



Economics Group

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Housing Starts Plummet in February

Housing starts dropped a sizeable 17 percent in February as snowfalls exceeding seasonal norms during the month pulled activity down to its lowest level since January 2014. Multifamily permits were up.

Old Man Winter Takes a Bite Out of Starts

Breaking its five-month string of headline starts above the one-million mark, housing starts plunged a sharp 17 percent in February, marking the largest monthly decline since February 2011. Single-family starts fell almost 15 percent and multifamily starts declined 20.8 percent during the month. The only silver lining in the report was the increase in permits. Housing permits increased 3.0 percent in February, with all of the gain concentrated in multifamily. Multifamily permits were up 18.3 percent in February, while single-family fell for the second consecutive month. Is this the beginning of a troubling trend or just an anomaly due to weather effects?

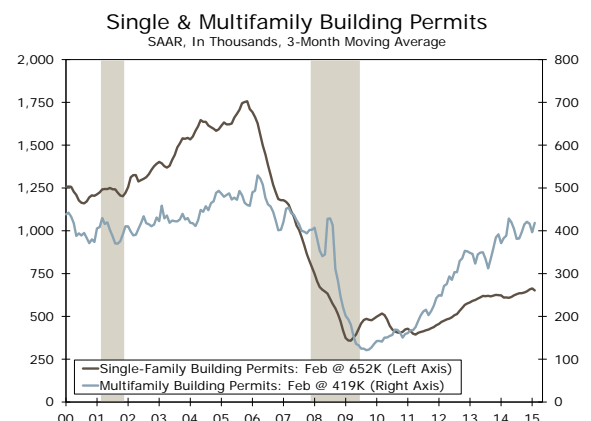
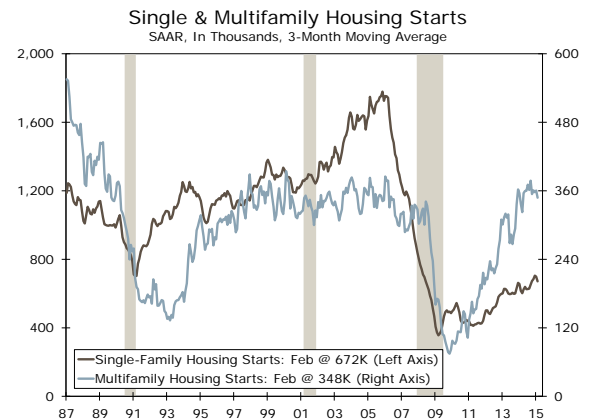
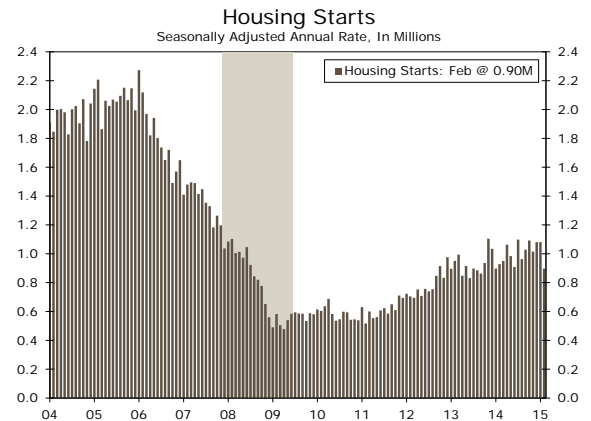
Major Snowstorm Takes a Toll

We suspect that weather played a large role in the significant monthly drop. Looking at starts on a regional basis, we find that activity in the Northeast dropped a whopping 56.5 percent and starts in the Midwest were down a solid 37.0 percent. Based on the Northeast Snowfall Impact Scale (NESIS), which scores snowstorms by the amount of snow and the number of people living in the path of the storm, February had two major storms, of which one (January 29–February 3) was ranked in the top third of all high-impact snowstorms dating back to 1956.

With snowfall exceeding seasonal norms during the month, we expect to see a rebound in coming months. In fact, the level of both single- and multifamily permits are running above the level of starts in February, suggesting some improvement was in store. Strength in multifamily permits remains consistent with still-strong apartment demand. However, the back-to-back declines in single-family permits suggest some weakness is looming. The softer-than-expected reading in the builder sentiment index in March also suggests a second look at single-family construction and sales activity is warranted.

Builders Remain Cautiously Optimistic

Builder sentiment, which tends to be a fairly reliable indicator of housing starts, declined for the third consecutive month in March. According to the NAHB/Wells Fargo Housing Market Index, builder confidence fell two points in March to a level of 53 (readings above 50 indicate that more builders view conditions as “good” than “poor”). In a press release, the organization noted that the decline was due to supply chain issues such as lot and labor shortages and underwriting standards. Weather was also apparent in this report, as the components gauging current and expected sales remained at an elevated level, while prospective buyer traffic dropped to its lowest level since June 2014. Prospective buyer traffic is still the only component in the index that has yet to recover. We suspect that with the spring buying season upon us, we should see a pickup in the coming months.



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