Economic News

Desjardins Economic Studies
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UNITED STATES

Housing starts, industrial output and energy prices rebound

HIGHLIGHTS

- Housing starts rose in April, going from an annualized 1,099,000 units in March to 1,178,000, gaining 6.6% on the heels of a 9.4% pullback. The increase in housing starts stems more from multi-unit housing (+10.7%) than single-family dwellings (+3.3%). Building permits advanced 3.6%, going from 1,077,000 units to 1,116,000.
- Industrial output jumped 0.7% in April after tumbling 0.9% in March. Manufacturing production rose 0.3%. Mining activity fell 2.3%, while energy production increased by 5.8%. The industrial capacity utilization rate went from 74.9% to 75.4%.
- The consumer price index (CPI) rose 0.4% in April after March's 0.1% uptick. The acceleration mainly stems from energy prices, which went up 3.4%—the biggest increase since February 2013. Excluding food and energy, the core CPI went up 0.2%. The total CPI's annual change went from 0.9% to 1.1%, while core inflation decelerated slightly from 2.2% to 2.1%.

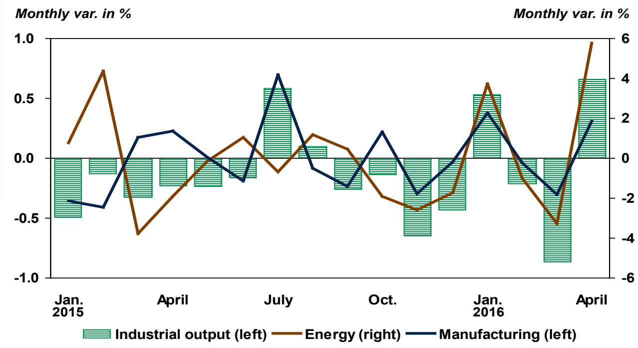
COMMENTS

April's increase in homebuilding is bigger than anticipated. However, it does not offset March's major drop, and housing starts and building permits both remain lower than they were a year ago. Also, April's housing starts seem high compared with the building permits issued, which are more stable. New construction can therefore be expected to drop in May.

Industrial production rebounded more than anticipated. The weakness forecast for the auto sector did not materialize; production even increased 1.3%. Moreover, machinery jumped 2.4%, its first monthly gain since August 2015; this is promising for growth by business investment. The jump in energy production, reflecting the more normal weather after some especially warm months, should also have an impact on April's real consumption of services.

Energy prices' major contribution to CPI growth was foreseeable, so the total index's acceleration comes as no surprise. The consensus had also called for the core CPI's

The increase in industrial production mainly comes from energy suppliers



Sources: Federal Reserve Board and Desjardins, Economic Studies

0.2% uptick. The increase there primarily stems from services, where shelter, transportation and medical services have accelerated. Goods, for their part, ticked down 0.1%, with clothing and auto prices retreating 0.3%.

Implications: The encouraging numbers released today is a nice addition to the recent gains made by retail sales and consumer confidence. Together, these indicators suggest that real GDP growth will rebound in the second quarter. If this wave of better news continues, and hiring performs better after taking a break in April, the Federal Reserve could be tempted to go ahead with a second key rate increase at the June meeting.

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