



**Bank
Financial
Group**

TD Economics

Commentary

April 8, 2008

MARCH HOUSING STARTS FAIL TO BREAK STRIDE

- Canadian starts keep pace at 255,000 units
- Multiple starts remain lofty, but single starts fall 3%

The momentum in the Canadian housing market has yet to fade, as housing starts outpaced expectations by a large margin. While consensus estimates pointed to a fall in housing starts to about 222,000 units on a seasonally adjusted basis, March housing starts came in at 255,000 units, just slightly lower than February's level. On a year-over-year basis, starts are up by a robust 17%, in stark contrast to the double-digit losses being racked up in the U.S.

Nationwide, Nova Scotia was the top performer, as housing starts shot up by 125% M/M in March, bringing the number of starts to the highest level in 5 years. Alberta (+52%) also registered significant increases last month as a result of surging urban multiple-unit starts. However, the rapid pace of housing starts was not felt throughout the country. Erasing the massive spike seen in February, starts in B.C. dropped 33%, largely attributable to the volatility in the Vancouver market, which plummeted nearly 50% on the month. Similarly, in Quebec, the 14% decline in starts entirely wiped out the gains posted in February. Housing starts in Ontario (-2%) also lost ground, although they still remain at the highest level in 6 months.

While the new housing sector in Canada continues to charge ahead, the current pace is not sustainable. The lofty level of housing starts over the past 3 months has stemmed largely from the multiple-unit segment, which tends to be very volatile. Historically, 3-4 consecutive months of high multi-unit starts has been followed by a period of sharp correction. So far in 2008, multiples have soared by about 50% (on a seasonally adjusted basis) compared to the fourth quarter of 2007, setting the stage for a pullback in the second quarter of this year. Moreover, sin-

CANADIAN HOUSING STARTS*		
	Feb. 2008 (f)	March 2008 (p)
Canada, all areas	255.6	254.7
Canada, rural	33.2	33.2
Canada, urban centres**	222.4	221.5
Canada, singles**	82.9	80.5
Canada, multiples**	139.5	141.0
Atlantic region	12.4	19.0
Québec	55.4	47.2
Ontario	84.0	82.2
Prairie region	51.2	71.3
Alberta	40.1	61.0
Saskatchewan	5.8	5.9
Manitoba	5.3	4.4
British Columbia	52.7	35.1

*SAAR, Thous. Units; (f): final (p): preliminary; **Population of 10,000+
Source: Canadian Mortgage & Housing Corporation / Haver Analytics

gle units, which are typically better indicators of underlying trends, declined slightly in March, largely attributable to Ontario and Quebec. This suggests that after removing the volatile multi-unit component, the rate of housing activity in Canada is beginning to slow.

The elevated levels of housing starts that have persisted throughout the first quarter are also being buoyed by the resilience of the labour market. Nonetheless, the Canadian economy, and the construction sector in particular, will not be immune from the headwinds blowing up across the border. Employment growth is expected to slow in most parts of the country, and consequently, put the brakes on housing market activity. Furthermore, demographic trends support a significantly lower rate of starts. Indeed, the net household formation data from the 2001-2006 consensus indicate that only 175,000 new households are formed per year. While we don't expect to see full convergence on the long-term demographic trends in the foreseeable future, we believe that a slowing in the pace of starts to the 205,000-215,000 range later this year is a good bet.

Dina Cover, Economist 416-982-2555

The information contained in this report has been prepared for the information of our customers by TD Bank Financial Group. The information has been drawn from sources believed to be reliable, but the accuracy or completeness of the information is not guaranteed, nor in providing it does TD Bank Financial Group assume any responsibility or liability.