Grow

LENDING GROUP INC.

Is the Economic Slowdown Enough to Keep the Bank of Canada on the Sidelines?

NEWSLETTER ARTICLES:

- **The latest financial figures**
- **Addressing housing affordability - Canada Mortgage Bonds program changes**
- **Spotlight on Vancouver - The good, the bad, and the ugly**

An eye on rates on other market updates

During his time as Federal Reserve Chair, Alan Greenspan was known for his decisive use of monetary policy to rescue markets in times of turmoil. Dubbed the Greenspan Put, his policy approach was designed to halt excessive stock market declines and stabilize financial markets. While this approach proved successful in addressing various crises, it became controversial as it incentivized investors to take excessive risks and led to periods of extreme speculation.

Since then, central bankers have learned not to provide one-way bets for the market. We see this playing out in the current context: Although the Bank of Canada is likely done raising rates, it is leaving the door open for further hikes to prevent the market from pushing rates lower too soon.

THE LATEST FINANCIAL FIGURES

Canada's real GDP registered a modest +0.1 increase in August after a flat July, leaving growth for Q3 barely treading water. Real GDP is effectively unchanged over the past six months, which looks very sluggish given our population is ballooning at a 3% annual rate.

The latest payroll report (July), while a bit stale, reveals the job vacancy rate is falling, down 5.8% in July alone (-43,000 vacancies) and 28% in the past year (-274,000 vacancies). There is little evidence that wage growth is moderating, but settlements have been reflective of three years of inflation and job market tightness. We expect wage pressures should ease in 2024.

While excess demand has been moderating, core inflation remains stubbornly above-target. Despite this, we expect the Bank of Canada to hold at 5% on its policy rate into 2024, as past policy increases continue to filter through the economy.

ADDRESSING HOUSING AFFORDABILITY – CANADA MORTGAGE BONDS PROGRAM CHANGES

Last week, the Government of Canada announced a $20 billion increase to the annual $40 billion limit for the CMB program. The increase is designated for funding mortgage loans on multi-unit rental projects insured by CMHC. While the government expects this additional funding source will spur new multifamily housing projects, it is unclear if the market can absorb a 50% increase without significant repricing. Moreover, market participants are uncertain about the CMB program's future given the current proposal to consolidate it with the regular Government of Canada borrowing program.

To increase funding for rental housing through the CMB program, the government should do the following as soon as possible:

- Resolve the backlog in applications for the MLI Select (mortgage loan insurance) program. Since CMHC is the only mortgage default insurer for multifamily loans, any operational issues at the agency become a programmatic issue. Without insurance, these loans cannot be securitized.

- Cancel attempts to change the CMB program. Saving funding costs to support social housing is an important objective, but not nearly as important as getting this funding in the hands of builders. To ensure they have support of CMB investors, the government must avoid creating market uncertainty.

- Examine ways for CMHC or the Bank of Canada to conduct buyback programs. The Bank has a mandate to support market liquidity and has previously used buyback facilities to provide market stability. If the Bank's facility is seen as a last resort, CMHC could consider a repurchase (repo) program for CMBs. If spreads got too wide, CMHC could buy back CMBs with funding through its Government of Canada bond investments related to securitization programs.

SPOTLIGHT ON VANCOUVER – THE GOOD, THE BAD, AND THE UGLY

After years of study, Vancouver city council met on September 14th and approved a recommendation to provide missing middle housing. While this will likely do little to add supply in the short term, there is hope the new policy will evolve and eventually prove successful in transforming housing supply in Vancouver – with one caveat. The approved reduction of floor space ratio (FSR) in single family homes warrants further evaluation. Reducing FSR may have the potential side effect of decreasing the quantity and quality of basement suites, a significant portion of rental stock in Vancouver.

This month, a proposal goes before the board of directors for Metro Vancouver Regional District on significantly increasing the development cost charges (DCCs) associated with new developments. In an area around the City of Vancouver, DCCs for a single detached home could increase from $10,127 to $34,133 by January 2027 – a 240% increase over three years. For townhouses, DCCS would rise from $8,679 to $30,861, and the charge for apartments would go from $6,249 to $20,906. Not surprisingly, the federal government postponed an announcement for funding for two Metro Vancouver municipalities.

https://thecmigroup.ca/press-room/is-the-economic-slowdown-enough-to-keep-the-bank-of-canada-on-the-sidelines/?utm_source=Email&utm_type=WeeklyMarketMonitor

ABOUT THE AUTHOR

KEVIN FETTIG

PRESIDENT OF CMI FINANCIAL GROUP

Kevin has had a long career in capital markets, housing finance, and public policy. He has worked as an economist for Alberta Treasury, Saskatchewan Policy Secretariat, the Bank of Canada, and the Department of Finance Canada. His work has included tax policy, economic forecasting, as well as monetary policy and debt management. While at the Bank of Canada, he authored two Bank of Canada Review articles on monetary policy tactics. Kevin has worked on a variety of debt programs from treasury bills to domestic and foreign bond issues, and interest rate swaps. He worked on building and managing the federal real return bond program, the Canada Savings Bond program, and built out the bond buyback program and a synthetic foreign funding program – two programs which are still in use today by the federal government. While at CMHC, Kevin managed the market funding program for social housing, built and managed the Canada Mortgage Bonds program, and expanded the products offered under the NHA MBS program. He has worked for several mortgage insurers including CMHC, Canada Guaranty, Triad Guaranty and Genworth. This work encompassed product development and risk management across housing markets in North America, Europe, Asia, Australia, and New Zealand. More recently he has had senior management roles with residential lenders managing underwriting, risk, product development, capital markets, and strategic planning.

Independent Opinion

The views and opinions expressed in this publication are solely and independently those of the author and do not necessarily reflect the views and opinions of any person or organization in any way affiliated with the author including, without limitation, any current or past employers of the author. While reasonable effort was taken to ensure the information and analysis in this publication is accurate, it has been prepared solely for general informational purposes. Any opinions, projections, or forward-looking statements expressed herein are solely those of the author. There are no warranties or representations being provided with respect to the accuracy and completeness of the content in this publication. Nothing in this publication should be construed as providing professional advice including investment advice on the matters discussed. The author does not assume any liability arising from any form of reliance on this publication. Readers are cautioned to always seek independent professional advice from a qualified professional before making any investment decisions.

Grow
LENDING GROUP INC.