



TD Economics

Commentary

August 11, 2008

MANY HAMMERS FELL SILENT IN JULY

- Canadian housing starts drop by 14% in July
- Lead by a 28% dip in Ontario, mostly multiple unit starts in Toronto
- Single unit starts continue their downward trek

Canadian housing starts dipped in July to 186,500 units, thereby recording a second consecutive monthly decline, and the most significant since December 2007. The overall level of new residential construction activity recorded in July fell significantly short of expectations for a total of 210,000 starts. Alberta (+23%) and British Columbia (+5%) managed to sidestep the national trend, but every other province recorded significant reductions in housing starts. Saskatchewan (-56%) led the way down percentage wise, but it was Ontario's 28% pullback in starts that weighed the most on national figures.

As for the unit type composition of activity, the volatile multiple unit segment took the largest hit, mostly in Ontario as well. Meanwhile, urban single unit starts continue their gradual downward trend across the country, posting a 7% decline in July.

While the figures for July are disappointing, one should not read too much into an oversized drop in multiple starts in a single month. The month-to-month volatility in this market segment is remarkably high on both the upside and downside. The trend in single starts is usually more telling, and it remains consistent with our theme for this sector of the Canadian economy, which is that it should experience a cooling after running too hot for too long. As such, urban single-family starts continue their downward trend, which started in mid-2004 – with only 69,800 units starts recorded in July, their lowest level in ten years. A greater number of existing homes for sale and the continued long-term shift to smaller and relatively cheaper multiple-family units will continue to put downward pressure on single family starts over the next 12-18 months.

Turning to the multiple-family unit segment, the outlook

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CANADIAN HOUSING STARTS*		
	July-08	June-08
Canada, all areas	186.5	215.9
Canada, rural	25.1	26.4
Canada, urban centres**	161.4	189.5
Canada, singles**	69.8	74.7
Canada, multiples**	91.6	114.8
Atlantic region	8.8	11.9
Québec	43.9	46.5
Ontario	59.2	82.0
Prairie region	37.1	39.9
Alberta	29.0	23.6
Saskatchewan	4.7	10.8
Manitoba	3.4	5.5
British Columbia	37.3	35.6

*SAAR, Thous. Units; **Population of 10,000+
Source: Canadian Mortgage & Housing Corporation / Haver Analytics

is more uncertain. As is typical, we could easily see a bounce-back in August but the larger question is where the trend will sit going forward. The July figures make it likely that multiple starts peaked in the medium-term at around 130,000 units in the first quarter of this year. However, we do not see such a strong turning point as the July data would suggest, particularly in Ontario where multiple projects remain in the pipeline. The most likely scenario for the remainder of this year is for continued gradual cooling and levelling off in single starts. This should be accompanied by a still high level of multiple starts, closer to levels observed in 2005-07 than the spike seen in early 2008. There will be a natural tendency to read too much into this monthly decline and straight-line these figures forward to conclude that construction is falling off the rails. We think it important to caution observers against such a knee-jerk reaction to this month's CMHC report. Residential construction is easing and should continue to do so, but at a modest year-over-year rate of 3-5% contraction, not July's 16%.

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