April 18, 2017

TD Economics

Data Release: Homebuilders lose momentum in March

- After two solid months of homebuilding activity (supported by unseasonably warm weather to start the year), housing starts lost momentum in March. Starts fell to 1215k units from an upwardly revised 1303k in February, disappointing market expectations that had predicted a 1250k stamp for the month.

- Both single-family and multifamily building retrenched in March from upwardly revised February readings. The single-family building segment contracted by 54k units to 821k while the volatile multifamily segment fell by 34k units to 394k. Weak permitting activity for multifamily units in February predicated a decline in the sector, but the weakness in single-family starts is more likely a consequence of colder weather as permits advanced in February.

- Building permits surprised to the upside, up 44k to 1260k but the increase was a result of the volatile multifamily segment that posted a 53k gain to total 437k for the month. The single-family segment saw permits fall by 9k to tally up to 823k on the month.

- The sole region to post an increase in activity was the Northeast (+15k), while homebuilding activity fell strongly in the West (-54k), coming off of a strong reading from the prior month. The South (-19k) and the Midwest (-30k) also posted subpar readings that likely reflect a return to cooler temperatures.

Key Implications

- The upward revisions to February's housing starts make today's decline easier to stomach, especially following a strong start to the year amid warmer weather. The single-family segment of the market, which is a better indicator of economic activity, is still hovering around its cyclical high reached in the previous month. This strength is a consequence of healthy demand, supported by rising incomes as the labor market gains traction. The slight pullback in activity in today's report is likely to be recouped as the weather turns warmer, bolstered by persistently strong job gains.

- Builders will continue to be enticed by strong home price growth, helped by low inventory levels. Despite a dip in the NAHB's Housing Market Index for April to 68, it remains within the range of pre-recession highs, indicating renewed interest in home building even as interest rates rise. This is also reflected in the rise in permits for the month that should lead to a healthier April reading.

- Rising long-term interest rates will likely put a cap on housing demand, with the Fed on track to raise rates twice more this year. Still, rising income and job gains should provide an offset. Taken with the strong start to the year, today's report supports our view that the housing market will remain an important contributor to economic growth.

Katherine Judge, Economic Analyst
416-307-9484

@TD_Economics