MARCH 5

LENDING GROUP INC.

Cautious Optimism for the B.C. and Ontario Housing Markets

Canada's GDP saw another below trend performance in the fourth quarter of 2023. The economy grew by 0.99% quarter-over-quarter annualized (q/q) in Q4, with a revision for Q3 showing an improvement from -1.1% to -0.5% q/q. Additionally, January's flash estimate indicated a monthly increase of +0.4%. Stripping out external factors, final domestic demand came in at a very weak -0.7% q/q.

December's monthly gain was flat, a big miss from Statistics Canada's flash estimate of +0.3%, as it appears they did not include the public sector strike in Quebec. Public sector activity decreased by 1%, which cut more than 0.2 percentage points from headline growth. This decrease was observed mainly in education (-3.8%) and healthcare (-0.2%). Service sectors remained flat overall, with gains in finance, real estate, and retail, while goods industries fell 0.2%, with declines in utilities, construction, and manufacturing.

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International trade contributed to growth, with exports of goods and services increasing by 5.6% quarter-over-quarter. This growth was fueled by a 6.2% rise in exports of crude oil and crude bitumen, which coincided with sustained crude oil production in Alberta, as well as increased travel services and other transportation equipment and parts. Conversely, imports declined by 1.7% q/q, driven by decreases in intermediate metal products, tires, motor vehicle engines and parts, and passenger cars and light trucks.

Consumer spending rose by +1.0% q/q, primarily driven by significant growth in durable goods (+7.0%), such as new trucks, vans and utility vehicles. Easing supply chain snarls and rapid population growth were cited as drivers. Growth in services was more tepid at 0.4% q/q.

Business investment was a big drag on the quarter, with non-residential structures and machinery/equipment down 9.5% q/q. Residential investment also declined by 1.7% during the quarter. Despite increased activity in new construction (up 2.2%) and renovations (up 0.2%), the resale market weakened across Canada, offsetting the rise in housing investment due to a 7.7% decrease in ownership transfer costs in the fourth quarter.

After two stagnant quarters, a return to growth in the fourth quarter was widely anticipated. While last week's report exceeded expectations, surpassing both consensus forecasts (+0.8%) and the Bank of Canada's projections (0%), the story on the Canadian economy remains the same: high interest rates continue to dampen economic growth. Stripping out international factors, the economy actually contracted, and GDP per capita has declined in five of the last six quarters. The Bank has recognized this weakness in recent commentaries, but it is patiently waiting for inflation to follow suit. We still are calling for the Bank to cut rates in June.

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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.