

WEEKLY COMMENTARY

At Close to 2%, Quebec Inflation Has Slipped Back below the National Average, Even Though Rents Are Rising Faster

By **Hélène Bégin**, Principal Economist

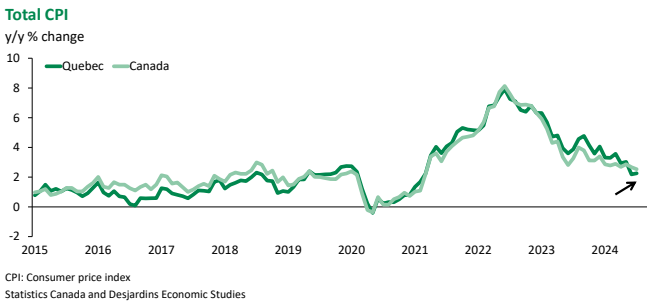
Historically, the year-over-year change in Quebec’s consumer price index (CPI) has closely tracked the Canadian average. But these figures have diverged somewhat in certain periods. For example, from January 2023 to May 2024, the province’s inflation rate outpaced the rest of the country’s (graph 1). However, at that time, the economy was much more sluggish in Quebec than in Canada as a whole. Inflation stayed above the national average until very recently, even though the province’s real GDP plunged from spring 2023 to the end of the year.

Quebec’s economy has [roared back to life](#) since the beginning of 2024, erasing all of its losses as of April. Yet inflation continues to cool despite this recovery. Since June, Quebec’s year-over-year change in CPI has trailed that of Canada as a whole, even though the country’s economy is losing steam. In July, inflation totalled 2.5% across Canada versus 2.3% in Quebec.

Aside from the state of the economy, which has a somewhat lagged effect on inflation, more specific factors—such as changes in certain key components of [Statistics Canada’s CPI basket](#)—sometimes influence inflation’s trajectory. Analyzing recent trends for some of these components can help us see what’s ahead, rather than looking in the rearview mirror (which is what would happen if we relied solely on lagged data). Housing (28.6%), food (16.7%) and transportation (16.8%) account for the lion’s share of Canadian household spending on goods and services.

The shelter component is the main factor driving up inflation in Quebec. In July, the price of shelter went up 6.6% year-over-year in Quebec compared to 5.7% across the country. The bigger increase in Quebec is due to faster-rising rents (graph 2 on page 2), which jumped more than they have since this data started being compiled. If we exclude shelter from the total CPI number for July, inflation ticked up by just 0.8%.

Graph 1
Quebec Inflation Is Back below the National Average



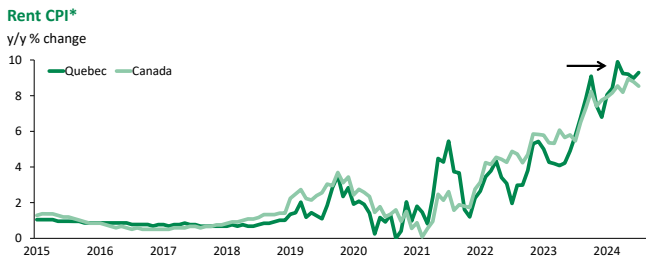
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Graph 2
Rents Soared Higher in Quebec than across Canada



CPI: Consumer price index; * The CPI rent index is a class within the shelter index.
 Statistics Canada and Desjardins Economic Studies

But demographic factors are expected to keep rents in Quebec from increasing as much as in the rest of the country. According to the [Institut de la statistique du Québec](#) (in French only), although population growth reached a record high last year, it still wasn't quite as high as it was elsewhere in Canada. Of course, strong demand for rental apartments is putting pressure on rents across the country, but the uptick in the number of households is just part of the equation.

Rents have soared especially high in Quebec because of a lack of housing inventory and the painfully slow growth in new units. Construction surged after the pandemic, but then tanked once interest rates started climbing up from record lows. Purpose-built rental housing starts in Quebec even dropped 9.0% in 2022, then plummeted by another 27.4% in 2023. Excessively high borrowing costs reduced the profitability of many projects, which then had to be postponed or even cancelled. Construction has rebounded since early 2024, as discussed in our recent [Spotlight on Housing](#). But the previous 2 years were especially tough on builders, leading to a dire shortage of rental units that pushed prices even higher.

According to Altus Group, the Tribunal administratif du logement (TAL) recommended a 2.3% rent increase in Quebec last year, then doubled that figure to 4.6% for unheated units in 2024. That's the biggest rent increase in thirty years for buildings more than five years old. The Canada Mortgage and Housing Corporation (CMHC) Rental Market Survey for 2024 should therefore show bigger rent gains than the 7.4% increase posted for the previous year, at least in Quebec.

The Altus Group survey published this summer in *Immobilier Commercial* magazine showed that rents for new units are expected to have soared even higher. For example, in the Quebec CMA, rent increases for relatively new buildings (constructed since 2022) likely averaged 6.6% in 2024–2025, up from 5.0% the previous year.

It doesn't look like Quebec's skyrocketing rents will slow anytime soon. Consequently, shelter inflation will keep running hot even though the current downtrend in mortgage rates will offer some relief to certain borrowers. But we should keep in mind that the home ownership rate is lower in Quebec (60%) than in the country as a whole. As a result, 40% of the province's households will face outside rent increases for some time yet. For tenants, this will drive the cost of living even higher than the headline inflation figure would suggest.

In short, provincial inflation slipped back below the Canadian average this summer as a result of slower growth in non-housing components like food and transportation, which went up around 1.5% in July in Quebec compared to somewhere between 2% and 3% across Canada. Since these components are volatile, there's no guarantee that they'll be able to counterbalance the much stronger pressure on rents in future months, which would keep Quebec inflation below the national average. Lasting relief can only come if housing construction—and productivity—accelerate.

What to Watch For

MONDAY August 26 - 8:30

July	m/m
Consensus	4.2%
Desjardins	5.0%
June	-6.7%

TUESDAY August 27 - 9:00

June	y/y
Consensus	n/a
Desjardins	6.00%
May	6.81%

TUESDAY August 27 - 10:00

August	
Consensus	100.1
Desjardins	101.5
July	100.3

FRIDAY August 30 - 8:30

July	m/m
Consensus	0.5%
Desjardins	0.4%
June	0.3%

THURSDAY August 29 - 8:30

Q2 2024	\$B
Consensus	n/a
Desjardins	-7.4
Q1 2024	-5.4

UNITED STATES

Durable goods orders (July) – Durable goods orders were impacted in June by a plummeting nondefense aircraft sector, where the new orders level fell into the red. Although the sector's new orders likely remained weak in July, a return to a more normal level probably helped total durable goods orders rebound sharply. However, we expect the impact to be somewhat mitigated by a weak automotive sector. Excluding transportation, we're anticipating a 0.2% gain after June's 0.4% increase.

S&P/Case-Shiller home price index (June) – Month-over-month growth in existing home prices was fairly stable from March to May, with gains of 0.3% or 0.4%. As a result, the year-over-year change in the S&P/Case-Shiller index dropped from 7.5% in March (its highest level since fall 2022) to 6.8% in May. The index probably edged up 0.2% in June. Existing home sales fell in June under the weight of 30-year mortgage rates still at more than 7%, although rates have since decreased. This would mean the index's year-over-year change fell from 6.8% in May to 6.0% in June.

Conference Board Consumer Confidence Index (August) – After dropping 3.5 points in June, the Conference Board Consumer Confidence Index gained 2.5 points in July. We expect a further increase in August. Financial market volatility and fears of a US recession have proven short-lived, and the stock market has made up most of the ground it lost. Mortgage rates and gasoline prices have also moved lower since the end of last month. However, the slowdown in the labour market remains an issue. Sentiment among Democrats likely improved after Kamala Harris replaced Joe Biden as their presidential nominee, while Republicans probably experienced the opposite. We expect the Conference Board index to edge up, mirroring August's increase in the University of Michigan consumer sentiment index's preliminary results.

Consumer spending (July) – After falling 0.1% in April, real consumption gained 0.4% in May and 0.2% in June. This brought second-quarter annualized growth in consumer spending to 2.3% and contributed to solid growth in real GDP. Consumer spending likely rose further in July, primarily on the back of a rebound in automotive sales and strong performance from retail. However, we think spending on services pulled back, mainly due to energy. All in all, real consumer spending probably rose 0.3%, while the current-dollar gain was likely 0.4%. PCE inflation probably remained at 2.5% year-over-year, while the core deflator, which strips out food and energy, likely inched up from 2.6% to 2.7%.

CANADA

Current account balance (Q2 2024) – The current account balance is expected to have moved further into negative territory in Q2, largely because of the trade balance in goods returning to deficit after three quarters in the black. While services trade continued to run a deficit in Q2, it was smaller than in recent quarters due to higher exports and reduced imports of services. While more difficult to project, the balance in investment income is also expected to have tipped into deficit in Q2 due to the cross currents of lower oil prices, a weaker Canadian dollar as compared to the greenback, and the relative underperformance of the TSX versus the S&P 500 in the quarter.

FRIDAY August 30 - 8:30

June	m/m
Consensus	0.1%
Desjardins	0.1%
May	0.2%

Real GDP by industry (June) – We anticipate monthly real GDP by industry grew by 0.1% m/m in June, in line with Statistics Canada’s flash estimate. Manufacturing sales, wholesale trade and existing home sales likely put downward pressure on growth. Furthermore, a flat employment number from the June Labour Force Survey showed a cooling labour market. However, housing starts and resource extraction likely supported growth in the month. And [our recent analysis](#) points to upside growth potential coming from the TMX pipeline. Pipeline transportation is already up, while growth in oil and gas extraction should be more gradual. Looking further ahead, we expect the weak growth in June to be followed by some re-acceleration in July.

FRIDAY August 30 - 8:30

Q2 2024	ann. rate
Consensus	1.8%
Desjardins	1.9%
Q1 2024	1.7%

Real GDP (Q2 2024) – Turning to real GDP by expenditure, we anticipate growth in the second quarter likely came in at a solid 1.9% annualized, which would come in just ahead of the Bank of Canada’s forecast of 1.5%. Household consumption looks to have continued to be positive despite high interest rates, underpinned by strength in other consumption categories offsetting weak durable goods purchases. Growth in government expenditures also appears to have remained robust. Business investment seems to have maintained a modest advance in the quarter as well, likely due to stronger investment in non-residential structures. Furthermore, we expect inventories to have recovered in Q2, partly driven by crude oil inventory accumulation in anticipation of the new TMX pipeline. (See [our recent research](#) on the TMX.) However, the boost to exports from the TMX likely won’t appear until Q3, leaving net exports to drag down growth in the second quarter. Residential investment probably declined as well due to weak home sales and new home construction in the spring.

OVERSEAS

FRIDAY August 30 - 5:00

August	y/y
Consensus	2.2%
July	2.6%

Eurozone: Consumer price index (August – preliminary) – After plummeting from its peak in fall 2022 to 2.4% in April, eurozone inflation has been flat at 2.5% or 2.6% for the last three months. Core inflation has also held steady at 2.9% since May. Clearly, the European Central Bank would like to see further progress toward its 2% inflation target as it continues to ease monetary policy. Preliminary data for August will provide more information on price trends in the eurozone.


FRIDAY August 30 - 21:30


August	
Consensus	n/a
July	50.2

China: Composite PMI (August) – China’s composite PMI has fallen for five months in a row and is barely above the 50-point mark, the threshold between economic contraction and expansion. The manufacturing index fell below 50 in May and has remained there ever since due to weak global demand for goods. That said, China’s biggest headwind is its sluggish property market. The measures announced this spring are proving more difficult to implement than expected, particularly the US\$70B plan to have local governments buy up unsold properties. With China’s economic challenges seemingly becoming more broad-based, August’s data will provide further insight into the third-quarter real GDP growth outlook.

Economic Indicators

Week of August 26 to 30, 2024

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 26	8:30	Durable goods orders (m/m)	July	4.2%	5.0%	-6.7%
TUESDAY 27	9:00	S&P/Case-Shiller home price index (y/y)	June	n/a	6.00%	6.81%
	10:00	Consumer confidence	Aug.	100.1	101.5	100.3
WEDNESDAY 28	18:00	Speech by Federal Reserve Bank of Atlanta President R. Bostic				
THURSDAY 29	8:30	Initial unemployment claims	Aug. 19–23	235,000	228,000	232,000
	8:30	Real GDP (ann. rate)	Q2s	2.8%	2.8%	2.8%
	8:30	Goods trade balance – preliminary (US\$B)	July	-97.0	-96.5	-96.6
	8:30	Retail inventories (m/m)	July	0.5%	n/a	0.7%
	8:30	Wholesale inventories – preliminary (m/m)	July	n/a	n/a	0.2%
	10:00	Pending home sales (m/m)	July	0.4%	n/a	4.8%
	15:30	Speech by Federal Reserve Bank of Atlanta President R. Bostic				
FRIDAY 30	8:30	Personal income (m/m)	July	0.2%	0.0%	0.2%
	8:30	Personal consumption expenditures (m/m)	July	0.5%	0.4%	0.3%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	July	0.2%	0.1%	0.1%
		Excluding food and energy (m/m)	July	0.2%	0.1%	0.2%
		Total (y/y)	July	2.6%	2.5%	2.5%
		Excluding food and energy (y/y)	July	2.7%	2.7%	2.6%
	9:45	Chicago PMI	Aug.	44.5	46.0	45.3
	10:00	University of Michigan consumer sentiment index – final	Aug.	67.9	67.8	67.8
CANADA						
MONDAY 26	---	---				
TUESDAY 27	---	---				
WEDNESDAY 28	---	---				
THURSDAY 29	8:30	Current account balance (\$B)	Q2	n/a	-7.4	-5.4
FRIDAY 30	8:30	Real GDP by industry (m/m)	June	0.1%	0.1%	0.2%
	8:30	Real GDP (ann. rate)	Q2	1.8%	1.9%	1.7%

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 August 26 to 30, 2024

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
MONDAY 26								
Japan	1:00	Leading index – final	June	n/a		108.6		
Japan	1:00	Coincident index – final	June	n/a		113.7		
Germany	4:00	ifo Business Climate Index	Aug.	86.0		87.0		
Germany	4:00	ifo Current Assessment Index	Aug.	86.5		87.1		
Germany	4:00	ifo Expectations Index	Aug.	85.8		86.9		
TUESDAY 27								
Germany	2:00	Real GDP – final	Q2	-0.1%	-0.1%	-0.1%		-0.1%
WEDNESDAY 28								
Germany	2:00	Consumer confidence	Sept.	-18.0		-18.4		
France	2:45	Consumer confidence	Aug.	92		91		
Eurozone	4:00	M3 money supply	July		2.7%			2.2%
THURSDAY 29								
Japan	1:00	Consumer confidence	Aug.	37.0		36.7		
Germany	2:00	Consumer price index – preliminary	Aug.	0.0%	2.1%	0.3%		2.3%
Eurozone	5:00	Consumer confidence – final	Aug.	n/a		-13.4		
Eurozone	5:00	Industrial confidence	Aug.	-10.9		-10.5		
Eurozone	5:00	Services confidence	Aug.	5.3		4.8		
Eurozone	5:00	Economic confidence	Aug.	95.8		95.8		
Japan	19:30	Tokyo Consumer Price Index	Aug.		2.3%			2.2%
Japan	19:30	Unemployment rate	July	2.5%		2.5%		
Japan	19:50	Industrial production – preliminary	July	3.5%	2.7%	-4.2%		-7.9%
Japan	19:50	Retail sales	July	0.4%	2.8%	0.6%		3.7%
FRIDAY 30								
Japan	1:00	Housing starts	July		-1.0%			-6.7%
United Kingdom	2:00	Nationwide house prices	Aug.	0.2%	2.9%	0.3%		2.1%
Germany	2:00	Retail sales	May	0.1%	-0.7%	-0.2%		2.9%
France	2:45	Personal consumption expenditures	July	0.4%	-0.9%	-0.5%		-1.0%
France	2:45	Consumer price index – preliminary	Aug.	0.5%	1.8%	0.2%		2.3%
France	2:45	Real GDP – final	Q2	0.3%	1.1%	0.3%		1.1%
Italy	4:00	Unemployment rate	July	7.0%		7.0%		
Eurozone	5:00	Consumer price index – preliminary	Aug.	0.2%	2.2%	0.0%		2.6%
Eurozone	5:00	Unemployment rate	July	6.5%		6.5%		
Italy	5:00	Consumer price index – preliminary	Aug.	0.3%	1.2%	0.4%		1.3%
Italy	6:00	Consumer confidence	Aug.	99.1		98.9		
Italy	6:00	Economic confidence	Aug.	n/a		94.2		
China	21:30	Composite PMI	Aug.	n/a		50.2		
China	21:30	Manufacturing PMI	Aug.	49.2		49.4		
China	21:30	Non-manufacturing PMI	Aug.	50.0		50.2		

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).