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HOUSING FACTS

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Canada Mortgage and Housing Corporation

Starts back up to 156,400 units in September

In September, 156,400 housing units* were started in Canada, compared to the level of 146,000 units recorded in August, for an increase of 7.1%.

The small decrease in urban single starts (-0.4% to 72,400 units) was largely offset by the major increase in multiple starts, which attained 63,000 units, up by 20.4%.

From one month to the next, starts continue to post strong

fluctuations, but these variations do seem to be growing weaker.

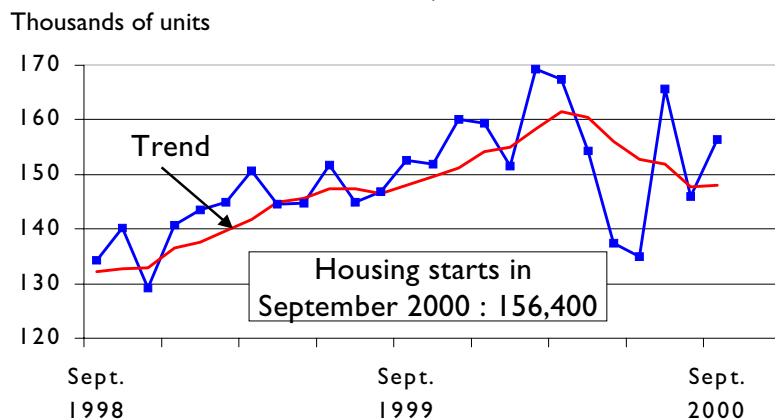
Last month, the volume of starts was buoyed up by the anticipated recovery in multiple housing construction in Toronto, Montréal and Vancouver. However, single starts appear to be levelling off at the national level, which may be an indication of a slowdown on the market.

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Housing starts in Canada
all areas, *saar



Source: CMHC Housing facts

*Seasonally adjusted annual rate



HOME TO CANADIANS
Canada

Housing starts - Continued from page 1

Regionally, British Columbia led the way with a spectacular gain of 51%, with 13,400 starts (at the seasonally adjusted annual rate), following the poor performance in August. In the Prairies, the increase in starts attained 13.1% to 26,700 units. Starts were also up in Ontario (8.4%), with 67,300 new units. Finally, activity was down in Quebec (-6.0% to 21,900 units) and more so in the Atlantic Region (-14.1% to 6,100 units).

In the large urban agglomerations, starts reached 39,700 units in Toronto, 16,300 units in Montréal and 8,400 units in Vancouver, at seasonally adjusted annual rates.

After nine months of activity, real urban housing starts show a gain of 3.5% over the same period in 1999. ■

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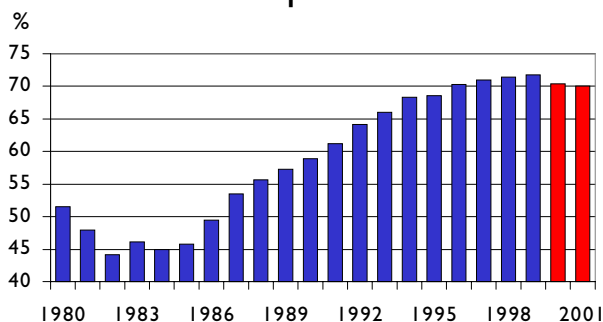
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Mortgage debt losing weight

The ratio of mortgage debt to household disposable income is embarking on a downward trend after rising for 15 years.

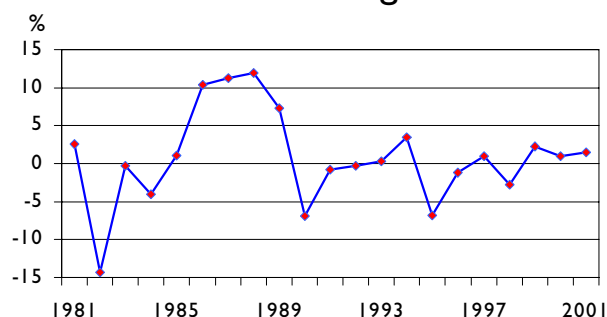
- A spectacular turnaround is under way on the real estate market. Overall household disposable income is now rising faster than mortgage credit outstanding. In addition, given the prepayment forecast, the ratio of mortgage credit outstanding to national disposable income should fall to 70.4% this year and to 70.0% in 2001.
- It should be pointed out that this indebtedness is the counterpart of an asset, the residential real estate stock, the value of which should continue to grow in real terms over the next two years. In fact, it is expected that the average real resale price in Canada will progress by 1.0% this year and by 1.5% next year. Between 1981 and 1999, the average real resale price rose by an average of 0.7% per year. ■

Outstanding mortgage credit as % of national disposable income



Sources: CMHC Housing Facts, Statistics Canada. CMHC forecasts for 2000-2001

Average real resale price annual change



Sources: CMHC Housing Facts, Canadian Real Estate Association CMHC forecasts for 2000-2001

Housing starts' cyclical volume lags 1980's expansion

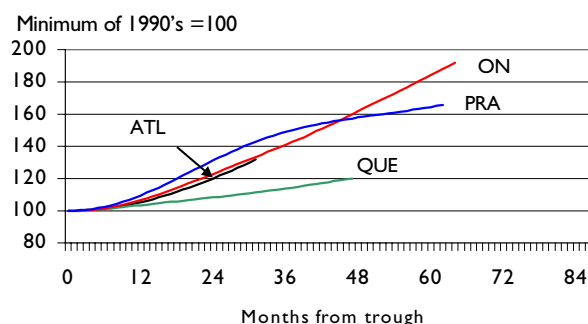
While total housing starts are expanding in four of Canada's five "regions", all significantly lag levels achieved at the height of the previous expansion.

- Examining past business cycles is a useful guide to forecasting economic variables, including housing starts. Further, while national starts broadly follow Canadian macroeconomics and demographics, significant regional differences are apparent; these reflect superimposed local influences. Comparing the 1980's growth with starts' current pace facilitates educated guesses about the timing of the next downturn in housing starts for each region.
- Ontario accounted for 38 % of national starts during 1980-99. As shown in the table, Ontario starts trended higher for 72 months during the 1980's, culminating in a January 1988 trend starts level just 0.5 % below the previous cyclical peak in November 1972. Ontario's current starts expansion began in April 1995; by August 2000, this growth had persisted for 64 months. Despite the current upswing's relative age, August 2000's trend starts level remains 19.9 % behind the 1980's peak.
- The current expansion in Quebec was 47 months "old" in August 2000. This compares to a 68-month upward trend in the 1980's. Further, while total housing starts in the 1980's peaked at a significantly higher level than the previous 1970's top, current starts levels sharply lag the 1980's peak.
- Housing starts on the Prairies had been expanding for 62 months through August 2000. Although the current expansion is already

longer than the 53-month upward trend of the 1980's, this year's highest starts level remains 30.1% below the 1980's peak.

- The current 31-month expansion in the Atlantic region is Canada's "youngest", both absolutely and by historic standards. During the 1980's, regional total housing starts trended upward for 65 months. Despite the comparatively brief current expansion, regional housing starts lag peak 1980's levels by a relatively modest 23.1%.

Starts: trend level and number of months since the trough of the 1990's



Source: CMHC Housing facts

- Finally, British Columbia's situation is unique because the province is experiencing a downward trend. B.C. will be covered in the next Housing Facts issue.■

Trend housing starts in Canada's urban centres

	1970's peak to 1980's peak (%)	1980's peak to 2000 maximum (%)	Months of 1980's expansion	Months of current trend
	(a)	(b)	(c)	
Atlantic	-16.3	-23.1	65	31
Quebec	17.8	-64.0	68	47
Ontario	-0.5	-19.9	72	64
Prairies	-15.2	-30.1	53	62
Canada	-1.3	-31.3	57	55

Source: CMHC Housing facts

(a) Each region's highest trend value of starts in 1980's compared to its highest trend value in the 1970's

(b) Each region's highest trend value of starts in 2000 compared to its highest trend value in the 1980's

(c) Length of housing starts growth in each region

Renovation superstores and the challenges of “B2C”

Far from setting this concept aside, today’s renovation superstores will get in line with electronic commerce, once several major challenges have been met.

- A consensus emerges in the retail industry: inviting stores and the simultaneous presence of electronic commerce seem to be optimal formula.
- As for renovation superstores, the ongoing expansion of superstore chains and the current breaking in of the Home Depot site will result, in the medium term, in such a parallel “bricks and clicks” relation in Canada. Forecasts in this regard are pointing to a growing but limited place for electronic commerce over the next few years.
- There are still many challenges to be met, however, with respect to the Internet. The difficulties involved in the management of electronic commerce sites and the poor financial results obtained from investments are curbing the good intentions of retailers.
- Another factor that could potentially slow down the breakthrough of electronic commerce is the current expansion phase of renovation superstore chains. Considerable human and financial resources are being spent on this initiative, leaving less room for the development of an electronic commerce infrastructure.
- A definite shift towards the Internet has not yet taken place, but there have been some success stories in other retail sectors. Strategies targeted to the most “connected” buyers is

one such example, according to the experts. In the case of renovation superstores, emphasis on new homeowners, the clients who are most familiar with the Internet, would appear to be a potential target.

- A more active use of Web sites, through Internet-specific promotions, would prompt many people to turn to this method of buying. A more interactive and changing content, as with mail circulars for example, would make people want to visit these sites on a regular basis, like their banking and news sites.
- These sites would also constitute a fine showcase for manufacturers of materials and accessories to better promote their products. ■

U.S. retail sales by type		
Type	% of sales	
	1998	2003
E-commerce	0.6	6.0
In-store sales	92.9	90.0
Telemarketing	6.5	4.0

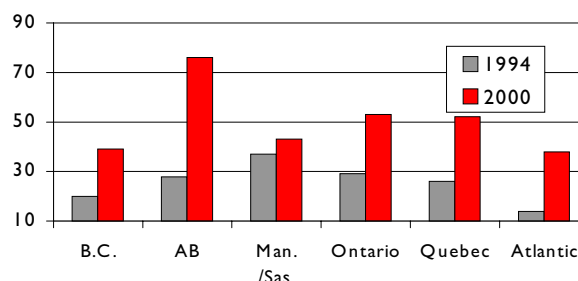
Sources: CMHC Housing Facts, Hardlines Marketing Conference

An increasingly popular sales tool among builders

The proportion of builders offering mortgage financing packages with a specific lender has doubled in the last six years.

- According to the latest results (winter 1999-2000) of the CHBA Pulse Survey of Home Builders, 52% of builders polled offer their clients a financing plan with a specific mortgage lender. This proportion was 26% in 1994.
- For builders, offering more “favourable” conditions can enable them to close a sale with buyers whose financial position is, in some cases, at the limit of required conditions. For lenders, this front-line access constitutes a market penetration tool that is effective, inexpensive in terms of advertising and staff and useful in seeking out new loans. ■

Proportion of builders offering mortgage financing package with a specific lender



Sources: CMHC Housing Facts, CHBA Pulse Survey.

Mortgage debt share of total debt still falling

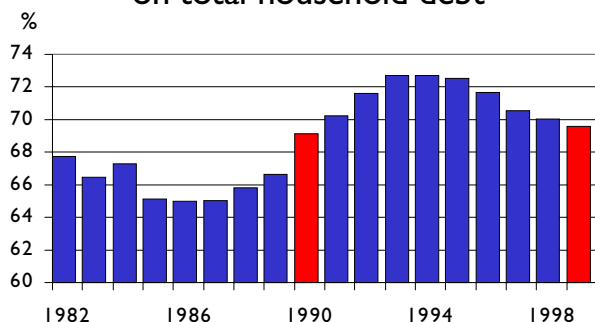
In 1999, the mortgage debt of Canadian households accounted for less than 70% of their total debt for the first time since 1990.

- The mortgage debt of Canadian households is not rising as fast as their consumer debt. Contrary to the second half of the 1980s, the economic recovery is not resulting in an accelerated growth in mortgage credit. However, households are getting into debt much more rapidly to acquire other types of products and services.
- In 1999, mortgage debt rose by 4.7%, compared to 7.1% for debt related to other goods.
- The slower rise in mortgage indebtedness has been lasting since 1989 and well reflects the

weaker growth and aging of the population. The demand for mortgage funds on the part of households, who are older on average, is increasing at a slower pace. As well, the acceleration of prepayments is doing its job and reducing mortgage debt even more quickly.

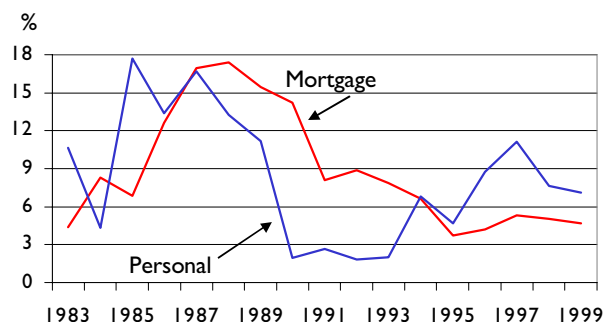
- This trend is also an indication of a progressive change in household consumer preferences that is taking place to the detriment of real estate and mortgage indebtedness, without necessarily affecting renovation. ■

Mortgage debt on total household debt



Sources: CMHC Housing Facts, Bank of Canada

Indebtedness annual growth rate



Sources: CMHC Housing Facts, Bank of Canada

Mortgage credit growth: Ontario and Alberta to dominate

A high level of starts and rising prices supported by robust economic growth and sustained migration will boost mortgage credit growth.

- With over 43% of the market, the outstanding mortgage loans trend in Ontario is a determining factor in the national results. In 2000 and 2001, mortgage credit growth in Ontario will attain 6.3% and 5.0%, respectively. The growth will be slightly weaker in the Prairies, at 6.0% and 4.0%, as the strong conditions in Alberta will be attenuated by a more modest progression in Manitoba and Saskatchewan.
- In Quebec, moderate starts and price increases will cause mortgage credit to grow by 2.5% and 3.5% in 2000 and 2001. The Atlantic Region and B.C. will bring up the rear with growth rates below 2.0% in 2000-2001. ■

Regional share of outstanding residential mortgage loans

	1990	2000
Atlantic	4.6%	4.5%
Quebec	21.9%	18.5%
Ontario	47.7%	43.6%
Prairies	12.5%	13.7%
B.C.	13.4%	19.7%

Sources: Housing Facts, Bank of Canada

Exporting to Germany: weak Euro hurting

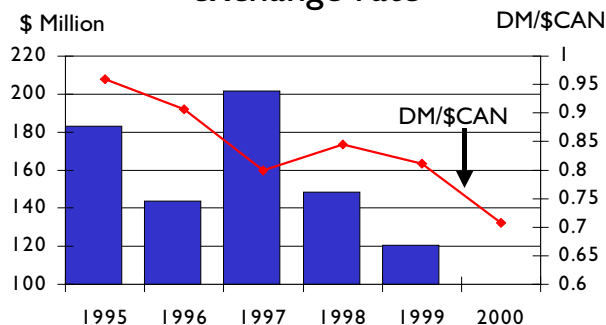
Far behind the United States and Japan in terms of the value of Canadian housing product exports, the third largest global economy still represents an excellent business opportunity for our products in the medium term.

- While awaiting the end of the turmoil that has been hitting the European currency, Germany remains a promising market for Canadian construction materials and products. Its size, its wealth and its openness to the Canadian wood-frame construction system make this a worthwhile market in which to stay interested and multiply the networks of contacts and agreements with local distributors.
- Since 1995, Canadian housing product exports to Germany have fluctuated between \$120M and \$201M, accounting for an average of 1% of our total exports in this sector.
- The weakness of the Euro is definitely hurting the competitiveness of Canadian products with our Euroland competitors. Since its creation in January 1999, the Euro has lost 30% of its initial value in relation to the Canadian dollar, which has considerably reduced the buying power of Europeans and Germans, in particular.
- With respect to demographics, the housing demand will be supported by an increase in households until 2010. From 36.7 million in 1994, the number of households will rise to 38.7 million in 2010. This progression will not be due to demographic growth, though, as the population should decline in Germany over the coming years. Germany should have 81.5 million inhabitants in 2010, compared to 82 mil-

lion in 2000, assuming a total net migration level of 200,000 persons per year. Households will therefore be smaller, and the proportion of seniors will be on the rise.

- The residential construction sector is also being encouraged by German government policies. For example, since 1996, the government has been offering one-time 5,000DM construction grants to working- and middle-class families. In 1997, the government also launched a support plan that allows taxpayers to deduct from their income taxes the costs of purchasing and renovating older buildings in the East.■

Canada's exports to Germany and exchange rate



Sources: CMHC Housing Facts, Bank of Canada, Statistics Canada

Migration: the Atlantic Region getting better results

From July 1999 to July 2000, net interprovincial migration in the Atlantic Provinces has considerably recovered. Only Newfoundland now shows a negative balance.

- One of the highlights of the latest Statistics Canada demographic estimates is the ongoing decrease in the migration loss in the Atlantic Region. For all economic agents closely or remotely related to household spending (housing, retail trade, financial services) in this region, this is good news.
- Considering the outlook for economic growth in these provinces, it can reasonably be believed that they will continue to exercise greater retention of their populations over the next 12 months.■

Net interprovincial migration

	July 1999 to July 2000	July 1998 to July 1999
Nfld.	-2,510	-5,695
PEI	979	193
N.S.	665	201
N.B.	524	-1,244

Sources: CMHC Housing Facts, Statistics Canada

This Month's Housing Data

	1999	Q1:00	Q2:00	Q3:00	M7:00	M8:00	M9:00
Housing starts. units. 000's							
Canada. Total. All areas	150,0	162.7	142.1	156.0	165.6	146.0	156.4
% chg	9,1	3.6	-12.7	9.8	22.7	-11.8	7.1
Canada. Total. Rural areas	22,9	23.9	19.0	21.0	21.0	21.0	21.0
% chg	10,7	-2.4	-20.5	10.5	10.5	0.0	0.0
Canada. Total. Urban areas	127,1	139.3	123.1	135.0	144.6	125.0	135.4
% chg	8,8	5.1	-11.6	9.7	24.7	-13.6	8.3
Canada. Single. Urban areas	72,8	81.3	74.3	73.8	76.3	72.7	72.4
% chg	6,6	8.0	-8.6	-0.7	5.1	-4.7	-0.4
Canada. Multiple. Urban areas	54,3	58.0	48.8	61.2	68.3	52.3	63.0
% chg	12,0	1.4	-15.9	25.4	57.4	-23.4	20.5
Newfoundland. Total. All areas	1,4	1.7	1.4	1.5	1.8	1.3	1.4
% chg	-5,4	30.8	-17.6	7.1	63.6	-27.8	7.7
Prince Edward Island. Total. All areas	0,6	0.5	0.6	0.6	0.6	0.7	0.5
% chg	17,6	0.0	20.0	0.0	-14.3	16.7	-28.6
Nova Scotia. Total. All areas	4,3	6.4	4.9	4.9	5.4	5.8	3.3
% chg	35,5	33.3	-23.4	0.0	17.4	7.4	-43.1
New Brunswick. Total. All areas	2,8	4.5	2.4	2.9	2.6	2.3	3.9
% chg	13,4	45.2	-46.7	20.8	18.2	-11.5	69.6
Quebec. Total. All areas	25,7	26.7	22.4	28.0	27.2	29.1	27.7
% chg	11,2	-4.0	-16.1	25.0	28.3	7.0	-4.8
Ontario. Total. All areas	67,2	78.8	63.6	73.7	84.4	65.7	70.9
% chg	24,9	13.7	-19.3	15.9	39.5	-22.2	7.9
Manitoba. Total. All areas	3,1	2.3	2.8	2.7	2.6	3.1	2.4
% chg	8,2	-11.5	21.7	-3.6	-7.1	19.2	-22.6
Saskatchewan. Total. All areas	3,1	2.4	2.7	2.5	2.7	2.8	2.2
% chg	4,1	4.3	12.5	-7.4	-15.6	3.7	-21.4
Alberta. Total. All areas	25,4	26.1	26.0	25.3	24.3	23.6	28.0
% chg	-6,2	-4.7	-0.4	-2.7	0.0	-2.9	18.6
British Columbia. Total. All areas	16,3	13.3	15.3	13.9	14.0	11.6	16.1
% chg	-18,2	-25.7	15.0	-9.2	-2.8	-17.1	38.8

SOURCE: CMHC

All data are seasonally adjusted at an annual rate, latest month's figures are preliminary.

% chg: Per cent change from previous period.

Housing starts, urban areas*

	1999	Q1:00	Q2:00	Q3:00	M7:00	M8:00	M9:00
Canada	127.1	139.3	123.1	135.0	144.6	125.0	135.4
Newfoundland	0.9	1.5	1.1	1.1	1.4	0.9	1.0
Prince Edward Island	0.4	0.5	0.3	0.4	0.4	0.5	0.3
Nova Scotia	2.8	4.2	3.1	3.2	3.7	4.1	1.6
New Brunswick	1.9	2.8	1.6	2.2	1.9	1.6	3.2
Québec	19.5	20.8	17.7	22.2	21.4	23.3	21.9
Ontario	62.9	74.3	60.3	70.1	80.8	62.1	67.3
Manitoba	2.1	1.3	1.6	1.6	1.5	2.0	1.3
Saskatchewan	2.2	2.0	2.0	2.0	2.2	2.3	1.7
Alberta	20.2	20.3	22.4	21.0	20.0	19.3	23.7
British Columbia	14.2	11.6	13.0	11.2	11.3	8.9	13.4

* Seasonally adjusted.

This Month's Major Housing Indicators

	1999	Q1:00	Q2:00	Q3:00	M7:00	M8:00	M9:00
New Housing*							
New & unoccupied. singles & semis. 000's	6.30	6.36	6.21	7.06	6.12	6.21	7.06
% chg	-8.33	1.51	-2.31	13.69	-1.43	1.40	13.69
New & unoccupied. row & apartments. 000's	7.93	8.19	8.12	8.29	8.62	8.53	8.29
% chg	-3.37	8.30	-0.87	2.09	6.16	-1.04	-2.81
New house price Index. 1992 = 100	100.95	102.27	102.93	n.d.	103.2	n.d.	n.d.
% chg	0.89	0.46	0.65	n.d.	0.10	n.d.	n.d.
Existing Housing*							
MLS resales. units. 000's	335.73	341.87	333.05	n.d.	325.22	342.86	n.d.
% chg	6.73	5.57	-2.58	n.d.	-1.88	5.42	n.d.
MLS average resale price. \$C. 000's	158.03	162.11	162.42	n.d.	165.15	161.63	n.d.
% chg	3.72	0.55	0.19	n.d.	1.67	-2.13	n.d.
Mortgage market							
1-year mortgage rate. %	6.80	7.63	8.03	7.90	7.90	7.90	7.90
5-year mortgage rate. %	7.56	8.48	8.51	8.25	8.25	8.25	8.25
Building materials							
Total costs building materials Index. 1992=100	131.13	133.98	131.44	n.d.	n.d.	n.d.	n.d.
% chg	5.30	2.70	-1.65	n.d.	n.d.	n.d.	n.d.

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

chg % change from previous period.

n.a. Figures not available

* Seasonally adjusted.