# WEEKLY COMMENTARY

# Rent Inflation Is Cooling, but Don't Expect a Quick Return to Affordability

## By Marc Desormeaux, Principal Economist

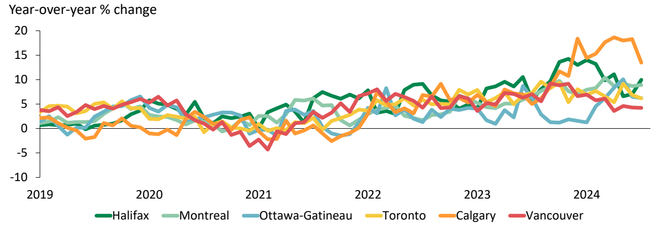
Rent inflation has been getting a lot of attention of late. For most of 2024, Canada's consumer price index for rent has been growing at its fastest rate in almost 40 years. Because rent CPI has accounted for an outsized share of recent Canadian inflation, rent prices are both a reason for the skyrocketing cost of living and the subject of monetary policy discussions. Despite recent rent strength, however, we're also hearing stories of weakening rents and softer rental market demand in some corners. What could be ahead for Canadian rents and the overall cost of living?

While we've seen rent prices pick up nearly everywhere, it's important to note that Canada's rental market isn't a monolith. Despite recent moderation, rent CPI growth is much stronger in Calgary than elsewhere (graph 1). Over history, the boom-and-bust nature of western oil-producing economies, paired with no rent control, has led to more ups and downs in rent inflation. Rent prices in Montreal and Toronto, which do enforce rent control, have seen stabler growth, though the two cities have diverged somewhat more since Ontario's elimination of rent controls on new builds in late 2018. Meanwhile, until the spikes in Wild Rose Country, rent CPI gains in Halifax had been some of the strongest in Canada. This was likely influenced by Nova Scotia's particularly strong population growth, which came in at nearly triple the record annual pre-pandemic rate in 2022–23.

The demand outlook suggests more moderate rent price growth going forward. Our August 2024 forecast assumes a rising unemployment rate and slowing job creation in the quarters ahead. Ottawa's planned reduction in non-permanent residents (NPR) to 5% of the total population over the next three years may be even more consequential. Demographic projections in the Bank of Canada's July Monetary Policy Report and in more recent publications by the governments of Alberta and BC (graph 2 on page 2) aren't quite as extreme as those recently published by Statistics Canada. But in the coming years, we'll still likely see a drop in admissions of international students and temporary foreign workers, and both groups tend to rent.

However, because it's so expensive to buy a home, rental demand is unlikely to fall very much. The latest census revealed a broad-based rise in the share of households that rent between 2011 and 2021 as home prices grew increasingly out

**Graph 1**
**Canada's Rental Market Isn't A Monolith**




* Consumer price index
Statistics Canada and Desjardins Economic Studies

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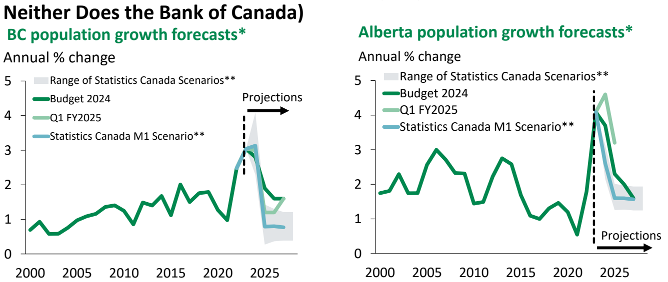
**Graph 2**
**Alberta and BC Don't Buy StatCan's Gloomy Population Forecasts (and Neither Does the Bank of Canada)**

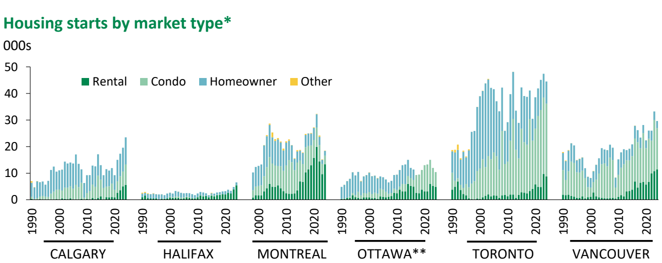



* 2024 corresponds to 2023–24 and so on. ** Per June 2024 update
Statistics Canada, British Columbia Ministry of Finance, Alberta Treasury Board and Finance, and Desjardins Economic Studies

of reach. We anticipate that the Desjardins Affordability Index—our measure of homeownership affordability that incorporates household income, home prices, mortgage rates and taxes and fees—will improve as borrowing costs come down and home values only gradually increase. But we don't see the index returning to pre-pandemic levels within the next three years. That's the case in the four largest provinces, and we don't think that will change even if there's a recession or if listings surge.

The supply side of rental markets is at the intersection of multiple forces. On the one hand, builders across the country have clearly responded to strong rental demand by increasing condominium and purpose-built rental construction (graph 3). Various federal, provincial and municipal policy measures should also continue to support rental construction going forward. But despite this rental construction boom, most local markets remain severely undersupplied. The number of unabsorbed housing units is very low across most major cities. Moreover, the latest CMHC Rental Market Report highlighted a record-low vacancy rate at the national level, with sharp declines across multiple major centres. These indicators suggest we could see quick absorption of any new supply, even if NPR levels decline. Finally, our work published this week identified the myriad challenges facing Canada's homebuilding ambitions.

**Graph 3**
**Purpose-Built Rental Construction Has Picked Up**




* 2024 value is the 12-month moving sum through July ** Includes Gatineau
Canada Mortgage and Housing Corporation and Desjardins Economic Studies

The key takeaway is that while we anticipate that rental price increases will slow in the months ahead, structural factors look likely to prevent a more significant improvement. Stay tuned for more research on this topic from Desjardins Economic Studies in the months ahead.

# What to Watch For

## UNITED STATES

| TUESDAY September 17 - 8:30 | |
|---|---|
| **August** | **m/m** |
| Consensus | -0.2% |
| Desjardins | 0.1% |
| **July** | **1.0%** |

**Retail sales (August) –** Retail sales posted solid growth in July thanks in large part to stronger motor vehicle sales. But this factor is expected to have reversed course in August with a 4.5% decline in the number of new vehicles sold. We also expect gas station sales to have slumped slightly due to lower pump prices—which will likely come down more steeply in September. Growth in the other sectors may come in slightly stronger than the 0.4% gain recorded in July, with a sharper rise in the food services sector. We also anticipate a 0.6% gain in retail sales excluding gasoline and motor vehicles, along with a 0.1% increase in total sales.

| TUESDAY September 17 - 9:15 | |
|---|---|
| **August** | **m/m** |
| Consensus | 0.1% |
| Desjardins | 0.4% |
| **July** | **-0.6%** |

**Industrial production (August) –** Industrial production buckled in July due to a steep contraction in the motor vehicles sector and a drop in energy production. In both cases, the declines may have been partially attributable to Hurricane Beryl in early July, so we expect that industrial production will perk up as things get back to normal. Based on hours worked over the past month, the motor vehicles and parts sector seems to be stagnating, while the rest of the manufacturing sector is experiencing growth. We anticipate partial rebounds in energy production and mining. Total industrial production probably expanded by 0.4%.

| WEDNESDAY September 18 - 8:30 | |
|---|---|
| **August** | **ann. rate** |
| Consensus | 1,311,000 |
| Desjardins | 1,360,000 |
| **July** | **1,238,000** |

**Housing starts (August) –** In July, housing starts fell to their lowest level since the first quarter of 2019 (if we exclude the first few months of the pandemic). Hurricane Beryl was likely one of the reasons behind the plunge, as new builds declined 13.6% in the southern US. But housing starts across the country were already faltering nationwide before July. That's why the rebound will likely be fairly modest. It will take a while longer before we see the positive effects of falling mortgage rates, which have been declining since the end of the second quarter. That said, it's encouraging that 4,800 jobs were added in residential construction in August. We therefore expect housing starts to have topped 1,360,000.

| WEDNESDAY September 18 - 14:00 | |
|---|---|
| **September** | |
| Consensus | 5.25% |
| Desjardins | 5.25% |
| **July 31** | **5.50%** |

**Federal Reserve meeting (September) –** After repeatedly raising interest rates over a year and a half and then holding the line for more than a year, the US Federal Reserve (Fed) is expected to announce a change in its monetary policy at its September meeting. Inflation seems to have come down enough for the central bank to start cutting rates. The Federal Open Market Committee will likely reduce rates by 25 basis points, although the markets haven't completely ruled out a 50-basis-point cut. However, we think it makes more sense to go the cautious route, as economic growth hasn't deteriorated significantly and the labour market is still faring reasonably well despite recent signs of slowing. It will be interesting to see the Fed's latest job market forecasts and their thoughts on the interest rate path. At the upcoming press conference, Jerome Powell will explain how they see the current situation and whether it's reasonable to believe that the Fed will accelerate the pace of rate cuts after the November presidential election.

| THURSDAY September 19 - 8:30 | |
|---|---|
| **August** | **m/m** |
| Consensus | -0.3% |
| Desjardins | -0.3% |
| **July** | **-0.6%** |

**Leading indicator (August) –** In July, the leading indicator suffered its worst monthly decline since April. For the past two and a half years, it has been signalling far worse outcomes than what the actual GDP and employment data would suggest. The leading indicator likely continued to fall in August, though the month-over-month decline may have been a little less pronounced than it was in July. Any easing in the trajectory will be due to an improvement in hours worked, fewer unemployment insurance claims and a potentially less negative contribution from building permits. Despite these favourable factors, we nonetheless anticipate a 0.3% decline.

| THURSDAY September 19 - 10:00 | |
|---|---|
| **August** | **ann. rate** |
| Consensus | 3,900,000 |
| Desjardins | 3,850,000 |
| **July** | **3,950,000** |

**Existing home sales (August) –** After four consecutive months of decline, existing home sales were up a modest 1.3% in July. But we expect to see a resumption in the downward trend in August based on the 5.5% dip in pending sales for July. That said, the regional data available so far paints a rosier picture, so the drop shouldn't be as steep.

## CANADA

| MONDAY September 16 - 8:30 | |
|---|---|
| **July** | **m/m** |
| Consensus | 0.7% |
| Desjardins | 1.1% |
| **June** | **-2.1%** |

**Manufacturing sales (July) –** We think manufacturing sales grew 1.1% in July, in line with Statistics Canada's flash estimate. Sales of petroleum and coal products likely drove this increase after energy prices rose in July. In real terms, manufacturing sales appear to have grown by 0.1% on the back of a 1.0% uptick in seasonally adjusted industrial product prices in July.

| MONDAY September 16 - 9:00 | |
|---|---|
| **August** | **m/m** |
| Consensus | n/a |
| Desjardins | -0.8% |
| **July** | **-0.7%** |

**Existing home sales (August) –** We're anticipating a slight 0.8% monthly decline in existing home sales for August following a similar drop of 0.7% in July. Would-be homebuyers had seen only two of the three central bank rate cuts by the end of the month. If they weren't in a hurry to move, many likely stayed on the sidelines as more cuts are widely expected in the months ahead. Early figures from local real estate boards showed declines in Toronto, Vancouver and Calgary. New listings have outpaced sales in many markets, resulting in higher inventories and easing price pressures.

| TUESDAY September 17 - 8:15 | |
|---|---|
| **August** | **ann. rate** |
| Consensus | 245,000 |
| Desjardins | 240,000 |
| **July** | **279,500** |

**Housing starts (August) –** We expect the next few reports to come in lower, with housing starts dipping to about 240k for August after a surprisingly strong July print of nearly 280k. The pressure of still-high financing rates despite three recent cuts, skilled labour shortages, falling condo presales and residential construction inflation should all weigh on starts in the short term. It will likely take many quarters before easing borrowing costs paired with federal homebuilding policies start to show up in the data.

| TUESDAY September 17 - 8:30 | |
|---|---|
| **August** | **m/m** |
| Consensus | 0.1% |
| Desjardins | 0.0% |
| **July** | **0.4%** |

**Consumer price index (August) –** Expect headline consumer price growth to have decelerated notably on an annual basis to 2.0% in August from 2.5% in July. This sharp drop in headline price growth will be due in part to base effects, which should fade in the coming months and lead to slightly higher inflation by the end of the year. The Bank of Canada governor has warned about this expected increase in inflation on several occasions, and we're not concerned that this will prompt central bankers to abandon their rate cutting campaign. Excluding food and energy, traditional core inflation is also expected to have moderated to 2.5%, the slowest pace of annual growth since mid-2021. The overall distribution of price growth is normalizing, and central bankers will look for further progress in August. The share of prices growing above 3% has largely normalized, but services inflation remains more stubborn. Sticky shelter prices are part of the issue, although we did see several shelter components slow more than expected in July. The hope is that this continued in August. As for the Bank of Canada's preferred measures, headline annual rates should have moved lower as well, while 3-month annualized rates likely remained within the Bank of Canada's target range. Canadian central bankers will monitor inflation, but the focus has largely shifted towards managing the downside risks to employment and economic activity.

| FRIDAY September 20 - 8:30 | |
|---|---|
| **July** | **m/m** |
| Consensus | 0.4% |
| Desjardins | 0.5% |
| **June** | **-0.3%** |

**Retail sales (July) –** We anticipate retail sales to have increased by 0.5% in July, just one tick below Statistics Canada's flash estimate of 0.6%. Sales of motor vehicles and parts probably advanced, likely driven by higher volumes, while prices were slightly lower (on a seasonally adjusted basis). We expect gasoline sales to have dropped, mostly due to lower volumes, as seasonally adjusted gas prices inched up. Core sales—which exclude autos and gasoline—probably grew. We expect the flash estimate for August retail sales to be close to flat, with declining purchases at gas stations and stable auto sales likely offsetting advances in core sales.

THURSDAY September 19

**September**

| | |
|---|---|
| Consensus | 0.25% |
| Desjardins | 0.25% |
| **July 30** | **0.25%** |

THURSDAY September 19 - 7:00

**September**

| | |
|---|---|
| Consensus | 5.00% |
| Desjardins | 5.00% |
| **August 1** | **5.00%** |

## OVERSEAS

**Japan: Bank of Japan meeting (September) –** At its last monetary policy meeting, the Bank of Japan (BoJ) took a clearer stance in favour of continuing to raise interest rates. But while it signalled further increases, it stopped short of indicating that several consecutive rate hikes were to be expected. We see the BoJ standing pat in September but raising rates by an additional 25 basis points before the end of 2024. After a rough start to the year, the Japanese economy has recently shown signs of improvement. Whereas inflation isn't trending up, the fact that it has stayed above 2% is impressive considering the country's lengthy battle against deflation. The BoJ's ultra-low interest rate policy, which was the central bank's mantra for a long time, no longer seems necessary. New inflation numbers will also be released before the BoJ's monetary policy meeting.

**United Kingdom: Bank of England meeting (September) –** The interest rate cut announced in August came after a very tight vote by the Monetary Policy Committee at the Bank of England (BoE), with five members in favour of a cut and four preferring to leave rates unchanged. We expect a close decision again in September, but this time they will likely opt to hold rates steady. Headline inflation has come down considerably in the United Kingdom, reaching 2.2% in July. But this mainly reflected a sharp drop in energy prices. Core inflation remains significantly above target at 3.3%, and the picture is even worse if we isolate services inflation, which stands at 5.2%. It seems too soon to announce a series of consecutive interest rate cuts. The BoE may also feel less urgency to prop up the economy, as the unemployment rate has started to come down again. However, new inflation data will be published just before the BoE meeting and will be taken into account in Thursday's decision.

# Economic Indicators

## Week of September 16 to 20, 2024

| Date | Time | Indicator | Period | Consensus | Desjardins | Previous reading |
|---|---|---|---|---|---|---|
| **UNITED STATES** | | | | | | |
| MONDAY 16 | 8:30 | Empire State Manufacturing Index | Sept. | -3.7 | -3.0 | -4.7 |
| TUESDAY 17 | 8:30 | Retail sales | | | | |
| | | Total (m/m) | August | -0.2% | 0.1% | 1.0% |
| | | Excluding automobiles (m/m) | August | 0.2% | 0.5% | 0.4% |
| | 9:15 | Industrial production (m/m) | August | 0.1% | 0.4% | -0.6% |
| | 9:15 | Production capacity utilization rate | August | 77.9% | 78.3% | 77.8 |
| | 10:00 | NAHB Housing Market Index | Sept. | 41 | n/a | 39 |
| | 10:00 | Business inventories (m/m) | July | 0.4% | 0.3% | 0.3% |
| WEDNESDAY 18 | 8:30 | Housing starts (ann. rate) | August | 1,311,000 | 1,360,000 | 1,238,000 |
| | 8:30 | Building permits (ann. rate) | August | 1,410,000 | 1,400,000 | 1,406,000 |
| | 14:00 | Release of the Federal Reserve's meeting minutes | Sept. | 5.25% | 5.25% | 5.50% |
| | 14:30 | Speech by Federal Reserve Chair J. Powell | | | | |
| | 16:00 | Net foreign securities purchases (US$B) | July | n/a | n/a | 96.1 |
| THURSDAY 19 | 8:30 | Initial unemployment claims | Sept. 9–13 | 231,000 | 232,000 | 230,000 |
| | 8:30 | Current account (US$B) | Q2 | -261.0 | -259.5 | -237.6 |
| | 8:30 | Philadelphia Fed index | Sept. | 2.7 | -3.0 | -7.0 |
| | 10:00 | Leading indicator (m/m) | August | -0.3% | -0.3% | -0.6% |
| | 10:00 | Existing home sales (ann. rate) | August | 3,900,000 | 3,850,000 | 3,950,000 |
| FRIDAY 20 | --- | --- | | | | |
| **CANADA** | | | | | | |
| MONDAY 16 | 8:30 | Manufacturing sales (m/m) | July | 0.7% | 1.1% | -2.1% |
| | 9:00 | Existing home sales (m/m) | August | n/a | -0.8% | -0.7% |
| TUESDAY 17 | 8:15 | Housing starts (ann. rate) | August | 245,000 | 240,000 | 279,500 |
| | 8:30 | Consumer price index | | | | |
| | | Total (m/m) | August | 0.1% | 0.0% | 0.4% |
| | | Total (y/y) | August | 2.1% | 2.0% | 2.5% |
| WEDNESDAY 18 | 8:30 | International securities transactions ($B) | July | n/a | n/a | 5.17 |
| THURSDAY 19 | --- | --- | | | | |
| FRIDAY 20 | 8:15 | Speech by Bank of Canada Governor T. Macklem | | | | |
| | 8:30 | Retail sales | | | | |
| | | Total (m/m) | July | 0.4% | 0.5% | -0.3% |
| | | Excluding automobiles (m/m) | July | n/a | 0.1% | 0.3% |
| | 8:30 | Industrial product price index (m/m) | August | n/a | -0.4% | 0.0% |
| | 8:30 | Raw materials price index (m/m) | August | n/a | -2.2% | 0.7% |

NOTE: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT - 4 hours). Desjardins Economic Studies forecast.

# Economic Indicators

## Week of September 16 to 20, 2024

| Country | Time | Indicator | Period | Consensus m/m (q/q) | Consensus y/y | Previous reading m/m (q/q) | Previous reading y/y |
|---|---|---|---|---|---|---|---|
| **OVERSEAS** | | | | | | | |
| **MONDAY 16** | | | | | | | |
| Eurozone | 5:00 | Trade balance (€B) | July | 15.0 | | 17.5 | |
| Italy | 5:00 | Trade balance (€M) | July | n/a | | 5,065 | |
| **TUESDAY 17** | | | | | | | |
| Japan | 0:30 | Tertiary Industry Activity Index | July | 0.9% | | -1.3% | |
| Germany | 5:00 | ZEW Current Conditions Survey | Sept. | -80.0 | | -77.3 | |
| Germany | 5:00 | ZEW Expectations Survey | Sept. | 17.0 | | 19.2 | |
| Japan | 19:50 | Trade balance (¥B) | August | -976.0 | | -755.2 | |
| **WEDNESDAY 18** | | | | | | | |
| United Kingdom | 2:00 | Consumer price index | August | 0.3% | 2.2% | -0.2% | 2.2% |
| United Kingdom | 2:00 | Producer price index | August | 0.1% | 0.6% | 0.0% | 0.8% |
| Eurozone | 5:00 | Construction | July | n/a | n/a | 1.7% | 1.0% |
| Eurozone | 5:00 | Consumer price index – final | August | 0.2% | 2.2% | 0.2% | 2.6% |
| Brazil | 17:30 | Central Bank of Brazil meeting | Sept. | 10.75% | | 10.50% | |
| **THURSDAY 19** | | | | | | | |
| Eurozone | 4:00 | Current account (€B) | July | n/a | | 50.5 | |
| Norway | 4:00 | Bank of Norway meeting | Sept. | 4.50% | | 4.50% | |
| Italy | 4:30 | Current account (€M) | July | n/a | | 4,885 | |
| United Kingdom | 7:00 | Bank of England meeting | Sept. | 5.00% | | 5.00% | |
| United Kingdom | 19:01 | Consumer confidence | Sept. | -13 | | -13 | |
| Japan | 19:30 | Consumer price index | August | | 3.0% | | 2.8% |
| Japan | --- | Bank of Japan meeting | Sept. | 0.25% | | 0.25% | |
| **FRIDAY 20** | | | | | | | |
| United Kingdom | 2:00 | Retail sales | August | 0.4% | 1.3% | 0.5% | 1.4% |
| Germany | 2:00 | Producer price index | August | 0.0% | -1.0% | 0.2% | -0.8% |
| France | 2:45 | Business confidence | Sept. | 98 | | 97 | |
| France | 2:45 | Production outlook | Sept. | -11 | | -13 | |
| Eurozone | 10:00 | Consumer confidence – preliminary | Sept. | -13.2 | | -13.5 | |

NOTE: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Times shown are Eastern Daylight Time (GMT - 4 hours).