

Fall in Canadian building permits concentrated in residential sector

The Bank of Canada has pegged continued strength in housing and household demand as the chief upside risk to its outlook for 2006-07. Given that the retracement in permits during September was less than feared (-2.5% compared to an expected consensus move of -3.8%) and the fact that August's level was revised up by 0.7%, we could see a modest negative reaction in Canadian fixed income markets and a positive reaction in the Canadian dollar.

The details of today's report portray still-healthy construction activity. The value of permits was the third highest on record despite the monthly decline. The weakness was primarily concentrated in the residential category (falling 3.8% in September compared to a drop of just 0.3% in the non-residential sector). The year-ago advance in both categories remains very strong (year-to-date, both residential and non-residential permits are up 9.5% from 2005 levels).

Canada's "two-speed" economy continues to be reflected in the monthly indicators. Ontario permits fell 8.4% during the month, while Alberta permits rose 6.3%. Year-to-date, permits are in negative territory in Canada's largest province (-0.8%), but are in double-digit territory for all the western provinces (from a low of 11.2% in British Columbia to a high of 37.6% in Saskatchewan). Going forward, RBC Economics expects residential housing to cool (starts slipping to 200,000 in 2007 from 230,000 this year), but for non-residential activity to take up some of the slack.

Data details

- The value of building permits fell 2.5% in September.
- Residential permits fell 3.8%; non-residential permits fell 0.3%.
- Both categories saw year-over-year increases of 9.5% for the first nine months of 2006.

Slow start to week for U.S releases

The data release schedule for the United States gets off to a slow start this week, with the pace picking up by Thursday with the jobless claims report, international trade results and the preliminary University of Michigan's consumer sentiment report for November.

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To view charts of today's data, go to

http://www.rbc.com/economics/html_calendars/ca/calendar.html (Canada)

http://www.rbc.com/economics/html_calendars/us/calendar.html (United States)

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