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QUÉBEC-ONTARIO

New construction sustained in October

HIGHLIGHTS

- Housing starts grew by 4.1% in Québec, rising from 46,500 units in September to 48,400 in October (on an annualized, seasonally adjusted basis).
- Construction fell slightly in Ontario last month. Housing starts reached 82,600 in October vs. 84,500 in September, exceeding the 80,000 new dwelling mark for a third consecutive month.

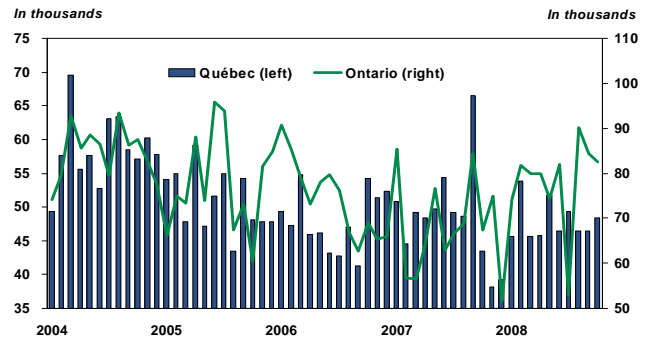
COMMENTS

Despite the slight drop in housing starts in Ontario in October, residential construction kept a fairly steady pace in Canada's central region, illustrating once again the contrast with the housing market in the U.S. While a lull in the market is expected in the months ahead, the risk of a complete meltdown in activity similar to that taking place south of the border is weak.

Last month's recovery in new construction in Québec is still surprising. Given the difficult economic climate, we expected the downward trend to deepen, especially in terms of first-time buyers. In areas with a population of 10,000 or more, housing starts grew by 10% vs. the figures for October 2007. The 17% jump in multi-housing explains this upturn, given the 5% decline recorded for single-family housing. Instead of slowing the pace of construction, the less favourable economic conditions have seen demand shift to less expensive products like semi-detached homes and condominiums.

Housing starts increased in most CMAs across Québec in October. Montréal however saw its housing starts fall by 11% vs. October 2007, mostly due to the drop in construction for seniors' residences. For the past two months now, the drop in construction in this niche market is why overall housing starts in Montréal have been less steady. Given the

Housing starts in Québec rise, but fall slightly in Ontario



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

record number of apartments that were built last year, this pullback was to be expected since demand in this market segment has been pretty much met.

In Ontario, new construction has been quite strong for the past three months. According to the CMHC, the backlog in condo construction is starting to reduce. The resale market is more balanced and economic difficulties should see activity slow down in the coming months.

Implications: The relative health of new construction in October reflects the resilience of the real estate market in central Canada. That said, the slowdown in new construction has taken hold and there are risks that this slowdown will intensify. Stricter rules for mortgage loan insurance in effect since October 15 should be felt in the months ahead. And since the economic and financial climate remains fragile, the residential sector is not immune to a significant deterioration in the near future.

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