

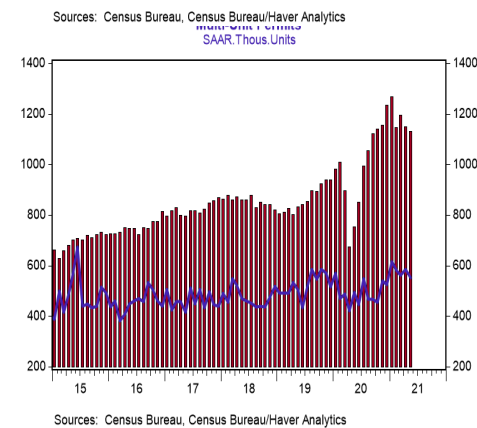
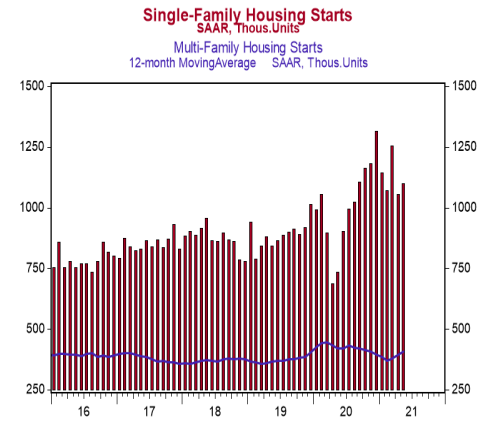
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Ellass – Senior Economist
Bryce Gill – Economist

May Housing Starts

- Housing starts increased 3.6% in May to a 1.572 million annual rate, below the consensus expected 1.630 million. Starts are up 50.3% versus a year ago.
- The gain in May was due to both single-family starts and multi-family starts. In the past year, single-family starts are up 49.8% while multi-unit starts are up 51.4%.
- Starts in May rose in the Midwest, South, and West, but fell in the Northeast.
- New building permits declined 3.0% in May to a 1.681 million annual rate, below the consensus expected 1.730 million. Compared to a year ago, permits for single-family units are up 50.1% while permits for multi-family homes are up 11.8%.

Implications: Housing construction rebounded in May, continuing a recent volatile ride as builders try to find their footing in a post-pandemic economy. Supply chain constraints for key inputs such as lumber – paired with difficulty in finding qualified workers – have moderated the pace of building since late 2020. That said, the 12-month moving average, which sifts through the recent volatility, shows construction now stands at the fastest pace since 2007. The monthly pace of activity will ebb and flow as the recovery continues, but we expect housing starts to remain in an upward trend. Why the confidence? Permits for future construction have now outpaced new construction for fifteen consecutive months. This has resulted in a backlog of projects that have been authorized but not yet started, which stands at the highest reading since the series began back in 1999. There has been a long running deficit in new home construction in the US, which needs roughly 1.5 million housing starts per year based on population growth and scrappage (voluntary knockdowns, natural disasters, etc.). However, we haven't built that many new homes in any calendar year since 2006.

Now, with plenty of future building activity in the pipeline and builders looking to boost the inventory of homes as well as meet consumer demand, it looks likely construction in 2021 will surpass the 1.5 million unit benchmark. This positive outlook is reinforced by yesterday's NAHB index, a gauge of homebuilder sentiment, which declined to 81 in June from 83 in May, but remained at a very high level. Strong consumer demand for homes and low mortgage rates are helping offset impacts from rising materials costs. While some analysts may bemoan the fact that this reading now sits at a 10-month low, it's important to keep in context that, until the red-hot housing market at the tail-end of 2020, readings above 80 had never happened in the history of this indicator going back to the mid-1980s. The recent declines have been driven by rising costs and declining availability for labor and building materials. Speaking of rising costs, we also got trade inflation data this morning. Import prices rose 1.1% in May while export prices increased 2.2%, both above consensus expectations. In the past year, import prices are up 11.3%, while export prices are up 17.4%.



Housing Starts SAAR, thousands	Monthly % Ch.	May-21 Level	Apr-21 Level	Mar-21 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	3.6%	1572	1517	1725	1605	1591	50.3%
Northeast	-22.4%	118	152	165	145	147	68.6%
Midwest	29.9%	239	184	288	237	217	66.0%
South	3.8%	814	784	891	830	818	59.6%
West	1.0%	401	397	381	393	409	24.5%
Single-Unit Starts	4.2%	1098	1054	1255	1136	1156	49.8%
Multi-Unit Starts	2.4%	474	463	470	469	436	51.4%
Building Permits	-3.0%	1681	1733	1755	1723	1756	34.9%
Single-Unit Permits	-1.6%	1130	1148	1194	1157	1186	50.1%

Source: U.S. Census Bureau