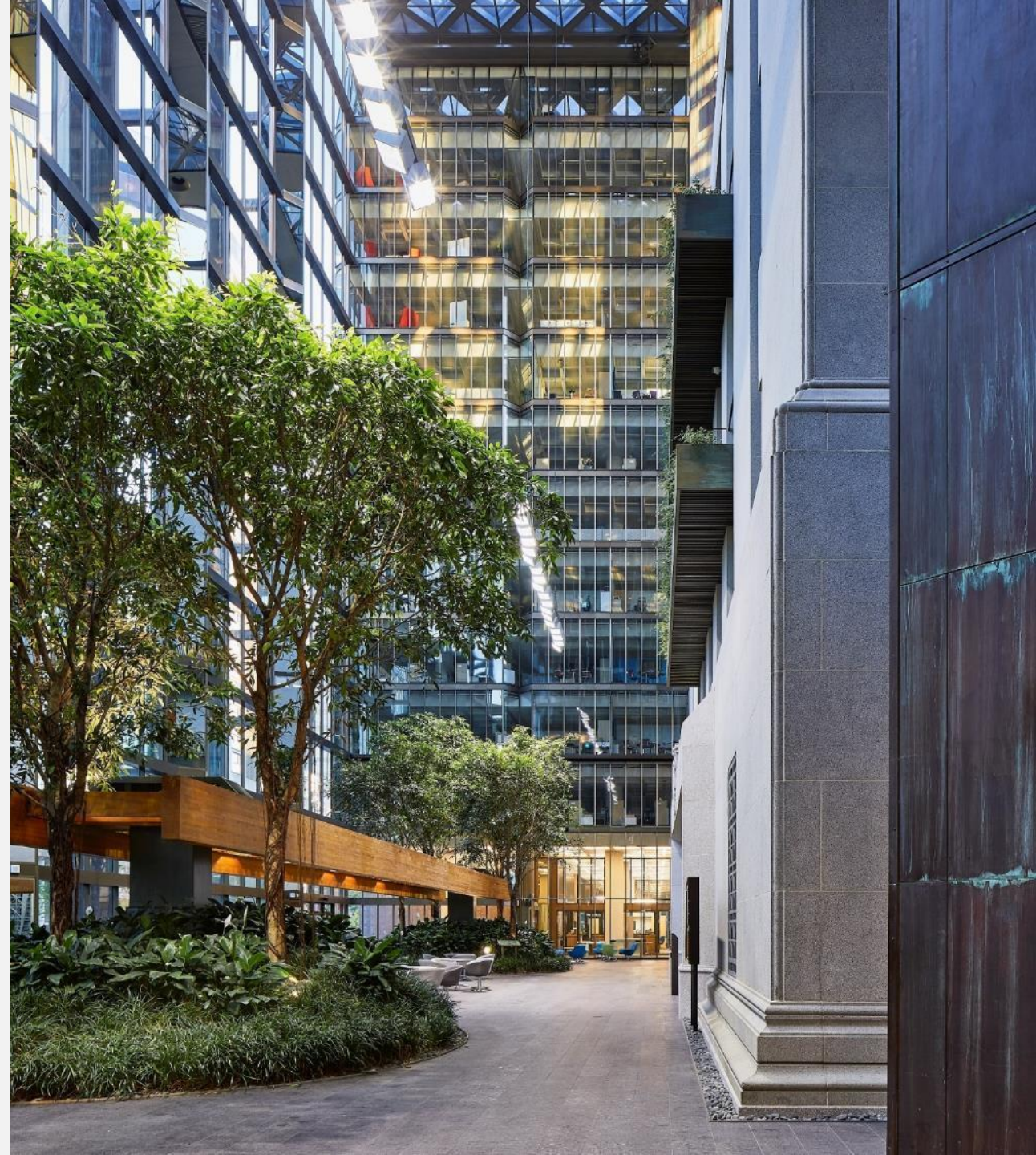


OCTOBER 2025

# ITR Housing Workstream

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# Key questions

- 1) Which measures of prices for housing services should be included in the Bank of Canada's inflation target?
- 2) How does monetary policy affect housing market imbalances?
- 3) What are the implications of housing market dynamics on the conduct of monetary policy?

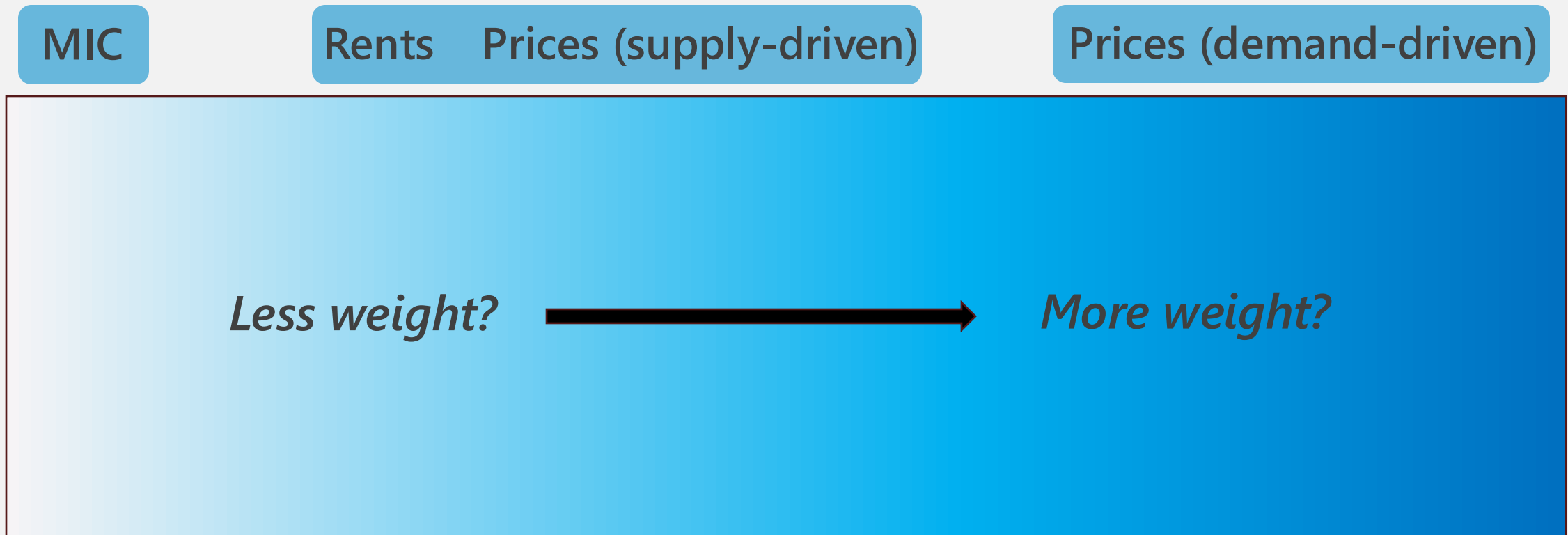
# Key results

1) Current measurement approach compares well but all approaches have issues

2) MP can amplify imbalances under some circumstances

3) MP has offsetting impacts on shelter components, and effects vary with state of the economy and drivers

# Results are nuanced



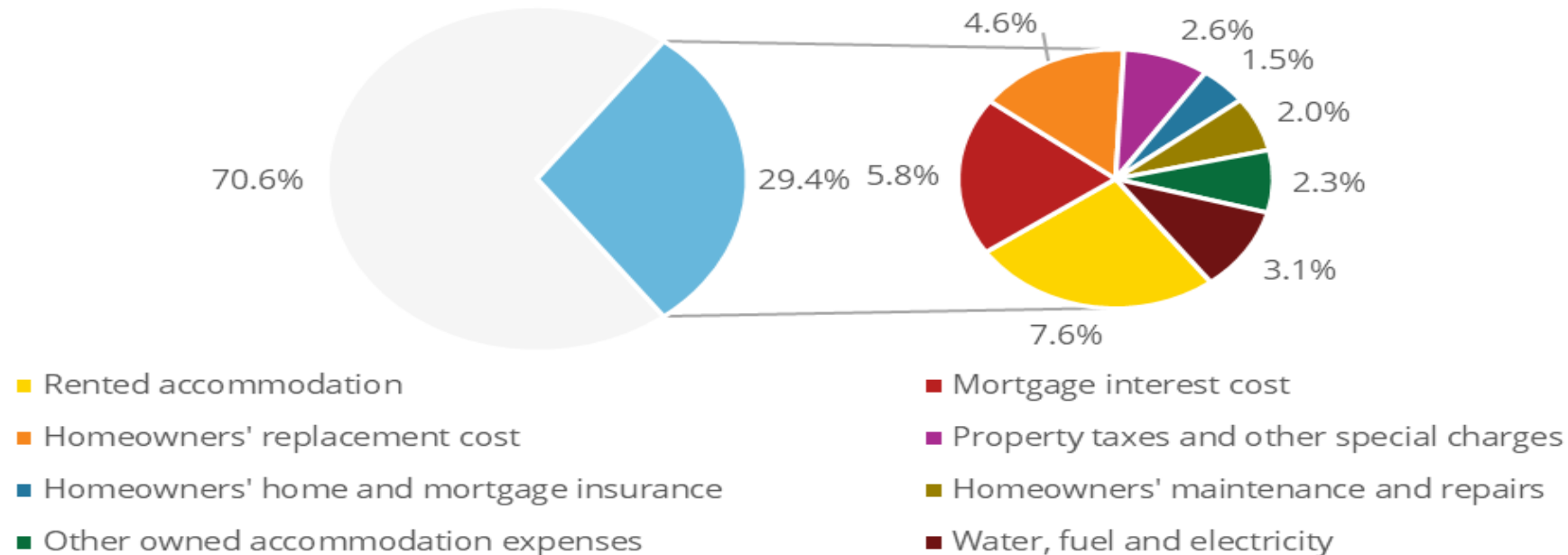
# Measurement

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# 'User cost' approach in Canada – opportunity cost of owning a home

**Figure 1: Basket weights of shelter CPI**

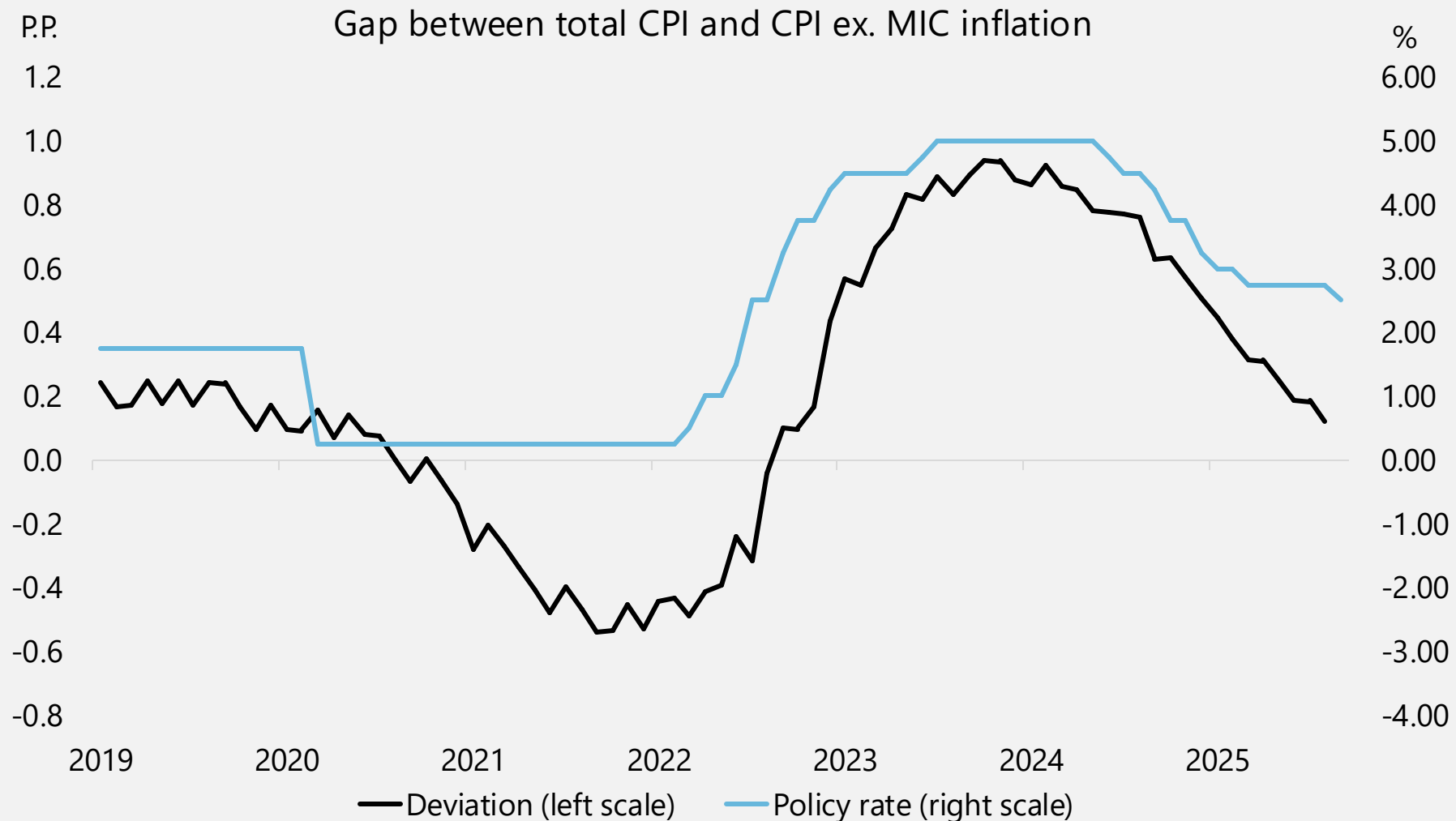
Percentage of total basket, 2024



Source: Statistics Canada  
Last observation: 2024



# Challenges mostly relate to MIC communications: 'chasing our own tail'

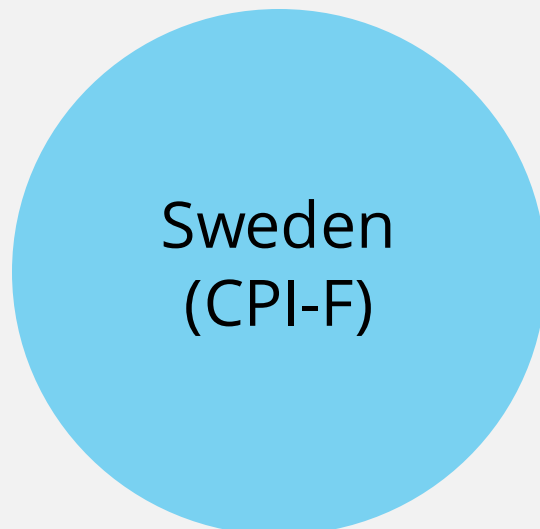


# Different approaches

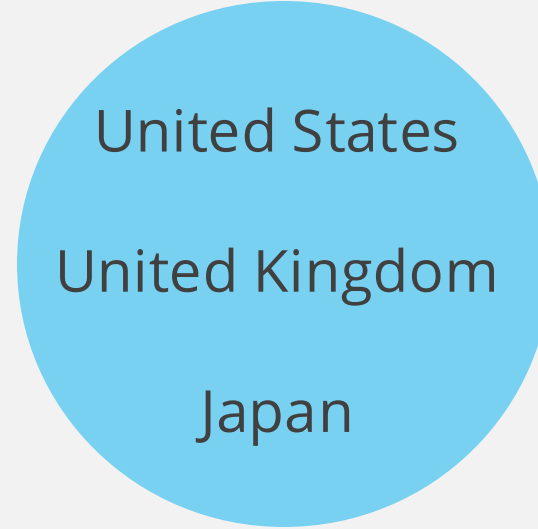
User Cost



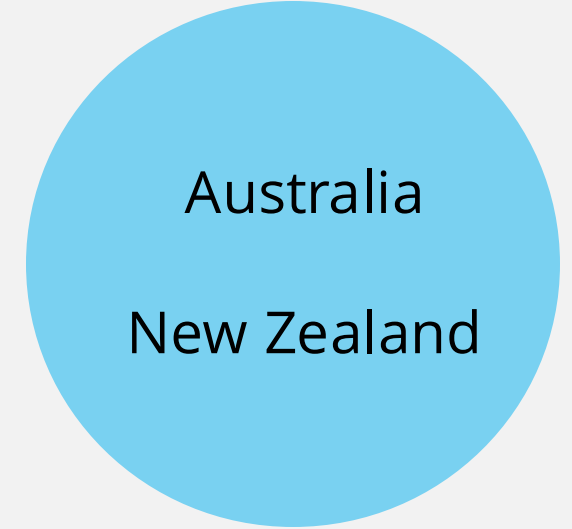
User Cost\*



Rental Equivalence



Net Acquisition



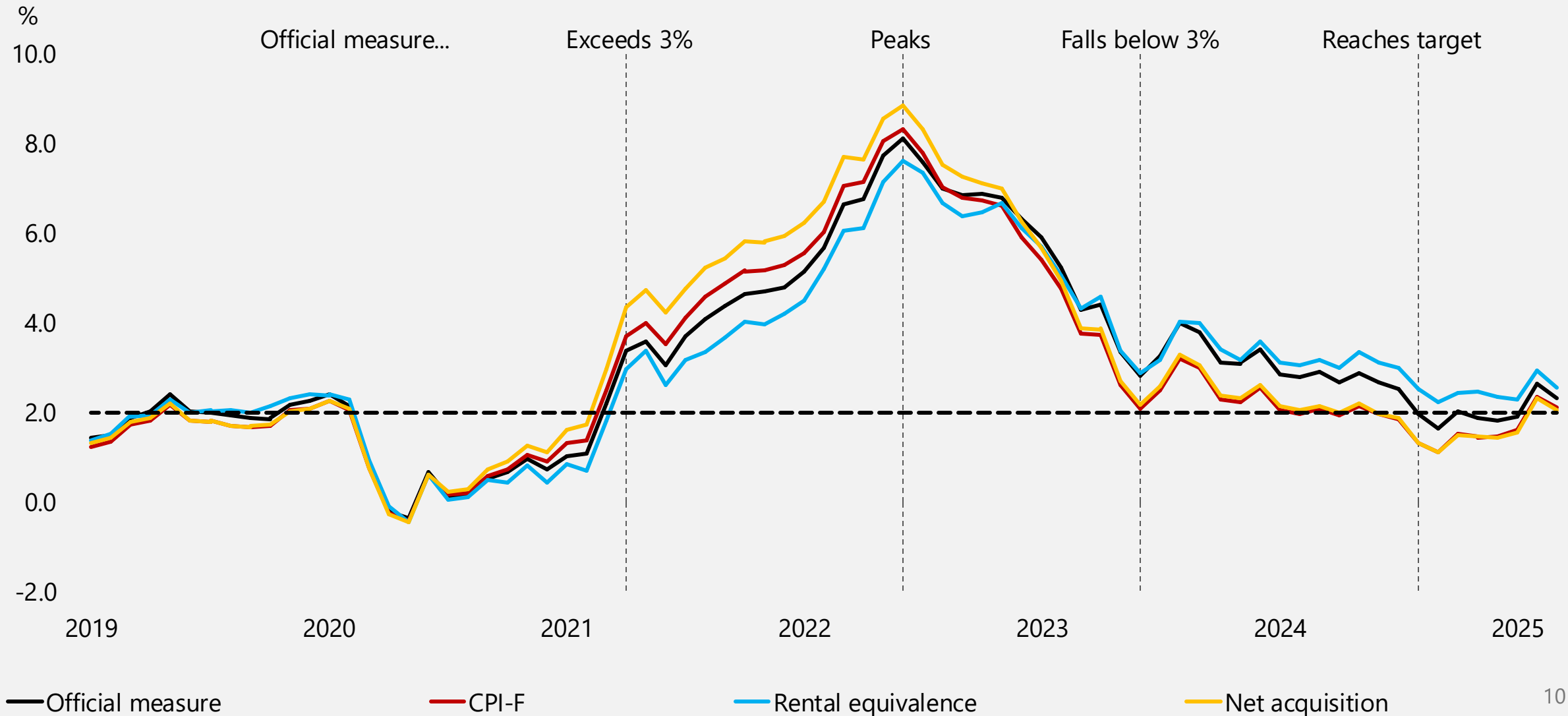


# Current approach compares well along many criteria

Evaluating various methods for measuring OA				
	Method:			
Criteria:	Statistics Canada	CPI-F	Rental equivalence	Net acquisition
Cost-of-living index	✓	✓	✓	X
Monetary policy signal	✓	✓	X	✓
MIC comm issues	X	✓	✓	✓

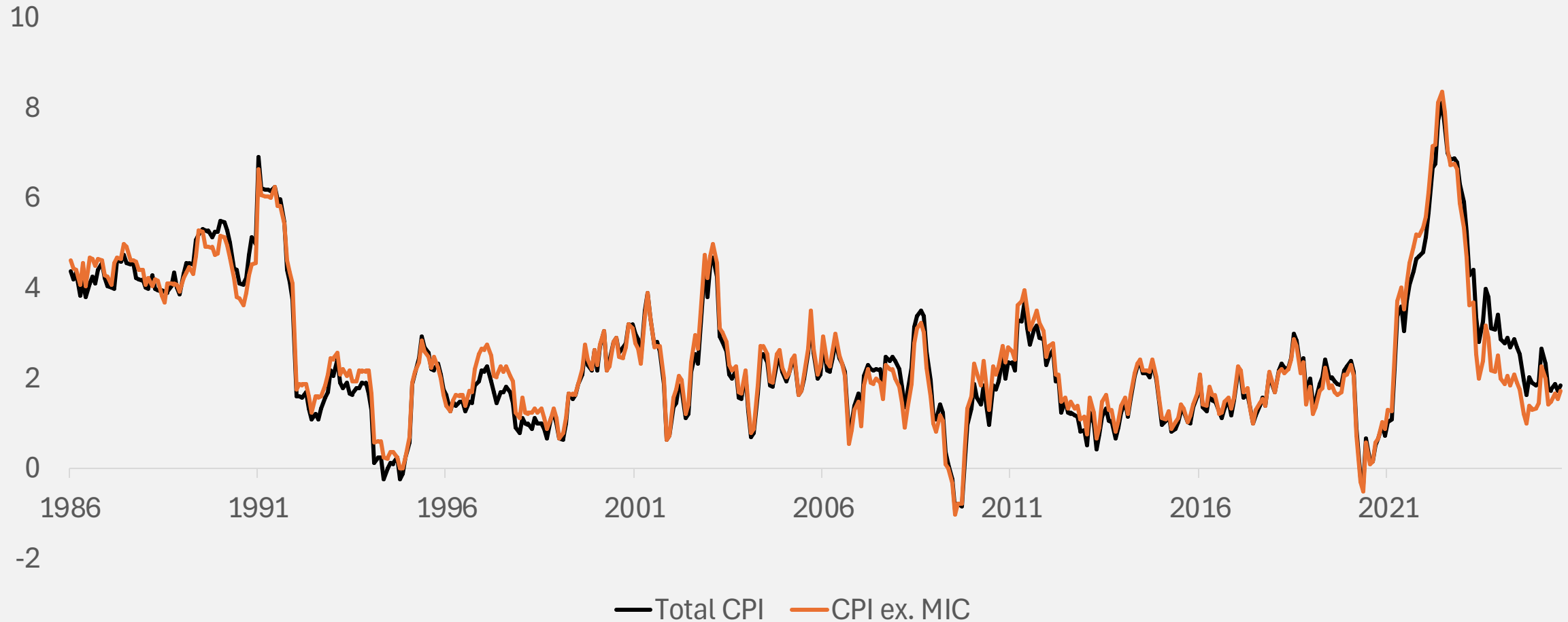
Over recent history a modified version of current approach performs particularly well (CPI-F)

## Total CPI inflation



# Significant gaps due to MIC are rare

Inflation y/y %



# All approaches have their drawbacks

- 1) Other approaches would have avoided MIC comms issues seen since last renewal, but posed other issues
- 2) Fixed rate measure addresses this concern, but behaves similarly to CPI ex-MIC; MIC issues are rare in practice

# Housing market imbalances

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# Key takeaways

1) MP creates temporary imbalances due to timing of demand/supply responses

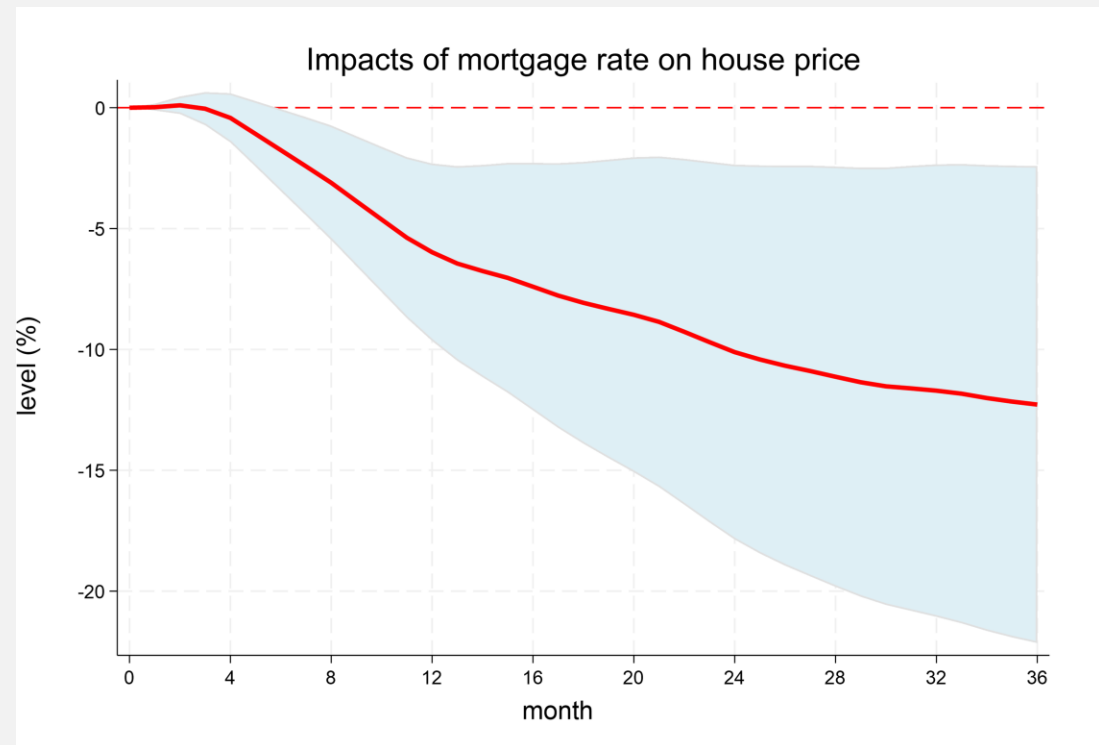
2) This effect is amplified under some conditions

3) Rents tend to increase with MP tightening, especially, when population growth is strong

# 1) Faster Demand Response Drives Price Swings

- House prices fall significantly in response to higher interest rate
  - › Evidence of lower listing prices *within two weeks* of rate increases in the US (Gorea et al., 2024).
  - › Mortgage financing costs the driver
- Supply (e.g., starts/completions) slower to adjust (Straus et al., BoC 2025)

House price response to a 100-bp increase in mortgage rates – instrumented by monetary policy shocks, IV-SVAR analysis



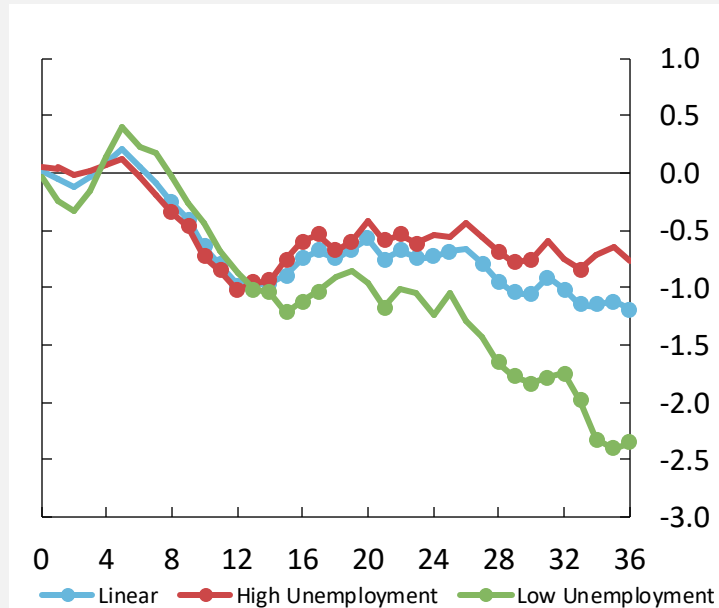
Source: Rao and Wang (BoC 2025)



## 2) MP effects amplified when ...

Unemployment is low

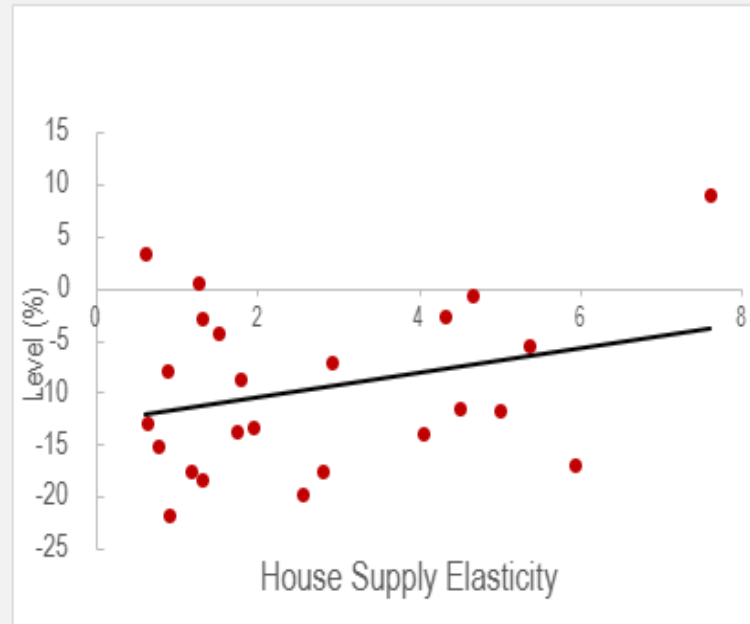
Change in the level following a 25 bp increase, % of average resale prices



Source: Straus, Surprenant and Tuzcuoglu (BoC 2025)

Supply is inelastic

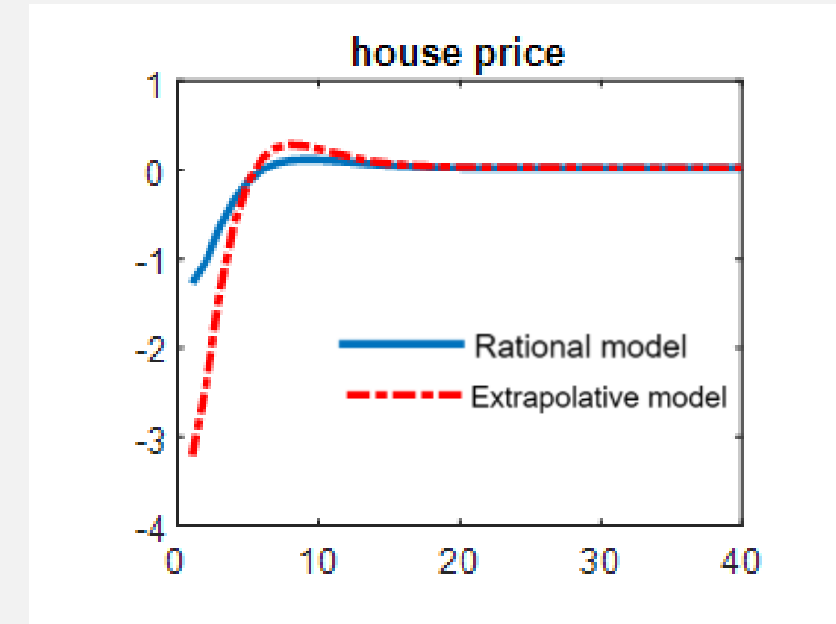
House price response in 2 years after 100 bp policy rate increase, across cities ordered by supply elasticity



Source: Rao and Wang (BoC 2025)

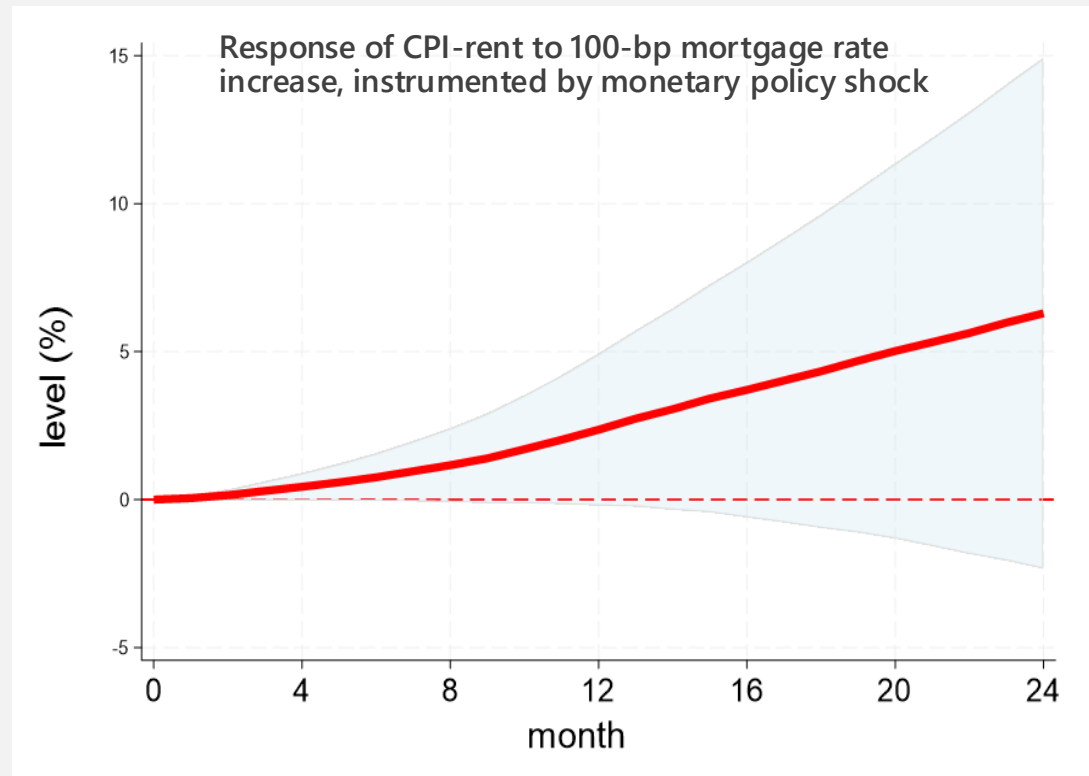
Extrapolative expectations

House price response following 100 bp increase in policy rates, %

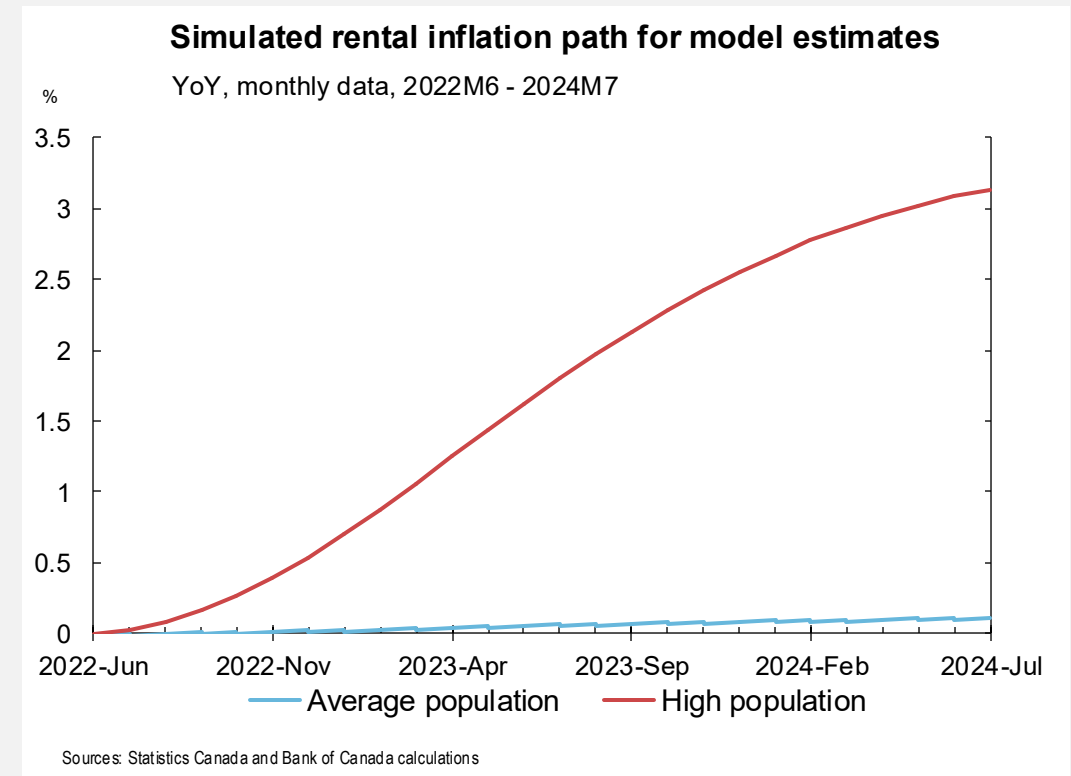


Source: Enkhbold and Kabaca (BoC 2025)

### 3) Rents tend to increase with MP tightening, especially, when population growth is strong



Source: Rao and Wang (BoC 2025)



Source: Enkhbold and Kabaca (BoC 2025)

# Conduct of monetary policy

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# Key takeaways

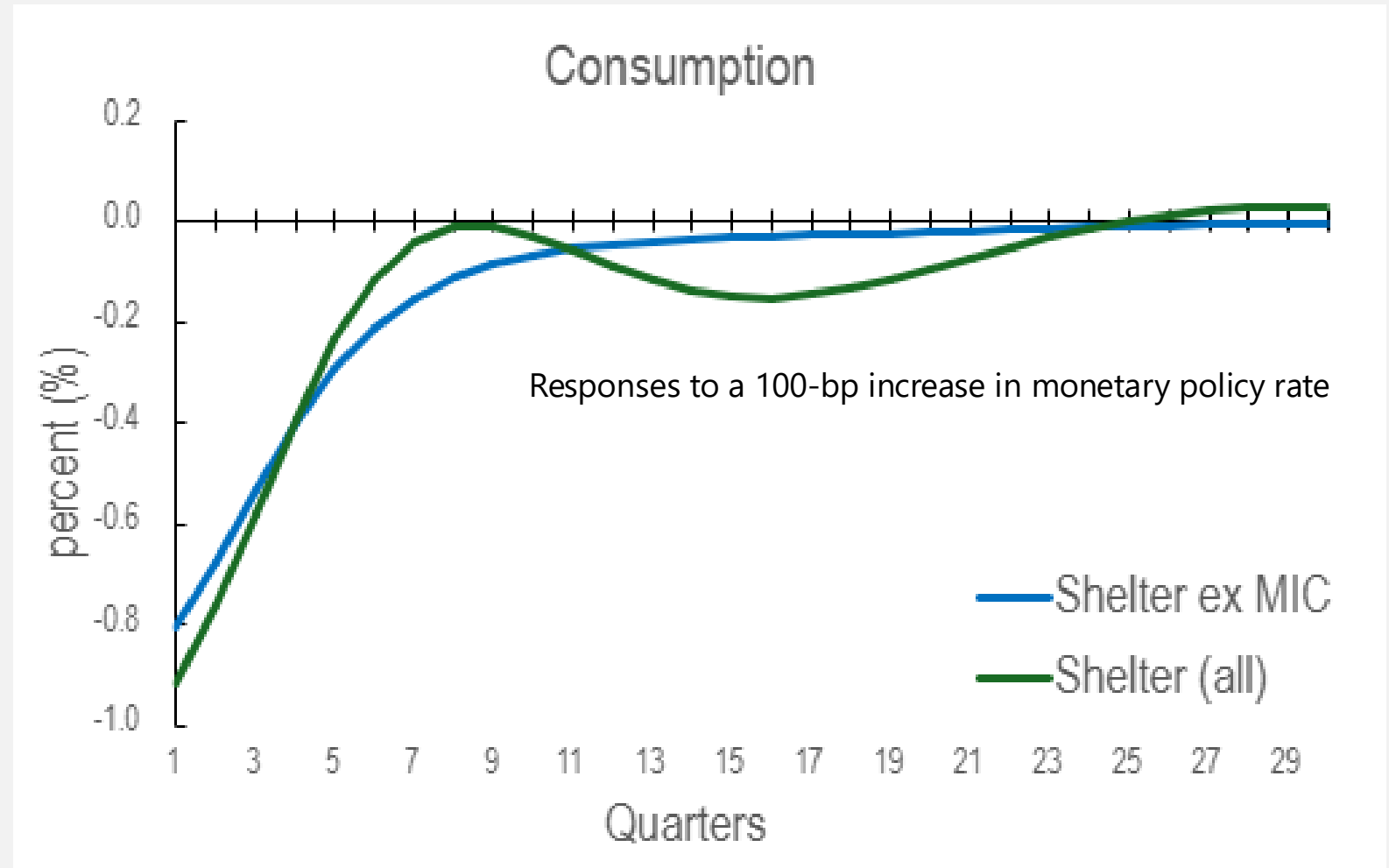
1) Responding to MIC leads to “chasing its own tail”

2) MP response to rents and house prices should depend on the nature of shocks and other policies

3) MP has mixed and heterogenous impacts on affordability

## Responding to MIC leads to “chasing our own tail”

It can raise volatility in consumption, output and inflation



Source: Irwin and Vieyra (BoC 2025)

## Responding to rental inflation may have adverse impacts

- MP tightening can increase rents, especially, when facing high population growth
- Rental market imbalances are localized and may not reflect aggregate inflationary pressures
- Stock of rents means rental inflation is lagged and does not reflect current rent pressures

# Reaction to house prices should be state contingent

- Past ITRs: Monetary policy should not react to house prices as it is a blunt tool affecting the entire economy, and prudential policies should be used first
- When should MP **look through (not react to)** house price inflation?
  - › House price inflation is seen as temporary or driven by supply-side shocks
  - › Best handled with other tools, like housing/mortgage policies
- When should MP **not look through (react to)** house price inflation?
  - › It is a dominant, persistent driver of CPI above target
  - › There are extrap. expectations, especially with the risk of broader economic impacts (Enkhbold and Kabaca, BoC 2025)
  - › There are risks of de-anchoring expectations



# Monetary policy has mixed impacts on housing affordability

- **Affordability drivers:** House/rent price, financing cost, income, wealth, and liquidity constraints
- **Rate effects are mixed:** Higher rates lower house prices but raise mortgage costs
- **Heterogeneity matters:** MP impacts renters and owners differently (Irwin and Vieyra, BoC 2025)

# Summary

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# Summary

- Measurement approaches all have their advantages/disadvantages
- Nuanced results on the conduct of MP suggest carefully assessing the relevant economic conditions and reflecting them in the policy discussions



A low-angle, upward-looking perspective of several modern skyscrapers with glass facades. The buildings are arranged in a way that they appear to converge towards the top of the frame, creating a sense of height and scale. The glass reflects the sky and clouds, adding depth to the image. A semi-transparent dark grey horizontal band is positioned across the middle of the image, serving as a background for the text.

Thank you