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Top headlines: Canadian home prices are too rich for higher interest rates, Paul Beaudry says

The latest business news as it happens

Financial Post Staff || October 2, 2023

Paul Beaudry, former deputy governor of the Bank of Canada, departs after speaking at the Bank of Canada headquarters in Ottawa, 2022. PHOTO BY DAVID KAWAI/BLOOMBERG FILES

Canadian home prices are too rich for higher interest rates, Paul Beaudry says

Current home prices in Canada can't be justified if medium-term interest rates stay elevated, a former Bank of Canada official said, underscoring the risk to one of the country's most important sectors.

Paul Beaudry, who spent four years on the central bank's rate-setting committee, said the outlook for the housing market remains highly dependent not only on the policy rate, but on longer-term fixed rates. If they don't come down, "then it becomes much more difficult to support these valuations," he said on BNN Bloomberg Television.

The benchmark price of a home in Canada was $757,600 in August, up 40 per cent in five years — with most parts of Ontario and Quebec seeing much larger price increases. Canadian homeowners, unlike their U.S. counterparts, don't have the option of locking in rates for 30 years. Most borrowers have rates that are fixed for five years or fewer, or they have floating-rate mortgages that rise and fall with the Bank of Canada rate.

That has left many households stretched after rates jumped in the past 18 months. The five-year Canada government bond yield has risen nearly 150 basis points since hitting its 2023 low in March, putting significant upward pressure on mortgage rates. Royal Bank of Canada economists wrote last week the overall cost of home ownership in Vancouver, Toronto, Montreal and other cities is "still near all-time worst levels."

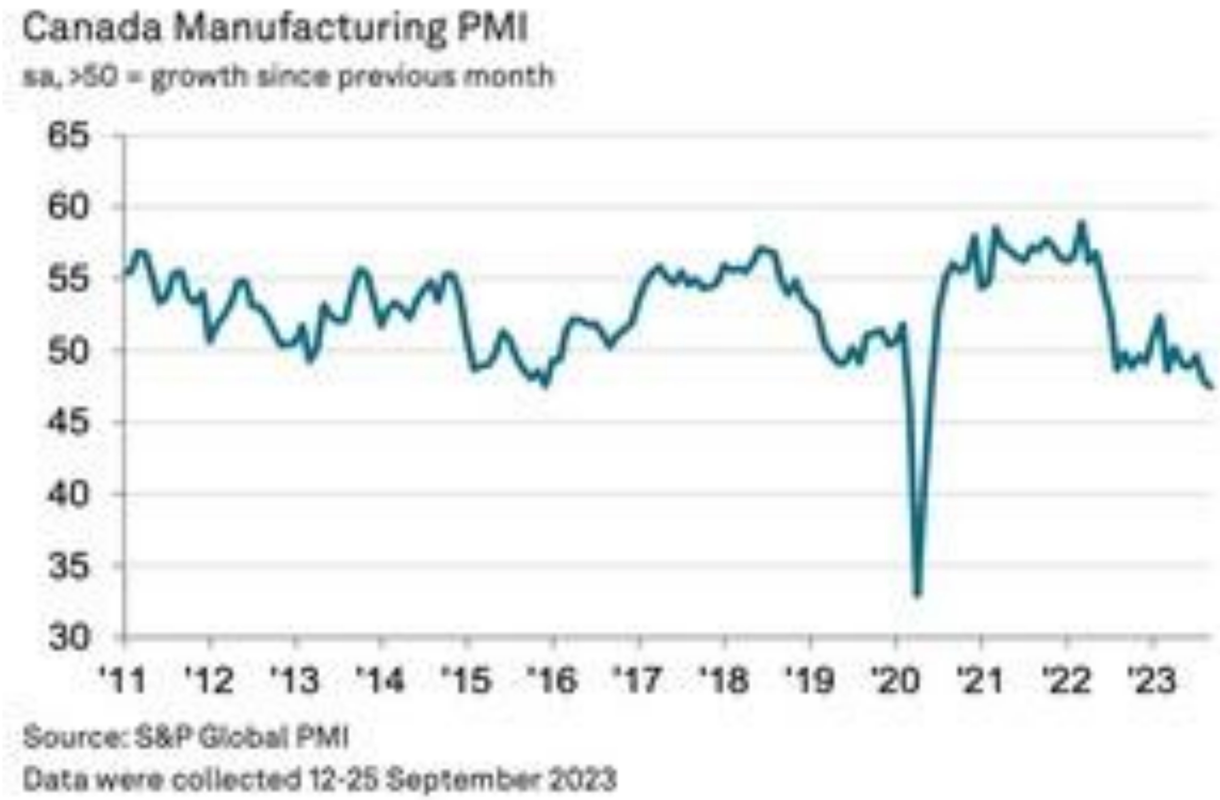
Beaudry, who left the central bank in July, said his former colleagues will remain worried about core measures of inflation until they ease closer to the two per cent target. "If they don't come down, that really brings a danger that maybe there is a point where the Bank of Canada will need to tighten more," he said.

The S&P Global Canada Manufacturing Purchasing Managers' Index (PMI) out this morning fell to 47.5 from 48.0 in August. Anything below 50 on this index is a contraction.

It's the lowest reading since May 2020, the early days of the pandemic, and the fifth monthly decline in a row.

"The Canadian manufacturing sector continued to experience lacklustre performance during September," Paul Smith, economics director at S&P Global Market Intelligence, said in the statement.

"Output and new orders both fell to steeper degrees amid evidence of slow market demand."



S&P Global Market Intelligence

Financial Post

9:45 a.m.

Stock markets are open: Here’s what’s happening at the bell

A trader on the floor of the New York Stock Exchange. PHOTO BY SPENCER PLATT/GETTY IMAGES

North American stocks were mixed in early morning trading, with most indexes pointing lower.

In Toronto, the S&P/TSX composite index was down 151.98 points to 19,389.20 at 9:45 a.m.

The S&P 500 was down 4.05 points to 4,284, the Dow Jones Industrial average was down 107.49 points to 33,400.01 and the Nasdaq was up 52.48 points to 13,271.80.

9 a.m.

Rogers expands TTC subway wireless access to customers of other carriers

A woman uses her phone while waiting on a subway platform in Toronto. PHOTO BY PETER J. THOMPSON/FINANCIAL POST

Rogers Communications Inc. says customers of all of the major Canadian wireless carriers can now connect to its 5G wireless network in the busiest sections of the Toronto subway system.

The company says subway riders will be able to connect to its 5G network while in the Line 1 stations and tunnels in the so-called Downtown U from Union Station north to St. George and Bloor-Yonge, plus Spadina and Dupont stations. The area encompasses all of the subway stops in Toronto's downtown core.

Users will also be able to access the network in 13 stations on Line 2, along Bloor Street from Keele to Castle Frank, plus the tunnels between St. George and Yonge stations.

Rogers acquired the cellular network in the subway system from BAI Canada earlier this year and has been working to upgrade it.

The service to all carriers comes after months of tense back-and-forth negotiations between Rogers and rivals Bell and Telus over the best technical approach, as well as financial terms, for providing the coverage.

The federal government had set a deadline of Tuesday for all passengers on the TTC subway system to have cellular connectivity, regardless of their carrier. It has also set a Dec. 20 deadline for the companies to negotiate commercial agreements to provide service on the subway over the long term.

The Canadian Press

8:25 a.m.

Bank of Canada has no more reason to hike interest rates: David Rosenberg

The Bank of Canada building in Ottawa. PHOTO BY SEAN KILPATRICK/THE CANADIAN PRESS

Canada's real gross domestic product growth was zero per cent in July and Statistics Canada's estimate for August is just 0.1 per cent, according to the agency's data released Sept. 29. Economist David Rosenberg points out the economy would be in even worse shape if not for a booming resource patch (1.9 per cent growth in July and 0.6 per cent in June).

“The year-over-year trend in the Canadian economy, which was running hot on the fumes of fiscal stimulus at 4.2 per cent this time last year, has wound all the way down to a mere 1.1 per cent this year, the weakest trajectory since February 2021,” he says in his Breakfast with Dave newsletter.

“Memo to the Bank of Canada: the lags from the prior aggressive rate hikes are kicking in to aggregate demand. There is no more reason to be tightening policy. The interest-sensitive segments of the economy sagged 0.7 per cent alone in July and have been negative in five of the past six months (roughly minus three per cent at an annual rate over that time frame).”

Financial Post

7:35 a.m.

Rania Llewellyn departs Laurentian Bank, Eric Provost named CEO

A Laurentian Bank branch in Montreal. PHOTO BY GRAHAM HUGHES/BLOOMBERG

Laurentian Bank of Canada said chief executive Rania Llewellyn will leave the company immediately and will be replaced by personal and commercial banking chief Eric Provost.

Llewellyn, the first woman to lead a major Canadian bank, departs after the Montreal-based lender concluded a review of strategic options without a sale. In September, it said it would try to ramp up its current strategy, which includes growth in commercial lending and technology upgrades.

Provost's priority, according to a statement from the bank, will be to "rebuild trust" with customers and address the impacts of a mainframe outage that occurred last week. The outage occurred during a planned technology maintenance update, the bank said and added that customer data and financial information remained secure at all times.


Rania Llewellyn will depart as the chief executive of Laurentian Bank of Canada. PHOTO BY GRAHAM HUGHES/BLOOMBERG

“Eric is the right executive to lead the bank at this critical point in its evolution,” said Michael Boychuk, who was appointed chair of the board as Michael Mueller resigned. “We have experienced challenges recently and the board is confident that Eric will successfully focus the organization on our customer experience and operational effectiveness.”

Provost will implement a three-part plan to fully resolve any outstanding issues related to the outage, enhance communications with customers and launch a review of the technical issues.

As an initial step, the bank says it will reverse all monthly service fees for September as soon as possible.

Laurentian’s shares have fallen more than 15 per cent since the Sept. 14 announcement that the strategic review had ended without a deal.

Provost had been promoted to an expanded role last month by Llewellyn, adding personal banking to his responsibilities in a management shakeup that also saw Laurentian adopt a smaller executive team.

Llewellyn, a former Bank of Nova Scotia executive, was CEO for almost three years.

Bloomberg, with additional reporting from The Canadian Press

The Financial Post's Barbara Shecter reported on Laurentian's troubles earlier in August. Read her story: 'The sick puppy': Why Laurentian has struggled in a golden age for Canadian banks.

7:30 a.m.

Mortgage payment shock looms for Canadian homeowners

Borrowers with fixed rates are expected to see an average payment increase of between 14 per cent and 25 per cent next year compared with early 2022 costs. PHOTO BY PETER J. THOMPSON/FINANCIAL POST

From ultra-low interest rates that led to a huge spike in real estate demand to the speed with which interest rates shot up to levels not seen in a generation, it’s been hard to keep up with the shifting landscape for mortgage borrowers.

Now, with interest rates increasingly expected to stay higher for longer, many of the homeowners who locked in low rates years ago are likely bracing themselves for financial pain as their mortgage comes up for renewal.

“Each month that passes, roughly two per cent of mortgage holders face renewal at sharply higher interest rates,” Royce Mendes, managing director and head of macro strategy at Desjardins, wrote in a Sept. 19 note to clients.

Borrowers with fixed rates are expected to see an average payment increase of between 14 per cent and 25 per cent next year compared with early 2022 costs, according to the Bank of Canada. In 2025 and 2026, payments should rise between 20 per cent to 25 per cent.

Those with full variable rates have already taken on the burden of higher rates, seeing their payments rise an average of 49 per cent as of this year.

Borrowers with variable rates but fixed monthly payments will face the greatest increases ahead as some have had their payments only cover the interest costs, or not even that. People with these products face an expected 44 per cent average rise in payments by 2026 as their mortgages reset.

The Canadian Press

Stock markets: Before the opening bell

↓	S&P/TSX	19,541.27	0.25%
↑	S&P 500 Futures	4,326.25	0.02%
↑	WTI Futures (Per Barrel)	US$91.82	1.13%
↓	Gold Spot (Per Ounce)	US$1,833.96	0.79%
↑	U.S. Dollar Index	106.48	0.29%
↓	Canadian Dollar/U.S. Dollar	73.49	0.23%

Source: Bloomberg. The percentage change is daily

Stocks were mostly lower in Europe and Asia Monday, even after the United States Congress averted a government shutdown with a last-minute compromise.

U.S. stock futures are higher this morning after the U.S. Congress approved the temporary funding bill late Saturday to keep U.S. federal agencies open until Nov. 17.

“Financial markets were bracing for a shutdown, so there’s an element of relief, but it’s only a temporary lifting of one of the clouds hanging over the markets now,” said Yung-Yu Ma, chief investment officer at BMO Wealth Management. “Interest rates and Fed hawkishness remain the name of the game and the main driver of the markets over the next few weeks.”

In U.S. premarket trading, tech stocks led gains, with strategists at Goldman Sachs Group Inc. predicting the sector to do well, benefiting from lower valuations after the recent sell-off and a pullback in bond yields.

The S&P/TSX composite index closed in negative territory y on Friday.

The Associated Press, Bloomberg