

Canadian building permits surge

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Canadian building permits surged to their second-highest level on record in October, making a mockery of consensus forecasts for a drop, as the value of non-residential construction intentions hit new highs.

Statistics Canada said Wednesday that municipalities issued \$6.03-billion worth of building permits, a 6.1-per-cent jump from September. October's tally was second only to the \$6.3-billion worth of permits municipalities issued in December, 2005, when several applications in Toronto had to be rushed through before the end of the year to avoid higher development charges.

Stewart Hall, market strategist with HSBC Securities (Canada) Inc., said the monthly increase makes a mockery of economists' consensus expectations for a fall of 1.5 per cent.

"So much for the view that the sector was cooling," he said. "And lastly, so much for the GDP drag coming out of the residential construction sector that resonated negatively in the third-quarter's GDP report."

The Bank of Canada opted to keep interest rates at 4.25 per cent on Tuesday, but warned of rising consumer spending and home prices. The country's economic growth sunk to its slowest pace in three years in the third quarter, in part because of a "sharper" decline in residential construction investment.

The permits data pointed to a sharp divergence in the provincial economies, with permits in Alberta and British Columbia advancing.

"These results point to a busy winter on building sites as building permits are a leading indicator for construction activity," Statscan said.

Non-residential permits jumped 9.1 per cent to a record \$2.41-billion, the third straight monthly gain. Alberta and British Columbia fuelled the rise in the commercial permits.

Construction intentions in the residential sector rose 4.3 per cent to \$3.6-billion, driven by a 15.4 per cent increase in multi-family permits. The value of single-family permits fell 1.7 per cent in October.

"Even though there has been a softening in residential activity recently, with starts showing a steady slowing in 2006 and residential investment trimming 0.5 percentage points from the annualized quarterly GDP growth rate, today's report suggests that further

weakening is likely be relatively modest,” Royal Bank of Canada's Dawn Desjardins said in a note.

”Today's report is in line with our view that the residential sector is likely to continue to cool but only modestly in 2007, while non-residential investment will continue at a solid clip backed by firm corporate balance sheets and decent profits.”

Building permits reached \$54.7-billion in the first ten months of the this year, up 10.3 per cent from last year, on strong gains in the residential and non-residential sectors.