HIGHLIGHTS

- Housing starts climbed from an annualized level of 856,000 units in April to 914,000 units in May. This 6.8% increase comes on the heels of a 14.8% drop in the previous month.
- The consumer price index (CPI) ticked up by 0.1% in May after a 0.4% dip in April. Energy prices were up by 0.4%, while food prices declined by 0.1%. After two months of just 0.1% growth, the core index, which excludes food and energy, edged up by 0.2%. The annual variation of the all-items CPI rose from 1.1% to 1.4%. Core inflation held steady at 1.7%.

COMMENTS

After April’s slump, the rally in housing starts failed to meet expectations in May. It was the 0.3% growth in starts of single-family homes that was the most disappointing, since they had tumbled by a total of 8.4% over the two previous months. Given the relatively high number of building permits in April, we had been looking forward to a better number of housing starts, closer to one million units. The 3.1% decline in building permits in May now suggests that growth should again be relatively tepid in June. However, the good performance by the NAHB homebuilders’ confidence index this month is more encouraging; it has reached its highest level since March 2006.

The most recent episode of declining CPI caused by falling gasoline prices is now over. After dropping by 4.4% in March and by 8.1% in April, gasoline prices remained stable in May. Without that negative contribution, the total CPI was able to advance; but that gain was more modest than expected, since food prices dipped slightly. The main contribution comes from the core CPI, which rose by 0.2% after two consecutive upticks of just 0.1%. We note a slight upturn in clothing prices and an increase in the service sector, including housing and transportation.

Implications: May’s upturn in housing starts was disappointing, but we anticipate better numbers later this year. As for prices, total inflation is likely to keep rising in the months to come, now that the sharp decline in gasoline prices is over.