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Canada Mortgage and Housing Corporation

www.cmhc.ca

Canadian Market Overview

New Home Market

Residential construction off to a great start in 2006

The seasonally adjusted annual rate¹ of housing starts was 248,100 units in January, up from 232,600 units in December.

The high number of housing starts in January reflects continued strong demand for homeownership which is also evident in the high level of existing home sales over the

latter half of 2005. Single home starts were particularly strong, as they registered their highest level since January 1990. Despite the high level of housing starts in January, activity is expected to moderate in 2006 compared to 2005, as strong house price growth and modest increases in mortgage rates boost mortgage carrying costs and contribute to easing demand for both existing and new homes.

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FEBRUARY 2006

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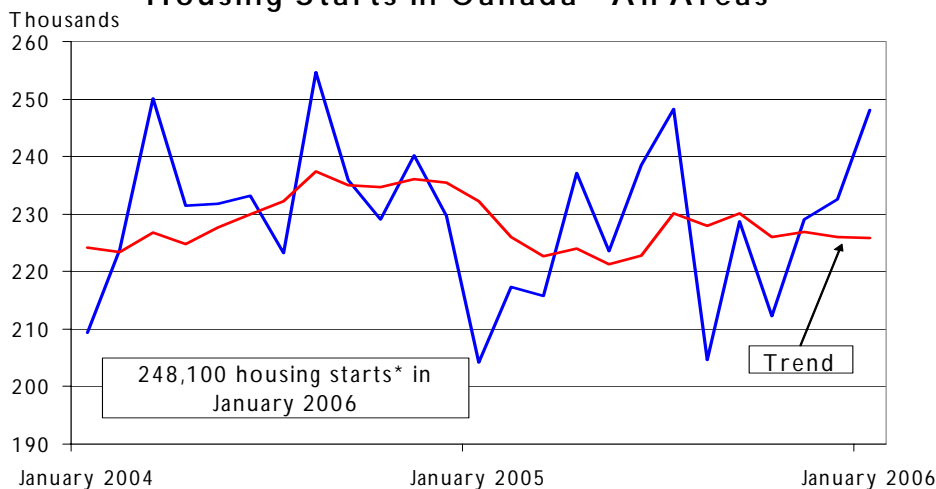
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Housing Starts in Canada - All Areas*



Source: CMHC

*Seasonally adjusted at annual rates

Monthly housing starts numbers published in Housing Now Canada are final and may differ from the preliminary numbers in the starts 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.

Canada



Both urban single and multiple starts rose in January

The seasonally adjusted annual rate of urban starts rose 8.3 per cent to 215,500 units with increases in both single and multiple starts. Multiple starts increased by 2.4 per cent to 103,500 units and single starts jumped 14.5 per cent to 112,000 units in January compared to December.

Urban starts increased in all regions except British Columbia

Urban housing starts were up across all regions except for British Columbia in January. In the Atlantic region, unseasonably warm weather and a high level of activity in the volatile multiple segment have pushed the seasonally adjusted annual rate of urban starts up by an impressive 79.5 per cent to 13,100 units. Urban starts rose by 9.9 per cent to 86,800 units in Ontario, 6.2 per cent to 43,000 units in Quebec, and 6.0 per cent to 40,700 units in the Prairies. Urban starts were down 5.3 per cent to 31,900 units in British Columbia.

Rural starts in January were estimated at a seasonally adjusted annual rate of 32,600 units.

Actual urban starts in January were up significantly compared to a year ago

For the first month of the year, actual urban starts were 23.2 per cent higher than in January 2005. Single starts increased 26.8 per cent and multiple starts rose 19.9 per cent compared to a year ago.

New house prices in December remain strong

The year-over-year increase in the price of new homes, as measured by the New Housing Price index (NHPI), was 5.9 per cent in December 2005, up from 5.5 per cent in November 2005. Higher building material and labour costs were the biggest contributors to the increase in the NHPI.

Existing Home Market

Despite a drop in December, MLS® sales set a new record in 2005

Seasonally adjusted MLS® (Multiple Listings Service) sales fell to 40,226 units in December, down 2.4 per cent from 41,211 units in November.

Despite the decline, actual MLS® sales for 2005 increased 4.9 per cent to 483,250 units compared to 460,791 units in 2004. Two thousand and five marked the fourth consecutive year in which MLS® sales established a new annual record, thanks to low interest rates, healthy labour markets, and steady income growth.

MLS® new listings up in December and finish 2005 on a strong note

Seasonally adjusted MLS® new listings rose to 64,229 units in December, up 1.1 per cent from 63,506 units in the previous month.

758,376 new listings were registered in 2005, an increase of 4.6 per cent compared to 2004. This is the highest level of new listings in 26 years.

Sellers' market continues to support rising house prices



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

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Sellers' market conditions across Canada continue to support strong growth in house prices

An indicator of price pressure in the existing home market is the sales-to-new-listings ratio¹. New listings are a gauge of supply of existing homes, while MLS® sales are a proxy for demand.

The sales-to-new-listings ratio for Canada remained in sellers' market territory in December, at about 63 per cent. On an annual basis, the sales-to-new-listings ratio for Canada was 64 per cent in 2005. As a result, the Canada-wide average MLS® price increased by 10.2 per cent in 2005 compared to the previous year.

Economic conditions

In January, 26,000 jobs were created, an increase of 1.7 per cent compared to a year ago. Nevertheless, the unemployment rate inched higher by 0.1 of a percentage point to 6.6 per cent as more people entered the labour force to search for work.

In January 2006, the seasonally adjusted employment-to-population ratio remained un-

¹ 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 rise more rapidly than overall inflation. When the sales-to-new-listings ratio is between these thresholds, the market is said to be *balanced*.

changed from December 2005 at 62.7 per cent, which is only marginally below the historic peak of 62.8 per cent. In other words, a near record share of Canadians are employed, which is supporting high levels of consumer confidence and strong demand for housing.

The Bank of Canada raised its target for the overnight lending rate by a quarter of a percentage point to 3.5 per cent on January 24th following similar moves on December 6th, October 18th, and September 7th. With the economy operating close to full capacity, the gradual reduction in monetary stimulus will help to prevent rising inflationary pressures. Nevertheless, monetary conditions remain stimulative.

In January, the price of goods and services included in the Consumer Price Index (CPI) basket increased 2.8 per cent compared to January 2005. The increase was mainly due to higher gasoline and natural gas prices, purchase and leasing of automotive vehicles, and homeowners' replacement costs. These increases were restrained by lower prices for computer equipment and supplies, for insurance premiums for automotive vehicles and for traveller accommodation. ■

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Positive interprovincial migration bodes well for housing markets in Western Canada

While economic opportunities will attract interprovincial migrants, high house prices can dampen the effect.

Canada's aging population is resulting in fewer people in their child bearing years and hence, a slower birth rate. The natural increase of the population (births minus deaths) is slowing, and the majority of population growth in recent years has been due to increases in net migration. Population growth is an important driver of household formation and thus housing demand. The majority of international migrants settle in Toronto, Vancouver, and Montreal. At the provincial level, net migration also includes Canadians that move from one province to another. This interprovincial migration is an important source of population growth for certain provinces.

Economic fortunes across Canada can vary significantly over time. A tight labour market in one region tends to attract job seekers from regions where labour market conditions are less positive. Thus, a key driver of interprovincial migration is the relative strength of provincial labour markets (see Figures 1 and 2 for Alberta and Ontario and page 6 for other regions in Canada). These flows can represent a significant gain or loss to provincial populations and thus are an important driver of housing demand. Although there are factors other than relative economic opportunities that influence inter-provincial migration flows, many of these do not vary significantly in the short run. Some other factors include quality of life, as well as weather, ethnic, and linguistic considerations.

Potential migrating households will need to find accommodations in their new province. Relative shelter costs can impact the decision to

move as more attractive employment conditions may also be accompanied by significantly different shelter costs. If both relative economic conditions and shelter costs are favourable, a move may allow a renter household to enter the home ownership market. Conversely, if there are significantly higher shelter costs,

Figure 1: Alberta's Economy is a People Magnet

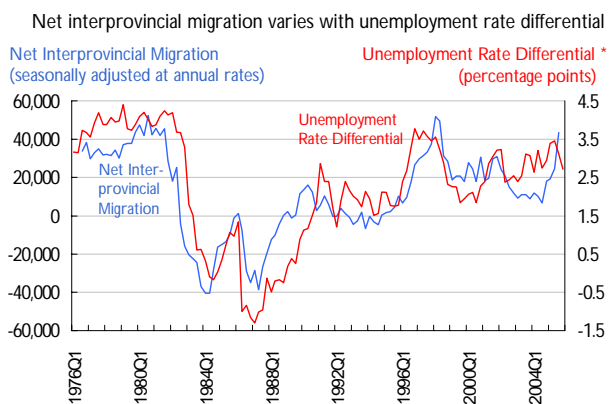
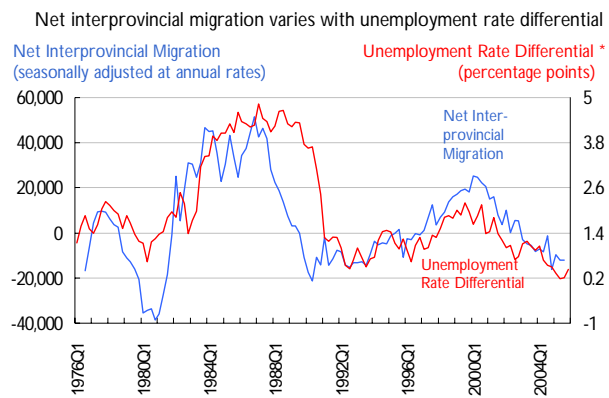


Figure 2: Ontario's Fortunes Slip



see page 6 for other regions in Canada

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* Unemployment rate differential = the unemployment rate in the rest of Canada (excluding home province) minus the Unemployment Rate in home province

When the unemployment rate in a given province is low relative to the rest of Canada, the employment differential for that province is large. Hence, the unemployment rate differential will be positively correlated to interprovincial migration.

moving to the new region could result in a downsizing or move from ownership to rental accommodation.

During periods of high interprovincial net migration, the resulting increase in housing demand drives the price of homes higher. This situation can continue until a threshold is reached such that the higher cost of shelter becomes a deterrent to potential migrants (see Figures 3 and 4). When the gap in the relative cost of housing widens too much, it can offset the economic opportunities and net migration will decline despite the regional economic advantages. Hence, economic opportunities will attract interprovincial migrants, but high house prices can dampen the effect.

Some of the migrating households will turn to the new home market to meet their housing needs, others will buy an existing home, and some will rent. High migration not only stimulates demand for housing, but also increases business opportunities for those involved in the residential real estate industry such as, moving companies, real estate agents, lawyers, etc.

There is a statistically identifiable relationship between the relative unemployment rate and inter-provincial migration. A relatively low unemployment rate in a province is indicative of better economic opportunity. For a given province, net interprovincial migration tends to increase as the relative economic opportunities increase. For example, a one percentage point improvement in Alberta's relative unemployment rate would result in an additional 11,000 interprovincial migrants, while a one percentage point decline in Ontario's relative unemploy-

ment rate would result in 10,000 fewer inter-provincial migrants. Thus, cyclical provincial economic fortunes are reflected in the inter-provincial migration variations. ■

Figure 3: House Prices Impact Alberta Migration

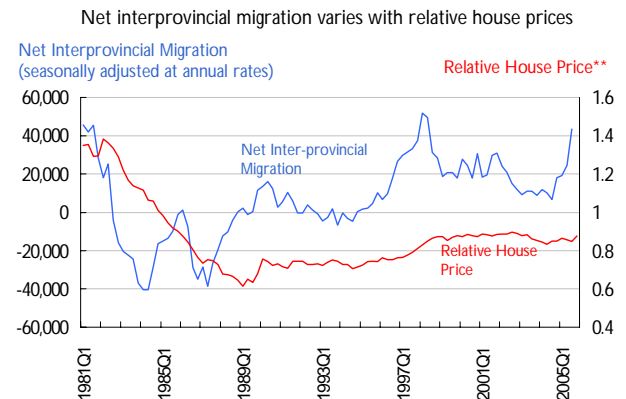
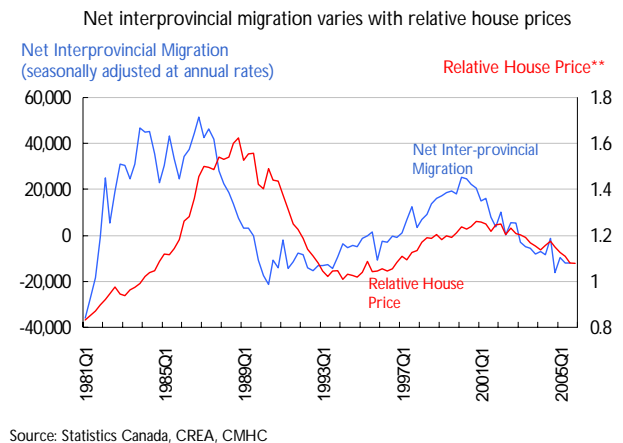


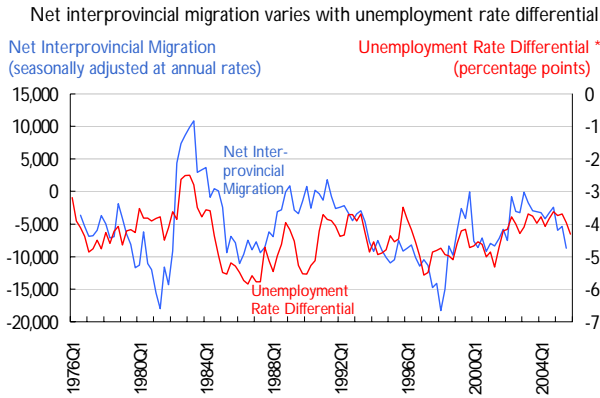
Figure 4: Ontario House Price and Migration



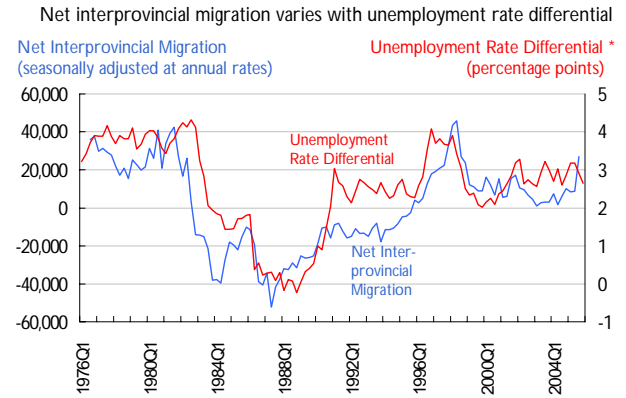
**Relative house price = MLS price in the home province divided by the MLS price in the rest of Canada (excluding home province), or When prices are rising more rapidly in the home province compared to the rest of Canada, the ratio increases. Relative prices rise with strong interprovincial migration, but a high relative price will discourage migration as shelter cost become prohibitive.

Net interprovincial migration and relative unemployment rate for Atlantic Canada, the Prairie provinces, Québec and British Columbia

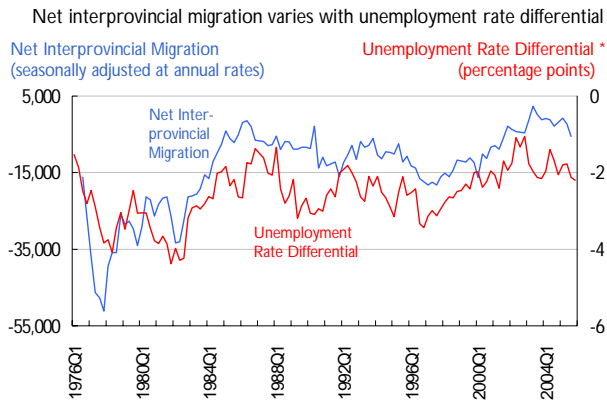
Atlantic Canada



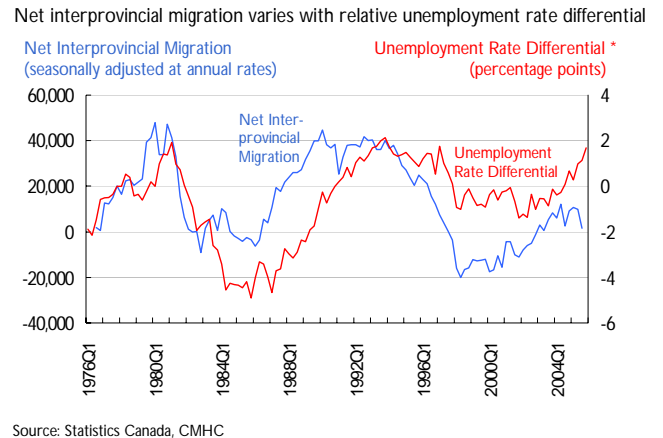
Prairie Provinces



Quebec



British Columbia



* Unemployment rate differential = the unemployment rate in the rest of Canada (excluding home province) minus the Unemployment Rate in home province

When the unemployment rate in a given province is low relative to the rest of Canada, the employment differential for that province is large. Hence, the unemployment rate differential will be positively correlated to interprovincial migration.

This Month's Housing Data (SAAR)

	2005	Q2:05	Q3:05	Q4:05	M11:05	M12:05	M01:06
Housing starts, units, 000s							
Canada. Total. All areas	225.5	233.0	227.4	224.6	229.1	232.6	248.1
Per cent change from previous period	-3.4	9.8	-2.4	-1.2	8.0	1.5	6.7
Canada. Total. Rural areas	32.0	33.9	30.1	33.7	33.7	33.7	32.6
Per cent change from previous period	10.2	21.9	-11.2	12.0	0.0	0.0	-3.3
Canada. Total. Urban areas	193.5	199.1	197.3	190.9	195.4	198.9	215.5
Per cent change from previous period	-5.3	7.9	-0.9	-3.2	9.5	1.8	8.3
Canada. Single. Urban areas	94.0	97.0	91.4	94.5	94.5	97.8	112.0
Per cent change from previous period	-9.5	4.3	-5.8	3.4	3.7	3.5	14.5
Canada. Multiple. Urban areas	99.5	102.1	105.9	96.4	100.9	101.1	103.5
Per cent change from previous period	-1.0	11.6	3.7	-9.0	15.4	0.2	2.4
Newfoundland. Total. All areas	2.5	2.3	2.6	2.4	2.2	2.7	2.6
Per cent change from previous period	-13.0	-23.3	13.0	-7.7	-12.0	22.7	-3.7
Prince Edward Island. Total. All areas	0.9	0.6	0.8	0.8	0.8	1.0	2.3
Per cent change from previous period	-6.2	-57.1	33.3	0.0	14.3	25.0	130.0
Nova Scotia. Total. All areas	4.8	5.3	4.6	4.9	5.5	4.1	7.0
Per cent change from previous period	1.2	32.5	-13.2	6.5	12.2	-25.5	70.7
New Brunswick. Total. All areas	4.0	4.1	3.9	4.2	3.5	3.5	5.2
Per cent change from previous period	0.3	20.6	-4.9	7.7	-38.6	0.0	48.6
Quebec. Total. All areas	50.9	51.4	50.0	49.5	49.8	49.6	51.7
Per cent change from previous period	-12.9	-2.7	-2.7	-1.0	1.4	-0.4	4.2
Ontario. Total. All areas	78.8	86.9	78.5	74.7	80.4	83.7	92.4
Per cent change from previous period	-7.4	19.4	-9.7	-4.8	34.0	4.1	10.4
Manitoba. Total. All areas	4.7	4.4	5.5	4.7	5.0	4.0	4.8
Per cent change from previous period	6.6	4.8	25.0	-14.5	-2.0	-20.0	20.0
Saskatchewan. Total. All areas	3.4	3.4	3.8	3.6	4.1	3.2	4.5
Per cent change from previous period	-9.1	36.0	11.8	-5.3	13.9	-22.0	40.6
Alberta. Total. All areas	40.8	42.1	40.4	43.0	43.8	42.8	41.8
Per cent change from previous period	12.6	14.7	-4.0	6.4	3.3	-2.3	-2.3
British Columbia. Total. All areas	34.7	32.5	37.3	36.8	34.0	38.0	35.7
Per cent change from previous period	5.3	3.2	14.8	-1.3	-11.0	11.8	-6.1

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*

	2005	Q2:05	Q3:05	Q4:05	M11:05	M12:05	M01:06
Canada	193.5	199.1	197.3	190.9	195.4	198.9	215.5
Newfoundland	1.8	1.6	1.9	1.7	1.5	2.0	1.9
Prince Edward Island	0.6	0.4	0.5	0.5	0.5	0.7	1.9
Nova Scotia	3.3	3.8	3.3	3.2	3.8	2.4	5.4
New Brunswick	2.7	2.8	2.7	2.9	2.2	2.2	3.9
Québec	41.3	40.0	43.0	40.4	40.7	40.5	43.0
Ontario	73.2	79.4	72.8	70.0	75.7	79.0	86.8
Manitoba	2.9	2.7	3.4	2.8	3.1	2.1	2.7
Saskatchewan	2.5	2.8	2.6	2.4	2.9	2.0	3.7
Alberta	34.3	35.9	34.3	34.5	35.3	34.3	34.3
British Columbia	31.1	29.7	32.8	32.5	29.7	33.7	31.9

* Thousands of units, seasonally adjusted and annualized.

This Month's Major Housing Indicators

	2005	Q2:05	Q3:05	Q4:05	M11:05	M12:05	M01:06
New Housing							
New & unoccupied singles & semis, units 000s	5.3	5.5	5.0	5.1	5.1	5.1	5.0
Per cent change from same period previous year	1.2	4.1	-0.7	-9.9	-11.3	-12.6	-11.2
New & unoccupied row & apartments, units 000s	9.0	9.3	9.3	8.5	8.7	8.6	8.0
Per cent change from same period previous year	33.6	54.0	38.4	3.3	5.1	-0.1	-6.1
New House Price Index, 1997=100	129.4	128.4	130.1	132.4	132.4	133.2	n.a.
Per cent change from same period previous year	5.0	4.7	4.7	5.6	5.5	5.9	n.a.
Existing Housing							
MLS [®] resales*, units 000s	483.3	488.9	500.6	488.3	494.5	482.7	n.a.
Per cent change from same period previous year	4.9	3.3	10.0	7.9	8.7	6.2	n.a.
MLS [®] average resale price*, \$C 000s	249.3	247.4	251.4	257.4	255.3	259.2	n.a.
Per cent change from same period previous year	10.2	9.5	11.5	10.3	9.2	9.5	n.a.
Mortgage Market							
1-Year Mortgage Rate, % (period average)	5.06	4.83	4.97	5.55	5.60	5.80	5.80
5-Year Mortgage Rate, % (period average)	5.99	5.90	5.80	6.15	6.15	6.30	6.30

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.