Altus Group

HOUSING REPORT

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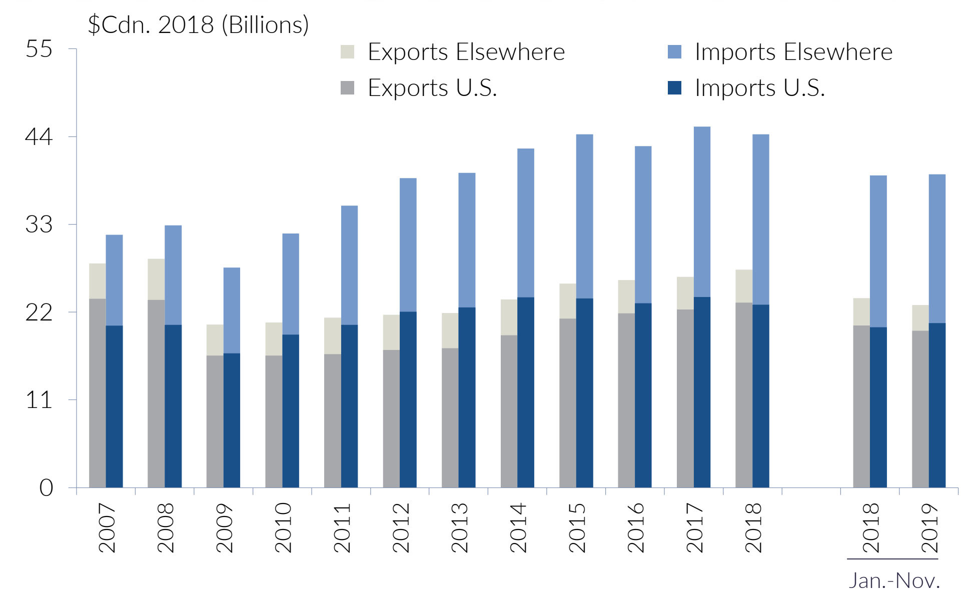
After 9 Years, Uptrend in Canadian Exports of Building Materials Comes to an End

This edition provides our annual overview of international trade patterns of Canada's building and construction material sector. Highlights include:

- Canada exported an estimated $27 billion worth of building products in 2018, up close to 3% in real dollar terms from 2017, and the 9th year in a row of its post-recession upward climb (Chart 1). The uptrend however appears to have now come to a halt - exports through the first 11 months of 2019 were tracking almost 4% below the same period in 2018 (in real dollar terms) and are likely to finish 2019 in the $26 billion range. The 2018 increase was entirely in exports to the U.S., Canada's largest foreign market for building products, while the dip in 2019 included both exports to the U.S. and other countries.
- Canada's building materials imports overall have outpaced exports since 2005. Imports dipped about 1% in 2018 from the record set in 2017 and remained relatively flat in 2019. Imports of building products to Canada are split roughly equally between those originating in the U.S. and imports from other countries.

Chart 1

Imports and Exports of Building Materials, Canada



Source: Altus Group based on Industry Canada data

Highlights

- The year-over-year increase in Canadian exports of building products came to a halt in 2019 following a 9-year climb
- Trade disputes related to wood and steel products dampening overall building product exports
- Almost 20% of Canadian imports of building products are from China

Also in This Issue

- Mass timber use in high-rise housing projects gaining some traction
- Factory-built housing gaining market share

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Trade Disputes Dampening Overall Building Product Exports

- Trade disputes are playing a role in suppressed exports of key building products like wood and steel. Wood product exports saw the biggest drop in 2019 among the building materials groups examined here (Chart 2), as the impacts of U.S. tariffs on Canadian softwood lumber continue to be felt. At the same time, the U.S. imposition of steel tariffs on Canada in mid 2018 is a factor in the sharp decline of steel exports in 2019.
- Exports for most of the remaining types of building products increased in 2019, with the exception of a modest dip for petrochemical & asphalt products.
- The full ratification of the United States-Mexico-Canada Agreement (USMCA) appears to be very close. Its adoption will bring greater certainty and will be favourable for exports of building products ahead.

Canada's Building Products Trade Surplus with the U.S. Was Short-Lived

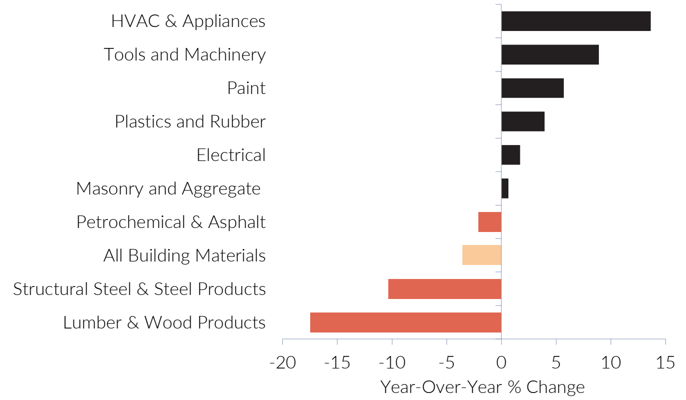
- While Canada enjoyed a small trade surplus in building products with the U.S. in 2018 (the first time since 2008, refer back to Chart 1), it was short-lived, with a deficit emerging again in 2019 (Chart 3).
- However, the majority of Canada's trade gap for building products in 2019 was with other countries, with China alone accounting for more than one-third of the deficit. China's share of building product imports to Canada has grown from only about 1% in the mid 1990s to close to 20% in recent years.

Projected Housing Starts Favour Increased Exports and Declining Imports with U.S

- Altus Group expects Canadian housing starts to be lower in 2020 than 2019 (Chart 4) which, if this was the only sector using building products, might suggest less need for imports. U.S. housing starts, on the other hand, are forecast by the National Association of Homebuilders to increase in 2020 – suggesting more potential opportunities for Canadian building product exports.
- Based on these starts trends alone, the Canadian trade deficit in building products with the U.S. exhibited in 2019 could reverse in 2020.

Chart 2

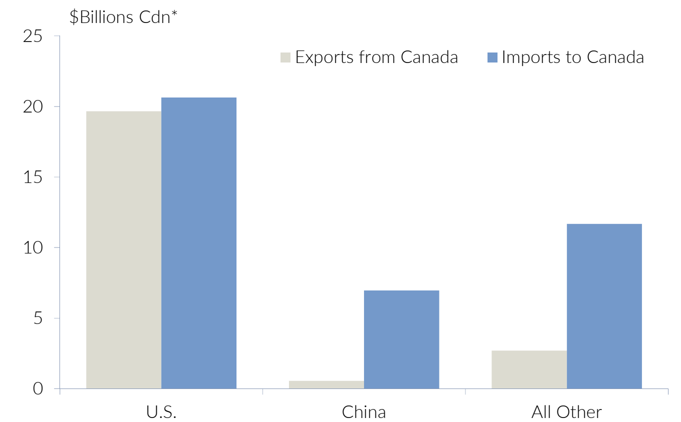
Changes in Canadian Exports of Selected Building Materials by Type, 2019*



* Jan.-Nov. based on current dollars
Source: Altus Group based on Industry Canada data

Chart 3

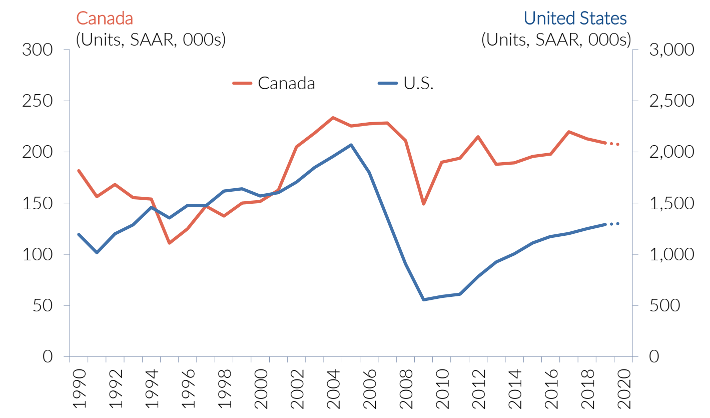
2019 Trade in Building Products with Canada, Selected Areas



* Jan.-Nov. based on current dollars
Source: Altus Group based on Industry Canada data

Chart 4

Total Housing Starts, U.S. and Canada



Source: Altus Group based on CMHC (historic), Altus Group (Canada forecasts) and NAHB data

"They Don't Make 'Em Like They Used To" – Some Examples of Innovations in Building Products/Technology

Mass Timber Use in High-Rise Construction

"Mass timber" is a term we have been hearing more and more of lately. As described on the Canadian Wood Council's web site:

> … mass timber products can be formed by mechanically fastening and/or bonding with adhesive smaller wood components such as dimension lumber or wood veneers, strands or fibres to form large pre-fabricated wood elements used as beams, columns, arches, walls, floors and roofs. Mass timber products have sufficient volume and cross-sectional dimensions to offer significant benefits in terms of fire, acoustics and structural performance, in addition to providing construction efficiency.

Canada is establishing itself as an incubator in the mass timber housing space. There have been many mid-rise residential buildings that incorporate mass timber, however high-rise projects have been limited, due in part to Building Code restrictions. Changes to the Code in 2021 will expand opportunities to plan higher buildings in mass timber. Mass timber uses in high-rise housing projects are already gaining some traction. A few samples of actual and/or proposed projects include:

- Brock Commons Tallwood House, an 18 storey student residence at the University of British Columbia in the City of Vancouver, was the world's tallest mass timber building when it was completed in 2017.
- Delta Land Development Ltd. drew a lot of attention in 2019 when it outlined a vision for a 30+ storey mixed use project in the City of Vancouver's Central Broadway corridor called Canada Earth Tower which would include both market and non-market housing. To date, no development applications have been submitted.
- Sidewalk Labs' proposed master plan for the Quayside development in the City of Toronto envisions a mixed-use community (including 1.78 million sq. ft. of condominium, market and below-market rental housing) in predominantly high-rise buildings built with mass timber. Waterfront Toronto will make a decision by May 20, 2020 as to whether or not to proceed with Sidewalk Labs as its partner on the redevelopment of the site.

Modular Housing Trends

Altus Group has been involved in analysing the modular housing industry for many years and we're always proud to see this important sector expanding and adopting new innovations. Our most recent research shows that factory-built housing has been making key gains in market share in the past few years, with total production rising sharply after a soft period in the middle of the decade of the 2010s.

In 2019, there were an estimated 10,140 factory-built single-family homes started in Canada, equivalent to about 11% of total single-family starts. In all, some $1.7 billion in factory-built buildings shipments (across all types) in 2019 was up an astounding 33% from two years earlier in 2017.

Key trends in the factory-built sector are providing context to this rise. Industry research currently underway from Altus Group suggests that key transformations in this sector include:

- Mass customization: advances in design software and precision equipment have allowed more producers to offer customized homes without jeopardizing their mass production economies.
- Mid and high-rise modular housing: more producers are reporting multi-family production, which is now about 25% of units, and mid and high-rise projects.
- A shift back to family housing: early in the decade of the 2010s, we saw a large shift in production toward workforce housing which dried up in the mid decade with the oil sector crash. The last two years has seen producers shifting back to family housing.

Starts Tick Up in November

Canada-wide housing starts for the month of November were 204,300 units seasonally adjusted at annual rate (SAAR), up from the revised number for October, according to CMHC estimates. Starts were unchanged in the single-family sector but inched higher in the apartment sector.

Regional highlights for November include:

- Atlantic Canada starts were higher in all provinces except for P.E.I.;
- Starts slipped in Quebec due to a falloff in the Montreal CMA with starts in the remainder of the province rising;
- Ontario starts fell back due to lower starts in the Toronto CMA;
- Starts slumped in both Manitoba and Saskatchewan;
- Alberta starts rebounded; and
- B.C. starts surged due to higher activity in the Vancouver CMA as well as elsewhere in the province.

Housing Starts by Type and Area

	November 2018	October 2019	November 2019
	Total Starts (000s), SAAR		
Canada, Total	224.6	202.9	204.3
By Type of Unit			
Single-family	100.7	92.1	92.3
Apartment	123.9	110.9	112.0
By Area			
British Columbia	40.0	34.0	47.8
Vancouver CMA	*22.0*	*16.1*	*27.6*
Other Areas	*18.0*	*17.9*	*20.2*
Alberta	26.0	24.4	27.1
Saskatchewan	2.5	2.9	2.2
Manitoba	9.8	7.7	6.6
Ontario	85.6	74.0	65.0
Toronto CMA	*48.4*	*32.1*	*23.8*
Other Areas	*37.2*	*41.9*	*41.2*
Quebec	50.9	51.5	44.5
Montreal CMA	*28.8*	*31.4*	*20.8*
Other Areas	*22.1*	*20.0*	*23.7*
New Brunswick	3.0	2.2	4.6
Nova Scotia	3.8	3.4	3.9
Prince Edward Island	2.1	1.7	1.4
Newfoundland	0.9	1.2	1.3

Source: CMHC and estimates by Altus Group

Labour Force Indicators

	Employment Growth		Unemployment Rate	
	Jan-Nov 18-Jan-Nov 19-	Nov 18-Nov 19	Nov 2018	Nov 2019
	000s		*%*	
St. John's	6	5	7.9	6.7
Halifax	15	6	6.0	5.9
Quebec	11	15	3.8	3.3
Montreal	30	8	5.9	5.8
Ottawa	31	59	4.7	4.3
Toronto/Oshawa	133	159	6.2	5.7
Kitchener-Waterloo	18	8	5.1	5.2
London	3	5	4.8	5.8
Winnipeg	12	2	5.8	5.3
Regina	2	1	6.2	6.0
Saskatoon	10	3	6.0	5.5
Calgary	37	34	7.8	6.9
Edmonton	23	-12	6.2	7.7
Vancouver	53	16	4.2	4.9
Victoria	0	3	3.8	3.5

Based on seasonally adjusted 3 month averages
Source: Altus Group based on Statistics Canada data

Resale Housing Market Indicators

	MLS Sales*			Months of Inventory**	
	Nov 2018	Nov 2019	% Change	Nov 2018	Nov 2019
	Units				
St. John's	296	371	25	n.a.	n.a.
Halifax	411	489	19	n.a.	n.a.
Quebec	603	681	13	13.0	11.4
Montreal	3,606	4,084	13	5.8	4.0
Ottawa	1,181	1,318	12	n.a.	n.a.
Toronto/Oshawa	6,206	7,071	14	2.6	1.7
Kitchener-Waterloo	483	424	-12	n.a.	n.a.
London	746	752	1	1.9	1.9
Winnipeg	807	843	4	4.8	4.4
Regina	229	166	-28	9.1	10.9
Saskatoon	267	301	13	n.a.	n.a.
Calgary	1,487	1,464	-2	6.4	5.9
Edmonton	1,105	1,100	0	7.3	6.5
Vancouver	1,608	2,498	55	7.7	4.3
Victoria	474	547	15	3.6	3.3

* Multiple Listing Service (MLS) is a registered certification mark owned by The Canadian Real Estate Association
** Active listings at month end divided by sales during the month. A 5 months inventory of resale product is considered to be a "normal" market.
Source: Altus Group based on data from The Canadian Real Estate Association and local real estate boards

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