UNITED STATES

Temporary retreat by housing starts

HIGHLIGHTS

• Housing starts went from an annualized 973,000 units in December (revised from 954,000) to 890,000 in January. This 8.5% drop follows the previous month’s 15.7% jump.
• The tumble primarily occurred in multi-unit housing (-26.1%), while housing starts on single-family homes edged up 0.8%.
• Pullbacks come largely from the Northeast (-35.3%) and the Midwest (-50.0%) of the United States.
• Annualized building permits went from 909,000 in December to 925,000 in January, up by 1.8%.

COMMENTS

After ending 2012 like a lion, housing starts are coming in like a lamb, beginning 2013 with the largest monthly drop in nearly two years. These two movements are closely related, however, and January’s retreat must be seen as the direct consequence of December’s staggering increase. This is especially true in examining the regional changes. After rising 70.6% in December, housing starts in Northeastern United States pulled back 35.3%. In the Midwest, housing starts fell 50.0% following a 23.4% gain.

Nationally, housing starts are still well above November’s levels, despite the contraction posted between December and January. It therefore appears that, notwithstanding these monthly blips, housing starts remain on an uptrend. They have grown 86% from their trough in spring 2009. However, January’s level does not even represent 40% of their 2006 peak.

The better performance by building permits in January is a good sign for housing starts in February. The storm that hit the Northeast in early February may have curbed the rise, however.

Implications: The drop in housing starts should only be temporary, as it primarily represents a pullback following the strong increase posted in December. The housing market should continue to trend up and contribute to the U.S. economy’s growth throughout 2013.