

Canadian housing starts and stops

April starts up 1.3% m/m at 201.7K, back of the median at 205K

April's housing starts hit an annualized pace of 201.7K units which was up 1.3% from the previous but below the median looking for 205K and our own more optimistic forecast for 210K. In large part, the March building permits data from last week had encouraged our optimism given the massive pickup in approvals for multi-family unit construction. Recall that builder intentions in the "condo" category on a unit basis jumped by 46.0% on the month.

Indeed, in keeping with what was seen in the permits data, multi family starts jumped dramatically, rising by a whopping 27% to 98.6K units, well ahead of March's depressed rate 77.5K. This was well ahead of our forecast looking for 91K. Despite the upside, starts failed to keep pace with builder intentions suggesting that there is some backlog that could show up in a still strong level of activity in the condo category in May.

When are starts stops? Rural housing starts plunged, dropping from 25.6K units down to 19.2K. Single family home starts also shuddered, dropping from a lofty 96.1K down to 83.9K although the building permits data suggested that the number of approved units actual rose by 2.5%. Again, there is some realistic expectation that some of this lost activity could rear its head in the May report.

None the less, quite a mixed bag of activity. In isolation, one could suggest that lofty pricing metrics were forcing consumer demand into the condo market where pricing points are lower than for single family homes. An invariable maturing in a housing cycle that began long before the actual onset of the economic recovery. So too would the lower pricing points in the condo market suggest that they would largely avoid the onset of the HST which will apply to new homes over \$400,000.

Yet it may be just a little to soon to draw these conclusions given that builder intentions as per the month permits data tend to suggest that there is a good slug of activity that has been approved but yet to be turned into actual starts in the single family category.

That being said, when we pull the lens back from a single month's data and look towards the broader and longer term economic picture, most including ourselves are looking towards some significant moderation in the housing sector in the second half of 2010 and on into 2011 on the back of rising mortgage rates, changes in the affordability calculations for mortgages, and changes in the tax structure with the onset of the harmonized sales tax in July.

Just as ultra low interest rates and a banking sector encouraged to lend in the mortgage category courtesy of Federal mortgage pass through programs had lowered the bar on housing affordability for many Canadians, rising mortgage rates will have the opposite effect. As the economy moves forward into the second half of 2010, the affordability bar is heading higher once again, and expected to thin out the pool of potential home purchasers and sap demand. In turn this is expected at some point in the near future, to begin eating away at builder intentions in the household category.

Disclosure appendix

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