



Economics Group

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Starts Fall, But the Housing Recovery Remains on Track

Housing starts fell 8.5 percent in January, as multifamily starts tumbled 24.1 percent, partially reversing the prior month's 34.7 percent rise. Single-family starts rose 0.8 percent and permits rose in both categories.

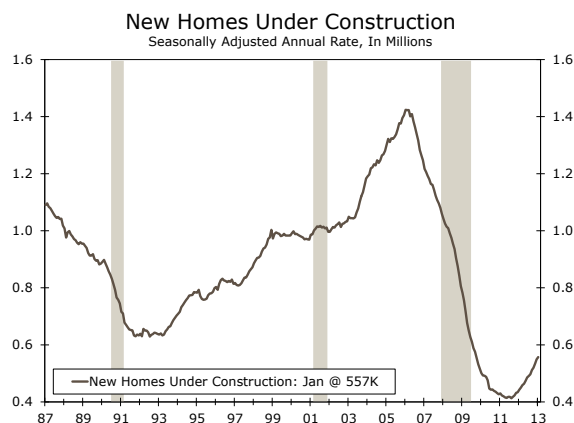
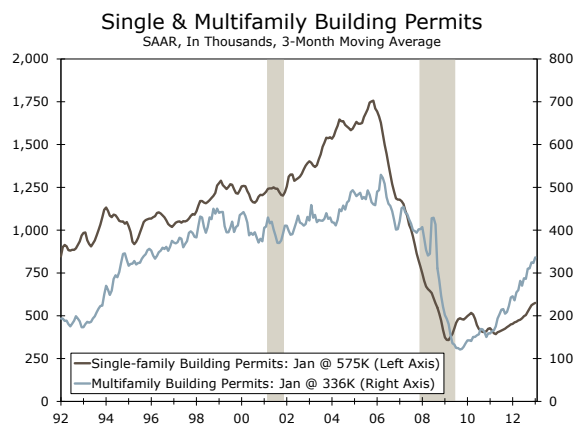
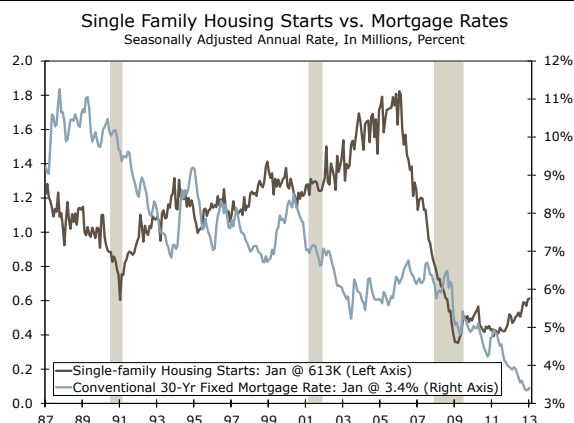
Starts Fall Back a Bit Following a Year-End Surge

January's 8.5 percent drop in housing starts was slightly larger than consensus expectations but is not all that surprising given the upward revision to December's figures, which were bolstered by unusually mild weather and a rush to start projects before the end of the year. The seasonal adjustment factors are huge during the winter months, and it only takes a small change in actual activity to move the seasonally adjusted numbers in a big way. That appears to have been the case during the past couple of months, which saw starts surge 15.7 percent in December before falling 8.5 percent in January. We had expected a drop back to around 900,000 units because, at 987,000 units in December, starts were running considerably ahead of building permits, which were running at around a 900,000-unit pace prior to today's figures.

Single-family starts ramped up considerably toward the end of last year and that momentum appears to be carrying over into 2013. Single-family starts rose 0.8 percent in January, following a 6.7 percent rise in December. On a quarterly basis, single-family starts averaged a 589,000-unit pace in the fourth quarter, compared to a 545,000-unit pace in the third quarter. That puts single-family starts up at a 36.4 percent annual rate during the fourth quarter. Since the bulk of spending on residential construction takes place one quarter after a start is booked, the recent gains imply that residential construction will add substantially to growth in the first half of the year.

Multifamily starts are much more volatile on a monthly basis, and the recent improvement has largely been driven by apartment development. Multifamily starts declined 24.1 percent in January, following a 34.7 percent rise in December. Once again, December's starts were well above the recent trend in permits, indicating that a payback was overdue. Operating fundamentals in the apartment market remain enormously positive, with strong renter demand cutting national vacancy rates below 5 percent and sending rents higher. Permits for new multifamily homes rose 1.5 percent in January and are up 47.0 percent year over year.

With seasonal factors affecting the headline housing starts numbers in a greater way, a better gauge of the rising contribution that homebuilding is making may likely be gleaned from looking at the number of homes under construction. This series has posted steady, albeit less jarring, month-to-month improvement over the past year. The number of homes under construction rose 1.5 percent in January, following a 2.8 percent rise in December. Both the number of single-family and multifamily homes increased, with single-family rising 0.7 percent and multifamily rising 2.2 percent. On a year over year basis, the number of homes under construction has risen 25.7 percent, with single-family rising 17.8 percent and multifamily rising 35.1 percent.



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