Despite February’s bounce, housing starts are still trending down

HIGHLIGHTS

- The number of housing starts went from 159,000 units in January to 180,700 units in February, for an increase of 13.7%.
- The rebound was mainly concentrated in multi-unit housing, which hit 99,000 units in February from 77,500 units the month before.
- Quebec (+22.5%), Ontario (+44.7%) and western Canada (+2.7%) saw growth. The Atlantic Provinces posted a drop of 38.6%. Note that they had shown a substantial increase in January.

COMMENTS

February’s rebound by housing starts was widely expected. The drop recorded the month before seemed much too sharp to last. February’s gain takes housing starts back to a level that is much more consistent with the trend of recent months. That said, the downtrend is clear. At 180,700 units, housing starts remain well below the 228,300 units recorded in August.

The downturn in residential construction, and by the overall real estate market, is increasingly being confirmed, soothing the concerns of early 2012 as to an overheating market. Clearly, the fourth set of measures to reduce mortgage credit, which the federal government introduced last summer, was the final move the market needed to correct towards a more sustainable long-term equilibrium.

Implications: After just two months, housing starts are down 14.3% for the first quarter of 2013, compared with a drop of 8.7% the previous quarter. Thus, we can expect the pullback by residential construction to intensify in the months to come. After making positive contributions to economic growth for several years, new construction of residential buildings should lose ground in 2013, reining in real GDP growth. For the Bank of Canada, the obvious slowdown by the real estate market should provide some reassurance, and maybe prompt it to further relax its remark on eventual key interest rate increases.