

Economics

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THE WEEK AHEAD

June 28-July 2, 2021

Are Investors to Blame for Housing Inflation?

by Avery Shenfeld

A Bank of Canada analysis found that investors have accounted for a fifth of all housing transactions, during a period of soaring house prices. Is that a case of cause and effect, and in which direction?

Rising property prices could help spur investor interest. Our prior research found that Toronto area rents provide slim or even negative net cash flows to leveraged investors. Capital gains must therefore be their motivation, and climbing prices could be read by some as a sign of more to come.

But of course, the screaming headlines on this topic are all about the reverse causation, the idea that investors bid up prices and make life more operous for the rest of us.

The BoC looked at whether a home buyer had a mortgage on another property, which would lump in vacation home buyers with true investors. Where these could have been suitable as a first home (i.e., not a non-winterized cottage) those transactions add to housing demand, and will push up prices unless new supply comes on board. The same would be true for any property that is bought and left vacant, which was the reasoning for those advocating heavy taxes to discourage that practice.

Where a property is bought and then rented, the impacts on prices are not as clear cut. If we have developers who are looking to get cash out quickly from a large lump sum investment, and investors seeking long term cash flows on smaller upfront investments, that can facilitate the new construction that helps keep rents affordable.

There are advantages in having purpose-built apartments run by professional landlords. But condos owned by investors and rented out can still help fill a market gap if there is a lack of such purpose built construction taking place. That's true whether the investors are domestic or foreign.

Now, if those investors have irrational expectations about future prices, they could bid up those condos or single family homes that they rent out to prices that aren't justified by the stream of rents, in a speculative bubble. If so, the solution for residents is to rent, and let others take on the risks of property investments.

Such investors won't thrive in the long run – at some point, those paying more than an asset is worth will face a correction. Thus far in Canada, it seems that these investors have been amply rewarded by capital gains.

As they say, past performance doesn't guarantee future results. It's possible that low interest rates, and lofty levels for competing assets, have sparked an unsustainable house price bubble. If so, that's likely to be put to the test as mortgage rates begin to climb over the next two years.

But in general, it just isn't clear that one can draw a cause and effect line from investor purchases to high housing costs for Canadians. Instead, the more likely central culprit is the combination of population growth, low interest rates, and rising incomes that have boosted demand and the ability to pay for residential space, while various structural barriers have prevented the supply of new units from keeping pace.



Week Ahead Calendar And Forecast

	CANADA				UNITED STATES				
		CIBC	Consensus	Prior			CIBC	C Consensus	Prior
Monday June 28	Government Bond Purchase Program (GBPP): 2-YR AUCTION: 2-YR CANADAS \$5B				Speaker: 9:00 AM John C. Williams (Vice Chairman, New York) (Voter) Speaker: 12:00 PM Thomas I. Barkin (President, Richmond) (Voter) Speaker: 1:10 PM Randal Keith Quarles (Governor) (Voter)	n York) (Vote and) (Voter) er)	(1;		
Tuesday June 29	Government Bond Purchase Program (GBPP): 30-YR				9:00 AM HOUSE PRICE INDEX M/M S&P CORELOGIC CS Y/Y	(Apr) ((Apr) (- (H)	1.7%	1.4%
					10:00 AM CONF.BOARD CONSUMER CONFIDENCE) (unc)	(Н) 120.0	.0 119.0	117.2
					Speaker: 9:00 AM Thomas I. Barkin (President, Richmond) (Voter)	nd) (Voter)			
Wednesday June 30	Government Bond Purchase Program (GBPP): 10-YR AUCTION: 10-YR CANADAS \$5B				7:00 AM MBA-APPLICATIONS		(L)	ı	2.1%
	8:30 AM GDP M/M (Apr) (H)	-1.0%	1	1.1%	8:15 AM ADP EMPLOYMENT CHANGE) (Jun)	- (W)	575K	978K
	(May)		ı	1.0%	9:45 AM CHICAGO PMI) (Jun)	- (W)	70.0	75.2
					10:00 AM PENDING HOME SALES M/M	(Мау)	- (W)	0.0%	- 4,4%
					Speaker: 1:00 PM Thomas I. Barkin (President, Richmond) (Voter)	nd) (Voter)			
Thursday July 1	Markets Closed (Canada Day)				8:30 AM INITIAL CLAIMS CONTINUING CLAIMS	(Jun 26) (Jun 19)	- (N)	380K	411K 3390K
					9:45 AM MARKIT US MANUFACTURING PMI	(Jun F) (- (T)	ı	62.6
					10:00 AM ISM - MANUFACTURING CONSTRUCTION SPENDING M/M	(Jun) (May) ((H) 61.3 (M) -	3 61.0 0.5%	61.2 0.2%
					new vehicle sales) (un()	- (M)	17.10M	16.99M
Friday July 2	Program (GBPP): 5 (May)	,		1.2%	8:30 AM NON-FARM PAYROLLS UNEMPLOYMENT RATE AVERAGE HOURLY EARNINGS ALL EMPLOYEES M/M	(Jun) ((Jun) ((Jun) ((H) 785K (H) 5.6% (H) 0.2%	K 700K % 5.6% % 0.4%	559K 5.8% 0.5%
	BUILDING PERMITS M/M (resid.) (May) (M) MERCHANDISE TRADE BALANCE (May) (H)	- \$0.2B	1 1	-0.5% \$0.59B	AVERAGE WEEKLY HOURS ALL EMPLOYEES MANUFACTURING PAYROLLS GOODS & SERVICES TRADE BALANCE	(Jun) (Jun) (May)		34.9 30K -\$71.0B	34.9 23K -\$68.9B
					10:00 AM FACTORY ORDERS M/M	(Мау)	(M) 2.0%	% 1.4%	- 0.6%
	H, M, L = High, Medium or Low Significance	v Significano		AR = Seasor	SAAR = Seasonally Adjusted Annual Rate Consensus	Consensus Source: Bloomberg	omberg		

Week Ahead's Market Call

by Avery Shenfeld

In the **US**, the labour market is, as the Beatles said, getting better, a little better all the time. Another month of trying to fill millions of vacant positions should see employers either pay a little more, or hire some of the new grads and students who haven't been getting enriched jobless benefits, taking payrolls gains up a notch. We're a bit above the early consensus at this point. The ISM manufacturing index is the other major indicator, but we don't see it moving much from the heady territory its already in. Factory orders for May will be aligned with that message, posting a solid monthly advance.

In **Canada**, a holiday-shortened trading week will centre on the actual and flash estimates for April and May GDP respectively. We were puzzled by the Bank of Canada's recent assertion that Q2 growth was looking fairly healthy, as if our calls are on a mark, the quarter would be essentially tracking zero growth. Markets are looking past that big miss, as it largely captures shutdowns to contain a wave of Covid-19. But the huge divergence with a strong US Q2 leaves Canada with a lot of catching up to do, one reason why we question the market's pricing for a more aggressive pace and timing of rate hikes on the north side of the border. May goods trade should be close to being in balance, helped by firm prices for resource exports.

Week Ahead's Key Canadian Number: GDP—April

(Wednesday, 8:30 a.m.)

Royce Mendes (416) 594-7354

	CIBC	Mkt	Prior
GDP m/m (Apr)	-1.0%	N/A	1.1%

Canadian GDP at basic prices (%) 20 10 15 5 10 5 0 0 -5 -5 -10 m/m % chg (L) -10 /y % chg (R) -15 -15 -20 Jul-20 Apr-20 Oct-20 Jan-21 Apr-21F

The month of April likely saw the Canadian economy post it's largest retreat since the first wave of the virus. With another round of shutdowns needed across many regions of the country during the month, the pullback in activity seems large enough to have almost completely wiped out gains seen in March. We expect the flash estimate for May GDP will show a further retrenchment, albeit more modest than the one seen in April. Regions that ordered shutdowns had yet to lift them in May, while other parts of the country, which had thus far avoided reimposing restrictions, were forced to implement harsher measures.

Forecast Implications — The economy was able to take the second wave of the virus in stride. However, as we expected, the third wave will leave more of a mark on activity. We continue to believe that there will be virtually no real GDP growth in the second quarter, in contrast to the Bank of Canada's projection for an annualized advance of 3.5%.

Other Canadian Releases:

Merchandise Trade Balance — May

(Friday, 8:30 a.m.)

It's unlikely that the economy was able to maintain the surprise surplus seen in April. The surge seen in exports of seafood products tied to an earlier-than-usual snow crab season this year will likely be reversed in the May numbers. Moreover, with the auto sector at least marginally less affected by supply chain constraints during the month, imports in the sector should rise more than exports, which were less affected by those challenges. That said, we are still forecasting a modest surplus of \$0.2bn since the large appreciation in the Canadian dollar during the month would have worked to make imports cheaper, and prices for resource exports were firmer.

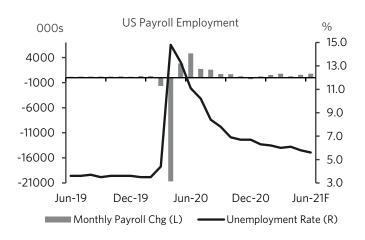
Week Ahead's Key US Number: Employment Situation—June

(Friday, 8:30 a.m.)

Katherine Judge (416) 956-6527

	CIBC	Mkt	Prior
Employment (m/m) Unemployment rate Avg Hourly Earnings (m/m)	5.6%	5.6%	559K 5.8% 0.5%

June should have seen some recruitment efforts by employers over previous months pay off in terms of attracting workers, while students off for the summer and new graduates could have provided a new pool of labor to draw from. Additionally, higher wages could have worked to entice many back into the labor force, resulting in an acceleration in hiring to 785K in June. That is in line with the steeper drop in continuing jobless claims seen through the reference week, but would still leave a 6.8mn gap to pre-Covid levels of employment, as unemployment benefit top-ups remain in place in many large states.



Forecast Implications — Until more states move to end unemployment benefit top-ups and previous stimulus funds are exhausted, the disincentives that are limiting the rebound in hiring will remain, despite the record high level of job openings. However, a continued acceleration in hiring over the summer months should give the Fed enough optimism to announce an early 2022 tapering at the September meeting.

Market Impact — We're above the consensus which could be supportive for the USD while lifting bond yields.

Other U.S. Releases:

ISM Manufacturing—June

(Thursday, 10:00 a.m.)

Regional manufacturing PMIs sent mixed signals in June, suggesting that the ISM's manufacturing gauge stayed roughly steady at 61.3. It's possible that the semiconductor shortage restrained production in some industries, but a rise in the supplier deliveries sub-index could have offset that impact in the headline index calculation. Overall, that's still an elevated level for the total index and suggests that a wide breadth of firms are seeing demand even as services start to become the main growth driver. Indeed, unfilled orders of durable goods orders excluding transportation are at a pandemic-high.

CANADIAN RELEASE AND EVENT DATES June/July 2021



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
21	22	RETAIL TRADE 8:30 AM (Current\$)	PAYROLL EMPLOYMENT, EARNINGS & HOURS 8:30 AM	25
28	29	30 GDP BY INDUSTRY 8:30 AM (2002\$)	CANADA DAY (HOLIDAY) (Markets Closed)	BUILDING PERMITS (\$) 8:30 AM M M M (RES) (NON-RES) MAR 18.5 -14.9 APR 6.7 17.4 MAY MERCHANDISE TRADE 8:30 AM \$MN 12 MO. BALANCE MAR -1347 -26,695 APR 594 -20,655 MAY
Bank of Canada Business Outlook Survey & Canadian Survey of Consumer Expectations	6	7 IVEY PURCHASING MANAGERS' INDEX 10:00 AM	8	9 LABOUR FORCE SURVEY 8:30 AM AVG EMPLOY UNEMP HRLY (HSHOLD) RATE EARN M Y % Y APR -1.1 15.4 8.1 -1.6 MAY -0.4 12.9 8.2 1.4 JUN
12	13	SURVEY OF MANUFACTURING 8:30 AM SHIPMENTS M Y MAR 4.0 15.7 APR -2.1 57.1 MAY Bank of Canada Interest Rate Announcement & Monetary Policy Report	ADP EMPLOYMENT SURVEY 8:30 AM	HOUSING STARTS 8:15 AM 000's (AR) TOTAL SINGLES APR 267 78 MAY 276 64 JUN WHOLESALE TRADE 8:30 AM INT'L TRANSACTIONS IN SECURITIES C\$BN, NET 8:30 AM BONDS MONEY STOCKS TOT MARKET MAR -7.9 1.5 10.6 4.1 APR 5.5 1.7 2.8 10.0 MAY
19	20	21	22	RETAIL TRADE 8:30 AM (Current\$) M Y MAR 4.5 24.7 APR -5.7 56.7

All data seasonally adjusted except where noted "NSA". M: per cent change from previous month. Q: per cent change from previous quarter at annual rates. Y: per cent change from year earlier. AR: Annual Rate. YTD: Year to date. Release dates are provided by sources outside CIBC World Markets Inc. Dates are subject to change. Sources for historical data: Statistics Canada, CMHC, Human Resources Development Canada and the Bank of Canada.

U.S. RELEASE AND EVENT DATES June/July 2021



MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
21	EXISTING HOME SALES 10:00 AM BOT (9:00) REDBOOK (8:55)	CURRENT ACCOUNT BALANCE 8:30 AM NEW HOME SALES 10:00 AM	DURABLE GOODS ORDERS 8:30 AM M Y AMAR 1.3 36.3 APR -0.8 53.0 MAY 2.3 41.6 GDP 8:30 AM (AR) REAL IMPLICIT GOP DEFLATOR 20:Q3 33.4 3.5 20:Q4 4.3 2.0 21:Q1(3rd) 6.4 4.3 ADV. TRADE IN INTERNATIONAL GOODS 8:30 AM CORPORATE PROFITS 8:30 AM INITIAL JOBLESS CLAIMS (8:30)	PERS. INC & OUT. 8:30 AM SAVING INCOME CONS RATE M M AR MAR 20.9 5.0 27.6 APR -13.1 0.9 14.5 MAY -2.0 0.0 12.4 MICHIGAN SENTIMENT (F) 10:00 AM
28	S&P/CASE-SHILLER HOUSE PRICE INDEX 9:00 AM CONSUMER CONFIDENCE 10:00 AM	ADP SURVEY 8:15 AM CHICAGO PMI 9:45 AM	ISM MFG SURVEY 10:00 AM COMP. PRICES INDEX INDEX APR 60.7 89.6 MAY 61.2 88.0 JUN LIGHT VEHICLES SALES MIL (AR) Y APR MAY JUN INITIAL JOBLESS CLAIMS (8:30)	EMPLOY. SITUATION
5 INDEPENDENCE DAY (HOLIDAY OBSERVED) (Markets Closed)	6 ISM NON-MFG SURVEY 10:00 AM	7 FOMC Minutes BOT (9:00) REDBOOK (8:55)	CONSUMER CREDIT 3:00PM INITIAL JOBLESS CLAIMS (8:30)	9 WHOLESALE TRADE 10:00 PM
12	CPI 8:30 AM M(SA) Y (NSA) APR 0.8 4.2 MAY 0.6 5.0 JUN TREASURY BUDGET 2:00 PM BOT (9:00) REDBOOK (8:55)	14 Beige Book	PHILADELPHIA FED INDEX 8:30 PM CAPACITY UTIL/IND. PROD. 9:15 AM LEV M Y APR 74.6 0.1 17.6 MAY 75.2 0.8 16.4 JUN INITIAL JOBLESS CLAIMS (8:30)	RETAIL SALES 16 8:30 AM M Y Y APR 0.0 42.7 MAY -0.7 26.4 JUN BUSINESS INVENTORIES 10:00 AM MICHIGAN SENTIMENT (P) 10:00 AM NET CAPITAL INFLOWS TICS 4:00 PM
19	#OUSING STARTS 8:30 AM Mn. M/M APR 1.517 -12.1 MAY 1.572 3.6 JUN BOT (9:00) REDBOOK (8:55)	21	22 EXISTING HOME SALES 10:00 AM LEADING INDICATOR 10:00 AM INITIAL JOBLESS CLAIMS (8:30)	23

All data seasonally adjusted except where noted "NSA". M: per cent change from previous month. Q: per cent change from previous quarter at annual rates. Y: per cent change from year earlier. AR: Annual Rate. YTD: Year to date. Release dates are provided by sources outside CIBC World Markets inc. Dates are subject to change. Sources for historical data: U.S. Department of Commerce, U.S. Department of Labor and U.S. Federal Reserve Board.

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