Data Release: Housing starts take a polar dip in February

- Housing starts declined sharply in February, falling 16.4% m/m to 156K units, the largest decline since March 2014. On a year-over-year basis, the picture was even more dire, with housing starts declining 18.8% over year-ago levels.
- However, the trend measure of housing starts in Canada (a six-month moving average) was 182K units in February, down only 3.5% from the prior month. Although February’s print is the fifth consecutive monthly decline and the weakest monthly showing since the first quarter of 2013.
- February’s drop was led by multiple urban starts, which fell 25.1% to 86K units. Multiple urban starts were led lower by a contract in starts of apartments and condominiums (-35.3%) and semi-detached homes (-9.9%). Single-detached urban starts decreased to 54K units in February, down 4.1% the previous month. In contrast, housing starts in rural areas rose 3.2% to 16K in February.
- The decrease in February reflects broad-based declines in eight of the ten provinces. Ontario shed the most units, with starts falling 26.4% to 44.8K on a 47.9% decline in starts of apartments and condos, while the Atlantic provinces experienced the largest setback in percent terms (-56.2%). British Columbia (-10.3%) and Quebec (-7.6%) also experienced double-digit contractions. Meanwhile, housing starts in the Prairie Provinces (-6.4%) held up better than anywhere else in the country.

Key Implications

- Any way you slice it, today’s housing starts release was among the weakest prints we have seen in some time. While in part weather induced, thanks to the harsh February weather in much of Canada, the trend is clearly toward weakness in the housing market. This view is supported by other housing market data released in recent months, including existing home sales and prices.
- While the Prairies fared better than most regions in February, the sharp decline in oil prices and trend decline in the housing market suggests that continued weakness can likely be expected, at least over the near term.
- As a result, we expect that the housing market will weigh on real GDP growth in the first quarter of 2015. This is despite the recent Bank of Canada rate cut, which will likely only have a small impact due to its modest size. That said, we believe that the 25 basis point insurance policy taken out by the Bank of Canada in January will prove sufficient to ensure that the Bank reaches its objectives for inflation and growth. Consequently, we expect that the Bank of Canada will remain on hold until the final quarter of 2016.