

Economics

THE WEEK AHEAD

December 11 - 15, 2023

Hope for renters, eventually

by Avery Shenfeld avery.shenfeld@cibc.com

It was most likely a coincidence, but two Canadian policy makers came to the same conclusion this week on the matter of rent inflation, one directly, and the other implicitly. The result was a small ray of hope for renters, which in addition to other measures and market forces, might bring relief for apartment dwellers scarred by the recent run-up in rent inflation. Eventually.

Bank of Canada Deputy Governor Gravelle weighed in on an issue we at CIBC have been flagging for the past two years: the linkage between an acceleration in the number of immigrants and non-permanent residents (students, temporary workers) and rent inflation. Our own research showed that provincial population growth, almost all tied to immigration, has been well correlated with inflation in rents by province.

The very same day, Federal Immigration Minister Miller announced a tightening of the rules for foreign students, significantly increasing the finances they have to show to qualify for admission. Ottawa is also looking at limiting the number of hours that these students can work while pursuing their studies, which had been raised to 40 hours per week, making it questionable whether they were really here to advance their education. Both of these moves will cut into student inflows, as early as September 2024.

Ottawa is also pressing provinces to pare back their post-secondary system's reliance on higher-paying international students, noting that some of the schools involved are really backdoor immigration mills rather than real centres of learning. The Minister is asking provinces to tighten their regulatory requirements for these schools, or face federal intervention with visa caps.

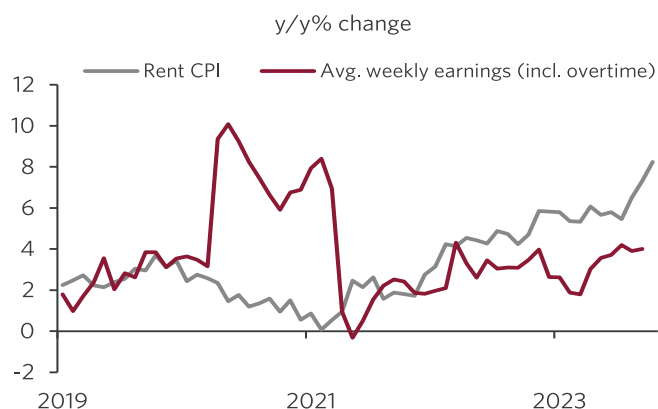
While there's been no direct move to stem those coming as temporary foreign workers, economic forces might act in that direction next year. Canada's rising jobless rate should have fewer firms able to demonstrate their inability to hire locally, a condition for tapping into temporary immigrants. The TFWP is

scheduled for its next adjustment in August 2024, but Ottawa shortened the period after which employers have to file new evidence that they can't find a Canadian worker to 12 months, from 18 previously.

Further out, all three levels of government are finally moving in the same direction, with financial measures and zoning combining to promote more supply of purpose-built rental units. That said, those steps won't bear fruit for several years, and in the near term, there's a risk that high interest rates will stem construction starts.

But economic forces could help out before that happens, because as with any price in the economy, there are limits based on affordability. Historically, rents rise at a slower pace than average weekly earnings, in part because renters might not have kept up with the average worker. The past year has therefore been a huge outlier (chart), and at some point, we'll have outrun what renters are willing, or able to pay. Reaching that pain threshold is not a happy story for tenants, but it's one way that rapid rent inflation eventually has to come to an end.

Chart: Rents are outpacing incomes



Source: Statistics Canada, CIBC

Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, December 11	-	AUCTION: 2-YR CANADAS \$5.5B	-	-	-	-	-
Tuesday, December 12	-	-	-	-	-	-	-
Wednesday, December 13	-	-	-	-	-	-	-
Thursday, December 14	-	AUCTION: 30-YR CANADAS \$2.5B	-	-	-	-	-
Thursday, December 14	8:30 AM	MANUFACTURING SHIPMENTS M/M	(Oct)	(M)	-2.7%	-	0.4%
Thursday, December 14	9:00 AM	EXISTING HOME SALES M/M	(Nov)	(M)	-	-	-5.6%
Friday, December 15	8:15 AM	HOUSING STARTS SAAR	(Nov)	(M)	254.0K	-	274.7K
Friday, December 15	8:30 AM	WHOLESALE SALES EX. PETROLEUM M/M	(Oct)	(M)	-1.1%	-	0.4%
Friday, December 15	8:30 AM	INT'L. SEC. TRANSACTIONS	(Oct)	(M)	-	-	-\$15.1B
Friday, December 15	12:40 PM	Speaker: Tiff Macklem (Governor)	-	-	-	-	-

Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, December 11	-	AUCTION: 3-YR TREASURIES \$50B	-	-	-	-	-
Monday, December 11	-	AUCTION: 10-YR TREASURIES \$37B	-	-	-	-	-
Tuesday, December 12	-	AUCTION: 30-YR TREASURIES \$21B	-	-	-	-	-
Tuesday, December 12	8:30 AM	CPI M/M	(Nov)	(H)	0.1%	0.0%	0.0%
Tuesday, December 12	8:30 AM	CPI M/M (core)	(Nov)	(H)	0.2%	0.3%	0.2%
Tuesday, December 12	8:30 AM	CPI Y/Y	(Nov)	(H)	3.2%	3.1%	3.2%
Tuesday, December 12	8:30 AM	CPI Y/Y (core)	(Nov)	(H)	3.9%	4.0%	4.0%
Tuesday, December 12	2:00 PM	TREASURY BUDGET	(Nov)	(L)	-	-	-\$66.6B
Wednesday, December 13	7:00 AM	MBA-APPLICATIONS	(Dec 8)	(L)	-	-	2.8%
Wednesday, December 13	8:30 AM	PPI M/M	(Nov)	(M)	0.1%	0.1%	-0.5%
Wednesday, December 13	8:30 AM	PPI M/M (core)	(Nov)	(M)	0.2%	0.2%	0.0%
Wednesday, December 13	8:30 AM	PPI Y/Y	(Nov)	(M)	-	1.1%	1.3%
Wednesday, December 13	8:30 AM	PPI Y/Y (core)	(Nov)	(M)	-	2.2%	2.4%
Wednesday, December 13	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(Dec 13)	(H)	5.50%	5.50%	5.50%
Wednesday, December 13	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(Dec 13)	(H)	5.25%	5.25%	5.25%
Wednesday, December 13	2:30 PM	Speaker: Jerome H Powell (Chairman) (Voter)	-	-	-	-	-
Thursday, December 14	8:30 AM	INITIAL CLAIMS	(Dec 9)	(M)	-	-	220K
Thursday, December 14	8:30 AM	CONTINUING CLAIMS	(Dec 2)	(L)	-	-	1861K
Thursday, December 14	8:30 AM	RETAIL SALES M/M	(Nov)	(H)	-0.2%	-0.1%	-0.1%
Thursday, December 14	8:30 AM	RETAIL SALES (X-AUTOS) M/M	(Nov)	(H)	-0.1%	0.0%	0.1%
Thursday, December 14	8:30 AM	RETAIL SALES CONTROL GROUP M/M	(Nov)	(H)	0.1%	0.2%	0.2%
Thursday, December 14	8:30 AM	IMPORT PRICE INDEX M/M	(Nov)	(L)	-	-0.9%	-0.8%
Thursday, December 14	8:30 AM	EXPORT PRICE INDEX M/M	(Nov)	(L)	-	-1.0%	-1.1%
Thursday, December 14	10:00 AM	BUSINESS INVENTORIES M/M	(Oct)	(L)	-	0.0%	0.4%
Friday, December 15	8:30 AM	NEW YORK FED (EMPIRE)	(Dec)	(M)	-	3.8	9.1
Friday, December 15	9:15 AM	INDUSTRIAL PRODUCTION M/M	(Nov)	(H)	0.4%	0.2%	-0.6%
Friday, December 15	9:15 AM	CAPACITY UTILIZATION	(Nov)	(M)	79.5%	79.1%	78.9%
Friday, December 15	9:45 AM	S&P GLOBAL US SERVICES PMI	(Dec P)	(L)	-	50.7	50.8
Friday, December 15	9:45 AM	S&P GLOBAL US COMPOSITE PMI	(Dec P)	(L)	-	-	50.7
Friday, December 15	9:45 AM	S&P GLOBAL US MANUFACTURING PMI	(Dec P)	(L)	-	49.3	49.4
Friday, December 15	4:00 PM	NET CAPITAL INFLOWS (TICS)	(Oct)	(L)	-	-	-\$1.7B

Week Ahead's market call

by Avery Shenfeld

In the **US**, our CPI calls aren't far from consensus, and the picture won't radically change from the Fed's perspective. November will likely have been another month in which price gains were in the territory that the Fed wants to see, but the central bankers still need more months like that, and some evidence of a sustained slowing in growth, to talk about cutting rates. The latest payrolls weren't cool enough for the central bankers' tastes, but retail data for November should add evidence of a moderation in demand after the Q3 surge. Yes, there's a Fed meeting of course, but the FOMC has no reason to alter course, and is too divided about what lies ahead to offer definitive guidance, although Powell's team isn't likely as dovish as the market in terms of the timing of the first rate cut.

In **Canada**, softer new condo sales could push back the timing of multiple unit starts to see housing starts cooling a bit in the week ahead's data. Weak wholesale and factory sales in October will still leave room for a positive GDP pace for Q4 as a whole. Overall, a quiet week for data that will leave the market keeping a closer eye on US news.

Week Ahead's key Canadian number: Housing starts—November

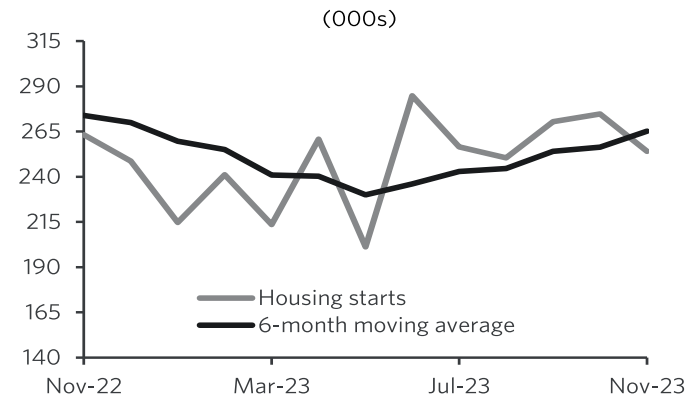
(Friday, 8:15 am)

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Variable	CIBC	Mkt	Prior
Housing starts SAAR	254.0K	-	274.7K

Investment in residential structures showed modest growth in the third quarter following five consecutive quarterly retrenchments, as new apartment construction increased. We don't expect that to persist, however, given the drop off in condo presales that has occurred with investors being squeezed by higher interest rates. We therefore look for housing starts to slow to a 254K pace in November.

Chart: Canadian housing starts



Source: CMHC, Haver Analytics, CIBC

Forecast implications — Homebuilding and residential investment are likely to decline over the fourth quarter as demand and builders' margins are hampered by high interest rates. Building likely won't start to pick up until there are definitive signs of interest rates coming down, in H2 2024.

Week Ahead's key US number: CPI—November

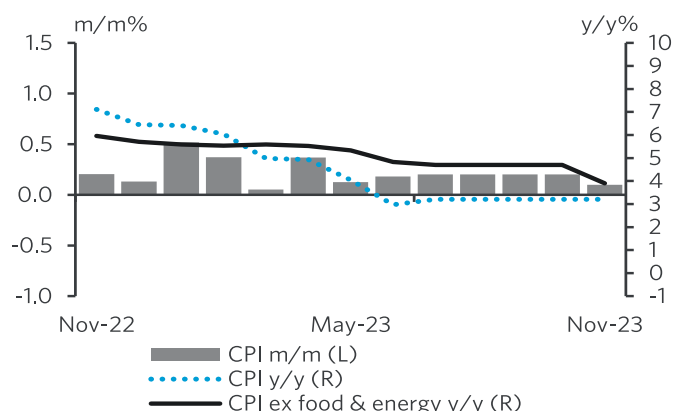
(Tuesday, 8:30 am)

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Variable (%)	CIBC	Mkt	Prior
Headline CPI (m/m)	0.1	0.0	0.0
Headline CPI (yr/yr)	3.2	3.1	3.2
Core CPI (m/m)	0.2	0.3	0.2
Core CPI (yr/yr)	3.9	4.0	4.0

Next week's November CPI will be another signal of progress. Headline inflation is expected to be 0.1% m/m given weak energy prices and an expected core inflation reading of 0.2% m/m. The moderation of core inflation largely reflects the gradual softening of shelter inflation and core goods deflation. Together, these components represent about 70% of core inflation and will more than compensate for the Fed's so-called "supercore" — services excluding shelter — where price pressure may remain firm.

Chart: US Consumer price index



Source: BLS, Haver Analytics, CIBC

Forecast implications — Near-term readings of inflation have assumed less importance as the persistence of high inflation has been effectively stamped out. For the inflation outlook then, the Fed's focus has shifted back to developments in the housing market, supply-side developments and activity data.

Market implications — Our views on core inflation are slightly below consensus but after six months of encouraging progress on inflation, one very cool or very hot reading will not mean much for the Fed. We might be back to the good old days where a single CPI release does not move the needle anymore. Markets mostly understand this and will wait for signals from the FOMC meeting and the latest projection later in the week.

Other US Releases: Retail sales—November

(Thursday, 8:30 am)

While some headlines about record-breaking Black Friday sales have caught attention, high-frequency credit spending data suggests overall retail spending is likely to be weak in November. Consumers are coming off a splurge in Q3 and facing a labour market that is showing clear signs of a cooling trend. Spending out of savings, which is what happened in Q3, does not look very sustainable. Our expectation is a modest 0.1% m/m nominal increase in the control group and with weak auto sales and gas prices, headline sales should show a contraction of 0.2% m/m.

Forecast implications — Despite the soft expected control group reading, strong momentum from Q3 and a solid October reading imply that consumption growth in 23Q4 is once again going to be solid tracking about a 2% annualized pace. Our GDP tracking is 1.5% for the quarter.

Market implications — Our views on retail spending are a bit below the market because we feel the US consumer is fatigued and consumption is due for some pullback. A patient Fed is unlikely to put much weight on either a large downside or upside surprise for its near-term decision. However, another upside surprise will hopefully force the FOMC to reveal their thinking about how long consumers can push down already low savings and why that might be the case.

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