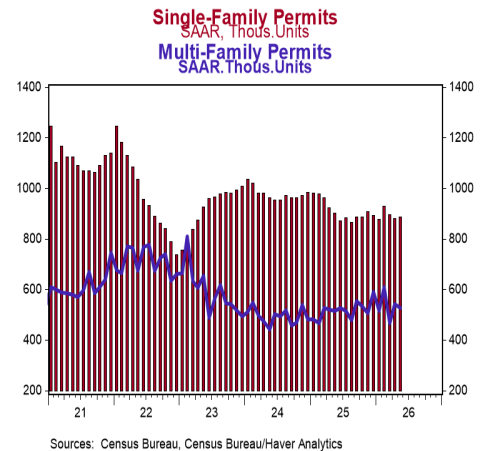
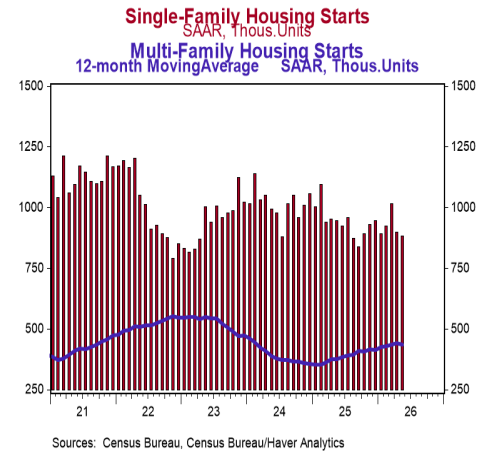


# May Housing Starts

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- Housing starts declined 15.4% in May to a 1.177 million annual rate, widely lagging the consensus expected 1.430 million. Starts are down 8.7% versus a year ago.
- The decline in May was due to both single-family and multi-unit starts. In the past year, single-family starts are down 6.7% while multi-unit starts are down 14.2%.
- Starts in May fell in the South, West, and Northeast but rose in the Midwest.
- New building permits declined 0.7% in May to a 1.413 million annual rate, slightly lagging the consensus expected 1.418 million. Compared to a year ago, permits for single-family homes are down 1.8% while permits for multi-unit homes are up 2.5%.



**Implications:** Homebuilding was abysmal in May with housing starts dropping 15.4%, coming in well short of even the most pessimistic forecast for any Economics group surveyed by Bloomberg. The 1.177 million annual rate in May is the slowest pace outside of the COVID shutdown months since 2019, but does this mean we are on the precipice of another housing bust? Not likely. Housing starts are notoriously volatile from month to month, and occasional wild swings in the data are not uncommon. The bulk of the weakness in May came from the multifamily sector, where starts plunged 40.2%, the third largest decline on record dating back to 1959. By contrast, single-family starts declined just 1.9% and remain close to where they began the year. Permits for new builds ticked 0.7% lower to a 1.413 million annualized rate, slightly below expectations. However, single-family permits rose 0.6%, suggesting little change in the underlying trend. Home completions fell 8.1% in May to a 1.313 million annual rate, though the decline was once again concentrated in the multifamily sector, where completions dropped 18.8%. By comparison, single-family completions declined 1.6%. Completions have outpaced starts for much of the last year, pushing the total number of homes under construction 7.1% lower in the past twelve months. In the early 1990s and mid-2000s, this type of decline was associated with a housing bust and falling home prices. But with the brief exception of COVID, the US has consistently started too few homes almost every year since 2007. So, while multiple headwinds may hold back housing starts, a lack of construction since the last housing bust should keep national average home prices elevated. However, none of this changes the fact that homebuilders continue to face a very challenging environment. Affordability remains the key issue, with 30-year mortgage rates reversing a recent decline and climbing back roughly 50 bps to 6.6% since the onset of the war in Iran, roughly double the levels that prevailed through much of 2021. Hopefully, mortgage rates will now decline as a result of the recent peace agreement. High home prices, restrictive local building regulations, tighter immigration enforcement making it difficult to find or replace workers, and tariffs are also contributing. Given these headwinds, it is no surprise to see the NAHB index (a measure of homebuilding sentiment) dropping to 35 in June from 37 in May, where a reading below 50 signals that a greater number of builders view conditions as poor versus good (now the 26th consecutive month that has been the case.) In other news this morning, import prices increased 1.9% in May while export prices rose 1.3%. In the past year, import prices are up 6.7%, while export prices have risen 11.2%. Expect a reversal soon as oil prices have dropped due to the agreement with Iran.

Housing Starts SAAR, thousands	Monthly % Ch.	May-26 Level	Apr-26 Level	Mar-26 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
<b>Housing Starts</b>	<b>-15.4%</b>	1177	1392	1522	1364	1367	-8.7%
<b>Northeast</b>	<b>-26.8%</b>	123	168	170	154	153	18.3%
<b>Midwest</b>	<b>3.7%</b>	196	189	196	194	187	5.9%
<b>South</b>	<b>-17.0%</b>	594	716	811	707	722	-15.4%
<b>West</b>	<b>-17.2%</b>	264	319	345	309	306	-11.4%
<b>Single-Unit Starts</b>	<b>-1.9%</b>	882	899	1017	933	927	-6.7%
<b>Multi-Unit Starts</b>	<b>-40.2%</b>	295	493	505	431	440	-14.2%
<b>Building Permits</b>	<b>-0.7%</b>	1413	1423	1363	1400	1436	-0.2%
<b>Single-Unit Permits</b>	<b>0.6%</b>	886	881	895	887	894	-1.8%

Source: U.S. Census Bureau