Housing market driving higher inflation

The Canadian GDP report released May 31 revealed a residential investment lift 14.9% in the first quarter of this year, the fourth consecutive double-digit decline and the worst slide of declining resi-
dential investment since 1995. As new construction slows to a crawl, the gap between the supply of housing and Canada’s strong immigration policy con-
tinues to grow. Canada’s working-age population has already increased by a record 270,000 (2019-2020) due in large part to inflow of (legal) in only the first four months of 2023, 6x-one-half standard deviations above its historical average. In plain
English, current Canadian immigration levels are at the highest levels ever observed.
High levels of immigration create substantial new demand for housing, both purchases and rentals. Furthermore, increased housing demand for higher inflation (at the highest level
since the 1980s) is making it
primarily by increased demand
Housing supply (residential
investment) as well as housing
demand for housing will contin-
tinue to support supply until rents reach a level high enough to
inconsistent building new rental units.
Canada’s rental inflation is being driven
by demand coming from the migration, there isn’t much the Bank of Canada can do other than slow the economy by continuing to
to lower the target (currently above 4%).
Housing supply (residential
investment) as well as housing
rents have nowhere to go but up. As shown in the sup-
plied chart, Canada’s rental
rate is already at a gen-
erational low and will decline further if current immigration
and residential investment trends continue. Without a substantial change
in immigration policy, Canadian
rental housing market will contin-
to experience a supply shortage until
rents reach a level high enough to
renew their mortgage.
Canada: Residential investment decline = sarging rents

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Economics 101

The bottom line is rent inflation (at the highest level
since the 1980s) is making it very
difficult for the Bank of Canada to bring core inflation
back to the 2% target. When
rent inflation is being driven primarily by increased demand
due to record immigration, there isn’t much the Bank of Canada can do other than slow the economy by continuing to
increase interest rates.
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