ECONOMIC UPDATE
REGIONS
April 16, 2014

March Housing Starts: Mixed Signals In March Data Don't Alter Underlying Trends

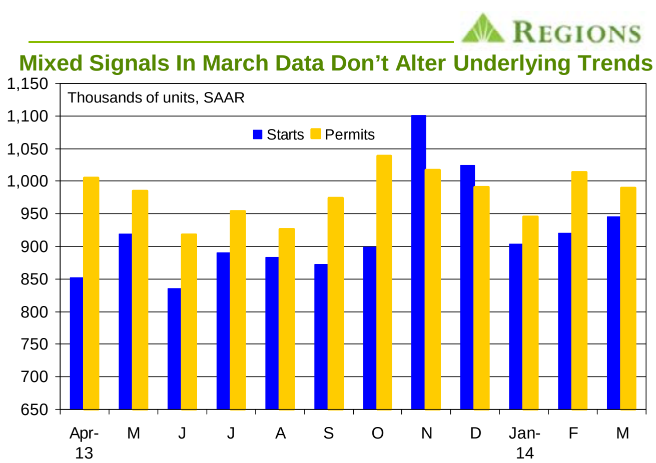
- Total housing starts rose to an annualized rate of 946,000 units; total housing permits rose to an annualized rate of 990,000 units.
- Single family starts rose to 635,000 units while single family permits rose slightly to 592,000 units (annualized rates).
- Multi-family starts fell to 311,000 units and multi-family permits fell to 398,000 units (annualized rates).

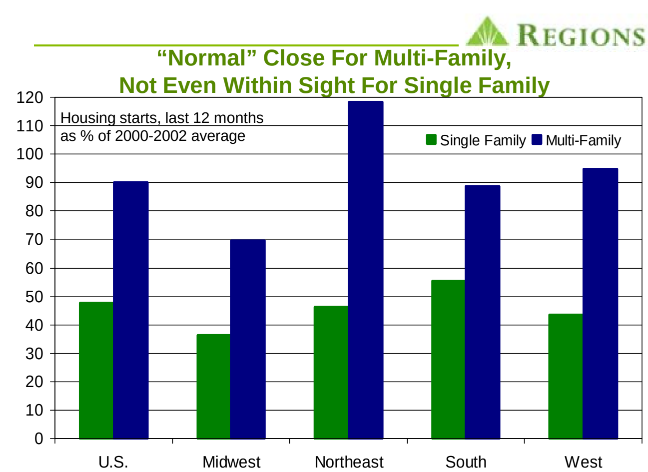
The March report on residential construction is full of mixed messages – total housing starts and permits rose in March, but came in shy of expectations. The single family segment outperformed in March, as both starts and permits rose while multi-family starts and permits fell. Starts were up in the Northeast and Midwest Census regions in March and lower in the South and West regions; permits were higher in the Northeast and Midwest, lower in the South, and unchanged in the West. It is in the Midwest region that the impacts of this winter's unusually harsh weather can best be seen – starts, particularly multi-family, virtually ground to a halt in the Midwest in January and February though permit issuance held up to almost normal rates. This left starts lagging badly behind permits, and while the payback for that began in March there is still a large imbalance between starts and permits in the region, which will support starts over the coming several months.

The relative outperformance of the single family segment in March is contrary to the trends that have prevailed over the course of the housing market recovery, but does not signal the start of a lasting shift in those longer running trends. For instance, multi-family permits fell to an annualized rate of 398,000 units in March from an outsized 425,000 units in February – March's multi-family permit issuance is the third best month over the course of the recovery and with starts running well below permits over the past several months, multi-family starts figure to pick back over coming months.

As to the single family segment, total starts rose to an annualized rate of 635,000 units in March, up significantly from the pace seen over the first two months of the year but to a large extent this payback from weather effects – what is notable here is that single family permits remain below the 600,000 unit rate. For the past few months we have expressed our concerns that the single family segment of the market is not rebounding as we had expected it to this year. We had pegged 2014 as the year in which the recovery in the single family segment would kick into a higher gear but, March's upturn in starts notwithstanding, there is as of yet little evidence to support that view. One factor behind our view was the significant paring down of inventories of distress properties which, when plentiful and selling at steep discounts, made for tough competition for builders of new homes. There are, however, more fundamental forces weighing on single family activity. Builders continue to report shortages of lots, labor, and materials, and tight supplies mean prices of these inputs are elevated, which is posing a new challenge for builders. Builders may have been a bit too aggressive in cashing in on new found pricing power in 2013 and now, with input costs remaining elevated, builders in many cases are offering more generous incentive packages to help offset sticker shock. Unless and until constraints on input supplies, and costs, begin to ease, any rebound in single family construction is likely to remain restrained. Also, higher mortgage interest rates and what remain stringent mortgage lending standards, albeit slightly less so, are also weighing on the single family segment of the housing market.

None of this is to say the single family segment of the market is not recovering, but simply that this is coming at a slower pace than we had anticipated to be the case, and it will bear watching over coming months as to whether or not this pace will pick up. On the whole, however, there is plenty of room to the upside for residential construction. One way to look at this is to compare where we are at – a total of 920,000 starts over the past twelve months – to a "normal" year, which would see roughly 1.5 million new starts. Another way to look at this is in the chart below, which compares starts over the past twelve months to the averages seen over the 2000-2002 period which, to us, represent the last "normal" years seen in the housing market. As is by now clear to anyone following the data, the multi-family segment of the market is far closer to "normal" than the single family segment and, as such, it is the pace of improvement in the single family segment that will be our main focus over the next several months.





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