

# Report on **Business**

## New home price rise fuels bubble debate

Prices jump in December for sixth consecutive month

Ottawa — Reuters Published on Thursday, Feb. 11, 2010 9:00AM EST Last updated on Thursday, Feb. 11, 2010 11:12AM EST

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New home prices in Canada rose for the sixth straight month in December on historically [low interest rates](#) and rising consumer confidence, fueling fears the housing market is heating up too fast.

Statistics Canada said Thursday prices climbed 0.4 per cent from November, matching the median forecast in a Reuters poll, but were down 0.9 per cent compared with December 2008.

“If this pace of growth continues, builder prices should be back up to prerecession levels by next spring/summer,” said Scotia Capital economists Derek Holt and Karen Cordes in a note.

On a monthly basis, the housing-only component of the new housing price index rose by 0.5 per cent and the land-only component slipped 0.1 per cent.

“This should put modest upward pressure on core inflation although other factors, such as the strong Canadian dollar, should continue to keep inflation well-contained,” Mr. Holt and Ms. Cordes wrote.

As housing prices and sales gather speed, some economists have warned of a possible housing bubble in which home buyers take on more debt than they will be able to handle when [interest rates](#) rise, leading to an eventual collapse that could hamper the economic recovery.

Finance Minister Jim Flaherty and Bank of Canada Governor Mark Carney both said Saturday they did not see evidence of a [housing bubble](#), downplaying fears of a Canadian version of the U.S. subprime mortgage meltdown.

But Mr. Flaherty stands ready to tighten mortgage insurance rules for riskier mortgages if necessary, his press secretary, Chisholm Pothier, said Thursday.

“There is no clear evidence now of a housing bubble in Canada,” Mr. Pothier said.

“(Flaherty) has policy tools available to take action to counter negative trends. He has used some of them before and can use some, or all, of them again.”

Former Bank of Canada Governor David Dodge suggested in a television interview Wednesday that the federal housing agency, Canada Mortgage and Housing Corp., should look carefully at the current terms for insuring mortgages.

