Canada: Still No Signs of a Slowdown in Residential Construction

**HIGHLIGHTS**

- The number of housing starts rose to 222,324 units in July compared to 212,948 in June.
- This increase stems from the multi-unit housing sector in urban centres (+13,429), with a slight decline recorded in the other sectors.
- British Columbia (+7,186) posted the largest gain for the month, followed by Alberta (+2,524), Nova Scotia (+1,833) and Ontario (+967).
- Quebec saw a slight drop (-1,815) after an increase of 9,152 units in the previous month.

**COMMENTS**

Not only did the number of housing starts continue apace, but the trend even increased during recent months. On the one hand, residential construction appears to remain strong in Ontario and British Columbia. On the other hand, some increases were observed in other provinces primarily due to the upturn in the oil-producing provinces.

This buoyancy is in direct contrast to recent sales of existing properties, which are showing a significant slowdown in Ontario following the introduction this spring of new provincial measures aimed, in particular, at the Greater Toronto market. In light of the rise in housing starts, the fear is that this slowdown is nothing more than a temporary adjustment before new increases. Furthermore, the same phenomenon had been observed a year ago in the Vancouver area.

**IMPLICATIONS**

The dynamism of the housing market may be good news for economic growth, but it reignites concerns regarding household debt. If the slowdown in sales of existing properties in the Toronto area were to ease and make way for a recovery, this would cast serious doubts on the effectiveness of macroprudential measures, even the more targeted ones recently introduced by the Ontario government. With this in mind, the pressure on the monetary authorities to continue to raise key interest rates will be fairly significant, and thereby promote mortgage rates to rise throughout the country. A second increase to the target for the overnight rate is expected in October.

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