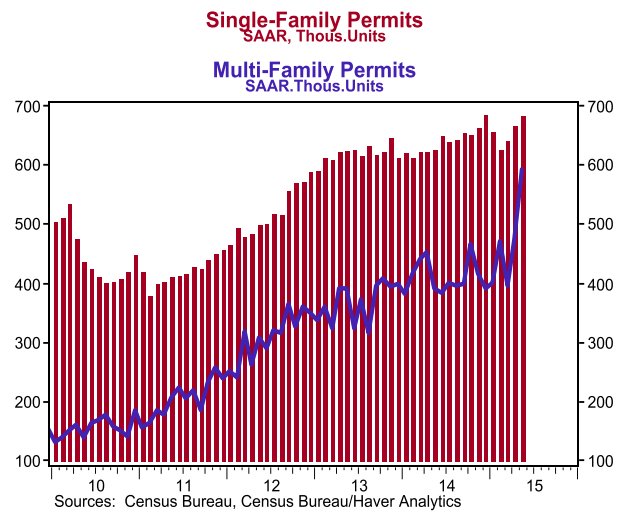
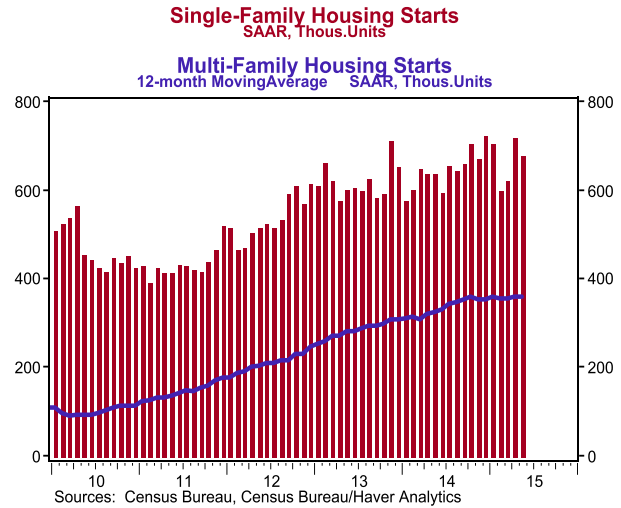


# May Housing Starts

**Brian S. Wesbury** – Chief Economist  
**Robert Stein, CFA** – Dep. Chief Economist  
**Strider Ellass** – Economist

- Housing starts declined 11.1% in May to a 1.036 million annual rate, coming in below the consensus expected 1.090 million. Starts are up 5.1% versus a year ago.
- The decline in starts in May was due to a 20.2% drop in multi-family units along with a 5.4% decline for single-family starts. In the past year, single-family starts are up 6.8% while multi-family starts are up 2.0%.
- Starts in May declined in all major regions of the country.
- New building permits rose 11.8% in May to a 1.275 million annual rate, coming in well above the consensus expected 1.100 million. Compared to a year ago, permits for single-family units are up 9.1% while permits for multi-family homes are up 51.4%.

**Implications:** Don't read much into the large headline drop in housing starts in May. The decline comes on the back of a whopping 22.1% increase in April and starts are still 5.1% ahead of where they were a year ago. As the last few months have shown, starts can be volatile from month to month, sometimes due to bad weather (like when they plummeted in February) and sometimes just due to plain old statistical noise (like when they remained low in March even as weather patterns returned to normal). So to find the underlying trend we look at the 12-month moving average, which is at the highest level since August 2008. The best news today was that housing permits soared 11.8% in May on the back of a 9.8% gain in April and are now the highest since 2007. This is great news for future construction gains, and these figures support our view that concerns about the economy based on the first quarter are misplaced; the economy is set to rebound quickly, just like last year. The total number of homes under construction, (started, but not yet finished) increased 0.5% in May and are up 14.5% versus a year ago. One interesting note is that we seem to have passed "peak multi-family" construction, at least as a share of overall home building. In the twelve months ending in September, 35.8% of all housing starts were multi-family units, the highest since the mid-1980s. Now that share is down to 35.2%. That's significant because the construction of a single-family home usually adds more to real GDP than a multi-family unit. Based on population growth and "scrappage," overall housing starts should rise to about 1.5 million units per year over the next couple of years, so a great deal of the recovery in home building is still ahead of us. In other recent housing news, the NAHB index, which measures confidence among home builders, increased five points to 59 in June, as the index of present sales climbed to 65, the highest level since 2005. Readings greater than 50 mean more respondents report good market conditions. Just one year ago, the overall index was at 49. Expect further gains in housing in the coming months and years.



Housing Starts SAAR, thousands	Monthly % Ch.	May-15 Level	Apr-15 Level	Mar-15 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
<b>Housing Starts</b>	<b>-11.1%</b>	1036	1165	954	1052	1036	5.1%
<b>Northeast</b>	<b>-26.5%</b>	139	189	100	143	116	58.0%
<b>Midwest</b>	<b>-10.2%</b>	149	166	142	152	145	-9.7%
<b>South</b>	<b>-5.0%</b>	495	521	511	509	512	-8.7%
<b>West</b>	<b>-12.5%</b>	253	289	201	248	263	32.5%
<b>Single-Unit Starts</b>	<b>-5.4%</b>	680	719	623	674	675	6.8%
<b>Multi-Unit Starts</b>	<b>-20.2%</b>	356	446	331	378	361	2.0%
<b>Building Permits</b>	<b>11.8%</b>	1275	1140	1038	1151	1115	25.4%
<b>Single-Unit Permits</b>	<b>2.6%</b>	683	666	642	664	660	9.1%

Source: U.S. Census Bureau