What's Worse, The Weather or Canada's Economic Outlook?

Description

First, the weather is awful, at least in this corner of the country. Slush, sleet, and snow have all flown past the window today (the mail still arrived). A Bloomberg article that also rolled by helped cast an even darker light on this already dreary day.

Bloomberg

"Canada Losing Debt Halo as Property Peaks Under Carney" was the title and it's apparently a prelude to an even longer feature on the Canadian economy set to appear in April's issue of Bloomberg Markets magazine.

The focus, or at least my focus, was on the housing information that the article provided. The author put forth stat after pain inflicting stat, providing an outlook that none of us want to see come to fruition. Here's a sampling:

- The average price of a Canadian home jumped 82% during the 10 years through January. This includes a 30% climb from January 2009 alone.
- Construction of new Canadian homes plunged 19% in January from December – the lowest number since the end of 2009.
- Sales of existing homes fell 8.8% in January from a year earlier.
- Toronto suffered a 36% decline in new condo sales in 2012 from 2011.
- Home prices in Vancouver fell 8% from their peak in May 2011 through January.
- The share of Canadian GDP linked to housing, including construction and renovation, is more than 20 %. This figure peaked at 18% in the U.S. in 2005.
- Construction jobs accounted for 7.3% of Canada's total employment in January vs. 4.3% in the U.S.

From a personal standpoint, the most incredible anecdote provided in the article was that the Mr. Christie's factory that operates down the road from where I live (Toronto) has been sold. Instead of the 550 jobs that the factory provides, there will soon stand 27 condo towers (27!!!!!). Pending cityapproval!

We have a sector in the economy that has boomed and is responsible for a sizeable portion of this country's GDP and employment. Even if the epicentre is in just two markets, Toronto and Vancouver, should these markets continue to crumble, the after-shocks are sure to ripple across the Canadian landscape.

The Banks

The Canadian banks are central to this housing/economic picture. Much of the country's economy runs through these institutions, and if it slows, the banks will feel it. So, how have the banks been doing with this sizeable cloud of negativity hanging over their heads? The bank stock sub-index hit an all-time high on February 20th.

I'm sure the timing of the article had something to do with the Big 5 banks reporting this week and next. **BMO (TSX:BMO)** kicked off earnings yesterday with seemingly satisfactory results as the stock climbed 1.3% on the day. Tomorrow, Thursday, will see **Royal Bank (TSX:RY)**, **TD Bank (TSX:TD)**, and **CIBC (TSX:CM)** follow BMO's lead. **Scotia (TSX:BNS)** brings up the rear on March 5th.

Thus far, the banks have been able to shrug off any sign of a slowing housing market, or domestic economy. Time will tell if they can continue to dodge this rather sizeable bullet.

The Foolish Bottom Line

Macro considerations are important, but for bank investors, it comes down to the expectations being priced into the stocks. Given that the group recently set a record high, it's fair to say expectations aren't exactly subdued. In an upcoming post, we'll have a look at how current earnings expectations align with what the Canadian banks have been able to achieve in the past. This will allow you to better understand the risk/reward relationship that these entities provide. Stay tuned.

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Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.

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