

Housing market red-hot in March

May push up interest rates

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OTTAWA -- Canada's red-hot housing market showed little sign of cooling off in March, instead setting a pace not seen in 18 years but also raising the likelihood of higher interest rates.

Housing starts rose to 252,300 units in March, up from 242,500 in February, Canada Mortgage and Housing Corp. reported Monday. That marks the strongest March on record since 1987 and was much more robust than analysts expected.

But while some experts continued to warn the pace can't continue, others said there's no need to worry just yet.

"With today's data, it goes without saying that there is still not a shred of evidence that Canada's housing market is tapering off," said Marc Levesque, chief fixed-income strategist at TD Securities.

"Construction activity is proceeding at a red-hot clip, resale activity remains solid, and building permits are not even hinting at a slowdown."

And that could increase pressure on the Bank of Canada to continue to nudge up its trend-setting short-term interest rate. The central bank has already boosted rates five times since last fall as a pre-emptive strike against inflation.

At the time of its last increase in early March, when central bankers raised their overnight rate to 3.75 per cent, they indicated they were almost finished tightening.

However, strong economic data - including a record low jobless rate of 6.3 per cent in March, the lowest in 32 years - is raising speculation that the Bank of Canada may have to raise rates a few more times to keep the economy from overheating.

Its next scheduled chance to change interest rates comes on April 25.

Prospects for higher interest rates initially gave the loonie a boost on Monday morning but it didn't hold and the dollar ended the day 0.03 of a cent lower at 87.03 US.

The housing report wasn't completely good news, carrying the seeds of a possible slowdown in the months ahead.

Construction of apartments and condos outpaced single-family homes in March, hinting at some weakening to come, warned CMHC chief economist Bob Dugan.

Toronto and Montreal in particular saw apartment starts surge last month, he said.

At the same time, "single starts decreased for a second consecutive month, suggesting that the pace of new-home starts will begin to pull back."

On a seasonally adjusted basis, urban starts rose 4.7 per cent to 219,700 units in March.

Multiple starts, or new construction of apartment and condominium buildings, rose 18.6 per cent to 123,000 units between February and March, while construction of stand-alone houses fell 8.9 per cent to 96,700 units.

Residential construction got a lift in the first quarter from unusually warm weather, adding fuel to the Canadian economy, said Scotia Economics analysts Sarah Hughes.

That could "diminish somewhat in the second quarter as declining affordability, rising construction costs and a cooling resale market tempers housing demand," she wrote in a note to investors Monday.

But other factors will continue to prop up the market, Hughes added.

"While starts are expected to trend downward in 2006, Canada's generational-low unemployment rate and respectable wage gains should continue to support a historically high level of residential construction."

For the first three months of the year, actual urban starts were up 19.1 per cent from the first quarter of 2005, with all regions of the country gaining on last year.

Single-home starts were up 16.7 per cent, while multiples were up 21.1 per cent.

In March, a jump in apartment construction in Montreal meant the Quebec region led Canada with a 21.2 per cent increase in urban housing starts, to 48,100 units.

Urban starts declined in the Atlantic region and Ontario, and were virtually unchanged in British Columbia.