



## HOMEBUILDING HOLDS UP IN NOVEMBER

- **Canadian housing starts (158,500 units) were largely unchanged (+0.7%) from October**
- **A 3.4% M/M increase in urban single starts more than offset the 1.7% M/M decline in urban multiple starts**

Homebuilders started on 158,500 units in Canada in November. This was largely unchanged from the prior month, slightly below the consensus expectation of 160,000 units, and significantly below our more optimistic call of 165,000 units. While we are somewhat disappointed with the headline figure, the composition of the increase in activity was favourable. It came from the single-detached home segment. So while urban multiple starts declined by 1,200 units (-1.7% M/M), this was more than offset by an additional 2,300 (+3.4% M/M) single-detached units. Single-detached home starts tend to be a more stable and reliable gauge of the underlying trend in overall homebuilding due to the lumpiness and inherent volatility of multiple-unit starts.

The regional composition was less favourable in that it left out some large regions. While an increase in urban starts in B.C. (+6.2%), Quebec (+10.0%), and the Prairie region (+8.2%) contributed to the national uptick, urban starts were fewer in Ontario (-8.3%) and Atlantic region (-9.8%). The estimate for rural starts (17,400 units) is always left unchanged within any given quarter.

While the uptick in homebuilding activity recorded in November was modest, this sector of the Canadian economy is still on the mend. Starts were 8.3% fewer than a year prior, although this weakness was concentrated in the rural (-21.3% Y/Y) and multiple segments (-15.8% Y/Y). Single-detached starts were actually 5.6% higher Y/Y. This reflects the fact that single starts had been on a long downtrend nearly a full year prior to the easing in condo building, and is not atypical of the experience seen in previous recessions.

In the months ahead, we expect to see a sustained improvement in homebuilding activity, and have recently upgraded our housing starts forecast to reflect the extraordinary strength of the resale market along with an easing on the cost side. The recession has had a price dampening effect on the cost of materials and labour. A high Canadian

CANADIAN HOUSING STARTS*		
	Nov-09 (p)	Oct-09 (f)
<b>Canada, all areas</b>	<b>158.5</b>	<b>157.4</b>
Canada, rural	17.4	17.4
Canada, urban centres**	141.1	140.0
Canada, singles**	69.8	67.5
Canada, multiples**	71.3	72.5
<b>Atlantic region</b>	<b>10.9</b>	<b>11.7</b>
Québec	40.4	37.2
Ontario	53.0	57.6
<b>Prairie region</b>	<b>35.1</b>	<b>32.8</b>
Alberta	24.8	25.0
Saskatchewan	6.1	3.6
Manitoba	4.2	4.2
British Columbia	19.2	18.2
*SAAR, Thous. units; (f): final (p): preliminary; **Population of 10,000+ Source: Canadian Mortgage & Housing Corporation / Haver Analytics		

dollar also helps homebuilders' cost equation through lower imported materials costs denominated in USD, while they face no negative export exposure to the elevated loonie. Furthermore, the resale housing market balance has been tight in recent months as a result of buoyant demand and a relative dearth of supply in many markets. As a result, existing home prices have been climbing. With a lag, this tends to elicit a positive supply response from homebuilders, and there is in our view enough momentum in the current resale market balance to sustain price gains for much of next year.

We expect total housing starts to climb by 9-10% from Q3/2009 to average near 160,000 units in Q4/2009, and continue climbing toward 175,000-180,00 units in H1/2010 before easing somewhat in the second half. Overall residential investment – which includes renovation investment – should contribute significantly to real GDP growth between now and the second half of next year. As a percentage of real GDP, residential investment is highly cyclical and hit a trough of 5.5% in Q2/2009 before climbing to 5.7% in Q3/2010. We expect this share to reach 6.0% (near the long-term average) by Q2/2010, in particular as the increase in homebuilding activity from depressed levels in Ontario, Alberta, and B.C. help fuel the overall economic recovery.

*Pascal Gauthier, Economist*  
416-944-5730



This report is provided by TD Economics for customers of TD Bank Financial Group. It is for information purposes only and may not be appropriate for other purposes. The report does not provide material information about the business and affairs of TD Bank Financial Group and the members of TD Economics are not spokespersons for TD Bank Financial Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. The report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise TD Bank Financial Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.