

May showers, June towers.

Canadian building permits (Jun) a better than expected +6.5% m/m.

Canada's new build sector kicked off the summer on a high note with June building permits rising by 6.5% m/m. This follows on the heels of a -8.2% decline in May. The market median, was looking 1.8% m/m. As for our own forecast, we got the story right, it was just the orders of magnitude that caught us off guard.

Underneath the report, growth in the dollar value of construction permits was led by the non-residential sector which experienced a near 24% m/m rise in builder intentions. By contrast, residential construction declined by -4.5% m/m (our forecast was looking for a more moderate drop of -3.5% m/m), led by a -8.3% drop in new permits for single family homes. Multi family dwelling permits rose by 2.0% m/m. Overall, the number of residential units approved for construction rose by 2.0%.

The shift in builder interest away from single family homes that tend to have higher pricing points than the multi family dwelling (condo) may be reflective of the rising financial barriers to entry into the Canadian housing market courtesy of higher interest rates, changes to the funding model for mortgages and the introduction of a harmonized sale tax in July which will hit the new build sector.

The non-residential category is the real surprise. Our forecast for an overall decline in permits of -5.8% m/m was predicated on a significant -13.4% m/m decline in the category. Necessarily the story was not entirely wrong. Rather, as we expected, both the institutional/government permits (-21.6% m/m) and industrial construction (-18% m/m) declined. Just not as much as expected. For the forecast, we had banked on declines of -30% and -25% respectively, following very large gains in the previous month. For the report, the bulk of the upside came out of the commercial permits category (+39% m/m) besting by a wide margin our forecast for a 15% m/m gain. Break out your fez. Growth in the commercial sector was concentrated on hotels, restaurants and conference centres according to Statcan.

Overall, while the residential component of the new build sector is expected to face some significant challenges going forward as the real estate market cools off from historically high levels of activity, it would seem that the construction sector continues to find work. At a dollar value of CAD6.6bn, (residential CAD3.6bn, non residential CAD3.0bn) the value of permits taken out in May is not far off the CAD7.0bn historical high printed in May of 2007.

Still, to have the construction sector operating near to the historical highs seems somewhat out of context with where we are in the current phase of the recovery cycle. On that basis, there is room to crowd in some pessimism as the first blush of the summer construction season gives way to the fall months. We expect to see some continued wind down in the residential category through the second half of 2010 and on to 2011 along with the wind up of project activity associated with the fiscal stimulus spending that ends Q1/11.

Disclosure appendix

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