

Thought Leadership

Webinar Presentation – A CHBA Member-Only Virtual Event

“Looking Ahead at the Economy and Homeownership in Canada: An interactive panel discussion”

- Housing markets are showing a surprisingly strong come-back from the initial COVID-19 related slowdown
- Medium and longer-term trends will be influenced by pandemic-related changes in housing choices
- Mr. Norman addresses this issue by reviewing economic trends through the pandemic period and discussing findings from recent Altus Group research on the topic
- Address by Peter Norman, VP & Chief Economist, Altus Group
- Mr. Norman has a 23 year- history of sharing economic insights with CHBA members through the Economic Research Committee and conference presentations

Synopsis

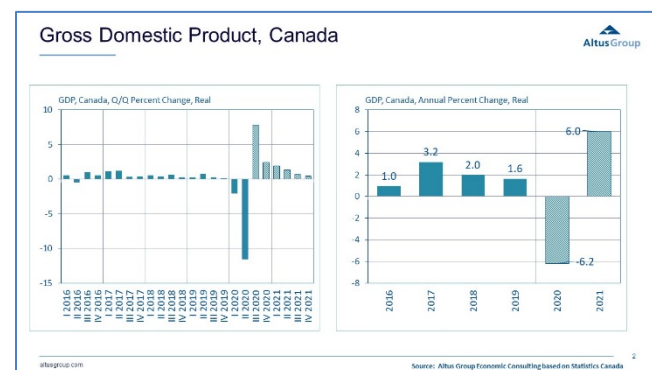
The Canadian economy is going through unprecedented swings related to the spring pandemic lockdowns and the rather rapid recovery since. A review of GDP and employment trends also show that although the bounce back in employment in particular was very rapid in May and June as retail and hospitality openings occurred, those “low hanging fruit” did not last long, and the pace of job growth is now much slower.

There were about 3 million job losses in Canada initially, and the rapid recovery saw about 2 million of those reinstated so far. But the remaining 1 million jobs, not to mention the normal growth we’d expect over this time, will be a lot longer in coming back.

If there is one major positive factor from the pandemic on the housing market it is the downward interest rate adjustment. Through the forecast we expect rates to be about 100 basis points lower than they would have been without the crisis. This will have an impact on affordability and new home demand.

Housing markets are showing a surprisingly strong come-back in recent months from the initial COVID-19 related slowdown. Evidence from MLS home resale data

shows that nationally Q2 sales and volumes were down 27% on a year over year basis and then in July & Aug sales were up 33% and volumes up 54%, year over year.



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As a result, resales had their weakest Q2 in 20 years and if September comes in on track, their strongest Q3, by far, ever.

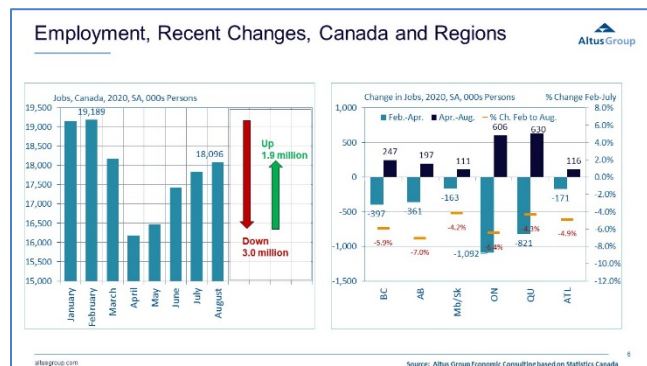
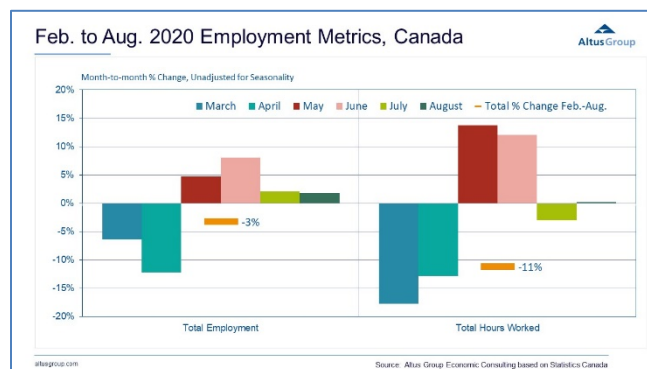
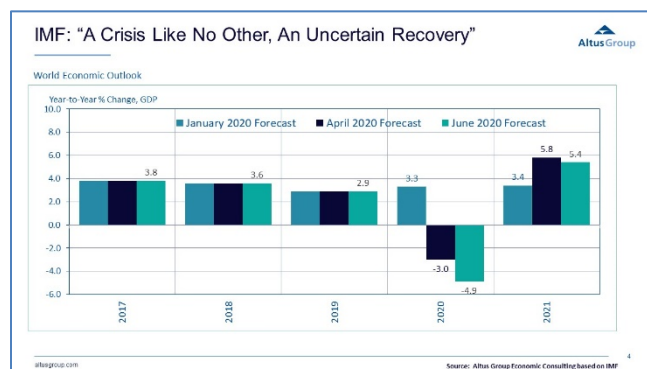
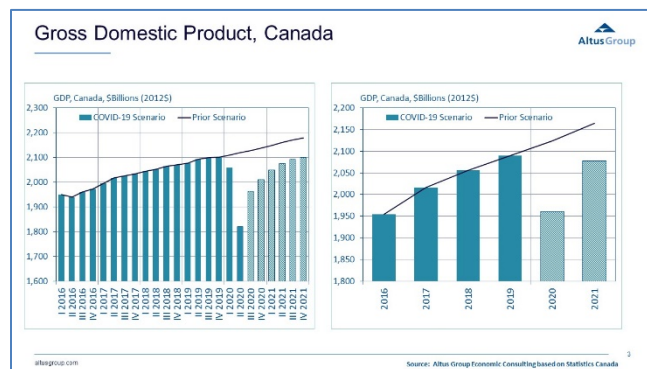
Resales are a good indicator of changing confidence, as buyers respond quickly to changing conditions. Typically, new home sales and construction starts lag. But in many markets these too are recovering strong.

Recent trends in Vancouver and Toronto new home sales are a good indicator of shifting housing preferences through the pandemic. While, pent-up demand, interest rates, and market psychology is playing a role in the very sharp bounce-back in sales and prices, the data also reveal significant shifts in demand toward single-family housing.

Recent immigration data from the pandemic period reveal that international migration has fallen off sharply so far this year due to federal restrictions at the border. The pace at which the inflow of international migrants returns will be dictated by the ongoing timelines of the health crisis and federal policy, but we should at least expect weakness in this growth component over the next year or so.

An issue which we're hearing about "anecdotally" is the apparent increased willingness, particularly among younger households, to reconsider current living conditions in denser core areas for more suburban locations. This could be fuelled by a change in requirements related to increased remote work conditions. While its too early to see this showing up in any data (other than perhaps inferred from the resale data), it is of note that the rise in out-migration from the Vancouver CMA and the Greater Toronto Area to other locations in their respective provinces has been developing over the past 5 years, so at best these possible "pandemic effects" are a case of the pandemic accelerating a trend that already existed.

Other possible pandemic effects could relate to a rental vs. homeowner choices and housing choices by structure type. The illustration relates to the GTA as an example,



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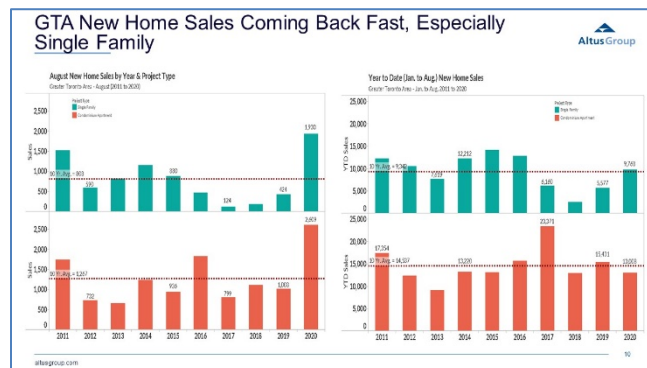
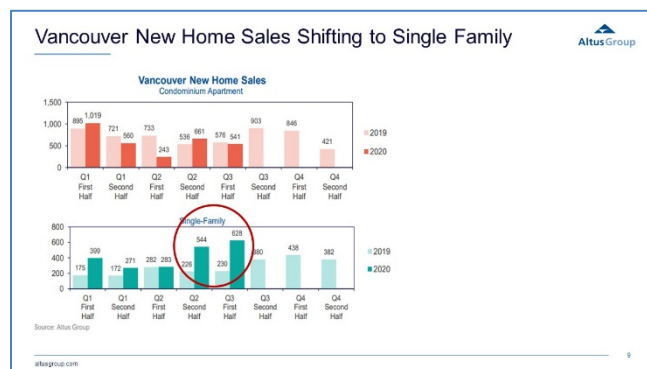
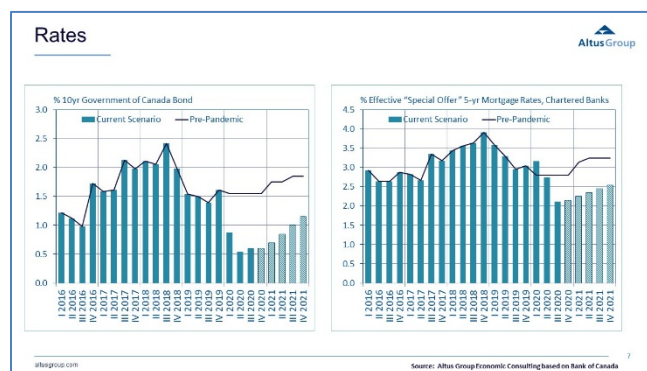
but trends are indicative of areas across Canada.

Ownership rates tend to have a fair amount of variation over time, and their pattern, especially for selected cohorts of younger adults, are clearly influenced by economic and affordability conditions. Ownership rates jumped up during the early 2000s when interest rates were low and the economy was picking up. They declined after 2011 as housing prices accelerated. Going forward there is reason to believe we'll be in a period of stronger affordability at least over the next three years, as interest rates remain at rock bottom and in general the housing market will soften from the weak migration. Expect a shift into ownership by all cohorts due to this factor. Also expect a general overall shift into ownership demand as the millennials continue to age into their higher ownership rate years.

Finally, structure type choices have been gradually shifting from single-detached homes toward apartment type units for each of the younger age cohorts over a number of decades. Interestingly, it is possible to read from this pattern that over the past 20 years, there has been a "five-year shift" in demand conditions among younger households. As an example, in terms of structure type, a 35-39-year-old appears to have the demand patterns of a 30-34-year-old 20 years ago. This reflects structural societal factors that occurred two decades ago, such as delayed typical age of first marriage, first children and a greater rate of post-secondary enrolment.

As those factors are no longer shifting, it is safe to say that the long-term shift from single-detached to apartment propensities for a given cohort has likely abated. But pandemic effects may even provide a reversal of this trend, at least in a small way, as recent survey data and more anecdotal evidence suggests that more young people may be shifting preferences toward housing forms that have more space, are in less dense communities and could be further from the urban core.

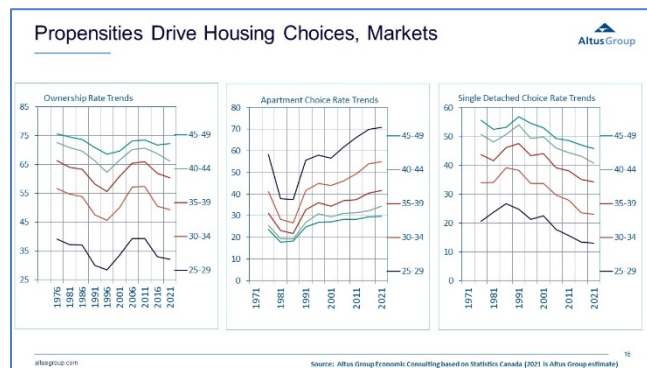
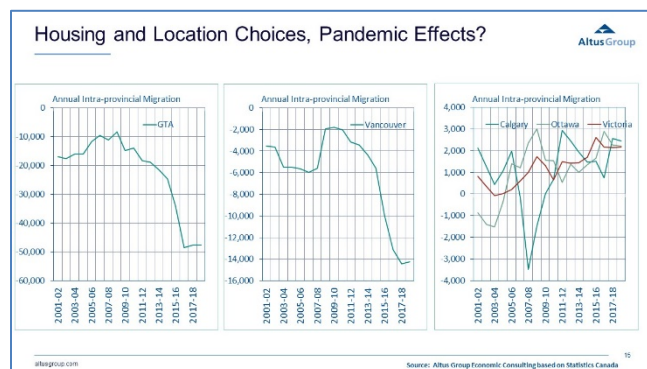
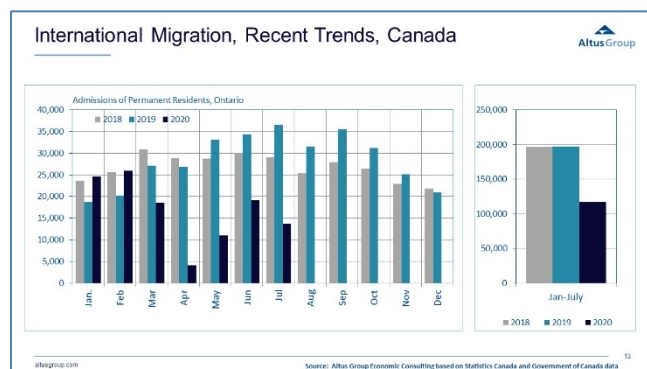
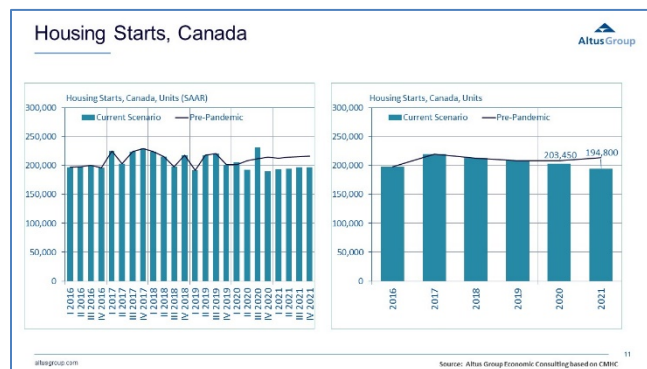
While only time will tell the magnitude of these pandemic effects, the demographics tell us that even a



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minor reversal of recent propensity trends, stability in household formation rates, and the underlying demographics being driven by the aging millennial cohort, and the emergence of Gen-Z cohort will drive housing demand in the next few years. That demand will certainly require more ground-oriented single-family homes and a still healthy, but weaker need for rental apartments.



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New Home Construction in Canada: Preparing for a Post-Pandemic Society



CHBA – October 2020

Mike Linehan, Vice-President & National Head – Mortgage Specialists

Connecting the dots -Trying to optimize for all three goals

(1) As virus numbers get worse, new restrictions are needed to control the pandemic...

Minimize virus transmission

(2) ...governments prefer to avoid damaging the economy, so are again limiting non-economic human interactions...

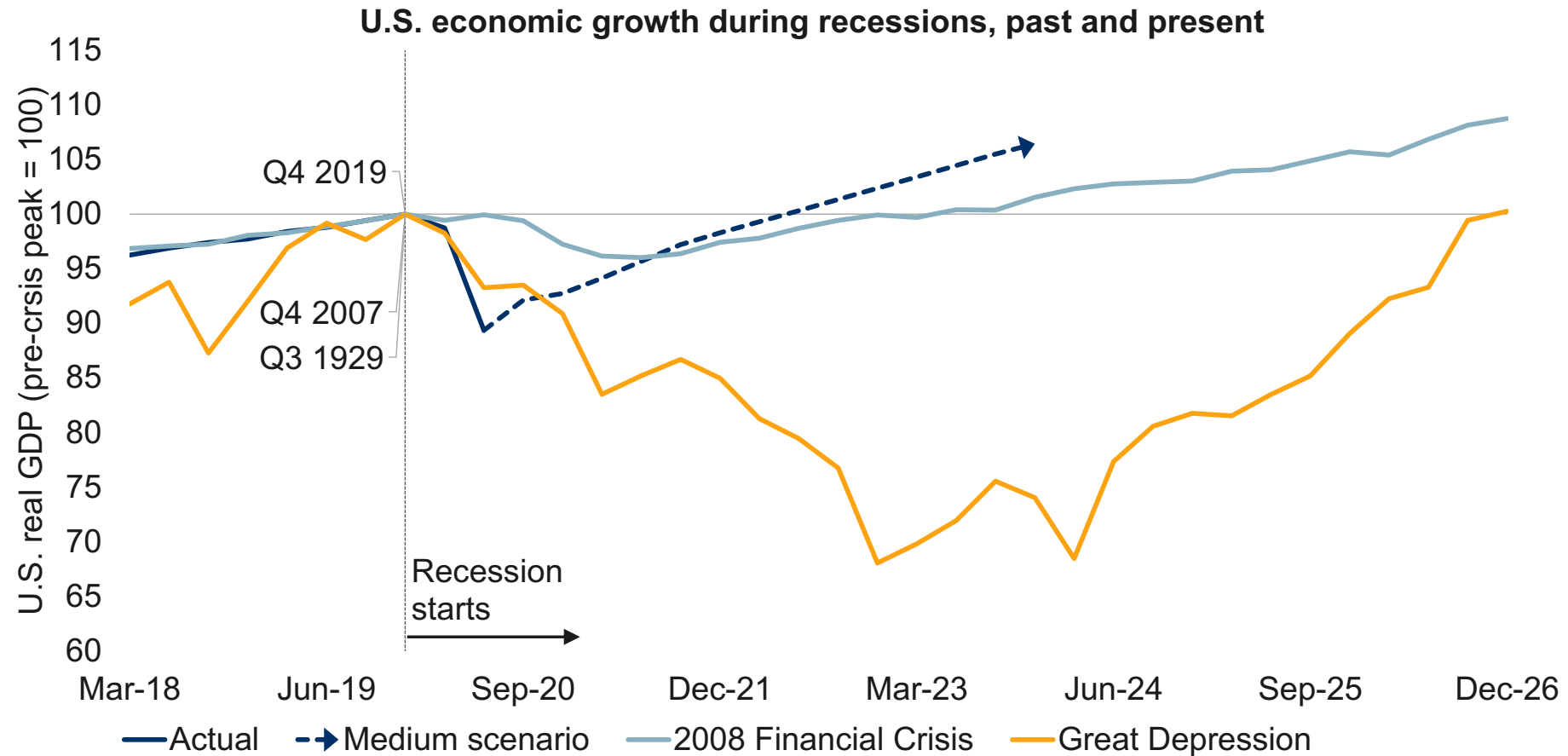
**Pandemic
optimization
triangle**

Maximize economy

Normalize daily lives

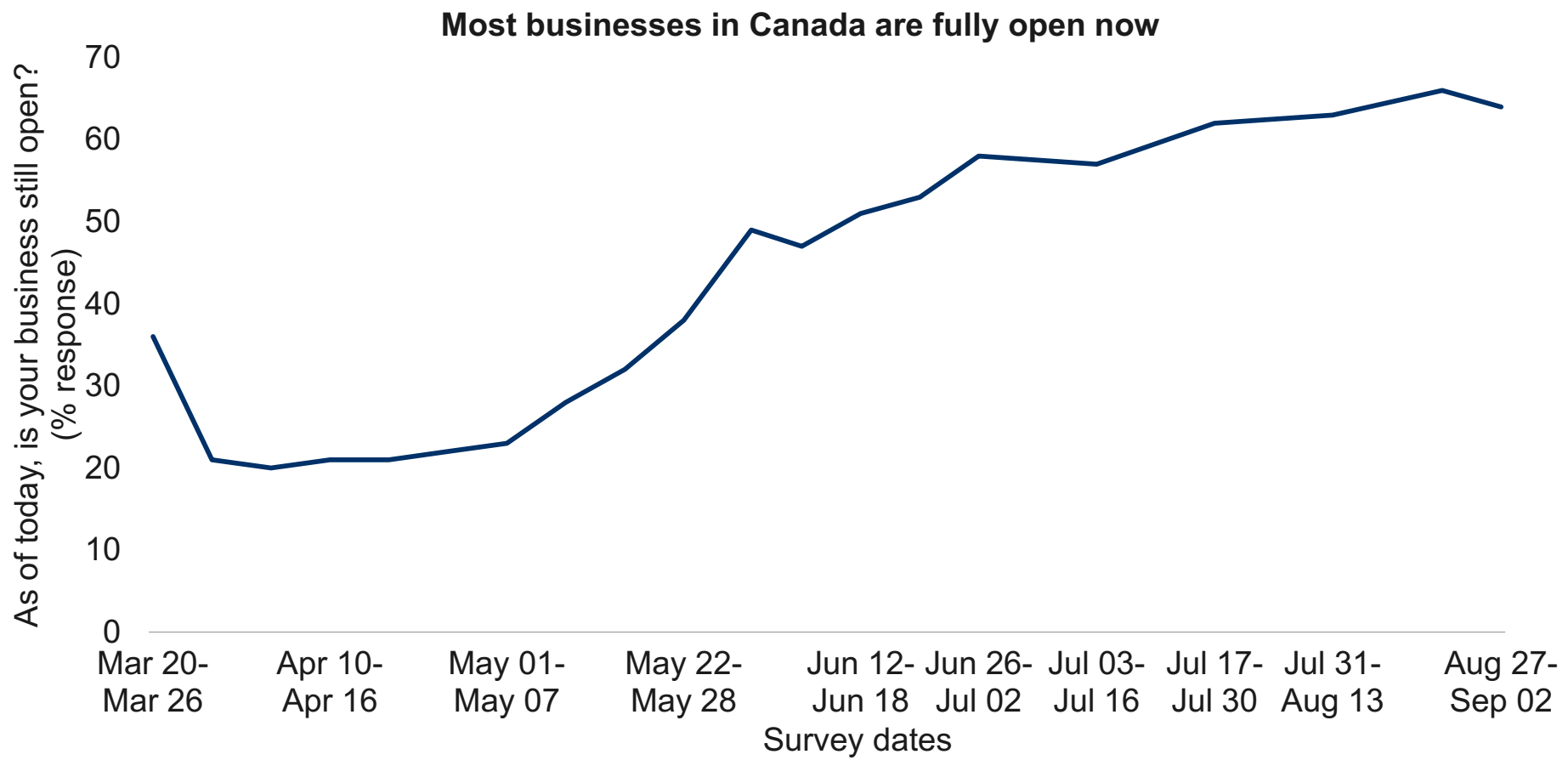
(3) ...but it seems likely that some economic restrictions will also prove necessary to quell second wave, despite policymaker reluctance

Pandemic in historical economic context – COVID-19 not nearly as bad as Great Depression, had deeper trough than financial crisis but likely shorter duration



Note: As of 7/31/2020. Medium scenario based on RBC GAM projections. Source: Haver Analytics, Macrobond, RBC GAM

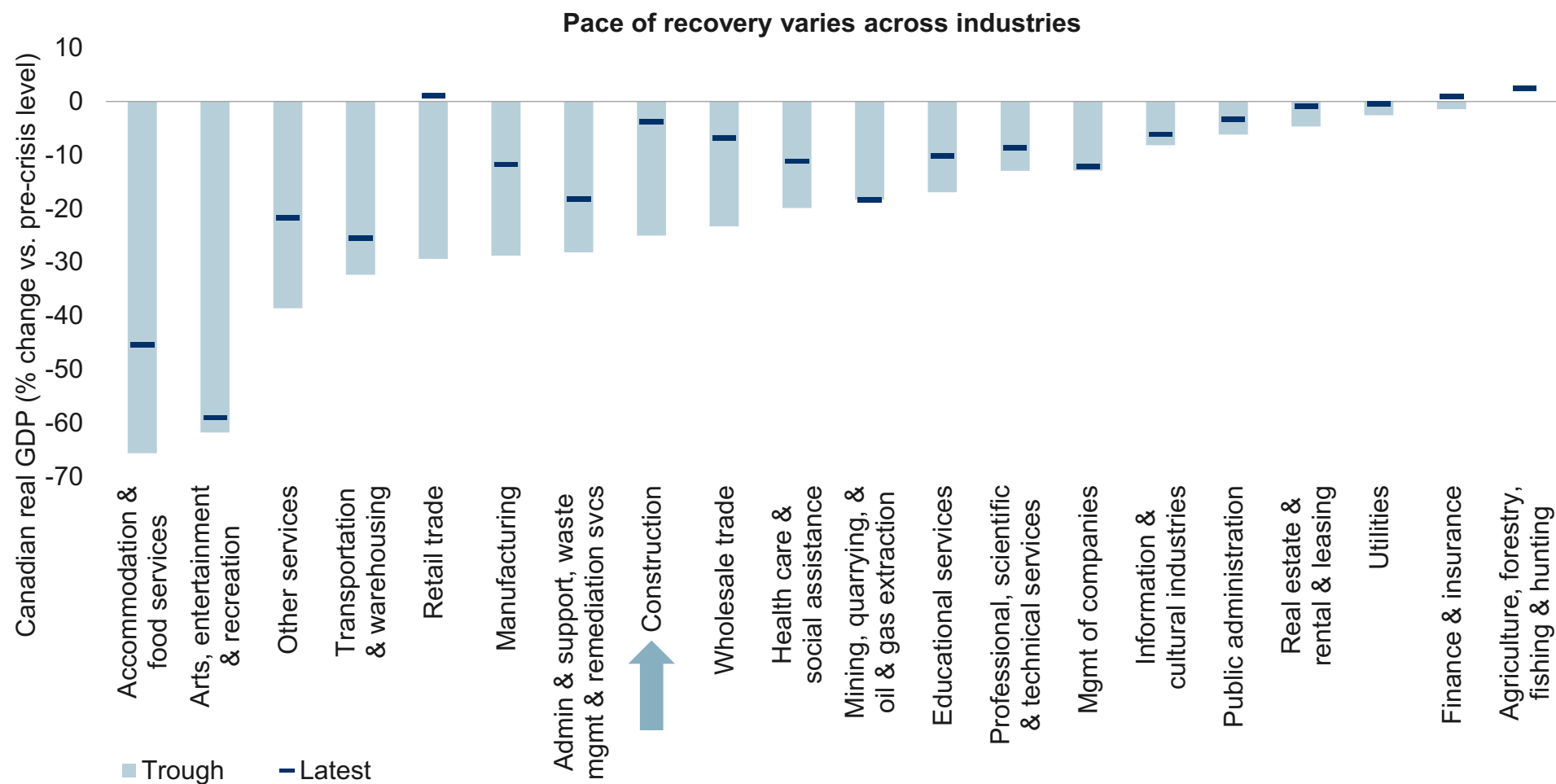
Canada is mostly open for business, but rate of reopening has slowed



Note: As of 09/02/2020. Source: CFIB, RBC GAM

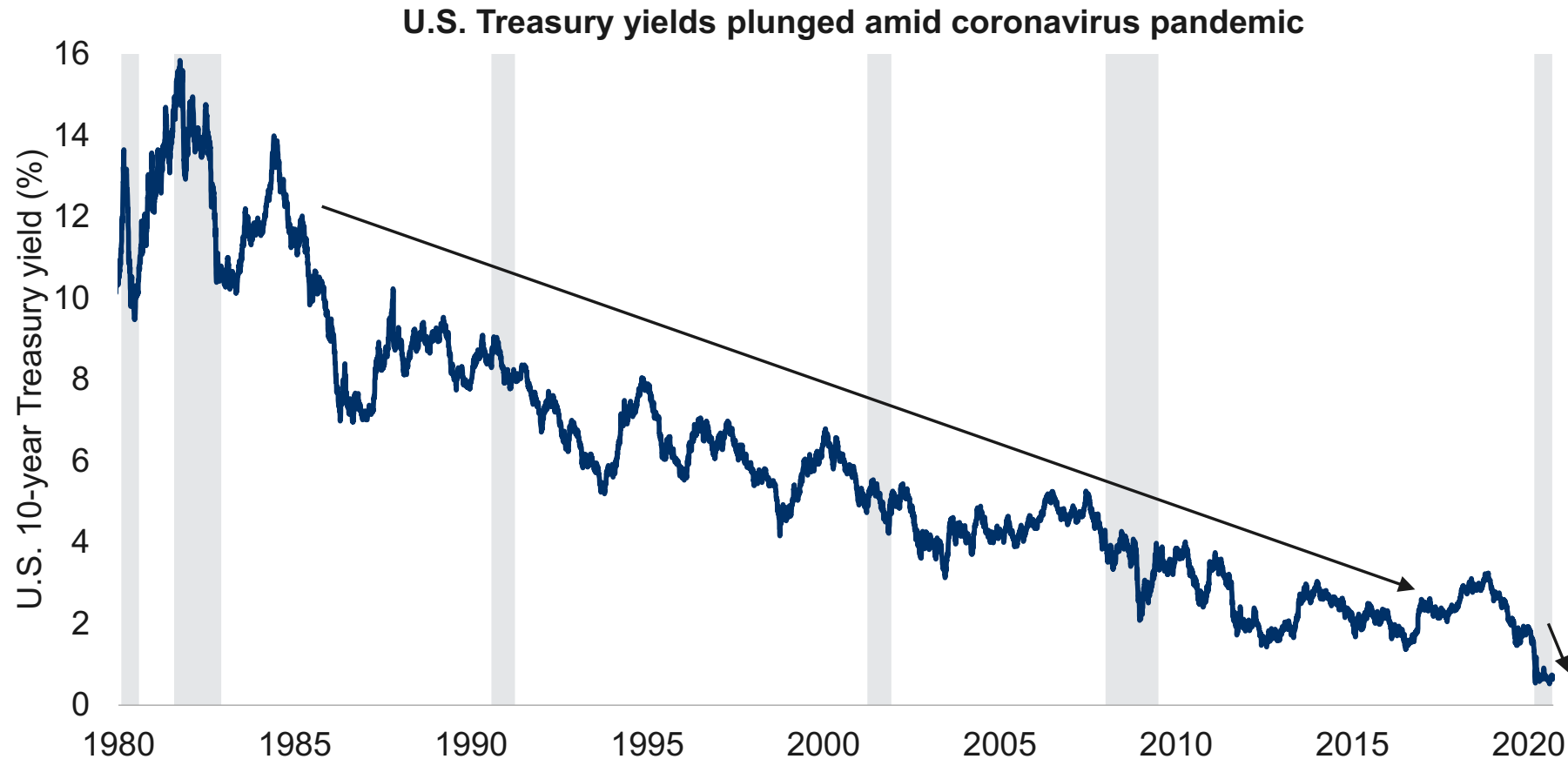


Canadian economic decline and recovery by industry



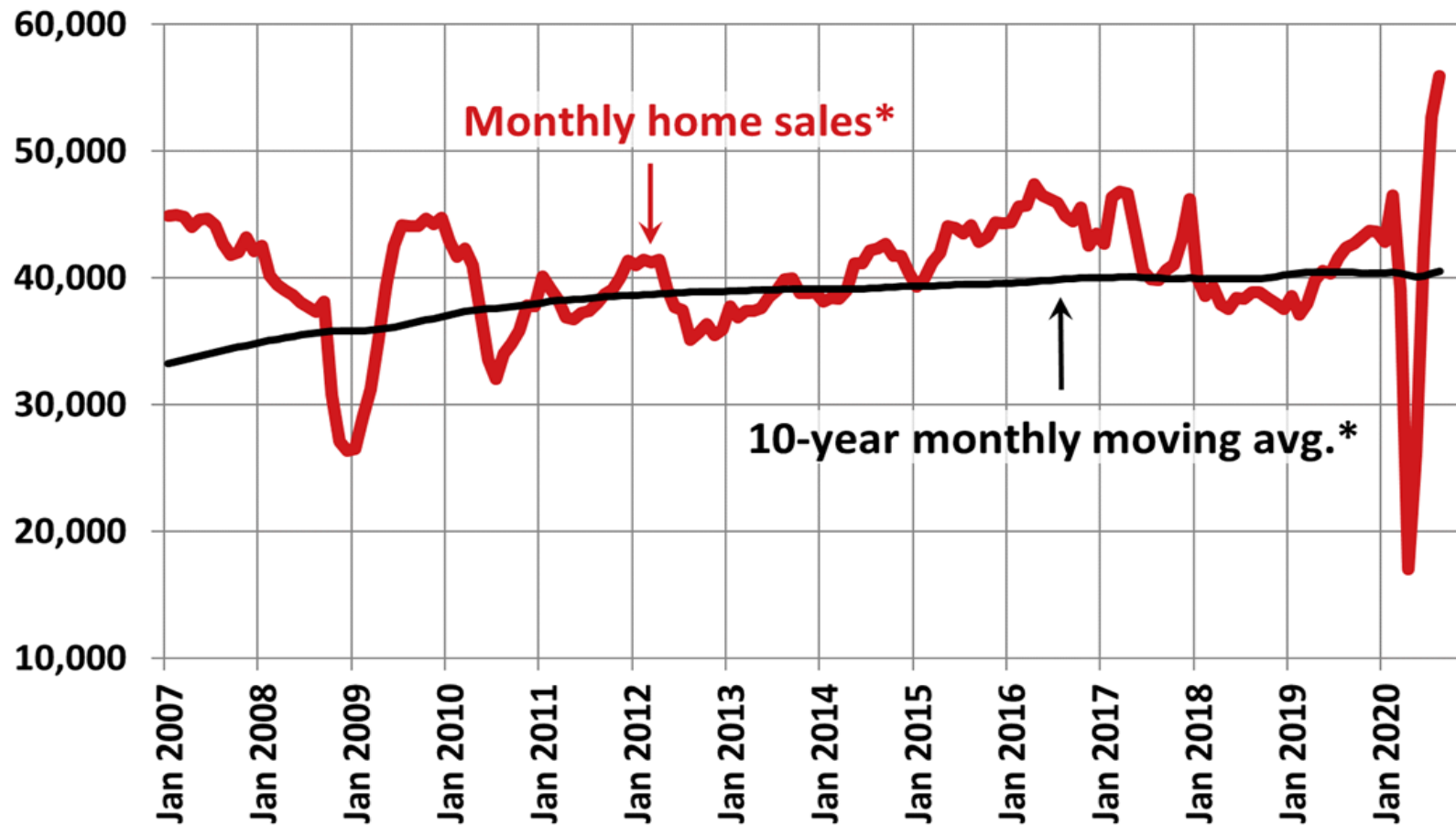
Note: As of Jun 2020. Trough since Feb 2020. Source: Macrobond, RBC GAM

Bond yields fall to record lows due to risk aversion, recession, monetary stimulus



Note: As of 9/10/2020. Shaded area represents recession. Source: U.S. Treasury, Haver Analytics, RBC GAM

Resale Rebound



* Canada; seasonally adjusted

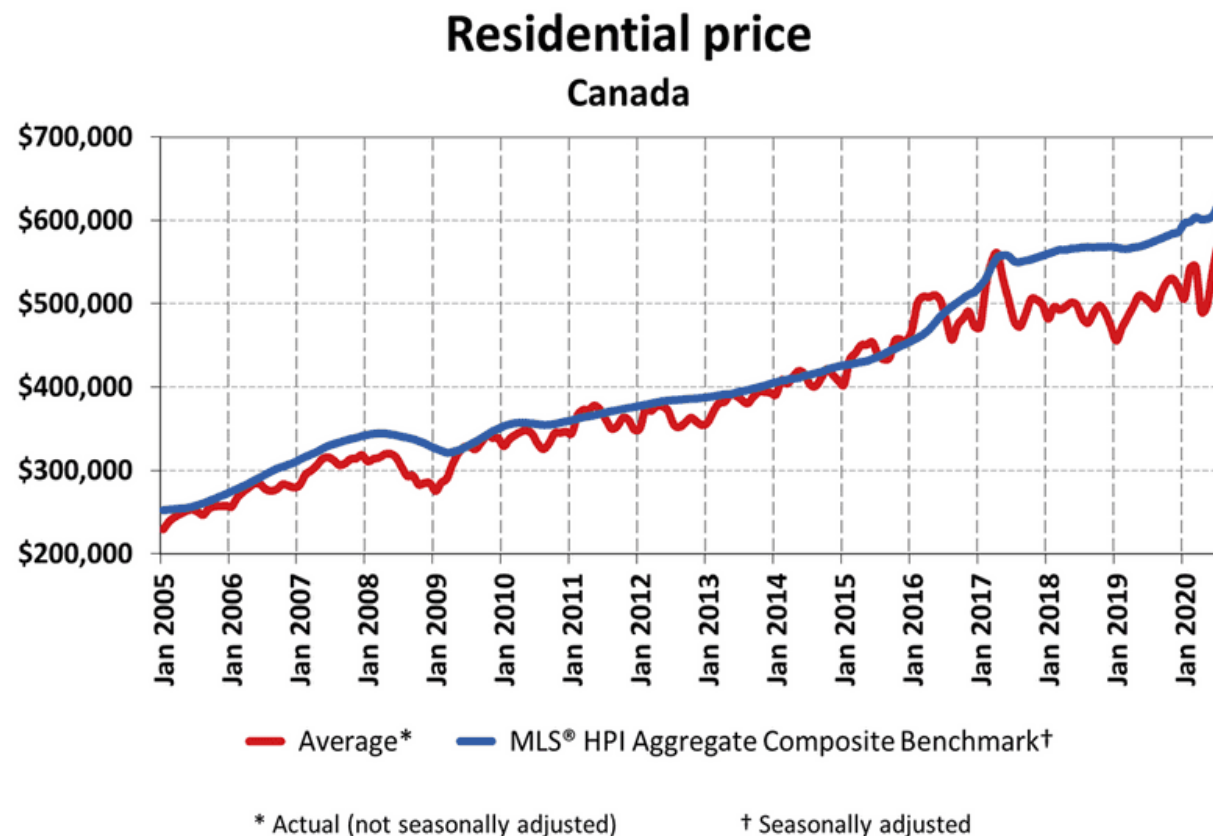
Source - CREA

Avoiding Price Drift

Canadian housing market expected to remain active for the remainder of 2020 due to pent-up demand and low inventory levels...

Canadians showing more interest in suburban and rural homes for sale, as work and life dynamics shift

Canadian housing prices anticipated to increase by 4.6% in the third and fourth quarter



Sources: Re/Max – Canadian Housing Market Outlook (Fall 2020) – CREA July 2020, CREA October 2020



“Never shout at your plumber.”

BNN **Bloomberg**

Sept 9, 2020

**‘New home construction in
Canada hits its highest since
2007’**

Lagged economic headwinds proving less problematic than initially feared – so far

Fiscal drag

- U.S. fiscal drag already significantly underway
- But U.S. economy has managed to continue growing
- Drag is less significant in other countries

Lagged credit problems

- Credit defaults historically peak with a lag but outlook not as bad as during financial crisis
- Banks seem comfortable with their credit loss provisions
- Deferred mortgages remain a risk, but usage shrinking

Housing drag

- Surprisingly, housing markets have boomed
- Even if high unemployment and low immigration eventually weigh, the drag may calm after the point of maximum economic vulnerability

Inflation should be low in the near term, but may creep higher over longer term

Near term (1-2yrs): deflationary pressures dominate

Big demand shock	<u>Diminished income</u> ; high unemployment
Low oil prices	From <u>demand shock + price war</u>
Low inflation expectations	Tame expectations after decade of low inflation
Monetary stimulus	Large amount of monetary stimulus can be inflationary

Long term (3-10yrs): inflationary pressures may bubble up

Demographics	<u>Aging population and slowing population growth</u> may be deflationary
Persistent monetary stimulus	Central bank balance sheets are likely to remain distended for many years
New inflation mandate	U.S. Fed now willing to <u>tolerate >2% inflation</u> for a period of time
High public debt	High debt creates incentive to run slightly higher inflation to erode burden
Supply chain	COVID-19 and U.S.-China conflict incent supply chain on-shoring = higher prices

Colour legend:
Inflationary
Deflationary

Note: As at 9/11/2020.
Source: RBC GAM

Lasting implications of COVID-19

Permanent changes

More public debt / higher default risk

Interest rates must be lower than otherwise

More skittish about future viral outbreaks

More resources for low prob./high impact risks

Some supply chain on-shoring / diversification

Further reduction of monetary policy independence

Inevitable but accelerated changes

Online > Brick and mortar

Accelerating automation

More working from home

Less business travel, supplanted by **virtual meetings**

Source: RBC GAM

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Temporary (but still multi-year) changes

Weaker economic conditions

More private debt / default risk

Larger government

Low density living & working > high density

Big business > small business

Less immigration + baby bust (= slower GDP growth / weaker housing)

Slower productivity growth (= slower GDP growth)

Loss of human capital due to school & business closures (small)

Higher inequality

Geopolitical conflicts become more intense

Less handshaking, less physical contact

Leisure – **fewer external social occasions / less restaurant trips** / less personal travel

Less anti-trust pressure, fewer data privacy limitations

Lower steady-state return on investments? As suggested by GDP impact; historical precedent

Report card

NEGATIVE DEVELOPMENTS



- Second virus wave clearly unfolding across much of developed world
- U.S. and Canadian numbers both getting worse
- Social distancing fatigue, reopening of schools, cooler & drier weather provide new vectors for transmission
- Governments not doing enough to control spread – more needed
- Rate of economic growth has slowed, and will likely underwhelm for a few months

POSITIVE DEVELOPMENTS

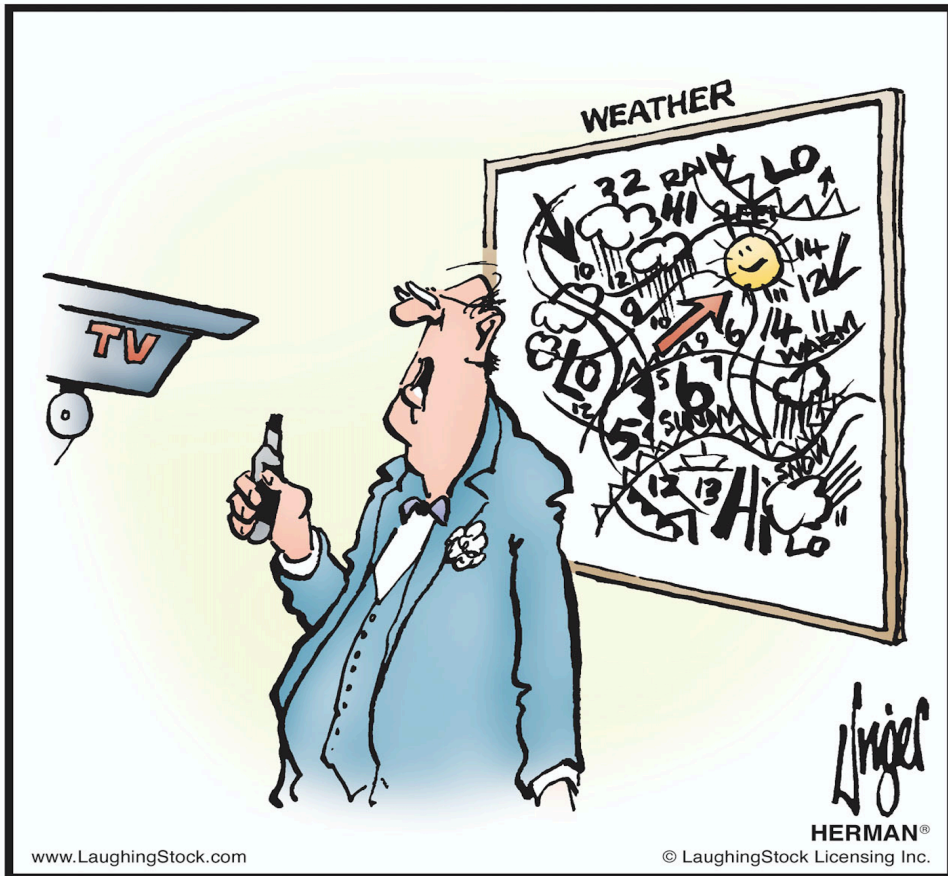


- Economy should avoid a second recession
- Economic lockdown doesn't need to be as aggressive as in spring
- Lagged economic headwinds proving less problematic than feared
- Fatality rate remains lower than in first wave
- Vaccine prospects seem good

INTERESTING



- U.S. election now very near
- New Fed mandate
- Canadian Throne Speech points to government expansion in Canada
- Real-time economic data becoming less helpful



**Real-time economic data
becoming less helpful**

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Looking Ahead: COVID, the Economy & Homeownership

October 7, 2020

- **COVID-19 Response**
- **Collaborative Approach to Deferral Management**
- **Mortgage Origination & Market Fluctuations**
- **Change is Coming**

Reported mortgage payment deferrals

Mortgage payment deferrals are an effective loss mitigation strategy in the COVID-19 environment because the deferrals help borrowers bridge income interruptions. As at June 30, 2020:

- **Approximately 13.7% have taken payment deferrals.**
- **Approximately 65% have an estimated current effective loan-to-value less than 80%.**

Company sources. Q2 Earnings Call.



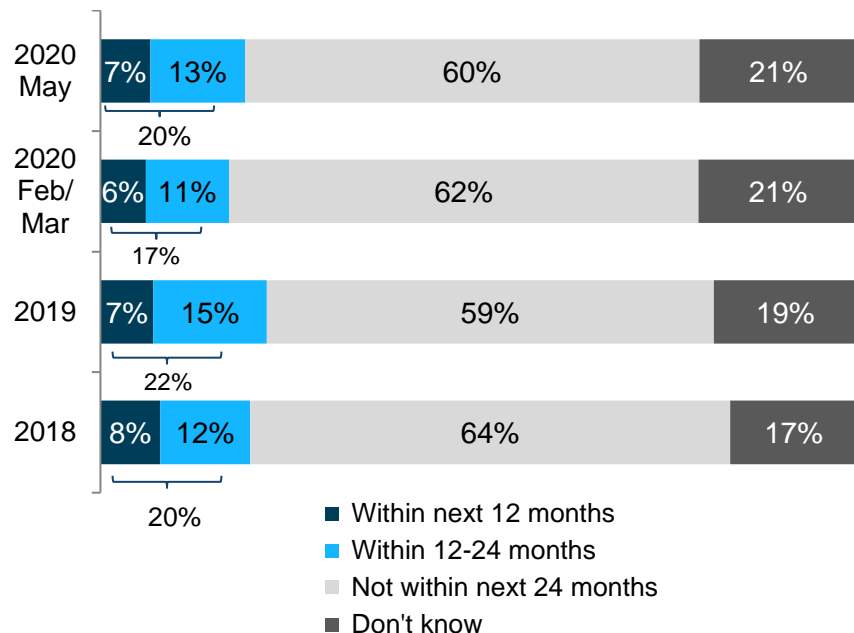
**Something
new is
coming...**



Homeownership & Financial Fitness Study: *Pre & Mid COVID Findings*



When do you expect to buy a home (among non-homeowners)?



Key Differences:

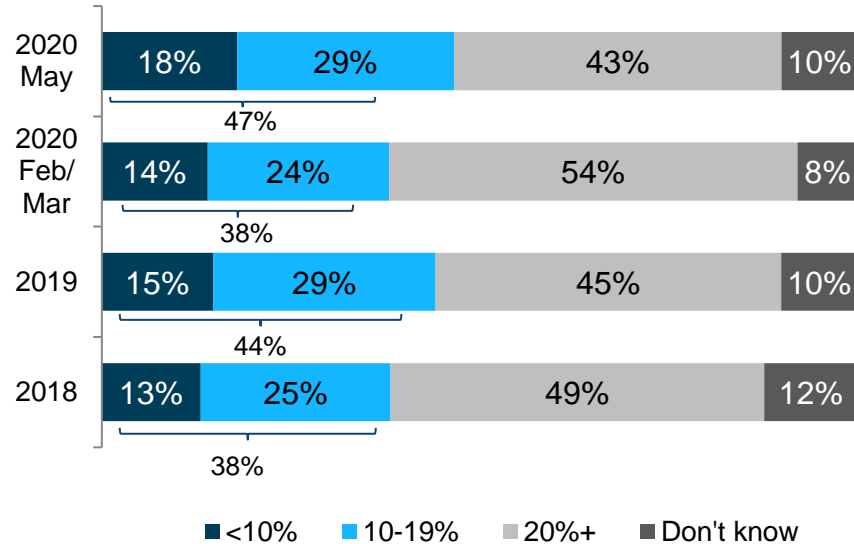
- Millennials who do not own a home yet are more likely to expect to buy their first home within the next 24 months (24%)

May Update:

- Compared to February/March, more Millennials (39%) and New Canadians (34%) who do not already own a home expect to buy one in the next 24 months

More intenders in May expect to put down less than 20%

Down payment expected for intenders



Key Differences:

- Current renters are more likely to plan to put down less than 20 percent (52%). So too are those planning to buy in a suburban area (48%), those in Quebec (47%), Millennials (54%), and New Canadians (61%)
- Those buying in urban areas (67%) are more likely to put down more than 20 percent

May Update:

- Small base sizes mean sub-group differences are not significant

www.financialfitness.ca



Discover your individual score to help assess your current financial fitness level and get useful information.

English Français

What of the following best describes your financial fitness?

- ☐ I am in great financial shape - I have set clear financial goals that I am well on the way to achieving
- ☐ I am in pretty good shape - I have a general notion of what I want to achieve with my finances, and things are more or less going in the right direction
- ☐ I am neither in great shape nor poor shape: I try to save when I can but I don't seem to be getting ahead
- ☐ My financial fitness is not very good: I know that I haven't been able to achieve the fin. goals that I think I should have by now
- ☐ My financial fitness is very poor: I feel like I am always falling behind and/or that I don't know where to turn for help

Previous

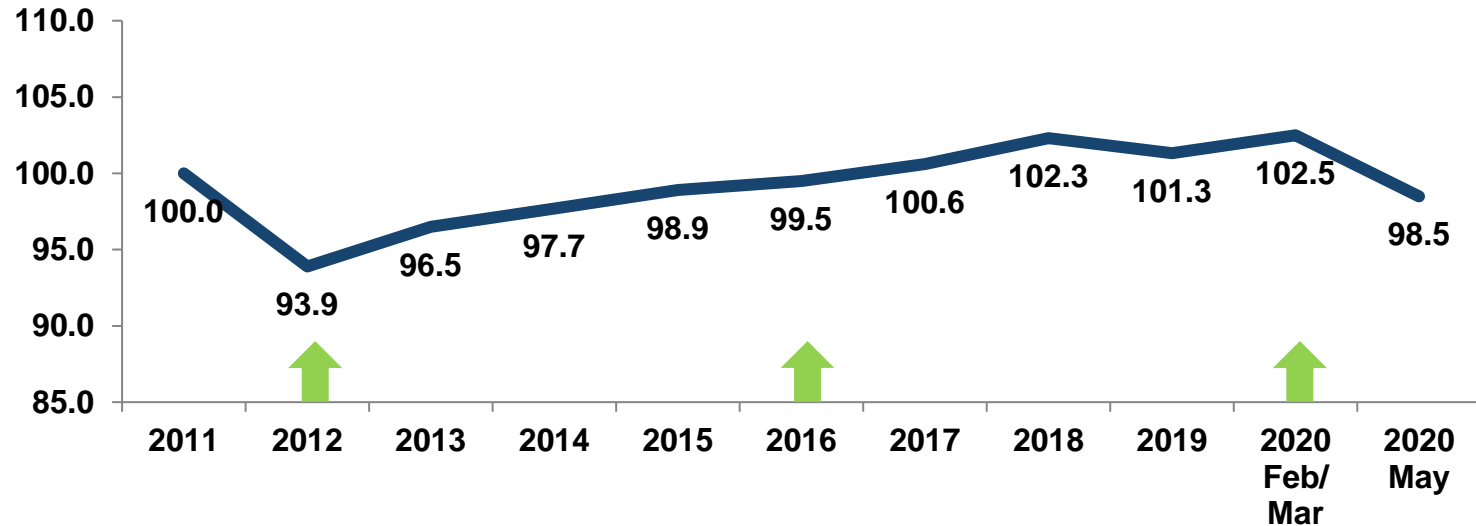
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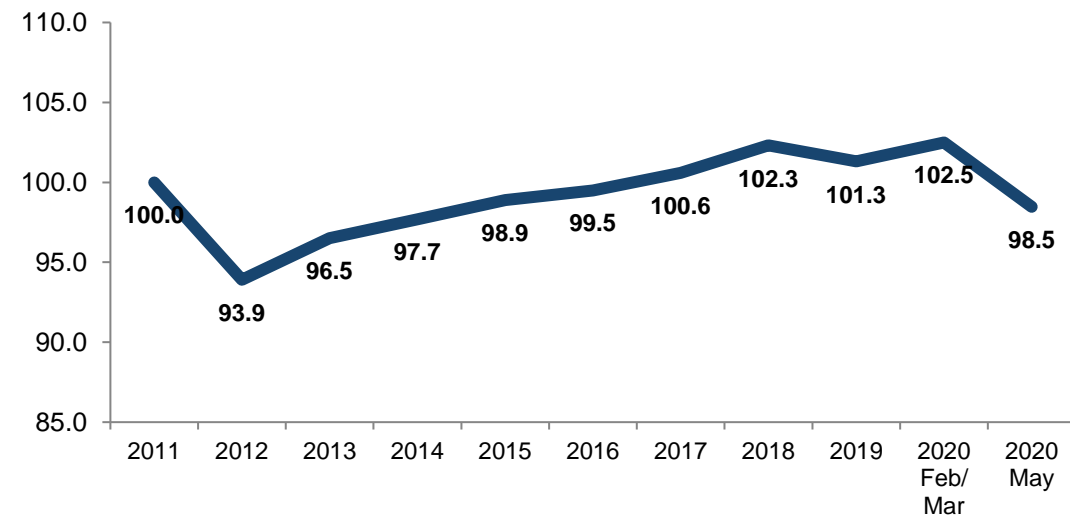
- Created in 2011 for the Canadian Association of Credit Counselling Services, and measured annually since.
- The Financial Fitness Index assesses Canadians' financial well-being, using a range of behavioural and attitudinal questions as inputs, while avoiding outcome measures like income or wealth
- It is comprised of different measures and applications than the Conference Board's consumer confidence index.



Set at 100 in 2011, the Financial Fitness Index initially declined but regained to early 2020.

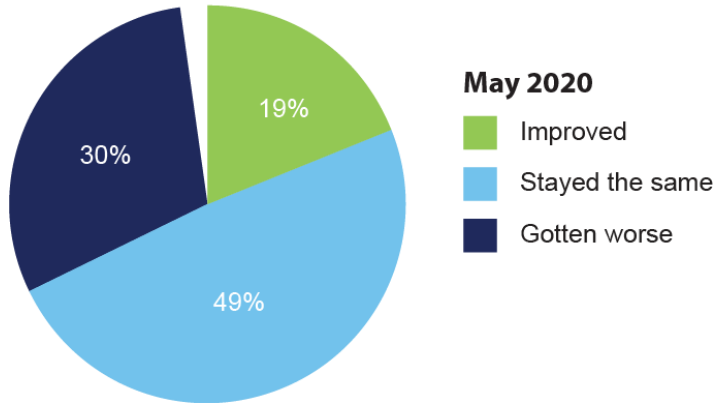
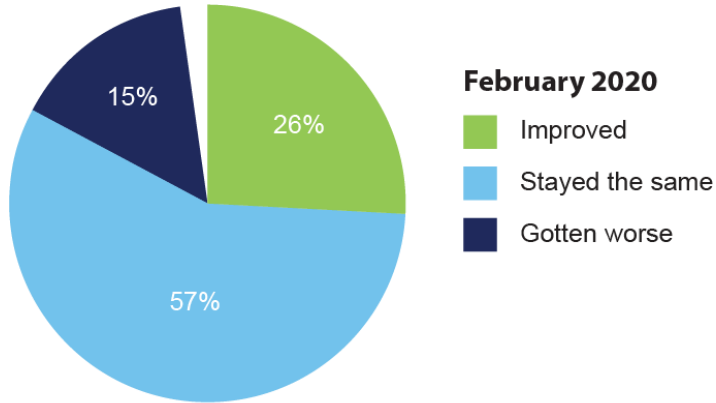


Financial Fitness Index



Between Feb/March and May, steepest declines were among:

- Those working part-time (-10.9)
- New Canadians (-9.5)
- Albertans (-10.2) and BC (-6.3)
- Boomers (-5.9) and Gen X (-6.2)
- Those with incomes \$150k+ (-7.5)



Key Differences:

- Those who intend to buy their first home in the next two years are more likely to say their financial situation improved (42%)
- Those feeling their financial situation has gotten worse include those who are unemployed (41%) and those with incomes below \$50k (20%)

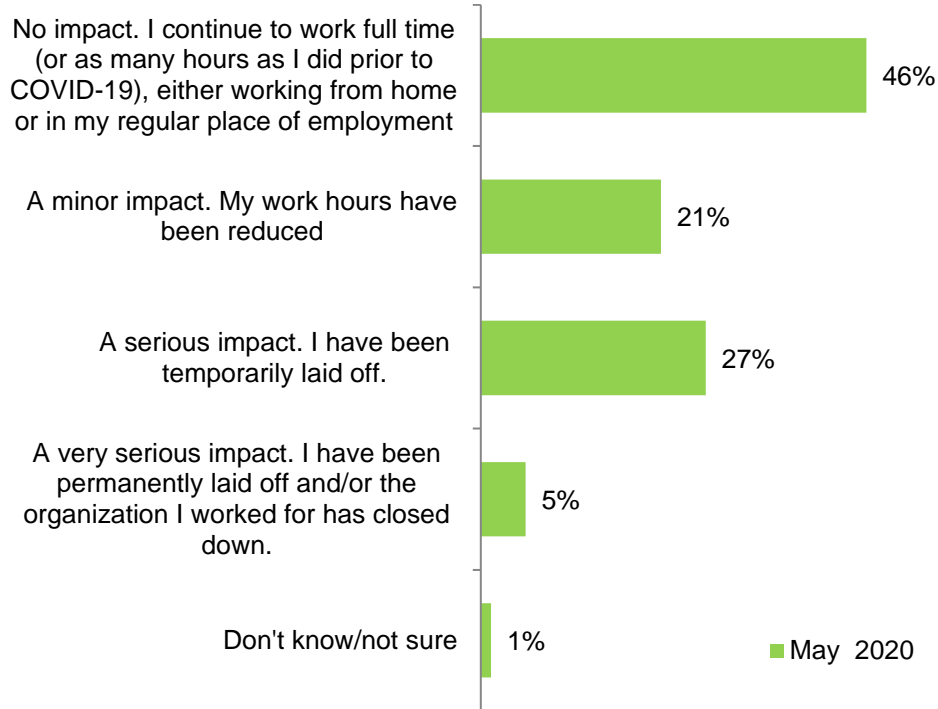
May Update:

- Those in Alberta are more likely to say their financial situation got worse (41%)
- Recent first-time buyers (43%) and future intenders (27%) are more likely to say their financial situation improved



Impact of COVID-19 on Employment

Impact of COVID-19 on employment



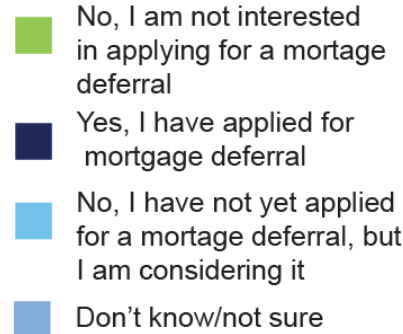
Key Differences:

- Homeowners are more likely than non-owners to say they have not been impacted (50% vs. 35%)
- Those working part-time are more likely to say it had a serious/very serious impact (48%) than those working full-time (25%)
- Those ineligible for the CERB are more likely to say it had a serious/very serious impact (50%).
- New Canadians are more likely to say it had a serious/very serious impact (58%)
- Those in Atlantic Canada are more likely to say it had no impact (63%) while those in the Prairies are more likely to say it had a serious impact (40%)

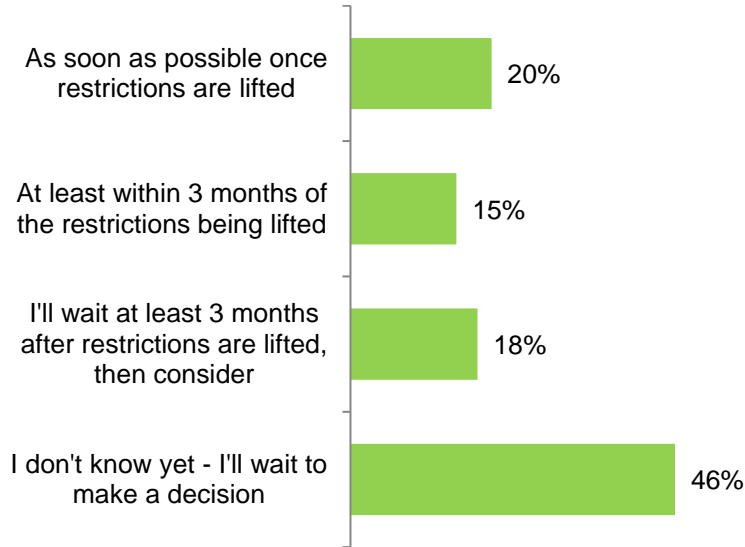
Key Differences:

- While 11 percent have applied for a mortgage deferral, the 20 percent who are considering it may be waiting to see whether there will be further uncertainty regarding their return to work.
- First-time home buyers are more likely to say they have applied for a mortgage deferral (25%) or might consider it (30%).
- Working Canadians whose jobs have had a serious/very serious impact by Covid-19 are more likely to have applied (20%) or plan to (26%).
- Those in Atlantic Canada (19%) and B.C. (19%) are more likely to have applied, while those in the Prairies (36%) and Alberta (33%) are more likely to say they are considering it.

May 2020



Many home buyers/sellers anticipate a quick return



Key Differences:

- Those in Quebec anticipate selling or buying real estate within three months following the lifting of restrictions (51%).

2020 Homeownership & Financial Fitness Study

Now Available!
Download your copy today,
at [Genworth.ca](https://www.genworth.ca)

2020 Homeownership & Financial Fitness Study

A snapshot of Canadians' Homeownership
Attitudes and Financial Fitness





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