Data Release: Housing construction hits a speed bump in February

- U.S. housing starts came in at 897 thousand annualized units in February, falling well short of market expectations for 1.040 million units. This represents a 17.0% M/M decline relative to the upwardly-revised 1.081 million starts in January (from a 1.065mn initial estimate).
- The decline was across both major segments. Smaller and more volatile multi-family starts declined -20.8% M/M to 304k units, while single-family starts declined by a more moderate -14.9% M/M to 593k units.
- Geographically, starts declined in all four regions. Unsurprisingly, the weather-impacted Northeast (-61k to 47k units) saw the largest decline, while the South saw the smallest fall (-13k to 514k units). Nonetheless, sharp declines were also observed in the Midwest (-57k to 97k units) and the West (-53k to 239k).
- The one silver lining is that building permits actually rose 3.0% M/M to 1.092 million units in February, exceeding market expectations for a rise of only 0.5% M/M. This was the second highest permits total of the post-crisis period and represents the eighth straight month of permits above a million units.

Key Implications

- The headline decline was a definite shocker, even exceeding last year's steep 13% decline in January. Certainly, sharp swings of this sort can occur in winter months. The fact that permits are showing much more stability and in fact moderately rose on the month inclines us to chalk up much of the drop in starts to the weather, with builders putting off new construction until later.
- The drop in starts was partly telegraphed by the last NAHB homebuilder survey. While homebuilders continue to view current and future conditions as quite favorable, the traffic of prospective buyers had been noted as falling considerably. That being said, the relative buying conditions for a new homes are seen as being good by consumers, according to the last Michigan survey, which would suggest greater purchases ahead. Moreover, vacancy rates on rental units are at a 21-year low and the homeowner vacancy rate is back at its 2005 level. This augurs for greater construction as well.
- In light of strong employment growth and pent-up demand, we continue to see a strong case for more robust housing market activity ahead, but evidently headwinds continue to weigh on the market. The poor figures suggest more downside risk for first quarter real GDP growth.

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