



Economics Group

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Housing Starts Drop During May

Total housing starts fell 0.9% during May. Despite the drop, there were a few rays of sunshine within the report, as prior months' data were revised higher, and single-family permits rose for the first time in six months.

Weakness in May Overshadows Gradually Improving Trend

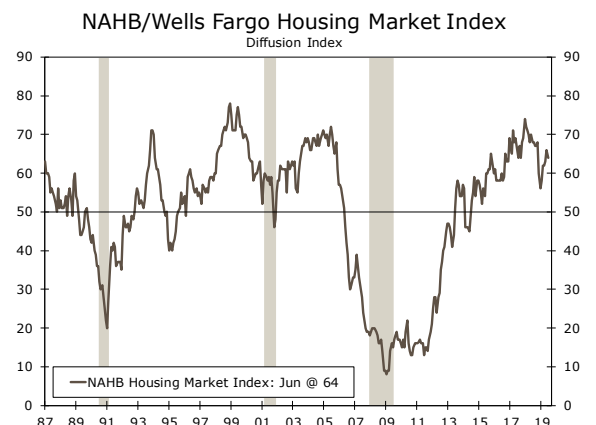
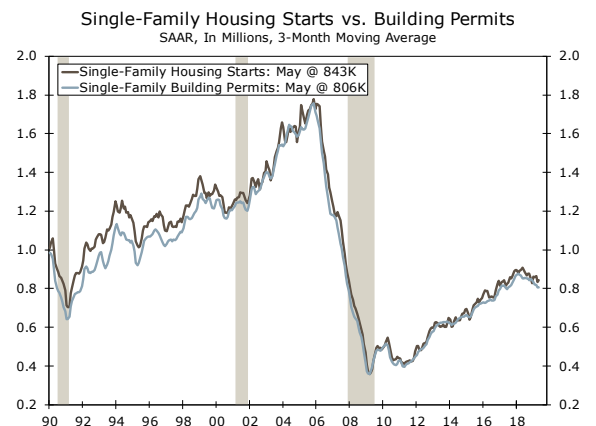
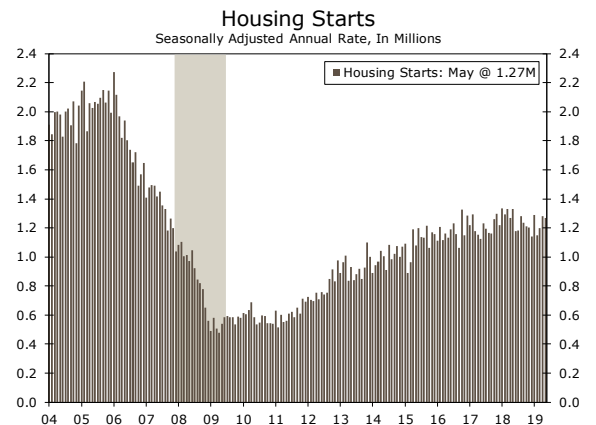
New residential construction continues to have trouble building momentum despite lower building costs and improved buying conditions. Total housing starts dropped 0.9% during May. A 10.9% rise in volatile multifamily starts was not enough to offset a 6.4% decline in single-family units. Furthermore, starts remain 5.3% below their prior-year pace on a year-to-date basis. That noted, residential building continues to be fairly solid. The 1.269 million-unit pace hit in May is slightly above the 1.222 million-unit pace averaged over the past six months. Starts for both March and April were also revised higher, and now show 6.8% and 4.4% monthly gains, respectively.

A 0.3% rise in total building permits during May also provides some cause for optimism. Single-family permits rose 3.7%, which ends a five-month streak of monthly declines. Multifamily permits declined 5.0%, however the overall number of new permits remains elevated. The gain in permits along with more favorable buying conditions points to gradually improving activity over the summer. That said, lower mortgages rates will not likely be rocket fuel for residential construction, and a surge in activity is unlikely.

The South was the lone region to register a monthly gain on a seasonally adjusted basis. That noted, unusual weather so far this year, which has included floods in the Midwest and heavy rain in the South, may be skewing the seasonal adjustment process. On a not-seasonally adjusted year-to-date basis, activity still appears strongest in the South, which shows starts running 3.6% ahead of the same period last year. The West, where builders have been offering significant discounts to clear inventories, is down 15.8% year-to-date. Homebuilding in the Midwest continues to be negatively impacted by flooding, and starts are running 14.8% behind the same period last year. The Northeast, which is the smallest region for homebuilding and tends to be very volatile month-to-month, is 8.9% below last year's level.

The stumble in housing starts during May mirrors a small decline in builder sentiment during June. The NAHB Housing Market Index, a measure of builder confidence, fell two points in June to a still-solid 64 after hitting a seven-month high in May. Builders were likely slightly discouraged by the prospects of an escalating trade war, which threatens to drive up prices on an assortment of new building materials, home décor items and furniture produced in China, such as floor tiles, kitchen cabinets and light fixtures.

Potentially higher building costs would add to sharply rising labor costs brought on by a continued scarcity of qualified workers. Amid widespread labor shortages and an overall subdued pace of construction activity, hiring in the construction industry appears to be slowing. Total construction payrolls expanded just 4,000 jobs during May, a 3.0% year-over-year gain. The residential building subsector declined 100 jobs, and has posted a net 2,900 decline over the past three months.



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