

**Real Estate Expected to Remain Stronger than
Rest of the Economy**

**BDO Dunwoody Weekly CEO/Business Leader Poll
By COMPAS in *Canadian Business*
For Publication June 22, 2009**



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1.0 Overview

For the 4th quarter of 2008, the Bank of Canada reported exceptionally high household debt-to-income ratio, personal bankruptcy data, and rates of arrears in respect of credit card and mortgage payments. The CEOs and business leaders on the COMPAS business panel anticipate that the corresponding figures for the first half of 2009 will be the same or worse, especially in respect of credit card and mortgage payment arrears. That is the bad news.

The good news is that panelists expect the real estate market to be somewhat stable, following upon strong sales figures for May 2009, as reported by the Canadian Real Estate Association.

These are the key findings from this past week's Internet survey of CEOs and business leaders on the COMPAS panel. The weekly business survey is undertaken for *Canadian Business* magazine under sponsorship of BDO Dunwoody LLP.

2.0 Findings

Panelists anticipate that the household debt-to-income ratio, personal bankruptcy data, and rates of arrears in respect of credit card and mortgage payments will be even worse in the first half of 2009 than in the 4th quarter of 2008, as shown in table 2a. Their pessimistic forecasts are significant because panelists deem each of these indicators as important reflections of where the economy is headed, as shown in table 2b.

By contrast, panelists do not anticipate softening in the real estate sector. They expect real estate to hold up well, as shown in table 2c. In the same spirit, they interpret the strong May, 2009 data on real estate sales as a positive harbinger of real estate strength over the next year, as shown in table 2d.



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Table 2a: Do you predict that the first two quarters of 2009 will be...

	Lower than 4 th quarter of 2008	About the same	Higher than in the 4 th quarter of 2008	DNK
Household debt-to-income data ¹	14	44	42	1
Personal bankruptcy data ²	12	33	54	2
Mortgage loans and credit cards arrears ³	7	31	62	1

Table 2b: On a 7 point importance scale where 7 means very important and 1, the opposite, how important are... an indicator of where the economy is headed over the next year?

	Mean	7	6	5	4	3	2	1	DNK
Mortgage loans and credit cards arrears	5.0	10	27	36	10	9	6	1	2
Household debt-to-income data	5.0	9	29	36	12	10	3	1	1
May MLS sales data	4.9	6	23	39	23	3	4	2	1
Personal bankruptcy data	4.6	6	21	29	21	14	4	3	2

¹ Wording 2009: "Q3. The Bank of Canada's *Financial System Review* reports that household debt-to-income ratios reached a new Canadian high in the 4th quarter of 2008 though our ratios are not as high as those in the U.S. and U.K. Do you predict that the household debt-to-income ratios in the first two quarters of 2009 will be..."

² Wording 2009: "Q1. The Bank of Canada's *Financial System Review* reports that 2008 4th quarter personal bankruptcies reached a 10 year high. Do you predict that personal bankruptcies in the first two quarters of 2009 will be..."

³ Wording 2009: "Q5. The ratio of both mortgage loans and credit cards in arrears rose sharply in the 4th quarter of 2008, reports the Bank of Canada. Do you predict that the ratio of mortgage loans and credit cards in arrears in the first two quarters of 2009 will be..."



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Table 2c: The Canadian Real Estate Association (CREA) just reported that national resale housing market activity, led by the most expensive markets in the country, returned to pre-recession levels in May 2009. MLS sales in May were 1% lower than a year earlier. Do you predict that MLS sales in six months will be...

	%
High than a year earlier	30
About the same	49
Lower than a year earlier	21
Don't know or no opinion	1

Table 2d: On a 7 point importance scale where 7 means very important and 1, the opposite, how important are the May MLS sales data as an indicator of where...

	Mean	7	6	5	4	3	2	1	DNK
Real estate prices are headed over the next year	5.0	8	27	34	21	8	0	2	1

The following verbatims provide a nuanced sense of panel opinion:

I have good news and bad news... The good news is I don't think the economy is going to get worse. The bad news is I can't see it getting any better for a while.

Based on current economic reporting it appears our deep trough is going to be followed by a soft landing...or let's hope so!

I think that we are spending way too much money on government crap and the whole lot of them should have to be more accountable to the public, but that will never happen.



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Next year we will see the real bankruptcy of GM and Chrysler with full layoffs and shutting down of production completely worldwide. It will take them about 6 months to go through the money they have been leant, there will be another round of throwing good money after bad, followed by a complete crash. That will have a negative effect on the economy.

The economy is driven by consuming. If an average household has fewer options to purchase items, slow down occurs. Not science - human nature.

Remember that the word debt was restyled by the Americans into the much more positive word "credit" during the Great Depression. How much happier life can be buying things with a credit card, rather than adding to one's debt...

Personal debt and bankruptcies are tied to the evolving social values. There is a lack of fiscal knowledge and a lesser acceptance to responsibility. Compounded with that many Canadians work over 40% of the year to satisfy their tax burden it is no wonder we are going backwards.

The first hit to the economy was the credit crunch caused by the mortgage problems. The next hit will be the credit card crunch. An indication is the big jump in interest charges on balances, to "compensate" banks for the loans that will go bad. Jobs have been lost and people are working fewer hours. As such there is less money to go around and all segments are suffering. Real estate is surprisingly going through a small rebound, but that could be cut off should interest rates rise. That could happen sooner than later, despite what the Bank of Canada has said.

With personal bankruptcy at such high levels the government should make changes that make it easier for people to deal with their bills without bankruptcy. The credit dunnors hired by the credit card companies should also have



very strict limits as to their behaviour placed on them and enforced.

3.0 Methodology

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted June 16 - 18, 2009. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of n=127 are deemed accurate to within approximate 8.7 percentage points 19 times out of 20. The principal and investigator on this study is Conrad Winn, Ph.D.

