GREEN ECONOMY

It's no surprise that governments, corporate leaders, and investors are placing a higher priority on climate change. That being said, we'd like to take a moment to highlight companies that are taking steps to make the world a greener place.

Green Highlight

EcoSynthetix is an Ontario-based company that specializes in renewable, bio-based chemicals and ingredients that help leading global companies improve performance, reduce cost, and make a significant reduction in their carbon footprint.

"We've been offering this value to the leading companies in the paper industry for over a decade," explained Jeff MacDonald, CEO of EcoSynthetix, on a recent Zoom call with Brad and P.J. "We feel that the sustainability impact of our value proposition was maybe ahead of its time."

The impact EcoSynthetix can make by replacing fossil fuel-based chemicals with all-natural ingredients is often the leading value driver in discussions with customers. For example, their bio-based coating for paper products reduces greenhouse gas emissions by over 60% versus the oil-based chemistry it replaces, with equivalent performance and improved economics.

EcoSynthetix. Last modified, 2017. https://ecosynthetix.com/.

Jeff MacDonald
CEO of EcoSynthetix

TD

NEWSLETTER Q2

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What Drives Us

Spring 2021

Even one hundred years later, the Roaring Twenties are coming in with a bang. The economy is on the brink of one of the most remarkable recoveries in history.

With vaccines becoming available and accommodative central banks, consumers may be ready to spend their pandemic savings. As such, we will take a look at the red-hot housing market in this quarter's newsletter.

We are also excited to launch our Green Economy overview where we highlight a Canadian company that we know is taking steps to improving our carbon footprint.

All the best,

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Canadian Housing Outlook: Another Record Year in the Cards for 2021

Excerpts from the original article by Rishi Sondhi, Economist via TD Economics
Published on March 3, 2021

Canadian Sales Outlook

In a recent speech, the Bank of Canada Governor Tiff Macklem opined that the rapid run-up in home prices observed since last June has less to do with speculation and more to a shift in demand towards larger, more expensive units (exacerbated by the pandemic). And, this has come against the backdrop of lagging new supply in these markets for several years (chart 1).

While we agree that these factors have played a prominent role in driving demand, we still estimate that Canadian sales were about 10% above fundamentally supported levels at the end of last year. What we deem as "fundamental sales" – or those consistent with current levels of what we believe to be core drivers of housing demand, like household income and mortgage rates – have received significant support from record-low rates and econometric analysis suggests that buying behaviour has become more sensitive to changes in mortgage rates over time.

Nonetheless, the gap can't be maintained indefinitely, and we expect it to begin to close in the second half of 2021 as borrowing rates move gradually higher in lockstep with Government of Canada bond yields. And, any backup in rates would come against a backdrop of extremely poor affordability conditions (chart 2).

Although sales are likely to trend lower in coming quarters, a steep pullback in activity probably isn't in the cards. For one, while interest rates could move higher, they are likely to remain relatively low, reinforced by a central bank on hold through the next few years. Secondly, an improved economy and ongoing job growth are positives for housing demand. In addition, we expect population growth to firm starting in the second half of 2021 as COVID-19 vaccines become more widely distributed globally. This should have immediate positive impacts on the rental market, helping support demand for investor-owned properties.

What's more, the sheer demographics of the country are likely to be demand-supportive. The share of Canadians aged 25 – 39 (when demand for ownership housing rises the fastest) clocked in at a meaty 21% last year. Finally, the demand for larger detached properties should have near-term staying power as the pandemic rages on.

A big wildcard for the outlook is the extent to which households funnel their pile of savings towards home purchases. We estimate that Canadian households accumulated excess savings of almost $200 billion in 2020. Recent surveys suggest that a large share of households plan to redirect savings towards debt repayment and indeed may already have been doing so. However, to the extent that the accumulated balances are used as down payments, near-term sales and prices could continue to surprise on the upside.

On the downside, the recent backup in government bond yields highlights the risk of a faster climb in medium-term borrowing rates than the moderate increases currently assumed in our forecast. Moreover, a continuation of unsustainable housing strength could prompt further measures to cool housing activity by federal and/or provincial governments. Given that regulators and governments are unlikely to want to rock the boat during a health crisis, this would appear to be more of a risk-facing market activity over the medium term (i.e., late 2021/2022). Should either (or both) of these risks materialize. It could cause sales to undershoot fundamentals and put more downside pressure on prices than what we are anticipating.

Home Price Outlook

Across Canada, prices advanced by over 12% - the strongest gain since 1989. For this year, we expect Canadian home price growth to be even stronger on an annual average basis (chart 3).

Canadian average prices were up nearly 5% m/m in January. However, on a Q4/Q4 basis, prices are likely to record an outsized but slower gain of around 8%. Supply/demand balances are tight in markets across the country. A continuation of historically-tight conditions should support further price gains this year. However, the gradual cooling in sales alongside a modest pickup in listings should moderate the pace of price growth, particularly in the second half of 2021.

As 2020 laid bare, the composition of what is being sold has important implications for average prices. For instance, sales of detached homes grew by 15% in Toronto, versus a 6% decline for condos. With sales of pricier units gobbling up a larger share of the market, average prices jumped by 13%. With the pandemic ongoing, we expect demand for detached units to remain firm in the near-term, supporting average prices. Our forecast assumes that condo units will capture a larger share of the market this year compared to 2020, and rising sales of these less expensive units should help moderate average price growth.

Chart 1: Detached New Housing Construction is Making up a Smaller Share of New Housing Supply

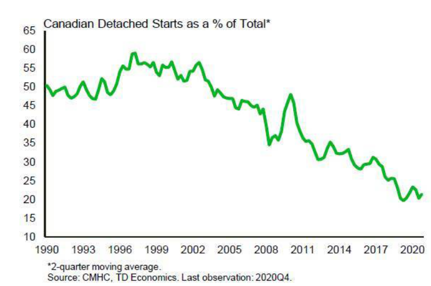


Chart 2: High Sales Levels, Tight Markets to Keep Process Elevated Through Next Year

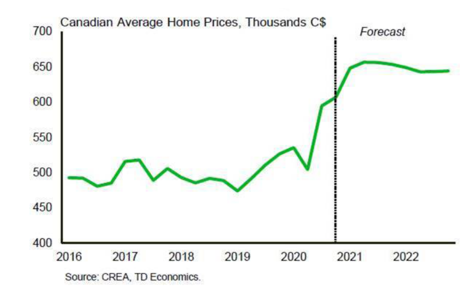
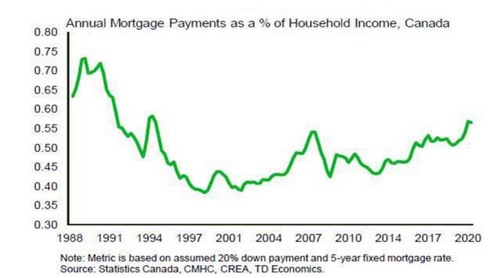


Chart 3: Affordability Deteriorating to Levels Last Seen in the Mid-90s



For the unabridged version of this report, please visit TD Economics:
economics.td.com/ca-housing-update

The full report goes further in-depth into the national and regional sales and price outlook for the Canadian housing market.