



August 16, 2016

TD Economics

Data Release: Housing starts climb to a five-month high in July

- Housing starts increased by 25k units in June to 1,211k (annualized), beating expectations for a modest pullback to 1,180k. However, revisions to the previous two months' of data subtracted modestly (10k) units from the overall tally.
- Most of the increase was concentrated in the multifamily segment (+21k), but the pace of single family homebuilding also rose modestly on the month (+4k).
- Building permits declined by 1k units to 1,152k (annualized), marking the first decline following three consecutive monthly increases. Permitting in the multifamily increased by 26k but this gain was more than offset by a pullback in single family permit applications (-27k).
- Aside for the West (-18k), which retraced some of the gains in the prior two months, the monthly increase was broad-based, with the South (+21k), Northeast (+18k), and Midwest (+4k) all recording moderate to modest gains.

Key Implications

- This morning's report is a healthy one with both starts and permitting activity holding near post-recession highs. Despite expectations for a modest pullback following June's very strong increase, construction activity continued to grind higher in July, corroborating our view that homebuilding in America is on a modestly upward trajectory, with the pace of housing starts well above both the 6-month (1,168k) and the 12-month (1,155k) moving averages.
- Permitting activity was little changed on the month with the decline in single family permitting was the one fly in the ointment, given its decline to the lowest level since September 2015. Nonetheless, the near- to medium-term homebuilding outlook remains favorable and is supported by yesterday's rebound in the NAHB's housing market index, which rose back up to a seasonally adjusted level of 60 in July after a modest decline in the previous month.
- Continued recovery in housing will be supported by historically low mortgage rates coupled with a firming labor market that has begun to spur on wage gains for workers. As such, we expect housing to remain a key support for the ongoing U.S. economic recovery which we view as resilient.

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