

ECONOMIC NEWS

Canada: For Housing Starts, the Trend Is Not Your Friend

By Randall Bartlett, Senior Director of Canadian Economics

HIGHLIGHTS

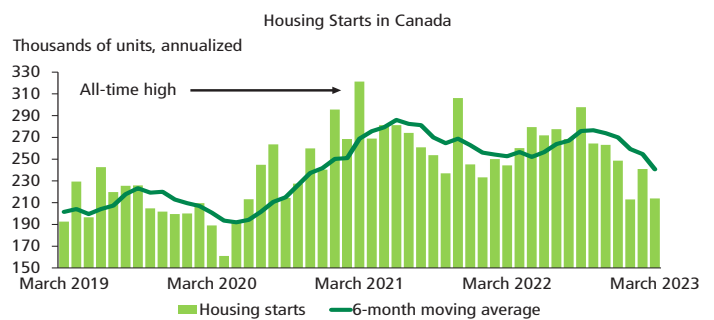
- ▶ Housing starts fell to an annualized level of 214K units in March 2023, down 11% from February. They have been trending lower since September 2022, helping to push the 6-month moving average down to 241K units from 255K in February.
- ▶ Urban single-detached starts dropped by 16% to 41K units in March, while urban multi-unit starts fell by a more modest 11% to 152K units in the month.
- ▶ The decline in housing starts was felt across the country, with all provinces but BC (40%) and New Brunswick (18%) seeing a decline in the month. Saskatchewan (-53%), PEI (-37%), and Quebec (-30%) saw the largest declines.
- ▶ Looking at the big cities in Canada, Toronto (-26%) and Montreal (-12%) posted meaningful declines while Vancouver defied gravity, posting a 98% increase over February as multi-family starts more than doubled in the month.

COMMENTS

After a surprise increase in February, housing starts came back to earth in March (graph). Indeed, the most recent month's number of starts was the lowest since the early days of the pandemic in June 2020. And we don't expect the slump to stop here. While the outsized gain in multi-family posted in Vancouver in March provided a tailwind to overall starts, it isn't likely to be repeated. As a result, BC's largest city should follow other major centres lower in April. This makes sense, as housing starts typically follow existing home sales with a 6-month lag, and starts have a long way to go to catch up with the correction in resales that began in early 2022. Further, anecdotal information suggests multi-family presales have slowed considerably since the heady days of the pandemic.

GRAPH

Housing Starts Came Back to Earth in March 2023



Sources: Canada Mortgage and Housing Corporation and Desjardins Economic Studies

IMPLICATIONS

Today's news that housing starts continue to trend lower should satisfy the Bank of Canada's desire to see activity in interest-rate sensitive sectors slow further. Along with the rapid slowing in March headline inflation published yesterday, this provides further support for our view that the Bank will remain on hold before cutting around the turn of the year. However, with the population surging, labour market remaining tight, and interest rates falling on expectations of future cuts, the existing home market is revving up for a rebound. Prices shouldn't be far behind, particularly with the pace of new supply trending lower.