



TD Economics

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Data Release: Housing Starts Bounce Back in May

- After retreating briefly last month, housing starts bounced back in May, rising by 6.8% to 914k annualized units. The markets were expecting activity to accelerate to 950K.
- Both single- and multi-family units fared better this month. However, the lion share of the gain was concentrated in the highly volatile multi-family segment, where starts rose by 21.6%. Meanwhile, singles edged up only slightly by 0.3% to 599k units.
- Coming on the heels of an outsized gain in April, construction permits eased off to 974k annualized. This was in line with market expectations, which called for 975k.
- Regionally, starts increased in the South (+17.8%) and West (+5.7%), and fell in the Northeast (-9%) and Midwest (-13.7%).

Key Implications

- After taking a short break in April, growth in housing starts resumed last month. While the headline number came in below market expectations, it continues to head in the right direction. Moreover, even as permits cooled-off slightly in May, the softness was concentrated in the multiples segment, while permit applications for single-family homes rose to the highest level since May 2008.
- Builders' confidence continues to rise in tandem with strengthening demand for new housing. On Monday, the NAHB homebuilders' confidence index surged by 8 points to a reading of 52 – a value above 50 indicates that more builders viewed sales conditions as good rather than poor. This was the first time the balance of opinion moved into positive territory since April 2006, representing an important milestone in the housing market recovery. Both the current and future sales components posted sizeable gains, reflecting renewed optimism among homebuilders about the strengthening demand for housing.
- Despite the recent uptick in mortgage rates, we do not expect activity in residential construction to retreat. While higher rates might temper the pace of re-financing activity, the impact on demand for new housing is likely to be limited, since interest rates still remain near record-low levels, and the pace of residential construction is still below the rate supported by demographic fundamentals. All told, our forecast remains intact as we continue to expect housing starts to come within striking distance of the 1-million mark for the year as a whole.

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