



Economics Group

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Housing Starts Pull Back in March

Housing starts fell 6.8 percent in March after a much stronger February pace than first reported. The spring construction season got a strong start this year, with year to date housing starts up 8.1 percent from 2016.

Mild Weather Pulled Construction Forward

Housing starts declined 6.8 percent to a 1.215 million unit pace in March, coming in below consensus but closer to our call of 1.209 million units. The pullback in March comes after a strong 1.303 million unit pace in February, which received a boost from mild weather allowing more projects to get underway than years past. The early start to the spring building season will likely continue to result in more volatile seasonally adjusted data in spring months. Looking past the volatility, homebuilding has started 2017 on a strong note. This has been reflected in recent strength in the NAHB/Wells Fargo Housing Market Index, which hit a cycle-high in March before falling back slightly in April.

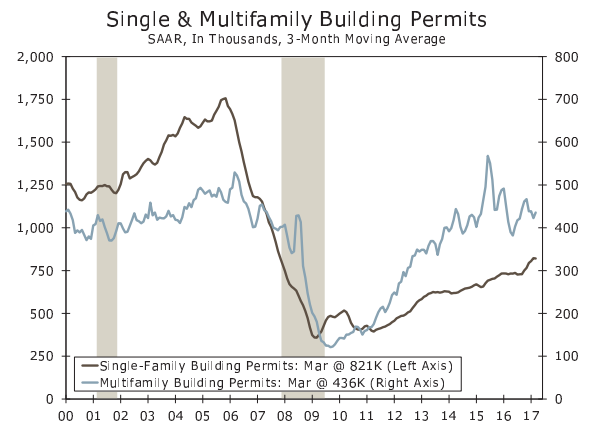
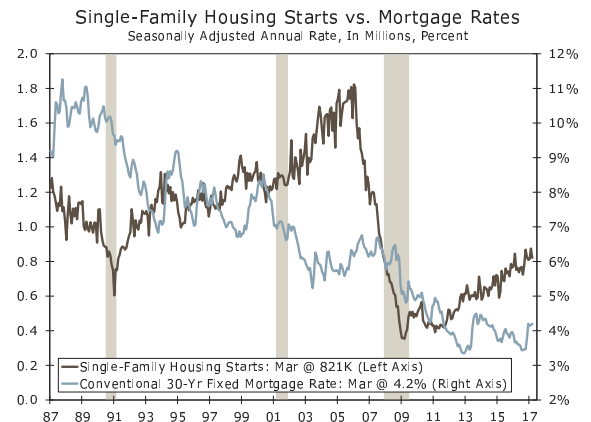
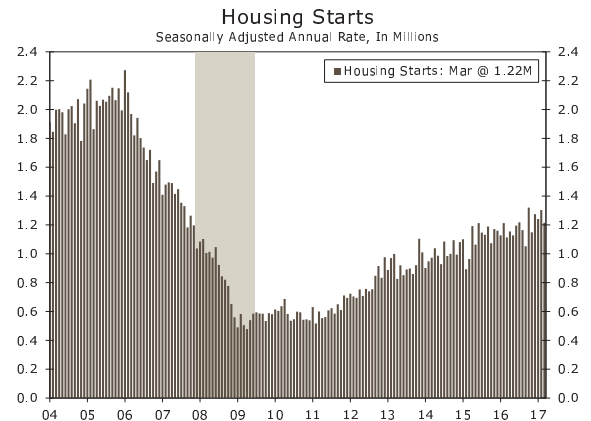
Single-family construction slipped 6.2 percent to an 821,000-unit pace in March, following its strongest post-recession pace of 875,000 units in February. Multifamily construction declined 7.9 percent in March to a 394,000-unit pace. Year to date, however, apartment construction is up 14.1 percent.

Construction slowed most in the Midwest and West in March, while home building accelerated in the Northeast. Construction in the South was down slightly from February, where weather plays less of a role, though single-family building held up in March. Compared to the first three months of last year, construction is up 13.5 percent in the South, on strength in both single-family and multifamily units. In the Northeast, single-family construction is up 11.6 percent year to date, likely due to the mild winter.

Permits Point to More Building Ahead

Permits for new construction were up 3.6 percent to a 1.260 million unit rate in March. The monthly gain was in multifamily units, as single-family permits slipped on the month. Single-family permits are up 13.2 percent year to date, however. Total permits were up a healthy 10.4 percent in the first three months of 2017 from a year earlier, which bodes well for the construction sector in coming months. Permits were up most significantly in the West, although the strength was entirely in multifamily units.

Underlying fundamentals, including an incredibly lean supply of existing homes for sale in many markets and continued improvement in the labor market, support continued strength in home builders' confidence in the new home market in 2017. Reports from recent consumer sentiment surveys also suggest more people feel that now is a good time to buy a home. Moreover, higher mortgage rates since the election do not appear to be weighing much on mortgage applications, which hit a cycle high in April. Taken together, construction is set to play a more significant role in economic growth in 2017. We raised our housing starts forecast to 1.26 million units in 2017 and 1.35 million units in 2018. The early start to the construction season should also provide a much needed lift to Q1 GDP growth.



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