

REAL ESTATE

Air seeping from property bubble

Canadian market not expected to see U.S.-style plunge

LAURA BOBAK – Globe & Mail, April 12, 2007

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TORONTO -- A gradual slowing of growth in Canada's "unsustainable" housing is good for the economy since it helps avert the kind of bubble burst that sent housing starts plummeting by one-fifth in the United States, an economist says.

Housing starts in March rose 7.6 per cent but the first quarter over all was down 10 per cent from last year, Canada Mortgage and Housing Corp. (CMHC) reported yesterday.

Canada also experienced a 6.4-per-cent increase in consumer spending last year when retail stores rang up \$392.4-billion in sales in 2006, Statistics Canada said.

The country is set to outperform the United States again this year with positive outlooks for employment and economic growth and is on track to retain a healthy housing market despite the sluggish first-quarter results, Beata Caranci, a senior economist for TD Bank, said in an interview.

The CMHC reported a rise in the seasonally adjusted annual rate of housing starts to 210,900 units in March, up from 196,000 units in February. But the quarter was down about 10 per cent from the same period in 2006, Ms. Caranci said.

Housing starts in the U.S. have been down by about one-fifth during the last three quarters, she said.

"Here in Canada, you know it's not a bubble because it's not burst," Ms. Caranci said. "The air is being let out of it slowly, whereas in the U.S., you actually heard the pop.

"I think it's comforting -- while we're seeing a little bit of a more moderate pace in housing starts, it's a good sign," she said. "It's less shocking to consumers and confidence."

The mild slowdown means there won't be a meaningful impact on consumer spending related to a slower housing market, such as a drop in sales in furniture and appliances, Ms. Caranci said.

The positive consumer spending trend seen in 2006 should continue, given the lack of shocks in the housing market and positive forecasts in job and economic growth.

Canada's domestic demand, which has outperformed that of the U.S. for the past two years, is expected to do so again this year and next, she said. TD is forecasting 3.3-per-cent growth this year in domestic demand, and 3.4-per-cent growth in 2008. For the U.S., the forecast is 2 per cent in 2007 and 2.7 per cent in 2008.

Slowdowns in housing take up to 18 months to seep through to consumer spending patterns, since people take months to furnish new homes. In the U.S., spending actually increased in 2006, in the midst of the housing market correction.

"We're just not going to get the same shakeup in consumer confidence and then the ripple-through from the housing sector they have in the U.S.," Ms. Caranci said.

According to Statistics Canada, of every \$100 in retail spending last year, Canadian consumers spent about \$21 on food and beverages; \$22 on motor vehicles, parts and services; \$10 on automotive fuel; \$9 on furniture and home furnishings; \$9 on health and personal care; \$8 on clothing, footwear and accessories; \$7 on hardware, lawn and garden materials; \$3 on sporting and leisure goods, and \$2 on non-electric housewares. The rest, about \$9, was spent on other goods and services such as tobacco and pet food.

The big annual gain in consumer spending in 2006 occurred despite modest growth in the last three months of the year.

Sales in the fourth quarter amounted to \$103.4-billion, up 4.9 per cent from the same quarter of 2005, the weakest quarterly rise in six quarters.

The strongest year-over-year increase of all the major commodity groupings occurred in sales of automotive fuel, which rose 10 per cent to \$37.6-billion.

In housing, the annual rate of urban starts was 177,900 units in March, up 9.1 per cent from February. Starts increased in all regions except the Atlantic, and the Prairies led the way with a 26.2-per-cent increase, followed by British Columbia at 11.3 per cent and Quebec at 10.5 per cent.

Actual starts in rural and urban areas combined were down about 8.8 per cent in the first quarter of 2007 compared with the same period in 2006, with actual starts in urban areas alone dropping an estimated 10.3 per cent.

Actual single starts in urban areas were 16.3 per cent lower than a year earlier, while actual urban multiple starts were down 5.3 per cent.

Ontario home starts were flat last month and remained below trend for a second consecutive month.