



Economics Group

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Housing Starts Show Recovery Is Still Intact in February

Housing starts rose 0.8 percent to a 917,000-unit pace with upward revisions to previous months' data. Single-family starts rose 0.5 percent and multifamily was up 1.4 percent. Permits also rose in both categories.

Housing Recovery Still Underway

Overall, today's housing report is good, and it is clear the trend in housing is still upward despite monthly volatility. While the winter months tend to include some seasonal noise, the underlying details still show a sustainable housing recovery. Housing starts rose 0.8 percent to a 917,000-unit pace, which was roughly in line with expectations given upward revisions to the previous month. Single-family housing starts rose 0.5 percent to a 618,000-unit pace, which was the fastest rate since June 2008. Moreover, the volatile multifamily component rebounded after tumbling in January, rising 1.4 percent to a 299,000-unit rate in February.

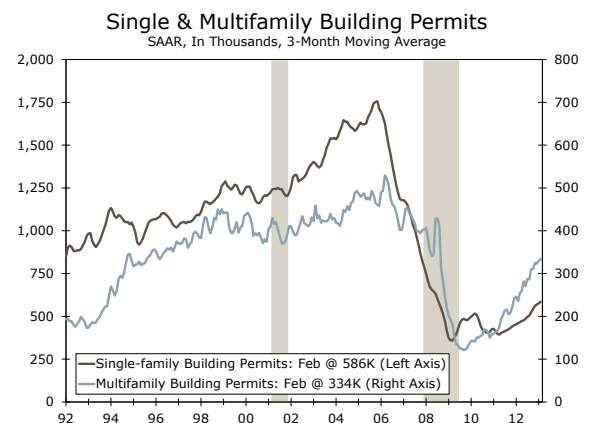
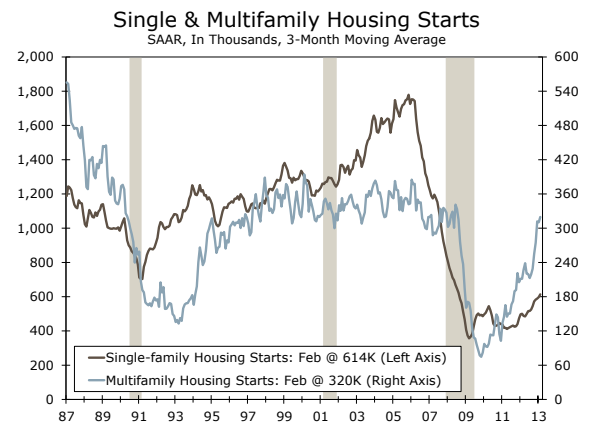
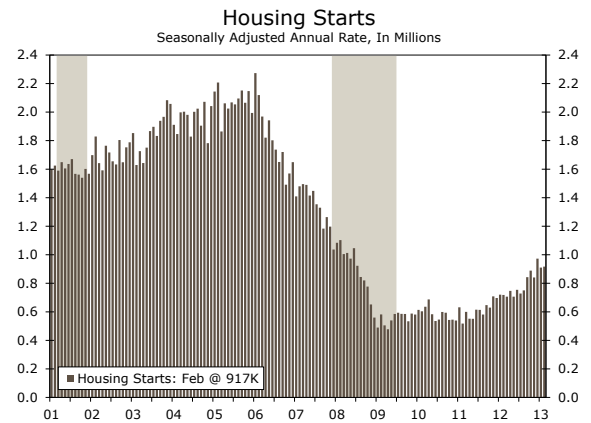
To find another silver lining, one need look no further than building permits. With the level of building permits higher than starts, we expect the coming months will also see a rise in starts. Single-family permits are now up nearly 34 percent on a year-ago basis, further suggesting housing will be a bright spot for the year. Multifamily permits also edged higher and are up a whopping 51.1 percent over the past year. While demand for apartments is showing few signs of abating, construction pipelines are fairly robust in select markets with deliveries expected to pick up in 2013 and 2104.

Which One of These Kids is Doing His Own Thing?

The biggest question mark in the sea of housing data, is the recent back-to-back decline in builder sentiment. According to the Wells Fargo/NAHB Builders' Survey, builder confidence fell in March for the second consecutive month, suggesting something is amiss in the housing recovery. While we remain optimistic about the prospects for the housing recovery, we suspect small builders may be under some pressure as they face difficulty in securing developed lots and new residential development financing remains tight. Moreover, construction material prices have also increased. Other housing market indicators continue to show gains. All price measures continue to improve which should encourage more single-family activity as the labor market continues to strengthen. Regarding sales activity, more investor and cash purchases of single-family homes is helping clear out excess supply in hard hit areas, and more traditional buyers are also entering the market.

The Outlook for Housing Starts

We expect housing starts to increase to a sustainable pace of roughly 990,000-units in 2013 with much of the gains in single-family. With single-family gaining solid footing, multifamily will likely begin to stabilize. We believe the trend toward multifamily housing will continue, but multifamily starts should peak in the next few years. That said, real residential construction spending will likely continue to add to real GDP growth.



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