

## October housing starts surprise on the upside

### Annual rate

October: 222.8K (actual); 211.0K (expected)

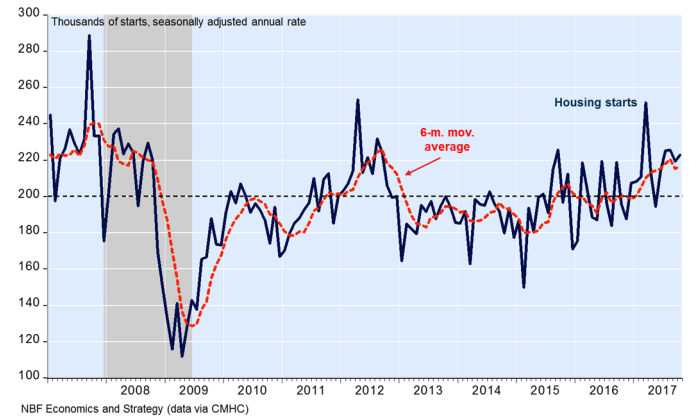
September: 219.3K (revised up from 217.1K)

**FACTS:** Housing starts reached 222.8K units in October, rising 3.5K (1.6%) from the revised level in September (top chart). The monthly increase can be explained by a 16.6K (12.5%) advance for multiple starts in urban areas, which more than offset setbacks for singles - the latter contracted 11.6K (-17.1%) to 56.3K, the lowest level in more than a year. Rural starts, for their part, were down 1.5K (-8.2%) to 16.8K. Starts declined in Ontario (-19.4K), Nova Scotia (-2.4K), Manitoba (-1.0K), New Brunswick (-0.3K) and PEI (-0.2K) but those were more than offset by gains in British Columbia (+15.9K), Quebec (+8.1K), Saskatchewan (+2.2K), Newfoundland and Labrador (+0.4K) and Alberta (+0.2K).

**OPINION:** Housing starts were better than consensus expectations in October. Following a drop in September, Canadian residential construction increased and continued to perpetuate a level that is higher than demographic needs (estimated to be around 190K). Starts in the Toronto market dropped over 20% after a 34% drop the prior month. A more normal level of the active listings to sales ratio in that city (a measure of the resale market) helps contextualize decays in residential construction (middle chart). Supply is largely falling back in line with demand and as such we do not expect a large upswing in construction for the Toronto region for the next few months. Builders in other regions continue to be motivated due to demand from a solid labour market and still relatively low interest rates. Housing starts expanded more than 35% annualized in Q3 (driven largely by multi-family homes), which suggests residential construction likely contributed to GDP growth in the third quarter. But based on declining residential permit applications, increasing interest rates and tougher qualifying factors for mortgages, a moderation is in the cards for residential construction in the last quarter of 2017 (bottom chart). With October's print and assuming all else stays the same for the next two months, housing starts are on track to contract slightly in the fourth quarter.

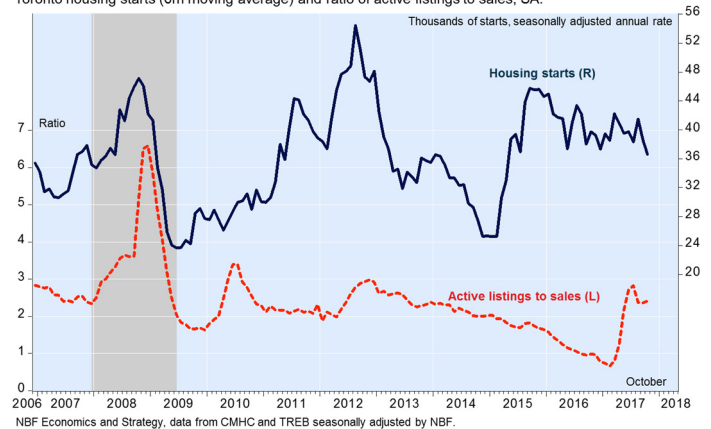
Kyle Dahms

**Canada: 222.8K dwelling units started in October**  
Housing starts

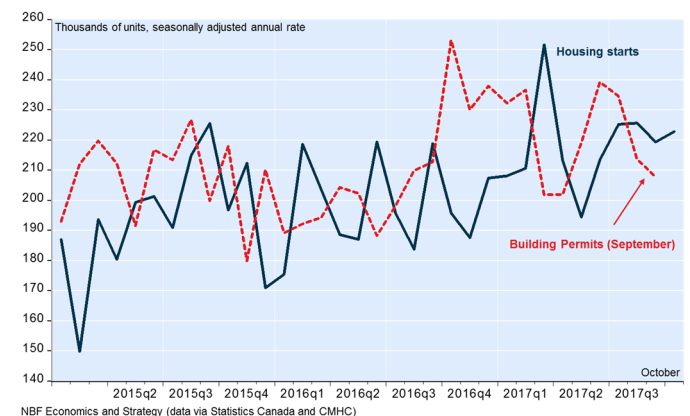


**Toronto: A more balanced resale market suggests a moderation in residential construction**

Toronto housing starts (6m moving average) and ratio of active listings to sales, SA.



**Canada: Housing starts and number of building permits**



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