

CIBC Risk Assessment Report

Canadian Economic Outlook - 2024

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Date: August 2024

Distribution: Internal

This report provides CIBC's economic forecast for Canada through 2025 and implications for lending operations.

Interest Rate Environment

Bank of Canada Policy Outlook:

Current overnight rate: 5.00% (as of June 2024)

Expected path:

- Q3 2024: Hold at 5.00%
- Q4 2024: Hold at 5.00%
- Q1 2025: Cut to 4.75% (March 2025)
- Q2 2025: Cut to 4.50% (June 2025)
- End 2025: Terminal rate ~4.25%

Rationale: Inflation moderating toward 2% target. Economic growth slowing significantly.

Unemployment rising creates conditions for rate cuts in early 2025.

Risk: If inflation proves sticky above 3%, BoC may delay cuts or implement fewer cuts than expected.

Employment and Income

Labour Market Forecast:

Unemployment Rate:

- Q3 2024: 6.4%
- Q4 2024: 6.6%
- Q1 2025: 6.7% (peak)
- Q2 2025: 6.5%
- End 2025: 6.2%

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Wage Growth:

- Currently: 4.2% YoY
- Expected to moderate to 3.5% by end 2024
- Further moderation to 3.0% through 2025

Sectors at Risk:

- Technology: Continued restructuring, 5-10% headcount reductions expected
- Retail: Store closures and consolidation continuing
- Construction: Residential construction declining 15-20%

Sectors Showing Strength:

- Healthcare: Chronic labor shortages, steady hiring
- Professional services: Moderate growth
- Government: Stable employment

Housing Market

Real Estate Forecast:

National Home Prices:

- Q3 2024: -3% YoY (continued correction)
- Q4 2024: -2% YoY
- 2025: +1% to +3% (stabilization and modest recovery)

Regional Outlook:

- Toronto: -8% in 2024, +2% in 2025 (oversupply concerns)
- Vancouver: -6% in 2024, +3% in 2025
- Calgary/Edmonton: +4% in 2024, +5% in 2025 (energy sector support)
- Montreal: -2% in 2024, +2% in 2025

Sales volumes down 18% YoY due to affordability constraints. First-time buyers largely sidelined. Investor activity declined 40%.

Mortgage Stress: 1.2M variable rate mortgages hitting trigger rates or payment caps. Approximately 200,000 borrowers at risk of default without intervention.

Implications for Lending

Strategic Recommendations:

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1. Mortgage Lending:

- Maintain conservative underwriting through Q4 2024
- Begin returning to normal standards Q1 2025 as rates decline
- Focus on high-quality borrowers with strong employment in stable sectors
- Emphasize fixed-rate products to reduce variable rate exposure

2. Unsecured Lending:

- Tighten standards remain appropriate through Q4 2024
- Credit card limits should be reviewed conservatively
- Personal loan growth should be moderate and selective

3. Small Business:

- Avoid concentration in struggling sectors (retail, hospitality, construction)
- Emphasize healthcare, professional services, technology
- Require strong personal guarantees

4. Geographic Strategy:

- Reduce concentration in Toronto and Vancouver
- Increase focus on Prairie provinces showing stability
- Quebec market showing resilience

5. Pricing:

- Maintain risk-based pricing through 2024
- Begin competitive pricing for prime segments in Q1 2025
- Expect increased competition as market stabilizes