

Housing slowdown predicted to cool economy

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LOUISE EGAN

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OTTAWA — Economic growth in Canada in the fourth quarter will be weaker than previously thought, reports and analysts signalled Wednesday, despite a surge in building permits in October.

Statistics Canada said Wednesday that the value of building permits unexpectedly jumped 6.1 per cent in October from September, hitting the second highest level on record as builders planned more multifamily houses and commercial units.

But other data on what has been a red-hot housing market have been mixed. Recent figures showed a decline in house sales and prices in the key market of Calgary, a city that is the chief beneficiary of Alberta's oil boom. And construction industry groups pointed to a drop in overall activity this year and next.

The Bank of Canada said Tuesday that fourth-quarter economic growth would likely be slower than previously anticipated.

And the Ivey Purchasing Managers Index, a measure roughly equivalent to the U.S. Institute of Supply Management indexes, also hinted Wednesday at a sluggish economy in the final quarter. The Ivey report said that purchasing activity growth retreated in November to its lowest level since last year.

"The soft report panders to the idea that the economy is lacking momentum in the fourth quarter," said Stewart Hall, markets strategist at HSBC.

The October housing report contradicted the gloom, but analysts said it is typically a volatile indicator and that the monthly upturn does not spell a trend.

Analysts had expected activity to slow heading into winter, and, on average, they had forecast a 1.5 per cent decline in October. Instead, building permits climbed to \$6.03 billion, surpassing the \$6-billion mark for the first time since December 2005.

But the Calgary Real Estate Board reported this week that existing home sales in that city fell 11.5 per cent in November from a year ago and that home prices fell 3.6 per cent from October. The year-over-year increase in prices was 36.4 per cent, down from 50-per cent figures seen in the summer.

"Even with some cool down in the housing market more broadly, it's important to put it in perspective. It's coming off just incredibly high levels in the summer and when you look at the year as a whole it looks like home sales will be just shy of a record high," said Doug Porter, deputy chief economist at BMO Capital Markets.

CONSTRUCTION INVESTMENT MODERATING

Residential building permits jumped 4.3 per cent as intentions for multifamily dwellings jumped to their second highest level on record due to the booming economy in oil-rich Alberta, Statscan said.

Nonresidential permits soared 9.1 per cent to a record \$2.41 billion due to a sharp rise in commercial permits, especially in Alberta and British Columbia.

As for investment in housing construction, it is expected to drop 1.1 per cent this year and a further 0.1 per cent in 2007, according to the Canadian Construction Association and the Construction Sector Council, which jointly released their forecasts for the construction industry Wednesday.

Overall, the groups see growth in construction investment — including residential and nonresidential — dropping to 1.7 per cent next year from 3.4 per cent this year.

The Ivey purchasing activity index fell to 52.8 in November from 59.5 in October, missing expectations of a result in the 58-60 range and prompting the Canadian dollar to tick lower slightly, while bond prices inched higher.