

No Crisis In Canadian Housing

Housing starts, seasonally adjusted at annual rate, June, 000s:

Actual: 248.1

Scotia: 200

Consensus: 210

Prior: 193.9 (revised down from 195.6).

- If there is a housing crisis that is walloping the Canadian economy then you could have fooled me.** Canadian housing starts (full report [here](#)) soared to the **fourth highest reading on record since before the global financial crisis in 2007**. At the margin, the data is bullish and while it didn't matter to the call, it only reinforces the case for tightening monetary policy when the BoC is expected to raise its overnight lending rate by 25bps to 1.5% tomorrow for a cumulative 100bps of tightening over the past year. Scotia Economics continues to expect another 100bps of hikes after tomorrow and by the end of next year.
- While large volatile multiple unit projects drove the gain and can easily swing the other way in the next report, the fact that permit volumes were so strong suggests there is no imminent let-up in sight on a trend basis. All of the pain from OSFI's B20 mortgage guidelines that impacted stress testing on uninsured mortgages and took effect in January appears to have hit the resale market as sales were brought forward into Q4 ahead of the changes and gave way to a weak Q1 but this effect is expected to subside into 2018H2. By contrast, the new build market has not been negatively affected. Indeed, it may be suggested that an unintended consequence was to boost the condo market as the relatively more affordable option for some households, although the strong caution is that project strengths are often years in the planning. That said, the fact that absorption rates for condo projects remain very strong suggests demand—that is also often times years in the making through presales—is matching supply.
- Single detached housing starts slipped by 3.5% m/m but remain in a healthy 56-64k range this year whereas multiple housing unit starts jumped by 46% m/m. That drove overall housing starts up by 28% m/m.
- There is more strength to come as evidenced by the permit volumes. Permit volumes for dwelling units were up 6.6% m/m, 12.7% y/y. Permits for new single detached dwellings were up 4.3% m/m but are still down 11.8% y/y though this may be signalling a bottom. Permits for multiple housing units were very strong and climbed by 7.4% m/m to drive the year-ago rate up at a rate of 24.3%. In dollar value terms, residential permits were up 7.7% m/m and are up 3.7% y/y with singles up 6.2% m/m (-12.2% y/y) and multiples were up 8.8% m/m (+21.3% y/y).
- By region, the strength was focused on the eastern half of the country. Ontario's starts almost doubled to 100,816 led by multiples that jumped 172% m/m and particularly in Toronto where multiple units jumped 231% m/m. Obviously this is the stuff of large lumpy projects coming on line. Quebec's starts jumped by about 50%. Atlantic Canada's starts jumped by about two-thirds. Starts fell by about 24% and starts fell by about 15% in BC.
- Absorption rates merit monitoring to see if newly completed units are going to inventory or not. For singles, 75% of homes completed have been absorbed which is about six points below the rate set last September and trending lower but the volume of unabsorbed units remains low. For multiples, the absorption rate is 88% and remains high on a trend basis.

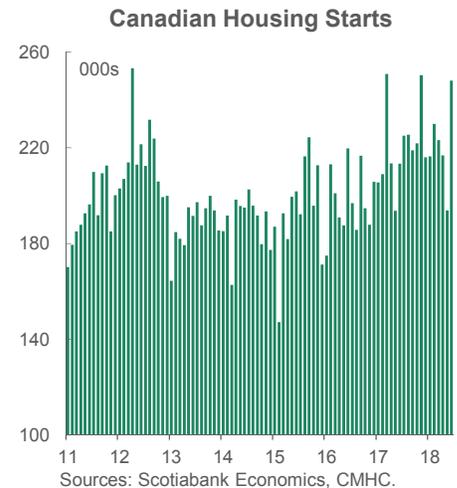
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