

Economic outlook: Testing the Foundation

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Three paths you can go by...

Recession scenarios

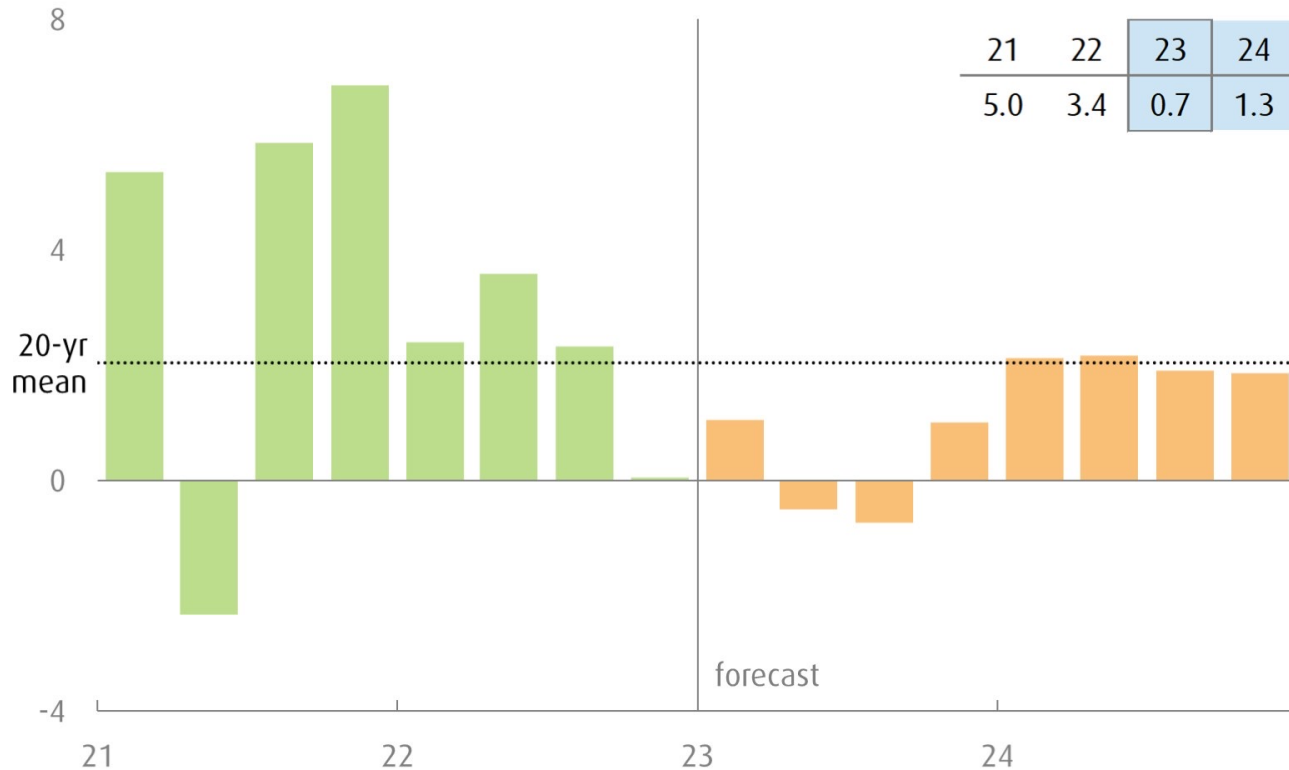


Scenario 1		Scenario 2		Scenario 3							
Soft landing		Mild recession		Hard landing							
Inflation cools quickly		Inflation cools gradually		Inflation persists							
Recession avoided		Shallow recession		Deep recession							
Unemployment steady		Unemployment and credit losses rise		Spike in joblessness and credit losses							
Markets rebound		Markets drift		Markets weaken							
Odds											
3 months ago		Now		3 months ago		Now					
25%		35% ↑		50%		50%		25%		15% ↓	

Mild downturn likely

Canada (q/q % chng : a.r.)

Real GDP



Headwinds:

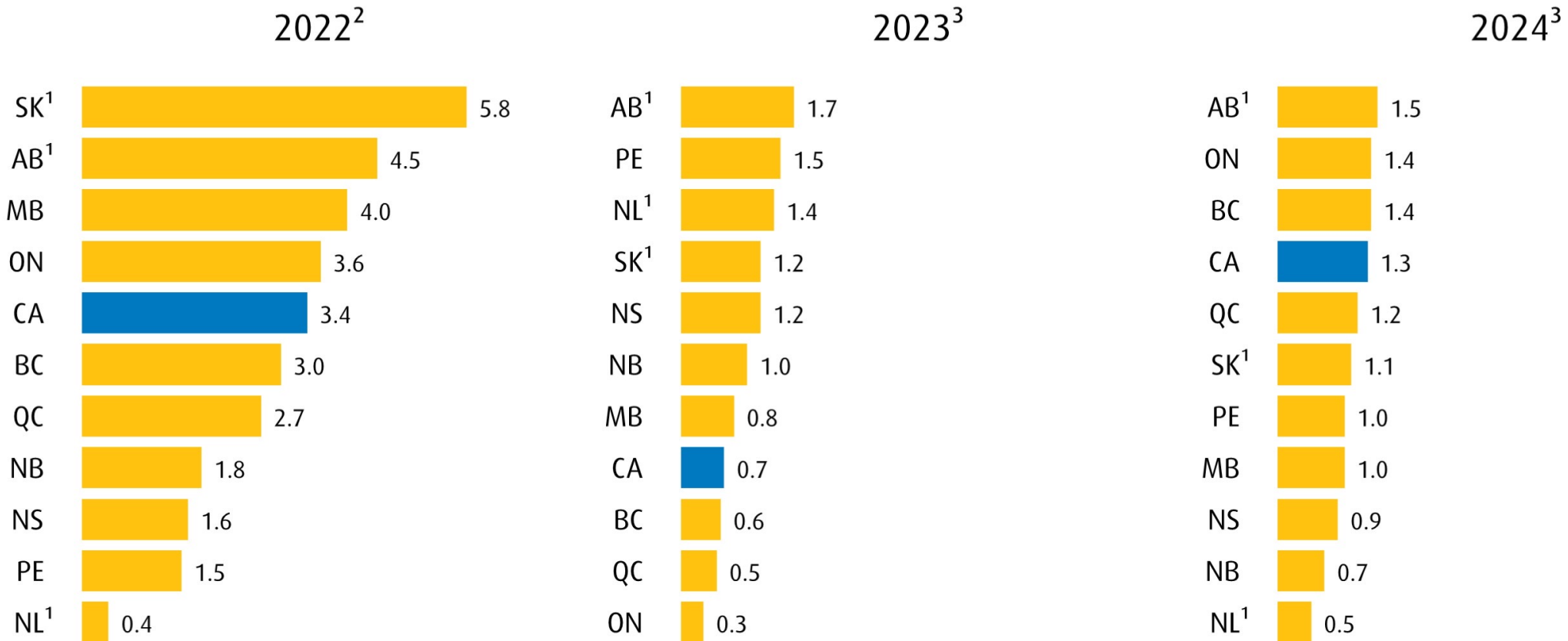
- Inflation squeezing budgets
- Debt service costs soaring
- Housing correcting

Tailwinds:

- Revenge spending
- Extra savings

Canada's regional outlook: Go West! Again

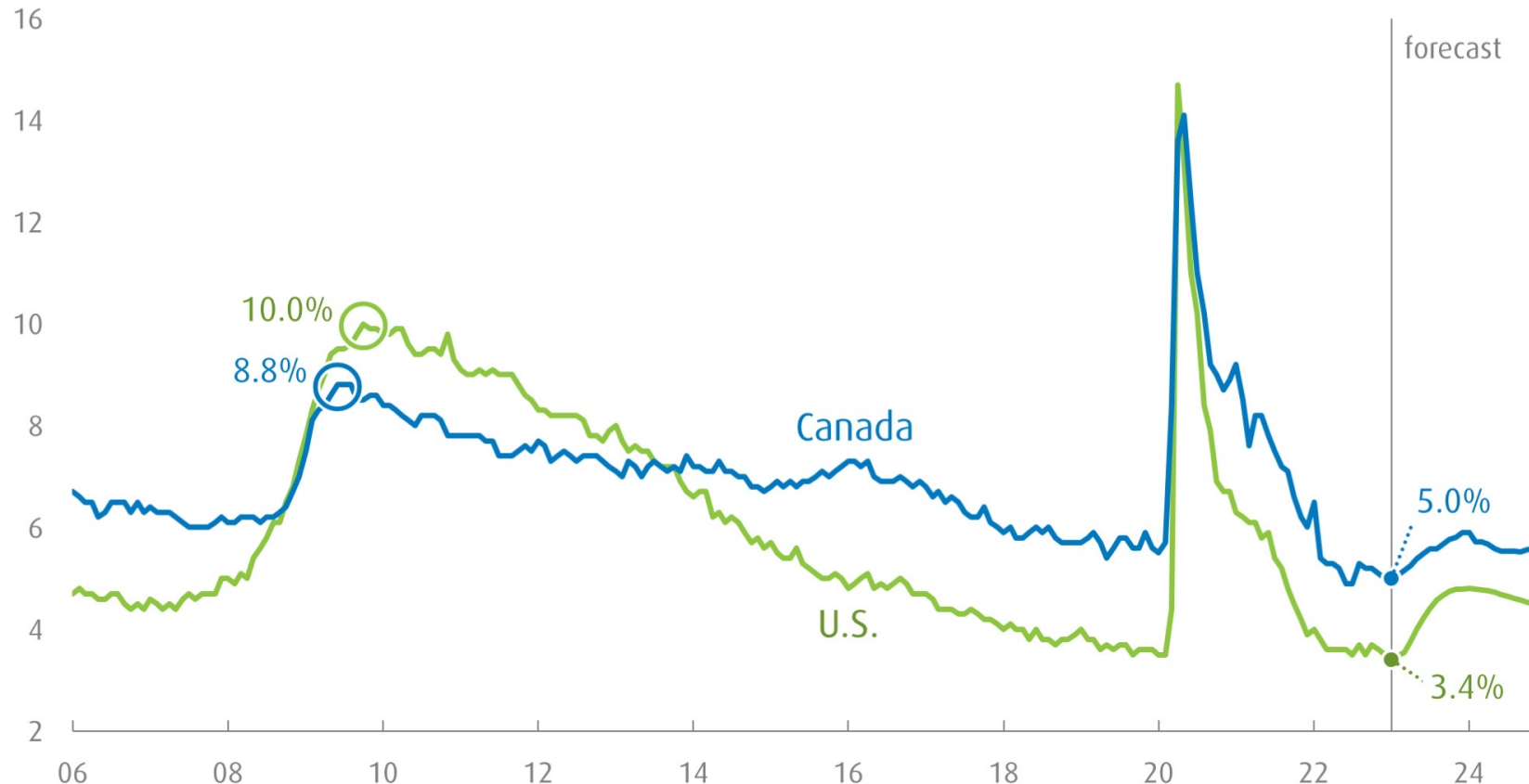
Canada – Real GDP (% chng)



¹ Oil producers • ² Estimate • ³ Forecast

Jobless markets tight

Unemployment rate (percent)



Plenty of job vacancies

forecast

	Current	Pre-COVID ¹
Spain	13.1	13.6
Greece	11.6	16.4
Italy	7.8	9.6
Sweden	7.3	7.9
France	7.1	7.8
Portugal	6.7	6.6
Canada	5.0	5.7
Ireland	4.4	4.8
U.K.	3.9	3.1
Australia	3.7	5.1
U.S.	3.4	3.5
Germany	2.9	3.3
Japan	2.5	2.4

¹ February 2020

Wage pressures still strong



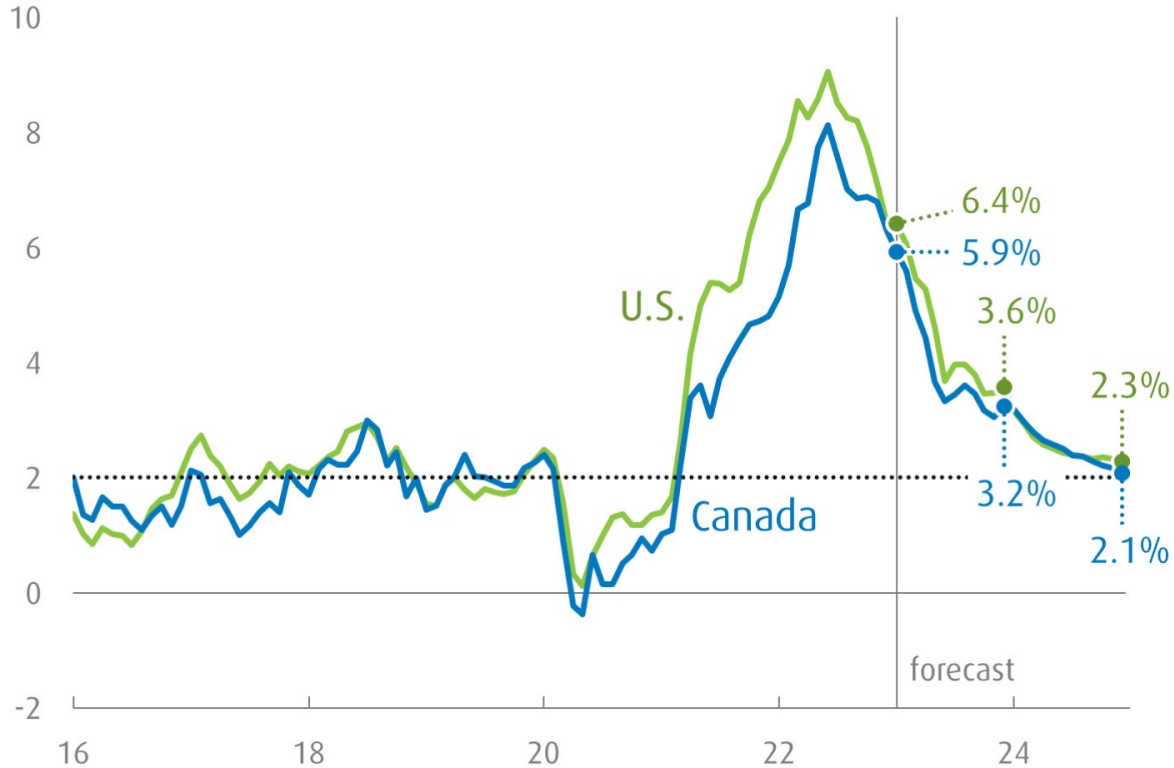
¹ (3-mth m.a. : y/y % chng : lagged 12 mths) Canada: Average hourly earnings, U.S.: FRB Atlanta Wage Tracker (weighted)

² (percent) Canada: Job vacancy rate, U.S.: Total private

Inflation moderating

(y/y % chng)

Consumer price index



Good news:

Resource prices retreating

Retailers discounting

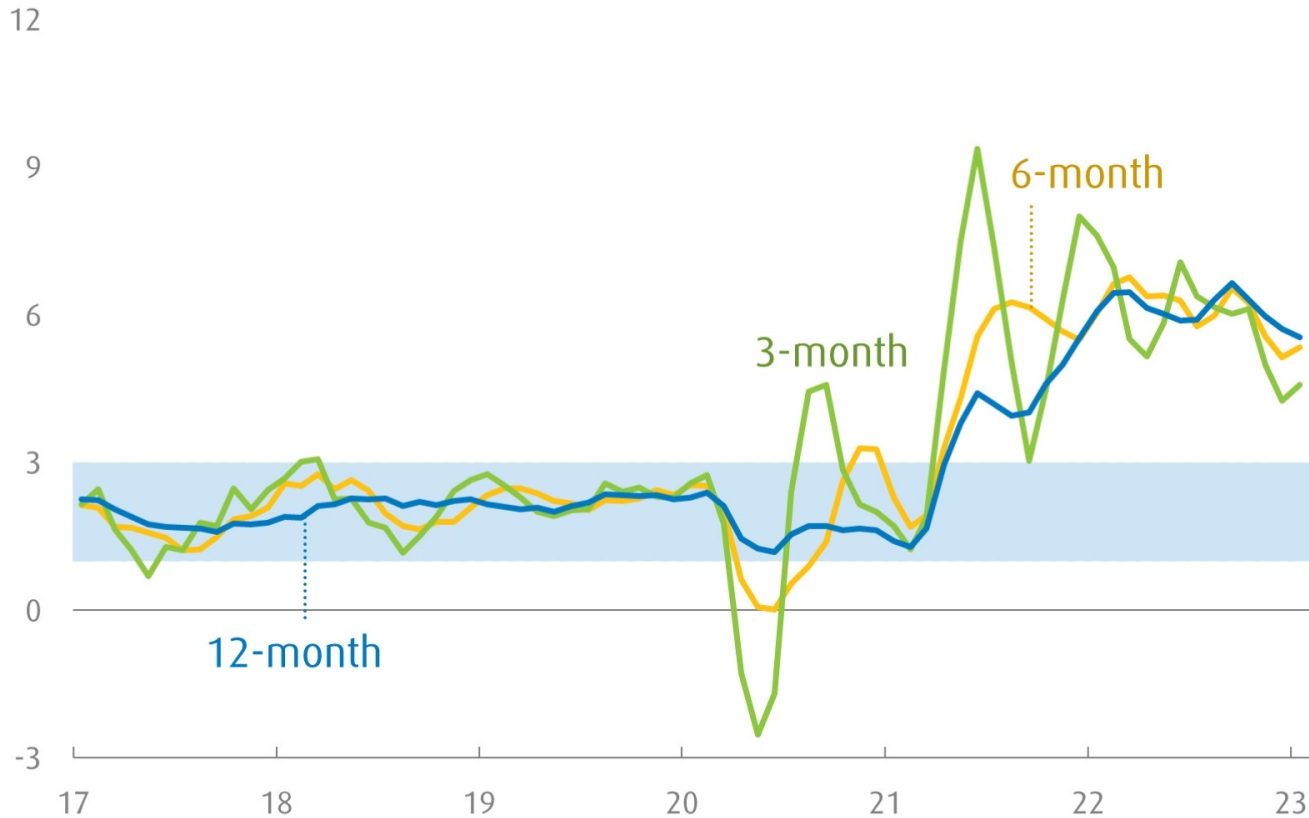
Supply chains improving

But services inflation sticky due to wages

Watching for inflation relief

United States (% chng)

Core consumer price inflation



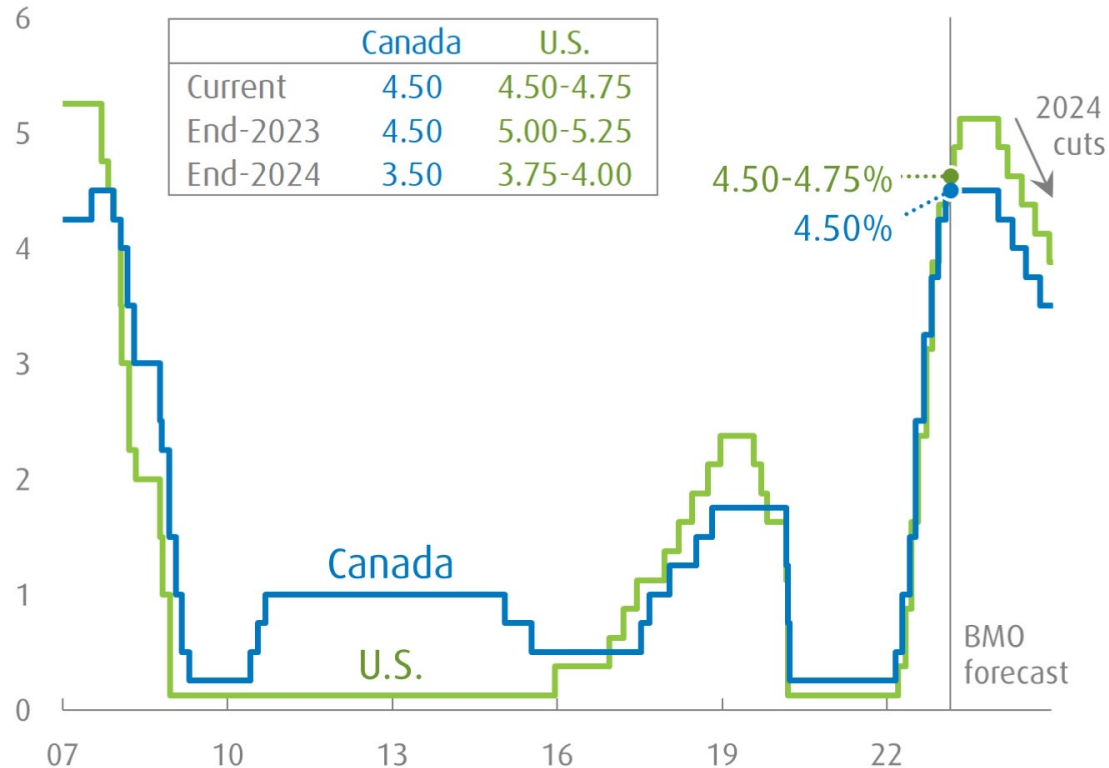
Where's the relief?

- ✓ Demand for goods
- ✓ Supply-chain snarls
- ✓ Housing/asset prices
- ? Resource and agriculture prices
- ✗ Demand for services
- ✗ Wage pressure
- ✗ Psychology

Interest rates: Higher for longer

(% : as of February 28, 2023)

Overnight rate



10-year bonds

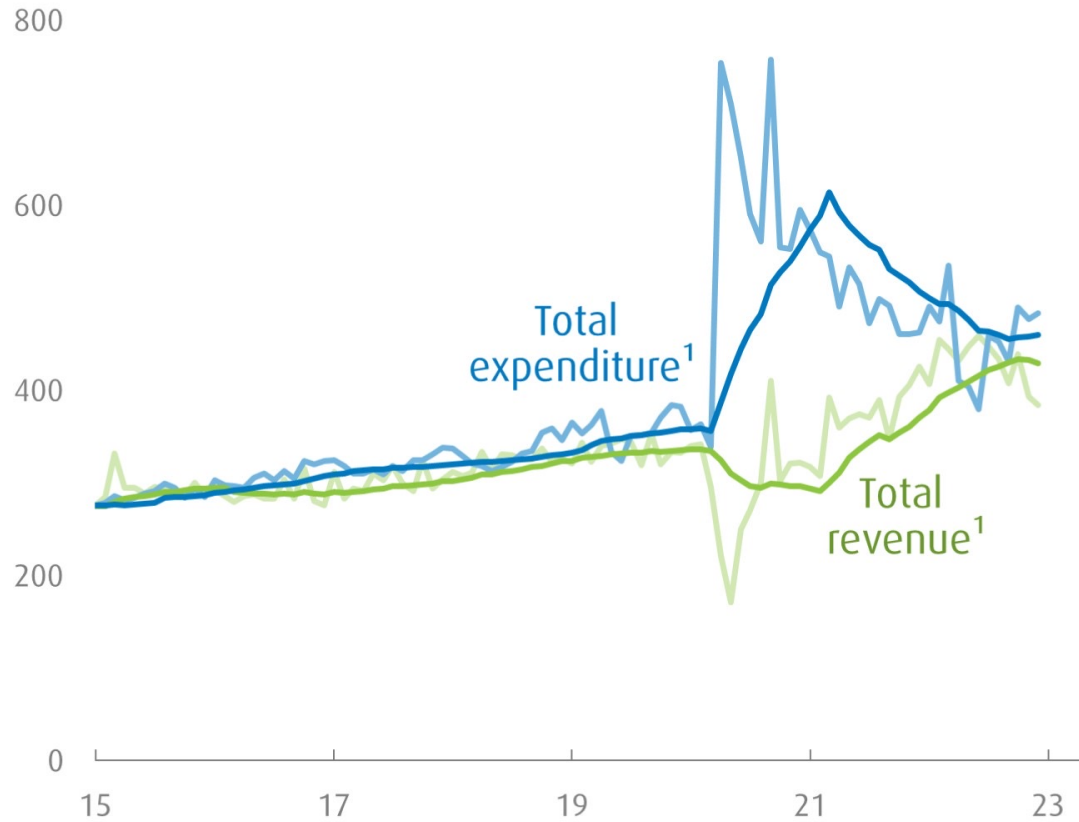


Upward pressure on bond yields as economy expands
Quantitative tightening (QT) also incoming

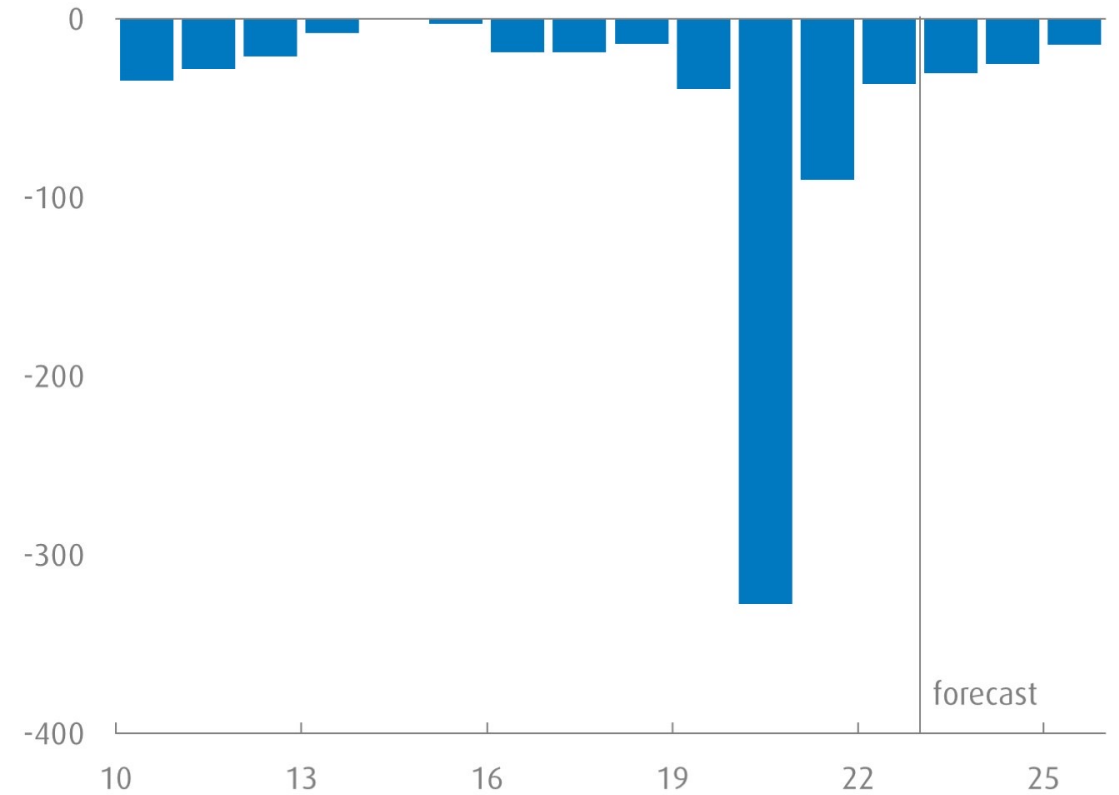
Favourable fiscal winds blowing

Canada – Federal budget (C\$ blns)

Expenditure and revenue



Budget balance

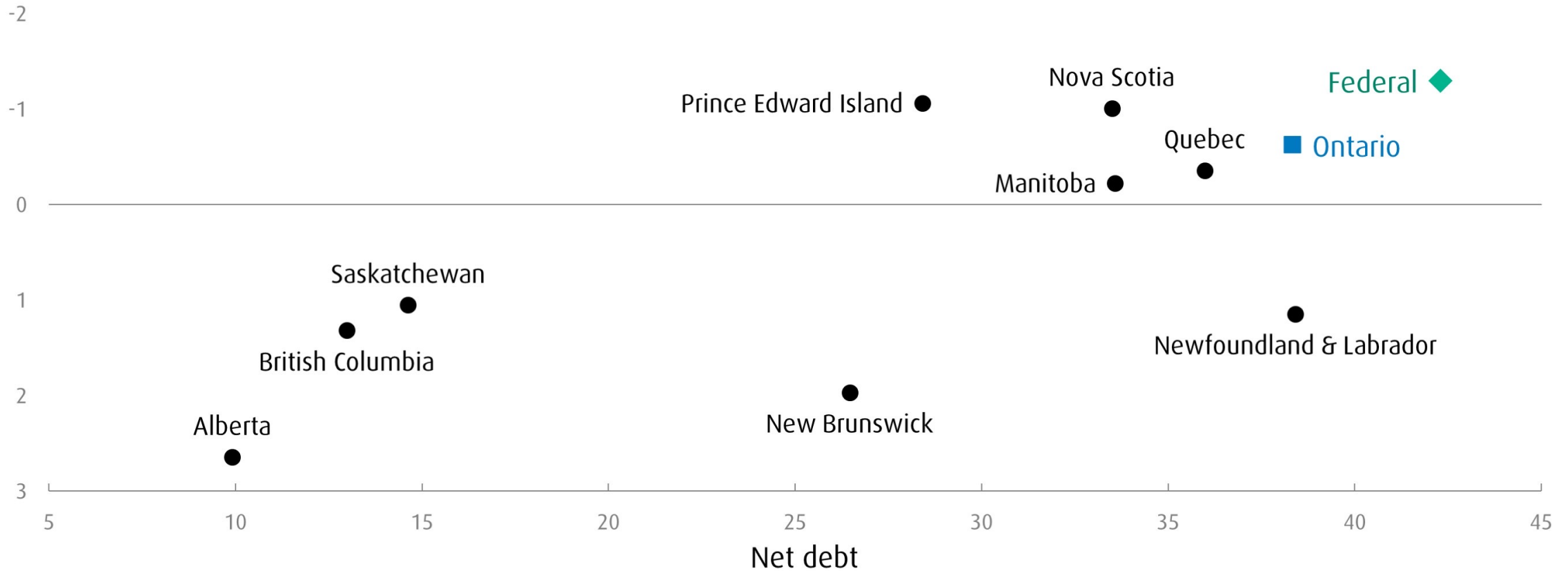


Year as fiscal start • ¹ (dark line = n.s.a : 12-mth m.s.; light line = s.a.a.r.)

The lay of the fiscal land

Canada – FY22/23 (% of GDP)

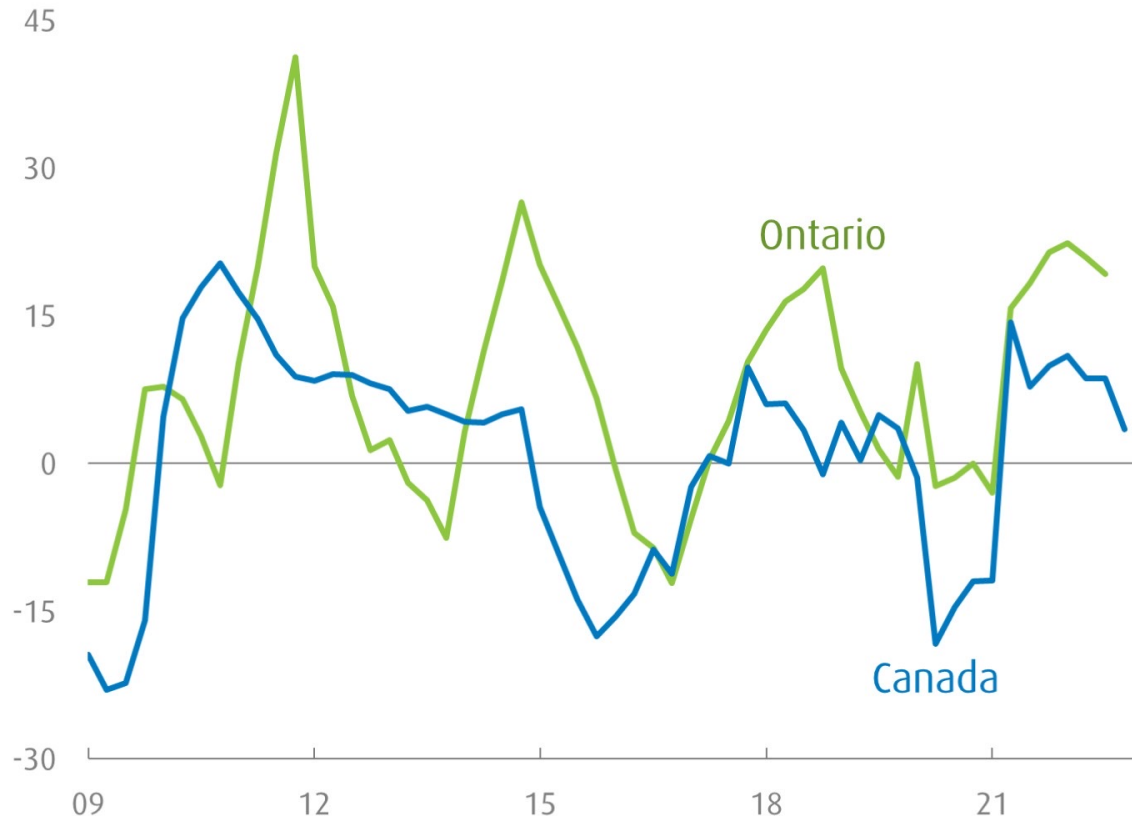
Budget balance



Sturdy nonresidential investment

Canada (y/y % chng)

Real GDP: Nonresidential structures



Positive drivers:

Government balances

Focus on infrastructure buildout

Strength in (some) commercial areas

Challenges:

Building costs and labour supply

Competition with residential investment

Housing correction v.2022

Canada



What's going on?

Generational \uparrow in borrowing costs

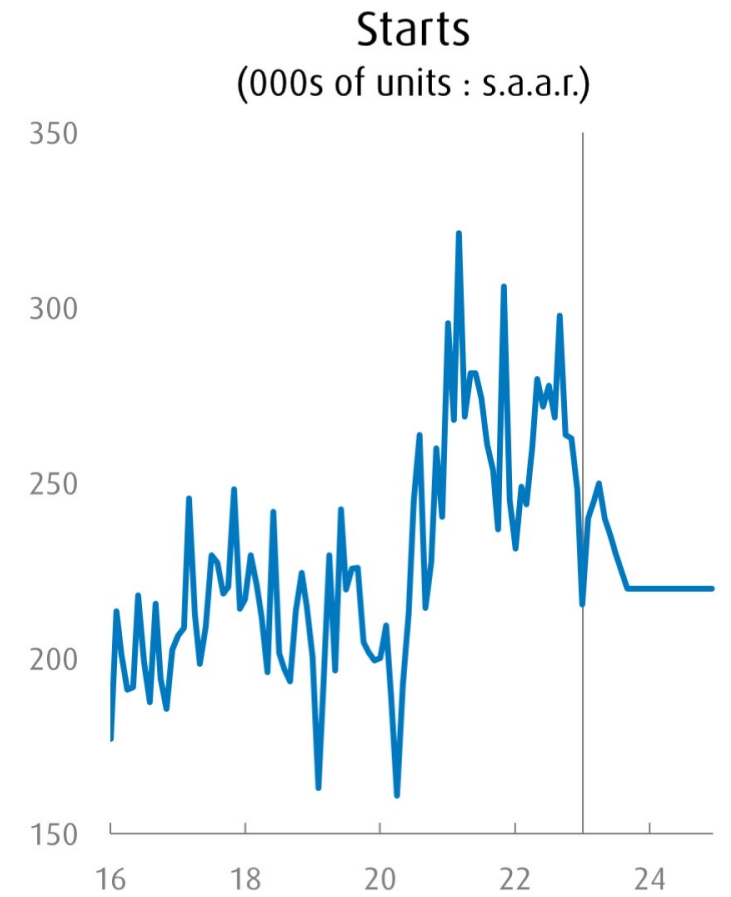
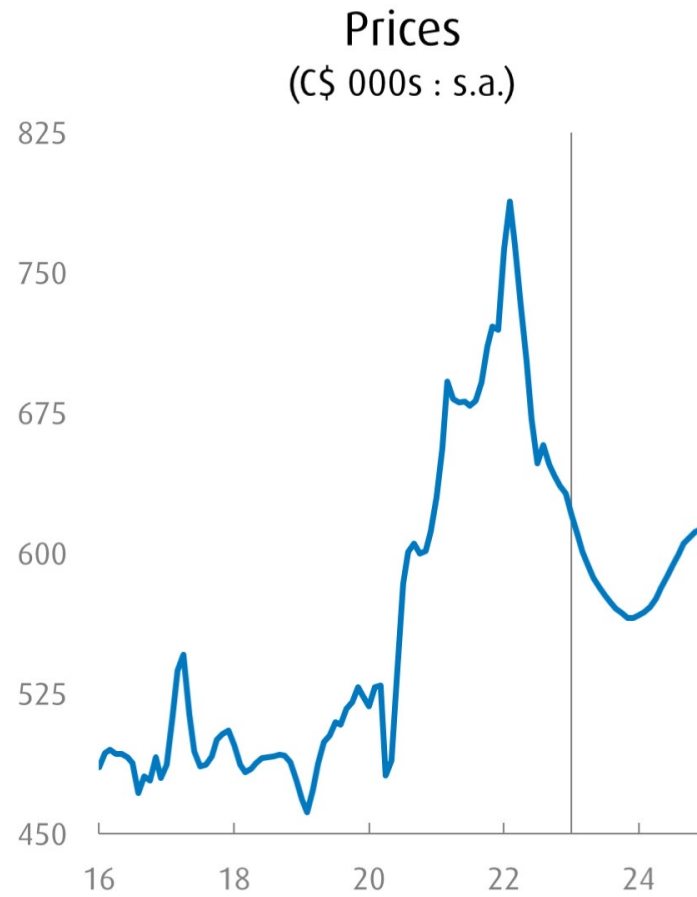
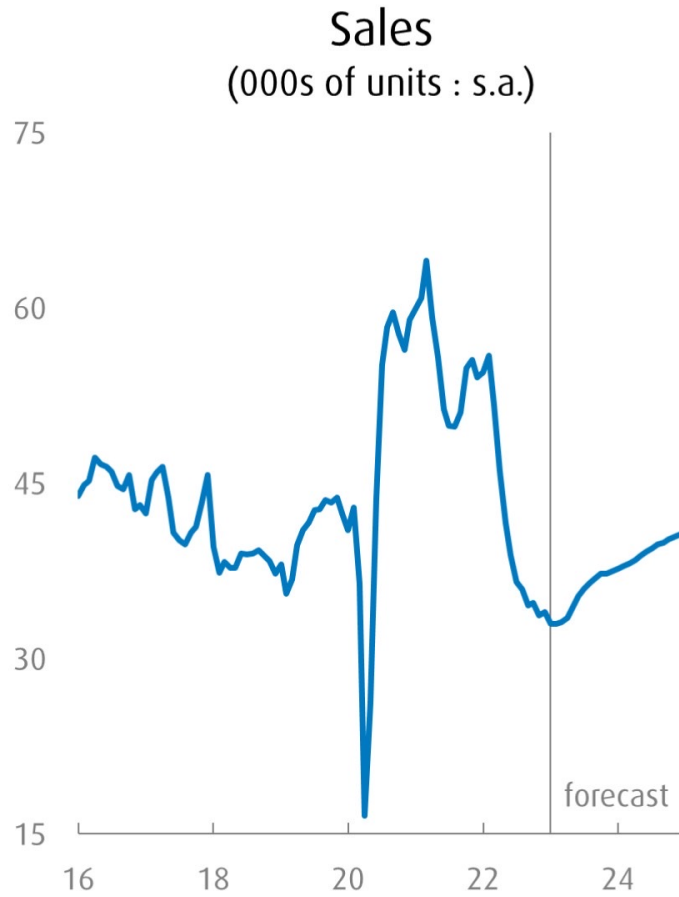
Speculation and FOMO gone

Repricing underway

Financial system and core fundamentals are solid

Housing outlook in a nutshell

Canada – Housing



Mortgage rates: The new, old normal

Canada (percent : month-end : as of February 22, 2023)

Uninsured residential mortgage rates



¹ Current market rate • ² Year-end 2023 forecast

Where we are:

Variable mortgage payments rising/
getting triggered

~20% of mortgage market is variable
rates taken out around 1.5%

But stress tested >5%

What's next:

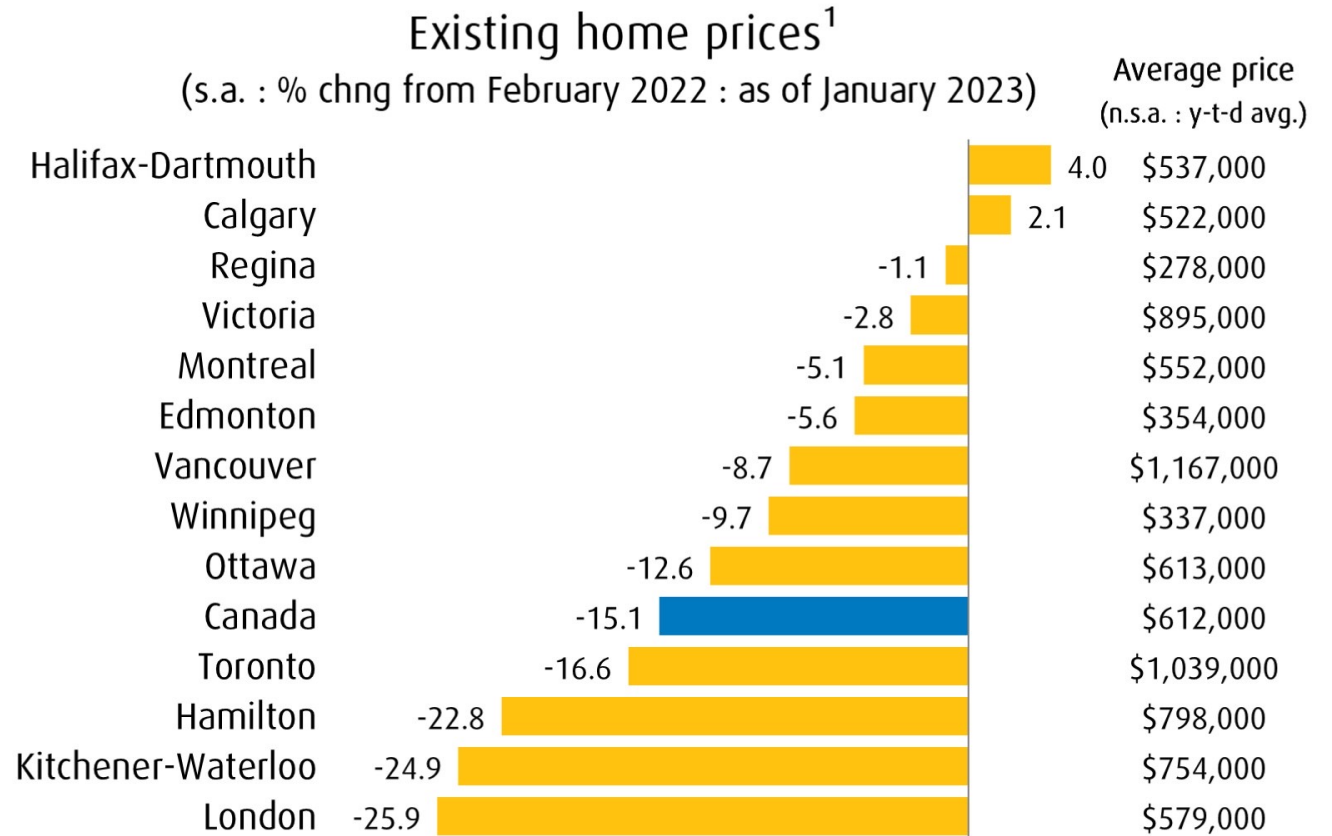
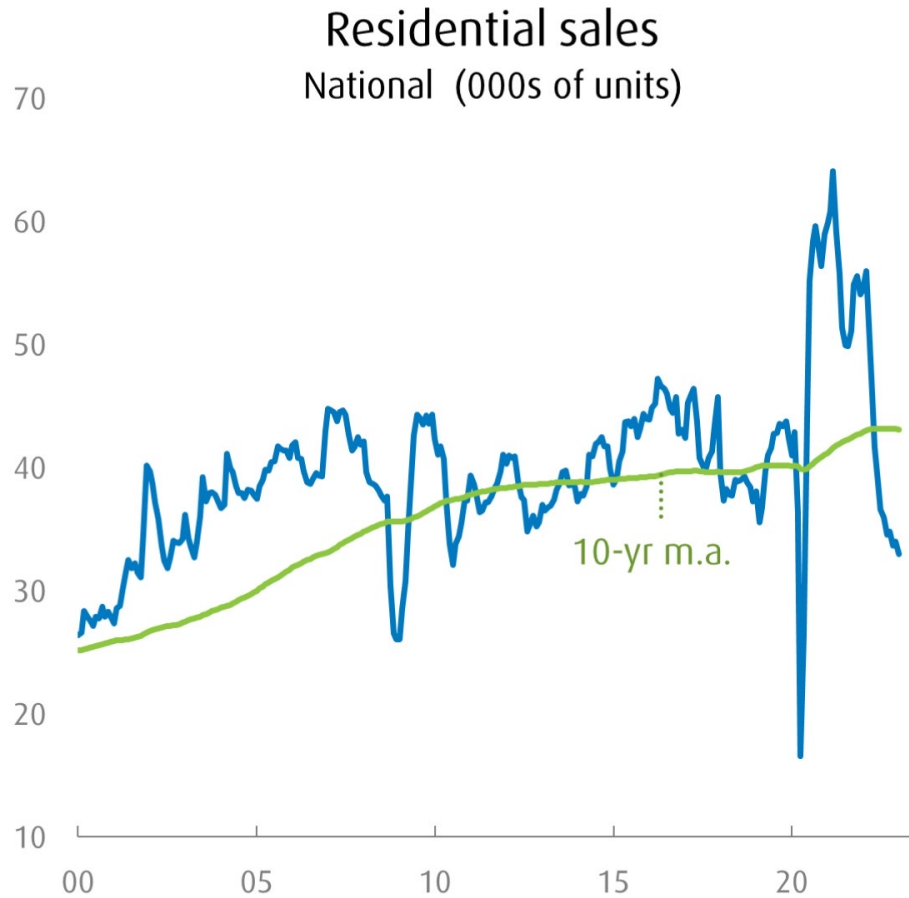
Neutral rates higher than past decade

Prices adjusting down

Financial system well protected

It was excess demand all along

Canada – Homes



¹ HPI composite benchmark

The supply challenge

Canada – Homes (000s of units)



¹ (s.a.) • ² (4-qtr m.s.)

Do we need more houses?

Millennials creating households

Immigration targets push 500k per year

But...

Investor demand has cooled

Record units already under construction

Industry is at full capacity

Project cancellations?

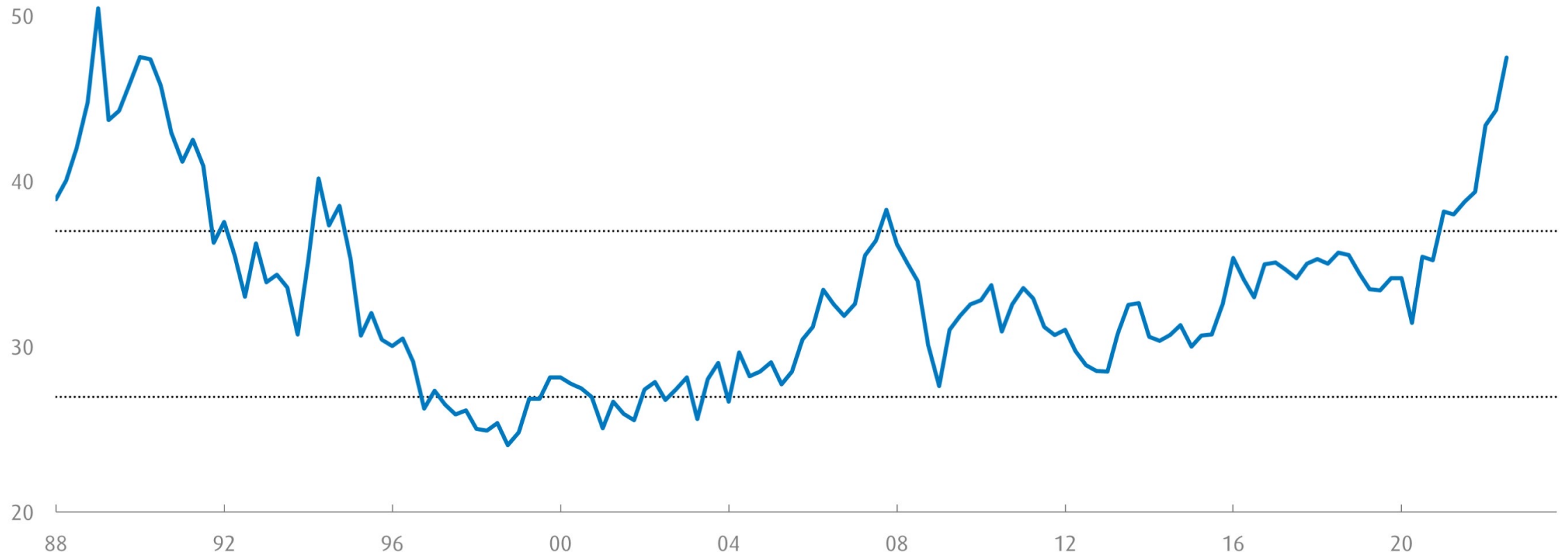
NIMBY

Ambitious targets can't be met

Mortgage rates drive repricing

Canada (% of household income¹)

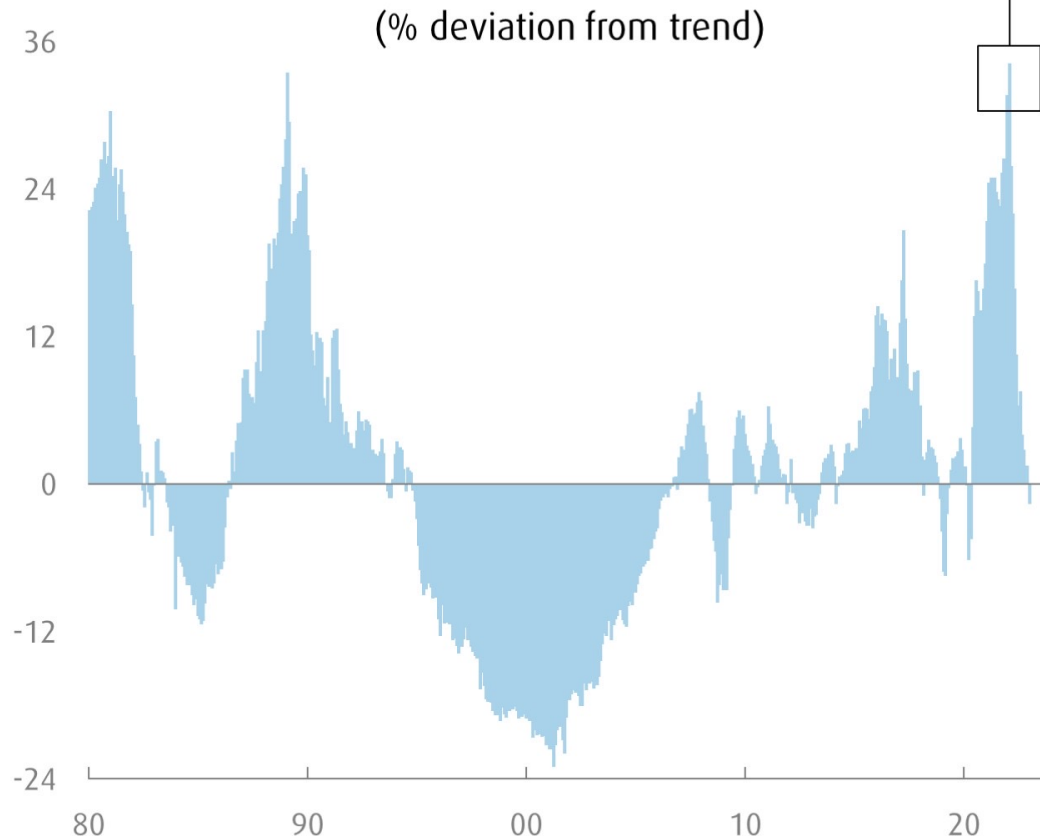
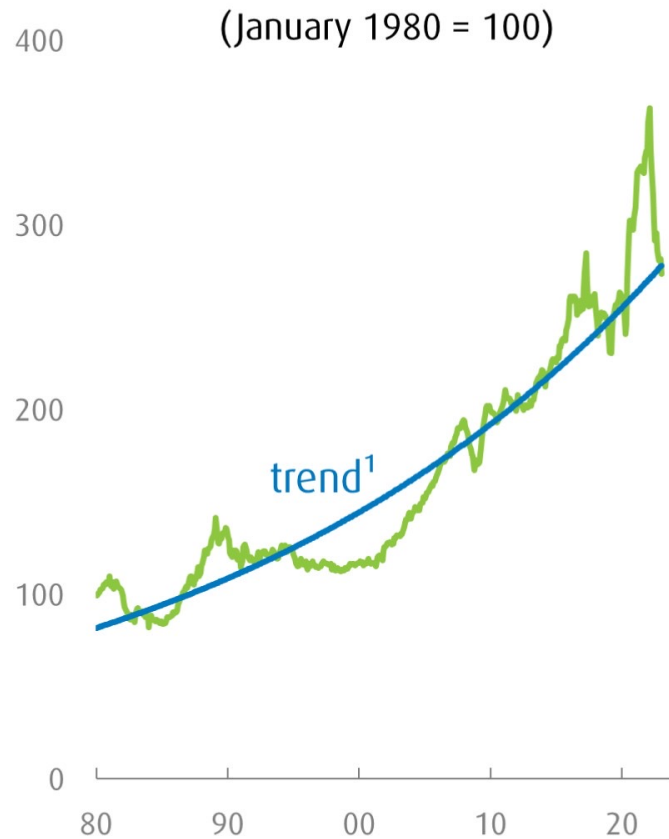
Mortgage payment



¹ Assumes stable home prices, 10% down payment, 25-year amortization, income growth at 5% annualized, LF growth at 1.2% a.r.

Cleaning up the froth

Canada – Real home price



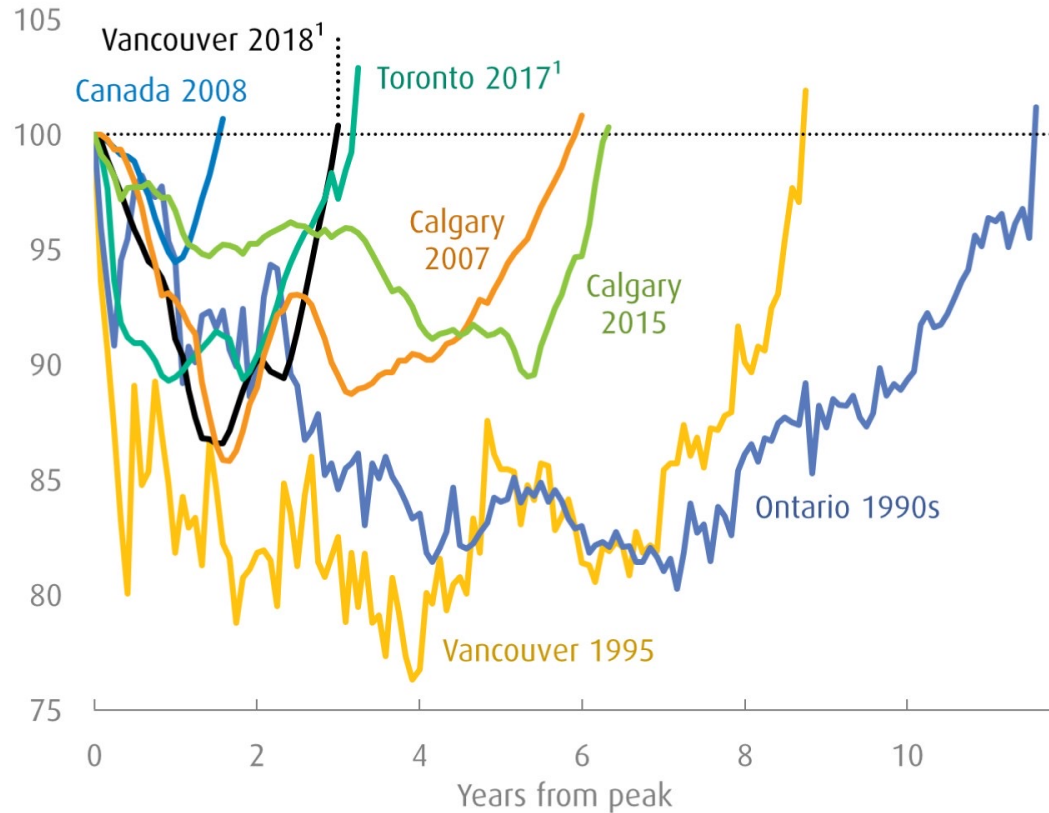
Peak deviation (%)	
BC	21.4
AB	-5.0
SK	-3.4
MB	12.3
ON	55.4
GTA	41.2
Exurbs ²	76.3
Cottage ³	63.6
QC	32.6
Atlantic	34.7

¹ Exponential growth trend since 1980 • ² Barrie, Guelph, Hamilton, Kitchener-Waterloo, London, Niagara, Orillia, St. Catharines, Windsor • ³ Bancroft, Kawarthas, Muskoka-Haliburton, South Georgian Bay

A brief history of housing corrections

Canada (peak = 100)

Select home price declines



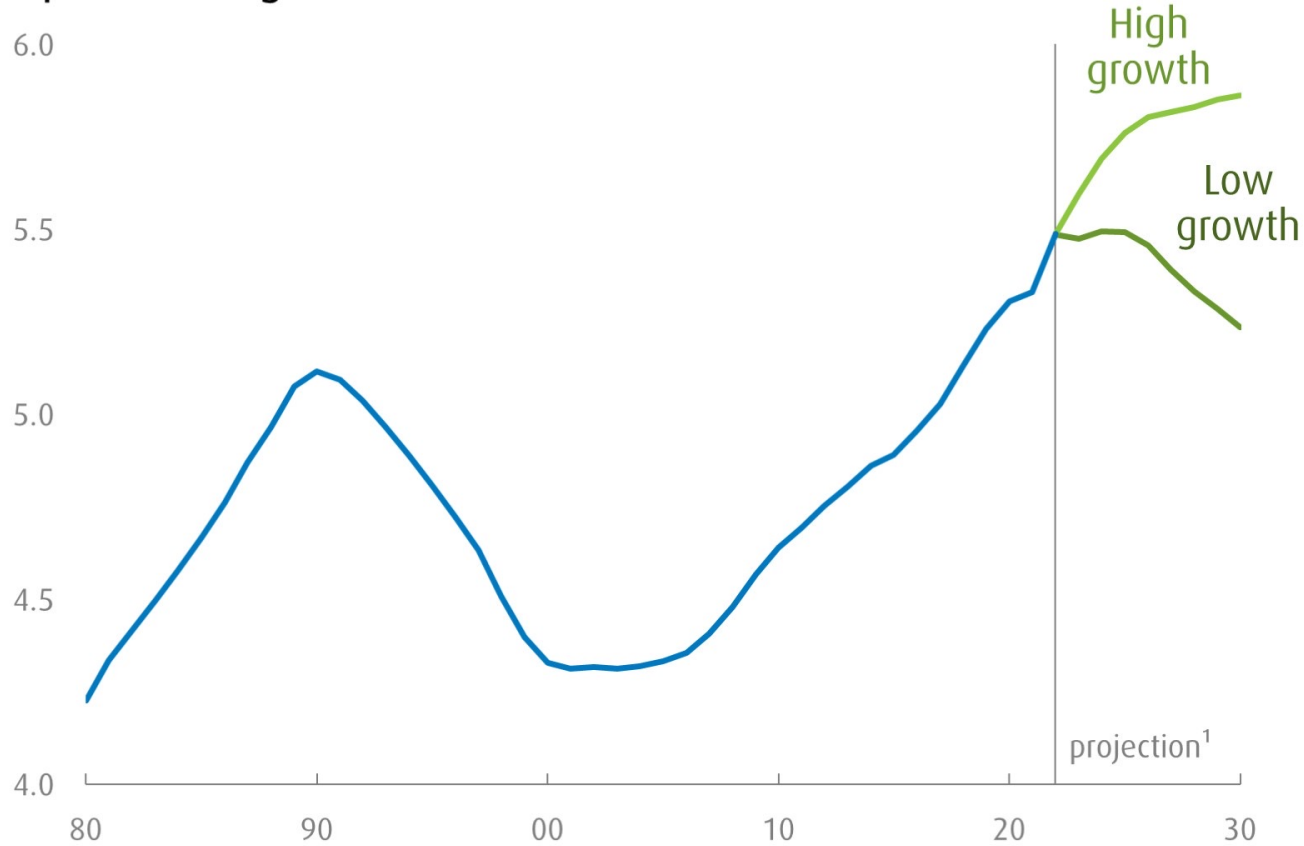
Start	Market	Factors	Decline (%)	Years to bottom	Years to recover
1989	Ontario	Interest rates, recession	-20	7.2	11.6
1995	Vancouver	Rates, foreign investment	-24	3.9	8.8
2007	Calgary	Oil boom/bust	-14	1.7	6.0
2008	Canada	Global financial crisis	-6	1.0	1.6
2015	Calgary	Oil boom/bust	-11	5.3	6.3
2017	Toronto ¹	Interest rates, tax	-11	0.9	3.3
2018	Vancouver ¹	Interest rates, tax	-13	1.5	3.0
Average			-14	3.1	5.8

¹ Detached homes

Demographic support?

Canada (mlns)

Population: Age 25-34



¹ Statistics Canada estimates

Demographic drivers:

- ✓ International immigration
- ✗ Provincial migration (Ontario)
- ✓ Millennial aging

Interprovincial flows negative

International targets elevated

Takeaways for real estate



Mortgage rates near peaking, but near-term rate cuts unlikely

Downward **price discovery** will continue through 2023

Regional performance will vary... Alberta is best positioned, while Southwestern Ontario (Toronto exurbs) will struggle most

Government **supply** targets will prove next to impossible to hit; a wave of completions is coming

Fundamental cash-flow driven **investment** replaces speculation

Peak **demographic** demand is near, but high immigration targets will stave off a 1990s-like bust

Longer-term price growth will be much more subdued, and stagnant in some markets

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