

ECONOMIC NEWS

United States: Production Slips Again, but Housing Starts Soar

HIGHLIGHTS

- ▶ Housing starts jumped 16.9% in December following a 2.6% increase in November. Annualized, the level rose from 1,375,000 to 1,608,000 units, the highest since December 2006. In terms of annual average, housing starts rose from 1,250,000 units in 2018 to 1,298,000 in 2019, a gain of 3.8%.
- ▶ Industrial production declined 0.3% in December following a gain of 0.8% in November. Manufacturing output rose 0.2% and mining output jumped 1.3%. Energy production fell 5.6%, the worst decline in a year. For 2019 (annual average), industrial production rose 0.8% following a 3.9% increase in 2018.

COMMENTS

The years go by and the situation keeps changing for residential construction in the United States. A year ago, the lack of strength in the housing sector was cause for concern. The decline in interest rates in 2019 has given sales and construction some momentum. That said, the magnitude of the bump in December is so strong that a pullback may well occur in the coming months.

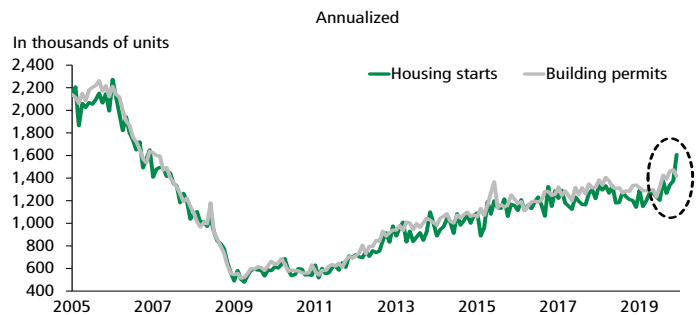
Industrial production remains fragile in the United States, and the decline in manufacturing over the year as a whole (-0.2% on an annual average and -1.3% from December to December) reflects the difficulties due to the trade tensions. The sectors that suffered the most in 2019 include the automotive industry, but also metallurgy, machinery and petrochemicals.

IMPLICATIONS

Residential construction is clearly benefiting from the interest rate cuts. This could be an argument for Federal Reserve leaders keeping key rates at their current levels for some time. They will also want to see manufacturing gain more strength, particularly, with the new trade agreement with China.

GRAPH 1

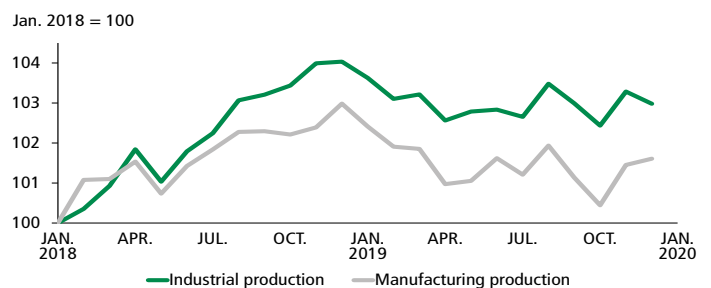
Housing starts post surprising jump in December



Sources: U.S. Census Bureau and Desjardins, Economic Studies

GRAPH 2

Industrial production and manufacturing remain below the levels seen in late 2018



Sources: Federal Reserve Board and Desjardins, Economic Studies

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