

Housing starts come back to earth in December

Seasonally-adjusted annual rate

December: 217.0K (actual); 211.0K (expected)

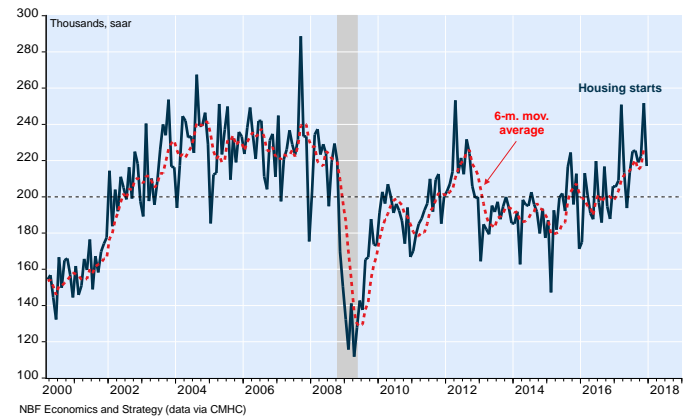
November: 251.7K

FACTS: Housing starts decreased for the first time in three months in December, declining 34.7K (13.8%) to an annualized 217.0K units (top chart). Most of the retreat can be attributed to a 38.1K (22.0%) drop in urban area multiple starts, which dwarfed increases in the urban single (+2.8K or 4.7%) and rural (+0.6K or 3.3%) categories. On a regional basis, starts declined in only three provinces out of ten: Ontario (-33.0K), Alberta (-11.5K) and PEI (-0.3K). Elsewhere, gains were recorded in British Columbia (+4.7K), Quebec (+3.7K) and Manitoba (+0.8K) among others.

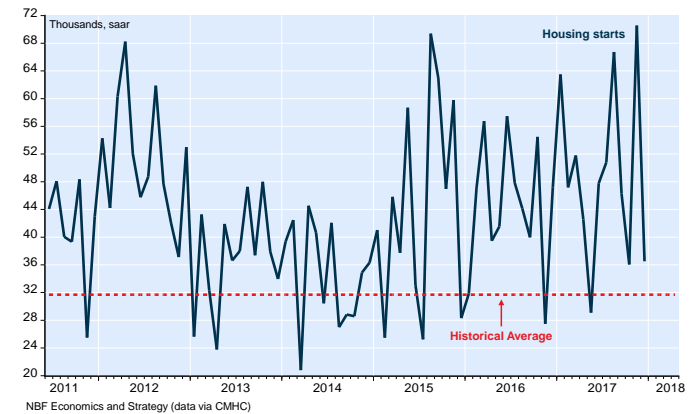
OPINION: Housing starts declined sharply in the last month of 2017 but still managed to beat consensus expectations (211K). A retracement was always in the cards after the unsustainable figure posted in November (251.7K). A good chunk of the decline in December stemmed from an expected fall in multi-unit starts in Ontario (-34.0K) after the latter reached an all-time high in the previous month (middle chart). Excluding that category, housing starts countrywide were roughly flat month on month. Looking at quarterly data, starts advanced an annualized 13.5% in the fourth quarter, following a +35.6% print in Q3 (bottom chart). Despite that jump, it is hard to know whether or not residential construction contributed to economic growth in Q4. True, quarterly data showed a marked increase in multiple starts (+35.8% annualized), but ground-breakings for single units, whose per-unit contribution to GDP is greater, slumped 28.6% in annualized terms. One thing is for sure: 2017 has truly been a banner year for residential construction in the country, with starts totaling 220.5K, the best figure in ten years. Such a performance is unlikely to be repeated in 2018. Indeed, with the implementation of the new B-20 guidelines for mortgage lending, and considering that the Bank of Canada is likely to continue its tightening of monetary policy, we expect housing starts to drop to levels more consistent with household formation.

Jocelyn Paquet

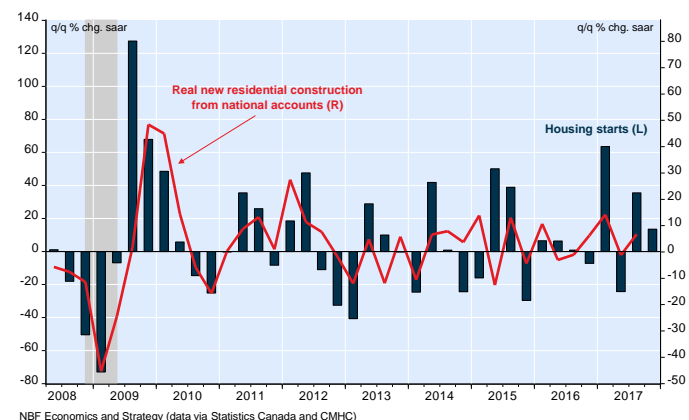
Canada: 217.0K dwelling units started in December
Housing starts



Ontario: Starts for multiple units fall back to more normal levels
Ontario urban multiple starts. Last observation: December 2017



Canada: New residential construction may have added to Q4 GDP
Real new residential construction expenses and housing starts



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