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TD Economics

Data Release: Housing starts beat expectations at the start of the year

- The pace of homebuilding moderated slightly in January, falling by 33k units to 1,246k (annualized). But, this came on top of significant upward revisions of 100k in the prior two months, with January's pace still exceeding market expectations for a 1,226k print.
- The monthly decline was related to the volatile multifamily segment, which saw construction pull back (-48k), while the pace of single-family construction improved by 15k on the month.
- Building permits also beat market expectations for a 1,230k print, rising by 57k to 1,285k. The improvement was concentrated in the multifamily segment (+79k), while permitting activity for single-family homes fell 22k on the month – albeit coming off five consecutive gains.
- The monthly decline in homebuilding was concentrated in the West (-158k) and Midwest (-41k). Meanwhile, the pace of homebuilding improved in the South (+115k) and Northeast (+51k).

Key Implications

- Despite the slower pace of homebuilding in January, this is still a very healthy report. Upward revisions to the prior two months suggest that homebuilding has been moving at a much faster pace than previously thought, with a warmer than usual November/December likely pulling forward some activity from January. Moreover, the healthy permitting activity across both the single and multifamily segments suggests continued progress in the pace of homebuilding in the coming months.
- The recent rise in mortgage rates has likely fueled some uptick in sales activity but does pose some downside risk for homebuilding. Still, solid fundamentals, including continued employment, wage gains, and rising household wealth – which are all encouraging more household formation – will help keep housing demand on a moderately positive course. This sentiment is also shared by builders, with the NAHB housing market index holding near its highest levels in more than a decade.
- Demand for new housing should also be supported by price pressures in the existing home market. However, supply side constraints, including land and labor shortages, will likely see only gradual uptick in new construction in the coming quarters. As such, residential investment should continue to provide a modest support to economic growth over the course of the year.

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