

Economics

# THE WEEK AHEAD

June 26 - 30, 2023

## Time to waive or defer HST on purpose-built rentals

by Benjamin Tal [benjamin.tal@cibc.com](mailto:benjamin.tal@cibc.com)

Something very interesting happened over the last few months. Literally minutes following the Bank of Canada’s January announcement of its intention to pause, home buyers all over the country woke up, causing sales and the average home price to rebound by no less than 21% and 13%, respectively, since then.

No question the resumption of hiking in June and the risk that the coming months will see another hike will work to curb home buyers’ renewed enthusiasm. But what we have learned from this episode is that the market is even tighter than perceived, and that buyers will return even before rates go down, as long as the rate environment is predictable. Put differently, the recent and potentially upcoming slowdowns will end up being nothing more than blips. The overall trajectory is towards an even tighter and more unaffordable housing market.

The summer will come and go, and the fall will bring a new fiscal update. We hope and expect that housing will be the centre piece of that update. We look for Ottawa to introduce bold measures that will include meaningful changes to the economics of purpose-built rental projects. At this point, numerous companies all over Canada have attempted to start significant rental pipelines, and despite having a low cost of capital through partnerships with Canadian pension funds, a long-term investing horizon, and a mandate to be part of the solution to the rental supply crisis, they are unable to make projects economically viable in the current climate.

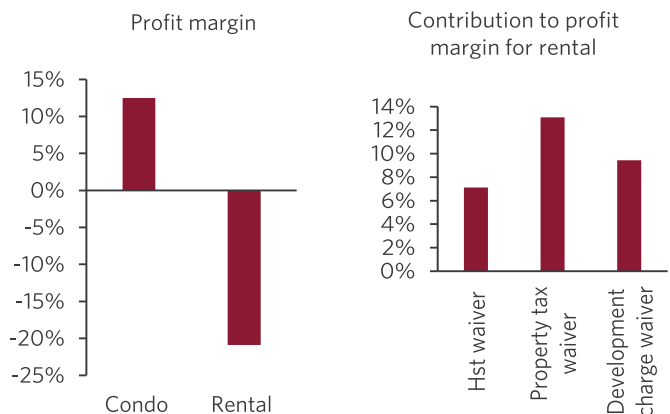
The left hand chart illustrates that reality. For a 400-unit building in Toronto, a developer that elected to build a condo project would enjoy an average profit margin of 12.5%. The same developer, however, will see a loss of 20% if he/she chooses to proceed with a rental project. The chart on the right shows the potential impact of some policy changes. Waiving property taxes would have the most significant impact on rental project viability, but here we expect little action from cash-starved municipalities. A reduction in development charges and parkland fees would also be a step in the right direction and is

somewhat more realistic. But, by far, the most pragmatic step to take in the immediate future would be to waive or defer HST payments on purpose-built rental projects from first occupancy to the sale of the building, while keeping the same valuation methodology as the current regime.

It’s the most realistic option since it’s relatively easy to implement, and Ottawa will have a willing partner in the Ontario government. Buried in page 84 of the recent Ontario budget was the following sentence, “we call on the federal government to come to the table on potential Goods and Services Tax/Harmonized Sales Tax (GST/HST) relief, including rebates, exemptions, zero-rating or deferrals”.

Such a move alone would shave close to \$60K from the unit cost of that 400-unit project in Toronto, resulting in a meaningful reduction in rent, while at the same time unlocking tens of thousands of rental units across the country in short order — clearly a step in the right direction.

Chart: 400 unit building Toronto



Source: Bild, Dream, Fitzrovia, 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, June 26    | -        | -   | -     | -        | -    | -         | -     |
| Tuesday, June 27   | 8:30 AM  | CPI M/M   | (May) | (H)      | 0.3% | 0.5%      | 0.7%  |
| Tuesday, June 27   | 8:30 AM  | CPI Y/Y   | (May) | (H)      | 3.3% | 3.4%      | 4.4%  |
| Tuesday, June 27   | 8:30 AM  | Consumer Price Index                                  | (May) | (M)      | -    | -         | 156.4 |
| Tuesday, June 27   | 8:30 AM  | CPI Core- Median Y/Y%                                 | (May) | (M)      | -    | 4.0%      | 4.2%  |
| Tuesday, June 27   | 8:30 AM  | CPI Core- Trim Y/Y%                                   | (May) | (M)      | -    | 4.0%      | 4.2%  |
| Tuesday, June 27   | 5:30 AM  | Speaker: Sharon Kozicki (Deputy Gov.)                 | -     | -        | -    | -         | -     |
| Wednesday, June 28 | -        | -   | -     | -        | -    | -         | -     |
| Thursday, June 29  | -        | AUCTION: 30-YR CANADAS \$12.5B                        | -     | -        | -    | -         | -     |
| Thursday, June 29  | 8:30 AM  | PAYROLL EMPLOYMENT, EARNINGS & HRS                    | (Apr) | -        | -    | -         | -9.9K |
| Friday, June 30    | 8:30 AM  | GDP M/M   | (Apr) | (H)      | 0.2% | 0.2%      | 0.0%  |
| Friday, June 30    | 8:30 AM  | GDP (annualized)                                      | (Apr) | (H)      | -    | 1.9%      | 1.7%  |
| Friday, June 30    | 10:30 AM | BUSINESS OUTLOOK SURVEY                               | (2Q)  | (L)      | -    | -         | -1.1  |
| Friday, June 30    | 10:30 AM | Release: BoC Canadian Survey of Consumer Expectations | -     | -        | -    | -         | -     |

## 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, June 26    | -        | AUCTION: 2-YR TREASURIES \$42B                   | -        | -        | -        | -         | -        |
| Tuesday, June 27   | -        | AUCTION: 5-YR TREASURIES \$43B                   | -        | -        | -        | -         | -        |
| Tuesday, June 27   | 8:30 AM  | DURABLE GOODS ORDERS M/M                         | (May P)  | (H)      | -1.1%    | -1.0%     | 1.1%     |
| Tuesday, June 27   | 8:30 AM  | DURABLE GOODS ORDERS EX-TRANS M/M                | (May P)  | (H)      | -0.2%    | 0.0%      | -0.3%    |
| Tuesday, June 27   | 9:00 AM  | S&P CORELOGIC CS Y/Y                             | (Apr)    | (H)      | -        | -         | -1.2%    |
| Tuesday, June 27   | 10:00 AM | NEW HOME SALES SAAR                              | (May)    | (M)      | 675K     | 668K      | 683K     |
| Tuesday, June 27   | 10:00 AM | NEW HOME SALES M/M                               | (May)    | (M)      | -1.2%    | -2.2%     | 4.1%     |
| Tuesday, June 27   | 10:00 AM | CONF.BOARD CONSUMER CONFIDENCE                   | (Jun)    | (H)      | 103.0    | 103.8     | 102.3    |
| Tuesday, June 27   | 10:00 AM | RICHMOND FED MANUF. INDEX                        | (Jun)    | (M)      | -        | -11       | -15      |
| Wednesday, June 28 | -        | AUCTION: 7-YR TREASURIES \$35B                   | -        | -        | -        | -         | -        |
| Wednesday, June 28 | -        | AUCTION: 2-YR FRN \$22B                          | -        | -        | -        | -         | -        |
| Wednesday, June 28 | 7:00 AM  | MBA-APPLICATIONS                                 | (Jun 23) | (L)      | -        | -         | 0.5%     |
| Wednesday, June 28 | 8:30 AM  | WHOLESALE INVENTORIES M/M                        | (May P)  | (L)      | -        | -0.1%     | -0.1%    |
| Wednesday, June 28 | 8:30 AM  | ADVANCE GOODS TRADE BALANCE                      | (May)    | (M)      | -\$94.0B | -\$93.2B  | -\$96.8B |
| Wednesday, June 28 | 8:30 AM  | RETAIL INVENTORIES M/M                           | (May)    | (H)      | -        | -         | 0.2%     |
| Wednesday, June 28 | 9:30 AM  | Speaker: Jerome H Powell (Chairman) (Voter)      | -        | -        | -        | -         | -        |
| Thursday, June 29  | 8:30 AM  | INITIAL CLAIMS                                   | (Jun 24) | (M)      | -        | 268K      | 264K     |
| Thursday, June 29  | 8:30 AM  | CONTINUING CLAIMS                                | (Jun 17) | (L)      | -        | -         | 1759K    |
| Thursday, June 29  | 8:30 AM  | GDP (annualized)                                 | (1Q T)   | (H)      | -        | 1.4%      | 1.3%     |
| Thursday, June 29  | 8:30 AM  | GDP DEFLATOR (annualized)                        | (1Q T)   | (H)      | -        | 4.2%      | 4.2%     |
| Thursday, June 29  | 10:00 AM | PENDING HOME SALES M/M                           | (May)    | (M)      | -        | -0.9%     | 0.0%     |
| Thursday, June 29  | 2:30 AM  | Speaker: Jerome H Powell (Chairman) (Voter)      | -        | -        | -        | -         | -        |
| Thursday, June 29  | 6:00 AM  | Speaker: Raphael W. Bostic (Atlanta) (Non-Voter) | -        | -        | -        | -         | -        |
| Friday, June 30    | 8:30 AM  | PCE DEFLATOR Y/Y                                 | (May)    | (H)      | 3.8%     | 3.8%      | 4.4%     |
| Friday, June 30    | 8:30 AM  | PCE DEFLATOR Y/Y (core)                          | (May)    | (H)      | 4.7%     | 4.7%      | 4.7%     |
| Friday, June 30    | 8:30 AM  | PERSONAL INCOME M/M                              | (May)    | (H)      | 0.3%     | 0.4%      | 0.4%     |
| Friday, June 30    | 8:30 AM  | PERSONAL SPENDING M/M                            | (May)    | (H)      | 0.3%     | 0.2%      | 0.8%     |
| Friday, June 30    | 10:00 AM | MICHIGAN CONSUMER SENTIMENT                      | (Jun)    | (H)      | -        | 63.9      | 63.9     |

## Week Ahead's market call

by Katherine Judge and Andrew Grantham

In the **US**, a plethora of secondary economic indicators should point to a cooling in activity after a strong start to the second quarter. Our forecast for a drop in ex. transportation durable goods orders in May would highlight business caution, and compound an expected slowdown in consumer spending after a surge in April. With core PCE price inflation not expected to make any progress, the Fed will remain on track for two 25bp hikes before pausing.

In **Canada**, inflation is expected to decelerate sharply in May, albeit mainly due to base effects as some of the largest price increases from a year ago drop out of the calculation. However, in judging what lays ahead, it may be inflation expectations contained in the Bank's surveys of consumers and businesses, that proves most important as we head towards the July interest rate decision. A 0.2% gain in monthly GDP for April will largely reflect strength in manufacturing linked to the continued easing of supply chain issues, rather than necessarily strength in domestic demand.

## Week Ahead's key Canadian number: Consumer price index—May

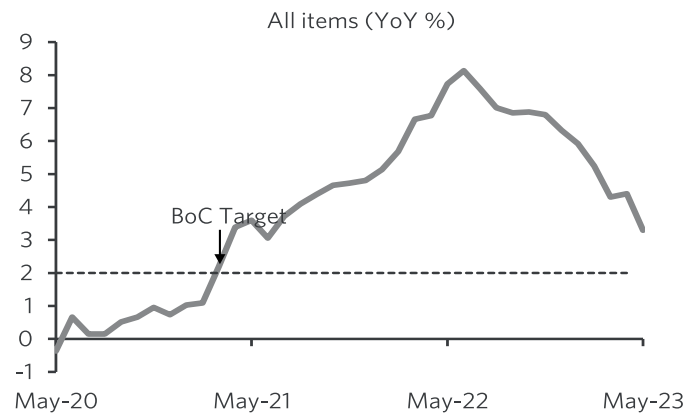
(Tuesday, 8:30 am)

Andrew Grantham [andrew.grantham@cibc.com](mailto:andrew.grantham@cibc.com)

| Variable (%)  | CIBC | Mkt | Prior |
|---------------|------|-----|-------|
| CPI NSA (m/m) | 0.3  | 0.5 | 0.7   |
| CPI (y/y)     | 3.3  | 3.4 | 4.4   |

Canadian inflation will look a lot tamer in May, albeit mainly because of base effects as gasoline prices this year are compared to the peaks seen in 2022. The headline inflation rate of 3.3% would be the lowest since June 2021, although it would still sit above the upper end of the Bank of Canada's target bound. Moreover, core measures of inflation likely saw little progress, with ex food/energy expected to decelerate more modestly to 4.0% y/y, versus 4.3% in the previous month. The reweighting of the inflation basket, which increases the weight of services such as air transport and travel tours, could bring a slightly stronger monthly price increase in May compared to the old weights.

Chart: Canadian consumer price index



Source: Statistics Canada, Haver Analytics, CIBC

**Forecast implications** — Headline inflation could ease slightly further in June, but during the second half of the year and into 2024 could get stuck in a range close to 3%, even if gasoline prices don't rise materially from here.

## Other Canadian releases: GDP—April

(Friday, 8:30 am)

The advance estimate for April GDP pointed to a 0.2% advance in economic activity, and although there have been some mixed messages in the interim data, we will stick with that as our forecast. The advance reading for May is expected to show a flatter trend, as the impact of past interest rate hikes starts to bite a little harder.

## Week Ahead's key US number: Personal income and outlays—May

(Friday, 8:30 am)

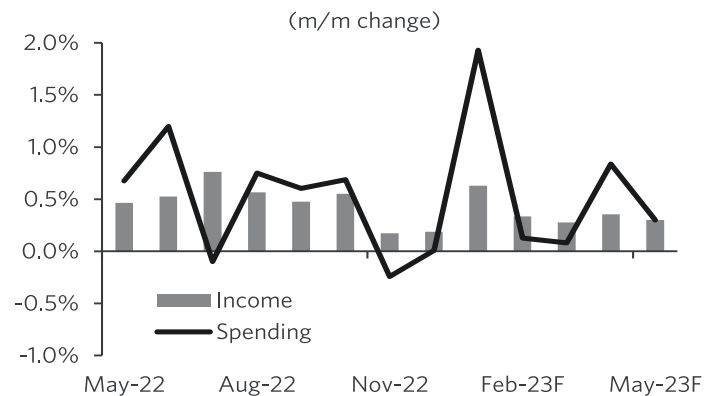
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| Variable (%)               | CIBC | Mkt | Prior |
|----------------------------|------|-----|-------|
| Personal income (m/m)      | 0.3  | 0.4 | 0.4   |
| Personal spending (m/m)    | 0.3  | 0.2 | 0.8   |
| Core PCE price index (y/y) | 4.7  | 4.7 | 4.7   |

Household spending likely slowed to a more sustainable pace in May following a surge in April, but the 0.3% advance in would represent an only modest increase in volume terms. With wages rising but aggregate hours worked dropping off, income growth likely slowed slightly to 0.3%, suggesting that consumers didn't add to savings.

The Fed's preferred gauge of inflation, core PCE prices, likely maintained a 0.4% monthly pace, which is still too hot for the Fed's liking, and that will leave the annual pace of core inflation unchanged at 4.7%.

Chart: US Personal income and spending



Source: BEA, Haver Analytics, CIBC

**Forecast implications**— After an acceleration in the first quarter, consumption is on a slower trajectory in Q2, although it remains resilient, in line with labor market strength. Combined with elevated price pressures, that will leave the Fed on track for a 25bp hike in both July and September, before likely pausing to assess the impact of higher interest rates on activity.

**Market impact**— We are above the consensus on spending, but below on income, which should limit any market reaction.

## Other US Releases: Durable goods order—May

(Tuesday, 8:30 am)

Orders of durable goods likely retreated by 1.1% in May, as defense aircraft orders likely dropped off after jumping in April. Excluding the volatile transportation component, businesses could have been cautious about investing in capital equipment amidst high interest rates, causing a 0.2% drop in orders in that group.

## Advance trade in international goods—May

(Wednesday, 8:30 am)

After an impressive rebound in the first quarter, exports started the second quarter on softer footing, and a sharp decrease in export prices in May will weigh on outbound shipments further. However, with the domestic inventory-to-sales ratio (ex. autos) now back to pre-pandemic norms, imports could have dropped off even more than exports, resulting in a slight narrowing of the goods trade deficit to \$94.0bn.

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