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TD Economics

Data Release: Canadian housing starts are easing off elevated levels

- Canadian housing starts data for January was unexpectedly released early today, and showed that starts fell for a second straight month. The 6-month moving average declined to roughly 199K units annualized in January, compared to 203K in December. While the trend level still remains quite elevated, the monthly numbers indicate that the sector may have been running out of gas by the winter months. Roughly 166K new homes were started in January, down from 173 K in December.
- Starts were down in both rural and urban centers in the month. But, the decline in urban starts was largely concentrated in the multi-unit sector (-5.3%), while starts of single-family homes in urban centers rose by 1.0%
- From a regional perspective, most of the weakness was concentrated in urban centers in the Prairie Region (-8.9%), where starts hit a four-year low according to CMHC. Starts were also down in Quebec (-20%) and B.C.(-5.7%), where new home construction remains historically depressed despite a hot existing home market. Starts were up 12.7% in Ontario and 19.7% in urban centers in the Atlantic Region. On a trend basis, Ontario starts have eased off from the spike in the third quarter of last year.

Key Implications

- An easing in new home construction was expected as the economic and housing market weakness in the Prairie Region weighs on new home building, and as we get some payback for exceptionally strong housing construction in Ontario in mid-2016. The majority of markets across Canada are showing signs of some degree of elevated inventory of homes for sale, putting modest downward pressure on home price growth. The concern is most acute in the Prairie Region, where the drop in oil prices has delivered a pretty heavy blow. While the market in Ontario (mostly the GTA) remains pretty tight for now, it is showing signs of rising inventory of new unsold homes which should loosen market conditions in the coming months.
- The one conundrum is B.C., where a bigger pop in new home construction was expected given the recent record breaking activity in the existing home market. Depressed construction activity will likely keep home price gains lofty in B.C. yet again in 2016.
- The combination of economic weakness and too-much building in 2015 is expected to pull housing starts down to more sustainable level of 178k in 2016, following the 194K units started last year. With interest rates expected to start creeping up gradually through 2016 and 2017, we could see a further 5.4% pull pack in starts in 2017. As such, new home construction will likely become a drag on real GDP growth through the second half of this year and into next.

Diana Petramala, Economist
416-982-6420

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