

Canadian Housing Starts (May) - Stop

May housing starts decline by -6.3% m/m.

Canadian housing starts come to a stop in May, with the rate of construction slowing to 189.1K units on an annualized basis. This is well back of April's rate of construction at 201.7K. Market expectations had been looking for 202.0K, while our own pessimistic forecast was looking for 192K.

In producing the forecast we had leaned heavily upon the April building permits data from last week. Numbers that reflected some significant softening up in builder intentions with approved units for construction down -8.2% m/m in the multi family dwelling category. Equally soft was the -6.4% m/m decline in the number of approved units in the single family dwelling category. Overall, housing starts are down -6.3% from the previous month.

Underneath the headline softness, despite a decline of nearly 6K in the multi family unit category, starts at 92.8K is still reflective of heightened levels of activity. By contrast, the bulk of the headline softness was borne by the single family category which fell by 12K to a rather depressed pace of activity of 72.4K units. On the upside, rural starts bounded back, rising from a depressed 19.2K to 23.9K units.

Overall, the picture on the housing market, whether we are talking about the new build or the existing home category, the expectations going forward into the second half of 2010 and 2011 are for reduced levels of activity coming down from the historical highs that have been reached. A moderation/slowing in the pace of activity that will be led by higher financing costs, changes to the funding and financing formulas for mortgages and changes in the tax structure in Ontario and BC which host two of Canada's most active housing markets.

In keeping with this theme of slowing activity for the housing market, the Canada Housing Trust (CHT) indicated that they may sell 15% less debt this year as fewer mortgages are expected to be raised and funded.

One way of thinking about the less pronounced decline in the multi family category is from a cyclical standpoint. Although early on into the business cycle, Canada has a housing market that is already deep into its cycle. Given that home prices are at historically high levels, along with changes in the funding models that will raise the barrier to entry into home ownership, builder interest may very well be favoring multi family unit construction as higher overall costs force consumer demand into the multi family category that tends to come in at lower pricing points than is the case for single family residences.

None the less, the Bank of Canada and fiscal agents together have drawn a deep breath which, when exhaled, will invariably blow some of that froth off the housing market mug.

Disclosure appendix

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