National Economic and Housing Market Outlook

CANADA MORTGAGE AND HOUSING CORPORATION
TORONTO HOUSING OUTLOOK CONFERENCE

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Housing market intelligence you can count on

Canada

CMHC ❖ SCHL
HOME TO CANADIANS
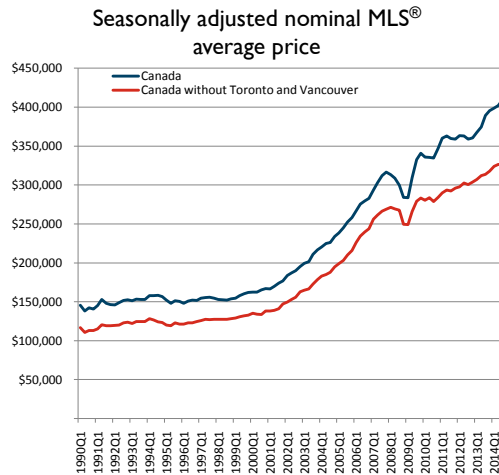

Presentation Outline

House Prices
- Compositional effects
- Supply and demand drivers of prices

Household Debt

Outlook and Risks
- Risks to the forecast
- Economic assumptions
- Potential Housing Demand
- Housing market outlook

# Canada average price is pulled up by Toronto and Vancouver

Seasonally adjusted nominal MLS® average price

Legend:
- Canada
- Canada without Toronto and Vancouver

Y-axis: $450,000 / $400,000 / $350,000 / $300,000 / $250,000 / $200,000 / $150,000 / $100,000 / $50,000

X-axis: 1990Q1 1991Q1 1992Q1 1993Q1 1994Q1 1995Q1 1996Q1 1997Q1 1998Q1 1999Q1 2000Q1 2001Q1 2002Q1 2003Q1 2004Q1 2005Q1 2006Q1 2007Q1 2008Q1 2009Q1 2010Q1 2011Q1 2012Q1 2013Q1 2014Q1

Last data point 2014Q3
Source: CREA

Nominal year-to-date (January to September) price change 2014 over 2013

Canada	6.9%
Vancouver	6.3%
Calgary	5.5%
Toronto	8.1%
Montreal	1.9%

Average share of MLS® Sales

Pie: Vancouver 7%, Calgary 6%, Toronto 19%, Montreal 9%, Other 60%
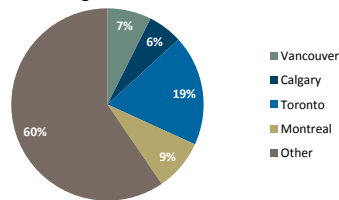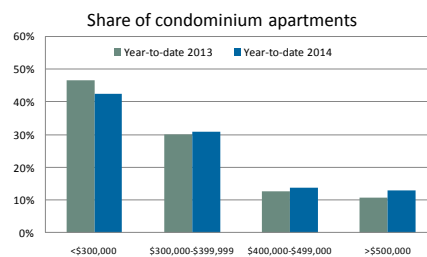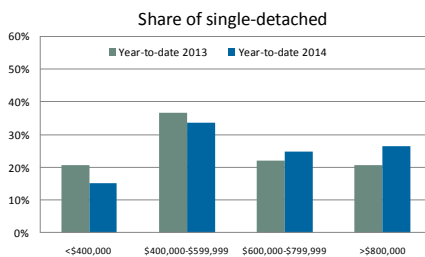

Share of MLS® sales in higher price ranges increasing in Vancouver and Toronto

In Vancouver, the price growth of single-detached is 7.6%, and 4.6% for condominium apartments (year-to-date)
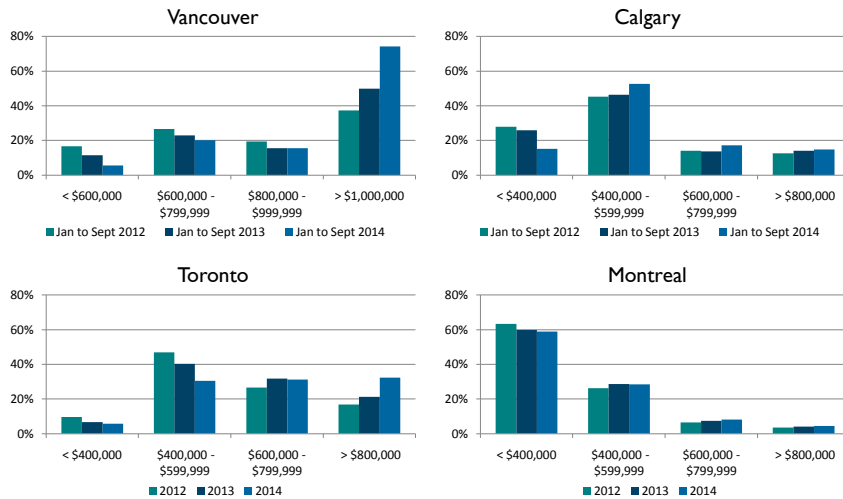
Share of single-detached

Legend: Year-to-date 2013, Year-to-date 2014
X-axis: <$500,000, $500,000-$999,999, $1,000,000-$1,499,999, >$1,500,000

Share of condominium apartments

Legend: Year-to-date 2013, Year-to-date 2014
X-axis: <$300,000, $300,000-$399,999, $400,000-$499,999, >$500,000
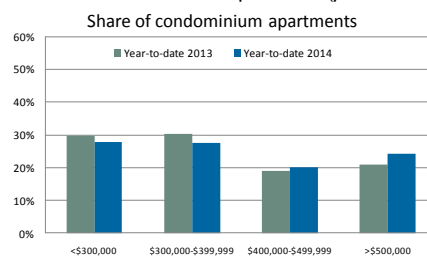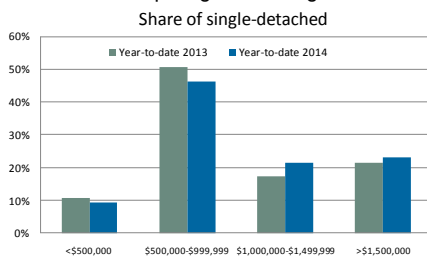
In Toronto, the price growth of single-detached is 9.2%, and 5.5% for condominium apartments (year-to-date)

Share of single-detached

Legend: Year-to-date 2013, Year-to-date 2014
X-axis: <$400,000, $400,000-$599,999, $600,000-$799,999, >$800,000

Share of condominium apartments

Legend: Year-to-date 2013, Year-to-date 2014
X-axis: <$300,000, $300,000-$399,999, $400,000-$499,000, >$500,000

Source: CREA

In some centres, there has been a notable shift towards more expensive new single homes

Vancouver

Price range	Jan to Sept 2012	Jan to Sept 2013	Jan to Sept 2014
< $600,000	~16%	~11%	~5%
$600,000 - $799,999	~26%	~22%	~20%
$800,000 - $999,999	~19%	~15%	~15%
> $1,000,000	~37%	~50%	~75%

Calgary

Price range	Jan to Sept 2012	Jan to Sept 2013	Jan to Sept 2014
< $400,000	~28%	~26%	~15%
$400,000 - $599,999	~45%	~46%	~52%
$600,000 - $799,999	~14%	~13%	~17%
> $800,000	~12%	~14%	~14%

Toronto

Price range	2012	2013	2014
< $400,000	~10%	~7%	~6%
$400,000 - $599,999	~47%	~40%	~30%
$600,000 - $799,999	~26%	~31%	~31%
> $800,000	~17%	~21%	~32%

Montreal

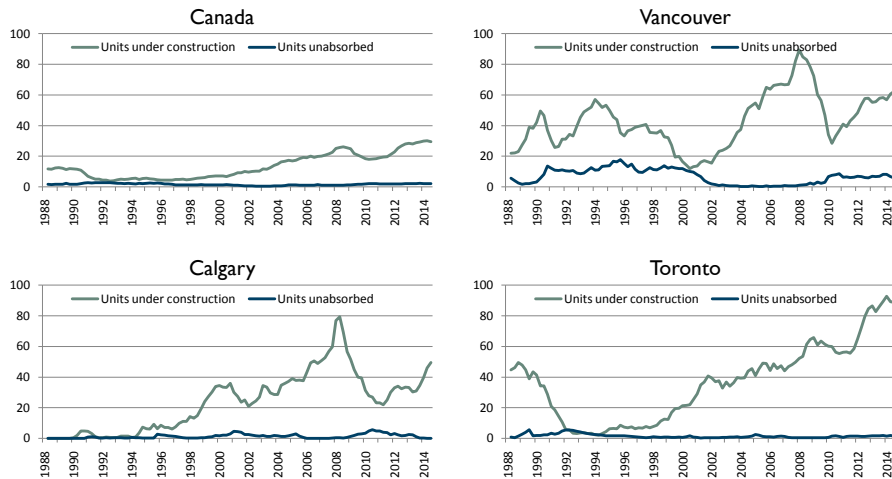| Price range	2012	2013	2014
< $400,000	~63%	~60%	~59%
$400,000 - $599,999	~26%	~28%	~28%
$600,000 - $799,999	~6%	~7%	~8%
> $800,000	~3%	~4%	~4%

Source: CMHC

Market conditions are tighter in Western Canada

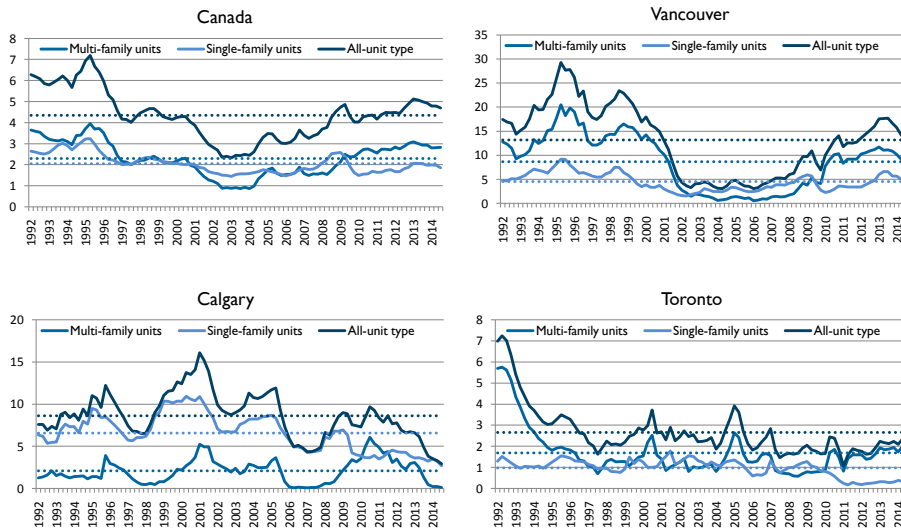MLS Sales to New Listings Ratio (%)
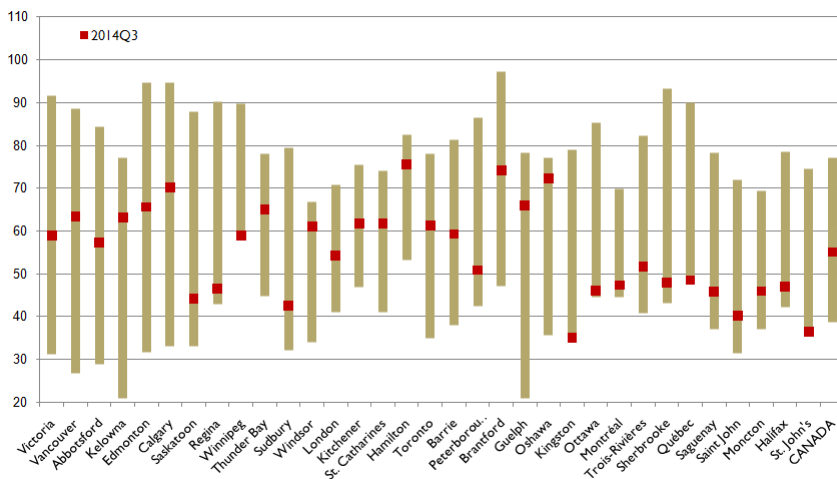
■ 2014Q3

Source: Canadian Real Estate Association, QFREB by the Centris® system, 2014Q3

Units under construction are increasing but inventories of completed and unabsorbed units are relatively low

Canada

Units under construction — Units unabsorbed

Vancouver

Units under construction — Units unabsorbed

Calgary

Units under construction — Units unabsorbed

Toronto

Units under construction — Units unabsorbed

Source: CMHC

Completed and unabsorbed units are near or below historical averages

Canada

Multi-family units — Single-family units — All-unit type

Vancouver

Multi-family units — Single-family units — All-unit type

Calgary

Multi-family units — Single-family units — All-unit type

Toronto

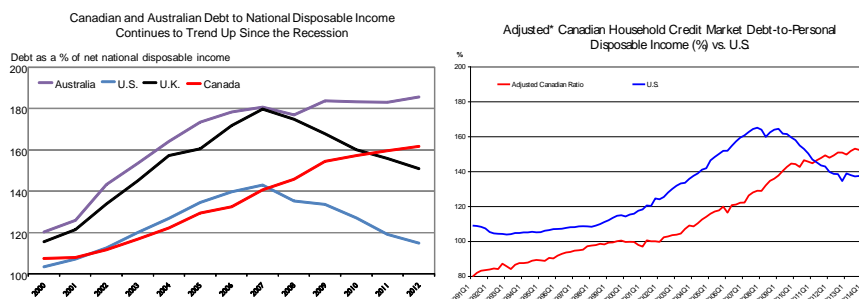Multi-family units — Single-family units — All-unit type

Source: CMHC

Growth in National Average MLS® price is driven by Toronto and Vancouver.

- Share of MLS® sales in higher price ranges is increasing in Toronto and Vancouver.
- Price growth of single-detached is stronger than the price growth for apartments. Single-detached price growth is driving average MLS® price growth in Vancouver and Toronto.

In general, balanced market conditions and low inventories of completed and unabsorbed units are supportive of housing market activity and prices.
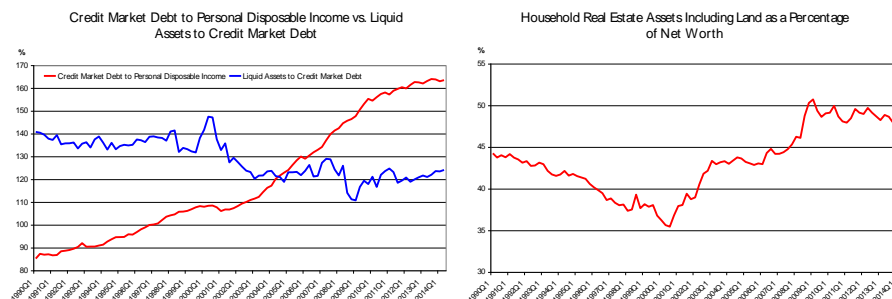
- In some centres, the number of units under construction relative to the population is high. Demand should channelled toward these units under construction otherwise there is a risk that inventories of completed unabsorbed units could trend higher.

The use of various sources and methodologies confirms rising a debt-to-income trend for Canada

Canadian and Australian Debt to National Disposable Income
Continues to Trend Up Since the Recession

Debt as a % of net national disposable income

Adjusted* Canadian Household Credit Market Debt-to-Personal Disposable Income (%) vs. U.S.

- OECD debt-to-income ratio for Canada for 2012 is 161.7, up from 159.1 in 2011.
- The adjusted debt-to-income ratio for Canada is 152.2 for 2014Q2, up from 151.4 in 2014Q1.

Relatively low household liquidity and concentration of net worth in residential real estate is a vulnerability that can exacerbate an economic shock

Credit Market Debt to Personal Disposable Income vs. Liquid Assets to Credit Market Debt

Household Real Estate Assets Including Land as a Percentage of Net Worth

Source: Statistics Canada, CMHC calculations

Overall for Canada, growth in the last year in household credit at chartered banks has moderated with the exception of personal loans

- The largest increase since 2000 has been from Personal Lines of Credit (PLC), which includes Home Equity Lines of Credit (HELOC), at a compound annual growth rate (CAGR) of 16.4%.

- Despite a series of parameter changes under the Government Guarantee Framework, the largest increase over the past five years has been in residential mortgages, at 13.9% (CAGR).

- Over the last full year (2013), the largest increases have been in personal loans.

	Since 2000	10-Year	5-Year	3-Year	1-Year	% of 2013 Total
PLC Incl. HELOC	16.4%	14.8%	9.7%	5.0%	1.9%	19.6%
Credit Cards	11.7%	8.9%	7.9%	8.9%	-4.5%	5.5%
Res. Mortgages	9.8%	10.5%	13.9%	22.9%	5.8%	67.1%
Personal Loans	6.0%	8.5%	13.2%	14.0%	19.9%	6.5%
Other	-2.8%	-0.4%	-3.8%	-6.2%	-8.8%	1.3%

Note: Percent changes are compound annual growth rates, except for the final column which is a per cent of the total for 2013.

Source: Bank of Canada, CMHC calculations

Key Messages on Household Debt

- Relatively low household liquidity and concentration of net worth in residential real estate is a vulnerability that can amplify an economic shock

- Overall for Canada, growth in the last year in household credit at chartered banks has moderated with the exception of personal loans

While the outlook for the Canadian housing sector is one of relative stability, there are still risks

Given that Canada is an open economy, there are a number of global market risks to consider:

- Slowdown in China

- Potential for deflation in the Euro area

- Renewed geo-political tensions in the Middle East

- Weaker than forecast U.S. economic growth

- Higher interest and mortgage rates due to continued sustained growth in Canadian consumer prices

The impact in Canada of an external shock could be amplified by vulnerabilities related to high levels of household debt.

Economic Assumptions

- We do not expect interest rate increases before the latter part of 2015 for both Canada and the United States. Inflation remains under control in both countries.
- Income is expected to increase modestly as economic conditions in Canada improve. Income growth will remain supportive of housing demand over the forecast horizon.
- Canada's economy is expected to continue to attract a high level of immigrants. The level of net migration will remain above its historical average and help support Canada's housing sector.
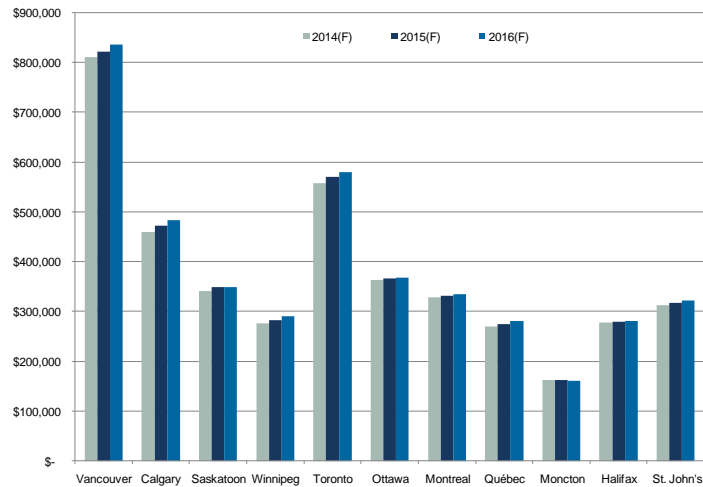- There is a lot of uncertainty. Therefore, we consider a range of outcomes for the economic outlook.

	2014	2015	2016
GDP (growth, %)	2.1 – 2.5	2.2 - 2.9	1.8 - 2.9
Unemployment rate (%)	6.7 - 7.2	6.4 - 7.3	5.7 - 6.9
Employment (growth, %)	0.6 – 1.1	1.3 – 2.2	1.2 – 2.5

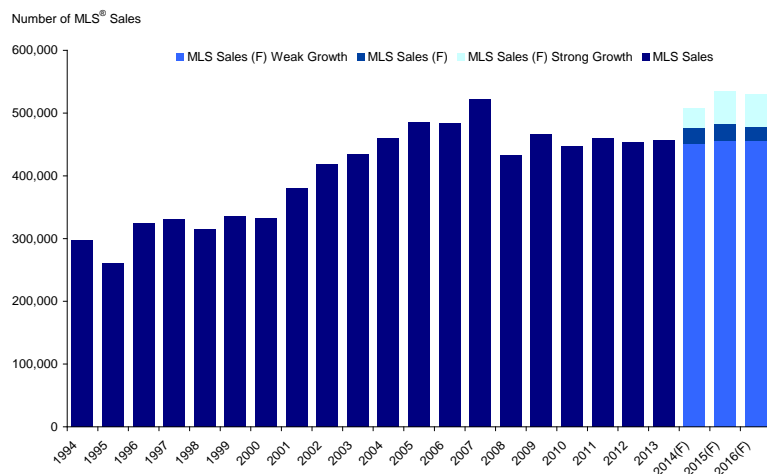## Average MLS® price expected to grow at moderate pace moving forward
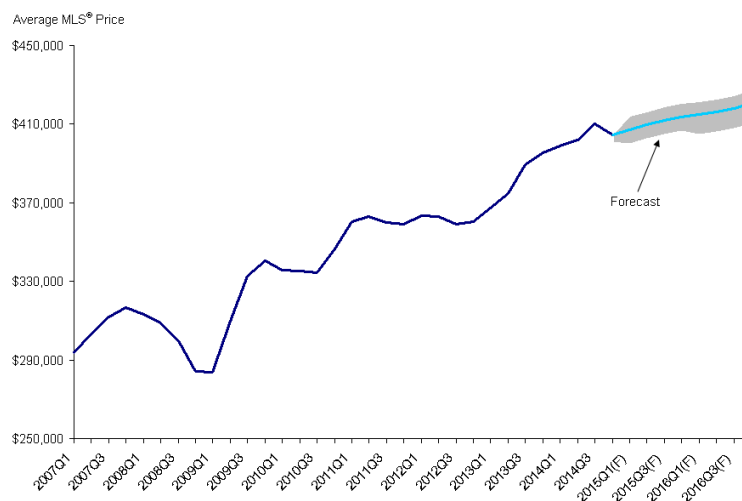
Source: Canadian Real Estate Association, CMHC (forecasts)

Growth of MLS® price expected to moderate

Legend: ■ 2014(F) ■ 2015(F) ■ 2016(F)

(Bar chart showing MLS price forecasts in dollars for: Vancouver, Calgary, Saskatoon, Winnipeg, Toronto, Ottawa, Montreal, Québec, Moncton, Halifax, St. John's)

Source: CMHC (forecasts)

Resale Market: Recovery in 2014 and 2015
Total MLS® Sales* - Canada

Number of MLS® Sales

Legend: ■ MLS Sales (F) Weak Growth ■ MLS Sales (F) ■ MLS Sales (F) Strong Growth ■ MLS Sales

(Bar chart showing Number of MLS Sales from 1994 to 2016(F))

*Seasonally adjusted rates
Source: CMHC (forecasts), Canadian Real Estate Association

Estimates of Household Formation coincide with Housing Starts over the 2011 to 2016 period

Housing starts	
2011	193,950
2012	214,827
2013	187,923
2014 (F) & range	189,000 (186,300-191,700)
2015 (F) & range	189,500 (172,800-204,000)
2016 (F) & range	187,000 (168,000-205,800)
2011-2016 Average	**193,700**

Household formation	
	Previous estimate (CMHC published December 2013)
2011-2016 Average	**186,000** **(Range: 143,000 - 238,000)**
	Current estimate
	193,000 **(Range: TBD)**

Estimate of household formation

- Using 2011 Census demographic data, the PHD model estimates the average annual pace of household formation at 193,000.
- This coincides with the 2011 to 2016 forecast pace of housing starts.
- The pace of new home construction is in line with demographics drivers.

Headship rate - the rate at which people in a given age group form households. Historical headship rates are calculated as the number of primary household maintainers in a given age bracket divided by the total number of people in the same age bracket.

Fertility rate - the total fertility rate refers to the number of children that a female would have over the course of her reproductive life. It is calculated as the sum of all the age-specific fertility rates. Typically, age-specific fertility rates are calculated for women aged 15 to 49, as only a very small proportion of births occur to women outside that age range.

Source: CMHC, based on Statistics Canada definitions

Modest growth price expected in short-term for housing sector, and moderation expected over medium term

Number of Housing Starts
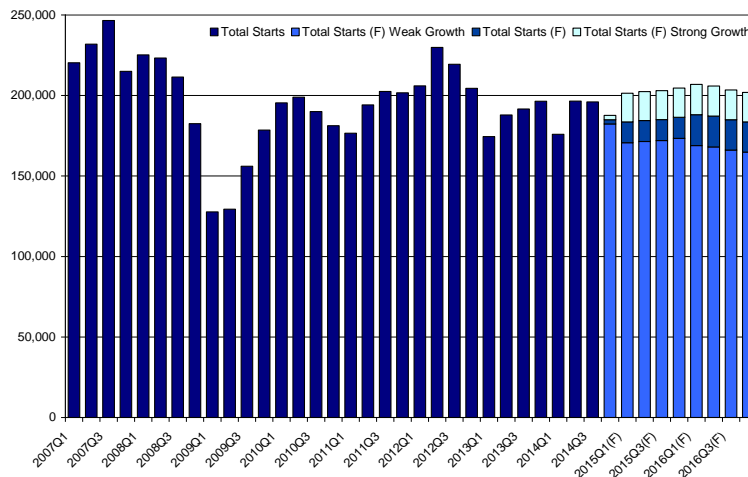
Source: CMHC

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