

# Recession looms in Canada as pandemic inflation legacy proves too much

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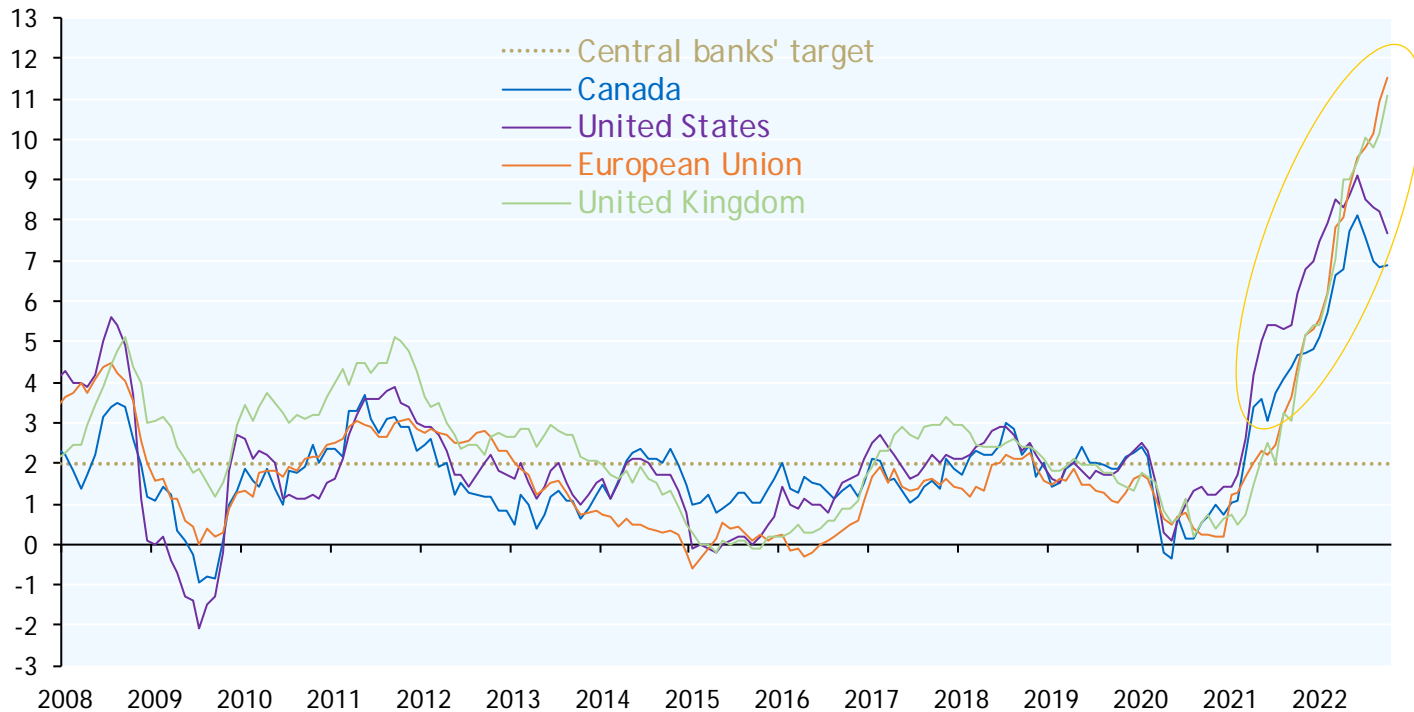
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# Inflation still near a four-decade high

## Inflation

Consumer price index, annual % change



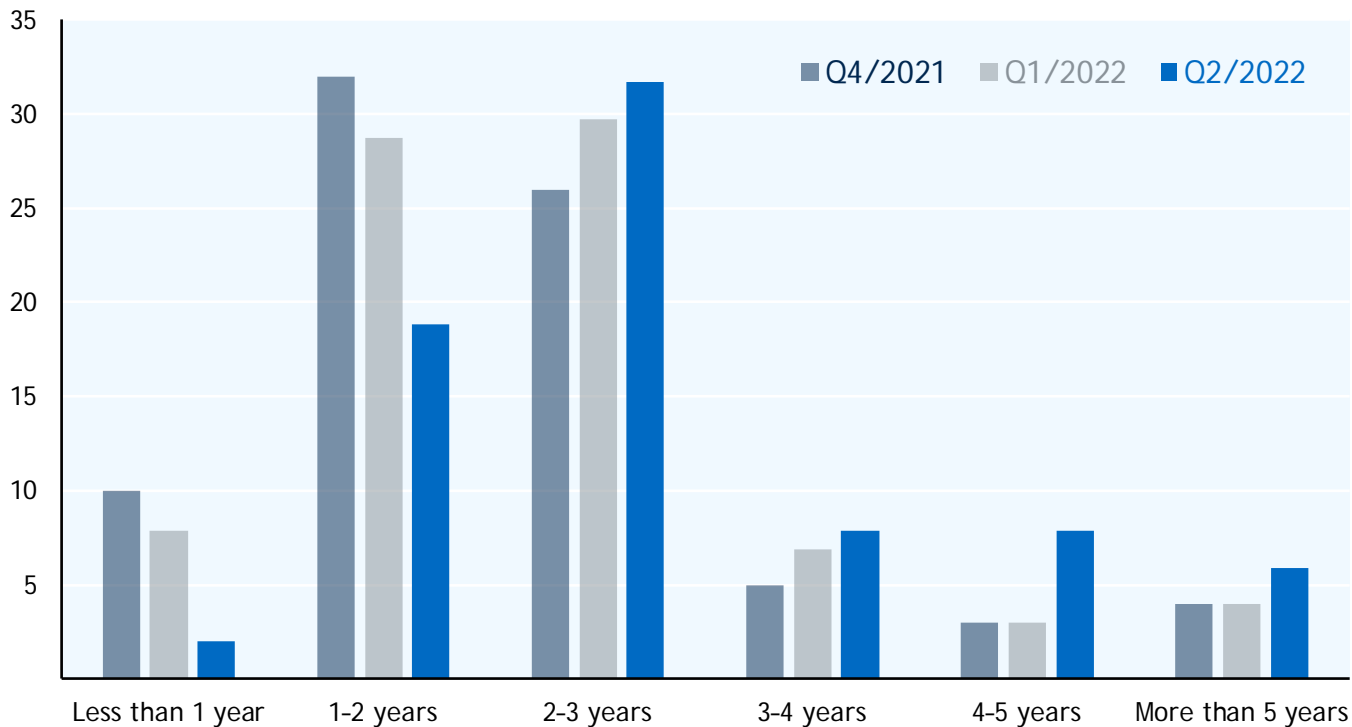
Source: Statistics Canada, Bureau of Labor Statistics, Office for National Statistics, Statistical Office of the European Communities, RBC Economics

Headline down slightly since cyclical peaks of 8.1% in Canada and 9.1% in the US

# Central bank credibility is at stake

## Business inflation expectations: Canada

% of businesses responding to "how long do you expect inflation to remain substantially above 2%?"



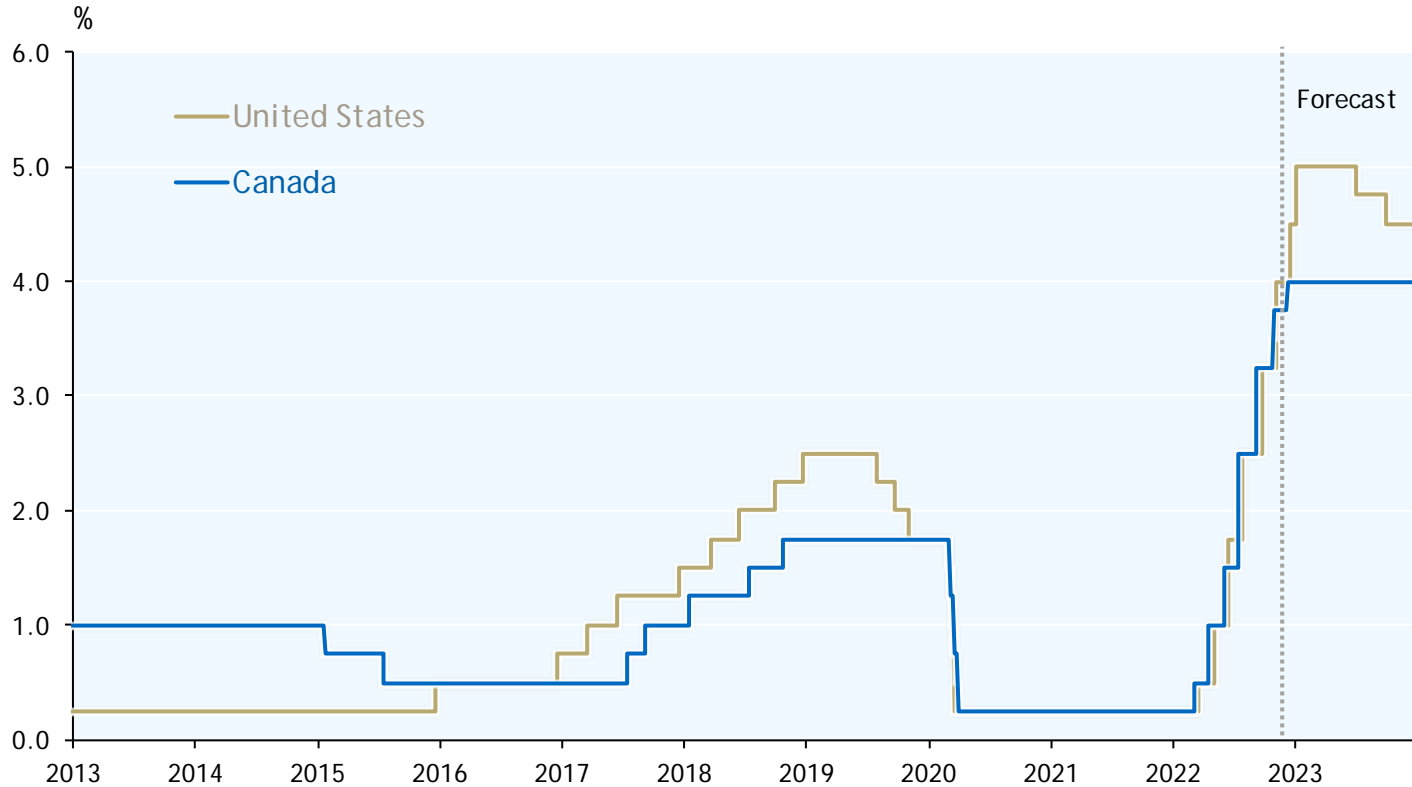
Source: Bank of Canada BOS Survey, RBC Economics

Inflation expectations have drifted higher



# 'Forceful' action was necessary

## Policy interest rates: Canada and United States



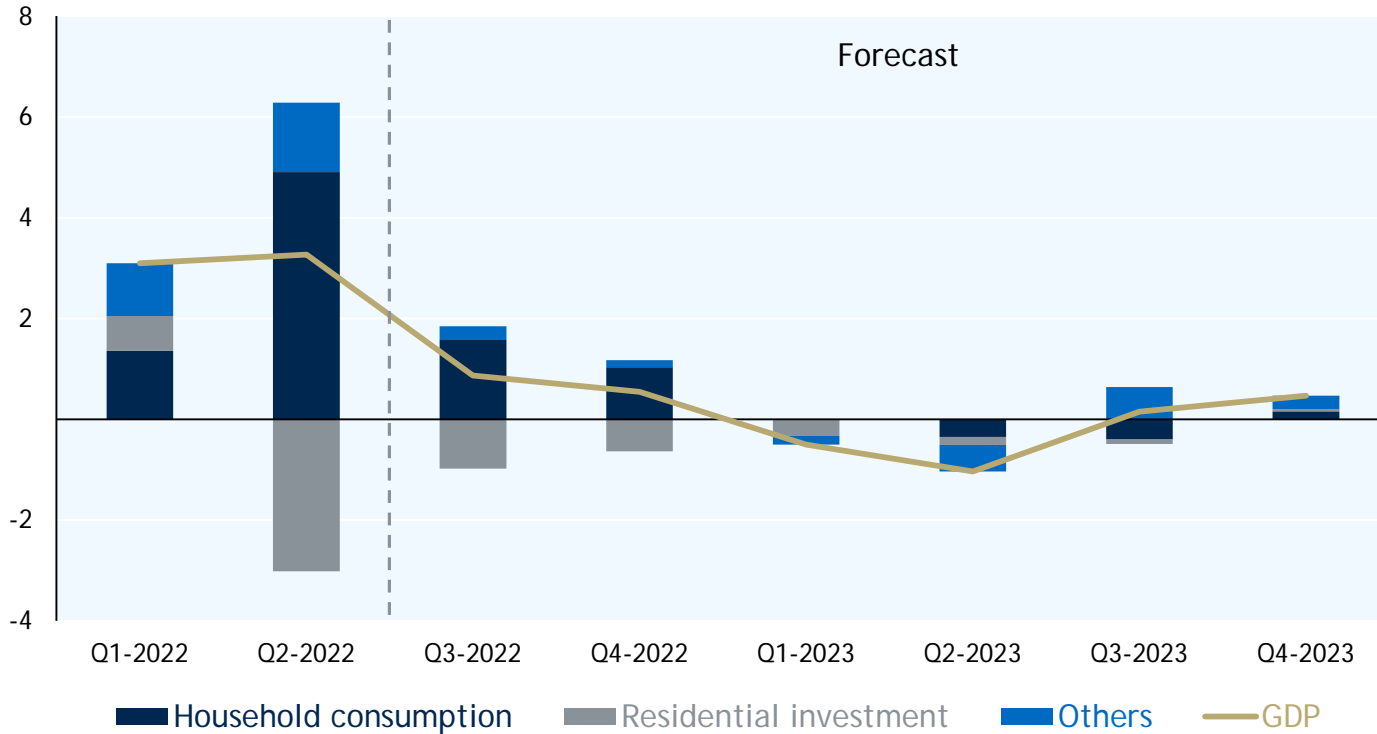
Source: Bank of Canada, Federal Reserve, RBC Economics

Bank of Canada, federal reserve to hike policy rates to 4% and 5%, respectively

# This will cause a slight contraction

## Real GDP growth by major components: Canada

% contribution to quarter over quarter annualized GDP growth



Source: Statistics Canada, RBC Economics

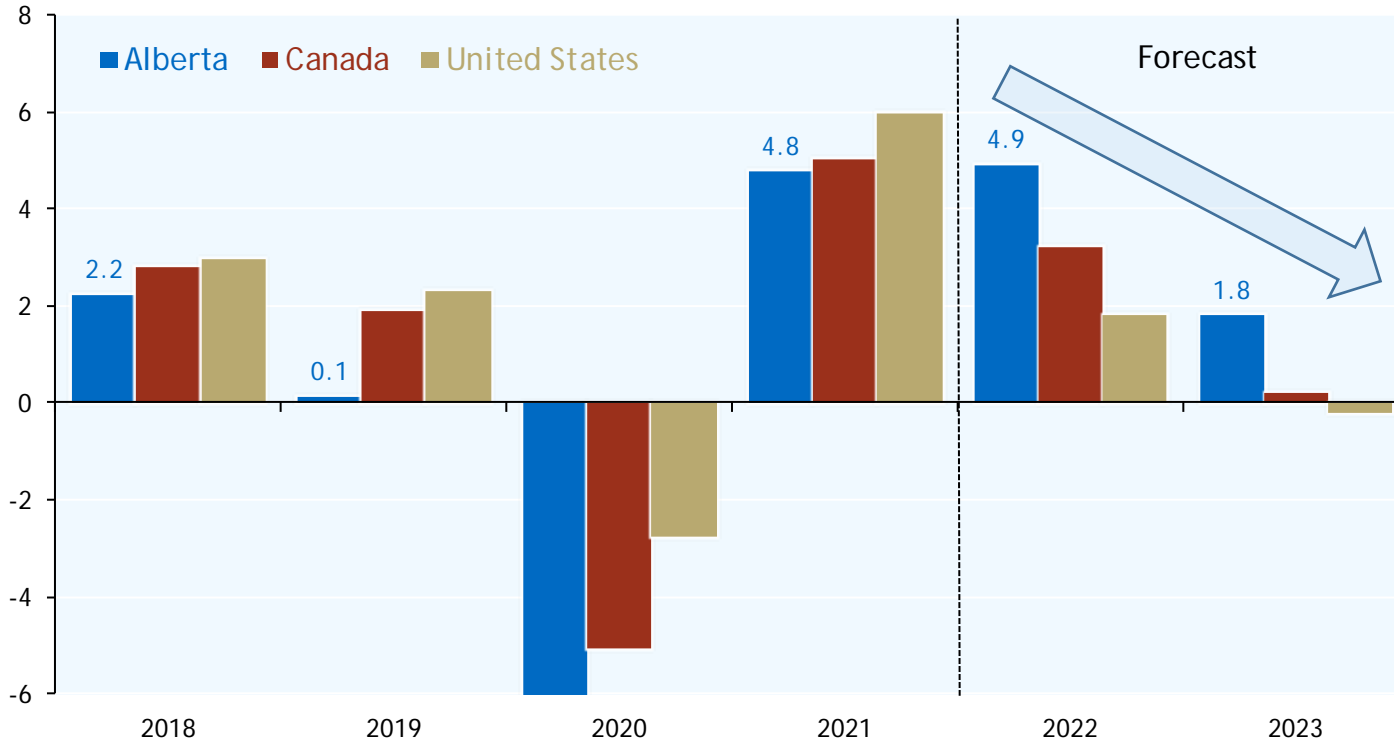
Interest-sensitive sectors to take a hit next year



# Alberta won't escape the downturn...

## Economic growth outlook

Real GDP, annual % change



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

Annual growth expected to slow but stay well above national average

...but currently carries strong momentum

## Alberta Activity Index

January 1981 = 100



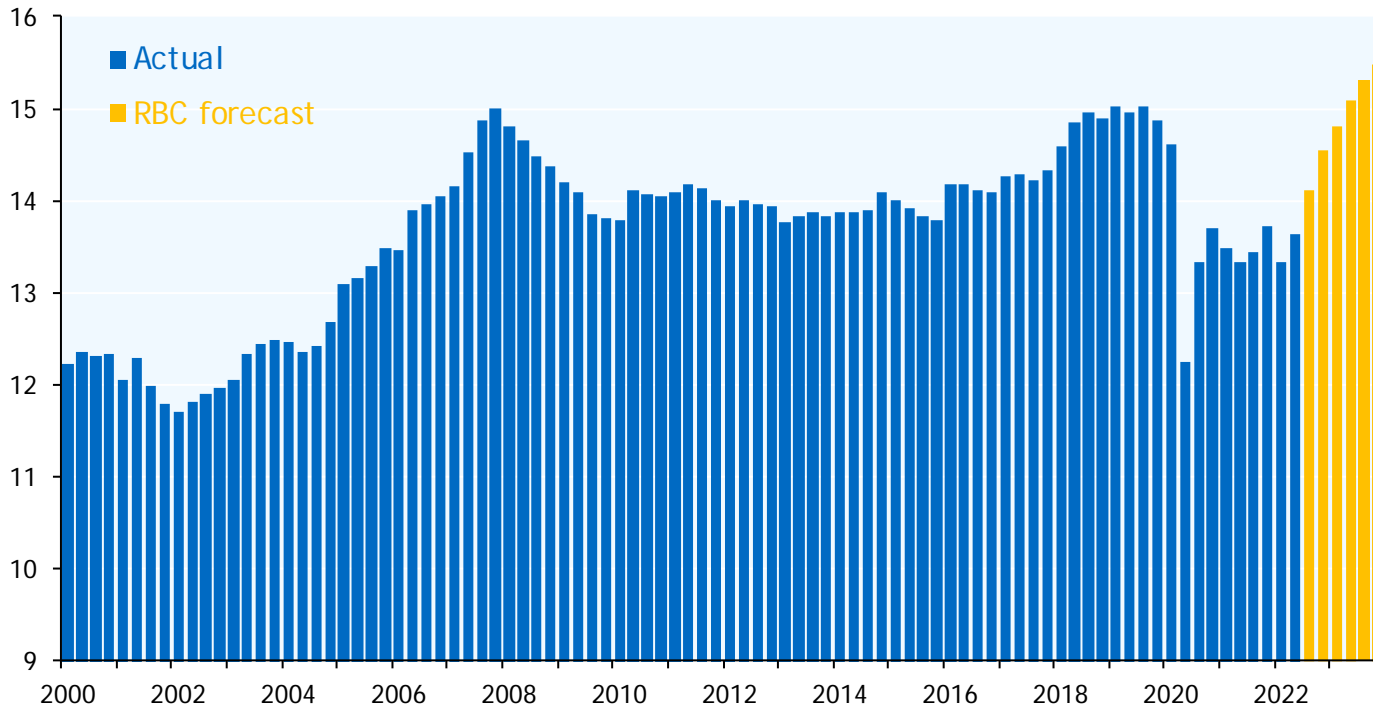
Source: Alberta Treasury Board and Finance, RBC Economics

Rebound this year has been broad based.

# Soaring interest rates will test households

## Household debt service ratio: Canada

Total debt payments % of after-tax household income



Source: Statistics Canada, RBC Economics

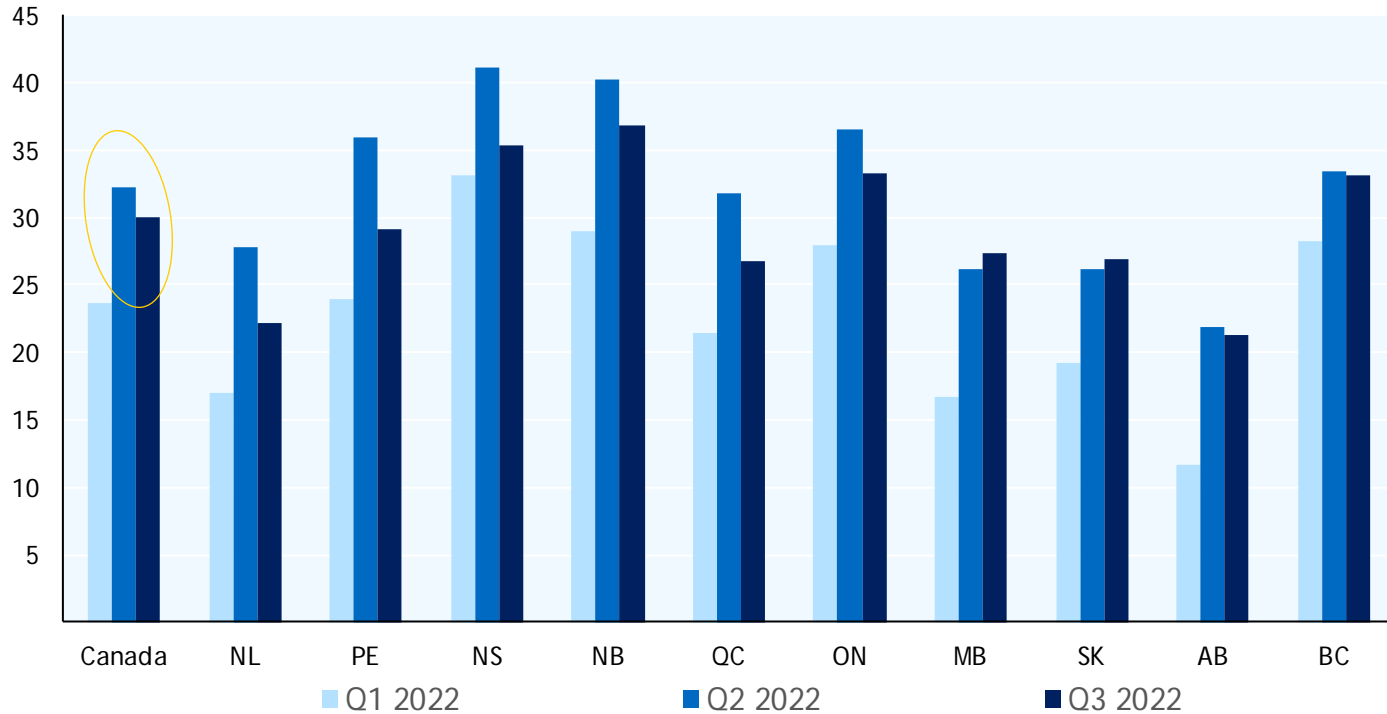
Facing a triple whammy: increased rates, declining wealth and high living costs



# Early signs of consumers being tapped-out ?

## RBC cardholder spending by province

% change from the corresponding quarter in 2019



Source: RBC Data & Analytics, RBC Economics

Our (near) real-time spending data hint at a turning point mid-year



# Big housing market correction underway

## Home resales: Canada

Thousand units, seasonally adjusted and annualized



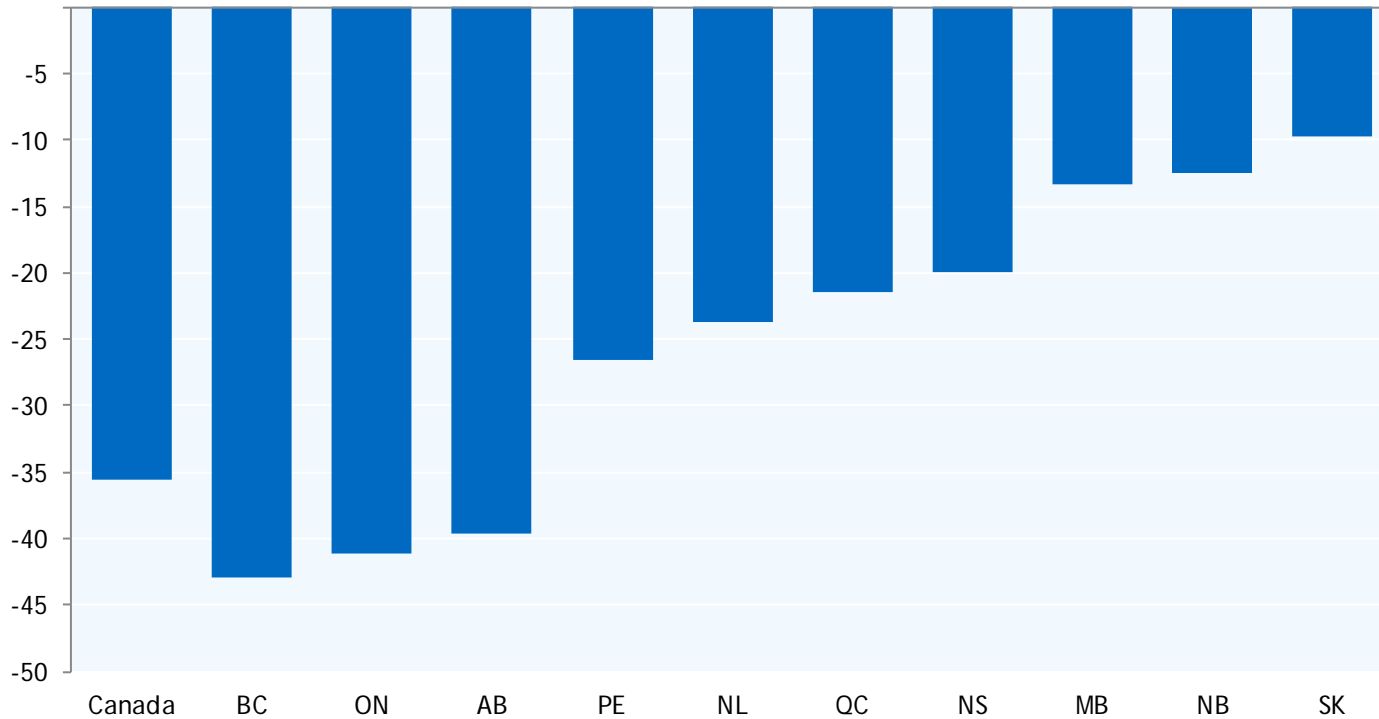
Source: Canadian Real Estate Association, RBC Economics

March was a turning point, coinciding with the Bank of Canada's first hike

# Downturn is widespread

## Home resales by province

% change between February and October 2022



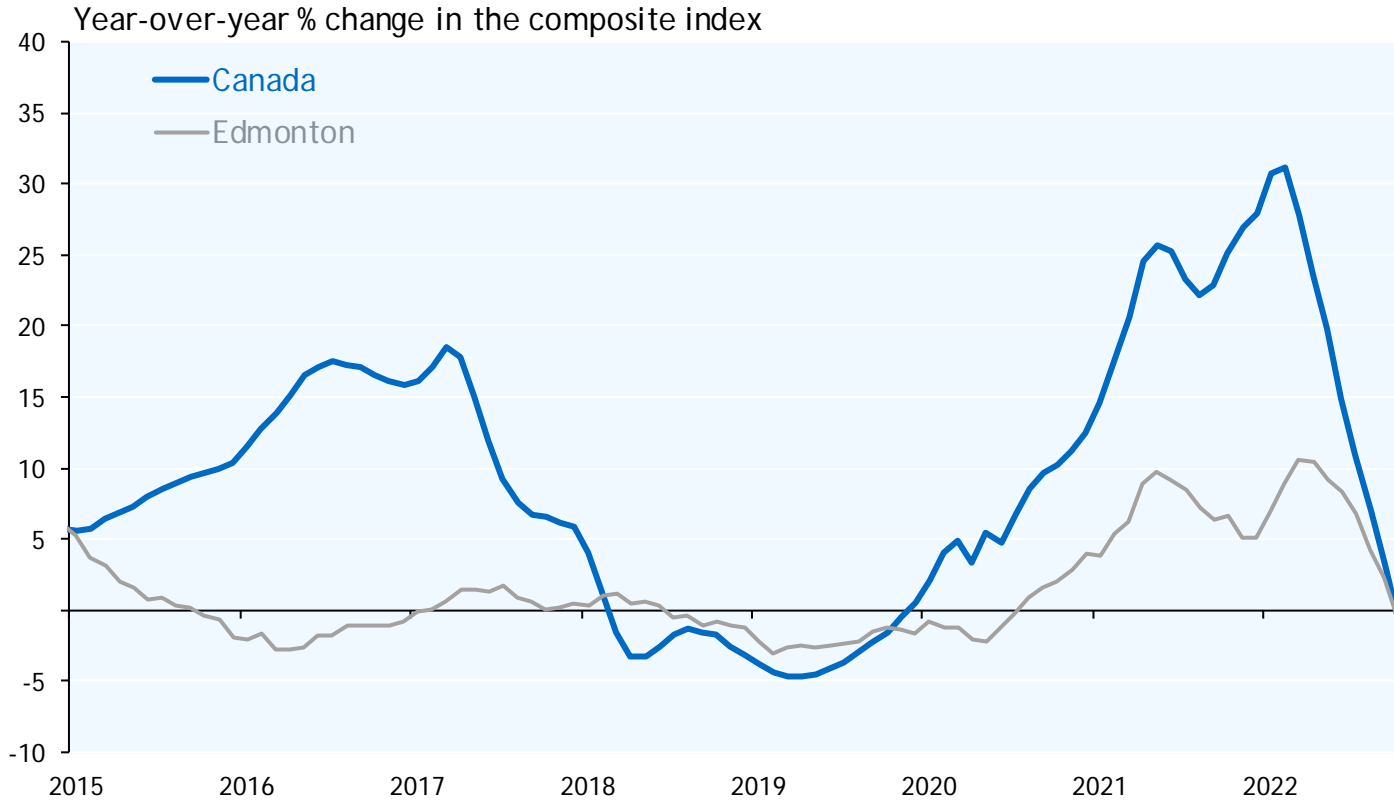
Source: Canadian Real Estate Association, RBC Economics

Canada's priciest markets among those that cooled the most this year



# Market is reversing earlier price gains

## MLS Home Price Index



Source: Canadian Real Estate Association, RBC Economics

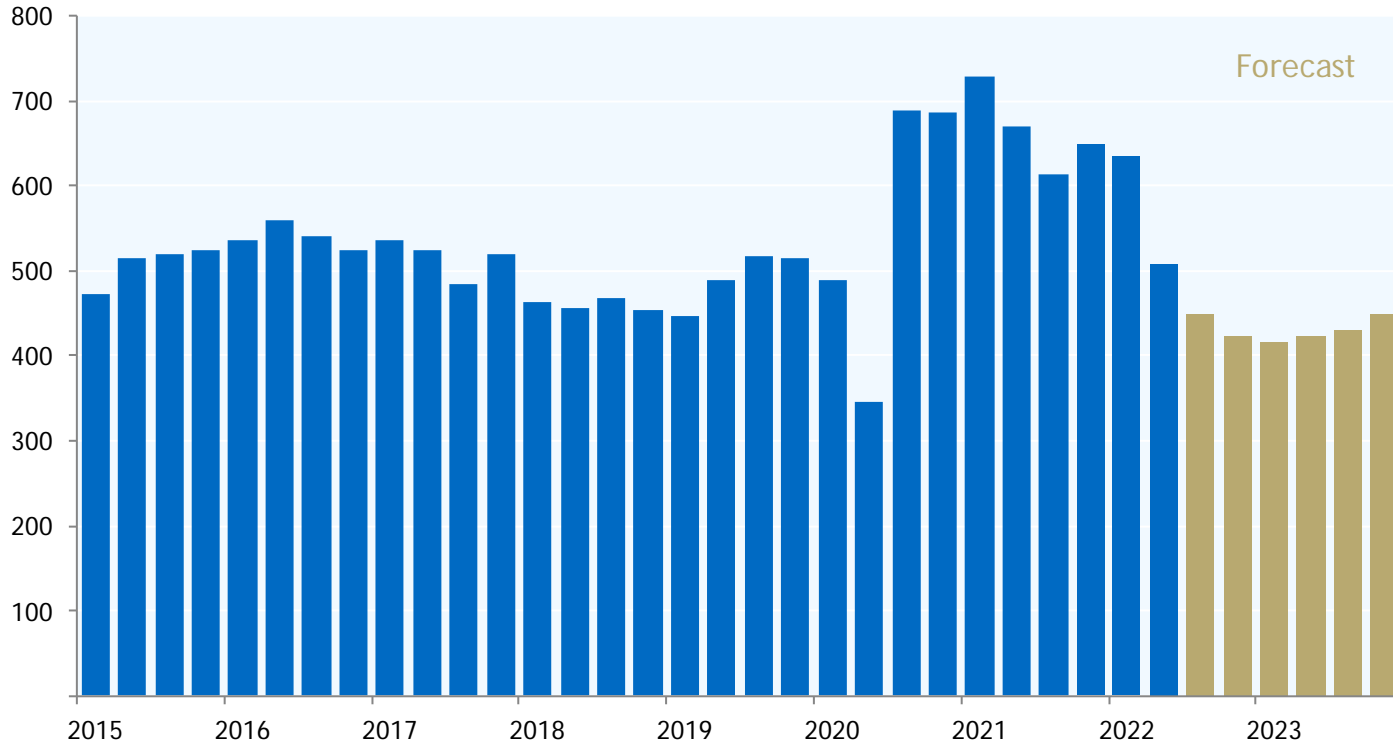
National index fell m/m in past eight months (-10%); Edmonton -6.8%; Calgary flat



# Correction expected to extend into 2023

## Home resales: Canada

Thousands of units, seasonally adjusted and annualized



Source: Canadian Real Estate Association, RBC Economics

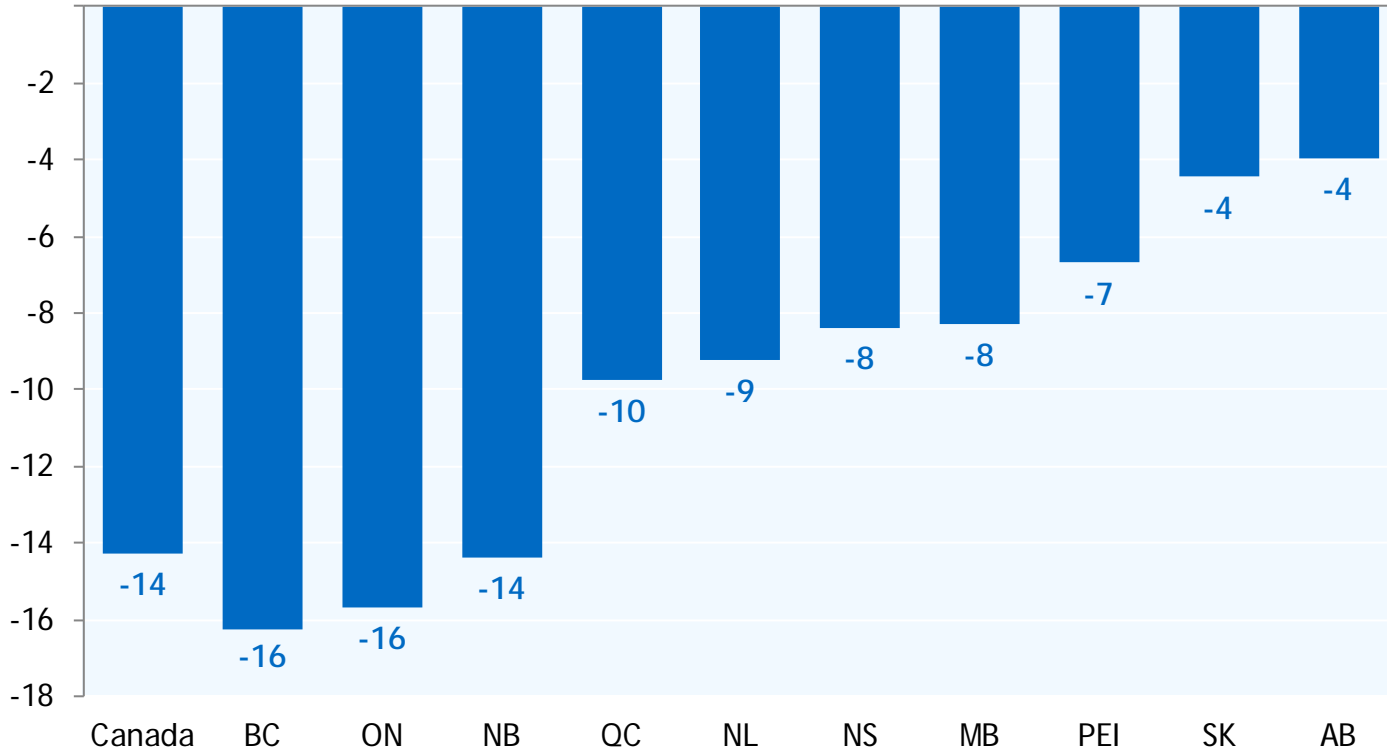
Nationwide, activity projected to drop 24% in 2022 and 14% in 2023



# Cyclical bottom expected to be in the spring

## Home price forecast by province

Projected quarterly peak-to-trough decline in the aggregate RPS Home Price Index



Source: RPS, RBC Economics

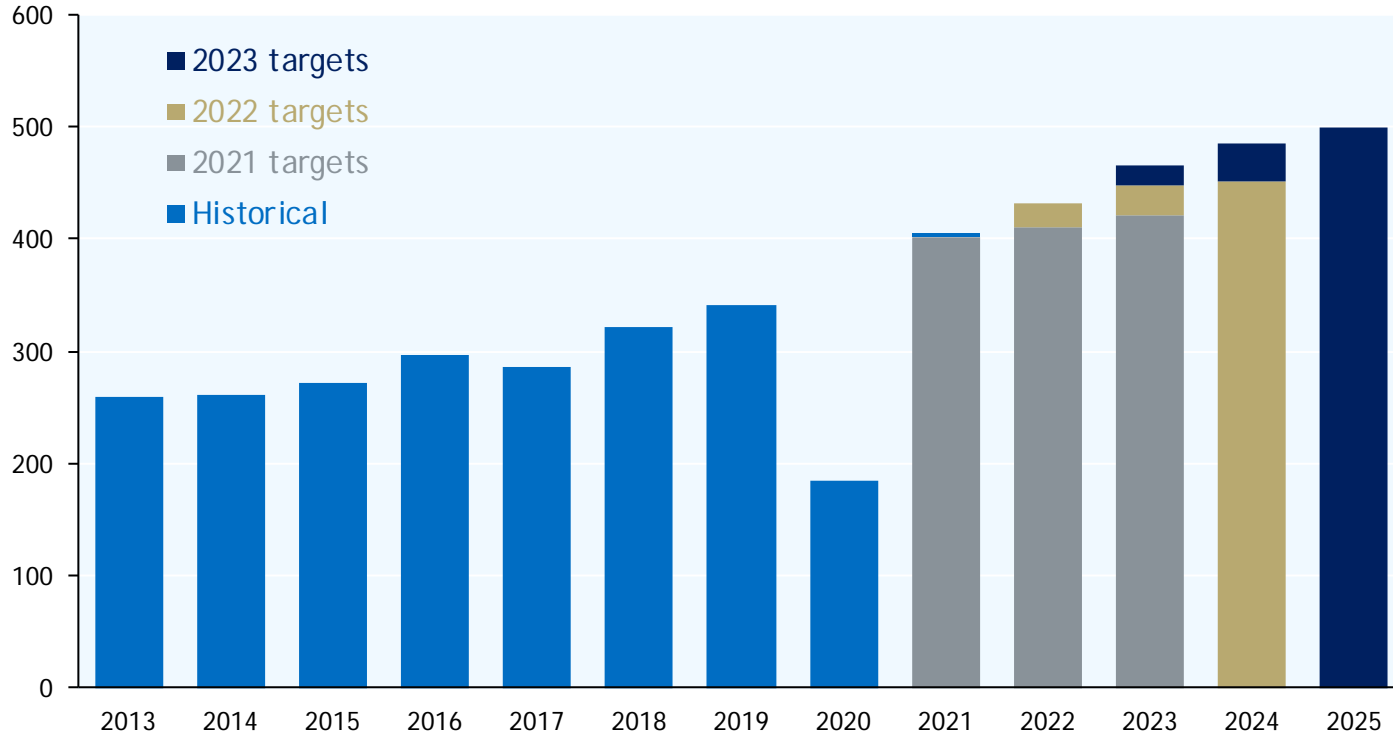
Smaller price declines in Quebec than BC and Ontario



# Housing market is unlikely to collapse

## Immigration: Canada

New permanent residents in Canada, in thousands



Source: Statistics Canada, IRCC, RBC Economics

Main contributor to a projected rise of 730,000 households by 2024 (240k per year)

# Inflation: worst is behind us

## Inflation: Canada

Consumer price index, annual % change



Source: Statistics Canada, RBC Economics

To get closer to target by the end of next year





# Commodity prices are coming down

## Commodity price index: Canada

January 1972 = 100



Source: Bank of Canada, RBC Economics

Global commodity markets responding to high prices and softening economies



# And global supply chains are improving

## Shipping container costs

Freightos Baltic Index 12 routes, US\$ per 40 foot container



Source: The Baltic Exchange, Haver, RBC Economics

Earlier acute container shortages are quickly being resolved on some routes

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