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February Housing Starts

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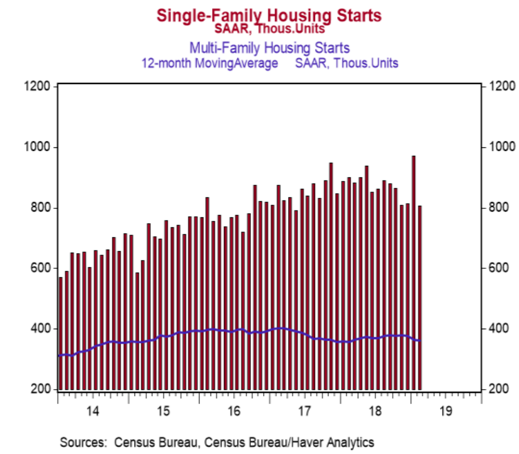
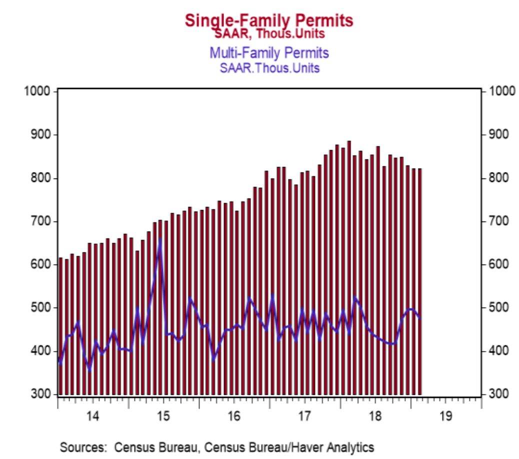
- Housing starts declined 8.7% in February to a 1.162 million annual rate, below the consensus expected 1.210 million. Starts are down 9.9% versus a year ago.
- The decline in starts in February was entirely due to single-family starts. In the past year, single-family starts are down 10.6% while multi-unit starts are down 8.5%.
- Starts in February fell in the Northeast, West and South, but rose in the Midwest.
- New building permits fell 1.6% in February to a 1.296 million annual rate, beating the consensus expected 1.287 million. Compared to a year ago, permits for single-family units are down 7.3% while permits for multi-family homes are up 8.7%.





Implications: Housing starts disappointed in February, falling 8.7% as groundbreaking on single-family units plummeted to its slowest pace since mid-2017. Single-family starts data have been even more volatile than usual over the past two months, rising 19.2% in January followed by a 17.0% drop in February. This mirrored recent activity in single-family completions, where finished projects surged 17.5% in January only to fall 10.0% in February. With relatively normal weather in February, along with falling mortgage rates and wages that are growing faster than new home prices, it's not entirely clear why builders slowed the pace of completions so rapidly. But, as a result of completing fewer homes, it appears workers were kept away from shifting to new projects. Notably, 195,000 homes were authorized but not yet started in February, near the largest amount since 2007. At the same time, the number of units under construction remains near a post-recession high. This points toward builders staying busy in 2019, if they can find the workers. The increasingly tight labor market has made hiring difficult across industries, and construction is no exception, with job openings in that sector remaining elevated. Although housing starts are down 9.9% from a year ago this is largely due to the effects of the unusually strong hurricane season in late 2017, which spurred a surge in building in early 2018. With that in mind, it's not surprising that February 2019 looks weak by year-ago comparison. That said, it is important to note that new construction is only down on a year-over-year basis in the Northeast and West, two regions where housing could be suffering disproportionately from the cap on state and local tax deductions. The forward-looking data in today's report show that permits for new construction fell 1.6% in February, though the drop was entirely due to the volatile multi-family sector. Despite recent softness, our outlook on housing hasn't changed: we anticipate a rising trend in home building in the next few years. Based on fundamentals – population growth and scrappage – the US needs about 1.5 million new housing units per year but hasn't built at that pace since 2006. In other housing news today, home price gains have clearly decelerated. The FHFA index, which measures prices for homes financed with conforming mortgages, increased 0.6% in January, but is up 5.6% from a year ago versus a 7.6% gain in the year ending in January 2018. The national Case-Shiller index rose 0.2% in January and is up 4.3% from a year ago, a slowdown from the 6.3% gain in the year ending in January 2018. Notably, in the past twelve months, the metro area with the fastest price gain is Las Vegas, in the low-tax state of Nevada. Meanwhile, the six metro areas with the slowest price gains are all in high-tax locations: San Diego, San Francisco, Chicago, Los Angeles, New York, and Washington, DC. We expect more of these trends in the year ahead: national average home price gains that are slower than the prior year, and, due to tax reform, a shift away from high tax states toward those with lower taxes. Finally, On the manufacturing front, the Richmond Fed index, which measures mid-Atlantic factory sentiment, fell to a still robust 10 in March from 16 in February. This signals optimism following a brief dip into negative territory in December and January.

Housing Starts *SAAR, thousands*	**Monthly** *% Ch.*	**Feb-19** *Level*	**Jan-19** *Level*	**Dec-18** *Level*	**3-mth** *moving avg*	**6-mth** *moving avg*	**Yr to Yr** *% Change*
Housing Starts	**-8.7%**	1162	1273	1140	1192	1205	-9.9%
Northeast	**-29.5%**	98	139	111	116	115	-25.8%
Midwest	**26.8%**	161	127	137	142	154	4.5%
South	**-6.8%**	663	711	656	677	643	7.8%
West	**-18.9%**	240	296	236	257	293	-38.3%
Single-Unit Starts	**-17.0%**	805	970	814	863	857	-10.6%
Multi-Unit Starts	**17.8%**	357	303	326	329	348	-8.5%
Building Permits	**-1.6%**	1296	1317	1326	1313	1299	-2.0%
Single-Unit Permits	**0.0%**	821	821	829	824	837	-7.3%

Source: U.S. Census Bureau