

Hot housing market apt to spur interest rates upward

Eric Beauchesne

CanWest News Service

Wednesday, April 12, 2006

OTTAWA - The surge in prices for new homes is now nearing the increases of the late '80s housing boom, and will likely start putting upward pressure on inflation, analysts warned Tuesday in the wake of further surprising evidence of a hotter-than-expected real estate market.

The latest housing report added to expectations the Bank of Canada, to keep a lid on inflation, will raise interest rates more than had been expected, which in turn pushed the loonie up towards the mid-87 cents US level.

"New house prices continued to rise strongly in February," Statistics Canada said, reporting that its index of new home prices was up seven per cent from a year earlier, the steepest year-over-year increase in 16 years.

"In fact, new house price gains are moving up toward levels not seen since the real estate boom of the late 1980s," noted J.P. Morgan economist Ted Carmichael, who warned the increases will feed into higher core inflation, which the Bank of Canada scrutinizes for evidence of underlying inflationary pressures.

The report follows on the heels of news earlier this week of what was a surprising surge in the pace of housing construction in March, which also flew in the face of expectations of a cooling housing market.

"Housing is the ultimate interest rate sensitive sector and it's hot but not bubbly, a sign that the Bank of Canada will keep pushing rates upward, but not to levels that undermine housing or the economy," said John Johnston, chief strategist with The Harbour Group at RBC.

While all of the 21 urban markets surveyed posted price gains from a year earlier, Calgary led the way with a searing 22.8 per cent increase followed by Edmonton at 12.4 per cent, Winnipeg 9.6, Victoria 7.0, Quebec City and Regina 6.6, and Halifax 6.5. Most of the others also posted increases above inflation, now running at 2.2 per cent.

The housing boom, meanwhile, was given a chunk of the credit for what in 2005 was, according to a separate Statistics Canada report, the best year for retailers since 2002.

Retail sales rose 6.2 per cent last year to \$369.2 billion.

"Canada's ongoing housing boom contributed to an 8.6 per cent increase in sales of hardware, lawn and garden products," it noted. "Of this commodity grouping, sales of the largest component, hardware and home renovation products, reached \$19.9 billion in 2005, up 8.2 per cent."

Giving overall retail sales an even bigger boost, however, were soaring fuel prices.

"Sales of automotive fuels, oils and additives increased 17.7 per cent to \$34.2 billion, the strongest growth since 2000 and the second consecutive year of double-digit increases,"

Statistics Canada said, noting that accounted for nine cents of consumer dollar spent in retail outlets, up from six cents in 1998.

As well as spending a lot more on gasoline, consumer spending on autos rose by 5.5 per cent, the strongest gain in three years, to nearly \$81 billion. Food and beverage sales also rose 5.5 per cent, the biggest jump since 1999.

Last year, about 22 cents of each dollar was spent on food and beverages, 22 cents on motor vehicles, parts and services, nine cents on furniture, home furnishings and electronics, eight cents on clothing, footwear and accessories, eight cents on health and personal care products, and seven cents on hardware, lawn and garden products.

© CanWest News Service 2006