

Another age of uncertainty: Policy, rates and the housing market

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Central 1



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2025: A rough ride expected

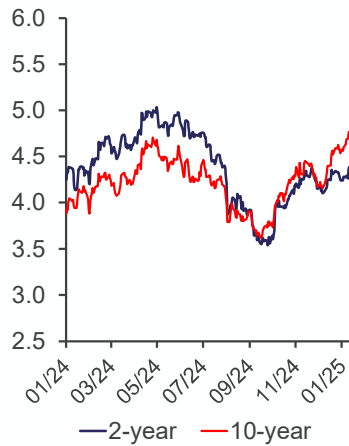
- Trump 2.0
- Tariff reality or bluster
- Canada: Finance revolt, incoming Prime Minister
- Age of AI
- Interest rates – where it goes nobody knows



2

Rates take flight, Canadian dollar grounded

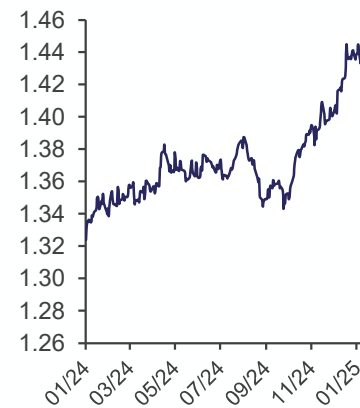
U.S. Treasuries, Per cent



Canada Bond yield, Per cent



CAD/USD



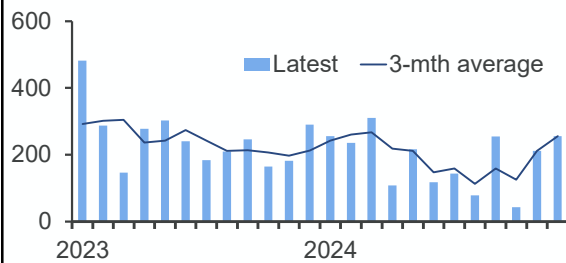
Source: Bloomberg, Central 1

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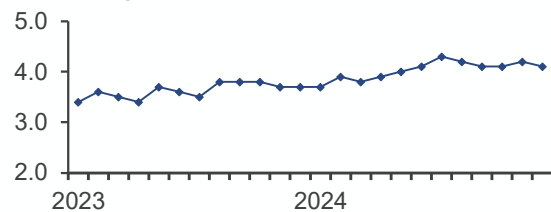
3

Few signs of a slowdown in U.S. economy

Non-farm payrolls, m/m change

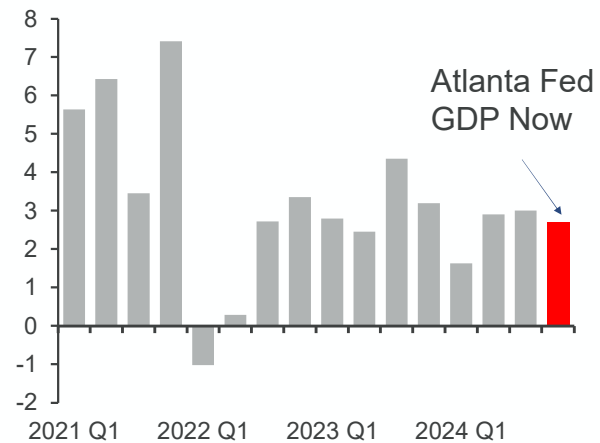


Unemployment rate



Source: BEA, Central 1

GDP, annualized quarterly change

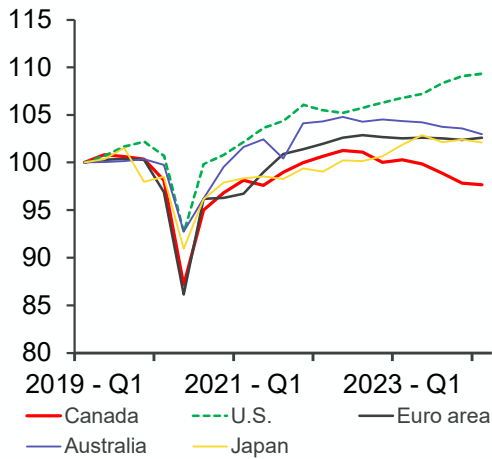


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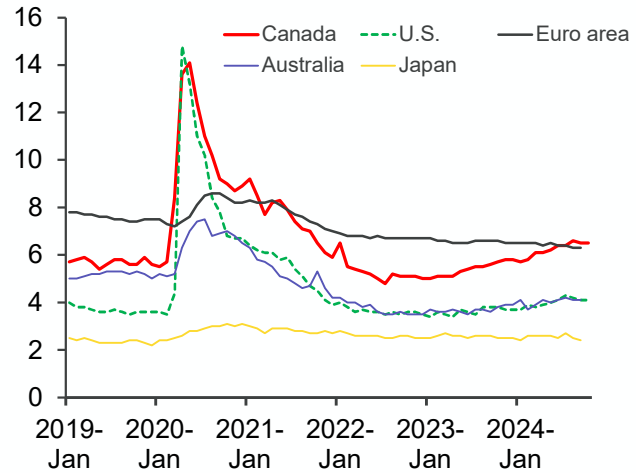
4

U.S. has led growth amongst peers

Per Capita GDP Q1/19 = 100



Unemployment Rate



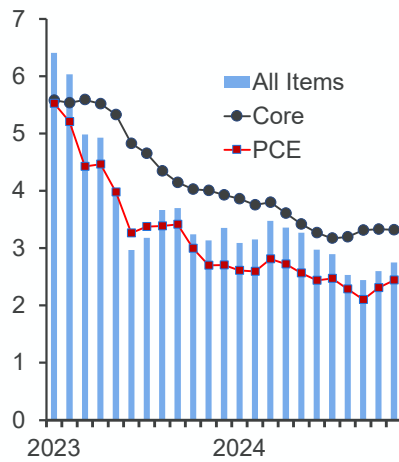
Source: Statistics Canada, OECD, Central 1

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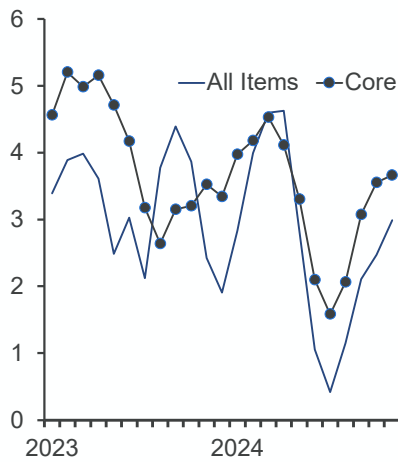
5

U.S. inflation trends accelerate again

y/y % change



3m annualized change, seasonally-adjusted



Upside risk

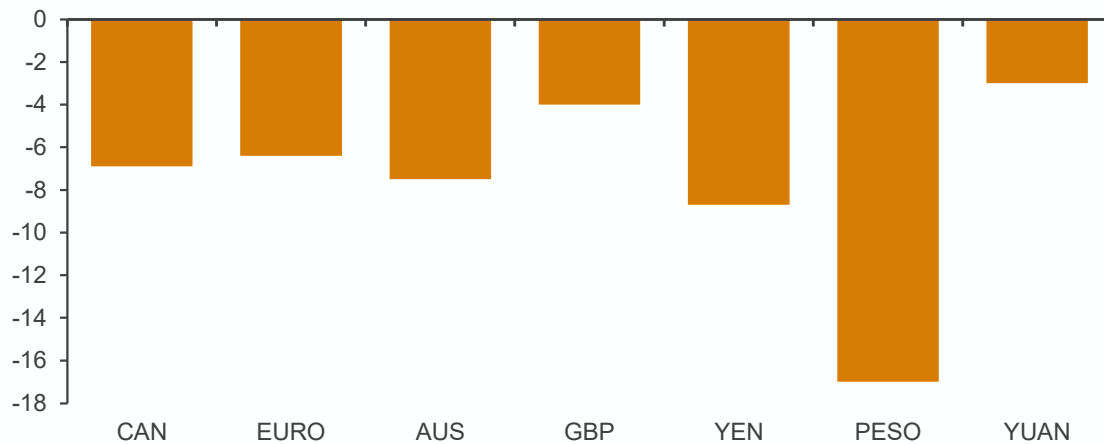
- Tariffs as a tool
- Mass Deportation
- California wild fires

Source: CREA, Central 1

6

CAD weakness more about U.S. strength

12- month change vs USD



Source: Central 1

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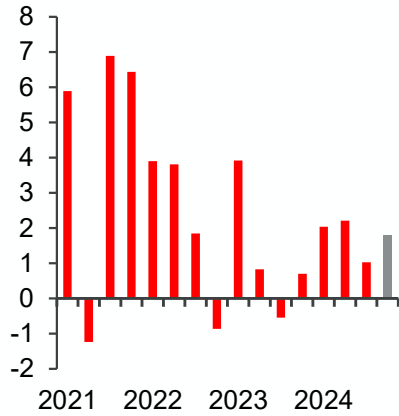
D'oh Canada?



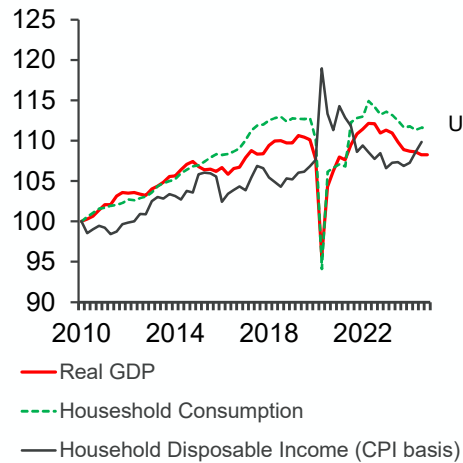
8

Canadian economy still growing, but slack still on the rise

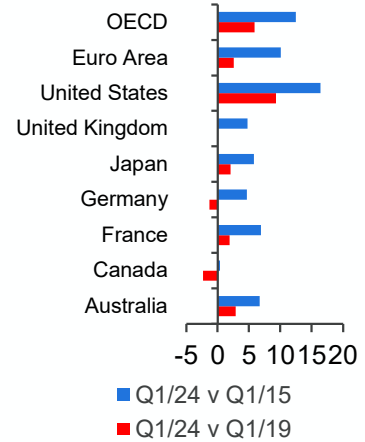
Expenditure GDP, % ch annualized



Per Capita measures, 2010 = 100



Per Capita GDP, % change



Source: Statistics Canada, Central 1 Economics

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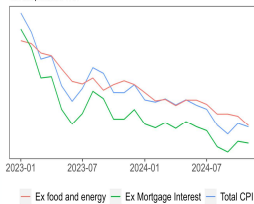
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Inflation moves swiftly to 2%, Bank cuts deep

Key Indicators

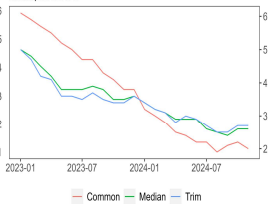
CPI Inflation, y/y % change

Last data point: 2024-11-01



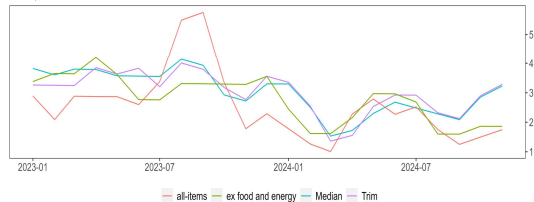
Bank of Canada Core Inflation, y/y % change

Last data point: 2024-11-01

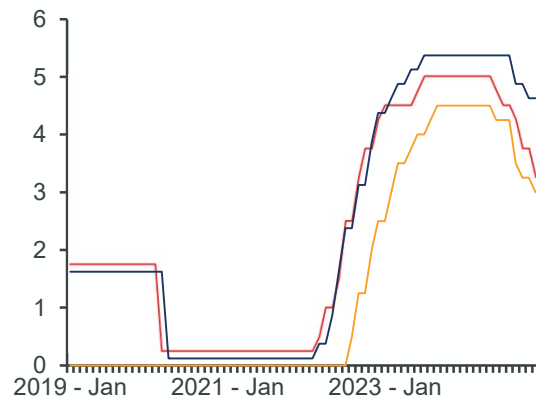


3m annualized inflation, s.a. % change

Last data point: 2024-11-01



Policy rate



—CAN —US —Euro Area

Source: Statistics Canada, Central 1 Economics Centre

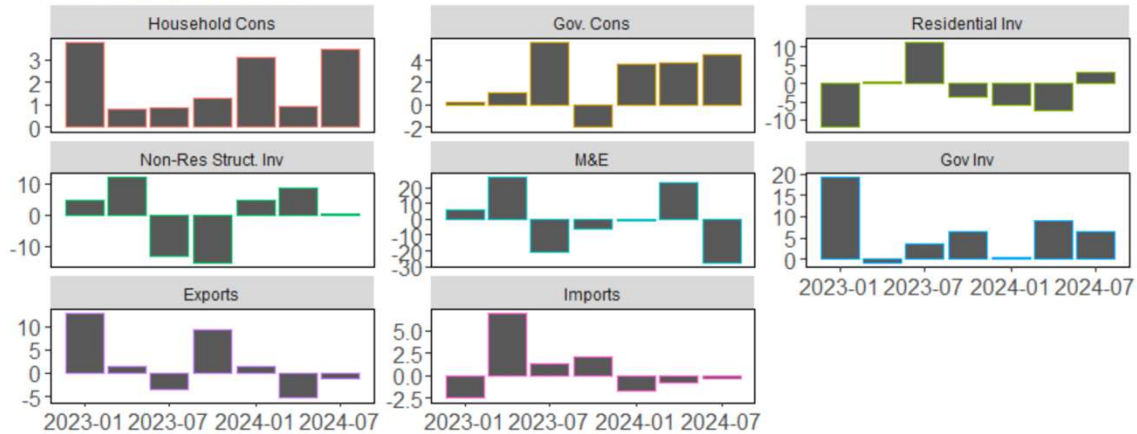
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Government spending, consumers drive growth

GDP By Expenditure q/q annualized

Last data point: 2024-07-01



Source: Statistics Canada, Central 1 Economics

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December labour market stronger than expected

Canada Labour Market Indicators

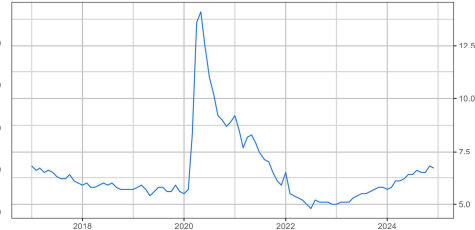
LFS Employment (000s)

Last data point: 2024-12-01



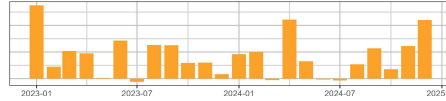
Unemployment rate (%)

Last data point: 2024-12-01



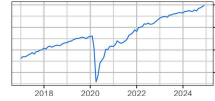
Monthly Employment change (%)

Last data point: 2024-12-01



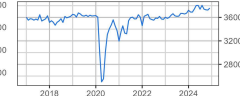
Full-time employment (000s)

Last data point: 2024-12-01



Part-time employment (000s)

Last data point: 2024-12-01



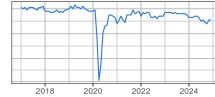
Year-over-Year Employment change (%)

Last data point: 2024-12-01



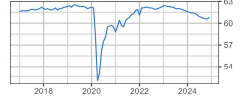
Participation rate (%)

Last data point: 2024-12-01



Employment rate (%)

Last data point: 2024-12-01



Source: Statistics Canada, Central 1

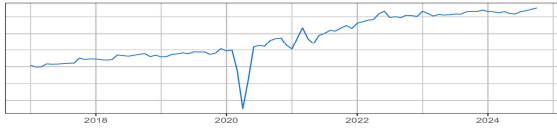
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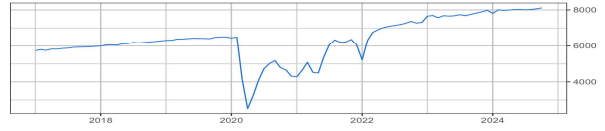
Economy showed signs of stirring in late 2024

Canada Economic Indicators

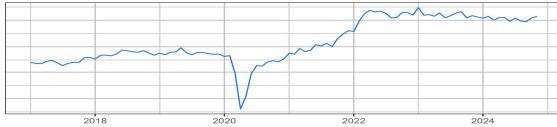
Retail Sales, \$mil
Last data point: 2024-10-01



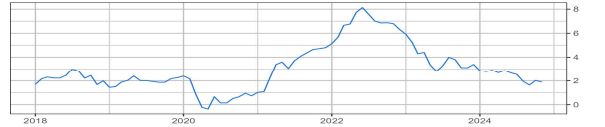
Foodservice and Drinking Place Sales, \$mil
Last data point: 2024-10-01



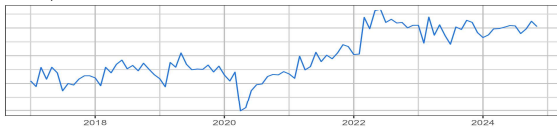
Manufacturing Sales, \$mil
Last data point: 2024-11-01



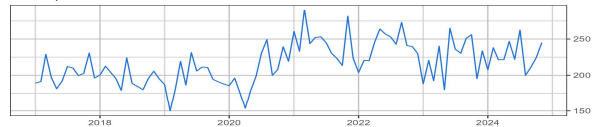
CPI inflation, y/y %ch.
Last data point: 2024-11-01



International Goods exports, \$mil
Last data point: 2024-11-01



Housing Starts, 000s
Last data point: 2024-11-01



Statistics Canada, Central 1

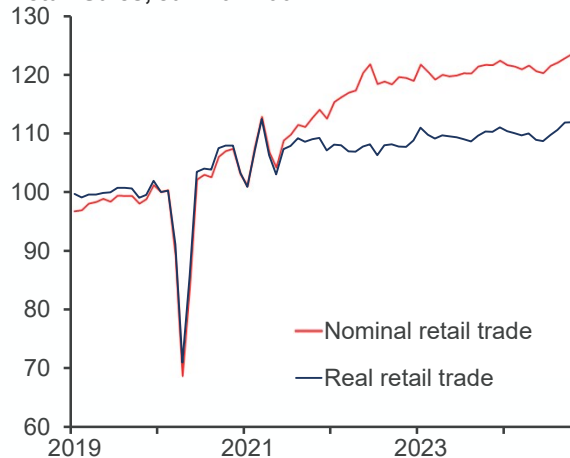
Source: Statistics Canada, Central 1 Economics



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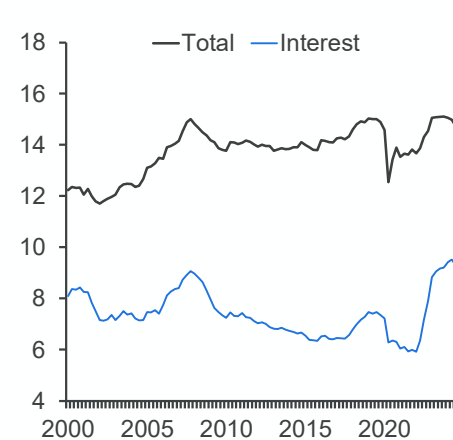
Retail spending ticks up but high debt levels and payments an ongoing risk

Retail Sales, Jan/20 = 100



Source: Statistics Canada, Central 1

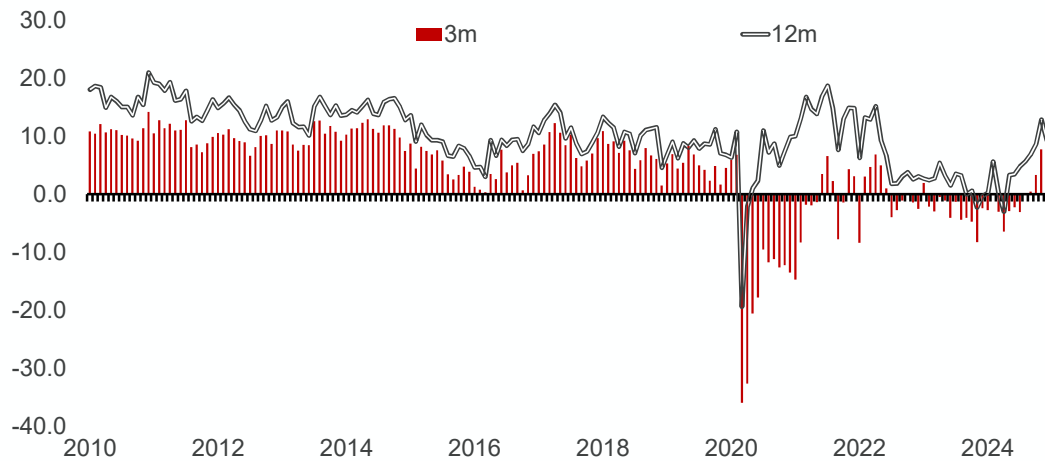
Debt service ratio



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Businesses more optimistic to end off year

CFIB Business Barometer, Deviation from 50

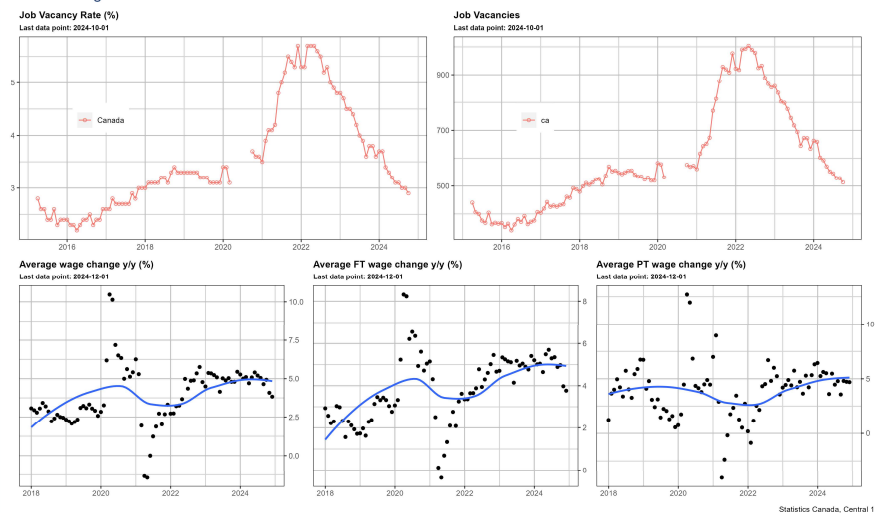


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Wage growth falls, annualizing near 2%

Canada Wage Pressures

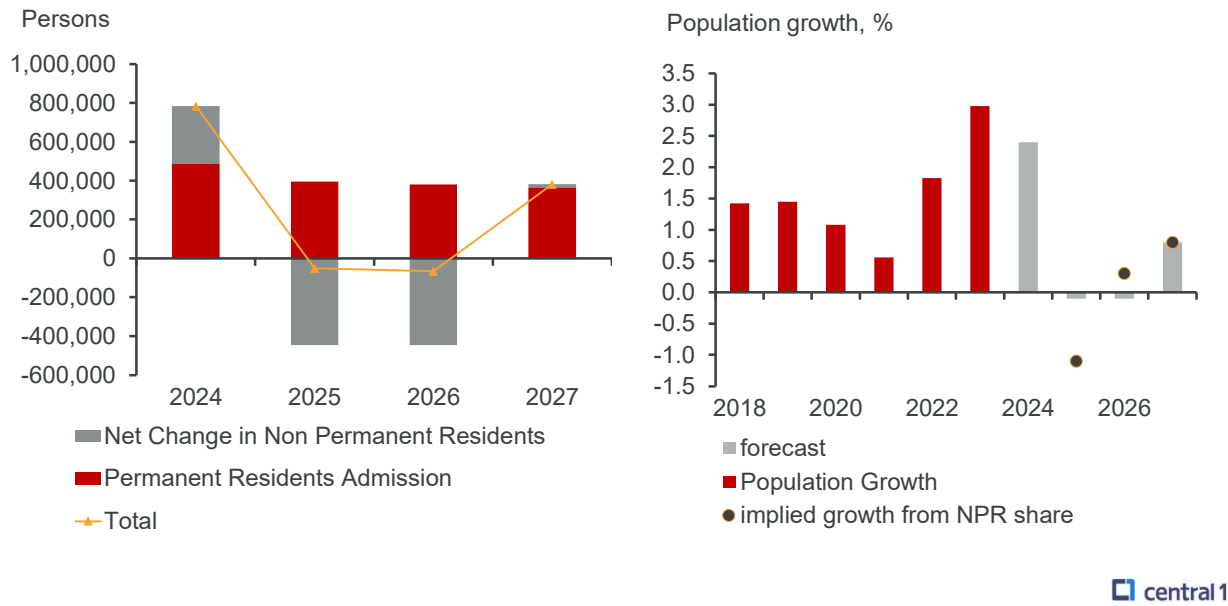


Source: Statistics Canada, Central 1 Economics Centre

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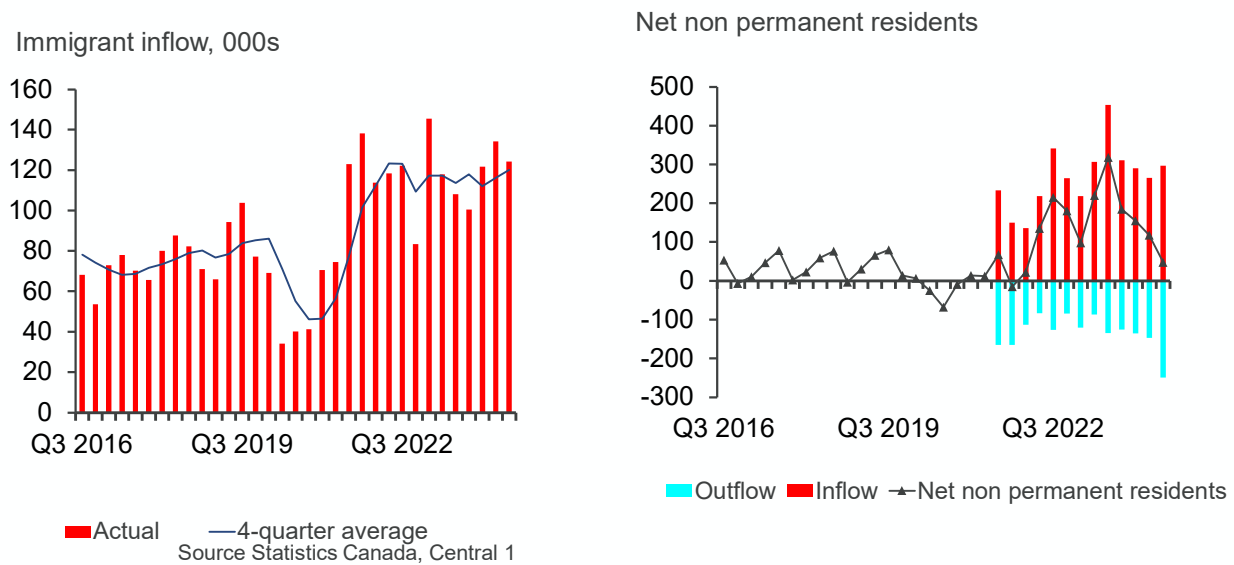
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Era of rapid population growth closes



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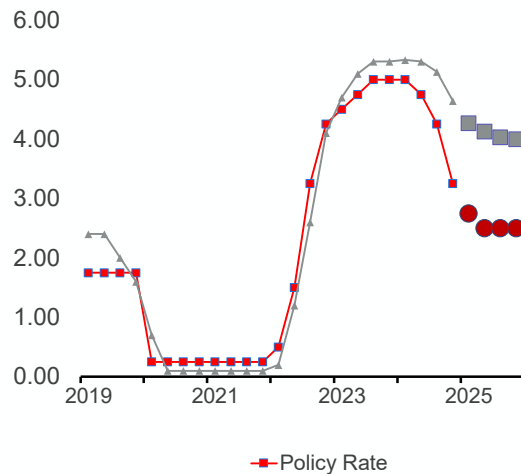
Immigration holds steady, non-permanent resident exits drive slower growth



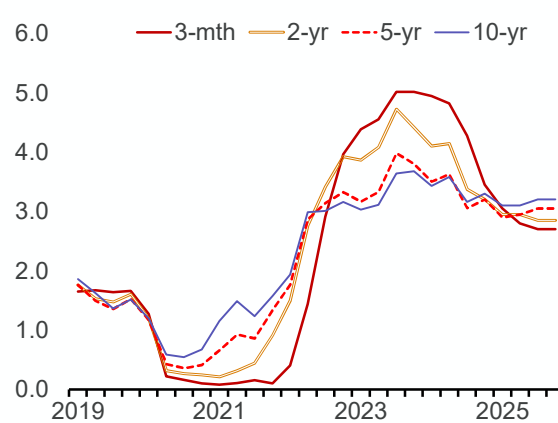
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Bank of Canada cutting faster than Fed, long yields hold up

Canada and US Policy Rates



Benchmark bond yield, %



Source: Statistics Canada, Central 1 Economics

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Impact of trade war on Canada

- Tariffs and retaliation by Canada could trigger a 4-6 per cent decline in Canadian GDP, triggering a recession, job losses and sharp increase in unemployment rate (+2 to +3%). Deeper recession than normally observed.
- This is contingent on retaliation. Canada has threatened to retaliate with export tariffs, energy restrictions, minerals. No retaliation results in less of a drag
- Inflation: US tariffs is disinflationary to Canada due to lower aggregate demand, and would trigger deeper rate cuts by Bank of Canada. Retaliatory tariffs by Canada leads to some offsetting inflation in Canada and limits downside to rate cuts
- Countries will adapt. Longer term trade will rotate to new transpacific partners, domestic trade may rise with lower interprovincial barriers

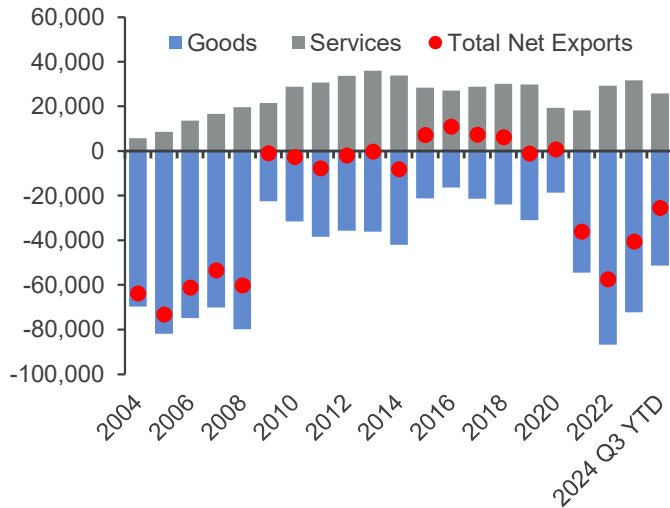
Source: Central 1

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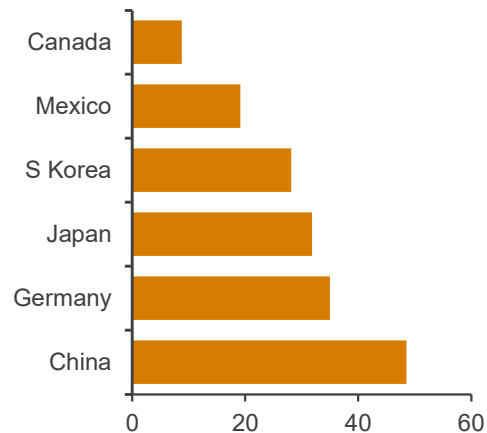
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U.S. trade deficit with Canada is negligible

US Trade Balance with Canada, USD



Trade deficit to Total Trade Flows, %



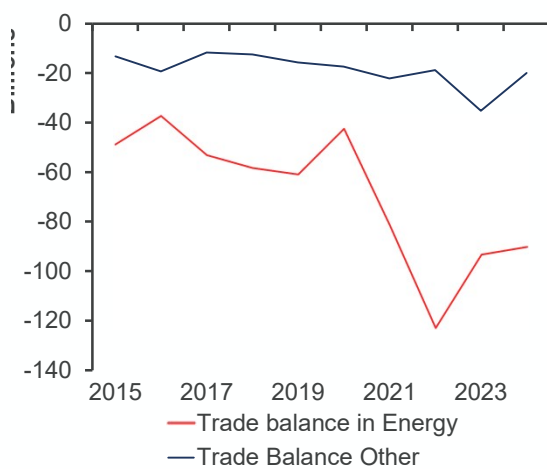
Source: BEA, US ITC, Central 1

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Canada's trade surplus an energy story

US Trade Balance with Canada, \$ bil



Source: US BEA Trade Data Online HS 27, Central 1

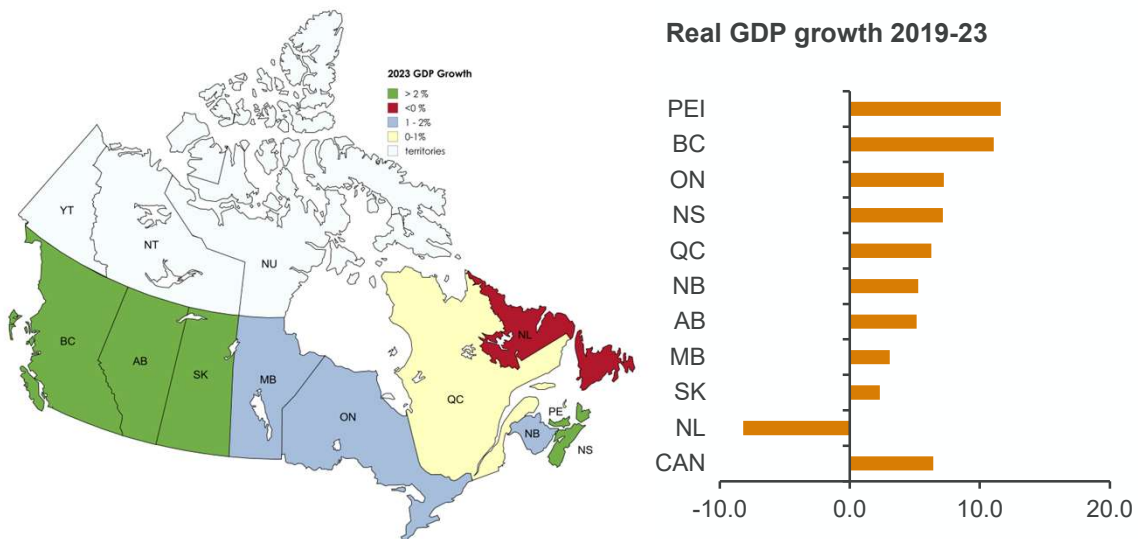
- Bluster or policy?
- U.S. trade deficits reflect energy and resources purchases, oil, electricity, etc.
- Of \$154B crude imports (YTD), 58% from Canada
- Canada crude discounted due to geography, and integral to US refineries of heavy crude.
- Canada is 60% of U.S. oil imports
- Other trade roughly balanced
- No economic rationale for tariffs, except to offset tax cuts, other policy

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From coast to coast

25

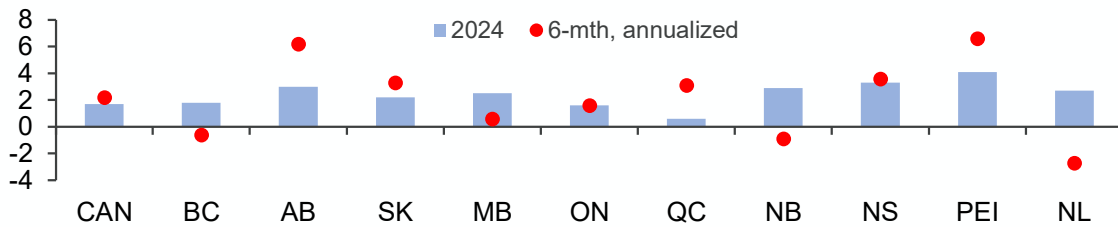
Canadian growth mixed in 2023, led by west



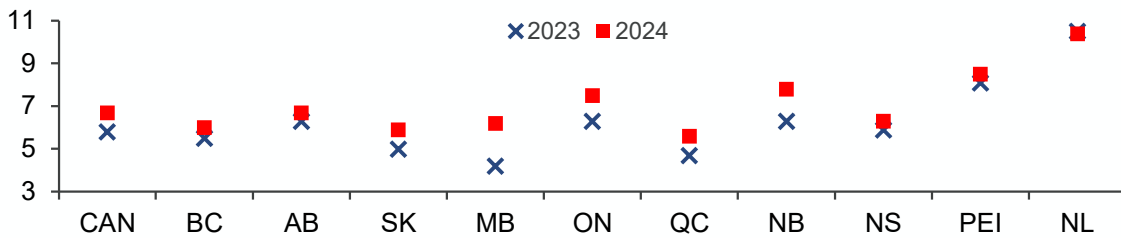
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Rising employment and jobless rate in 2024

Employment Growth



Unemployment Rate, Dec



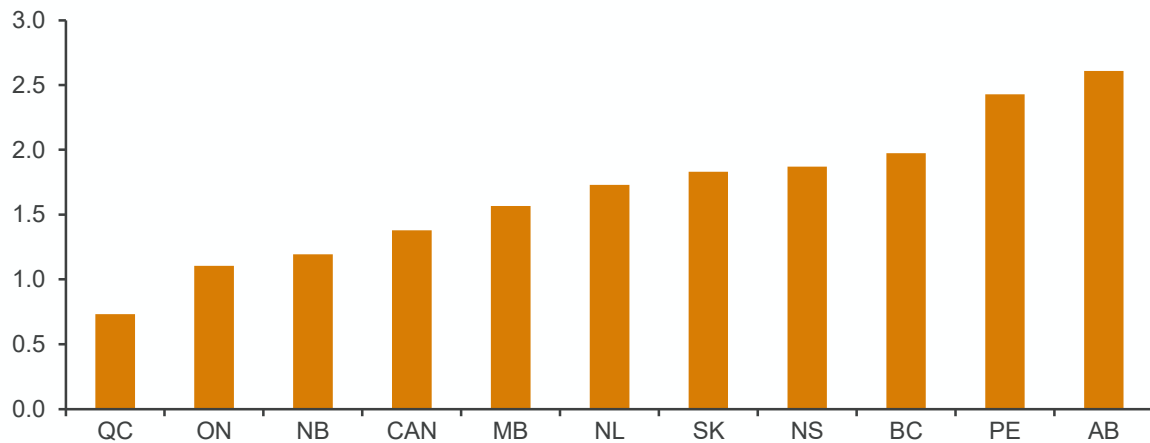
Source: Statistics Canada, Central 1

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Coincident indicators aligning

Composite index, YTD Oct 2024



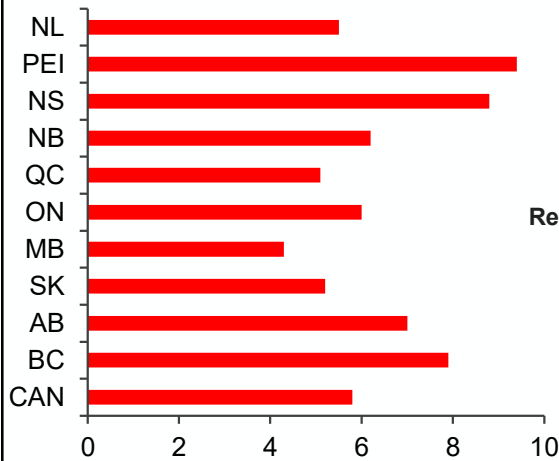
*Philip Smith, retired assistant chief statistician, Statistics Canada

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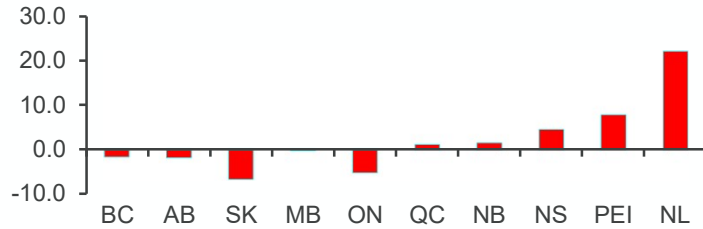
Income growth points to western and Atlantic strength

Wage and social compensation,
Q3 YTD % ch

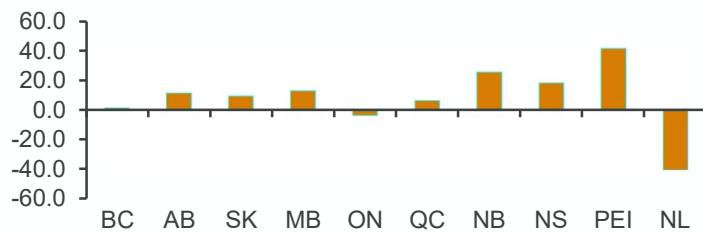


Source: Statistics Canada, Central 1

Manufacturing sales, YTD % ch



Real Investment in Structures, YTD % ch

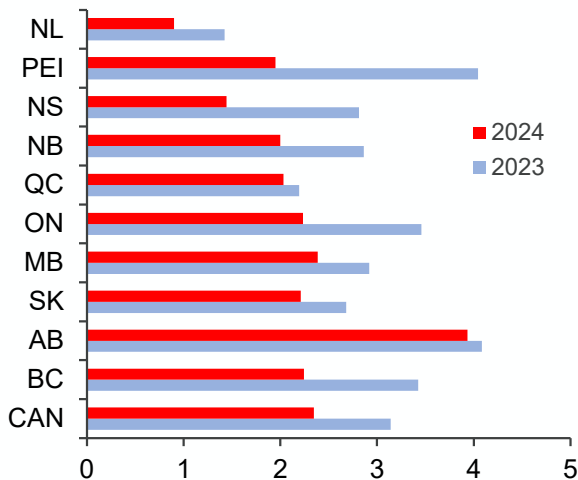


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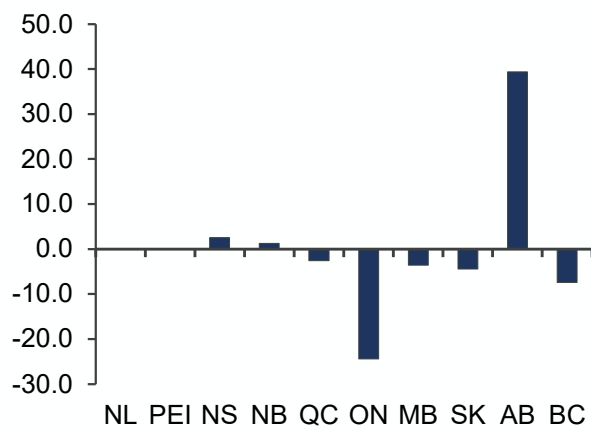
High growth driven by population inflows

Y/y population growth, Oct 1 basis



Source: Statistics Canada, Central 1

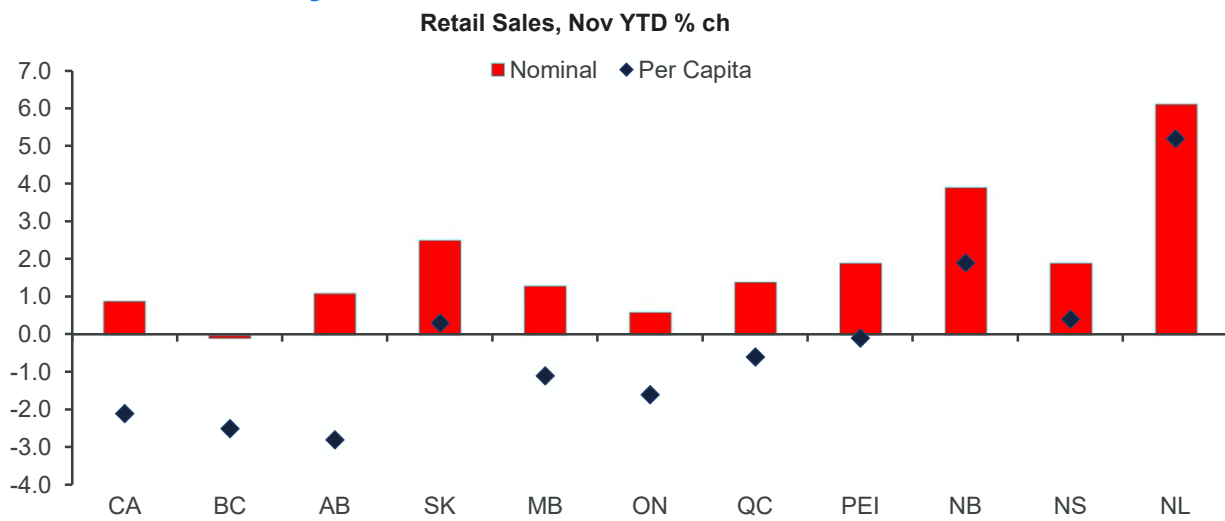
Net interprovincial migration by province, 000s persons



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Retail tells a story, households hunker down



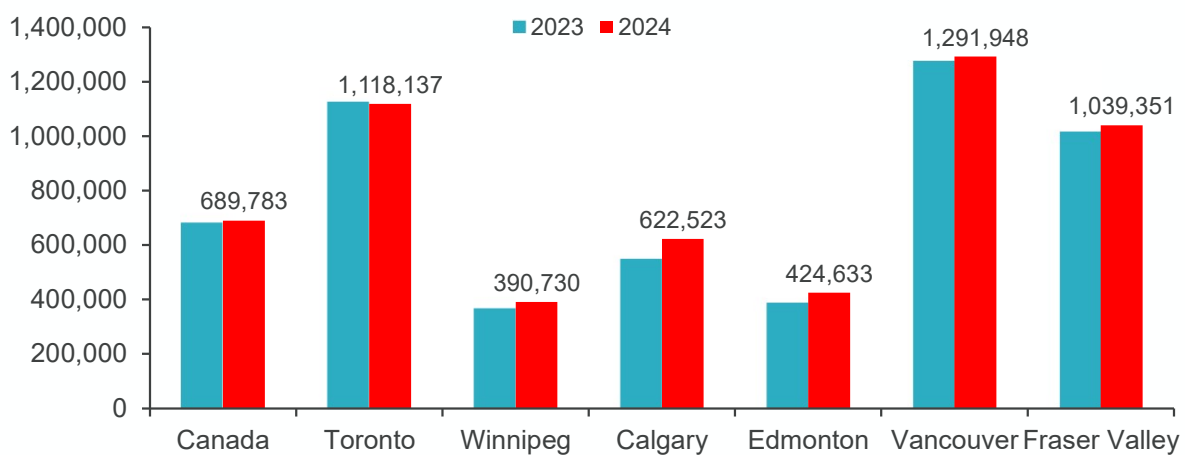
Source: Statistics Canada, Central 1

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Housing affordability.... In some markets

Average MLS® Price



Source: CREA, Central 1

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	Real GDP			Employment			Unemployment Rate		
	2024	2025	2026	2024	2025	2026	2024	2025	2026
B.C	1.5	2.6	2.4	1.8	1.7	1.6	5.5	5.7	5.3
AB	2.1	1.9	2.1	3.0	2.0	1.5	7.0	6.9	6.2
SK	1.4	1.5	1.5	2.2	1.7	1.2	5.4	5.2	5.1
MB	1.3	1.5	1.3	2.5	1.2	1.0	5.3	5.2	5.2
ON	1.2	1.9	1.9	1.6	1.3	1.4	6.9	6.9	6.3
QC	0.7	1.3	1.7	0.6	0.9	1.0	5.3	5.3	5.3
NB	1.0	1.3	1.4	2.9	1.2	1.1	7.1	7.6	7.5
NS	1.3	1.6	1.4	3.3	1.5	1.0	6.4	6.8	6.8
PEI	1.5	1.5	1.8	4.1	2.0	1.3	7.9	7.4	7.1
NL	1.3	1.0	1.0	2.7	0.8	1.0	10.0	9.6	9.6

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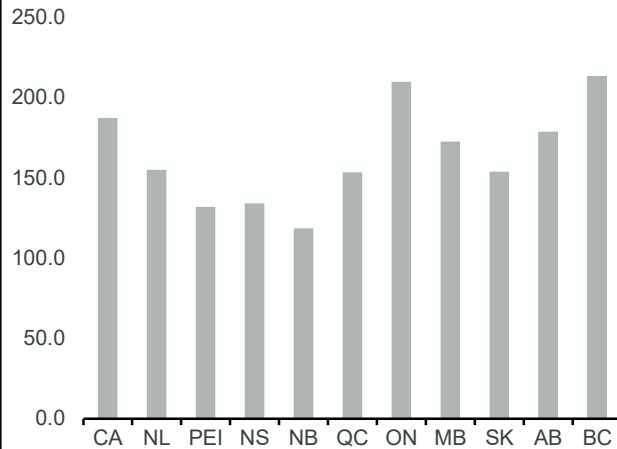
Some provincial themes

- Lower interest rates to support all provinces, housing and investment cycle
- Alberta, people driven. Affordability and job growth continue to attract Canadians from across the country
- Ontario, lower EV and battery investment to drag on potential upside, government likely to slow spending
- B.C. sees export growth via LNG, and buoyed by Site C completion. Capital spending to falter, government expansion to slow

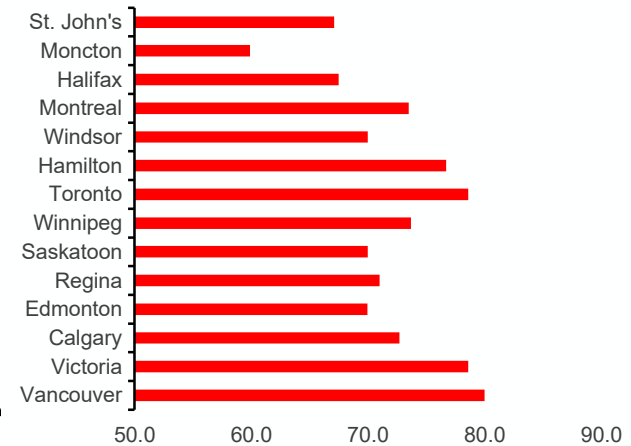
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Ontario and B.C. most sensitive to rate hikes due to higher debt

Household debt to income ratio



Mortgage share of outstanding debt



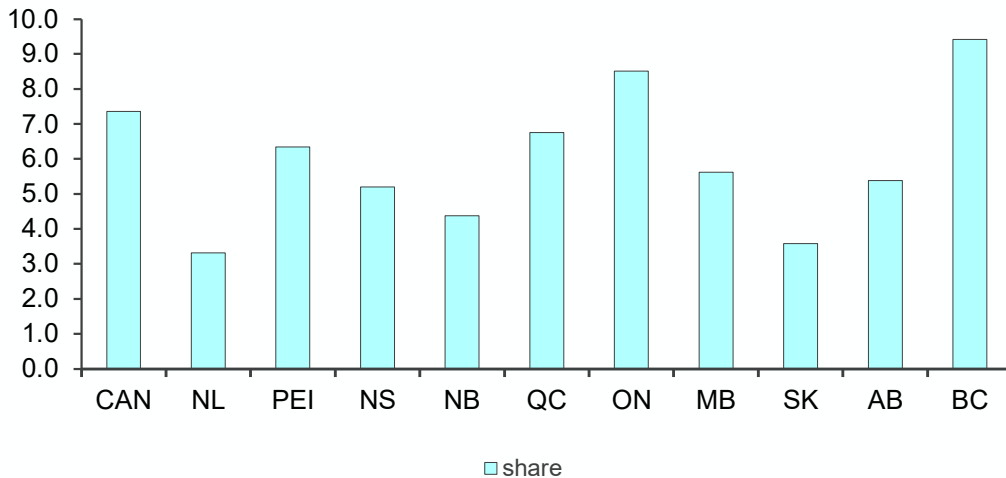
Source: Statistics Canada, Central 1

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B.C. and Ontario more exposed to temporary resident roll back

Non-permanent resident share of population, Oct 1 2024, %

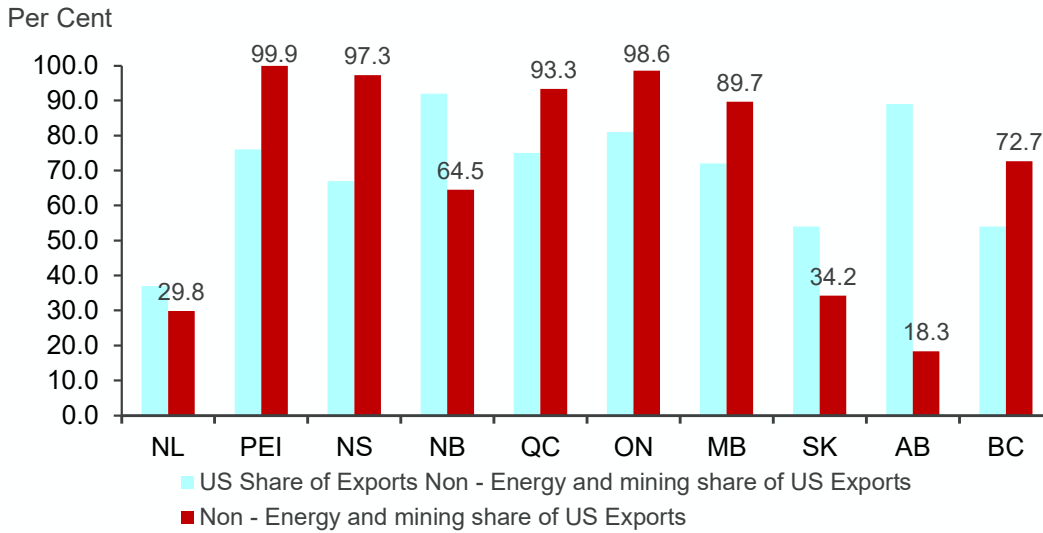


Source: Statistics Canada, Central 1

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Tariff exposure contingent on trade share and exposure to commodities



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Will housing finally gain traction?

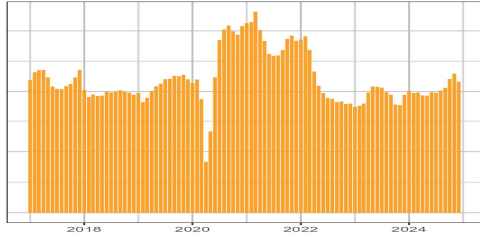


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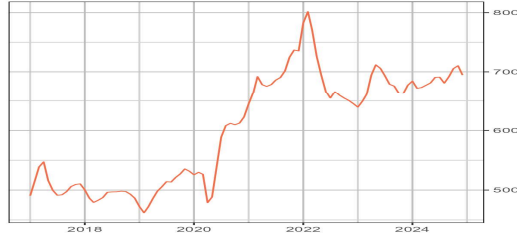
Housing market momentum curbed in December

Canada MLS Activity

Unit sales
Last data point: 2024-12-01



Average Price, \$000s
Last data point: 2024-12-01



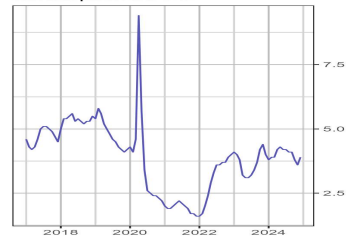
New listings
Last data point: 2024-12-01



Sales-to-new listings
Last data point: 2024-12-01



Months of inventory
Last data point: 2024-12-01



Source: CREA, Central 1

CREA, Central 1

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Full- year data showed higher sales after weak 2023, prices flat

	MLS® Sales % change				
	2020	2021	2022	2023	2024
B.C	21.2	32.7	-35.1	-9.2	2.1
AB	3.9	53.6	-1.4	-9.1	9.2
SK	24.6	24.1	-11.7	-3.3	8.8
MB	14.3	17.2	-20.1	-10.0	11.4
ON	10.0	19.9	-32.2	-12.6	3.1
QC	16.4	-2.4	-20.5	-12.8	19.0
NB	13.4	21.8	-20.4	-13.6	4.2
NS	13.2	14.0	-21.7	-17.4	8.0
PEI	9.8	14.9	-18.2	-5.4	8.7
NL	14.4	45.8	-7.1	-15.1	6.1
CA	12.9	21.0	-25.4	-11.3	7.3

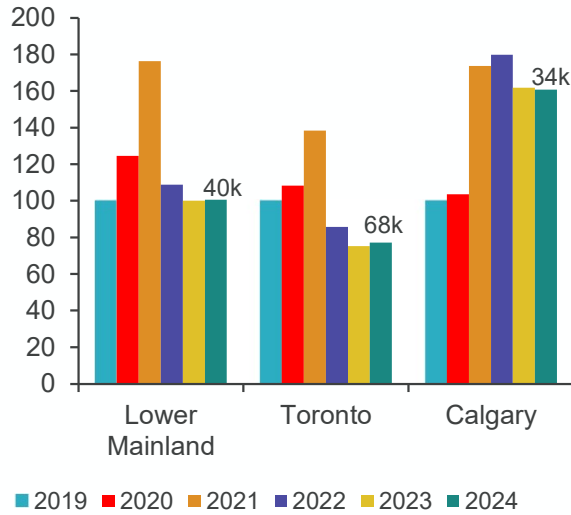
	MLS® Average Price % Change				
	2020	2021	2022	2023	2024
B.C	11.6	18.5	7.6	-2.6	1.1
AB	1.3	9.1	5.1	0.8	9.6
SK	2.7	6.7	0.8	-0.8	6.1
MB	4.4	9.8	7.9	-3.2	5.9
ON	16.0	23.7	6.7	-6.5	-0.6
QC	16.4	16.4	11.3	-0.2	7.3
NB	10.4	26.0	17.6	2.7	9.6
NS	13.6	23.0	14.7	3.0	5.9
PEI	19.1	21.2	13.5	-1.4	2.0
NL	3.2	9.7	6.8	0.7	8.9
CA	13.1	21.5	2.5	-3.9	0.9

Source: CREA, Central 1

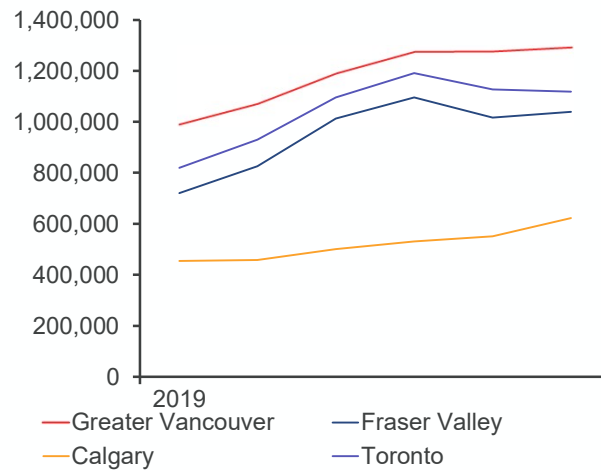
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Calgary booms, Vancouver and Toronto slump

MLS® sales, indexed, 2019=100



MLS® Price



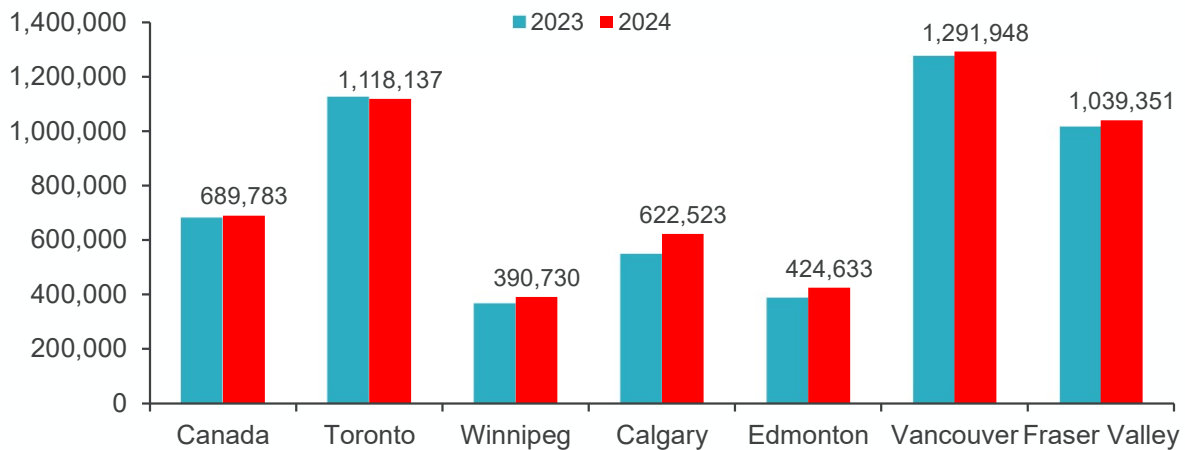
Source: CREA, Central 1

central 1

41

Housing affordability.... In some markets

Average MLS® Price



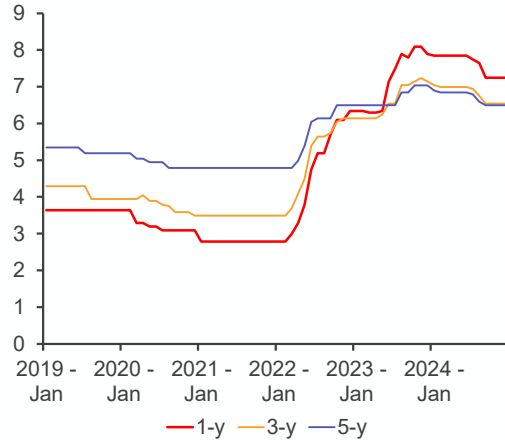
Source: CREA, Central 1

central 1

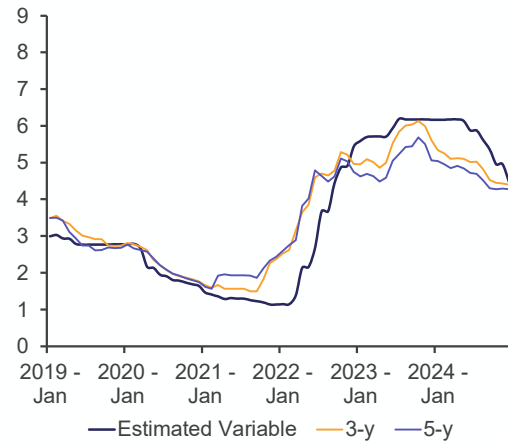
42

Mortgage rates easing, but remain elevated

Posted Mortgage Rate



Broker Rates



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

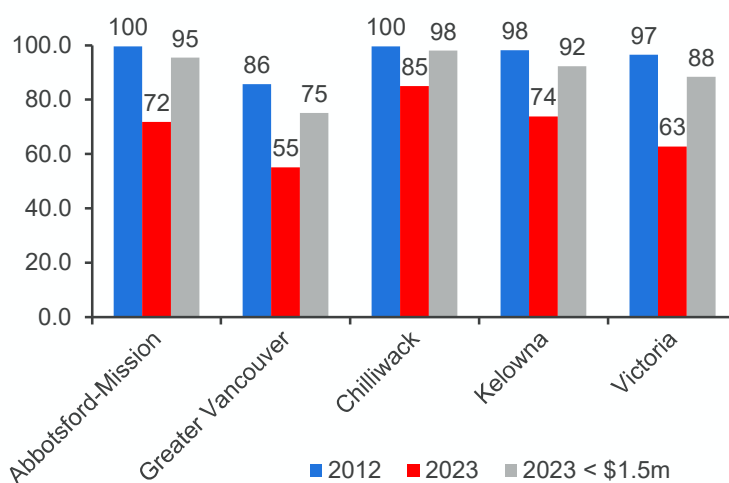
Source: CREA, Central 1,

central 1

43

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

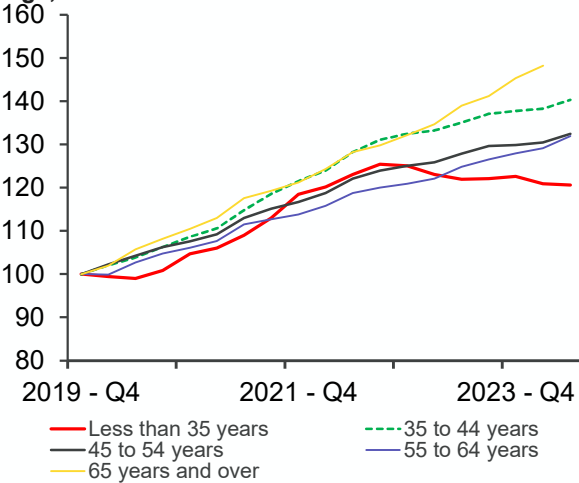
Source: Landcor, Central 1 note: due to data availability, only BC markets are available to C1

central 1

44

Younger households to re-enter market with lower rates and familial help

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



Source: Statistics Canada, Central 1

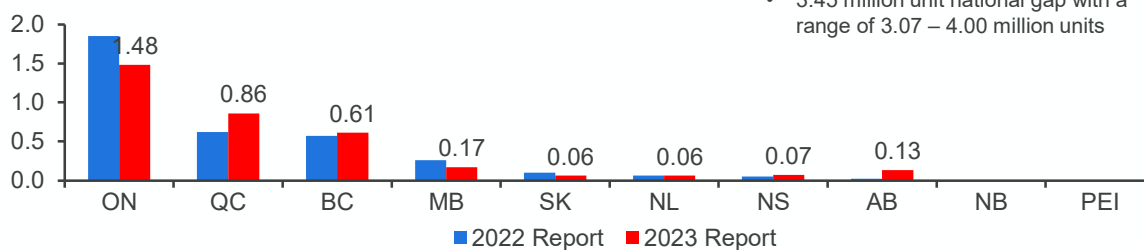
central 1

- Declines in mortgage liabilities is not by choice but affordability constraints from high prices and interest rates
- Lower interest rates to boost demand from younger buyers, expect more help from bank of mom and dad as guaranteed deposit rates decline

45

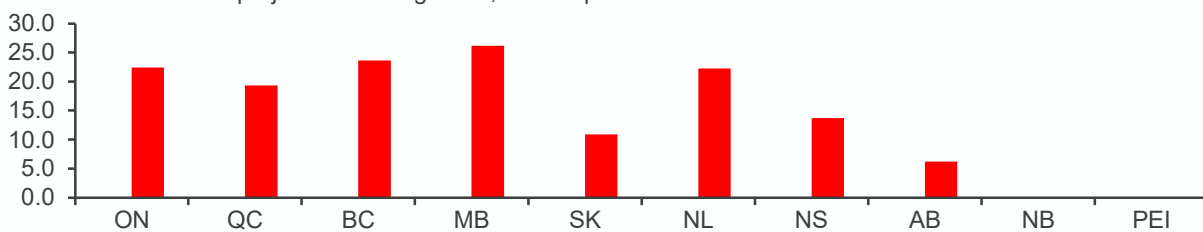
Housing deficit to persist

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



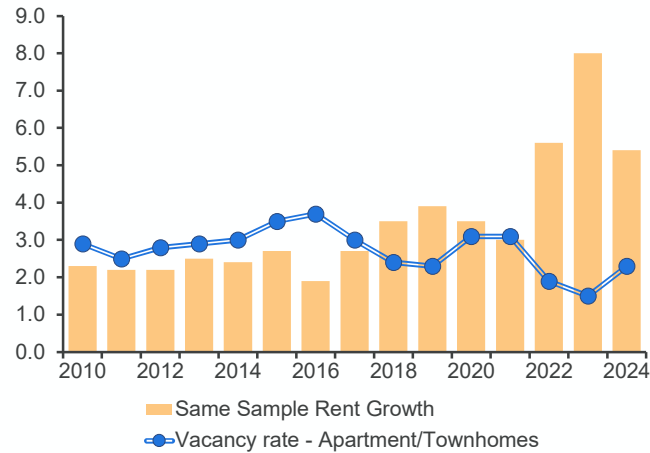
Source: CMHC, Central 1

central 1

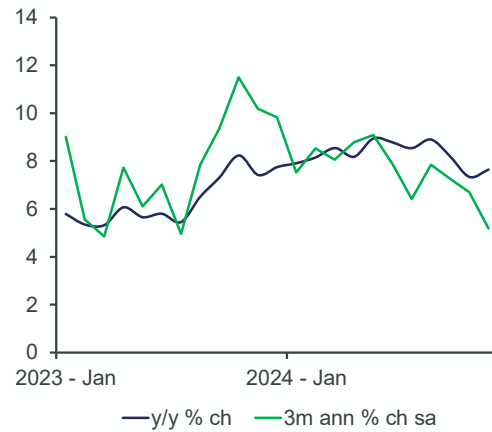
46

Canada vacancy rate moves higher after two years of decline

CMHC Rental Market Survey



Statistics Canada CPI Rent

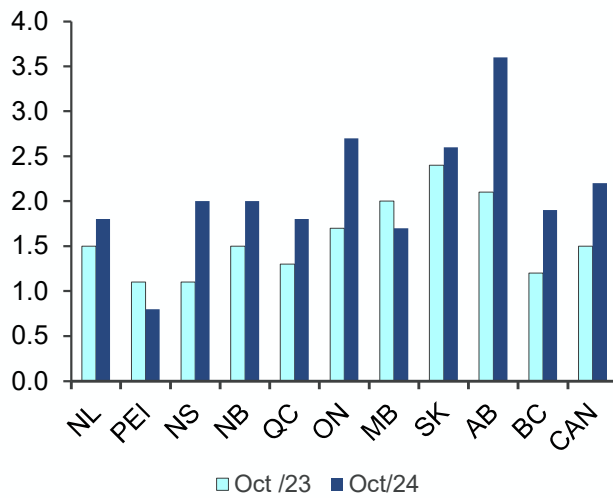


central 1

47

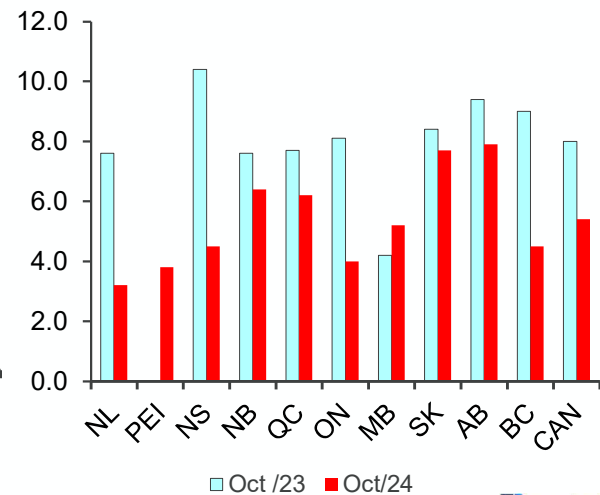
Rise in vacancy rate most prominent in Alberta and Ontario

Rental Vacancy Rate, %



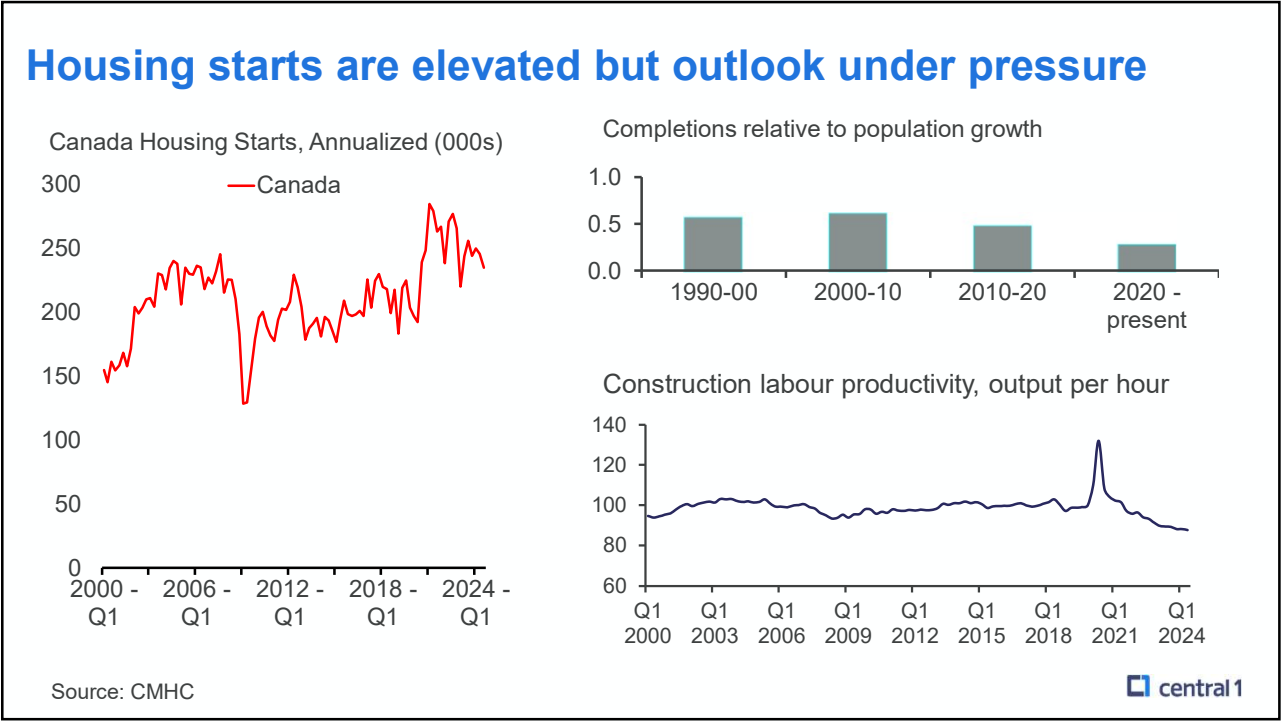
Source: CMHC, Central 1

Same-sample rent growth, %



central 1

48



49

50

Thanks!

central 1

50