



Economics Group

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Housing Starts Pull Back Unexpectedly in February

Housing starts fell 1.1 percent in February to a 698,000-unit pace, from an upwardly revised 706,000-unit pace in January. The pullback was concentrated in single-family starts, which declined 9.9 percent.

Housing Starts Fall, but the Decline May Be Payback

Housing starts unexpectedly fell 1.1 percent to a 698,000-unit pace in February, but are up 34.7 percent on a year-ago basis. January starts, however, were upwardly revised to a 706,000-unit pace, the highest level since October 2008. The stall in starts was also mirrored in builder sentiment. Following five consecutive monthly gains, builder confidence was unchanged in March, but remained at the highest level since June 2007. Prospective buyer traffic was also unchanged, but builders' expectations continued to improve, offering a glimmer of hope.

Single-family Starts Dip, but All is not Lost

Breaking a consistent chain of increases over the past four months, single-family starts fell 9.9 percent in February. Some of the decline in single-family starts may be payback from gains due to the unseasonably warm weather during the normally slow winter months. This, in turn, tends to exacerbate the seasonal adjustment process thereby lifting activity to higher levels than would normally occur. That said, despite some of the well noted structural challenges in the single-family housing market, we are beginning to see some improvement. As we have stated on numerous occasions, any recovery in housing will be long and slow.

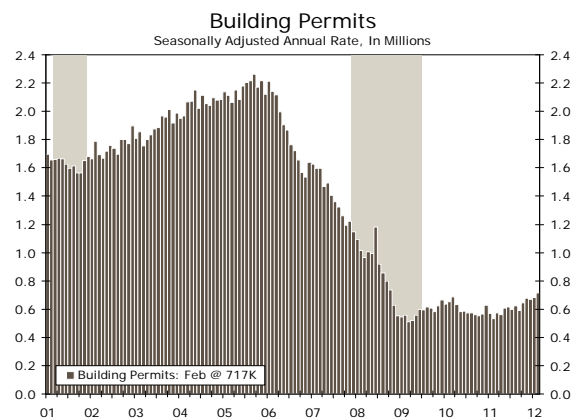
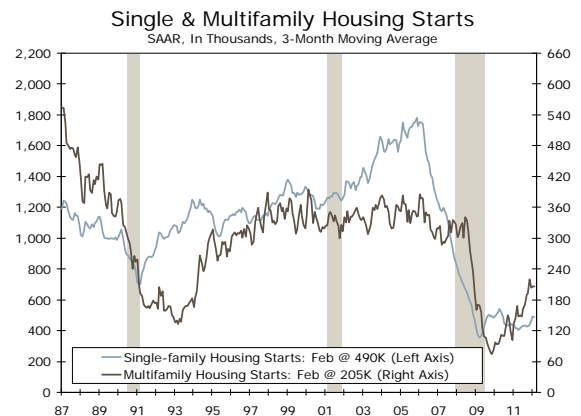
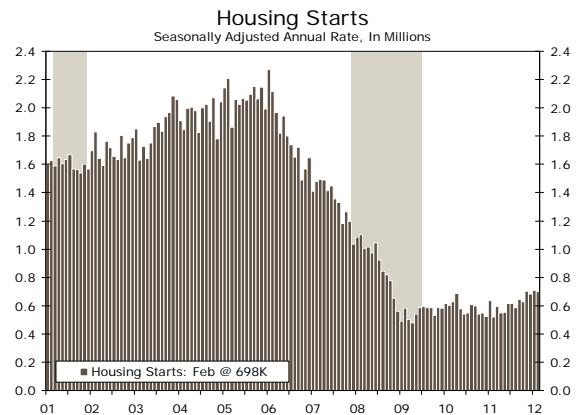
One encouraging sign continues to be the momentum in single-family building permits. Single-family building permits have risen in each of the past five months and are up 23.6 percent on a year-ago basis. We continue to expect further improvement in single-family starts, but the level is still well below the long-run average.

Multifamily Starts: The Star that Continues to Twinkle

Multifamily starts rose for the second-consecutive month in February and are up 85.4 percent on a year-ago basis. The upward momentum in multifamily construction continues to illustrate the solid recovery in the apartment market. Apartment demand continues to benefit from the housing slump and modestly increasing household formation. This improvement has helped drive the apartment vacancy rate down to 5.2 percent in the fourth quarter from a high of 8.0 percent in early 2010. Apartment fundamentals continue to improve, with effective rent growth now positive for eight consecutive quarters and net absorption still far outpacing completions. Multifamily permits are up 61.2 percent on a year-ago basis and we continue to expect further gains in the coming quarters.

Housing Starts Outlook

Housing starts are expected to rise 9.0 percent this year, with single-family construction rising 8.0 percent and multifamily starts rising 12.0 percent. Overall, starts should rise an additional 16.0 percent in 2013. Even with these gains, however, homebuilding remains well off its long-run trend.



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