

With inflation finally tamed, new challenges are now looming

ULI/PwC Annual Trends in Real Estate

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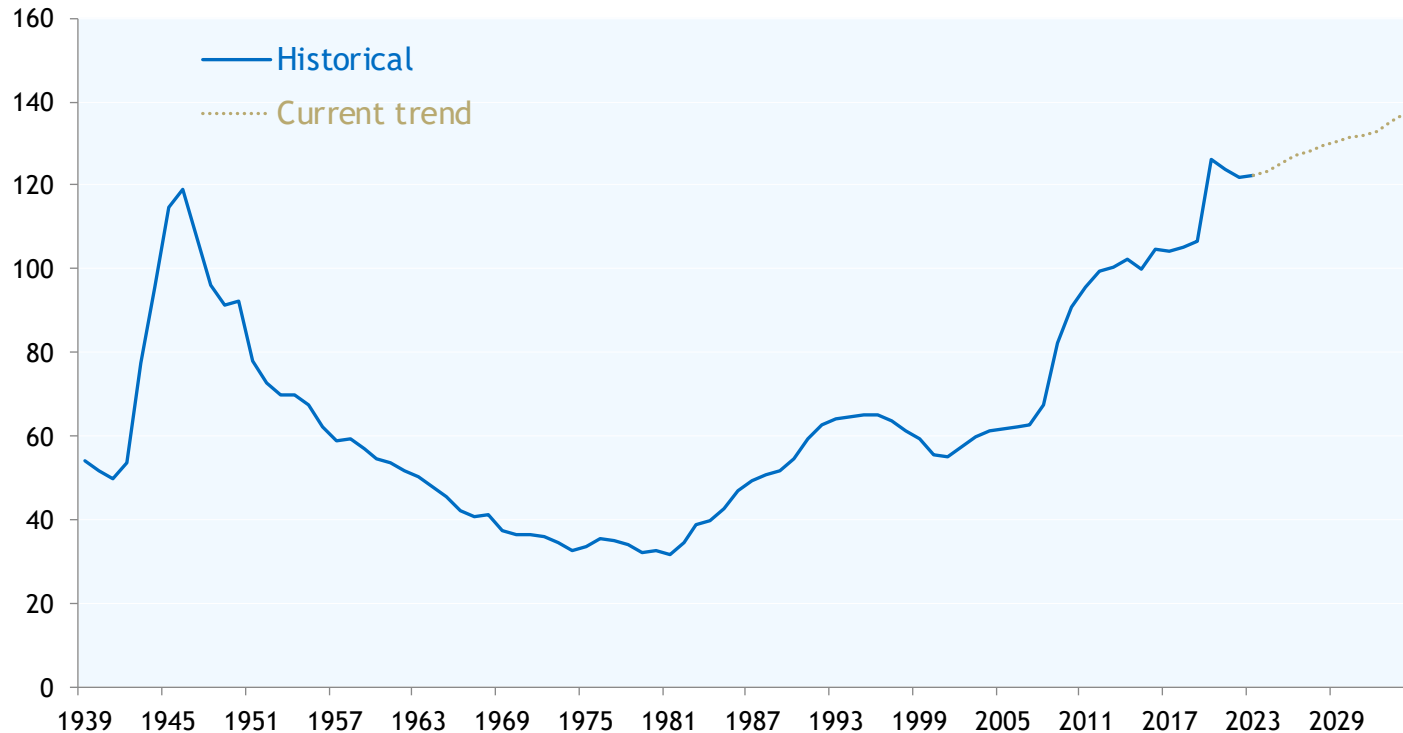
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Trump 2.0: get ready for a bumpy ride

U.S. federal government's gross debt

As a % nominal GDP



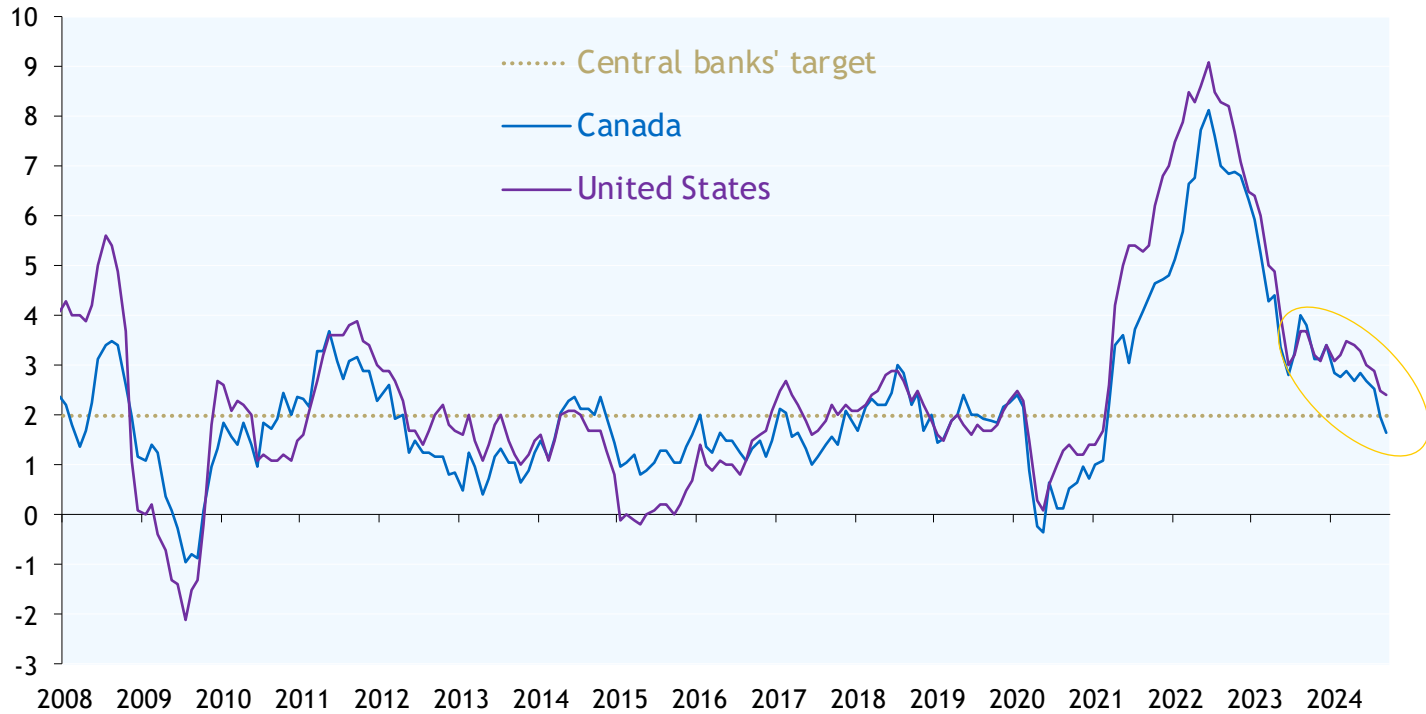
Source: Office of Management and Budget, Congressional Budget Office, RBC Economics

Trump's plan would add US\$7.5 trillion over 10 years; but how far can he go?

Good news: inflation is on target at last!

Inflation

Consumer price index, annual % change

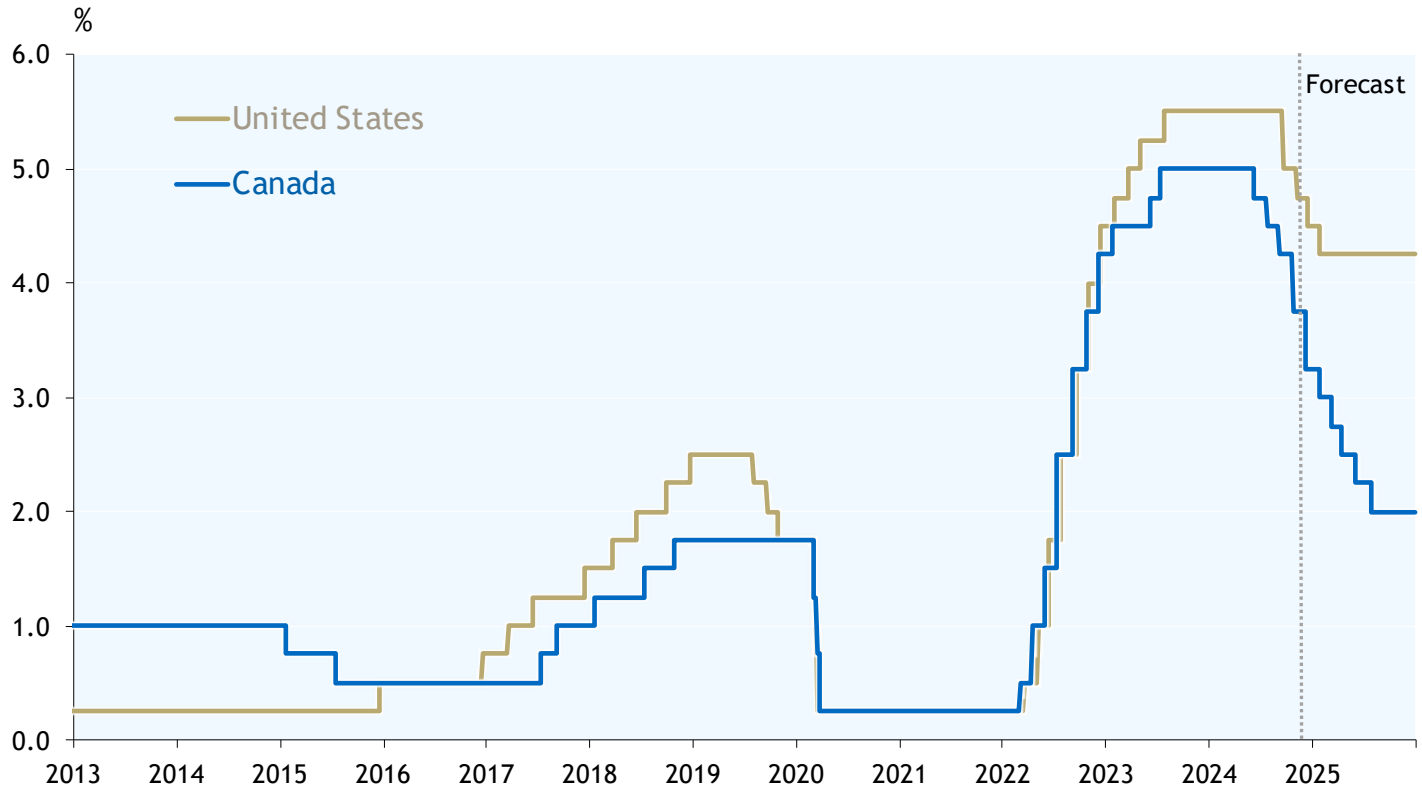


Source: Statistics Canada, Bureau of Labor Statistics, RBC Economics

We expect inflation to stay below 2% in the coming year in Canada

The Bank of Canada has pivoted

Policy interest rates

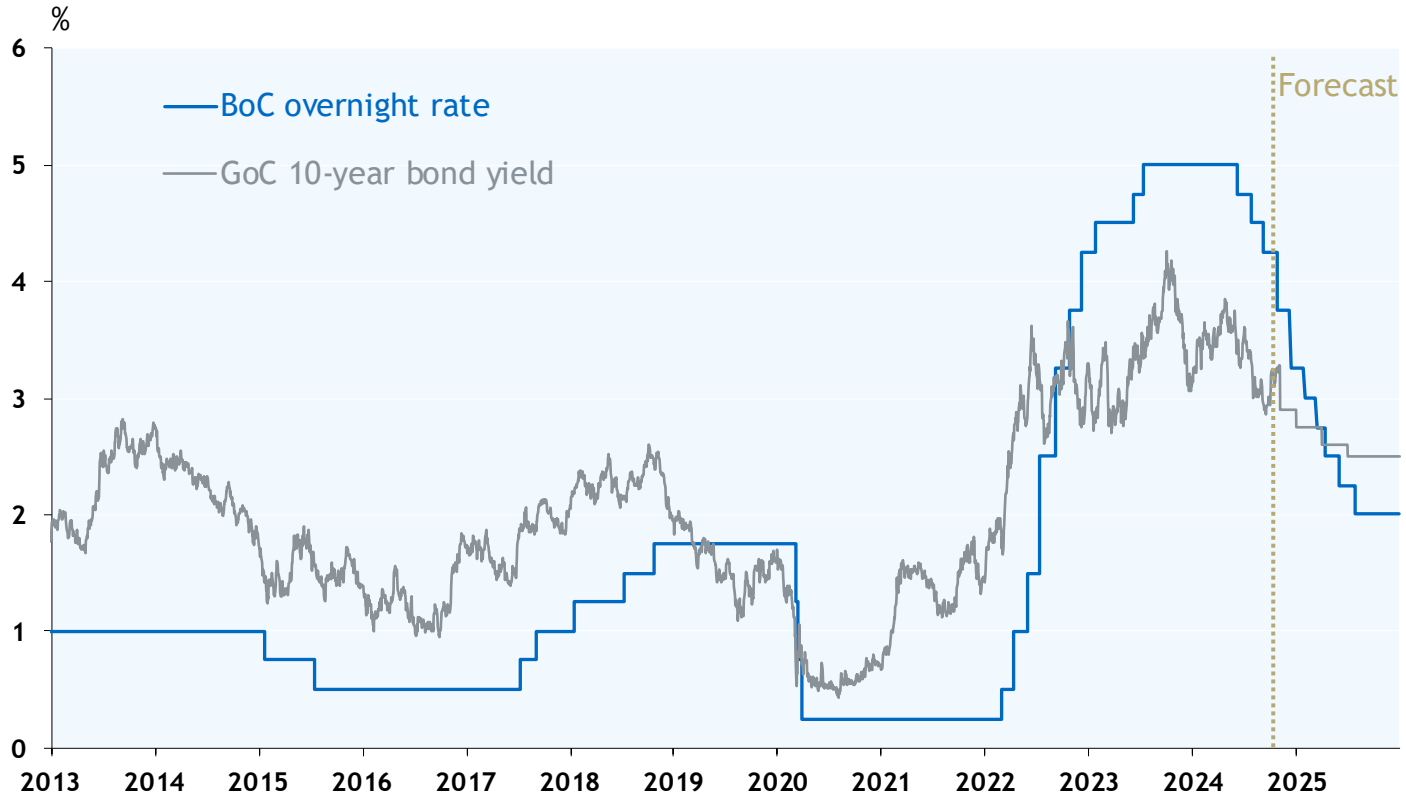


Source: Bank of Canada, Federal Reserve, RBC Economics

Expected to cut its policy rate by a total of 300 bps by mid-2025; Fed much less so

Bond yields have less room to fall

Interest rates: Canada



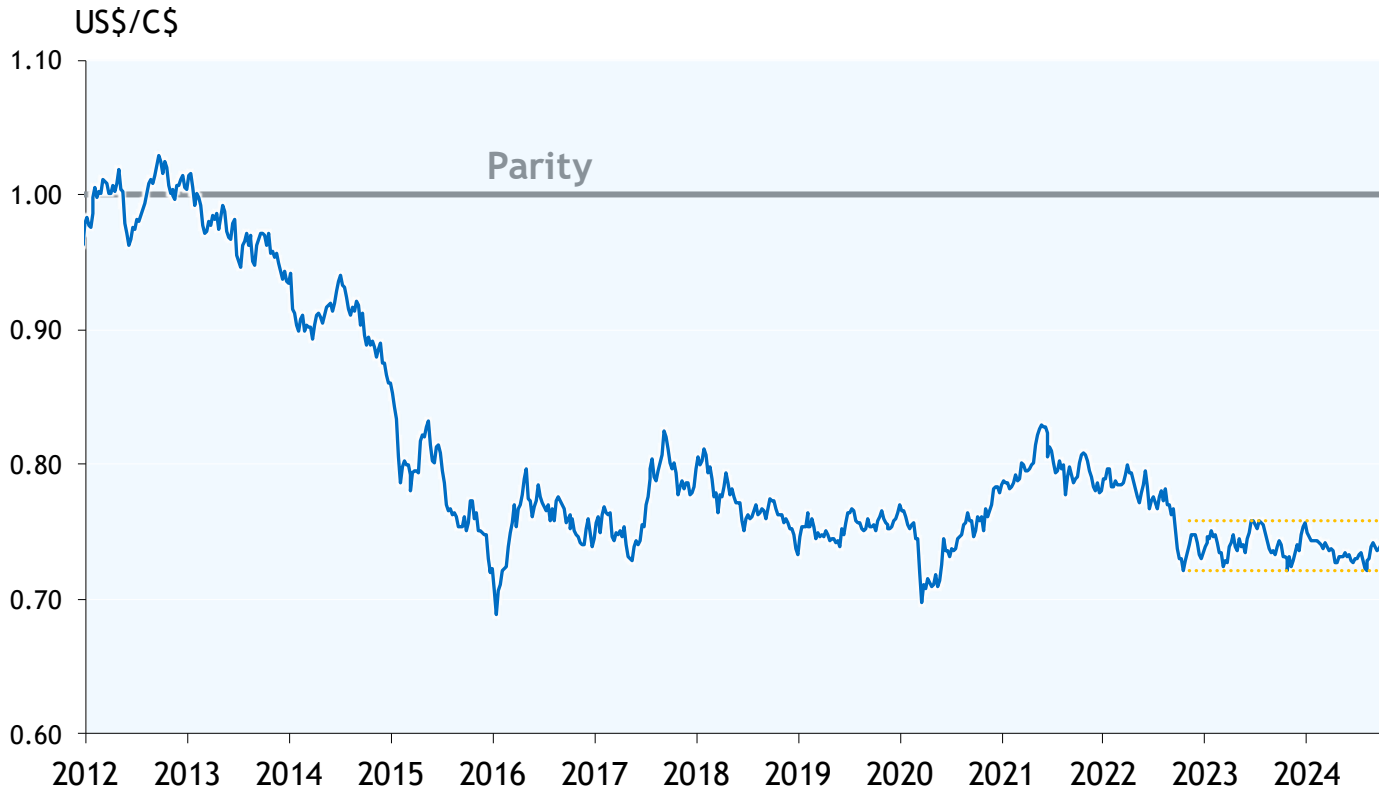
Source: Bank of Canada, RBC Economics

10-year yield expected to drop another 70 bps by mid-2025



Wider rate spreads to weigh on the loonie

Canadian dollar



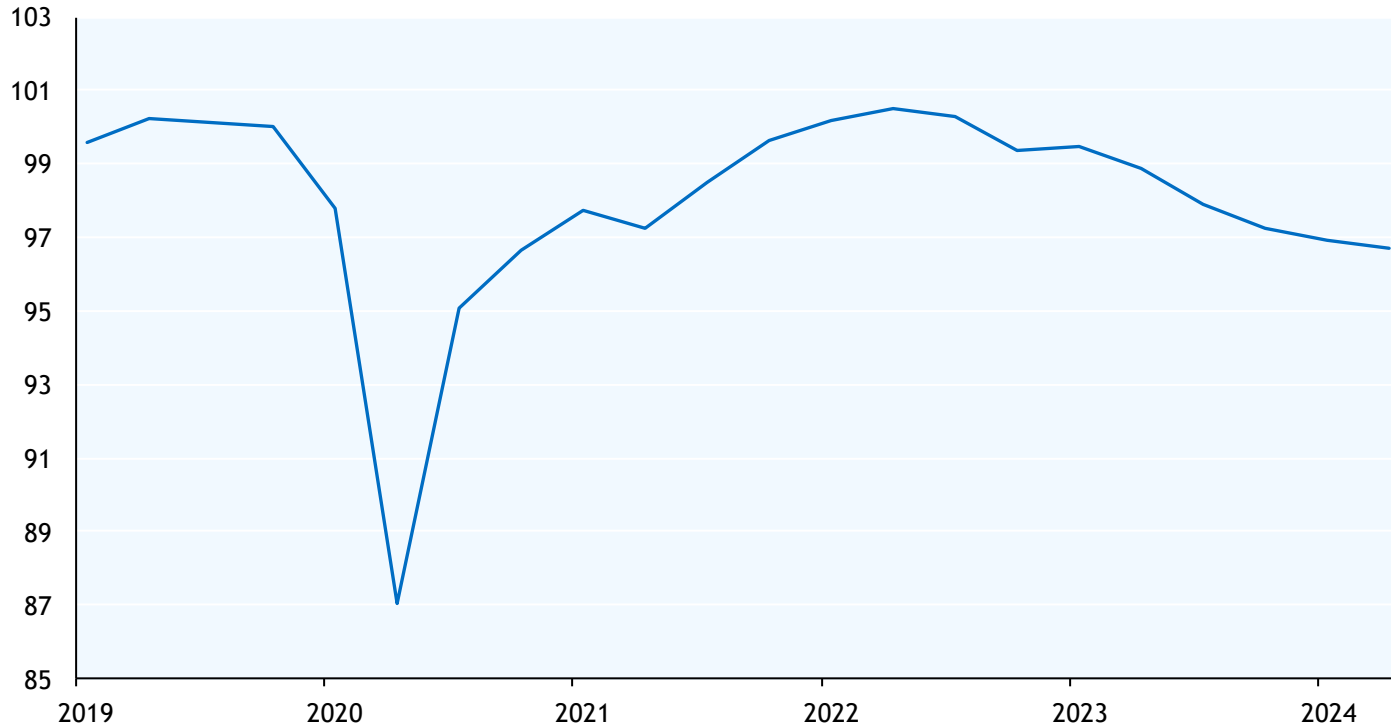
Source: Bank of Canada, RBC Economics

Forecasted to end 2024 near 71 ¢ US and slide below 70 ¢ by mid-2025

Monetary policy worked: feels like a recession

Real GDP per capita: Canada

Index = 100 in 2019



Source: Statistics Canada, RBC Economics

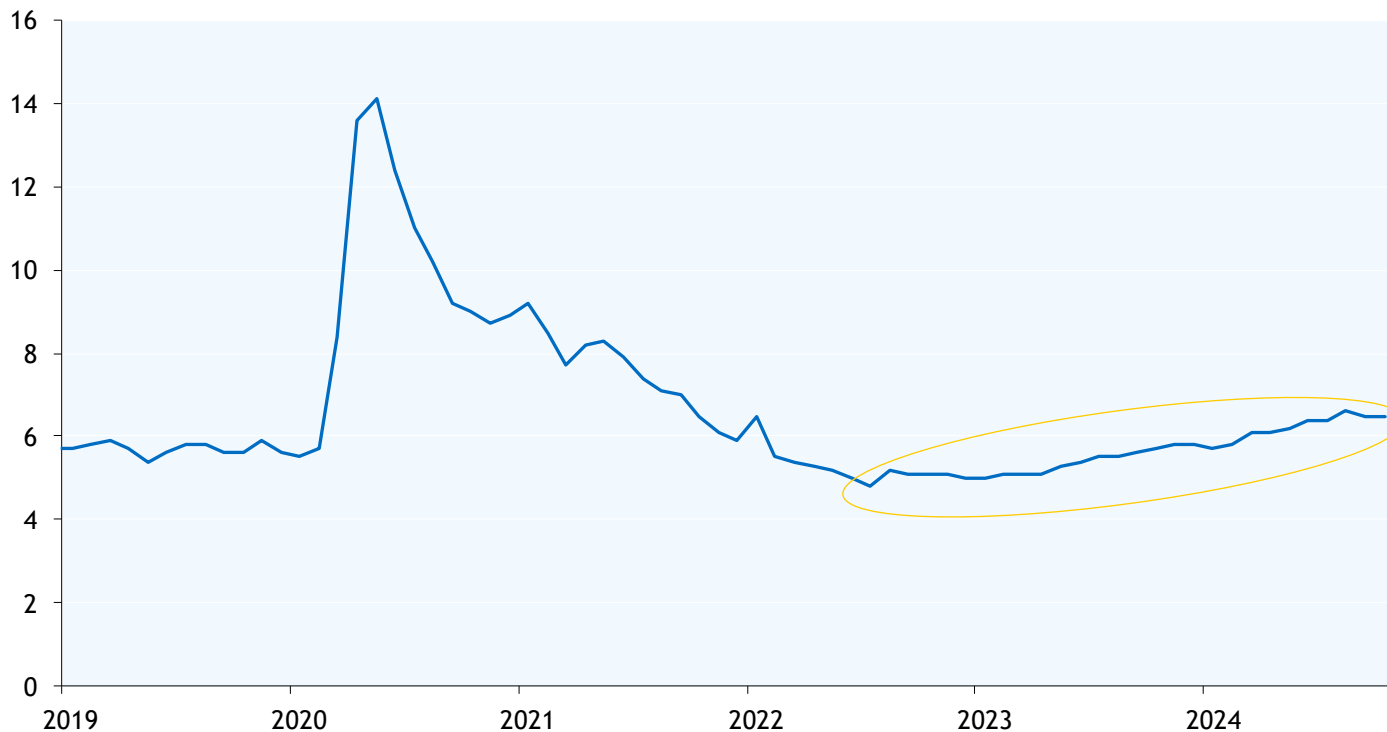
Canada's economy has contracted in 7 of the last 8 quarter on a per capita basis



Unemployment is rising

Unemployment rate

Canada, %



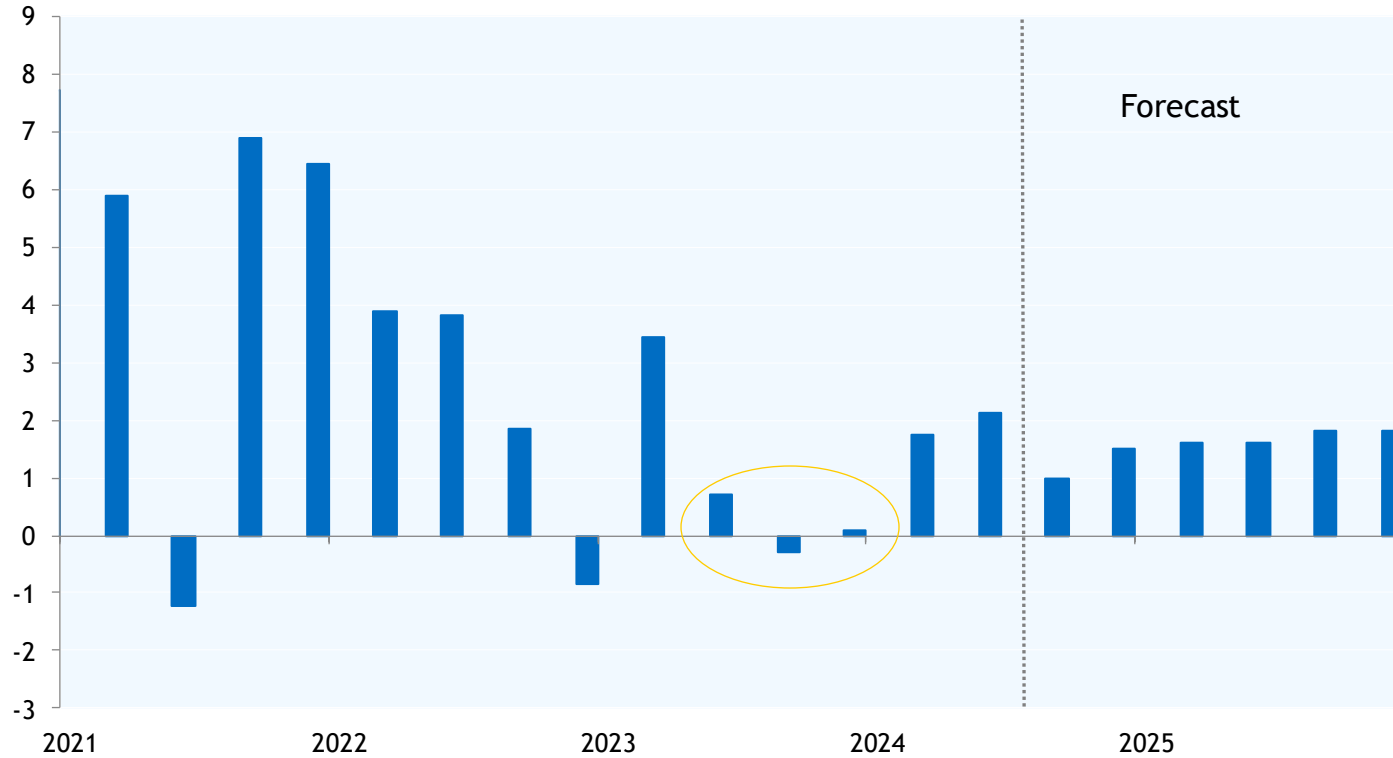
Source: Statistics Canada, RBC Economics

Expected to peak at 7% in the middle of next year

But Canada isn't officially in a recession...

Real GDP: Canada

Quarterly % change, annualized



Source: Statistics Canada, RBC Economics

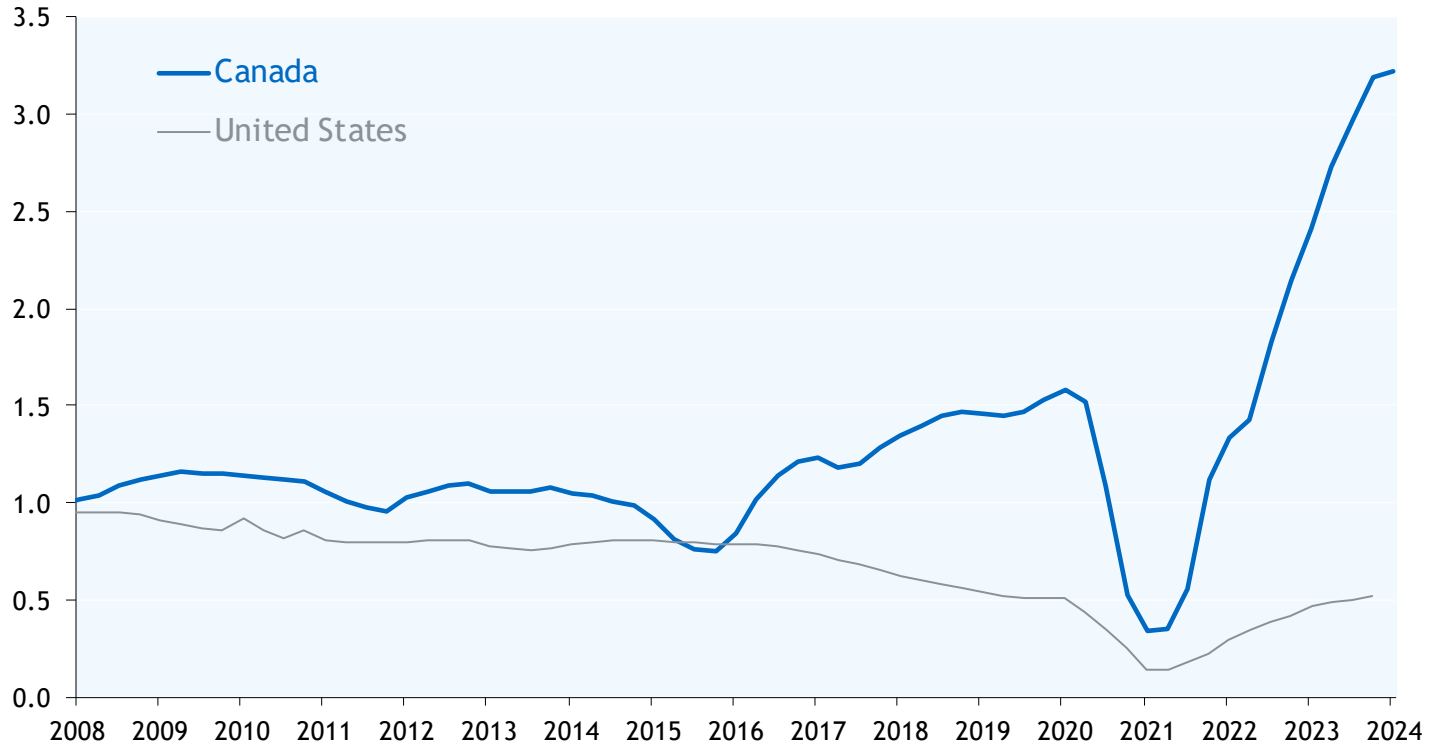
Our economy has stagnated last year; sub-potential growth this year



...because our population is booming

Population growth

Annual % change



Source: Statistics Canada, US Bureau of Economic Analysis, RBC Economics

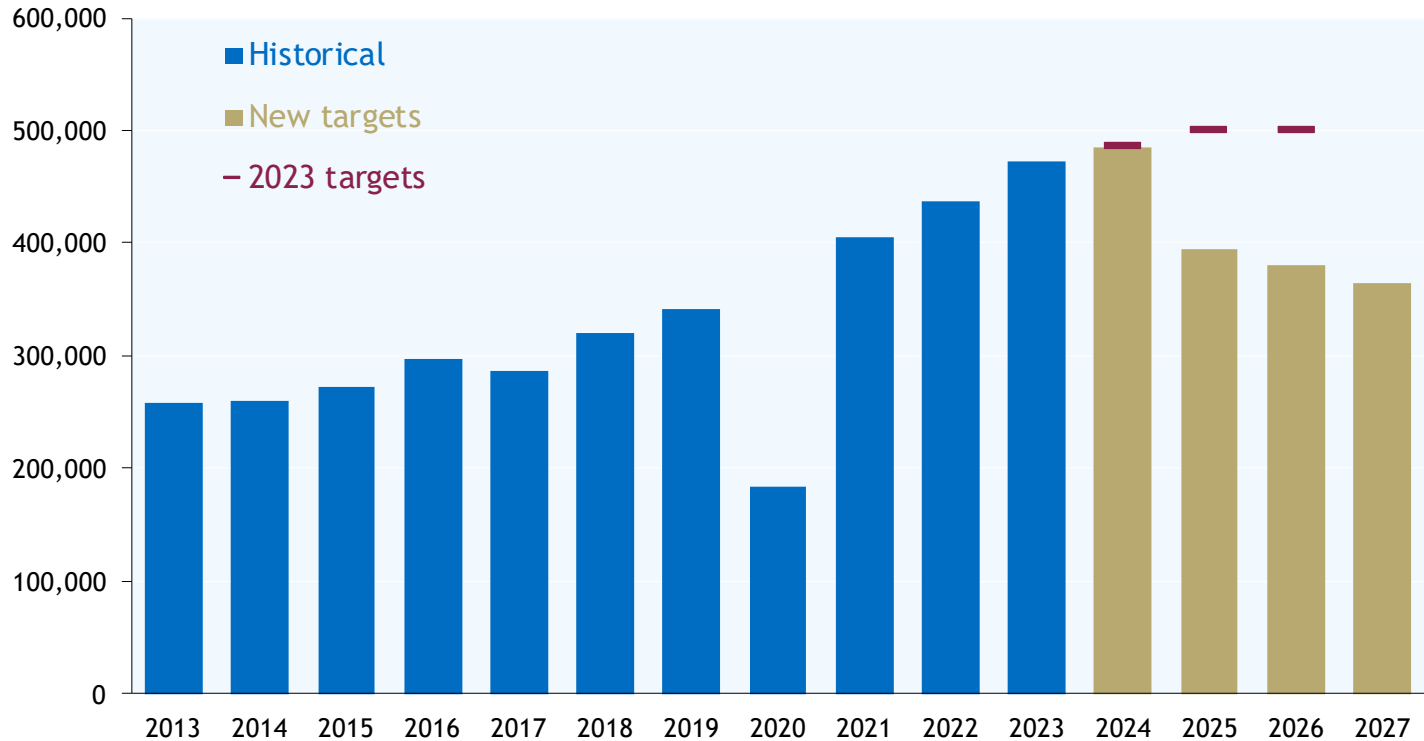
Immigration wave added 2 million consumers in Canada in last 2 years



The demographic tailwind is about to shift

Immigration : Canada

New permanent residents in Canada, in thousands



Sources : Statistics Canada, Immigration, Refugees and Citizenship Canada, RBC Economics

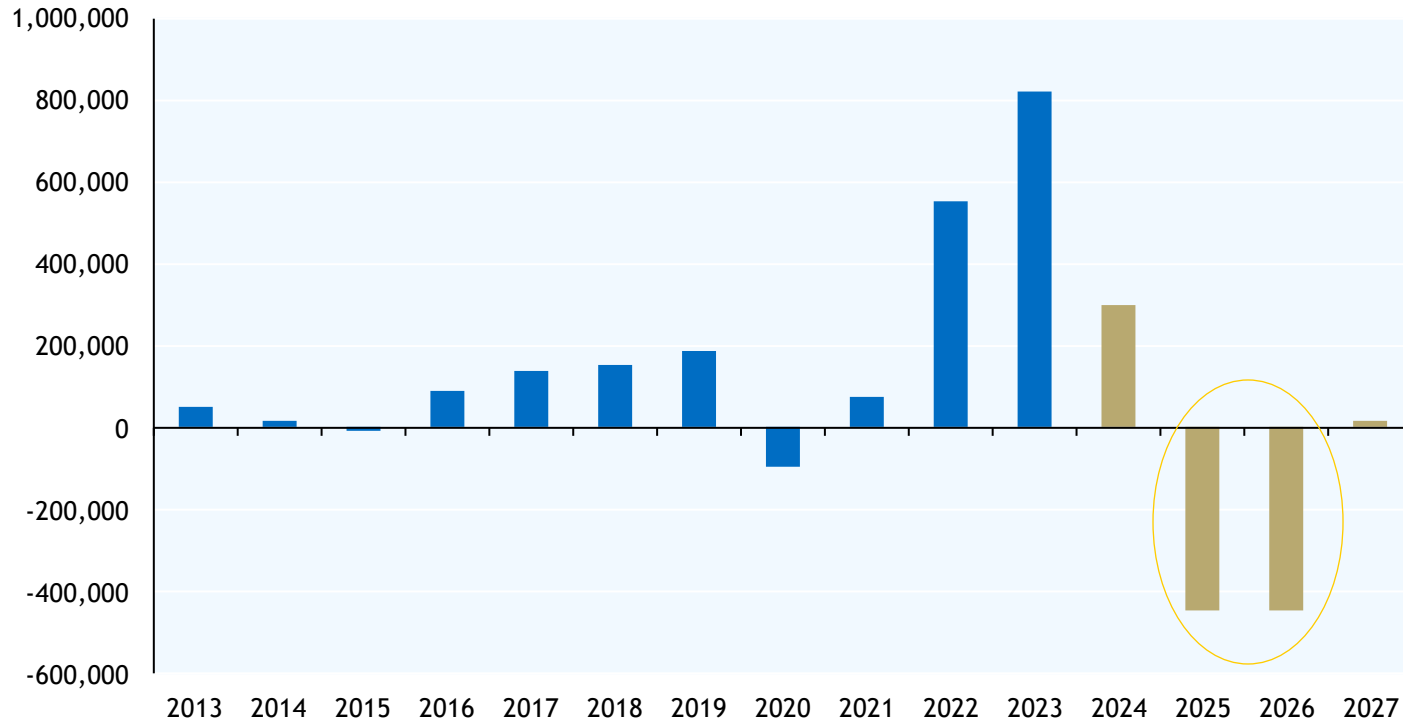
Federal government announced significant reductions in immigration targets



Large cuts to temporary residents on the way

Net non-permanent residents: Canada

Number of persons per calendar year



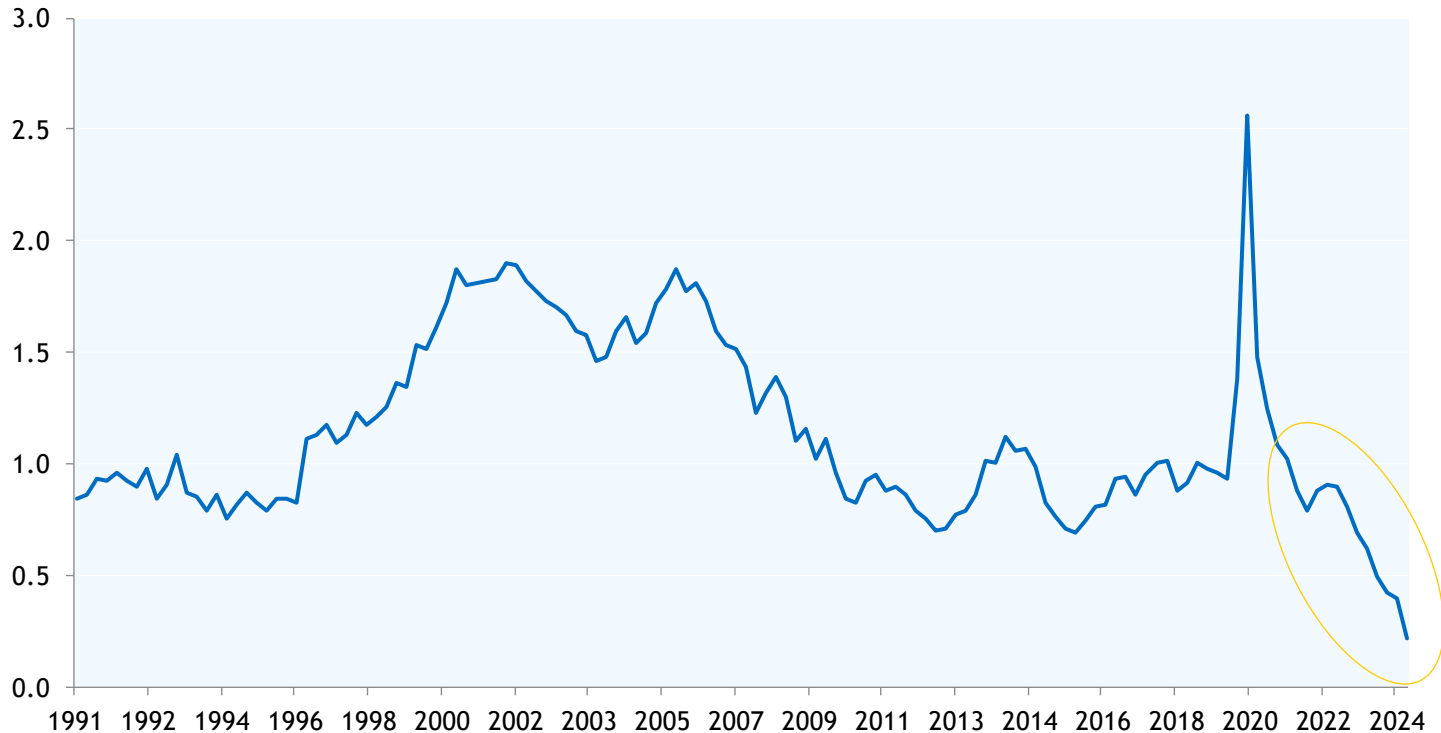
Source: Statistics Canada, IRCC, RBC Economics

Government wants to slash NPRs from 7.3% to 5% of the population over 2 years

Our productivity must increase

Labour productivity: Canada

Real GDP per hour worked, annual % change, moving average over 10 years



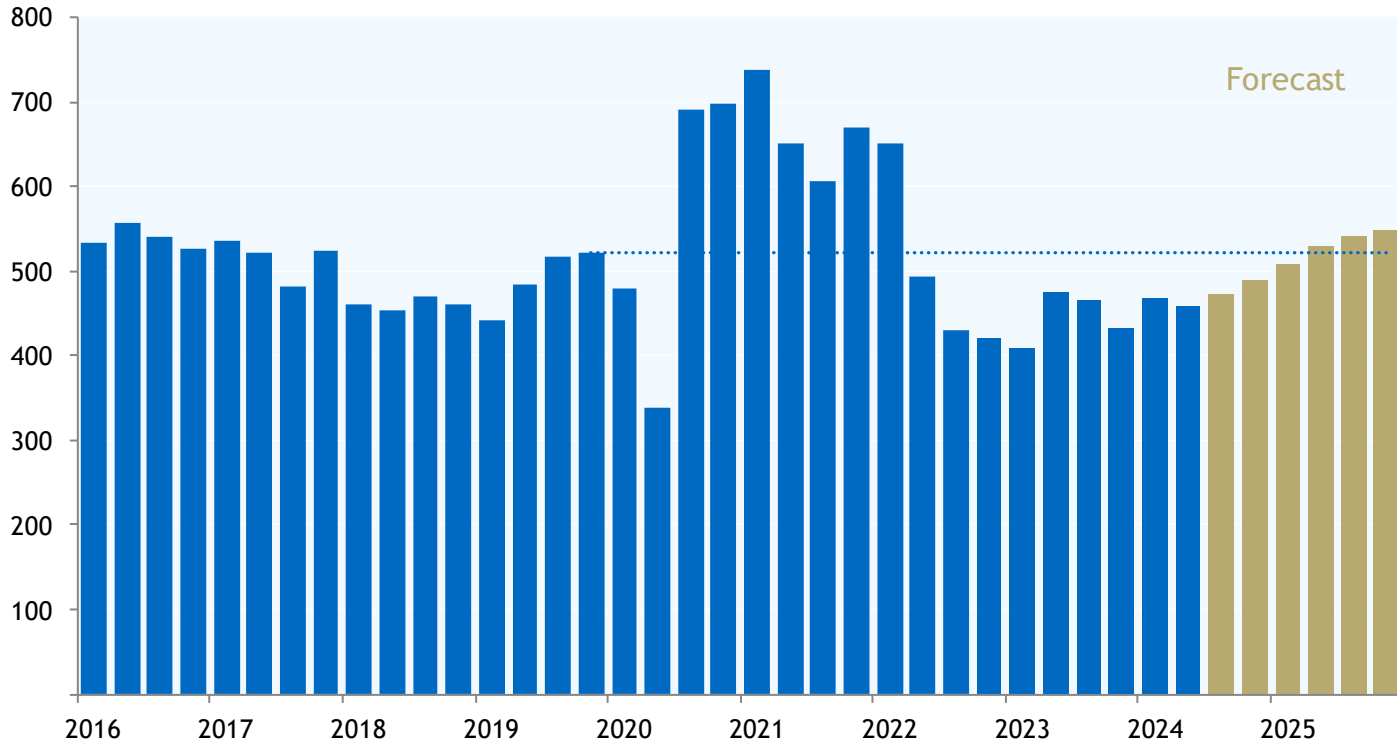
Source: Statistics Canada, RBC Economics

Otherwise, Canada will be stuck in a low growth environment

Lower rates will boost housing demand

Home resales: Canada

Thousands of units, seasonally adjusted and annualized



Source: Canadian Real Estate Association, RBC Economics

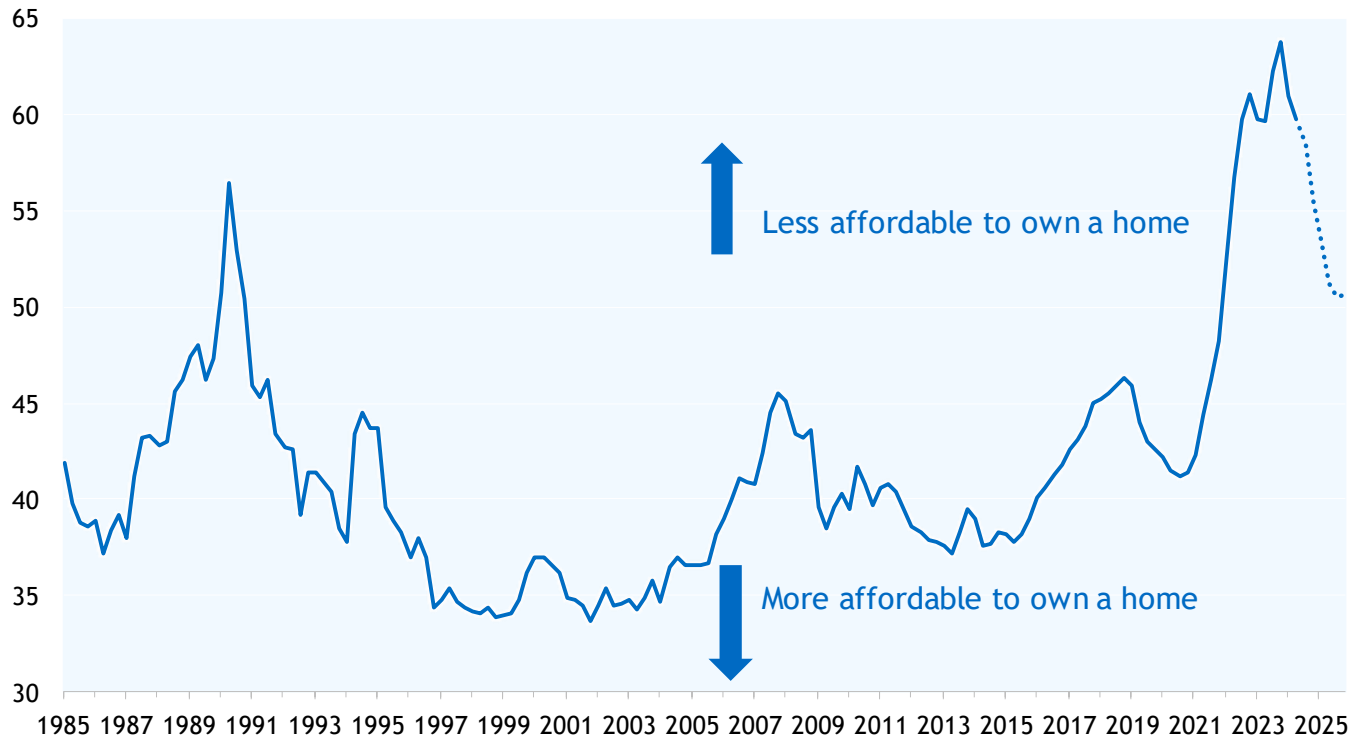
Home sales expected to rise above pre-pandemic levels next year



Poor affordability to take years to reverse

RBC's aggregate housing affordability measure: Canada

Ownership costs as % of household income, composite of all housing categories



Source: RPS, Statistics Canada, Bank of Canada, RBC Economics

Will restrict buyers' ability to bid up prices in the near term

For more information please visit:

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