

# The Canada-U.S. housing divide

TAVIA GRANT

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The contrast between the Canadian and U.S. housing markets has never been starker.

U.S. existing home sales sank to a near five-year low Wednesday while prices continue to slide. In Canada, however, home sales continue to defy all expectations, breaking records for the last three months.

“Such a divergence between the Canadian and U.S. housing markets is unprecedented,” said Marc Pinsonneault, an economist at National Bank Financial, in a note to clients.

More bad news landed with a thud Thursday, with a report showing U.S. new-home sales plummeted 6.6 per cent in June — twice as much as expected.



As the nation's housing market continues to struggle, spiralling foreclosures are shaking not only homeowners and realtors, but also lenders and investors on Wall Street.

Generally, economic growth in Canada tends to mirror the ebbs and flows of its next-door neighbour. That's not the case nowadays, for several reasons.

High energy prices are underpinning growth in Alberta, and sending national housing statistics higher, Global Insight (Canada) chief economist Dale Orr said in a report earlier this month. The swift rise in U.S. interest rates is another factor, and so is the fact that the Canadian housing market has been more steady in recent years.



Much of the difference may stem from exposure to the once-booming sub-prime mortgage market in the U.S. Over the past several years, low-interest mortgages were offered to many people with poor credit histories or low incomes. When borrowing costs sharply rose, however, new homeowners got squeezed.

The result has hammered U.S. economic data, corporate earnings and, this week, the stock market.

Today's results, combined with Wednesday's data show “the U.S. housing slump is far

from over,” said Benjamin Reitzes, economic analyst at BMO Nesbitt Burns Inc. “At some point falling home prices will affect the consumer, the only question is how far do prices have to fall? Housing continues to weigh on the economy with no end in sight.”

In Canada, meantime, the economy is expanding, jobs are being created and interest rates remain at a historical low.

A report Wednesday found U.S. existing homes tumbled 3.8 per cent in June from May to the lowest level since November 2002. Second-quarter average home prices, meantime, are 0.6 per cent lower than the same quarter a year ago.

In Canada, the number of existing homes sold in Canada has broken records in each of the last three months.

“Most importantly, this was true not only in the booming provinces of Alberta and British Columbia, but in the rest of the country as well, notably in the largest city Toronto,” Mr. Pinsonneault said.

Sales in the second-largest metropolitan area, Montreal, were at record levels during each of the last two months.

Canadian home prices have climbed almost 10 per cent over the last four quarters, quite a difference from the 0.6-per-cent drop in the same period in the U.S.