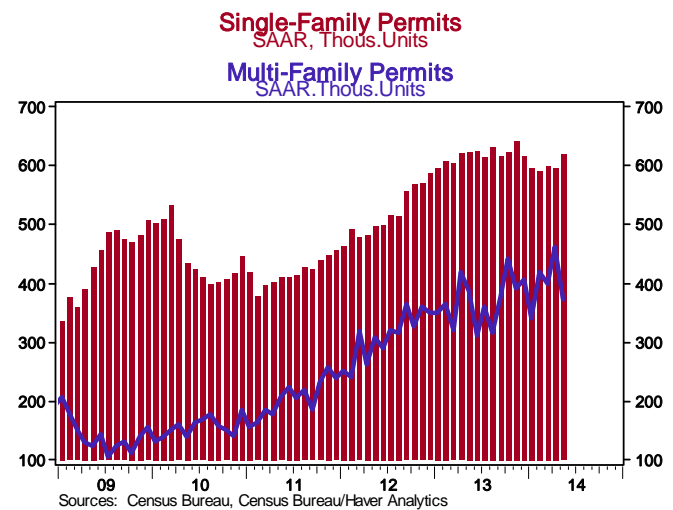
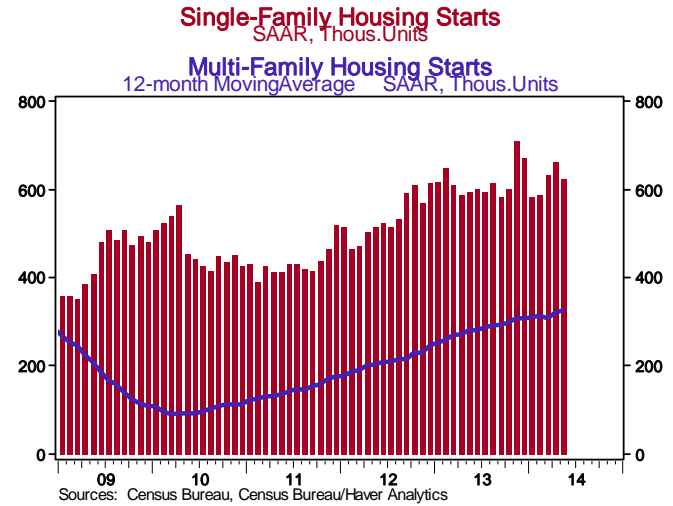


May Housing Starts

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- Housing starts declined 6.5% in May to a 1.001 million annual rate, coming in below the consensus expected 1.030 million. Starts are up 9.4% versus a year ago.
- The decline in starts in May was due to a drop in both single-family and multi-family units. In the past year, single-family starts are up 4.7% while multi-family starts are up 18.2%.
- Starts in May fell in the Northeast, Midwest, and West, but rose in the South.
- New building permits declined 6.4% in May to a 991,000 annual rate, coming in below the consensus expected 1.05 million pace. Compared to a year ago, permits for single-units are down 0.8% while permits for multi-family homes are down 3.6%.

Implications: After a blowout good number in April, home building took a breather in May, with a decline in both single-family and multi-family starts. To get rid of the volatility and see the underlying trend, we like to look at the 12-month moving average, which hit the highest level in May since October 2008. Despite the drop in starts in May, overall home building continued to increase: the total number of homes under construction, (started, but not yet finished) increased 1.4% in May and are up 20.6% versus a year ago. In the past year, 34.4% of all housing starts have been for multi-unit buildings, including apartments and condos, the most since the mid-1980s, when the last wave of Baby Boomers was leaving college. This makes sense. The homeownership rate is down and more people are renting. From a direct GDP perspective, the construction of multi-family homes adds less, per unit, to economic growth than single-family homes. However, with both the single-family and multiple-family construction trends upward, we expect home building to keep adding to real GDP growth for at least the next couple of years. Based on population growth and “scrappage,” housing starts will eventually rise to about 1.5 million units per year (probably by the end of 2015). This is the level of construction that keeps the number of homes stable relative to the US population. Although building permits declined in May, it was all due to the volatile multi-family sector. Single-family permits rose 3.7%. We expect a sharp rebound in building permits next month.



Housing Starts SAAR, thousands	Monthly % Ch.	May-14 Level	Apr-14 Level	Mar-14 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	-6.5%	1001	1071	950	1007	980	9.4%
Northeast	-25.2%	95	127	124	115	105	-5.0%
Midwest	-16.5%	172	206	143	174	143	27.4%
South	7.3%	529	493	478	500	500	10.4%
West	-16.3%	205	245	205	218	232	2.0%
Single-Unit Starts	-5.9%	625	664	635	641	629	4.7%
Multi-Unit Starts	-7.6%	376	407	315	366	352	18.2%
Building Permits	-6.4%	991	1059	1000	1017	1004	-1.9%
Single-Unit Permits	3.7%	619	597	600	605	604	-0.8%

Source: U.S. Census Bureau