

SESSION

Bryan Yu

Chief Economist, AVP Central 1



Navigating Economic Waters: Rates, the economy and housing

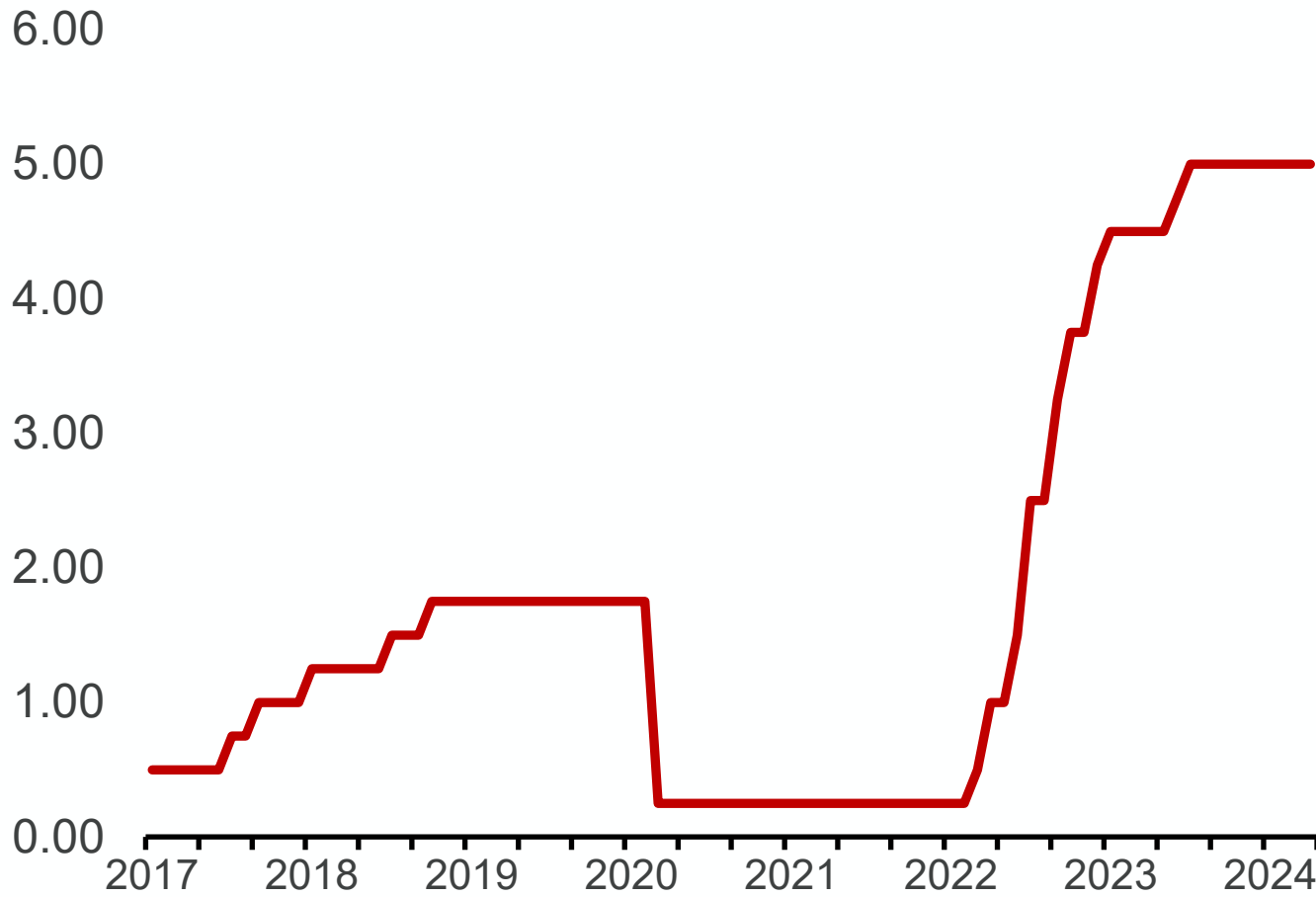
FMI PSMW Conference
Bryan Yu
AVP & Chief Economist

Today

- What's next for interest rates? Economic Resilience and Risks
- B.C. Economic Trends
- Housing: the story of our time

Bank of Canada: Rate peak, long road to normalization

Bank of Canada Target Overnight Rate, %

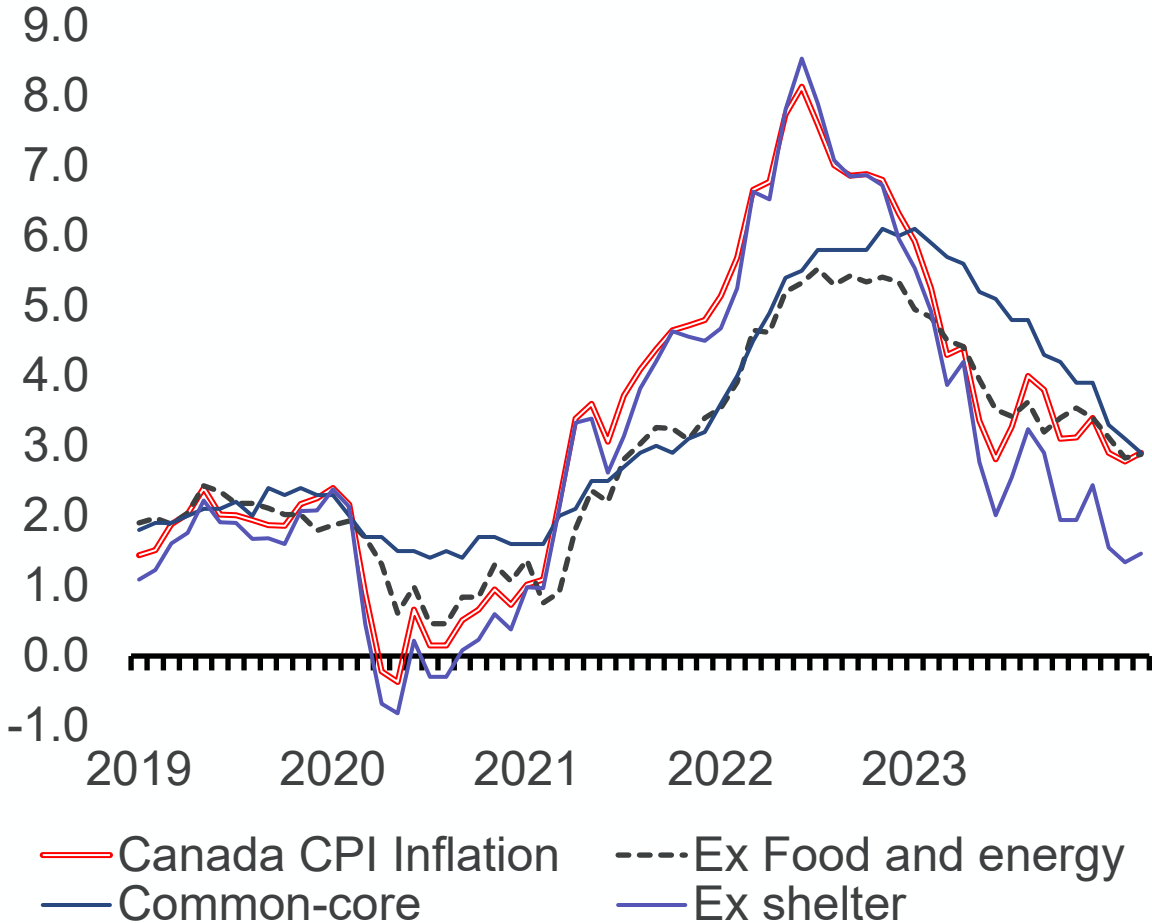


April 10 , 2024 Announcement

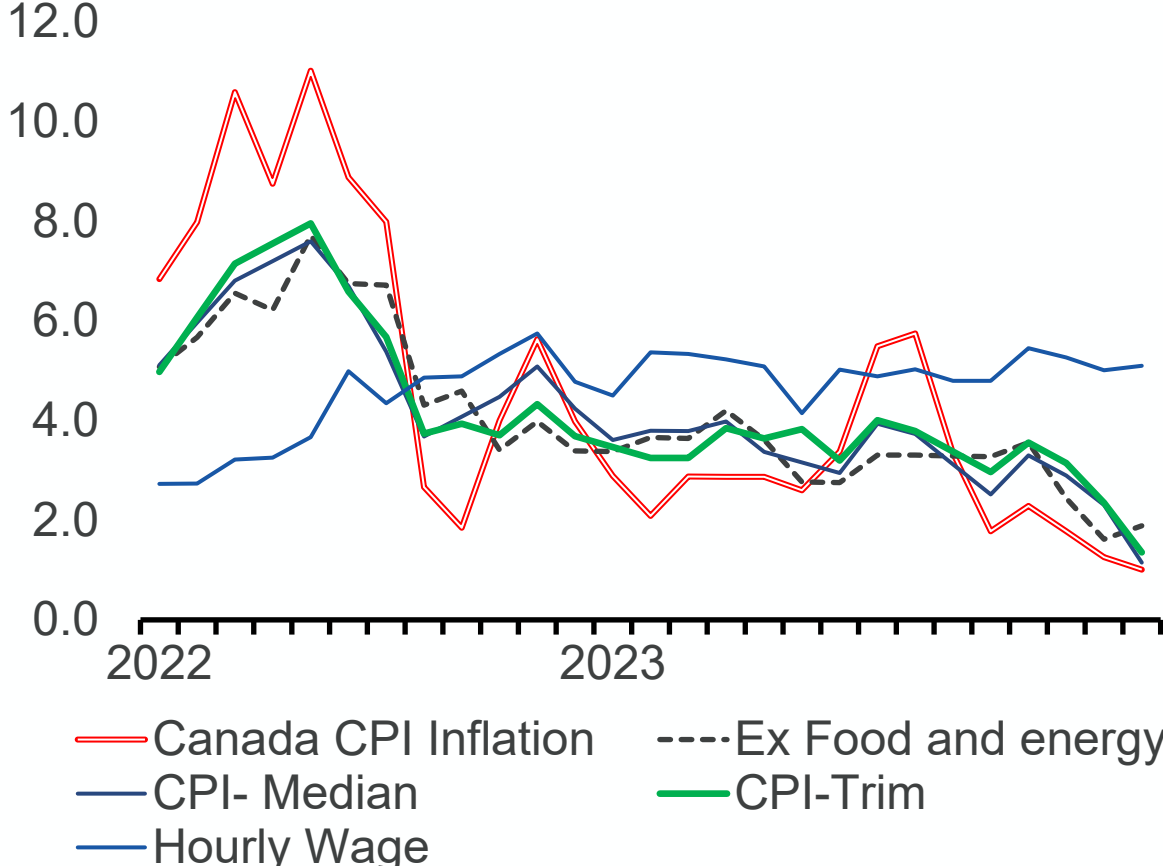
- Inflation trends are moderating, signals a cut if pattern continues
- Canada economic growth revised up but remains in excess supply, weakening labour market
- Wage pressures may be easing
- **Global economic conditions more resilient**

Is there still an inflation problem?

CPI inflation, y/y % ch



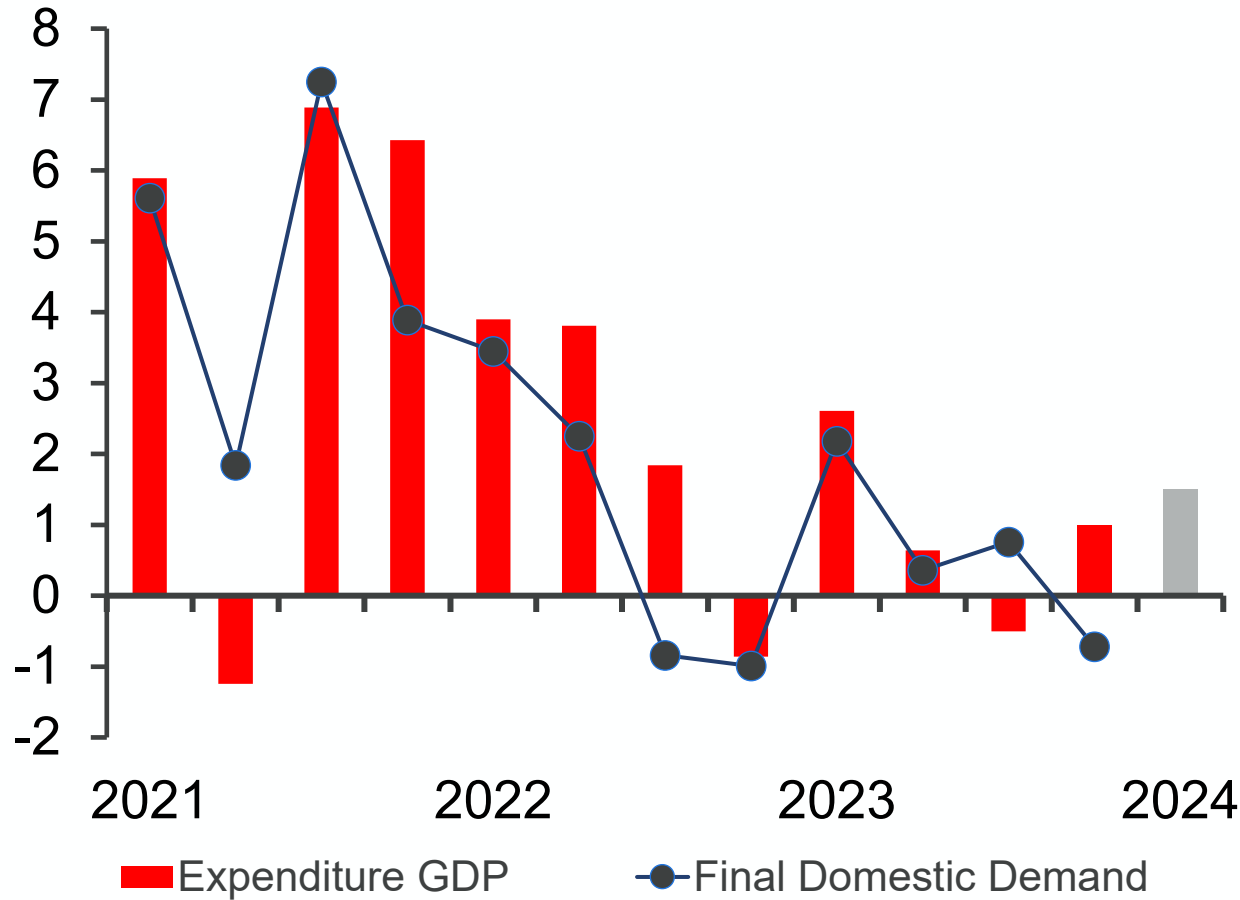
3-month annualized trend



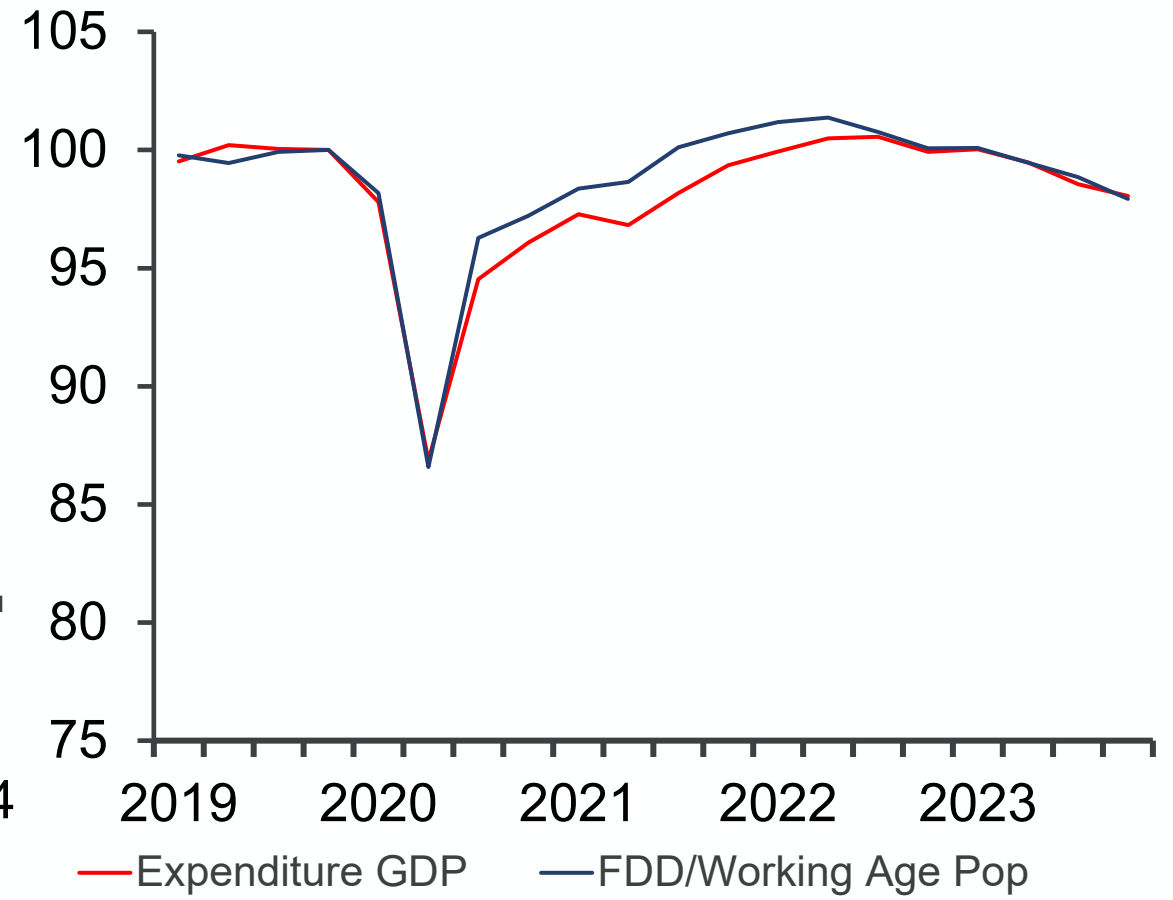
Source: Statistics Canada, Central 1

Exclude trade and inventory, domestic drivers weak

Canada Quarterly Real GDP, annualized % ch

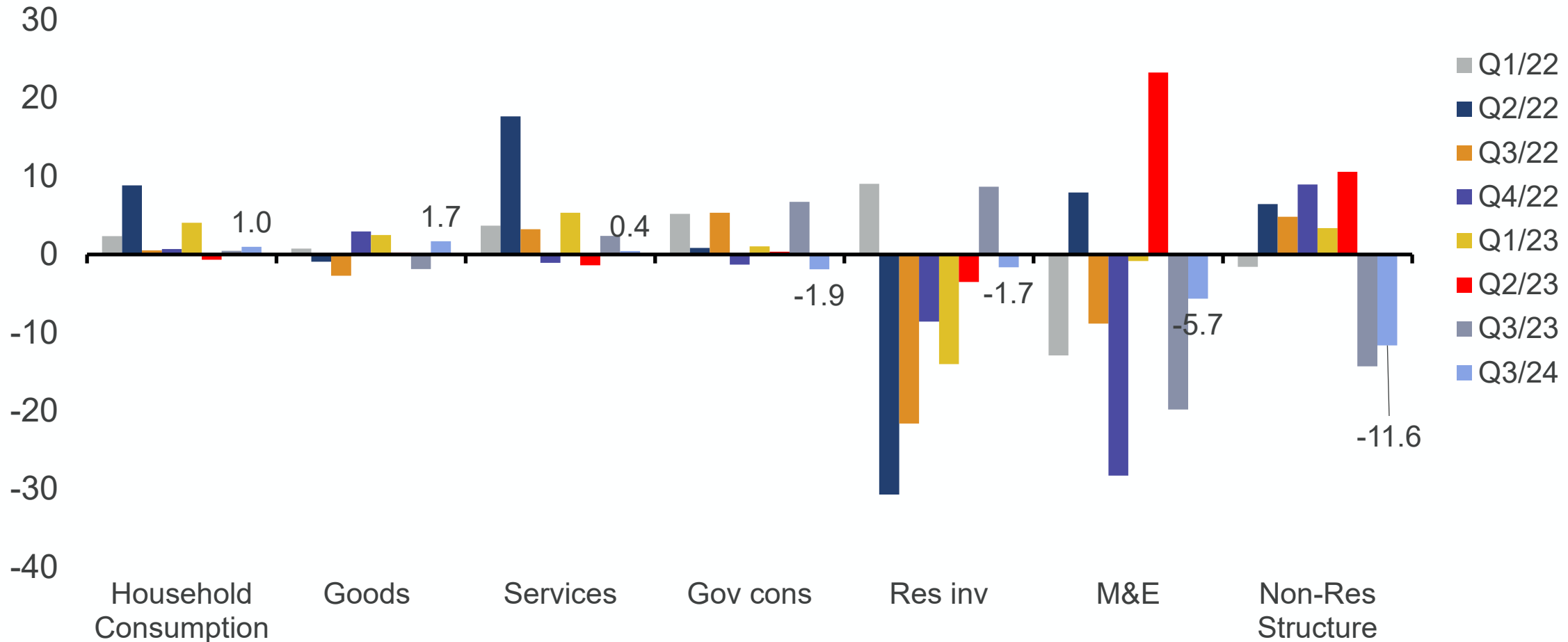


Per Capita GDP, 2019Q4 = 100



Consumers spending slow, investment plunges

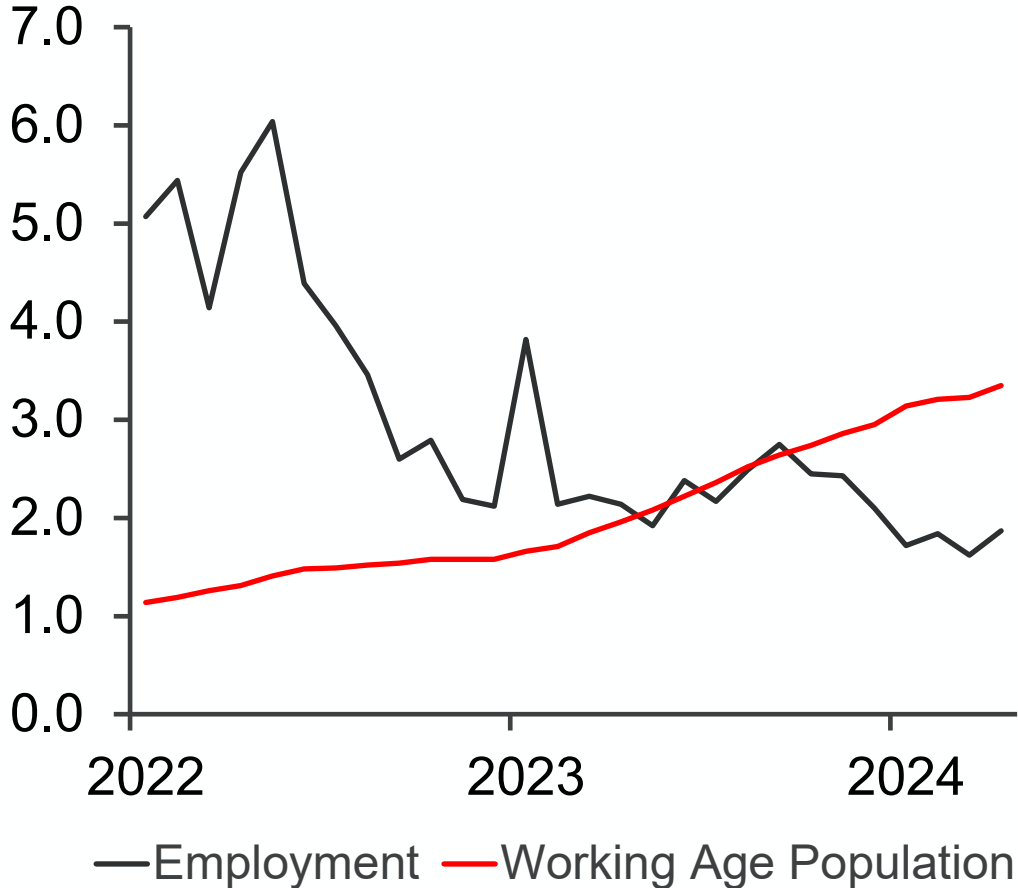
Annualized per cent change in GDP Expenditure



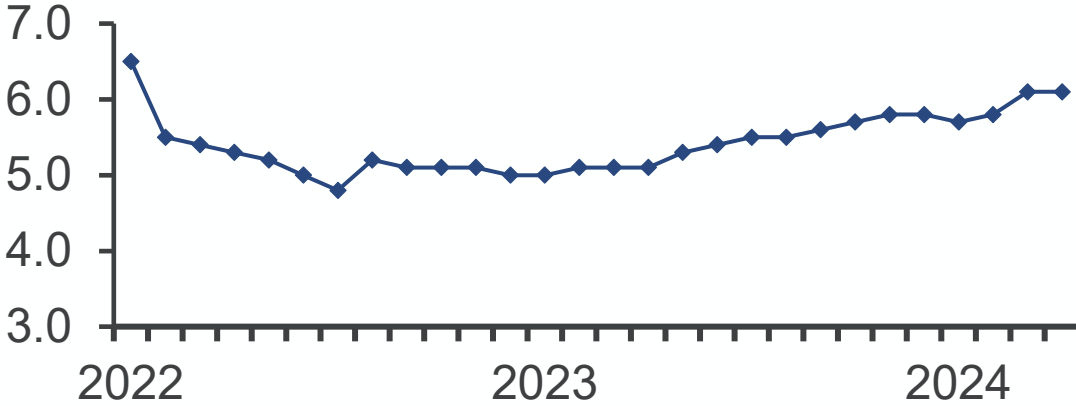
Source: Statistics Canada

But still seeing slack emerge

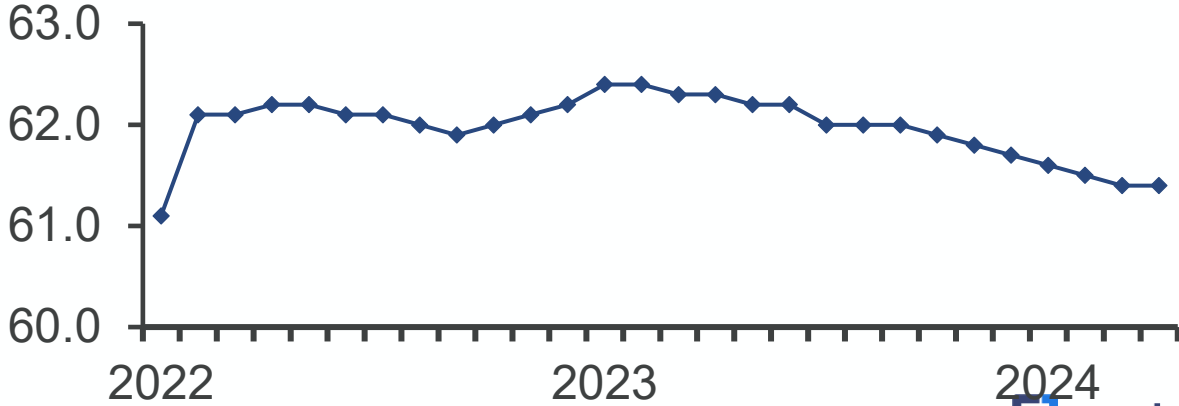
Year-over-year per cent change



Unemployment Rate



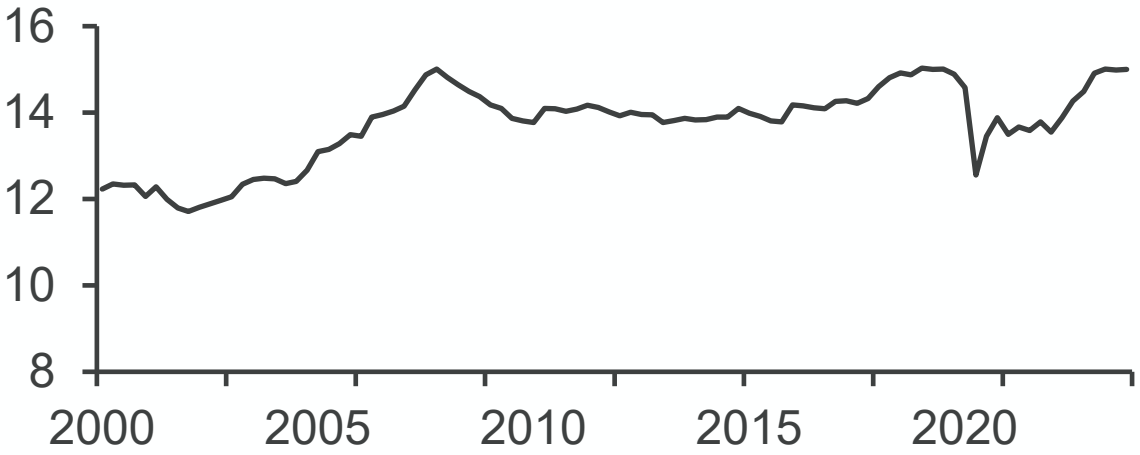
Employment rate



Source: Statistics Canada, Central 1

Household financial risk is rising

Debt service ratio



Financial Stability Review (BoC, May 2024)

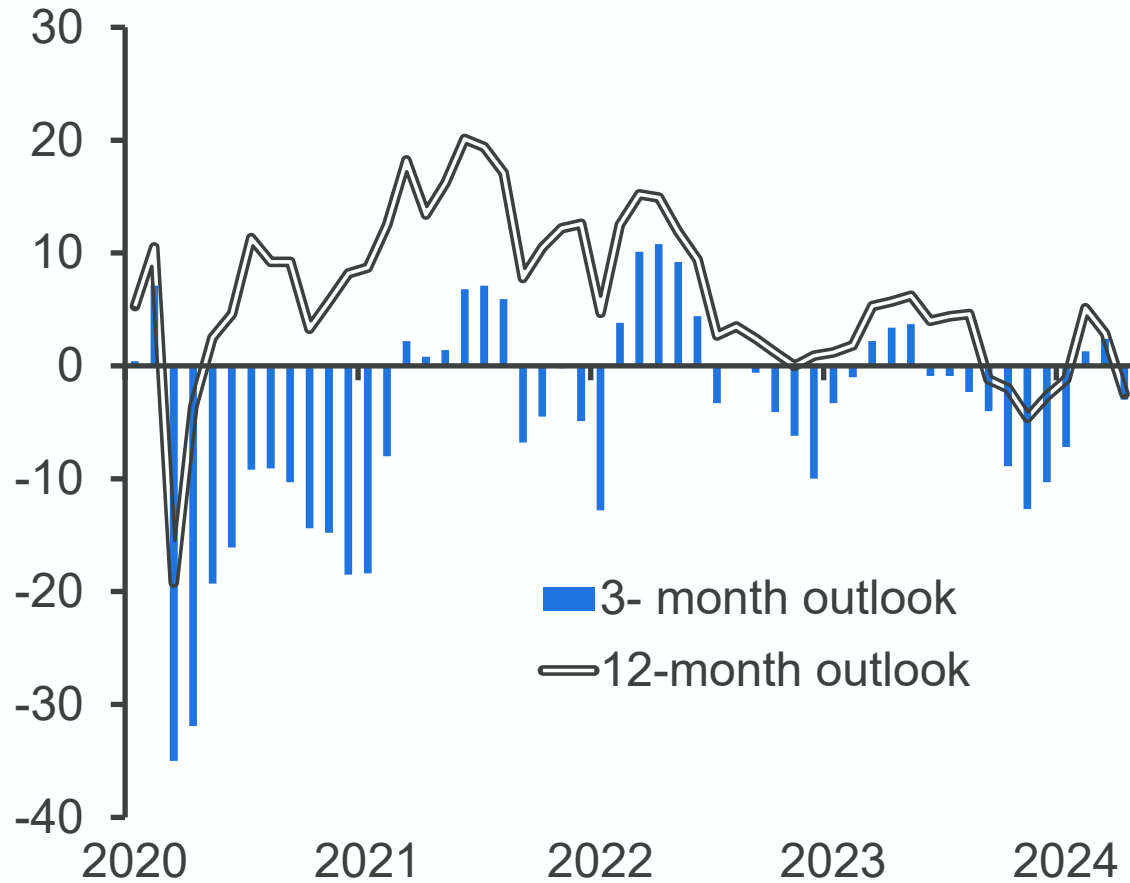
- Half of mortgages still to reset at higher rates
- On average 20% increase in payment
- More severe for those taking on mortgages in 2021/22
- Impact partially offset in part by higher wages and more significant liquid assets
- More stress for non-mortgage holders with rising credit in arrears > 60 days specifically auto loans

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

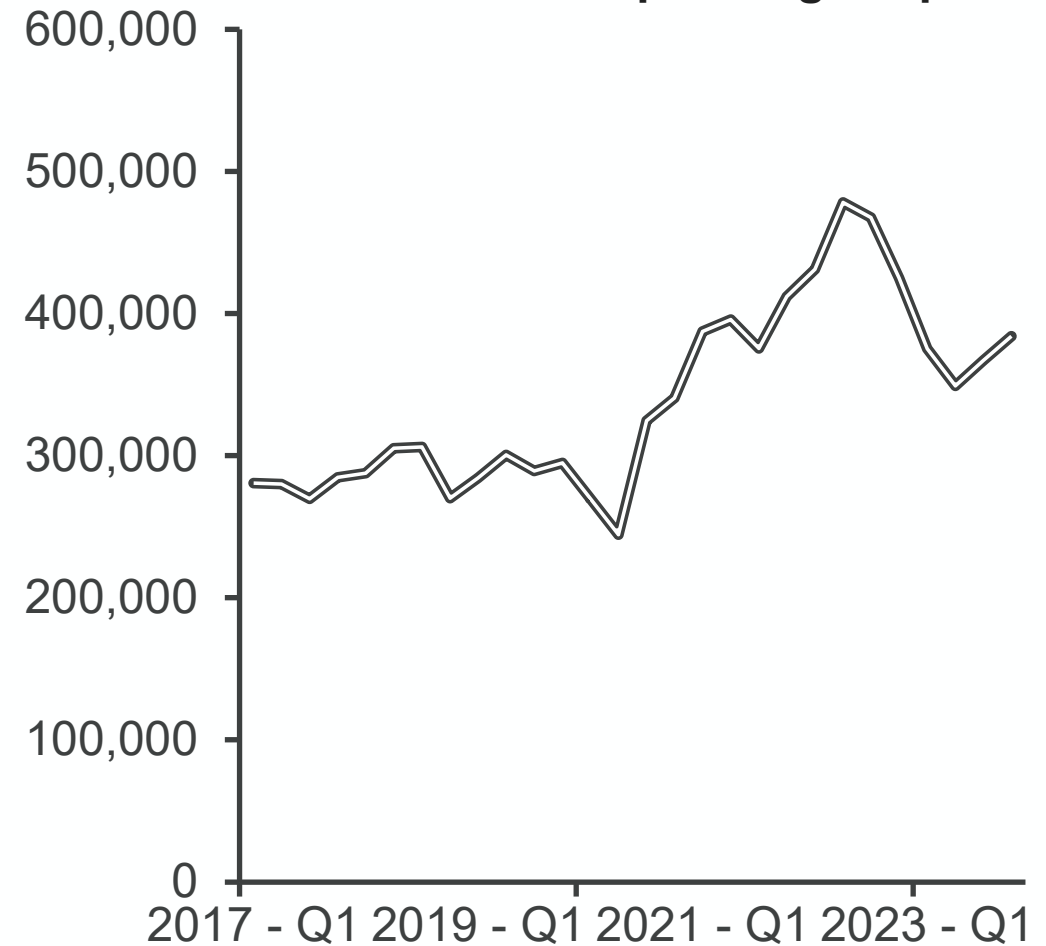
Bank of Canada Financial Stability Review, May 2024

Small businesses are pessimistic, corporate profits down sharply

Canada Small and medium sized business confidence – Deviation from 50



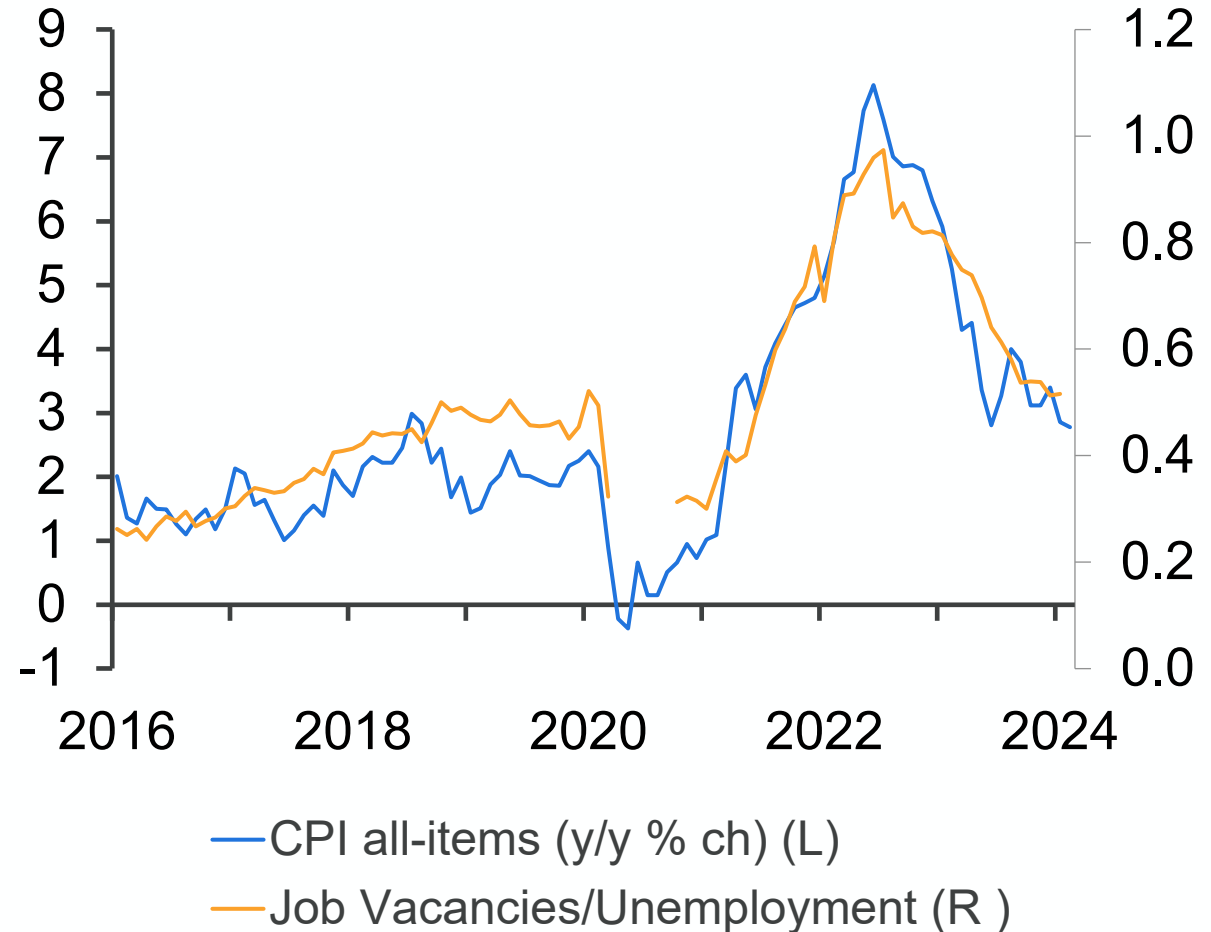
Canada Net Operating Surplus



Source: Statistics Canada, Central 1

As labour market slack goes, as do wages and domestic inflation

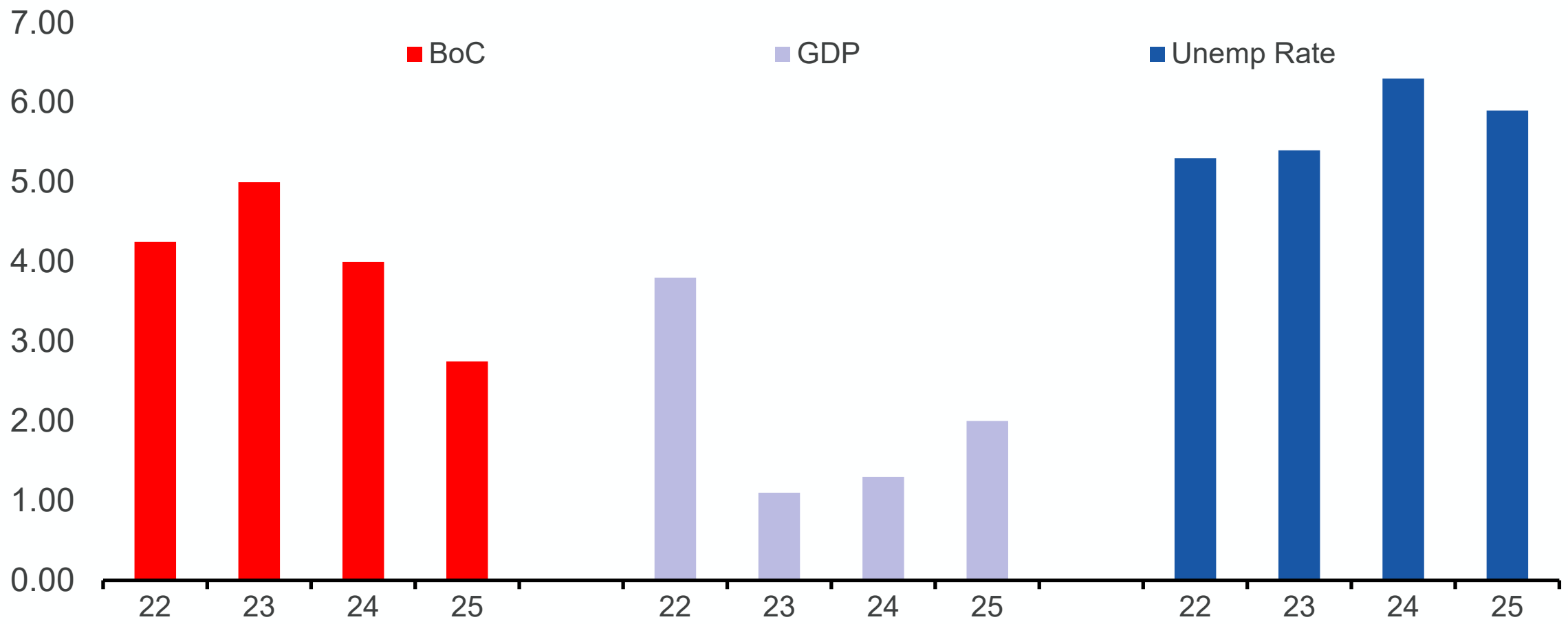
Per Cent



Source: Statistics Canada, Central 1

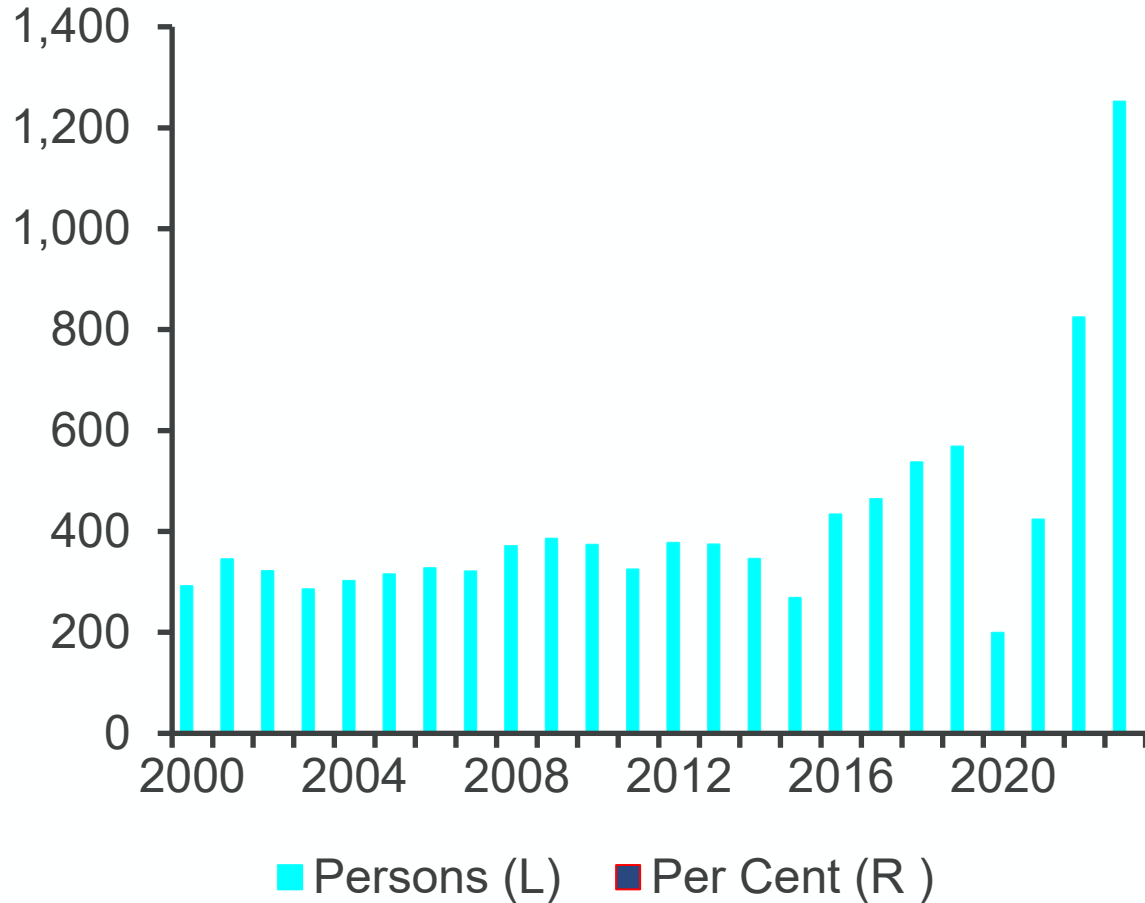
Economic outlook unchanged rate outlook dampened

Canada outlook (C1)

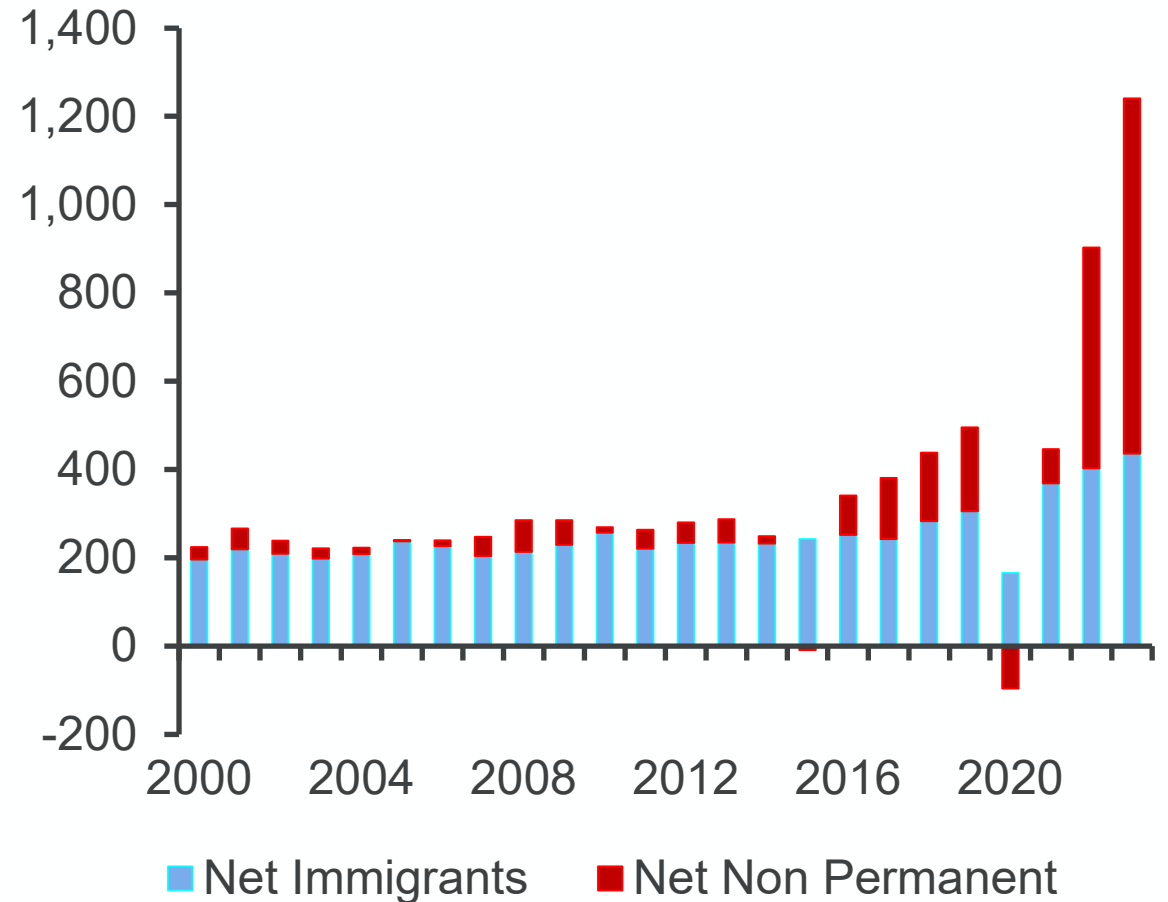


Historic pace of population growth, led by non-permanent residents

Year-over-year population growth, 000s

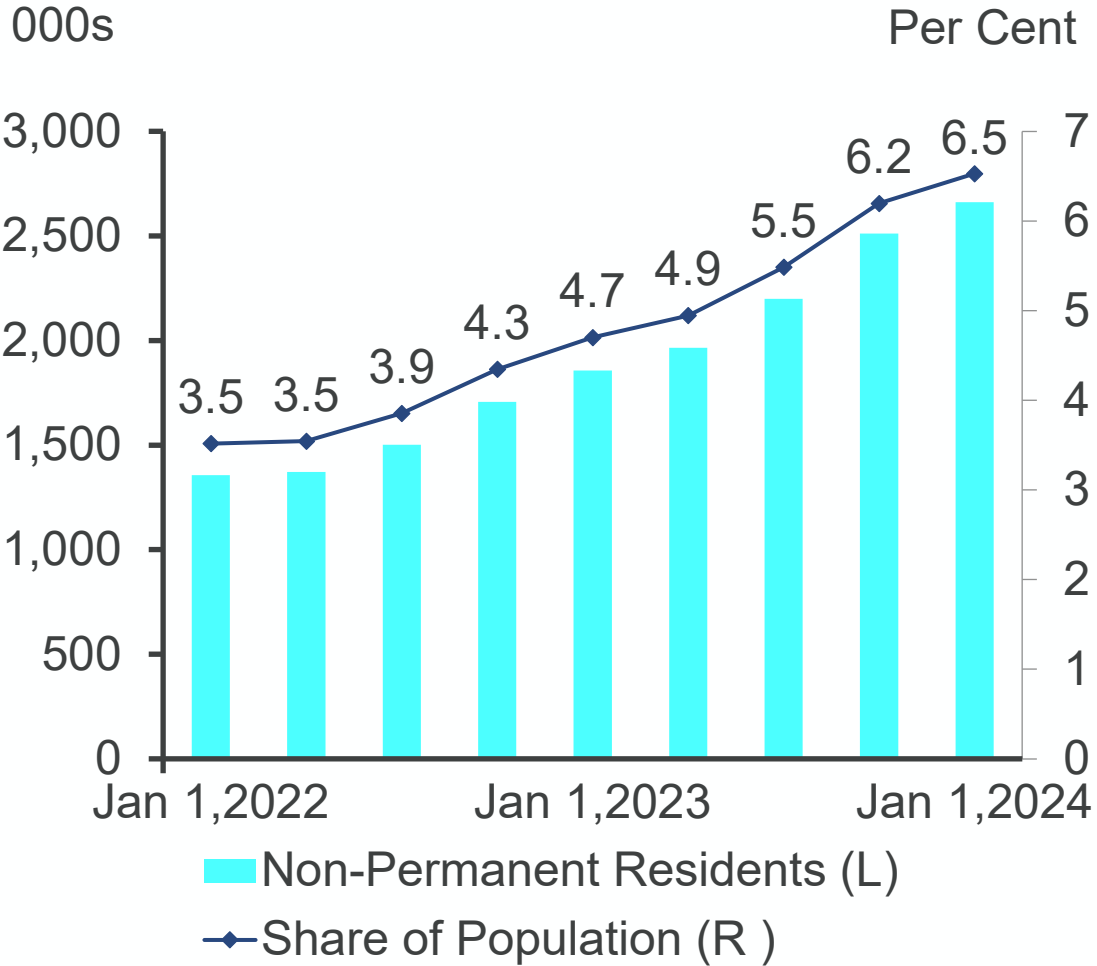


Components of change

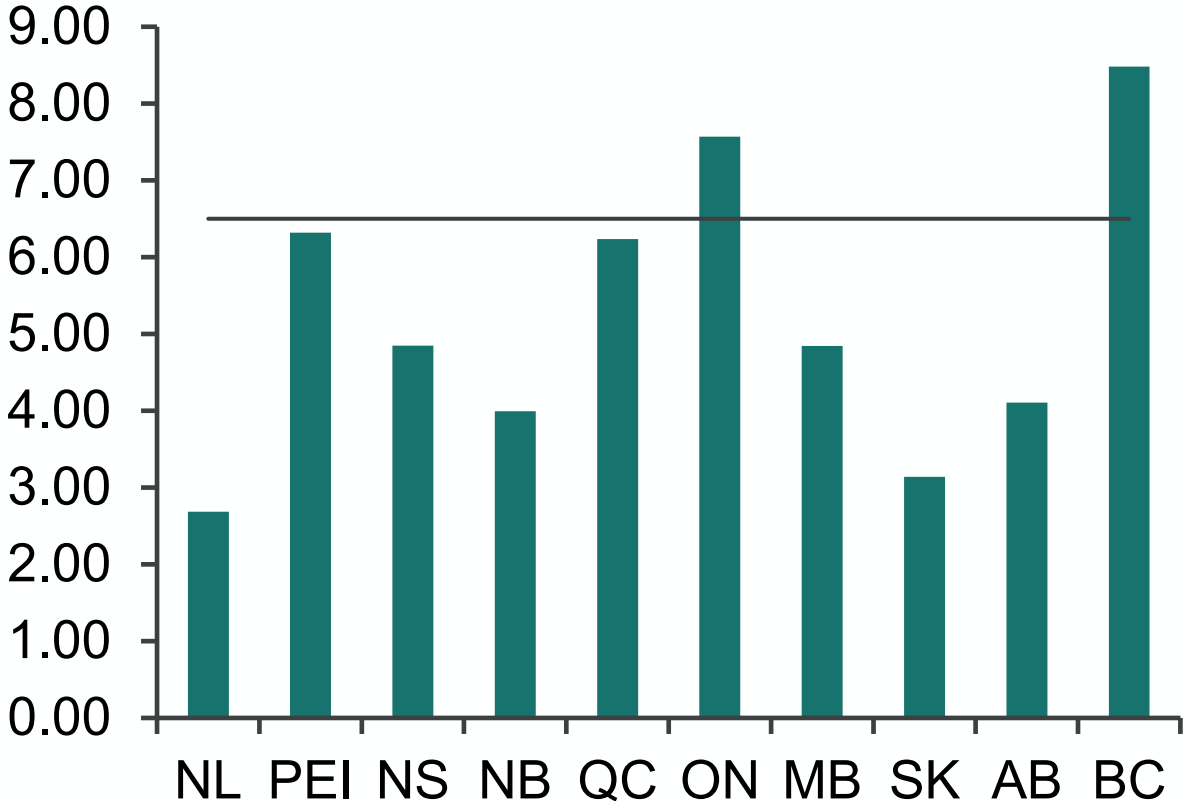


Source: Statistics Canada, IRCC, Central 1

Plans to cut non-permanent inflows means drastic drop in population growth



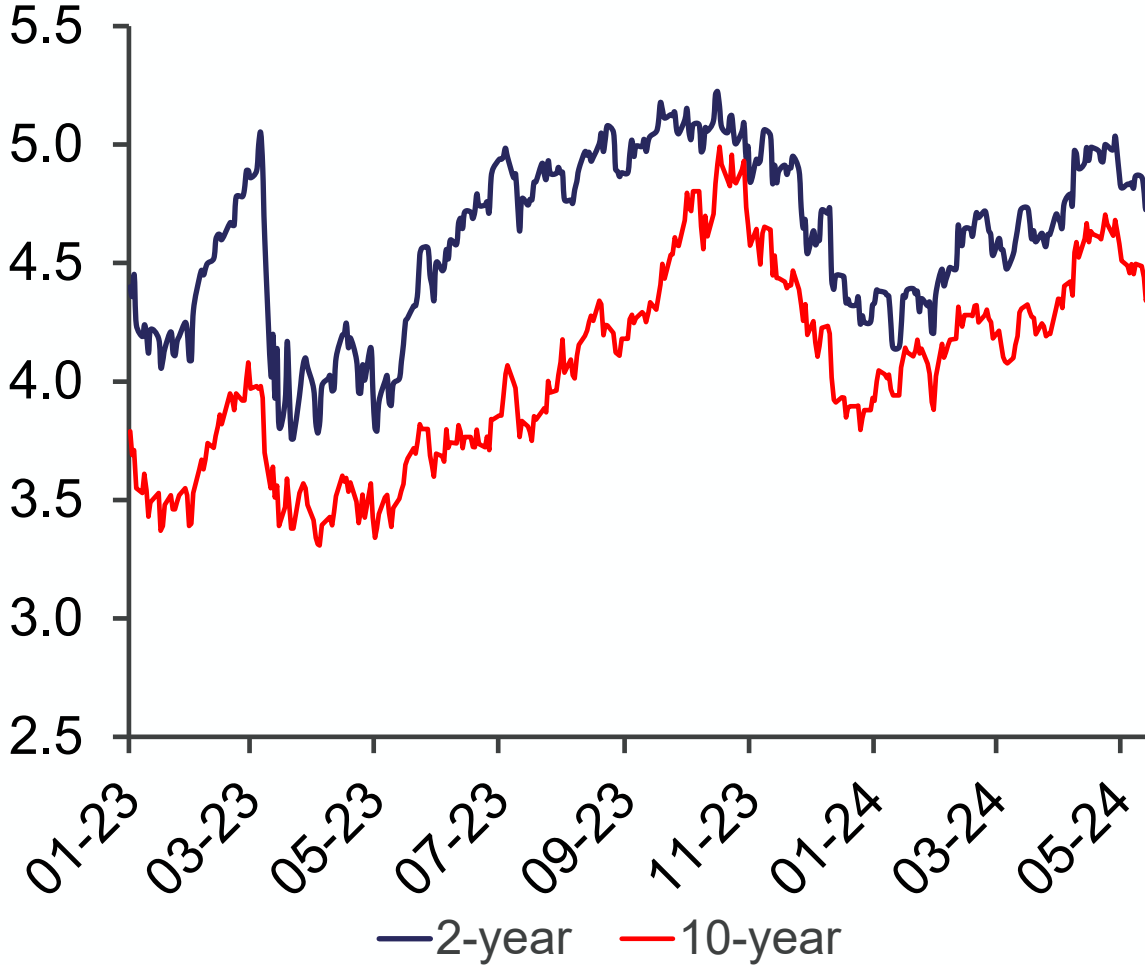
Non-Permanent Resident share of population, January 1, 2024



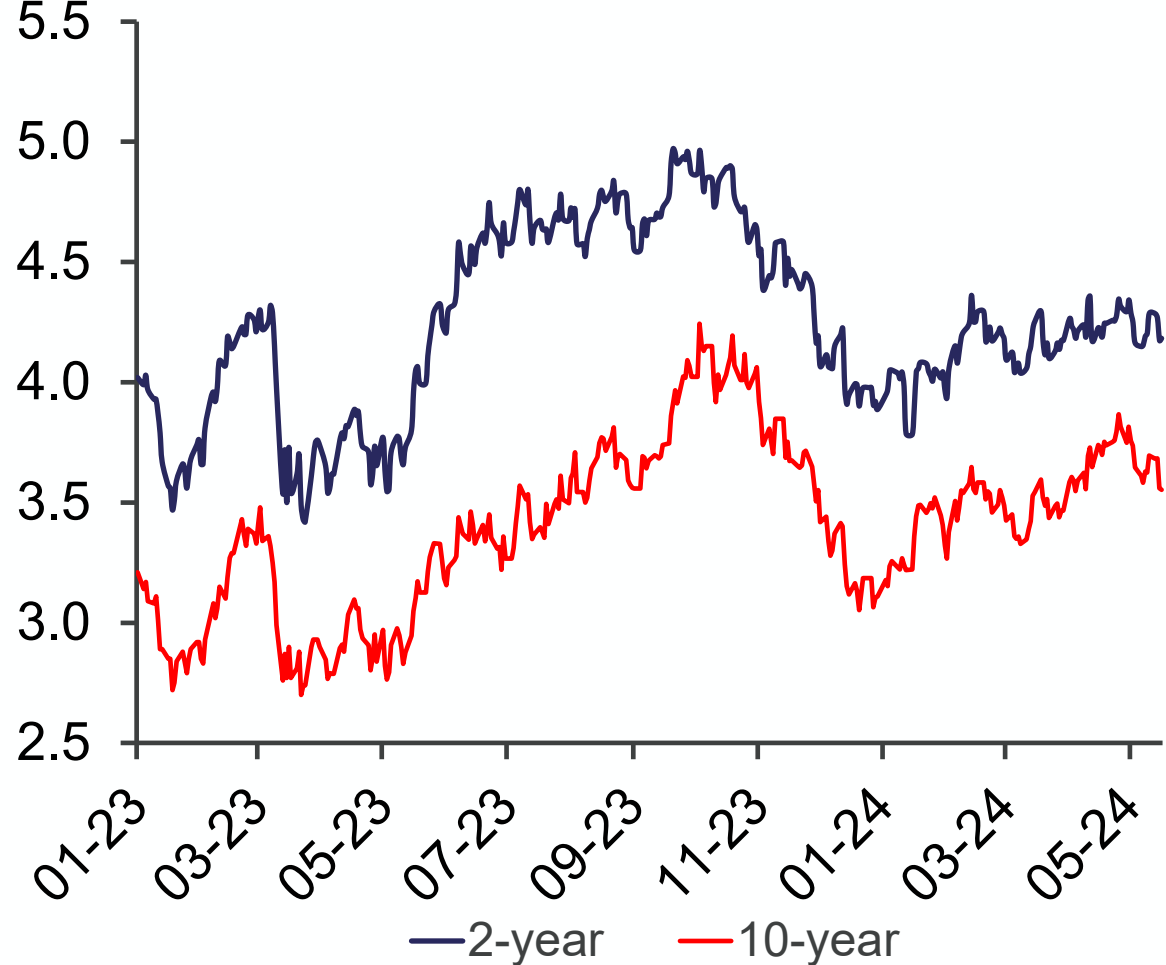
Source: Statistics Canada , Central 1

Bond yields scale back after recent surge

U.S. Treasuries, Per cent



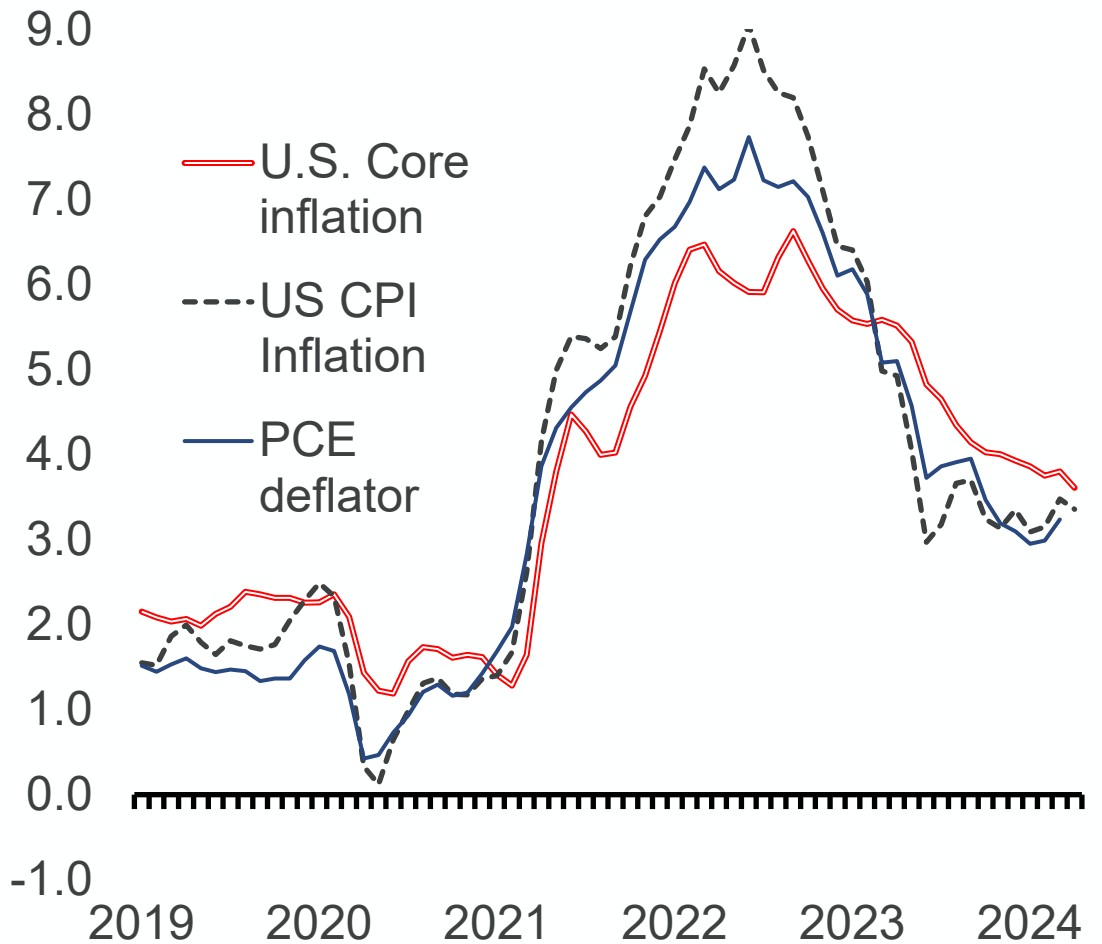
Canada GoC, Per cent



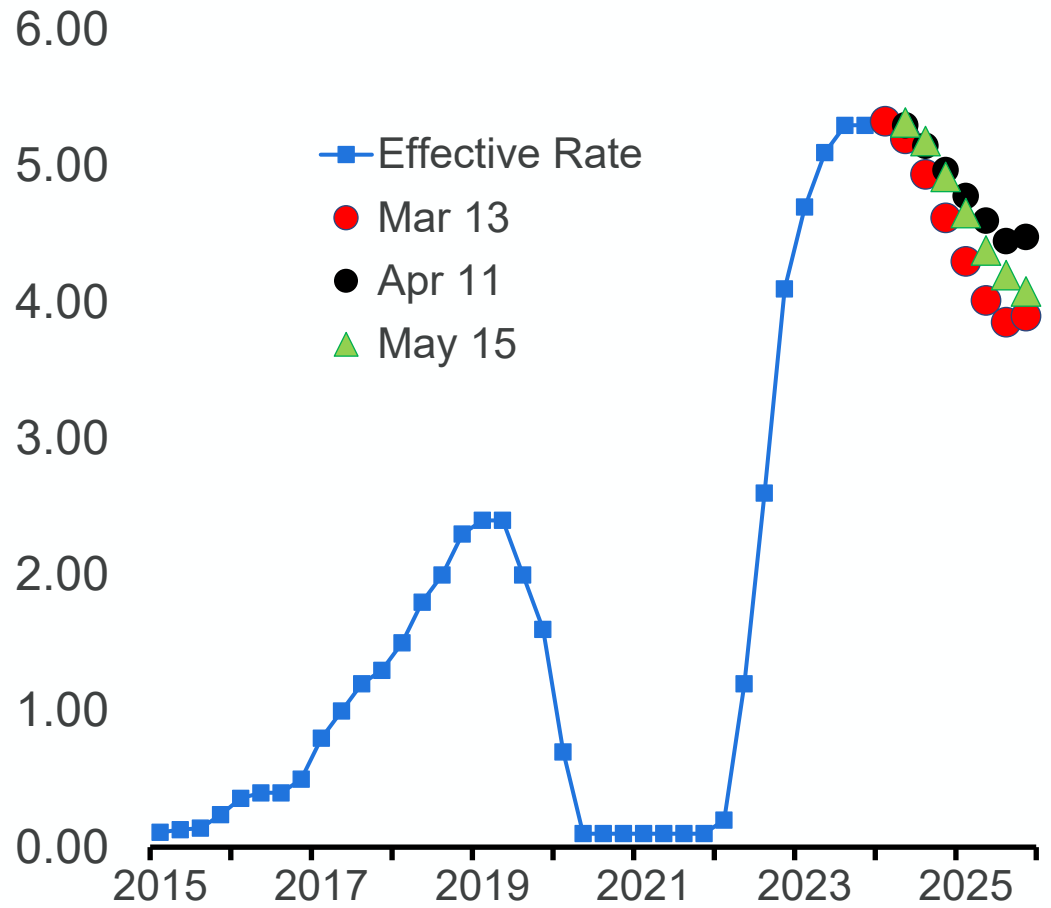
Source: Bloomberg, Central 1

Resilience continues to keep rate expectations higher, but some retracement

Inflation measures, y/y % ch

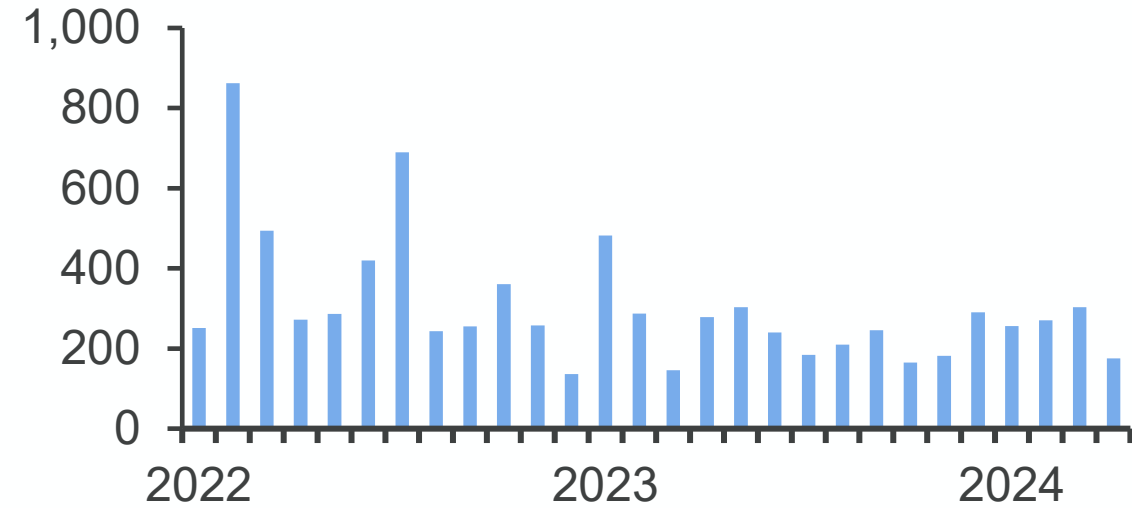


Effective federal funds rate, CME Futures Settlement

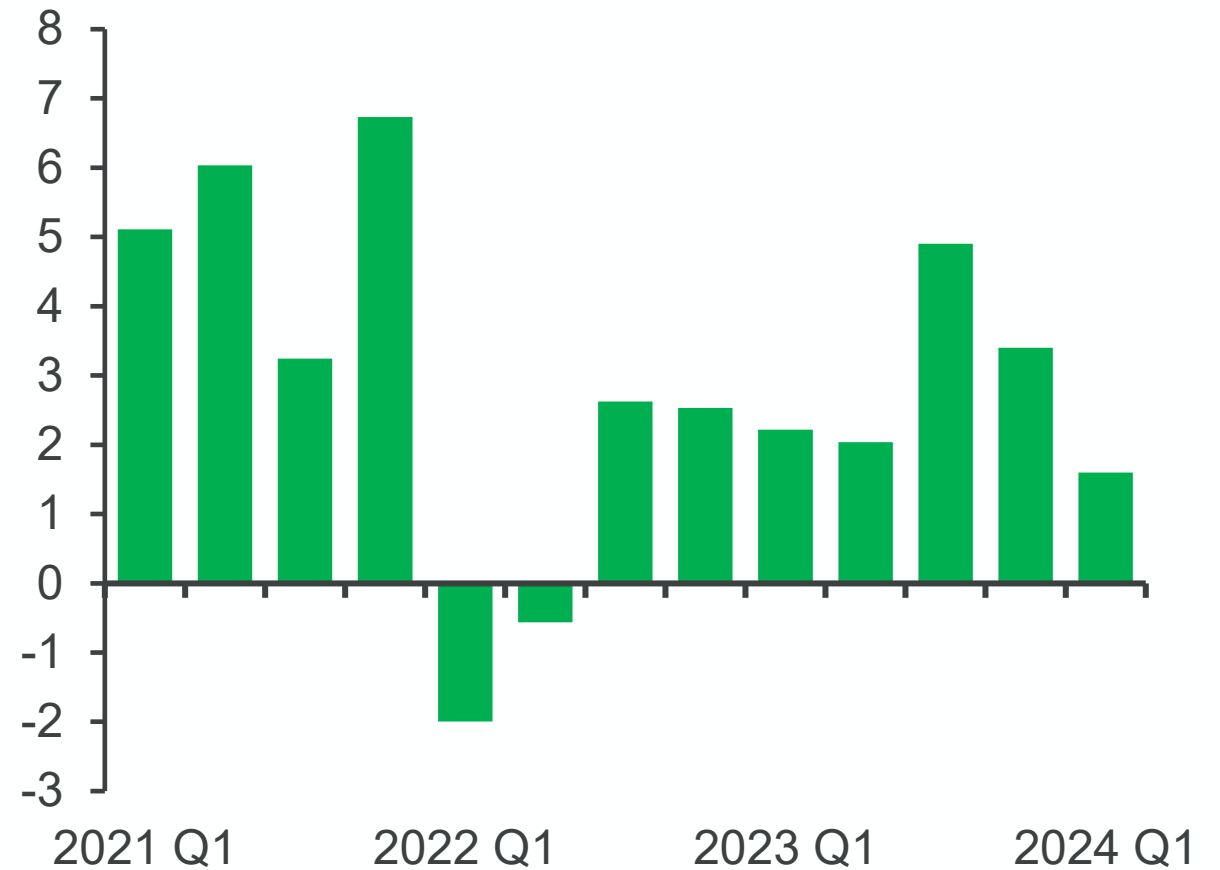


Economic gyrations impact U.S. rates

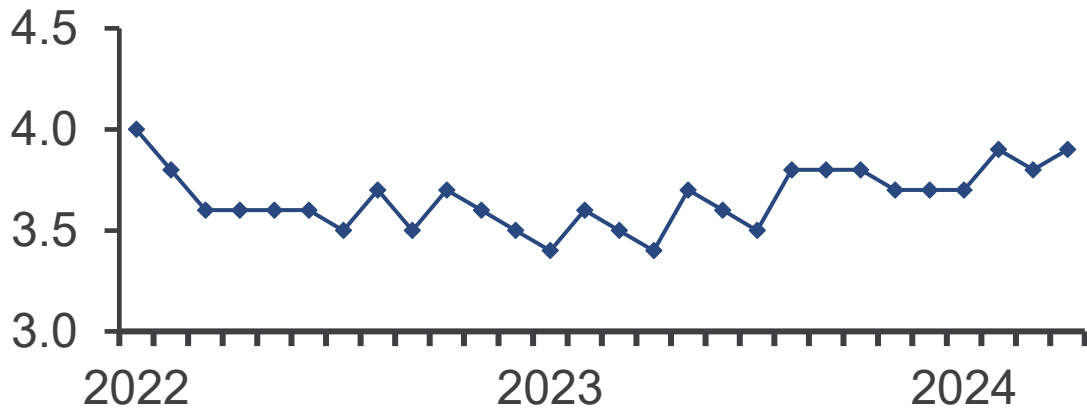
Non-farm payrolls, m/m change



GDP, annualized quarterly change



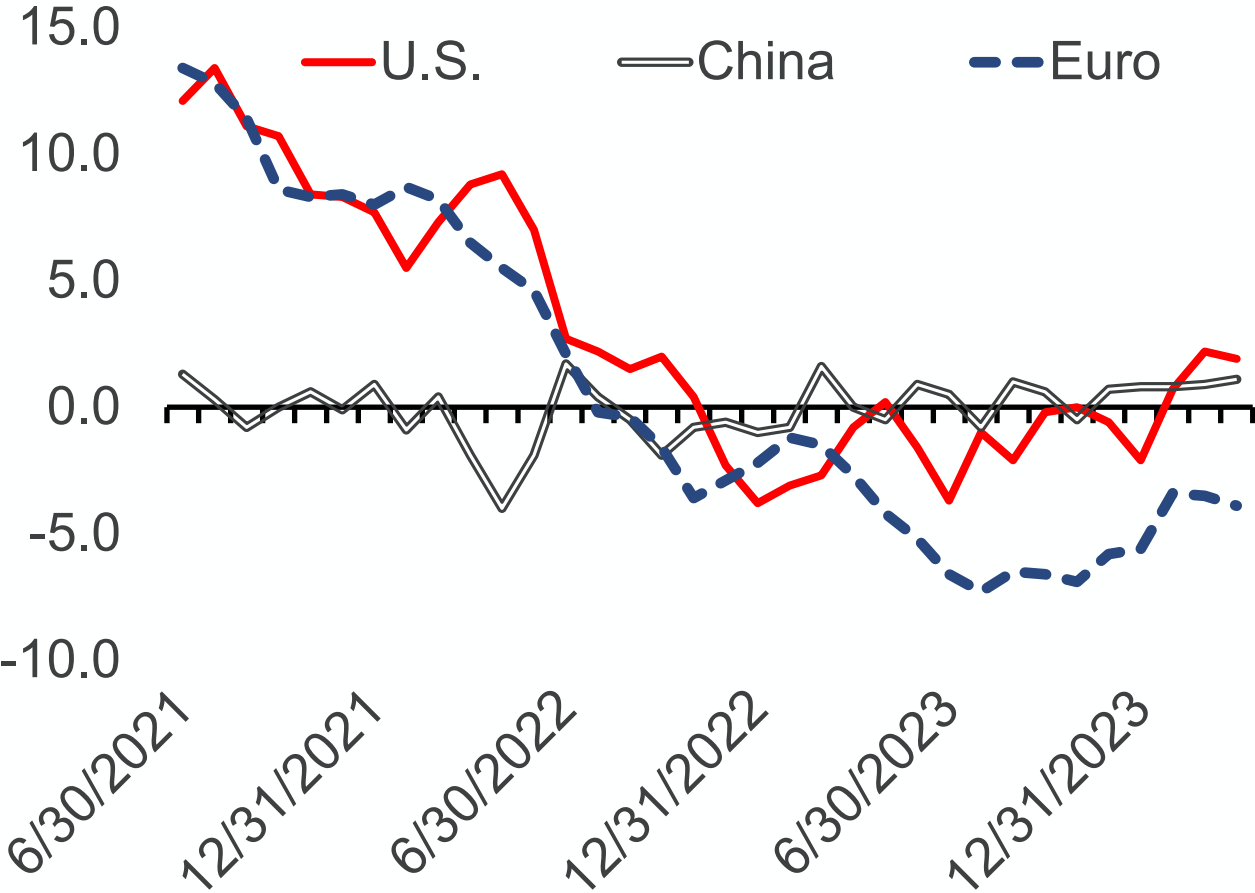
Unemployment rate



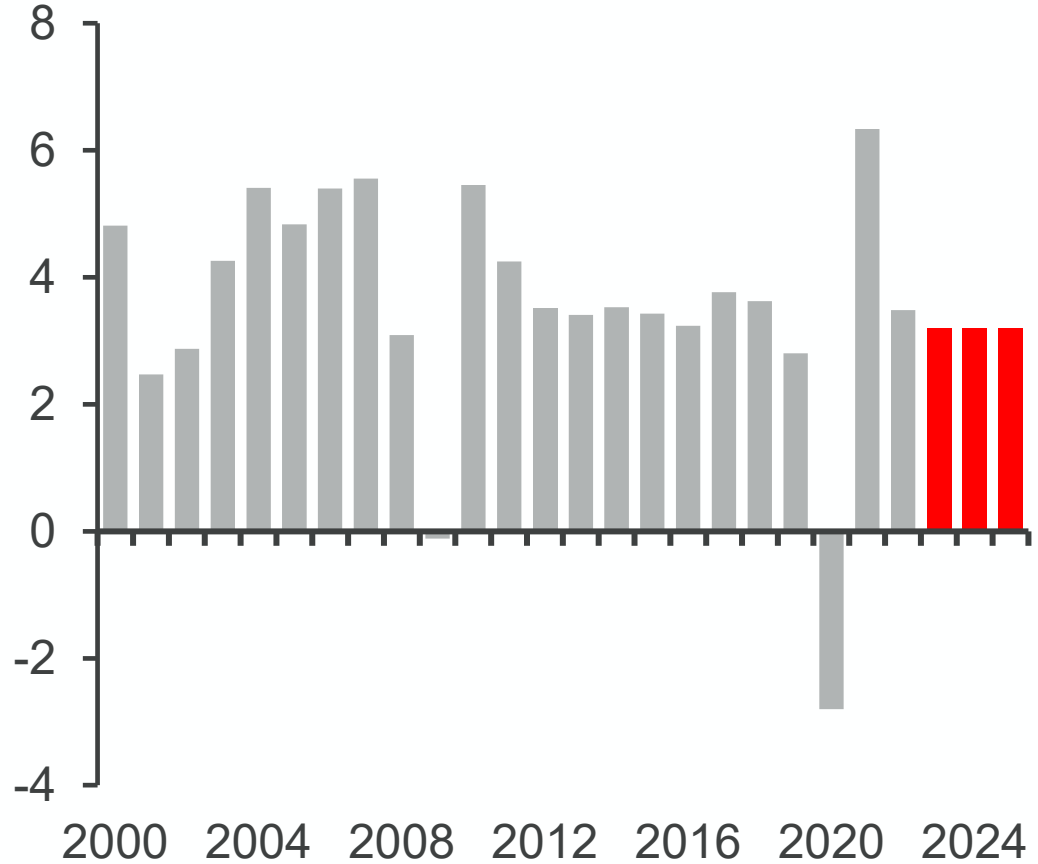
Source: BEA, Bloomberg, Central 1

Global growth revised up but remains subdued

Manufacturing Purchasing Managers' Indices, Composite, Deviation from 50

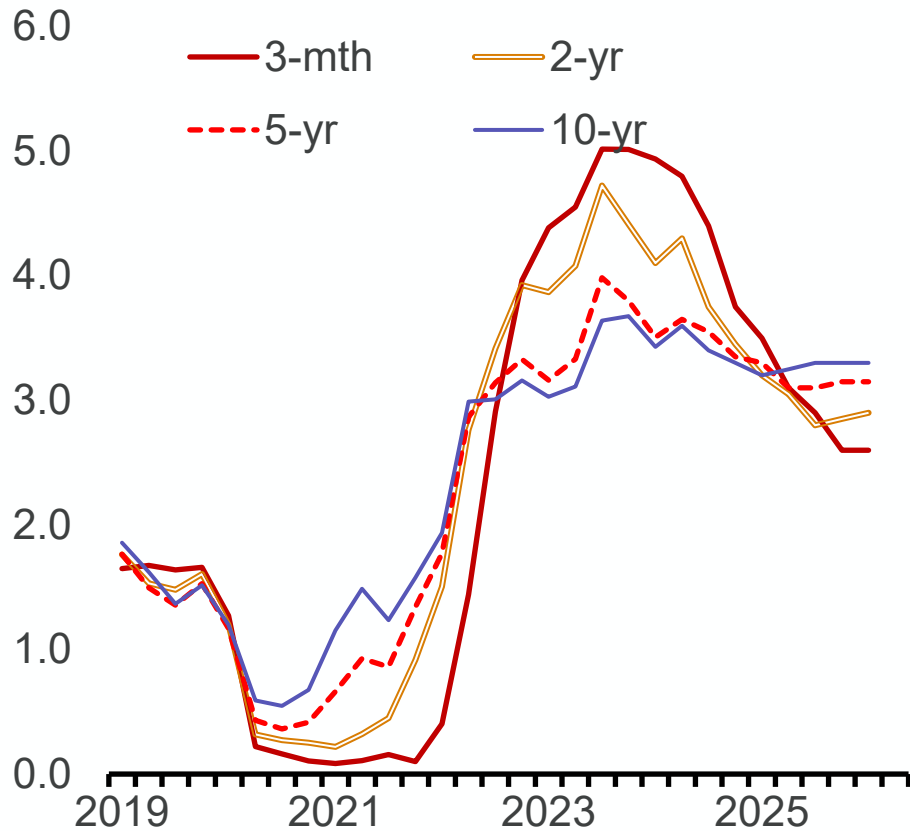


Global GDP, % ch

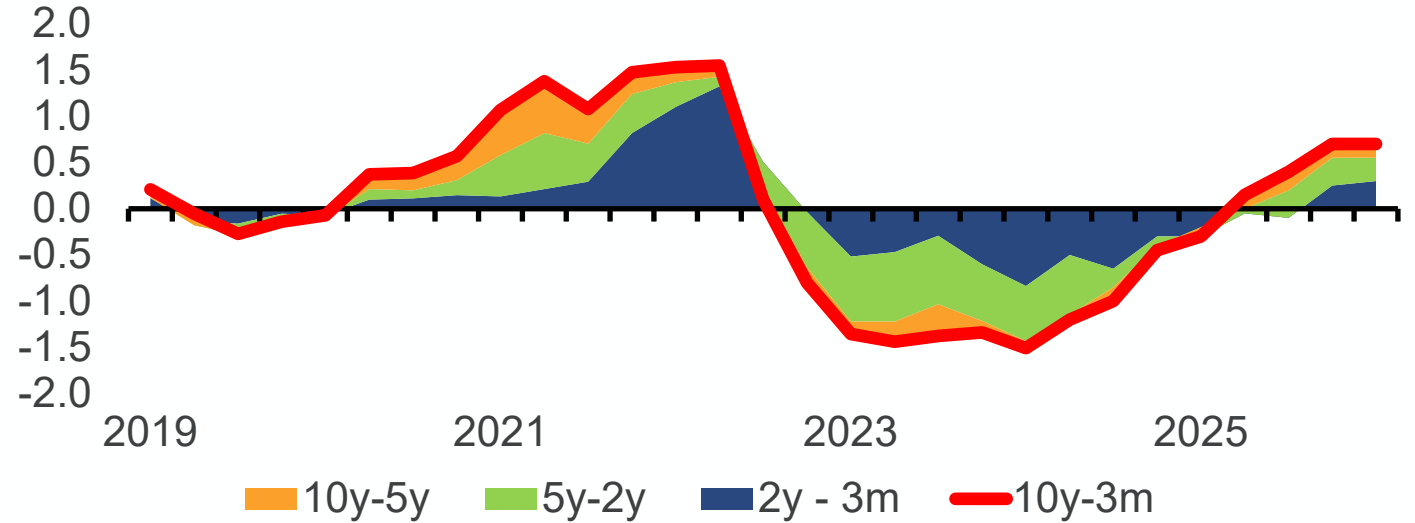


High interest rates persist YC inversion persists into 2025

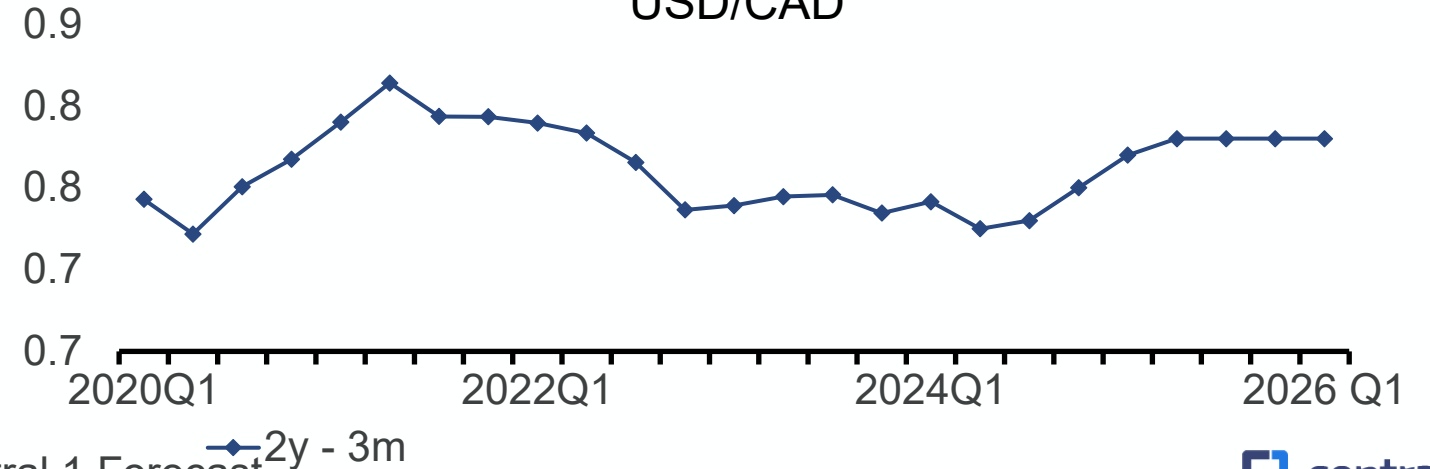
Benchmark bond yield, %



Yield curve



USD/CAD

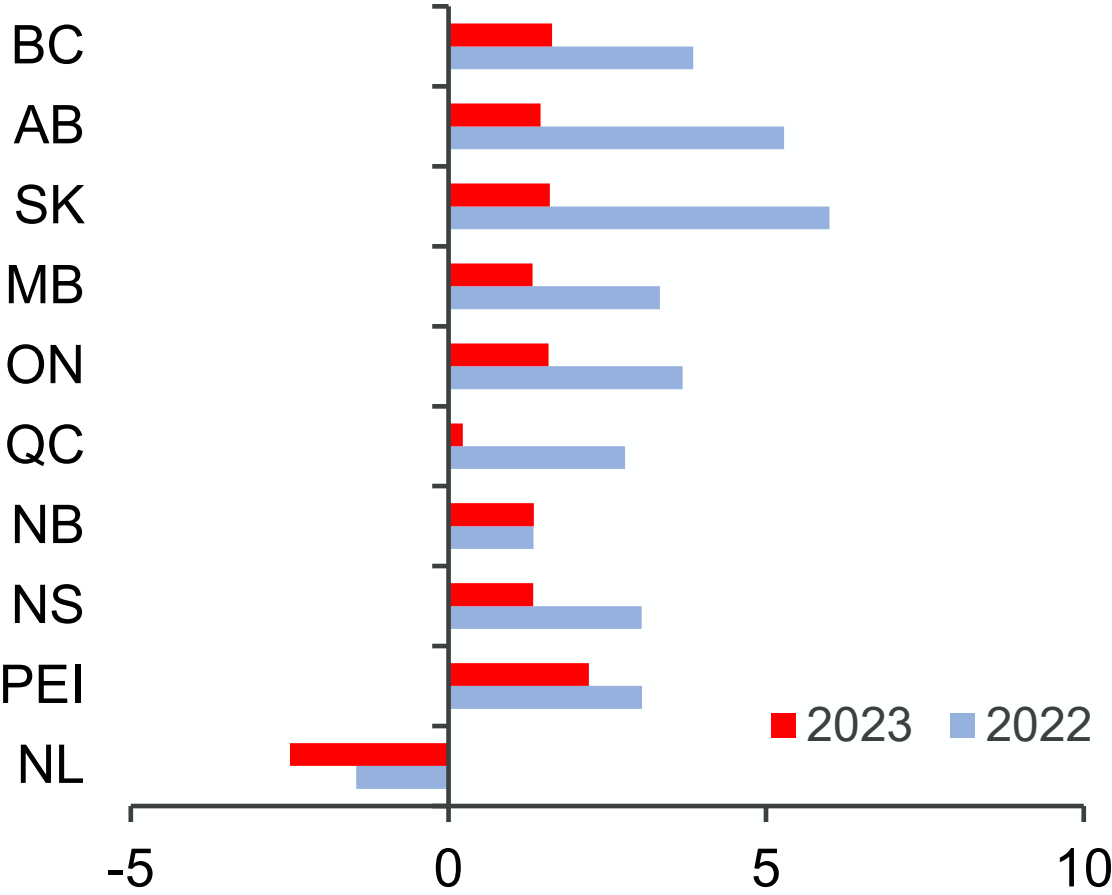


A blurred, blue-tinted photograph of a modern office interior. Several people are seen walking through a large glass-walled space, their figures out of focus. The floor is highly reflective, mirroring the people and the office furniture. The overall atmosphere is one of a busy, professional environment.

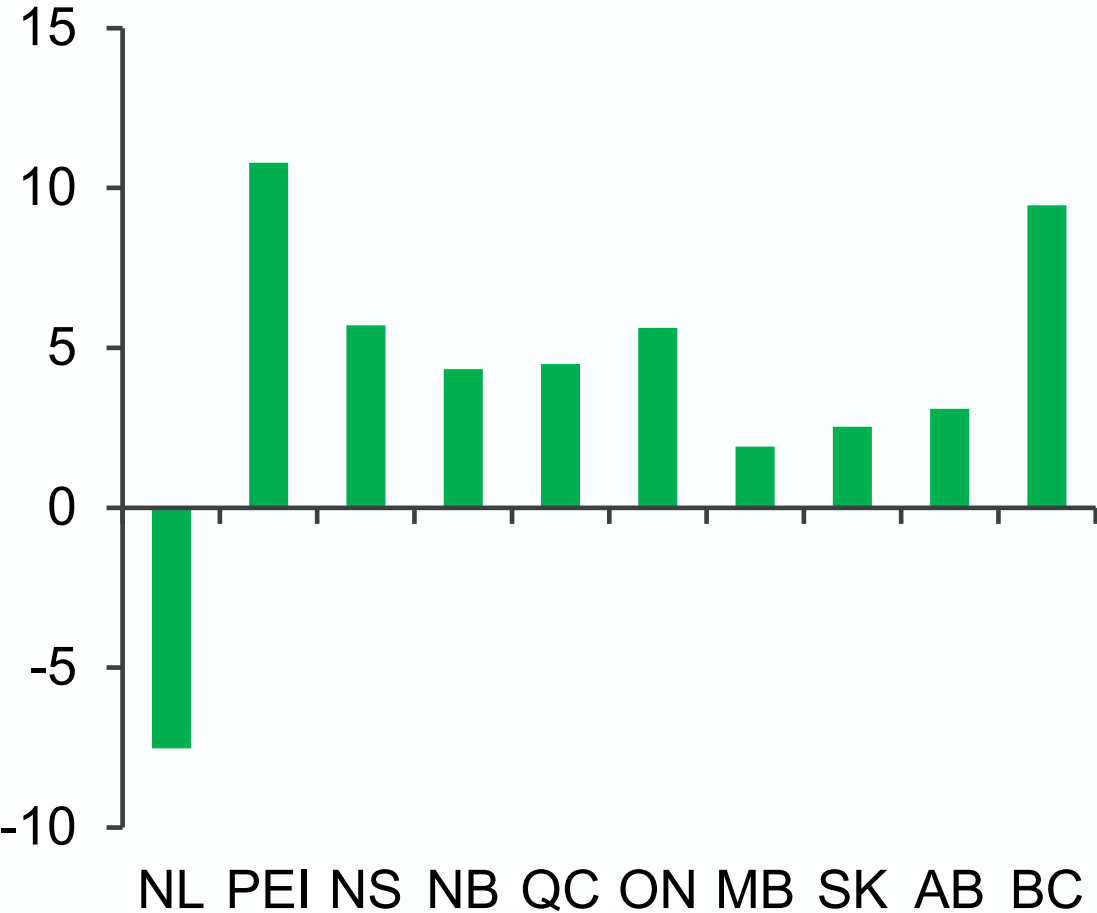
B.C. and regional economic conditions

Economic growth rolls back in 2023 across provinces

Real GDP, % change



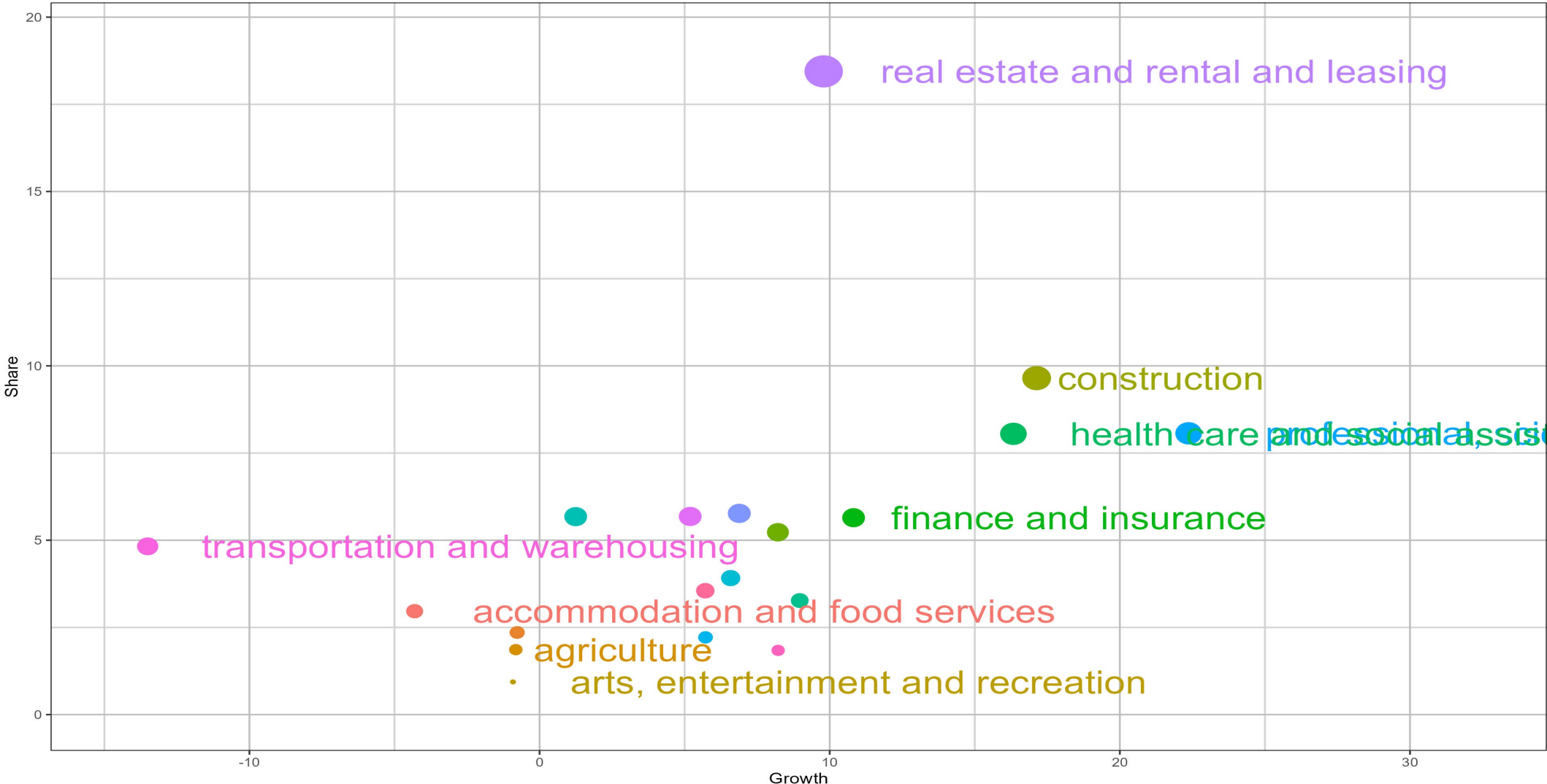
2019 – 2023 change in GDP



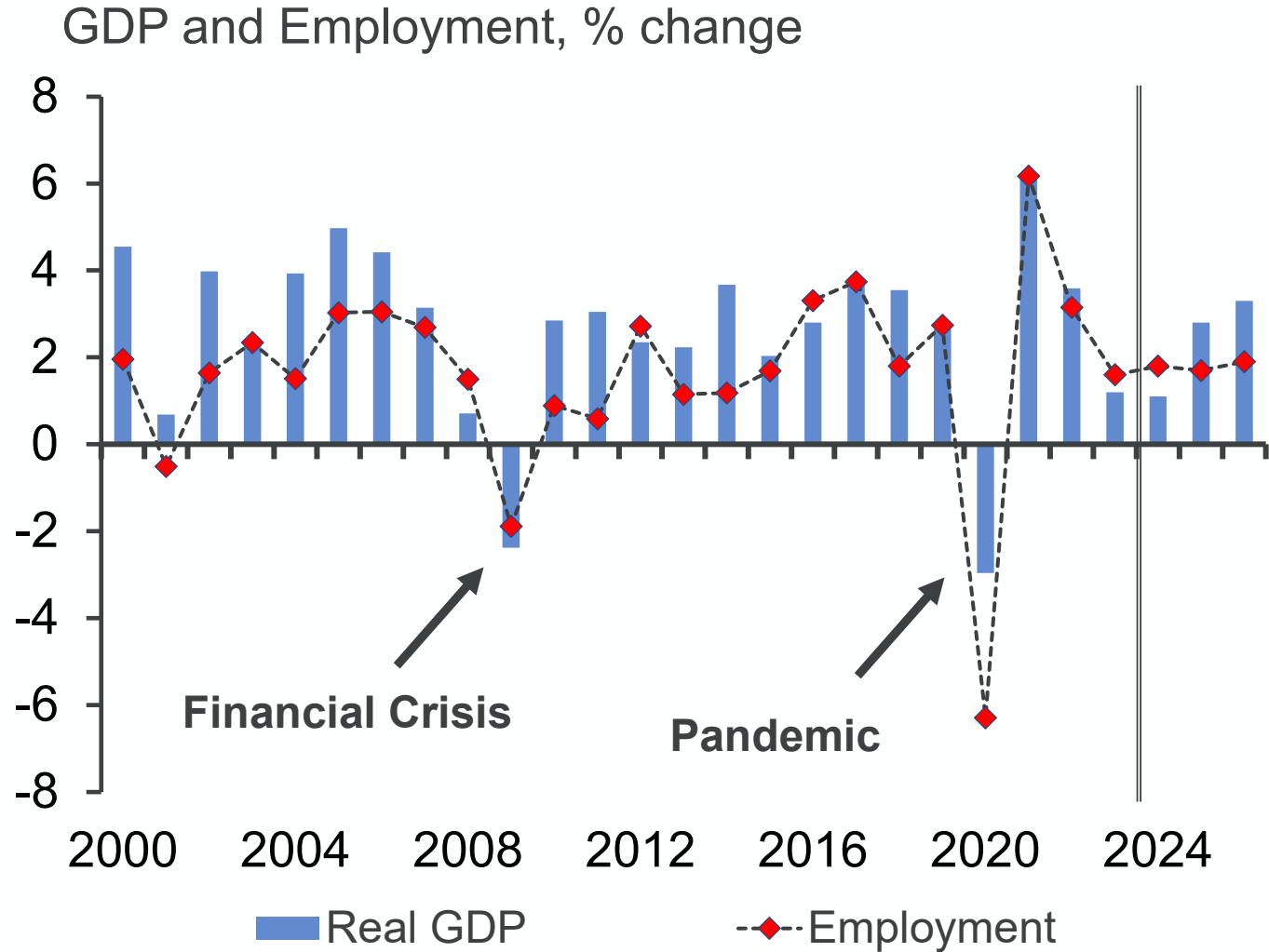
Source: Statistics Canada, Central 1

Recent growth driven by pandemic, projects and knowledge sector

BC GDP Share vs 4-year growth



B.C. economy expected to be slow, but buoyed by resource exports

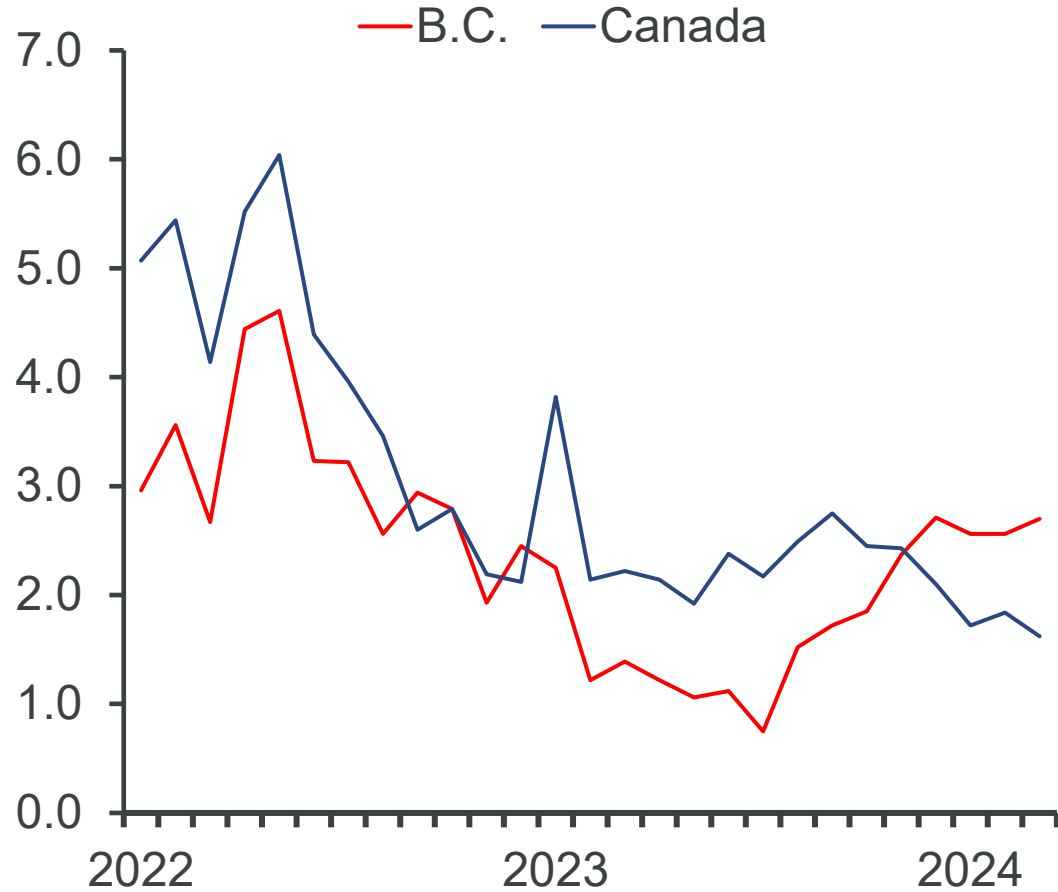


Source Statistics Canada, Central 1

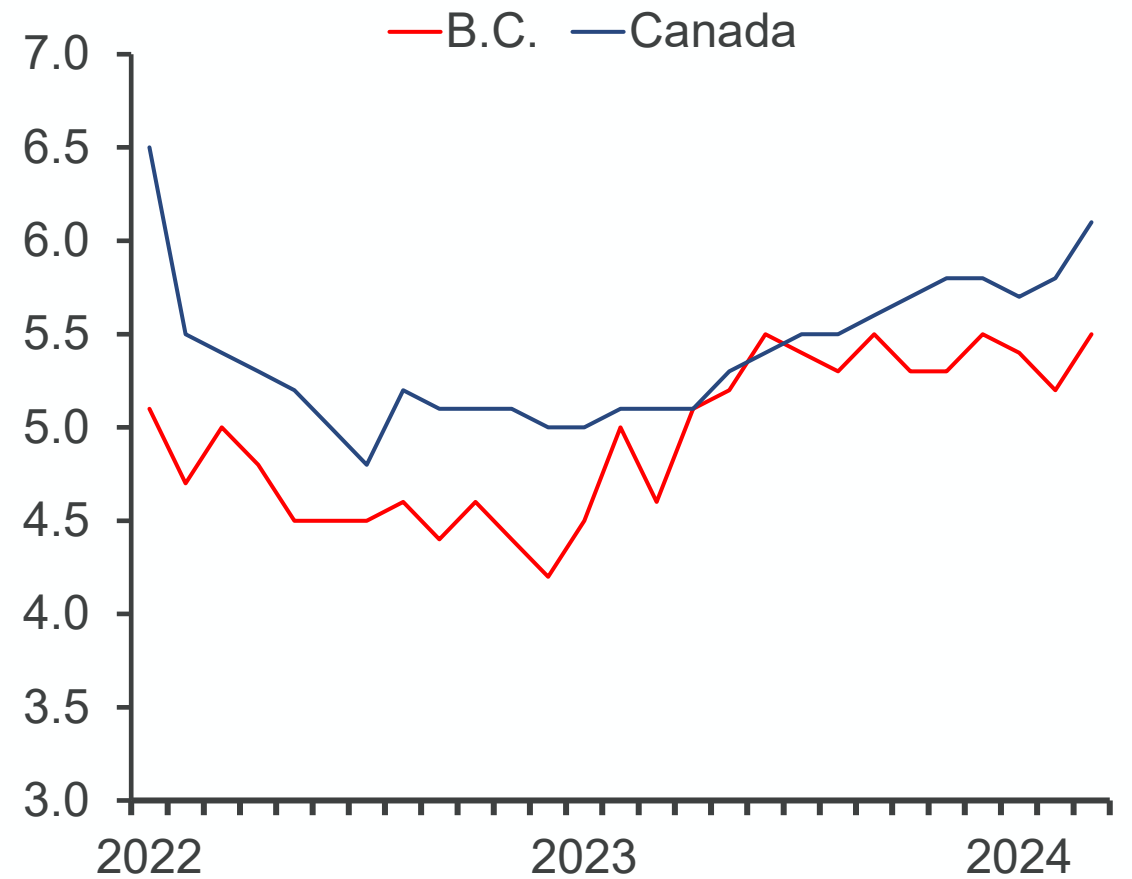
- High debt-to-income and household financial risk
- Capita investment cycle to wane with end of major project construction
- Housing construction cycle to slow

B.C. labour market more resilient in early 2024

Employment, y/y % ch



Unemployment rate

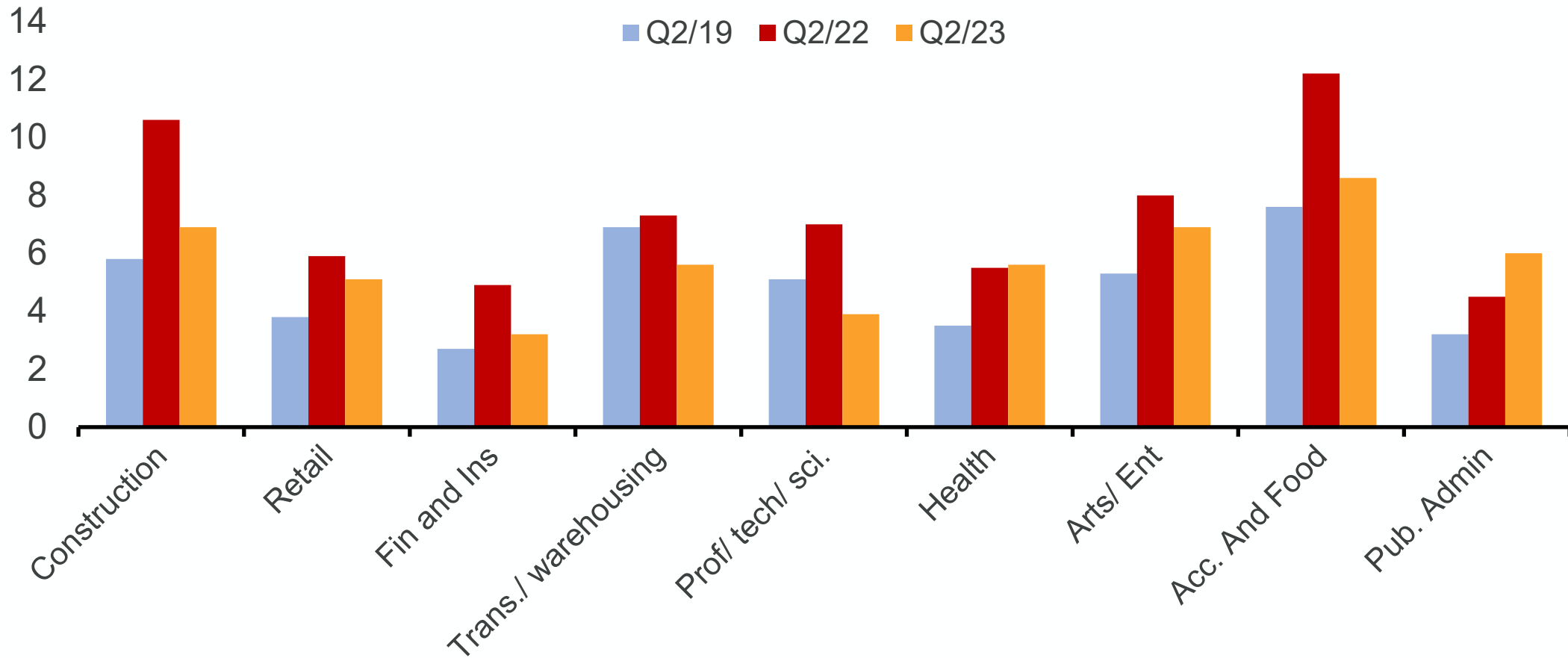


Recent trends positive in B.C. but public sector leads the way

B.C. Employment by Select Industry, Seasonally- Adjusted								
	Employment (000s)							
	Persons (000s)			m/m % ch		y/y % ch	3-mth trend	% of Feb/20
	2023M03	2024M02	2024M03	2024M02	2024M03	2024M03	2024M03	2024M03
Total Employment	2,772.8	2,841.2	2,847.8	0.2	0.2	2.7	↑	106.8
Goods Producing	509.9	485.2	493.2	0.0	1.6	-3.3	↑	98.0
Services Producing	2,262.9	2,356.0	2,354.5	0.3	-0.1	4.0	↑	108.8
Construction	249.4	230.3	231.1	1.6	0.3	-7.3	↑	88.1
Manufacturing	174.0	170.9	174.4	-0.5	2.0	0.2	↑	108.7
Retail/wholesale trade	437.6	426.8	431.5	-1.3	1.1	-1.4	↓	99.1
Fin/Insur/Real Estate	170.8	180.0	185.8	1.2	3.2	8.8	↑	105.5
Prof./Sci./Technical	265.7	287.8	284.0	-0.5	-1.3	6.9	↓	121.3
Accom./Foodservices	198.1	179.7	174.5	-1.5	-2.9	-11.9	↓	85.8
Health Services	360.8	399.3	409.6	0.5	2.6	13.5	↑	123.2
Public Admin	138.0	150.4	151.2	0.5	0.5	9.6	↑	132.6

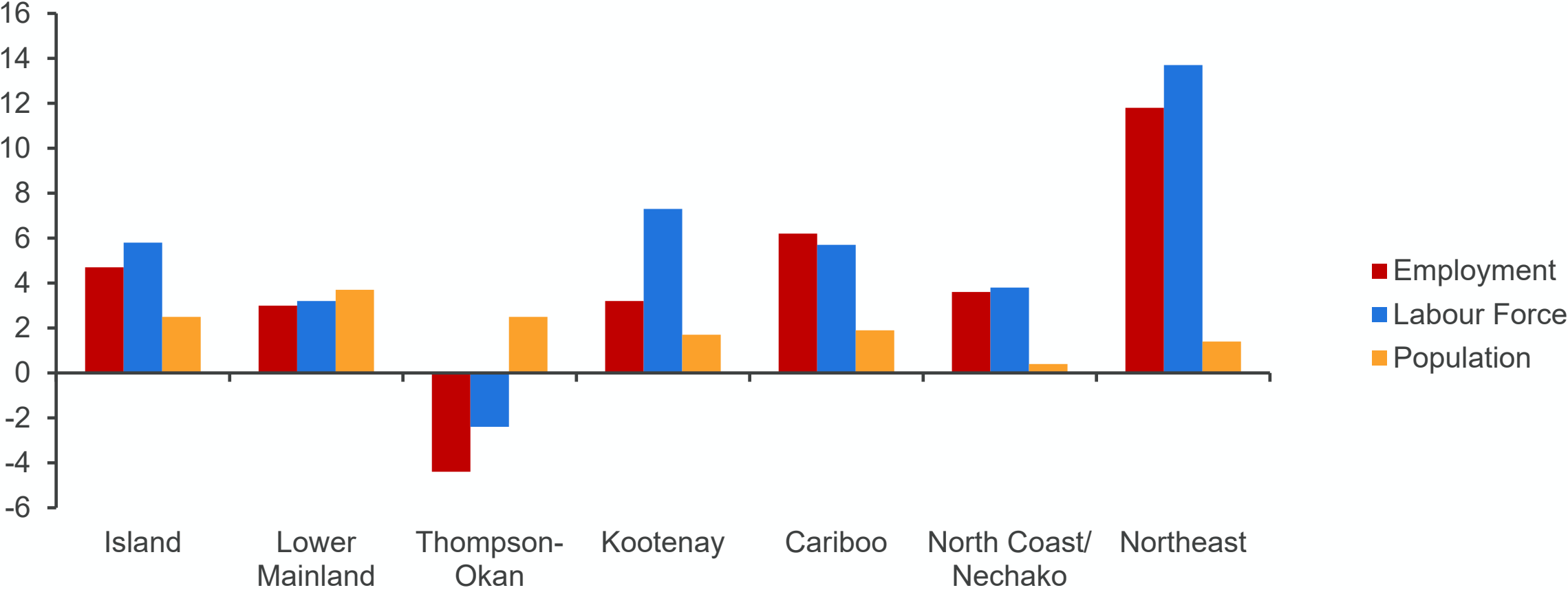
Job vacancy rates by select industry

B.C. job vacancy rate, %



Regional labour markets point to strength in the southwest, weakness in interior

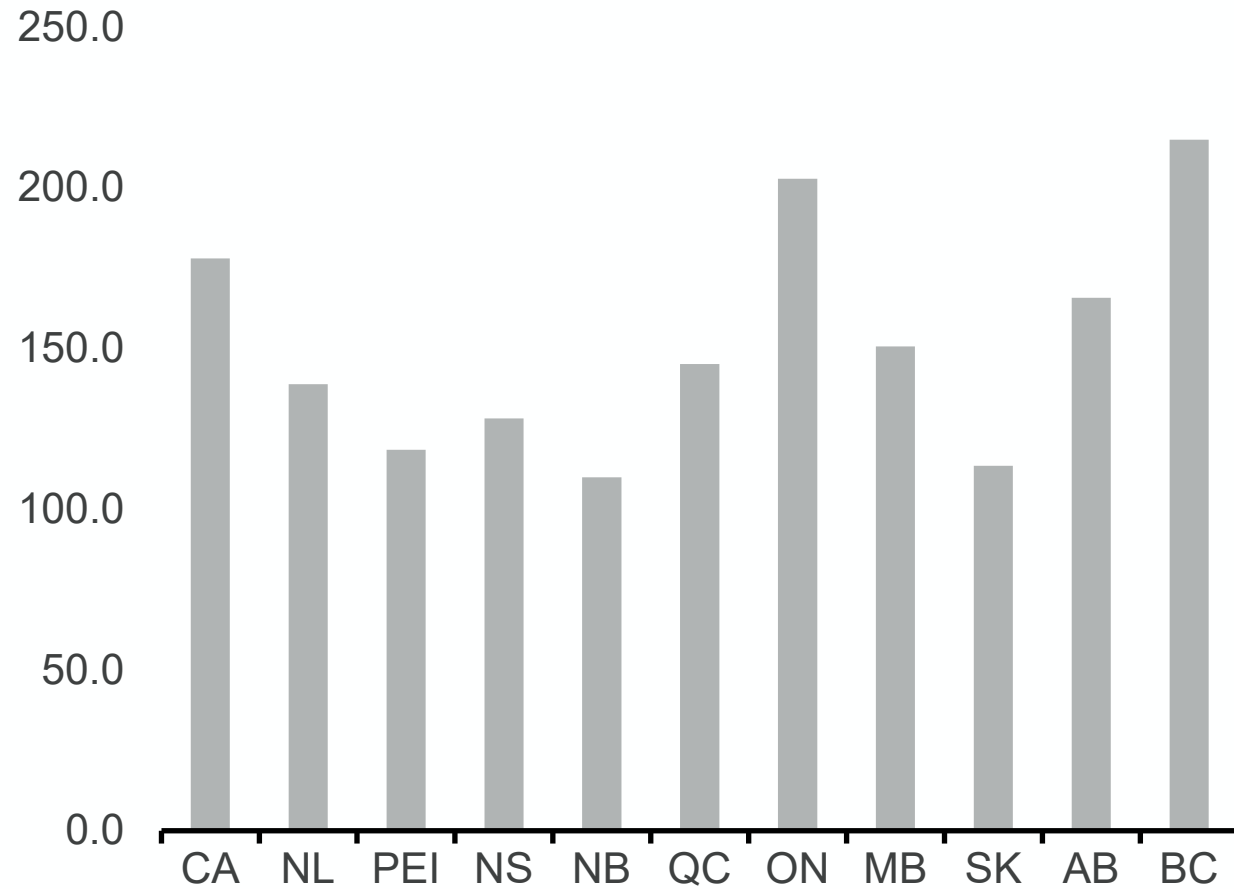
Year-over-year % change



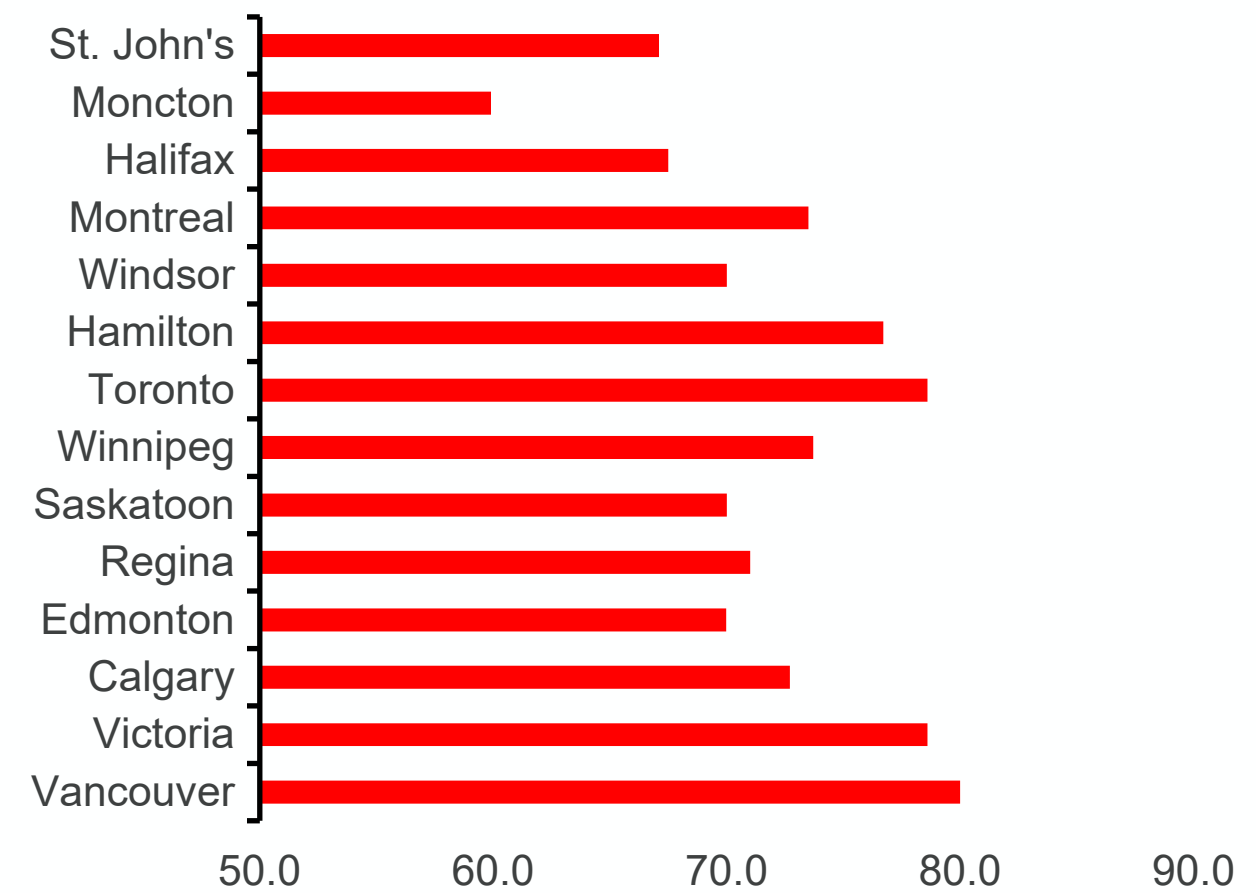
Source: Statistics Canada, Central 1

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

Household debt to income ratio, Q3 2023



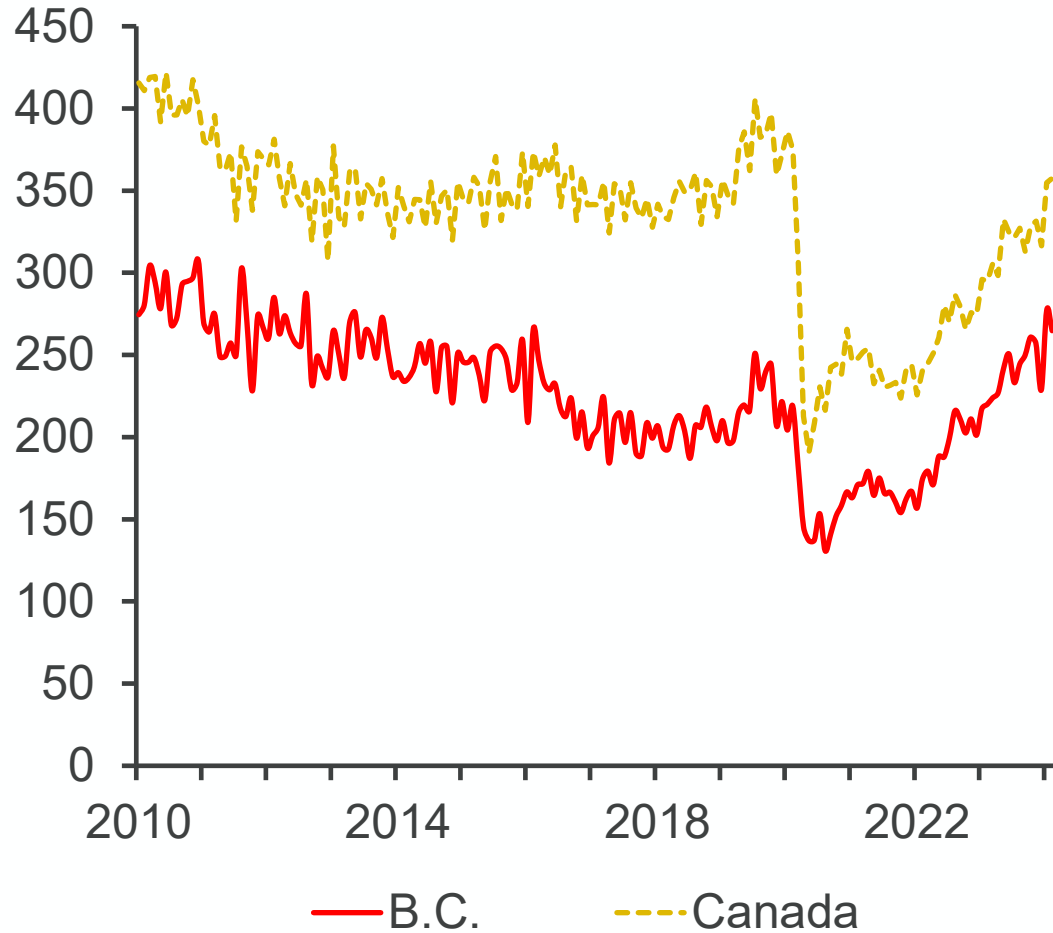
Mortgage share of outstanding debt



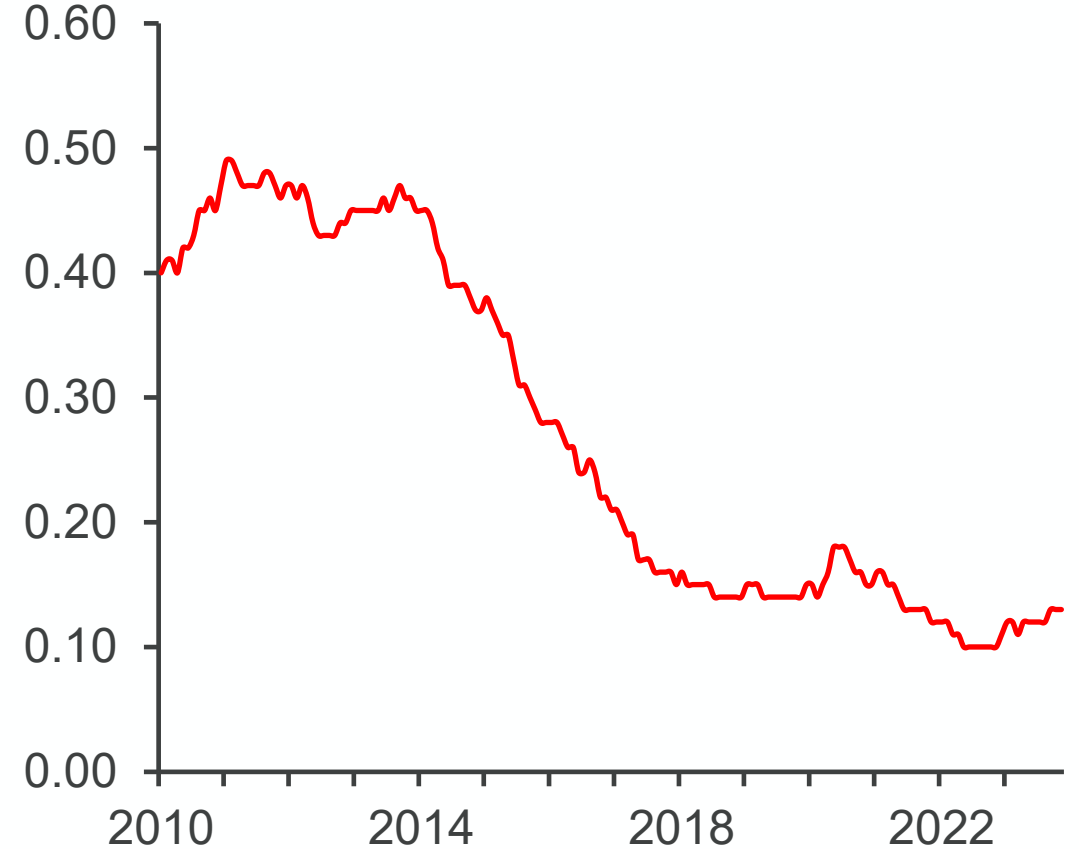
Source: Statistics Canada, Central 1

Financial pain still not evident

Insolvencies per capita (/000)

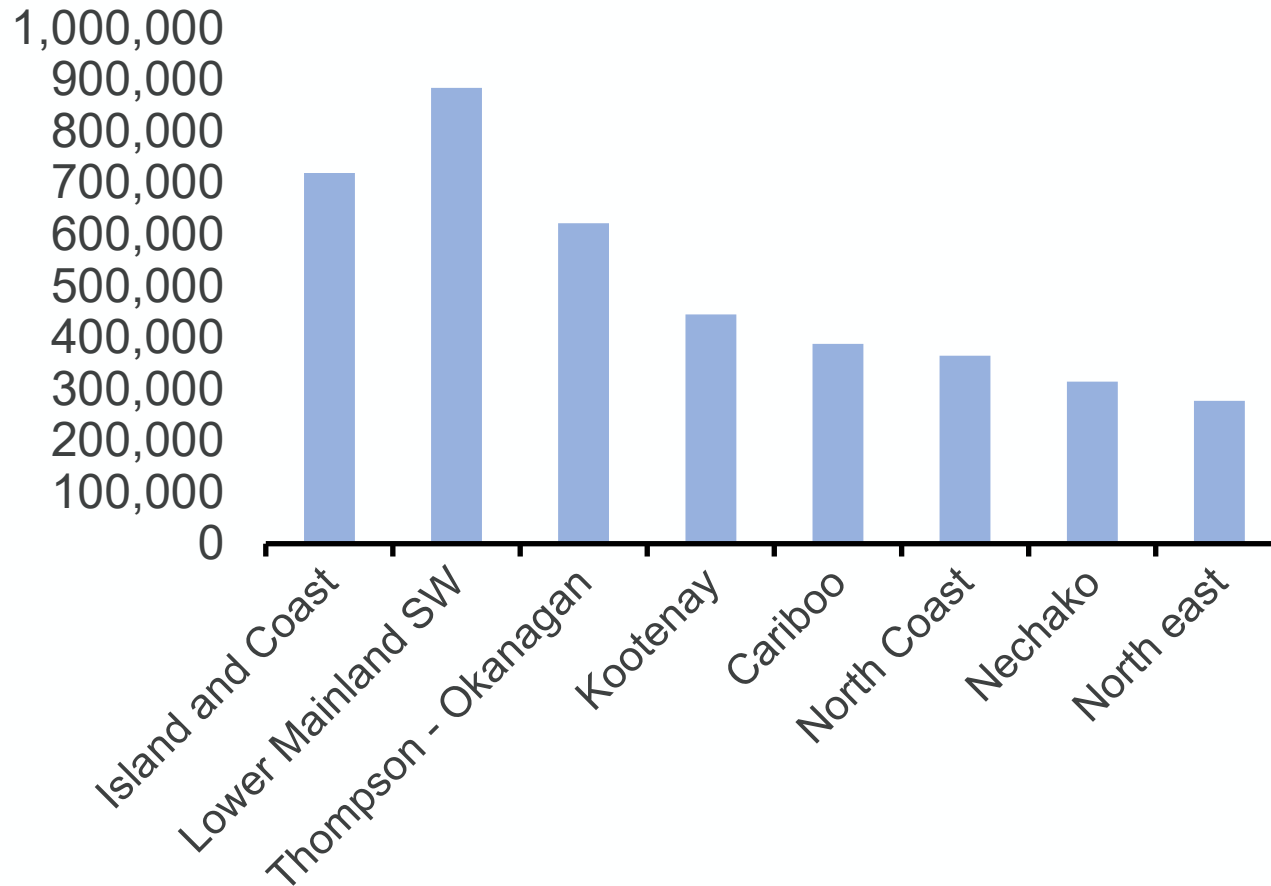


B.C. Mortgages in arrears (%), banks

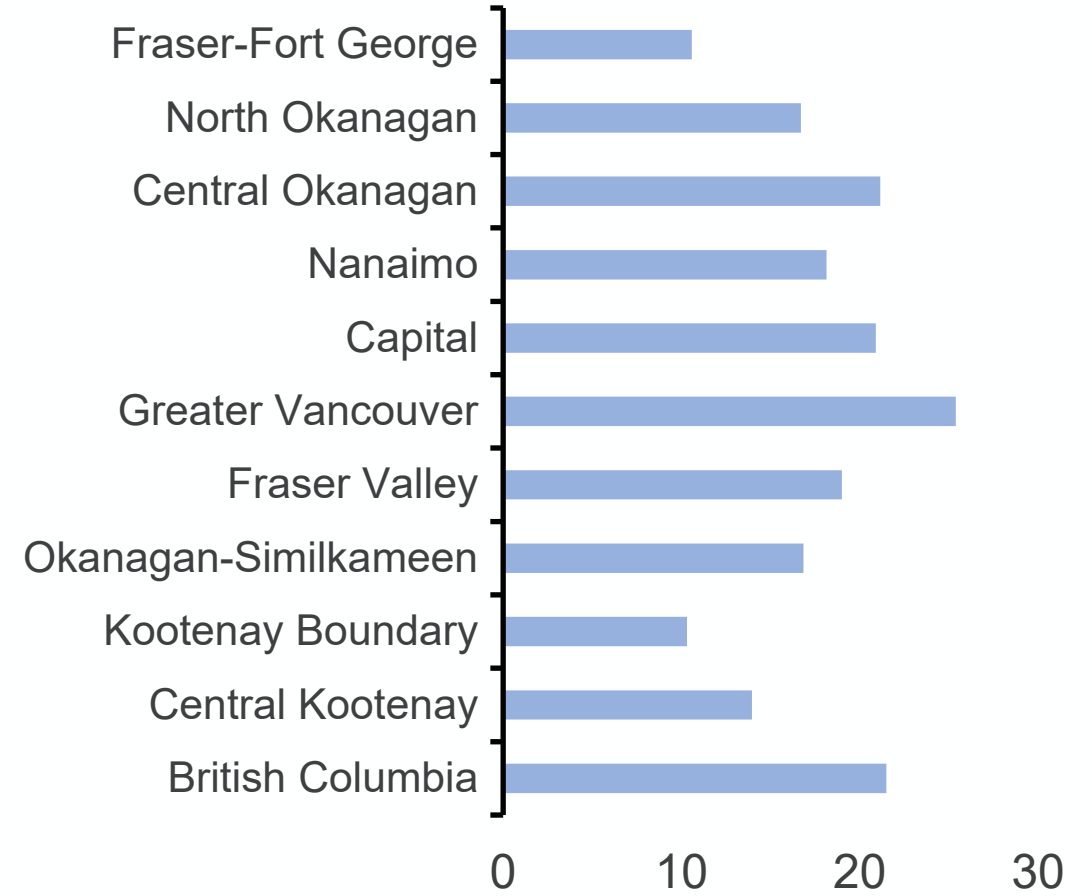


Relatively lower housing prices curbs household financial risk

Resale Median Price, \$

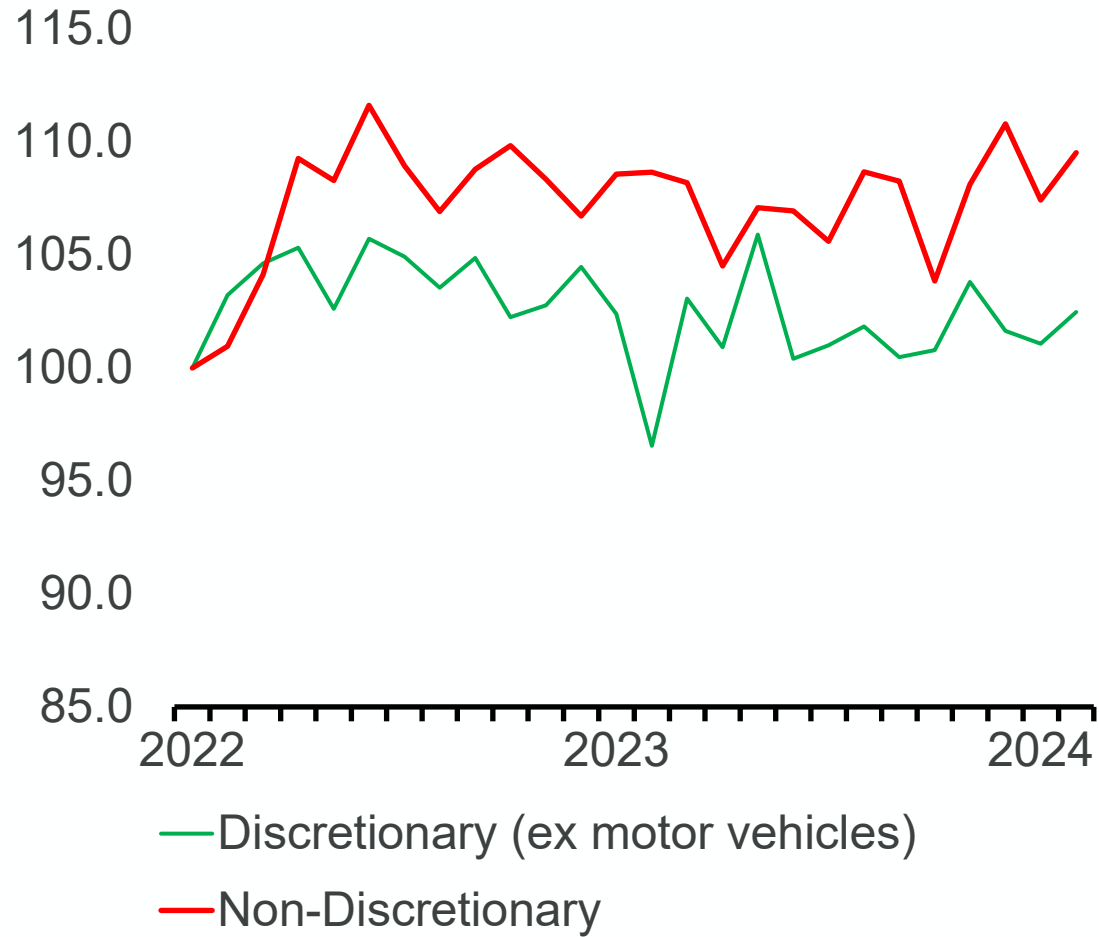


% of population with shelter costs 30% > household income

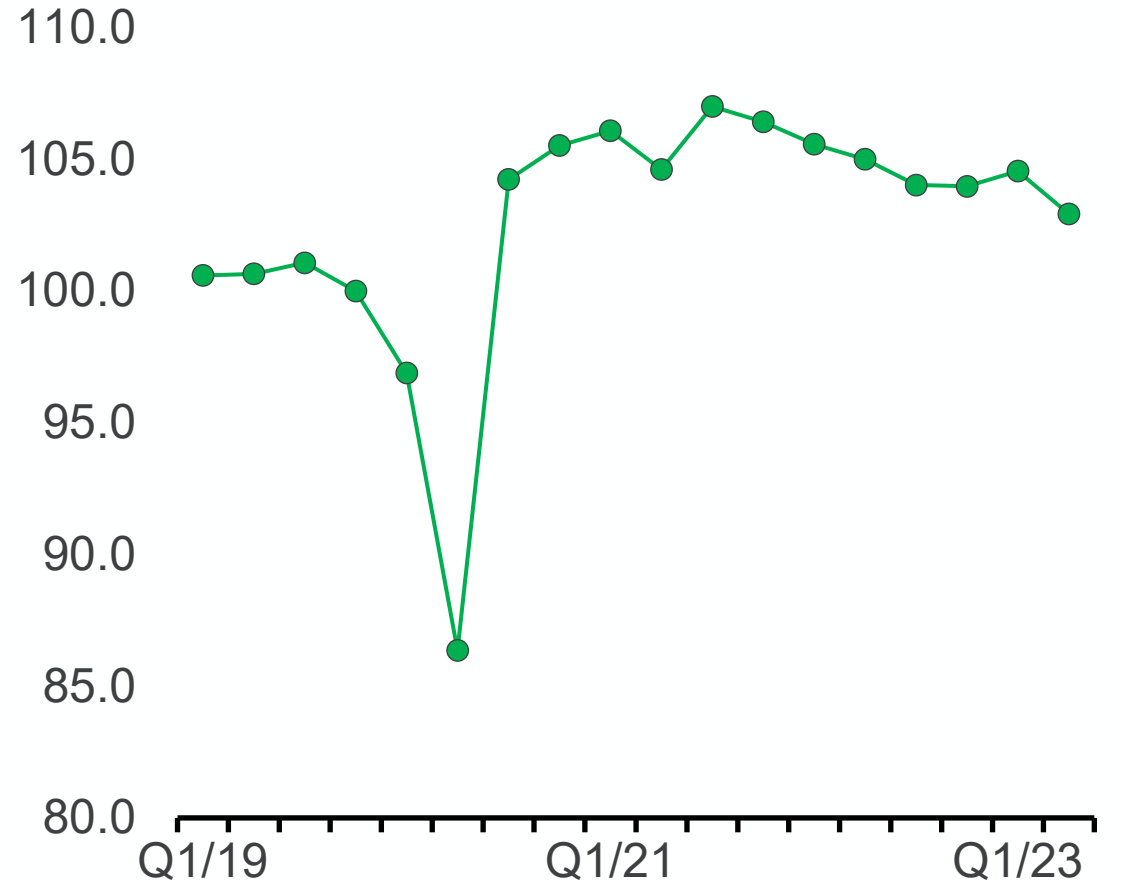


Retail spending sliding, households cutting back

B.C. retail sales by sector, Jan/22 = 100



Quarterly real retail sales/ capita, Q4/19=100



Economic trends stall into 2024

B.C. Indicators

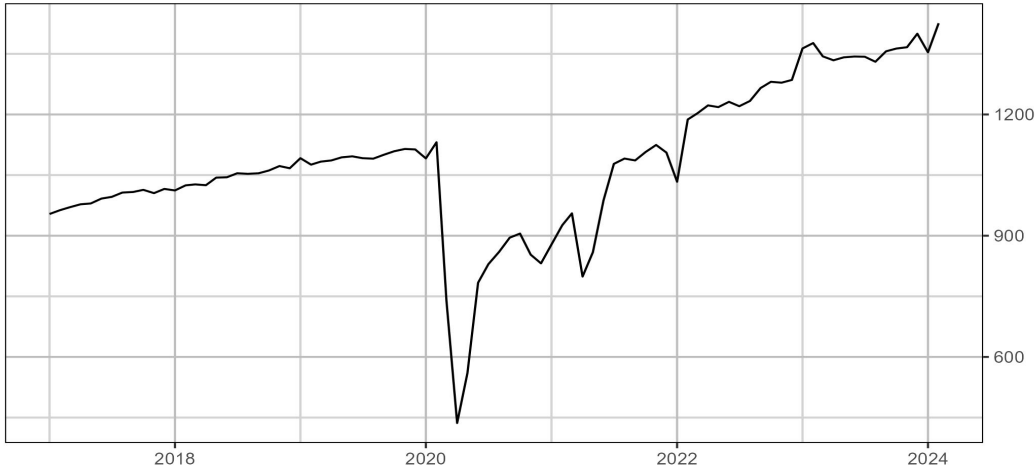
Retail Sales, \$mil

Last data point: 2024-02-01



Foodservice and Drinking Place Sales, \$mil

Last data point: 2024-02-01



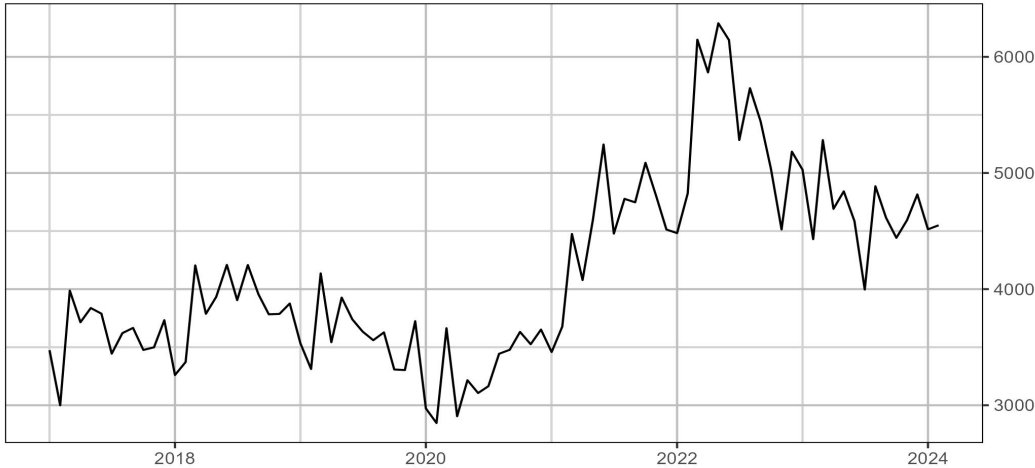
Manufacturing Sales, \$mil

Last data point: 2024-02-01

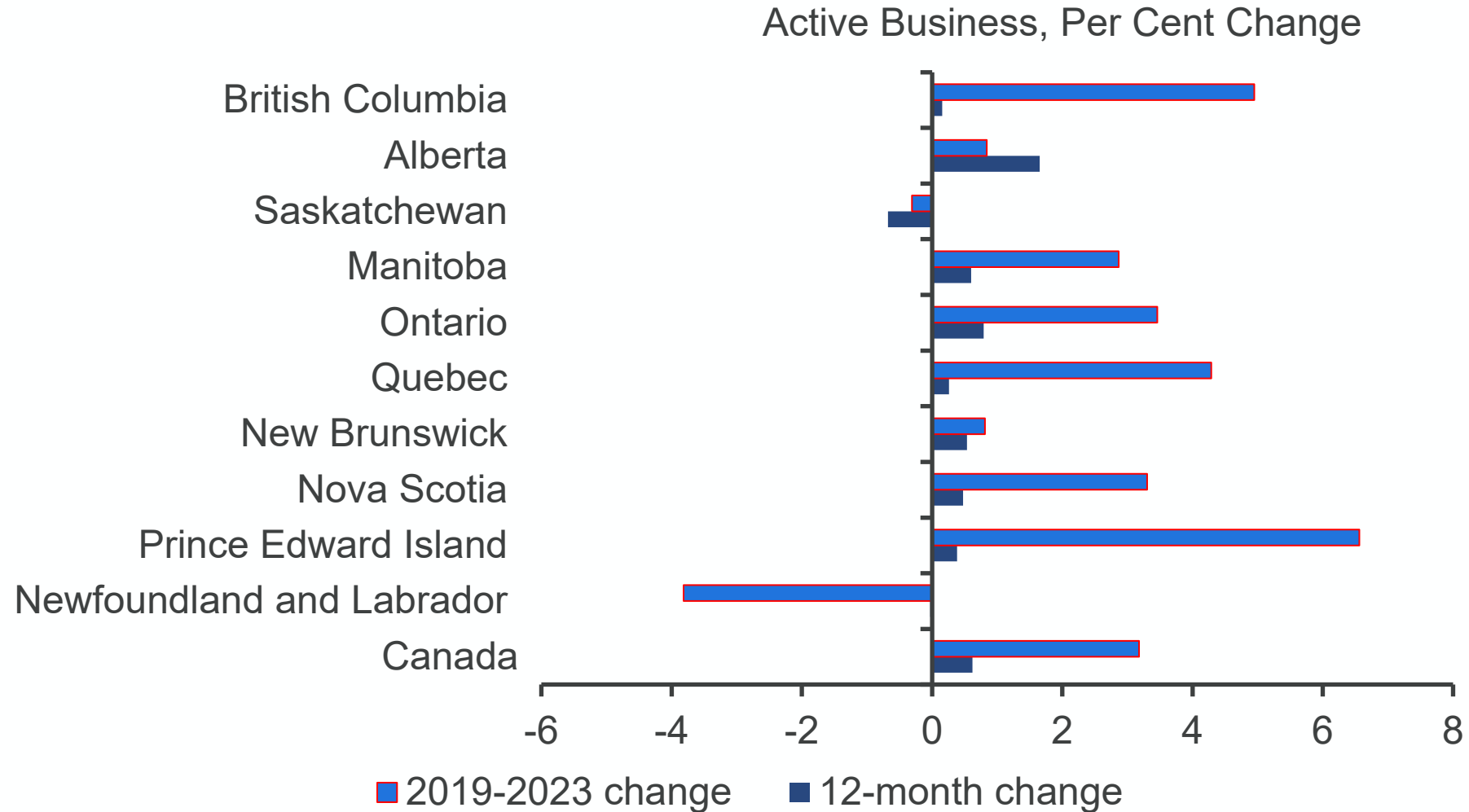


International Goods exports, \$mil

Last data point: 2024-02-01



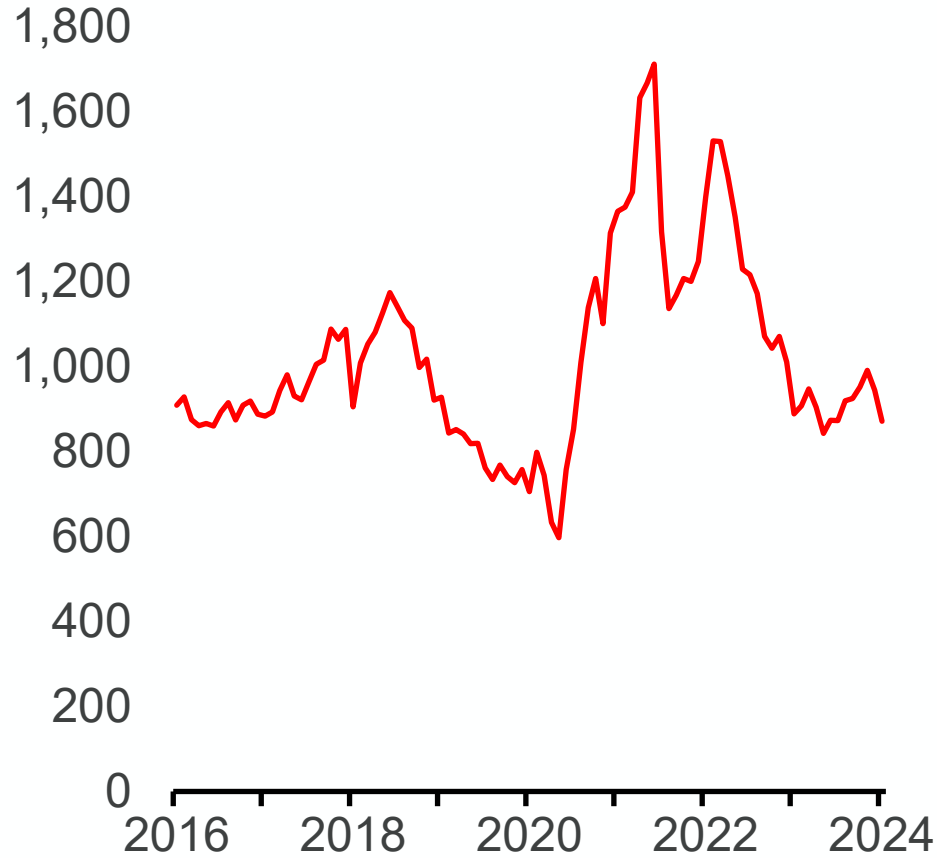
Alberta led 2023 business growth, but B.C. and PEI strongest over pandemic period



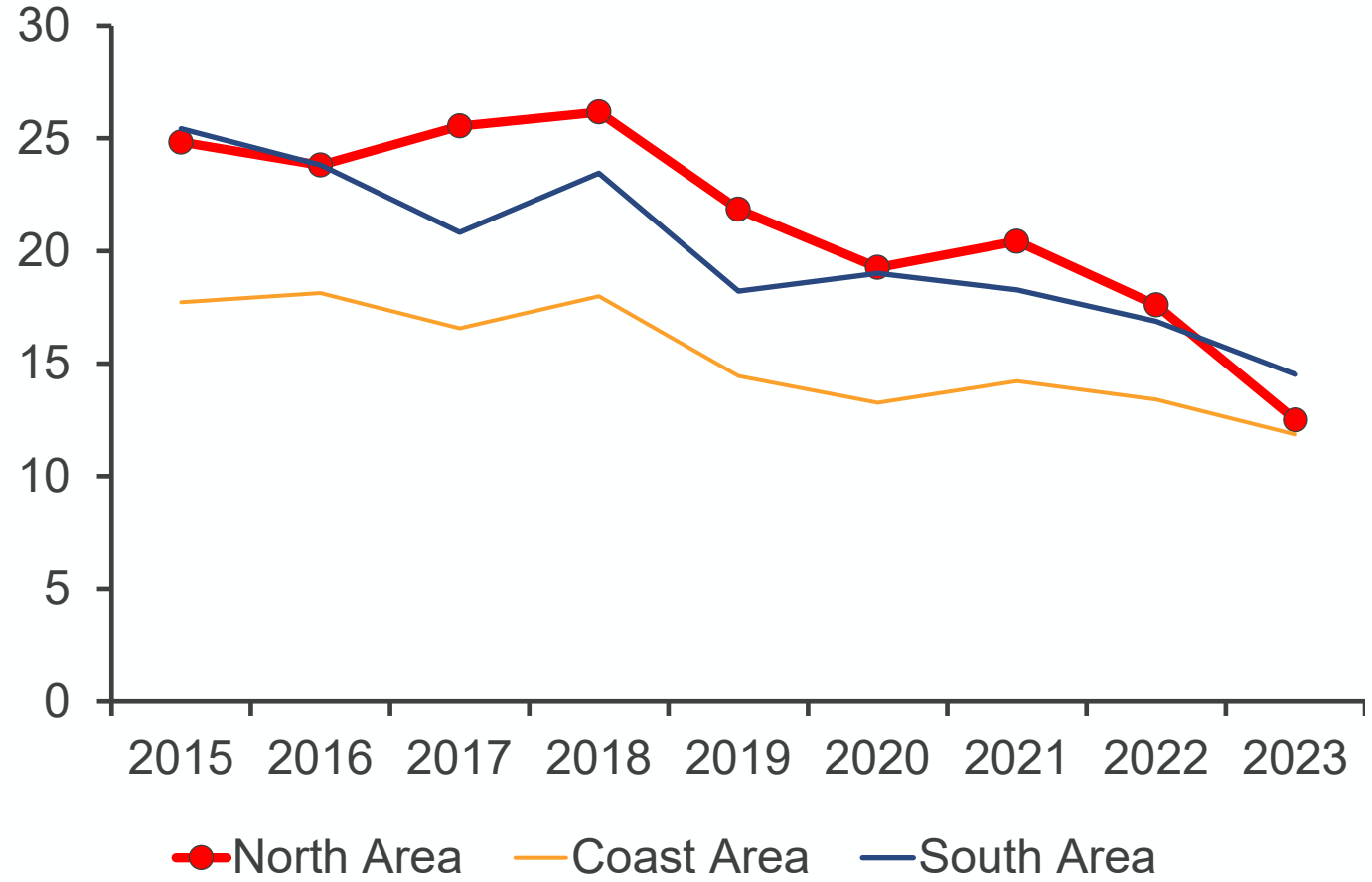
Source: Statistics Canada, Central 1

Forestry sector slumped through 2023

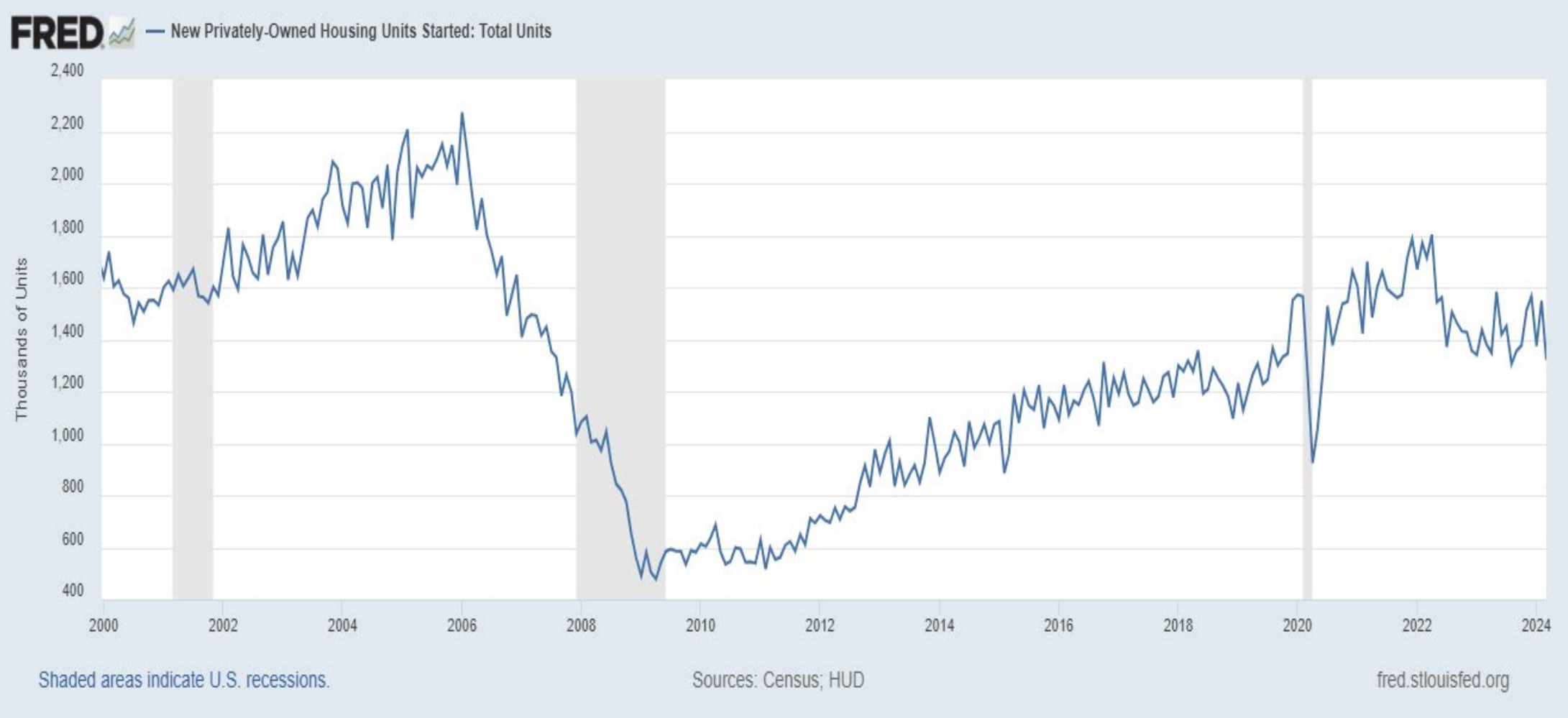
B.C. wood product manufacturing \$mil



Annual timber harvest growth, dry cubic metres (m)



US housing starts steady, rebound unlikely to fuel BC recovery



Northern capex boom coming to an end

Table 2.6 Summary of Capital Cost Estimates* July - September 2023 (\$ Millions)

Region	Proposed	Construction Started	Completed	On Hold	Total
1. Vancouver Island/Coast	10,831	13,059	42	5,342	29,274
2. Mainland/Southwest	61,460	50,476	978	455	113,369
3. Thompson/Okanagan	4,428	10,873		2,384	17,685
4. Kootenay	1,097	2,626		1,420	5,143
5. Cariboo	7,758	31,423		1,100	40,281
6. North Coast	68,480	37,916		12,251	118,647
7. Nechako	3,086	1,574	53	2,195	6,908
8. Northeast	11,468	25,115	51	5,010	41,644
Total	168,608	173,062	1,124	30,157	372,951

Under Construction

- Cariboo: \$30.9 B TMX Pipeline, near completion (Q2 2024)
- North Coast: \$36 B LNG Canada, 2025 Completion; Fairview Terminal \$600 m
- Northeast: Coastal Gas Link: \$6.2B; Site C \$25B 2025 completion

Critical minerals strategy to drive EV

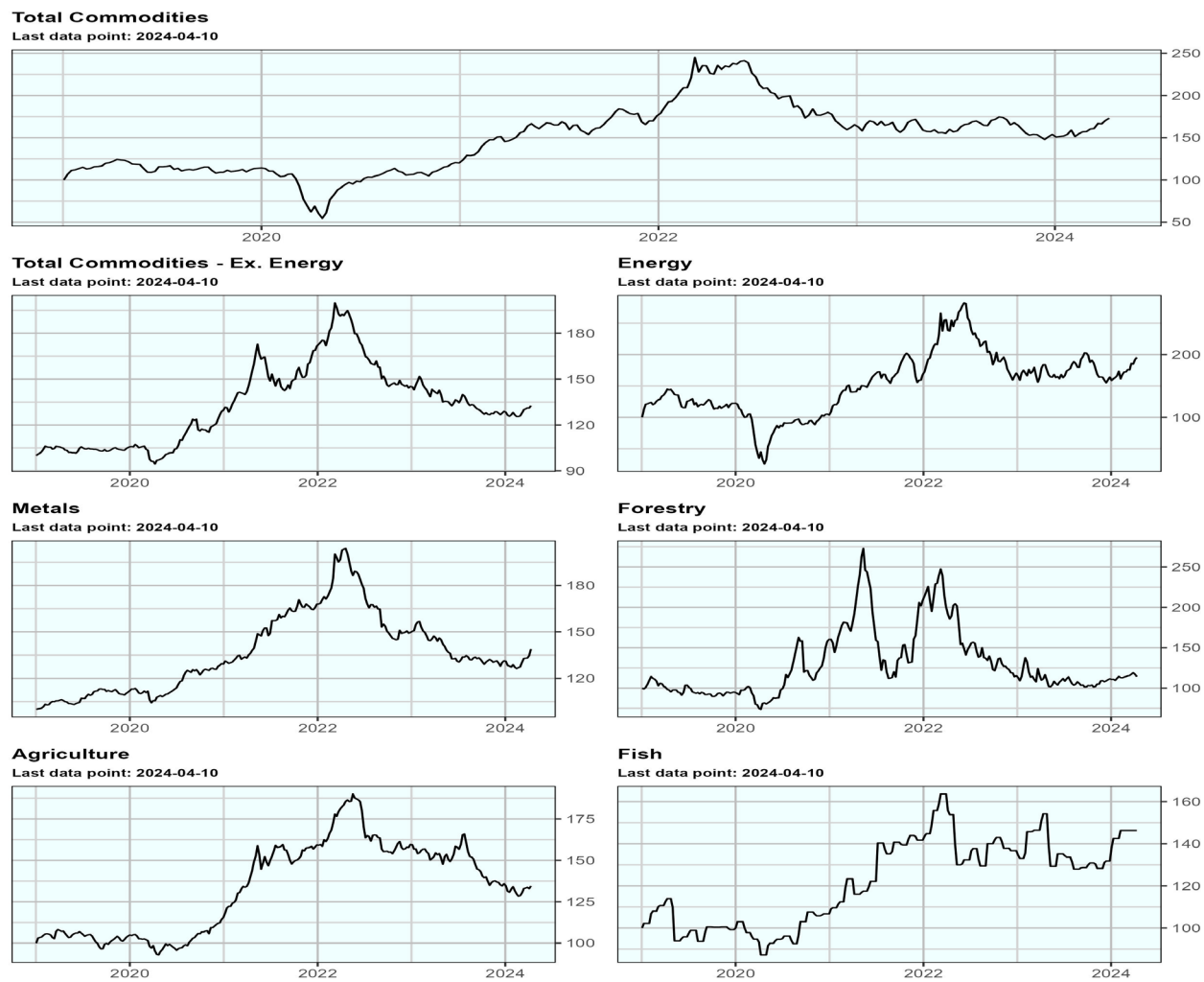
Transmission lines to help business case for new mines

BC Budget – Hydro credits a boon to mining sector, \$250 million fund for related infrastructure

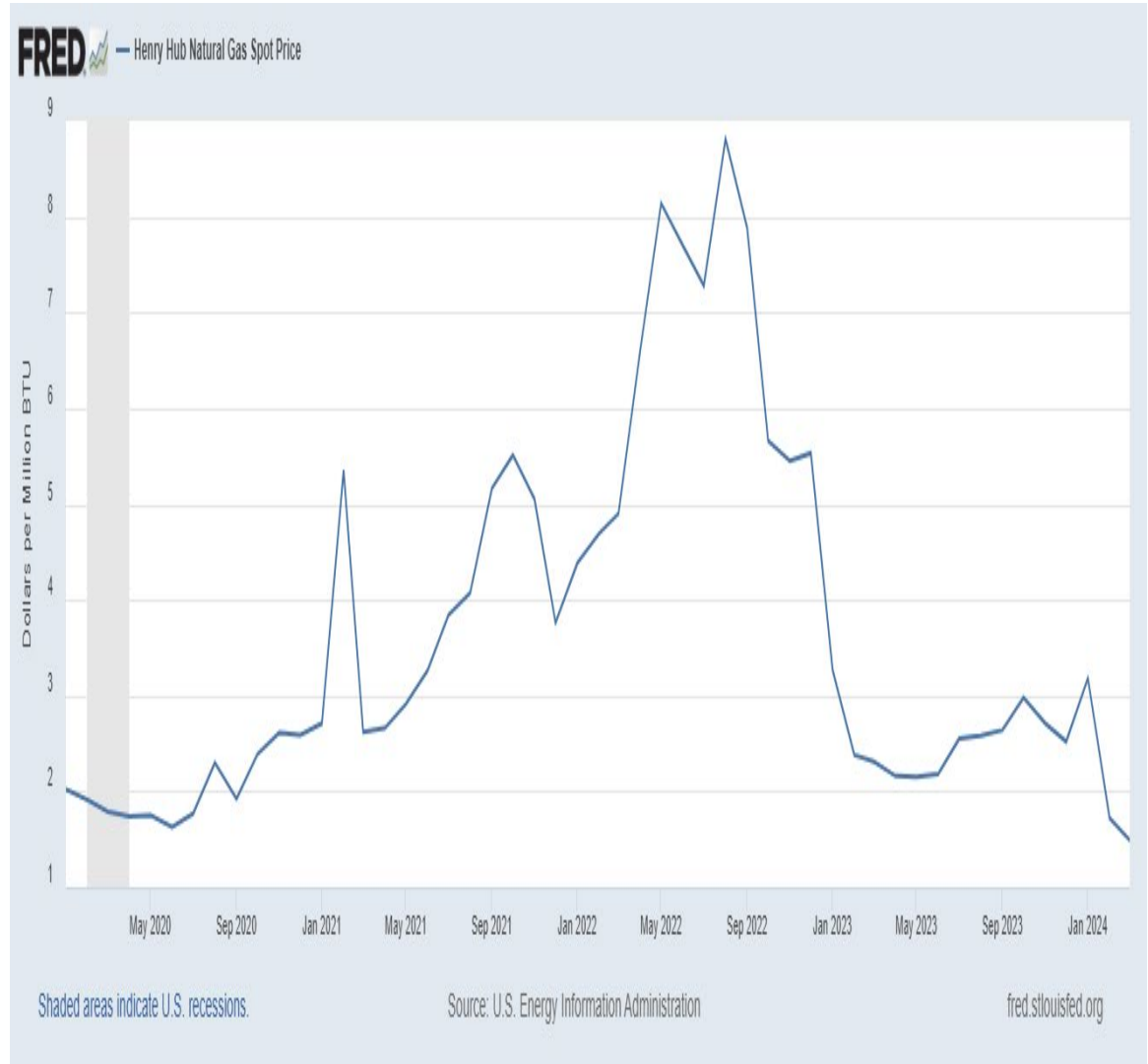
Federal Budget – funds for indigenous led resource development

Commodity prices: Metals rising, forestry and natural gas weak

Bank of Canada Commodity Price Indices, Weekly, April 11, 2024



Bank of Canada, Central 1



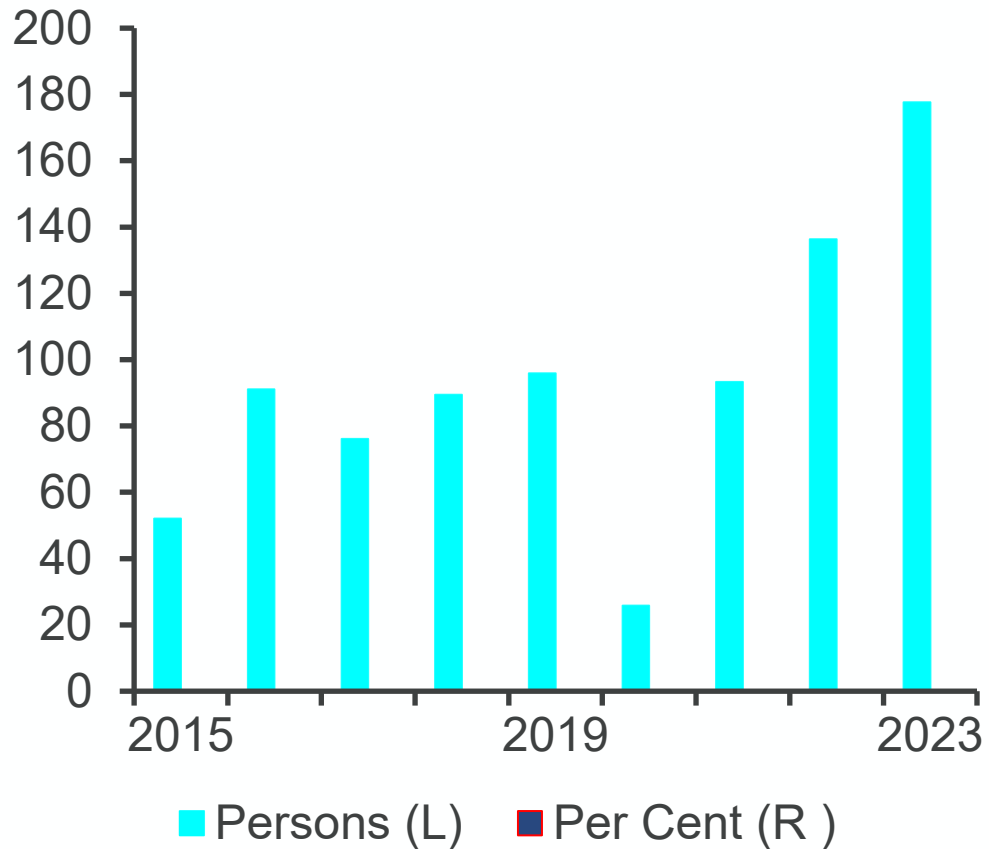
Source: IMF, USFRED, Central 1

B.C. economy to slow before recovery, population growth to stumble on fewer non-permanent residents

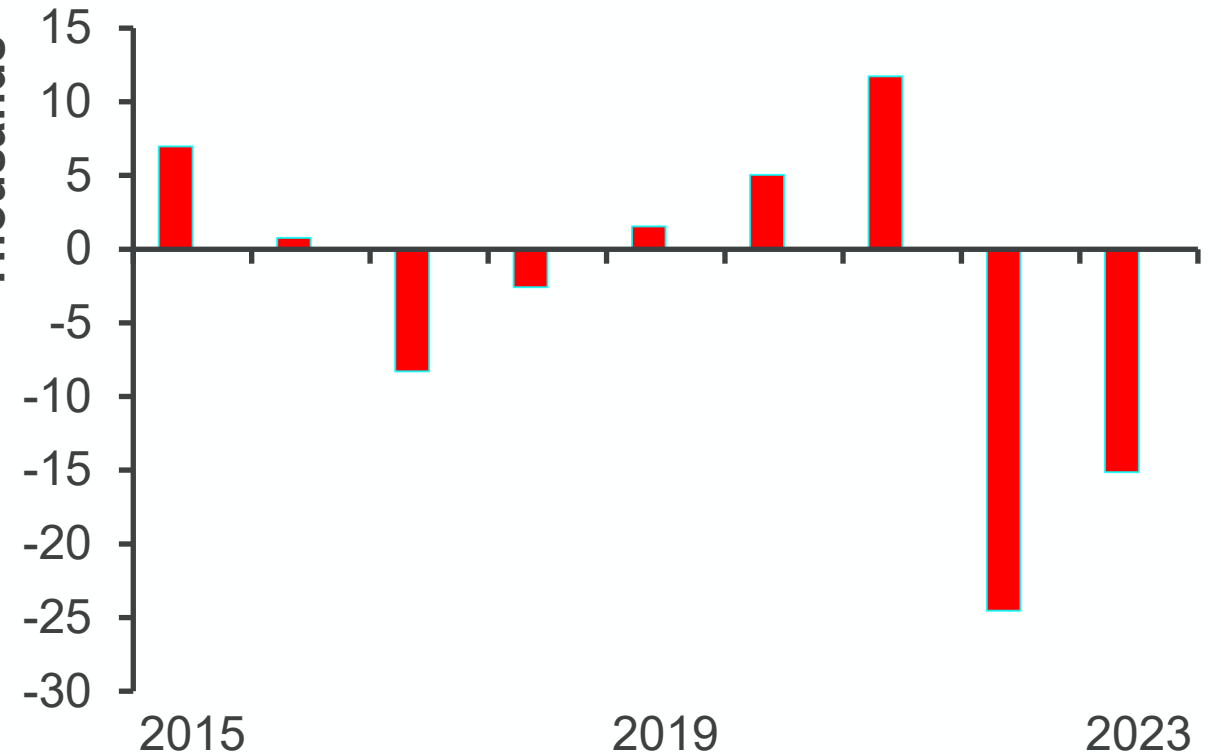
Indicator	2021	2022	2023	2024	2025	2026
Nominal GDP	15.8	11.0	2.9	3.7	5.0	5.2
Real GDP	7.1	3.8	1.4	1.1	2.8	3.3
Employment	10.1	3.5	1.6	1.8	1.7	1.9
Unemployment Rate	6.5	4.6	5.3	5.8	5.2	3.8
Population Growth	1.0	2.3	3.3	2.7	1.2	1.1
Immigration	34,388	83,200	66,200	58,000	55,000	55,000
Emigration	1,771	3,753	14,187	11,000	10,000	10,000
Net Interprovincial	25,376	26,069	-7,632	15,140	18,204	28,434
Net Non Permanent	-8,845	31,414	117,339	80,000	-10,000	-10,000
CPI	2.8	6.9	4.0	2.5	2.1	2.0
Housing Starts	46,664	50,490	41,000	42,000	41,000	45,000

Large population gains, but losing out to other provinces

B.C. Year-over-year population growth, 000s



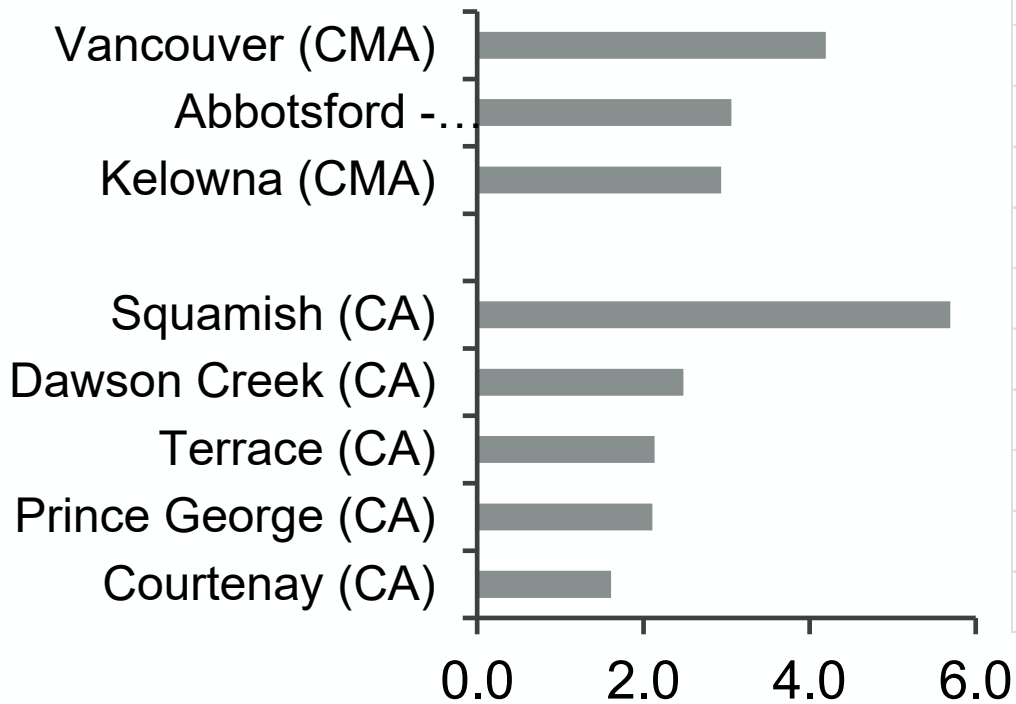
B.C. Net interprovincial migration



Source: Statistics Canada, IRCC, Central 1

Large Metros lead growth in 2023

Top Urban Growth by urban area



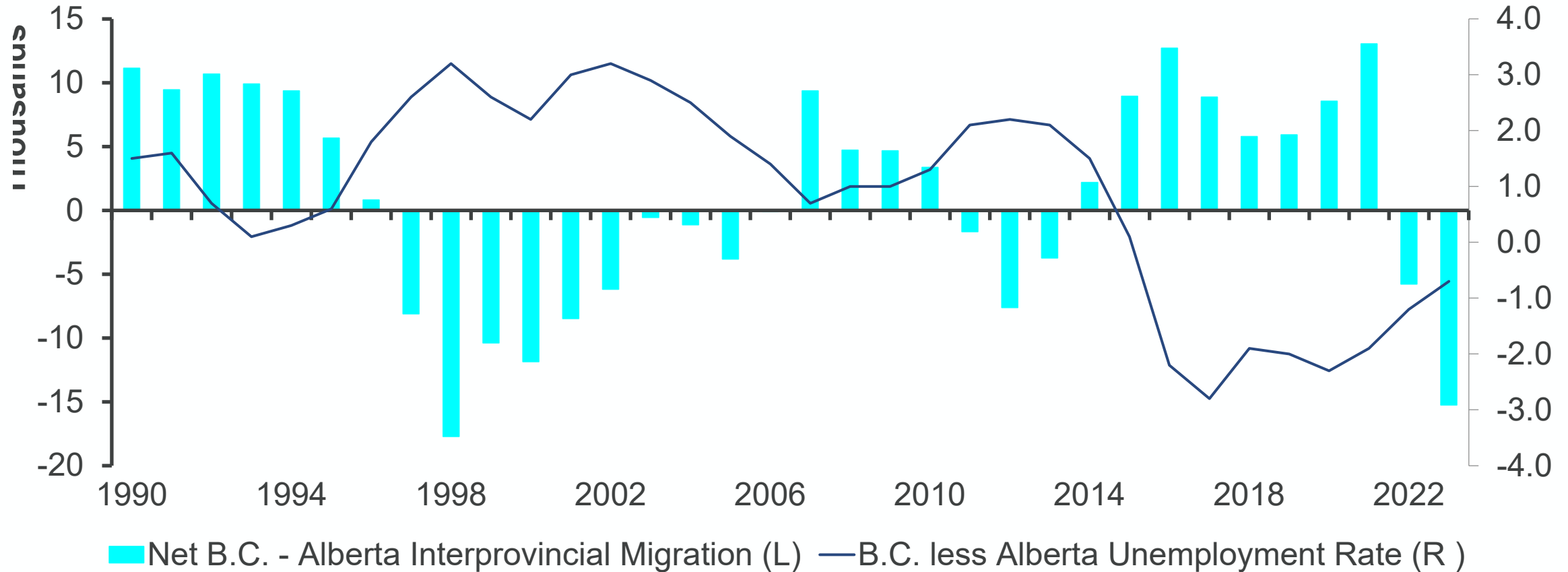
Population Growth - July 1 basis								
	Growth (persons)			Growth (%)		Net Components (2023)		
	2016-2019	2022	2023	2022	2023	Int'l	Inter prov	Intra prov
British Columbia	83,251	129,619	162,729	2.5	3.0	175,024	-8,228	0
Vancouver Island and Coast	14,513	20,986	14,884	2.3	1.6	9,731	687	8,146
Lower Mainland-Southwest	52,638	88,258	129,000	2.8	3.9	148,237	-6,892	-15,829
Thompson-Okanagan	12,868	15,233	13,299	2.4	2.1	10,429	-503	6,179
Kootenay	2,306	2,868	2,203	1.7	1.3	1,834	20	1,101
Cariboo	1,307	1,373	2,119	0.8	1.3	2,334	-593	972
North Coast	45	296	835	0.5	1.4	1,016	-91	-88
Nechako	-81	207	-66	0.5	-0.2	168	-162	-54
Northeast	-346	398	455	0.6	0.7	1,275	-694	-427

Source: Statistics Canada, Central 1

Net outflow to Alberta is more than the business cycle

Persons (000s)

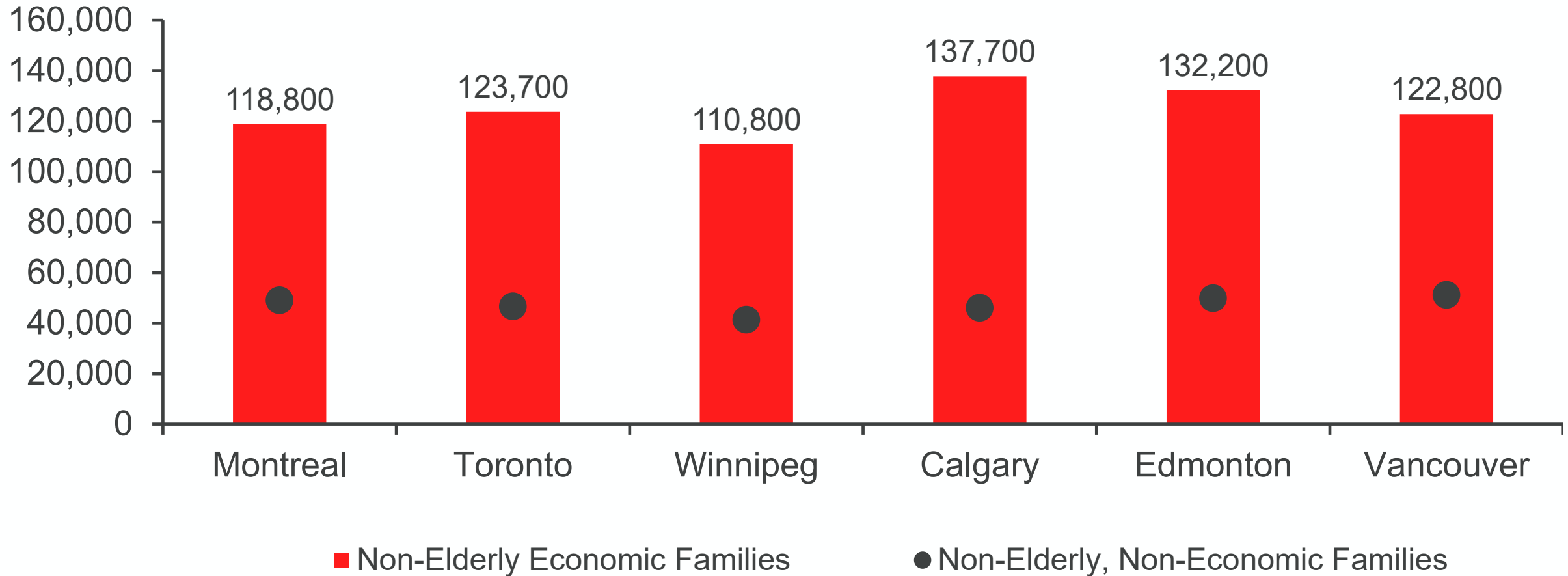
Per Cent



Source: Statistics Canada, Central 1

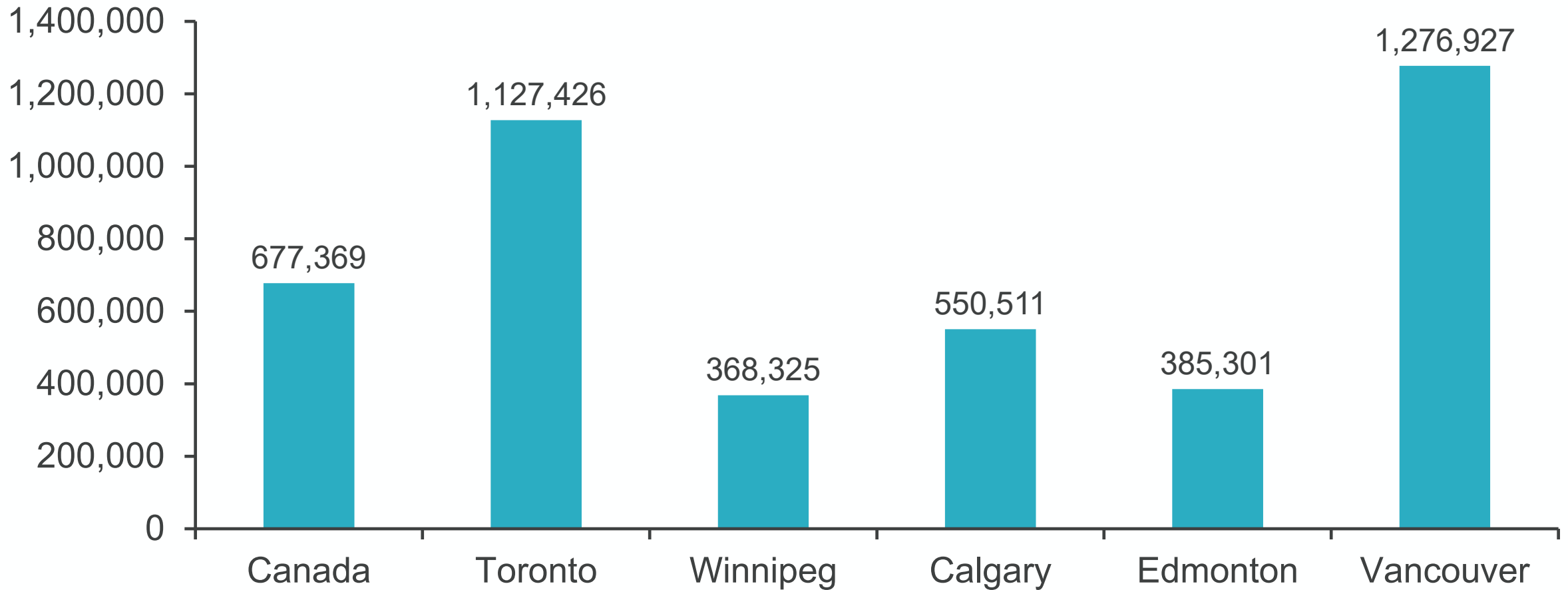
Median incomes similar across markets, could fuel more interprovincial migration

Median income, 2021 \$



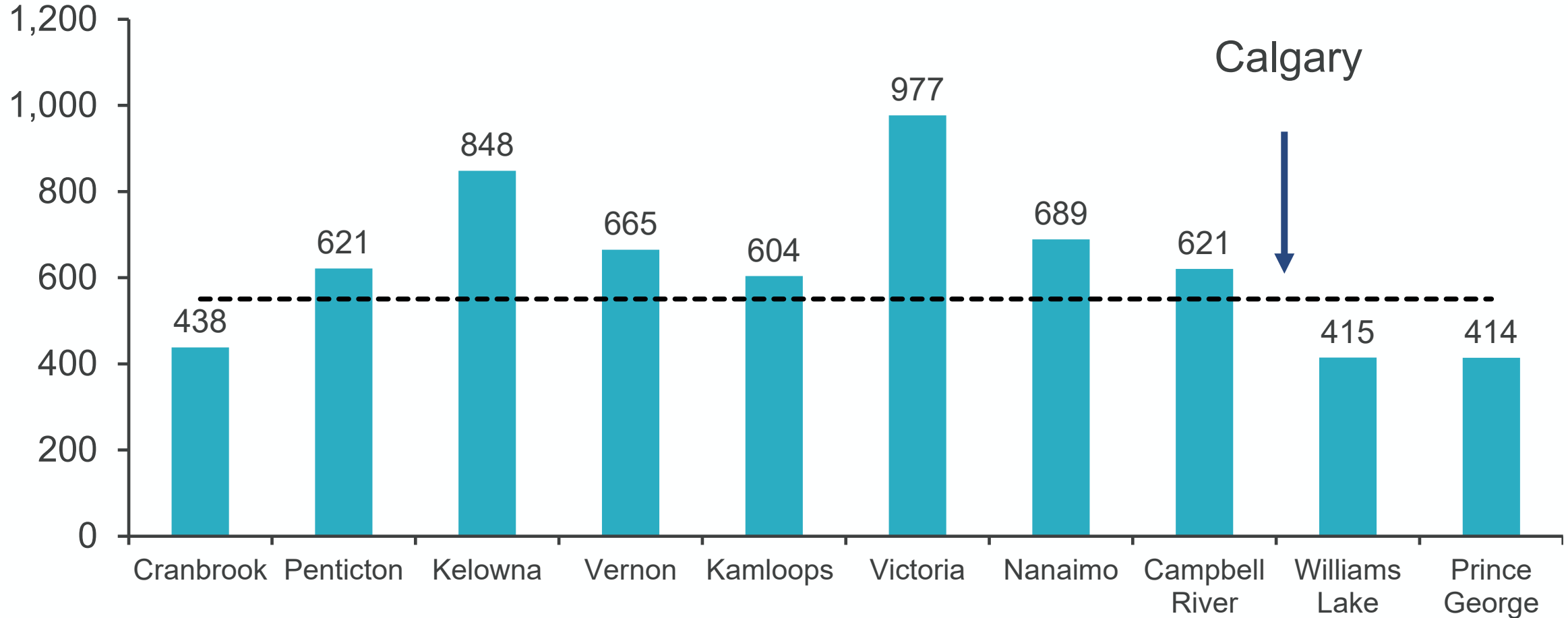
Affordability is the key crisis for families

Average MLS® Price 2023



Not only a metro issue

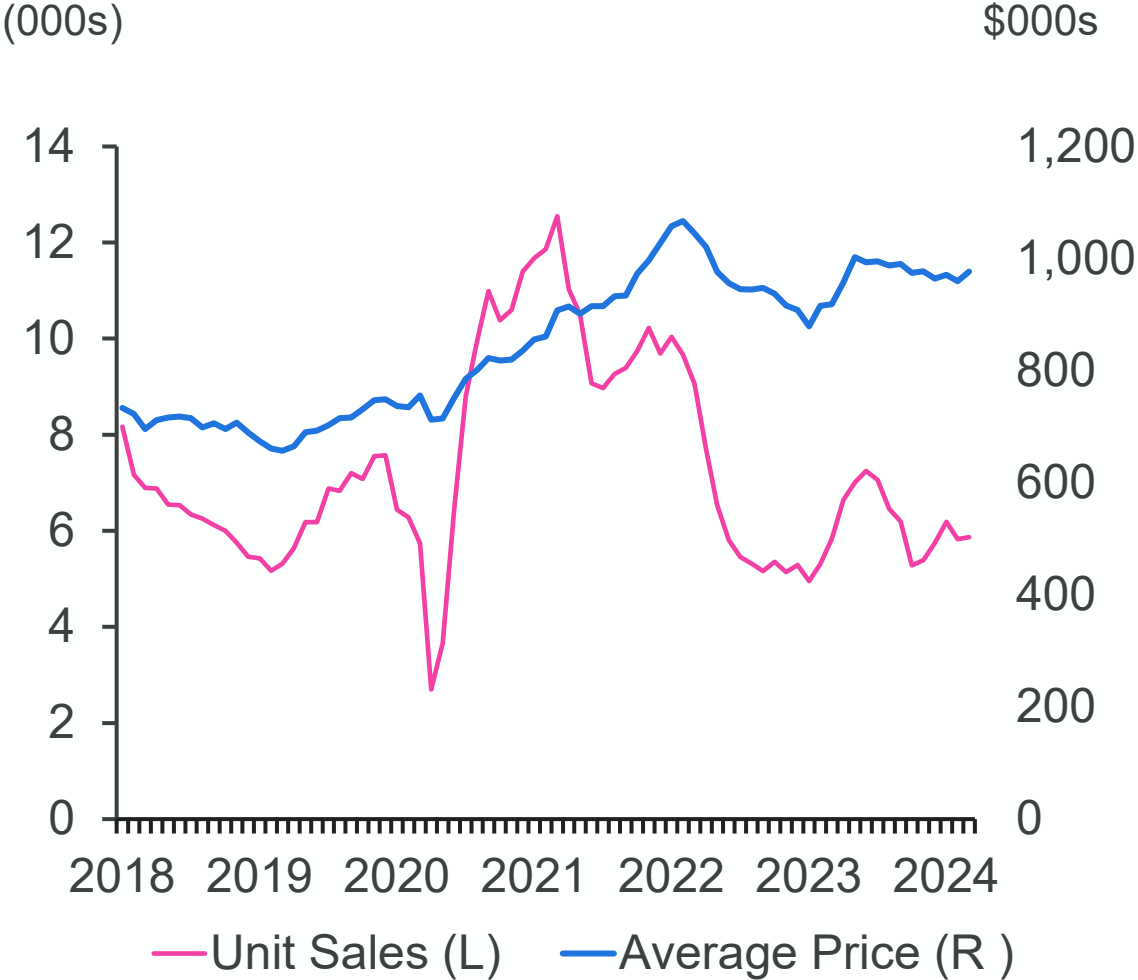
Average Price, Landcor 2023



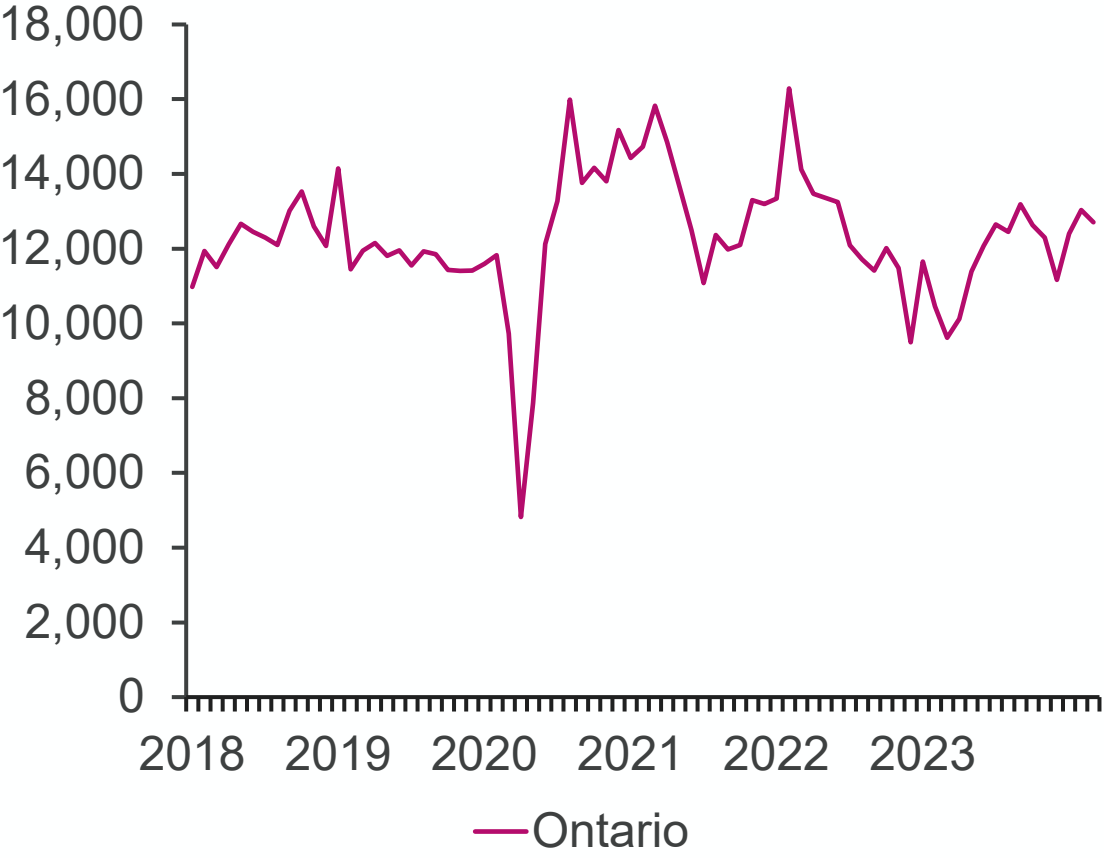
Housing market



Housing market rebound subdued, listings ramp up



MLS® New listings, Seasonally Adjusted



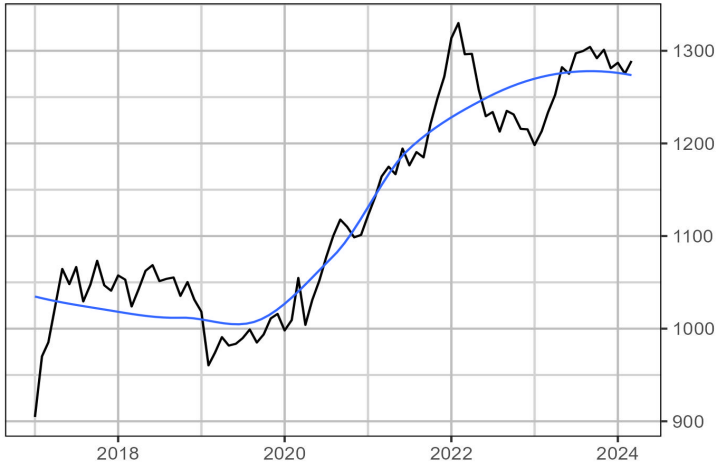
Source: CREA, Central 1

Price trends steady, hold on to 2023 rebound

BC MLS Average Price, \$000s

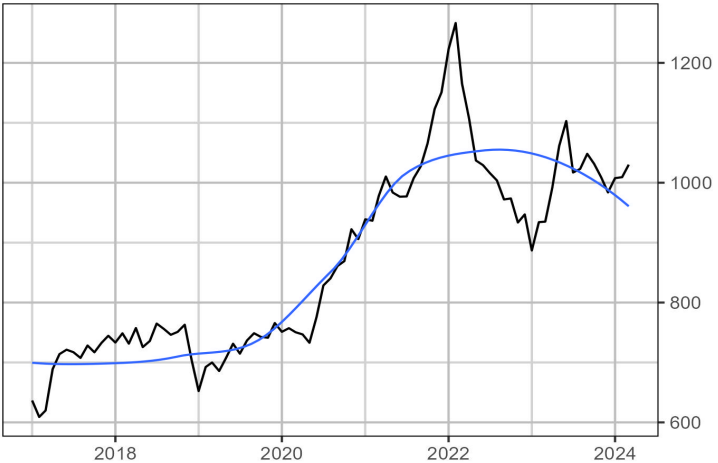
Greater Vancouver

Last data point: 2024-03-01



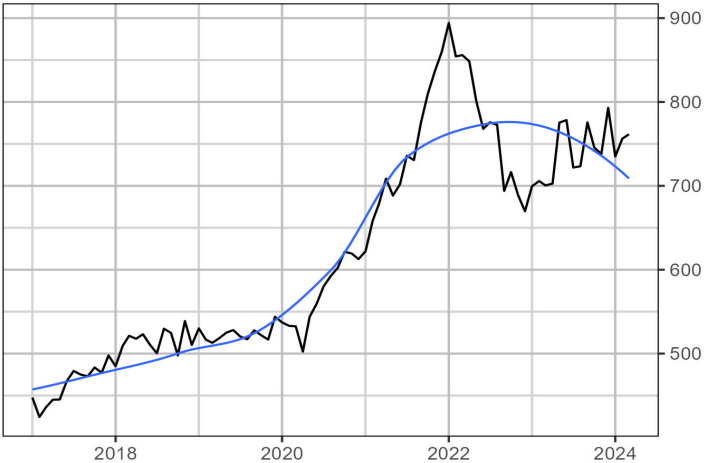
Fraser Valley

Last data point: 2024-03-01



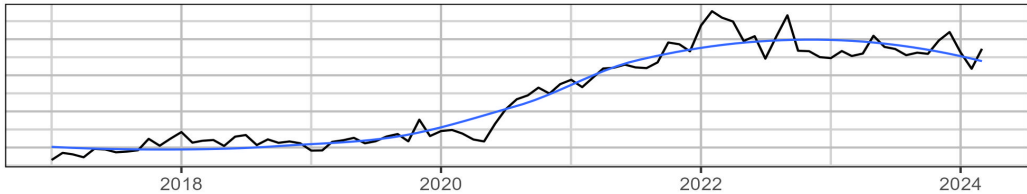
Chilliwack

Last data point: 2024-03-01



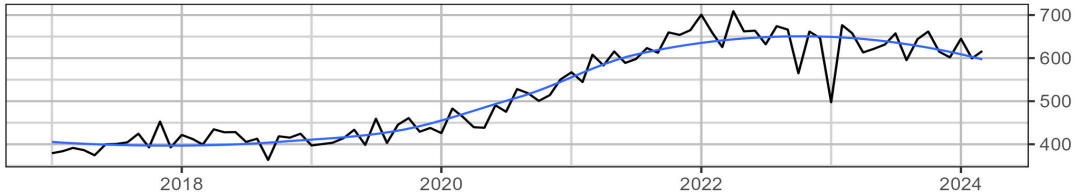
Okanagan Mainline

Last data point: 2024-03-01



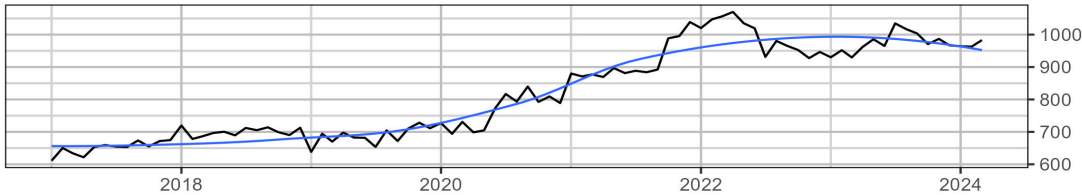
South Okanagan

Last data point: 2024-03-01



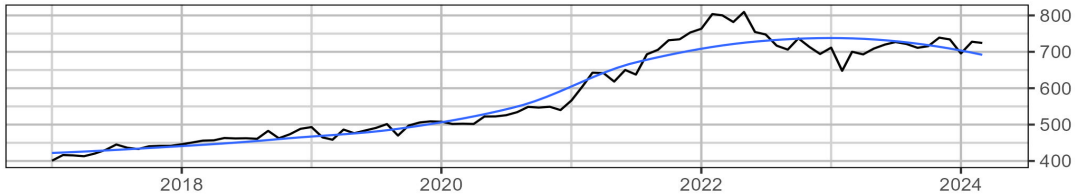
Victoria

Last data point: 2024-03-01



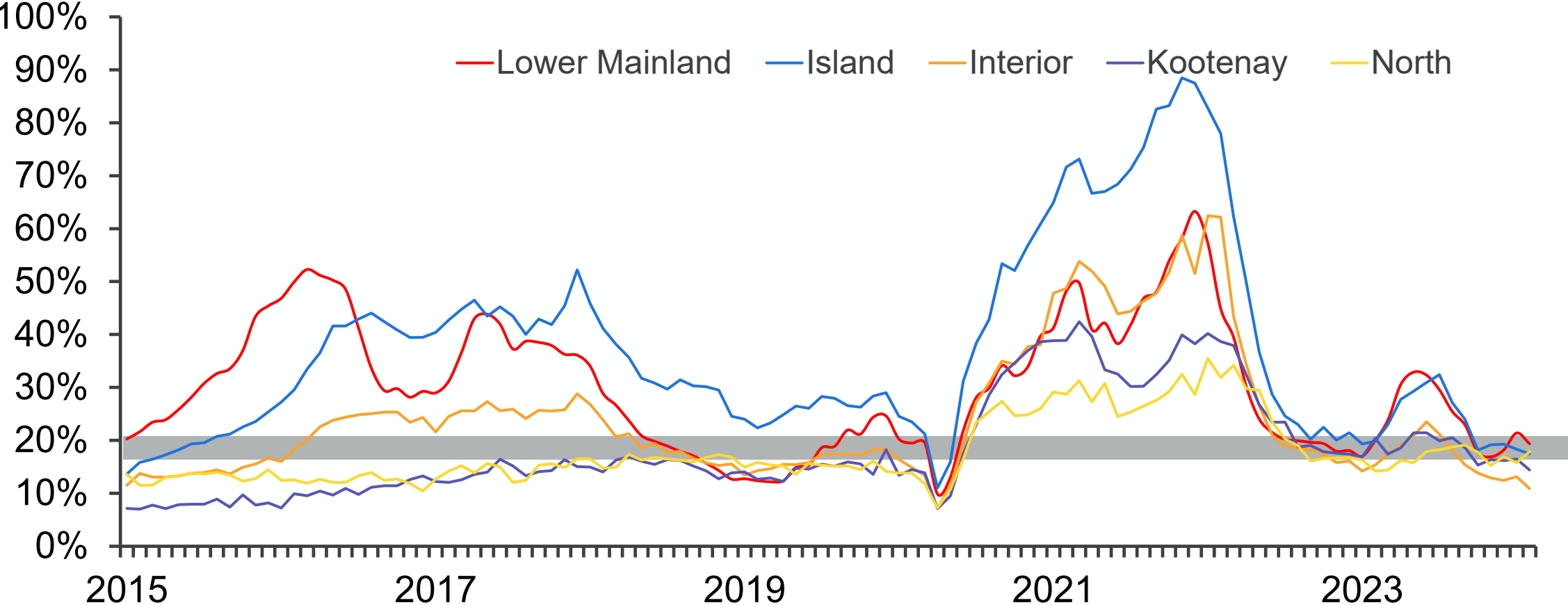
Island Exc Vic

Last data point: 2024-03-01



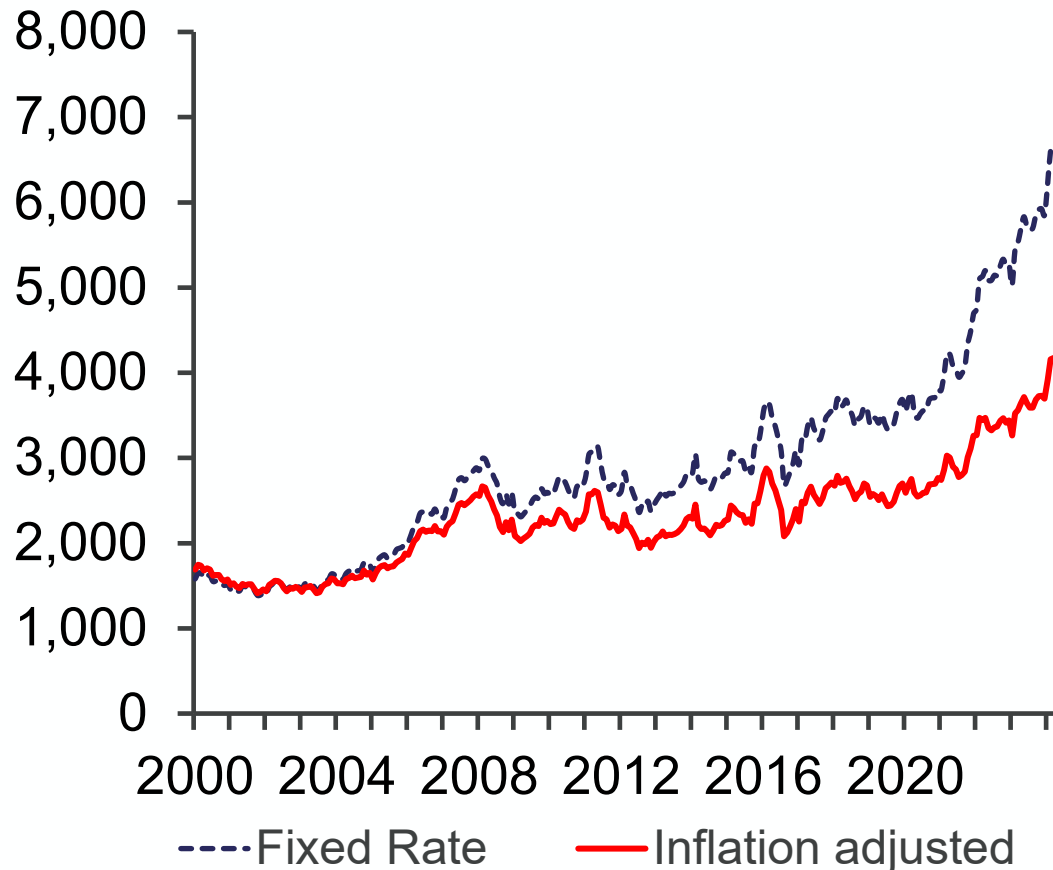
Soft market conditions persist, but closer to balanced than not

Sales-to-active listings ratio



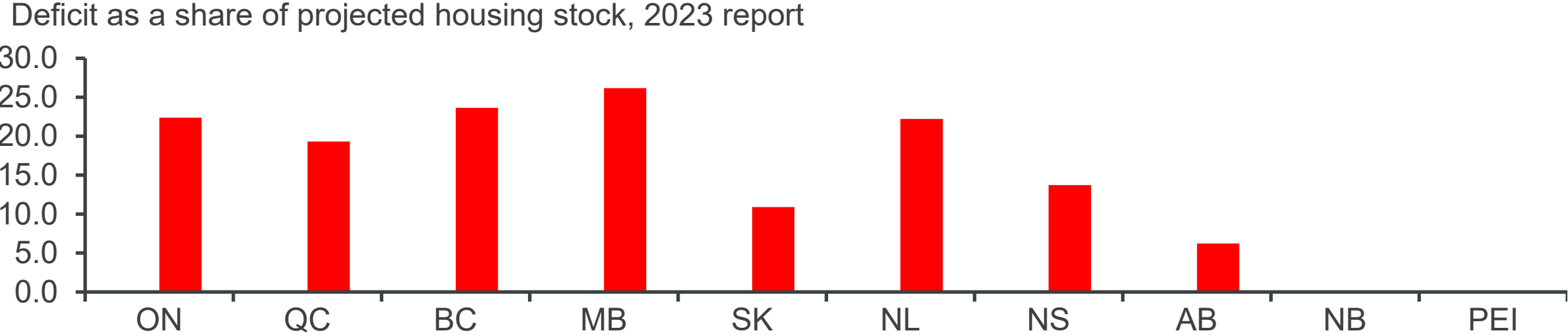
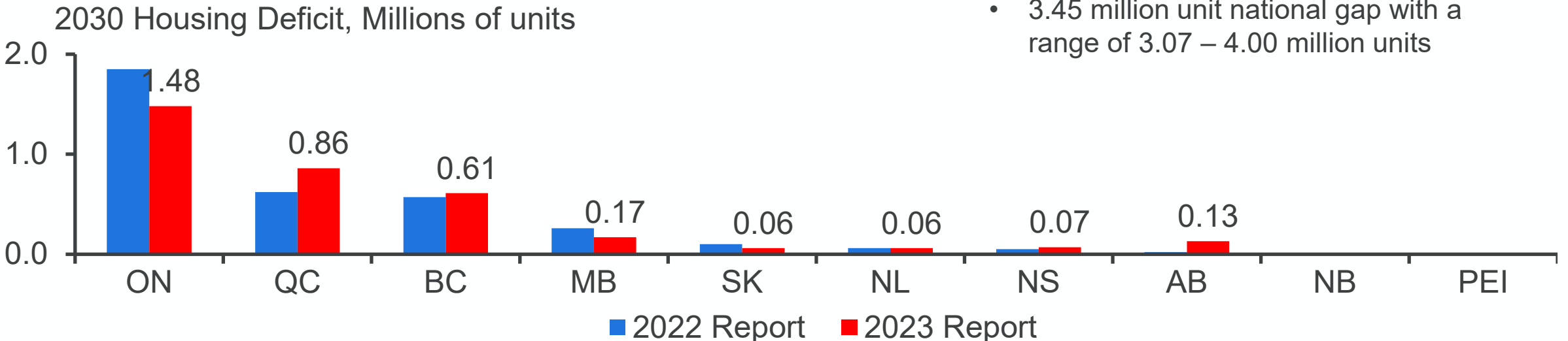
Housing affordability at historic lows

B.C. Carrying cost, Mortgage payment at 5y fixed rate, 25 y amortization



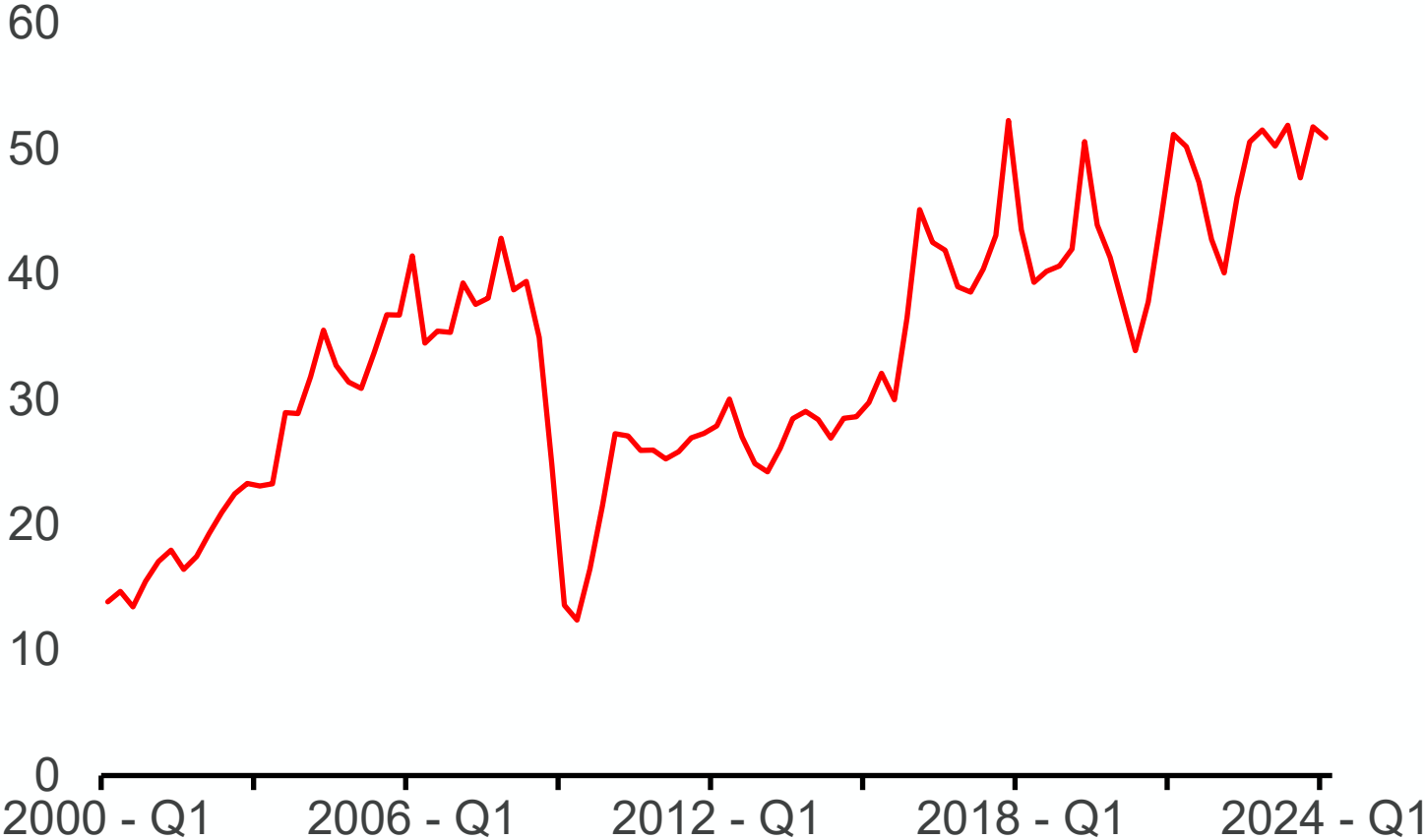
- Unaffordability remains high, households wait for rates to decline
- Elevated rents and steady prices point to elevated levels of demand on sidelines
- Housing supply remains elusive (and housing deficit widening) as new home starts and completions easing
- Price risks to the upside in H2

Housing deficit to persist



Housing starts are elevated but outlook under pressure

BC Housing Starts, Annualized (000s)

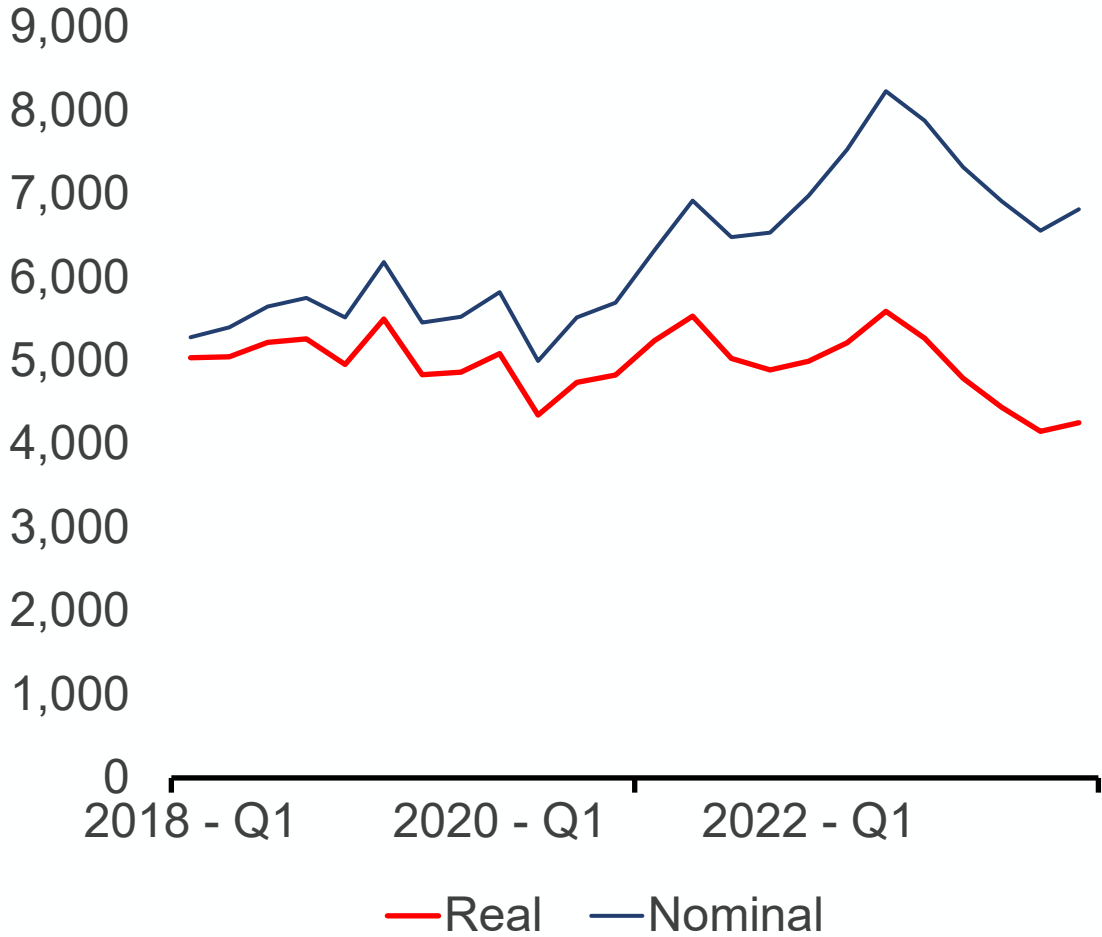


- Baseline Gap in B.C. is 610,000 in 2030 over and above Business As Usual
- To close gap would need 80k+ MORE units being built annually
- Typically B.C. builds 40k units in a good year, 2023 50k was an anomaly
- Requires a big lift in construction and B.C. will not close the gap but needs progress

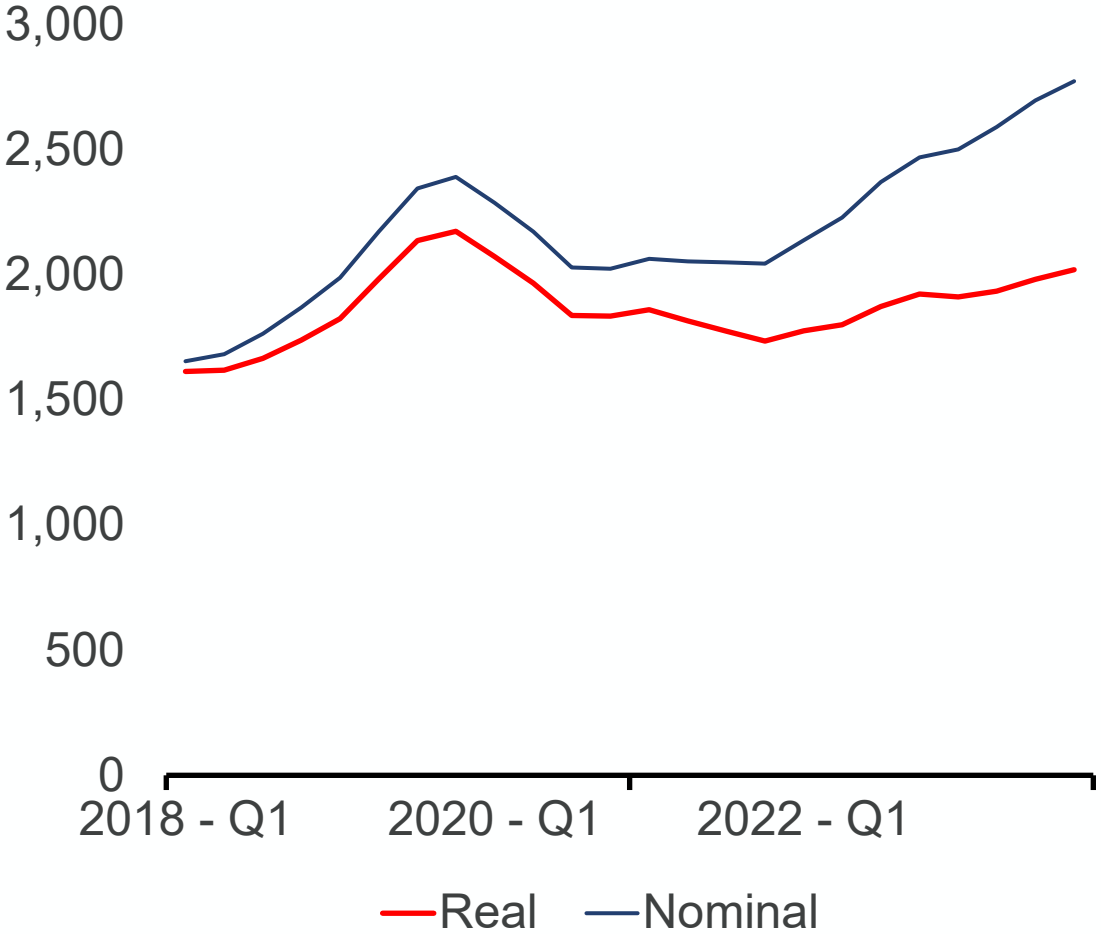
Source: CMHC

Investment work in place tells a different story

Residential Building Investment (\$mil)



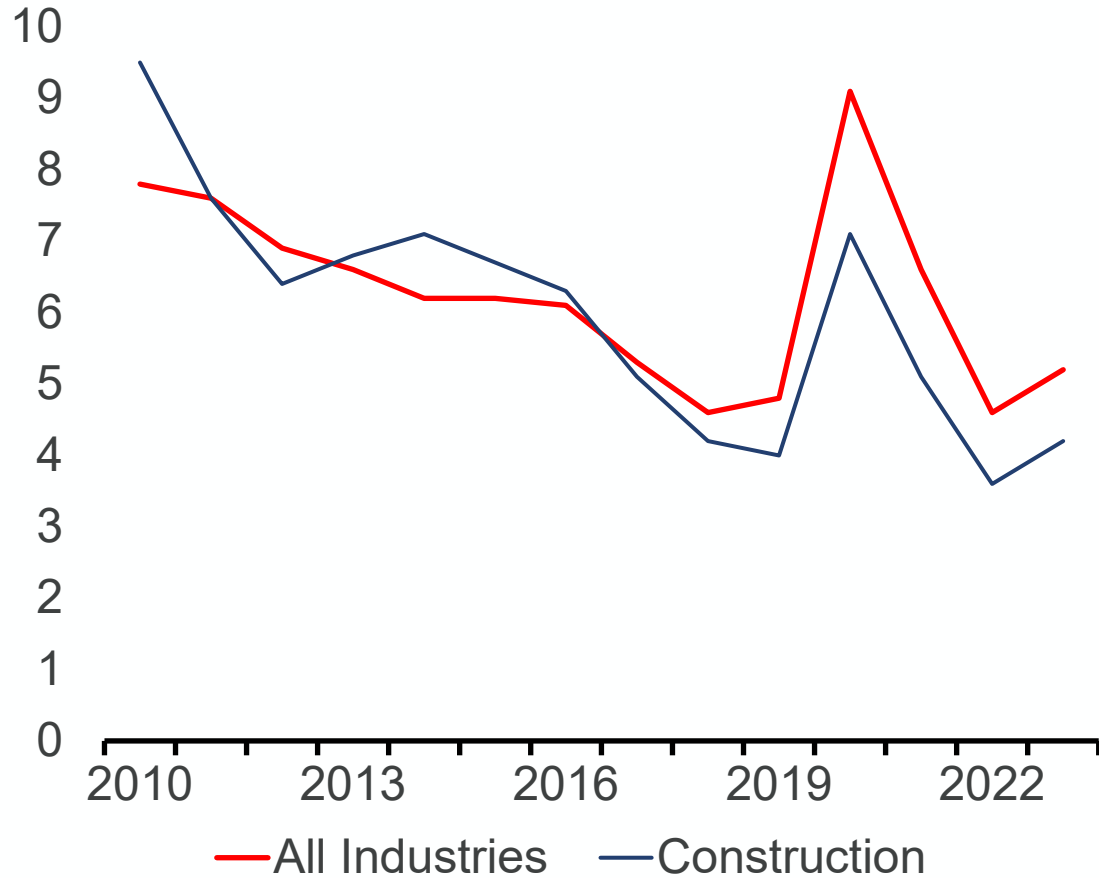
Non - Residential Building Investment



Source: CMHC

Lofty dreams will have to confront constrained realities

B.C. unemployment rate, %

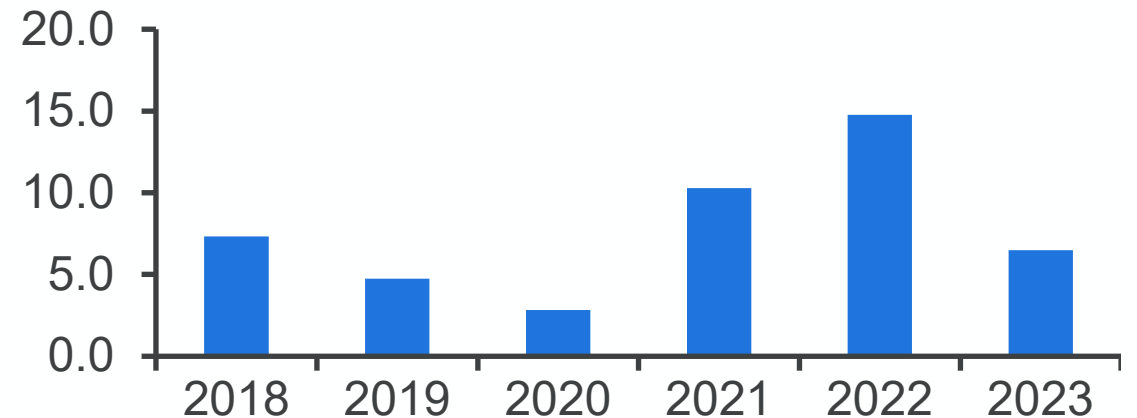


Source: CMHC

WORKSAFE BC LONG-TERM OUTLOOK

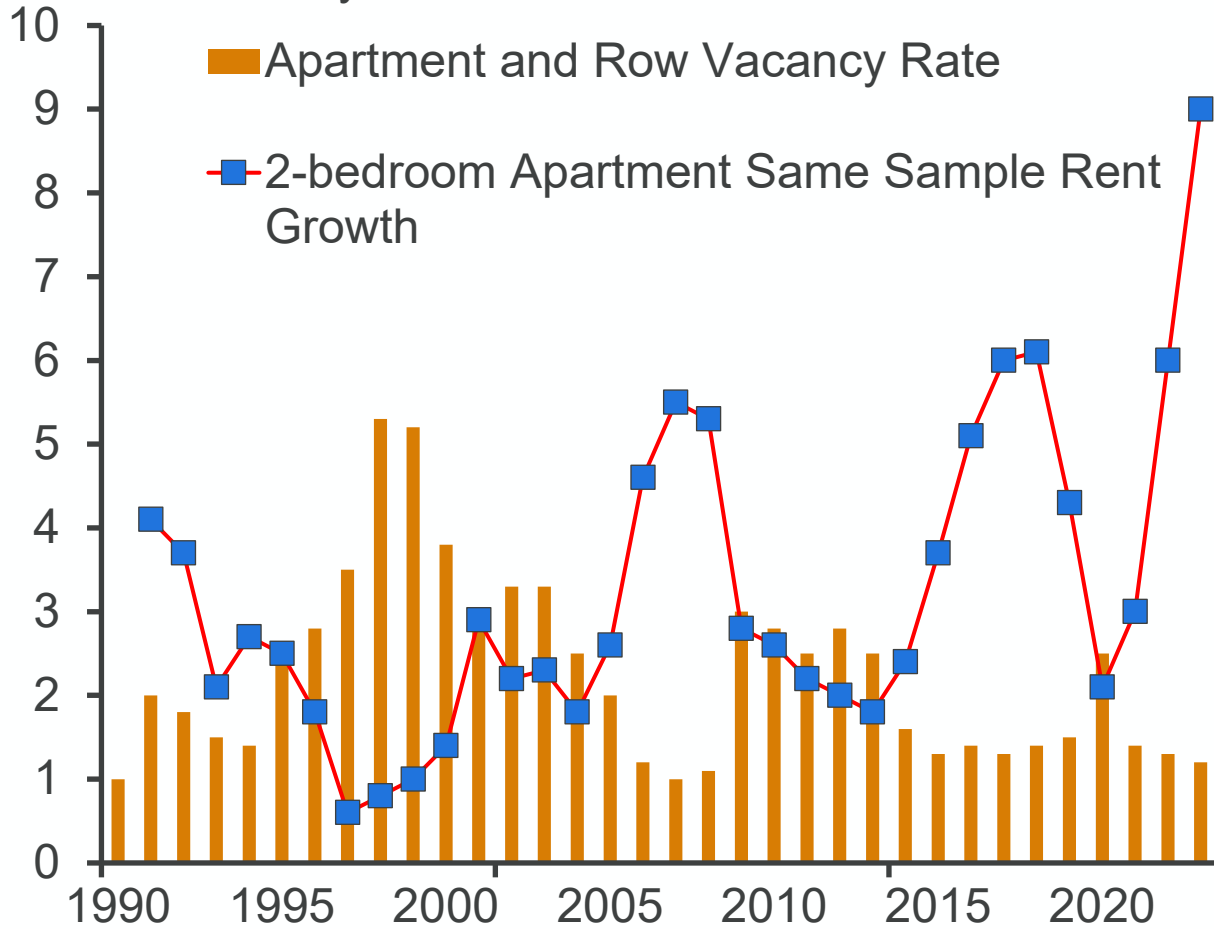
- BC Employment Needs 1 Million workers over 10 years, 65% are Replacement of Existing Roles
- Construction Sector Needs 66,600 workers over 10 years, 81% are replacement workers
- An impossible task to build more in standard construction

Growth in Residential Investment Cost

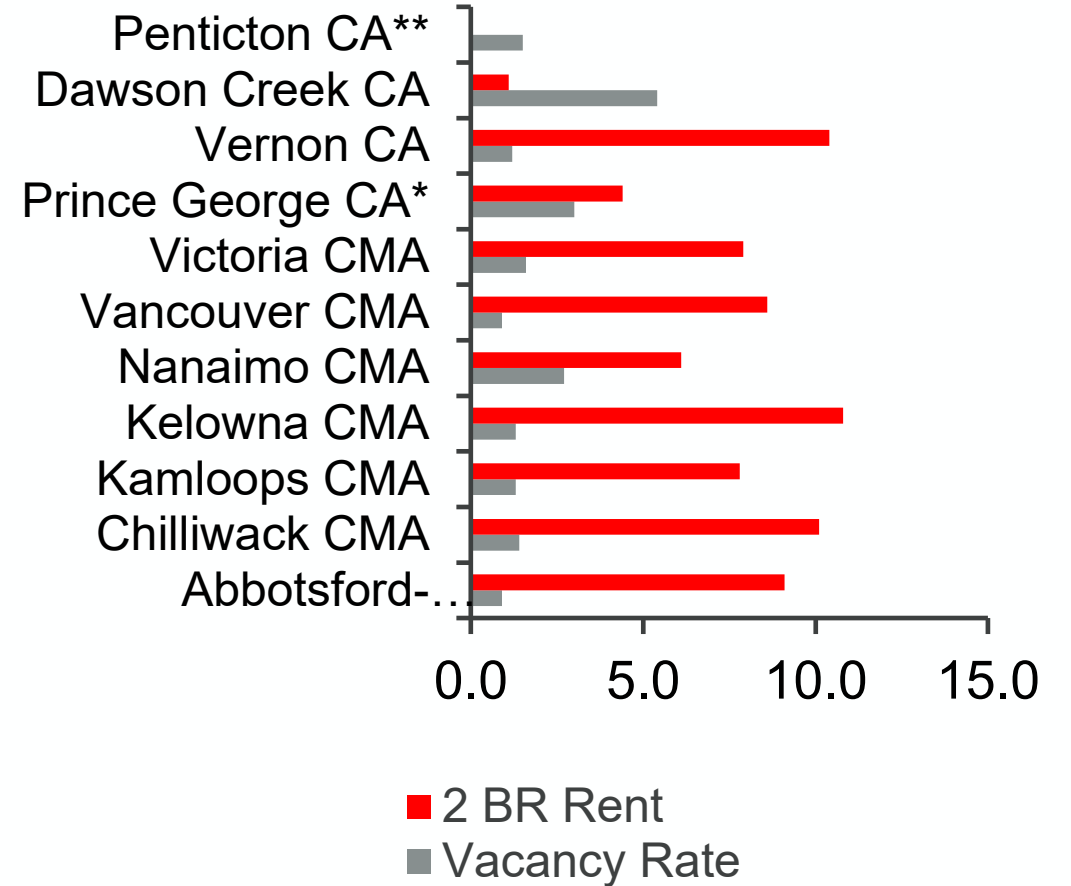


Rental market crisis deepened in 2023 as vacancy rates plunge, rents soar

B.C. Vacancy Rate and Rent Growth



Select Metro Apartment Rent Growth Rate, %, Same-sample rents



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

BC housing market forecast summary

	Residential Resale Transactions			Residential Resale Price		
	2023	2024	2025	2023	2024	2025
Vancouver Island/Coast	12,457	14,150	16,200	722,000	717,000	745,000
<i>% ch</i>	-15.3	13.6	14.5	-5.0	-0.7	3.9
Lower Mainland/Southwest	39,323	45,390	53,000	886,000	890,000	920,500
<i>% ch</i>	-21.3	15.4	16.8	-4.8	0.5	3.4
Thompson/Okanagan	10,138	11,770	13,300	625,250	620,500	648,000
<i>% ch</i>	-21.7	16.1	13.0	-4.0	-0.8	4.4
Kootenay	2,998	3,450	3,700	448,248	438,000	450,000
<i>% ch</i>	-19.8	15.1	7.2	6.7	-2.3	2.7
Cariboo	2,096	2,250	2,450	390,000	378,000	381,000
<i>% ch</i>	-28.1	7.3	8.9	2.6	-3.1	0.8
North Coast	681	700	810	365,000	360,400	367,800
<i>% ch</i>	-26.2	2.8	15.7	-2.7	-1.3	2.1
Nechako	362	390	470	317,500	308,800	310,900
<i>% ch</i>	-30.8	7.7	20.5	9.1	-2.7	0.7
Northeast	945	1,000	1,070	279,900	273,000	278,000
<i>% ch</i>	-21.6	5.8	7.0	1.8	-2.5	1.8
Province	69,000	79,100	91,000	755,000	747,500	782,000
<i>% ch</i>	-20.6	14.6	15.0	-3.8	-1.0	4.6

SESSION

Bryan Yu

Chief Economist, AVP Central 1



Thanks!