

RESEARCH BRIEF

CANADA INFLATION

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PROPERTY
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NOVEMBER 2024

Inflation Comes in Hotter Than Expected, Lowering the Odds for Another Outsized Rate Cut

Inflation continues to hold at target. Canada's consumer price index rose 2.0 per cent year over year in October – up from a 1.6 per cent increase in September and above the consensus estimate of a 1.9 per cent gain. This uptick was partially driven by gasoline prices, which fell less in October compared with September. At the same time, property taxes – also included in the inflation calculation every October – jumped 6.0 per cent year over year. When excluding gas, however, inflation remained unchanged at 2.2 per cent. Annual price growth has sat within the Bank of Canada's target range for all of 2024. Now, for the first time this year, both of the Central Bank's preferred measures of core inflation have accelerated. CPI-median and CPI-trim each jumped 20 basis points to 2.5 per cent and 2.6 per cent, respectively. With price pressures slightly more broad-based, markets have trimmed their bets for an additional outsized rate cut in December, as a 25-basis-point move is becoming more likely.

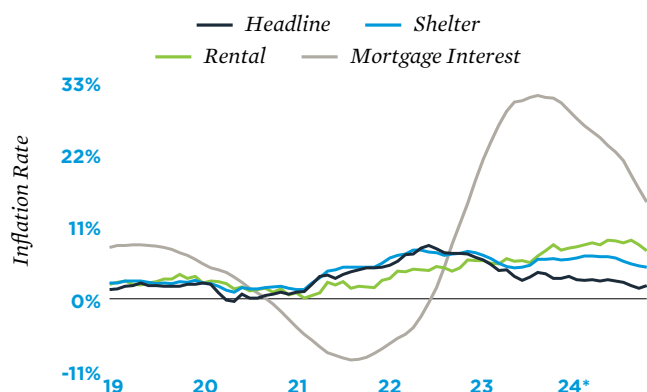
Further policy easing is expected. Immediately following October's inflation reading, investors raised the odds of a 25-basis-point cut in December from a 61 per cent chance up to a 73 per cent chance. While a 50-basis-point reduction is still possible – especially if GDP and employment data comes in weaker than anticipated – odds now favour the overnight rate ending 2024 at 3.5 per cent, which is down 150 basis points from the beginning of the year. Looking ahead, further rate cuts are expected, with the policy rate forecast to end 2025 around 2.0 per cent. Having already experienced a 13 per cent jump over the past year ended September, commercial real estate sales are likely to keep gaining momentum as a result.

Housing costs drive remaining price pressures. While shelter inflation has slowly eased, it stayed elevated at 4.8 per cent in October. This was mainly fuelled by a 14.7 per cent year-over-year increase in mortgage interest costs, along with a 7.3 per cent jump in rental inflation, which is why multifamily has held as a preferred investment option. Over the past year ended in the third quarter, the sector accounted for the second-highest share of total sales among major commercial property types at 27 per cent. Looking ahead, rental inflation is expected to moderate. Recent changes to Canada's immigration policies are set to curb population gains, while apartment supply growth has reached new highs. These factors combined will provide some balance to the nation's multifamily sector, which has already started to see asking rents soften slightly. Nevertheless, the nation's apartment vacancy rate is forecast to end 2025 at around 3.0 per cent – well below equilibrium. For this reason, multifamily is likely to remain a favoured investment vehicle.

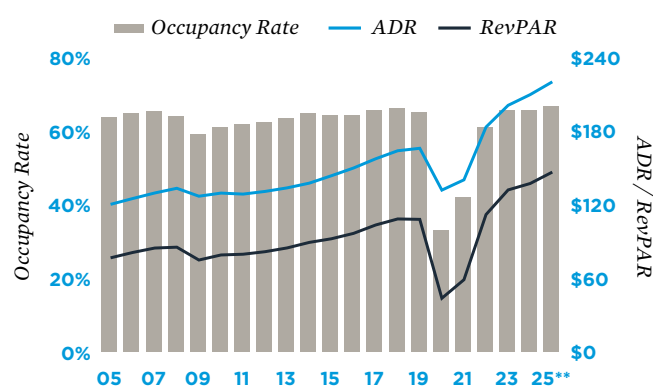
Tourism could edge higher in a less restrictive environment.

Elevated interest rates have facilitated a pullback in discretionary spending over the past year, causing growth in key hotel revenue metrics to moderate. Consequently, airfare and travel accommodation inflation fell over the course of 2024. With borrowing costs now firmly trending down, however, tourism-related spending will likely inch up over the coming year. As a result, hotel performance is poised to gain momentum over the course of 2025. An early sign of this incoming trend could be the recent uptick in airfare inflation, which increased in October after several months of decline.

– Housing Costs Continue to Stoke Inflation –



Tourism to Benefit Amid Falling Interest Rates



* Through October; ** Forecast

Sources: IPA Research Services; Altus Data Solutions; Bank of Canada; Canada Mortgage and Housing Corporation; Capital Economics; CoStar Group, Inc.; Statistics Canada



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