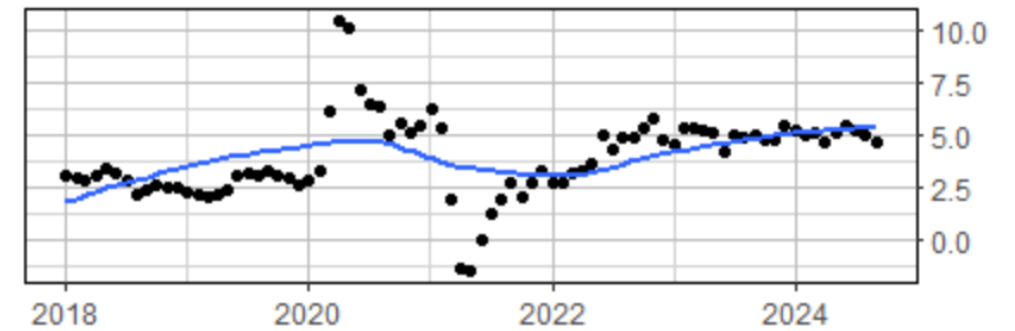
Job Vacancy Rate (%)

Last data point: 2024-07-01



Average wage change y/y (%)

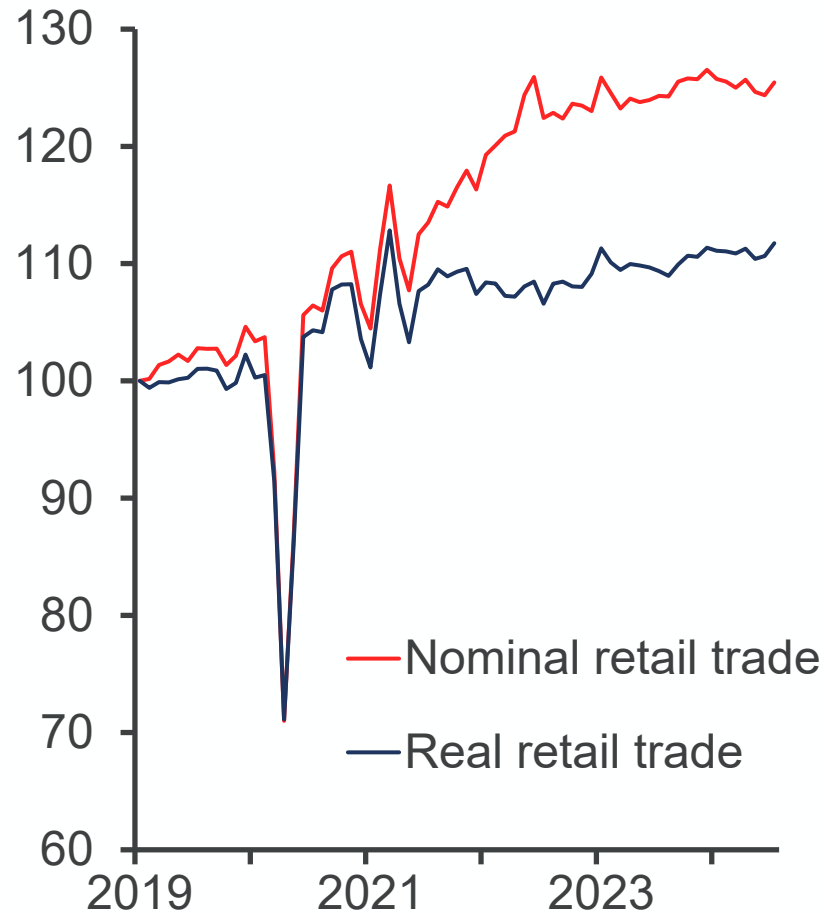
Last data point: 2024-09-01



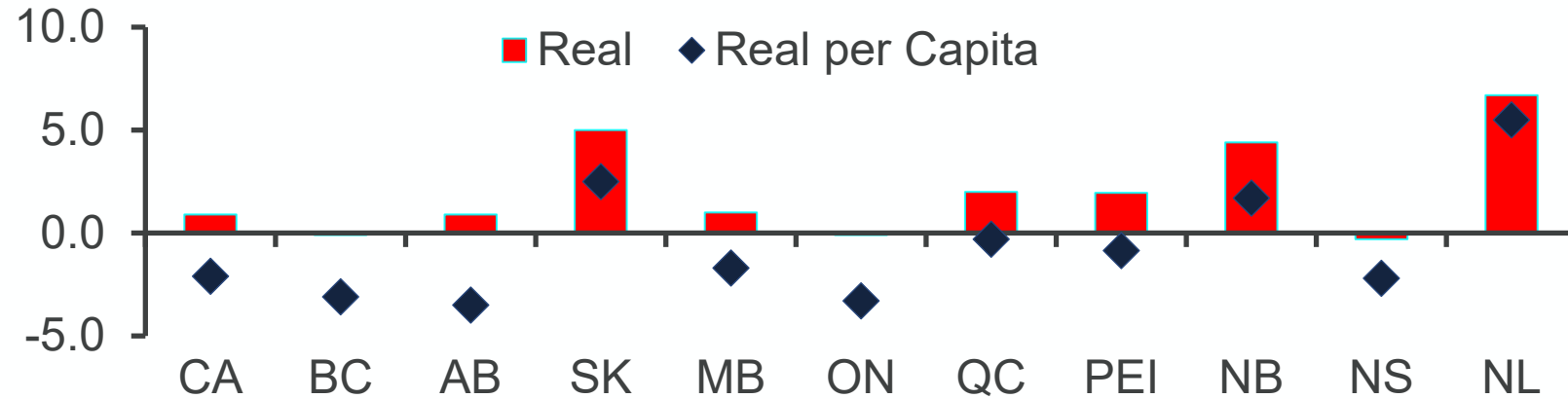
Statistics Canada, Central 1

Retail tells a story, households hunker down

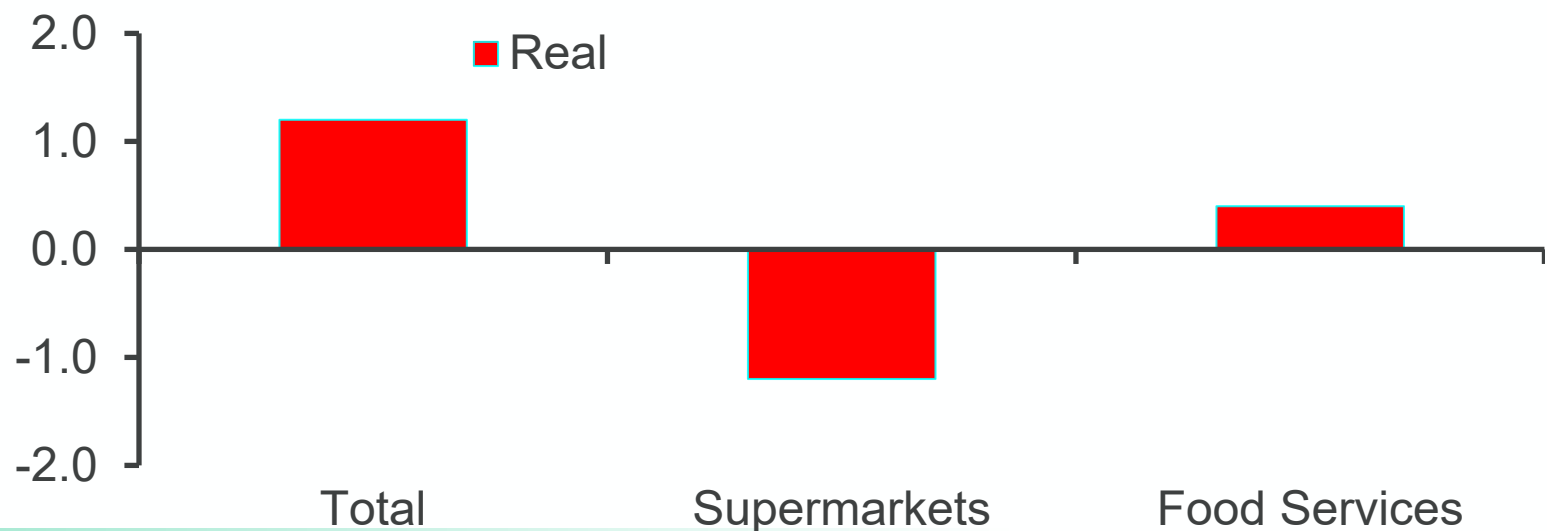
Retail Sales, Jan/20 =100



Retail Sales, Q2 y/y % ch

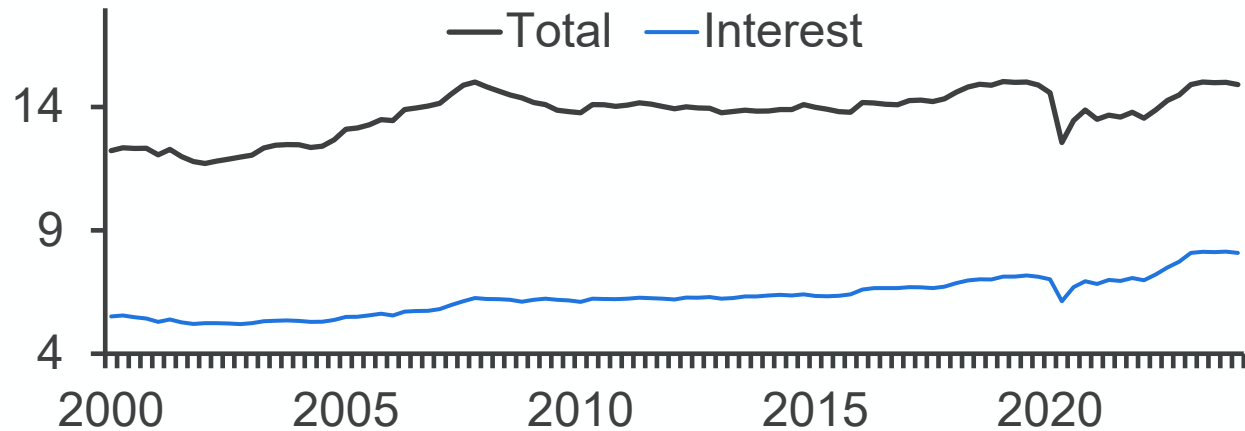


Retail Sales, Q2 y/y % ch



Mortgage renewal shock ongoing

Debt service ratio



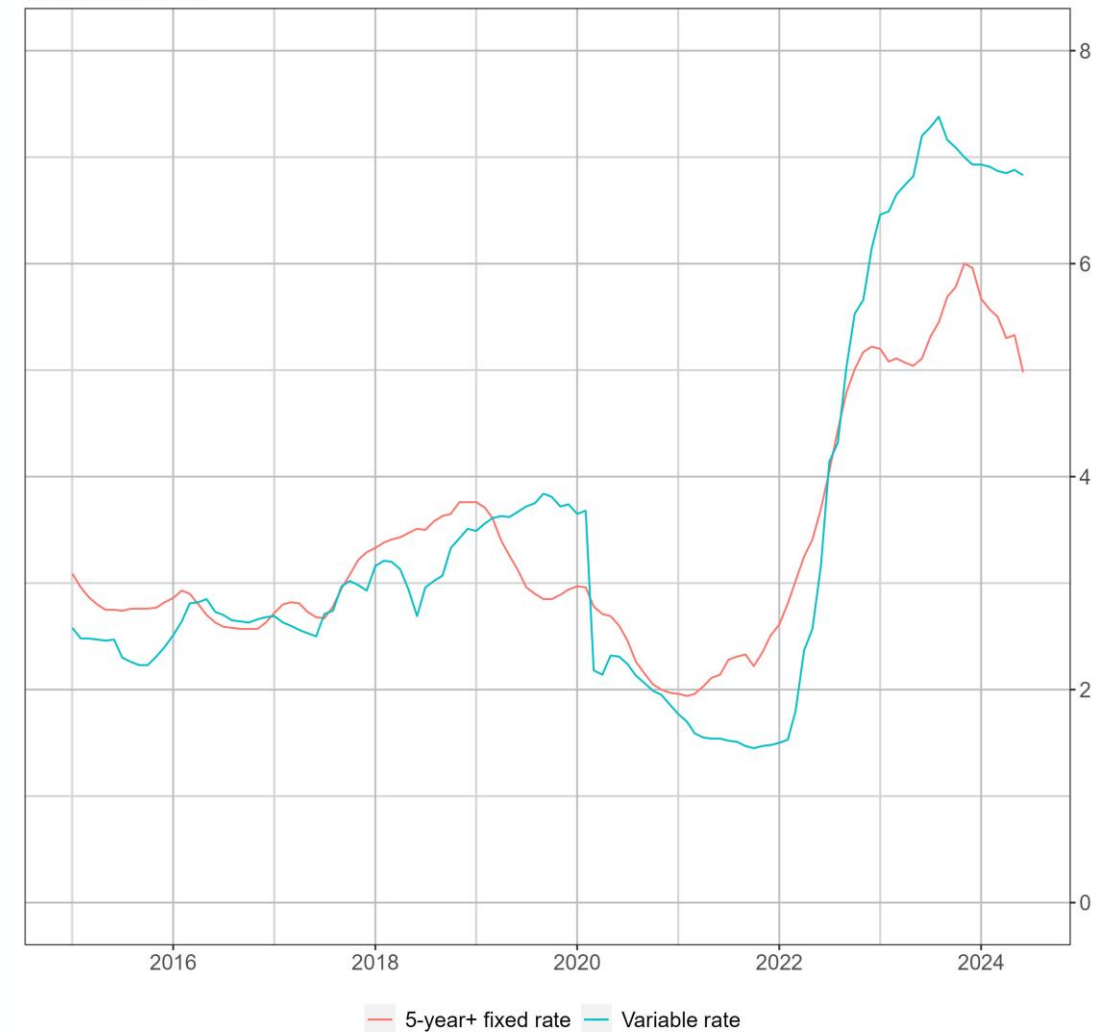
Median % change in mortgage payment v origination

Mortgage Product	Renewal Period			
	2023	2024	2025	2026
All mortgages	21	22	25	32
Variable Rate / Variable Payment	49	43	41	46
Variable Rate / Fixed Payment	34	31	52	62
Fixed Rate / < 5y term	23	25	23	19
Fixed Rate / 5y+ term	15	18	23	26

Bank of Canada Financial Stability Review, May 2024

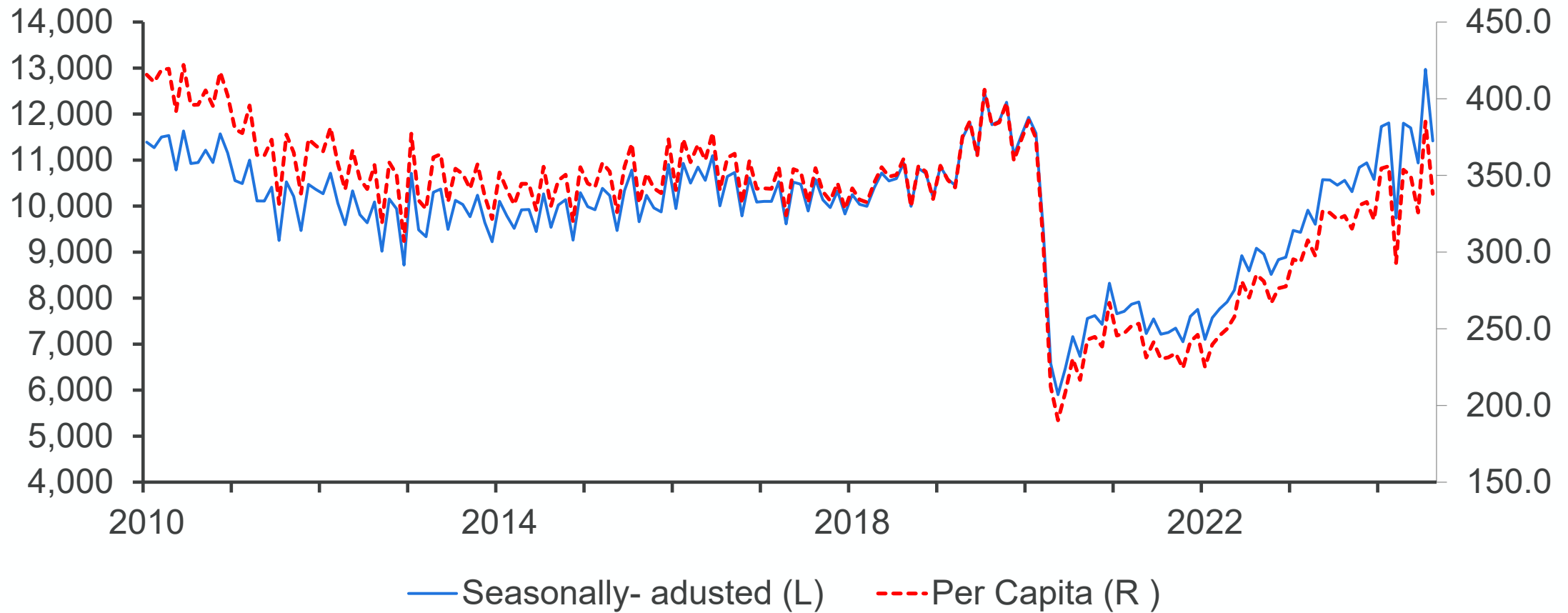
Interest rate on uninsured loans

Last data point: 2024-06-01



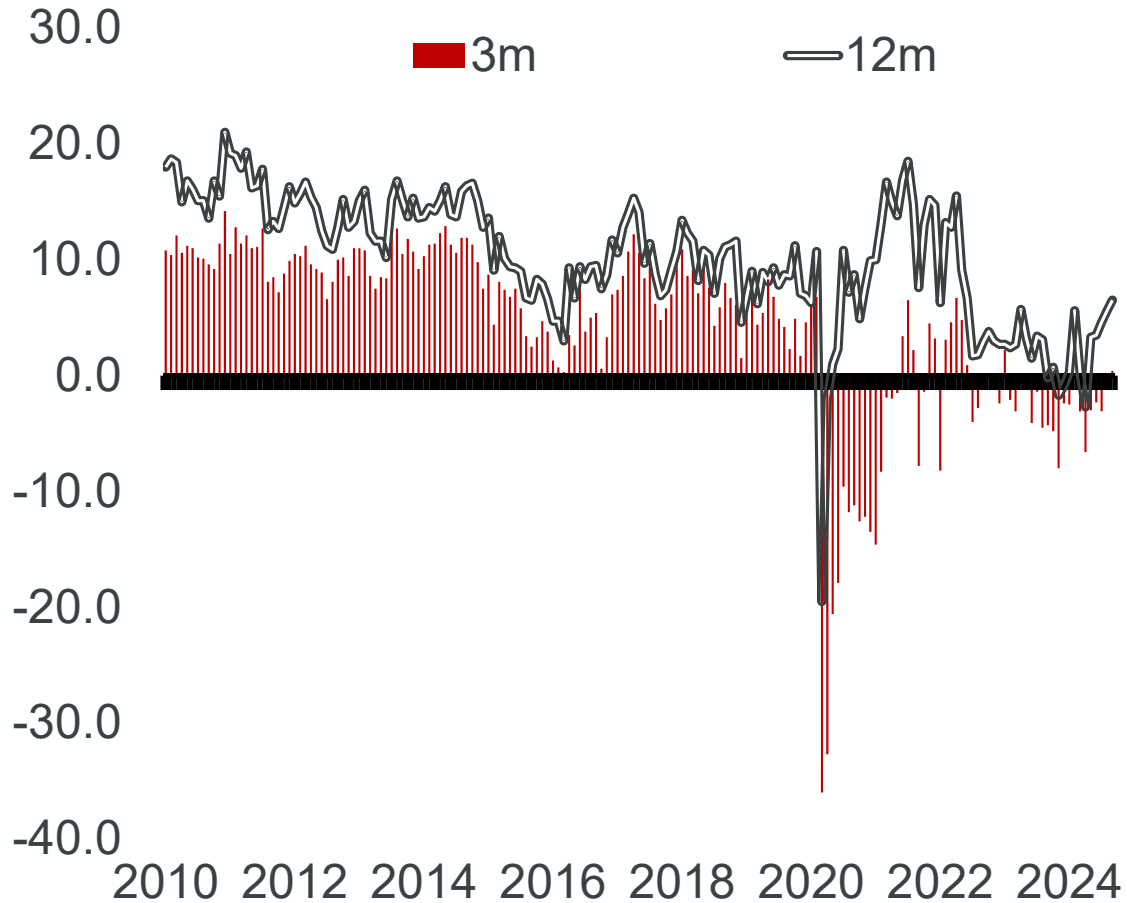
Canadian insolvencies return to pre-pandemic levels, but are not excessive

Insolvencies per capita (/000)



Consistent theme of short term pain, longer term optimism

CFIB Business Barometer, Deviation from 50



CFIB, September

- Net full-time hiring plans negative for first time since November 2023
- Average 12-month wage plans at 2.3%

Canadian Survey on Business Conditions, Q3

12-month optimism

- 75%+ optimistic or highly optimistic
 - Finance/insurance; manufacturing; professional services; healthcare
 - Weaker retail; transportation/warehousing
- Highest among larger businesses (100+ employees)

Short-term obstacles

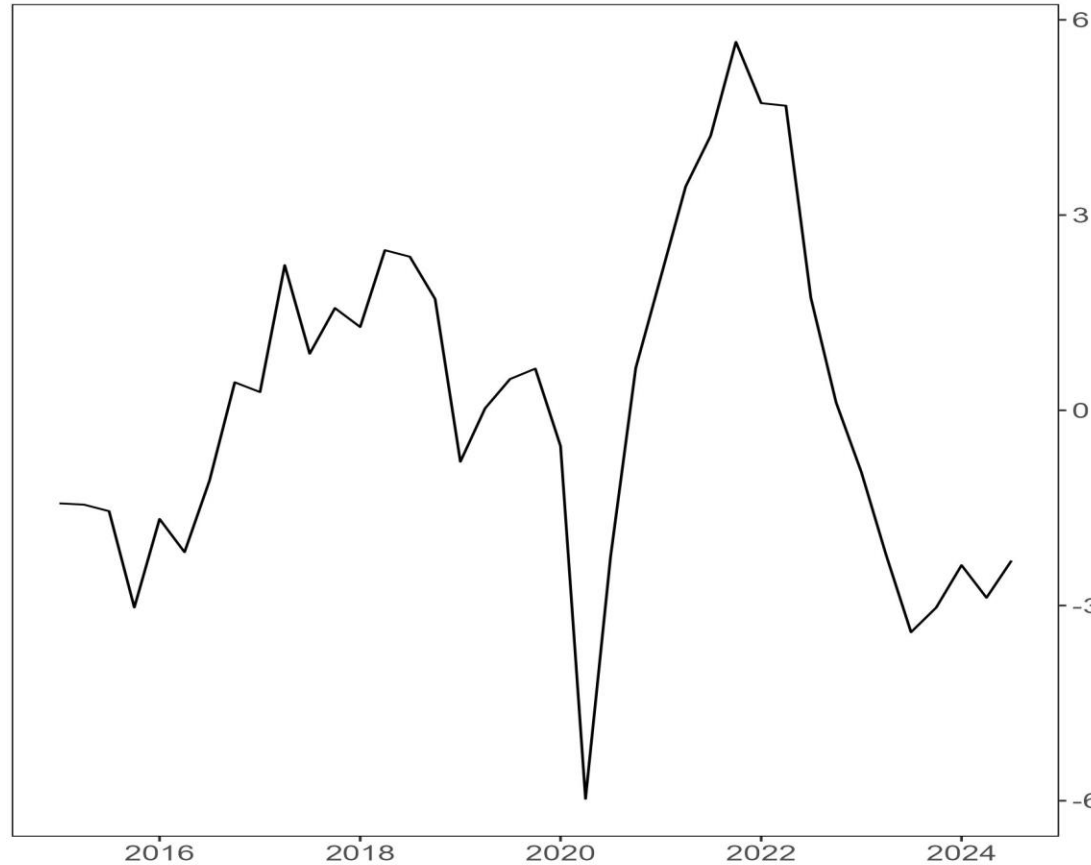
- Skilled employees; input costs; insufficient demand

Q3 Business Outlook Survey: Steady but weak hiring, low wage inflation

Business Outlook Survey

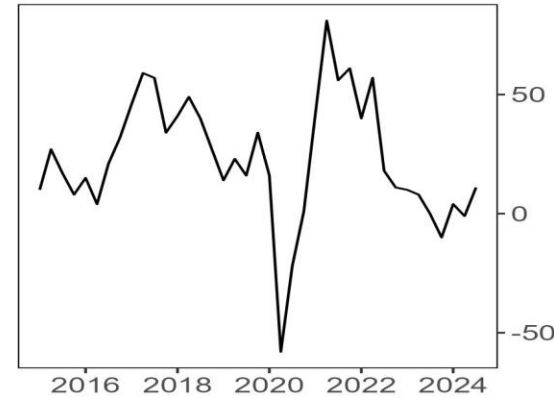
BOS

Last data point: 2024-07-01



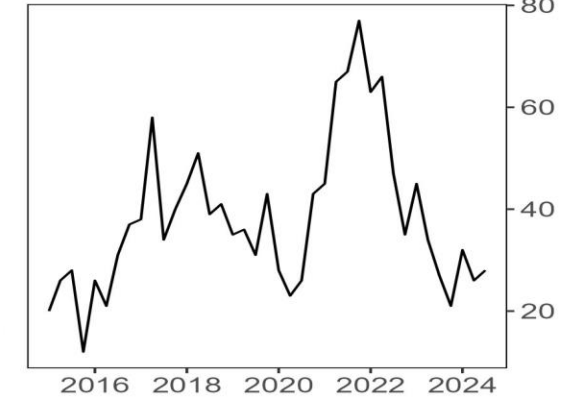
Future Sales, Balance of Opinion

Last data point: 2024-07-01



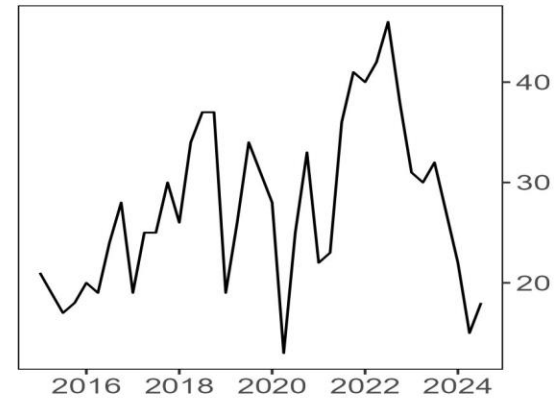
Future Employment, Balance of Opinion

Last data point: 2024-07-01



Labour Shortages

Last data point: 2024-07-01



Average wage growth, %

Last data point: 2024-07-01

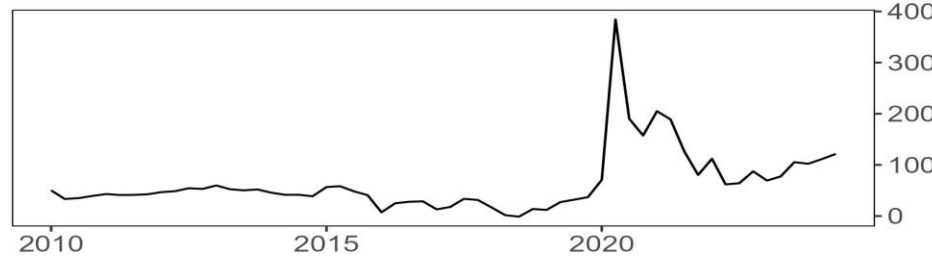


Bank of Canada, Central 1

Savings still higher than normal, deposits elevated

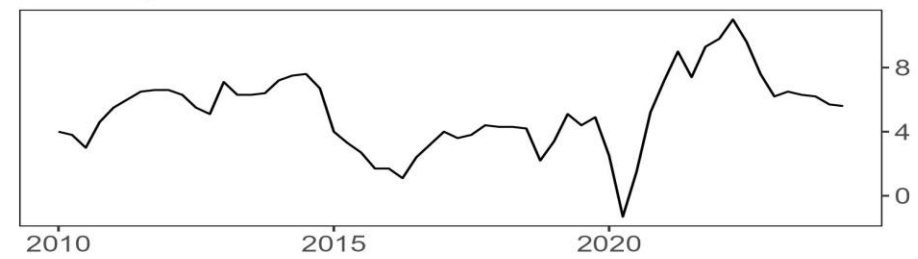
Household Savings, \$bil

Last data point: 2024-04-01



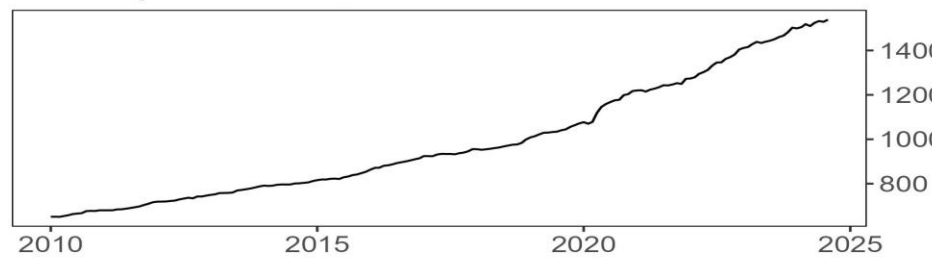
National Savings Rate, %

Last data point: 2024-04-01



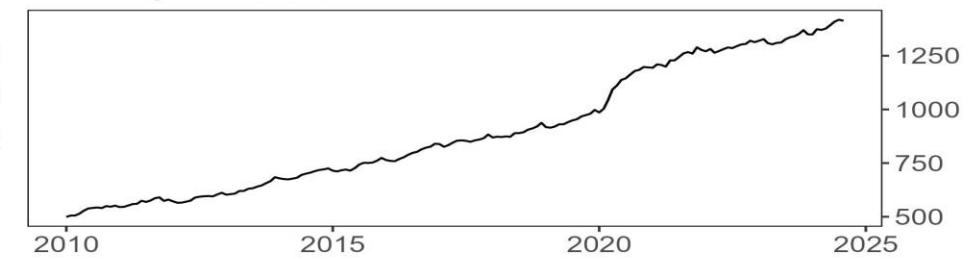
Tot personal Deposits, \$bil

Last data point: 2024-08-01



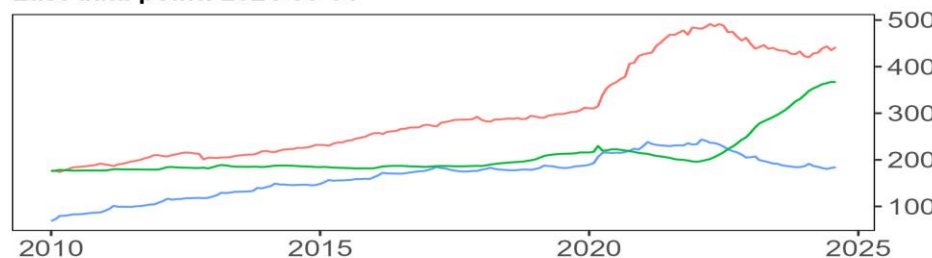
Tot Non-Personal Deposits, \$bil

Last data point: 2024-08-01



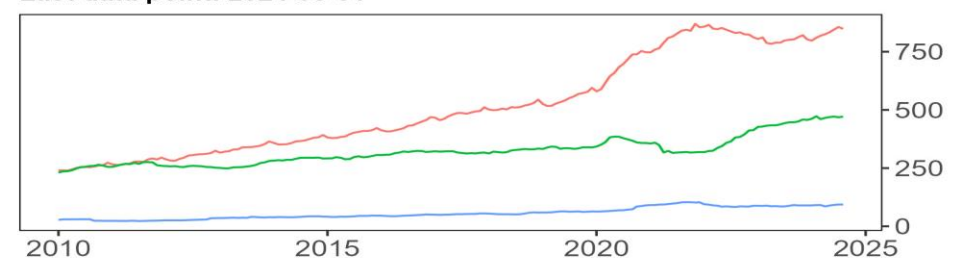
Personal Deposits, Banks, \$bil

Last data point: 2024-08-01



Non- Personal Deposits, Banks, \$bil

Last data point: 2024-08-01



— Chequable Deposits — Fixed Term — Non-Chequable Notice

— Chequable Deposits — Fixed Term — Non-Chequable Notice

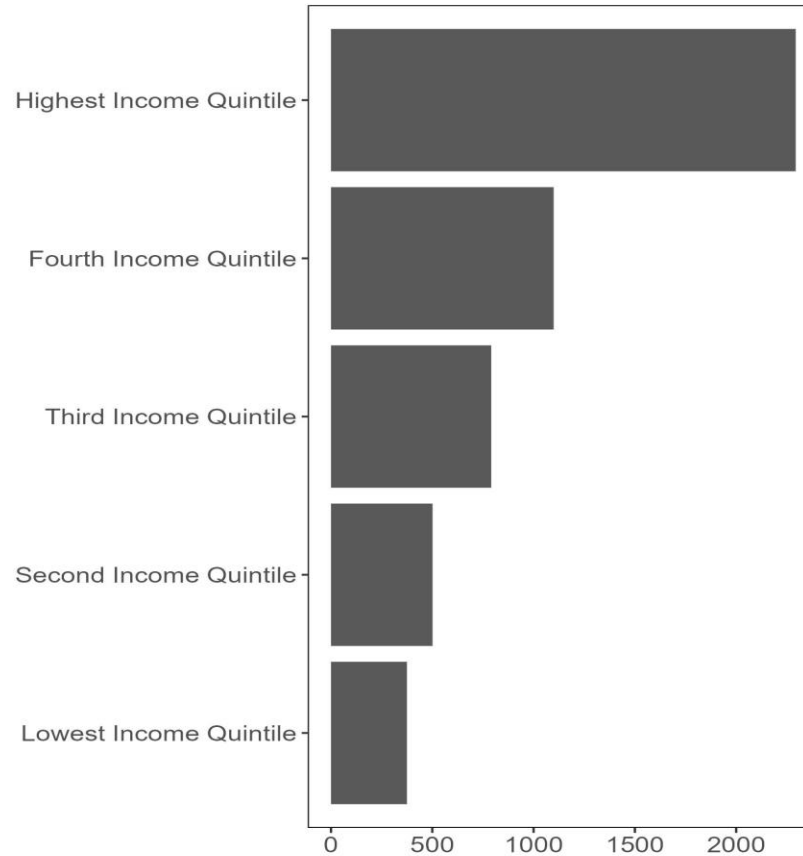
Financial position strongest with age and income

Net worth indicators

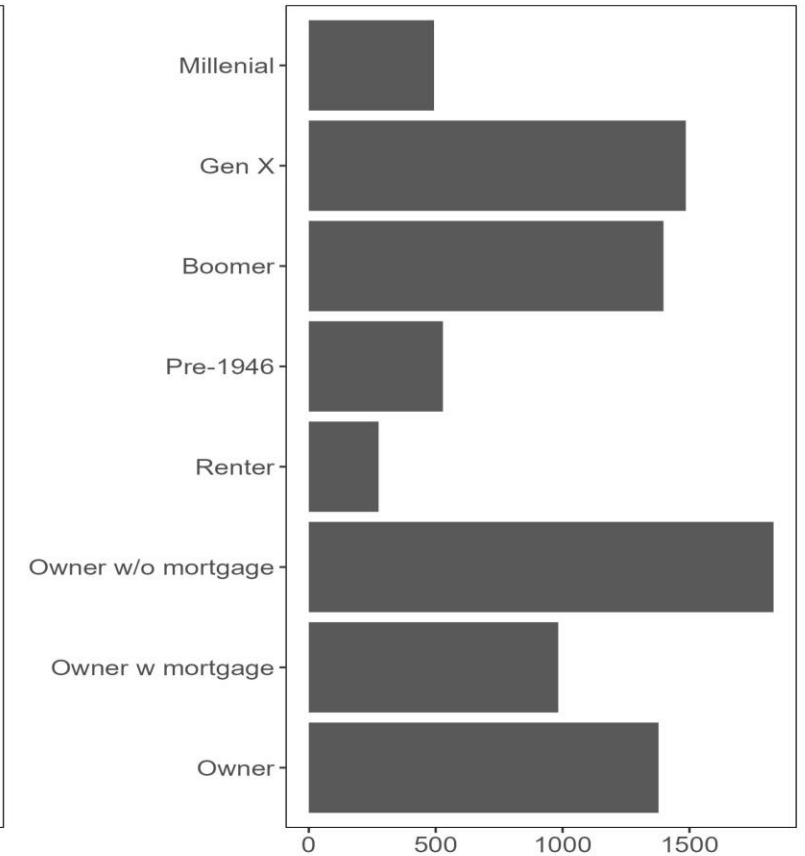
Household Economic Accounts (avg per household)
Last data point: 2024-04-01



Average Net Worth by Income Quintile, \$,1000
Last data point: 2024-04-01

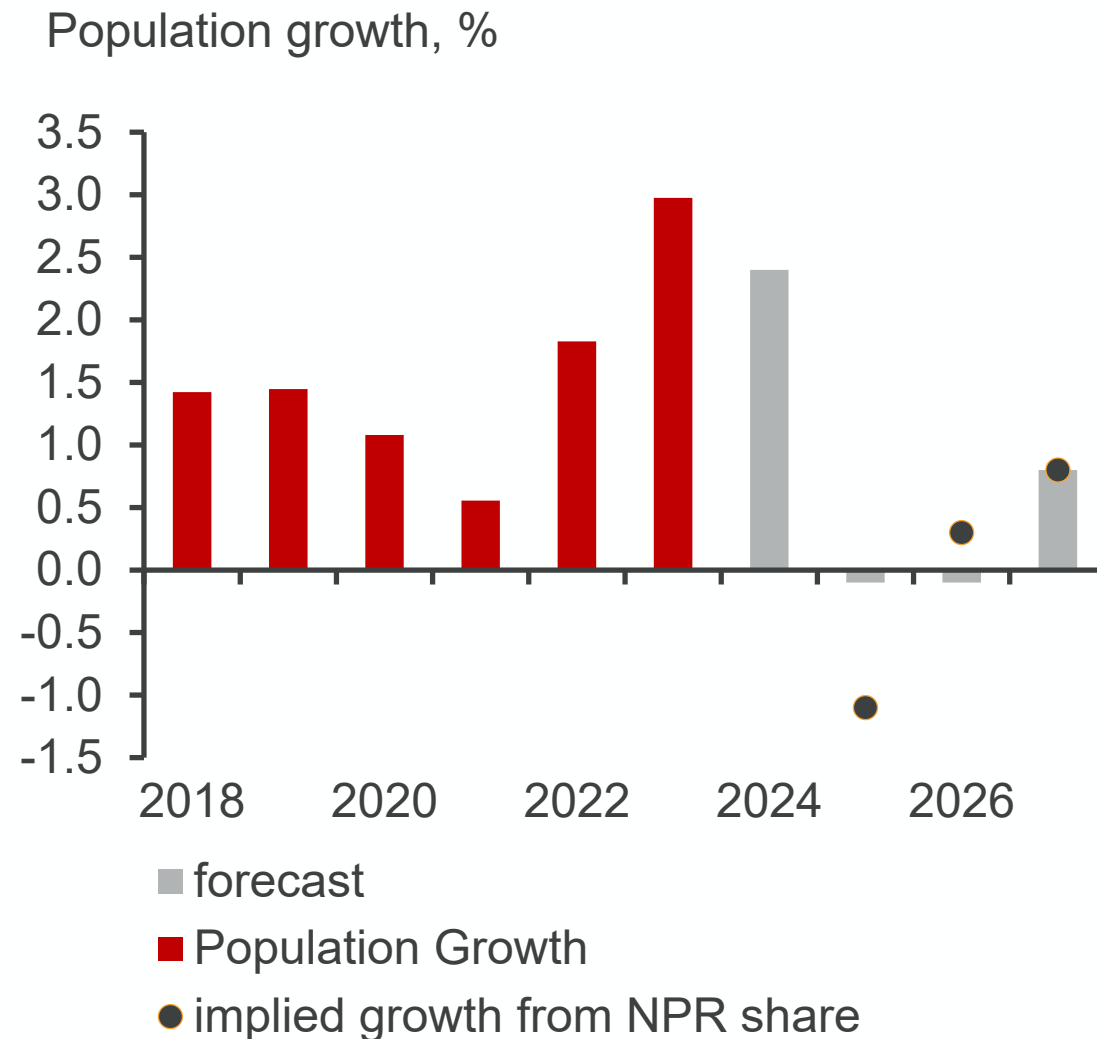
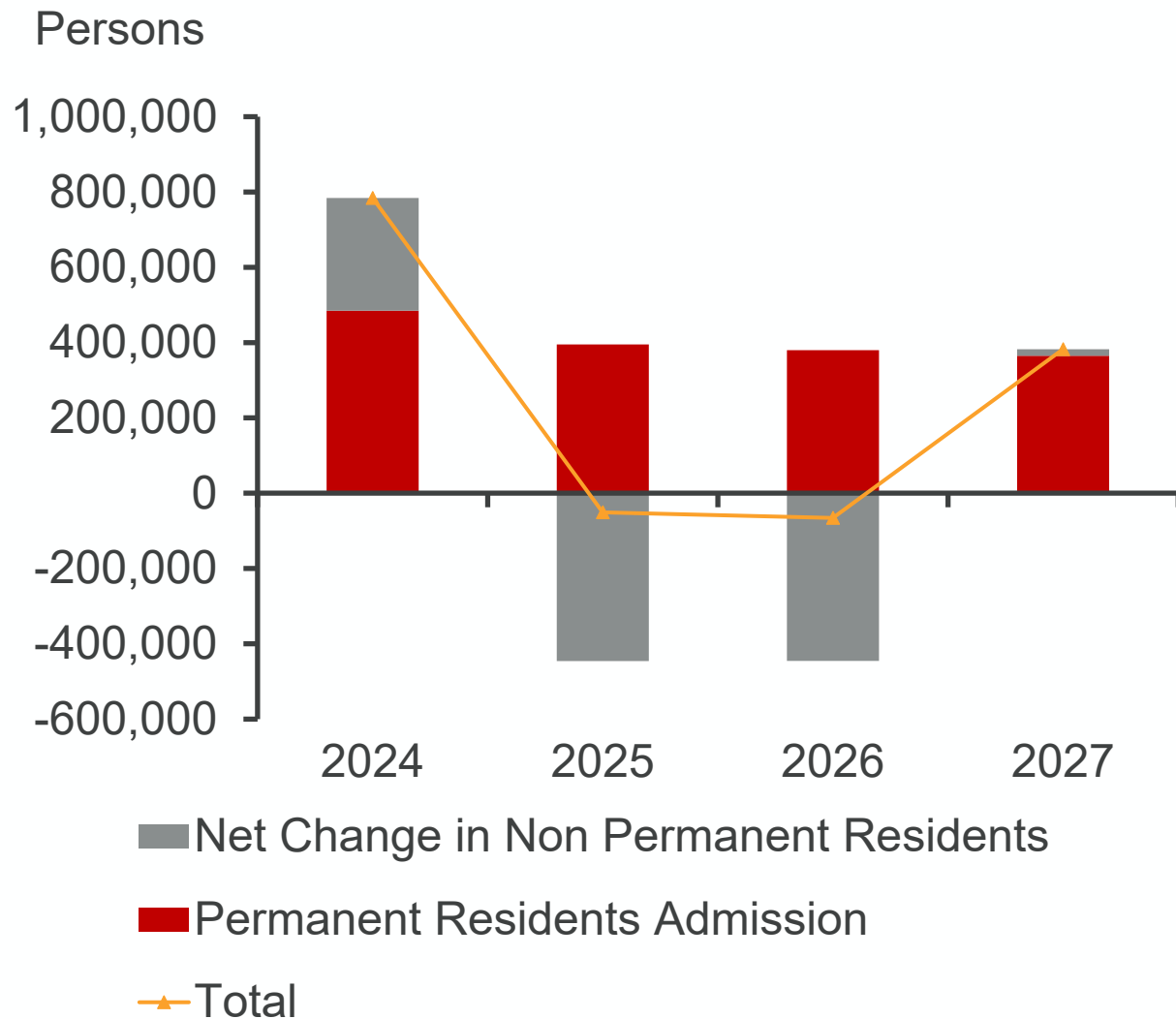


Average Net Worth by Group, 2023Q4
Last data point: 2024-04-01



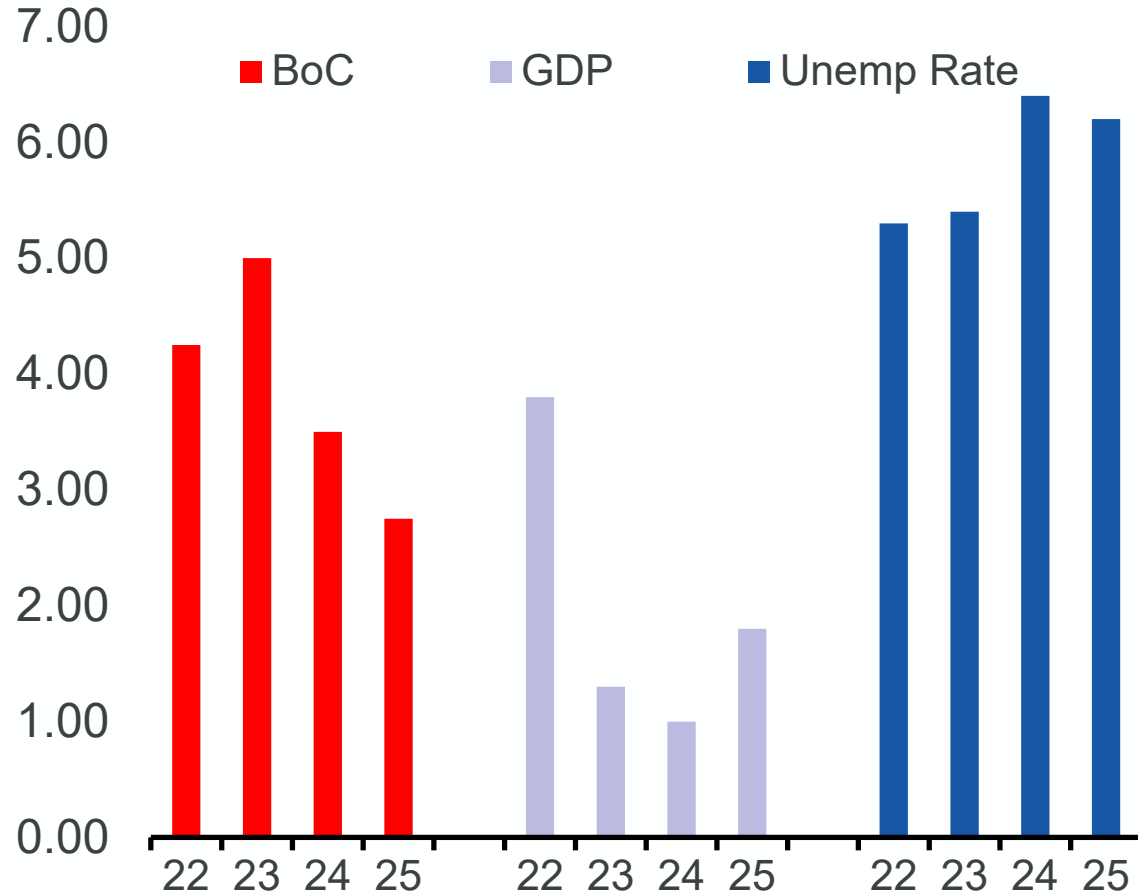
Statistics Canada, Central 1

Era of rapid population growth closes



Economic outlook for a soft landing but risks aplenty

Canada outlook (C1)

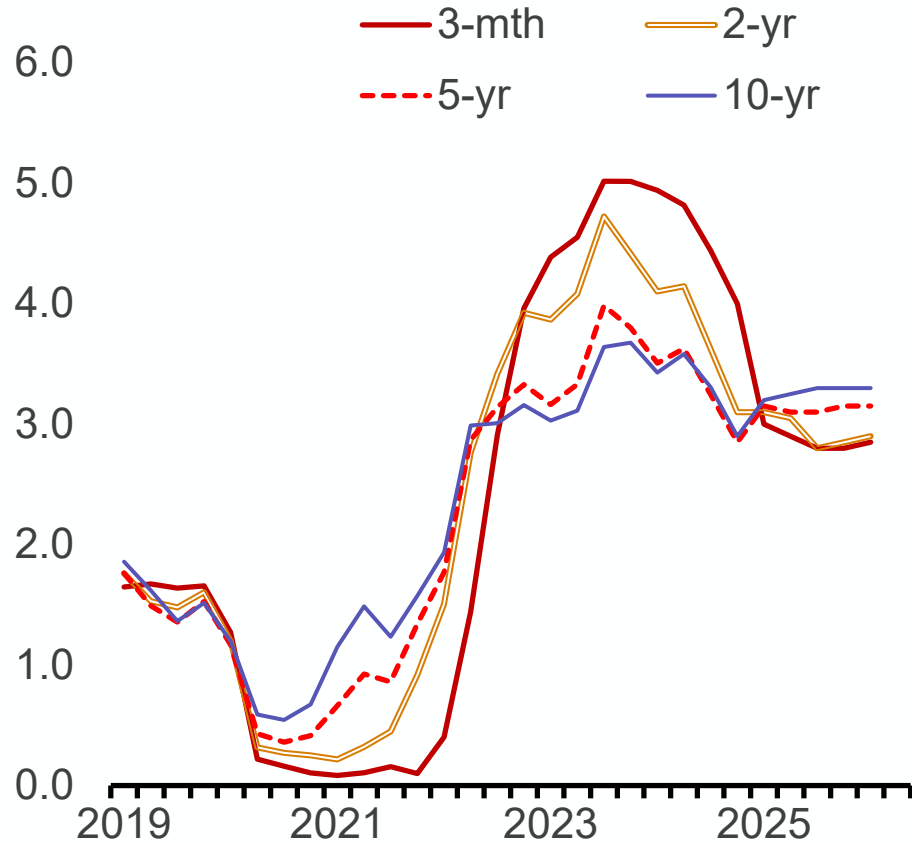


Risks

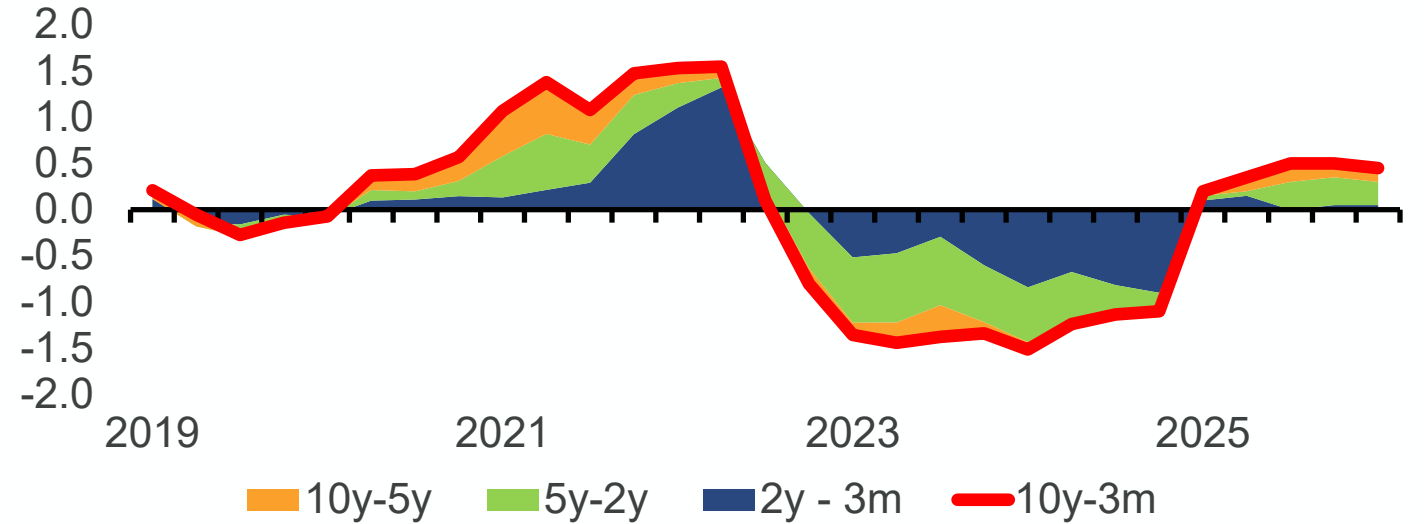
- Canadian economy could weaken more expected, higher unemployment rates, cutting inflation more deeply and trigger a decline in policy rate to 2%
- US cuts more rapidly setting up larger and faster Bank of Canada reductions
- Geo-political flare ups in Middle East and broader war – impacting oil prices, supply chains and higher inflation
- More rapid AI adoption – unclear
 - Productivity enhancement over long term
 - Job Terminator or Enabler?

Short term interest rate falling but bond yields to hold steady

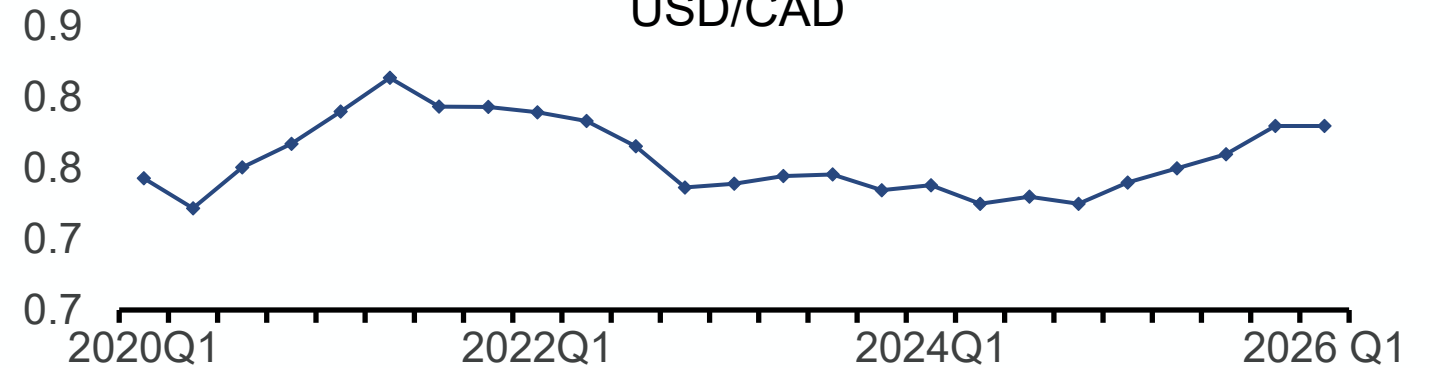
Benchmark bond yield, %



Yield curve



USD/CAD

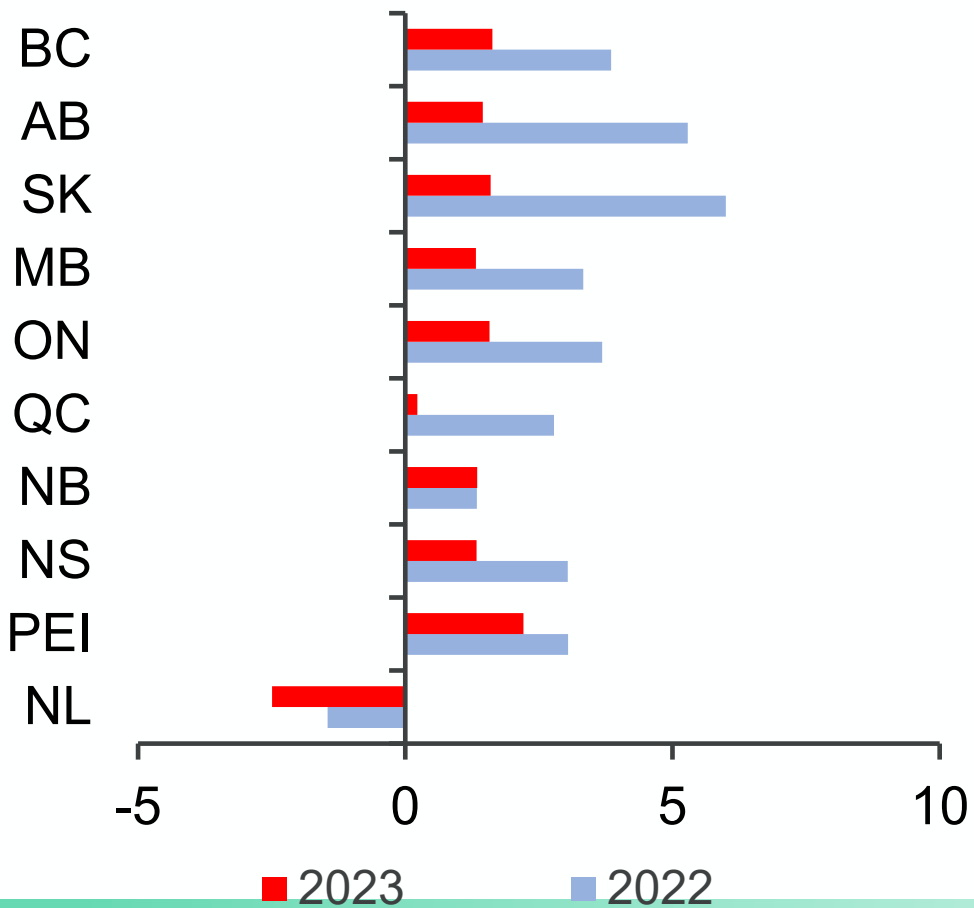


Provincial trends

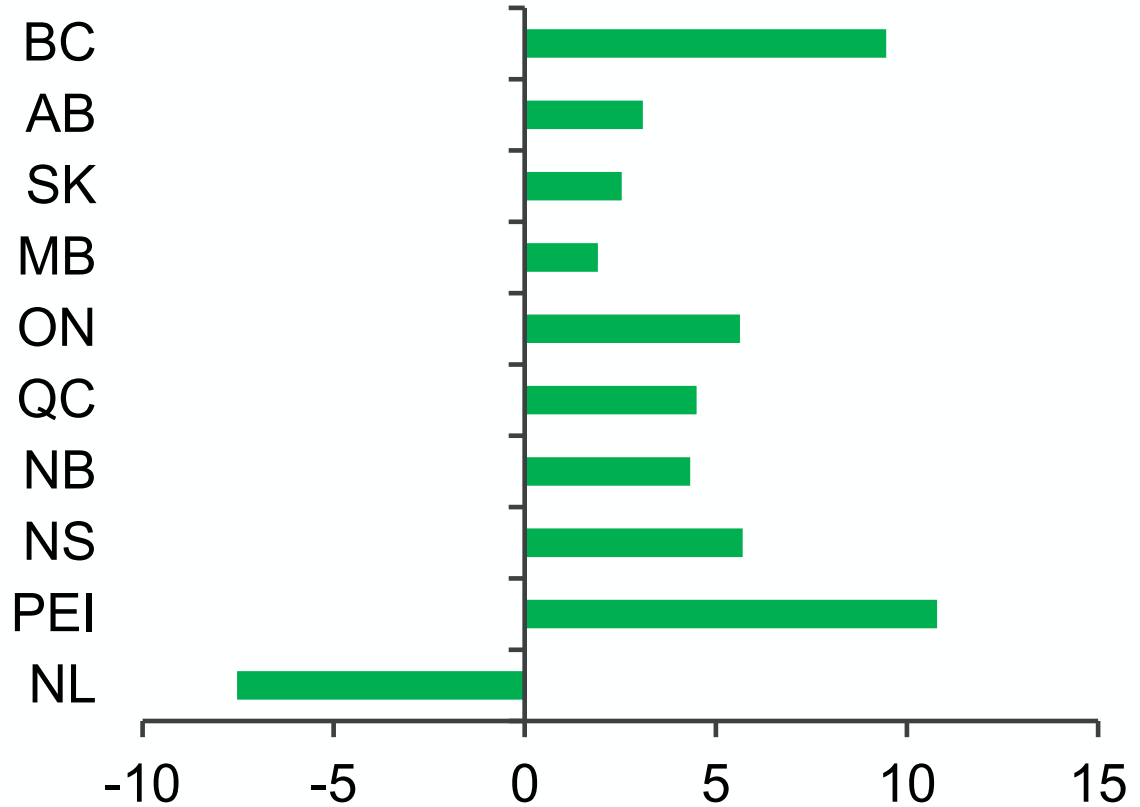


Provinces largely consistent in 2023, clear leaders during pandemic

Real GDP, % change



2019 – 2023 change in GDP



Source: Statistics Canada, Central 1



Provincial forecast

	Real GDP			Employment %ch			Unemployment Rate		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
B.C	1.6	1.3	3.0	1.6	2.5	1.7	5.2	5.7	5.5
AB	1.5	1.7	1.4	3.6	3.2	2.0	5.9	6.9	6.7
SK	1.6	1.0	1.5	1.8	2.0	1.7	4.8	5.7	5.2
MB	1.3	1.3	1.5	2.5	2.2	1.2	4.8	5.2	5.2
ON	1.6	1.1	1.9	2.4	1.2	1.3	5.7	7.1	6.8
QC	0.2	0.9	1.3	2.3	0.6	0.9	4.5	5.3	5.3
NB	1.3	1.0	1.3	3.4	2.8	1.2	6.6	7.7	7.6
NS	1.3	1.3	1.6	2.7	3.3	1.5	6.4	7.1	6.8
PEI	2.2	1.5	1.5	5.7	4.5	2.0	7.4	7.8	7.4
NL	-2.5	0.7	1.0	0.4	3.2	0.8	9.9	9.7	9.6

Coincident indicators aligning

Provincial composite economic indicators Latest month - July 2024 ¹										
	Jan 2002 = 100	12-month % change			1-month % change					
	Jul 2024	May 2024	Jun 2024	Jul 2024	Feb 2024	Mar 2024	Apr 2024	May 2024	Jun 2024	Jul 2024
British Columbia	177.9	1.9	2.0	2.2	0.4	0.0	0.7	0.0	0.0	0.0
Alberta	173.2	1.7	2.5	2.3	0.4	0.1	0.5	-0.1	0.3	0.1
Saskatchewan	153.5	1.8	2.0	4.4	0.5	-1.0	0.6	-0.4	0.8	2.4
Manitoba	159.0	1.0	1.7	1.5	-0.1	-0.4	0.5	0.3	0.3	0.1
Ontario	146.3	0.8	0.8	0.9	0.1	0.1	0.3	0.3	-0.1	0.1
Quebec	142.2	0.6	0.7	0.7	0.2	-0.1	0.2	0.3	-0.1	0.1
New Brunswick	122.6	1.0	1.5	1.3	0.0	-0.2	0.8	-0.1	-0.1	-0.1
Nova Scotia	126.3	1.7	1.7	1.7	0.4	0.5	0.1	-0.5	0.0	0.0
Prince Edward Island	152.0	2.0	3.1	2.9	0.3	0.1	0.2	-0.1	0.4	0.3
Newfoundland and Labrador	144.7	2.3	2.1	1.2	0.0	0.1	0.2	0.4	0.0	-0.5
Canada	152.8	1.1	1.3	1.5	0.2	0.0	0.4	0.2	0.0	0.2

¹ The provincial composite economic indicators are calculated from a variety of monthly economic time series published by Statistics Canada, using the principal components method. For more information see www.philipsmith.ca/Provincial_composite_indicators/. Printed: 2024-09-30 21:58:51

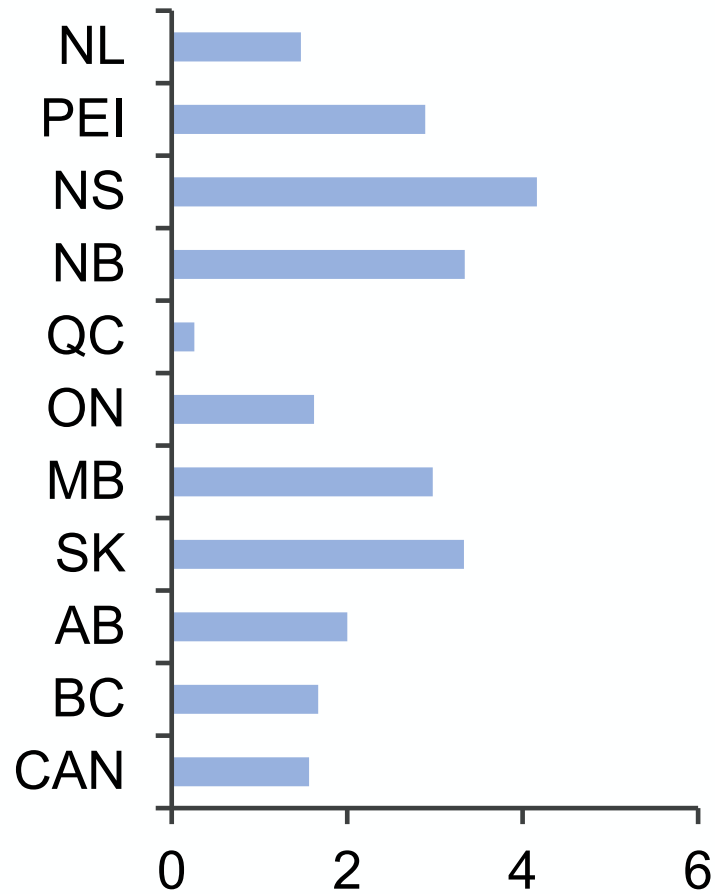
@PhilSmith26

*Philip Smith, retired assistant chief statistician, Statistics Canada

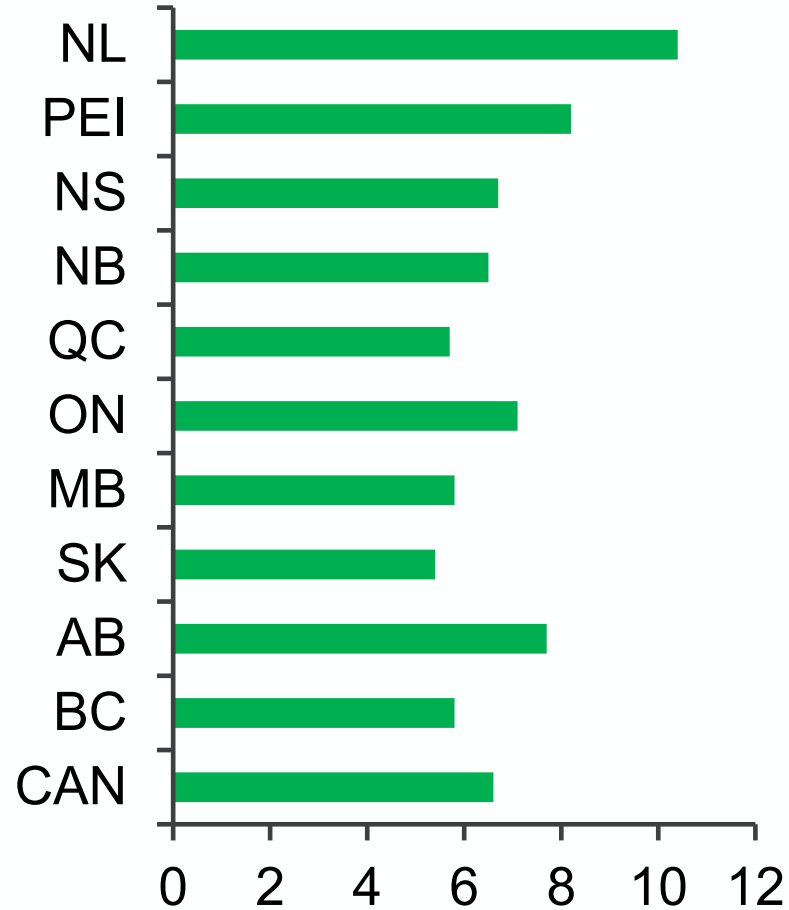


Mixed labour market patterns

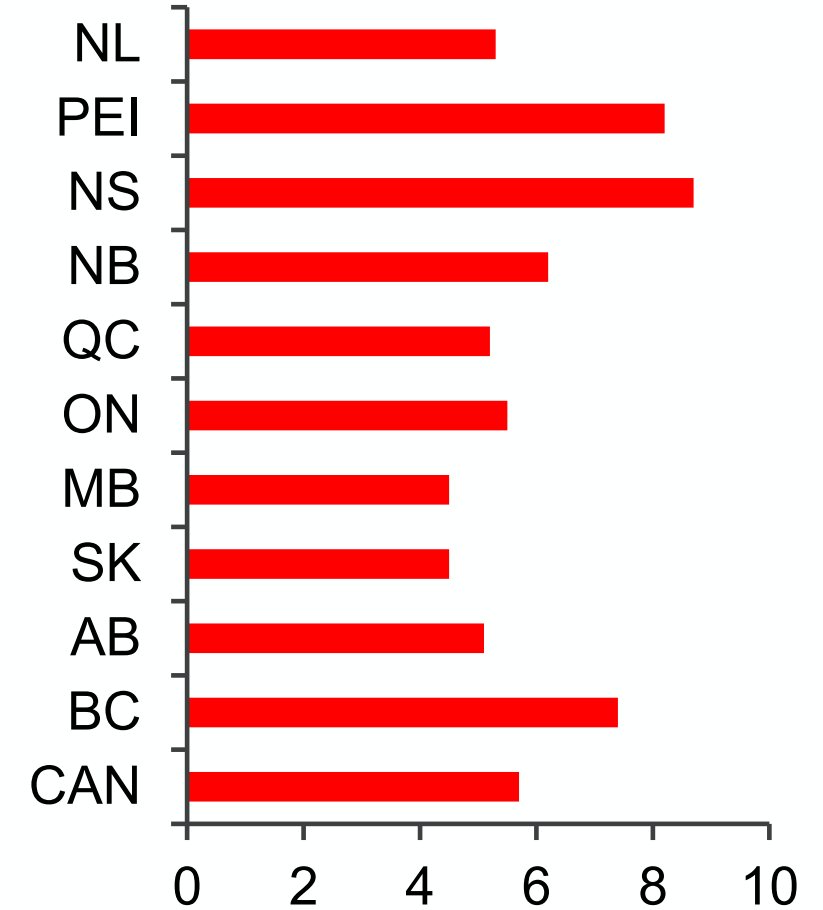
Y/y employment change



Unemployment Rate, Aug

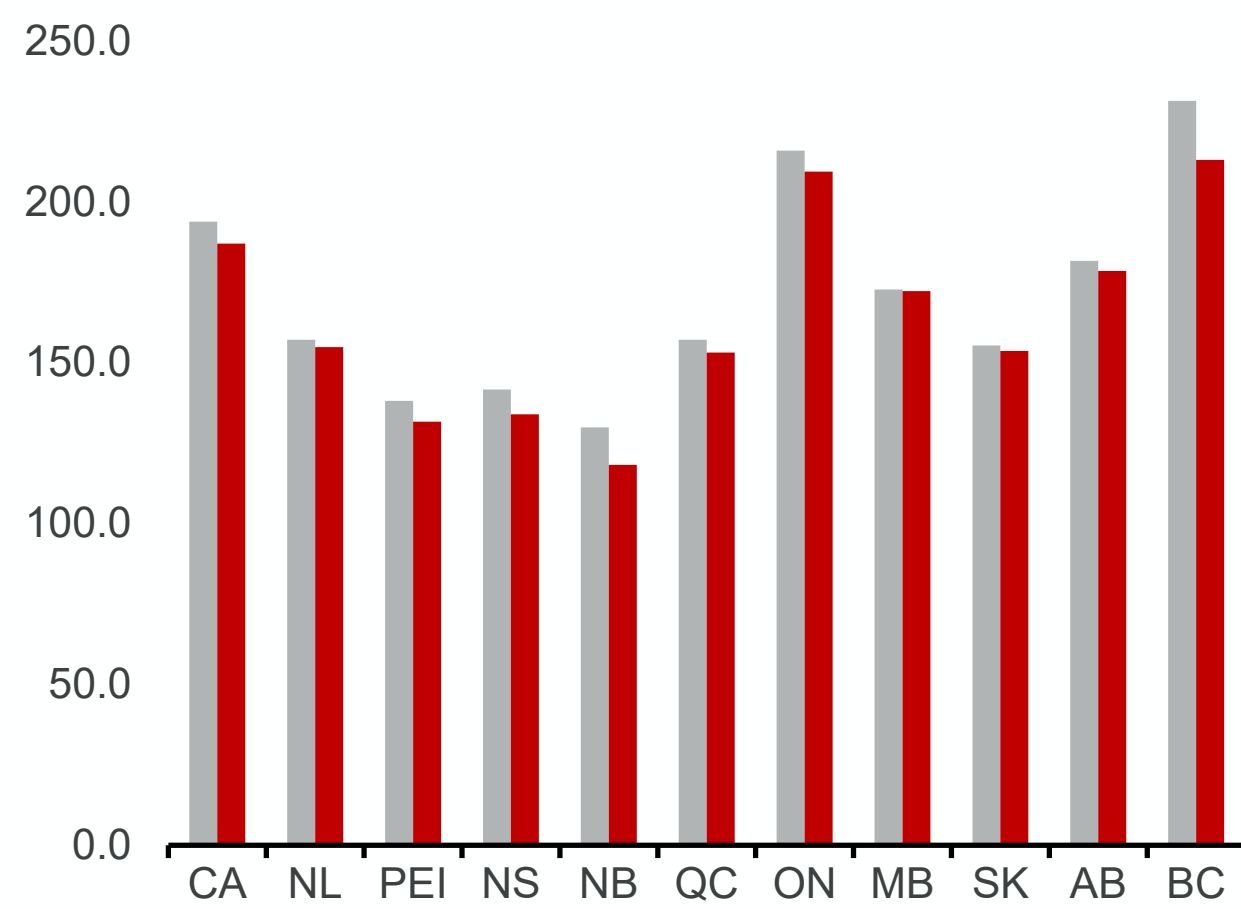


Wage and social compensation, H1 y/y % ch

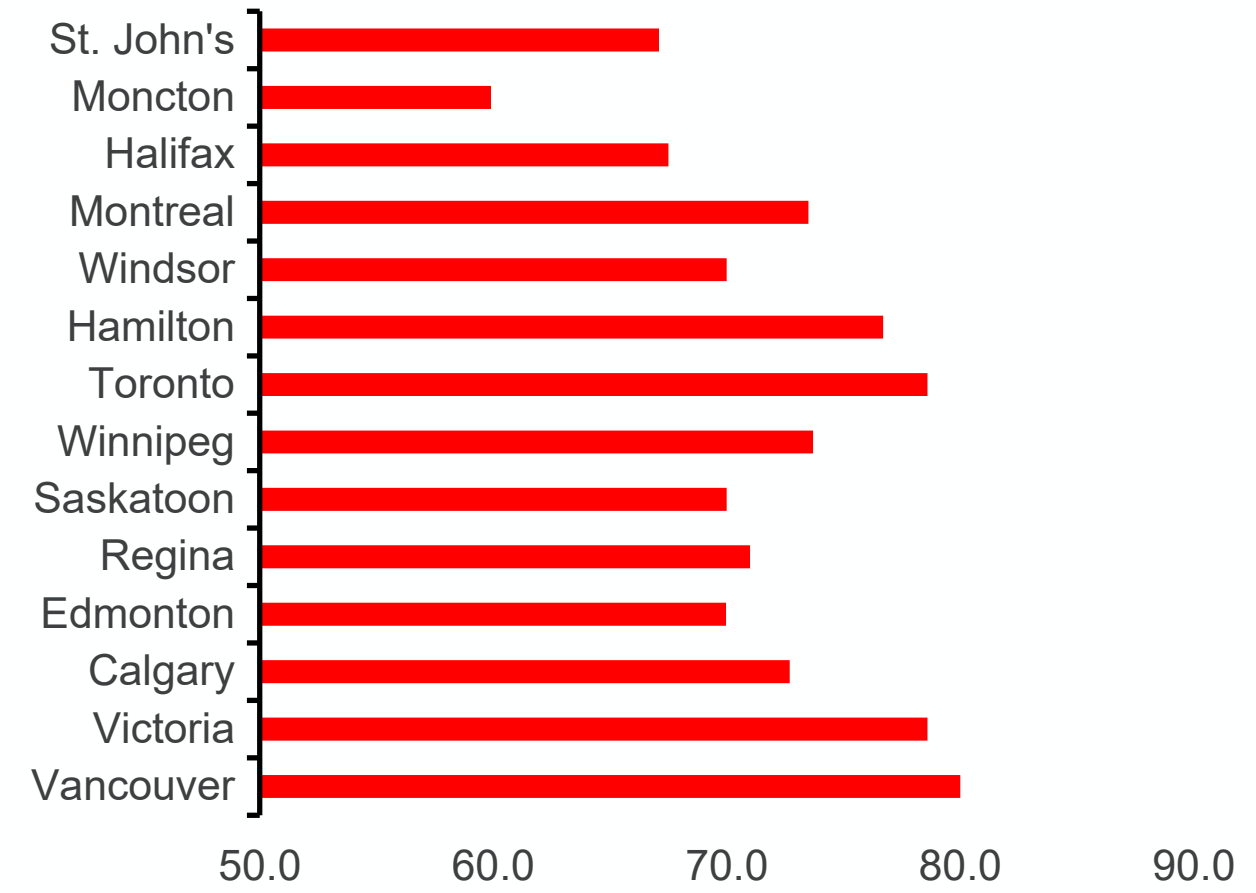


Ontario and B.C. most sensitive to rate hikes due to higher debt

Household debt to income ratio



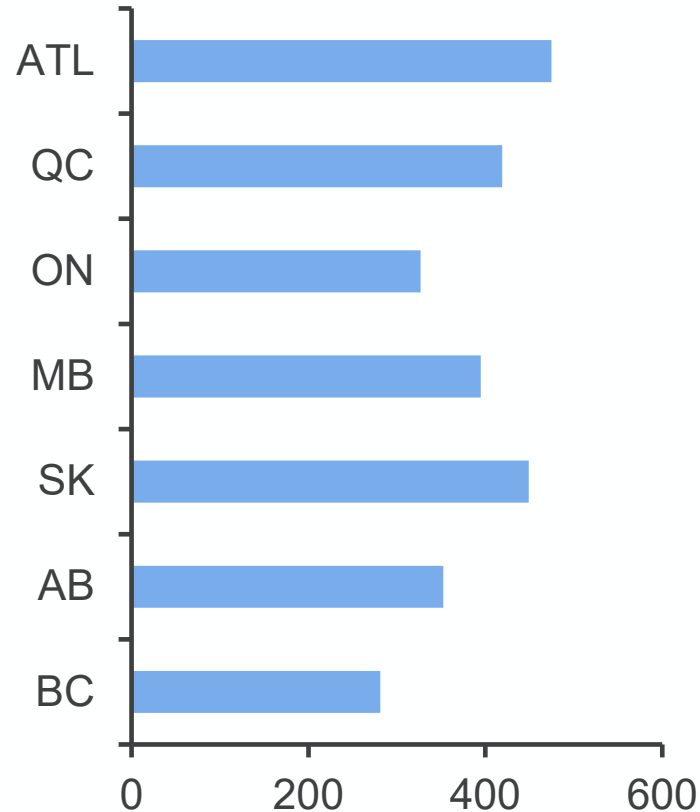
Mortgage share of outstanding debt



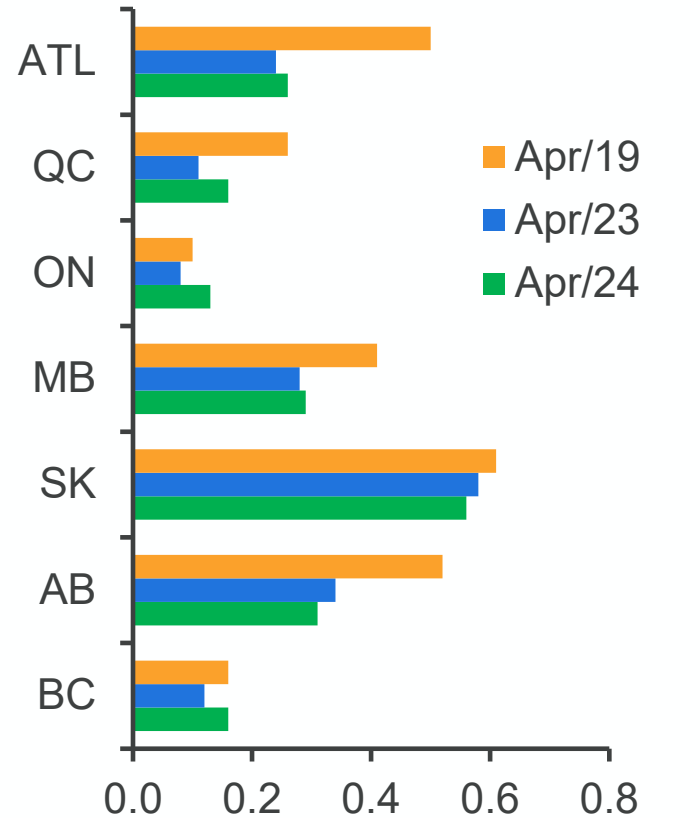
Source: Statistics Canada, CMHC, Central 1

Households are still managing financial pressure

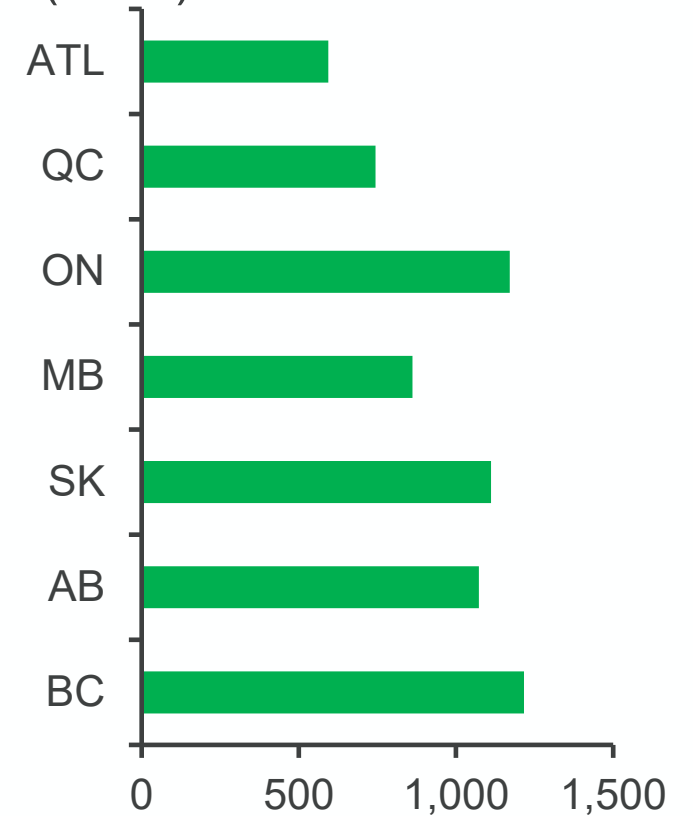
Insolvencies per capita



Mortgages in Arrears, %



Avg household net worth \$(000s)

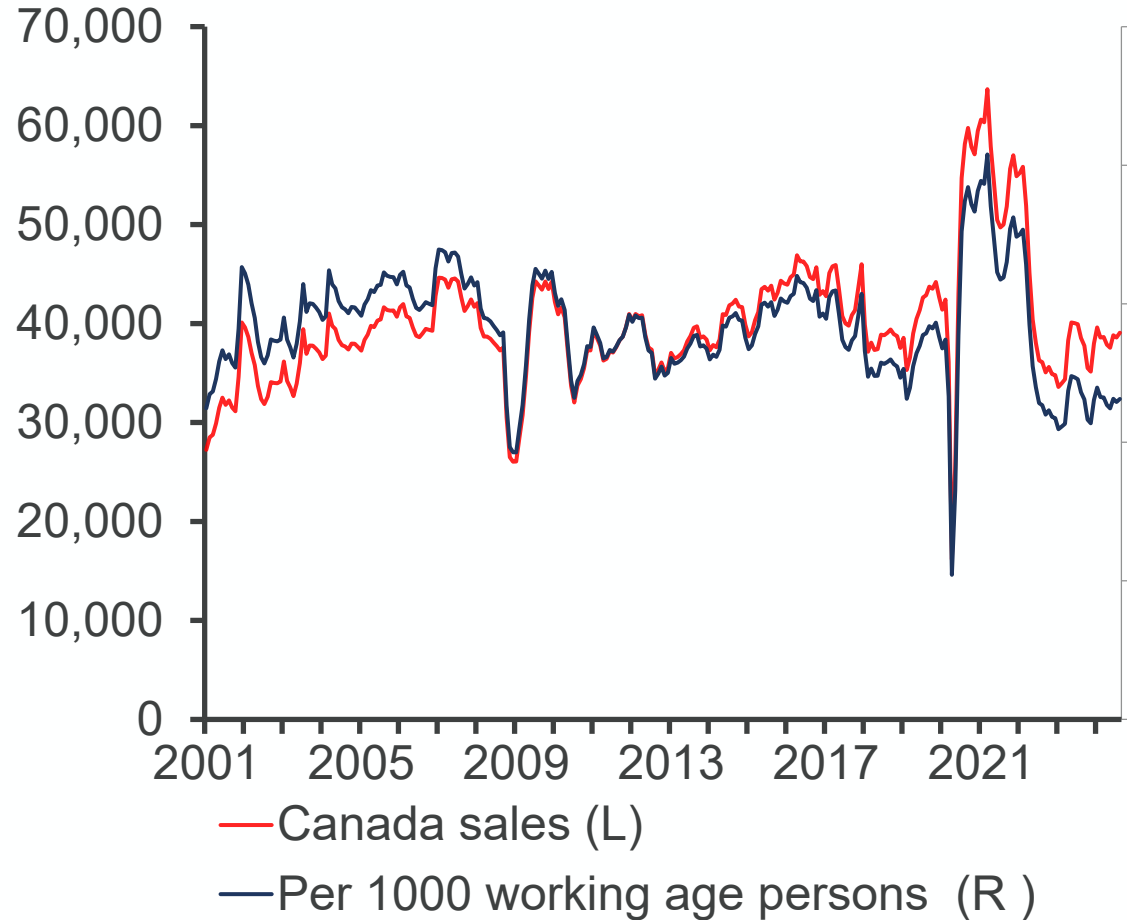


Will the housing market heat up?

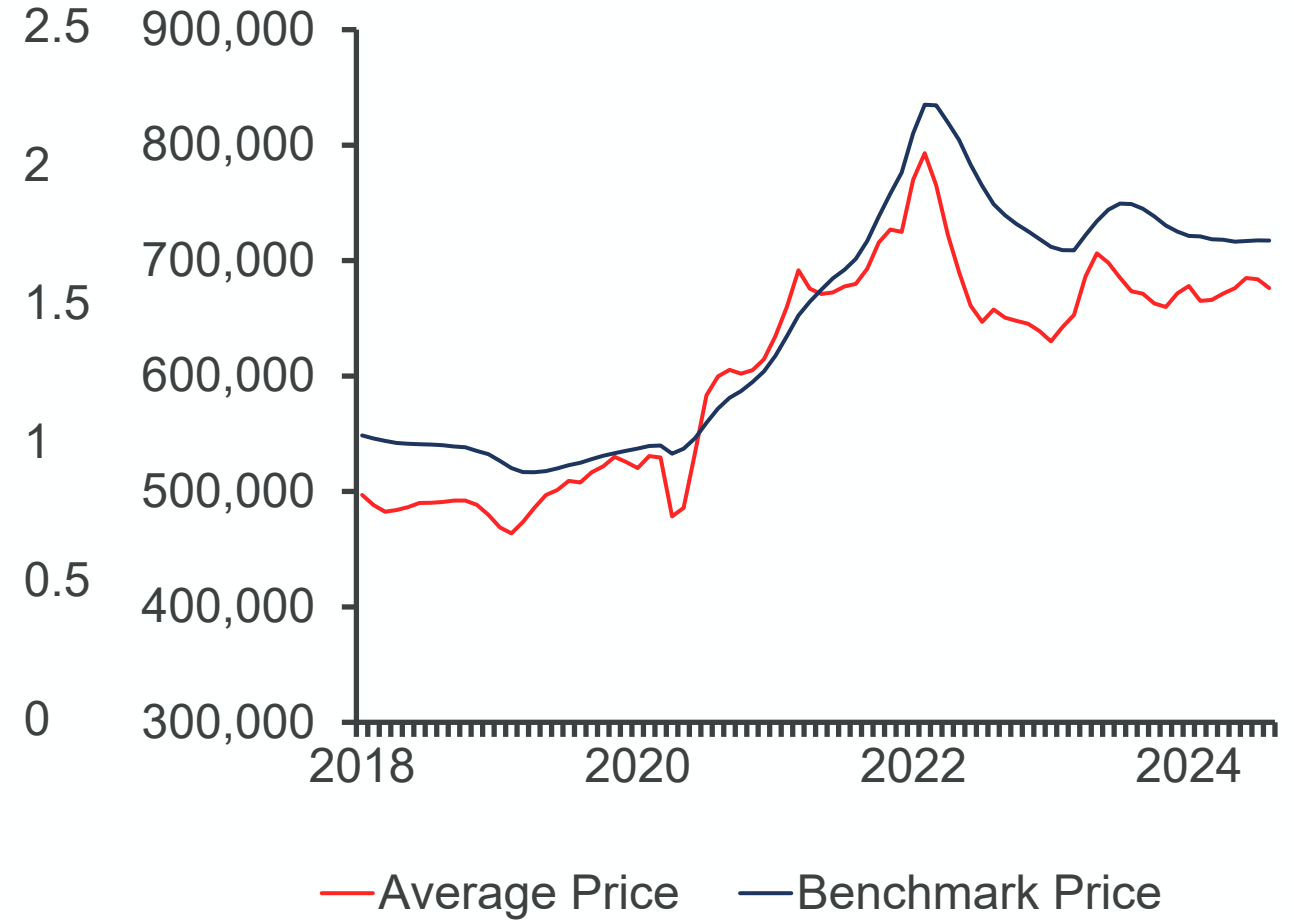


Housing chill continued in 2024 after massive pull forward of price appreciation, rate hikes

Canada MLS® Sales

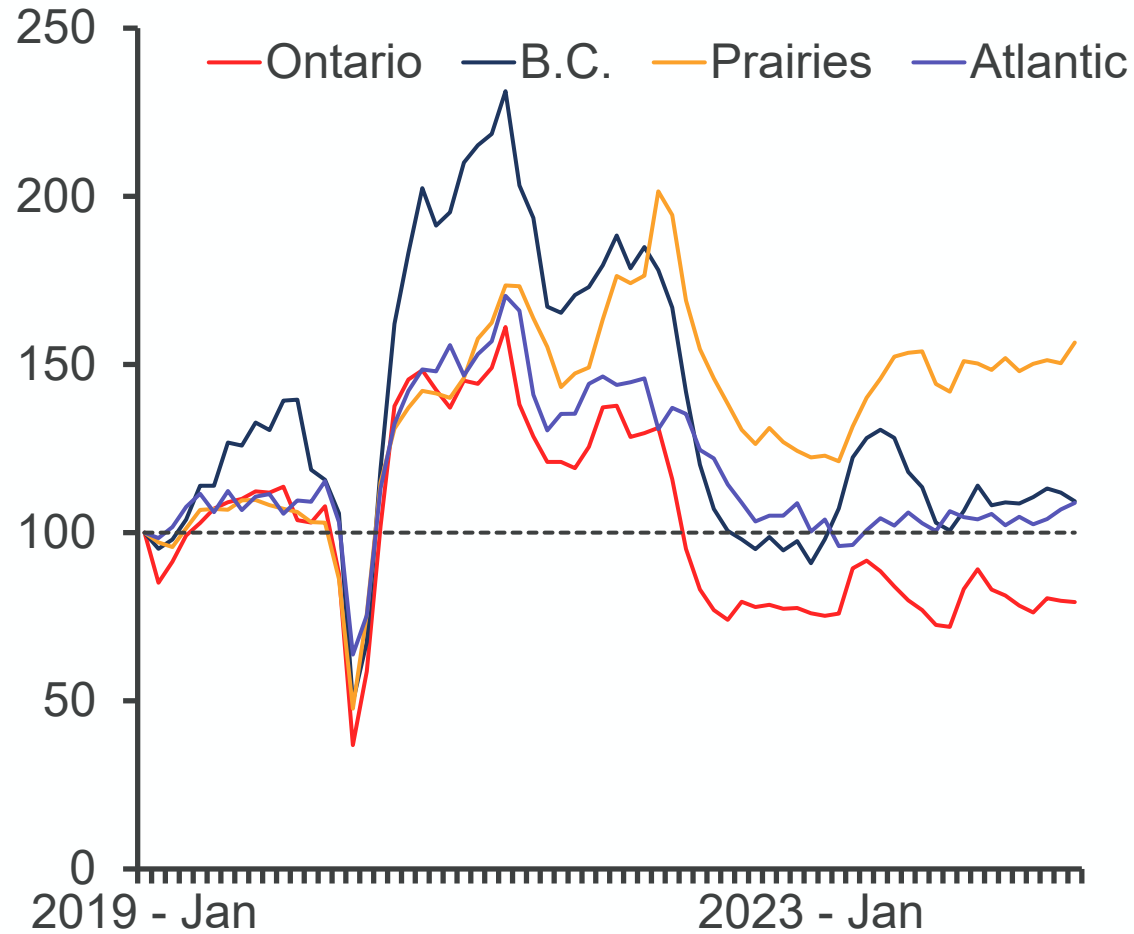


Canada MLS® Price

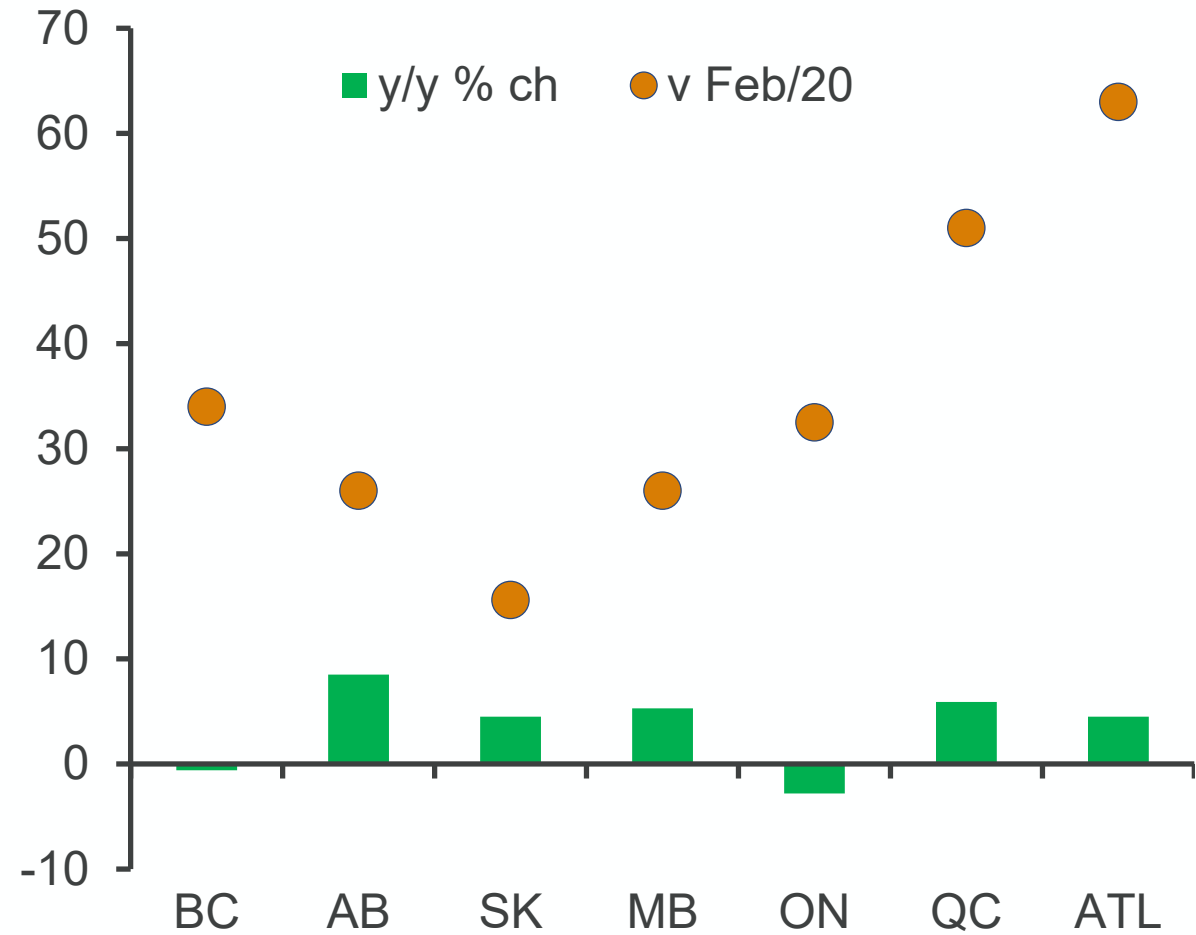


No national housing market, Prairies outperform

Provincial MLS® Sales

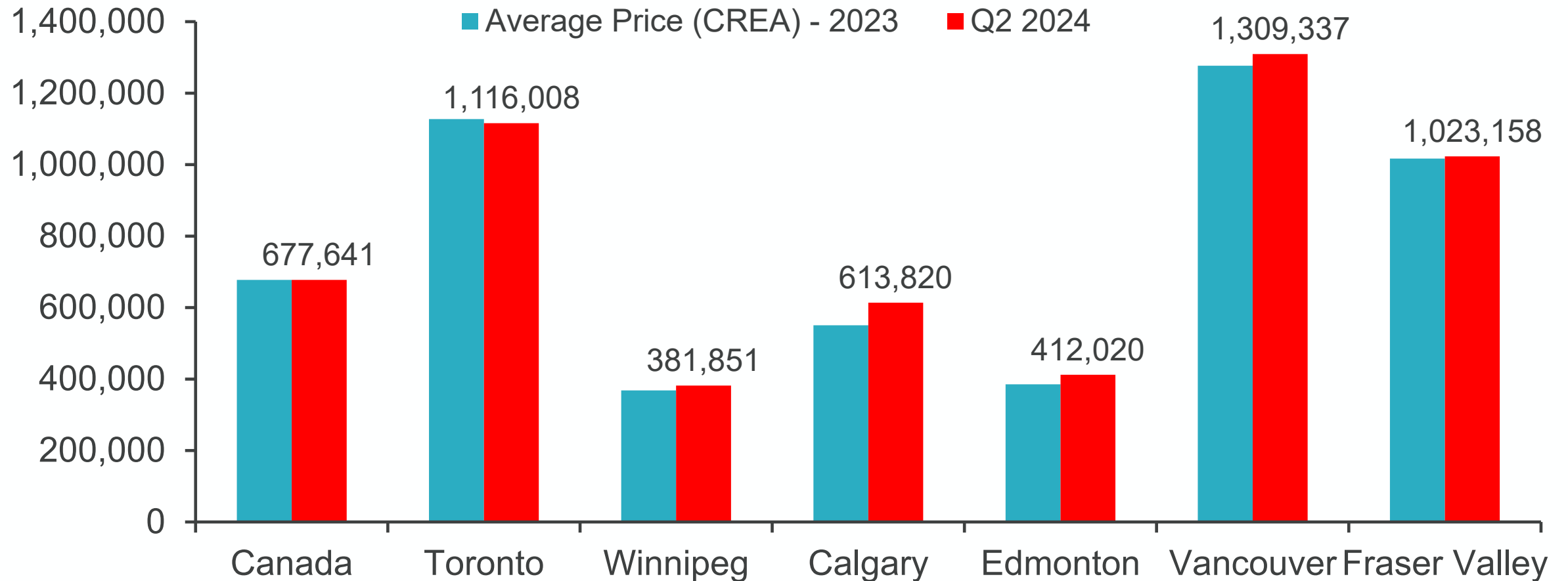


Average Prices



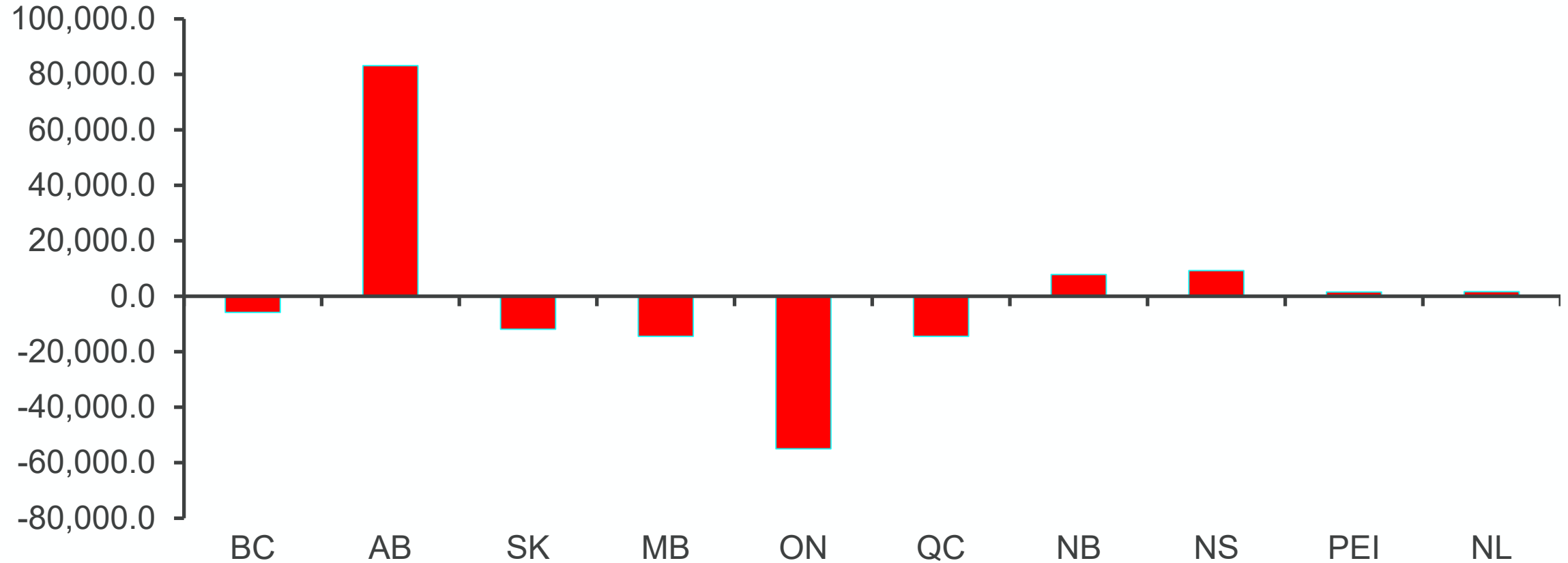
Housing affordability.... In some markets

Average MLS® Price



Trading spaces, and places

2-year net interprovincial migration

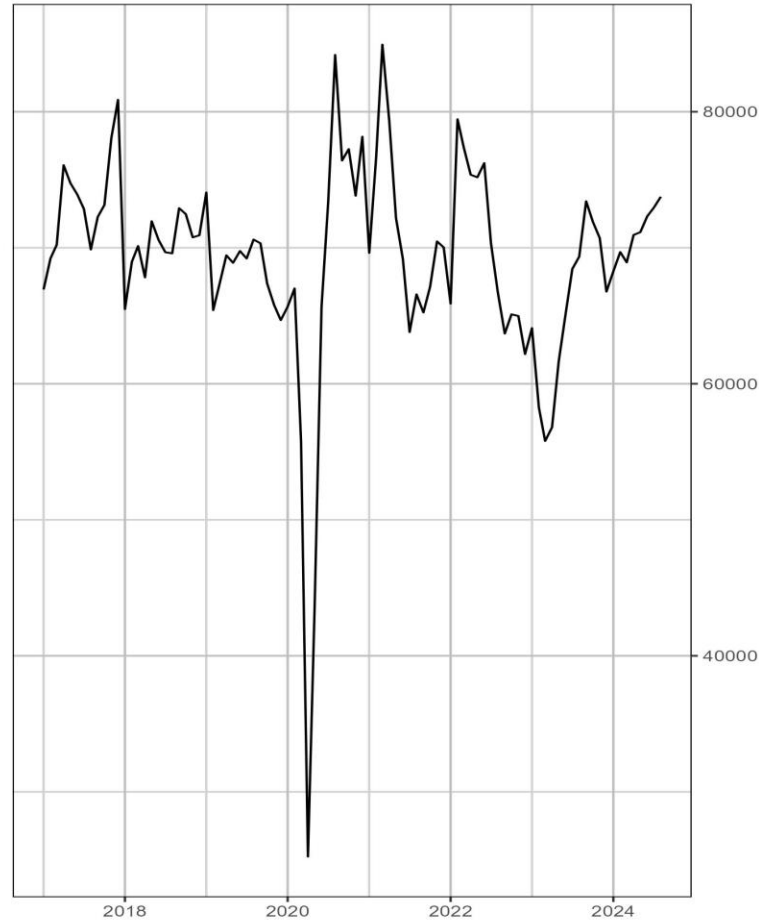


Short-term listings increase could curb price growth

Canada MLS Activity

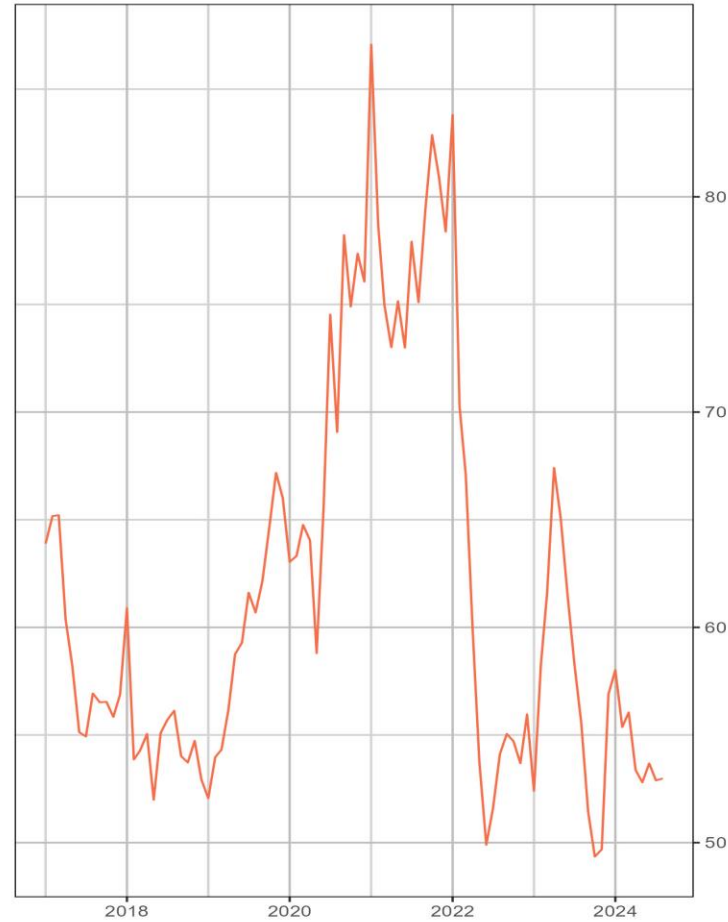
MLS new listings

Last data point: 2024-08-01



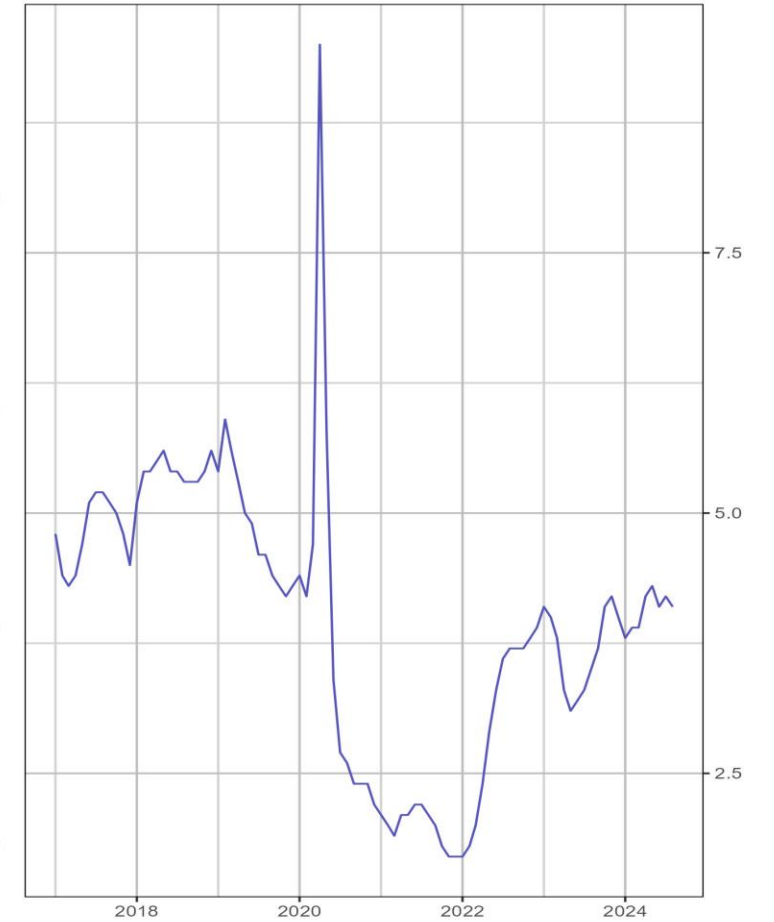
MLS sale-to-new listings

Last data point: 2024-08-01



MLS months of inventory

Last data point: 2024-08-01

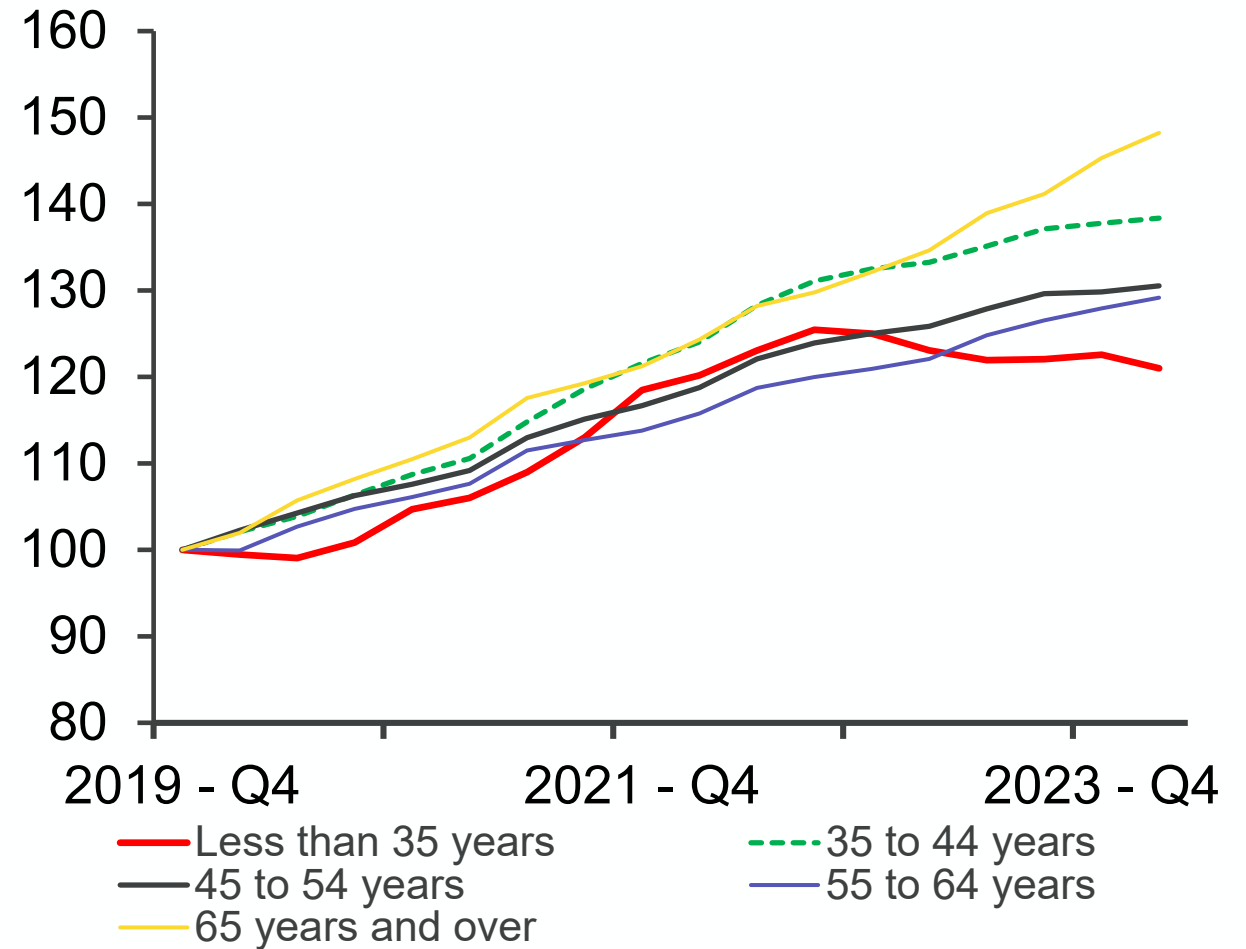


CREA, Central 1

Younger households deleveraged but by choice?

	Disposable Income Growth			Average Household Net Savings				
	2021	2022	2023	2015-19	2020	2021	2022	2023
Canada	2.0	2.4	3.3	1,068	7,829	5,777	3,038	3,238
Newfoundland and Labrador	8.2	-2.5	-3.4	1,241	4,642	4,083	102	-4,180
Prince Edward Island	9.8	0.2	0.1	-284	5,212	3,628	584	900
Nova Scotia	3.4	-0.7	0.9	-1,581	3,324	694	-2,552	-2,269
New Brunswick	3.6	2.2	1.9	-47	3,882	1,788	-375	-709
Quebec	2.7	6.2	0.9	2,233	8,735	7,158	6,497	5,296
Ontario	1.5	1.4	4.7	-3	8,006	6,167	1,827	2,773
Manitoba	0.4	0.9	5.2	-96	5,847	2,680	-545	430
Saskatchewan	-1.4	8.5	-0.2	2,056	7,907	3,630	5,219	3,059
Alberta	-0.5	1.8	2.5	5,153	10,256	7,494	5,953	5,879
British Columbia	4.6	0.6	4.2	-1,045	5,810	3,572	122	1,215

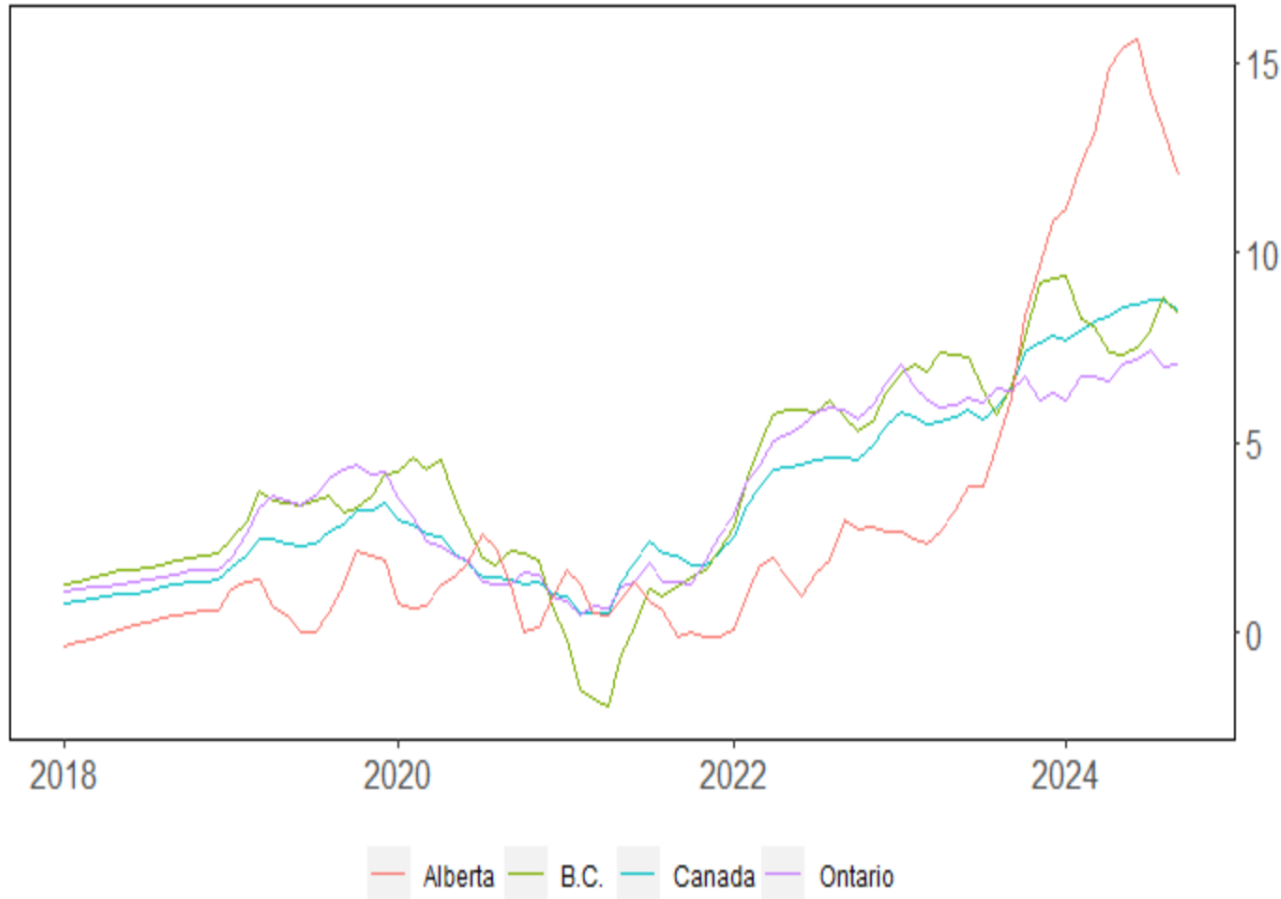
Canadian mortgage liabilities by household age, Q4/19 = 100



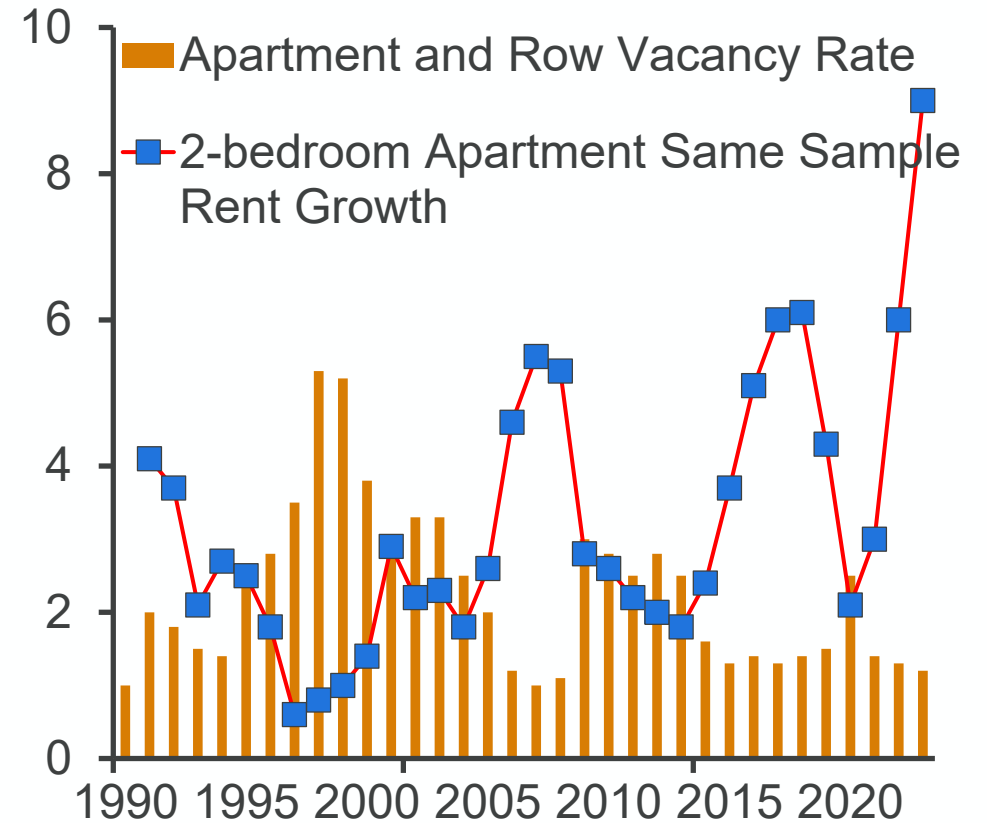
Rental market crisis deepened in 2023 as vacancy rates plunge, rents soar

Rent by province, y/y % change

Last data point: 2024-09-01



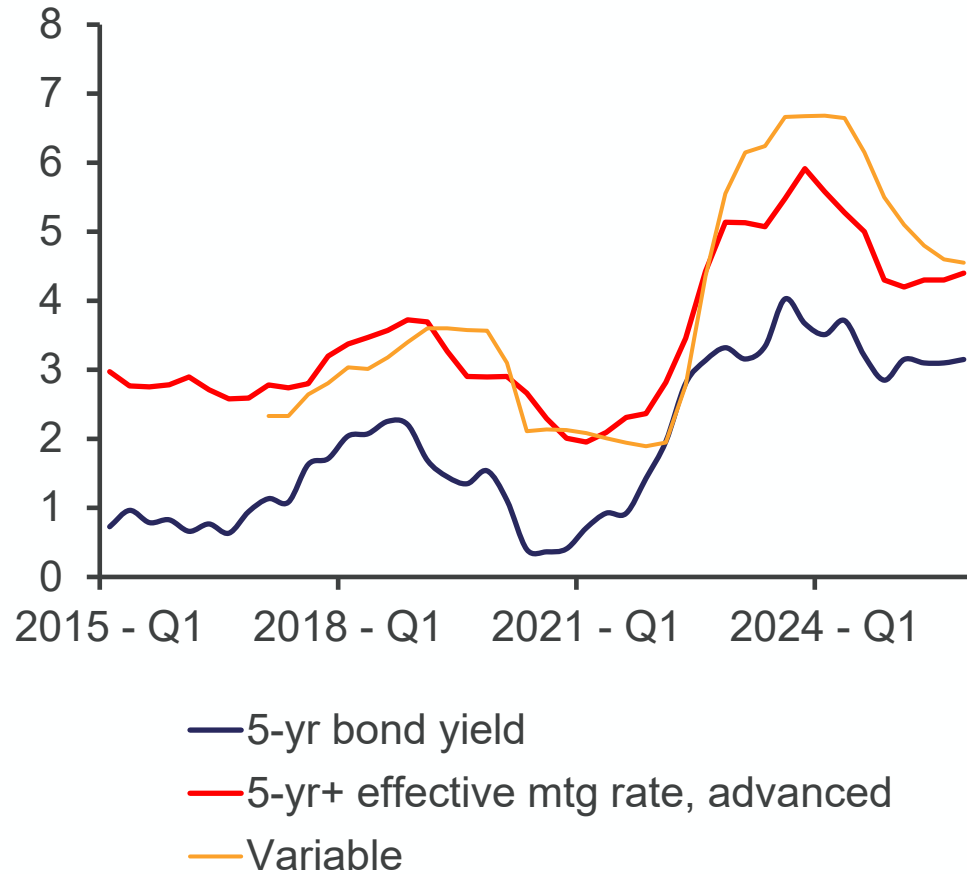
B.C. Vacancy Rate and Rent Growth



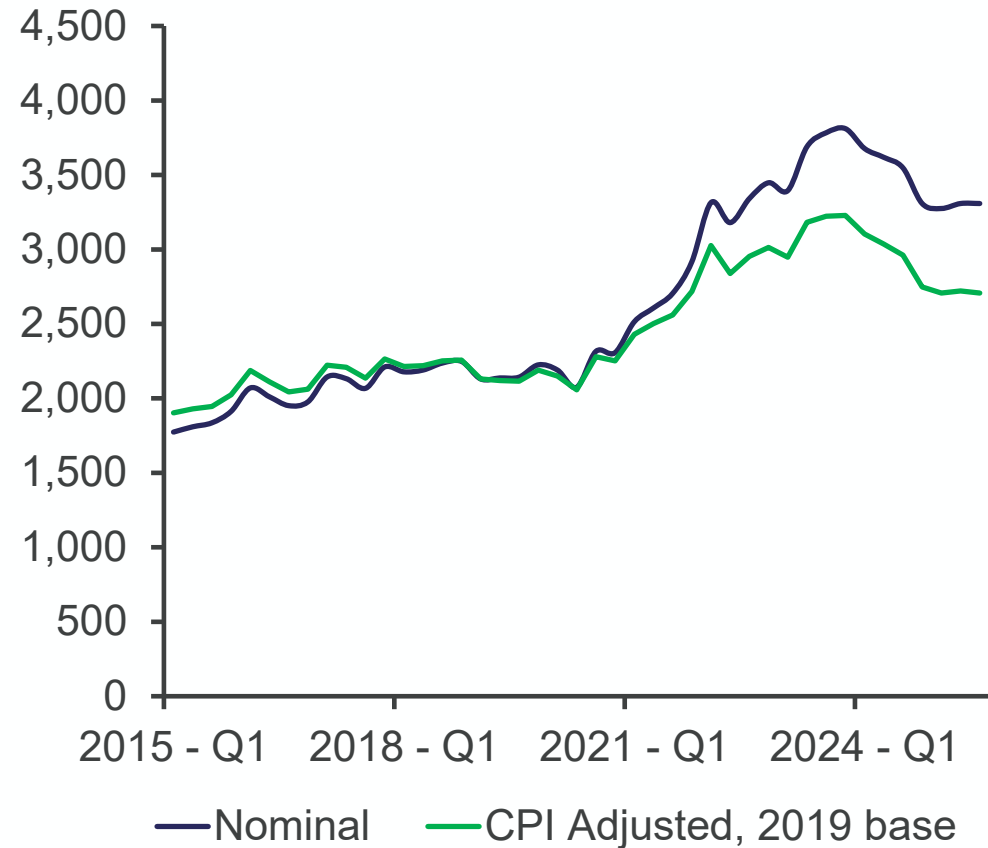
Source: CMHC, Central 1 *all unit rent, **suppressed data for rent

Rate reductions historically a strong driver of rebound but low affordability will be a constraint

Mortgage Rate



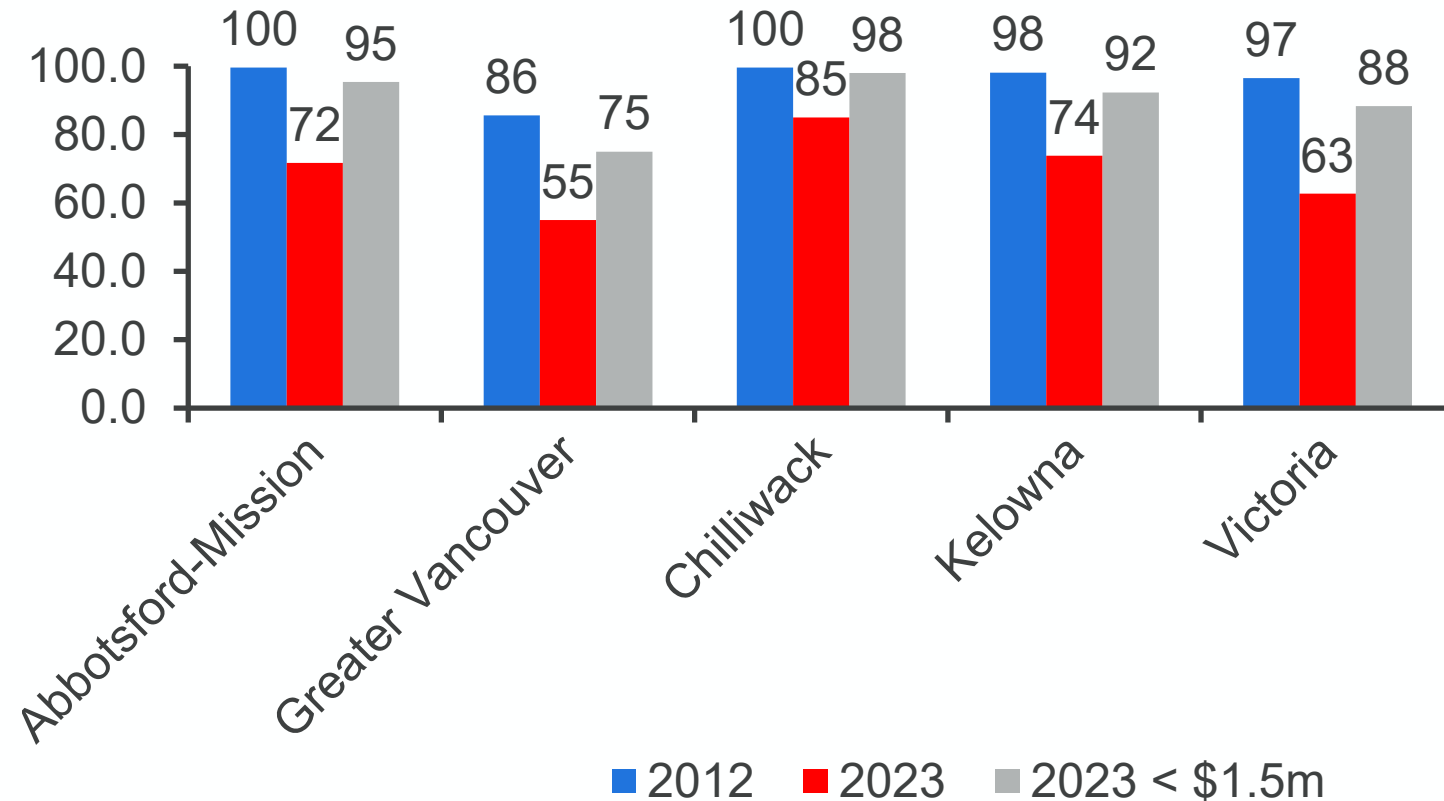
Carry cost, Canada MLS Average



2024/25 assumptions: no change in price,, 2% inflation rate, and mortgage rate reduction to 4.4%

Housing policy to spur demand

Per Cent of resale homes sold < \$1m



CMHC – Mortgage insurance Changes

December 15, 2024 – Mortgage cap increased from \$1m to \$1.5 million

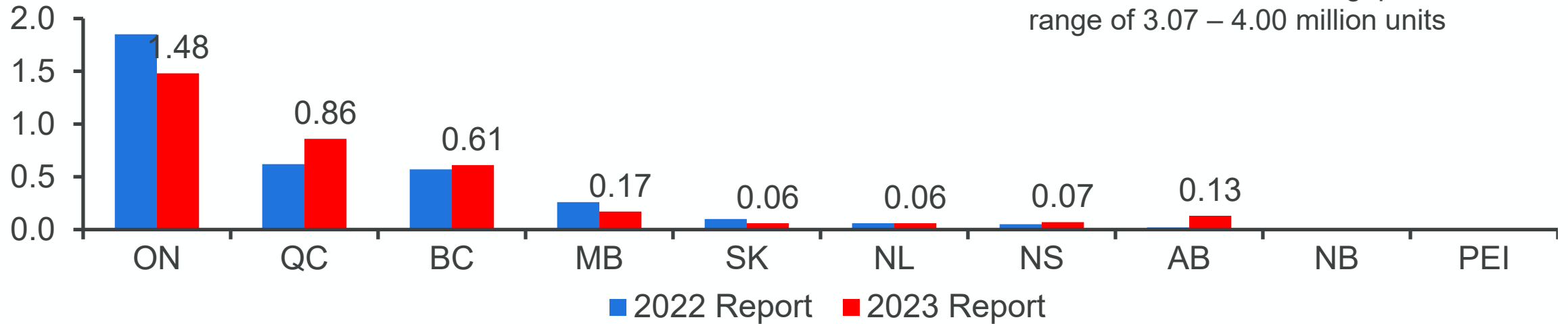
Increased pool of buyers, credit unions will be able to pool these mortgages into NHA MBS, increase liquidity

30- year amortizations for all new FTHB and all buyers of new builds

Lowers potential payments, lifts maximum home price eligibility

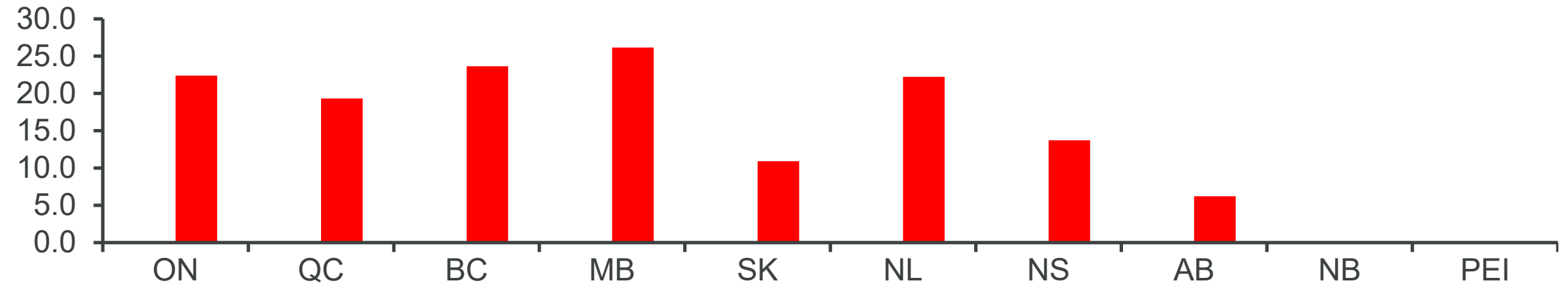
Housing deficit to persist

2030 Housing Deficit, Millions of units



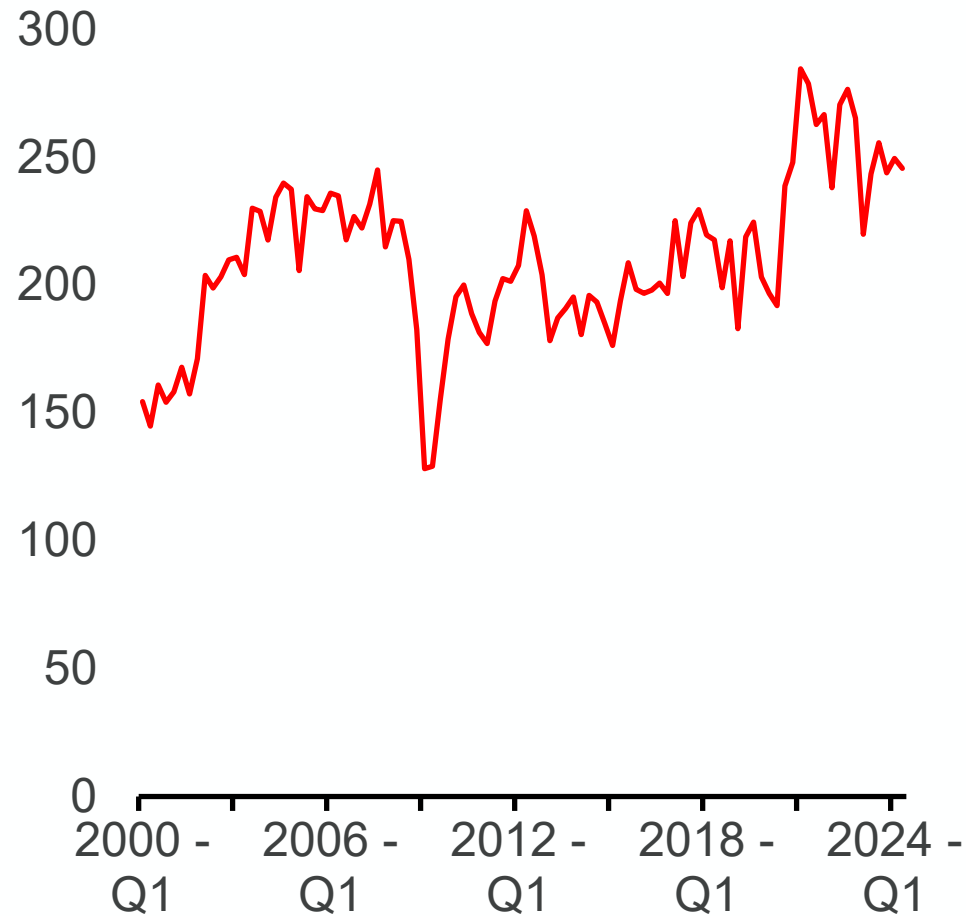
- 3.45 million unit national gap with a range of 3.07 – 4.00 million units

Deficit as a share of projected housing stock, 2023 report

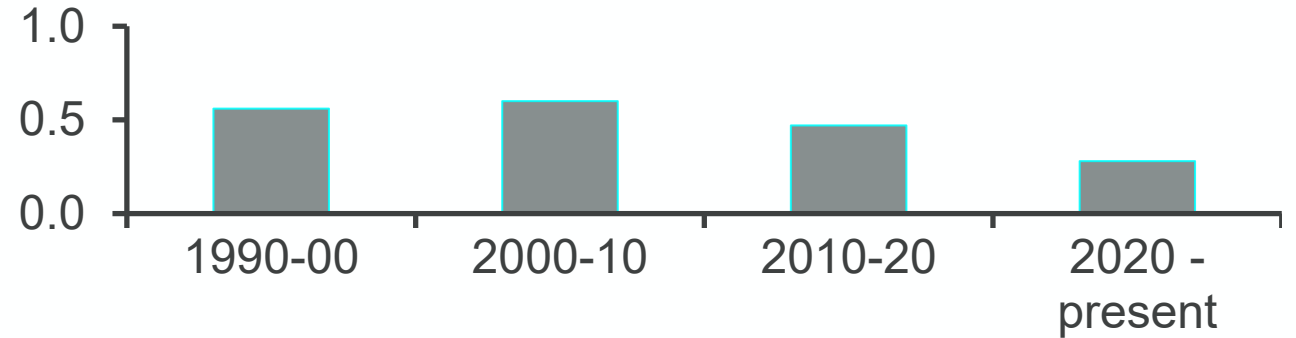


Housing starts are elevated but outlook under pressure

Canada Housing Starts, Annualized (000s)



Completions relative to population growth



Construction labour productivity, output per hour



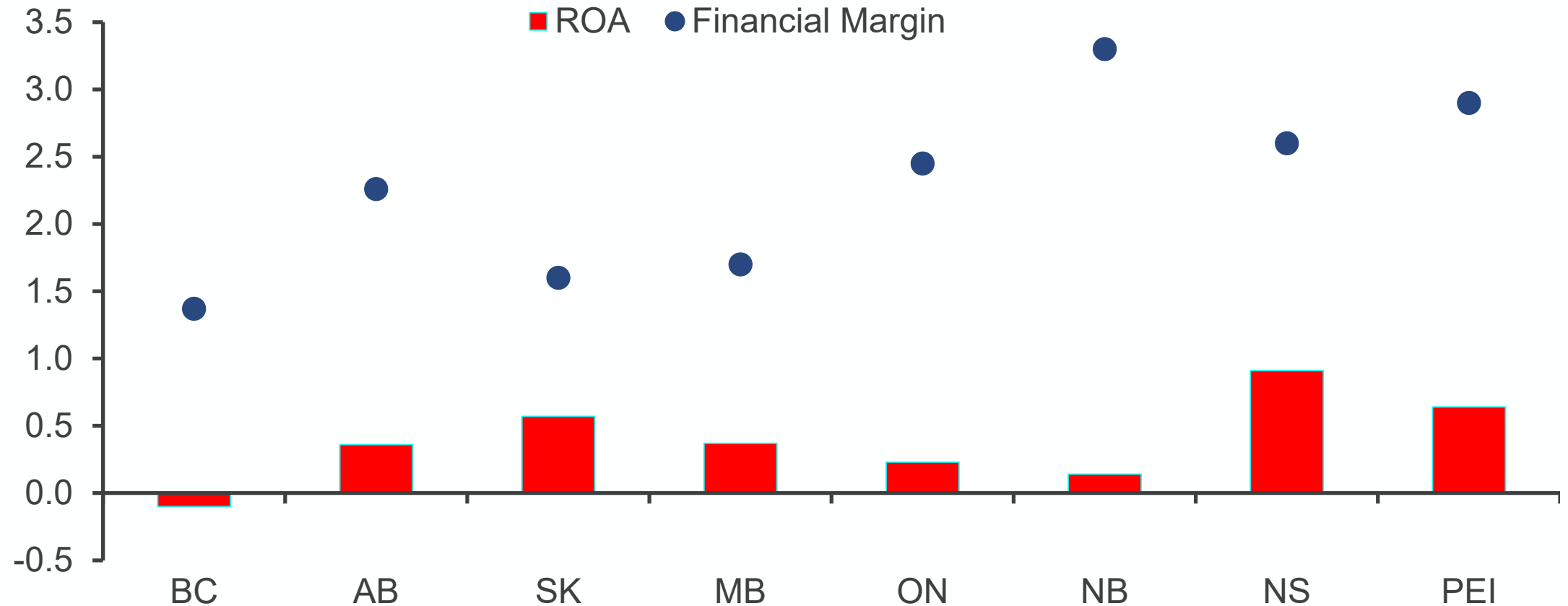
Housing Forecast

	MLS Sales			MLS Price		
	2023	2024	2025	2023	2024	2025
B.C	-9.2	5.0	10.0	-2.6	1.0	4.5
AB	-9.0	9.0	5.0	0.7	10.0	2.0
SK	-3.3	7.0	7.0	-0.6	4.0	2.5
MB	-10.0	9.0	9.0	-3.2	5.0	2.0
ON	-12.3	4.0	11.0	-6.3	0.0	3.0
QC	-12.7	11.0	6.0	-0.1	5.0	2.0
NB	-13.5	3.0	7.0	2.7	7.0	2.9
NS	-17.2	5.0	5.0	2.9	4.5	2.0
PEI	-4.9	1.0	7.0	-1.6	1.0	2.0
NL	-15.2	3.0	5.0	0.6	7.0	2.0

Credit Unions



Credit union performance differs among provinces



Key economic outcomes

- Normalizing but still compressed yield curve
- Slow growth in economy, pass through of interest rates continue maintains stress on households and businesses
- Housing market in nascent recovery period, sales volume to increase as mortgage rates decline and improve affordability

Credit union implications

Income

Yield curve normalization a boon. Renewals of fixed rate mortgages, but declining rates for potential buyers looks to lift net interest income. Mortgage volume recovery greater in BC and Ontario conditional on economic performance.

Delinquencies and loan losses

Slow growth economy, mortgage renewals to lift commercial defaults. CUs will need to provision more going forward. Delinquencies already climbing, but risk higher in Prairies despite stronger growth. This reflects reliance on labour income, demographics and housing assets.

Deposits

Shift expected. Deposits short- and term- to decline due to rotation into equity, housing market demand.

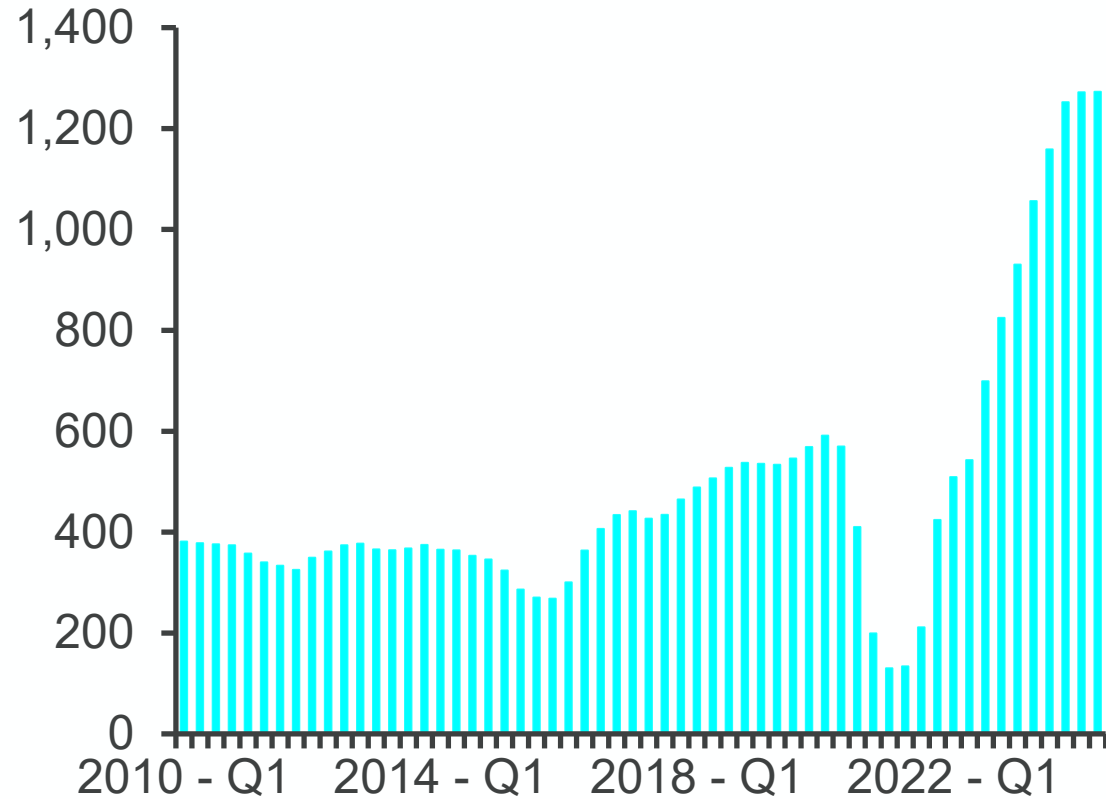
Membership

High population growth in past years should provide natural increase in growth, but market share may be an issue.

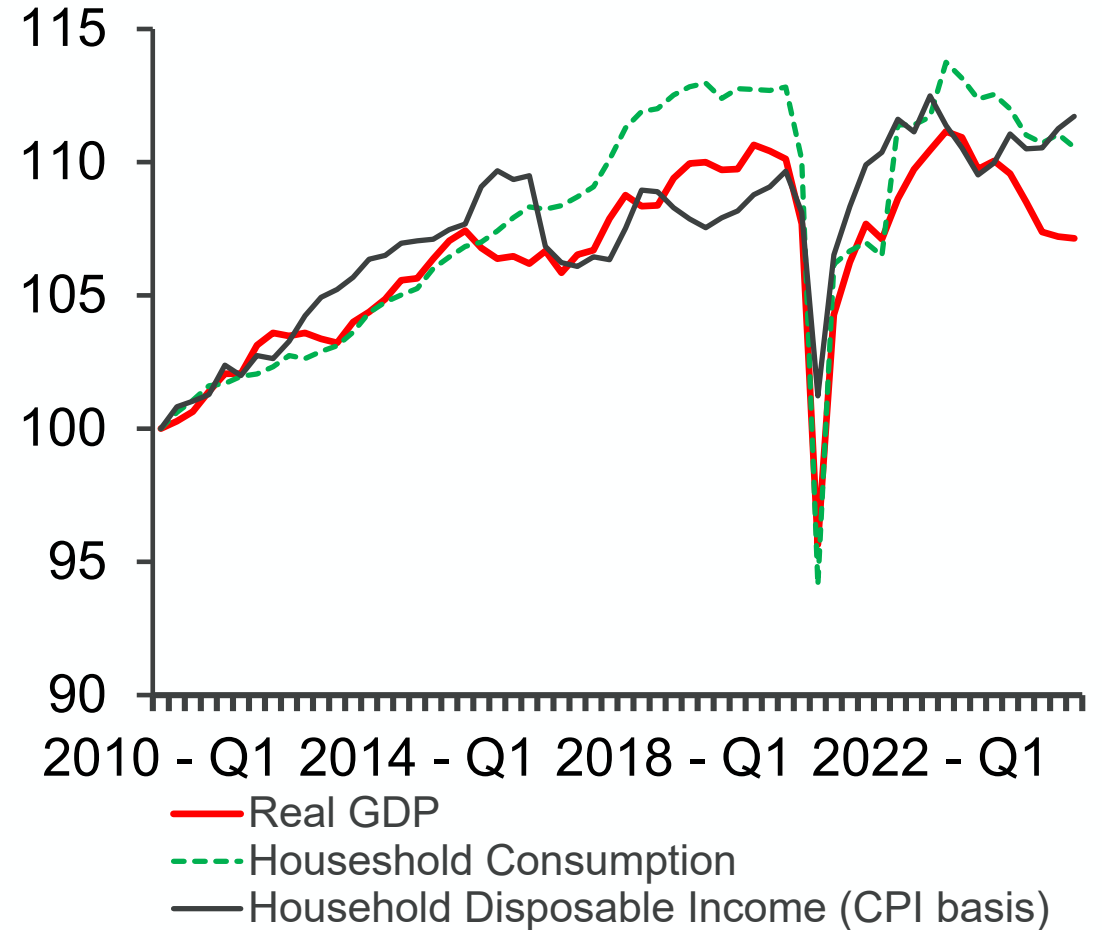
Thanks!

Headline GDP masks slack in the economy

Year-over-year population growth, 000s

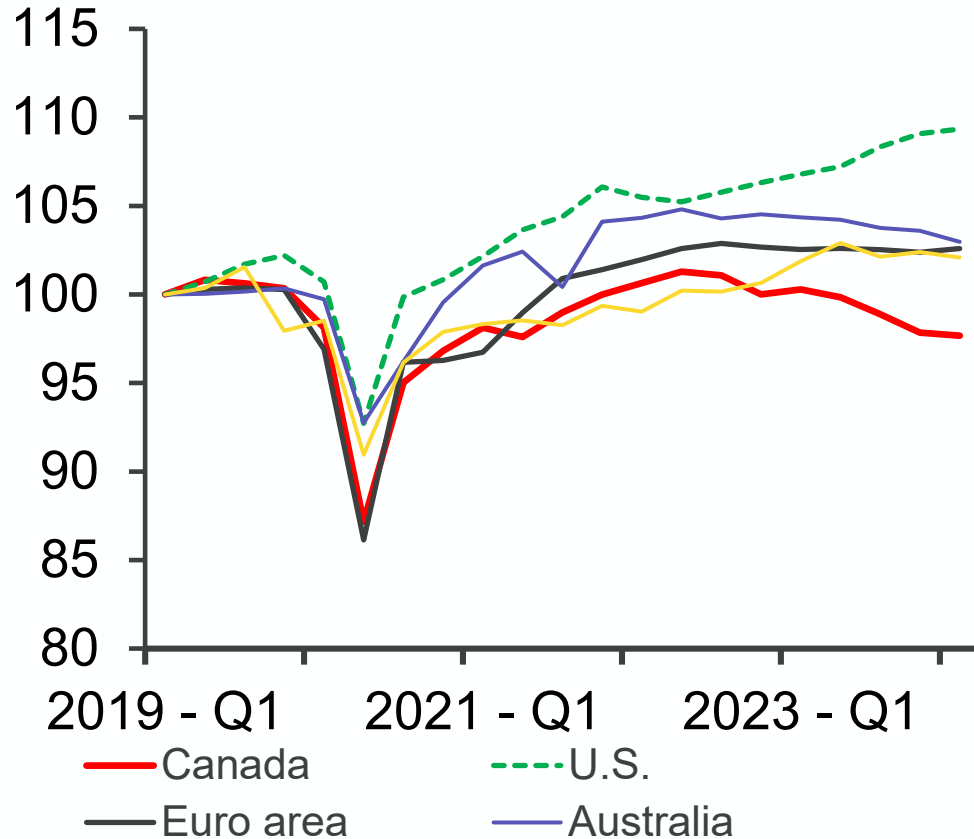


Per Capita measures, 2010 = 100

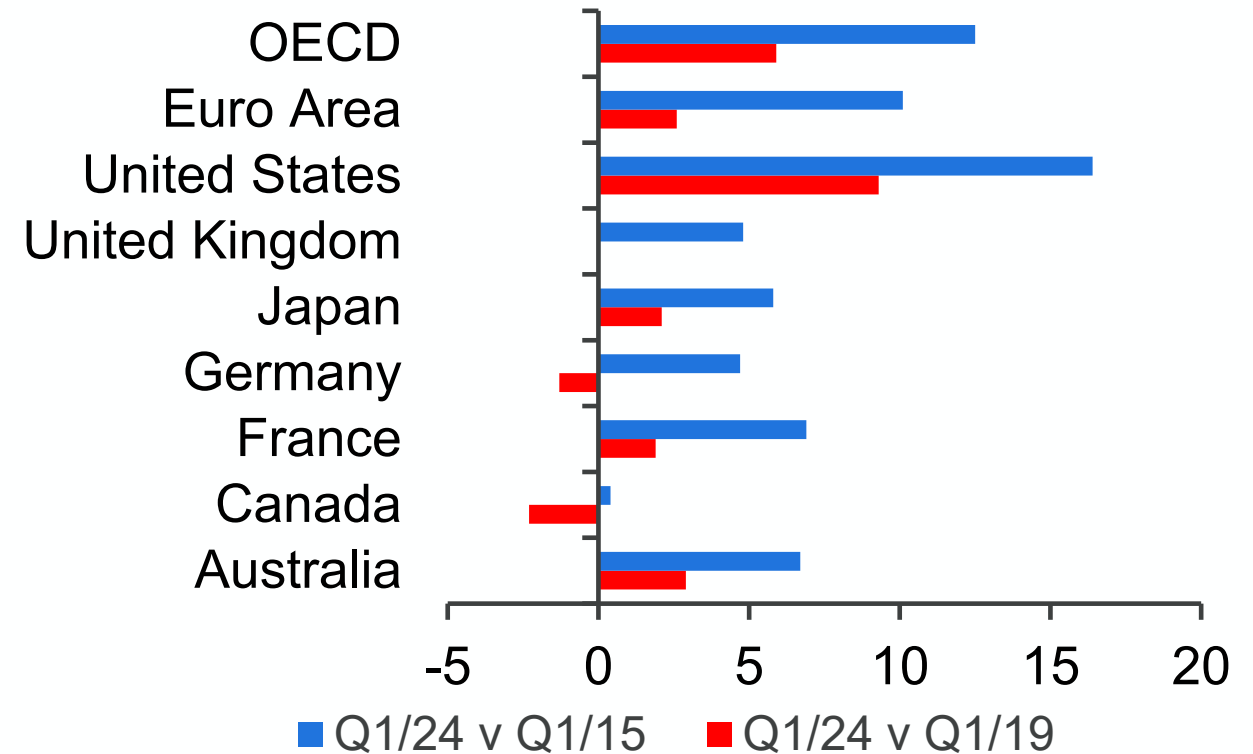


Comparative weakness, Canada trails its peers

Per Capita GDP Q1/19 = 100

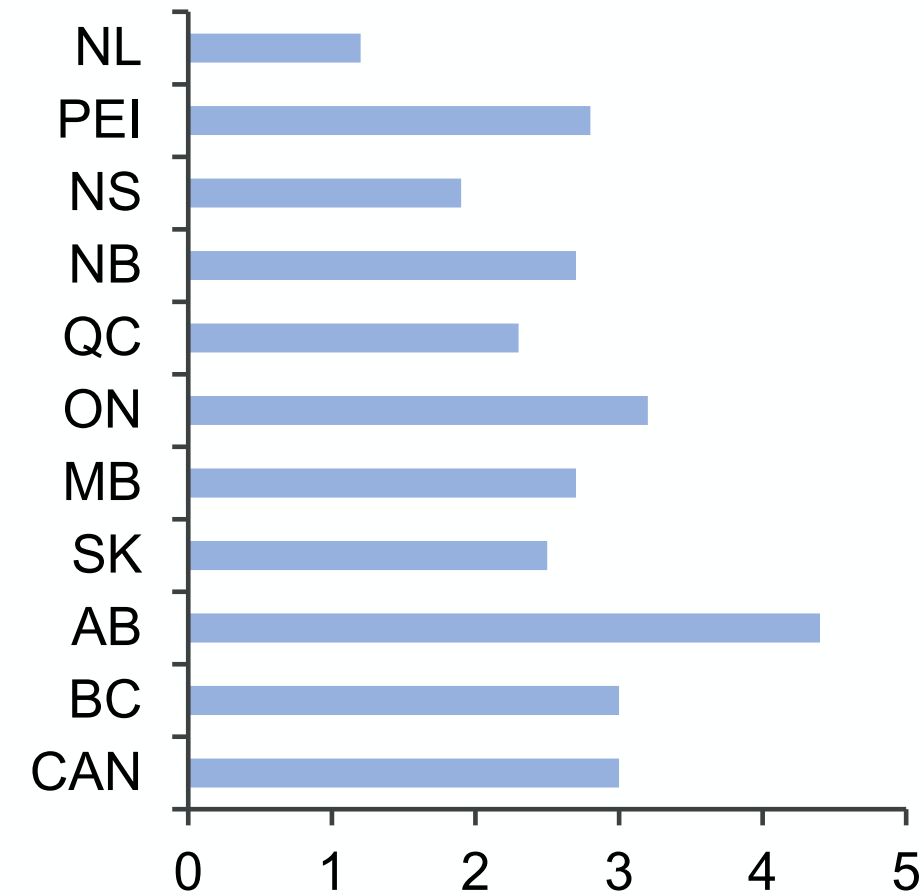


Per Capita GDP , % change

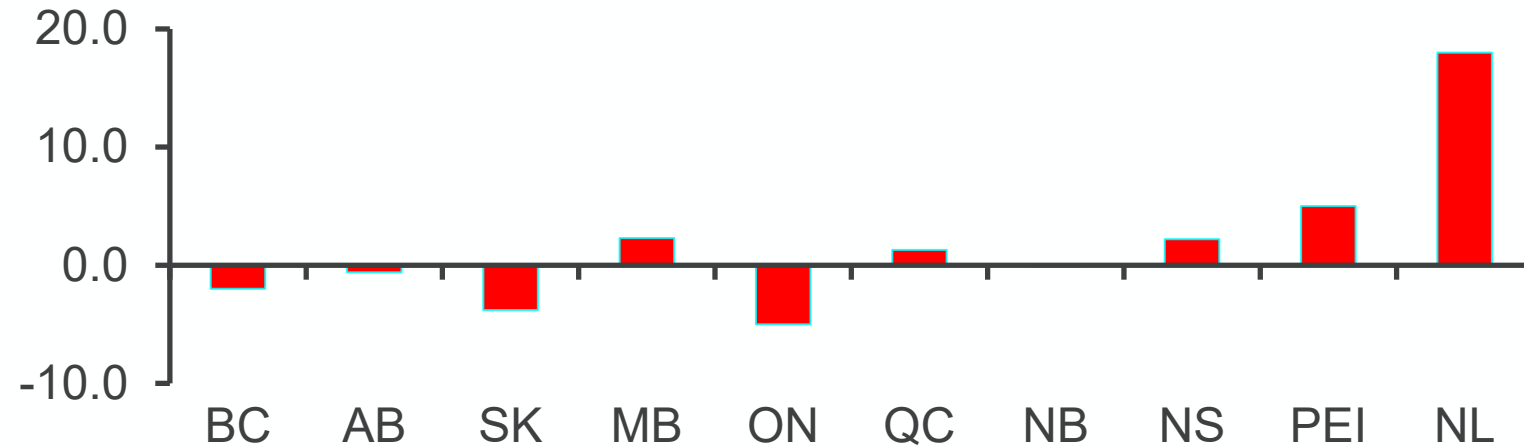


Population growth provides lift across all provinces

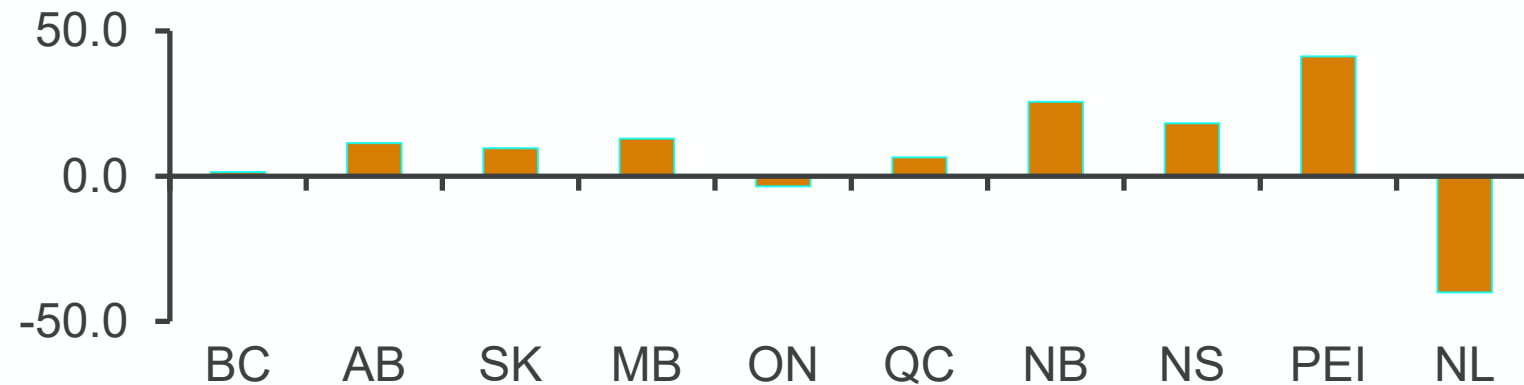
Y/y population growth, July 1 basis



Manufacturing sales, YTD % ch

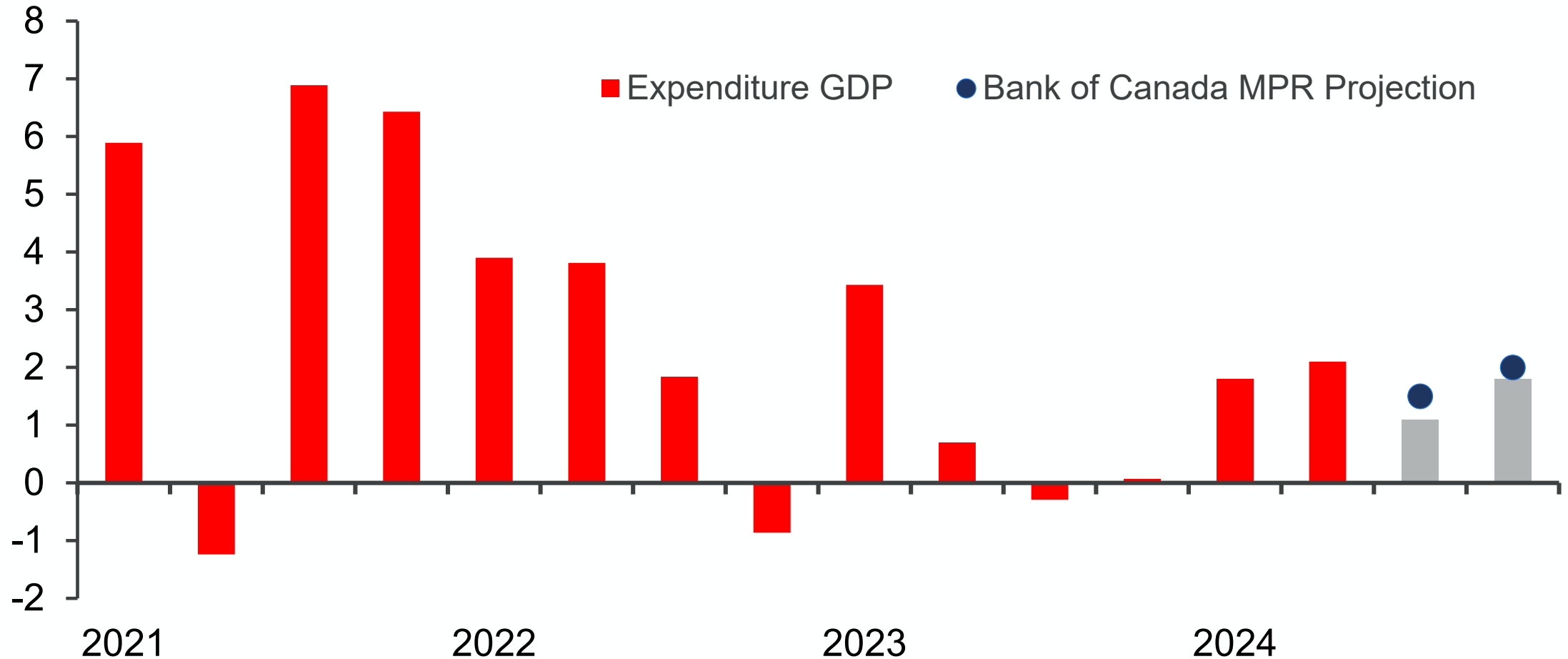


Real Investment in Structures, YTD % ch



Eyes forward: Economy and Labour Market will determine rate path

Expenditure GDP, % ch annualized

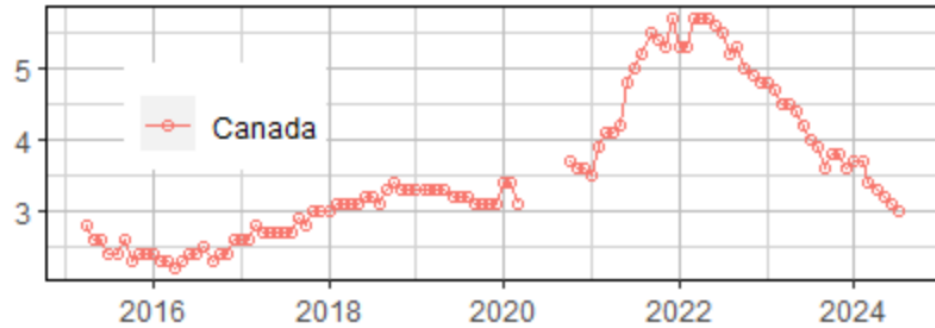


Job vacancies down sharply, mostly private

Canada Wage Pressures

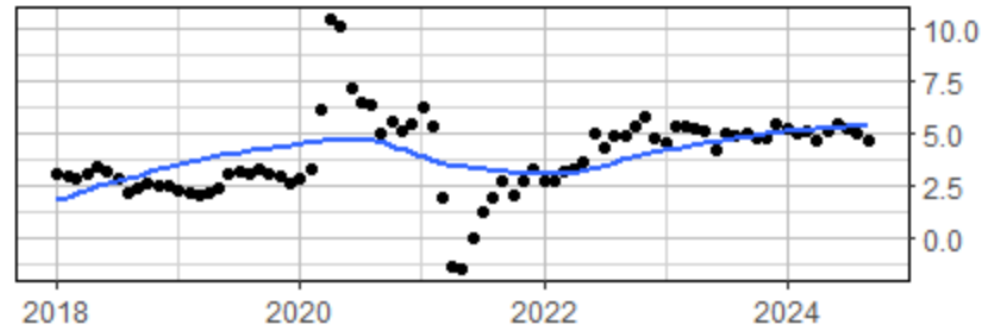
Job Vacancy Rate (%)

Last data point: 2024-07-01



Average wage change y/y (%)

Last data point: 2024-09-01

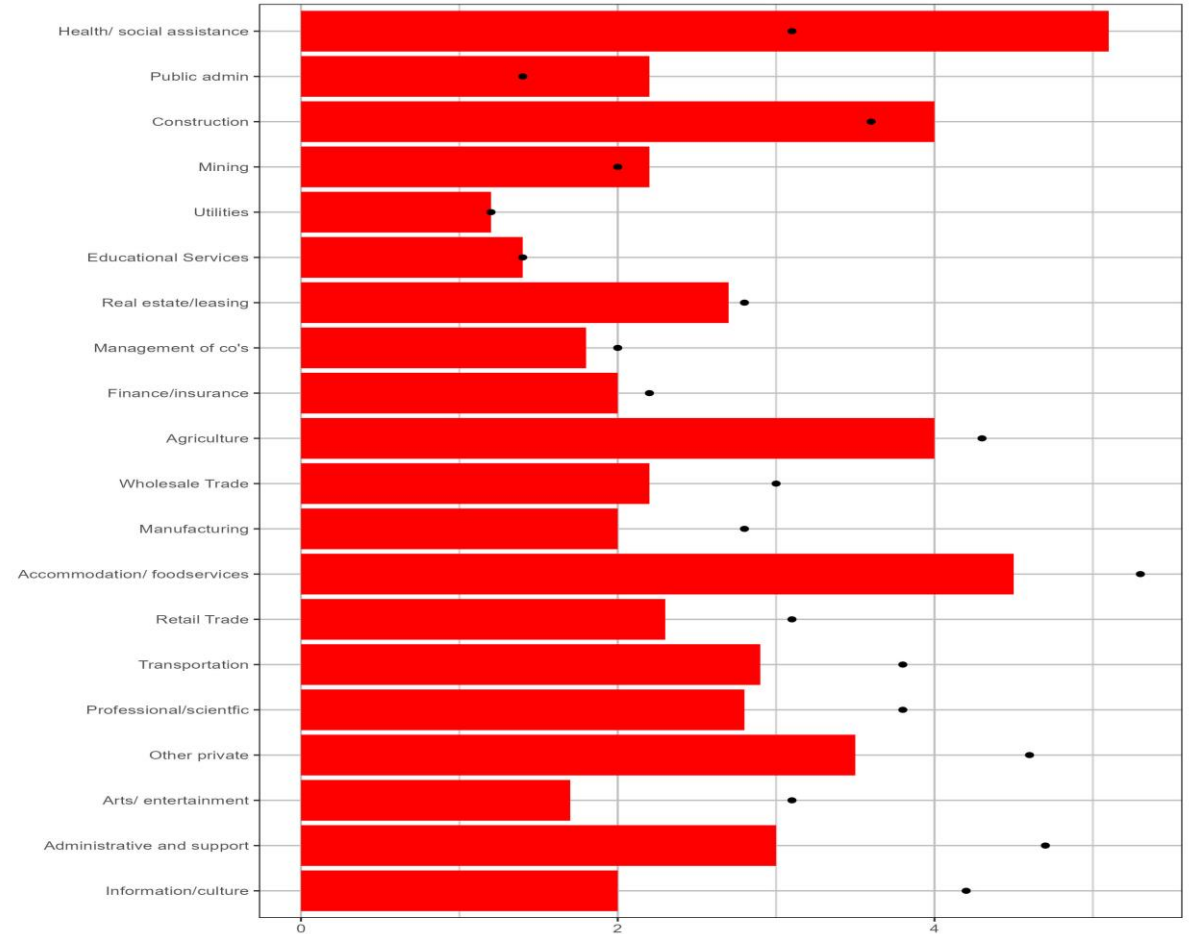


Statistics Canada, Central 1

Job Vacancy Rate by Industry, Canada

Job Vacancy Rate by Industry vs Aug/2019

Last data point: 2024-07-01



Statistics Canada, Central 1