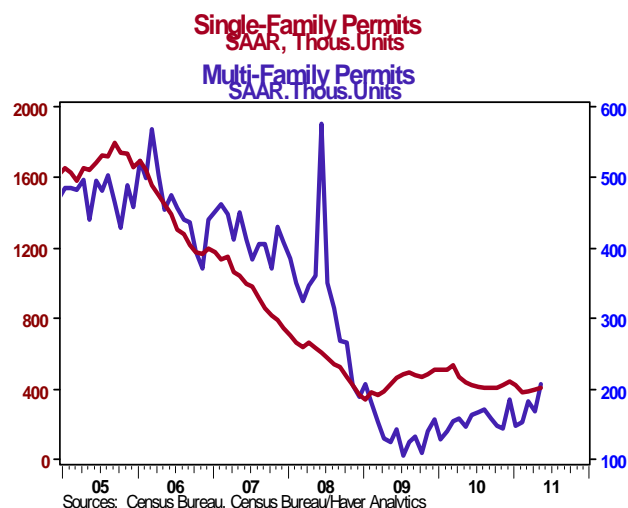
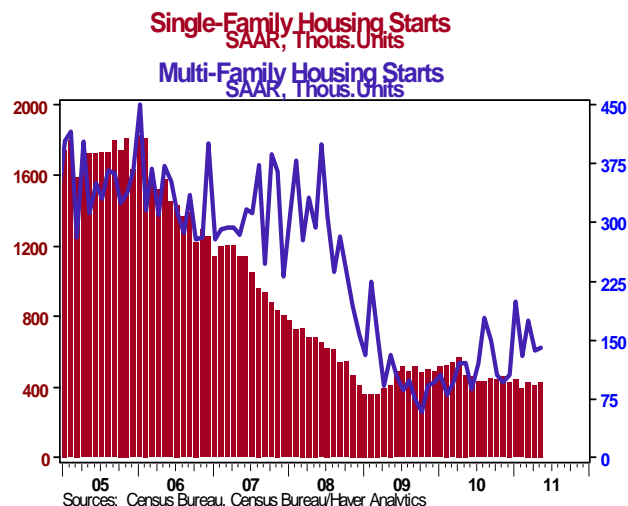


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May Housing Starts

- Housing starts increased 3.5% in May to 560,000 units at an annual rate. They were also revised up in March and April, but are still down 3.4% versus a year ago.
- The rise in May was mostly due to a 3.7% increase in single-family starts. Multi-family starts (which can be volatile from month to month) also increased 2.9% and are up 17.5% versus a year ago.
- Starts rose in the West and South, but declined in the Northeast and Midwest.
- New building permits increased 8.7% in May to a 612,000 annual rate. Compared to a year ago, permits for multi-unit homes are up 40.8% while permits for single-family units are down 6.9%.

Implications: Housing starts bounced back in May, coming in well above consensus expectations. Last month we said the drop in starts in April was due to an unusually violent tornado season because, on net, the entire decline happened in the South. Outside of that one region, starts were up. In other words, last month's report did not signal a future downward trend. And, as we anticipated, starts rebounded in May. We believe home building has finally hit a long-term inflection point and will be riding a substantial upward trend over the next several years, just to get back to a "normal" pace of new residential construction. Right now, the number of homes under construction is at the lowest levels on record (dating back to 1970). As excess inventories continue to be worked off, home building will need to increase substantially. In fact, the pace of home building is so low that inventory reductions will continue at a robust pace even as home building begins its long-term recovery. The charts to the right show that the upward trend has already begun for multi-unit homes. In other news this morning, initial claims for unemployment insurance fell 16,000 last week to 414,000. Continuing claims for regular state benefits declined 21,000 to 3.68 million. Also, in other news, the Philadelphia Fed index, a measure of manufacturing activity in that region, fell to -7.7 in June from 3.9 in May. The index has dropped steeply since hitting a 25-year high back in March. We think this is due to supply-chain disruptions from Japan and that the manufacturing sector will rebound sharply in the months ahead.



Housing Starts SAAR, thousands	Monthly % Ch.	May-11 Level	Apr-11 Level	Mar-11 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	3.5%	560	541	593	565	562	-3.4%
Northeast	-3.3%	58	60	61	60	64	-18.3%
Midwest	-4.1%	94	98	81	91	86	-11.3%
South	1.5%	271	267	337	292	293	-6.2%
West	18.1%	137	116	114	122	119	20.2%
Single-Unit Starts	3.7%	419	404	418	414	415	-8.9%
Multi-Unit Starts	2.9%	141	137	175	151	148	17.5%
Building Permits	8.7%	612	563	574	583	580	5.2%
Single-Unit Permits	2.5%	405	395	392	397	406	-6.9%

Source: U.S. Census Bureau