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## TD Economics

### Data Release: Canadian new homebuilding responds to hot demand conditions with additional supply

- Housing starts hit 218k units in June, up from 187k units in the prior month. The 6-month moving average trend in housing starts rose to 198k.
- From a regional perspective, BC (+38%) and Ontario (+27% m/m) showed the biggest increases. Ontario's gain was mostly due to a surge in apartment construction in Toronto. Housing starts also increased by a more modest 9% in the Prairie Region, likely as reconstruction efforts in Fort McMurray began, albeit very cautiously. Starts were down most everywhere else.
- Multi-unit construction led the way with a 27% gain in the month. While starts of single-family homes only rose by 1.7%, this gain extended a welcomed upward trend in single-family construction that began in mid-2015. Single-family starts are up 13% and 17% in Toronto and Vancouver, year-over-year respectively.

### Key Implications

- If you demand it, they will build it. The housing dialogue in Canada has quickly shifted to supply-side dynamics, with many arguing that building permit and land regulation are to blame for rising home prices in Canada's hottest housing markets. Ultimately, the rise in home prices has been both a demand and supply story. Total spending on housing in Toronto and Vancouver alone has increased by almost 60% since early 2014, which represents the largest two year rise in housing demand ever on record. The supply response has been delayed, but today's housing starts report is a good sign that it may be coming.
- Meanwhile, along with Brexit has come even lower interest rates. The standard five-year fixed mortgage rates is now ranging between 2.2% and 2.6%. This is likely to continue for some time. The benchmark five-year bond yield is expected to remain relatively flat through the remainder of 2016.
- Looking forward, the combination of rebuilding in Fort McMurray, continued low interest rates and insatiable demand in both B.C. and Ontario will continue to boost new home building in the near-term. We expect starts to trend near 200k for most of 2016, before higher interest rates take some steam out of overall housing activity in 2017.

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