

ECONOMIC NEWS

United States: It's Housing Starts' Turn to Drop

HIGHLIGHTS

- ▶ Housing starts plunged 30.2% in March after decreasing 18.6% in February. Annualized sales went from 1,567,000 units in February to 1,276,000 in March, then down to only 891,000 in April.
- ▶ April's retreat was mostly from multi-unit housing, where housing starts plunged 40.3%, after dropping 23.7% in March. Single-family housing starts pulled back 25.4% in April, after sliding 15.8% the previous month.
- ▶ The drop in housing starts was more severe in the Western (-43.4%) and Northeast United States (-43.6%) than in the South (-26.0%) and Mid-West (-14.9%).

COMMENTS

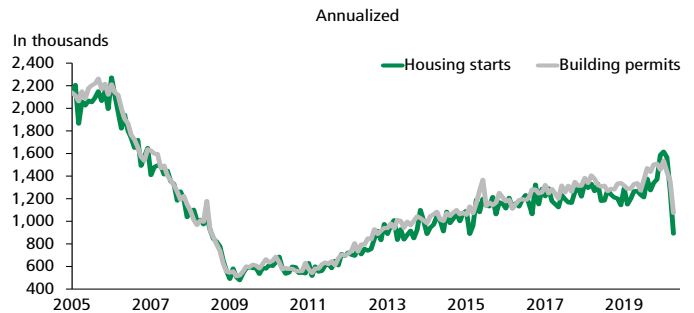
It will have taken the COVID-19 pandemic to end the recent upswing in residential construction. This sector experienced difficulties between 2017 and early 2019, due in part to the increase in mortgage interest rates. The drop in these rates last year had provided a nice boost to activity in the housing sector. Housing starts had begun 2020 with strong growth and levels not seen since the end of 2006.

The magnitude of the drop in residential construction represents the effect of the public health and lockdown measures that have also impacted many other sectors. However, construction was one of the industries that authorities let continue or allowed to reopen early. Nevertheless, the outlook for new unit sales dropped significantly as potential buyers stayed home, as demonstrated by the plunge in homebuilder confidence in April. This index stayed very low in May, which is bad news for a quick recovery in residential construction.

IMPLICATIONS

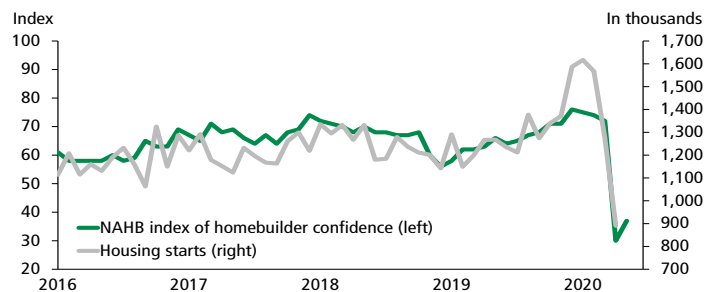
As forecast, housing starts plunged in April. Residential construction was one of the rare sectors whose GDP grew in

GRAPH 1
Housing starts drop to their lowest level since 2015



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

GRAPH 2
Homebuilder confidence stayed low in May



Sources: National Association of Home Builders, U.S. Census Bureau and Desjardins, Economic Studies

the first quarter; it is now clear that this will not be the case in the second quarter. However, low interest rates could eventually enable construction to bounce back significantly, soon or later.

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