

## Housing market keeps cooling

The slowdown in the Canadian resale housing market was "dramatic" last month, but the sector got a boost yesterday from statistics that show new-home construction is not falling as fast as anticipated.

Adrienne Warren, an economist with Bank of Nova Scotia, said residential real estate began to slow globally in the second quarter after demand and pricing recovered in the first quarter.

"The slowdown has been the most dramatic in Canada," said Ms. Warren, pointing to data that show home prices climbed only 6.8% in the second quarter from a year earlier, compared with a 16.6% year-over-year increase in the first quarter.

She said increasing listings are moving market conditions back in the favour of the buyer. However, despite a drop in demand, Ms. Warren said prices should remain just flat, as opposed to falling, over the next year.

"We are in a good position where we are already seeing if sellers are not getting the types of selling conditions they want they are pulling their houses off the market," the economist said. "I don't think you are going to get into a steeply buyers' market, maybe a slight buyers' market, assuming the Canadian economic recovery continues and the job market improves."

Canada Mortgage and Housing Corp. released new data yesterday that showed 189,200 new homes were constructed in July on a seasonally adjusted annualized basis, a 1.6% drop from June. However, the number of starts surpassed consensus expectation of economists for 185,000 starts for July.

"Our expectations have not changed, it's moderation for the rest of the year," said Gustavo Durango, a senior economist with CMHC. "These numbers don't support too strong a view of things heading into the toilet. Things are not crashing."

It was the third straight month new home construction dropped, but Mr. Durango pointed out the declines have been modest. CMHC has forecast starts to drop to 182,000 for the year, leaving construction to slow a bit.

Dina Cover, an economist with Toronto-Dominion Bank, said the latest drop was to be expected.

"The moderation in starts is consistent with a cooling in the overall housing market. Existing home sales have been trending down since the start of this year -- with the decline accelerating in May-July -- while prices have been losing modest ground since May. In turn, lower home prices have dampened the incentive for homebuilding. With prices expected to slide a bit further, fewer home starts are likely to hit ground."