



Economics Group

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Housing Starts Bounce in April

Housing starts jumped 5.7% to a 1.235 million-unit pace during April. The pace of new residential construction has picked up alongside improving buying conditions, however starts remain below last year's level.

A Ray of Sunshine for Residential Building

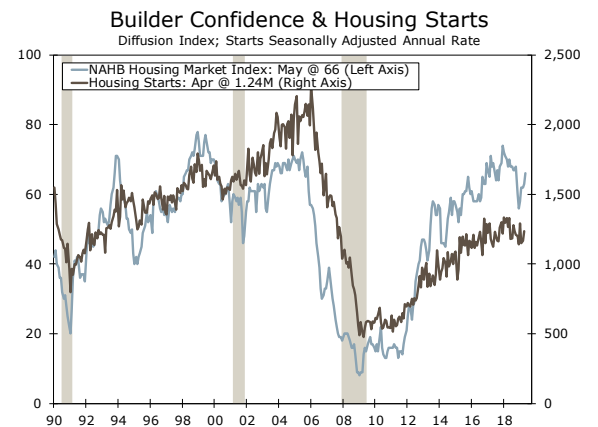
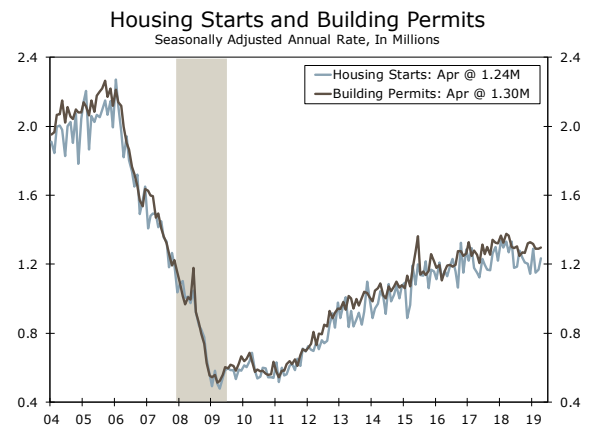
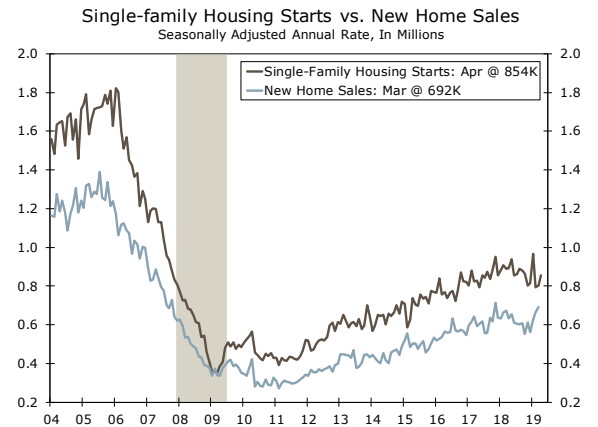
New residential construction finally appears to be improving against a backdrop of lower mortgage rates, strengthening new home sales and improving builder sentiment. Housing starts increased 5.7% during April to a 1.235 million-unit pace. Single-family starts rose a sturdy 6.2%, while multifamily starts increased 4.7% during the month. Revisions to prior months' data were also positive on balance. Last month's 0.3% drop in total starts was revised to show a 1.7% gain. That said, even with lower mortgage rates and better weather, homebuilding is struggling to regain traction. Year-to-date, both single-family and multifamily starts are running below last year's levels, and total starts through April are 7.2% below the same period last year. Building activity topped out in early 2018, however, which means year-over-year comparisons will get easier going forward.

Building permits rose a more modest 0.6%. The overall number of permits issued is running well ahead of actual starts, especially in the multifamily segment. Over the past 12 months, multifamily permits have been roughly 28% higher than starts, or about 100,000 units, an indication multifamily construction should remain strong. A 4.2% decline in single-family permits tarnished an otherwise strong report. On a monthly basis, single-family permits have declined the past five months.

April's rise in total housing starts was not felt proportionally across the country. The Northeast and Midwest surged 84.6% and 42.0%, respectively, likely reflecting better building conditions following poor weather and disastrous flooding in Nebraska and Iowa in March. By contrast, starts in the West fell 5.5%. However, single-family starts rose 13.7%, which is welcome news for a region which has seen population growth consistently outpace single-family construction. Starts in the South also dropped 5.7%.

The gain in housing starts mirrors recent improvements in builder sentiment. The NAHB Housing Market Index, a measure of builder confidence, rose three points in May to 66. Every subcategory rose, with the largest gains occurring in present sales and prospective buyer components. Lower mortgage rates, as well as price discounting by builders, appears to be bringing potential buyers back off the sidelines. The overall index remains below last year's level, but sentiment is clearly improving. Both the number of new completions and homes under construction fell again in April. When combined with the improving trend in sales (top chart), builders are quickly clearing any unwanted buildup in inventory accrued late last year.

Lower construction material prices may also be helping builders. Lumber prices have come down after surging last year. Material prices tend to wax and wane throughout the year as demand ramps up in the spring and diminishes in the winter, but we expect overall prices to be lower this year which should help counter steadily rising labor costs.



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