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June 18, 2019 • 630.517.7756 • www.ftportfolios.com

May Housing Starts

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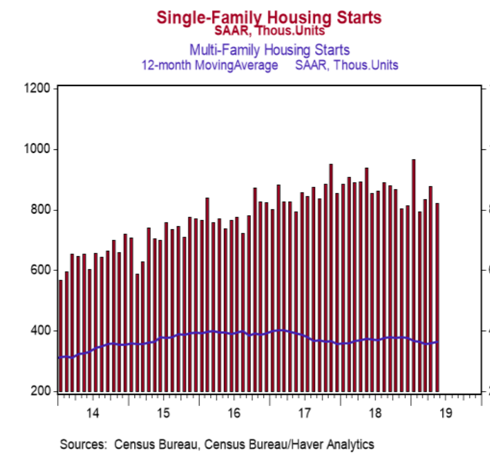
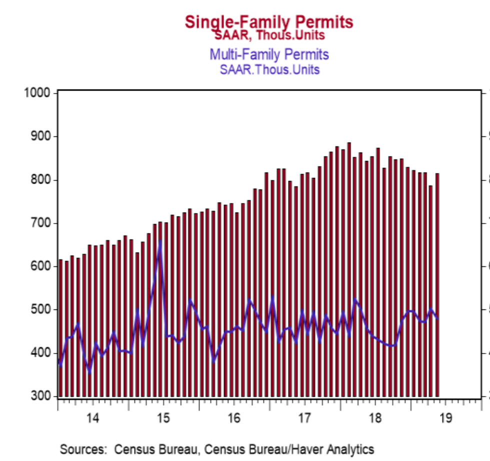
- Housing starts declined 0.9% in May to a 1.269 million annual rate, beating the consensus expected 1.239 million. Starts are down 4.7% versus a year ago.
- The decrease in starts in May was entirely due to single-family starts. In the past year, single-family starts are down 12.5% while multi-unit starts are up 13.7%.
- Starts in May fell in the Northeast, Midwest and West, but rose in the South.
- New building permits rose 0.3% in May to a 1.294 million annual rate, right above the consensus expected 1.292 million. Compared to a year ago, permits for single-family units are down 3.3% while permits for multi-family homes are up 4.6%.





Implications: Housing starts surpassed expectations in May, coming in at a 1.269 million annualized pace and signaling continued signs of life in home building in the second quarter. Yes, today's headline monthly change showed a decline of 0.9%. But this is only because April's reading was revised up to a 1.281 million annualized pace from a prior reading of 1.235 million. After the pace of housing construction falling three quarters in a row, it now looks like a rebound is underway, with Q1 2019 posting an increase of 2.4% over the Q4 2018 average. Barring a major decline in June, Q2 is set to show additional growth as well. This should help alleviate some negative pressure on real GDP, where weak residential construction has been a drag on growth for five consecutive quarters. That said, developers continue to face challenges from the increasingly tight labor market, where job openings in construction remain at a record high. When the National Association of Home Builders recently released their survey of top challenges for builders in 2019, concerns related to the cost and availability of labor were the most prevalent, with 82% of developers surveyed citing them as their biggest challenge in the year ahead. Despite the headwinds from labor, fundamentals for potential buyers have improved markedly over the past several months. Mortgage rates have dropped roughly 90 basis points since the peak late last year, and wages are now growing near their fastest pace in a decade, boosting affordability. Although housing starts are down 4.7% 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. In other words, it's not surprising – or worrying - that recent starts data looks weak in year-ago comparisons. The forward-looking data in today's report show that permits for new construction rose 0.3% in May. Further, the gain was entirely due to single-family permits which rose 3.7%, their first gain of the year. Overall, 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 recent housing news, the NAHB index, which measures homebuilder sentiment, declined to 64 in June from 66 in May. The dip was broadly attributed to concerns over rising costs for housing inputs due to tariffs, but the index is still higher than the annual average from 2006-2016. Finally, the Empire State Index, which measures factory sentiment in the New York region, posted its largest monthly decline on record, falling from 17.8 in May to -8.6 in June. However, the survey that makes up this index was taken right as the Trump Administration threatened tariffs on Mexico which have since been indefinitely suspended. This was probably largely to blame for the sudden collapse in sentiment, and now that the issue has been resolved, we expect a strong rebound in July.

Housing Starts *SAAR, thousands*	**Monthly % Ch.**	**May-19 Level**	**Apr-19 Level**	**Mar-19 Level**	**3-mth moving avg**	**6-mth moving avg**	**Yr to Yr % Change**
Housing Starts	**-0.9%**	1269	1281	1199	1250	1222	-4.7%
Northeast	**-45.5%**	73	134	83	97	106	-32.4%
Midwest	**-8.0%**	160	174	132	155	151	-33.1%
South	**11.2%**	704	633	655	664	668	8.1%
West	**-2.4%**	332	340	329	334	297	-0.6%
Single-Unit Starts	**-6.4%**	820	876	833	843	850	-12.5%
Multi-Unit Starts	**10.9%**	449	405	366	407	372	13.7%
Building Permits	**0.3%**	1294	1290	1288	1291	1301	-0.5%
Single-Unit Permits	**3.7%**	815	786	816	806	814	-3.3%

Source: U.S. Census Bureau