

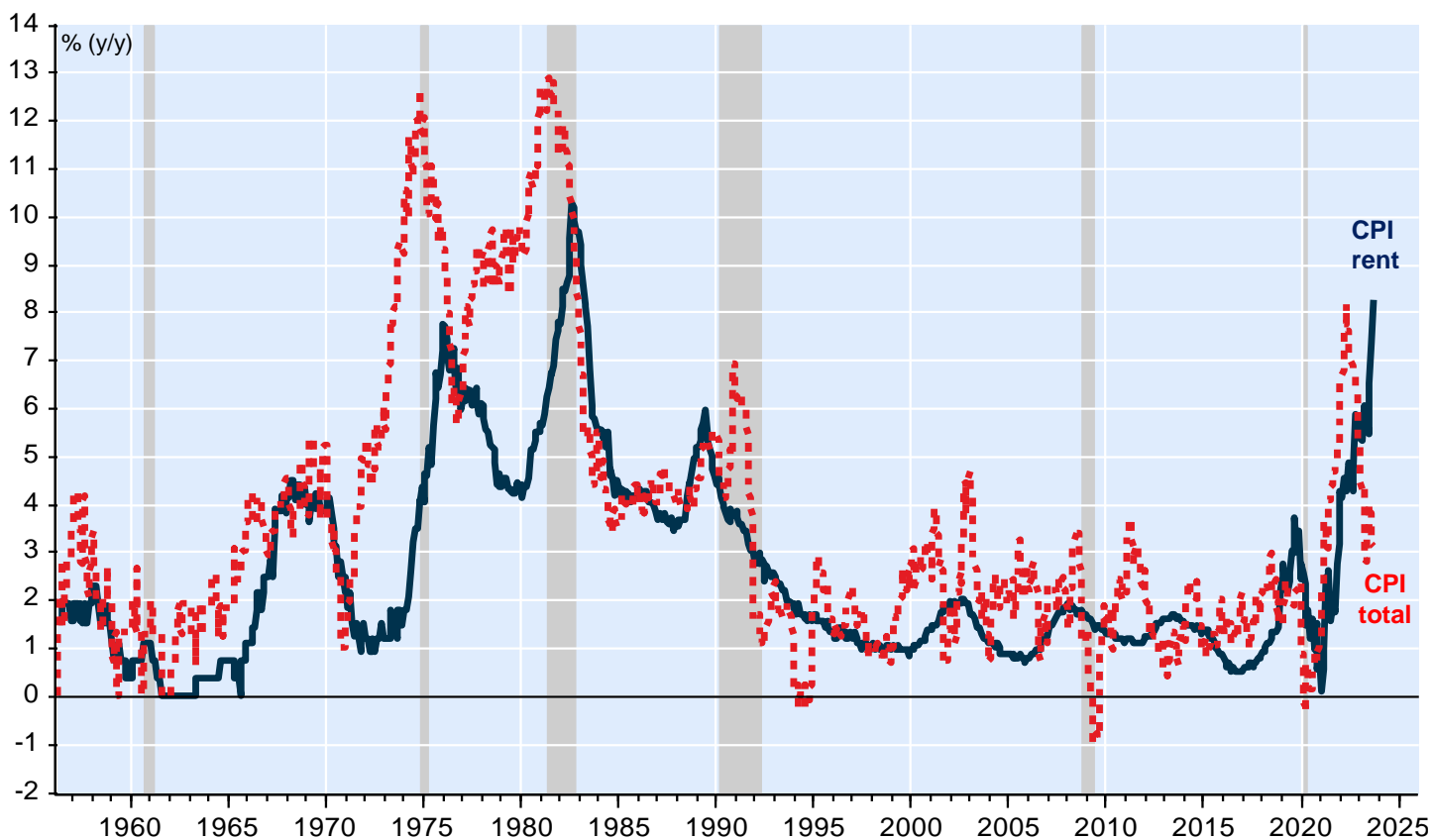
Canada Watch

By Stéfane Marion

In its most recent Monetary Policy Report, the Bank of Canada stated that "unlike in previous cycles, rising mortgage interest costs are not mitigated significantly by weakness in other shelter components". This was again evident in the just released CPI report, which showed that annual rent inflation jumped 8.2% in October, the highest level in over 40 years. Recall that Canada's record housing supply imbalance, caused by an unprecedented increase in the working-age population (874,000 people over the past twelve months), means that there is currently only one housing start for every 4.2 people entering the working-age population, a 5 standard deviation from the historical ratio of 1 housing unit started for every 1.8 people. Under these circumstances, people have no choice but to bid up the price of a dwindling inventory of rental units. The current divergence between rental inflation (8.2%) and CPI inflation (3.1%) is the highest in over 60 years. As today's *Hot Chart* shows, there is no precedent for the peak in rental inflation to exceed the peak in headline inflation. Unless Ottawa revises its immigration quotas downward, we don't expect much relief for the 37% of Canadian households that rent.

Canada: Rent inflation jumps most in over 40 years

CPI rent vs. headline CPI



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