National Scene
CANADIAN HOME BUILDERS' ASSOCIATION

January 2017

Drywall Update – Significant Progress

Since the September 6th, 2016, imposition of provisional duties on U.S. drywall, the Association and members have been extremely active in combatting the exorbitant duties, contending that they are not in the public interest and will adversely impact consumers, the home building industry and the economy at large.

As a result of this action, on October 18th, 2016, the Minister of Finance, in an unprecedented action, directed the Canadian International Trade Tribunal to accelerate investigation into the downstream impacts of the duty. This had never been done before, and showed the efforts of the Association and members were attaining serious positive impact.

Although the duties were imposed on U.S. imports into Western provinces and territories, drywall prices had quickly become a national issue. The residential construction industry had already seen ripple effects on price and warnings of supply restrictions in Ontario and in Eastern Canada. There was also talk of extending the duty to all of Canada.

Over 500 members responded to a CHBA survey to get detailed data on the impacts of the duty, providing excellent support for CHBA's testimony and action with legal counsel at the two weeks of Tribunal hearings in Edmonton in late November and early December.

On January 4th, the Tribunal issued its findings and recommendations, which showed once again that efforts by the Association and members yielded significant and important results. They are as follows:

- The Tribunal found that **the imposition of the duties in full is contrary to Canada's economic, trade or commercial interests, and specifically that such an imposition has or will substantially reduce competition in those markets, or cause significant harm to consumers of those goods or to businesses who use them.** This is a key finding and points to the need for remedies for the residential construction industry and consumers.
- **Duties should be eliminated for 6 months.** Suspending the duties for an extended period was a key request of CHBA, as it will help to address many of the issues surrounding fixed-price contracts and the sudden imposition of the duties. It will also allow preparation for potential increase in prices, should those come to fruition.
- **Duties collected to date should be used to refund wholly or in part the higher costs paid by end users.** This is in line with CHBA recommendations that those who had to pay more due to the provisional duties enacted in September should be reimbursed.
- **Duties, when enacted, should be reduced to 43% (down from a high of 201%).** Although a complete elimination of the duty would be ideal, given that 'dumping' was found to have occurred, the dramatic reduction of duties is a very substantial win for the residential construction industry and consumers. It is also important to note that the duties are on trans-border inter-company transfers, which are lower than even wholesale prices, so a 43% duty on the final export price does not equal a 43% cost increase to builders and renovators.
- **Grant remission to negate the duty on drywall for rebuilding Fort McMurray.** Eliminating any impact on the reconstruction effort in Fort McMurray was a critical recommendation by CHBA and it is excellent that this is being recommended.

It is now up to the Minister of Finance to render a final decision on these recommendations. CHBA is strongly advocating that the government implement measures to at least the levels recommended in the report, and that these measures result in the return of drywall prices closer to historic norms, provide price stability going forward, and ensure adequate and competitive supply to the West, and all of Canada for that matter.

CHBA's Message to Government – Time to Focus on Housing Supply

The last year has seen the federal government introduce a series of new restrictions to mortgage insurance. These include tougher 'stress test' rules, higher capital requirements for lenders, changes to portfolio insurance standards, and higher mortgage insurance premiums. Additional proposals, including default 'risk sharing' with lenders, remain under discussion.

All of these changes reflect the government's longstanding concerns over rising household debt levels, and the continued price appreciation taking place in Canada's largest markets – Vancouver and the Greater Toronto Area (although the Vancouver markets has already cooled significantly).

CHBA is very concerned over the cumulative impacts of these changes on Canada's diverse housing markets, and the significant potential that they may 'overshoot' and cause real damage to our industry, to consumers and to Canada's economy. The Association's message to the federal government is 'do no more' until the full impact of the changes already introduced are clear and understood – a process that will take many months, at the least. It is also time to revisit the National Housing Act, which states that the role of CMHC is to promote housing affordability and choice, to facilitate access to, and competition and efficiency in the provision of, housing finance, to protect the availability of adequate funding for housing at low cost, and generally to contribute to the well-being of the housing sector in the national economy. Current measures may be running counter to this mandate.

Efforts to suppress housing demand through tighter mortgage rules involve a number of substantial risks. Foremost amongst these is 'locking out' younger first-time buyers working to join the middle-class. Additionally, aiming financial policy at one or two very healthy markets ignores the likely impact in the many other 'softer' markets across the country. The last round of rule-changes are likely to reduce competition among mortgage lenders, and could see mortgage cost premiums in those regions already facing economic challenges.

In parallel, the Association is making the case that a wide range of regulatory actions by provincial and local governments, particularly in the GTA and Vancouver, have resulted in a chronic shortage of the ground-oriented, family-friendly homes in greatest demand. This shortage is clearly driving prices upwards in more active markets. To properly address supply-induced price escalation, governments need to work together to ensure that the homes which Canadians want and need can actually get built.

This month and next, CHBA will be delivering this message to the federal Finance Committee and it will be a central theme in this year's Forum for Growth.

CHBA National Conference Registration – Now Open

Plan to be part of the 2017 CHBA National Conference—May 10 to 12— at the Delta St. John's Conference Centre in historic St. John's, Newfoundland and Labrador.

- Meet your colleagues in the "HUB" for exhibits, registration, refreshments, business sessions and social events.
- Attend professional development seminars—concurrent streams addressing technology/innovation and business management topics.
- Take in the 2017 CHBA National Awards for Housing Excellence

Visit www.chba.ca/conference for more information and to register.

The Bank of Canada this month released its revised projections for GDP growth – 2.1% in both 2017 and 2018. This is more optimistic than the International Monetary Fund, whose updated forecast estimates the Canadian economy will grow by 1.9% in 2017 and 2.0% in 2018.

The Bank sees the economy returning to full capacity around mid-2018, with consumption remaining solid but residential investment declining in the coming quarters.

U.K.-based Centre for Economics and Business Research predicts Canadian GDP growth to average 1.8% from 2016 to 2020, followed by a decade of 2% growth from 2021 to 2030. It anticipates Canada will be weighed down by its public sector deficit and its gross debt as a percentage of GDP.

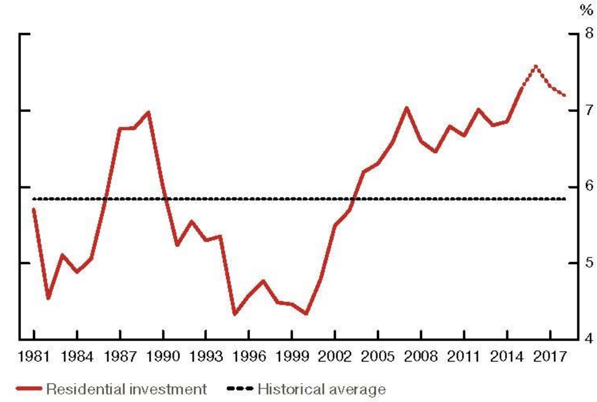
The BoC expects housing's contribution to the economy to subtract 0.1% from growth in 2017 and add 0.1% in 2018 (*Chart 14*). Residential construction contributed 7% of Canada's GDP last year, while real estate and financial services in total accounted for 20% of the economy, levels not seen in the data since the early 1960s.

Market observers expect that housing policy changes, reduced affordability and rising interest rates will cool the market, but generally do not see a major housing correction as there's still more demand than supply. Nationally, house prices continue to increase relative to income, although significant regional divergences persist (*Chart 5*).

The BoC has previously signaled support for the government's measures to cool housing markets, and for the first time in many years did not reference market or household imbalances as significant risks to the economy. Instead, the Bank highlighted the near-term negative impact of weaker-than-expected household spending on real GDP.

Chart 14: Residential investment's share of Canadian GDP should gradually ease

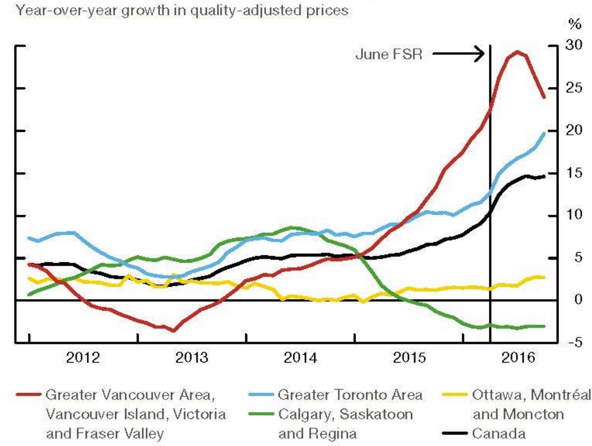
Nominal share of GDP, annual data



Sources: Statistics Canada and Bank of Canada estimates, calculations and projections

Chart 5: House price growth differs materially by region

Year-over-year growth in quality-adjusted prices



Note: The lines represent averages of quality-adjusted prices weighted by the population of the corresponding census metropolitan areas as defined by Statistics Canada. The June FSR line is placed to indicate the most recent data available at the time of the report, not the publication date.

Sources: Canadian Real Estate Association, Statistics Canada and Bank of Canada calculations

Last observation: October 2016

Statistics Canada reports that the annual average increase in the CPI in 2016 was 1.4%. This increase followed gains of 1.1% in 2015 and 2.0% in 2014. RBC Economics expects that much of the increase in December's headline inflation rate reflected a rise in energy prices in the month that contrasted with a decline in December 2015. A similar base-effect is likely to play out in the next two months as substantial moderation in energy prices seen early last year is not repeated.

Meanwhile, the IMF forecast global growth to rise to 3.4% in 2017 and 3.6% in 2018. However, they note that there is wide-ranging uncertainty to projections given the unknown quantity of the incoming U.S. administration, what trade policy and economic measures it may enact, and their subsequent global ramifications.