Sept, 27th 2023

Brave New World

Canada Outlook

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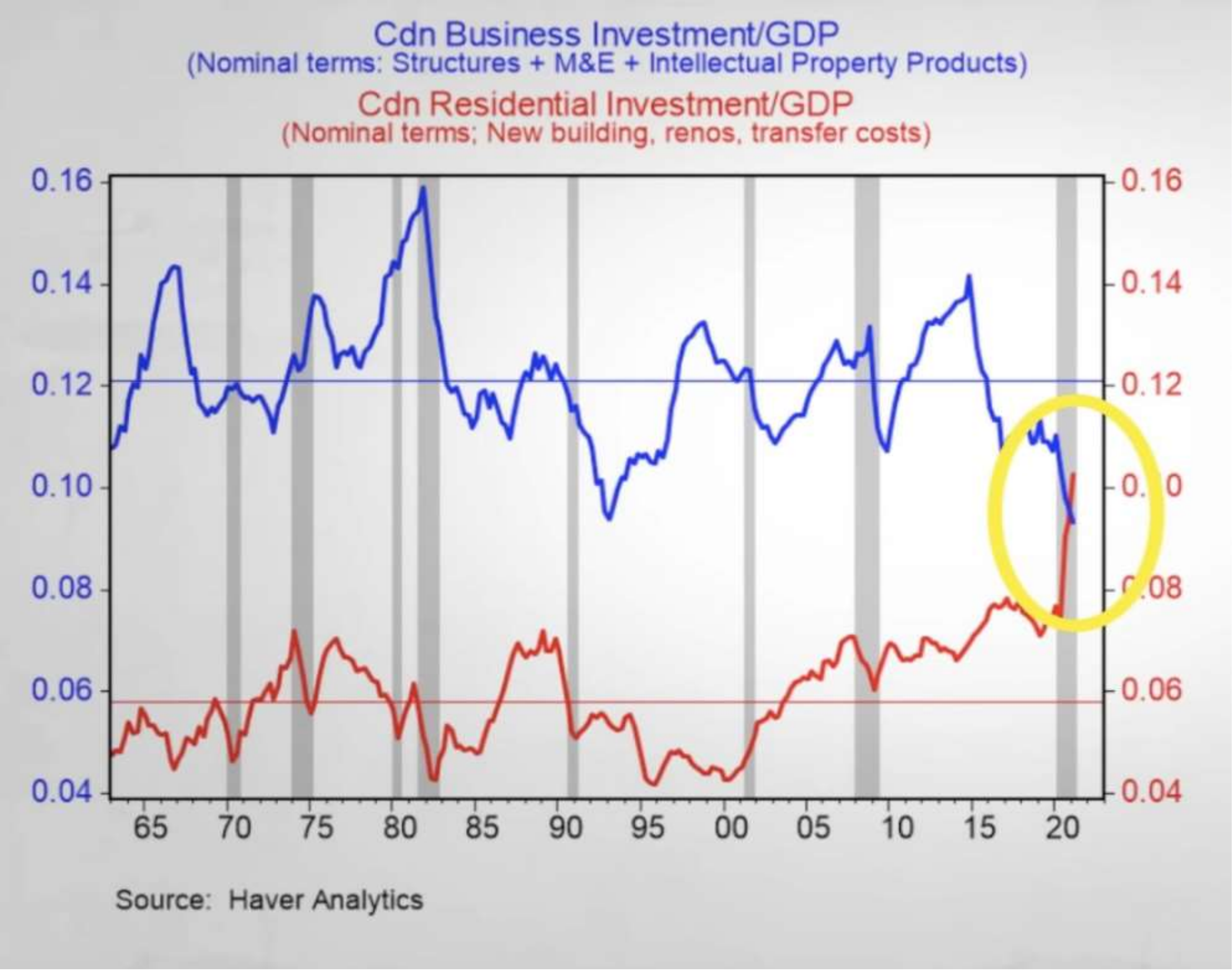
Canadian economy – “Deer in Headlights”

Covid accelerated the misallocation.



Our policies increasingly promote residential investment over Business investment

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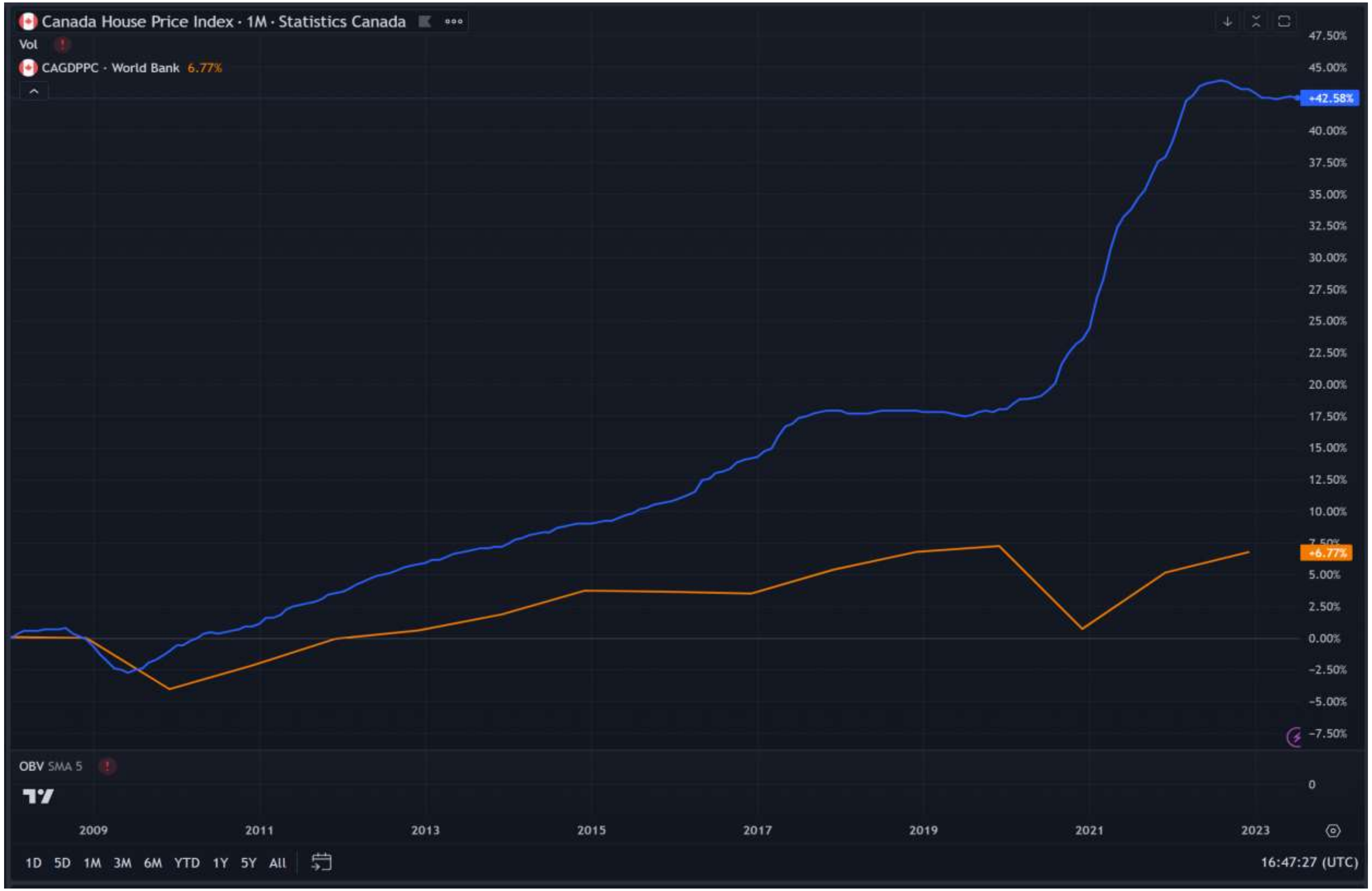
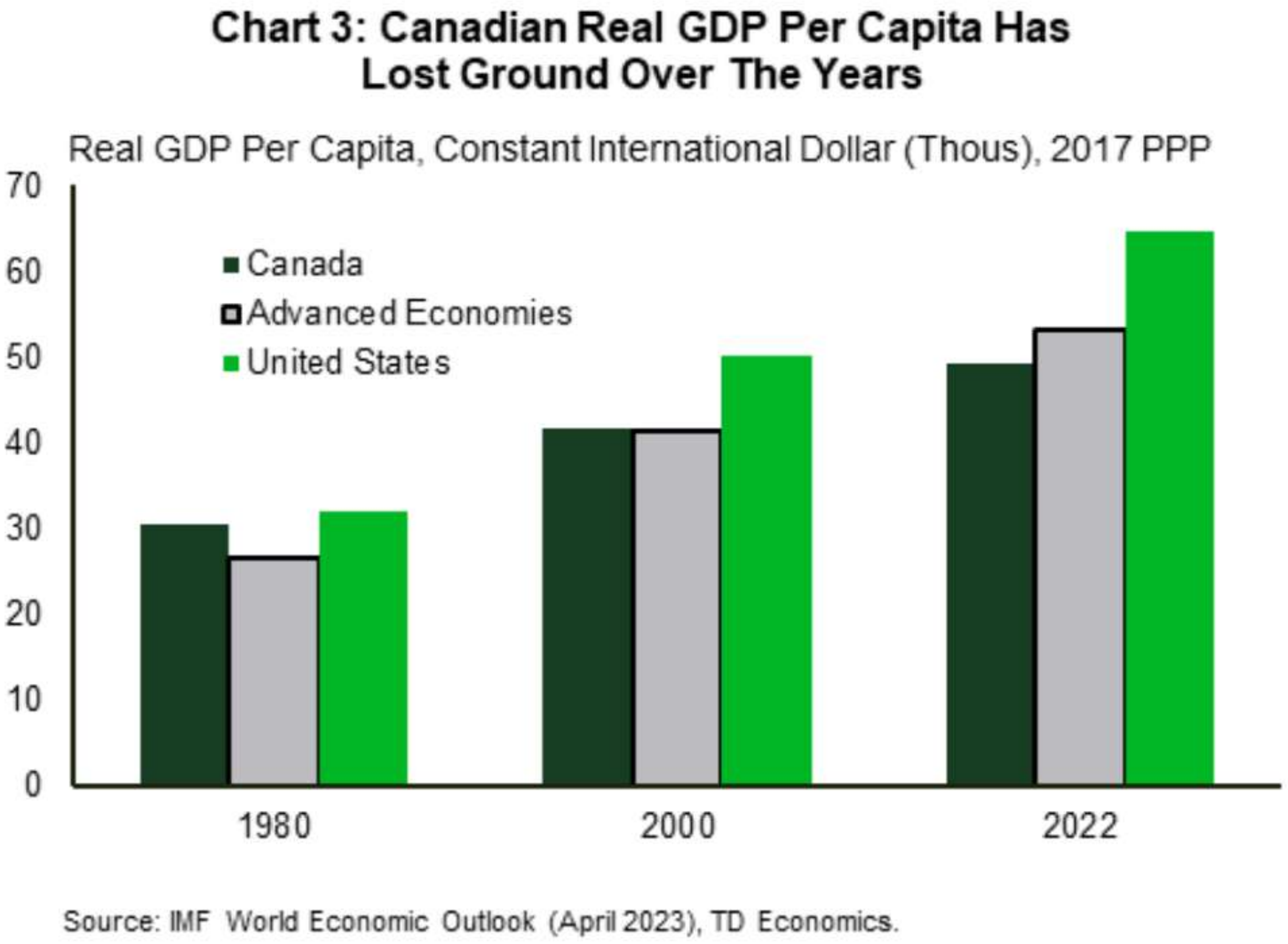
Home prices up but wages stagnant.



Canada's real GDP per capita has been deteriorating.

Since the 2014-15 oil shock, Canada's performance has gone from bad to worse. Canadian real GDP per capita has grown at a meagre rate of only +0.4% annually, paling in comparison to the advanced economy average of +1.4%.



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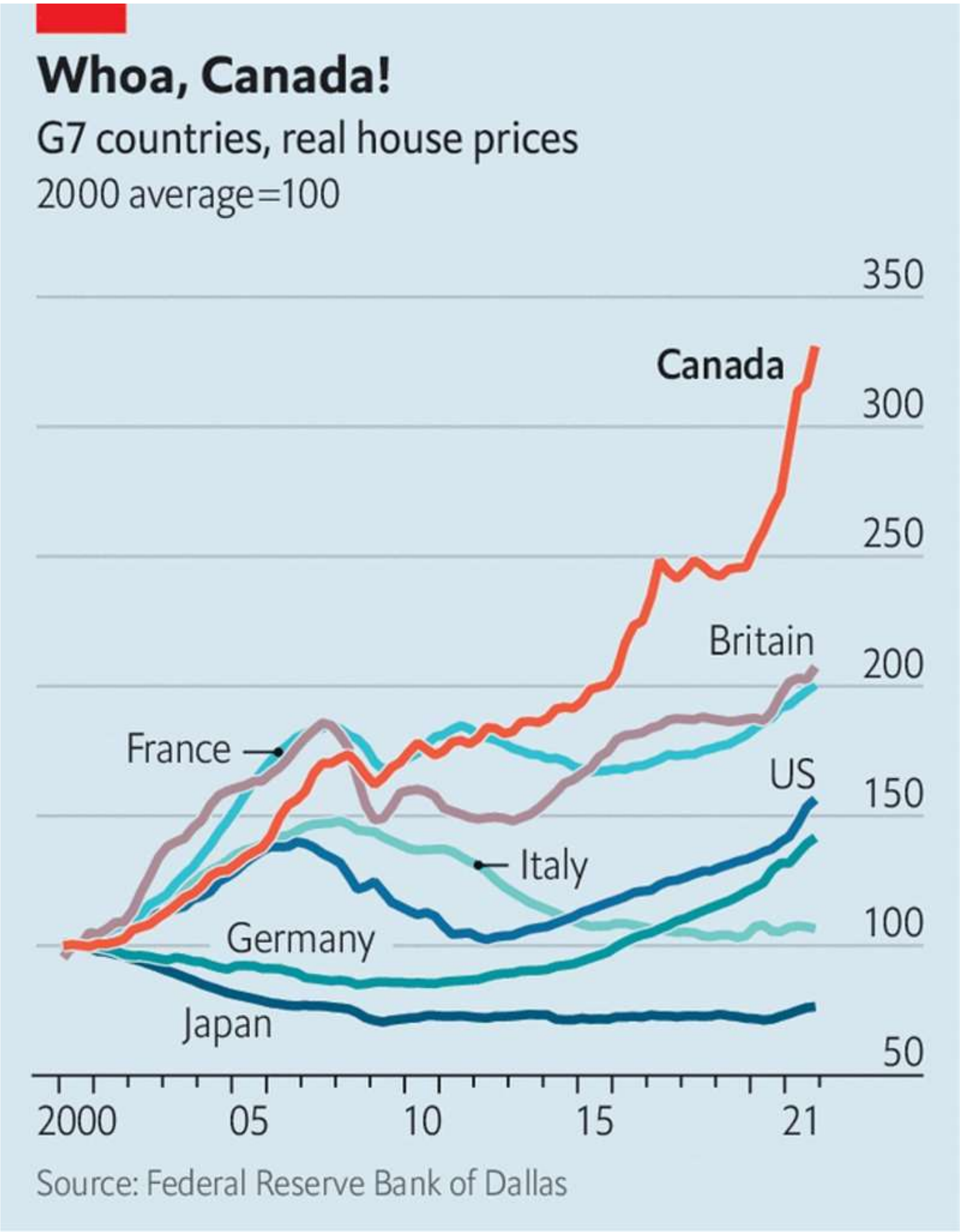
No. Real estate prices are not up… CAD is down

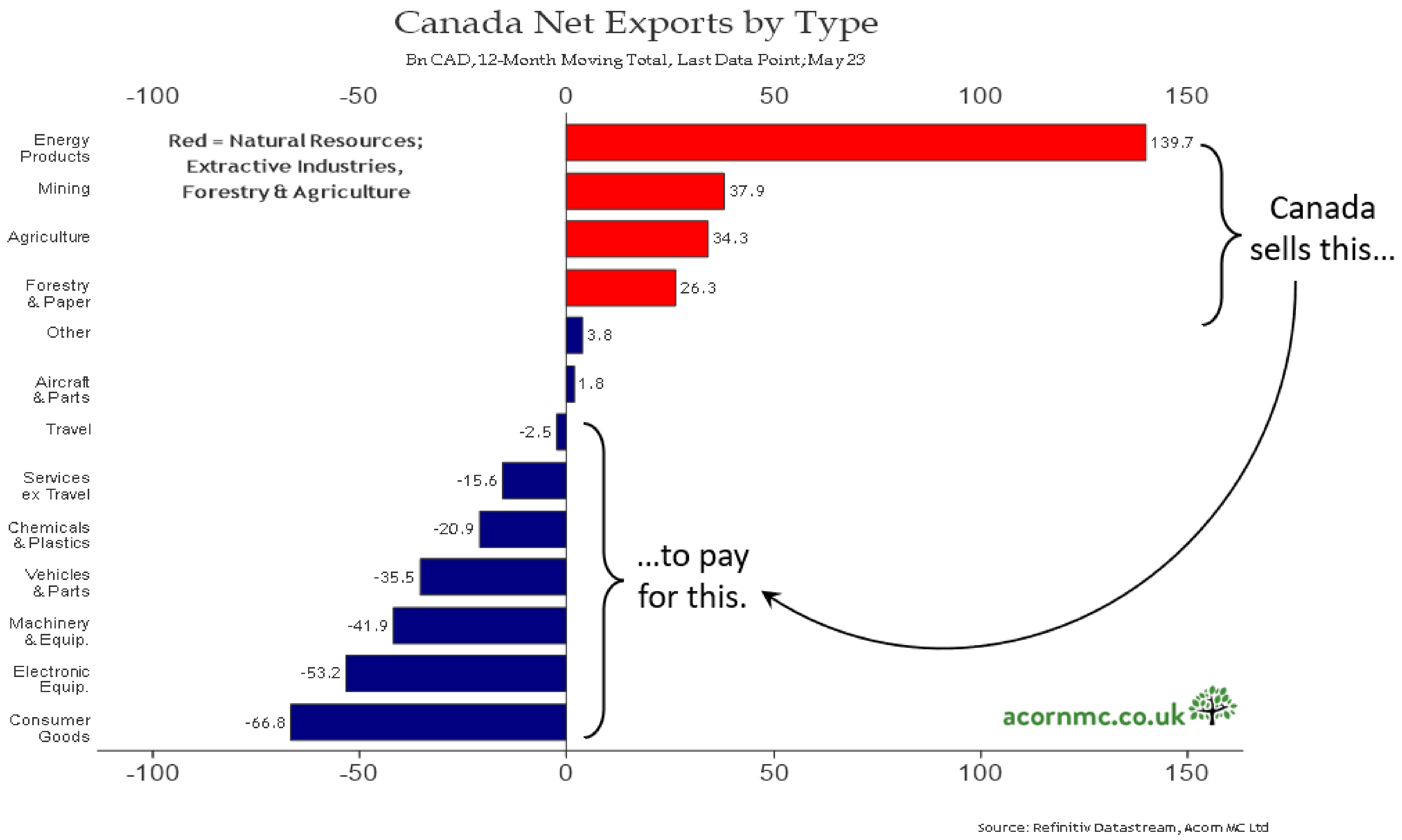
What happened in 2015 for house prices to take off???

And you thought you are a genius at investing



The Economist

What drives quality of life in Canada



We sell energy to buy all the things which we need. We are increasingly constraining our energy industry and that means we will not have anything material to export.

Canadian dollar reflecting this change.

Canadian dollar used to have a strong correlation with crude oil… not anymore. Our policies don't promote fossil fuel anymore

Global Central bank report card ?

Canada's economy has been over reliant on property prices for its growth.
That seems to be changing slowly but it is a long-drawn process

CANADA

Tiff Macklem | GRADE: B+

Governor Tiff Macklem, who took over the role of governor in June 2020, was slow in responding to the inflationary pressures that emerged in 2021 and 2022. Inflation may have peaked in 2022 at 8.1% in June, a 20-year high; it fell back to 7.6% the following month. "The bank was always trying to find an excuse not to raise interest rates," comments Stephen Brown at Capital Economics. "At the start of this year, the market was pricing in a rate rise from the Bank of Canada, but it just kept finding excuses not to act. I think—even though we can't blame them for not predicting the war on Ukraine—they were too slow to lift off." Along with the US Federal Reserve, Canada's central bank turned around over the second part of the year. "Even though [the bank] took a long time to become hawkish," Brown adds, "it became so very quickly. It hasn't messed around."

Global finance Magazine

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Why has BOC continued raising rates?

Negative amortization stats from banks' Q3 2023 reports, where mortgage payments < interest:

BMO: $32.2 B; 22% Total Mortgage Portfolio
(up from $28.4 B in Q2 2023)

TD: $45.7 B; 18%
(up from $39.6 B in Q4 2022)

CIBC: $49.8 B; 19%
(up from $44.2 B in Q2 2023)

RBC & Scotia≈0

BMO

$32.8 Billion in Negative Amortization

= 22% of BMO's $147.7 Billion Mortgage Portfolio

As a result of increases in interest rates, the portfolio included $32.8 billion ($28.4 billion as at April 30, 2023) of variable rate mortgages in negative amortization, where all of the contractual payment is currently being applied to interest and the portion of interest requirement not met by the payment is being added to the principal.

TD

$45.7 Billion in Negative Amortization

= 18% of TD's $257.7 Billion Mortgage Portfolio

$45.7 billion or 18% of the mortgage portfolio in Canada (October 31, 2022: $39.6 billion or 16%) relates to mortgages in which the fixed contractual payments are no longer sufficient to cover the interest based on the rates in effect at July 31, 2023 and October 31, 2022, respectively.

CIBC

$49.8 Billion in Negative Amortization

= 19% of CIBC's $264.8 Billion Mortgage Portfolio

Includes variable rate mortgages of $65.6 billion (October 31, 2022: $67.5 billion), of which $49.8 billion (October 31, 2022: $38.5 billion) relates to mortgages in which all of the fixed contractual payments are currently being applied to interest based on the rates in effect at July 31, 2023 and October 31, 2022, respectively, and the terms of the mortgages, with the portion of the contractual interest requirement not met by the payments being added to the principal. Since the amortization profile reflected in this table is based on the current amount of existing contractual payments, it does not reflect that the contractual payment amount is required to be increased at the time of renewal by the amount necessary to reduce the amortization period down to the period in effect at the time the mortgage was originally provided.

RBC

Does Not Originate Mortgages That Can Result In Negative Amortization

Our policy is to originate mortgages with amortization periods of 30 years or less. Amortization periods greater than 30 years reflect the impact of increases in interest rates on our variable rate mortgage portfolios. For these loans, the amortization period resets to the original amortization schedule upon renewal. We do not originate mortgage products with a structure that would result in negative amortization, as payments on variable rate mortgages automatically increase to ensure accrued interest is covered.

Scotiabank

Does Not Originate Mortgages That Can Result In Negative Amortization

20-24 years	25-29 years	30-34 years	35 years and greater
37.6%	27.9%	0.8%	0.2%

Source: Q3 2023 Quarterly Results

Canadian labour productivity down 5 straight quarters! ?

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Business output and growth in hours worked slow sharply in second quarter, quarterly % change

	Real gross domestic product	Labour productivity	Hours worked
Third quarter 2021	1.5	-1.2	2.7
Fourth quarter 2021	2.1	-0.5	2.6
First quarter 2022	0.8	0.1	0.7
Second quarter 2022	0.9	-0.3	1.3
Third quarter 2022	0.5	-0.4	0.9
Fourth quarter 2022	-0.4	-0.4	0.1
First quarter 2023	0.6	-0.8	1.4
Second quarter 2023	-0.2	-0.6	0.4

Earlier declines could be waved away as "pandemic rebound" effects, but this is now settling in as the new normal.

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I had to share this data with you.

"The government sector, not the private sector, is driving job creation in Canada since the onset of the COVID pandemic and recession,"

Fraser Institute News Release: Government sector accounts for more than 86% of new jobs in Canada since pandemic began

GlobeNewswire by notified GlobeNewswire

Published Sep 01, 2023 • 2 minute read

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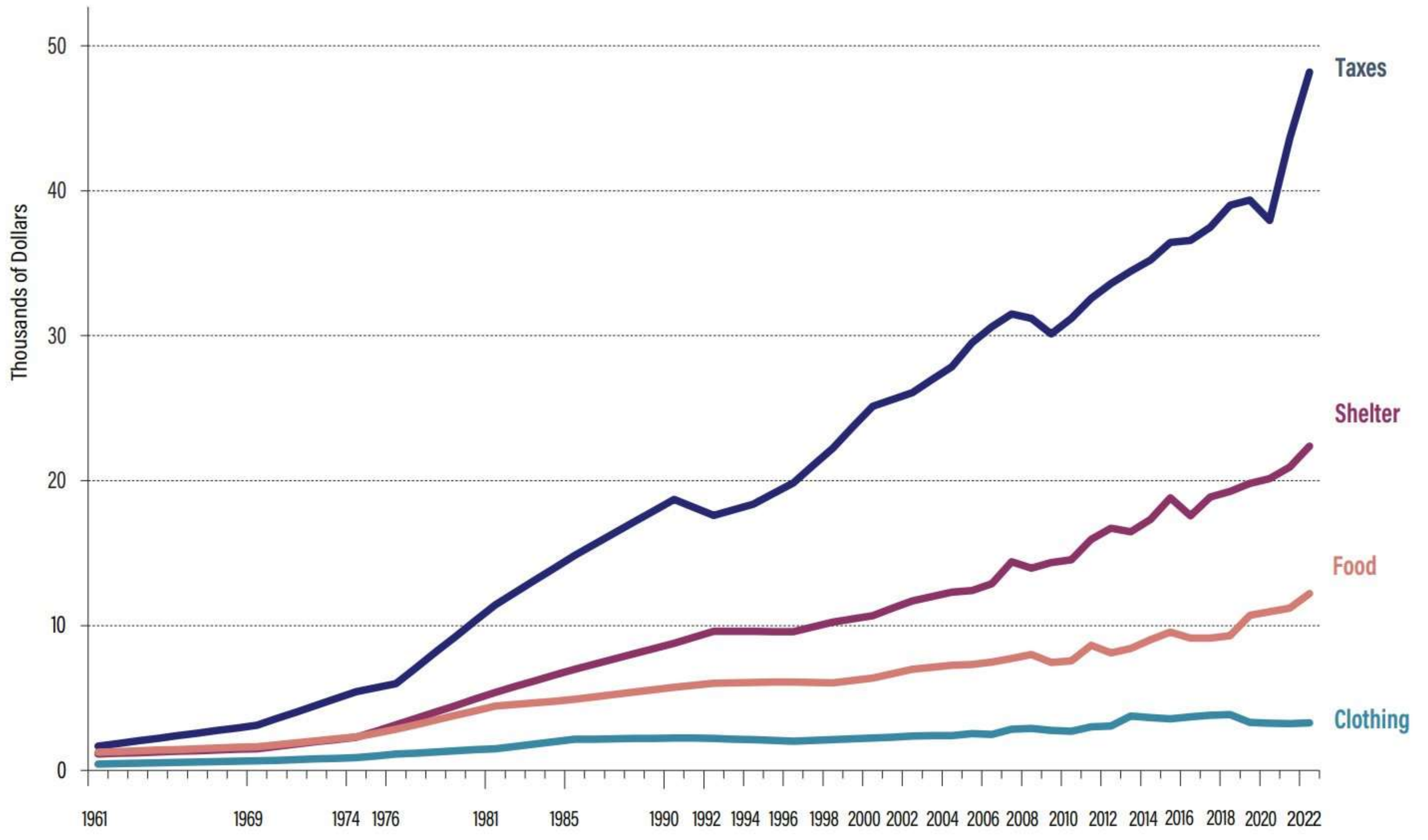
TORONTO, Sept. 01, 2023 (GLOBE NEWSWIRE) — The government sector accounted for 86.7 per cent of all new jobs in Canada since the pandemic began in early 2020, finds a new study released today by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

Yes Taxes are the biggest component.

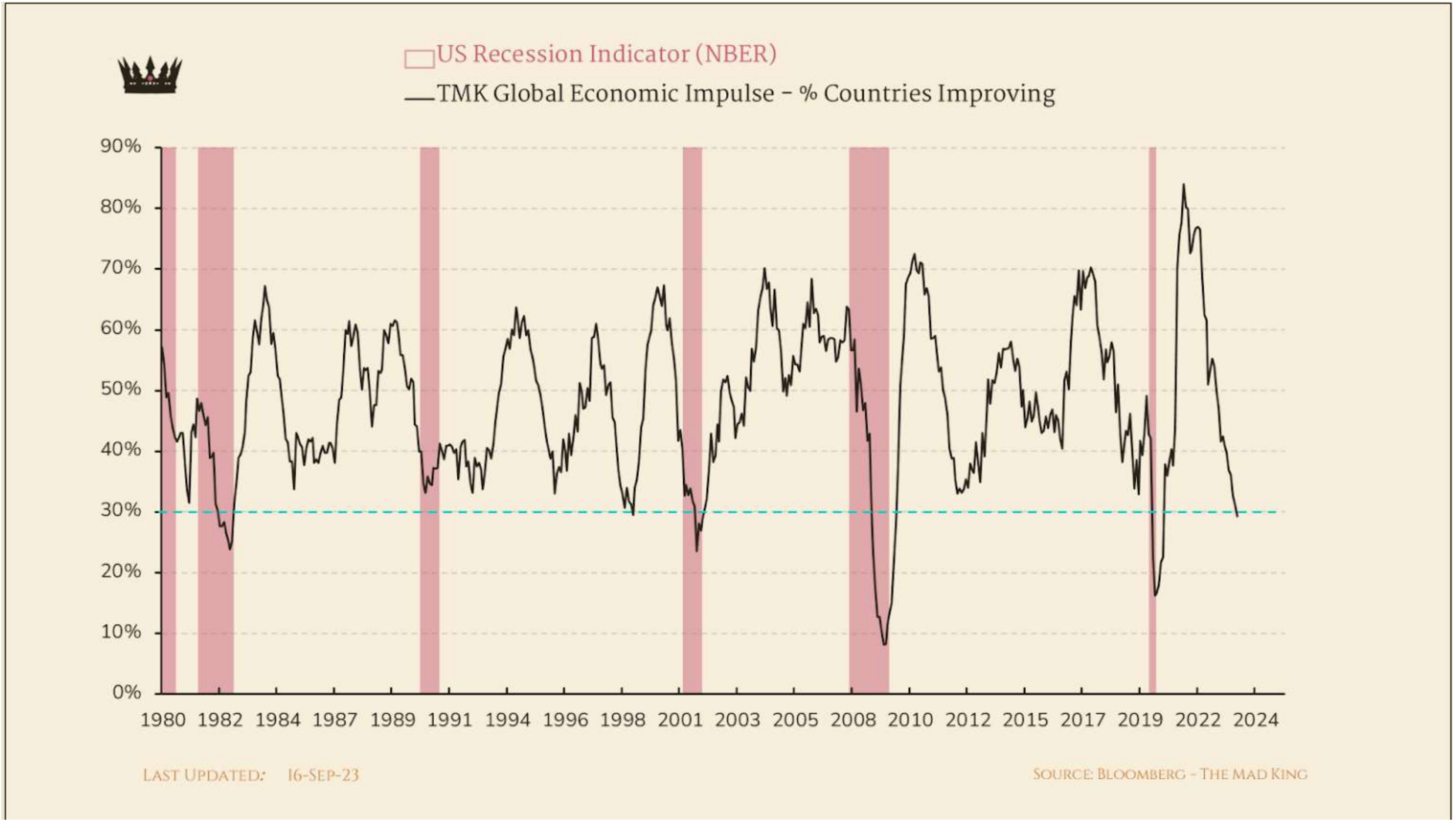
Higher taxes leads to lower growth. Big govt leads to lower growth.

Figure 3: Taxes and basic expenditures of the average Canadian family, 1961–2022

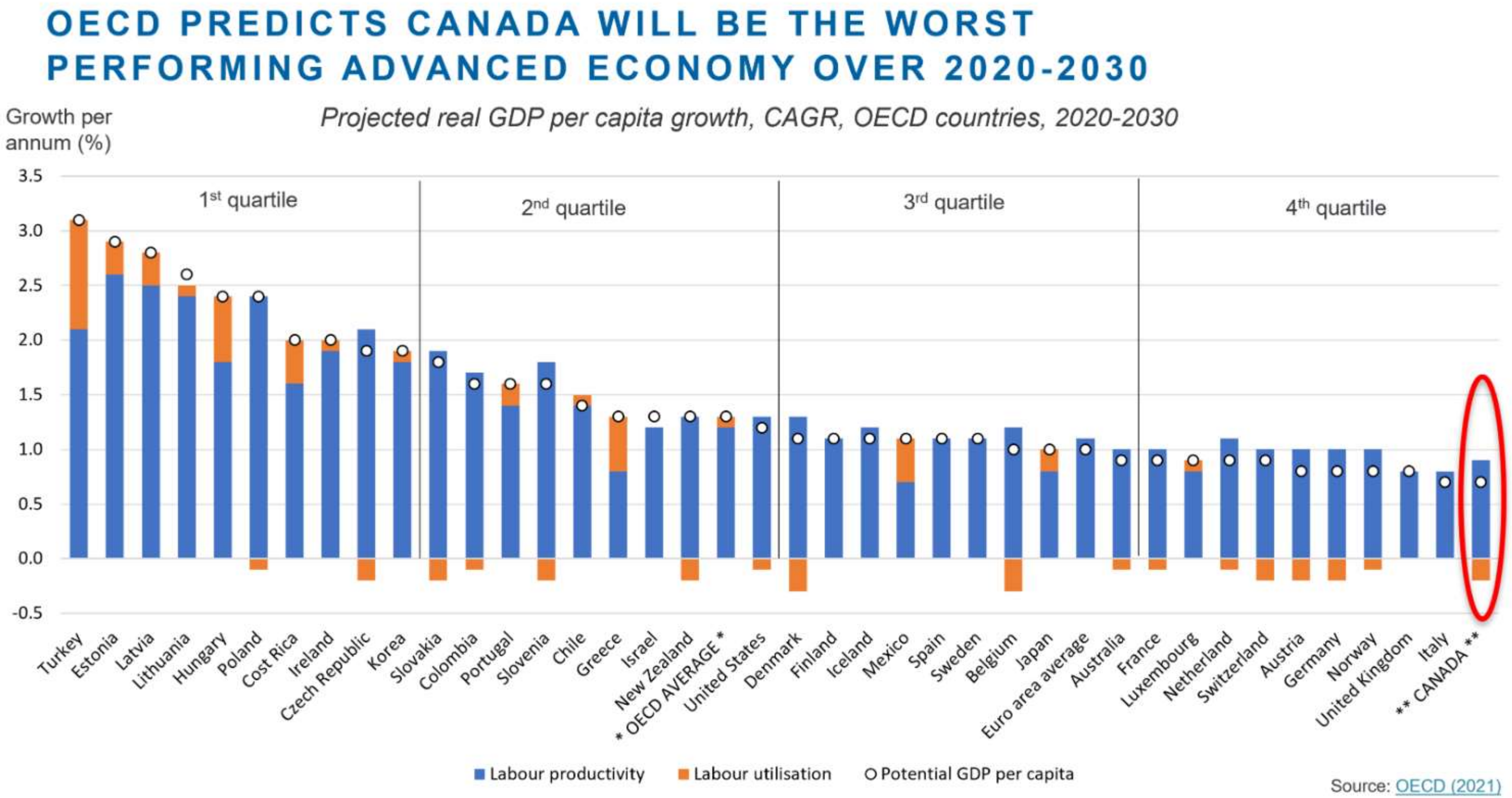


Source: Table 4.

Get ready for tougher times.



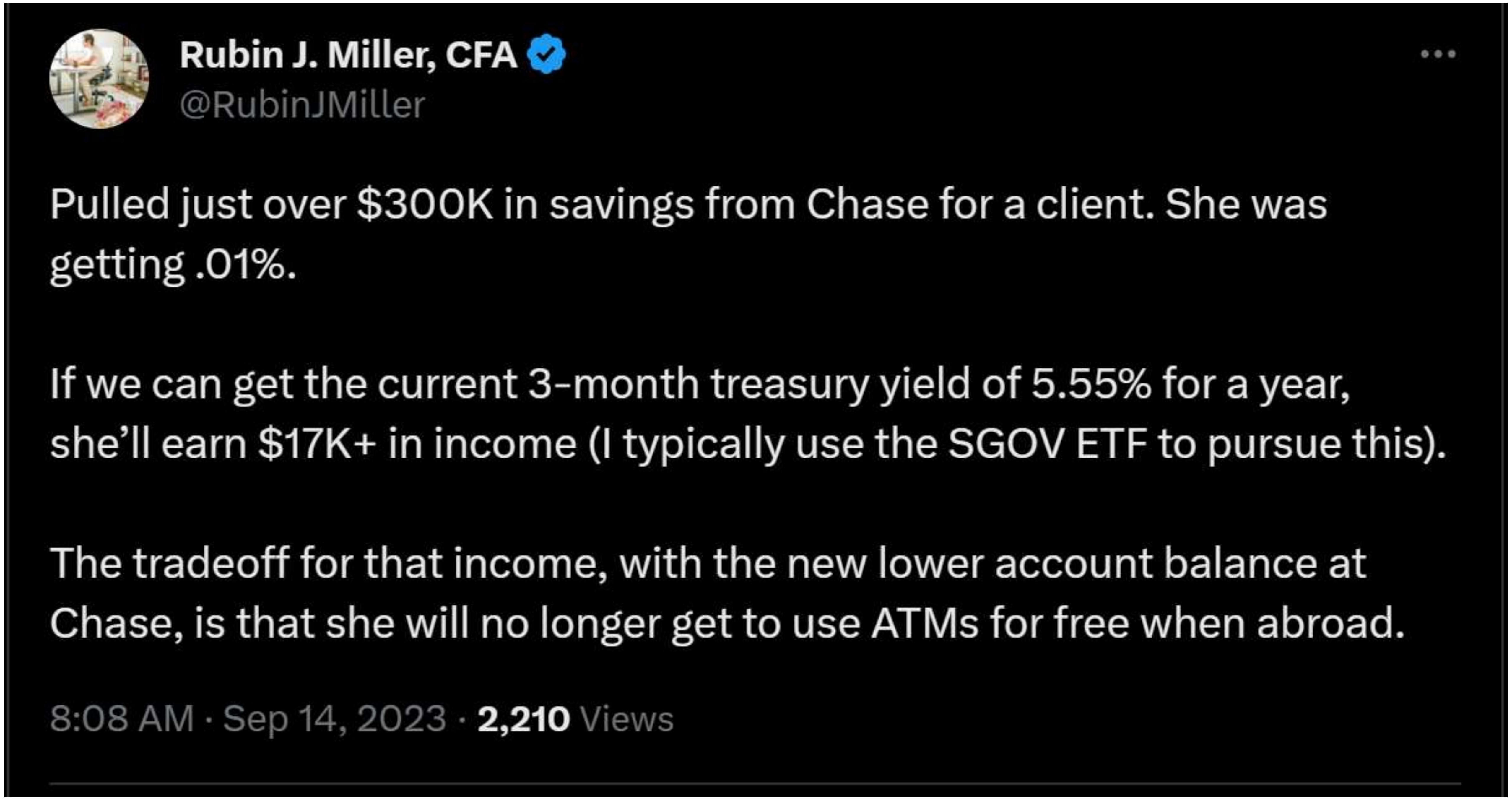
So what can you do if this is the future?



Source: OECD (2021)

Take control of your Finances.

Lot of easy options available as Cash is earning 4-4.5%



Rubin J. Miller, CFA
@RubinJMiller

Pulled just over $300K in savings from Chase for a client. She was getting .01%.

If we can get the current 3-month treasury yield of 5.55% for a year, she'll earn $17K+ in income (I typically use the SGOV ETF to pursue this).

The tradeoff for that income, with the new lower account balance at Chase, is that she will no longer get to use ATMs for free when abroad.

8:08 AM · Sep 14, 2023 · **2,210** Views

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Govts are deciding the winners and losers?

Federal, Ontario governments will break even in 20 years on $28.2B EV plant subsidies: report

Politicians say report doesn't take into account economic spinoff of the plants

Samantha Craggs · CBC News · Posted: Sep 12, 2023 7:50 AM MDT | Last Updated: September 12

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If BOC decides to cut the rates or cap the rates.

It is possible that BOC is not able to contain the inflation and has to support the banking system. The result will be parabolic rise in GOLD and continuing bull market in real estate

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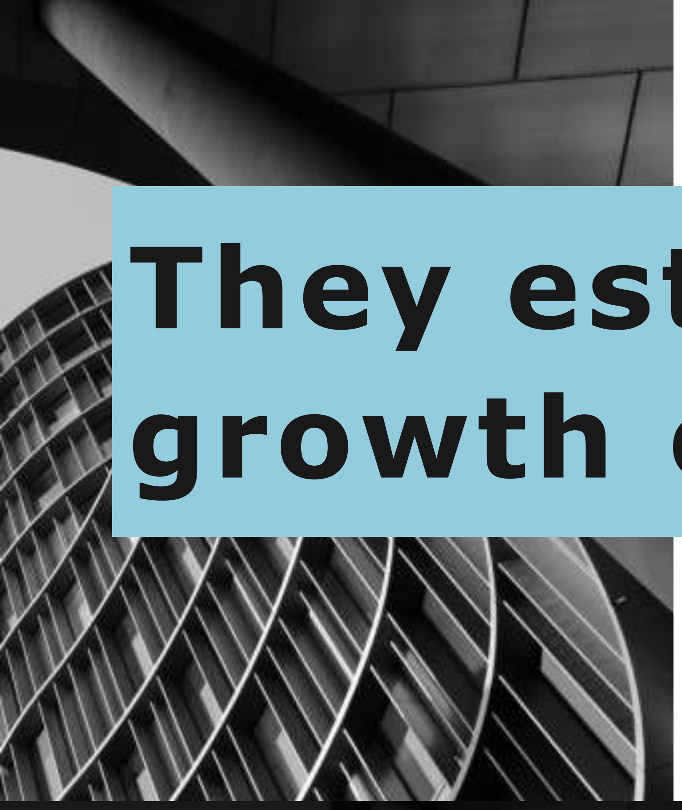
They estimate that will result in price growth of 89% over the next 6 years.



Canada's top housing agency (CMHC) now predicts that Canada will be short up to 4 MILLION housing units by 2030

Table 5: Supply gaps by scenario, 2030, millions of housing units

	Baseline	Low-economic-growth	High-population-growth
Ontario	1.48	1.31	1.65
Quebec	0.86	0.77	1.09
British Columbia	0.61	0.55	0.69
Alberta	0.13	0.13	0.17
Manitoba	0.17	0.15	0.18
Saskatchewan	0.06	0.06	0.08
Nova Scotia	0.07	0.06	0.07
New Brunswick	-	-	-
Newfoundland and Labrador	0.06	0.03	0.07
Prince Edward Island	-	-	-
Canada	3.45	3.07	4.01

Source: CMHC calculations. Numbers may not add up because of rounding.

Indeed Canada

Summary

Our policies don’t support business growth anymore

↓

They support real estate over industry

↓

This has led to rising real estate price but stagnant incomes

↓

Value of your house going up NOT your incomes, but you were happy

↓

Supported by BOC which was keeping rates low and govt which went on spending binge

↓

Now BOC has started raising rates and govt is forced to cut spending

↓

Which is leading to falling home values as EMIs start biting

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Canada outlook

Three probable paths

1. Decades of STAGNATION (without policy change) - **Most likely**

2. Inflate away the debt like what Japan is doing- good for home values and GOLD but INFLATION will become systemic

3. Open Canada for competition- **Least likely**

In all three path the outcome for Canadian dollar, Canadian housing and Quality of life will be different

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