



Will housing boom bust?

U.S. market already bogging down One analyst sees jarring halt there

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Should the U.S. housing market bog down in an anticipated slump, its Canadian counterpart is likely to be in for a softer landing thanks to lower interest rates and a different attitude to home financing, observers say.

"When you take a look at the new-home construction numbers, we've been running at the 200,000-plus level for a number of years — this will mark the fifth such year — and it's felt that generally this is in excess of what long-run demographic demand is," said Brent Weimer, senior economist with the Canada Mortgage and Housing Corporation.

"We see housing activity easing to a more long-run sustainable level."

In recent weeks, analysts have been debating an impending North American housing slowdown and the form it may take. Some say when the market drops, it will do so with a resounding crash, while others forecast a more gradual decline.

They also differ on how Canada and the U.S. will fare.

In Canada, rises in interest rates, increasing home prices and higher energy costs are nibbling away at affordability but the country has benefited from a strong housing market in the West, as more and more workers settle in Alberta, drawn by the province's energy boom.

Canadians have also seen less aggressive interest rate increases than in the United States, and are less likely to borrow as much money for their homes.

David Rosenberg, North American economist for Merrill Lynch, has pegged the odds of a "hard landing" in the U.S. between 40 per cent and 80 per cent — significantly above the consensus view of 27 per cent.

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'We see (Canadian) housing activity easing to a more long-run sustainable level'

Brent Weimer, senior economist, Canada Mortgage and Housing Corp.

"Practically every indicator at our disposal tells us that we are very late in the cycle and the historical record also strongly suggests that the next wave after the Fed has inverted the entire yield curve is either a hard landing or a very bumpy soft landing," he said in a note.

Yesterday, U.S. luxury-home builder Toll Brothers Inc., based in Philadelphia, reported its third-quarter profits fell by 19 per cent as housing-market woes weighed on sales and caused the company to abandon some building locations.

A day earlier, home-improvement chain Lowe's Cos. warned that a slowing U.S. housing market will hurt its earnings for the rest of the year.

Bank of Montreal economist Douglas Porter said a correction in Canada "won't be nearly as severe as it's likely to be in the U.S., because the boom hasn't rumbled on as long (here)."

And while he expects housing starts and sales to weaken in 2007 and possibly in 2008, he doesn't see the impending slowdown as a sure thing.

"This housing cycle has been counted out a number of times in the past and it's proved to be a lot healthier than many economists believed possible," Porter said.

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