



TD Economics

Commentary

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MAY PROVIDES FIRST SIGN OF A BOTTOM IN HOUSING STARTS

- Canadian housing starts registered a 9.2% uptick to 128,400 units in May
- Urban single and multiple units each registered 11.1% increases

This morning's housing starts data for May from CMHC provided us with the first sign that a bottom might be forming in Canadian homebuilding activity. Nation-wide homebuilding activity recorded its first broadly-based increase since October 2008, both in terms of unit types (singles and multiples) and regions of the country. On a regional basis, May's uptick and stabilizing 3-month trend was also broadly reflected. May saw urban starts jump by 22.0% in Ontario, 16.8% in the Prairies, 7.3% in the Atlantic, and a more modest 3.3% in Quebec. The latter province had not seen nearly the same magnitude of correction as other regions of the country in the first place, however. The only region to record a decline in urban starts in May was B.C., where they slid by 5.0%. The pace of decline in total B.C. starts has clearly moderated over the last few month of data, however, and this province seems likely to find its bottom near the May level of 11,200 units.

While March had seen a jump in overall national starts, it was almost solely on the count of condos in Ontario, and came on the back of two large consecutive 15% monthly drops early this year. As a result of the uptick in May, the 3-month trend level of total housing starts remained stable from the month prior at 130,800 units. As such, the data provide us with the first hint that Canadian housing starts might be finding their bottom. In particular, this is observable in the more telling single-family component, starts of which have flattened out. Recall that the (3-month) trend level of starts had been falling sharply, very much in line with the experience of the last two recessions, since the onset of the current recession in the fourth quarter of last year. While one month's worth of data is not yet enough

CANADIAN HOUSING STARTS*		
	May-09 (p)	Apr-09 (f)
Canada, all areas	128.4	117.6
Canada, rural	20.6	20.6
Canada, urban centres**	107.8	97.0
Canada, singles**	46.9	42.2
Canada, multiples**	60.9	54.8
Atlantic region	10.5	10.0
Québec	42.2	41.1
Ontario	43.8	36.3
Prairie region	20.6	18.4
Alberta	12.4	12.4
Saskatchewan	4.9	2.9
Manitoba	3.3	3.1
British Columbia	11.2	11.7

*SAAR, Thous. units; (f): final (p): preliminary; **Population of 10,000+
Source: Canadian Mortgage & Housing Corporation / Haver Analytics

to hail the end of this correction, it is consistent with our forecast that housing starts will find their trough this year just slightly below 120,000 units and average about as much for the remainder of the year.

The good news part is that homebuilding activity would cease to be a drag on economic growth and employment heading into next year. The bad news part, assuming our forecast unfolds, is that we do not expect the level of starts to head back above 150,000 units before 2011. In the context of a sluggish economy and faced with a likely higher inventory of unabsorbed units, homebuilding activity would not be expected to boost residential investment or contribute much towards economic growth and employment much next year either. The Bank of Canada and private-sector forecasters will, however, take some comfort in that the current cyclical downturn in homebuilding activity could be nearly complete, which helps to reduce some of the uncertainty inherent to the current recession and eventual recovery.

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