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May Housing Starts

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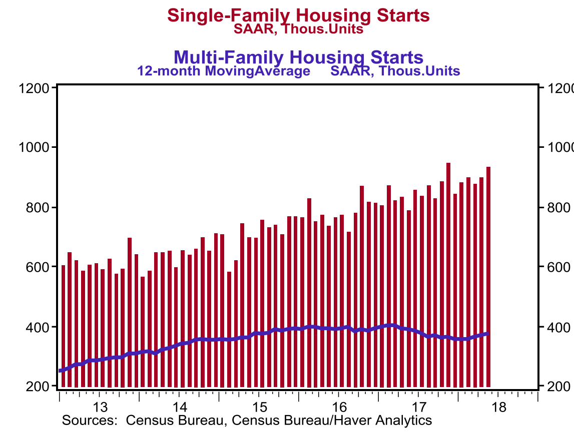
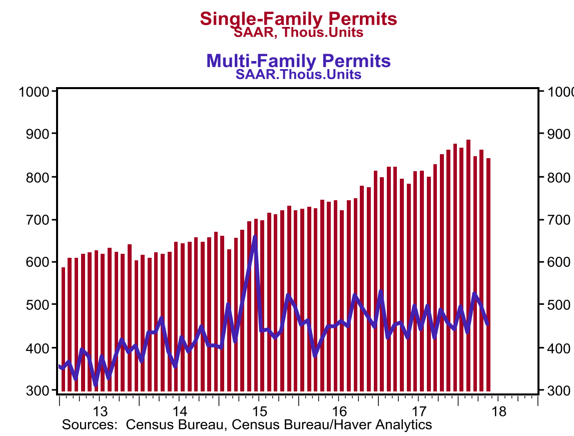
- Housing starts increased 5.0% in May to a 1.350 million annual rate, easily beating the consensus expected 1.311 million. Starts are up 20.3% versus a year ago.
- The gain in starts in May was due to both single-family and multi-unit starts. In the past year, single-family starts are up 18.3% while multi-unit starts are up 25.1%.
- Starts in May rose in the Midwest, but fell in the Northeast, West, and South.
- New building permits declined 4.6% in May to a 1.301 million annual rate, below the consensus expected 1.350 million. Compared to a year ago, permits for single-family units are up 7.7% while permits for multi-family homes are up 8.6%.





Implications: Housing starts rebounded sharply in May, easily beating consensus expectations to reach the highest level since 2007. Starts rose 5.0% in May to a 1.350 million annual rate, and are now up 20.3% in the past year. The Midwest was entirely responsible for the gain, surging 62.2%, while other regions had declines. This May was unusually strong relative to the trend, while May 2017 had the slowest pace for housing starts in all of 2017 - that pushed the year-over-year gain above trend. We expect further gains in the year ahead, although we expect the pace of gains to slow. One way to cut through the monthly noise is to compare the first five months of 2018 versus the same period in 2017. By that measure starts are up 10.2% from a year ago. New single-family construction continues to be the main driver of trend growth, as the chart to the right demonstrates. We expect further strength from single-family starts in the years ahead, and a continued transition to more growth in single-family construction from multi-family will be good news for the overall economy. On average, each single-family home contributes to GDP about twice the amount of a multi-family unit. The worst news in today's report was that permits for future construction fell 4.6% in May, as both single-family and multi-unit permits showed declines. That said, overall permits are still up a healthy 8% in the past year. Further, the horizon is brightening, with the number of units currently under construction at the highest pace since 2008. Developers are also completing units at the fastest pace since the recession, freeing them up to start construction of new homes. Housing starts are still up in spite of a significant uptick in mortgage rates, which some analysts claimed would derail the housing recovery. As we have argued, higher interest rates can be sustained as long as jobs and incomes are rising. Based on population growth and "scrappage," look for housing starts to rise to an average of about 1.5 million units per year by late 2019. And the longer this process takes, the more room the housing market will have to eventually overshoot that mark. That said, there are a couple factors that seem to be holding this process back. The National Association of Home Builders claims 84% of developers cited labor shortages and the rising cost of building materials as one of their biggest problems in 2018. Both these issues seem set to continue as an increasingly tight labor market keeps the number of job openings in construction elevated and tariffs on lumber, steel, and aluminum drive up input costs. Highlighting these issues, the NAHB index, which measures homebuilder sentiment, fell slightly to 68 in June from 70 in May, primarily reflecting concerns about rising lumber costs that have added an estimated $9,000 to the price of a new home since January 2017. We understand why some would look at this as a negative, but the Homebuilder Index is still at a high level and we remain bullish on housing in the year ahead.

Housing Starts *SAAR, thousands*	Monthly *% Ch.*	May-18 *Level*	Apr-18 *Level*	Mar-18 *Level*	3-mth *moving avg*	6-mth *moving avg*	Yr to Yr *% Change*
Housing Starts	**5.0%**	1350	1286	1327	1321	1300	20.3%
Northeast	**-15.0%**	102	120	120	114	113	20.0%
Midwest	**62.2%**	266	164	182	204	180	62.2%
South	**-0.9%**	653	659	630	647	639	16.8%
West	**-4.1%**	329	343	395	356	367	4.8%
Single-Unit Starts	**3.9%**	936	901	882	906	892	18.3%
Multi-Unit Starts	**7.5%**	414	385	445	415	408	25.1%
Building Permits	**-4.6%**	1301	1364	1377	1347	1342	8.0%
Single-Unit Permits	**-2.2%**	844	863	851	853	865	7.7%

Source: U.S. Census Bureau