

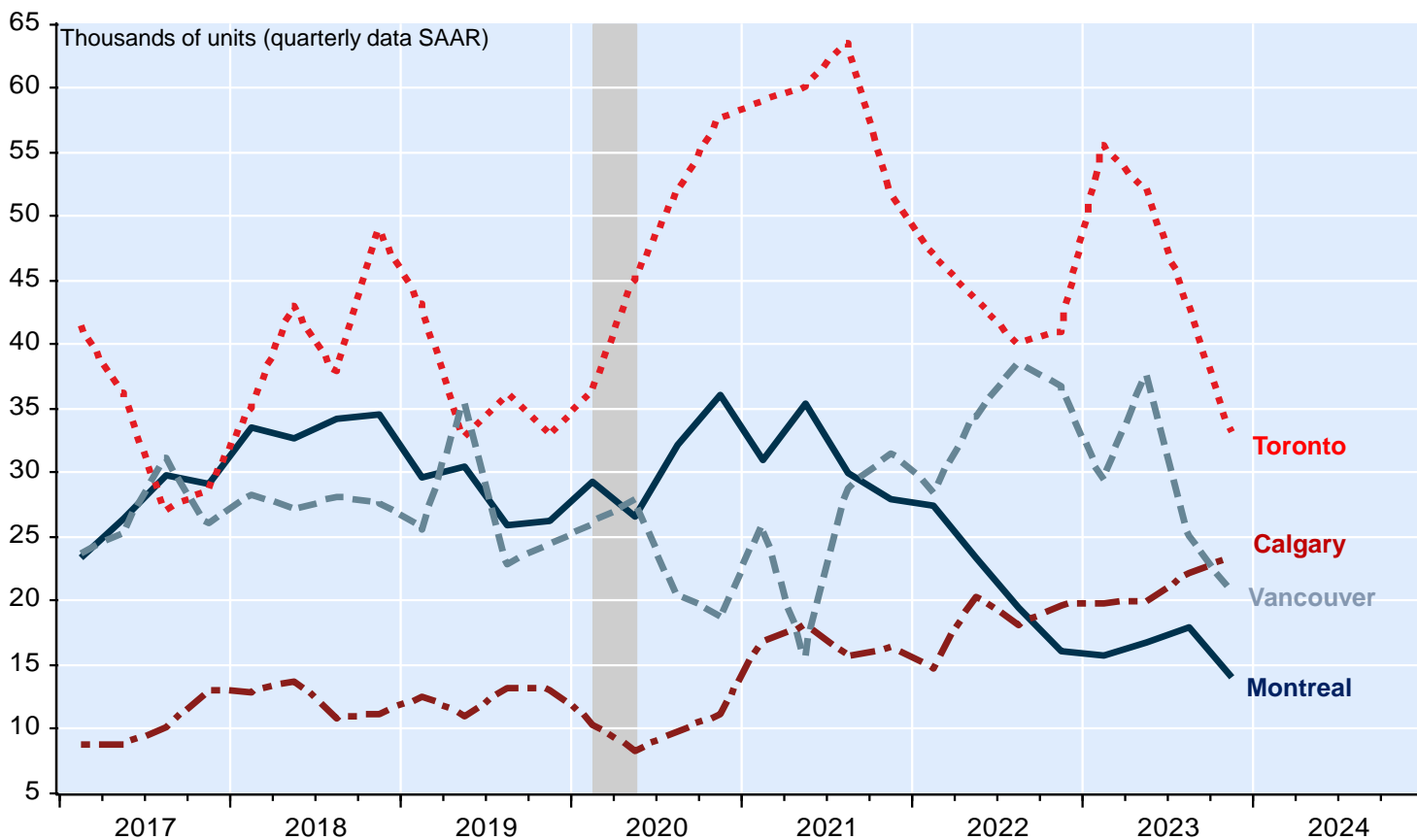
Canada Watch

By Stéfane Marion & Jocelyn Paquet

Bank of Canada Governor Tiff Macklem delivered a [speech](#) in Montreal today on the effectiveness and limitations of monetary policy. The governor said that restrictive monetary policy has certainly helped bring down overall inflation, but its impact on housing costs has been stymied by a structural shortage of housing, something monetary policy cannot fix. This is something the Bank of Canada (BoC) has only recently begun to acknowledge in speeches (see [Toni Gravelle on Dec. 7, 2023](#)) and its January [Monetary Policy Report](#). So much so that the Bank of Canada expects shelter inflation to account for about 50% of total inflation over the next two years (almost double its 26% weight in the CPI basket) and to "act as a material headwind against the return of inflation to the 2% target". Acknowledging the problem is one thing, but whether the BoC will be willing to accommodate a source of inflation over which it has little control remains to be seen. If the BoC remains reluctant to see through shelter inflation for too long, there is a risk that monetary policy will remain overly restrictive in the coming months, causing undue pain to the economy and exacerbate housing supply imbalances against a backdrop of surging population. As today's Hot Chart shows, building permits plummeted in most urban areas in Q4 2023. This partly explains why we continue to expect an economic contraction in 2024 and a more aggressive easing of monetary policy than is currently assumed by markets.

Canada: Building permits plummet in Q4

Residential building permits in Canada's four largest metropolitan areas



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