

HOUSING STARTS FOLLOW THE SCRIPT IN SEPTEMBER

- **Canadian housing starts fell to 150,100 units in September from an upwardly revised (+6,900 units) 157,300 units in August**
- **Urban single-unit starts continue to be on the mend, climbing 16.8% M/M**

Homebuilders got started on 150,100 units in Canada in September, which was close to the market expectation of 148,000 units. The details of the report also aligned well with the script we have been expecting to unfold in residential construction nationwide and regionally.

First we should mention that the percentage drop (-4.6%) from the month prior overstates the weakness for two reasons. The first is that the previous month's (August) starts were revised up to 157,300 units, an improvement of 6,900 units or 4.6%. In turn, this improves the third quarter average by a little over 2,000 units to 149,000 units. The second is a compositional issue: the drop was entirely concentrated in the urban multiples segment, where starts retreated by 21.4%. This segment naturally tends to be more volatile than the single-family unit segment, because of the size (a single project yields many units at once) and irregular frequency of its starts. Starts of single-detached homes actually increased by a strong 10,000 units in September, or 16.8% M/M, and continue their gradual climb from their low of April. The increase was large enough that single starts are now close (-0.3%) to year-ago levels. On a year-over-year basis, more of the same can be expected in the months ahead, with modest increases quite likely. Early next year, starts of single-family homes could be as much as 30-40% higher than the depressed levels recorded at the start of this year.

There were also few surprises in our view when looking at the regional dimension of the September data. Starts in Saskatchewan and Manitoba have been fairly choppy over the last few months, but the 3-month trend still shows these provinces have recovered roughly half of the activity lost late last year and early this year.

Alberta's long and painful grind down from lofty levels of construction is being followed, as expected, by a long and gradual recovery. The 12.6% M/M bounce in September may be a bit overdone and should not be extrapolated. At the current pace, starts should be back in line with the province's

CANADIAN HOUSING STARTS*		
	Sep-09 (p)	Aug-09 (f)
Canada, all areas	150.1	157.3
Canada, rural	18.6	18.6
Canada, urban centres**	131.5	138.7
Canada, singles**	68.8	58.9
Canada, multiples**	62.7	79.8
Atlantic region	11.4	11.8
Québec	41.0	49.8
Ontario	50.5	45.4
Prairie region	31.0	31.0
Alberta	22.4	19.9
Saskatchewan	4.4	5.8
Manitoba	4.2	5.3
British Columbia	16.2	19.3

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

long-run demographically-driven demand within a year or so – which might be a tad quick given some of the inventory overhang that still needs to be absorbed in the province.

Meanwhile, starts in British Columbia remain on the mend. The 16.1% M/M drop in September prolongs but does not break what in any case is expected to be a slow recovery.

Out East, starts in the Atlantic, having never retreated as much, are already back to 11,500 units on a trend basis even after slipping 3.4% in September. This is slightly higher than long-term demographics suggest but in line with more recent evidence of positive interprovincial migration.

Quebec housing starts dropped by a substantial 17.7% in September, but the previous two months had been unsustainably strong. September's level of 41,000 units is in fact right about where we think starts in the province will average for 2010. We see little significant upside for residential construction in the province before 2012.

Lastly, Ontario's 5,000 units surge from 45,400 units to 50,500 units, being as it was concentrated in single-family homes, should be indicative of where starts will stand, or slightly higher (we forecast 52,000 units), on average in 2010.



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