Economics

THE WEEK AHEAD

April 8 - 12, 2024

Your rent is due...to decelerate

by **Avery Shenfeld** avery.shenfeld@cibc.com

We've shared the market's disappointment in the last couple of US inflation readings, and are hoping that the week ahead's figures for core CPI in March look a bit milder. It's still the case that inflation looks tamer than most thought it would be a year ago. But one component has been dragging its heels towards tamer levels: rent. Its two measures in the CPI, one for tenants and owner's equivalent rent (OER) for homeowners, were still up roughly 6% year-on-year in February, and monthly gains failed to cool in the first two months of the year.

It's been a full year since unofficial rent measures, including those focussed on year-on-year changes in asking rents for new tenants, turned the corner and began to decelerate. We joined others in arguing that it was only a matter of time before the two CPI rent measures followed suit. So, shouldn't we already have seen more of that slowing?

Perhaps not yet, but American tenants have reason to expect that their rent is due to decelerate. Exactly a year ago, the Richmond Fed research team addressed this topic in a paper entitled "When Will a Decline in Asking Rents Be Reflected in Rent CPI". Statistically, the year-on-year Zillow Observed Rent Index was shown to lead CPI OER by 13 months, and CPI tenant rents by 12 months. So using that measure, the major deceleration in the CPI components should only now be getting under way.

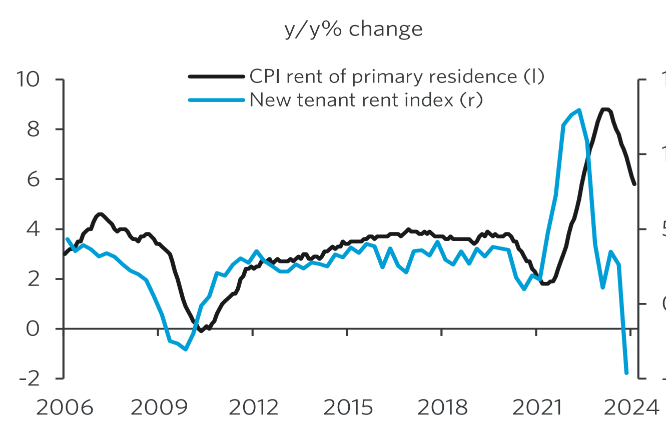
The Richmond Fed also looked at a vector autoregressive model driven by a Cleveland Fed rent measure, finding that it only foresaw still-elevated 12-month rates in early 2024, but then a quick return to pre-pandemic inflation rates by Q3 of 2024. Since that analysis was done, we've seen a deeper dive the Cleveland Fed's new tenant rent measure, which suggests further downside for the CPI rents (Chart).

Supply trends also point to rent relief ahead for apartment dwellers. Rental vacancy rates are still low by historical standards, having trended downwards after the crash in mortgage markets in 2007-08 forced many potential homeowners into the rental market. But vacancies appeared to have bottomed in 2022, and started to creep higher over the course of last year. More relief is on the way. The number of multiple unit dwellings under construction accelerated last year, and completions of buildings with five or more units have soared to a five decade high early this year.

House prices climbed sharply early in the pandemic, and we have been seeing rental rates for houses playing catch-up. That should run out of steam ahead. House price gains headed lower last year, and after a modest pick-up, they're still running only in line with what we saw in the pre-pandemic expansion. The rent measure in the CPI has also been given a one-time lift due to a change in the types of dwellings being tracked, which might drop out from the year-on-year measure in January next year.

Although it's not weighted as heavily in the PCE price index that the Fed favours over the CPI, relief on rent inflation will still be of importance to the central bank in achieving its 2% inflation target. But if the central bankers are willing to assume that the usual lead-lag relationships will hold, they won't have to wait to see all of the rent disinflation before their first policy easing. It's the strength of recent growth indicators that will instead be what limits the Fed to a modest 75 bps of easing this year.

Chart: New tenant rents point to easing CPI rent



Source: BLS, 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, April 8	-	-	-	-	-	-	-
Tuesday, April 9	-	AUCTION: 3-M BILLS $14B, 6-M BILLS $5B, 1-YR BILLS $5B	-	-	-	-	-
Wednesday, April 10	8:30 AM	BUILDING PERMITS M/M	(Feb)	(M)	-	-3.9%	13.5%
Wednesday, April 10	9:45 AM	BANK OF CANADA RATE ANNOUNCE.	(Apr 10)	(H)	5.00%	5.00%	5.00%
Thursday, April 11	-	AUCTION: 2-YR CANADAS $6.5B	-	-	-	-	-
Friday, April 12	8:30 AM	EXISTING HOME SALES M/M	(Mar)	(M)	-	-	-3.1%

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, April 8	7:00 PM	Speaker: Neel Kashkari (Minneapolis) (Non-Voter)	-	-	-	-	-
Tuesday, April 9	-	AUCTION: 3-YR TREASURIES $58B	-	-	-	-	-
Wednesday, April 10	-	AUCTION: 10-YR TREASURIES $39B	-	-	-	-	-
Wednesday, April 10	7:00 AM	MBA-APPLICATIONS	(Apr 5)	(L)	-	-	-0.6%
Wednesday, April 10	8:30 AM	CPI M/M	(Mar)	(H)	0.3%	0.3%	0.4%
Wednesday, April 10	8:30 AM	CPI M/M (core)	(Mar)	(H)	0.3%	0.3%	0.4%
Wednesday, April 10	8:30 AM	CPI Y/Y	(Mar)	(H)	3.4%	3.5%	3.2%
Wednesday, April 10	8:30 AM	CPI Y/Y (core)	(Mar)	(H)	3.7%	3.7%	3.8%
Wednesday, April 10	10:00 AM	WHOLESALE INVENTORIES M/M	(Feb)	(L)	-	-	0.5%
Wednesday, April 10	2:00 PM	FOMC Meeting Minutes	(Mar 20)	-	-	-	-
Wednesday, April 10	2:00 PM	TREASURY BUDGET	(Mar)	(L)	-	-	-$296.3B
Wednesday, April 10	8:45 AM	Speaker: Michelle W Bowman (Governor) (Voter)	-	-	-	-	-
Wednesday, April 10	12:45 PM	Speaker: Austan D. Goolsbee, Chicago (Non-Voter)	-	-	-	-	-
Thursday, April 11	-	AUCTION: 30-YR TREASURIES $22B	-	-	-	-	-
Thursday, April 11	8:30 AM	INITIAL CLAIMS	(Apr 6)	(M)	-	-	221K
Thursday, April 11	8:30 AM	CONTINUING CLAIMS	(Mar 30)	(L)	-	-	1791K
Thursday, April 11	8:30 AM	PPI M/M	(Mar)	(M)	0.3%	0.3%	0.6%
Thursday, April 11	8:30 AM	PPI M/M (core)	(Mar)	(M)	0.3%	0.2%	0.3%
Thursday, April 11	8:30 AM	PPI Y/Y	(Mar)	(M)	-	-	1.6%
Thursday, April 11	8:30 AM	PPI Y/Y (core)	(Mar)	(M)	-	-	2.0%
Thursday, April 11	8:45 AM	Speaker: John C. Williams (Vice Chairman, New York) (Voter)	-	-	-	-	-
Thursday, April 11	12:00 PM	Speaker: Susan M. Collins (Boston)	-	-	-	-	-
Thursday, April 11	1:30 PM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Friday, April 12	8:30 AM	IMPORT PRICE INDEX M/M	(Mar)	(L)	-	0.3%	0.3%
Friday, April 12	8:30 AM	EXPORT PRICE INDEX M/M	(Mar)	(L)	-	0.2%	0.8%
Friday, April 12	10:00 AM	MICHIGAN CONSUMER SENTIMENT	(Apr P)	(H)	-	78.7	79.4
Friday, April 12	2:30 PM	Speaker: Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-
Friday, April 12	3:30 PM	Speaker: Mary C. Daly (San Francisco) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, matching 0.3% readings on headline and core CPI increases for March would be close to what the Fed wants to see as the medium term trend, because the PCE price index it targets tends to be a bit softer, given its lower weight on shelter. While we still see a first cut in July if core inflation remains well-behaved, the continuing firmness in growth signals, including sizeable upside surprises in February consumption and March payrolls, have us pushing one rate cut in our forecast from 2024 into 2025, with the Fed now likely to cut by 75 bps this year.

In **Canada**, the central bank can't sound too dovish if, as we expect, they leave rates on hold, because that would have some questioning why they didn't cut right now, particularly with the jobless rate sporting a 6-handle. So look for dovish language on inflation to be countered by an upgraded growth forecast for Q1. But given the pleasant surprises on inflation, the statement won't close the door on a rate cut in June, with the Bank signaling that they just need a bit more comfort that a softer underlying CPI trend is well in place. We still expect a quarter point cut in June, but as in the US, an upgraded (if still unimpressive) growth outlook has us shifting one subsequent cut into 2025, and we now see 100 bps in policy easing for this year in total. We expect the Bank to bump up the midpoint of its estimate for the neutral rate by a quarter point, to 2.75%, but see that as having little bearing on where rates go over the coming few quarters, since there's a lot of imprecision in that estimate, and wherever it lands, rates are clearly still quite restrictive at present.

There are no major Canadian data releases next week.

Week Ahead's key US number: CPI—March

(Wednesday, 8:30 am)

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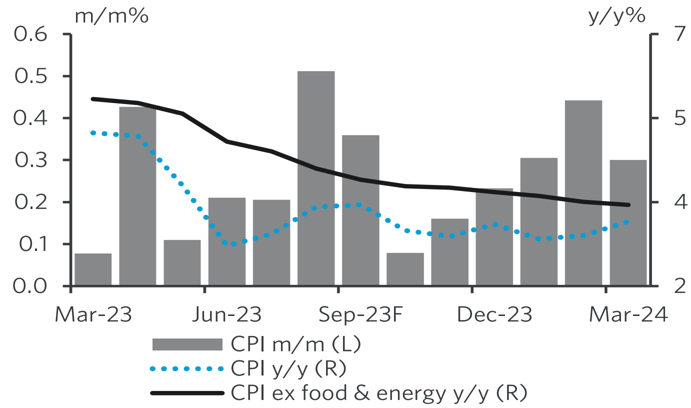
Variable (%)	CIBC	Mkt	Prior
Headline CPI m/m	0.3	0.3	0.4
Headline CPI y/y	3.4	3.5	3.2
Core CPI m/m	0.3	0.3	0.4
Core CPI y/y	3.7	3.7	3.8

Chart: US consumer price index



Source: BLS, Haver Analytics, CIBC

All eyes will be on the March CPI next week. With two back-to-back readings above target, March will be a test of whether this is just a bump in the road or something more worrisome. We are on team "bump", expecting both core and headline inflation to come in at 0.3% m/m. Three unfavorable trends have emerged in the past few months for core: goods disinflation has slowed, shelter inflation has remained sticky and non-housing services has accelerated. The first two trends will likely show up again in March but non-housing services prices should cool in the month. Categories such as transportation and educational services have been unusually strong and that could reflect atypically warm weather lengthening the travel season or residual seasonality in the data.

Forecast implications — The upside risk to goods and shelter inflation are limited in our view. The NY Fed Supply Chain Pressures Index shows supply chain pressures remain muted and the Manheim Used Car Price Index has continued to edge down in recent months, albeit more slowly. The stickiness in shelter owes to the strength of elevated detached house prices but with market rent growth for multi-family units essentially flat, disinflation remains in the pipeline but it will just take longer to get there.

Market implications — Our views on inflation are aligned with the consensus. The Fed will be worried about further heat in non-housing services given its outsized weight in PCE inflation. Markets will need to focus on the details of the release. An above consensus reading driven by shelter or goods will be far less concerning than one coming from non-housing services.

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