



ECONOMICS GROUP

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June 16, 2009

Housing Starts Bounced Back A Bit In May

Housing starts rose more than expected in May, with overall starts rising 17.2 percent to a 532,000-unit pace. About two-thirds of May's increase was in multi-family units, which fell sharply in April. Housing permits rose much less but all of the gain was in single family units, which are now running slightly ahead of starts.

Multi-Family Starts Bounce Back in May

Housing starts rose 17.2 percent in May as starts of multi-family units jumped 61.7 percent. The bounce back in multi-family construction follows two months of declines that brought starts down to just an 81,000 unit pace in April. May's increase did not even bring us back to where we were two months ago. Multi-family construction is extremely volatile and wide swings in the monthly data are common. The extremely low level of starts reflects widespread overbuilding of condominiums and town homes and rising vacancy rates for rental apartments. With the fundamentals deteriorating, credit underwriting has tightened, leading to additional cuts.

Homebuilding Looks Like It Has Bottomed

Starts of single-family homes rose 7.5 percent in May to a 401,000-unit pace. With the increase, single-family starts are now running at their best pace since November. The latest data lend support to our notion that housing starts bottomed earlier this year. Permits for new single-family homes rose 7.9 percent in May, following a 5.0 percent rise in April. With the increase, single-family permits are now running slightly above starts, suggesting single-family starts will rise a bit further in coming months.

While single family housing starts may have bottomed, we do not expect to see any significant improvement for some time to come. Single-family housing starts are only running slightly above their first quarter average of 358,000. We would expect single family starts to average 393,000 in the current quarter and slightly above a 400,000-unit pace during the second half of the year. While that would mark an improvement, single-family construction would still be at extremely low levels.

Homebuilders Are a Little Less Upbeat

Homebuilders have no illusions about the housing market suddenly strengthening. The National Association of Home Builders/Wells Fargo Housing Market Index fell 1.0 point in June to 15. The drop was a bit disappointing but is not that surprising. Optimism about the spring selling season led to a 5.0 point jump in April and the index rose another 2.0 points in May. Some giveback is not that unusual and the 15.0 average for the second quarter is well above the 9.0 averaged in the first quarter. Builders are slightly less optimistic about future sales, however, and prospective buyer traffic fell sharply in the South, which accounts for about one-half of all new home sales and new construction.

The better-than-expected housing starts data suggest that home construction has bottomed. Completions continue to decline, however, and housing will continue to be a drag on economic activity in the second quarter. Prices will also continue to drop, reflecting past overbuilding.

