

Politics

Bank of Canada says government efforts to curb housing crisis will help 'gradually'

Record immigration has pushed up housing costs, sent vacancy rates to record lows, says Monetary Policy Report



[Peter Zimonjic](#) · CBC News · Posted: Jan 24, 2024 3:14 PM EST | Last Updated: January 24



Tiff Macklem, governor of the Bank of Canada, and Carolyn Rogers, senior deputy governor, hold a press conference at the Bank of Canada in Ottawa on Wednesday, Jan. 24, 2024. (Sean Kilpatrick/The Canadian Press)

The Bank of Canada says record levels of immigration are driving up the cost of housing and recent government efforts to cut the number of non-permanent residents and encourage home building will help lower housing costs, but "only gradually."

"In the short term any increase in population, particularly in an environment of constrained supply, is going to put upward pressure on prices," said Carolyn Rogers, senior deputy governor of the Bank of

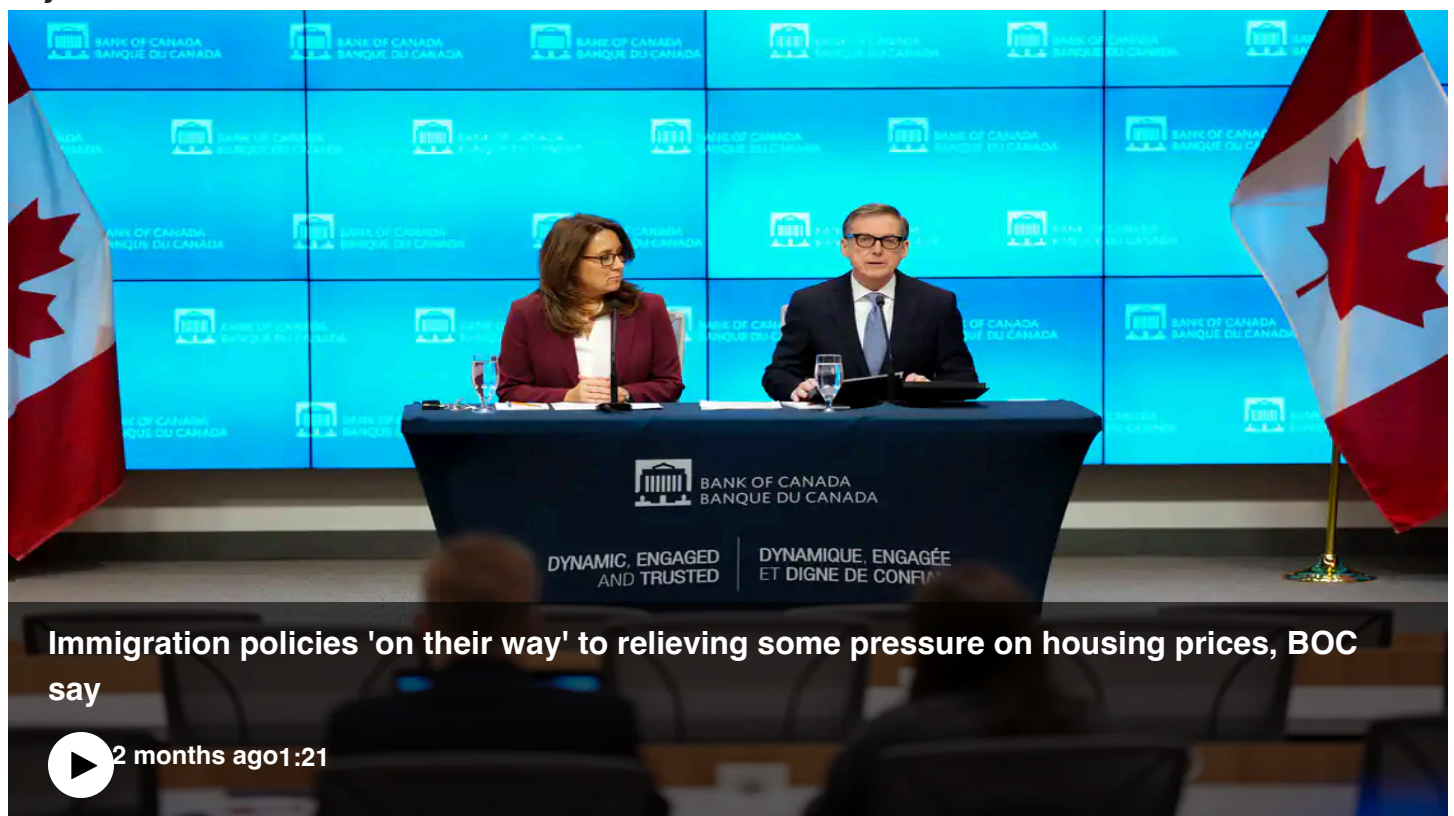
Canada.

"What's happened in the Canadian economy over the last year is we had a particularly big surge in population growth through immigration. It came at a time when there was constrained supply. You can see this most clearly in the housing sector, in particular in rents."

Rogers joined Bank of Canada Governor Tiff Macklem at a press conference Wednesday to release the bank's quarterly snapshot of the economy, the Monetary Policy Report.

The report says mortgage interest costs are rising by almost 30 per cent a year, while rental costs are rising at about 8 per cent annually.

WATCH: Immigration policies 'on their way' to relieving pressure on housing prices, BOC says:



Senior deputy governor of the Bank of Canada Carolyn Rogers says immigration 'is definitely one of the things that is putting pressure on the housing components of inflation.'

The report also says that while multiple factors contribute to the rising cost of housing — higher insurance and maintenance costs, a shortage of construction workers and cumbersome zoning and permitting regulations — immigration remains a key source of pressure.

"A larger increase in newcomers than in the past is adding pressure to the structural supply constraint in housing," the report says. "This has helped to push the overall housing vacancy rate to record lows, which has underpinned house prices and led to higher rents."

- [No change on interest rate as Bank of Canada sticks to 5%](#)
- [Federal government announces 2-year cap on student permits](#)
- [Linking immigration to the housing shortage may be missing the problem, experts say](#)

In the fall of 2022, the Liberal government announced it was increasing the annual permanent resident target from 405,000 in 2021 to 465,000 in 2022, before stabilizing at 500,000 in 2024 — almost double the 260,411 permanent residents who arrived in 2014.

But new permanent residents are only part of the immigration story.

Statistics Canada reported a total population increase of 1,158,705 permanent and non-permanent residents as of July 1, 2023, a 2.9 per cent increase over July 1, 2022 and the highest population growth rate recorded for a 12-month period since 1957.

The agency said 98 per cent of that increase was due to immigration, while the remainder was due to natural increase — the difference between births and deaths.

Statistics Canada said that by the end of 2023, there were 2,511,437 non-permanent residents in the country — a class that includes international students and temporary foreign workers — compared to 1,305,206 in the fall of 2021.

Housing inflation to be resolved 'only gradually'

The pressure on the rental market, [housing experts say](#), has come largely from non-permanent residents, because those immigrants almost exclusively rent rather than buy.

In 2011, the number of international students in the country was just shy of 240,000. Late last year, Immigration Minister Marc Miller said Canada was on track to host as many as 900,000 international students in 2023.

To address that source of pressure on the housing market, the Liberal government announced this week that it is [capping the number of student permits](#) for the next two years.

The government said it will only approve 360,000 undergraduate study permits for 2024 — a 35 per cent reduction from 2023.

WATCH: Former immigration minister explains why the student permit cap is happening now



Former minister of immigration and current Minister of Housing Sean Fraser says he 'started exploring the possibility of a cap' when he was minister but he 'wanted to give an opportunity to provinces and institutions to actually address the problems.'

To address other housing pressures, the federal government rolled out the Housing Accelerator Fund and allocated \$4 billion to it until 2026-27 to encourage more home building in cities. The fund's objective is to build 100,000 more units across the country by streamlining land-use planning and development approvals.

"Persistent structural supply challenges and strong underlying demand from population growth will likely continue to put pressure on house and rental prices," the Monetary Policy Report said.

"While recent government actions should help moderate some of these constraints, the imbalances are expected to be resolved only gradually."

Broad-based inflationary pressures

Macklem said that despite mortgage interest costs rising by almost 30 per cent, and rent by 8 per cent, persistent inflation prevents him from cutting interest rates in the short term.

"Shelter is not the only source of inflationary pressures. Food price inflation was extremely high, about 10 per cent. It has come down. But at five per cent, it is still too high," he said Wednesday.

"If you look at the share of [Consumer Price Index] components that are rising at more than three per cent, that's slightly over 50 per cent. There are still underlying inflationary pressures across many goods and services."

- [Government working to stabilize immigration levels as housing pressures mount: ministers](#)
- [Statistics Canada reports record population growth, more than 430,000 in Q3](#)

When Statistics Canada released the Consumer Price Index (CPI) numbers in December, it said overall inflation was at 3.4 per cent, above its target range of one to three per cent.

Statistics Canada says that the other main contributors to inflation are food costs (rising at five per cent), food purchased from restaurants (rising at 5.6 per cent), vehicle insurance (rising at 5.9 per cent) and alcohol and tobacco (rising at 4.3 per cent).

"Inflation is still somewhat broad-based and that's why we're concerned about the persistence in underlying inflation, and that's why we're holding our policy rate at five per cent today," Macklem said.

ABOUT THE AUTHOR



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