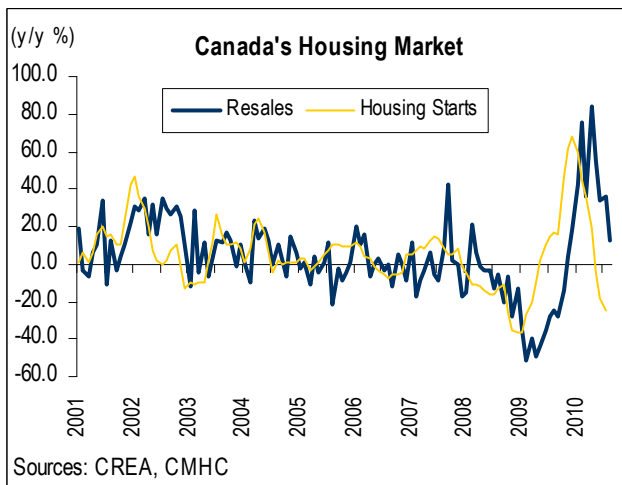




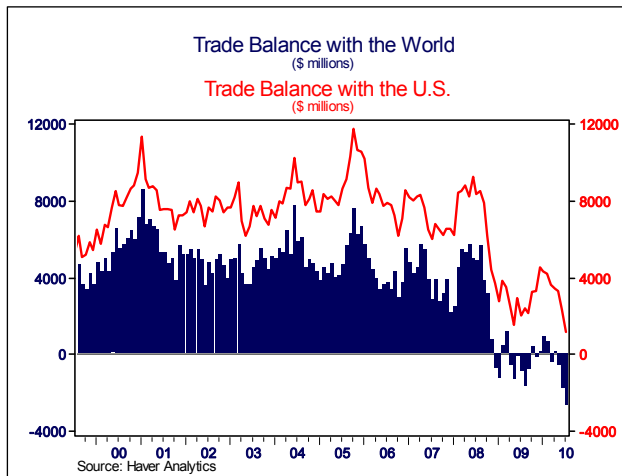
September 10, 2010

Housing Starts Weaken in August, But Remain Strong



August saw fewer starts on new housing units than the previous month, with 183,300 units (annualized and seasonally adjusted) compared with 188,900 units. The 3% drop in housing starts stems from a dip by construction on both single-family dwellings and multi-unit housing.

Although construction starts are down 11% since April, they are still higher than they were in 2009. This situation reflects strong past demand that translates into a current supply, which remains large. For example, some buyers in Ontario and British Columbia signed contracts with builders last spring to avoid the HST, while construction on their homes started this summer. As the months go by, the impact of this type of transaction will dissipate and we should see housing starts drop more steeply this fall, especially as the situation in the resale market, which is grappling with softer demand, suggests that the supply of new units should decrease substantially. The situation is already less rosy in Québec: at 44,300 units, it is the lowest it has been since October 2009.



In local markets, the resale situation clearly shows that the overall housing market is losing its lustre. In fact, July's resales were down from July 2009 in Canada's 28 CMAs. The dip is especially steep in Ontario and western Canada. Unsurprisingly, in August, resales plunged even further: in Vancouver, sales are off 36% (y/y), while they are down 22% in Toronto. Although these were very active markets early this year and it is normal to see a bigger decline, these results suggest that the contraction by resales will accelerate in other markets as well. In other words, resales are heading for levels that are more sustainable in the long run.

After more than a decade of lively demand, the housing market is definitely due for a long break. However, as Canadian fundamental economic indicators remain relatively strong—in

fact, the outcome of the August *Labour Force Survey* should show employment gains tomorrow after July's pause—the housing market will not see an American-style shakeout.

Weak American Demand Hurts Canadian Exports

Given that “in the United States, the recovery in private demand is being held back by high unemployment and recent indicators suggest a more muted recovery in the near term,” as stated by Governor Carney yesterday, it is not surprising to see Canada's merchandise trade balance deteriorate. The deficit went from \$1.8B to \$2.7B, a record low! The value of exports to the United States fell 2.2%, while imports rose 2.9%. Canada's trade surplus with the United States has therefore declined, going from \$2.4B in June to \$1.2B in July; the surplus has not been this small since the early 90s.

In closing, there is a long way to go until October 19, but these results tip the scale a little more toward an overnight rate target staying at 1.00% this autumn.

Marie-Claude Guillotte, Economist