

Will U.S. economy crash housing market?

When the United States gets a cold, it's often said, Canada sneezes. It's also true that when the United States gets a fever, Canada also gets a fever somewhat later.

In the past five years, Americans have been feverish about real estate. New construction and house sales broke record after record in the U.S.

Some of the reasons for this hot activity – like the lowest interest rates in a generation – cross the Canadian border. Others do not.

Interest rates on home mortgages are tax deductible there, but are not in Canada. Big tax cuts by President George Bush led many affluent Americans to cash in on the price gains of their existing houses to buy a bigger, better, newer one.

More recently in Canada, there has been an explosion in real estate prices as well, led by robust economic activity nationally, but especially in the West.

In Calgary last year, the price of an average house rose 50 per cent. In Red Deer, the average house sale price rose 10 per cent in 2005.

That looks tepid by comparison, but it's still pricing some potential buyers out of the marketplace and is projected to rise another 18 per cent this year.

For those who qualify for a mortgage,

cial and cultural life that arises when lots of people (with lots of money) live, work and shop in the same neighbourhood.

That does not mean the dream of owning a single-detached home is being abandoned by millions of Canadian families.

It means the dream has been shifted to distant suburbs, or delayed until they can afford a house.

And the only way they see to do that is by getting into the housing market before rising prices slam that window of opportunity shut. There's a tendency here to believe house prices will rise unabated into a very distant time horizon.

It doesn't necessarily happen that way, of course. What goes up comes down, but few potential buyers are willing to bet that will happen soon. In Alberta, especially, that may be a safe bet.

Still, our economy is inextricably linked to the United States and down there, the housing fever has broken. Sales of existing homes have fallen three months in a row, and in nine of the last 13 months.

The number of unsold homes on the U.S. market rose to a record high last month. It represents almost a seven-month supply at the current sales rate. The median price of houses sold in the United States rose by only one per cent last month, the lowest hike in 11 years.

New home builders, meanwhile, are having to offer incentives, like more expensive cabinets or a swimming pool to entice buyers.

Builder confidence in the U.S. is at its lowest level in 14 years. American lumbermen saw this coming.

That's why they were so insistent on market-share quotas in the new softwood lumber deal as U.S. house starts decline.

Every increase in mortgage rates cuts more buyers out of the marketplace and those rates are still more likely to go higher in Canada rather than lower.

If the American economy tanks, ours will slow down in short order and there are lots of reasons to worry on that front.

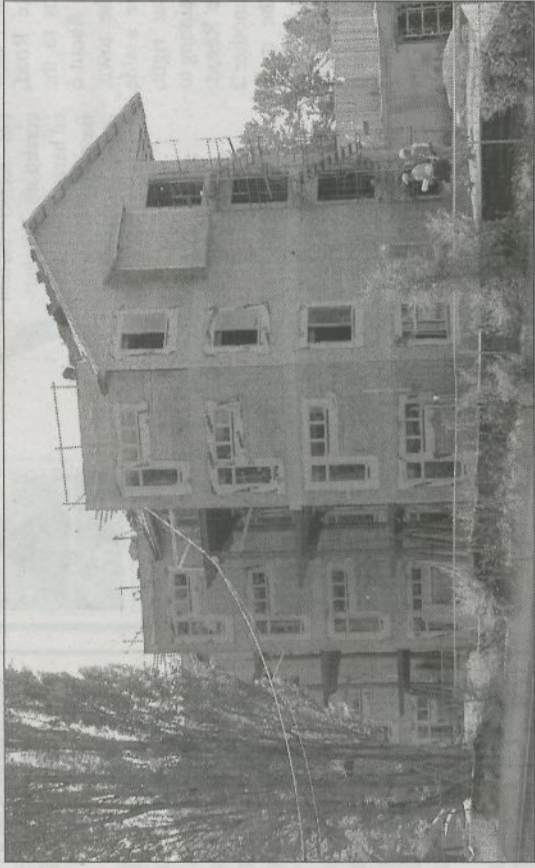
Apart from being directly involved in two overseas wars, and nervous about a third, the U.S. is running a budget deficit projected at \$296 billion, the fourth highest in history.

Bush has no plan to fix it.

Meanwhile, the United States is running unsustainable trade deficits \$805 billion in 2005, a staggering \$2.2 billion every day of the year. What's happening to the U.S. economy can, may and probably will drag us down.

The burning question for home buyers is when.

- Red Deer Advocate



Daily Courier file photo

New housing construction has been a common site in Kelowna, but as the American economy slows the Canadian economy could follow.

the pressure has become intense to lock in, buy now and start accumulating housing equity. That trend is running across the country, including ways that we have never seen before. The latest national statistics show that two-thirds of real estate sales are for multiple-family homes, chiefly condominiums.

The Canadian Mortgage and Housing Corp. reports that while housing starts rose overall last month, single-detached home starts were at their lowest level this year.

In cities like Vancouver and Toronto, the price of a single-family home is out of reach for even upper-middle-class residents. Many urban residents actually prefer condos because they like the active so-