RBC (TSX:RY) Predicts Doom and Gloom for Canada's Housing Market

Description

Canada's largest bank reported a 3% increase in revenues for the fiscal year 2020 (year ended October 31, 2020) versus last year. On the other hand, **Royal Bank of Canada's** (TSX:RY)(NYSE:RY) net income dipped 11% from the fiscal year 2019. Still, the $151.47 billion bank remains formidable in the COVID-world.

However, after reporting better-than-expected profits in the most recent quarter, RBC made special mention of headwinds next year. The premier lender predicts a doom and gloom scenario in Canada's housing market. RBC executives see home prices dropping by 8% and remaining depressed until late 2023.

Double down on real estate forecast

RBC believes the housing market is not yet in the clear despite defying all logic and posting record sales in recent months. CEO Dave McKay said during the conference call, "We expect mortgage growth to slow going forward as pent-up housing demand begins to cool."

One reason for the double-down on its real estate forecast is the unemployment in Canada. With the rate staying at 9% until March 2023, mortgage growth, trading and underwriting activity will slow down. RBC also expects loan delinquencies and impairments to rise in fiscal 2021. The emphasis or greater weight now is on falling home prices.

Record reserve level

For the first three quarters of 2020, RBC and the other Big Banks have increased credit loss provisions that stand at record reserve levels today. The amount of provision tapered off in the fourth quarter.

But according to RBC Chief Risk Officer Graeme Hepworth, the allowances on performing loans might have to increase by about 18% should their forecast play out. The second wave of COVID-19, the end of loan deferrals, and government support will not push delinquencies and impairments higher through

2021. Instead, it will come when trading and underwriting activities moderate.

Great dividend stock

This year was tough for RBC. However, it’s not surprising to see the bank display resiliency as it did in previous crises. Its stock price sunk to a low of $75.76 on March 20, 2020, but has since recovered the losses. Today, RBC trades at $106.37 per share, while the year-to-date gain is 8%.

This blue-chip stock is always on the A-list of dividend seekers. The bank has been paying dividends consistently since 1870. RBC‘s dividend yield is 4.06% and should be sustainable as the payout ratio is less than 55%.

If you’re using your new contribution limits to the Tax-Free Savings Account (TFSA) and Registered Retirement Savings Plan (RRSP) in 2021, make RBC your core holding. You can secure your financial future and receive recurring cash flows for decades.

Relocation trend will spark activity

RE/MAX Canada’s outlook differs from RBC’s forecast. The country’s leading real estate organization expects a 4% to 6% increase in the average residential prices in 2021. Because of the relocation trend, move-up and move-over buyers will continue to drive or spark activity in many regions nationwide.

Despite the disruption of COVID-19, consumers remain optimistic the Canadian housing market will remain steady next year. Interestingly, the results of a Leger survey on behalf of RE/MAX Canada show that 52% of Canadians eyes real estate as one of the best investment options in 2021.

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