



Economics Group

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Housing Starts Fall Well Below Estimates in March

Housing starts posted another disappointing pullback in March, falling 5.8 percent. Much of the decline was in the volatile multifamily component, which dropped 16.9 percent. Weather may also still have had an effect.

Two Disappointing Monthly Reports – Transitory or Trend?

The key spring selling season got off to a disappointing start in March, with housing starts dropping 5.8 percent on the month. The decline in starts was largely concentrated in the volatile multifamily component. Multifamily starts fell 16.9 percent on the month, but the decline is likely due to payback. That said, multifamily starts are up 34.6 percent on a year-ago basis, which is more indicative of the solid underlying trend.

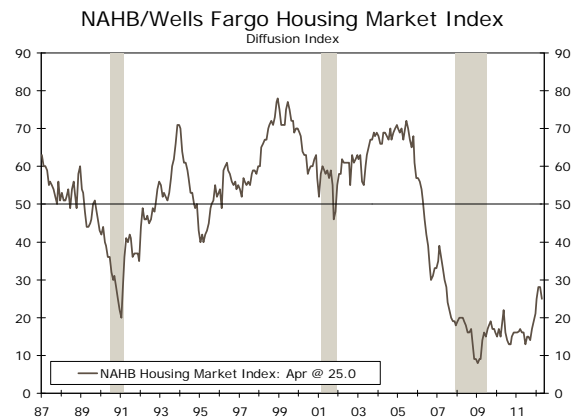
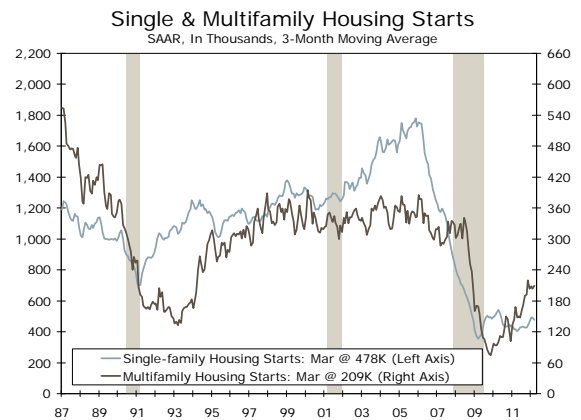
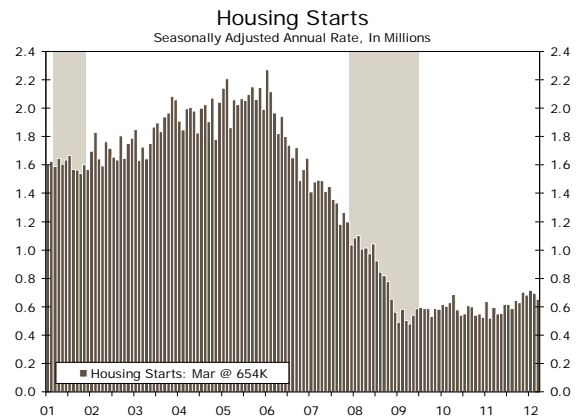
With two consecutive monthly declines, many will insist we are seeing a shift in the underlying trend which is showing gradual progress. That said, we are not throwing in the towel and we still contend the housing market is seeing modest improvement and is in the early stages of stabilization with much of the recent monthly volatility due in part to milder-than-usual weather. With sales being pulled forward in previous months, it is not a surprise to see a pullback. Indeed, according to the NOAA, March was the warmest March on record. Moreover, anecdotal reports from builders and realtors suggest better days are ahead for the industry.

Speaking of builders, according to the NAHB/Wells Fargo Homebuilders Survey, builder sentiment pulled back after six months of improvement. Each component fell on the month, including sales expectations in the next six months and traffic of prospective buyers. On a regional basis, the index was mixed with the South and Midwest posting declines. While builder sentiment in April could be another pessimistic indicator for naysayers, here again, we believe that as a result of the impact of weather, the underlying trend is harder to decipher due to monthly volatility. Similar to starts, the homebuilder survey is seasonally adjusted and the decline is likely due to payback from the string of positive data.

To further make our point, forward looking permits rose 4.5 percent on the month and are up over 30 percent on a year-ago basis. While the gain in permits was concentrated in multifamily, single-family permits are up 17.9 percent over the past year. Before we get ahead of ourselves, it is important to note that the housing market still contends with a number of obstacles, including the oversupply of existing homes, shadow inventory and tight credit conditions. While permits are up, financing is still pretty tough to line up, so the permits are not translating into starts very quickly.

Housing Starts Outlook

Housing starts are expected to rise 16 percent this year, with single family starts rising 11 percent and multifamily starts rising 29 percent. Overall, starts should rise an additional 15 percent in 2013. Even with these gains, however, homebuilding remains well off its long-run trend and as noted on many occasions, any recovery in the housing market will be gradual.



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