



2023: The Path to Recovery

February 2023

The 2020s Recovery

How it Started:

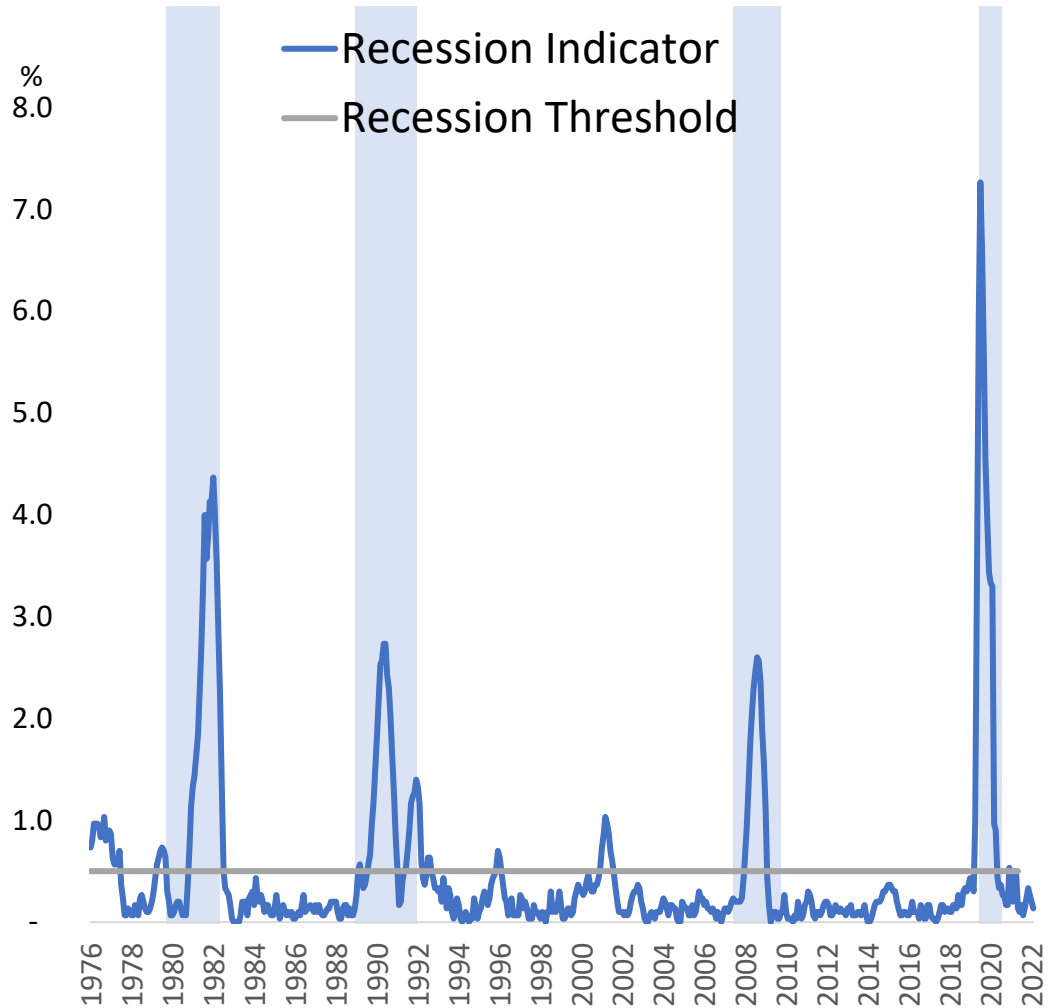


How its Going:



Despite Gloom in the Media, No Recession Yet

Sahm Rule Says We Are Not Yet in Recession



Shaded Area denotes Canadian recessions

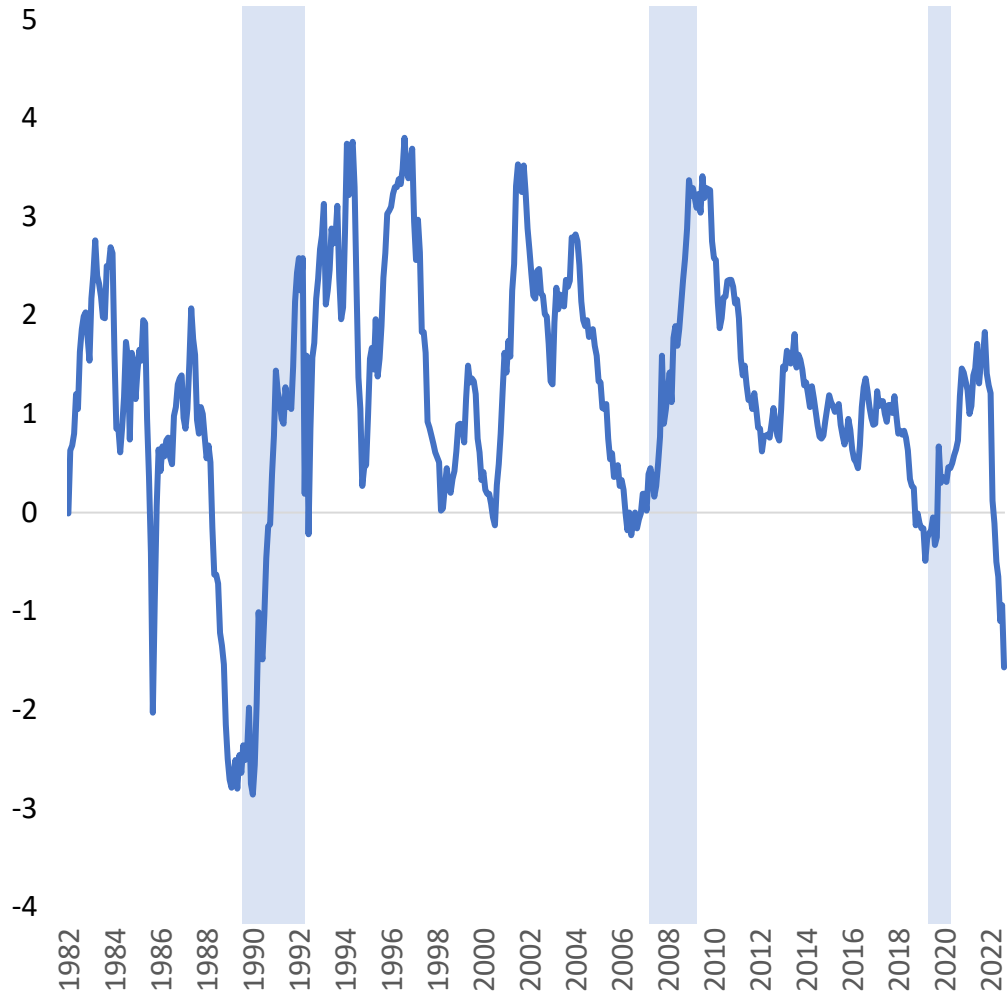
Source: Statistics Canada; BCREA Economics



...But Other Indicators Suggest Soon

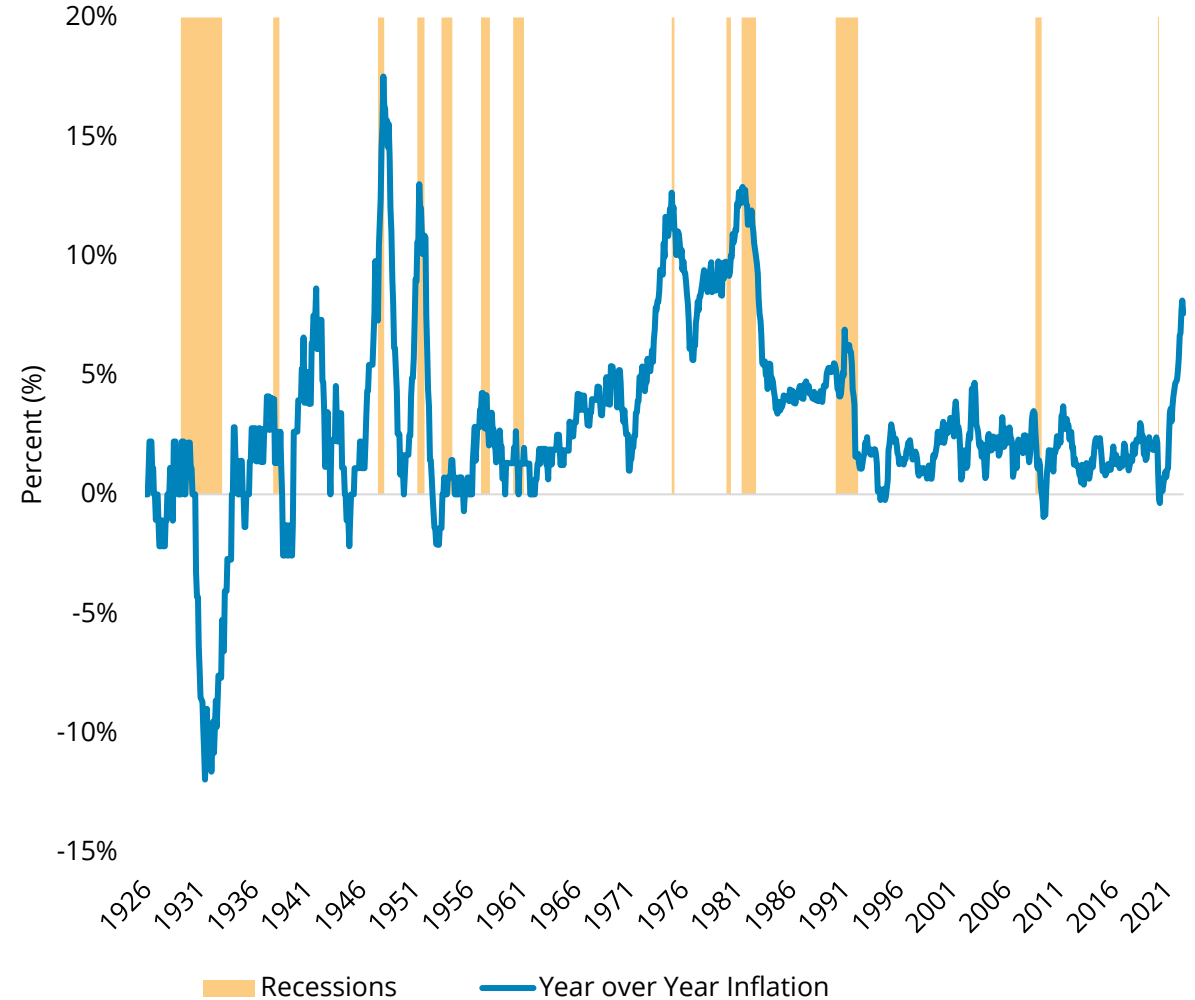
...But the Yield Curve Says Soon

Slope of the Yield Curve, 10yr – 3mo (Percentage Points)



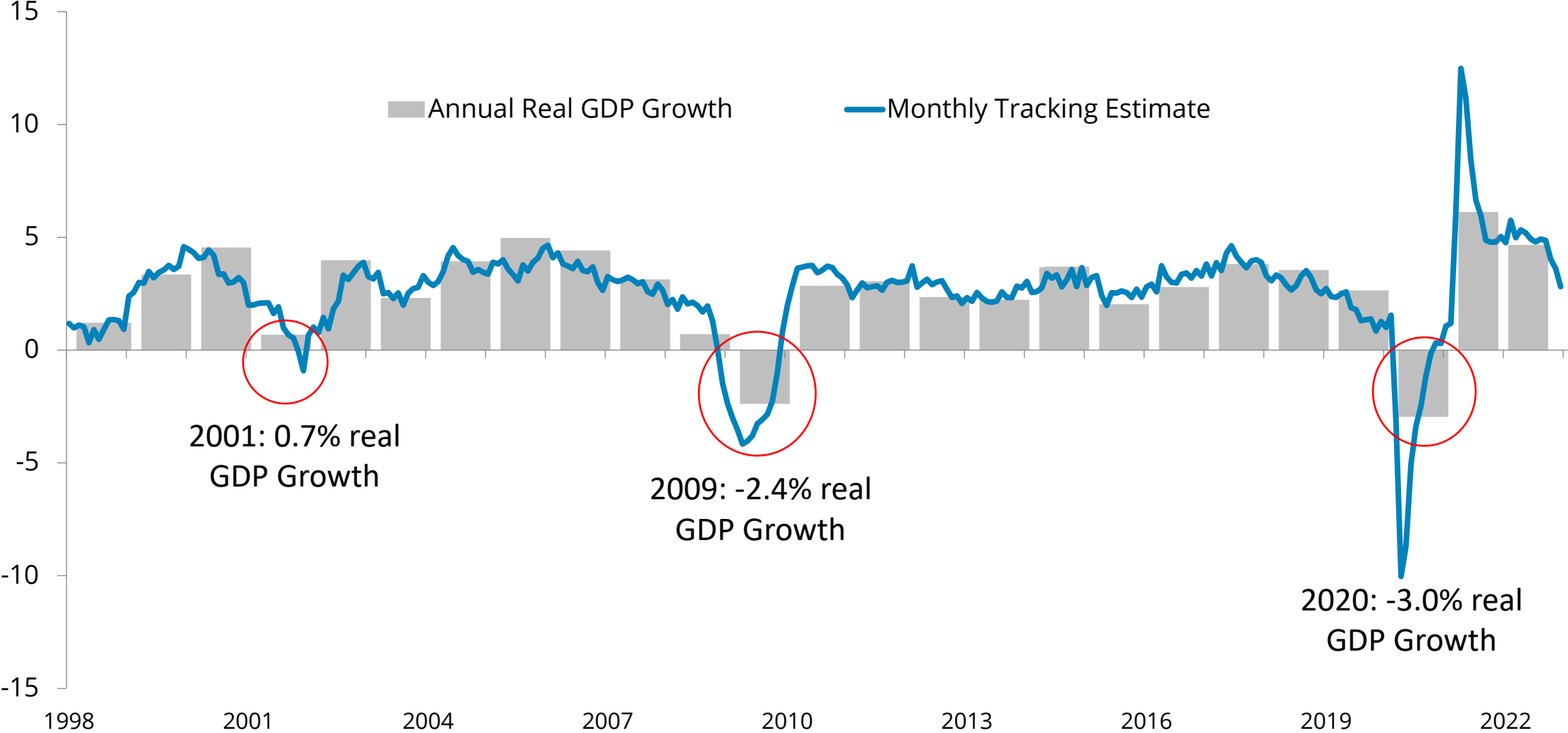
...As Does the Historical Record

Year over Year Inflation vs Recessions, Canada



Current State of the Economy in BC

% Annual Real GDP Growth



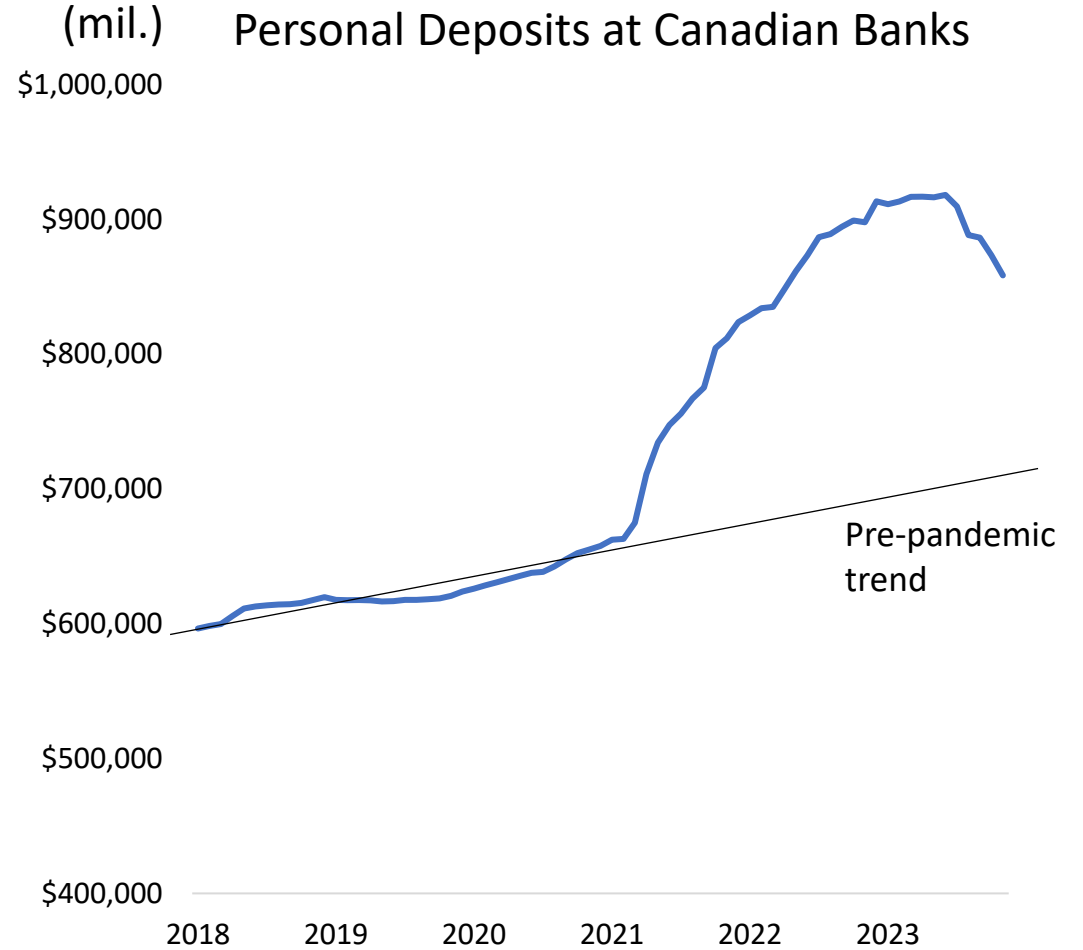
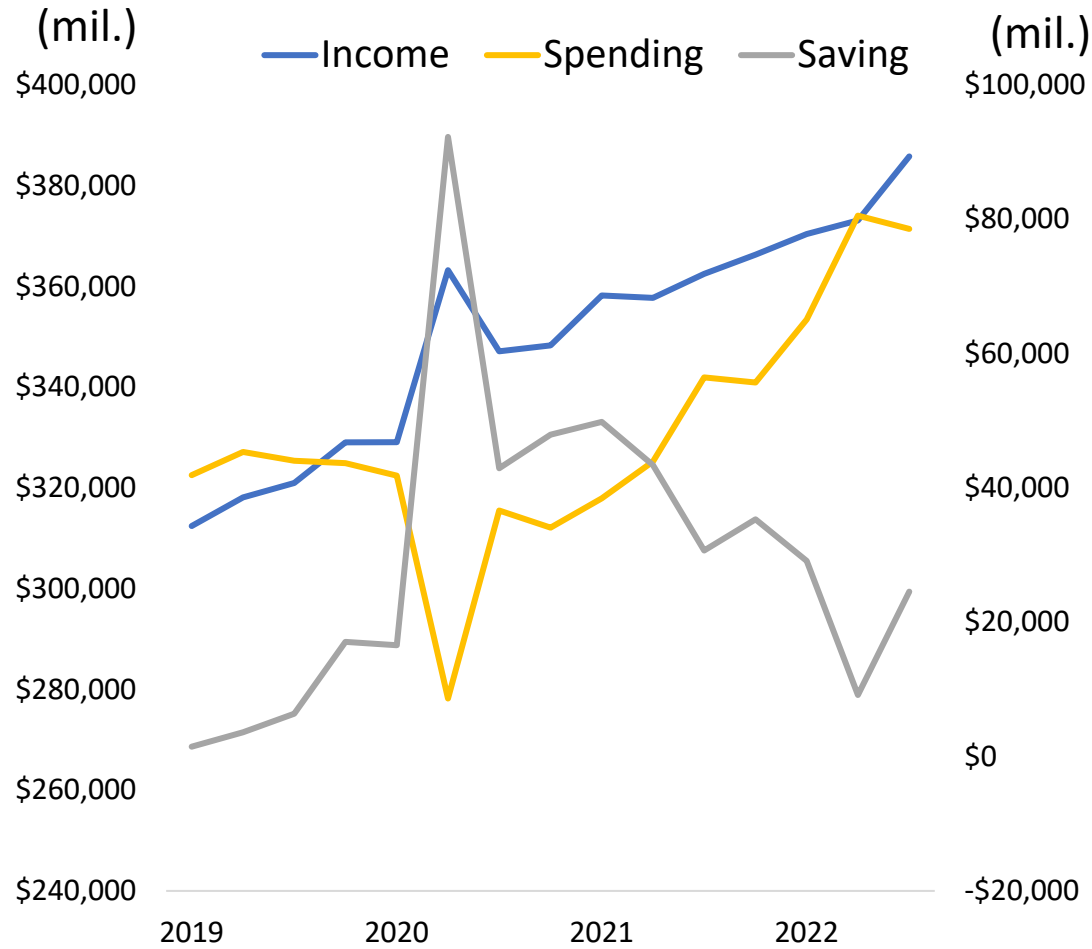
2001: 0.7% real GDP Growth

2009: -2.4% real GDP Growth

2020: -3.0% real GDP Growth

Source: BCREA Economics

Will Canadian Keep Spending?



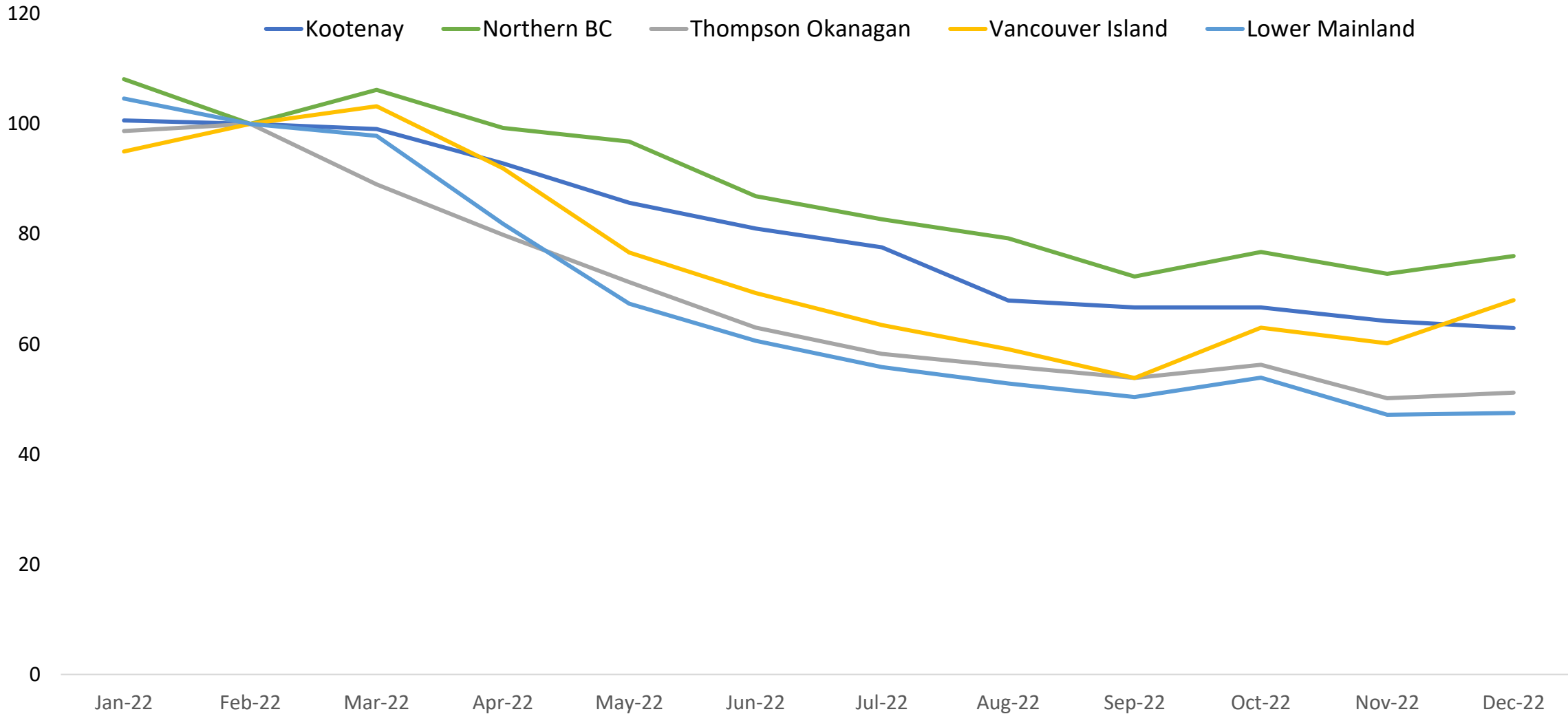
Housing Market

Interest Rates



High Mortgage Rates Slowing Sales Activity

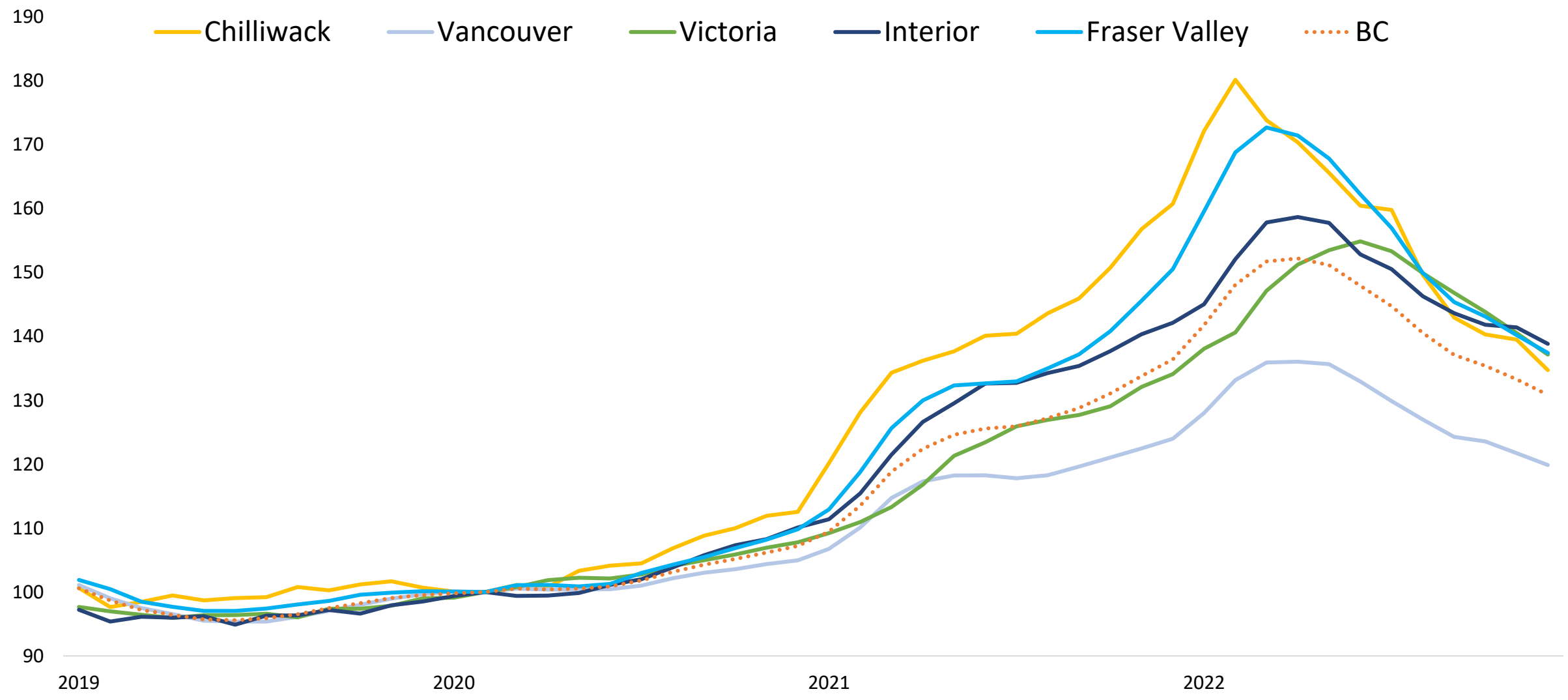
Index: Feb 2022 = 100



Source: BCREA Economics

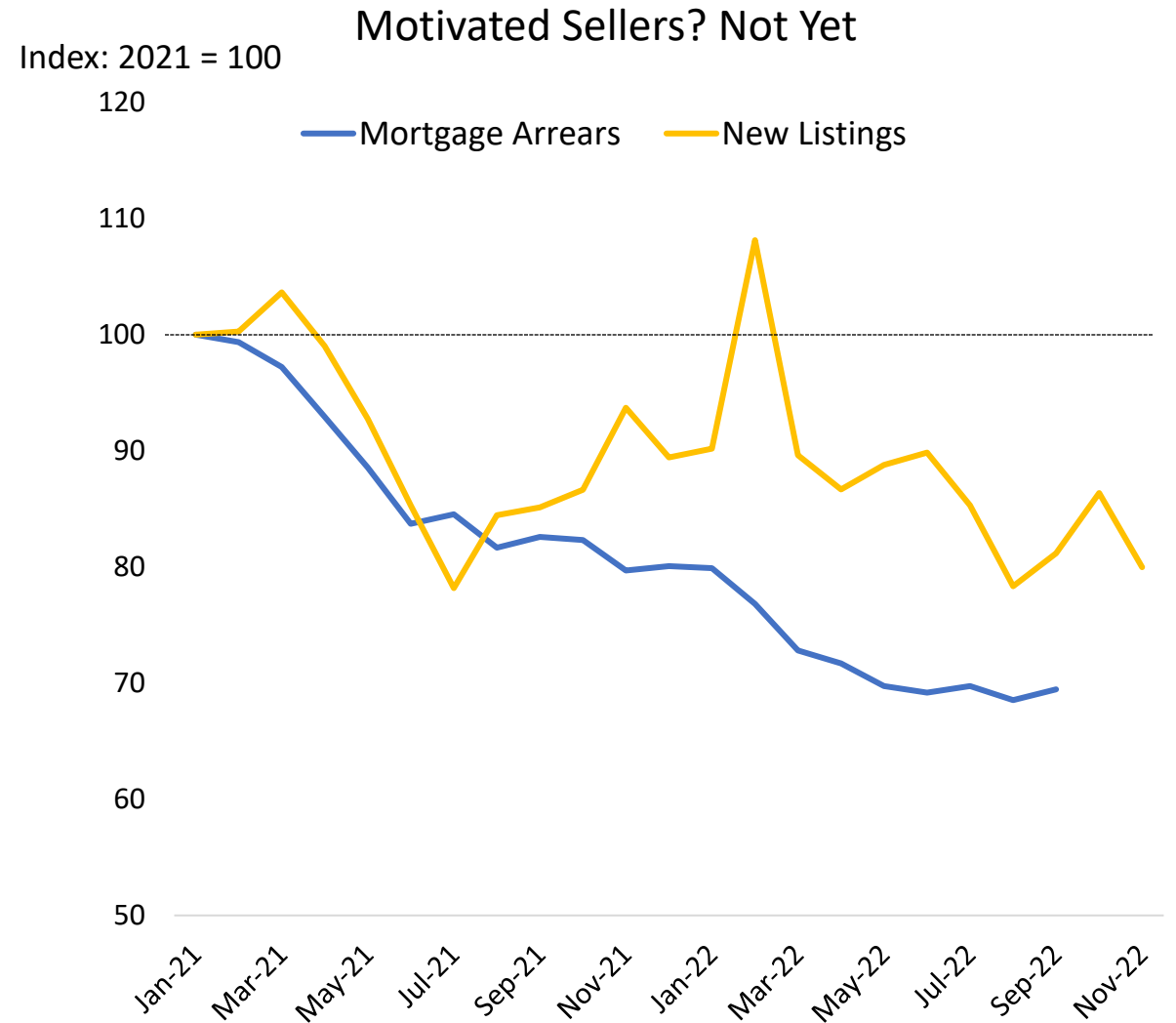
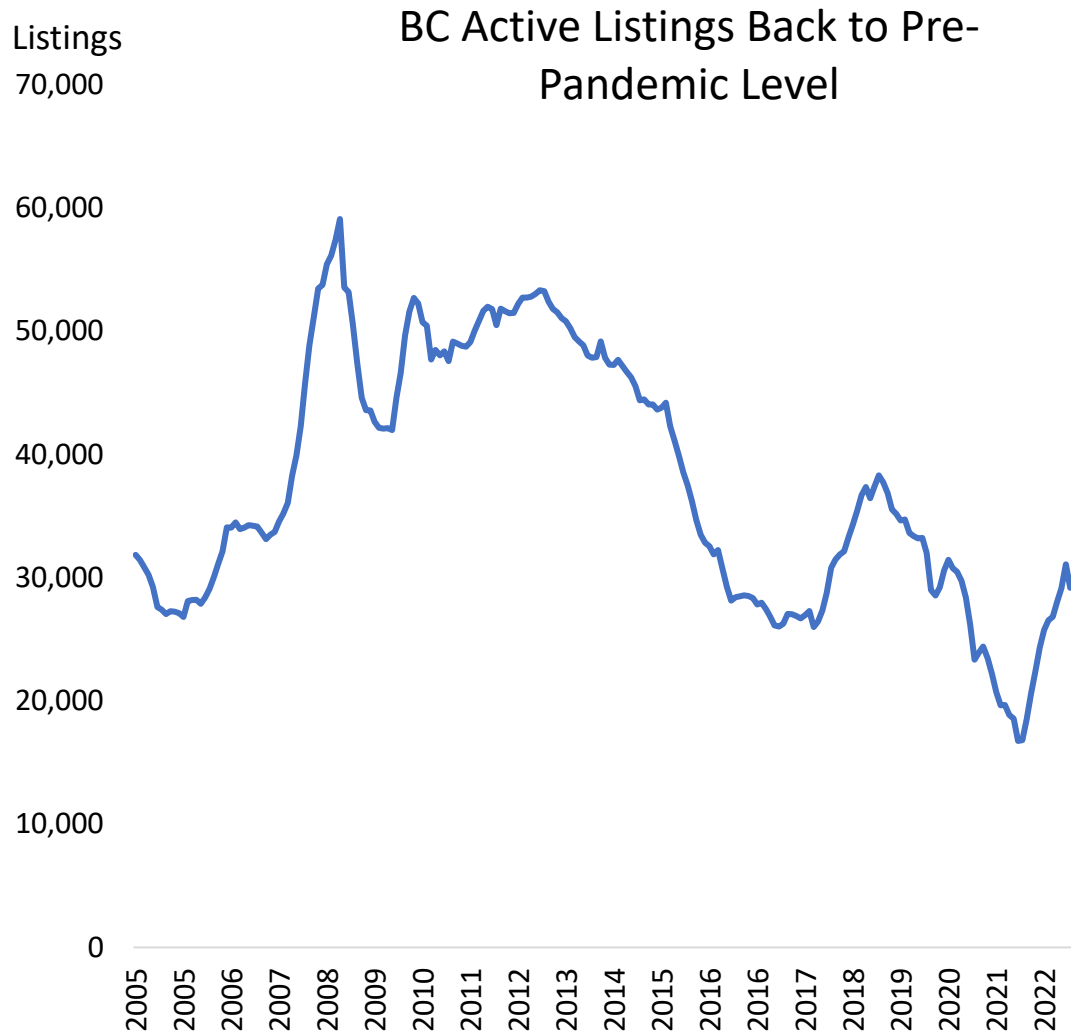
BC Home Prices Since the Pandemic

Feb 2020 = 100



Source: CREA HPI

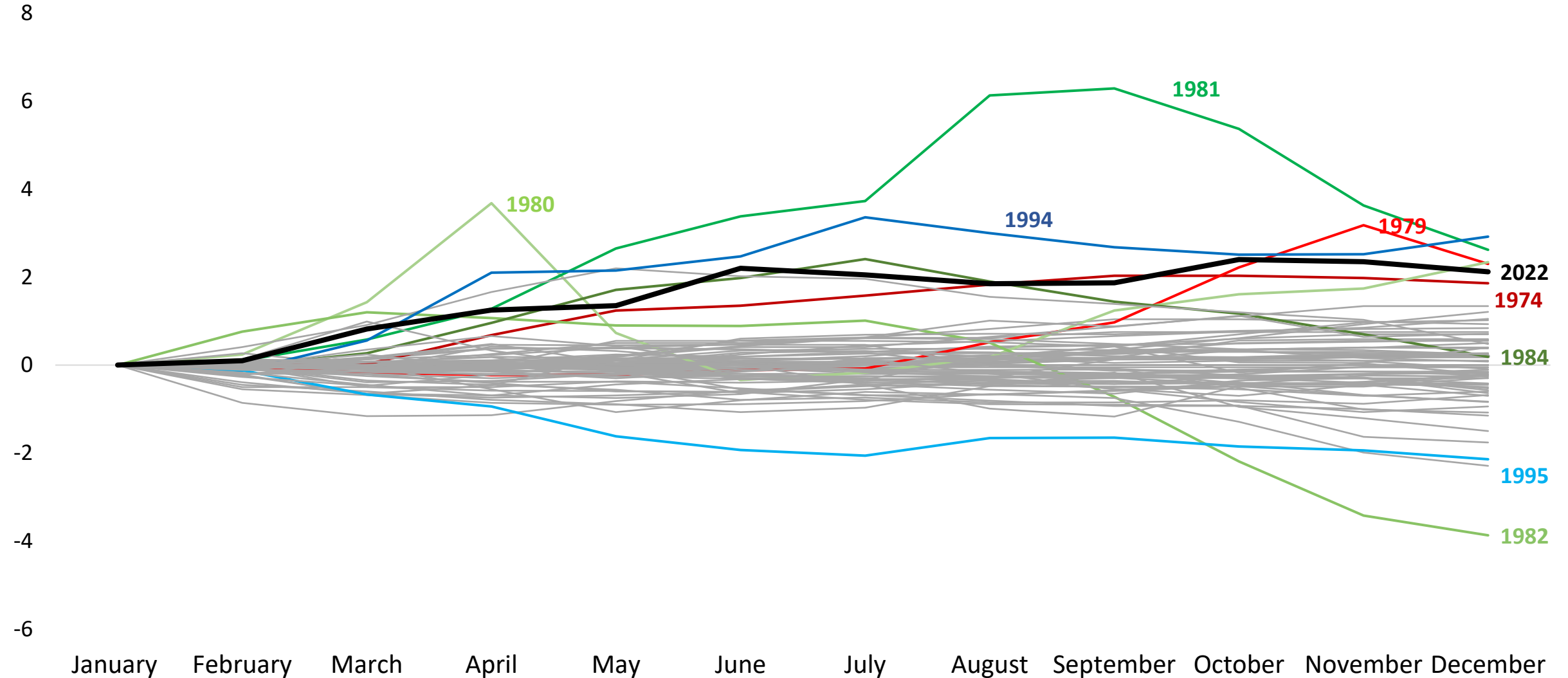
BC Resale Inventory



Fixed Mortgage Rates Over the Past 70 Years

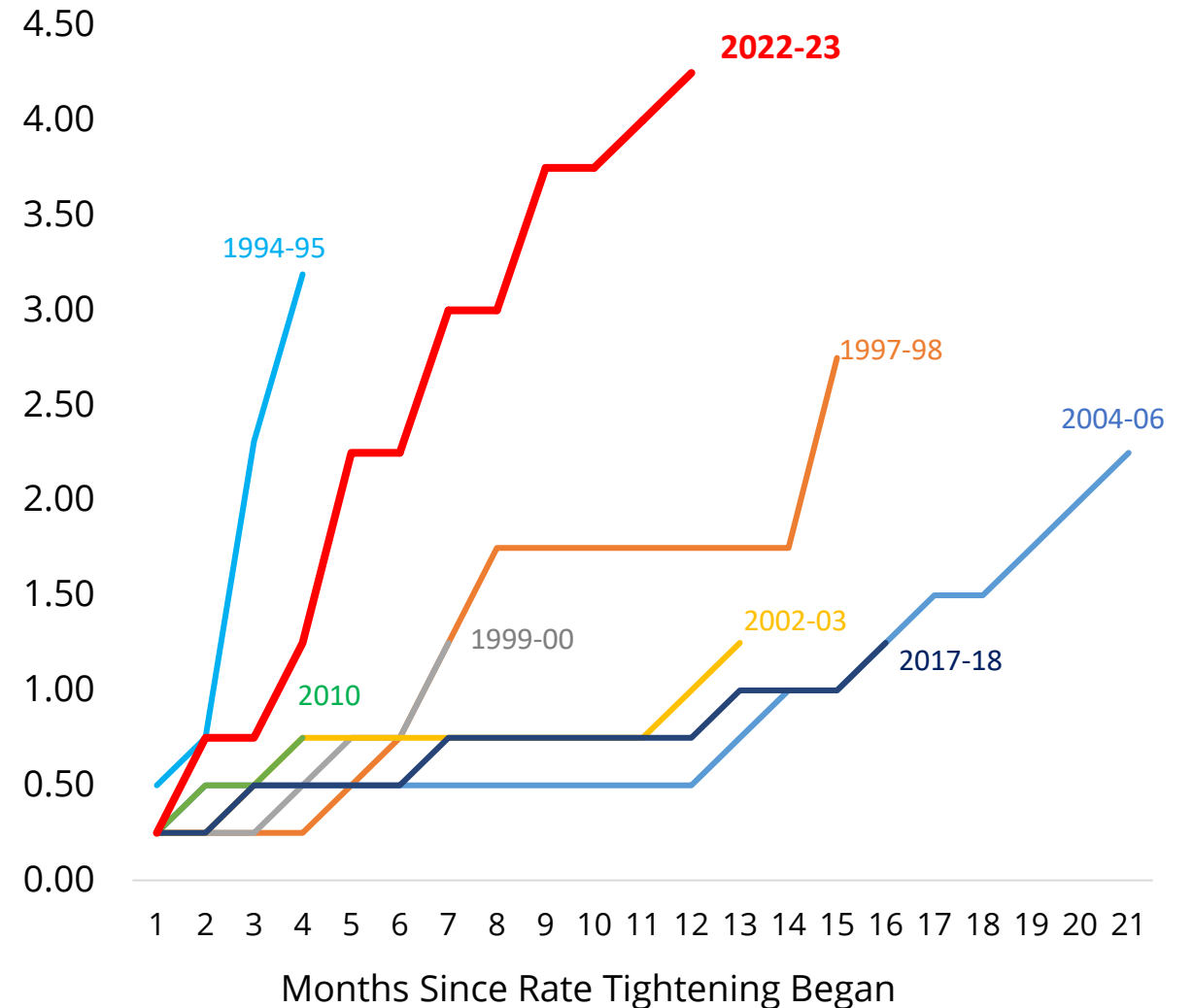
Select Years in Color, All other Years in Grey

Percentage Point Change Since Start of the Year

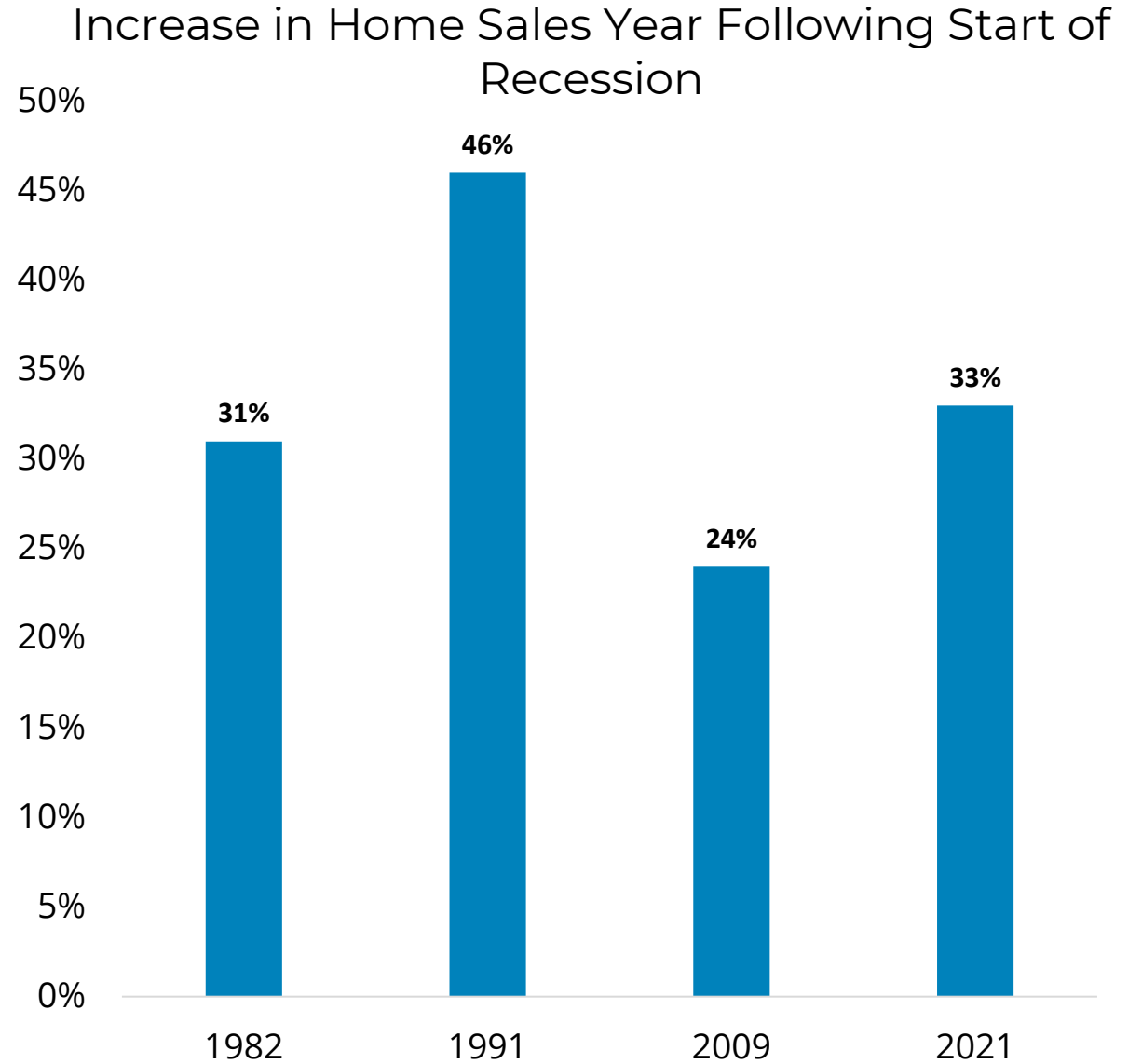
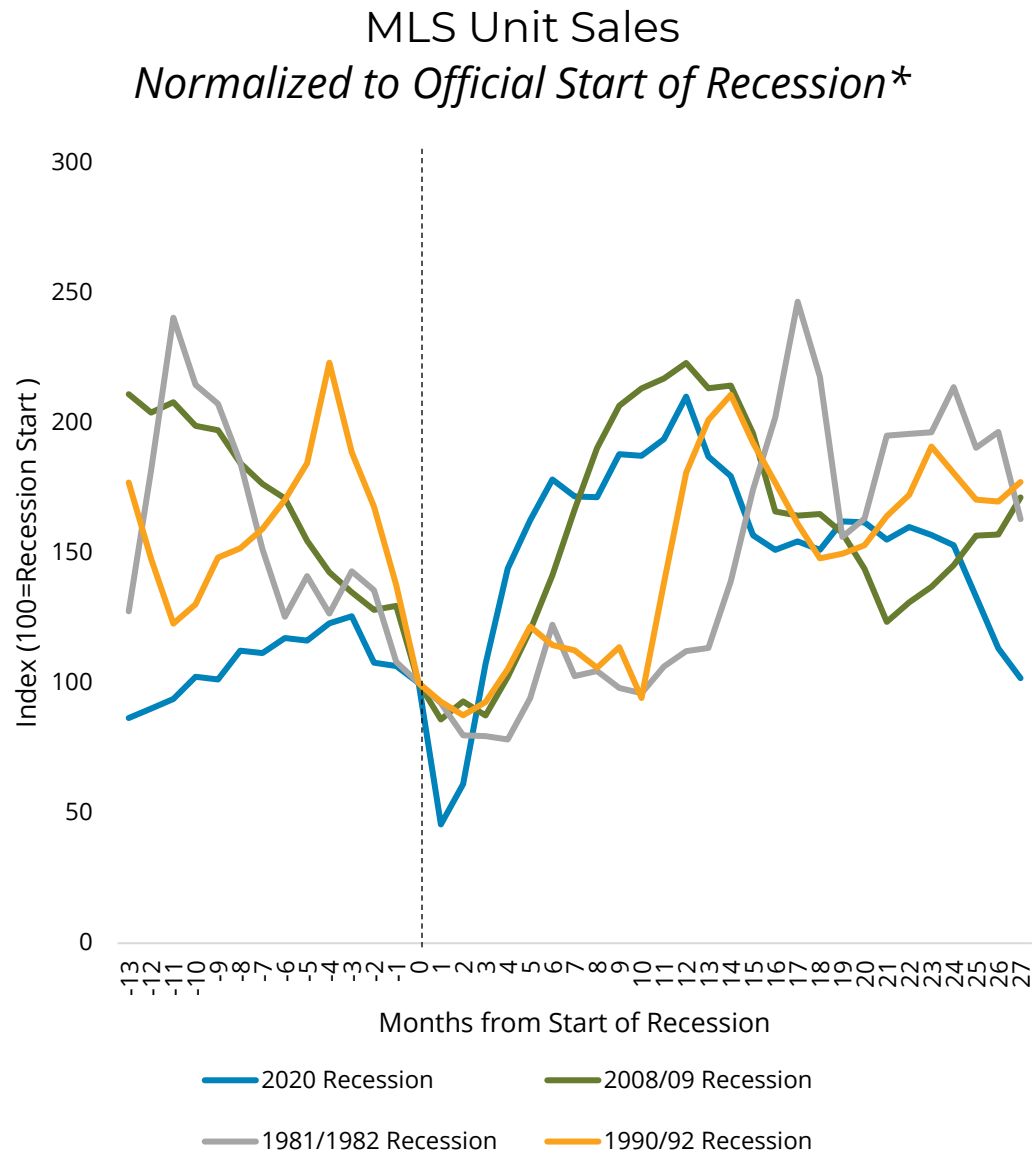


Fastest Rate Tightening Cycle in 30 Years

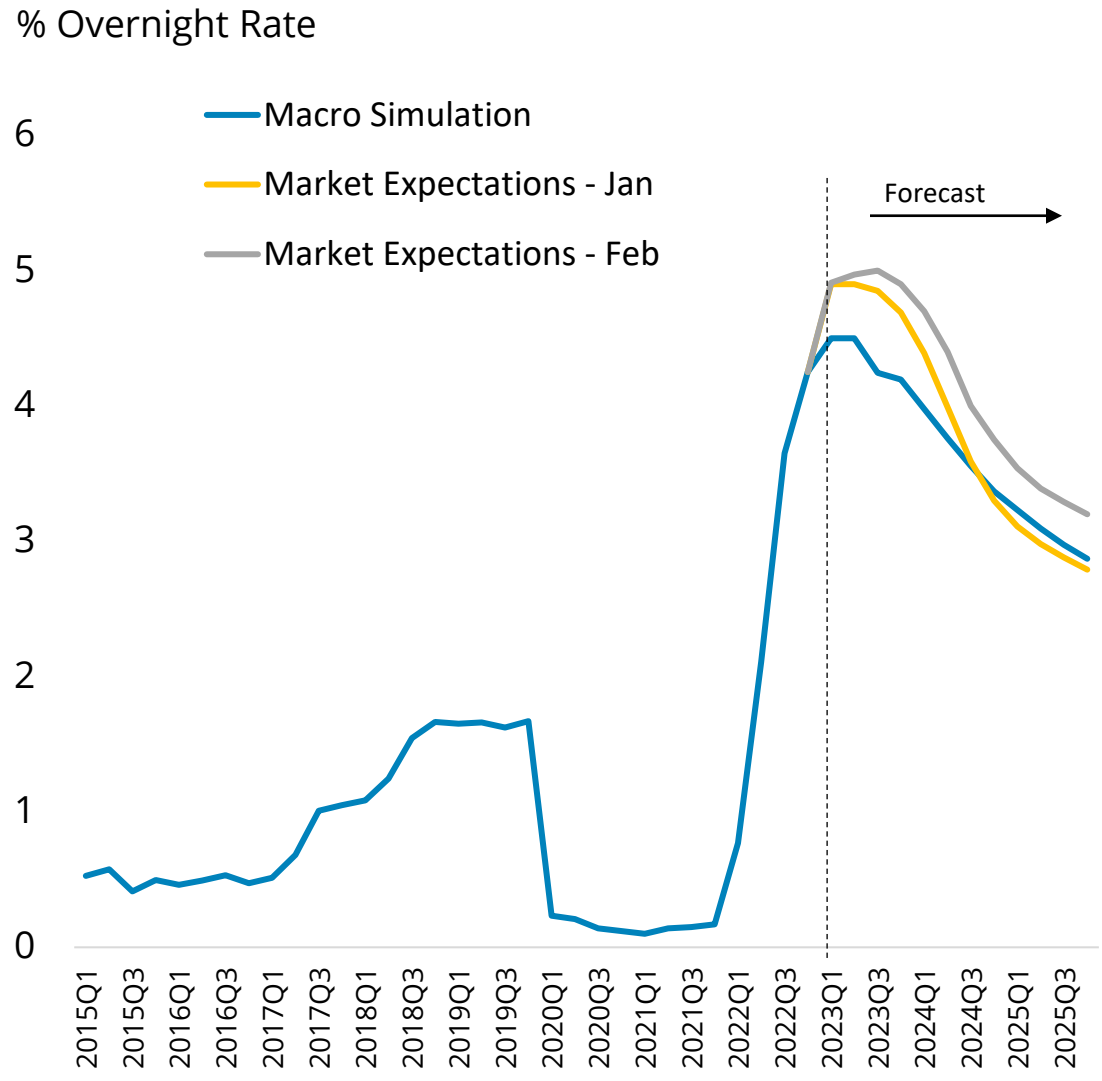
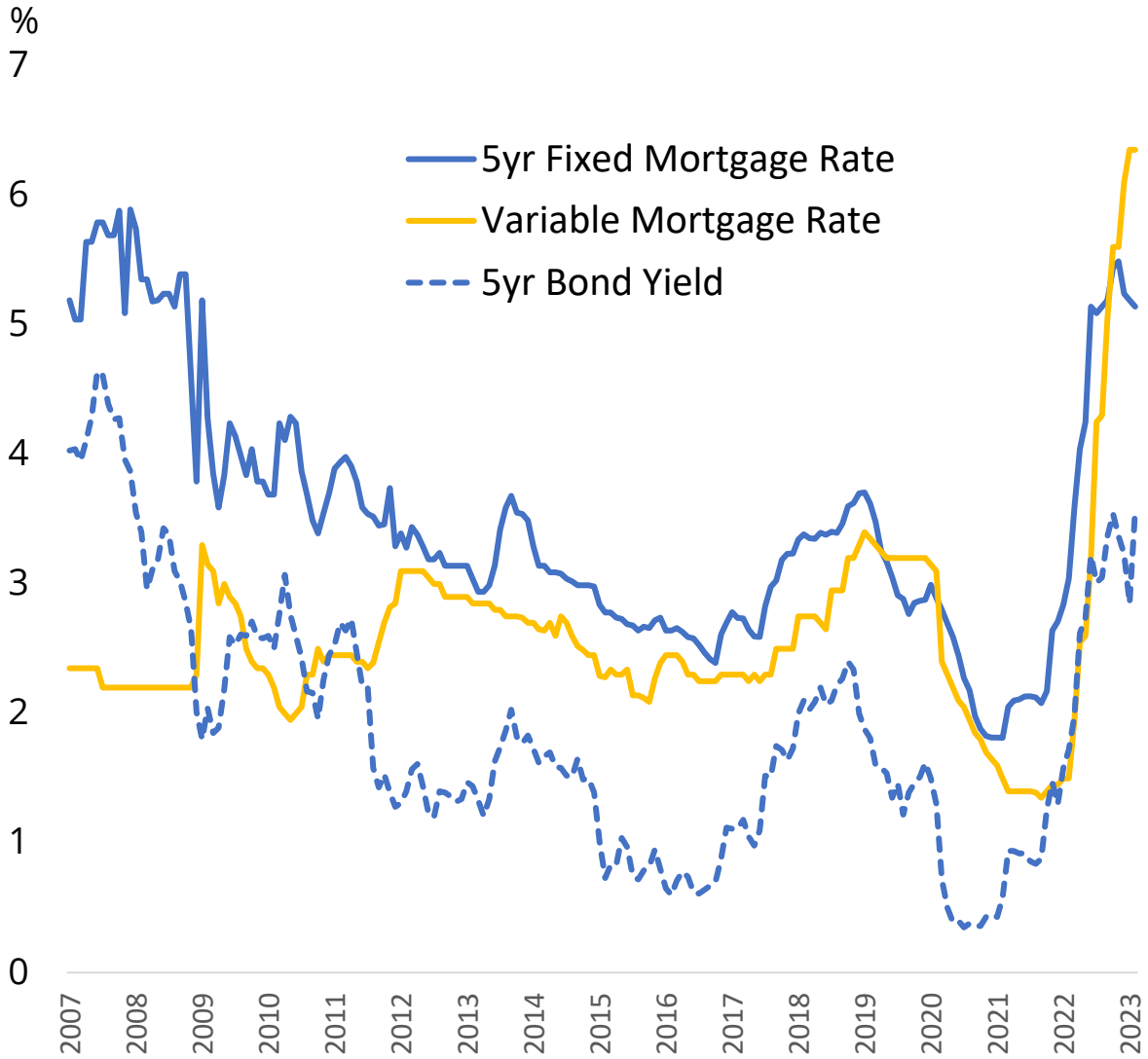
Change in Bank of Canada Overnight Rate (Percentage Points)



Home Sales and Recessions



Recovery Requires Falling Rates



Source: Bank of Canada, Chatham Financial

Macro view of inflation

How do (most) economists think about modelling inflation?

$$\pi_t = \beta E_t \pi_{t+1} + \theta (y_t - y^*) + \varepsilon_t$$

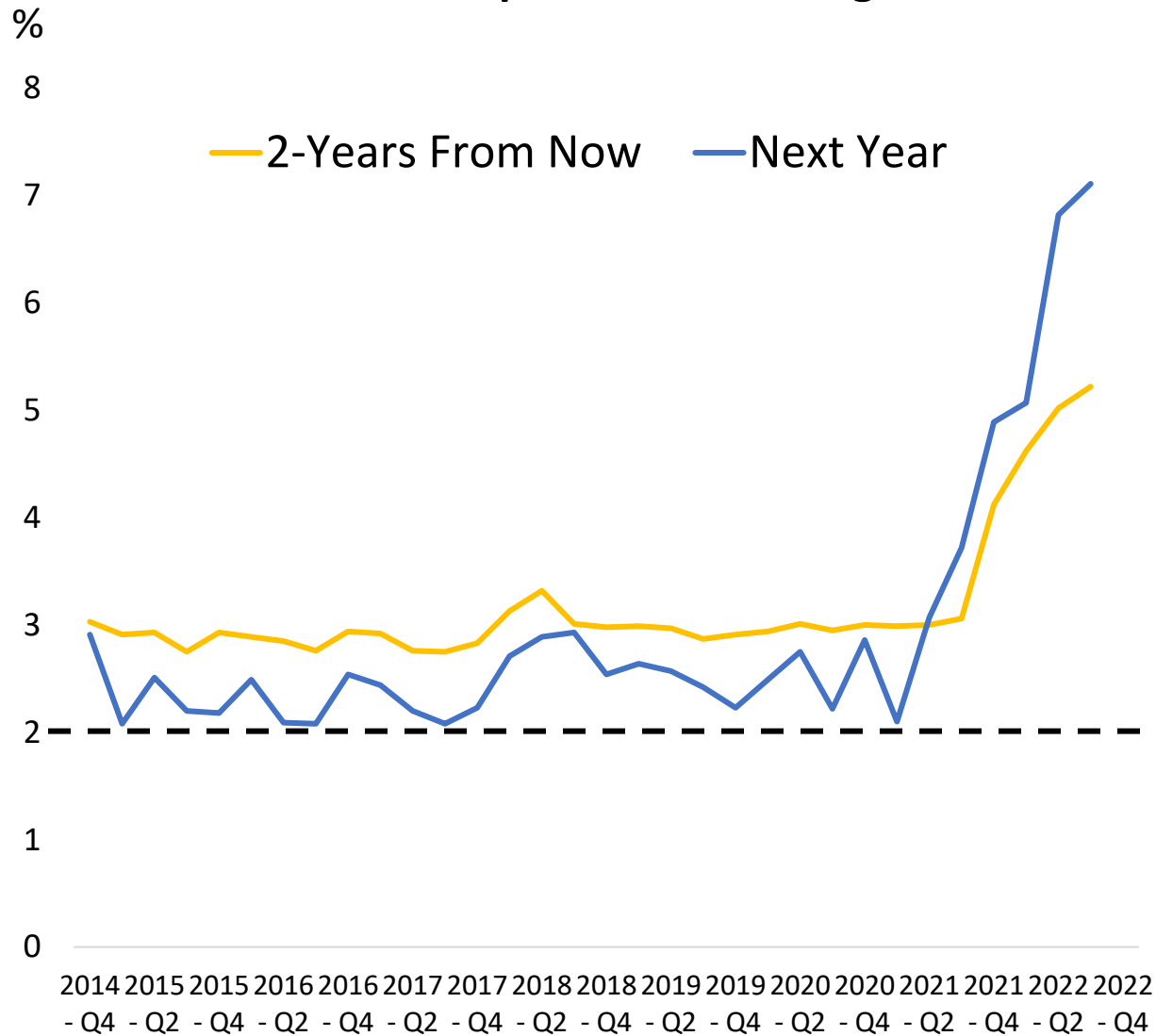
π_t Inflation Today $\beta E_t \pi_{t+1}$ Expected Inflation $\theta (y_t - y^*)$ Output Gap ε_t Shocks

- Expected inflation
- Business Cycle pressures
- Cost-push shocks

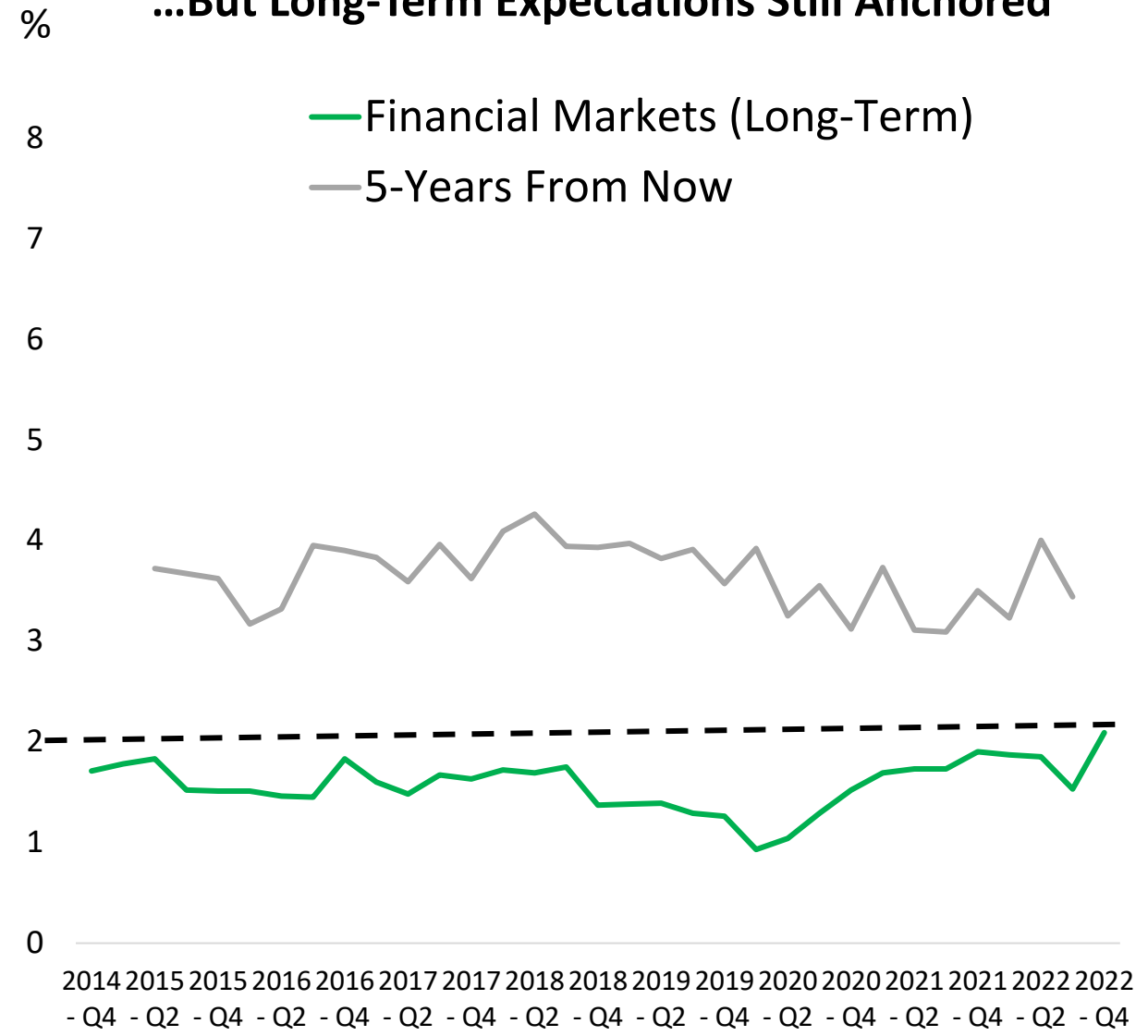


Inflation Expectations

Short-Term Expectations are High...



...But Long-Term Expectations Still Anchored

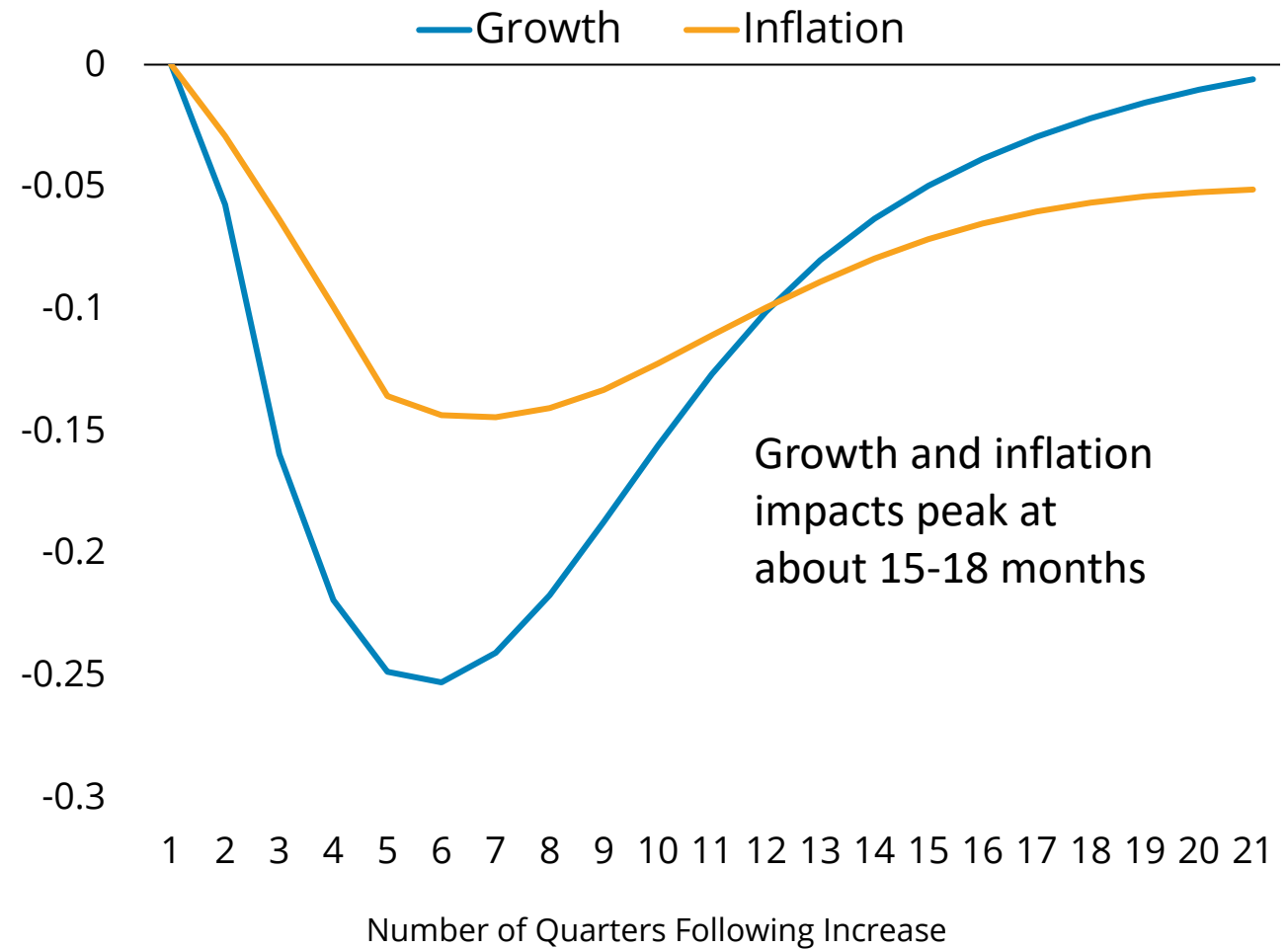


Source: Bank of Canada

Monetary Policy Works with a Long Lag

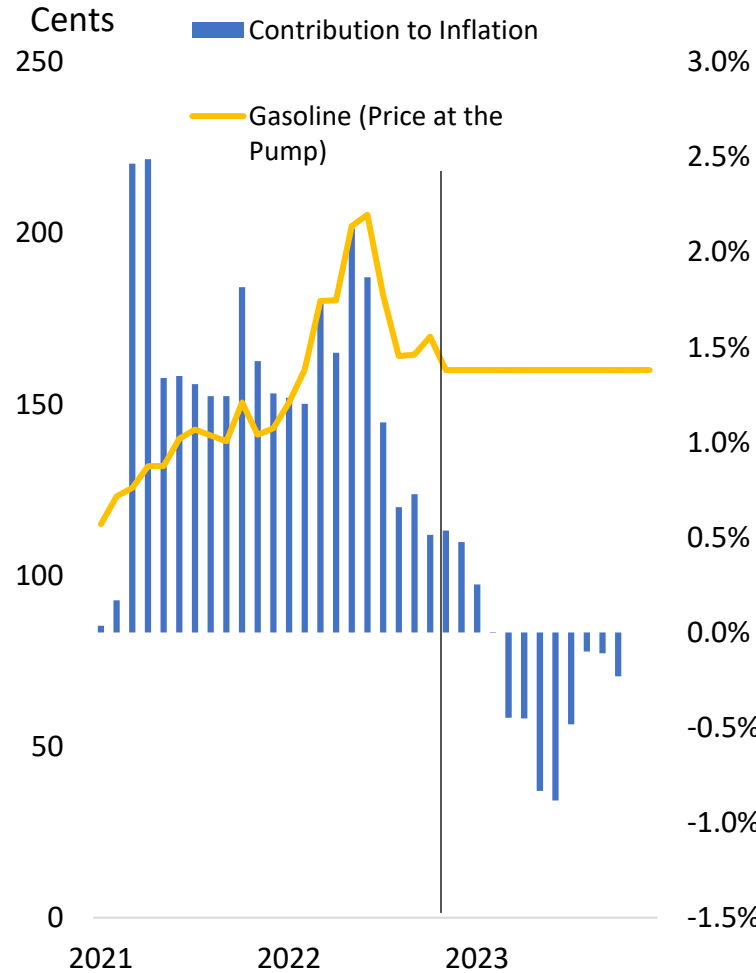


Estimated Response of GDP to 100 Basis Point Increase in Overnight Rate Across Different Macroeconomic Models (basis points growth)

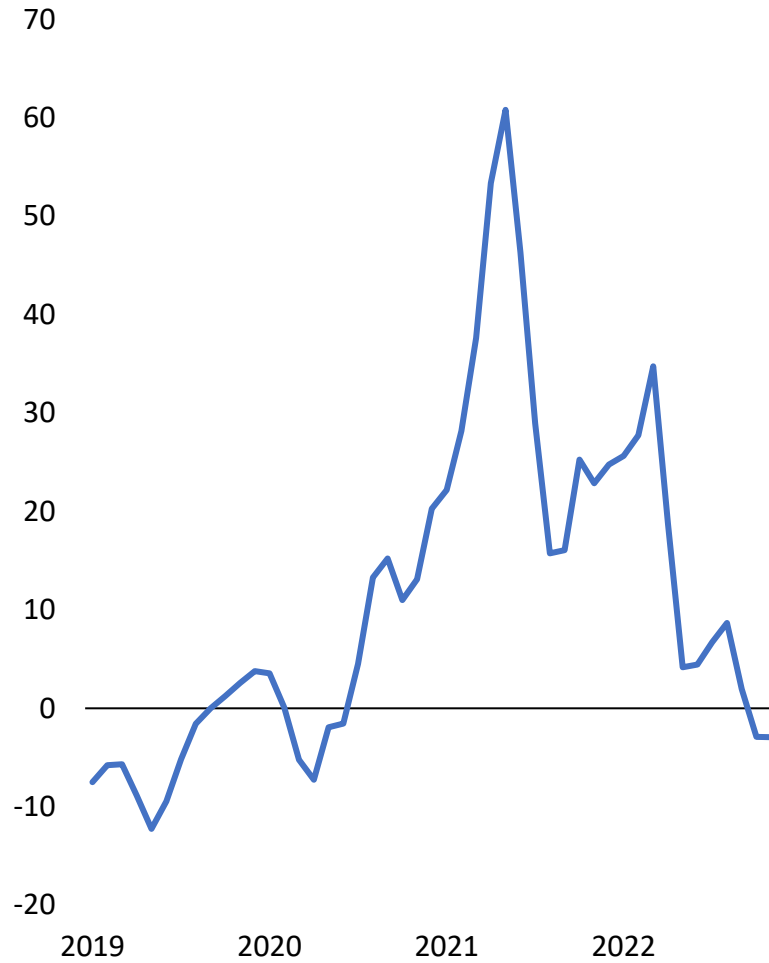


Transitory Shocks

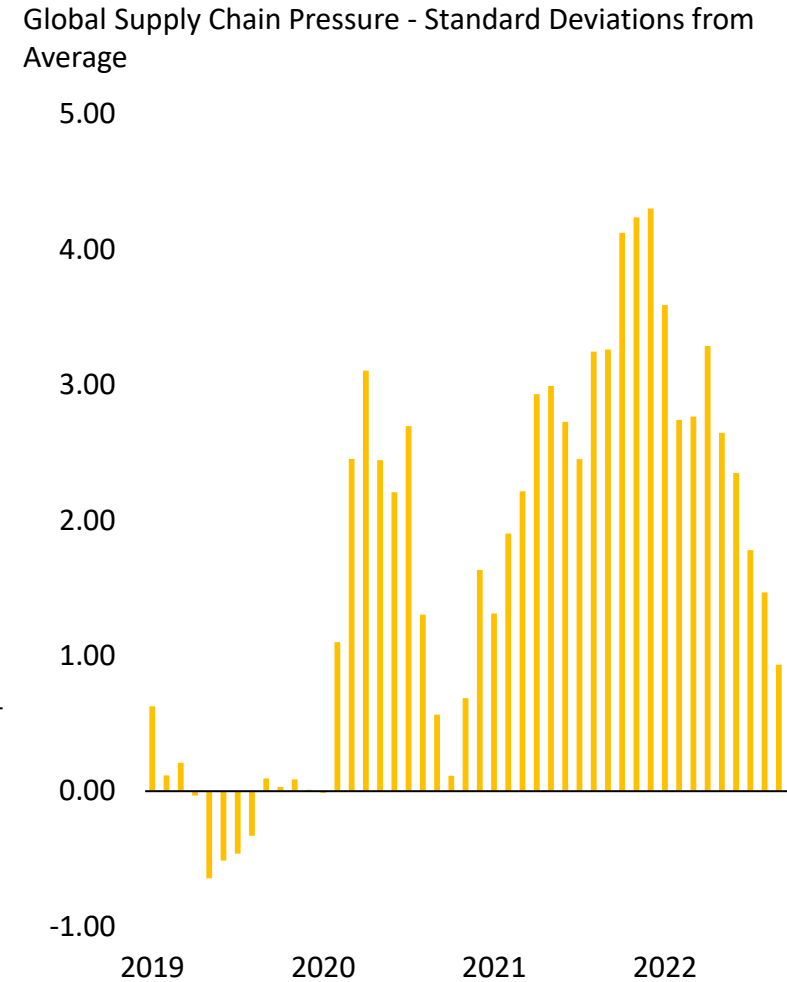
Gas Prices A Drag on Inflation in 2023



% Non-Energy Commodity Prices

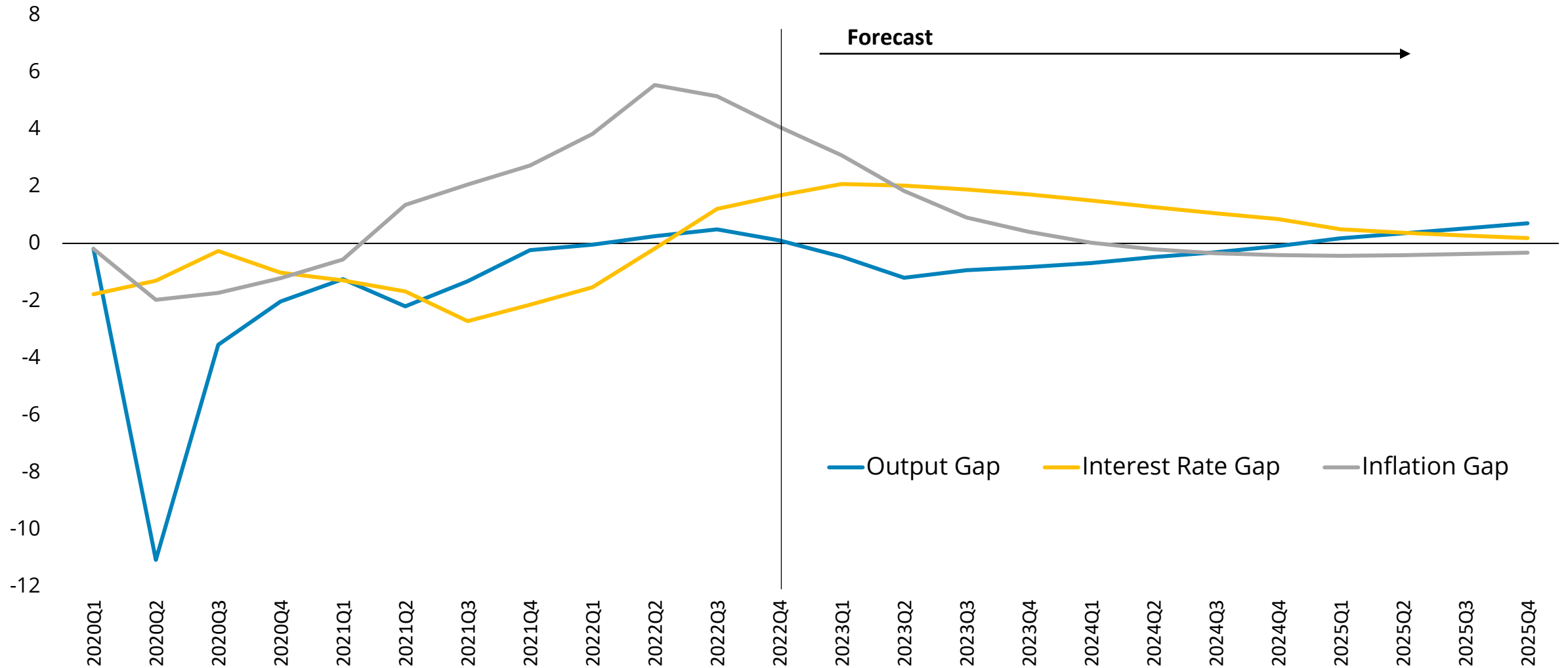


Supply Chains Normalizing

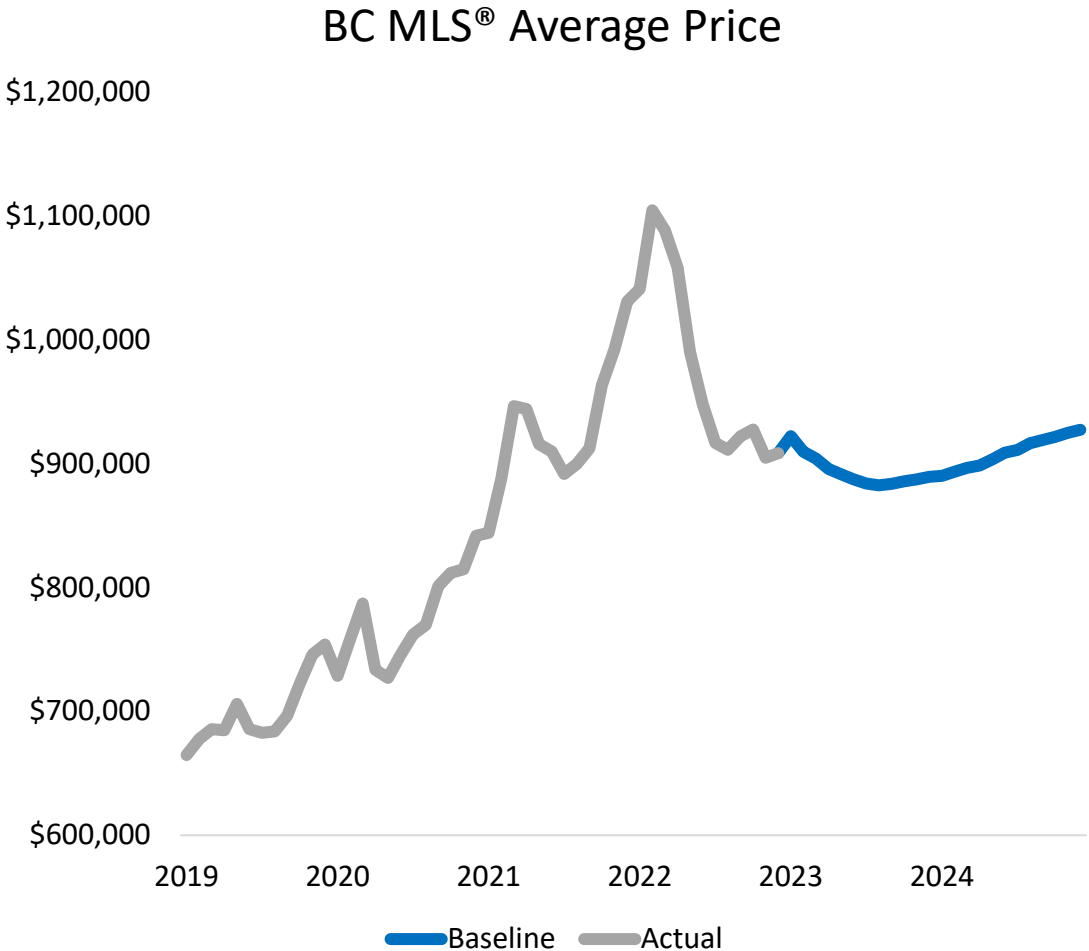
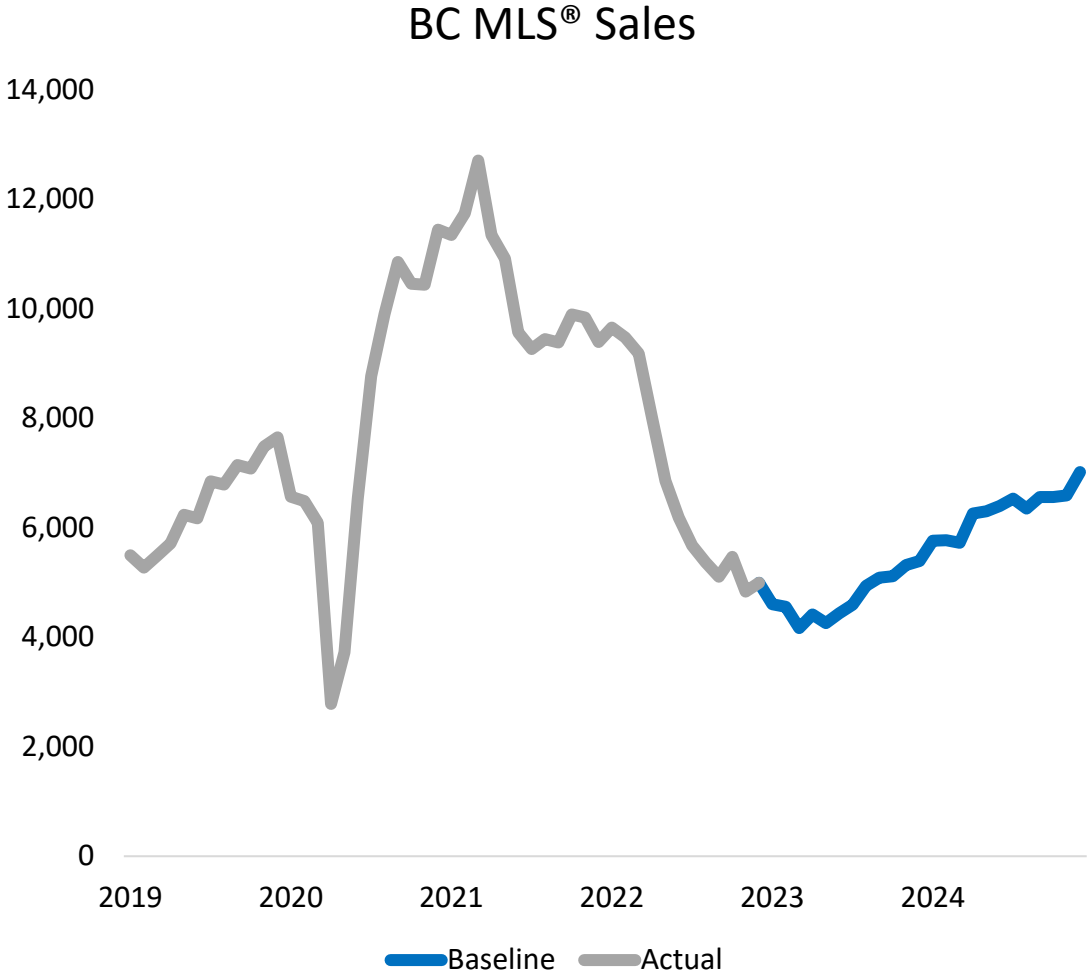


Baseline Scenario: Inflation has Peaked, Bank Will Lower Rates Back to Neutral by end of 2024

Percentage points away from target

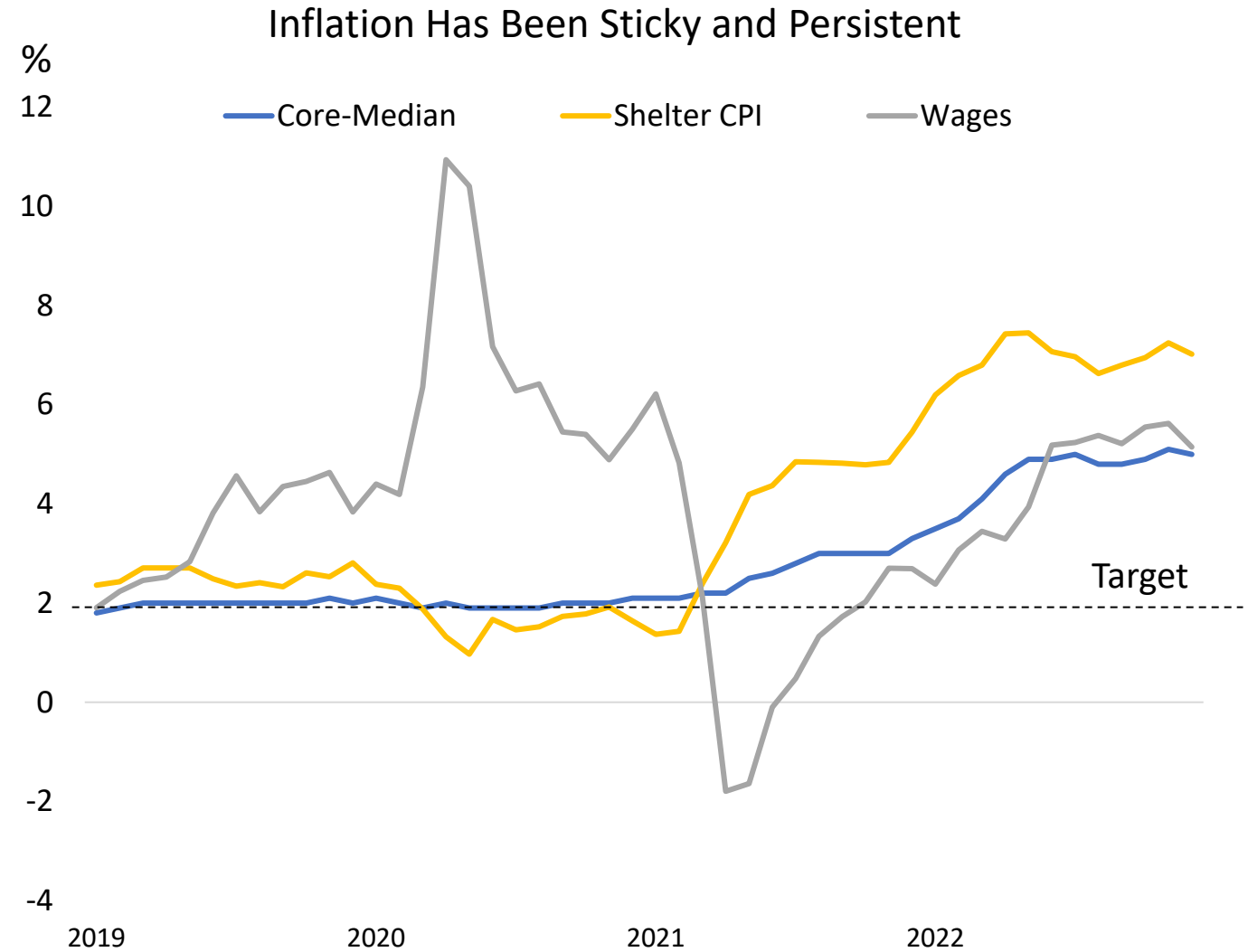


Housing Market Scenarios, 2023-2024



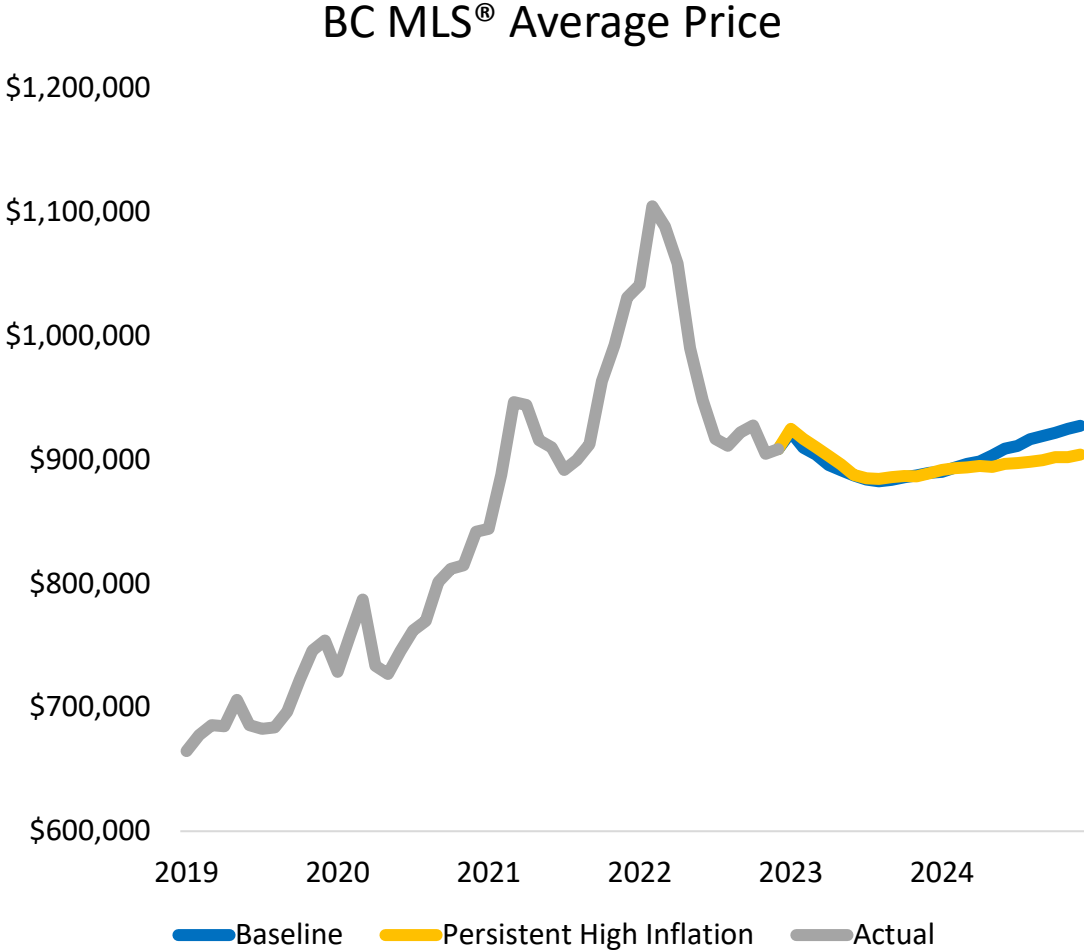
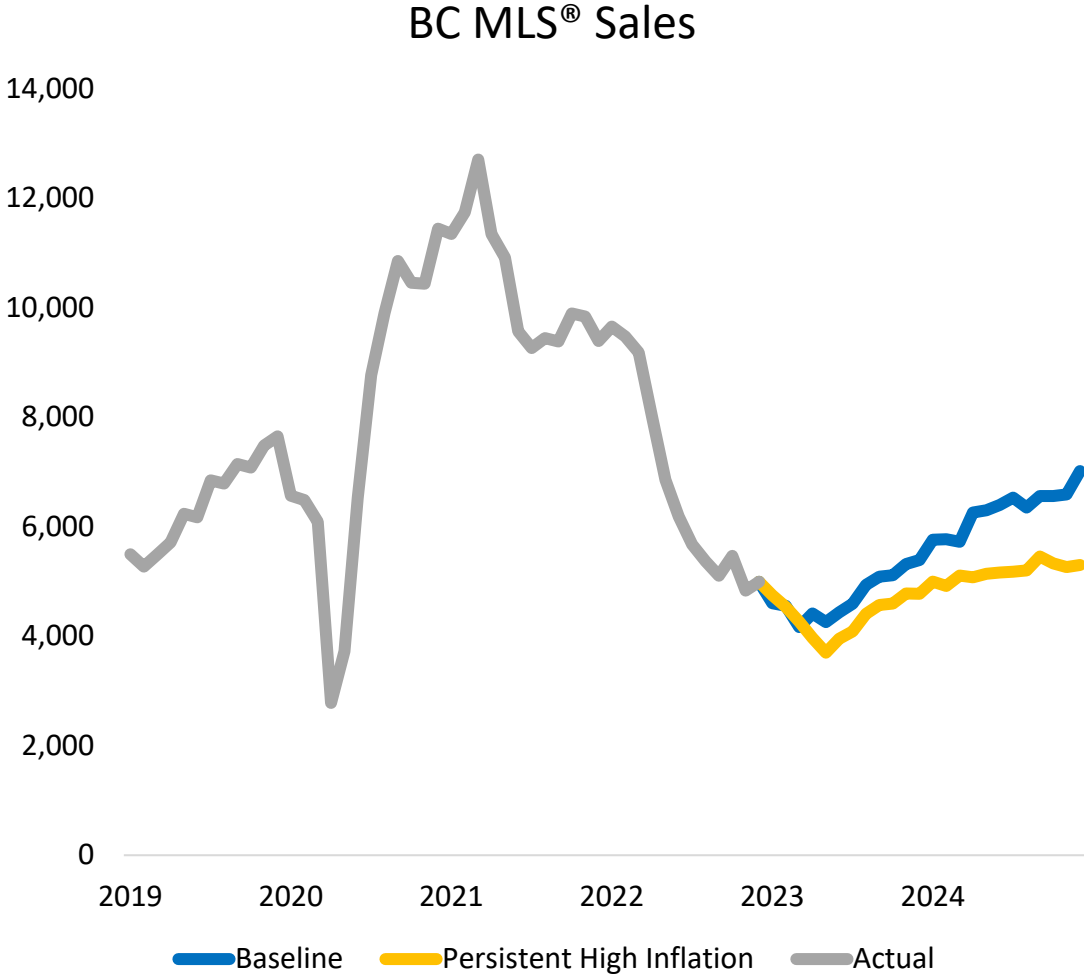
Source: BCREA Economics

Pessimistic Scenario: Inflation Persists Even as the Economy Stalls



Source: Statistics Canada

Housing Market Scenarios, 2023-2024

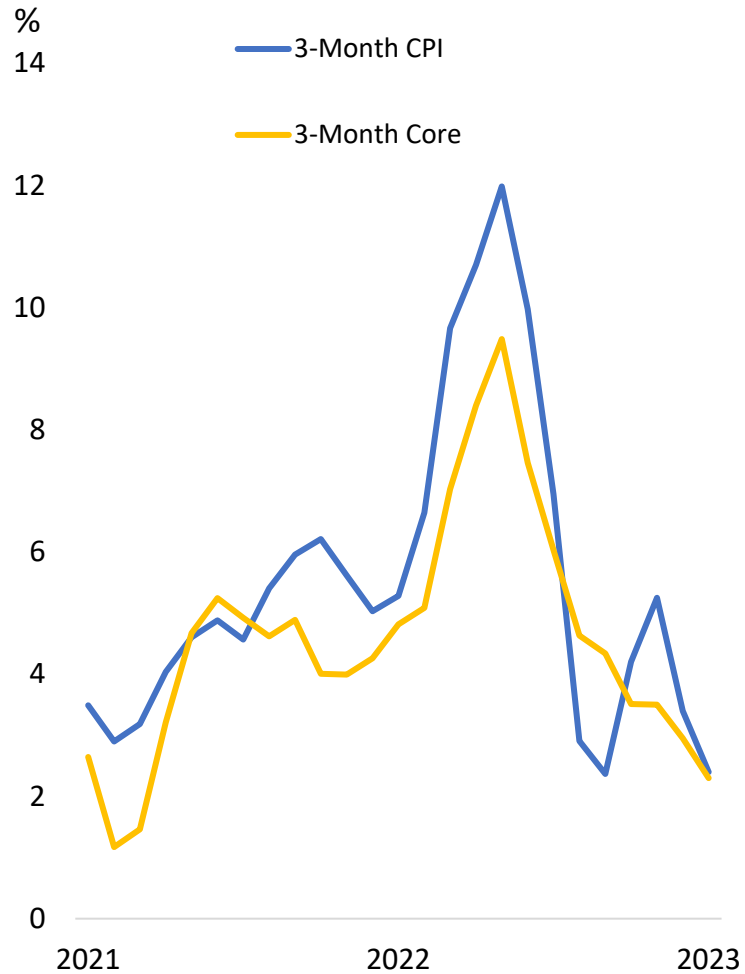


Source: BCREA Economics



Where is the Recession?

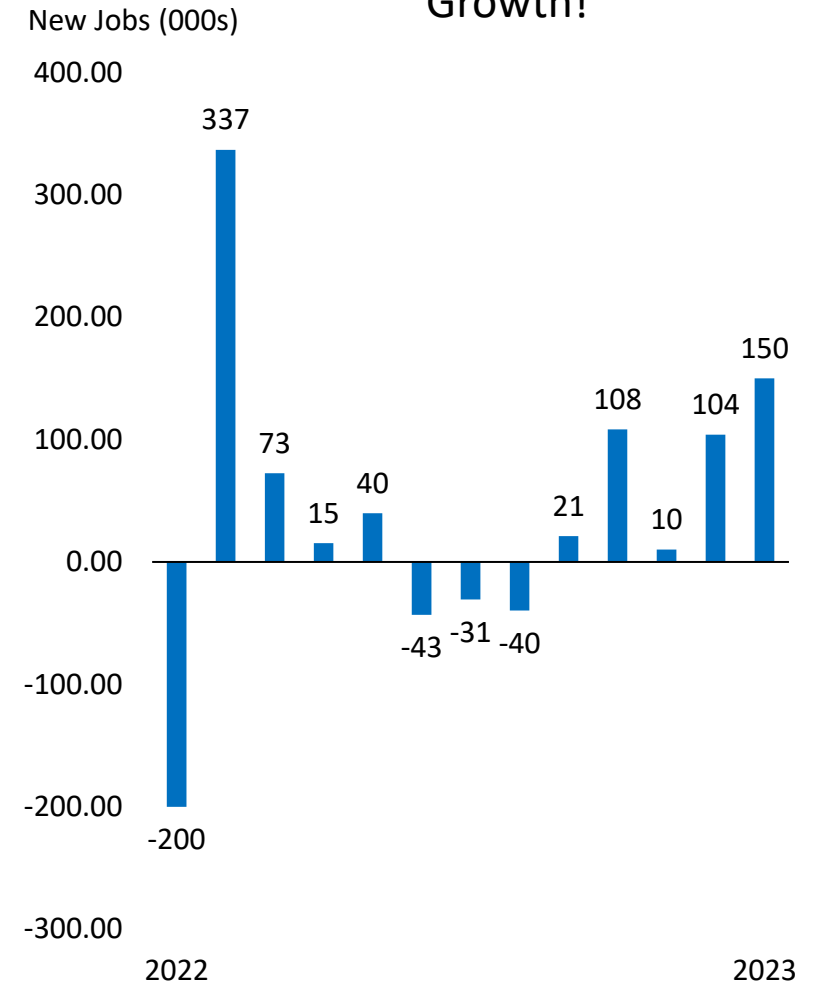
Inflation is Trending Lower!



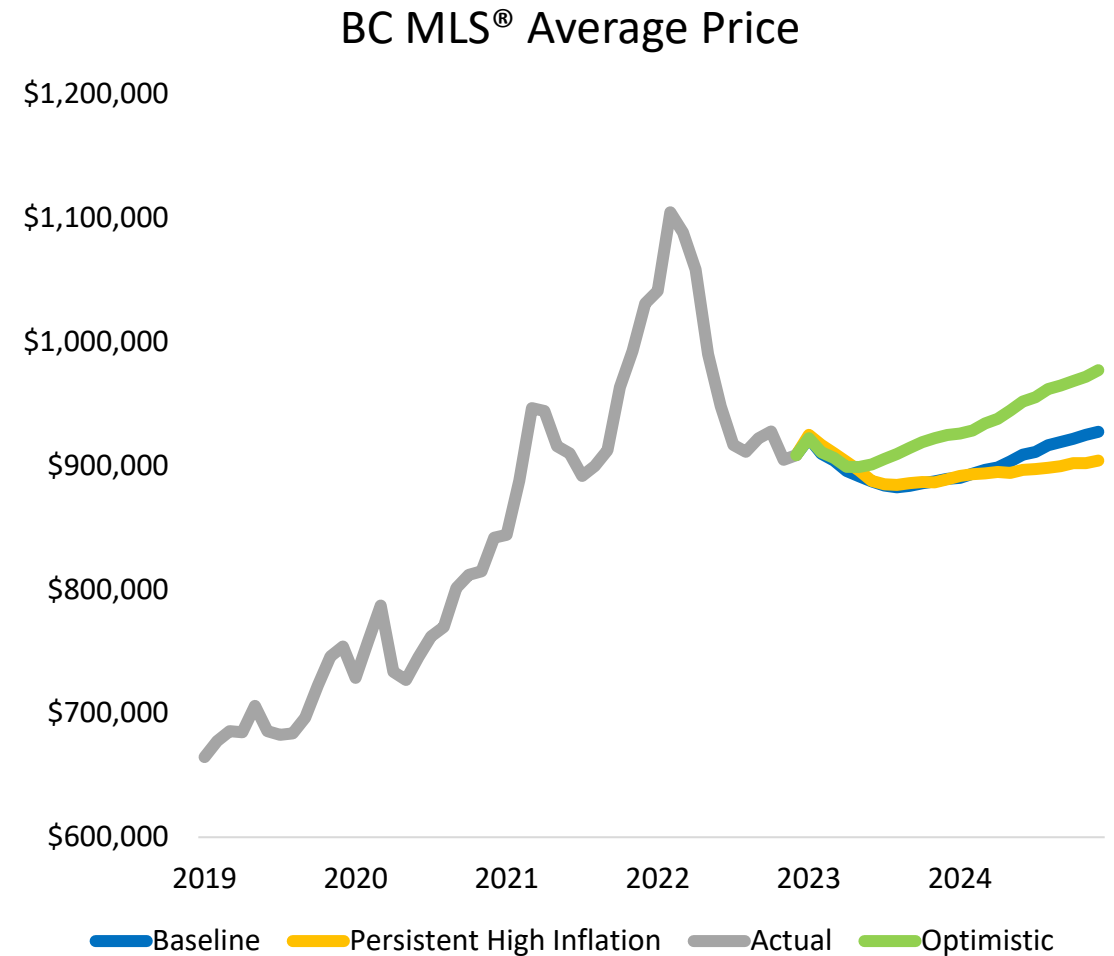
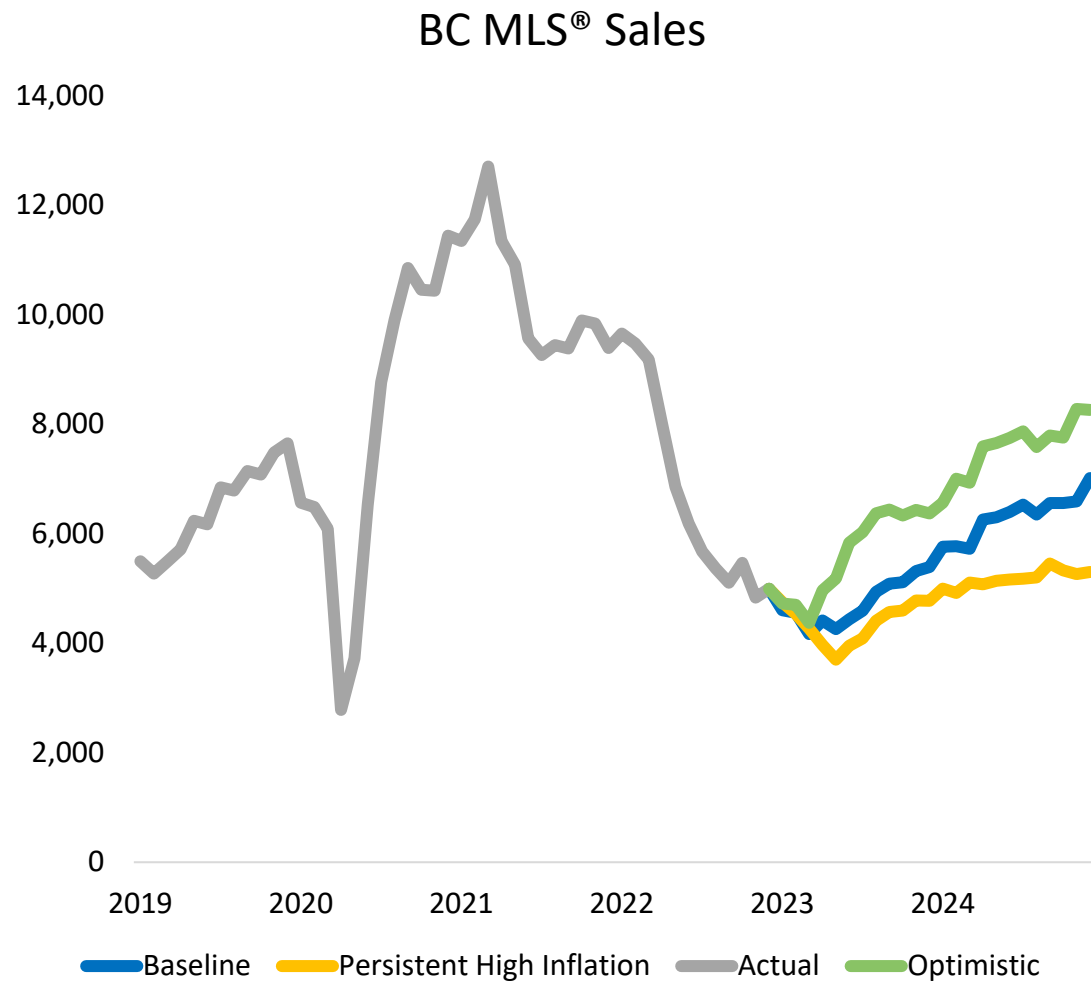
Unemployment is Near Record Lows!



Very Strong Canadian Job Growth!



Optimistic Scenario- No Recession and Inflation Falls Back to Normal



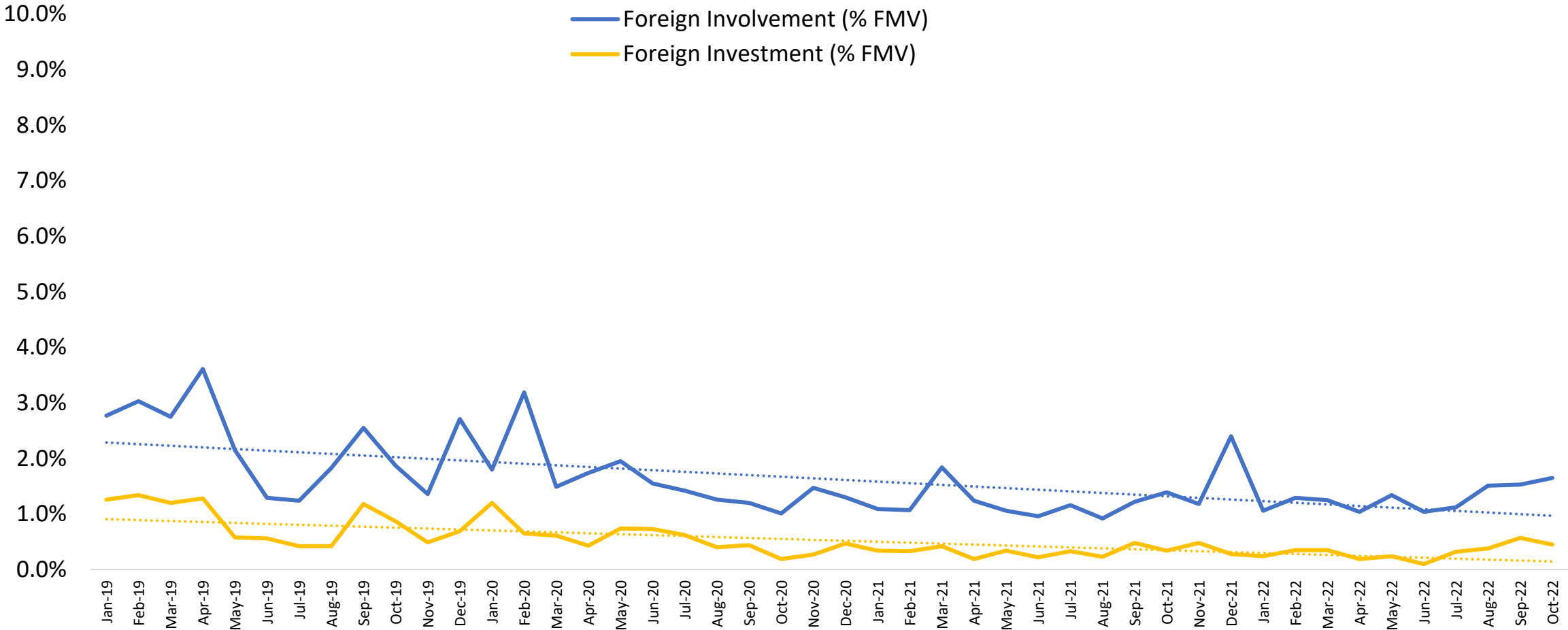
New Housing Policy in 2023

- Foreign Buyer Ban
- Increased Federal Immigration Target
- Cooling off period
- Underused Housing Tax
- Flipping Tax? – Proposed Provincial Tax on <2yr holds, Federal Change in tax treatment on 1-year holds



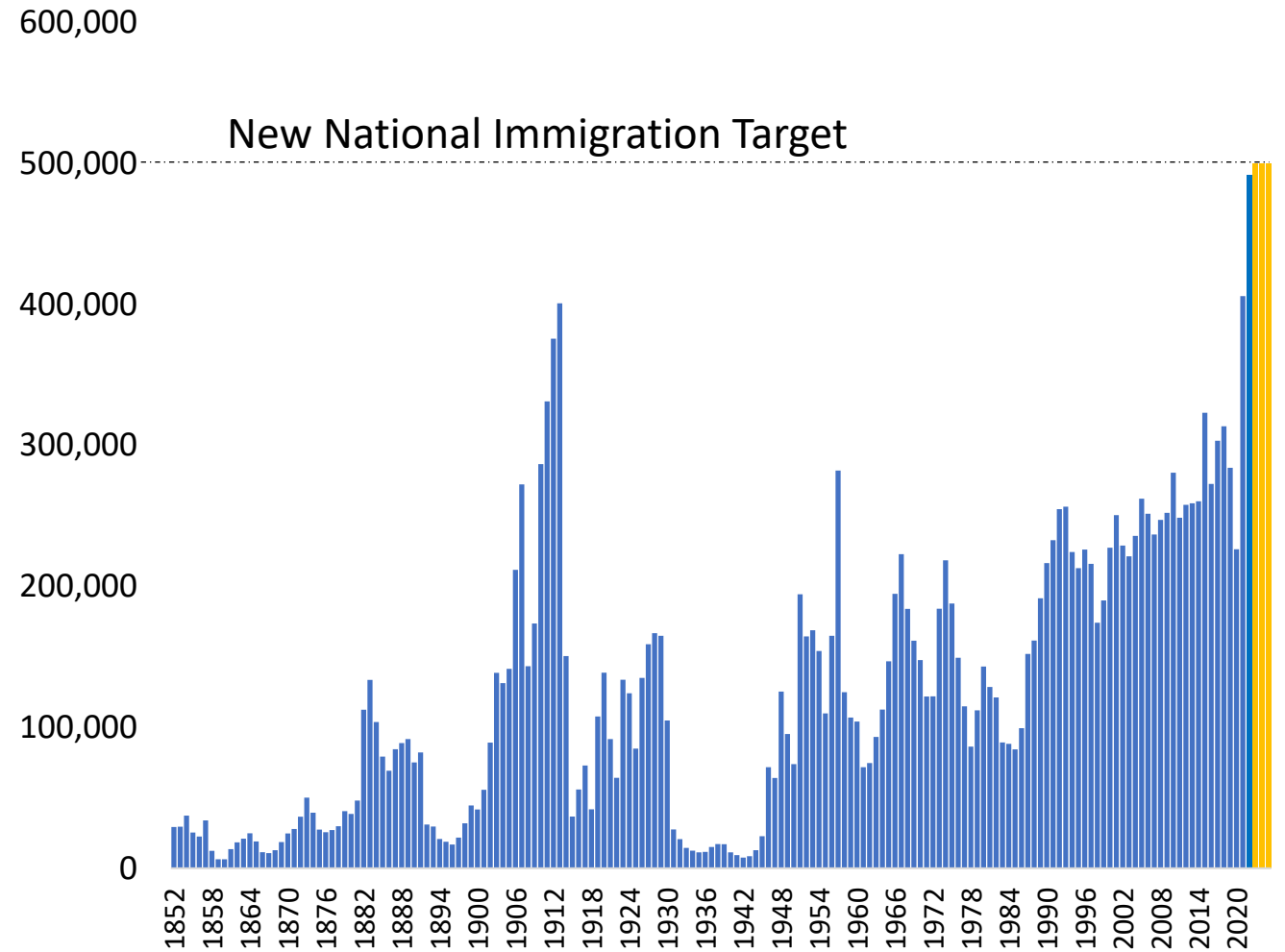
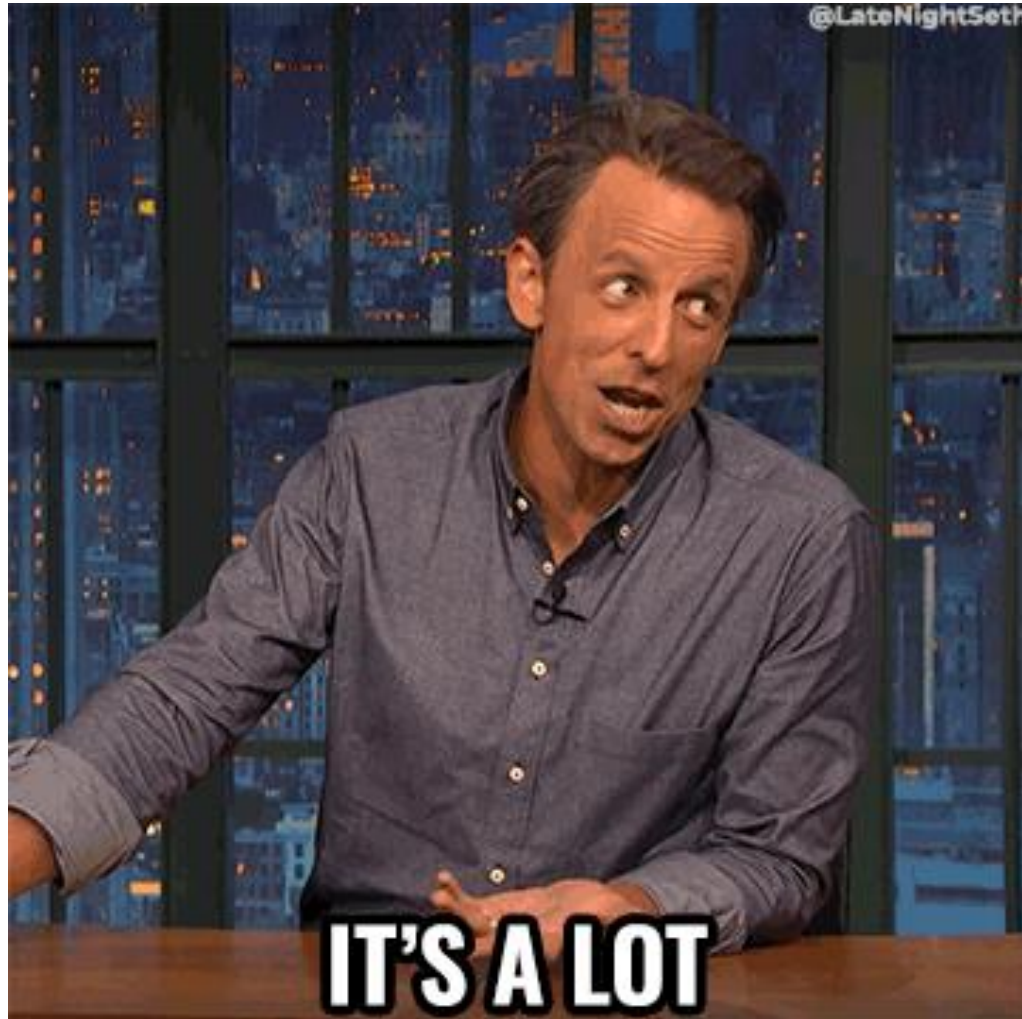
Foreign Buyer Ban

Foreign Investment in BC: 2019-2022



Source: Data BC

Immigration to Canada About to Increase Significantly



Demand Impact of Federal Policies

■ Increased Immigration Target ■ Foreign Buyer Ban

Demand Impact

25,000

20,000

15,000

10,000

5,000

0

-5,000

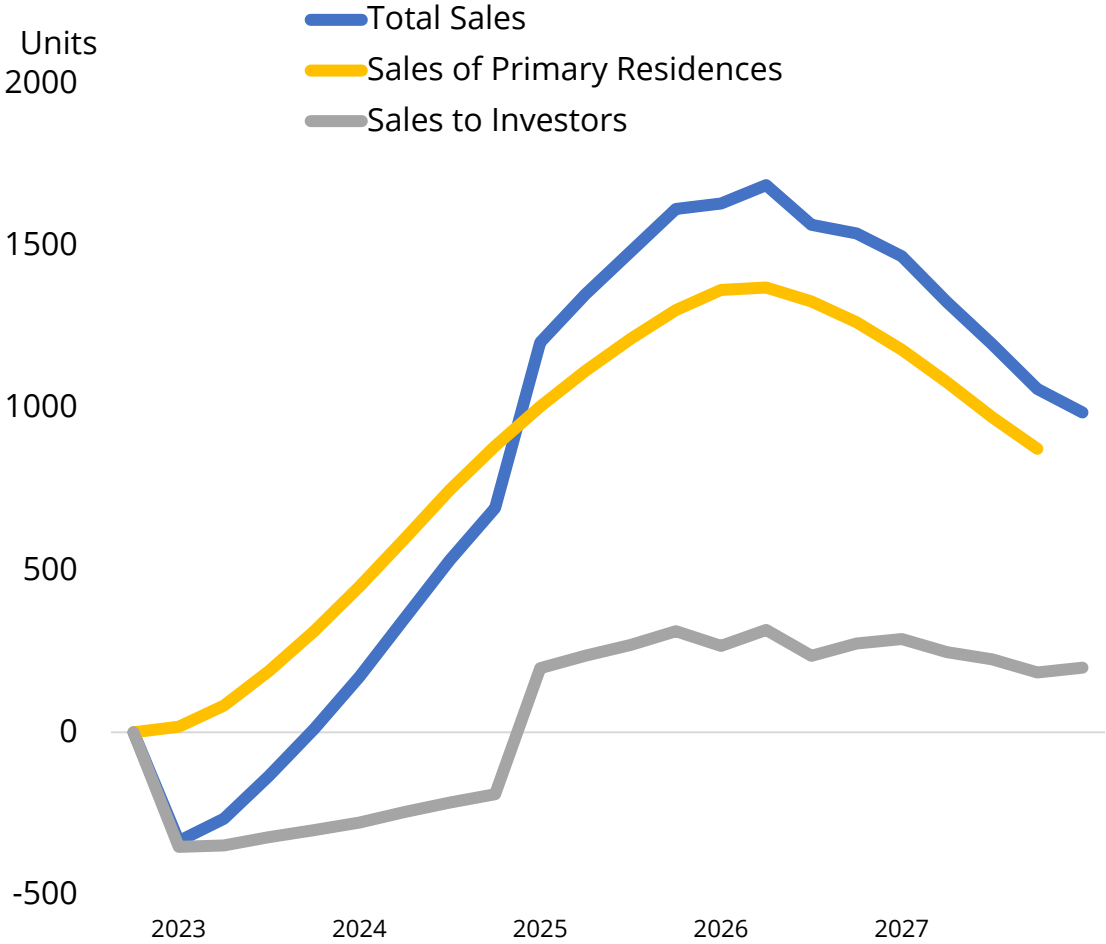
+20,000 over 3 years (Over
and Above Normal
Immigration)

-2400 over 2 years

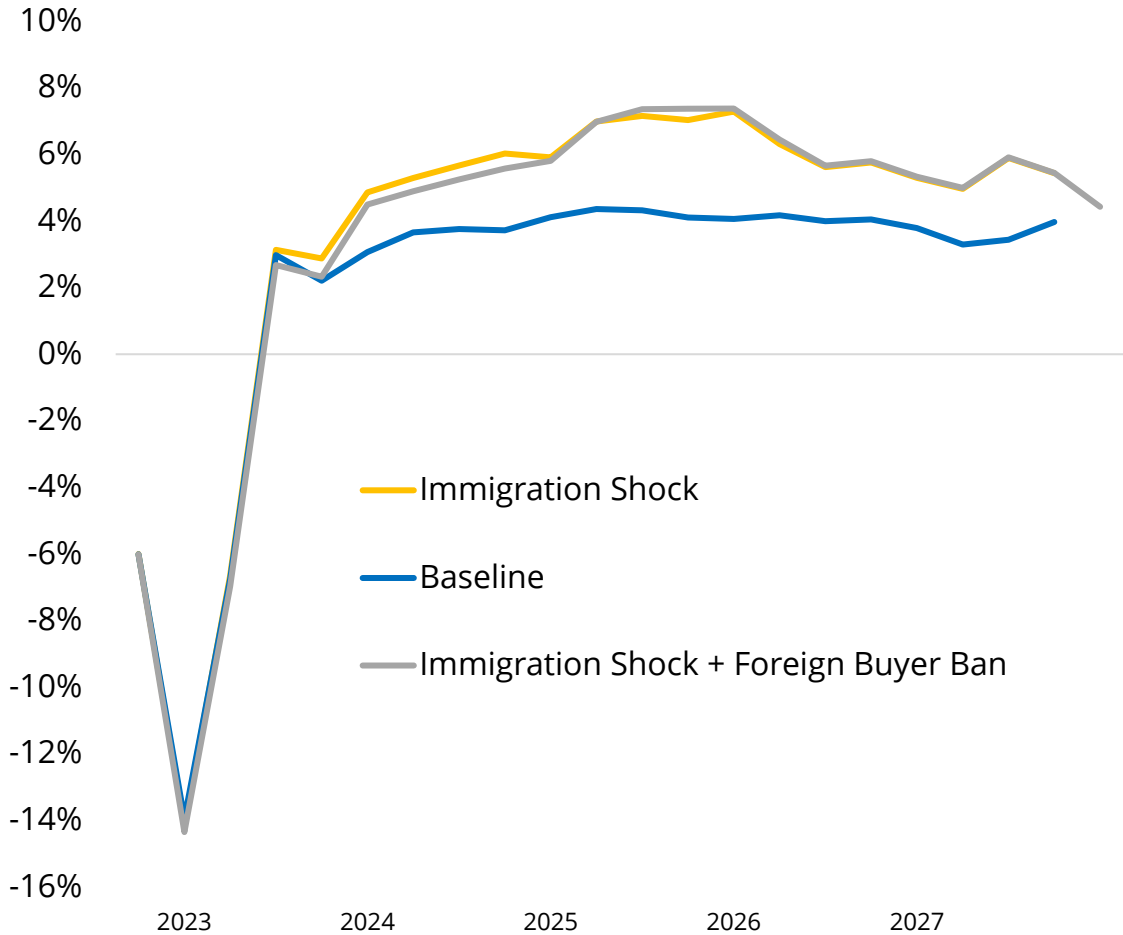


Estimated Impact of Increased Immigration Target on Home Sales and Prices

Sales Deviation from Baseline



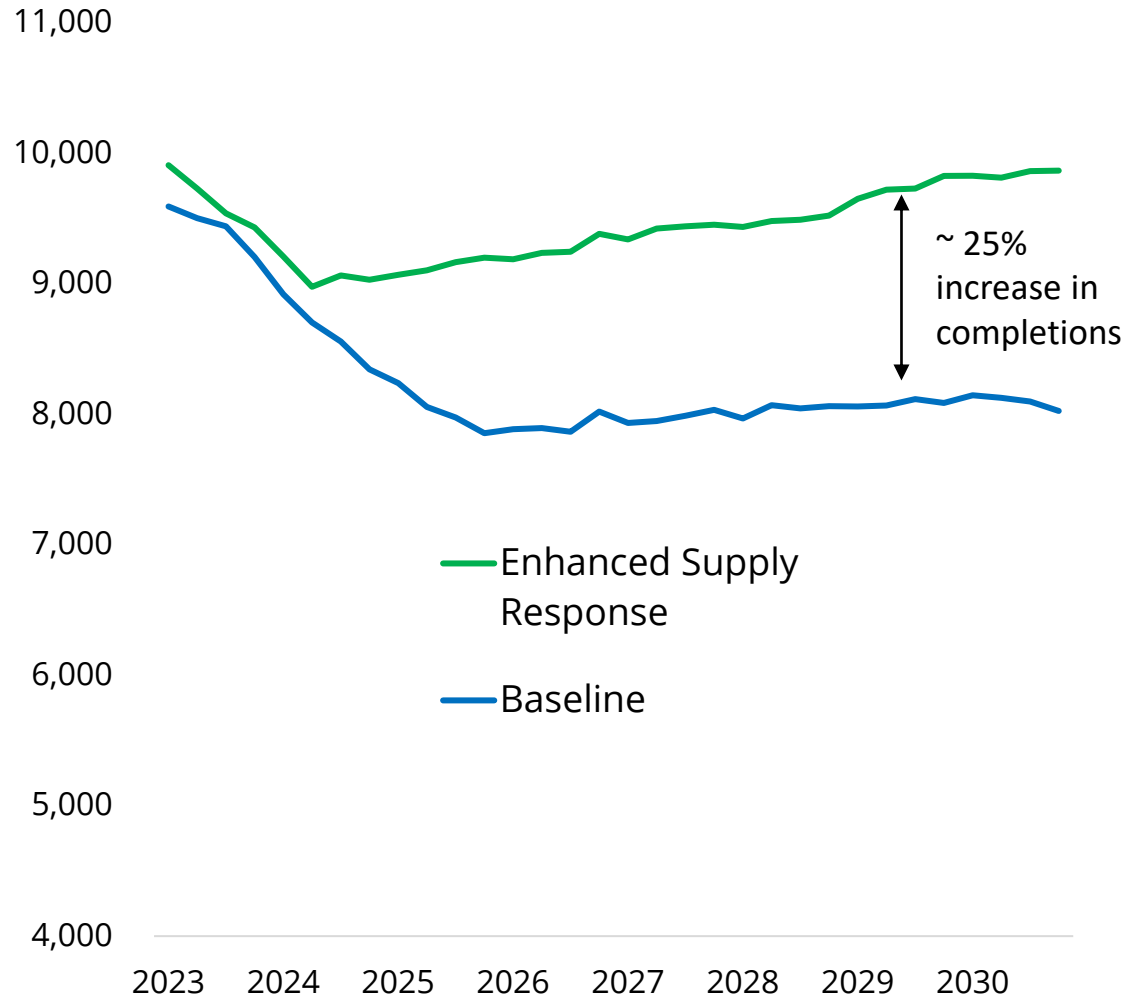
YoY Price Growth



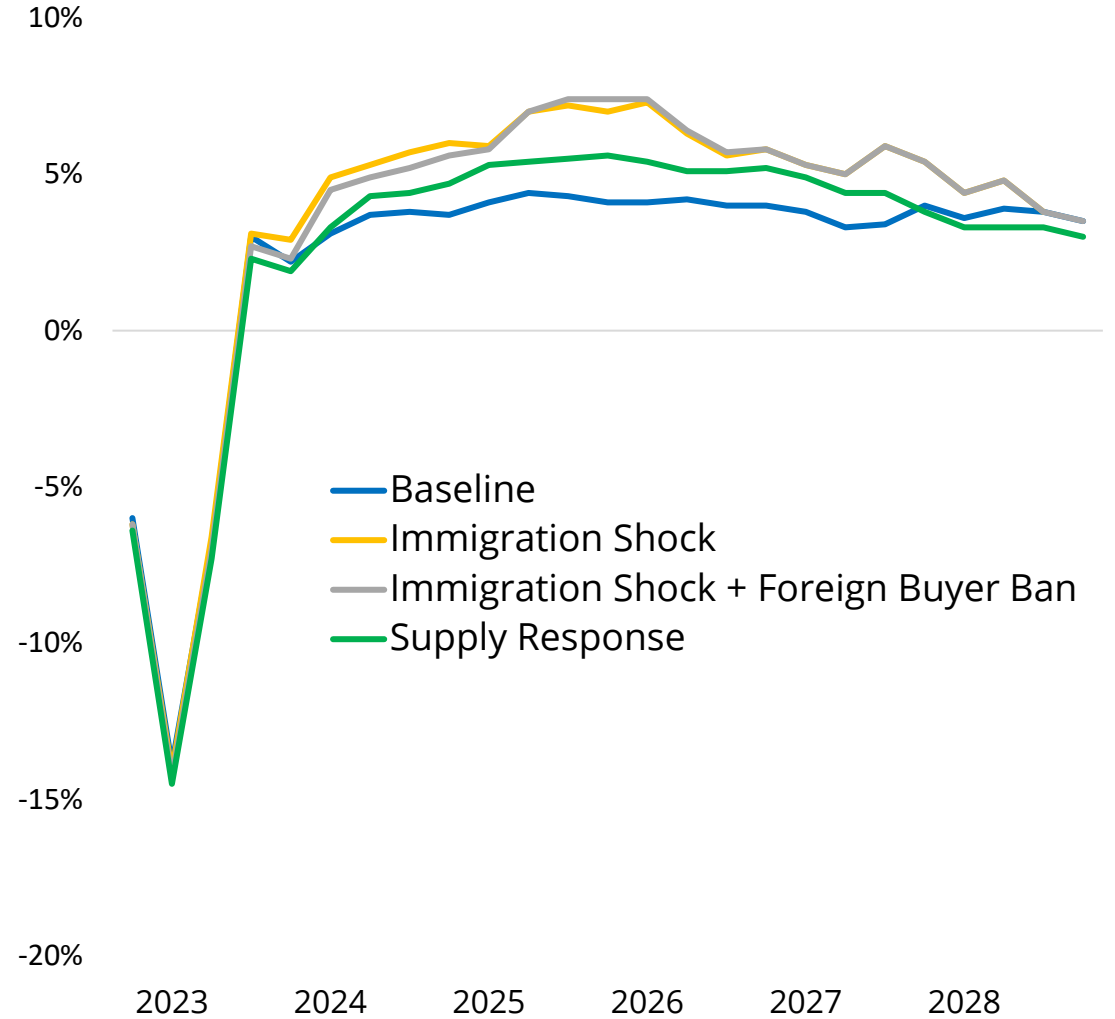
Source: BCREA Economics

Enhanced Supply Response Required to Offset Demand Shock

New Home Completions

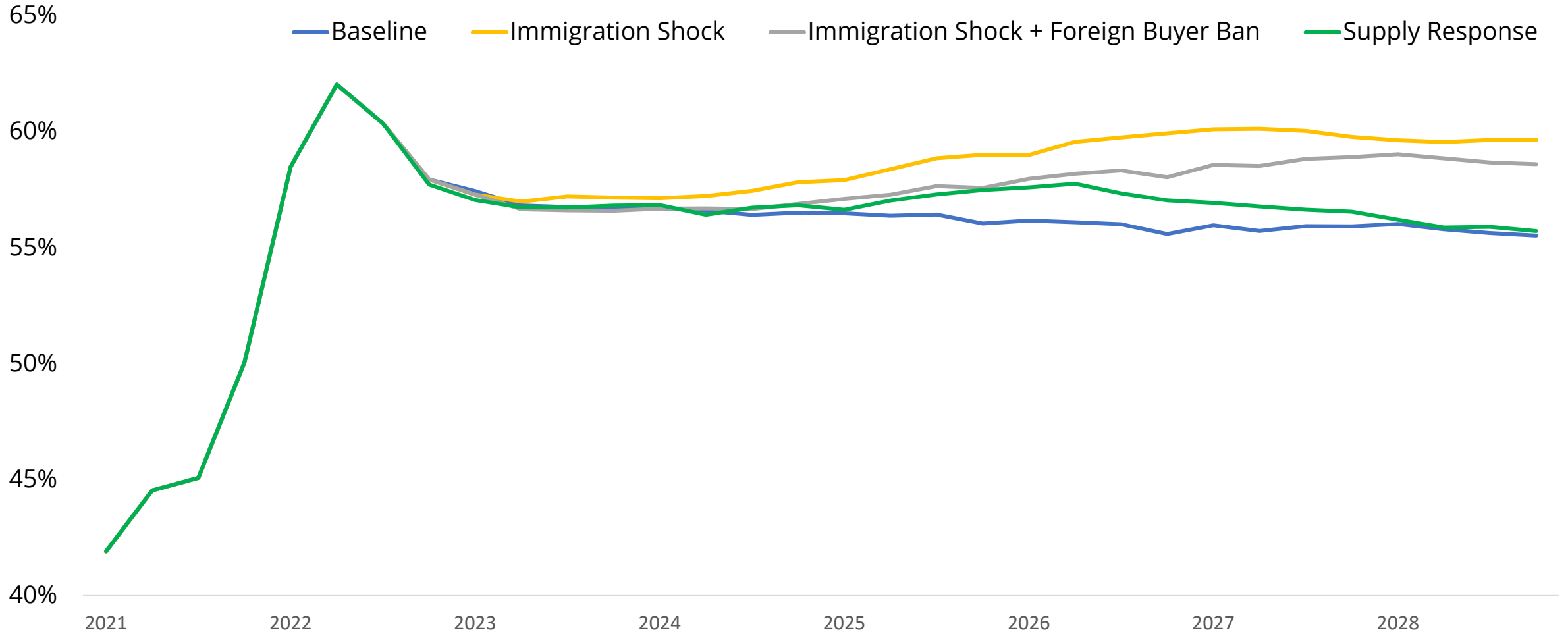


Percentage Price Growth



Impact on Affordability

Mortgage Payment as a Share of Household Income



A medium shot of Taylor Swift sitting on a red sofa in a room. She is wearing a light green, ribbed, long-sleeved top. Her hair is styled in a braid with bangs. She has a surprised expression on her face. In the background, there is a large painting of a landscape on the wall and a white statue on a pedestal to the right. The lighting is warm and indoor.

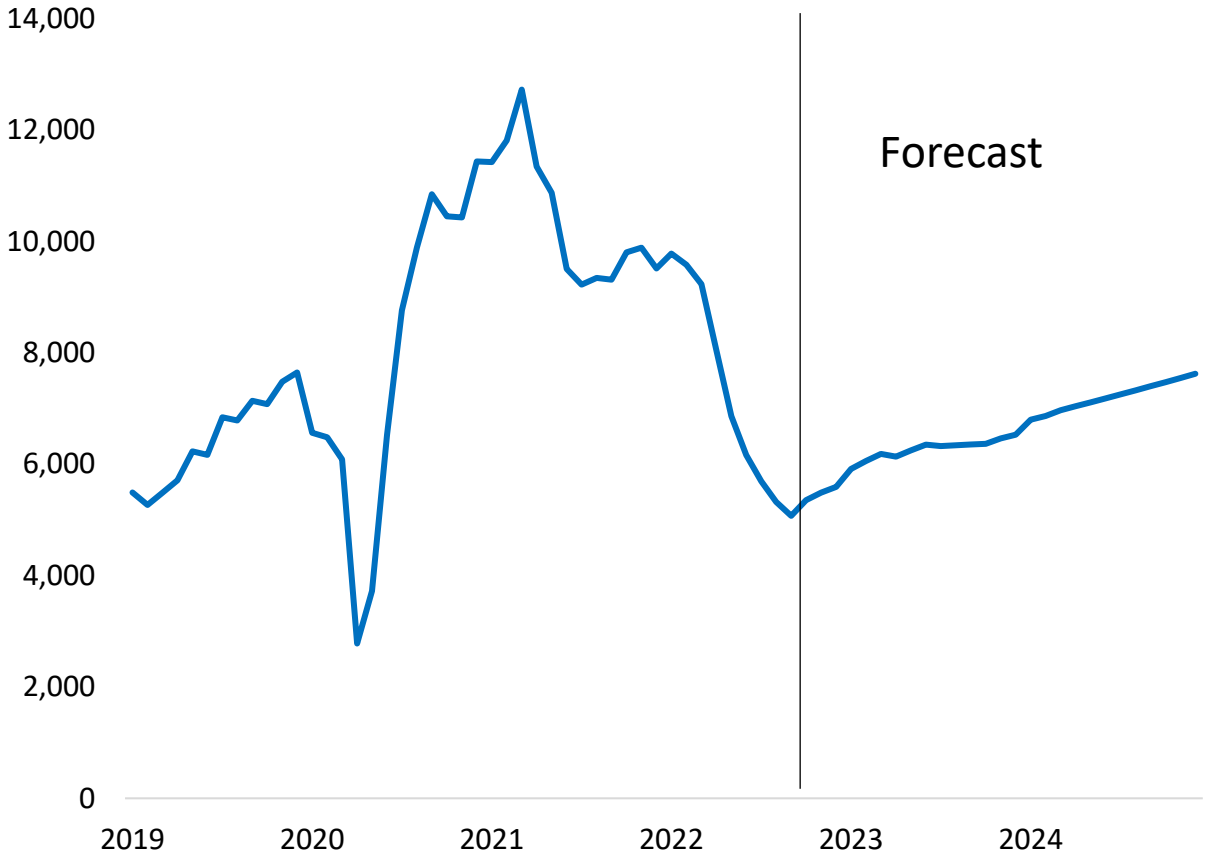
Apple Music

Wow, there's a lot to unpack there.

BC Housing Forecast, 2023-2024

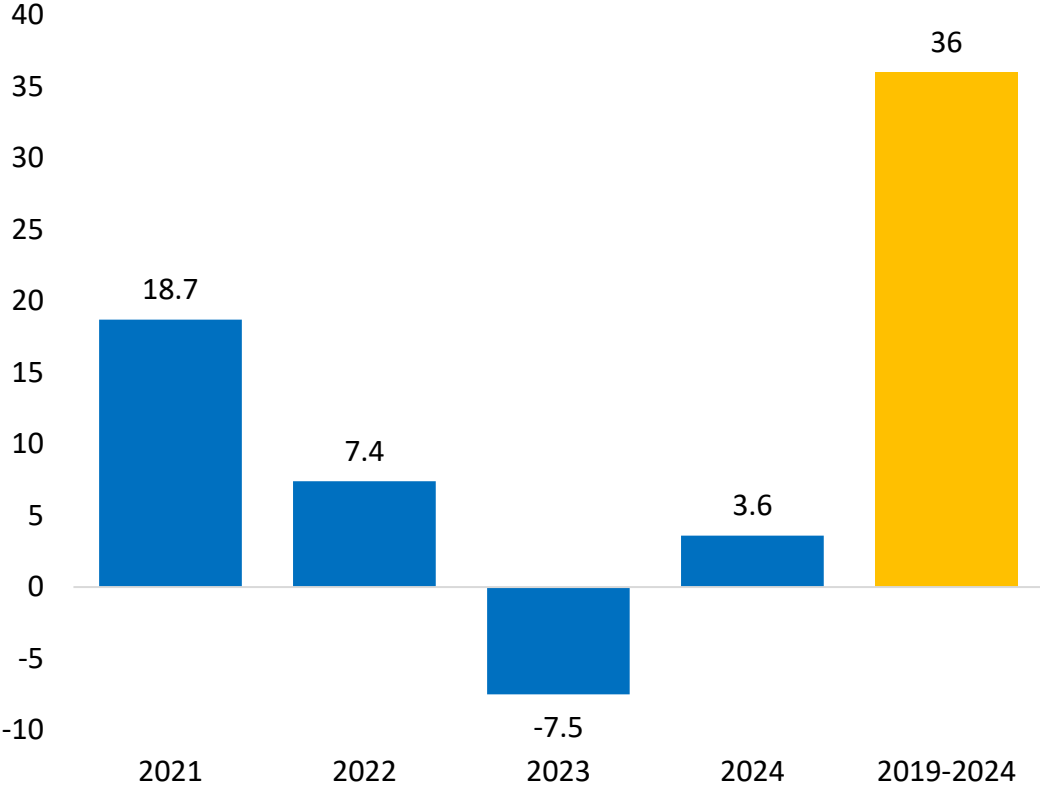
MLS® Home Sales

Monthly Sales



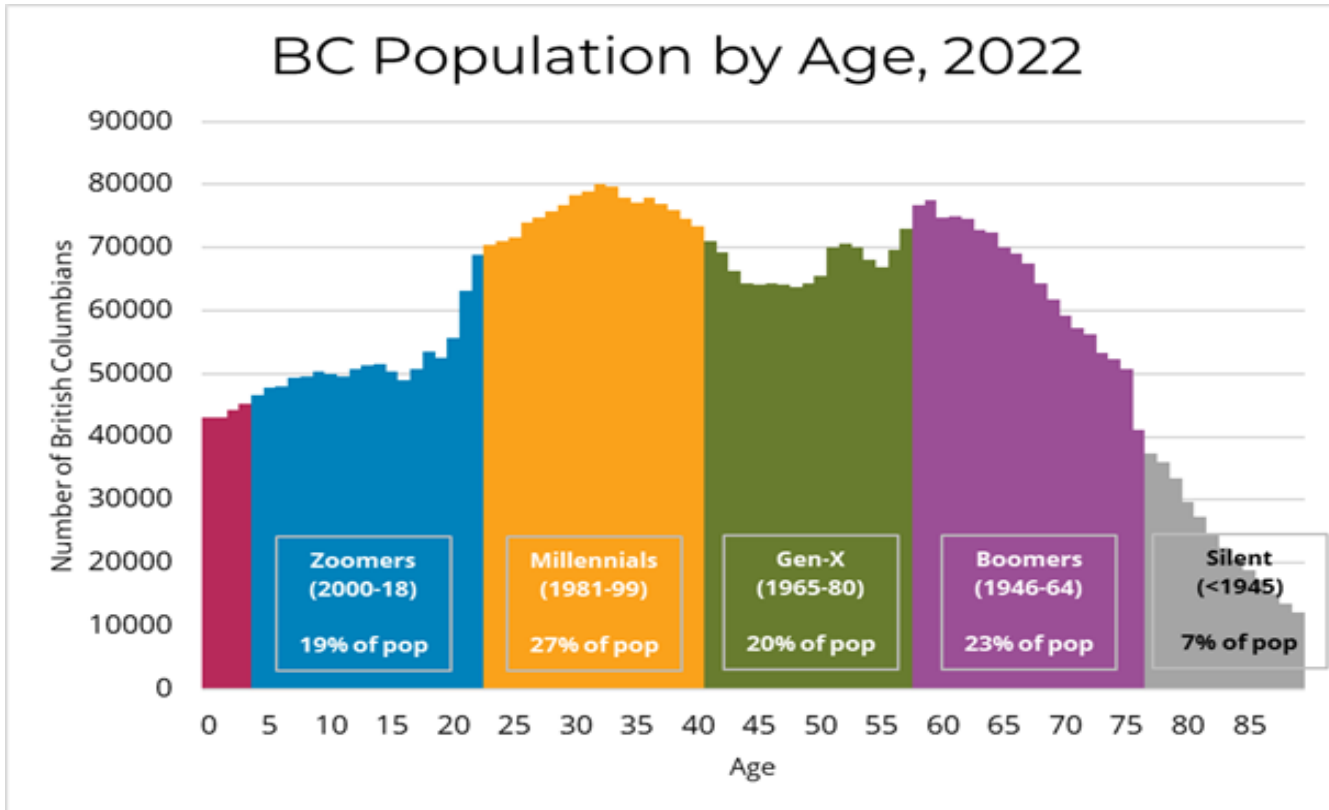
MLS® Average Home Price

% Change

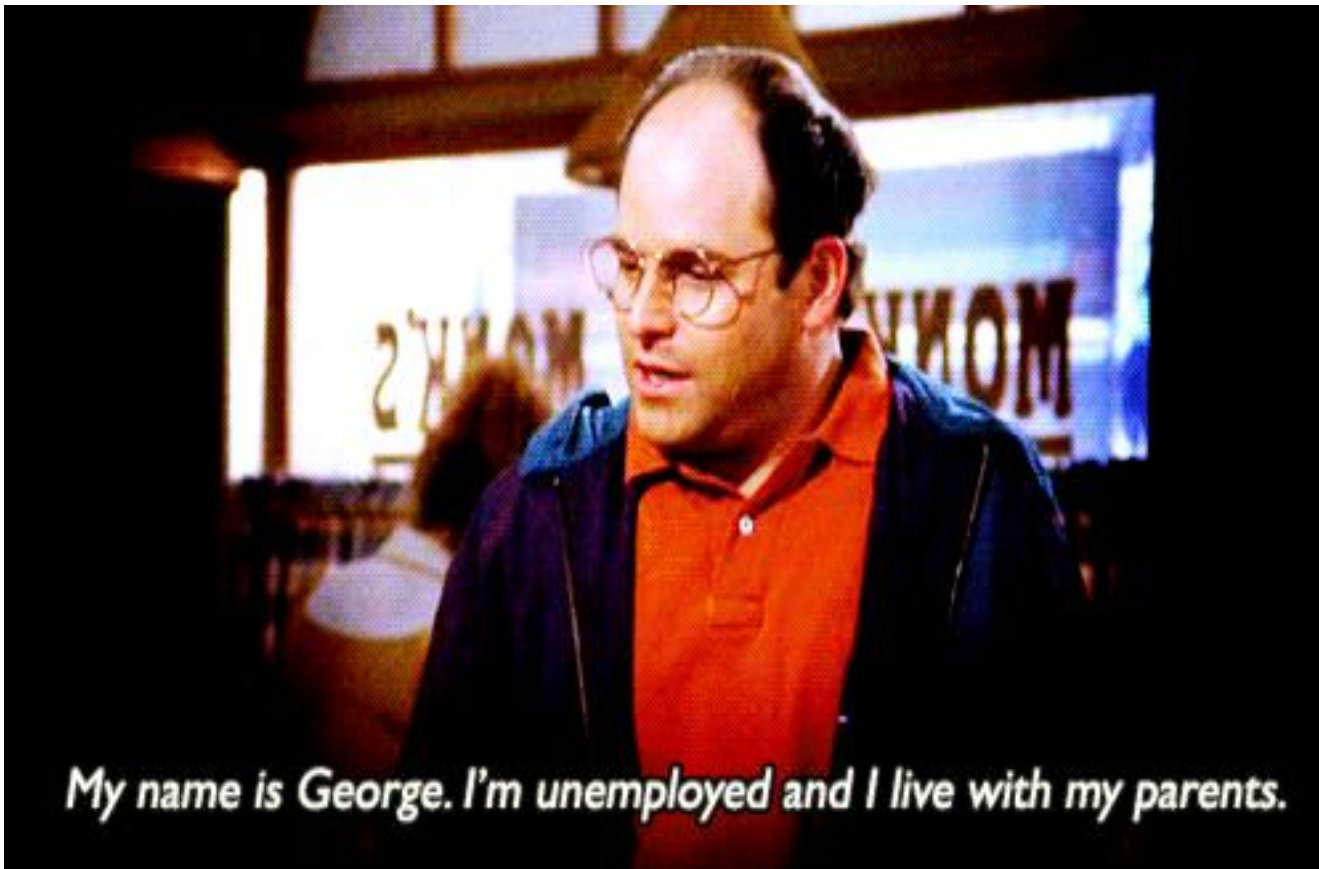


Source: BCREA Economics

Long-Run Demographic Support

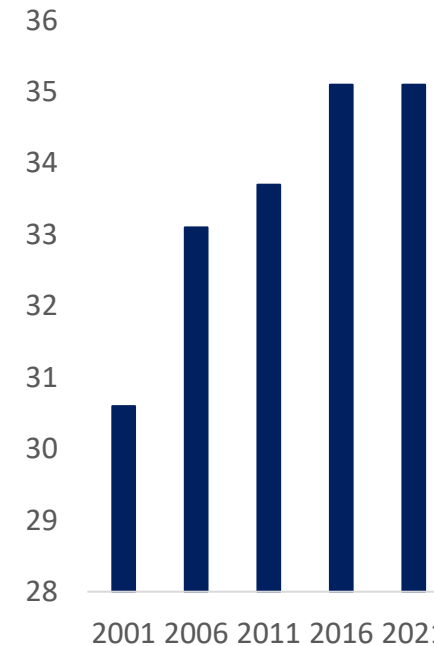


Increasingly Hard for Young People to Find Housing

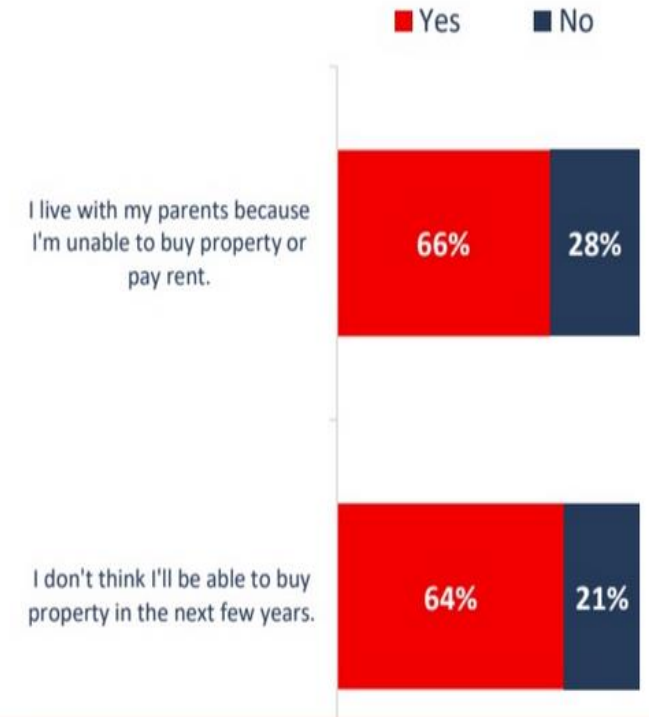


(*George Costanza was in his mid-30s!)

Aged 20-34 Living with Parents



Young People Living with Their Parents



Source: Census 2021;

How Big is the Supply Shortage?

	Target level of affordability in 2030 (in percentage)	Housing supply required (in millions)
Ontario	37%	1.85 million
Quebec	32%	0.62 million
BC	44 %	0.57 million
Manitoba	30 %	0.26 million
Saskatchewan	30%	0.10 million
Newfoundland	30%	0.06 million
Nova Scotia	31%	0.05 million
Alberta	30%	0.02 million
New Brunswick	30%	
P.E.I.	30%	
Total		3.53 million

Thank You! Questions?

