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HOUSING FACTS

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Canada Mortgage and Housing Corporation

Housing starts take a break in January. No need to panic!

Housing starts were down in January (-7.3%), reaching the seasonally adjusted rate of 147,700 units, compared to the revised level of 159,300 units in December 1999.

In urban areas, single-family home starts went up by 0.9% to 80,600 units, while multiple housing construction fell by 18.0% to 45,000 units.

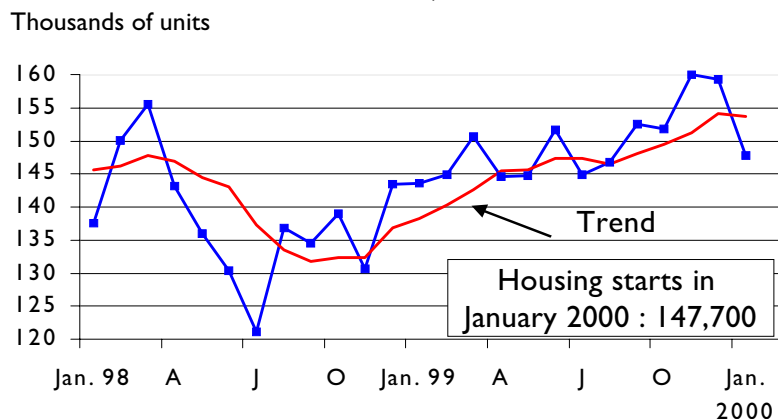
The downturn in new residential construction in January came as no surprise considering the intense activ-

ity that prevailed in November and December 1999, when housing starts reached respective levels of 160,000 and 159,300 units, on an annual basis.

The decrease in multiple housing starts in January is a good example of the great volatility characterizing this market segment. In this regard, the strength of single-family home building is a more relevant indicator of the state of the market.

Please see Housing starts on page 2...

Housing starts in Canada
all areas, *saar



Source: CMHC Housing facts

*Seasonally adjusted annual rate

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HOME TO CANADIANS
Canada

Housing starts - Continued from page 1

With the exception of the Atlantic Provinces (+98% to 10,500 units), all regions sustained downturns in their construction volumes this past month. Housing starts attained 62,300 units in Ontario (-9.1%), 24,700 in the Prairies (-0.4%), 18,900 in Quebec (-6%) and 9,200 in British Columbia (-42.5%).

At the metropolitan area level, housing starts reached the seasonally adjusted annual rates of 30,300 in Toronto, 9,300 in Montréal and 5,600 in Vancouver. For Montréal and Vancouver, the low levels of activity recorded in January seem to indicate that the market is catching its breath after having been quite dynamic during the last few months of 1999.

In 1999, housing starts in Canada attained a total of 149,968 units, up by 9.1% over 1998. All provinces posted gains except for Alberta, British Columbia and Newfoundland. ■

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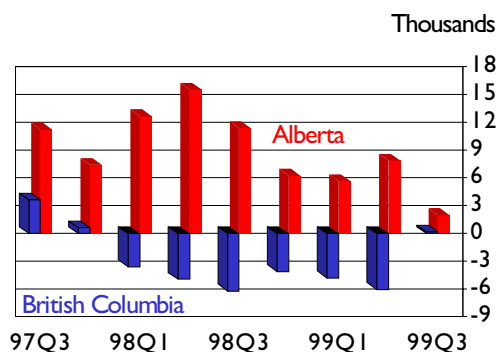
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British Columbia restores its migratory inflow

In the third quarter of 1999, the interprovincial migratory balance in B.C. returned to the positive side for the first time in two years, but the improvement could be short-lived while Alberta gets its energy back.

- Housing starts in British Columbia could attain 18,000 units this year, as opposed to 16,309 in 1999. While this level may mark renewed growth, for B.C. it represents a modest performance in comparison with the average level for the 1990s. In fact, even if the economy starts up again, the province will have to stimulate its demographic growth by receiving more new citizens, particularly from other provinces, if it wants to increase its volume of new construction. This prerequisite accounts for our caution with regard to the anticipated growth in housing starts in B.C. this year.
- The latest interprovincial migration figures show a positive balance of 186 persons for the third quarter of 1999, a definite improvement over the previous quarters, which had posted very negative results. It is a known fact that the relative economic prospects for Alberta and B.C. modulate their interprovincial migratory flows.
- Also, it can be assumed that the weak energy prices in 1998 and the first few months of 1999 dulled the employment prospects in Alberta's energy sector, thereby lessening its appeal for migrants from other provinces.
- Oil prices are now at their highest levels in 10 years, however, and investments in the exploration and exploitation of oil fields are picking up in Alberta. This being said, B.C. will have a lot to do to keep its head out of the water in terms of interprovincial migration, especially since the Ontario economy is going at full speed. ■

Net interprovincial migration



Sources: CMHC Housing facts, Statistics Canada

Review of 1999 forecasts: a rejuvenated housing market

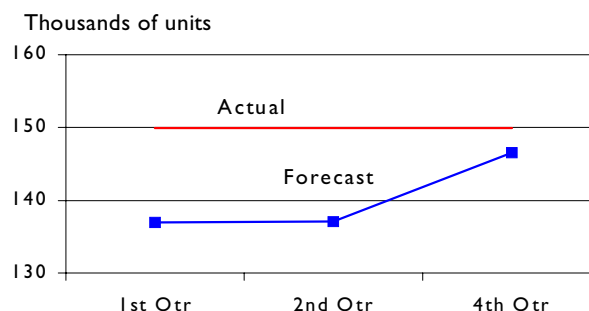
In 1999, concern over the Asian economic crisis dissipated, and the U.S. economic expansion continue uninterrupted. Canadian housing markets gathered momentum during the year.

- At the beginning of 1999, the outlook for the Canadian economy and housing markets was uncertain. The long shadow of the Asian economic downturn was still very much a concern, and the U.S. economy was expected to slow.
- The second quarter saw little change in the forecast. Although housing starts were stronger than expected, forecasters still believed the U.S. economy would cool. For Canada, the belief was that such a slowdown would mean a squeeze on exports, profits, and ultimately employment growth and consumer spending. After a strong January, job creation did indeed slacken, and March saw a net loss in jobs.
- By late summer, our forecast was raised. The U.S. economy was showing little sign of losing steam. In Canada, employment growth, although slightly down from 1998, was turning in a healthy performance. Even more important, full-time jobs were being created at a faster pace than in 1998. Confidence had recovered fully from the plunge in the third quarter of 1998, when the Asian crisis hurt the Canadian dollar and stock markets. As a

result, consumers spent steadily, and retail sales strengthened. As well, gradual improvement in immigration was expected to lend a helping hand to housing markets.

- The year finished on a high note, with housing starts up in the fourth quarter. The momentum from 1999 is expected to carry over into increased home building this year and next year (see Housing Facts, January 2000). ■

Starts forecasts for 1999



Sources: CMHC Housing facts, CMHC Housing Outlook
 Note: No third quarter forecast was produced.

New Housing Price Index (NHPI) update

NHPI recently showed very modest growth, but there are some significant regional differences.

- Calgary and Regina are the two centres where new housing prices have risen the greatest during the last few years. In 1999, the NHPI for Calgary continued to rise but at a more moderate pace. Slower economic growth in Alberta and declining interprovincial net migration have been compensated by upward pressures coming from labor and materials costs increases.
- Elsewhere, a still declining NHPI in Vancouver, with an overall weighting of 21% of the total Canada index, is a major factor in the modest Canada-wide NHPI of 101.8. However, along with improving economic conditions, we expect a turnaround this year for BC and more gains for most of the CMAs.
- The NHPI is a weighted index of producer prices based upon a survey of builders of singles, semis and row houses. Apartments are excluded. Quality adjustments are included. ■

New Housing Price Index *
 1992=100

CMA	1996	1997	1998	1999
Calgary	109.5	117.2	125.1	130.6
Halifax	109.9	106.8	108.4	113.4
Montréal	102.1	102.0	102.5	106.0
Toronto	96.8	100.6	103.0	105.1
Ottawa-Hull	97.1	96.9	98.7	102.4
Vancouver	94.1	90.3	85.9	83.6
Regina	116.1	121.5	125.5	130.1
Victoria	85.3	83.1	77.6	73.4
Canada	98.4	99.5	100.2	101.8

Sources: CMHC Housing facts and Statistics Canada.

*Index as of November of each year

Renovation warehouses and banking services: the market is not ready

A survey conducted for CMHC in 1999 revealed that over 40% of consumers would make use of comprehensive financial services in renovation superstores if such services were offered there.

- Last spring, in **Mortgage Market Trends**, we set out the idea that the presence in renovation warehouses of financial services, like those found in grocery supermarkets, could be a promising market for lending institutions. These superstores are sprouting up all over North America, they have a large customer base, and credit is often used to perform renovations.
- This idea was also based on the fact that the greater visibility of the lending institutions on site could enable them to gain an exclusive hold on a booming market. In return, for housing product and materials distributors, easier access to financing and the presence of complementary services could stimulate their sales.
- In a survey conducted last fall, 5% of respondents said that they would be very interested in using banking services in renovation superstores on a regular basis. In response to the same question, 37% indicated that they would use such services on occasion. However, the majority of those polled (58%) stated that they would not be interested in making use of these services.
- At first glance, this data suggests that the level of interest is too uncertain to consider a large-

scale implementation in the medium term. Yet, a more detailed analysis of the results revealed some regional differences, as respondents from Quebec and the Atlantic Provinces showed greater openness toward the concept. Those most likely to make use of credit were also more receptive: young people and those planning to undertake over \$5,000 worth of renovations in the short or medium term.

- Among those aged under 35 years, 52% of respondents said that they would be willing to use such services regularly or occasionally. The corresponding proportions were 44% among persons aged from 35 to 49 and only 33% for those aged 50 years or older.
- Most of the people surveyed preferred to finance major renovations through the familiar bank branch option. What would happen, though, if this likely reassuring universe were transposed into a renovation warehouse? Don't at least 15% of respondents already prefer to finance their work directly in store? (See table below). In general, it is more difficult to express an opinion on something unknown. But who could have predicted the formidable rise of electronic commerce and bank transactions on the Internet? The question is still open, and the concept remains to be tried. ■

Interest in using full-service bank facilities in home-improvement / renovation centres

Province / region	Very interested	Interested	No interest
Atlantic	6%	39%	55%
Québec	5%	43%	52%
Ontario	5%	37%	58%
Man./Sask.	2%	28%	70%
Alberta	5%	35%	60%
C.-B.	3%	32%	65%

Sources: CMHC Housing facts and FIRM Survey, September 1999.

Preferred method if required financing for major renovations

Loan/line of credit from financial institution obtained at a branch	70%
On the spot financing provided by the home improvement centre	10%
Increase mortgage on home	9%
On the spot financing provided by a financial institution at home improvement centre	5%
Other	6%

Sources: CMHC Housing facts and FIRM Survey, September 1999.

Mortgage rates forecast update : up then down

Despite an upward trend, mortgage rates will stay low compare to the last economic cycle peak in 1989.

- The one, three and five-year mortgage rates are expected to be in the 6.50-8.00, 7.25-8.50, and 7.50-8.75 per cent range respectively over the next two years.
- On balance, interest and mortgage rates in 2000-2001 are expected to remain low by 1990s standards and stay within 50-100 basis points of their current levels.
- Robust employment and output growth in 2000, along with higher interest rates in the U.S. and Europe are likely to exert further upward pressure on the Canadian interest and mortgage rates over the next few months. However, consumer and industrial price increases will remain moderate, helping keep our interest and mortgage rates low in 2000-2001.
- Mortgage rate discounts currently ranging between 1/4 to 5/4 percentage point will remain an important competitive instrument over the forecast horizon.
- Mortgage rates could move even higher than our base scenario if U.S. rates rise much further or the Canadian dollar faces downward pressure.■

Mortgage interest rates			
Year / quarter	1-year	3-year	5-year
2000:1	7.78	8.37	8.61
2000:2	7.91	8.48	8.68
2000:3	7.70	8.36	8.65
2000:4	7.58	8.36	8.50
2000	7.74	8.39	8.61
2001:1	7.37	8.20	8.35
2001:2	7.10	7.88	8.13
2001:3	6.76	7.61	7.86
2001:4	6.53	7.40	7.66
2001	6.94	7.77	8.00

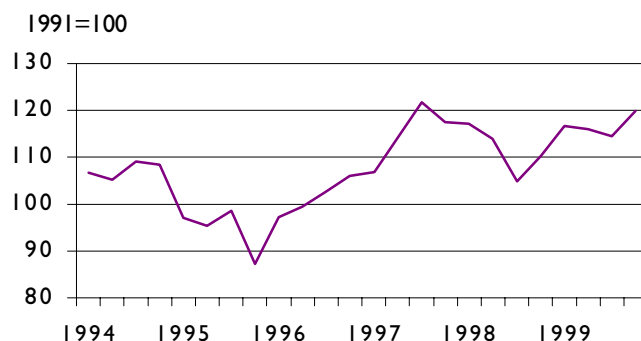
Source: CMHC Housing facts

Consumer confidence keeps improving since 1998 downturn

The Conference Board's Consumer Attitude Index rebounded in the fourth quarter, getting back near its 10-year high. Consumer inclinations toward big-ticket items could hardly get better.

- Ontario and Québec mainly drove the improvement in consumers' mood. In both provinces, the index level reached its highest level since the late 1980s. Consumer confidence is also on the way up in the Prairie and B.C. regions, after a 1998 downturn. These results outline building spending momentum in the economy and will likely sustain consumer spending in 2000.
- When asked if it's a good time to buy big-ticket items, the proportion of consumers saying yes remained strong but below the historic high at early 1998. That high level of optimism is another sustaining factor to this year's expected housing and renovation activity gains.■

Index of consumer attitude



Sources: CMHC Housing facts and Conference Board of Canada.

Renovation market: hopes for electronic commerce

For consumers, on-line purchasing could turn out to be an indispensable tool if it comes with detailed product information and renovation consulting. For retailers, the competition will intensify, and all will have to open up virtual branches.

- The on-line sale of renovation products (materials and tools) is a phenomenon that is now very marginal but that could grow exponentially over the next few years, given that it is user-friendly, interactive and economical. For the moment, electronic retail commerce mainly involves books, recordings and computer and electronic equipment.
- This year, Americans should spend between \$45 and \$50 billion on the purchase of all types of goods and services through electronic commerce, almost twice as much as in 1999, according to a recent survey conducted by the firm Ernst & Young. In 2000, spending on the Web by American consumers should therefore be equivalent to twice the total annual renovation expenditures in Canada. Only 9% of Canadian households reportedly made on-line purchases in 1999. In the United States, this proportion was 17%, and the participants in the above-mentioned survey spent an average of \$1,205 US divided among 13 purchases. Among the G-7 countries, though, Canada has the largest percentages of households who own a computer (56%) and who have Internet access (39%).
- The number of Canadian housing product retailers that currently provide their clients with the possibility of shopping on-line can practically be counted on one hand, and the choice of items offered is limited. The lack of Canadian retailers on the Web is probably one of the principal factors accounting for the low volume of Internet transactions involving housing-related products. At the same time, it is estimated that 70% of on-line purchases made by Canadians in general are completed on American sites.
- The virtual market is yet unexploited and full of opportunities, while the superstore market is already glutted by the proliferation of warehouses. On the Web, consumers have access to a wide range of products and brands allowing them to compare prices and technical specifications, while making sure that the items are available in store.
- Electronic commerce does, however, face a few challenges that could limit its expansion. The first obstacle comes from the fact that quite a few consumers are still not convinced that such transactions are secure.
- A second deterrent is the delivery charges which, in turn, discourage large item purchases. According to the Ernst & Young survey, item delivery prices are perceived as being too high by Internet users and head the list of factors causing them to limit their number of on-line purchases. To counter this obstacle, the most aggressive sites are attempting to garner a share of the market and develop consumer loyalty to this method of purchasing by offering deliveries at a set price (sometimes free) regardless of the quantities to be shipped to the buyer's home, office, etc. Delivery times generally vary from one to three days to any destination.
- Finally, all the advantages of electronic shopping do not offset the need for manual contact with the items, which is critical for many renovation products but much less so for books or recordings.
- For retailers, the concurrent use of a virtual shop window and a warehouse can become a winning strategy if both methods of distribution are used to their fullest in the niches where they best meet the needs of consumers. In the renovation sector, tools and consulting are perhaps the most profitable segments in the short term. ■

Online shoppers facts and figures

Gender of shoppers: Male	62%
Age of shoppers: 30-39	33%
Family income : \$40 000-75 000	47%
Annual number of purchase: 3-4	43%

Sources: CMHC Housing facts and Global Online retailing report, Ernst & Young 1999

This Month's Housing Data

	1999	Q2:99	Q3:99	Q4:99	MI1:99	MI2:99	MI:00
Housing starts, units, 000's							
Canada, Total, All areas	150.0	147.0	148.2	157.0	160.0	159.3	147.7
chg	9.1	0.5	0.8	5.9	5.4	-0.4	-7.3
Canada, Total, Rural areas	22.9	22.8	20.8	24.5	24.5	24.5	22.1
chg	10.7	0.9	-8.8	17.8	0.0	0.0	-9.8
Canada, Total, Urban areas	127.1	124.2	127.4	132.5	135.5	134.8	125.6
chg	8.8	0.5	2.6	4.0	6.4	-0.5	-6.8
Canada, Single, Urban areas	72.8	72.6	75.1	75.3	74.4	79.9	80.6
chg	6.6	8.4	3.4	0.3	3.9	7.4	0.9
Canada, Multiple, Urban areas	54.3	51.6	52.3	57.2	61.1	54.9	45.0
chg	12.0	-8.8	1.4	9.4	9.7	-10.1	-18.0
Newfoundland, Total, All areas	1.4	1.4	1.3	1.3	1.5	1.2	1.3
chg	-5.4	-22.2	-7.1	0.0	36.4	-20.0	8.3
Prince Edward Island, Total, All areas	0.6	0.6	0.9	0.5	0.6	0.5	0.8
chg	17.6	-25.0	50.0	-44.4	20.0	-16.7	60.0
Nova Scotia, Total, All areas	4.3	5.3	3.1	4.8	4.9	4.4	5.8
chg	35.5	23.3	-41.5	54.8	-3.9	-10.2	31.8
New Brunswick, Total, All areas	2.8	2.5	2.7	3.1	3.4	2.9	5.2
chg	13.4	4.2	8.0	14.8	21.4	-14.7	79.3
Quebec, Total, All areas	25.7	24.2	25.9	27.8	27.3	27.7	25.9
chg	11.2	-1.2	7.0	7.3	-3.9	1.5	-6.5
Ontario, Total, All areas	67.2	69.2	64.7	69.3	71.9	72.4	65.9
chg	24.9	6.6	-6.5	7.1	12.9	0.7	-9.0
Manitoba, Total, All areas	3.1	3.1	3.3	2.6	2.2	2.3	2.4
chg	8.2	-13.9	6.5	-21.2	-37.1	4.5	4.3
Saskatchewan, Total, All areas	3.1	2.9	3.8	2.3	2.0	2.2	3.2
chg	4.1	-23.7	31.0	-39.5	-23.1	10.0	45.5
Alberta, Total, All areas	25.4	22.9	26.4	27.4	26.8	27.4	26.1
chg	-6.2	-5.4	15.3	3.8	-3.9	2.2	-4.7
British Columbia, Total, All areas	16.3	14.9	16.1	17.9	19.4	18.3	11.2
chg	-18.2	-6.3	8.1	11.2	19.8	-5.7	-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.

This Month's Major Housing Indicators

Presently renovating this table

Thank you!

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

chg % change from previous period.

n.a. Figures not available

* All indicators are seasonally adjusted, except 1- and 5-year mortgage rates.

** Residential investment includes outlays for new permanent housing; conversion costs; the cost of alterations and improvements; supplementary costs; and transfer costs.