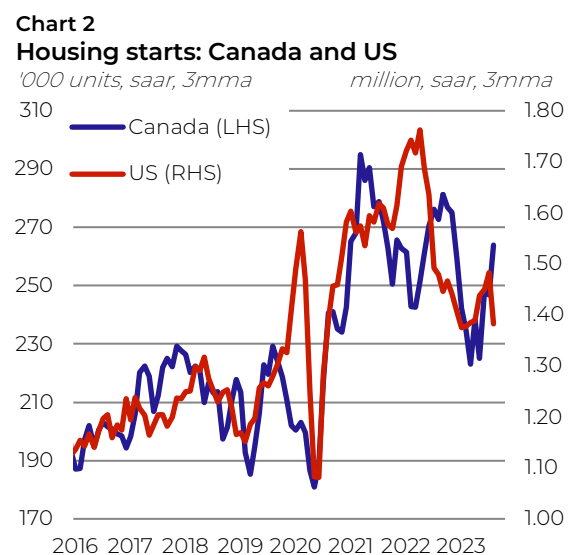
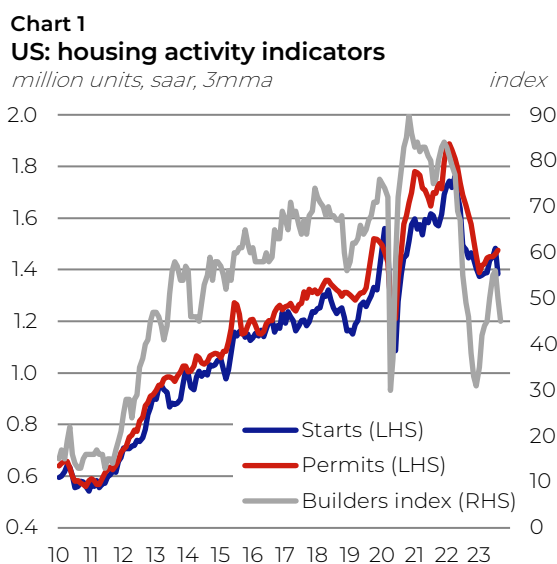


September 19th, 2023

Mixed signals on US housing:

- 1) **There was a surprisingly sharp decline in US housing starts in Aug. Overall starts fell by 11.3%*m/m, sa*, to their lowest level since Jun '20 (Chart 1).** The decline was concentrated in the more volatile apartment category (down 26.3%*m/m, sa*). By region, weakness was most acute in the west (possible extreme weather). **It is plausible that US housing should be experiencing another dip. Mortgage rates have risen anew, and this has shown up in the homebuilders' survey.** Credit conditions for commercial lending for apartment lending have tightened significantly. Lumber prices continue to soften and are now down 80% from their panic May '21 high. Jul/Aug starts are down 25%, *saar*, from their Q2 average, which had been the first gain in six quarters. **The accompanying data on permits were much stronger, however, suggesting that adverse weather might have played more of a role in the Aug weakness in housing starts.** Permits rose 6.9%*m/m, sa*, in Aug (singles up 2%*m/m, sa* and multis up 15.8%*m/m, sa*). In Jul-Aug, permits are up 14.8%, *saar*, over Q2 (led by single family homes, up 26.9%, *saar*). **I think these mixed signals underline the varying influences on new home construction: a significant drag from higher rates, offset (somewhat) by an underlying shortage in homes for sale, which has been intensified by the unwillingness of owners of existing homes to sell and move on since they would lose access to a very low mortgage rate.**
- 2) **Positive short-term signals for CAD:**
 - a) **Today's US housing report can be lined up against yesterday's more solid Canadian equivalent.** Although the paths of housing construction activity in the two countries have broadly matched each other over past 7 years, there have been alternating phases of relative strength (Chart 2). **In the latest one (May-Aug), Canada is outperforming the United States.**



- b) **Canada's Aug CPI accelerated and was higher than expected. The 12m change in the overall CPI jumped from 3.3%*oya* in Jul to 4% in Aug (2-ticks more than expected).** In Jun, headline inflation (2.8%*oya*) had moved down into the BoC's 1%-3% range. Now, the renewed vigor of oil and gasoline prices has pushed it back out of the top again (note

that US gasoline prices so far in Sep are unchanged, nsa, from Aug, although these do not yet reflect the latest move up in oil). In assessing the role of oil products in that reacceleration, it is helpful to focus on the StatsCan measures of seasonally adjusted inflation, including a “US-equivalent” core CPI measure (ex food and energy). This was up 34bp m/m, sa, in Aug (Jul had been 41bp). On a %3m/3m, saar, basis, Canada’s CPI ex-food-and-energy was up 2.9% (on the same basis, the US was up 3.2%, saar, in Aug). The BoC’s own preferred measure of core (the average of trimmed mean and weighted median on a 12m basis) ticked up in Aug (Chart 4). This core inflation gap between the US and Canada narrowed to its lowest since Oct ’21. Given these price data, BoC officials can be expected to emphasize the concerning persistence of core inflation in coming communications, underlining that any growth disappointment needs to be viewed as a cost of disinflation, rather than as an argument for bringing forward the timing of the first cut (which I think will occur in Mar ’24).

Chart 3
Canada: headline & (US-method) core CPI
%3m/3m, saar

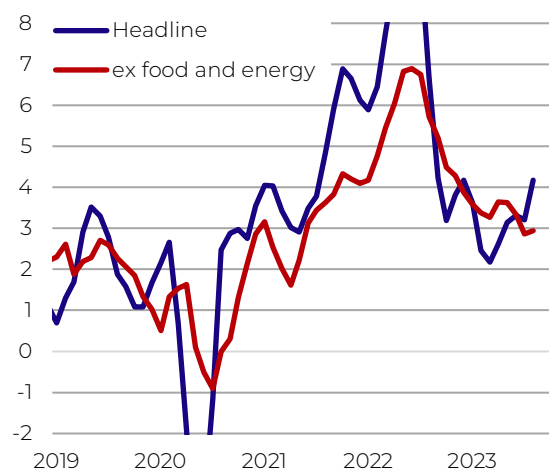
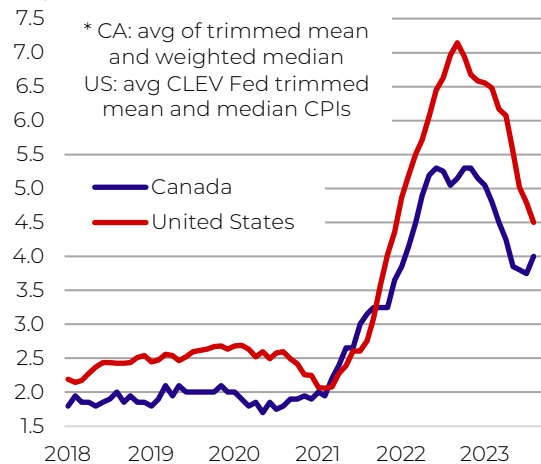


Chart 4
North American core CPI inflation*
%oya



3) US disruption update:

- a) The UAW strike is in its 5th day, with no obvious sign of movement. **The union seems likely to raise the number of plants affected later in the week in an effort to raise the pressure.** A [Canadian auto strike against Ford](#) is in the balance, although not a general one.
- b) The risks of a US Federal shutdown on Oct 1st keep rising simply because the days tick by without the passage of a continuing resolution. The main issue is the odd one of intra House Republican politics ([how much backbone will Speaker McCarthy exhibit?](#)).
- 4) Like Puerto Rico, but with worse weather. The UK government today [announced](#) that it is taking control of the City of [Birmingham](#) (2nd largest city in the UK). The demise of the City's fortunes has been a long-run story but serves as a reminder of the debt problems facing the UK public sector and, more generally, DM urban areas in the difficult, post C-19 environment.

Important Information

While we make every effort to ensure that the analysis in this note is as accurate as possible, we do not guarantee that the information contained is either complete or correct. The material has been provided for informational and educational purposes only. The information is not intended to provide or constitute investment, accounting, tax, or legal advice.

A guide to common acronyms in the Daily Comment: **C-19**: COVID-19; **IP**: industrial production; **m/m**: change from last month; **CPI**: consumer prices; **PPI**: producer prices; **q/q**: change from last quarter; **oya**: over a year ago (what many incorrectly call **y/y** or year-on-year; I use this to compare quarters or months in a given year with the same quarter or month a year earlier; **y/y** is used only when comparing one year with another); **sa**: seasonally adjusted; **saar**: seasonally adjusted annual rate (the way we are used to looking at growth); **DM**: developed markets (the others are **EM**: emerging markets); **PMI**: purchasing managers' index; **FX**: foreign exchange; **sd**: standard deviation (I use this measure to normalize similar variables which are expressed in different units in order to help cross-country comparison; the results are also known as **z-scores**); **FDI**: foreign direct investment.