

# DIVIDENDS

## Investment Planning eNewsletter

Shelter Gets Goopy

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This eNewsletter may be one of the most important ones ever...How is that for a start!

Winter finally settles into the Niagara Peninsula and causes the usual travel challenges. Inflation, well that sure causes challenges and components of it are getting rather sticky...rather goopy.

The Bank of Canada held its rate at 5.0% on January 24th. Primarily due to their "concern about risks to the outlook for inflation, particularly the persistence in underlying inflation". Clear as mud as usual in the words they choose. What they really mean is buried in their release, and that is, **50% of inflation over the next 2 years is to be driven by shelter costs**. Shelter is "persistent" and one of the greatest "risks" to high overall inflation. So, they are not blaming it on food and gas, their usual culprits, but finally admitting it is about the cost of shelter/housing/rent.

For you it is obvious as it is wrapped up in many household costs:

- The annual 8% increase in your property taxes.

- Hydro/natural gas cost annual increases.

- Rent has doubled in many locations over the past few years and going higher still with what appears to be another 6% this year.

- If you have a mortgage coming due you are acutely aware of the doubling of costs.

- Those carrying lines of credit have seen their costs doubled. Well beyond what many had budgeted.

The many challenges of how the Bank of Canada and the US FED wrap inflation numbers is their use of variable methods of extracting these numbers. Also, the lack of consistency from year to year and sometimes even quarter to quarter in how they are presented. Let's make it really simple. Supply channels have fully recovered since the Covid era and thus food and consumable prices are slowing down. Thus, a much smaller impact shall be felt from their cost increases. It will be the cost of shelter and its many components that will increase in the coming years.



The stickiness of shelter inflation is well illustrated above. This chart is courtesy of NBCFM.

National Bank Economics group has been doing some excellent work this past year and I feel they really stepped up in their work that reinforces my prior comments on the "Goosey" part of Inflation. On January 15th they issued a special report called, Canada is Caught in a Population Trap. I shall extract some key components for your consideration and why Canada is faced with such an insurmountable issue in the housing of all.

### **Can we solve the housing/shelter issue in the next 10 years**

No.

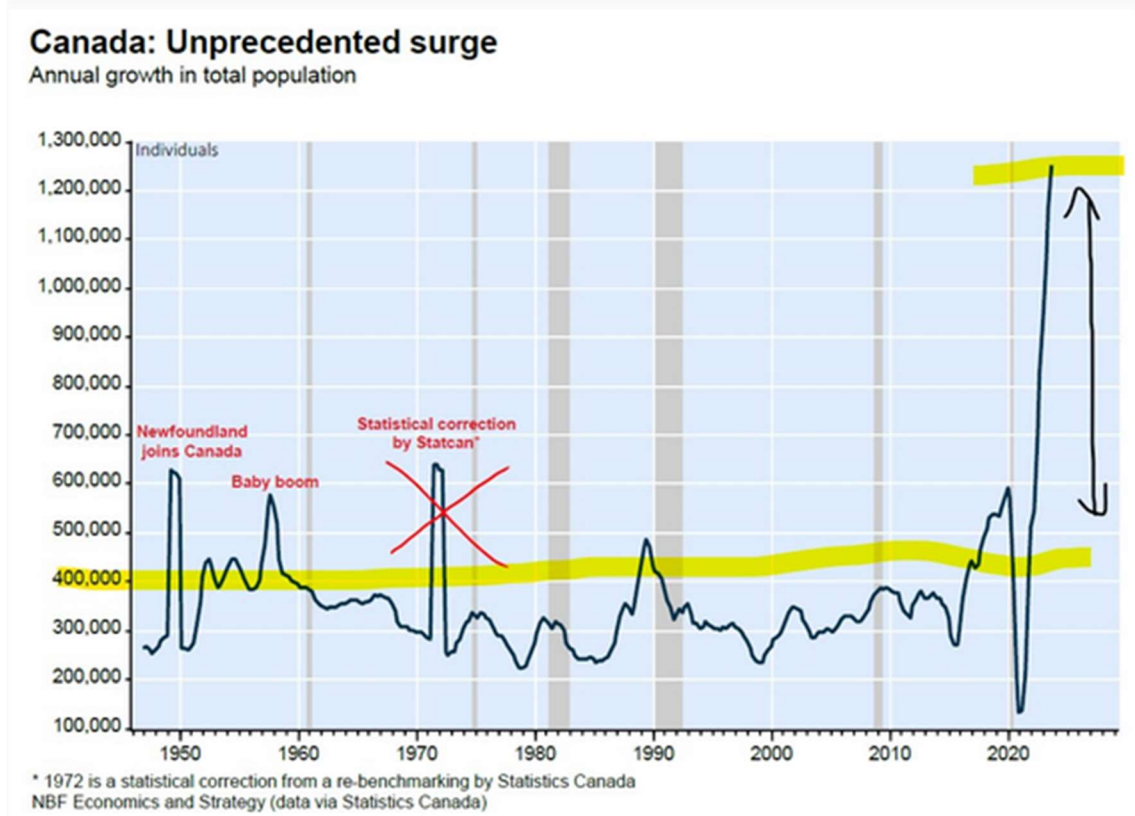
### **Can we solve the housing/shelter issue in the next 25 years**

Yes.

We are already short 3,500,000 houses by 2030 to "restore affordability" (as per CMHC). Knowing this, how can shelter costs be abated? They cannot in the near term.

Canada only builds 210,000 houses a year. From this we will build 1,400,000 houses by 2030. How can we build the extra 2,100,000 houses by 2030 as that requires us to build an extra 1.5 houses per year above our current production...a 150% increase! Not in the next 10 years as this shortfall grows even further each and every year. 25 years is achievable.

We have the opportunity to contain this problem however that assumption of 3,500,000 houses short by 2030 was based on normal immigration. If we grow our population by 1,200,000 this year and in future years like we did in 2023, the shortfall gets worse. Thus, National Bank Financial Markets suggesting we are in a "Population Trap".

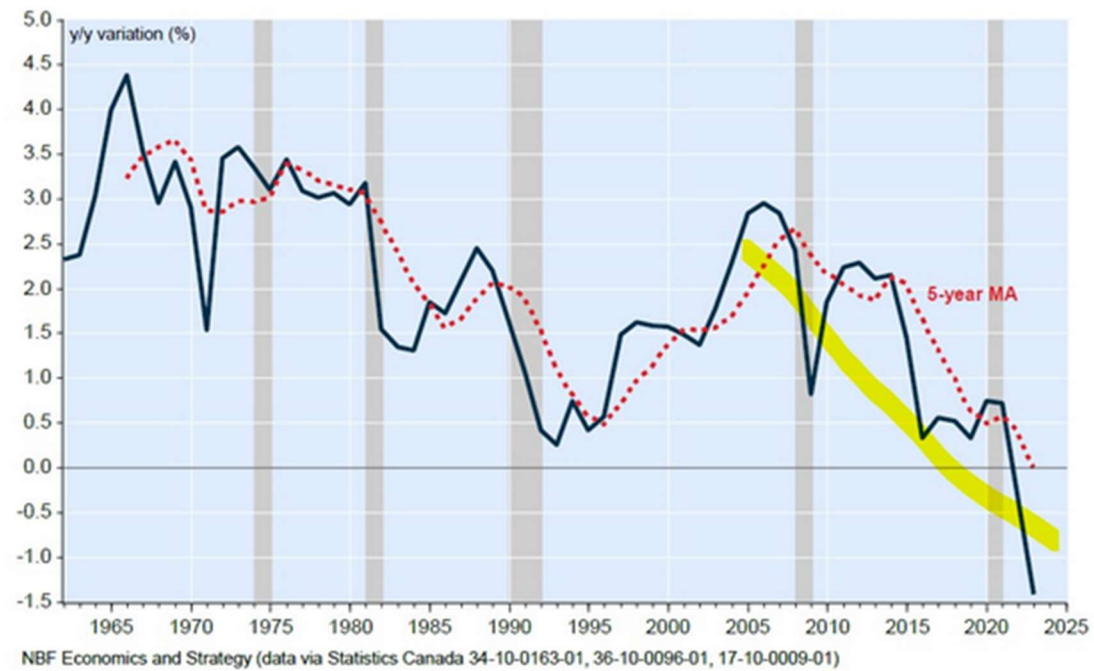


### **What is Capital Stock?**

National Bank's article talks about how much capital stock exists per person in Canada. Capital stock is plants, equipment and machinery used in production. The chart below shows how this has been decreasing over the past 15 years. Companies are making choices of where to put their next production facility and are not picking Canada. If our population grows as dramatically as it had last year and likely will again this year, we will run out Capital stock to support everyone. This type of trend is extremely difficult to overcome and takes decades to reverse.

## Canada: Caught in a population trap

Net real capital stock at year-end per person, all sectors (NBF estimation for 2023)

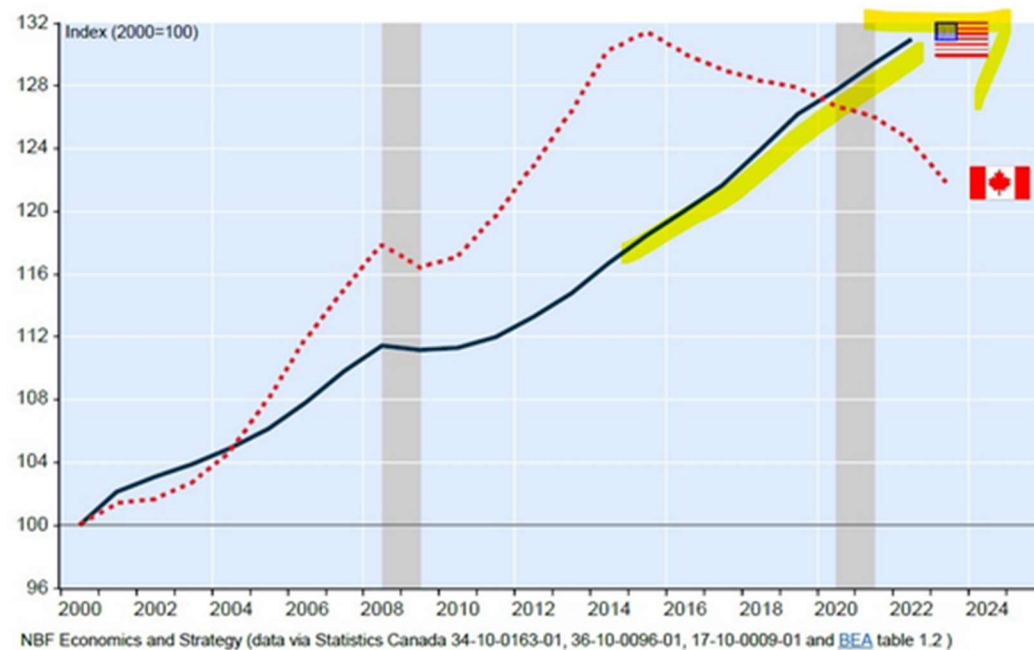


### Is this just a Canadian problem...eh?

Many nations are dealing with this, however our population growth is dramatically ahead of other nations. As can be seen in the chart below, the US has fended this off with continued Capital stock injection while Canada was going in the opposite direction.

## Canada: Canada: Non-residential capital stock per capita at decade low

Net real private non-residential capital stock per capita at year-end, (2023 estimation for Canada, 2022 for U.S.)



## Where do we turn?

From an investment growth perspective, the US provides some of the greatest opportunity and sanctuary for us to gain growth. Companies that have exposure outside our borders is required.

National Bank closes there comments off on the Population Trap this way:

"Our policymakers should set Canada's population goals against the constraints of our capital stock, which goes beyond the supply of housing, if we are to improve our productivity. At this point, we believe that our country's annual total population growth should not exceed 300,000 to 500,000 if we are to escape the population trap."

Happy to speak with you or your friends at 905-541-2012 or email [vwarrington@alignedcp.com](mailto:vwarrington@alignedcp.com)

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