A surprising drop in housing starts

HIGHLIGHTS

• Housing starts have fallen from an annualized figure of 928,000 in May (revised from 914,000) to 836,000 in June. This slump of 9.9% takes housing starts to their lowest level since August 2012.

• The drop comes mainly from multiple-unit dwellings, whose starts have plummeted by 26.7%. Starts of single-family homes have dipped by 0.8%.

• The annualized volume of building permits has declined by 7.5%, from 985,000 to 911,000 units. Building permits for single-family homes edged up by 0.6%.

COMMENTS

The June plunge in housing starts is both startling and disappointing. Neither recent building permit volumes, nor the recent trend in new home sales pointed towards such a shakeout. Moreover, there has been no drop in home-building employment since the fall of 2012.

Clearly, the upwards trend in home-building is pausing for breath. In June, housing starts stood 16.8% below the recent peak of 1,005,000 units reached in March. The 5.1% drop in starts of single-family homes during that same period is also disappointing, but it is the 33.7% nosedive in multiple-unit homes that really hurts. That sector has always been more volatile, but the recent frailty is still worrisome. We should keep in mind, however, that total housing starts are still 10.4% higher than they were a year ago.

The recent rise in mortgage rates notwithstanding, the weakness in housing starts mostly reflects, with some delay, the softness in the NAHB’s homebuilders’ confidence index that was recorded at the beginning of the year. Fortunately, confidence has improved substantially in recent months, including in July. Therefore, it is foreseeable that building permits and housing starts will soon resume their upwards trend.

Implications: The recent developments in housing starts are disappointing, and residential investment will probably contribute less to real GDP growth in the second quarter of 2013 than it did in the previous quarters. Results like these could make the Federal Reserve hesitate before announcing any imminent moderation in its securities purchases.

Francis Généreux
Senior Economist

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1 Desjardins, Economic Studies, Economic Viewpoint, “Do higher bond and mortgage rates pose a threat to the recovery of the U.S. housing market?”.

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Francois Dupuis
Vice-President and Chief Economist

Hélène Bégin
Senior Economist

Benoit P. Durocher
Senior Economist

Francis Généreux
Senior Economist

Yves St-Maurice
Senior Director and Deputy Chief Economist

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