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May Housing Starts

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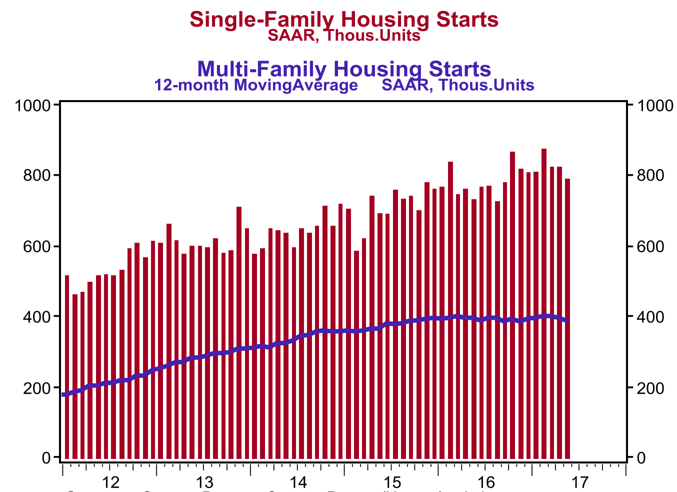
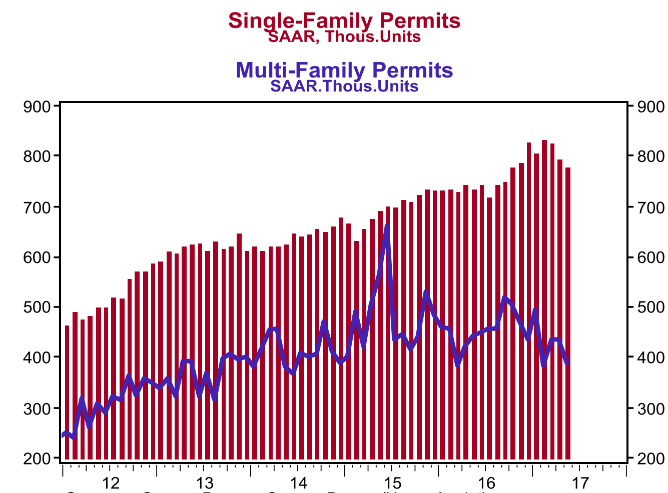
- Housing starts declined 5.5% in May to a 1.092 million annual rate, well below the consensus expected 1.220 million. Starts are down 2.4% versus a year ago.
- The decline in starts in May was due to a drop in both single-family and multi-unit starts. In the past year, single-family starts are up 8.5% while multi-unit starts are down 23.0%.
- Starts in May fell in the Midwest and South, were unchanged in the Northeast, and rose in the West.
- New building permits declined 4.9% in May to a 1.168 million annual rate, below the consensus expected 1.249 million. Compared to a year ago, permits for single-family units are up 6.0% while permits for multi-family homes are down 12.2%.



Sources: Census Bureau, Census Bureau/Haver Analytics



Sources: Census Bureau, Census Bureau/Haver Analytics

Implications: Housing starts came in much lower than the consensus expected in May, falling 5.5% to a 1.09 million annual rate. Starts were below even the lowest forecast from any economics group. However, this does not signal the end of the housing recovery; far from it. Even though both single-family and multi-unit starts were responsible for the drop in May's headline number, in the past year single-family starts are still up 8.5% while multi-unit starts are down 23%. The "mix" of construction has been generally shifting toward single-family building and this is a good sign for the overall economy. When the housing recovery started, multi-family construction led the way. But the share of all housing starts that are multi-family appears to have peaked in 2015, when 35.7% of all starts were multi-family, the largest since the mid-1980s, when the last wave of Baby Boomers was growing up and moving to cities. In May, the multi-family share of starts fell to 27.3%. The shift toward single-family is a positive sign for the economy because, on average, each single-family home contributes to GDP about twice the amount of a multi-family unit. Based on population growth and "scrappage," housing starts should eventually rise to about 1.5 million units per year. In other words, much of the recovery in home building is still ahead of us. The good news in today's report was that housing completions rose 5.6% in May and are now up 14.6% in the past year. On top of this, the number of homes currently under construction peaked back in February and have been trending down since, signaling that recently builders have been focusing on finishing projects that are already underway before starting new ones. Expect housing starts to rebound in the months ahead as more unfinished projects are completed. In other recent housing news, the NAHB index, which measures sentiment among home builders fell to a still elevated 67 in June from 69 in May. Expect further strength in the housing sector in the year ahead as more jobs, faster wage growth, and, for at least the time being, optimism about more market-friendly policies from a Trump Administration, continue to encourage both prospective home buyers and builders.

Housing Starts *SAAR, thousands*	Monthly *% Ch.*	May-17 *Level*	Apr-17 *Level*	Mar-17 *Level*	3-mth *moving avg*	6-mth *moving avg*	Yr to Yr *% Change*
Housing Starts	**-5.5%**	1092	1156	1189	1146	1205	-2.4%
Northeast	**0.0%**	87	87	116	97	103	8.7%
Midwest	**-9.2%**	168	185	139	164	183	-11.6%
South	**-8.8%**	526	577	633	579	606	-9.9%
West	**1.3%**	311	307	301	306	313	17.4%
Single-Unit Starts	**-3.9%**	794	826	824	815	824	8.5%
Multi-Unit Starts	**-9.7%**	298	330	365	331	381	-23.0%
Building Permits	**-4.9%**	1168	1228	1260	1219	1240	-0.8%
Single-Unit Permits	**-1.9%**	779	794	826	800	812	6.0%

Source: U.S. Census Bureau