

Housing starts down in 2015 despite December's rebound

HIGHLIGHTS

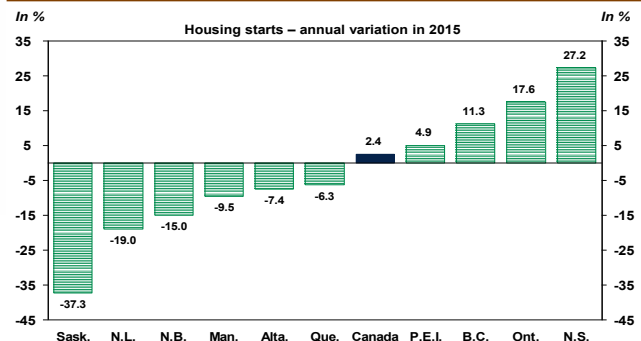
- December's housing starts (annualized and seasonally adjusted) increased sharply in Quebec, reaching 42,500 compared with 33,700 in November.
- However, annual performance was still negative for Quebec. According to the CMHC's preliminary figures, 2015 saw a total of 36,900 housing starts, representing a 6.3% decrease from 2014.
- There was a decline of 18.4% in Canada in December, mainly due to a sharp monthly drop of nearly 40% in Ontario.
- A slight 2.4% increase was observed across the country in 2015, thanks to the strength of new construction in Ontario (+17.6%) and British Columbia (+11.3%). The oil-producing provinces, Alberta, Saskatchewan and Newfoundland, recorded significant decreases.

COMMENTS

Even though Quebec shined on the Canadian stage in December, the annual downturn in housing starts is a reminder that the adjustment period continues. According to the CMHC, single-family dwelling construction fell to a historic low in the province. Condo starts plummeted of more than 25% in Quebec's six CMAs to shed part of the current surplus. Only the rental segment posted strong growth in 2015, despite climbing vacancy rates for apartments. With less enthusiasm for condo's, building activity shifted to rentals.

In Canada, single-family dwelling housing starts also slipped (-7.7%) in 2015. The condo segment continued to grow, jumping 11.6%. The dynamic outside of Quebec is different for multi-unit housing. Condo construction in Toronto and Vancouver continued to boom, while few conventional rental apartments were built.

Canadian provinces did not experience the same 2015



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

Implications: Weak housing starts in Quebec in 2015 attest to the continuation of the adjustment period, particularly for the condo market. This will help gradually put the market back on sounder footing and reduce the risk of new construction falling sharply. December's rebound does not indicate the start of a recovery, which would be premature in current conditions. In Canada, significant disparities persist with weak oil prices. Markets in Vancouver and Toronto are slow to adjust, and the potential risk of a price correction is only heightened. It remains to be seen if the federal government's recent tightening of the minimum down payment, which went from 5% to 10% for loans above \$500,000, will somewhat slow the market in these two urban centres.

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