Economic News

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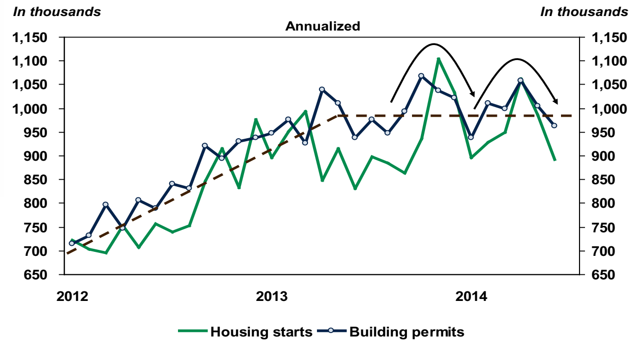
UNITED STATES

Disappointing fall in housing starts

HIGHLIGHTS

- Housing starts were down from an annualized 985,000 units in May to 893,000 in June. This 9.3% drop follows a 7.3% fall in May and an 11.9% advance in April.
- Lower housing starts were seen in both single-family homes (-9.0%) and multi-unit housing (-11.3%).
- The regional disparities in the movement in housing starts are significant. The retreat primarily stems from the southern United States, where housing starts plunged 29.6%. They were up 14.1% in the Northeast, despite a 3.7% decrease in single-family homes. Housing starts jumped 28.1% in the Midwest and rose 2.6% in the West.
- Building permits slipped 4.2% to 963,000 units from 1,005,000.

Residential construction is unable to jumpstart a new period of sustained growth



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

COMMENTS

After the difficult winter, the housing sector is showing increasing signs of recovery. Construction jumped in early spring, and home sales were improving after languishing since last fall. Even the lower housing starts in May do not seem too worrisome, as they come on the heels of an enormous gain of 11.9% in April. June's contraction in new construction was particularly disappointing, however. It cut short recent improvement, and pushed housing starts to their lowest level since September 2013. The backslide for single-family homes is even bigger, forcing us to go back to fall 2012, when hurricane Sandy hit, to see housing starts as low.

Should we give up on the idea of new acceleration in the housing market? No, as many factors suggest that construction will turn around. While still modest, the number of permits granted in June suggests that housing starts will begin to increase in July. Robust job creation, with 1,385,000 jobs created since the beginning of the year, is encouraging and should support household creation, worker mobility and the housing market. Mortgage rates have fallen considerably in recent months, which should boost sales, at least in the short term. Even homebuilder confidence has improved, as July saw the NAHB index return to the levels achieved before last fall's loss of momentum.

Implications: The reduction in housing starts is another disturbance for the springtime rebound in economic growth. With retail sales and industrial production details published earlier this week already triggering some disappointment, it seems that growth in residential investment in the second quarter will also be weaker than initially expected. Real GDP should experience rather robust growth at around 3%, but this barely offsets last winter's 2.9% contraction.

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