

Economy at a Glance

Prepared by Alex Carrick, ConstructConnect® Chief Economist

Housing starts catch breath in U.S., go full steam ahead in Canada (Part I)



Alex Carrick

Permits still exceeding starts

In the U.S., *new home building*, which seemed set to keep surging, has lost some of its momentum in the last two months.

In Canada in February, there was only a minor hesitancy in the headlong rush of residential groundbreakings, due to Toronto 'playing it cool'.

Let's look at the U.S. first. After reaching a peak level of housing starts of 1.670 million units in December of last year, the figures have dropped to 1.584 and 1.421 in the latest two months respectively.

The bias of work still leans towards single-family starts, which in February were -8.5% month to month, but +0.6% year over year. Multi-family starts lost support, declining -15.8% m/m and -28.5% y/y.

Regionally, only the West managed percentage-change increases in housing starts both m/m and y/y in February, +17.6% and +15.8%. The Northeast was -39.5% m/m and -2.5% y/y; the Midwest, -34.9% m/m and -29.9% y/y; and the South, -9.7% m/m and -16.6% y/y.

To date in 2021, the South has accounted for half (50.8%) of all housing starts nationally. The West has claimed a share a little bigger than a quarter (27.1%). The other two regions have approximately split the remainder (10.5% for the Northeast and 11.6% for the Midwest).

One shouldn't become too discouraged by February's pullback in total U.S. housing starts. Residential permits, which are a leading indicator for starts, have continued strong. In the latest month, they were 1.682 million units, +17.0% y/y (although they were -10.8% m/m).

Over the past 12 months, the number of permits issued in units has exceeded the number of starts, also measured in units, by 100,000.

To be continued in *Economy at a Glance*, Vol. 17, Issue 53.

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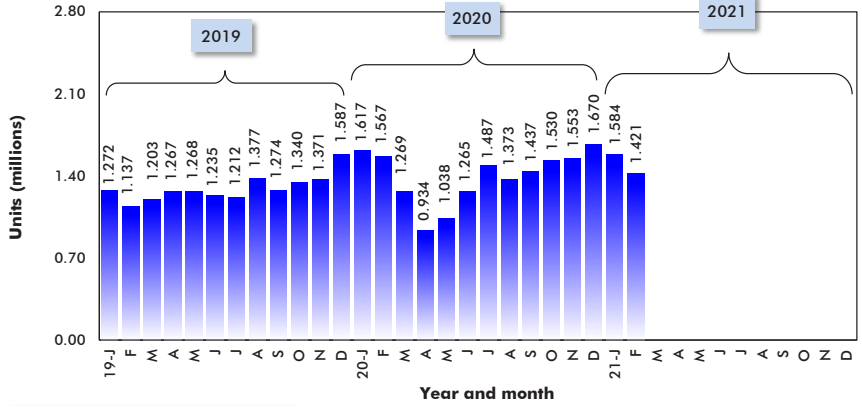
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The last data points are for February 2021.

Data source: U.S. Census Bureau (Department of Commerce) / Charts: ConstructConnect — CanaData.

Graph 1: U.S. Monthly Housing Starts – Seasonally Adjusted at Annual Rates (SAAR)

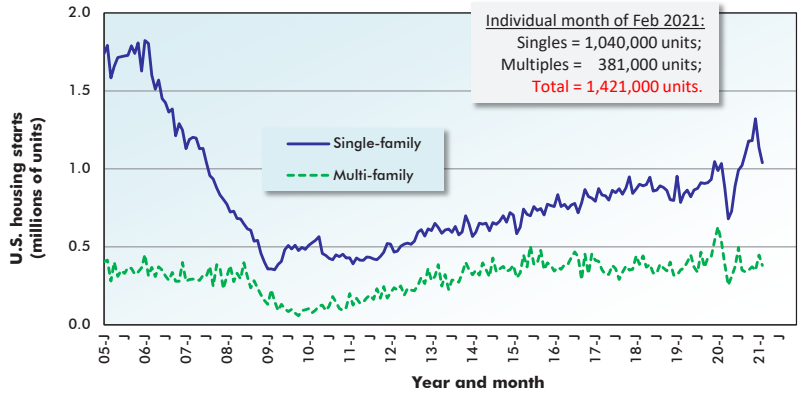


United States' annual starts:

2015 = 1.112 million units (+10.9%);
2016 = 1.174 million units (+5.6%);
2017 = 1.203 million units (+2.5%);
2018 = 1.250 million units (+3.9%);
2019 = 1.290 million units (+3.2%);
2020 = 1.380 million units (+7.0%);

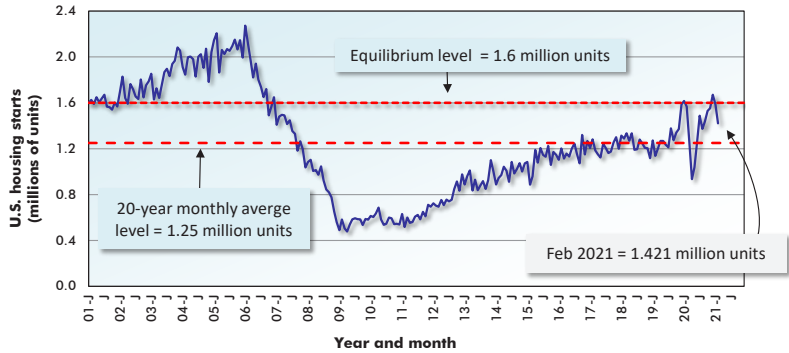
Jan-Feb Avg. 2020 = 1.592 million units;
Jan-Feb Avg. 2021 = 1.503 million units (-5.6% ytd).
Dec 2020's 1.670 has been peak so far since last recession.

Graph 2: U.S. Single-Family & Multi-Family Monthly Housing Starts – Seasonally Adjusted at Annual Rates (SAAR)



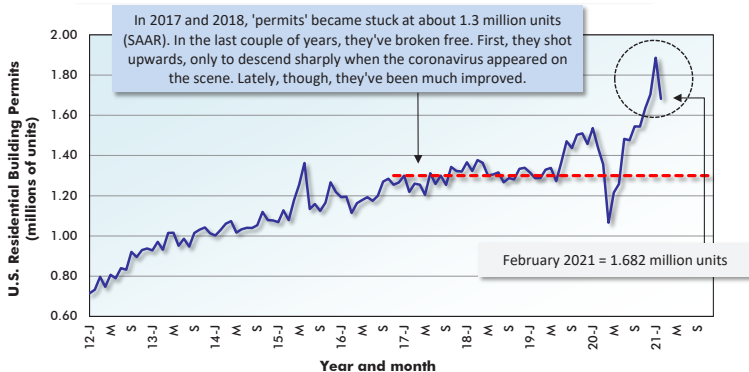
In the individual month of February 2021, single-family starts were -8.5% m/m, but +0.6% y/y; multi-family starts were down on both counts, -15.0% m/m and -28.5% y/y.

Graph 3: U.S. Total Monthly Housing Starts – Seasonally Adjusted at Annual Rates (SAAR)



To accommodate population growth & family formations, the equilibrium level for U.S. housing starts is thought to be 1.6 million units. The monthly average over the past 20 years, however, has been 1.25 million. Lately, for the most part, starts have been fluctuating between those 2 levels.

Graph 4: U.S. Monthly Residential Building Permits – Seasonally Adjusted at Annual Rates (SAAR)



U.S. residential building permits in Feb 2021 were -10.8% vs Jan 2021. Compared with Feb 2020, they were +17.0. 'Permits' generally set the pace for 'starts' (i.e., they lead by a couple of months).

Economy at a Glance

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Housing starts catch breath in U.S., go full steam ahead in Canada (Part 2)



Alex Carrick

Continued from *Economy at a Glance*, Vol. 17, Issue 52.

Climbing mortgage rates and prices apply a damper

It seems one can't talk about housing construction without

also delving into the subject of prices.

The Census Bureau's *price deflator* for new single-family houses under construction is currently +6.8% year over year. This is likely to move up in even livelier fashion over the next several months given the recent rapid increases in lumber prices.

The Census Bureau's average sales price for new single-family housing is ahead by +7.8% y/y.

The S&P CoreLogic Case-Shiller 20-city *composite price index* for resales of existing homes is ahead +10.1% year over year.

Seemingly, slightly increasing mortgage rates and prices that are rising, not yet alarmingly (see next section on Canada), but noticeably nonetheless, are putting a mild and probably temporary damper on the new home building marketplace.

As another indication of the slow-down, the *number of months' inventory* of new single-family homes for sale (as tabulated by the Census Bureau) touched a quite low 3.5 in July of last year. By February of this year, the inventory number was up again to 4.8 months.

It should be noted, though, that 4.8 remains tight. The inventory number usually lies between 5.0 and 6.0 months.

Canadian housing starts full steam ahead, without Toronto

Canadian housing starts are continuing full steam ahead. In February, it's true they fell back on a month-to-month basis (-13.5%), but they stayed inordinately high, at 246,000 and +17.1% compared with February of last year.

Their 'off' performance m/m was only because January's level was so exceptionally bullish, 284,000 units, a peak level dating back decades.

Unusually, though, the current strength in Canadian housing starts is coming without help from Toronto.

To be continued in *Economy at a Glance*, Vol. 17, Issue 54.

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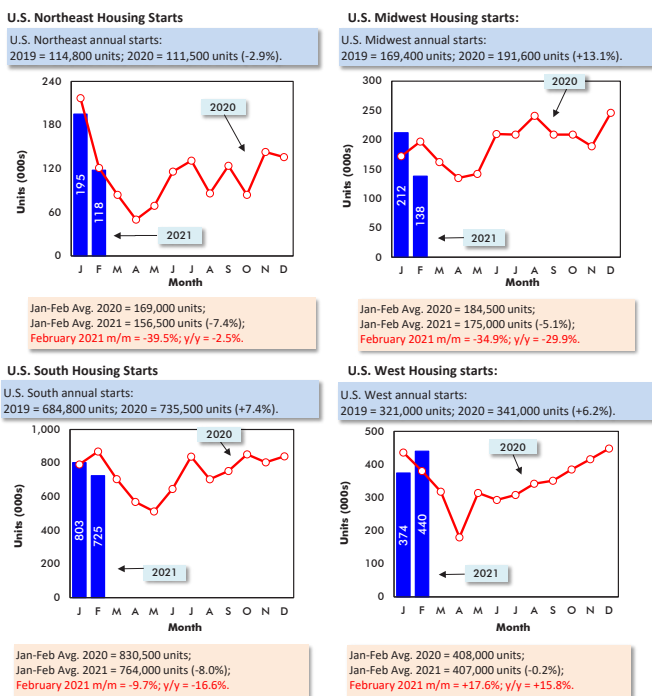
Graph 7: The last data points are for February 2021. ARROWS: U.S. numbers to be read from left axis; Canadian from right axis.

Data sources: U.S. Census Bureau & Canada Mortgage and Housing Corp (CMHC). Chart: ConstructConnect — CanaData.

Data source: Canada Mortgage and Housing Corporation (CMHC) / Chart: ConstructConnect — CanaData.

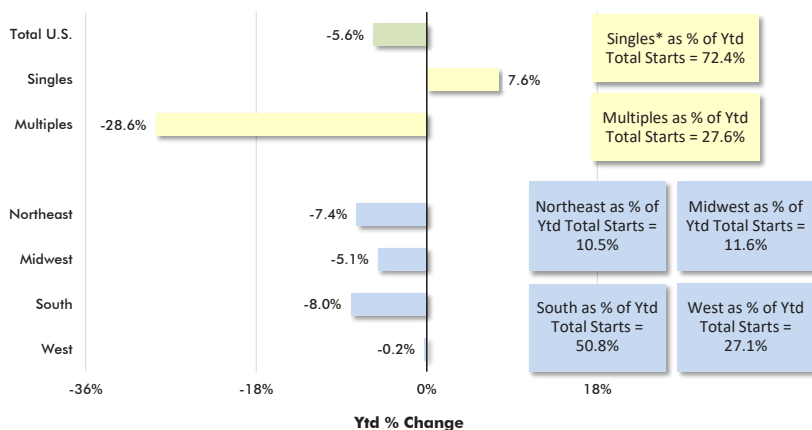


Graph 5: U.S. Regional Housing Starts



Data source: U.S. Census Bureau (Department of Commerce). Charts: ConstructConnect — CanaData.

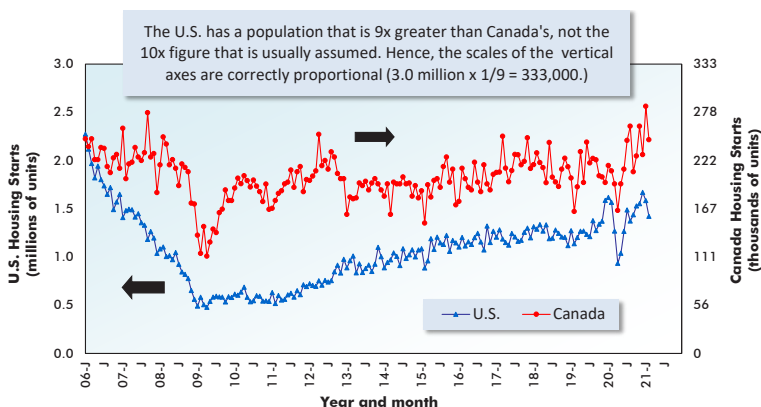
Graph 6: U.S. Housing Starts Jan-Feb 2021 vs Jan-Feb 2020 % Changes



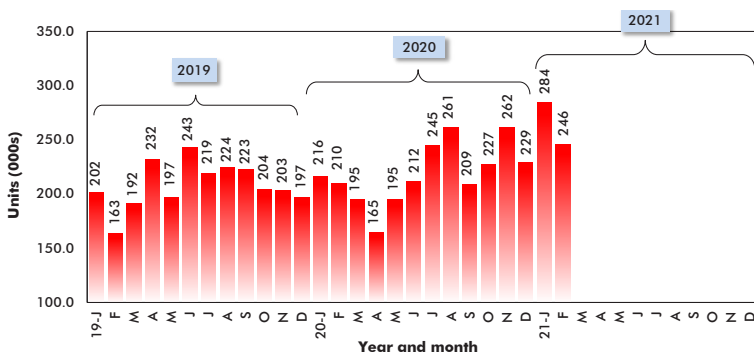
Based on averages of monthly seasonally adjusted and annualized (SAAR) unit starts. * 'Singles' includes townhouse complexes, except when multiple units have common heating & air conditioning.

Data source: U.S. Census Bureau / Chart: ConstructConnect — CanaData.

Graph 7: U.S. and Canada Monthly Housing Starts Seasonally Adjusted at Annual Rates (SAAR)



Graph 8: Canada Monthly Housing Starts – Seasonally Adjusted at Annual Rates (SAAR)



Economy at a Glance

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Housing starts catch breath in U.S., go full steam ahead in Canada (Part 3)



Alex Carrick

Continued from *Economy at a Glance*, Vol. 17, Issue 53.

Toronto's residential ground-breakings have been -8% in total and -13% in the multi-family segment (i.e., condo towers) for which the city has become famous.

Ottawa-Gatineau has also been off its game this year relative to last year. The nation's capital is experiencing a -21% drop in total housing starts to date in 2021.

Picking up the slack have been Montreal (+58% ytd), Calgary and Edmonton (both at +37%) and Vancouver (+36%).

There are 35 census metropolitan areas (CMAs) in Canada. As for total starts in those 35 urban centers, however, the degree of dominance exerted by the nation's six cities with populations in excess of a million each is rather startling. Toronto, Montreal and Vancouver combine to account for half of the total. Add in Calgary, Edmonton and Ottawa-Gatineau, and the share rises to two-thirds.

Whole world taking notice of Canadian house prices

The whole world is taking notice of what's happening with the pricing of Canadian housing. According to the Canadian Real Estate Association (CREA), resale home prices nationally are +25.0% y/y.

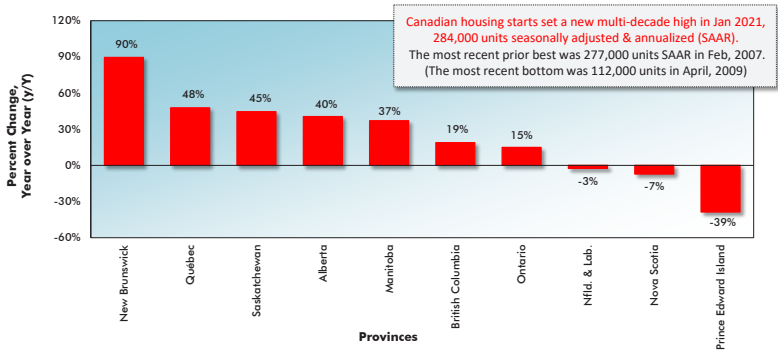
The number of explanations for why pricing in the Canadian housing market appears to be so untethered from almost all other economic indicators (and it's been this way for a long time) is lengthy, interesting and only so-so helpful.

Let me offer a possible alternative story. The two primary investment vehicles for individuals are the stock market and real estate. In the U.S., the NASDAQ index has risen by 800% since 2009. In Canada, the ascent of the Toronto Stock market over the same time frame has been a measly +100%.

Canadians, conservative by nature, have pumped money into housing as a supposedly sure bet to realize better capital appreciation than they are likely to see elsewhere.

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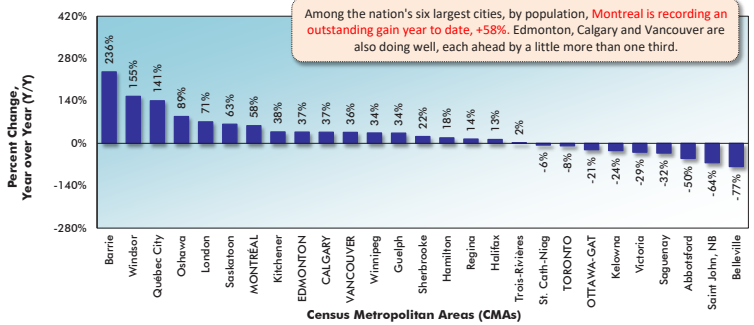
Graph 9: Percent Change in Year-to-Date Housing Starts – Ranking Of Canada's Provinces (Jan-Feb 2021 vs Jan-Feb 2020)



Canadian housing starts set a new multi-decade high in Jan 2021, 284,000 units seasonally adjusted & annualized (SAAR). The most recent prior best was 277,000 units SAAR in Feb, 2007. (The most recent bottom was 112,000 units in April, 2009).

The only provinces with declines in housing starts year to date in 2021 are in the Atlantic Region: Newfoundland and Labrador, -3%; Nova Scotia, -7%; and Prince Edward Island, -39%. Interestingly, the province with the biggest percentage-change increase year to date, however, is also in the Atlantic: New Brunswick, +90%.

Graph 10: Percent Change in Year-To-Date Housing Starts – Ranking of Canada's Major Cities (Jan-Feb 2021 vs Jan-Feb 2020)



Among the nation's six largest cities, by population, Montreal is recording an outstanding gain year to date, +58%. Edmonton, Calgary and Vancouver are also doing well, each ahead by a little more than one third.

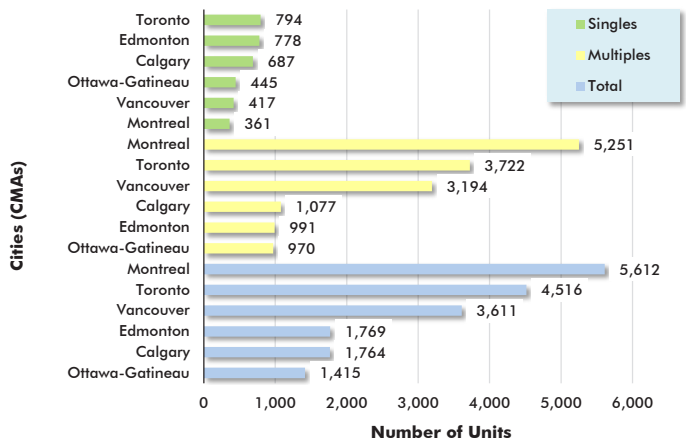
The graph features a shortened list of cities and their housing starts performances. February is only two months into the year and for some cities, the volume in either the numerator or the denominator (or both) of the percentage-change formula is too small to make the calculated result meaningful.

Data source: Canada Mortgage & Housing Corporation (CMHC) based on actuals rather than seasonally adjusted data / Charts: ConstructConnect — CanaData.

Graph 11: Housing Starts in Canada's 6 Most Populous Cities January to February 2021 Actuals

It's highly unusual for Toronto not to be in first place among Canada's major cities for number of housing starts in units. But at least through the first two months of this current year, Montreal has stepped into top spot. With respect to 2021, though, these are early days.

Data source: Canada Mortgage & Housing Corporation (CMHC). Charts: ConstructConnect — CanaData.



Graph 12: Housing Starts in Canada's 6 Most Populous Cities Jan-Feb 2021 vs Jan-Feb 2020

In year-to-date percentage-change terms, Montreal is leading in all 3 categories of starts. In total starts, Calgary, Edmonton & Vancouver are all ahead to almost the same degree, by a little more than a third. Toronto & Ottawa-Gatineau have been laggards.

Data source: Canada Mortgage & Housing Corporation (CMHC). Charts: ConstructConnect — CanaData.

