



TD Economics

Commentary

December 8, 2006

STEADY AS SHE GOES: HOUSING STARTS STABLE IN NOVEMBER

- Housing starts stable in November at 225K
- Gain in multiples offset continued weakness in single unit construction

While typically volatile, Canadian housing starts resembled a sea of tranquility in November, remaining essentially unchanged following October's 6.8% increase. Rising in November by just 0.8% to 225,000 annualized units, the current level of total housing starts remains firmly anchored to the six-month trend. Nevertheless, the level of starts has eased somewhat over the course of the year.

Underlying the stability in November's data was an offsetting 5.7% rise in multiple units and a 4.3% fall in single units. This represents the second consecutive month that multiple unit starts have increased, reflecting higher demand for condominiums and town homes in larger metropolitan regions. By comparison, single unit starts have eased significantly since the start of the year, falling by 22% since January. Part of this rotation towards multiple unit projects reflects increasingly scarce land in some urban regions (Vancouver and Toronto) as well as declining affordability for detached homes (as in Calgary). Going forward, growth in multiple unit projects will likely remain robust as Canada's cities continue to remain a final destination for immigration. Meanwhile, single unit starts will likely feel the brunt of the cooling housing market.

Regionally, Atlantic Canada and the Prairies saw the largest rates of increase, especially in multiple units. In the Prairie Provinces alone, starts for multiple units rose to 25,600 in November. By contrast, Central Canada and British Columbia saw the level of starts fall in November with Quebec leading the way with an 11.7% decline. The declines observed in British Columbia (-7.9%) and Ontario (-3.8%) were not as dramatic by comparison.

With just a single month remaining under wraps, it is safe to say that 2006 has been a very good year for Canada's housing market.

CANADIAN HOUSING STARTS			
	Nov. '06 (p) Adjusted*	Oct. '06 (f) Adjusted*	% Change M/M
Canada, all areas	225,000	223,200	0.8
Canada, rural	31,500	31,500	0.0
Urban Centres**	193,500	191,700	0.9
Canada			
Canada, singles	87,900	91,800	-4.2
Canada, multiples	105,600	99,900	5.7
Atlantic region	8,500	7,000	21.4
Quebec	40,100	45,400	-11.7
Ontario	62,800	65,300	-3.8
Prairie region	51,800	41,100	26.0
Alberta	46,600	31,700	47.0
Saskatchewan	2,900	3,100	-6.5
Manitoba	2,300	6,300	-63.5
British Columbia	30,300	32,900	-7.9

p: preliminary; f: final; *Seasonally adjusted at annual rates
**Population of 10,000+; Source: CMHC

With a cooling economy on the horizon, the spotlight has begun to shift to the future and while this year's estimated tally of 228,000 starts may be a tough act to follow, 2007 will likely deliver a solid performance. Housing starts will be buoyed by reasonably low inventories of new and existing dwellings. In turn, housing demand will remain supported by strong fundamentals including low unemployment, respectable growth for disposable income, and reasonable levels of affordability. In addition to these cyclical factors, housing starts will also benefit from the structural impact of the echo generation. More specifically, this cohort has been moving into the 25+ age category, providing a large pool of first time buyers, which when combined with continued immigration, will provide further support to this mature stage in the housing cycle. Accordingly, look for housing starts to hold at a still solid level of 205,000 next year and 195,000 in 2008.

David Tulk, Economist 416-982-2557

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