

July 9, 2014



CANADA

Housing starts remain strong in June

HIGHLIGHTS

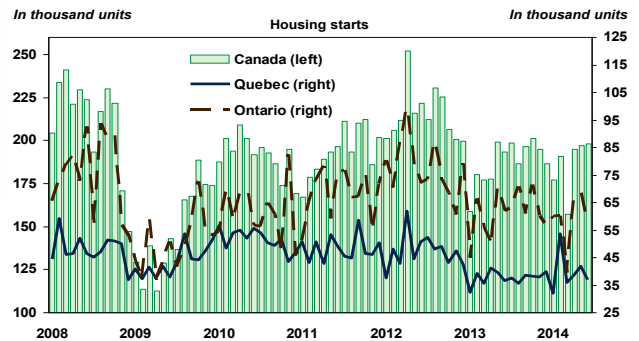
- Housing starts saw a slight monthly increase, rising from 196,993 units in May to 198,185 in June. Construction remained high for a third straight month.
- Last month's increase was based on an increase in the Atlantic provinces (+6.9%) and on the strong recovery in activities in the Prairies (+34.8%), fueled by a nearly 60% jump in Alberta. However, housing starts have weakened in Quebec (-11.6%), in Ontario (-15.5%) and in British Columbia (-4.1%).
- Housing starts retreated from 41,600 units in May (annualized and seasonally adjusted) to 36,800 in June.
- Ontario housing starts slipped below 60,000 units.

COMMENTS

Even though the housing starts trend over the last six months holds steady at around 185,000 in Canada, the strength of the most recent data is surprising. The expected lull is slow in coming, feeding fears of overbuilding in certain parts of the country. The fact that activity is easing in Ontario and Quebec has been reassuring to the extent that the cooling off extends across the coming months.

The mid-year results are positive in almost all areas of the country. British Columbia leads with a cumulative increase of 8.8% over the first half of 2013. Quebec and the Prairies follow in a tie with a gain of around 6.5%. Ontario posted weak growth of 1.1% for the first six months of the year, while the Atlantic provinces saw a sharp drop in housing starts.

Residential construction strengthened in Canada, but weakened in Quebec and Ontario



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

Condo construction in Quebec heated up again in the first half of the year after cooling off in 2013. The increase reached close to 25% in the province's main urban centres, supported by large boom in Montreal, particularly in downtown, and in Gatineau. Condo starts plummeted nearly 35% in Quebec City in the first half of the year, putting the market back on sounder footing and offloading new units that had not been sold. Intense activity in Montreal and Gatineau increases the risk level for this market segment. The new momentum in condo construction seems premature since there is still a surplus in the resale market.

Implications: The surprising strength in the country's housing starts gives rise to worries about future growth in the residential sector. The level of activity, particularly in multi-unit housing, seems high compared to the demand for housing. Construction will need to calm in the coming months to avoid a period of disequilibrium in the Canadian housing market.

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