HIGHLIGHTS

• Housing starts went from an annualized 851,000 in November to 954,000 in December. This 12.1% increase follows a 4.3% pullback over the previous month.
• The gain mainly stems from multi-unit housing (+23.1%), but the 8.1% growth posted by single-family homes is still remarkable.
• Gains were fairly widespread geographically, with housing starts up by 21.4% in the Northeast, 24.7% in the Midwest and 18.7% in the West. Growth is a bit weaker in the southern part of the country, at 3.8%.
• For 2012 as a whole, housing starts average 781,400, a 27.6% rise from 2011.
• The increase to building permits was much smaller, at 0.3%. The annualized number of building permits granted went from 900,000 in November to 903,000 in December.

COMMENTS

Housing starts ended 2012 nicely, reaching their highest level since June 2008. Compared with December 2011, this is a 36.9% jump! However, bear in mind that new construction is still very depressed. Housing starts ended 2011 under 700,000 units. Despite the recent growth, housing starts are still pretty far from a normal level of activity, which would be closer to 1,500,000 units. December’s level remains very low compared with the height of the real estate bubble in 2006.

The recent gain by housing starts joins other signs of renewed vitality in the housing market. For some months now, housing prices, home sales (especially existing homes) and homebuilder confidence have all been improving. Note, however, that sales of new single-family dwellings are slow to show stronger growth, which may limit the pace of new construction, sooner or later. In the nearer term, December’s quasi-stagnation by building permits suggests a temporary pullback by housing starts beginning in January.

Implications: The increased number of housing starts is welcome, of course, and the housing market now seems engaged in a sustainable recovery. Residential investment should bring a solid positive contribution to real GDP growth at the end of 2012, as well as throughout 2013.

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