

QUEBEC

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Robust housing starts surprise

HIGHLIGHTS

- Housing starts (annualized and seasonally adjusted) for Quebec as a whole increased from 35,421 units in August to 40,461 in September. This represents a 14.2% monthly jump.
- In terms of raw data, housings starts grew 13.0% from September 2013 to September 2014 in urban centres of 10,000 or more residents.
- In September, Quebec's six CMAs were up 24.2% from the same month one year ago. Housing starts were up 7.9% in Montreal, 84.2% in Quebec, 12.7% in Saguenay, and 44.4% in Sherbrooke, and more than tripled in Trois-Rivières. The only decrease was in Gatineau, falling 40.0% from September 2013 to September 2014.

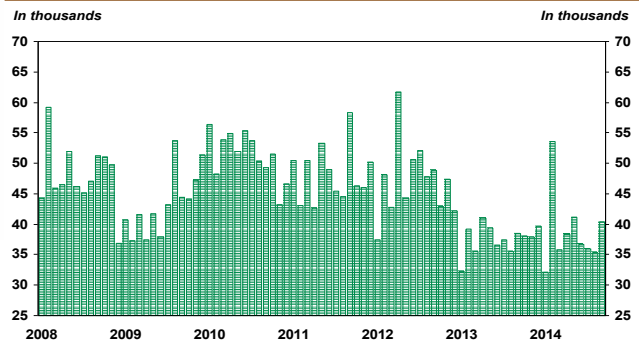
COMMENTS

The scope of September's upswing in housing starts was surprising. The annualized level had been oscillating around 35,000 units these past few months. A return above the 40,000-unit mark was unexpected in a context where buyers have been fewer for some time. Resales are on track to reach a 10-year low in 2014. Since the decline affects both houses and condos, the slowdown is clearly widespread.

In September, housing starts clearly contracted for houses and condos in the province's six main urban centres. Instead, the boom was in the rental apartment sector. The start of construction for 1,023 rental units, in raw data for September 2014, is sharply higher than the 436 units recorded for the same month last year.

This boom started in 2013 and continues this year. For the first nine months of the year, rental housing starts rose 41.7% in the province's six CMAs. The gains are significant in Montreal (+85.6%), Quebec (+46.2%) and Sherbrooke (+13.7%). However, Gatineau, Saguenay and Trois-Rivières posted retreats. All eyes are now on rentals, where the strong performance seems to match renewed demand for new apartments.

Housings starts climbed back above 40,000 units



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

Weakened condo construction was fairly widespread last month. Since the beginning of the year, condo starts have dropped almost everywhere in the province except in Gatineau and Montreal, where there are gains. The condo surplus in the resale market persists in the main urban centres, and new construction continues to adjust accordingly. Caution is still in order in this segment.

Implications: The recent strength in housing starts in Quebec is explained mainly by a deepseated trend toward rental units. Heightened demand, particularly from households without the means to buy a property, prefers new construction. This new trend is driving up housings starts. However, it is unlikely that new construction will maintain such a high pace over the coming months. Total housing starts to date for 2014 are hovering around 39,000 units, which is perfectly in line with our forecast.

Hélène Bégin
Senior Economist

François Dupuis
Vice-President and Chief Economist

Hélène Bégin
Senior Economist

Benoit P. Durocher
Senior Economist

Francis Généreux
Senior Economist

418-835-2450 or 1 866 835-8444, ext. 2450
E-mail: desjardins.economics@desjardins.com

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