



Economics Group

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Housing Starts Show Glimmer of Hope in May

Housing starts rose 3.5 percent to a 560,000-unit pace in May from an upwardly revised 541,000-unit pace in April. Gains were broad based with single- and multi-family both increasing. Permits rose 8.7 percent.

Broad-Based Gains in Housing Starts

Housing starts rose 3.5 percent to a 560,000-unit pace in May, which was well above expectations. Gains were broad based with single family increasing 3.7 percent and multifamily rising 2.9 percent. While the increase is encouraging, starts remain at extremely depressed levels and any recovery will be long and arduous. Single-family starts, in particular, are still very much “dead in the water” and will likely not show any meaningful increase until the amount of distressed transactions moderates and the oversupply of existing homes is cleared. In fact, the National Association of Realtors reported that 37 percent of all closings in April were distressed. With foreclosures and short sales still accounting for a large share of total transactions, home prices will remain under pressure, which gives builders little incentive to ramp up building activity. Indeed, the National Association of Home Builders/Wells Fargo Housing Market Index plummeted to 13 in June, the lowest level in nine months. With builder sentiment at such depressed levels, expectations for future single-family sales fell for the third consecutive month. Prospective buyer traffic also fell in June, the first decline since December.

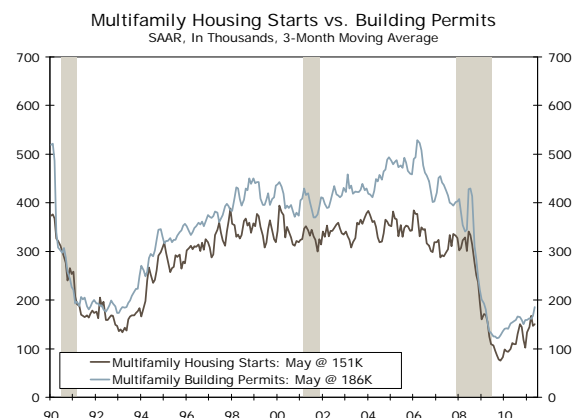
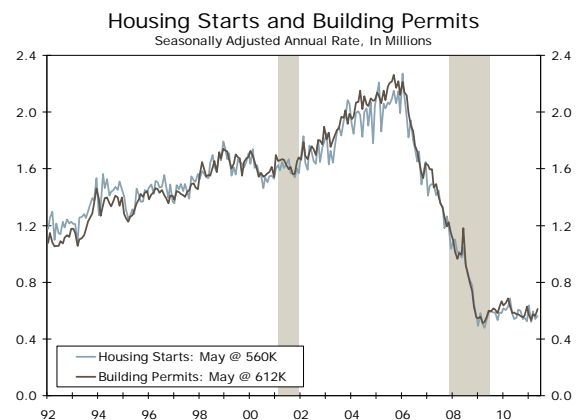
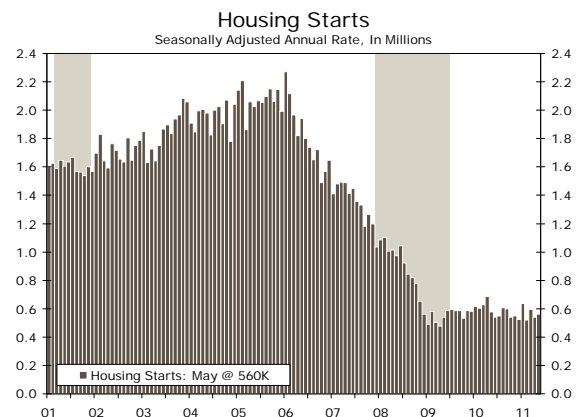
Permits Provide a Little Hope for the Future

Housing permits were also hopeful, showing a gain of 8.7 percent in May. Much of the gain in permits was due to a 23.2 percent increase in multifamily permits. Multifamily permits are up 40.8 percent on a year-ago basis, which suggests solid gains in multifamily starts in the coming months. The increase in multifamily starts and permits is consistent with the full recovery in apartment demand. Renting has become a more preferable option for many who have faced an unusually difficult job market and place a higher value on mobility. We expect multifamily starts to increase 8.9 percent in 2011.

Single-family housing permits have increased in each of the last three months, but are expected to remain at depressed levels. Single-family permits rose a paltry 2.5 percent to a 405,000-unit pace and single-family houses under construction fell 0.8 percent in May to a 249,000-unit pace. On a year-ago basis, single family permits are down 6.9 percent.

Looking Ahead...

Despite many of the challenges in the housing market, we expect a modest rise in starts in 2011. We project starts to increase to a 600,000-unit pace in 2011, which is a modest increase of 2.5 percent from 2010. The increase will stem from improvements in the rest of economy, particularly stronger job and income growth, improved household formation and increased housing affordability.



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