

Canada: Housing starts (Mar) drop 1.5%

Immaterial at this juncture but the times they are indeed a chang'in

Canadian housing starts dropped 1.5% m/m to an annualized pace of 197.3K units, down from February's 200.4K (originally reported at 196.7K). Market median at 205K had been looking for a sizeable pick up for the starts number while our own forecast took a more pessimistic path, looking for a comparably depressed 185K. We had looked at the down side associated with the February building permits number which encouraged us to lop some of the top side off the starts number. The breakeven rate is 175K units (attrition plus population growth).

Recall that the latest building permits data pointed to a decline of -27.1% in the number of multi family units approved for construction. Overall, total units approved for construction in February dropped by 14.2% m/m which we had expected to have impacted the March starts number. For the forecast, we were looking for starts in the condo sector to have fallen to 76K which was just about spot on the actual at 77.5K. What we missed was the significant upside to the report afforded by a jump in rural starts, at 22.1K up from 17.6K, and a significant pick up in the single family starts component, at 97.7K up from 91.4K, which continued to build on previous months strength.

The jump is not without some basis. Digging deeper into permits data showed a rather strong 7% jump in approved single family units in January that was not entirely chewed through by the 3% pick up in February starts.

Geographically, the bulk of the declines in the current month came in the Ontario housing market where total starts dropped from 70.5K down to 59.6K. This is in keeping with the details of the February building permits data that sited the same. Anecdotally, some stories in the local press recently spoke to some degree of project saturation in the multi dwelling component. Still, the chunky nature of the typical condo project tends to suggest that the picture could swing around fairly significantly. We will be watching next month's permits data to see if just such a turn around in condo starts is going to be in the cards.

A couple of other key takeaways.

I) The backlog of projects that existed is likely receding given that in the February permits data, single family units approved for construction actually declined by 1% following a near 7% jump in approved units in January.

II) Economists (ourselves included) will be looking towards higher mortgage rates in the near term, changes in the tax structure that will affect new builds, and administrative changes in the pricing of variable rate mortgages as potentially taking some of the steam out of both the existing and new build housing markets.

Indeed. 2009 was largely characterized by a housing market that was operating at cyclical and historical highs at the same time the economy was operating at cyclical lows. A rather uncharacteristic set of circumstances that came about courtesy of both the pull of historically low interest rates and the push of a number of federally sponsored funding conduits that encouraged the banking sector to lend out in the mortgage category. A rather artificial set of circumstances that are in the process of being wound up.

Disclosure appendix

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