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TD Economics

Data Release: Home starts pull back more than expected in May, as Ontario cools

- Canadian housing starts pulled back nearly 20k to 195k annualized units in May. This is a second consecutive month of cooling and marks the lowest level of starts in six months. It is also well below the 202k reading expected by the street. The continued cooling slowed the six-month moving average to 198k.
- Both the single-family (-6k) and multifamily (-14k) segments in large CMAs experienced declines on the month, while rural homebuilding rose slightly (+1k) .
- Looking across the country, the declines were concentrated in Ontario (-20k), Quebec (-9k), and Atlantic Canada (-1k) – where N.S. saw a deceleration from the rapid April pace. On the other hand, B.C. (+2.5k) and the Prairies (+8k) saw a higher pace of homebuildling, with the latter lifted by Manitoba but seeing broad based gains across all three provinces.
- Activity in Toronto, the country's most closely-watched housing market, nearly halved pulling back 18k to just 22k – the slowest pace in nearly three-years. On the other hand, starts in other major metros were largely unchanged, with Vancouver at 29k and Montreal at 21k.

Key Implications

- This report marks the second consecutive month when homebuilders slowed the pace of new activity after a red-hot March print. Although a pullback was not unexpected, the deceleration was more pronounced than anticipated. Moreover, while the trend (6-month average) pace of homebuilding has actually accelerated this month to above 214k, this trend is likely to fade later this year as the surge in early-2017 is increasingly in the rearview.
- Much of the recent decline nationally is related to the ongoing cooling-off in Ontario after the rapid pace of homebuilding experienced at the start of the year, with starts exceeding 100k annualized for the first time in over a decade. The Ontario housing market has since been impacted by the provincial government's Fair Housing Plan, which implemented a broad set of policies designed to remove some froth from the market, but also injected significant uncertainty. This likely motivated homebuilders to sit back as the market digests the newly implemented policies. While we don't expect Ontario's homebuilding to remain at these low levels – which reached a two-year low in May – provincial homebuilding is also unlikely to reach the previous peaks anytime soon.
- The likely cooling-off in Ontario is likely to be somewhat offset by a stronger pace of homebuilding in recovering markets across Canada. Taken together, we expect housing starts in Canada to continue along their current trajectory and settle closer to 200k later this year and slightly below that level into 2018. Toronto's market and its response to the new rules remains a key risk to this outlook, particularly in a rising interest rate environment which could also pressure prices and homebuilding activity in other parts of the country. The Bank of Canada is unlikely to move this year, but an early-2018 hike is not out of the question, while rates stateside are set to rise with the Fed likely raising their the fed funds rate by 25bp next week.

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