

 **CANADA**

## Housing starts in June: recovery across the country and stability in Quebec

### HIGHLIGHTS

- There was a blip in Canadian housing starts last month. The new units trend over the last six months climbed from 190,302 in May to 197,918 in June.
- Housing starts were up sharply in Ontario, Saskatchewan and British Columbia, with an increase of 25% for all three provinces in June. The Atlantic Provinces, Manitoba and, to a lesser extent, Quebec, saw a decline.
- The most prominent level in terms of monthly gain in the country was Ontario's nearly 20,000-unit jump, which is largely due to several downtown condo projects starting up.
- June's housing starts (annualized and seasonally adjusted) saw little movement in Quebec. A total of 38,400 units were started, compared with 38,900 one month earlier.

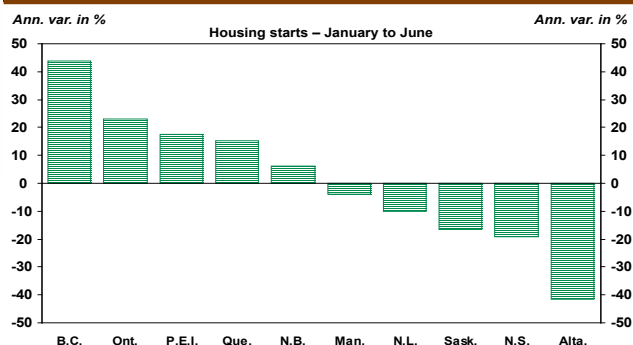
### COMMENTS

Unsurprisingly, British Columbia and Ontario continue to be the Canadian residential sector's main stimulus. The condo market is booming, raising concerns about future changes in the real estate markets in these two provinces. Stronger demographic growth than elsewhere in the country, particularly due to immigration, the presence of foreign investors and faster growth in real GDP, help fuel the demand for housing. There is a real risk of correction in Vancouver and Toronto, and the strength of new construction feeds these fears.

The situation is very different in the three oil-producing provinces. During the first half, housing starts plummeted in Newfoundland and Labrador (10.0%), Saskatchewan (16.4%) and Alberta (41.4%). The resale market is also experiencing difficulties, with sales and average prices trending down.

Quebec is somewhere in the middle, posting some stability in housing starts for several months, both for single-family homes and multi-unit housing. According to Canada Mortgage and Housing Corporation's (CMHC) preliminary figures, the first six months of the year saw a total of 37,300 new housing starts in the province. Our forecast of

### The mid-year results varied greatly in different areas of the country



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

37,000 units for 2016 is in line with this mid-year result. The pace slowed in all market segments except rentals, which posted a sharp increase.

**Implications:** The strength of housing starts in Canada, which reflects the strength of the residential sector in British Columbia and Ontario, is intensifying fears of an eventual price correction, particularly in Vancouver and Toronto. It remains to be seen if the federal government will move forward with certain targeted measures to slow these two markets.<sup>1</sup> The fact that the minimum down payment recently increased from 5% to 10% for loans exceeding \$500,000 does not seem to have slowed purchases in these two urban centres. Quebec is in a class all its own, as the soft landing set aside the fears. The residential real estate market, which is growing at a moderate pace, is reassuring for the province and it stands out on the Canadian scene.

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<sup>1</sup> Desjardins, Economic Studies, *Economic Viewpoint*, "What means are available to slow the housing market in some parts of Canada?" June 22, 2016, [www.desjardins.com/ressources/pdf/pv160622-e.pdf?resVer=1466600274000](http://www.desjardins.com/ressources/pdf/pv160622-e.pdf?resVer=1466600274000).

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