

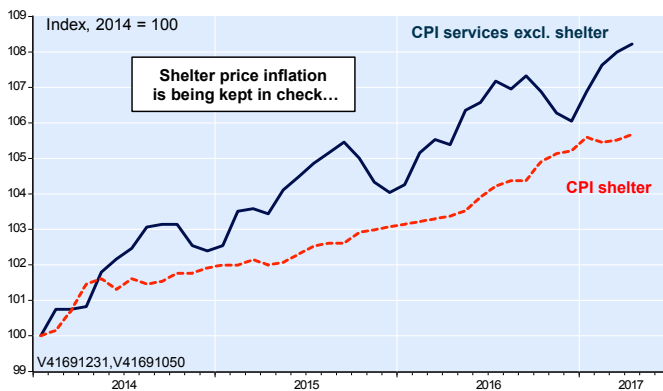
## Canada Watch

Canadian CPI inflation continues to surprise on the downside despite robust GDP growth, low unemployment, surging home prices, and a depreciating currency. What's helping keep inflation down? Shelter costs! This heavyweight component of the CPI (27% of the index) is currently growing an anemic 2.2% annually compared to a more robust 2.7% for all other services (a two-year high by the way). As today's Hot Charts show, the price of shelter in Canada is only up a cumulative 5.7% since 2014 compared to 8.2% for all other services (that's a sizeable difference of 44%). In order to understand the divergence, we dug a little deeper and found that the new home price index (NHPI) for Vancouver that is used in the CPI calculation is essentially unchanged since 2008 for both its house and land components. As a result, the Homeowner's Replacement Cost component of the CPI (20% of shelter costs) is no higher in British Columbia than it was in... 2005! Note that the NHPI is also used for the calculation of the Mortgage Interest Cost component of the CPI (12% of Shelter costs) which, incidentally, remains stuck at a decade low. We are also baffled by the reported cumulative increase of only 37% for the Toronto NHPI since 2008 (vs. 118% according to resale market data). Also helping keep inflation in check, the Rent component of the CPI (22% of shelter costs) shows rent inflation averaging near a record low of 1% in Toronto, Montreal and Vancouver. **Bottom-line: Shelter Cost inflation reported in the Canadian CPI report is eerily low.**

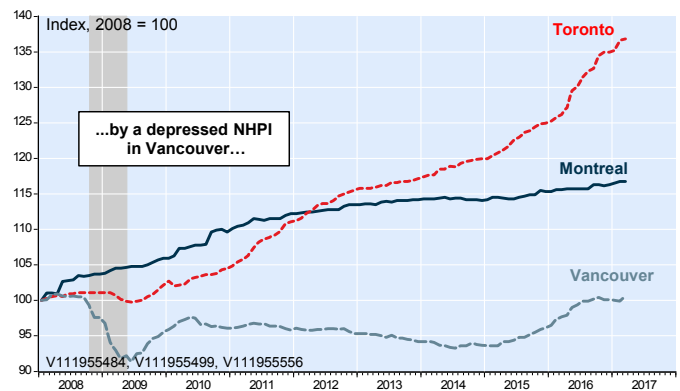
Stéfane Marion / Matthieu Arseneau

## Canada: Is inflation understated?

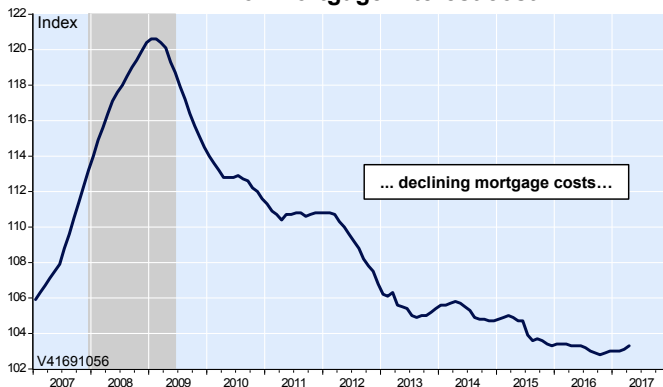
CPI Shelter vs. CPI services excl. shelter



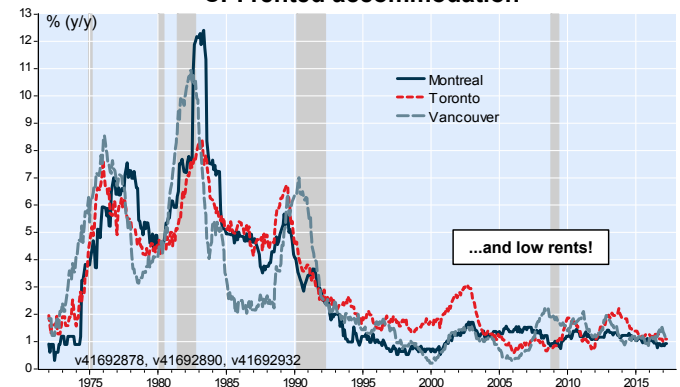
New home price index (house and land)



CPI for mortgage interest cost



CPI rented accommodation



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