

Cdn Housing Starts: Singled Out

Canadian housing starts fell 1.6% to 189,200 annualized units in July, about in-line with our expectation of a modest decline. After three consecutive monthly declines, starts are now down a moderate 8% from their April peak, but we judge that was likely the high watermark of the recovery in Canadian residential construction activity, and expect further slowing in the remainder of 2010. July results from Canada's big cities point to existing home sales about 35% below year-ago levels, while the HST, which has now taken effect in Ontario and British Columbia, is likely biting new sales—supply should start to respond later in the year.

While overall starts have only faltered modestly since their recent peak, single-unit construction has fallen almost 29%, including an 11.4% decline in July. This more stable sector is a better barometer of underlying trends. Multi-unit starts, however, continue to ramp up, rising 13.4% in July to the highest level since October-08. Interestingly, all regions of the country are contributing to the upward trend in multi-unit construction, not just the usual suspects of Vancouver and Toronto. Still, six provinces saw lower overall starts in July, with B.C. acting as the biggest drag.

In a related report, new house prices rose a softer-than-expected 0.1% in June, lifting the annual rate to 3.3% y/y from 2.9% y/y in May. Next month's release will reveal the full impact of the HST in B.C. and Ontario. While the index excludes taxes, it will be interesting to see any sign that builders are passing on part of their cost savings, which would apply some downward pressure to prices.

(thousands of units : a.r.)	Jul	Jun	May	12-month average	year ago
Housing Starts	189.2	192.3	197.9	187.3	139.1
(month/month % change)	-1.6	-2.8	-3.8		
Urban Singles	67.9	76.6	76.4	80.3	57.5
Multiples	101.4	89.4	93.6	84.2	65.5
Atlantic Canada	16.0	13.4	16.4	13.9	11.8
Québec	52.9	54.5	50.1	50.4	47.4
Ontario	53.3	56.1	66.3	60.2	40.0
Manitoba and Saskatchewan	15.0	14.3	9.4	10.8	7.5
Alberta	29.2	27.0	29.7	28.0	19.4
British Columbia	22.8	27.0	26.0	24.0	13.0

The Bottom Line: Canadian home sales have softened significantly so far this year, and that should translate into a slower rate of housing starts in the second half of 2010. We're already seeing a marked correction in single-unit activity.

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