Altus Group

HOUSING REPORT

Vol. XXX No. 4 October 2020

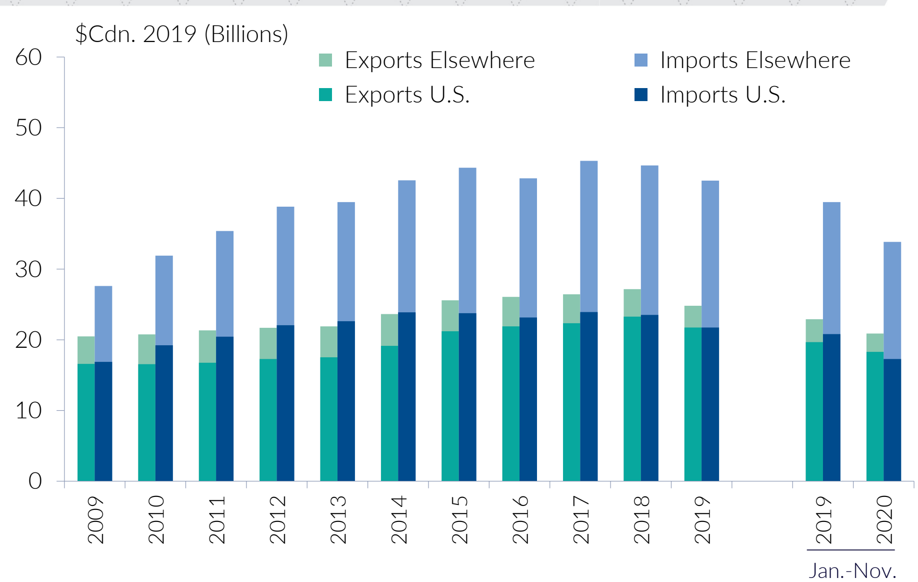
Decline in Building Materials Exports in 2019 Worsened by the COVID Recession in 2020

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

- Canada exported $25 billion worth of building products in 2019, down almost 9% in real dollar terms from 2018, as the economy continued to slow amidst global trade tensions and economic uncertainty (Chart 1). Exports in the first 11 months of 2020 were tracking almost 9% below exports a year earlier. Despite efforts to diversify international trade markets, the U.S., Canada's largest trading partner, remains the primary source market for Canada's exports of building products.
- For more than a decade, Canada's building materials imports have generally outpaced exports, a situation that continued in 2019, and persisted in 2020. Imports decreased 5% to $43 billion in 2019, and in the first 11 months of 2020 were trailing 14% below imports in 2019, directly impacted by the sharp pandemic-induced recession that characterised 2020. Robust post-lockdown residential demand and renovation spending mitigated the decline.
- Canada remains a net importer of building materials. In 2019, Canada's building materials trade deficit was unchanged.

Chart 1

Imports and Exports of Building Materials, Canada



Source: Altus Group based on Industry Canada data

Highlights

- Exports of building products were $24.8 billion in 2019, 9% lower than in 2018 and slightly below the five-year average in real dollar terms
- With imports also down, the building products trade deficit was unchanged in 2019
- The building products trade deficit narrowed more significantly in the first eleven months of 2020 as the decline in imports trended lower than the decline in exports
- Canada's building products trade deficit with China accounts for nearly half of Canada's total building products trade deficit

Also in This Issue

- Non-residential investment recovery will help boost building products demand
- Supply chain resilience and innovations in the age of the COVID pandemic

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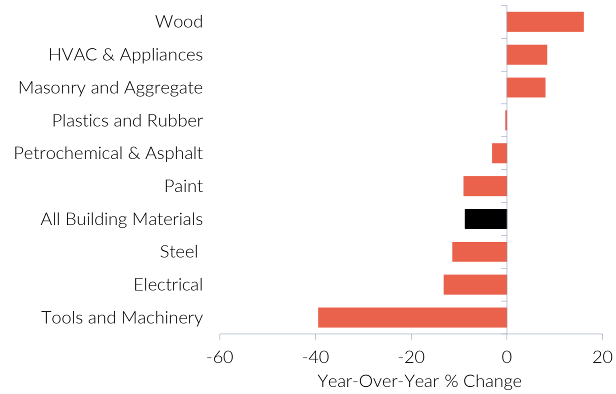
Wood Products Exports Gain in 1st Eleven Months of 2020 Offset Sharp Decline in Other Building Products

- Despite the spring 2020 COVID-19 containment measures that resulted in the most precipitous economic recession on record, wood products exports surged 16% over the first 11 months of the year (Chart 2).
- Record low interest rates and job and income resilience among middle and high-income groups led to robust housing demand and residential renovation spending in both Canada and the U.S. The resulting demand for wood products pushed exports higher but supply lagged demand, spurring record high lumber prices and widespread shortages.
- With a few exceptions, the recession and uneven recovery that followed sapped demand for Canadian building materials. However, wood products, which account for 31% of Canada's building products exports, offset the overall decline in exports.
- Masonry and aggregate and HVAC and appliances exports (combined 5% of all building products exports) also advanced at a strong pace during the first 11 months of 2020. That performance was helped by renovation spending and COVID-related upgrades of ventilation systems.
- Exports of the majority of other types of building products decreased in the first 11 months of 2020, with steel, electrical equipment, and tools and machinery exports decreasing at a faster rate than total building materials exports. Exports of plastics and rubber, petrochemical and asphalt, as well as paint also declined year-over-year in the first 11 months of 2020, albeit down by less than 10%.

Chart 2

Changes in Canadian Exports of Selected Building Materials by Type, 2020*



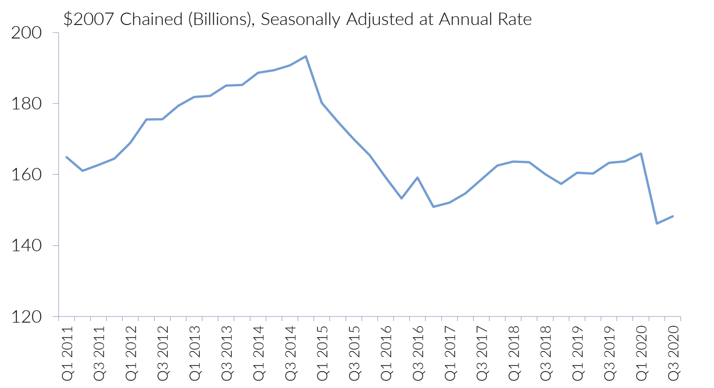
* Jan.-Nov. based on current dollars
Source: Altus Group based on Industry Canada data

Precipitous Decline in Investment of Non-Residential Structures Contributed to Weaker Building Materials Demand

- Though homebuilders, renovators and those who do residential repair work account for a disproportionate share of spending on building materials, non-residential investment also has a significant impact on the overall demand.
- On a year-over-year basis, investment in non-residential structures dropped by 5% during the first three quarters of 2020, driven by a steep Q2 lockdown-induced decline and, unlike residential, little recovery thereafter (Chart 3). Investment in non-residential structures mostly influences demand for building materials such as steel products, cement/concrete and petrochemical and asphalt products. The 2021 outlook for non-residential building investment remains cautionary, as uncertainty looms over the short and medium term needs for additional retail and office space.

Chart 3

Investment in Non-Residential Structures Fell Substantially in Q2



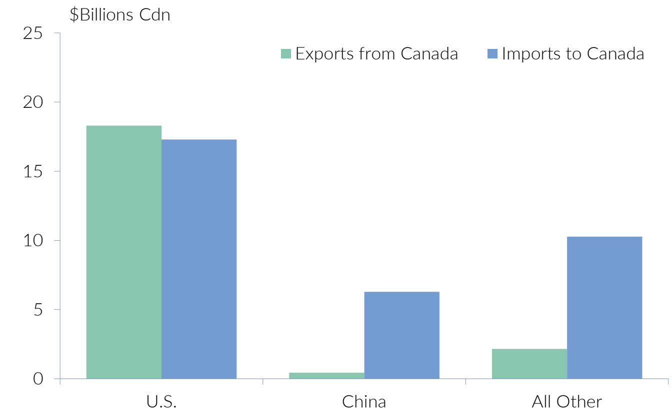
Source: Altus Group based on Statistics Canada data

Trade Deficit with China Accounts for Nearly Half of Total Building Products Trade Deficit

- Canada's trade deficit in building products was due to trade with China and other countries, excluding the U.S., where there was a small surplus (Chart 4).
- The trade surplus with the U.S. was only the second trade surplus since 2008. Over the last two years, China's share of Canada's building products trade deficit has been growing.
- In January to November 2020 period, the economic downturn saw imports coming from China decrease by 10% to a still strong $6.3 billion, as China's share of Canada's building products imports increased to 19%.

Chart 4

2020 Trade in Building Products with Canada, Selected Areas



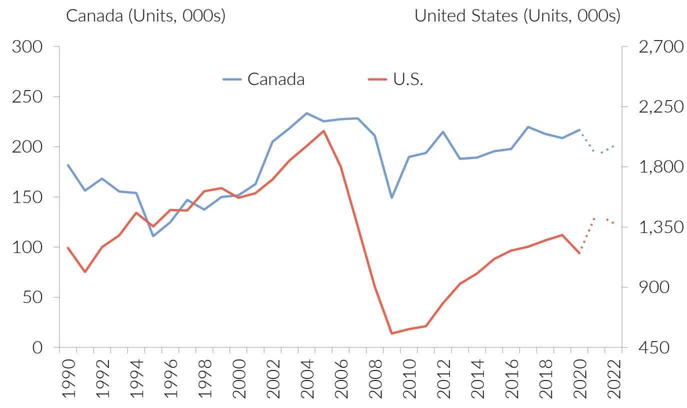
Jan.-Nov. based on current dollars
Source: Altus Group based on Industry Canada data

An End to Erratic U.S. Trade Wars to Support Continued Growth in Wood Product Exports

- The near-term outlook for Canadian wood product exports is bright as U.S. housing starts are expected to remain strong in 2021 and 2022 (Chart 5). The Biden administration will mean fewer erratic shifts in trade policy, which should enable a more stable environment for trade and economic activity post-pandemic.
- A federal infrastructure investment Act in the U.S. and the post-pandemic economic recovery, particularly the expected residential construction boost in 2021, could stimulate demand for Canada's building products through to 2022. Building materials exports to the U.S. are not expected to be significantly impacted by President Biden's Buy American executive order.

Chart 5

U.S. Housing Starts Continue to Trend Higher



Source: Altus Group based on CMHC and NAHB data and Altus Group forecasts

Challenges of the Pandemic Have Led to Supply Chain Resilience and Innovations During the COVID Pandemic

- The onset of the COVID-19 pandemic was very disruptive to supply chains in Canada, the effects of which lasted well into the fall of 2020 in some industries. Goods industries such as manufacturing and construction saw their logistics and supply of inputs disrupted during the first half of 2020.
- Year-to-date November 2020, Canada's exports and imports of building materials decreased 9% and 14% respectively, compared to the same period in 2019. Despite the overall decline in exports amid the global recession, exports of wood products, masonry and aggregate, and HVAC and appliances increased by 16%, 8% and 8% respectively.
- Challenges of the pandemic have led to some supply chain innovations and accelerated adoption of technology. COVID-19 safety protocols forced manufacturers, contractors and haulers to utilize more advanced contactless options to facilitate procurement and delivery processes. Additionally, home builders delivered about 200,000 new homes to families across Canada in 2020 - a feat that would have seemed impossible during the onset of the lockdowns in March 2020. Supply chains have been stressed and challenged, but have proven to be surprisingly resilient in the end.

September Starts Slide

Canada-wide housing starts for the month of September were 209,000 units seasonally adjusted at annual rate (SAAR), down from the revised number for August, according to CMHC estimates. The decline was focussed in the apartment sector with only a slight decline in single-family activity.

Regional highlights for September include:

- Atlantic Canada starts were slipped in all provinces except Nova Scotia;
- Starts retreated in Quebec as higher starts in the Montreal CMA were more than offset by declines in the remaining areas of the province;
- Ontario starts dropped due to a sharp falloff in the Toronto CMA coupled with lower starts elsewhere in the province;
- Starts dipped in both Manitoba and Saskatchewan;
- Alberta starts strengthened; and
- B.C. starts fell with lower activity in both the Vancouver CMA and elsewhere in the province.

Housing Starts by Type and Area

	September 2019	August 2020	September 2020
	Total Starts (000s), SAAR		
Canada, Total	221.5	261.5	209.0
By Type of Unit			
Single-family	94.9	94.8	93.7
Apartment	126.6	166.8	115.2
By Area			
British Columbia	41.3	43.3	32.3
Vancouver CMA	*25.0*	*29.7*	*21.5*
Other Areas	*16.3*	*13.6*	*10.8*
Alberta	32.9	20.2	25.9
Saskatchewan	3.9	2.7	1.8
Manitoba	4.9	5.9	4.4
Ontario	85.1	116.9	80.2
Toronto CMA	*32.8*	*62.2*	*32.1*
Other Areas	*52.3*	*54.6*	*48.0*
Quebec	41.5	61.2	53.8
Montreal CMA	*18.8*	*27.2*	*32.6*
Other Areas	*22.7*	*34.0*	*21.2*
New Brunswick	4.5	4.5	2.5
Nova Scotia	4.4	3.8	6.7
Prince Edward Island	1.9	2.2	0.6
Newfoundland	1.2	1.0	0.8

Source: CMHC and estimates by Altus Group

Labour Force Indicators

	Employment Growth		Unemployment Rate	
	Jan-Sep 19-Jan-Sep 20-	Sep 19-Sep 20	Sep 2019	Sep 2020
	000s		*%*	
St. John's	-6	-5	7.3	9.8
Halifax	-10	-5	5.8	8.4
Quebec	-43	-21	3.1	5.0
Montreal	-102	-59	5.6	10.7
Ottawa	-11	-44	4.4	8.7
Toronto/Oshawa	-181	-210	5.7	12.6
Kitchener-Waterloo	-17	-26	6.0	12.2
London	3	6	6.4	8.9
Winnipeg	-14	-9	5.3	9.4
Regina	-11	-7	5.6	7.4
Saskatoon	-6	-5	5.8	9.2
Calgary	-63	-49	7.1	12.6
Edmonton	-66	-63	7.3	12.6
Vancouver	-127	-131	4.7	11.1
Victoria	-3	-6	3.1	9.1

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

Resale Housing Market Indicators

	MLS Sales*			Months of Inventory**	
	Sept 2019	Sept 2020	% Change	Sept 2019	Sept 2020
	Units				
St. John's	400	556	39	n.a.	n.a.
Halifax	562	832	48	n.a.	n.a.
Quebec	547	943	72	13.7	5.0
Montreal	3,632	5,147	42	4.6	2.7
Ottawa	1,570	2,365	51	n.a.	n.a.
Toronto/Oshawa	7,791	11,062	42	2.2	1.6
Kitchener-Waterloo	526	758	44	1.5	-
London	861	960	11	2.1	0.9
Winnipeg	1,129	1,549	37	4.9	1.8
Regina	301	431	43	7.3	4.0
Saskatoon	423	651	54	n.a.	n.a.
Calgary	1,822	2,417	33	5.6	3.7
Edmonton	1,382	1,873	36	6.2	3.9
Vancouver	2,333	3,643	56	5.8	3.3
Victoria	616	989	61	4.6	2.4

* 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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The **Altus Group Housing Report** is a publication of Altus Analytics, Data Solutions in conjunction with Altus Group, Economic Consulting

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