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HIGHLIGHTS

- › The U.S. housing market has yet to deliver in its traditional role as a catalyst of economic recoveries.
- › Promisingly, the past several months have hinted at a strengthening pulse in the U.S. housing market, and affordability metrics are now quite attractive.
- › However, the recovery is likely to remain muted due to poor credit conditions, downtrodden market psychology and an enormous overhang of homes.

LAYING A FOUNDATION

If home is where the heart is, America has lately suffered through a serious case of heart disease. After growing to gargantuan proportions, the U.S. housing bubble finally burst in 2006. Home prices have since fallen by 32% and housing starts are 75% lower. This has been bitter medicine, but absolutely necessary to restore the health of the patient.

Tantalizingly, the past several months have hinted at a strengthening pulse in the U.S. housing market. Most metrics of activity have bottomed out, and some are even fluttering a touch higher. Affordability is now quite good, thanks to ultra-low interest rates and depressed home prices. Historically, the average housing correction has tended to reverse course after four years of decline – we are now at that juncture.

Does this portend a wondrous recovery? It's possible, but probably not. We suspect the recovery will remain muted. Credit conditions and market psychology are still poor, and the inventory of unoccupied homes remains enormous. A very gradual multi-year recovery is still more likely than a quick leap higher (Exhibit 1). This means the housing market is unlikely to be the catalyst that shocks the broader economy back to life, at least for a few years.

Why housing matters

Houses are special. Not only are they the only asset you get to live in, but they are also among the most democratic of investments: two-thirds of Americans are homeowners. Houses compete with equities for the status of most valuable household asset, comprising almost a quarter of the total. Meanwhile, mortgages constitute a dominant 72% of household debt.

Exhibit 1: U.S. Housing Recovery Scorecard

Affordability	Very Good
Leading Indicators	Mixed
Historical Precedent	Mixed
Credit Conditions	Poor
Psychology	Poor
Inventories	Poor
PROGNOSIS	MUTED, MULTI-YEAR RECOVERY

Source: RBC GAM

Although residential construction – the most direct economic measure of housing – ordinarily makes up just 4% of U.S. GDP, this understates its true importance in two ways.

First, residential construction may not play a central role on a secular basis, but on a cyclical basis its influence is magnified five-fold due to its extreme variability. When the going is good, it is very good for housing. During the heady early stages of the business cycle, residential construction normally generates around a fifth of all economic growth (around 0.7 percentage points per year), and leads the economy by around two quarters. But when it is bad, it is very bad. This latter condition has prevailed in recent years. The decline in residential construction has chopped a cumulative 3.8 percentage points off GDP since the housing bubble burst (Exhibit 2).

Second, the housing market is tremendously important via a variety of back channels, generating a sizeable fraction of local government revenue, supporting the employment of millions of workers¹ and the purchase of untold billions in building materials, stimulating the purchase of home furnishings, and plumping consumer spending via a substantial wealth effect when home prices are rising.

Alas, in the current context, swooning home prices have severed almost \$7 trillion from household wealth over the past five years, and the resultant negative wealth effect has subtracted as much as another 2 percentage points from GDP. The costs via other channels have also been substantial. Millions of construction workers remain unemployed and underwater mortgages prevent many households from relocating to areas where jobs are more plentiful. Confidence is low. Fiscal coffers lay bare. A variety of supporting industries are idle.

Thus, as we scan the horizon for evidence of a proper economic recovery, housing matters a great deal. A housing renaissance would address this malaise and underpin an economic recovery. So far it has been of little help, and this partially explains the anemic rate of economic growth.

Leading indicators: Mixed

There are a few signs that the U.S. housing market is at least bottoming out, if not sneaking higher.

Current activity flattens

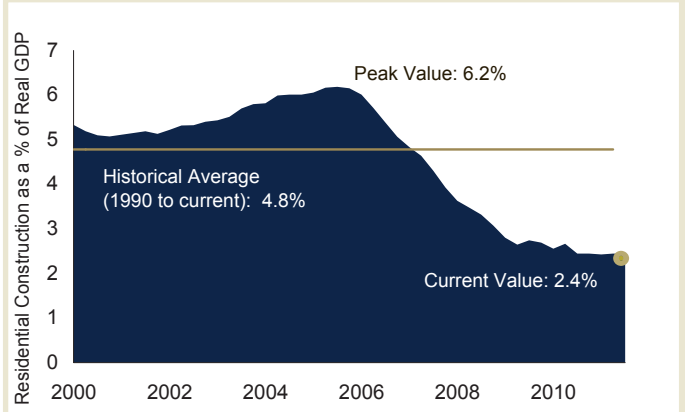
Our index of U.S. housing activity seems to have halted its extended slide, and recent readings demonstrate tentative improvement (Exhibit 3). But all of the effort of the past year has barely reclaimed one-fifth of the distance back to normal. Corroborating this, architectural billings have flattened out but have not yet mounted a concerted recovery. Our index of U.S. home prices also shows evidence of tentative stabilization but not significant improvement (Exhibit 4). These could yet bloom, but haven't truly yet.

Housing inputs improve

The production of construction machinery has risen from its 2010 low, and is approaching normal readings (Exhibit 5). This may well signal imminent improvement in the domestic housing

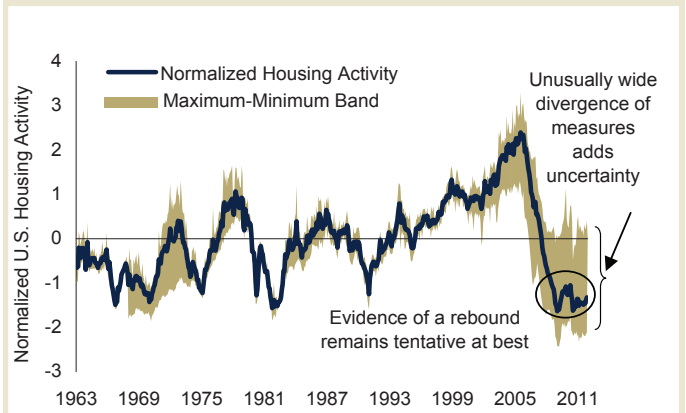
¹ Each newly constructed home is estimated to cultivate three construction jobs and one sales job.

Exhibit 2: U.S. Residential Construction Needs Reviving



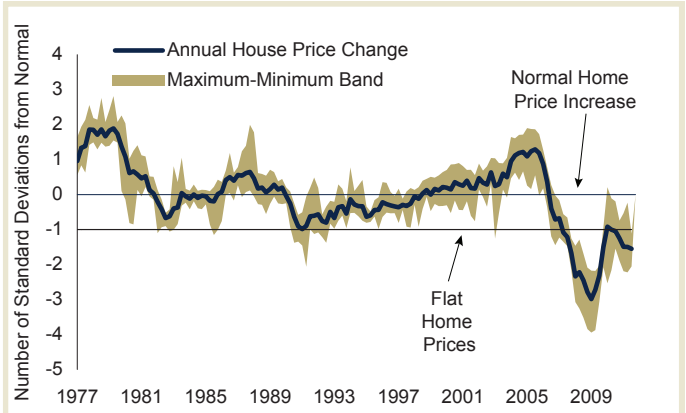
Source: Haver Analytics, RBC GAM

Exhibit 3: Normalized U.S. Housing Activity Has Bottomed



Note: Simple average of normalized single-unit housing starts, single-unit building permits, existing home sales, new home sales and NAHB housing market index. Source: Haver Analytics, RBC GAM

Exhibit 4: Home Prices Still Very Soft



Note: Simple average of normalized Case-Shiller HPI, CoreLogic Ex-Distressed HPI, New Single-Family Home Prices, New Constant-Quality Home Prices, Existing Single-Family Home Prices, Freddie Mac HPI, FHFA HPI. Source: Haver Analytics, Robert Shiller "Irrational Exuberance", RBC GAM

market, or it could just reflect international demand.² Caterpillar reports North American deliveries rising at a heady 41% annual pace, though buyers are said to be motivated by fleet upgrades, not expansions. The production of construction supplies has also rebounded nicely over the past year, while remaining quite far below earlier norms.³

Homebuilders inch higher

Anecdotally, the big homebuilders are enjoying improving market conditions, including notable increases in new orders. But this isn't translating into anything more than a modest boost in closings and revenue. The National Association of Home Builders (NAHB) housing market index is perhaps the most reliable measure of home builder sentiment, and it shows some improvement, but still far more pessimism than optimism.

Rental rehabilitation

The housing rental market sometimes acts as a leading indicator for the homebuyer's market, and also helps to restore balance between housing supply and demand. The attraction of renting during periods of economic and job market weakness is obvious: there are less onerous credit requirements; no down payments; no unpredictable maintenance costs; no scope for a capital loss; and generally fewer strings attached.

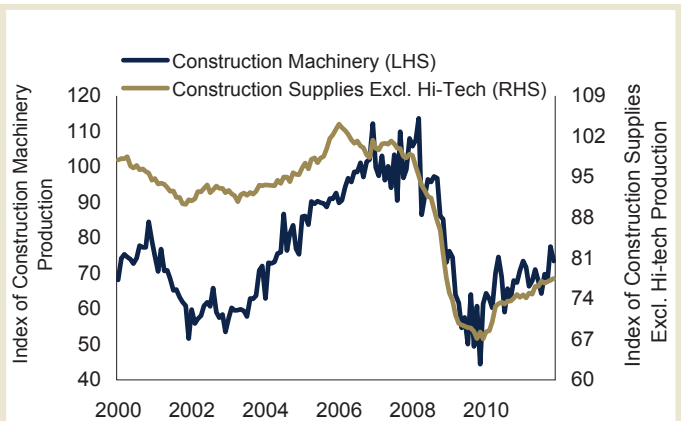
Rents are rising, as are the going rates for apartment buildings themselves (Exhibit 6). The rental-vacancy rate is still quite high by historical standards, but what constitutes normal seems to have gone up over the decades. In any event, it is now in notable decline (Exhibit 7). A National Multi Housing Council survey shows that the rental market is tightening.

Less promisingly, we worry that the value of the rental market as a leading indicator for this housing cycle may be partially undermined by an evidently strengthened substitution effect between buying and renting a home. To an unusual degree, people are flocking to renting from home ownership. This should eventually restore the home-ownership rate to its historical norm (Exhibit 8). In an extreme, the boom in rentals may simply be exacerbating elements of the housing downturn, as opposed to presaging an imminent rejuvenation.

² The growth in U.S. imports of machinery has outpaced exports over the past year. This hints that resurgent demand for construction machinery may be at least in part domestically based.

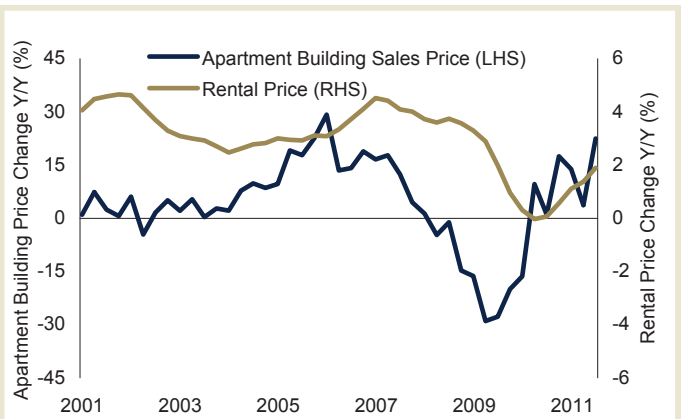
³ Production of construction steel in particular has bounced back, and production of cement, wood products and furniture are also higher.

Exhibit 5: Pump is Being Primed for Construction Activity



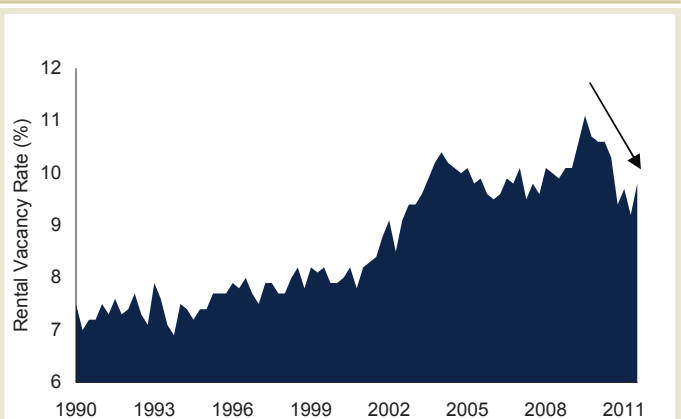
Source: Haver Analytics, RBC GAM

Exhibit 6: Rental Market Pricing is Improving



Source: Haver Analytics, RBC GAM

Exhibit 7: U.S. Rental Vacancy Rate Decreasing From Peak



Source: Haver Analytics, RBC GAM

To conclude, housing activity, home prices, housing inputs, builder intentions and the rental market all suggest something is going on. Could it be the beginning of a big housing market recovery? Possibly, but it is much too early to tell. An examination of the market’s fundamentals will help to gauge the likelihood of any sustained move higher in housing.

Affordability: Very Good

U.S. housing affordability has improved massively over the past several years. Home prices have morphed from being much too high to strikingly too low (Exhibit 9). Our preferred measure of fair value is the monthly carrying cost of a median mortgage versus median household income. This best reflects the true financial burden of owning a home, and also the decision-making process that goes into buying it.

By this measure, our calculations demonstrate that the average American home price is now one-third below fair value, meaning that current prices could rise by 50% without the monthly cost exceeding the historical norm. This is quite something. The second measure on the chart – “Capped Affordability” – gauges affordability in a scenario where borrowing costs revert to historical norms overnight. Affordability clearly diminishes in that scenario, but home prices still register as 14% too low.

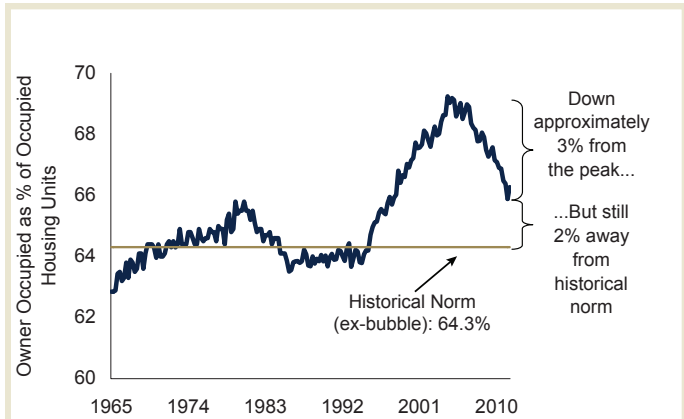
Affordability’s relevance

Should housing affordability be the deciding factor in pegging the housing-market recovery? That depends on how far out we look. As a long-term guide, there are few things more important than affordability. An expensive housing market cannot defy gravity forever, just as a cheap one cannot help but eventually surface from the depths. But in the short run, affordability frequently means very little.

During the excesses of the mid-2000s housing bubble, deteriorating affordability mattered not a whit as buyers leaped into a rising market. Today’s market is the mirror image. Affordability is now very good – superb, even. But buyers remain both unmotivated and unable to capitalize on this opportunity, for reasons discussed in the next three sections.

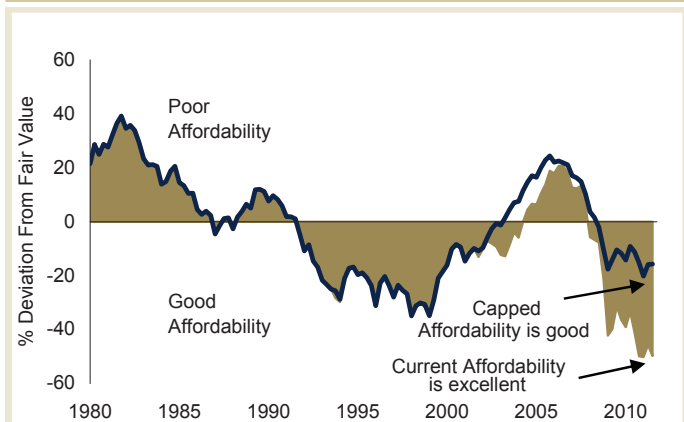
The best that can be said is that affordability is a necessary but insufficient condition for a proper housing-market recovery. This necessary condition has been met with flying colours. It is now a matter of restoring credit conditions, market psychology and housing inventories to more normal states.

Exhibit 8: Home Ownership Rate Still Above Historical Norm



Source: Haver Analytics, RBC GAM

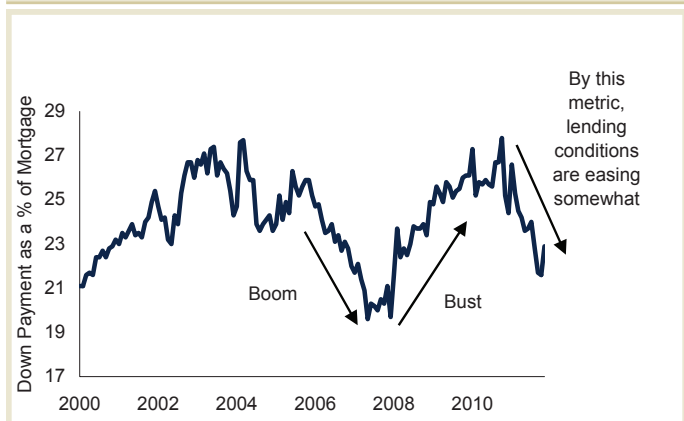
Exhibit 9: U.S. Housing Affordability is Very Good



Note: Calculates for 30-year fixed rate mortgage with 25% down on median single-family home price, as share of median household income. Current Affordability calculates the current deviation from the historical norm. Capped Affordability gauges affordability using a floor of normal borrowing rates.

Source: Haver Analytics, RBC GAM

Exhibit 10: Less Onerous Down Payments



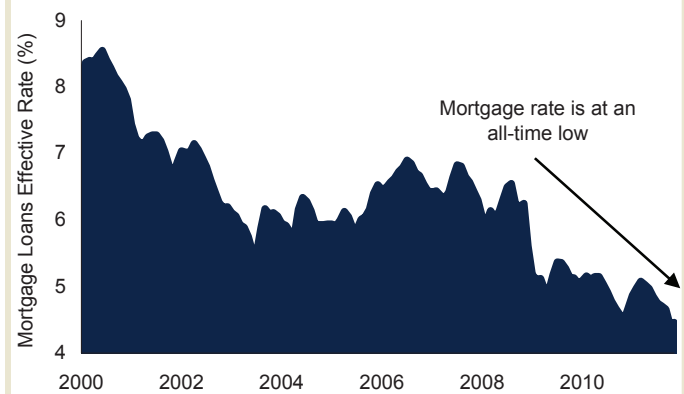
Source: Haver Analytics, RBC GAM

Credit conditions: Poor

Most homes are bought on credit. Thus, a precondition for a revived housing market is access to mortgages. Happily, there have been some important improvements on this front. Consumer credit (which excludes mortgages) is once again advancing at a respectable clip. The average mortgage down payment has lately begun to shrink (Exhibit 10), suggesting some loosening of the noose. And, of course, interest rates are stunningly low and likely to stay there for the foreseeable future (Exhibit 11).

However, most credit metrics still signal caution. Residential mortgage credit remains flat, and given elevated mortgage delinquency, home foreclosure and personal bankruptcy rates,

Exhibit 11: Effective Mortgage Rate is Decreasing



Source: Haver Analytics, RBC GAM

ALTERNATE AFFORDABILITY METRICS

Of course, there are several alternate approaches to calculating affordability. These include price-to-household income ratios, price-to-rent ratios, and real (inflation-adjusted) home prices (Exhibit A). In the interest of full disclosure, each of these argues that home prices are less cheap than our chosen measure, and the real home price method actually suggests prices are still moderately elevated.

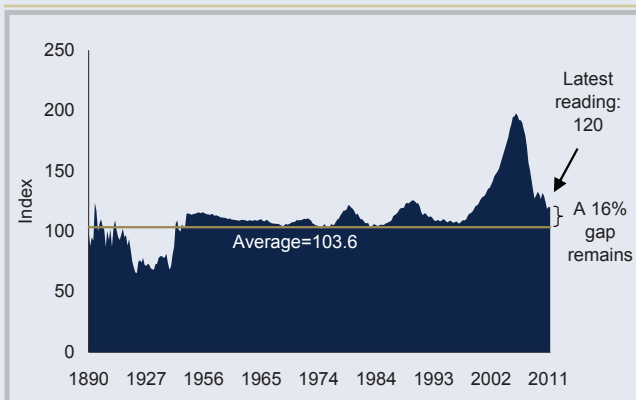
However, these alternative methods are less useful for our purposes. For instance, each neglects the centrality of interest rates in determining affordability.¹ This is a critical oversight,

¹ Interest rates have undergone a secular multi-decade decline, even setting aside the extremes of the past few years. This reduces the financing cost of a home, and thus allows home prices to affordably be somewhat higher than otherwise. A particular charm of the U.S. system is the predominance of 30-year mortgages, which means that a buyer today can lock in their monthly payment for the entire amortization period of the mortgage – unlike in most countries.

as the U.S. financial obligations index has improved by leaps and bounds thanks mainly to low interest rates (Exhibit B). Price-to-rent ratios overestimate the degree of rental-ownership substitution² and overlook a material quality disparity between the two housing stocks. Real home prices fail to account for rising household incomes and the limited supply of well-placed land. To be clear, these measures should not be discarded altogether, but they should be regarded with suspicion. And even they acknowledge that home affordability has improved in recent years.

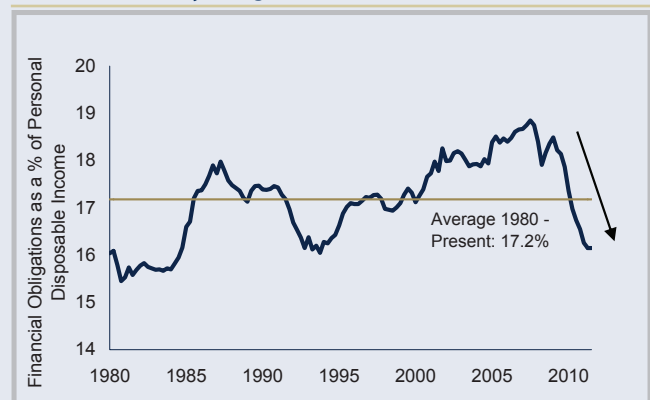
² This substitution effect historically tends to be fairly low. Few families are willing to flit back and forth between renting and owning to arbitrage the market, especially given transaction costs.

Exhibit A: Real Home Price Index Still A Touch High



Source: Robert J. Shiller, *Irrational Exuberance*, 2nd. Edition, RBC GAM

Exhibit B: U.S. Household Financial Burden Has Gone From Heavy to Light



Source: Haver Analytics, RBC GAM

it is probably a stretch to look for an immediate resurgence in lending (Exhibit 12). Lenders are demanding higher credit ratings before approving mortgages (Exhibit 13).

Although the U.S. Federal Reserve’s Senior Loan Officer Survey has improved in fits and starts, our modified (and we think superior) version argues that both the willingness of banks to lend and demand for mortgages are still quite poor (Exhibit 14). It will take a long time for these to normalize.

Other surveys are equally unflattering. A FICO survey of credit risk-management professionals finds that they expect the consumer credit approval rate to decline in the future, and approval criteria to tighten. They also predict mortgage defaults will remain elevated by historical standards for at least another five years.

U.S. banks are clearly continuing to delever, which means they are lending a smaller fraction of their underlying deposits (Exhibit 15). They also have more attractive lending opportunities elsewhere: credit card delinquencies have fallen sharply; personal loan delinquencies are down; and the business sector is in fairly good shape. This is more than the housing market has to offer.

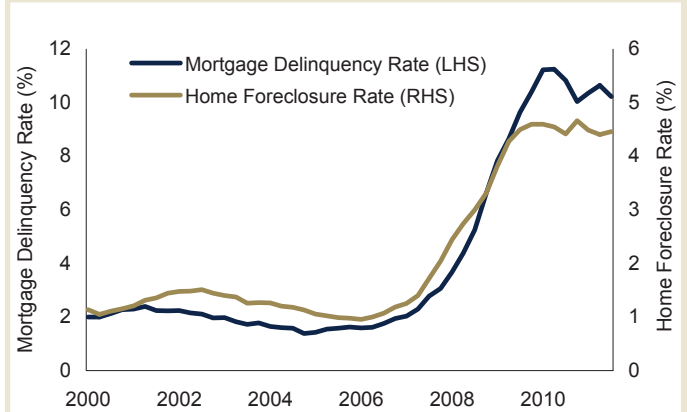
The mortgage-backed securities (MBS) market is still unfriendly (Exhibit 16), making it difficult for lenders to finance their mortgage loans at reasonable prices. U.S. housing agencies are mandated to shrink, reducing their participation in the market. Dealers have significantly reduced their inventories. U.S. banks are continuing to sell their poorly performing mortgages. Meanwhile, slow-moving European banks have just started to divest their U.S. mortgage debt as they scramble for cash. Granted, these negative forces could yet be partially offset by another round of MBS-directed quantitative easing by the Fed or an inspired bailout of the sector. But one way or another, the securitization market is likely to remain a drag on mortgage lending.

In short, so long as lenders are clearly disinclined to expand access to mortgages and borrowers are somewhat reluctant to take out mortgages, the housing recovery will struggle to advance beyond a crawl.

Psychology: Poor

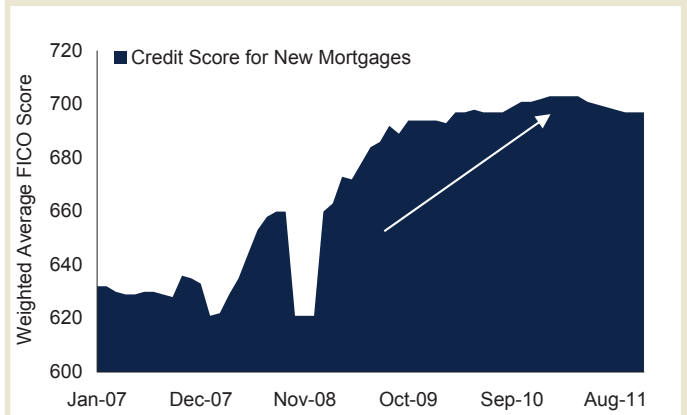
Housing-market psychology is another important component restraining a proper recovery. Without a positive frame of mind on the part of buyers and lenders alike, affordability matters little.

Exhibit 12: U.S. Housing Distress Remains High and Only Abates Slowly



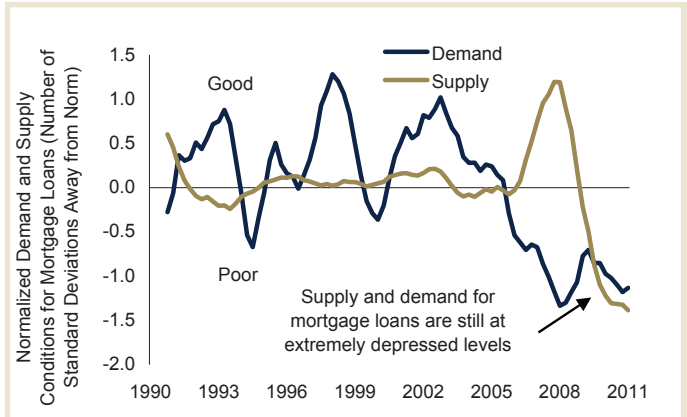
Source: Haver Analytics, RBC GAM

Exhibit 13: U.S. Banks Have Tightened Mortgage Lending Standards



Source: U.S. Department of Housing and Urban Development

Exhibit 14: Supply and Demand for Mortgage Loans Remains Stingy



Note: Normalized 12-month moving average of the simple average of the change of the appropriate SLOS metric and its underlying indexed level, accommodating the inconsistent manner in which respondents answer the survey
Source: Federal Reserve Senior Loan Survey, RBC GAM

The housing market is susceptible to the same manias and panics that plague other investments. When conditions are favourable, people become intoxicated by the relentless rise in home prices and imagine it will continue forever. The threshold for this sentiment is astonishingly low: even home prices that barely keep pace with inflation translate into a double-digit return on a 20% down payment.

But when times are bad, there seems to be nothing in the world that can convince people housing will ever improve. At times like this, real estate is viewed as an illiquid asset plagued by expensive maintenance costs and high transactional fees.

These excesses are most unhelpful. But they are part of human nature and at least adhere to a quasi-predictable four-stage cycle (Exhibit 17). Right now, despair dominates. That will eventually evolve into cautious optimism, but a psychological sea change such as this takes time, especially since the motivation to buy a home will remain underwhelming so long as home prices are falling, and home prices, in turn, will struggle to arrest their decline until people start buying them. More concretely, it will take time for households whose credit ratings have suffered a housing-market-induced blow to regain access to credit and thus the market.

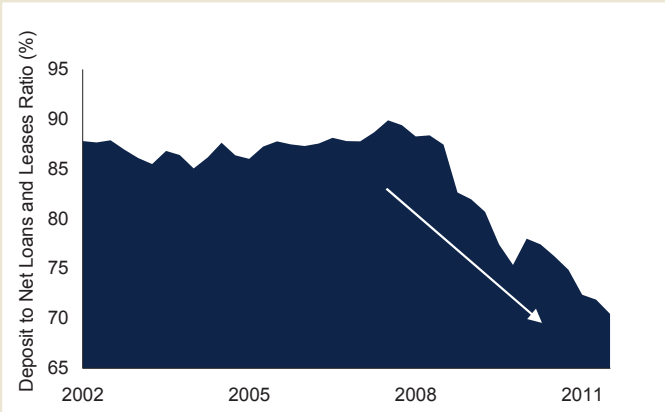
The most recent housing bubble blew especially big for several reasons:

- government policy strongly encouraged home ownership;
- securitization emerged as an important financing tool;
- interest rates were arguably left too low for too long through the mid-2000s;
- skewed incentives existed whereby households could simply walk away from their homes or file for bankruptcy if things went bad, and lenders were largely shielded from their bad loans by securitization;
- there was an attitudinal shift among households. After the 2001 stock-market crash, equities fell out of favour, and housing became the new investment darling for the masses. It was an asset that seemingly only went one way: up.

With that last rosy assessment now in tatters, it will take quite some time before people are willing to trust the housing market with their life's savings again.

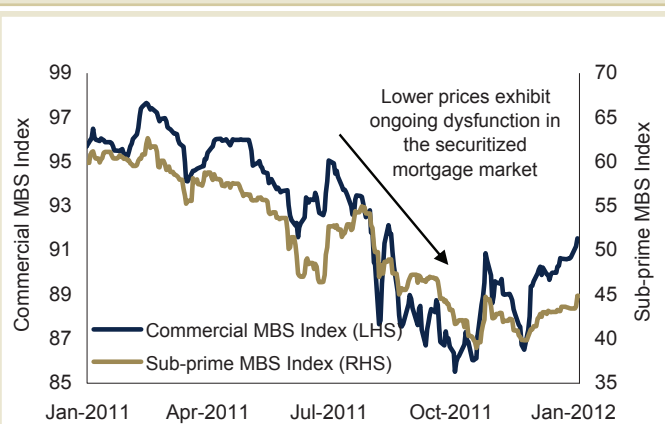
Further to this point, American households appear determined to continue the deleveraging process and return the home-ownership rate to more historically normal levels. This attitude

Exhibit 15: U.S. Commercial Banks are Deleveraging, Reducing Loan Availability



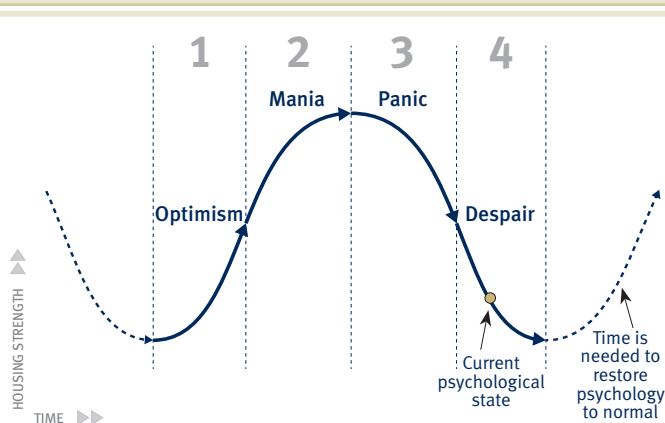
Source: Federal Deposit Insurance Corporation

Exhibit 16: Securitized Mortgage Market Remains Unfriendly



Note: CMBX AAA S5 Index is a synthetic tradeable index referencing a basket of 25 commercial MBS. ABX HE AAA.06-2 Index is a synthetic tradeable index referencing a basket of 20 sub-prime MBS.
Source: Markit, Bloomberg, RBC GAM

Exhibit 17: The Four Stages of Housing Market Psychology



Source: RBC GAM

is best illustrated by a pair of surveys. The first, by Gallup, asks whether now is a good time to buy a home. Most households think that it is. This is promising, and makes sense given excellent affordability. But when the Conference Board asks whether they are planning to buy a home within six months, fewer than 5% say ‘yes.’ This is well below the historical norm (Exhibit 18), and looks to be several years from returning fully to normal.

To conclude, the housing dial remains stuck on “despair,” and evidence of gradual improvement is still far from the starry-eyed optimism that is needed to get the market humming again. As a backdrop, let us not forget the many broader threats to confidence that could yet intrude on this process: Europe’s debt crisis; acute political dysfunction; the drag of U.S. fiscal policy; and geopolitical instability in the Middle East, North Africa and North Korea.

Inventories: Poor

A further constraint on the U.S. housing market is the significant overhang of inventories. This is actually a double overhang. First, there are substantially more vacant homes than usual. Second, there are many borrowers who are delinquent on their loans, have deeply underwater mortgages, or have had their properties foreclosed upon, and are at risk of adding to the tally of vacant dwellings.

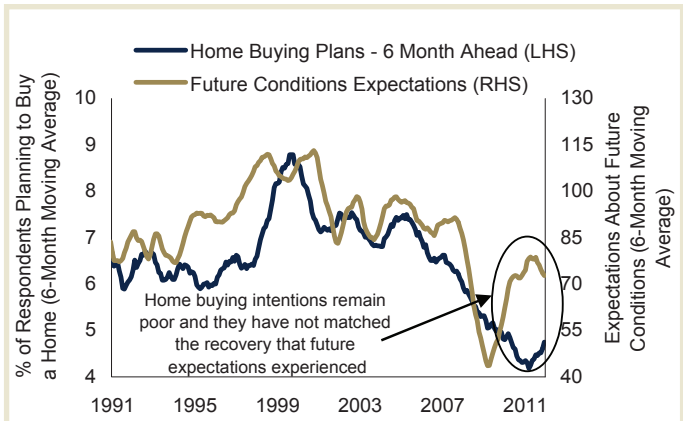
Vacant homes

Homebuilders constructed far too many homes during the boom era. We calculate a vacancy rate of 7.5%, well up from the usual 5.8% (Exhibit 19). Builders erected 2.3 million more homes than they could reasonably expect to sell based on U.S. demographic needs. Meanwhile, the ravages of the economic downturn are such that there are half a million fewer households than demographics tell us there should be. People are delaying their exit from the nest or doubling up with roommates. All told, this makes an overhang of 2.8 million⁴ too many homes (Exhibit 20).

How quickly can these vacant homes be absorbed? That is a difficult question, and subject to many assumptions. Household formation naturally runs at around 1.0 million to 1.4 million new family units per year, though recent years have been

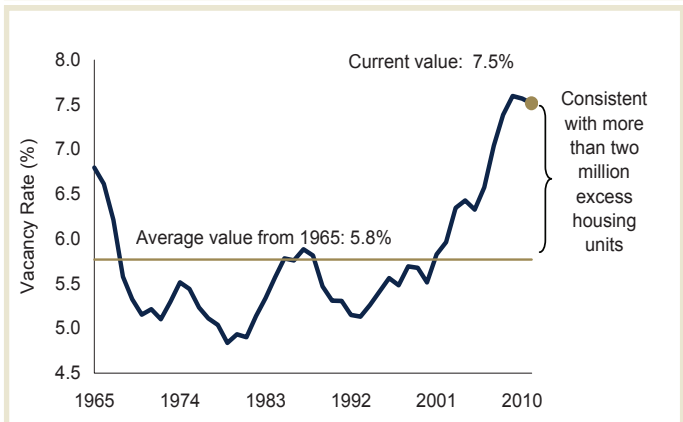
⁴ How does this square with the official estimates of new and existing home inventories? It doesn’t. There is little merit in separating out new from existing home inventories since either way they represent too many houses. Existing home inventories are a particularly dubious concept since the seller tends to live in them until they are sold, and because there are many households keeping their homes off the market until selling conditions improve.

Exhibit 18: Few Plan to Buy a Home Within Six Months



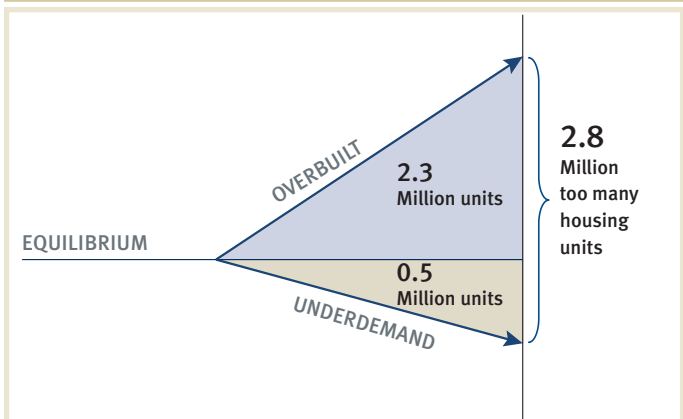
Source: Conference Board, RBC GAM

Exhibit 19: U.S. Housing Vacancy Rate



Note: Vacancy Rate includes both properties for sale and rent, and excludes properties recently rented or sold, those used for occasional use, those temporarily occupied, and seasonal dwellings.
Source: Haver Analytics, RBC GAM

Exhibit 20: Housing Inventory Overhang



Source: RBC GAM

Exhibit 21: U.S. Housing Supply-Demand Dynamic
(000s of Housing Units)

	2011	2012	2013	2014	2015
Housing Stock					
Excess Supply	2336	1660	1210	685	385
Depressed Demand	504	800	700	500	300
Housing Inventory Overhang (Start of Year)	2840	2460	1910	1185	685
Housing Supply					
New Construction	600	750	900	1200	1200
Natural Housing Decay	-250	-250	-250	-250	-250
Net New Supply	350	500	650	950	950
Housing Demand					
Theoretical Household Formation*	1026	950	1175	1250	1400
Recovery of Depressed Demand	-296	100	200	200	200
Net New Demand	730	1050	1375	1450	1600
Net Change					
Demand Less Supply	380	550	725	500	650
Housing Inventory Overhang (End of Year)	2460	1910	1185	685	35

*Calculated based on demographic need
Source: Haver Analytics, RBC GAM

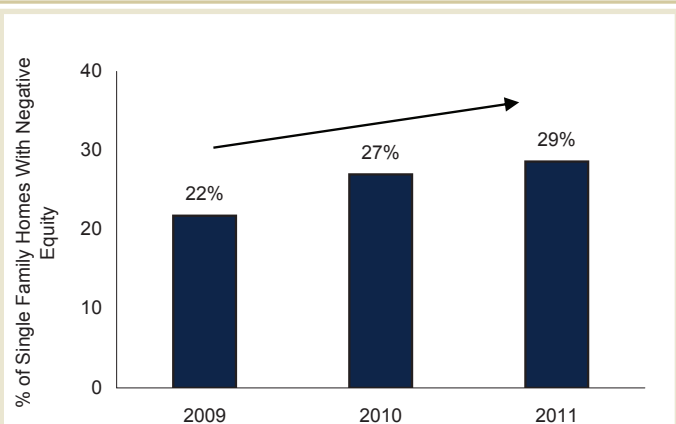
significantly shy of this. On the assumption that household formation will mount a comeback and that construction activity will also tick higher, our best guess is that it will take another three or four years to properly work through these excess inventories (Exhibit 21).

Shadow inventory

Alas, these calculations neglect the great mass of the inventory iceberg that hides beneath the surface. Namely, more than 4% of U.S. mortgage holders are in foreclosure, over 10% are delinquent on their payments, and 29% of single-family mortgages are underwater (Exhibit 22). The math rapidly becomes untenable,⁵ but suffice it to say there is a shadow tally of several million more homes that could eventually become vacant and clamber atop the inventory figures. Some pundits have estimated that it will take five to seven years to work through this backlog.

Meanwhile, foreclosed homes tend to go for just 65%-70% of their non-foreclosed equivalents; this will restrain the rate of home-price appreciation as this process plays out.

⁵ There are several complications. Since many of the delinquent or foreclosed mortgages are also underwater, this presents the risk of double-counting. Similarly, unoccupied homes in these counts already figure in the earlier inventory calculations. Some households will find a way to hang on, avoiding vacating their home. Conversely, there are mortgages that are fully paid up today that will eventually go bad, adding to the wreckage. Also note that households need somewhere to live, so the net effect on inventories should be significantly less than the gross effect.

Exhibit 22: Growing Number of Homes with Negative Equity

Source: Haver Analytics, RBC GAM

Ameliorating factors

There are a few ameliorating factors that could help this inventory absorption process along. One is that regional housing markets vary. Some regional markets are in better shape than others, and will demand new homes even as other regions struggle to work through their prior excesses. A telling statistic is that nearly half of all foreclosures have occurred in just 10% of the nation's census tracts.

However, this regional argument has its limits. Our calculations suggest that only two U.S. states currently enjoy a housing market that is stronger than the norm, and only 10 states

are within spitting distance of normal. And while many are managing to eke out modest improvements, a quick look at the four biggest states illustrates that they remain relatively weak, and their commonalities exceed their differences (Exhibit 23). Elsewhere, the Case-Shiller home-price index confirms that only a small minority of cities can boast of persistently rising home prices.

Also potentially helpful are various government proposals designed to revive the housing market, ranging from debt writedowns for underwater mortgages, to forcibly tearing down vacant homes, to arrangements that make foreclosed homes easier to rent out, to bypassing the foreclosure process altogether, to helping secure better terms for the 51% of mortgage-holders paying more than a percentage point above the going mortgage rate. The U.S. Federal Reserve recently laid out its own series of proposals, and there is talk of a shake-up at the Federal Housing Finance Agency to accelerate the process. Sadly, these fixes are easier said than done due to a witch's brew of lenders, servicers and MBS-holders: policymakers have been hard at work on this issue for several years already, to limited effect.

To conclude, it will take at least a few more years to work substantially through excess housing inventories. So long as this overhang persists, construction activity will struggle to revive, and it will remain a buyer's market.

Historical precedent: Mixed

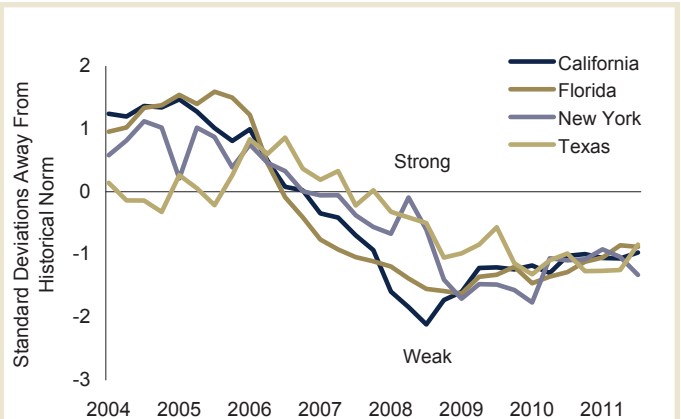
What does history tell us about the likely course for this housing market? The IMF finds that the median international housing price downturn lasts a little over four years. If this is the proper signpost, perhaps the housing recovery can begin immediately since the current downturn is already over five years old.

However, the preceding U.S. upturn was in the 90th percentile of moves and more than twice the usual length. Downturns are usually roughly proportionate to their prior upturn, meaning the current lethargic state could well last something like seven to 10 years, if this pattern holds. Perhaps there are a few years more of slogging after all.

Ready for liftoff?

There is both good news and bad news in our analysis. The good news is that most housing metrics appear to have bottomed out, and some are even creeping forward. Rents are rising, construction equipment is again in demand, and builders see

Exhibit 23: Housing Market Weakness Surprisingly Uniform Across Major States



Note: Housing market strength indicator is measured by individually normalizing home prices, the home vacancy rate, housing starts and home foreclosed series and then forming an index based on the simple average of those values.

Source: Haver Analytics, RBC GAM

cautiously improving conditions. Affordability is very good, providing evidence that the price correction has run its course, and then some.

Are we ready for liftoff, then? Not quite, unfortunately. Credit conditions are still very stingy and look unlikely to substantially loosen so long as banks are delevering and homeowners have trouble keeping up with their mortgage payments. Housing-market psychology is still poor, and it will take quite some time for despair to be transformed into optimism. Inventory levels are far too high as classically defined, and even more so given towering shadow inventories.

While credit conditions and market psychology could theoretically turn overnight, the hard, cold reality of too many houses and not enough households is unlikely to fully unbridle the market for a few more years.

In turn, we see a market that has probably bottomed out and is laying the foundation for a gradual ascent. Modest gains look to be the order of the day for construction activity, home sales, and – eventually – home prices.⁶ Let us celebrate this, because it turns the page on a period when housing was actively dragging on the economy. But by the same token, conditions are probably insufficient to generate the sort of momentum needed to bump the economy beyond sluggish growth. The housing market is still a long way from full ignition.

⁶ On a percentage basis, the gains could even appear fairly impressive, but this would be mainly due to the low absolute level of activity.

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