

ECONOMIC NEWS

Canada: Housing Starts Hold Firm Despite Market Correction

By Marc Desormeaux, Principal Economist

HIGHLIGHTS

- ▶ Housing starts came in at an annualized pace of 275,329 units in July 2022, a 1% increase versus June. They remain near record levels, and the six-month moving average edged higher to 264,426 units.
- ▶ Urban single-detached starts fell by 2.3% to 58,384 units in July, while urban multi-unit starts were virtually unchanged at 195,987 units in the month.
- ▶ Five of 10 provinces witnessed declines in total starts, with gains in Quebec, Ontario, and Alberta eroded by decreases in Saskatchewan and BC.
- ▶ Among cities, Montreal, Toronto, and Vancouver saw seasonally adjusted monthly declines, while Winnipeg starts increased relative to June.

COMMENTS

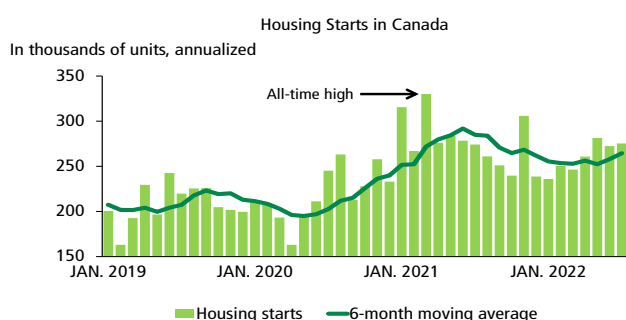
Previously noted strength in the value and volume of building permits suggested that July would be a solid month for Canadian residential construction, but the increase was nonetheless better than expected. The result was particularly striking in the context of pronounced and widespread weakness in Canada's existing home market, which we have covered in detail. Although building tends to lag purchase activity, Canadian home construction continues to hold up remarkably well in the face of the steepest house price correction in decades.

IMPLICATIONS

Housing starts are the third key data point received for July 2022 and were certainly more upbeat than the Labour Force Survey and existing home sales numbers for that month. Yet we continue to anticipate that Canada's economy will weaken steadily in the second half of this year in the face of slowing global growth, widespread market uncertainty, and rapidly rising interest rates.

GRAPH

Homebuilding Holds Firm Despite Housing Market Correction



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

Even after incorporating the July starts print, our nowcast model still projects Canadian growth below 1% (saar) in Q3-2022, a significant deceleration from the rate near 4.5% anticipated in the second quarter. All told, while the effects of Canada's ongoing housing market correction may not yet have spilled over into construction activity, we still see a roughly even chance of recession in Canada in 2023 and anticipate that the Bank of Canada will have to cut rates next year in respect of the weakening economy.