Is Canada the Next Brexit?

Description

According to *The Huffington Post*, just days after the tumultuous Brexit vote, the “Canada-E.U. trade deal now looks like Europe’s next big rift.” The issue stems from a recent trade deal between Canada and the E.U., hinging on the rules and regulations necessary to ratify the treaty. This may not seem that influential, but it could roil trade relations at a time when Canada is facing massive energy-sector layoffs and a possible housing bubble.

Earlier this week, Chrystia Freeland, Canada’s trade minister, told *CBC* that there wasn’t a “whisper” of trouble regarding the proposed trade deal between the E.U. and Canada. Following the Brexit vote, she believes a trade deal with Canada is Europe’s major priority given that it could pave the way for similar deals between it and the U.S.

In the following days, many legislators, politicians, and activists came out against the deal. If a deal isn’t ratified, what effects will it have on the Canadian economy? What stocks are at risk?

Economy needs help

This April (the latest data available), the Canadian economy grew by just 0.1%. That comes after a 0.2% contraction in March and another 0.1% contraction in February. While economic activity is improving in the manufacturing and service industries, output for raw materials such as oil, gas, and minerals continued to fall.

According to Derek Holt, head of capital markets economics at **Bank of Nova Scotia**, things could continue to slide. “The second quarter, in my opinion, is tracking poorer than perhaps the Bank of Canada is guiding before we even start to get the worst of the wildfires effects coming in through the rest of the quarter’s data,” he said.

Canadians may prove incapable of weathering a further collapse. A new survey by **Bank of Montreal** found that almost a quarter of Canada’s citizens are still living paycheque to paycheque. Roughly 25% of respondents said they had hardly anything set aside, and more than half reported having less than $10,000 in emergency funds.

Real estate ready to collapse?

One of the major forces preventing many provinces from slipping into an all-out recession has been rising real estate prices. That tailwind may be coming to an end.

Home sales have jumped an astounding 50% over the past year in Vancouver and roughly 12% in Toronto (Canada's biggest market). According to real estate company Royal LePage, "Demand for expensive luxury homes in the two cities is at the highest on record so far this year." Outside those markets, home prices are still growing by nearly 5% a year.

Many analysts believe that Canada is currently in its first real estate bubble in decades. If and when it pops, some fear that big-time lenders such as **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) may go the way of American banks during the last financial crisis, posting massive losses and watching their stocks sink 50% or more.

According to research from **Genworth Canada** (TSX:MIC), many buyers are borrowing money from their family and friends to buy homes. The typical first-time buyer in Genworth's research paid about $293,000 for a first property. Almost a third of them got money from close acquaintances to help afford their down payments.

If the real estate market slows, it could have a domino effect fairly quickly given that homeowners are already stretched. The latest hiccup in trade relations between Canada and the E.U. presents yet another hurdle to avoid a larger recession. At this point, numerous major macroeconomic indicators bode poorly for the Canadian economy.

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