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Canada Mortgage and Housing Corporation

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Canadian Market Overview

New Home Market

2004 housing starts post 17-year high

The seasonally adjusted annual rate¹ of housing starts was 236,300 in December, down from 244,500 in November.

New construction finished 2004 on a strong note; however, sales of existing homes through MLS[®] have been trending lower since March 2004. This trend supports our view that the level of activity in the housing market

will begin to slow in 2005.

Housing starts will decrease in 2005 but will remain above 210,000 units. Sales of existing homes will also fall, but 2005 will be the second most active year on record for MLS[®] sales.

New home construction posted a 17-year high in 2004 with 233,431 starts representing 6.9 per cent growth over 2003. The home building industry responded to strong demand for housing which resulted from

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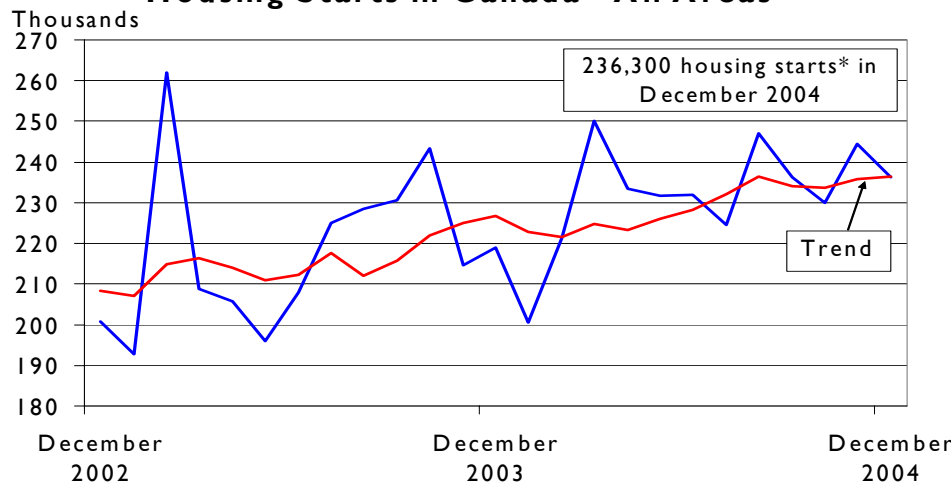
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Housing Starts in Canada - All Areas*



Source: CMHC

*Seasonally adjusted at annual rates

Final numbers, which may be different from the preliminary numbers in the start press release

¹ All starts figures, other than actual starts, are seasonally adjusted annual rates (SAAR) that are monthly figures adjusted to remove normal seasonal variation and multiplied by 12 to reflect annual levels.

low mortgage rates and tight labour markets.

Urban single detached starts edged higher in December

Urban single detached starts inched higher by 0.9 per cent to 102,200 units in December while urban multiple starts continued on page 2...

declined 8.1 per cent to 103,700. Residential construction activity ended 2004 with housing starts in Canada's urban centres decreasing to a seasonally adjusted annual rate of 205,900 units, down 3.8 per cent compared to November.

Biggest increase between November and December was in the Atlantic region, while starts eased in Quebec, Ontario and the Prairies

Urban housing starts in December eased in Quebec, Ontario and the Prairies where the seasonally adjusted annual rate of starts fell 5.0, 4.8, and 8.3 per cent, respectively. Urban housing starts in December increased in the Atlantic region by 22.4 per cent mainly due to multiples, while British Columbia recorded no change.

The estimated number of seasonally adjusted annualized starts in Canada's rural areas was 30,400 units in December 2004.

Actual urban starts in 2004 were up over the previous year in seven of the ten provinces

For the year 2004, actual urban starts across Canada increased 6.5 per cent compared to 2003. Urban single starts rose 3.6 per cent and urban multiple starts were up 9.7 per cent. The strongest growth across Canada in 2004 was in British Columbia, Saskatchewan, and Quebec, where starts were up 24.9, 19.4, and 17.2 per cent, respectively.

Resale Market

MLS® sales grew slightly in November

Seasonally adjusted MLS® sales grew slightly to 36,735 units in November 2004 up one per cent from 36,382 units in October 2004.

Average MLS® sales across Canada have been on a steady decline since March of 2004, when they reached 40,827 units. Despite the decline, MLS® actual sales on a year-to-date basis (January 2004 to November 2004) have increased 6.1 per cent compared to the same period in 2003. Sales of

existing homes in 2004 are on pace to set a record level thanks to strong demand due to low interest rates and a strong labour market.

New listings cool in November

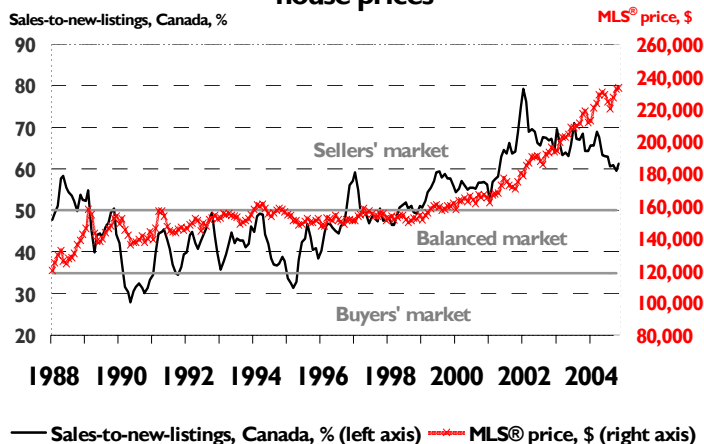
Seasonally adjusted MLS® new listings in November 2004 fell to 60,071 units, down 1.6 per cent from 61,034 units in October 2004. Despite this month-to-month drop, November 2004 actual listings were 11.6 per cent above November 2003. As well, on a year-to-date basis (January 2004 to November 2004) actual new listings have increased 10.0 per cent compared to the same period in 2003.

Sellers' market across Canada continues to facilitate above inflation growth of average MLS® price

An indicator of price pressure in the existing home market is the sales-to-new-listings ratio, which combines new listings, a gauge of supply in the existing home market and MLS® sales, used as a proxy for demand.

Taking the Canadian market as a whole, a sales-to-new-listings ratio below 35 per cent has historically accompanied prices that are rising at a rate that is less than inflation, a situation known as a *buyers' market*. A sales-to-new-listings ratio above 50 per cent is associated with a *sellers' market*. In a sellers' market, home prices generally

Sellers' market continues to support rising house prices



Sources: CMHC, Canadian Real Estate Board (CREA), MLS®

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rise more rapidly than overall inflation. When the sales-to-new-listings ratio is between these thresholds, the market is said to be *balanced* and home prices tend to increase at about the overall rate of inflation.

The sales-to-new-listings ratio for Canada was firmly planted in sellers' market territory in November 2004, at about 61 per cent. As a result, the average MLS® price for existing homes across Canada was 6.8 per cent higher in November 2004 compared to a year earlier.

Economic conditions

In December 2004, 34,000 jobs were created, bringing the total for 2004 to 228,000 net new jobs. The entire employment gain in 2004 resulted from the creation of 258,000 full-time jobs. On the other hand, 30,000 part-time jobs were lost last year.

In December 2004, the seasonally adjusted employment-to-population ratio of 62.7 per cent matched the record level set in December 2003. In other words, a record share of Canadians are employed, thus helping boost consumer confidence and supporting strong demand for housing.

Canada's labour force recorded its slowest growth since 1996, at 1.3 per cent. As a result, the unemployment rate for 2004 fell to a three-

year low of 7.2 per cent as employment growth outpaced labour force growth.

The Bank of Canada left its target for the overnight lending rate unchanged at 2.5 per cent on January 25th, following a similar decision on December 7th. The decision to leave the target for the overnight rate unchanged is in part due to weaker than expected economic growth in the fourth quarter of 2004. With core inflation remaining below the two per cent target, the Bank of Canada is focused on the strong Canadian dollar and its dampening effect on the demand for Canadian exports. Mortgage rates have remained low and have helped keep the financing costs of buying a home down.

The price of new homes, measured by the New Housing Price index (NHPI), rose 5.3 per cent in November 2004 compared to November 2003. The strong housing market as well as higher building material and labour costs, contributed to the increase in house prices.

In December 2004, the price of goods and services included in the Consumer Price Index (CPI) basket increased 2.1 per cent compared to December 2003. The increase was mainly due to higher gasoline prices, homeowners' replacement cost, restaurant meal prices, and the purchase and leasing of automotive vehicles. ■

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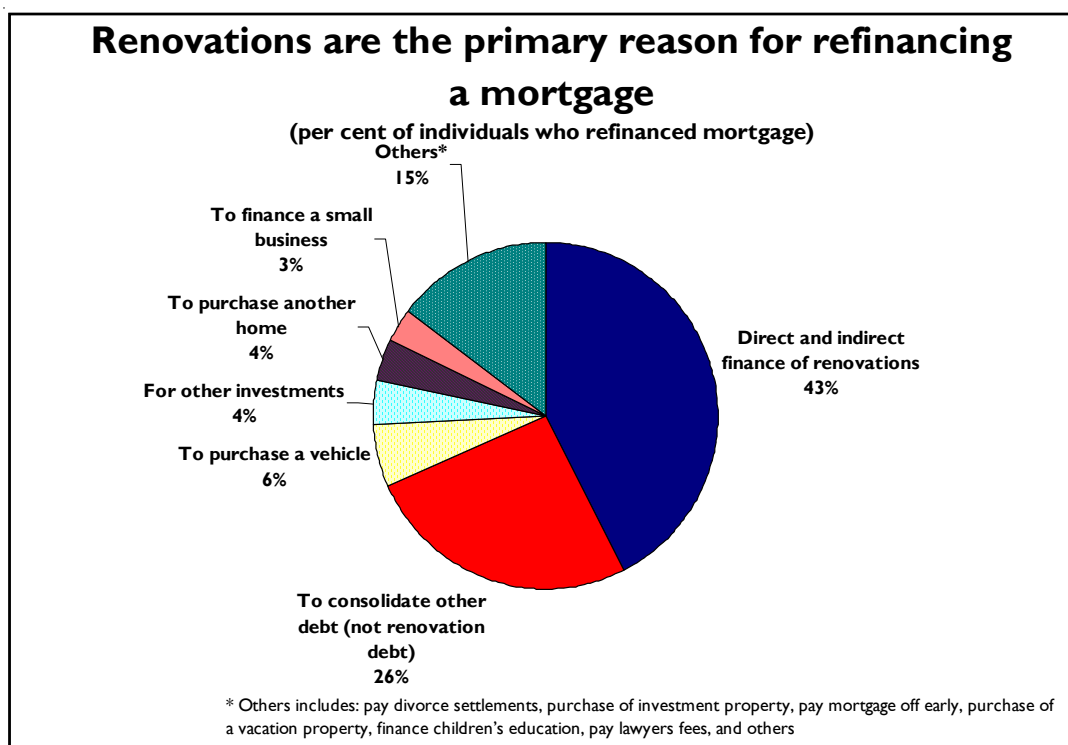
Renovation and mortgage refinancing on the rise

Mortgage refinancing is an important source of renovation financing.

- Past strength in the resale market, robust housing starts and a strong job market are driving high levels of renovation spending. As well, a combination of rising incomes and an ageing housing stock help fuel home renovations and financing.
- Canadians spent over \$1,050 per household or \$33.2 billion on home renovations in 2003 and it is estimated that they spent \$36.3 billion on renovations in 2004. In fact, as reported in the September 2004 FIRM² Residential Mortgage Survey, 29 per cent of homeowners are likely to spend at least \$5,000 on home renovations in the next twelve months.
- How do Canadians finance these renovations? A major source has been to refinance an existing residential mortgage to obtain a larger loan. In fact, refinancing to increase the mortgage size was the most recent mortgage-related activity² undertaken by 16 per cent of residential mortgage holders according to the FIRM Residential Mortgage Survey.
- Among these homeowners who refinanced their mortgages to a larger amount, about 43 per cent did so to pay for renovations directly or consolidated the debt incurred from renovations. Most homeowners who refinanced their mortgage to pay for renovations borrowed \$25,000 or more.
- As renovation spending continues to increase, more and more homeowners will require financing for these renovations. Results from the FIRM survey suggest that many individuals plan to use mortgage refinancing as a source of funding to undertake home renovations over the next twelve months. ■

¹ Financial Industry Research Monitor

² Other mortgage-related activities consist of: taking out a new mortgage, renewing a mortgage, refinancing a mortgage to increase the amount, and refinancing a mortgage to renew early.



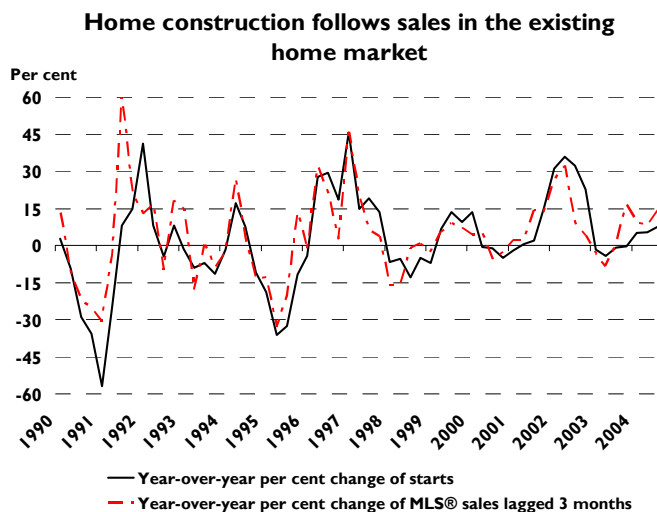
Sources: Clayton Research and Ipsos-Reid, The FIRM Residential Mortgage Survey, September 2004, CMHC

Resale market price appreciation and sales set the tune for home construction in the months ahead

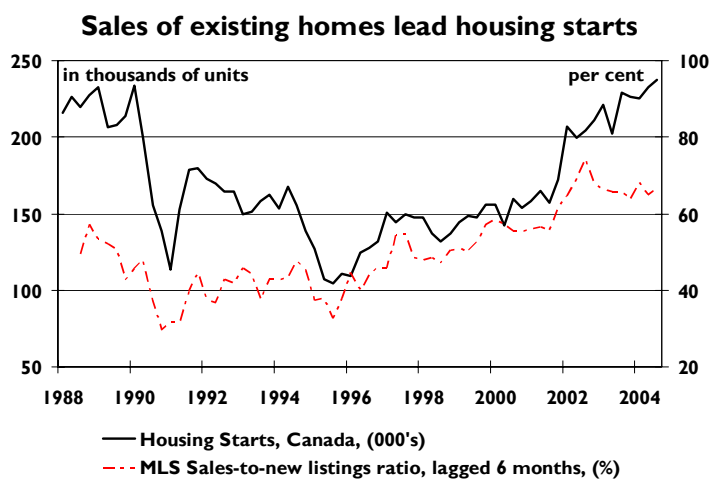
Indicators from the existing home market can be good predictors of future housing starts activity. Indeed, MLS® price changes and sales have typically led housing starts by anywhere from three to six months.

- Price and sale trends in the existing home market have historically been predictors for future trends in housing starts.
- Existing and new homes are substitutes for each other in terms of provision of shelter for homeowners. Thus, rising sales of existing homes suggest that sales of new homes are also rising. In most markets, we do not have information on new home sales. In the new home market we measure housing starts, which usually take place after the sale. Of course, this lag does not occur in the existing home market. As a result, MLS® sales have tended to lead housing starts by anywhere from three to six months (see graph below).

- One way to gauge the intensity of the resale market is by looking at the ratio of sales-to-new-listings (see definition on page 2). The higher the ratio the hotter the resale market in the area, which in turn will lead to increased upward pressure on home prices. In the chart below, we show housing starts plotted alongside the sales-to-new-listings ratio lagged by six months. They have had similar patterns over the past ten years, suggesting the degree of tightness in the resale market can be used to gauge future starts activity.



Sources: CMHC, Canadian Real Estate Board (CREA), MLS®



Sources: CMHC, Canadian Real Estate Board (CREA), MLS®

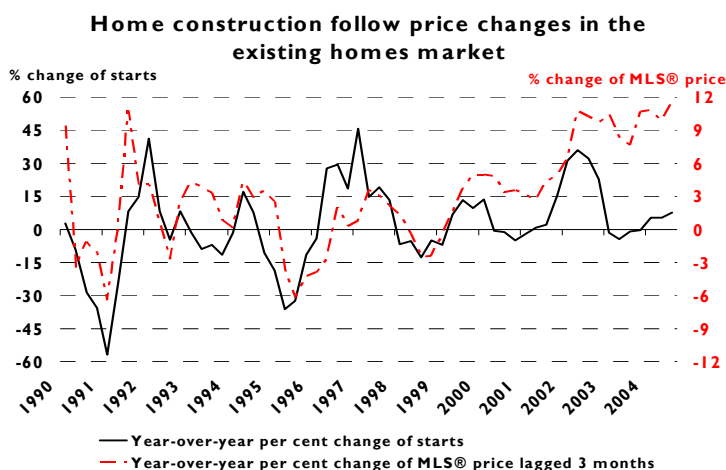
- Rising prices for existing homes usually demonstrates growing demand for homeownership. This growing demand is consistent with rising home sales and starts. Rising prices also help to boost homeowners'

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continued: Resale market price appreciation and sales set the tune for home construction in the months ahead

equity, which in turn can make it possible for them to purchase larger existing homes or new homes whose prices are typically higher. For these reasons, house prices can be a useful predictor for housing starts. Seasonally adjusted housing starts are strongly influenced by the pace of change in the price of existing homes in the previous three to six months (see graph below).

- Recently, Canada has experienced heightened activity in the resale market with total MLS® resales and prices hitting record levels in 2004. However, MLS® sales have trended lower since March 2004. This strong performance was partially reflected in housing starts in 2004 and will continue to support strong, albeit lower levels of home construction in the first half of 2005. ■



Sources: CMHC, Canadian Real Estate Board (CREA), MLS®

This Month's Housing Data (SAAR)

	2003	Q2:04	Q3:04	Q4:04	MI0:04	MI1:04	MI2:04
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Housing starts, units, 000s

Canada. Total. All areas	218.4	232.4	236.3	236.9	230.0	244.5	236.3
Per cent change from previous period	6.5	3.8	1.7	0.3	-2.7	6.3	-3.4
Canada. Total. Rural areas	26.5	23.7	32.7	30.4	30.4	30.4	30.4
Per cent change from previous period	2.3	-23.5	38.0	-7.0	-7.0	0.0	0.0
Canada. Total. Urban areas	191.9	208.7	203.6	206.5	199.6	214.1	205.9
Per cent change from previous period	7.1	8.1	-2.4	1.4	-2.0	7.3	-3.8
Canada. Single. Urban areas	100.3	104.9	105.2	102.5	104.0	101.3	102.2
Per cent change from previous period	-2.7	4.0	0.3	-2.6	-1.8	-2.6	0.9
Canada. Multiple. Urban areas	91.6	103.8	98.4	104.0	95.6	112.8	103.7
Per cent change from previous period	20.5	12.7	-5.2	5.7	-2.1	18.0	-8.1
Newfoundland. Total. All areas	2.7	2.8	2.9	2.9	3.2	2.9	2.8
Per cent change from previous period	11.3	-17.6	3.6	0.0	10.3	-9.4	-3.4
Prince Edward Island. Total. All areas	0.8	1.1	0.8	0.7	0.8	0.9	0.7
Per cent change from previous period	5.0	10.0	-27.3	-12.5	14.3	12.5	-22.2
Nova Scotia. Total. All areas	5.1	4.2	4.9	4.7	4.4	4.1	5.4
Per cent change from previous period	2.5	-26.3	16.7	-4.1	-17.0	-6.8	31.7
New Brunswick. Total. All areas	4.5	4.1	4.3	4.0	3.9	3.8	4.5
Per cent change from previous period	16.2	70.8	4.9	-7.0	-18.8	-2.6	18.4
Quebec. Total. All areas	50.3	54.8	60.5	60.6	57.7	63.3	60.7
Per cent change from previous period	18.5	-5.7	10.4	0.2	-1.5	9.7	-4.1
Ontario. Total. All areas	85.2	87.8	85.8	84.4	86.9	85.0	81.3
Per cent change from previous period	1.9	11.0	-2.3	-1.6	2.1	-2.2	-4.4
Manitoba. Total. All areas	4.2	4.2	5.7	4.0	3.9	4.3	3.8
Per cent change from previous period	16.3	7.7	35.7	-29.8	-11.4	10.3	-11.6
Saskatchewan. Total. All areas	3.3	4.7	3.2	4.2	4.0	4.7	3.7
Per cent change from previous period	11.9	56.7	-31.9	31.3	11.1	17.5	-21.3
Alberta. Total. All areas	36.2	34.3	34.7	39.6	39.1	40.9	38.8
Per cent change from previous period	-6.7	-4.7	1.2	14.1	4.8	4.6	-5.1
British Columbia. Total. All areas	26.2	34.4	33.5	31.8	26.1	34.6	34.6
Per cent change from previous period	21.0	9.6	-2.6	-5.1	-22.3	32.6	0.0

SOURCE: CMHC, Starts and Completions Survey. All data are seasonally adjusted and annualized. This seasonally adjusted data goes through stages of revision at different times through the yearly cycle resulting in finalization of preliminary data. These revisions take place at the end of each month, quarter and year.

Annual rate of housing starts, urban areas*

	2003	Q2:04	Q3:04	Q4:04	M10:04	M11:04	M12:04
Canada	191.9	208.7	203.6	206.5	199.6	214.1	205.9
Newfoundland	1.9	2.1	2.1	2.2	2.5	2.2	2.1
Prince Edward Island	0.6	0.7	0.5	0.4	0.5	0.6	0.4
Nova Scotia	3.6	3.1	3.5	3.1	2.8	2.5	3.8
New Brunswick	3.0	2.8	3.0	2.5	2.4	2.3	3.0
Québec	39.9	46.5	44.1	49.3	46.4	52.0	49.4
Ontario	80.9	83.8	81.4	77.2	79.7	77.8	74.1
Manitoba	2.7	2.6	3.9	2.6	2.5	2.9	2.4
Saskatchewan	2.6	4.0	2.9	3.3	3.1	3.8	2.8
Alberta	32.1	30.6	30.5	35.6	35.1	36.9	34.8
British Columbia	24.7	32.5	31.7	30.3	24.6	33.1	33.1

* Thousands of units, seasonally adjusted and annualized.

This Month's Major Housing Indicators

	2003	Q2:04	Q3:04	Q4:04	M10:04	M11:04	M12:04
New Housing							
New & unoccupied singles & semis, units 000s	4.8	5.3	5.0	5.7	5.4	5.8	5.8
Per cent change from same period previous year	-0.9	8.6	8.3	12.6	10.2	13.8	13.8
New & unoccupied row & apartments, units 000s	5.7	6.0	6.7	8.3	7.9	8.3	8.6
Per cent change from same period previous year	10.9	5.5	18.6	37.1	33.5	41.6	36.4
New House Price Index, 1997=100	116.7	122.6	124.2	n.a.	125.0	125.5	n.a.
Per cent change from same period previous year	4.8	5.8	5.9	n.a.	5.6	5.3	n.a.
Existing Housing							
MLS[®] resales*, units 000s	435.4	473.4	455.0	446.2	442.4	451.0	445.1
Per cent change from same period previous year	4.1	14.6	-1.9	-0.4	-4.8	2.9	0.8
MLS[®] average resale price**, \$C 000s	207.1	227.3	226.8	234.2	231.6	234.1	236.7
Per cent change from same period previous year	9.6	12.6	8.0	8.5	8.0	7.4	10.1
Mortgage Market							
1-Year Mortgage Rate, % (period average)	4.84	4.57	4.60	4.90	4.90	5.00	4.80
5-Year Mortgage Rate, % (period average)	6.39	6.45	6.38	6.25	6.40	6.30	6.05

SOURCES: CMHC, Statistics Canada, Bank of Canada, The Canadian Real Estate Association.

n.a. Figures not available

* Seasonally adjusted and annualized (SAAR).

** Annual and quarterly data is actual. Monthly data is seasonally adjusted.