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UDI-ER Brief – Bank of Canada – Economic Progress Report: Sensible Shifts in Household Spending[1]

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The following brief summarizes comments from Lynn Patterson, Deputy Governor of the Bank of Canada. Speaking to the Hamilton Chamber of Commerce on March 7, 2019, Ms. Patterson provided an update on the Canadian economy (including the Bank of Canada's decision to keep interest rates unchanged). Of significance, Ms. Patterson provided a number of relevant comments on the Canadian housing market, which are included below.

- **Introduction:**
  - The recent decision to keep the Bank of Canada's key policy interest rate unchanged hinged on a number of factors – most significantly:
    - i. The slowing momentum of the Global economy, largely due to trade policy uncertainty; and
    - ii. The poor performance of the Canadian economy in the fourth quarter of 2018.
- **Slowing Momentum of the Global Economy:**
  - The main source of global economic ambiguity currently revolves around trade policy - specifically, uncertainty between the United States and China on trade:
    - An escalation or expansion of trade actions could have serious consequences for the global economy.
    - However, successful resolution of trade tensions would remove a significant source of uncertainty and provide a major lift.
- **The Canadian Economy in Q4 2018:**
  - While a slowdown had been anticipated due to declines in the oil market, the *degree* to which the Canadian economy slowed in Q4 2018 was unanticipated.
  - Slowdown occurred despite strong growth in employment and labour income.
  - This slowdown included the housing market – a sector that makes up more than half of the Canadian economy.
- **The Canadian Housing Market:**
  - Canadians dialed back their spending on housing by almost 5 per cent in 2018.
  - This was due to a number of factors, including:
    - i. New mortgage rules (i.e. the mortgage stress test)
    - ii. Provincially-initiated rules attempting to curb speculative activity.
    - iii. Mortgage interest rates continuing to rise.
      - The average five-year fixed rate increased from 2.7 per cent (2017) to 3.7 per cent (2018).

[1] For the full document, please click the following link: https://www.bankofcanada.ca/2019/03/economic-progress-report-sensible-shifts-in-household-spending/

- While the Canadian housing market remains in flux, there are wide *regional* differences.
  - The bulk of the slowdown has come from a decrease in activity in Vancouver and Toronto along with a significant decrease in Calgary largely due to a decline in oil market activity.
  - However, sales have increased in Winnipeg, Ottawa and Montreal, as examples.
- Additionally, in a number of major markets, there is a significant shift in construction from single-family detached homes to condos and other multi-family units.
- Overall, the Canadian housing market remains in a state of adjustment, which will take time to rectify.

- **Looking Forward:**
  - Based on the slower than anticipated economic activity of late 2018, the economy looks to be weaker than expected to begin 2019.
  - However, the Bank of Canada still expects Canadian economic growth to pick up later in 2019, supported by ongoing strength in employment and rising wages.
  - The Bank will provide an update economic projection in April 2019.