

MAY HOUSING STARTS

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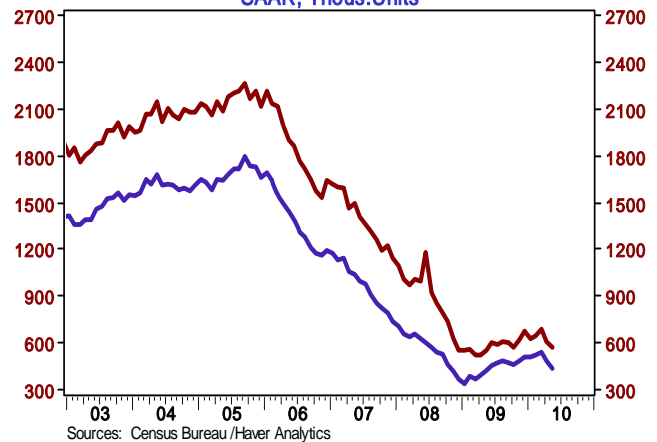
- Housing starts declined 10.0% in May to 593,000 units at an annual rate, well below the consensus expected 648,000 pace. Despite the drop, starts are still up 24.3% versus the cycle low in April 2009.
- Single-family units declined 17.2% in May, but are up 15.3% in the past year. Multi-family starts, which are extremely volatile from month to month, spiked up 33.0% in May, but are down 13.2% versus a year ago.
- All of the decline in May was attributable to the South. Starts also fell in the Northeast, but increased in the Midwest and West.
- New building permits declined 5.9% in May to a 574,000 annual rate, falling well short of the consensus expected pace of 625,000. Still, permits are up 4.4% versus a year ago with permits for single-family units up 3.1%.

Implications: Home building dropped sharply in May, coming in well below where most economists, including us, thought it would. However, we can't help but notice that the drop in the South – to a 288,000 annual rate from a 366,000 rate in April – was larger than the overall national decline. In other words, outside the South, housing starts increased in May. We don't think it's a coincidence that the South is the region most influenced by the BP oil disaster. In addition, the South was hit by major flooding in May. Single-family housing starts in the South dropped 27% in May, a record decline for that region (dating back to 1984). Completions in the South of all kinds of housing units, both single-family and multiple-units structures fell 28%, a record decline (dating back to 1979). We can't help but think that, besides the flooding, the disaster has hit the Gulf region with a sudden bout of risk aversion, similar to a financial panic. If so, we expect a recovery in the months ahead as repair work and clean up shifts resources to new economic "winners," renewing the process of economic growth and a return to the recovery trend in housing starts. More troubling in today's data was the decline in building permits, which occurred whether or not we include the South. We anticipate that this will reverse next month. If not, it could be a sign of credit constraints limiting building. In that situation, home prices would recover more quickly than we anticipate while home building recovers more slowly.

Single Family Housing Starts
SAAR, Thous. Units



Building Permits SAAR, Thous. Units
Single-Family Permits SAAR, Thous. Units



Housing Starts SAAR, thousands	Monthly % Ch.	May-10 Level	Apr-10 Level	Mar-10 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	-10.0%	593	659	634	629	613	7.8%
Northeast	-6.3%	75	80	66	74	71	25.0%
Midwest	4.9%	107	102	93	101	99	35.4%
South	-21.3%	288	366	339	331	319	4.7%
West	10.8%	123	111	136	123	125	-9.6%
Single-Unit Starts	-17.2%	468	565	535	523	515	15.3%
Multi-Unit Starts	33.0%	125	94	99	106	98	-13.2%
Building Permits	-5.9%	574	610	685	623	638	4.4%
Single-Unit Permits	-9.9%	438	486	542	489	503	3.1%

Source: U.S. Census Bureau

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