rennie landscape

fall 2020

Dear Reader,

Welcome to the fall 2020 edition of the rennie landscape.

If you're reading this, you've officially made it to the last quarter of 2020. Nevermind that just around the corner looms British Columbia's provincial election, a US presidential election, and a second wave of Covid-19; you have survived six months of a global pandemic, an unprecedented economic downturn, wildfire smoke, and moths. Congratulations.

In all seriousness, it is hard to recall another year quite like 2020 has been so far. Perhaps it has been, in a truly absolute sense, an outlier, encapsulating within a single calendar year a series of events whose cumulative probability was so low we won't see another one quite like it for a generation (or hopefully more).

Perhaps. Or perhaps it was inevitable. Perhaps the seas were smooth for so long that skilled sailors we had forgotten how to be; perhaps 2020 was a reversion to some sort of mean. Without the benefit of being future historians, how can we know?

What we do know is that as we experience, without hyperbole, unprecedented changes and challenges to our economy and housing market, we are also being presented with a glut of new data and perspectives that we must sift through in order to assemble a cogent view of the future. In this report, and against this backdrop—one notably punctuated by uncertainty and fear—we have attempted to do just that. It is worth stating that this edition of the rennie landscape, more so than any of its predecessors, has purposefully tasked itself with proving an objective foundation for considering the changes we have undergone and others we have yet to experience.

While we hope the rennie landscape can answer at least one or two questions you may have, or clarify a thought that simply won't firm up due to the cacophony of information competing for attention, we ask that you nonetheless reach out to us with any questions or thoughts on our future that you may have. We'd love to hear from you.

Be safe and stay curious.

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contents

01. economy

The loss of jobs during this "Great Suppression" has been historic, and so has the rebound. The recovery has some ways to go.

LEARNING A LESSON FROM THE GREAT RECESSION

As the Great Recession of 2008-09 unfolded, Metro Vancouver lost 38,100 jobs over the course of eleven months, shrinking overall employment by 3.1%. As a result, the region's unemployment rate, which had been among the lowest in the country, surged from 3.6% to 8% within two years. At the time, it was considered an historically severe economic downturn and, over the next 12 years, that perspective held true.

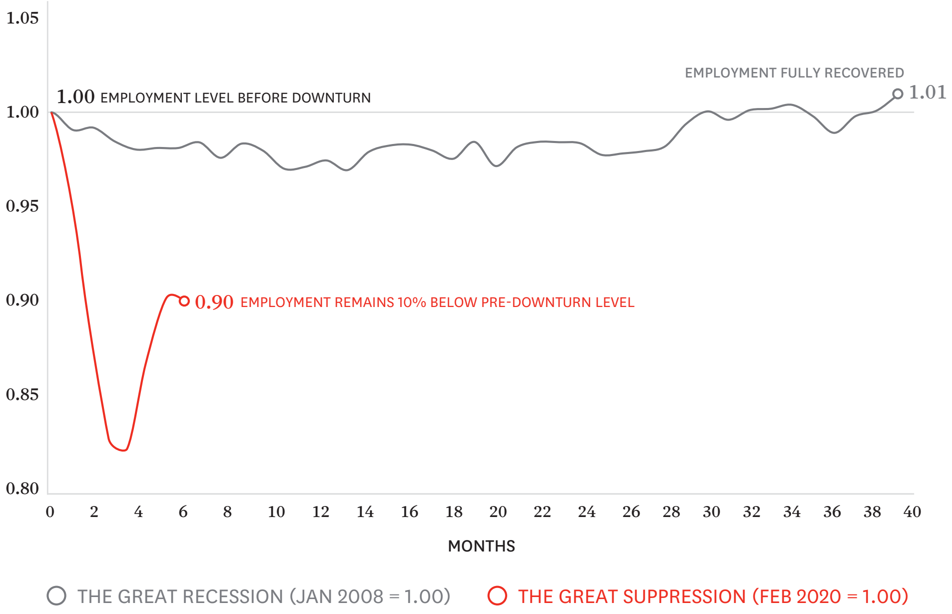
Then came the Great Suppression.

While differing in its genesis and the nature of its manifestations, the coordinated economic shutdown that began in March 2020 resulted in a once-in-a-lifetime loss of jobs across Canada and in British Columbia. In Metro Vancouver, the economy shed 264,900 jobs in three months, with one in five workers being put out of work (not to mention the many thousands who saw their workdays and weeks reduced).

Having said that, the rebound—associated with a gradual re-opening of the economy—has been equally unprecedented, with employment in Metro Vancouver rising by 9% via the recovery of 113,500 jobs over the following three months (despite August shedding a couple thousand jobs).

Having seemingly already touched the bottom of this downturn, we now look ahead to when the region's job base might recover to its pre-pandemic level. Barring a substantial second wave of Covid-19 through the fall of 2020, there is optimism that a return to the region's former employment capacity could come sooner than later. The optimism may well be warranted, though it is noted here that during the Great Recession it took 3.5 years to return to pre-recession employment levels. Our government, businesses, and households would be wise to prepare for the same.

METRO VANCOUVER'S (LONG?) ROAD TO RECOVERY



DATA: MONTHLY TOTAL EMPLOYMENT INDEXED TO THE BEGINNING OF EACH ECONOMIC DOWNTURN (WHERE EMPLOYMENT = 1.00)

SOURCE: LABOUR FORCE SURVEY, STATISTICS CANADA

THE GREAT SUPPRESSION IN A HISTORICAL CONTEXT

The recent rise of BC's unemployment rate has precedents in the magnitude of its increase and its peak, but not in its speed.

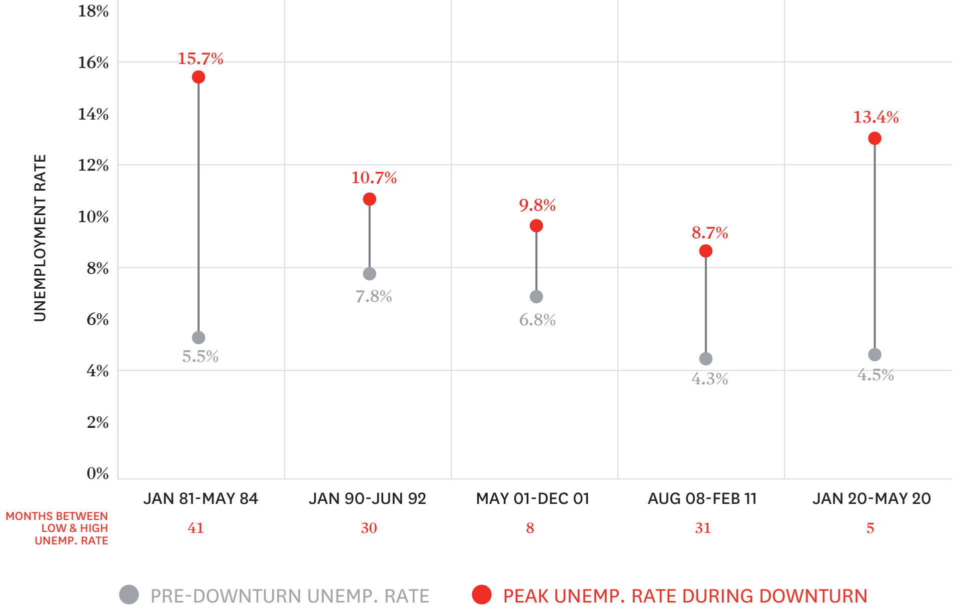
A universal feature of economic downturns is an increase in the unemployment rate. Indeed, such increases in the unemployment rate are often used (by non-economists) to define recessionary periods in very practical terms.

It is no surprise then that British Columbia's unemployment rate has increased since the beginning of 2020's Great Suppression. However, both the speed and the magnitude of the change have been dramatic compared to previous downturns.

Since the early-1980s, BC has experienced five distinct periods of rising unemployment. Prior to 2020, the most recent was the more-than-doubling of the province's unemployment rate over 31 months during the Great Recession.

In comparison, BC's unemployment rate rose by a factor of 3, to 13.4%, between January and May of this year. While this is not the greatest absolute increase in the unemployment rate, or the highest, that the province has experienced—refer to the 1981-84 downturn for those figures—the current rise occurred over only five months. Though it is an uncomfortable feature of the current downturn, it is somewhat mollified by the subsequent declines in the unemployment rate experienced over the past four months.

A SIGNIFICANT & HISTORICALLY RAPID RISE IN BC'S UNEMPLOYMENT RATE



DATA: UNEMPLOYMENT RATE, SEASONALLY-ADJUSTED
SOURCE: LABOUR FORCE SURVEY, STATISTICS CANADA

THE GREAT SUPPRESSION: A DIFFERENT KIND OF RECESSION, PART I

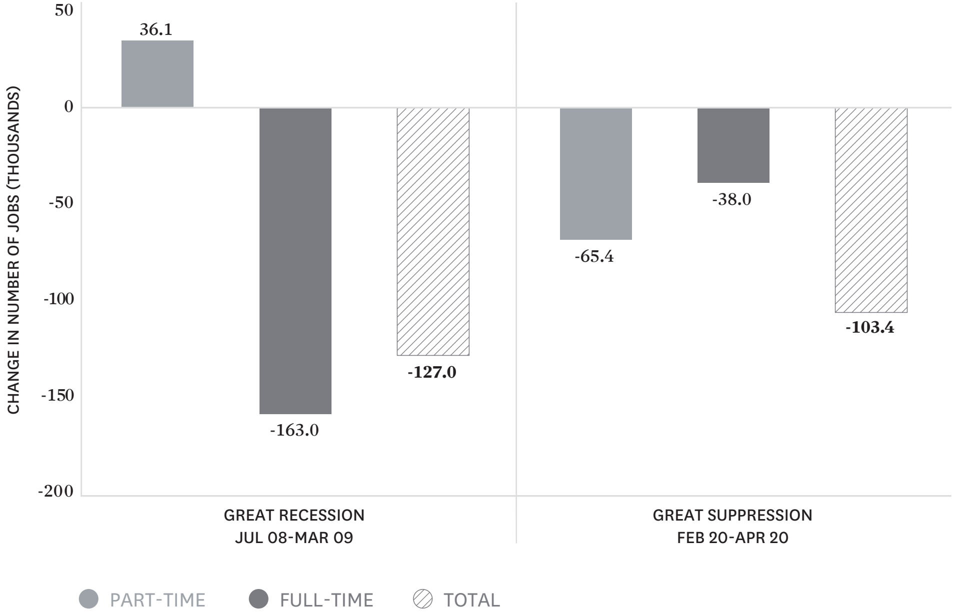
Part-time workers have shouldered a disproportionate share of the job losses in British Columbia in 2020.

The Great Recession of 2008-09 was particularly severe in Canada and in BC for the simple reason that all of the jobs losses—and then some—were, on a net basis, in full-time work.

More specifically, while 127,000 employed persons in British Columbia were put out of work between June 2008 and March 2009 (again, on a net basis), 163,000 full-time workers lost their jobs, equivalent to 128% of the total employment decline. How could this be? Because during the period there was actually a 36,100-job increase in part-time positions.

In comparison to the changes seen during that recession is the observation that of the 103,400 jobs lost to-date province-wide during our current downturn (that is, between February and August 2020), almost two-thirds (63%) have been in part-time work. Compare this to the 23% of all jobs that were part-time prior to the commencement of the Great Suppression.

BC'S PART-TIME WORKERS BEARING THE BRUNT OF JOB LOSSES IN 2020



DATA: EMPLOYMENT, THOUSANDS, UNADJUSTED FOR SEASONALITY
SOURCE: LABOUR FORCE SURVEY, STATISTICS CANADA

THE GREAT SUPPRESSION: A DIFFERENT KIND OF RECESSION, PART II

BC's service sector has been hit hard by job losses in 2020, potentially altering the structure of the economy for years to come.

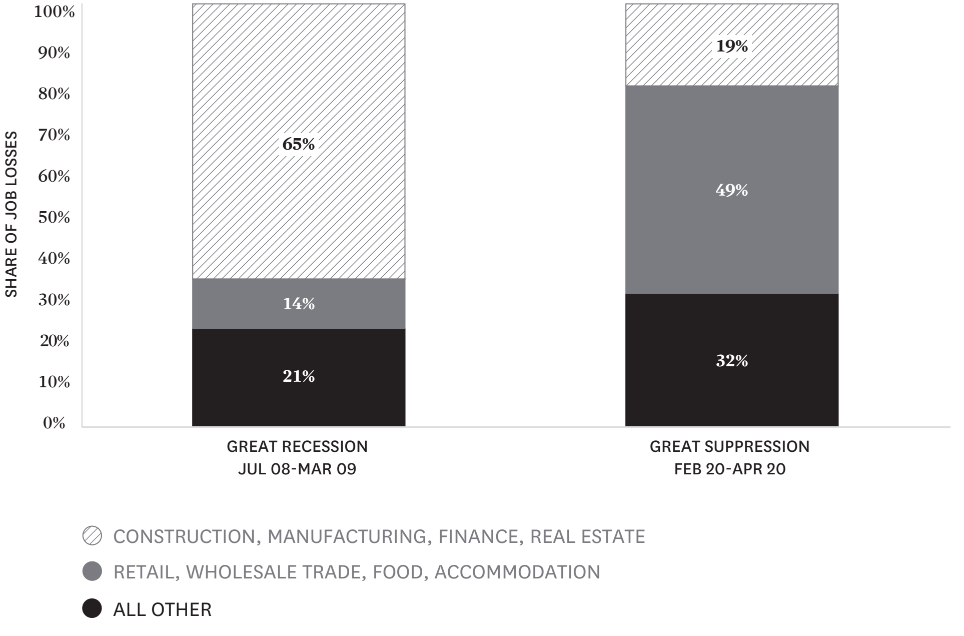
In case it's not yet obvious as we continue to probe the features of 2020's Great Suppression, the current downturn has been historically unique in its pace of permutation, depth of decline, and composition of change. And with respect to the latter, it has not only been the unique mix of full- versus part-time job losses that has been notable, but also which sectors have been hit the hardest.

In British Columbia, and indeed in all industrialized economies, the broadly-defined service sector employs the majority of people; in this province, 75% of jobs are service-based, with the remaining 25% in goods-producing sectors.

Notably, the Great Recession of 12 years ago was characterized not only by the loss of many full-time jobs, but jobs in sectors such as construction, manufacturing, finance, and real estate. In fact, together, these sectors accounted for 65% of BC's total job losses during that time.

Things are very different this time around. The sectors above noted accounted for only 19% of job losses between February and April 2020, while retail trade, wholesale, food services (restaurants and cafes), and accommodation (hotels) accounted for 49%—up from 14% in 2008-09.

NO THANKS FOR BC'S HOSPITALITY (WORKERS)



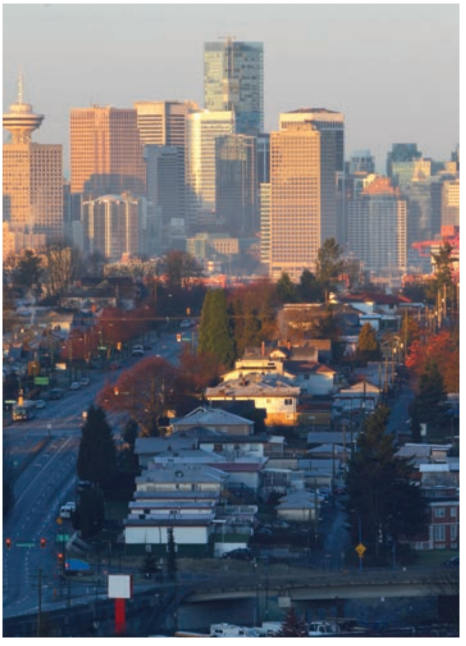
DATA: SHARE OF EMPLOYMENT LOSSES, UNADJUSTED FOR SEASONALITY
SOURCE: LABOUR FORCE SURVEY, STATISTICS CANADA

AN UNEVEN RECOVERY FROM COAST-TO-COAST

Between February and April of this year, more than 3 million jobs across Canada were cast aside as our country entered a collective shutdown to ward off the worst of the emerging pandemic. No province was spared, with job losses ranging from 75,400 on the East Coast (Nova Scotia), to 1.09 million in Central Canada (Ontario), to 361,000 in the Prairies (Alberta), to 396,000 on the West Coast (BC). In relative terms, job losses during this brief period ranged from a low of 12.7% in Saskatchewan to a high of 18.7% in Quebec, averaging 15.5% nationally.

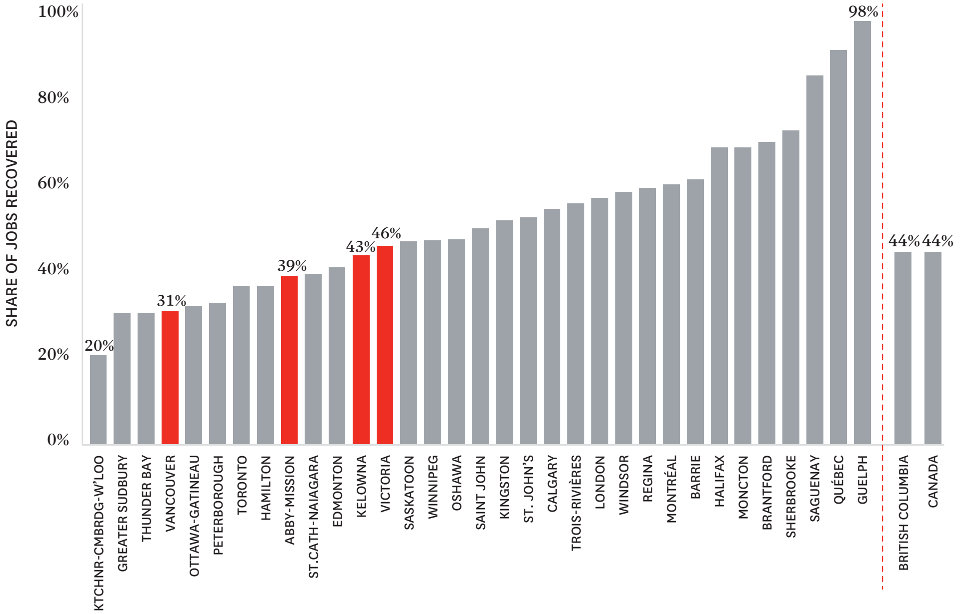
As uneven as the losses were, so too has been the pace of recovery, ranging from Ontario' 9.4% growth (or rate of re-capture) from April's employment lows to Quebec's 17.7% (BC has seen employment grow by 11.5% since April). Many factors are at play in each province's recovery, including the incidence of Covid-19, the specific nature of the original shutdown and subsequent re-opening, and the underlying composition of each respective economy.

This is also true for regional economies. Across Canada's 33 Census Metropolitan Areas (CMAs), the pace of recovery has varied widely. For example, while Canada as a whole has recovered 44% of its original job losses, the Kitchener-Cambridge-Waterloo CMA has only regained 20% of all lost jobs. With the worst of the Covid-19 outbreak hitting Quebec and Ontario early in March, those two provinces have seen their regional economies recover relatively quickly. In contrast, each of BC's four CMAs has re-captured less than half of its job losses, with Vancouver employment still 69% below its early-year peak. With each month's employment increment adding fewer jobs than the month before, BC's rehabilitation is likely to be long-term.



With more than half of Metro Vancouver's job losses during the Great Suppression still not re-captured, a full recovery will take time.

EAST BESTS WEST AS JOB GROWTH CRESTS



DATA: SEASONALLY-ADJUSTED, 3-MONTH MOVING AVERAGE; SHARE OF JOBS LOST STARTING IN MAR 2020 THAT WERE RECOVERED AS OF AUG 2020

SOURCE: LABOUR FORCE SURVEY, STATISTICS CANADA

A PARADOXICAL WAGE JUMP AS EMPLOYMENT SLUMPS

As wages "rise" in BC in the midst of the Great Suppression, many are surprised; history says they shouldn't be.

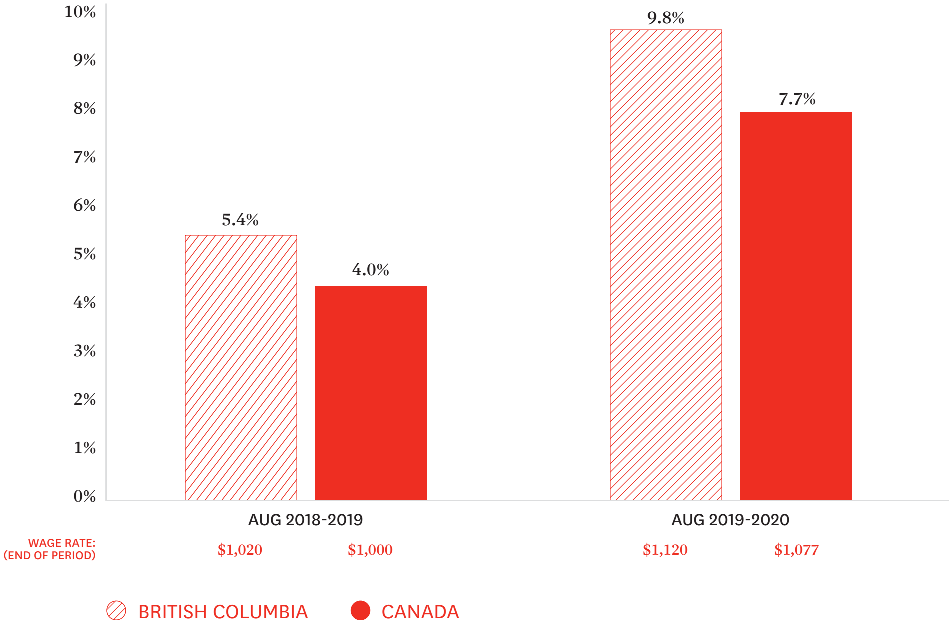
It is a strange feature of economic downturns that oftentimes aggregate measures of income actually rise. There are numerous instances of this, but due to constraints on word count on this page let's just consider the experience of the Great Recession: as job losses mounted in British Columbia through the latter half of 2008 and into 2009, median weekly wages for full-time workers seemingly began to accelerate, reaching as high as a 8.2% year-over-year increase by April 2009. How could this be, when so much slack was building up in the labour market?

The reality is that many of those full-time workers earning wages during the depths of the Great Recession were higher-income-earners than those who had lost their jobs. In other words, with many of the lost full-time jobs being associated with lower-paying, full-time positions—and no longer included in the measure of median wages once the job was lost—the result was that the higher wages of the remaining full-time workers gave the impression that compared to a year earlier, incomes had been dramatically increasing. In fact they had not.

So describes the current economic environment in British Columbia, with year-over-year median wages for full-time workers rising by 9.8% in August 2020. To underscore the point made in the previous paragraph, median full-time weekly wages actually "rose" on a year-over-year basis by 18.3% in April—that's right, at the bottom of the downturn.

So while top-level wage estimates purport to paint a rosy picture for incomes, they really are, in the instance of the Great Suppression, a product of the nature of job lost versus those retained. Only as the recovery evolves more fulsomely will we develop a more accurate picture of how incomes have changed.

WAGE GROWTH ACCELERATES THROUGH THE SUPPRESSION



DATA: SEASONALLY-UNADJUSTED MEDIAN WEEKLY WAGE GROWTH FOR FULL-TIME JOBS
SOURCE: LABOUR FORCE SURVEY, STATISTICS CANADA

WITH ITS EBBS AND ITS FLOWS, THE STOCK MARKET GROWS

Disconnected from reality, or totally intuitive? Regardless of your perspective, the truth is that stock markets have performed shockingly well.

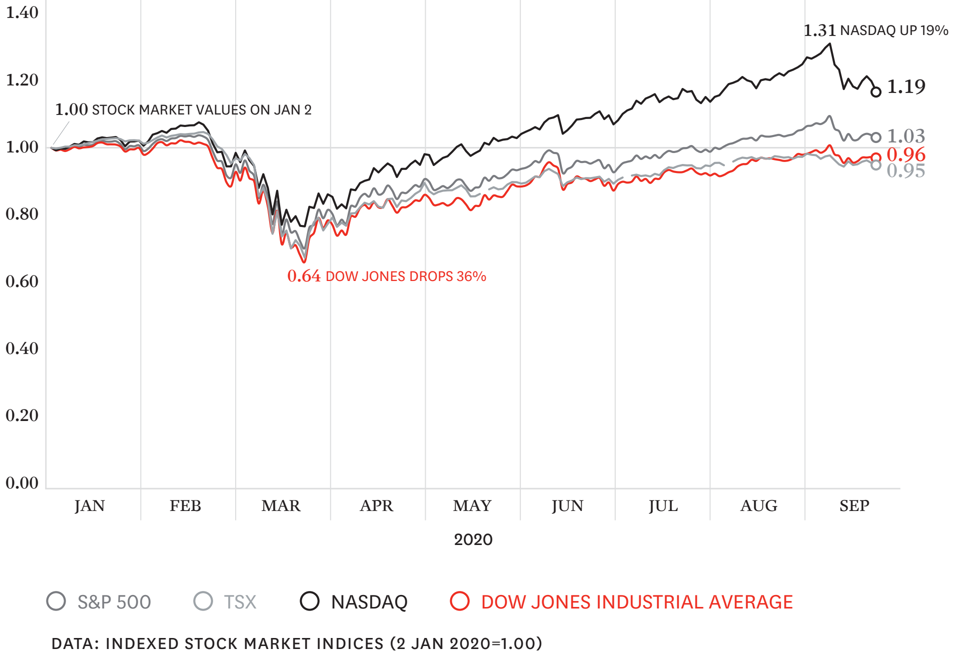
Back in February, all of the major stock market indices were at all-time highs: at its peak the Dow Jones Industrial Average closed just below 30,000, the NASDAQ was a shade under 10,000, the S&P 500 could almost touch 3,400, and the Toronto Stock Exchange, or TSX, peaked just below 18,000.

It was heady times for equities investors (and whether you know it or not, you were, and are, likely to be an equities investor). March brought considerable turmoil to these, and other, indices, which plummeted by up to 40% into the middle of the month as the bottom fell out of the global economy.

Then something remarkable happened. Over the ensuing five months, virtually all indices recovered (on the back of technology stocks), with all indices at, or very close to, their levels at the opening of 2020.

This is more than a simple curiosity for housing markets: with stock market-based savings preserved for the time being, most would-be buyers—from first-timers to down-sizers—are as able today as they were pre-pandemic to participate in the for-sale market.

FROM LOW TO HIGH: EQUITIES MYSTIFY



DATA: INDEXED STOCK MARKET INDICES (2 JAN 2020=1.00)
SOURCE: YAHOO FINANCE

TAKING STOCK

Household savings remain largely intact despite intense volatility in the stock market.

02. rates

Rates are low, low, low, and the Bank of Canada's forward guidance suggests they will stay where they are for years to come.

HERE'S THE LOW-DOWN ON LOW-DOWN RATES

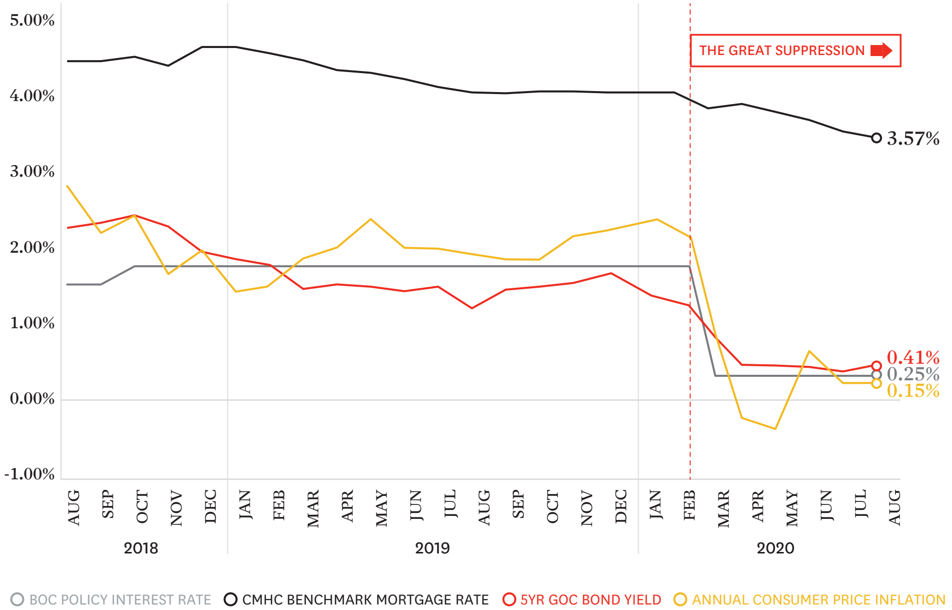
In previous editions of the rennie landscape, we wrote about the likelihood that interest rates in Canada would remain low for a very long-time—bobs and weaves aside. This perspective was rooted in the notion that not only is the long-term outlook for consumer price inflation moderate at most and low most likely, but that our demographics are such that baby boomers' savings exceeds the demand for credit from younger generations.

These notions are still valid and entirely applicable in our current economic environment—an environment that morphed seemingly overnight back in March as the pandemic set in and our economy went into shutdown mode. The Bank of Canada responded by slashing its policy interest rate that governs the short-term market from 1.75% to 0.25%, while Canadian government bond yields cratered (to the point where in August, a $100 investment in a 5-year Canadian government bond would return the investor a mere $2.05 over the term of the bond).

The decline in the Bank of Canada's policy rate was intended to support borrowing and spending, while the decline in bond yields reflected investors' collective flight from risk as government bonds faced insatiable demand on all fronts, including from the Bank of Canada itself.

With the economy expanding in fits and starts for the foreseeable future, and with governments at all levels expected to borrow and spend heavily for years, the Bank of Canada has all but committed to maintaining interest rates where they are into 2023. This in turn should provide home buyers and home builders with a little bit of certainty in a very uncertain world.

INTEREST RATES: REDEFINING LOW



DATA: SELECTED INTEREST RATES AND CANADA'S ANNUAL RATE OF CPI CHANGE
SOURCE: STATISTICS CANADA

THE BANK OF CANADA: ITS HAND FORCED, A STRONG PLAY

Canada's central bank has acted swiftly to loosen monetary policy and support the economy through a difficult transitory period.

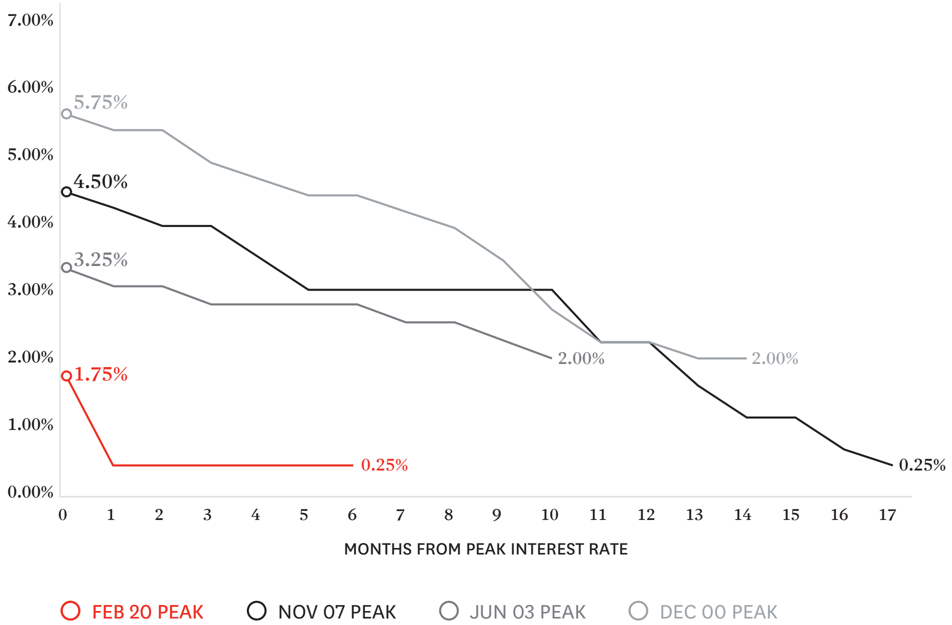
Generally-speaking, the Bank of Canada cuts its trend-setting interest rate when the economy needs a kick-start; this lower rate then has ripple effects through the economy as other lenders follow suit. This has the effect of incentivizing borrowing, enhancing consumer spending, and deepening business investment beyond levels that would otherwise be achieved with higher rates. This is rarely a panacea for an economy that is flashing recessionary warning signs due to structural imbalances that need to be addressed, but it does help to prevent a deeper downturn.

In past downturns, the Bank of Canada has had more wiggle-room than it had at the outset of the Great Suppression: for example, during the early-2000s recession, the Bank was able to lower rates by 375 basis points, from 5.75% to 2.00%. During the Great Recession, the Bank cut its policy rate by 425 basis points, from 4.50% in November 2007 to 0.25% by April 2009. Such a luxury was not available this most recent time around, as Canada's pre-recession policy rate was only 1.75%—notably, the lowest ever going into a recession. The Bank did what it could and promptly cut the rate by 150 basis points to what it refers to as its "effective lower bound" of 0.25%.

Fortunately, that isn't the end of this story as it relates to the Banks' ability to impact the economy. For the first time ever, the Bank of Canada—in conjunction with its rate cuts—committed to a program of Quantitative Easing, which involves purchasing longer-term debt from the federal government and provincial governments, as well as a limited volume of high-grade corporate bonds.

Along with government fiscal supports, the Bank's efforts have staved off what could have been a much deeper downturn. Hopefully their efforts will have the additional effect of cajoling the economy back to its pre-pandemic levels.

THE CENTRAL BANK GOES ALL IN



DATA: BANK OF CANADA POLICY INTEREST RATE; EACH SERIES BEGINS WITH PEAK RATE BEFORE DECLINE
SOURCE: STATISTICS CANADA

As consumer demand has sagged, so too have prices. The question is, for how long?

CONSUMER PRICES: A DEFLATING ASSESSMENT

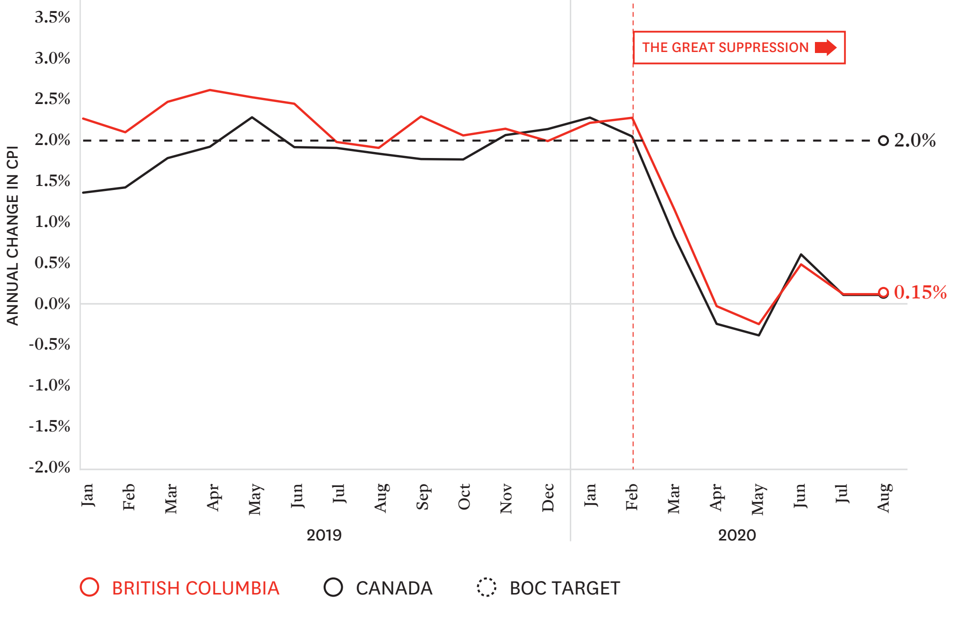
Our society is conditioned to expect things to increase, to improve, to rise: think population, gross domestic product, service quality, technology, incomes, and prices, to name a few.

With regard to the latter, that expectation is rooted deeply in historical experience, with consumer prices tending to rise, more or less, each month and each year. This is, by definition, what inflation is.

Our economy rarely experiences deflation—a situation where prices are falling. Yet, that is precisely where we found ourselves beginning in April of this year as the Great Suppression began to live up to its name insofar as the shutdown suppressed consumer demand. By May, not a province in Canada had avoided price deflation (per changes in the Consumer Price Index), with the national annual rate of "inflation" descending to -0.4% in May.

While prices have rebounded somewhat since then as employment has begun its recovery and the economy has continued to open up, August's inflation measure was only 0.15%, which was well below the Bank of Canada's target of 2%. As noted in the previous section, should inflation remain low, or negative, for an extended period of time, don't expect interest rates to budge—a boon to existing home owners and other debt holders.

THE GREAT DECLINE IN THE CONSUMER PRICE INDEX



DATA: ANNUAL RATE OF CHANGE IN THE CONSUMER PRICE INDEX BY PROVINCE
SOURCE: STATISTICS CANADA

ONE TRIP TO THE STORE PROVES SOME THINGS COST MORE

In BC, the prices of things we're still buying have increased; the prices of those we're not have not.

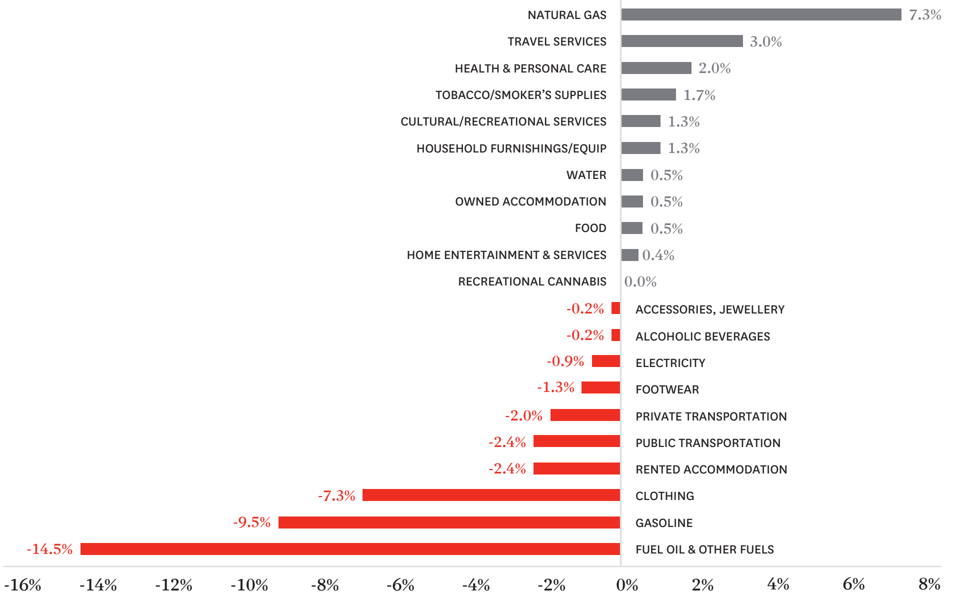
While aggregate measures of consumer price changes do indeed tell a deflationary tale, trends in the prices of specific products and services inform a different narrative.

For example, while the prices of gasoline (we're not driving as much), public transportation (we're not riding the bus), rented accommodation (available listings are on the rise), and clothing (how many dusty suit jackets are in your closet?) have all fallen compared to a year ago, that of food, owned accommodation, and home entertainment equipment has risen.

This has brought attention to the reality that the consumer price index, which the Bank of Canada uses to measure inflation, is somewhat rigid in its structure and does not always reflect true spending patterns.

Interestingly, this may have implications for how the Bank views both inflation and its policy interest rate in the months and years ahead as it refreshes its monetary policy mandate with the federal government in 2021.

MOST PRICES FALL (YES, MOST—NOT ALL)



DATA: AUG 2019 - AUG 2020 CHANGE IN THE CONSUMER PRICE INDEX BY CATEGORY, BC
SOURCE: STATISTICS CANADA

DEFLATED EXPECTATIONS

Many prices have fallen, it's true; but many have also risen—especially for things purchased by you.

03. credit & debt

Conventional (economic) wisdom says that what you borrow you must pay back, a notion being challenged in these extraordinary times.

WHOEVER SAID DEFICITS MATTER DIDN'T GOVERN IN A PANDEMIC

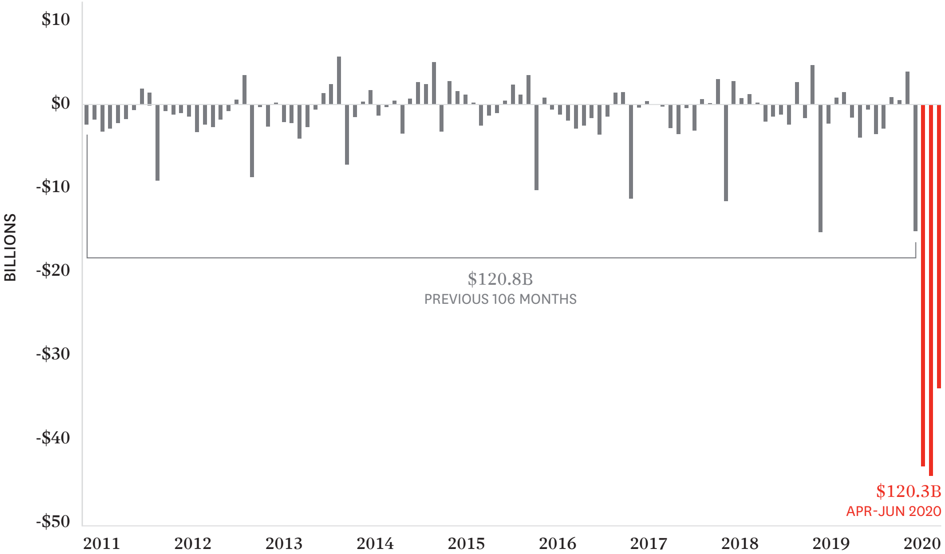
While past federal governments have had differing political leanings and governed in a variety of unique economic epochs, the historical pattern of budgetary balances has been varied but consistent. In the 120 months preceding April 2020—spanning a period of governance that saw the Conservative and Liberal parties variously at the helm—42 were characterized by a federal budgetary surplus (35% of the time) and 78 were associated with a budgetary deficit (65%), with no one monthly deficit surpassing $14.8 billion and no one surplus exceeding $5.2 billion.

So the fact that the government ran deficits in each of April, May, and June of 2020 is not particularly surprising; of note, however, is the magnitude of the deficits in these months. Perhaps the best way to frame the historical significance of recent federal government spending is to observe that the $120.3 billion cumulative deficit generated between April and June is effectively equal to the cumulative deficit of the preceding 106 months ($120.8 billion) combined.

This is not to say the deficits aren't warranted—in fact, far from it. With Canada's economy sailing into unparalleled headwinds, quick and meaningful decisions needed to be made in the early days of the Great Suppression in order to support households, businesses, and lower levels of government through what will ultimately be a transitory period of economic tumult.

Expect deficit spending to continue on an unprecedented scale. In turn, expect questions to be asked about our collective ability to repay the accumulating debt. The future is uncertain on this point, though currently historically-low borrowing costs are likely to continue to prevail for years to come. This will soften the blow of a growing debt load and will present Canada with an opportunity to grow our economy out of the red.

GOVERNMENT DEBT ACCRUING AT A HISTORIC PACE



DATA: MONTHLY BUDGETARY BALANCE (BILLIONS $), CANADA
SOURCE: CENTRAL GOVERNMENT OPERATIONS, STATISTICS CANADA

CANADIAN HOUSEHOLDS TIGHTEN THEIR BELTS

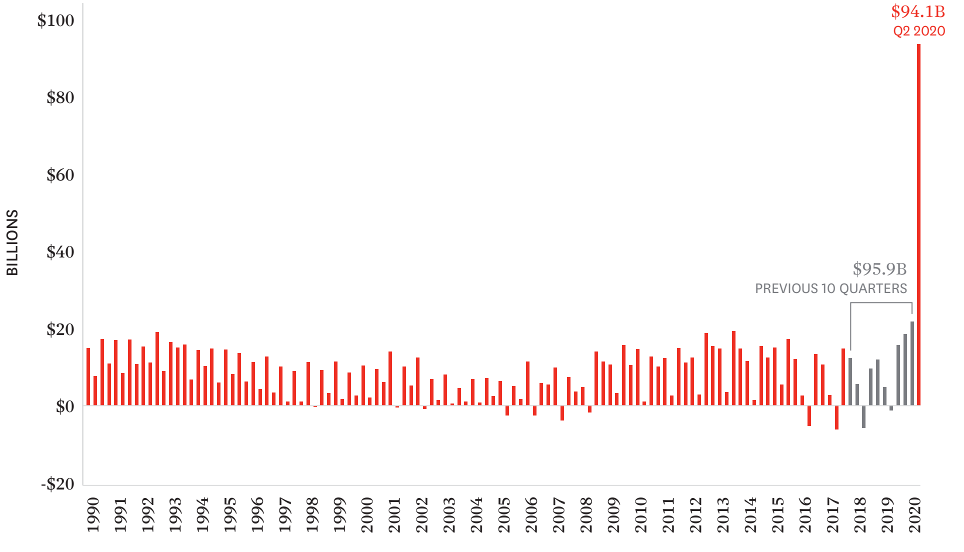
While governments spend to save the economy, Canadian households are spending their time saving.

Ballooning public debts being created at the federal and provincial levels are garnering much attention—and deservedly so—but a lesser-told tale is evolving in parallel: Canadian households are saving like never before. (It is worth noting here that "savings" is calculated as the amount of disposable income not spent on final consumption goods and services, per Statistics Canada.)

In fact, the $94.1 billion in net savings during Q2 2020 was more than four times the next-highest quarterly net savings amount going back to the beginning of 1990 when the data were first collected. It was also almost equal to the total net savings achieved over the preceding 10 quarters ($95.9 billion).

While it seems as though our turbulent economic experience of the past six months has created an elevated desire for households to safeguard their finances in the short-term—while also reflecting an inability to spend money on certain things, like tropical vacations—it is worthwhile to consider if this may represent a longer-term shift in attitudes towards savings. While a persistently-high savings rate could have negative implications for the pace of future economic growth over the long-term, the journey immediately ahead of us could be a little less bumpy.

HOUSEHOLD SAVINGS ACCRUING AT A HISTORIC PACE



DATA: MONTHLY HOUSEHOLD NET SAVING (BILLIONS $), CANADA
SOURCE: FINANCIAL FLOW ACCOUNTS, STATISTICS CANADA

BETTING ON THE HOUSE

As household savings increased into the middle of 2020, new household debt slowed. This bodes well for the recovery.

Households acquire debt in a few different forms: through mortgages, non-mortgage loans (including student and auto loans), and consumer credit (think credit cards and lines of credit).

Overall, Canadian households saw their debt acquisition levels remain somewhat muted in Q2 2020, at $12.1 billion—a level similar to that of Q1's $10.4 billion but down 59% from the previous three-quarter average of $29.5 billion.

Interestingly, the composition of new debt acquisition shifted in Q2, with the $26.8 billion in new mortgage debt up 82% from Q1 and mirroring increased home sales activity across the country. Meanwhile, consumer credit declined by its largest amount in history (by $14.5 billion in Q2; down 152%) and non-mortgage loans fell by $179 million (down 113%).

With savings up and debt accumulation stabilizing, Canadian households appear to be prudently planning for their collective financial near-term futures.

CANADIAN HOUSEHOLDS CLEAN UP THEIR BALANCE SHEETS

		CONSUMER CREDIT	NON-MORTGAGE LOAN	MORTGAGES	TOTAL FOR HOUSEHOLDS
2019	Q2	$13,093	$909	$20,359	$34,361
2019	Q3	$8,504	$728	$22,392	$31,624
2019	Q4	$4,176	$556	$17,379	$22,111
2020	Q1	-$5,736	$1,430	$14,711	$10,405
2020	Q2	-$14,482	-$179	$26,771	$12,110
Q1-Q2 2020 CHANGE		-$8,746 152%	-$1,609 -113%	$12,060 82%	$17,050 16%
Q2 2019-Q2 2020 CHANGE		-$27,575 -211%	-$1,088 -120%	$6,412 31%	-$22,251 -65%

DATA: NEW MONTHLY HOUSEHOLD DEBT (MILLIONS $)
SOURCE: FINANCIAL FLOW ACCOUNTS, STATISTICS CANADA

IS A RISE IN ARREARS A THING TO BE FEARED?

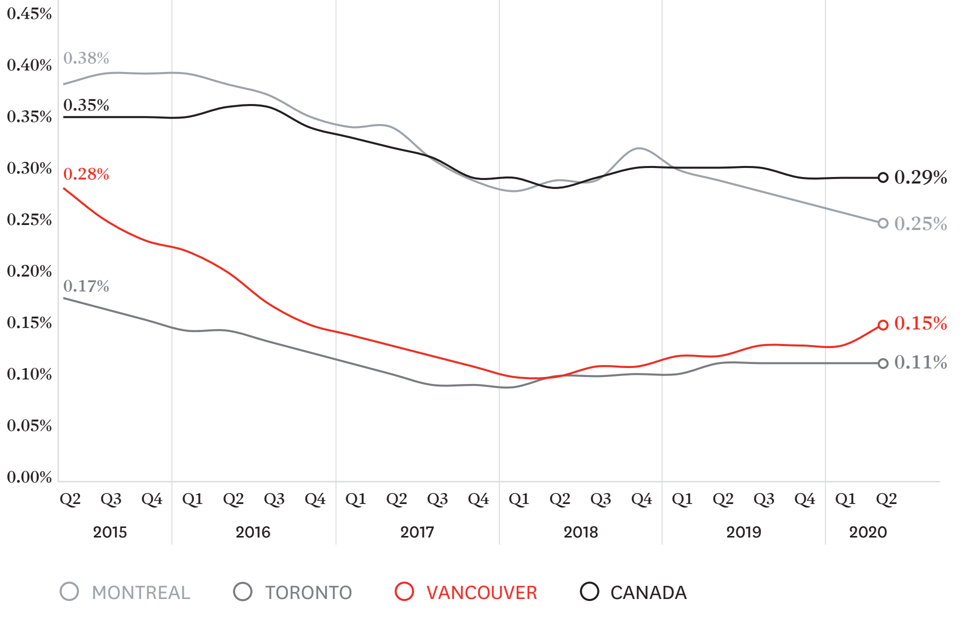
Metro Vancouver's mortgage delinquencies remain near historic lows. Time to consider what the near-term outlook is as the mortgage deferral window closes.

First, some perspective: Metro Vancouver's mortgage arrears rate (defined as the share of all outstanding mortgages that are three or more months behind in their payments) most recently stood at 0.15% in Q2 2020, meaning 15 out of every 10,000 outstanding mortgages were delinquent. This is a small proportion by any measure, is roughly half of the Canadian average, and is very near its historical low.

The concern going forward has two related parts. First, over the past two years Vancouver's arrears rate has risen to 0.15% from 0.10%—a 50% increase.

More importantly, as we look ahead to the balance of 2020 and into 2021, the question is whether or not this trend will continue, especially in light of the mortgage deferral window closing within the next six months. According to the big banks, virtually all mortgages on deferral that were scheduled to restart payments by this point in time have done so. This is good news, but should this trend not continue, we may see an elevated level of housing inventory in the coming months along with a moderate slowdown in the pace of price appreciation. Ultimately, only time will tell.

MORTGAGE DELINQUENCIES LOW AND STABLE



DATA: PROPORTION OF ALL OUTSTANDING MORTGAGES THAT ARE THREE OR MONTHS IN ARREARS
SOURCE: CANADA MORTGAGE & HOUSING CORPORATION

WILL THEY RISE IN THE FALL?

Mortgage arrears rates have remained low across Canada, but there is upside risk as the mortgage deferral window closes.

04. demographics

Younger, part-time service sector workers have been hit hardest by the Great Suppression as international migration slows to a trickle.

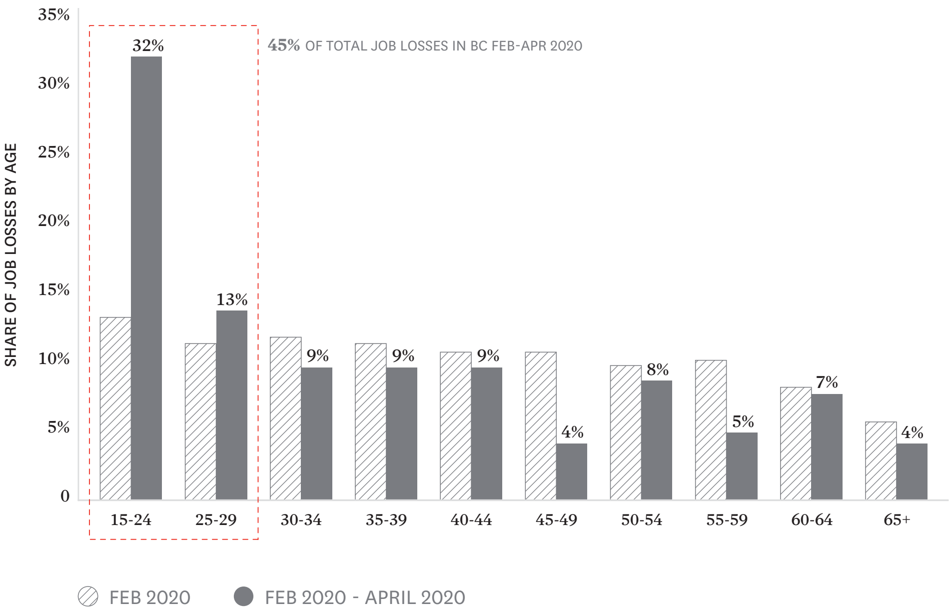
THE COLD, HARD TRUTH FOR BC'S YOUTH

In a typical month, about a quarter of British Columbia's workforce comprises workers under the age of 30. This demographic segment has a distinct employment profile, associated with higher-than-average unemployment rates and lower-than-average (often hourly) incomes in part-time, hospitality sector positions.

It's no wonder, then, that our response to the rapidly-evolving pandemic impacted younger workers disproportionately. Strict social-distancing rules meant no more strolling from store to store along Robson Street or in Metrotown, no more morning coffees at the local cafe, and severe limits on traveling resulting in hotels becoming no-go zones—all typical places of work for the under-30 cohort. As a result, 45% of British Columbia's job losses between February and April were realized in the under-30 group—almost double the share of jobs they occupied in February.

The good news is that as the economy has begun to open back up since then, 58% of the recovered jobs have been those associated with workers under the age of 30. As noted throughout this report, our full economic recovery is many months away, so while this is a good start, continued consideration (and government support) should be given to the impacts of the downturn on this group—as well, of course, as on everyone else.

AN AGE OF UNEVEN JOB LOSSES IN BRITISH COLUMBIA



DATA: DISTRIBUTION OF JOBS AND JOB LOSSES BY AGE, UNADJUSTED FOR SEASONALITY
SOURCE: LABOUR FORCE SURVEY, STATISTICS CANADA

INTERNATIONAL MIGRANTS TO BC: FEWER FOR NOW

The Great Suppression has dented the impact of international migrants on BC's demography in the short-run.

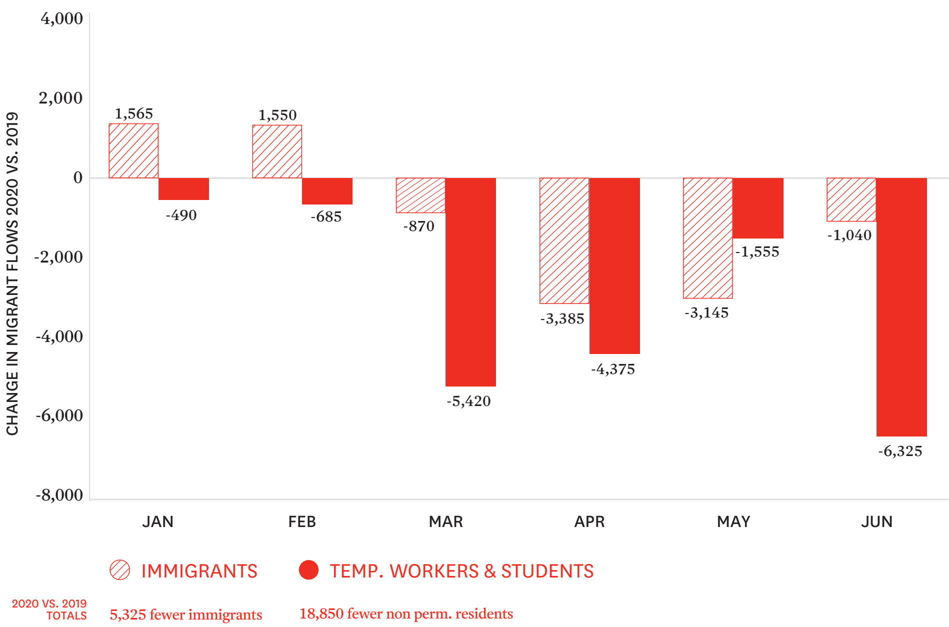
The biggest driver to population growth in British Columbia is net international migration, consisting of immigrants, emigrants, and non-permanent residents (which includes those in Canada as part of the International Mobility Program, as Temporary Foreign Workers, or as students with study permits).

In the first six months of 2019, the province welcomed 22,530 immigrants and 74,015 non-permanent residents. Fast forward one year, and through the first six months of 2020 immigration to BC was down by 24% (to 17,205) and the number of new non-permanent residents declined by 25% (to 55,165).

Of course, three of the six months for which we have data on international migration to the province in 2020 were during the Great Suppression; in these months (April, May, and June), immigration was down 55% and the inflow of non-permanent residents was down 30% compared to the same months in 2019.

Individuals coming to BC from other countries play a vital role in shaping our labour force and populating our post-secondary educational institutions. It is therefore imperative that we find a way to continue to attract these migrants to British Columbia as we progress through our current downturn.

AN IMMIGRANT GAP AS OFF TURN THE TAPS



DATA: MONTHLY INFLOWS OF IMMIGRANTS, IMP PERMIT HOLDERS, TFW PERMIT HOLDERS, AND STUDY PERMIT HOLDERS TO BRITISH COLUMBIA
SOURCE: IMMIGRATION, REFUGEES, AND CITIZENSHIP CANADA

PROJECTING A SQUARE-ROOT RECOVERY IN IMMIGRATION

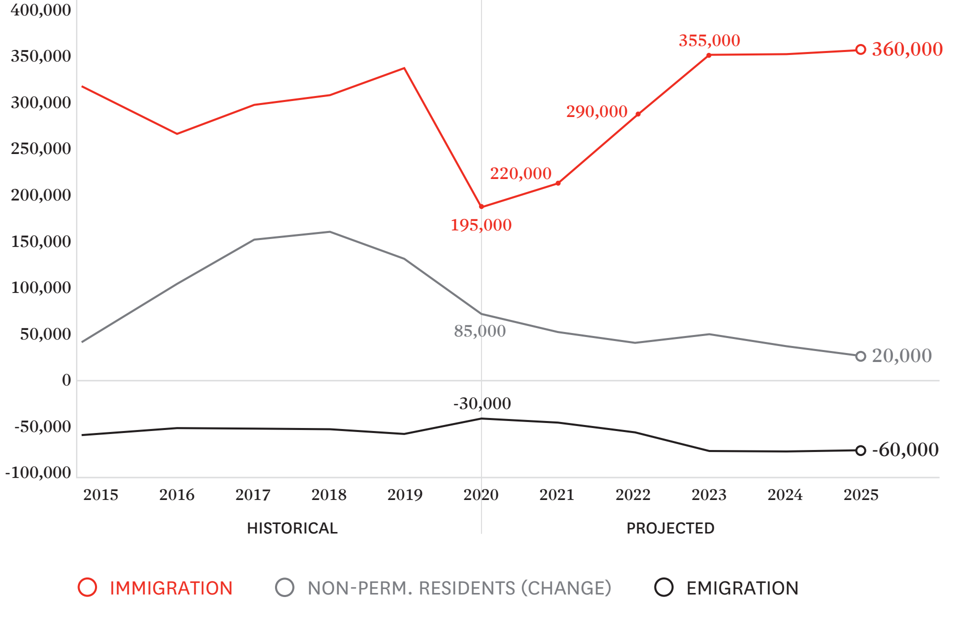
A return to pre-pandemic targets by 2023 may be the likeliest path for Canadian immigration.

A question that is often pondered as we progress through the Great Suppression is, when will Canadian immigration return to levels consistent with the national targets initially laid out by the federal government in 2017 and updated yearly since then? Though there is much speculation about this, there has been little in the way of concrete estimates for the near-term future. We decided to give it a shot.

While acknowledging that there are myriad factors influencing future levels of immigration to Canada—including the continued evolution of Covid-19 and shifts in age- and sex-specific labour force participation rates, to name a couple—our assessment is for immigration to increase from its current level (195,000 immigrants in 2020, down 57% versus 2019) back to trend by 2023, at 355,000 immigrants. This temporal pattern of change is consistent with a steady return of both the national unemployment rate and the employment rate back to pre-pandemic levels.

Of course, this is but one of many potential outcomes: should immigration return to trend more slowly, the result will be a national labour market that tightens relatively quickly, and vice versa.

THREE YEARS TO RETURN TO OUR DEMOGRAPHIC NORM



DATA: ANNUAL ESTIMATES AND PROJECTIONS OF INTERNATIONAL MOBILITY FLOWS, CANADA
SOURCE: DEMOGRAPHIC ESTIMATES COMPENDIUM, STATISTICS CANADA; PROJECTION MODEL, RENNIE INTELLIGENCE

TIME HEALS

As Canada's labour market returns to full employment in the next three years our international migration flows will normalize.

05. housing

Following 2019's record high for starts, Metro Vancouver is positioned to see new housing supply dwindle as the economy ramps back up.

NEW CONSTRUCTION STARTING TO SLOW

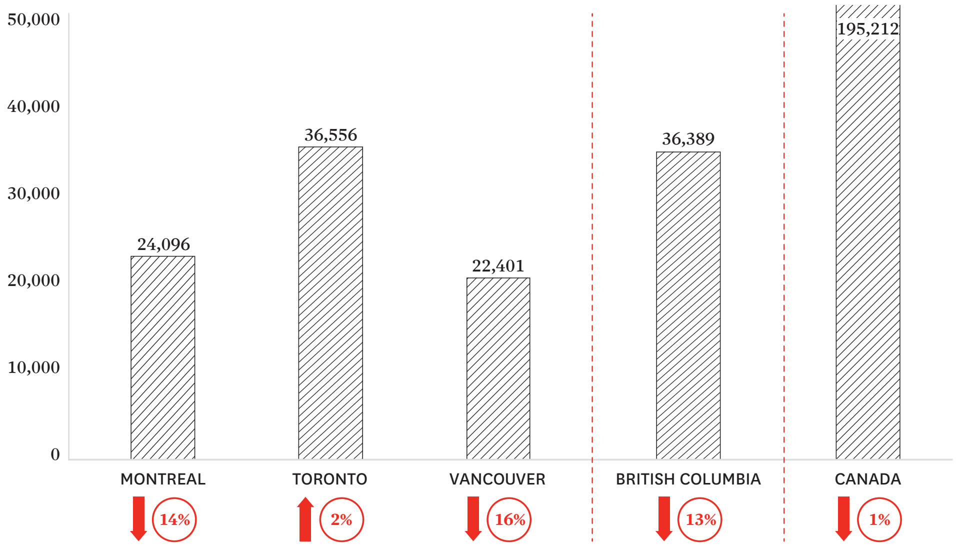
Following a record-setting year for new housing construction in Metro Vancouver in 2019—when the region tallied more than 28,000 starts—the pace has decidedly cooled in 2020. Specifically, in the 12 months through August 2020, Metro Vancouver registered only 22,401 starts, 16% below the count of starts from the preceding 12 months (26,694).

The region is not unusual in that its pace of housing construction has slowed during the pandemic. In fact, while Toronto has seen only a modest increase of 2% in its starts over the past 12 months, Montreal has seen starts activity fall by 14%, while on the west coast BC as a whole is down 13%. Nationally, starts are 1% lower.

Part of this has certainly been due to "tools-down" pauses in construction in the early days of the Great Suppression, and then to less-efficient construction practices in the latter days of the downturn (due to social-distancing constraints), which prevented construction starting on new sites as existing jobs took that much longer to complete.

Looking ahead, it is likely that starts activity in Metro Vancouver will continue to face headwinds—not directly because of Covid-19, but rather indirectly because of it. This is because pre-sale project launches slowed considerably through the first six months of 2020, with the 4,429 homes launched in the region representing only 42% of 2019's full-year total of 10,588—itself the lowest count of pre-sale home launches in almost a decade. This could create a perfect storm for Vancouver's housing market, with demand returning to pre-pandemic levels at the same time as a dearth of starts is realized.

VANCOUVER'S PACE OF STARTS LAGS ITS COUNTERPARTS



HOUSING STARTS, PAST 12 MONTHS

CHANGE VS. PREVIOUS 12 MONTHS

DATA: HOUSING STARTS, ALL TYPES

SOURCE: CANADA MORTGAGE & HOUSING CORPORATION

NEW RENTAL SUPPLY MEANS VACANCY RATES SOON COULD BE HIGH(ER)

While increased rental supply is almost always a welcome sight, recent economic trends may drive a wedge between supply and demand.

Early learnings from the Great Suppression are that Metro Vancouver's for-sale housing market has rebounded with vigour after a brief period of inactive demand, while the region's rental market may be undergoing more dramatic changes.

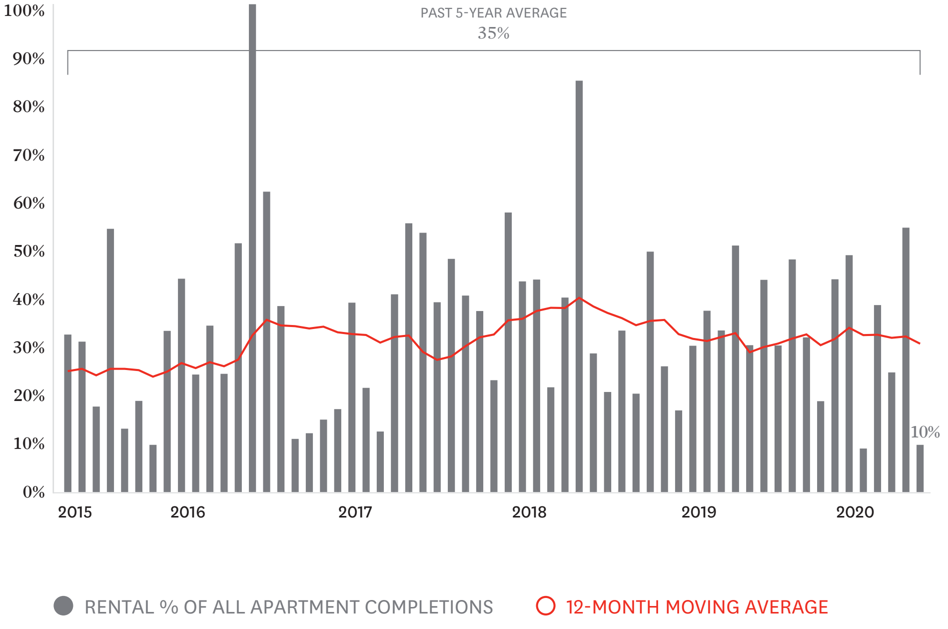
Ultimately it is the nature of our current economic downturn that has in turn dictated how the markets for goods and services—and homes—have evolved in response. To reiterate some observations noted earlier in this report, the Great Suppression has been marked by significant job losses, yes, but more importantly a tremendous decline in the number of part-time jobs held by younger workers in the hospitality sector.

In turn, the fact that the prevalence of renting is much higher in the younger cohorts (relative to owning)—and with higher incidences of people living at home with their parents when they are under the age of 30 than when they are over 30—may explain the seeming imperviousness of the for-sale housing market to the effects of the Great Suppression to this point in time.

On the flip side, there is considerable evidence that the region's rental market is being punctuated by an increase in listings due in part to many tenants having doubled-up or moved back home with their parents as they ride out the effects of the recession.

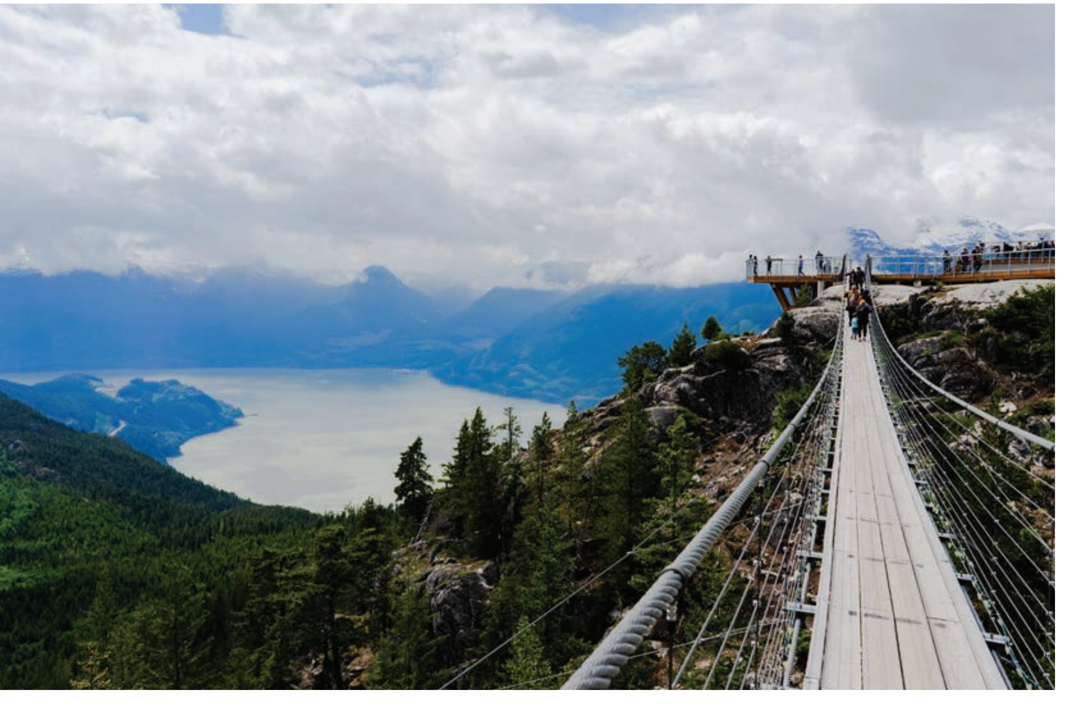
All of this is to say that as new rental home completions in the first eight months of 2020 virtually mirror the number from the same period of 2019 (approximately 3,500 rental completions), and as the high number of starts from 2019 become completions in 2020 and 2021, the region may finally see its rental housing vacancy rate rise to a more tenable and reasonable level. This will benefit tenants and undoubtedly present challenges for some landlords.

RENTAL HOUSING ADDITIONS HOLD STEADY



DATA: TOTAL AND RENTAL APARTMENT COMPLETIONS
SOURCE: CANADA MORTGAGE & HOUSING CORPORATION

The verdict on long-run housing changes remains out, but the verdict on short-term ones is in: people want more space and less of each other.



THE DEMAND OF TODAY: MORE SPACE, FURTHER AWAY

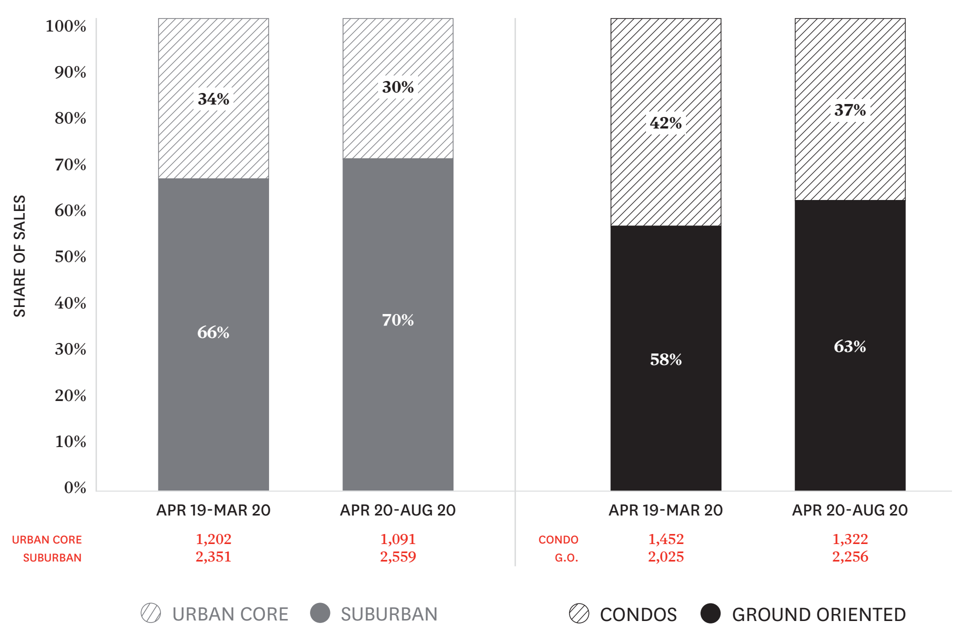
Our collective response to the spread of Covid-19 has created many unintended consequences, ranging from lower greenhouse gas emissions, to fewer traffic accidents, to greater consumption of Netflix. Well, we can add to this list changing home-purchasing patterns, at least here in the Metro Vancouver.

Two trends have emerged in the region's resale market in the past five months: first, buyers have shifted their focus to the suburbs, and second, buyer preferences have honed in on townhomes and detached homes.

In summary, 70% of home sales in the region were in so-called "suburban markets" (anything outside of Vancouver, Richmond, and Burnaby) between April and August 2020, compared to 66% of sales in the previous 12 months. Additionally, 63% of sales in the past five months were of the ground-oriented variety (37% were condo apartments), compared to 58% in the preceding year.

While the future of cities generally, and of workplaces more specifically, remains unsettled, it is clear that there has at least been a short-term adjustment in home purchasing patterns as a result of our recent experience.

A SUPPRESSIONAL SHIFT IN METRO VANCOUVER'S SALES MIX



DATA: MLS SALES COUNTS
SOURCE: GREATER VANCOUVER & FRASER VALLEY REAL ESTATE BOARDS

LOCAL FUNDAMENTALS GUIDING THE MARKET

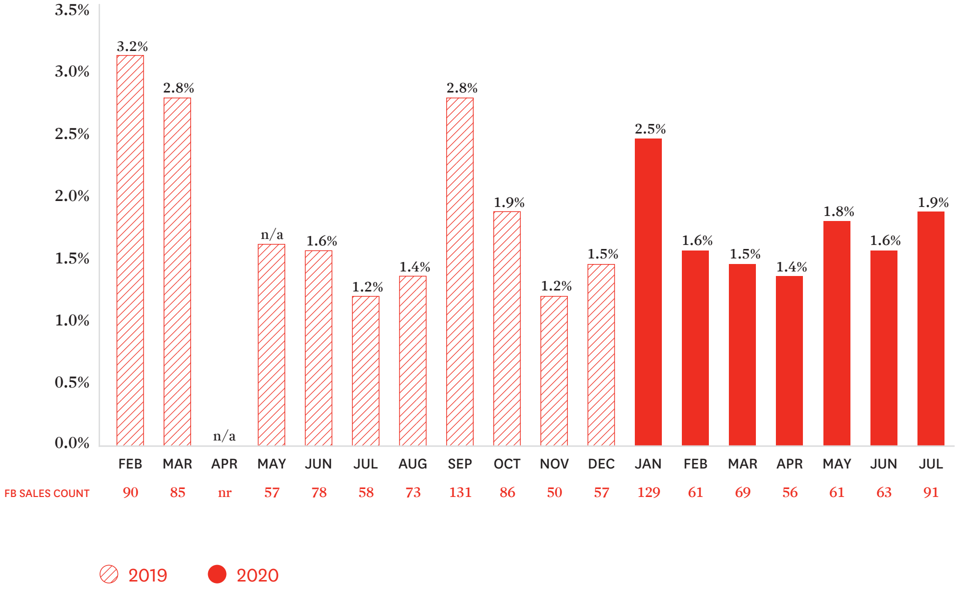
While the debate around the impact of foreign buyers in Metro Vancouver rages on, the data continue to tell a singular story.

With so many Covid-induced changes having transpired—and continuing to evolve—across our society, our economy, and our housing market, the one constant through it all has been the role played by foreign buyers in the Metro Vancouver housing arena. And to be clear, the role continues to be minimal.

The latest data on foreign home purchases in Metro Vancouver (that is, home purchases by non-Canadian citizens, regardless of where they reside) show that foreign buyers accounted for 1.9% of all sales in July 2020, up slightly from June's 1.6% but below the high for 2020 from January (2.5%).

All in, there have been 530 home purchases by foreign buyers in the first seven months of 2020, equivalent to 75 per month, on average, out of an average of 4,268 residential sales. Like it or not, the path forward for the region's housing market will continue to be dependent on local buyers.

VANCOUVER FOREIGN BUYERS REMAIN SCARCE



DATA: SHARE OF RESIDENTIAL SALES TO NON-CANADIAN CITIZENS (FOREIGN BUYERS)
SOURCE: BBC MINISTRY OF FINANCE

BUYING LOCAL

The regional housing market's trajectory continues to be governed by resident demand.

06. policy

The advent of the global pandemic early in 2020 triggered responses from all levels of government in Canada with the goal of providing households and businesses an opportunity to see their way through the economic downturn that would inevitably follow.

Notable subsidies that were introduced include the Canada Emergency Response Benefit, the Canada Emergency Wage Subsidy, and the Canada Emergency Commercial Rent Assistance, as well as residential tenant and landlord supports here in British Columbia. Financial institutions also joined the fray, offering deferrals on mortgage payments for Canadian homeowners.

Here, we present a summary of some of these new and emerging policies, as well as an overview of a couple of other notable policy-related changes that we can expect to see soon.

CANADA'S MORTGAGE DEFERRAL WINDOW CLOSING

Beginning in March 2020, as some of the potential financial implications stemming from what amounted to an economy-wide shutdown came into focus, numerous Canadian financial institutions permitted eligible homeowners to defer their mortgage payments for up to six months.

Beginning in August, the so-called "deferral window" began to close, meaning the first mortgage holders to defer had resumed their payments. And the early returns have been positive: for example, Scotiabank noted that "for customers whose mortgage deferrals have expired, 99% are current on their payments" as of the end of August.

With an estimated 500,000 mortgages on payment deferral across Canada (equal to 10% of all outstanding mortgages), even a modest proportion of homeowners being unable to resume payments could create an elevated level of supply in certain markets, which in turn could slow the pace of price appreciation through the balance of 2020 and into 2021.

WINDING DOWN THE FEDERAL FISCAL SUPPORTS

While the Great Suppression has been without precedent in its manifestations on employment, gross domestic product, retail spending, and other features of our economic profile, it would have been much worse in the absence of government supports for households and businesses, which were implemented swiftly and effectively.

In Canada, support for households has been provided primarily through the Canada Emergency Response Benefit (CERB), to the tune of $80 billion to-date. Additionally, the Canada Emergency Wage Subsidy (CEWS) will have, by year-end, provided almost $60 billion to businesses to retain their employees through the downturn.

While CEWS was recently extended into 2021, expectations are that CERB will wind down through the fall; as such, the continued re-animation of the Canadian economy will depend in part on the ability of the government, households, and private businesses to collectively transition towards a subsidy-free framework without disrupting growth. Needless to say, this will be easier said than done.

THE BANK OF CANADA AND A NEW MANDATE IN 2021?

Since 1991, Canada's central bank has made it almost a singular goal to ensure consumer prices increase predictably and slowly (ideally 2% per year). While functioning outside of the politics of Ottawa from an operational perspective, the Bank does consult with the federal government periodically as part of its mandate review and renewal.

The next five-year agreement between the federal government and the Bank of Canada will renew in 2021, and there is much discussion about whether the Bank should pursue a dual mandate: that is to manage inflation and to pursue full employment. While there is a certain incompatibility between these goals—full employment is associated with low unemployment rates, which in turn are associated with higher inflation—the Bank could adopt into policy these two goals just as the United States, Australia, and New Zealand already have. One option for the Bank would be to move to average inflation targeting instead of specific inflation targeting, meaning as long as inflation averaged something like 2% over a period of time, the Bank wouldn't increase interest rates (which would tend to reduce employment).

Regardless of its chosen path, the Bank of Canada will play a leading role in the country's ability to recover from the Great Suppression.

CMHC: A CHANGE IN NAME AND IN MANDATE

The Canada Mortgage and Housing Corporation (CMHC) is a Canadian crown corporation that has been around for a long time, having been created in 1946 with a goal of making housing more affordable across the country.

Today, the organization provides mortgage loan insurance for buyers, collects data and provides analyses on the housing market, assists in the development of First Nation housing, and has helped to develop Canada's National Housing Strategy.

In light of the multitude of functions it performs, the fact that its mandate going forward will focus on providing all Canadians with homes they can afford by 2030, and in acknowledgement that its current name too closely frames it as a financial institution, CMHC expects to adopt a new moniker in the coming months.

the rennie landscape

KEY INSIGHTS - FALL 2020

This guide presents a summary of key insights associated with the fall 2020 edition of the rennie landscape, a report focused on unpacking the myriad factors directly and indirectly influencing Metro Vancouver's housing market.

Through its first eight months, 2020 has been a year without a peer, at least insofar as recent memory is concerned. From the spread of the coronavirus and our response to it, to the ongoing fight for social justice, to the spread of wildfires, to the increasingly vitriolic political environs south of the 49th parallel (we could go on), we have collectively been forced to address how we are living and how we are thinking.

For Metro Vancouver's economy, it has been a bumpy ride since mid-March, a time when the unemployment rate was near its historical low, wages were rising faster than they had in years, and the housing market was returning to its longer-term equilibrium level. Since then we have experienced unprecedented swings in employment, the unemployment rate, retail spending, gross domestic product, and interest rates; in fact, some of the data points generated over the past six months have quite literally been off the charts.

Below is a summary of the highlights from this edition of the rennie landscape.

economy

METRO VANCOUVER'S ECONOMY IS ON THE MEND, **though it will be well into 2021, or even 2022, until the number of jobs returns to its full-employment level. Younger, part-time workers in the service sector have been hit the hardest by our response to the pandemic, though this segment of the economy is leading the recovery.**

rates

INTEREST RATES HAVE SUNK TO HISTORIC LOWS **as unprecedented interventions by the Bank of Canada have suppressed both short-term and longer-term rates. With rates expected to remain in their current neighbourhood into 2023, existing homeowners, new buyers in the near-term, and home builders will benefit.**

credit & debt

THE FEDERAL GOVERNMENT BUDGET DEFICIT HAS BALLOONED **as a consequence of the swift introduction of policies to assist households and businesses through the economic downturn. Households, on the other hand, have been deleveraging in the realm of non-mortgage debt, with net savings at an all-time high.**

demographics

CANADIAN IMMIGRATION MAY TAKE YEARS TO RECOVER **to its pre-pandemic targets, which in turn will have implications for growth in the country's labour force and its capacity to realize economic growth. One consequence of this is a faster-than-expected tightening of the labour market in the short-run.**

housing

HOME BUYING PATTERNS HAVE CHANGED IN RESPONSE TO THE PANDEMIC, **with sales in the past six months shifting more towards detached homes and townhomes in the suburbs. New construction activity in Metro Vancouver has slowed after an historic high was achieved in 2019, while foreign buyers remain minimal in the region's purchasing landscape.**

policy

THE BANK OF CANADA'S MANDATE MAY BEGIN TO EVOLVE IN 2021, **as the bank renews its agreement with the federal government. Signs are pointing to an emphasis being placed not only on price stability, but on achieving maximum employment. Also, Canada's mortgage deferral window is closing, creating an uncertain environment for housing supply through the rest of 2020.**

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THE RENNIE REVIEW is a detailed monthly report providing insights into sales, listings, and pricing trends throughout the Vancouver Region's housing resale market.

THE RENNIE ADVANCE is a brief monthly update on the latest regional sales and listings activity, produced the same morning as the previous month's data are released.

THE RENNIE OUTLOOK is an annual compendium of housing, demographic, and economic predictions for the year ahead.

THE RENNIE LANDSCAPE is a semi-annual publication that tracks the myriad factors that directly and indirectly impact Metro Vancouver's housing market.

THE RENNIE BRIEF is a topical research brief on issues relevant to our industry, as they emerge.

RENNIE INSIGHTS are in-depth research papers on a range of real estate, economic, land use, and planning policy forces that shape our communities.

THE RENNIE PODCAST presents engaging, insightful, and sometimes humourous discussions about everything real estate, for the real estate interested.

The rennie intelligence team comprises our senior economist as well as housing and consumer analysts who empower our developer clients, rennie advisors, institutional advisory clients, and the entire rennie team with comprehensive data and a trusted market perspective.

rennie