

# Canadian building permits - having some second thoughts?

January permits -4.9% m/m with a sizeable downward revision to December.

**Having some second thoughts? Not really.**

**To be certain, the number will disappoint expectations, but the fact that the residential category continues to perform decently is a balm of sorts. So too is the fact that the volatile non-residential category is largely working off recent strength tends to reduce any angst that may be associated with today's number.**

The details. Canadian building permits for the month of January dropped by a fairly significant -4.9% m/m, scotching the market median looking for a rise of 0.8% m/m. Our own forecast at -3.9% was slightly less pessimistic than the actual. A downward revision to December's release, from +2.4% down to -2.7% is unhelpful, although it does meet up with our forecast at the time.

Underneath the headlines, the softness in the permits data is coming out of non-residential sector which saw a whopping (-21% m/m) plunge led by commercial permits (-28.3% m/m) and institutional (-15.3%). Data from December on builder intentions in the commercial space saw a very significant run up in permits (+16%) that appears to have front loaded activity into the month and potentially cannibalized January's data. So we are willing to forgive a good slug of the decline in non-residential permits. Institutional projects (C\$440mn) are running at comparatively depressed levels, well below the 12mva (C\$685mn). However, if we pull back our lens further, we find that the current level of institutional permits is not too far off of the levels consistent with the pre-commodity boom fueled days of government spending.

For the housing market, the picture remains robust. Residential permits rose by 4.1% m/m following a decline of -2.65% m/m in December. What is particularly interesting is that the rise in the value of permits landed in that single family category (+7.2% m/m) at the expense of intentions in the multi-family category (-1.7%). On a unit basis, approvals are up 1.7% overall led by approved single family units +6.9% while builder interest in the multi-family dwelling category wanes -2.9% m/m.

This is interesting. Going into today's permits data and next week's housing starts numbers, we had the view that the profile of the new build market was adopting the characteristics of a maturing housing market. By that we mean that the higher pricing points associated with a robust real estate market, (according to industry data average house prices are up 20% y/y from last years depressed levels) were expected to have forced consumer demand in the multi family dwelling category (condos) which tend to have lower pricing points. While we would continue to view the real estate market in Canada as mature: given I) already high pricing points for housing, and II) government efforts to manage the consumers ability to borrow for a home; the data suggest its a less than tidy picture.

On the whole, the headline is worse than the underlying story.

# Disclosure appendix

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