

CANADA

Housing starts keep rising

HIGHLIGHTS

- Housing starts rose to 186,300 units in January from December's 176,100 units.
- The growth is due to increases in both single-family dwellings and multi-units.
- Rural and urban areas both benefited from January's rise by housing starts.
- All of the major regions posted an increase in starts.

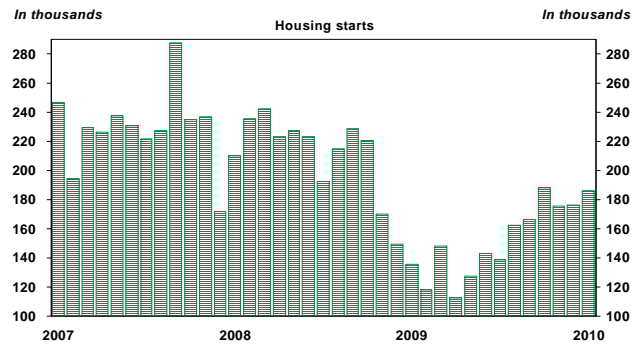
COMMENTS

The housing market continues to surprise. The number of starts recorded in January largely outstripped expectations. Note that the Canada Mortgage and Housing Corporation (CMHC) made broad changes to the data released since January 2007; in particular, the results for September and October were increased substantially. The number of starts for October 2009 now stands at 188,000 units, much higher than the figure reported initially (167,200).

Given these changes, the number of housing starts reported in January does not contrast as sharply with the last few months' up trend as we might have originally thought. We can only conclude that housing construction has been rising constantly and fairly quickly from its April 2009 low. Note that a number of favourable factors are in place: interest rates are exceptionally low, household confidence is on the rise and the job market is stabilizing. Moreover, some one-off factors are also at work, such as pent-up demand from the recession, the fact that some transactions are being moved up in expectation of a potential interest rate increase, and the disruptions created by a change in taxation in Ontario and British Columbia.

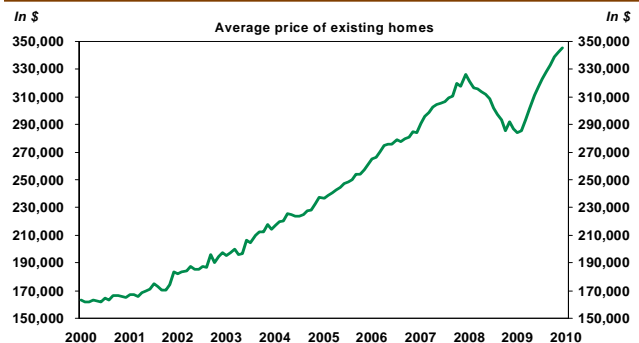
Implications: The real estate market is soaring and monetary authorities will pay close attention to this part of Canada's economy in the next few months. That said, some downside risks remain, particularly when interest rates start to go up. Given that the recent surge in home prices, the real estate market's affordability could deteriorate severely.

Housing starts shoot up



Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

Home prices rebound



Sources: The Canadian Real Estate Association and Desjardins, Economic Studies

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