

ECONOMIC NEWS

Canada: Housing Starts Are Still Up, but Will They Ever Stop?

By Randall Bartlett, Senior Director of Canadian Economics

HIGHLIGHTS

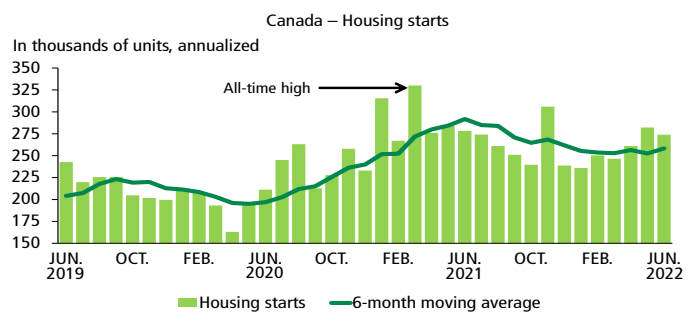
- ▶ Housing starts came in at an annualized pace of 273,841 in June 2022, down 3% from May. However, housing starts remain near record levels, helping to push the 6-month moving average higher to 258,295 units.
- ▶ Urban single-detached starts dropped by 4% to 60,416 units in June, while urban multi-unit starts slumped by a more modest 2% to 197,022 units in the month.
- ▶ Looking to the provinces, the June retreat in housing starts was roughly split across regions, with advances in Ontario, Manitoba, Saskatchewan and British Columbia more than offset by declines in the remaining six provinces.
- ▶ All of the big Canadian cities of Montreal, Toronto and Vancouver recorded higher housing starts in June, driven primarily by advances in multi-unit starts.

COMMENTS

Following two monthly gains, housing starts in Canada took a bit of a breather in June. However, the continued elevated pace of new home construction stands in stark contrast to the rapid retreat in sales activity in the existing home market. As such, it begs the question: Housing starts are still up, but will they ever stop? We think they will start to slow in the coming months and quarters as rapidly rising interest rates continue to weight on housing activity, ultimately spilling over into the new home market.

GRAPH

Housing starts take a breather in June 2022 but remain elevated



Sources: Canada Mortgage and Housing Corporation and Desjardins, Economic Studies

IMPLICATIONS

The June housing starts data was a bit of a silver lining in an otherwise pretty gloomy economic news cycle. Indeed, the construction sector looks like it had a decent month in June after a moribund May. As such, this helped to reinforce our real GDP growth tracking of around 4% (q/q, saar), in line with our recent [Economic & Financial Outlook](#). However, we don't think housing starts can be sustained at this pace indefinitely, as an ongoing increase in borrowing costs and weakness in existing home sales will ultimately spill over into the new home market. With residential investment expected to provide the primary drag on the outlook (see our recent [Economic Viewpoint](#)), we are now of the view that there are roughly even odds of a recession in 2023.