

Housing starts in April slowed but remained strong

Seasonally-adjusted annual rate

April: 214.4K (actual); 220.0K (expected)

March: 225.2K (unrevised)

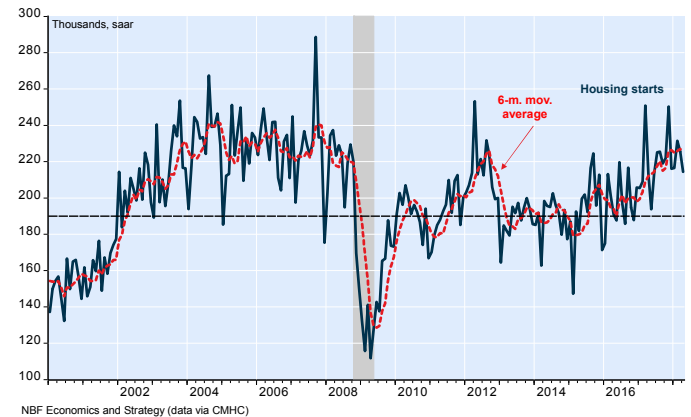
FACTS: Housing starts edged down in April to an annualized 214.4K units (top chart). Urban starts were down 9.8K (to 198.1K) as groundbreakings dropped in both the multiple (-3.9K to 141.0K) and single units categories (-5.8K to 57.1K). Rural starts, for their part, dropped 1.3K to 16.3K. The modest drop at the national level was a result of a great deal of variation in the country's provinces. Indeed, starts fell 16.7% in British Columbia (to 41.1K), 6.6% in Ontario (to 70.0K) and 82% in Newfoundland (to 1.1K) while they rose 8.1% in Quebec (to 57.4K), 10.1% in Alberta (to 29.7K) and 21.4% in Nova Scotia (to 3.5K).

OPINION: Housing starts weakened in April but remain relatively strong on a historical basis. Diving in, the largest contributor to the decline was urban single-detached starts. Specifically Toronto saw a fairly major swing as starts declined 29% in the singles portion. Elsewhere, groundbreakings appeared to be on the rise. The solid increase in Quebec on the back of two previous upswings is somewhat surprising given rising rates and stricter mortgage requirements. The increase is essentially due to a rise in Montreal multis (73% to 30.6K). Builders in the Montreal CMA may have been attracted to the current sellers' market (middle chart). Looking at the quarterly picture, housing starts countrywide dropped an annualized 8.4% in Q1 and are on track to drop 16.8% in the second quarter of the year (assuming no change in May and June). After having contributed to residential investment in the last half of 2017, the current trend may translate into a negative contribution to growth from residential construction in the first half of 2018. Going forward, residential construction could be restrained by rising interest rates and more rigorous rules for mortgage lending (B-20 regulations). That being said, the effects should mostly be seen in the urban-single starts with continued buildup in the multiple category which tends to be more affordable (bottom chart). All in all, a strong labour market and favourable immigration flows should continue to provide the necessary support for demand and keep housing starts slightly above levels consistent with demographic needs (i.e. around 190K).

Kyle Dahms

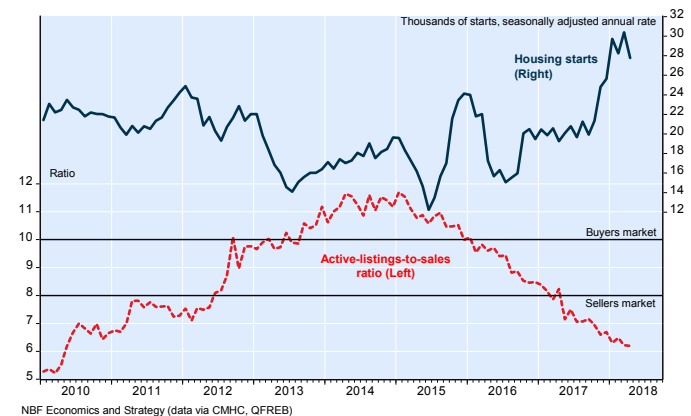
Canada: 214.4K dwelling units started in April

Housing starts



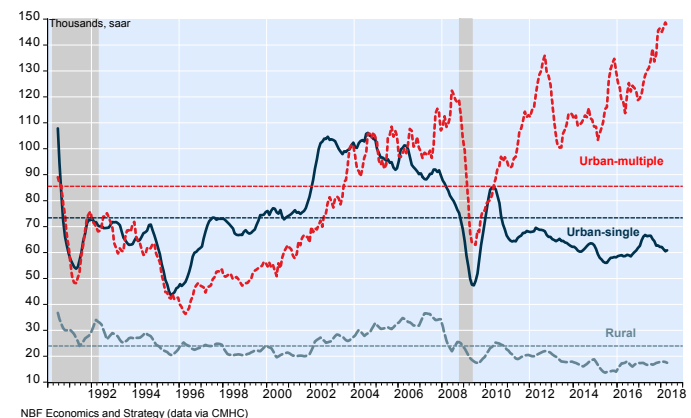
Montreal: Builders enticed by a strong home resale market

Housing starts in Montreal (6-month moving average) and home resale market



Multiple construction trending well above historical average

6 month moving average of housing starts vs. historical average



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