



Housing market could turn ugly: economist

Eric Beauchesne, with files from Derrick Penner

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OTTAWA -- While Canada's housing market has so far avoided a meltdown such as has occurred in the U.S., the market here could turn ugly too as more houses are being built than are needed, says an analysis released Thursday by Peter Hall, chief economist at Export Development Canada.

That holds true even in B.C., where the number of housing starts has begun to fall but is still outstripping demand, said Canada Mortgage and Housing Corp. regional economist Carol Frketich.

Frketich forecast 34,700 housing starts in B.C. this year, following 39,195 starts in 2007. She expects a further drop in 2009 to almost 33,000 units.

But that is still well above B.C.'s long-term average demand of 29,000 units per year B.C., she said.

B.C.'s most recent low point was in 2000, when builders started 14,418 new homes.

Canada is on pace to build 217,800 new homes this year, according to the latest CMHC analysis, also in excess of demand based on the CMHC's demographic model of the market.

That model suggests national demographic demand below 200,000 units per year.

"You do see housing starts fluctuate above and below [demographic demand] depending on economic conditions," Frketich said.

"So we have just come through a boom in home construction over the last years where we have been building above what demographic requirements would suggest," she said, "and at some point it's likely that we'll build at a little lower than that level."

Hall noted that Canada has avoided a housing adjustment so far.

"But Canada's turn may come soon," he added.

"Although imbalances in the marketplace appear to be small, starts are currently well ahead of requirements, and are unlikely to continue indefinitely at today's pace."

The report comes in the wake of the federal government's move this week to avoid a U.S.-style housing meltdown by tightening up mortgage lending practices, including limiting the amortization period for government-insured mortgages to 35 years, requiring a minimum down payment of five per cent for such mortgages and requiring that anybody with an insured mortgage have a minimum credit score.

But even if there isn't a housing market crisis here, Hall suggests that Canada's trade performance will be hurt by the slump in housing in the economies of its trading partners, especially the U.S., but also Europe and Asia.

The two-year housing market crash in the giant U.S. economy is still garnering headlines, given the spillover effect it has had on other sectors of that economy and is having on other economies -- including Canada's -- and the scant signs of recovery there, he said.

"The U.S. market is saturated with surplus housing, and it could take well over a year to mop up the excess," he said.

"But the U.S. isn't alone anymore," Hall added, citing Britain, Spain, France, Germany and Japan as countries where housing markets are in varying stages of a correction.

"Housing markets are in a tailspin in the world's largest economies, and working off the excesses will take time," he said.

"They point to persistent global weakness through 2009," Hall said, noting that a correction in housing markets almost always portends a slowdown or recession in other parts of the economy.

That, in turn, suggests that Canada's exports -- not just to the U.S., but to other major industrial countries -- will weaken.

In fact, a separate analysis by the chief economist of a U.S.-based think-tank said that with the Canadian dollar no longer appreciating, the already "decaying state of Canada's trade surplus" will become more visible as the value of imports rises.

"So not only are we thinking that the May trade report [being released today] will confirm an ongoing decaying trend in the trade balance, but we expect the cessation of Canadian dollar appreciation to further hammer the surplus," said Carl Weinberg, of High Frequency Economics.

While the rising dollar may be to blame, it's only when the currency's appreciation ends that the extent of the damage, in the form of a depleted trade surplus, becomes clearly visible, the analysis suggests.

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