HIGHLIGHTS

• Housing starts climbed to 200,178 units in May from 175,922 units in April.
• Much of the rise comes from Ontario’s multi-unit housing sector; Ontario alone accounts for nearly 80% of the increase seen in May.
• In Quebec, housing starts lost ground during the month, sliding from 41,500 units to 38,700 units.
• The Atlantic and Prairie provinces posted slight gains.

COMMENTS

May’s growth by housing starts substantially outstripped expectations. The blip adds to the other surprising news on construction. Note that the labour market saw a strong surge in construction employment in May and the value of building permits is up 33% since the end of 2012 in the residential sector.

Together, these positive signs cast some doubt on the downtrend in the real estate market. Could this be the start of an upturn that would bring on another rise by construction? The situation will have to be kept under a close watch in the next few months.

However, we must not lose sight of the fact that the data on housing starts has been somewhat volatile in recent months. Thus, the Canada Mortgage and Housing Corporation emphasizes in its statement the movement by a 6-month moving average as a better way of assessing the real trend in housing construction. Despite May’s rebound, the 6-month average has remained at around 183,000 units and has been trending down since last fall.

Implications: As it essentially comes from a single market segment—Ontario condos—May’s rebound by housing starts does not have a solid foundation. The downtrend should therefore return as of next month. That being said, the Bank of Canada and Canada’s Department of Finance will have to remain vigilant about the housing market. The danger, of course, is too much construction, which could lead to an imbalance between supply and demand.

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