



October 11, 2016

TD Economics

Data Release: Looking beyond month-to-month swings, Canada's new home construction holding steady on a trend basis

- Canadian housing starts rose to roughly 221,000 annualized units in September, up from 184,000 units in the prior month. This pushed the 6-month moving average to just shy of 200,000 units.
- Starts were up an equal 20% between urban and rural areas. Multi-starts in urban areas certainly led the way with a 22% gain in the month, but single-detached starts were also up a hearty 15%.
- Construction was up broadly across Canada, led by the Atlantic Provinces (+87%), British Columbia (+39%) and Quebec (+33%). CMHC noted that the strength in Quebec was due to a pick-up in building of senior rental buildings.
- Ontario was the sole decenter in September, with starts down 4%, albeit from lofty levels recorded in August.

Key Implications

- Housing starts on a trend basis have been range bound since August 2015, oscillating between 195k and 205K. While this pace of new home construction may have once been considered too hot relative to the pace of household formation, record immigration in 2016 and a 3% gain in the size of the population aged 25 to 34 (the prime age for forming a household) has likely resulted in a faster pace of household formation in 2015 and 2016. Low inventory, sharp home price gains and a relatively balanced housing market suggest that the pace of new home construction over the last year might be just right.
- Still, the pace of housing construction is likely to ease through the rest of 2016. For one, the new mortgage and tax regulation introduced by the Federal Government last week is likely to shave up to 10% off home sales over the remainder the year, and homebuilding activity will likely follow suit. From a regional perspective, most markets are likely to see a moderation in construction activity. In addition, the normalization in housing activity in Vancouver is likely to temper new home construction in the city. Housing starts in B.C. were near a record high in August, while existing home sales dipped below their ten-year average. Meanwhile, still high levels of inventory in the Atlantic Region, Quebec and the Prairie Regions will likely keep a lid on construction activity in those regions. Ontario is the sole market where new home construction has not picked up along with the surge in existing home sales over the last year.
- Overall, we expect housing starts to moderate to a pace of about 180k units by early next year.

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