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TD Economics

Data Release: Housing starts continue their descent in May

- Homebuilding took a nosedive in May, marking a third consecutive monthly decline and erasing the gains made at the start of the year. Starts fell 64k to 1092k in May from a downwardly revised 1156k print for April. The number was below market expectations that anticipated a 1220k pace of starts.
- Single-family homebuilding posted a 32k decline on the month, with the multi-family segment down by the same amount. This performance will be detrimental to growth in Q2 with residential investment expected to be a modest drag on activity during the quarter.
- Building permits also came in well below expectations, falling to 1168k in May, while markets had anticipated a 1249k print. This month, the volatile multi-family segment accounted for the majority of the decline, while the single-family segment subtracted a more modest 15k from building intentions relative to April.
- Activity in the South has been consistently weak, and this region accounted for the majority of the decline, falling by 51k in May. The Midwest weighed (-17k) but declined from a stellar reading last month. The Northeast maintained its pace of building from April at 87k, while the West posted a meagre 4k increase in builds.

Key Implications

- Housing has been a key contributor to growth during the recovery, but after a strong start to the year the robust performance will not be repeated this quarter. Rising mortgage rates and new home prices have weighed on affordability even as the labor market gains traction. Moreover, the weakness in permit activity offers no consolation, suggesting that a quick bounceback is not in the cards.
- Builders have faced challenging conditions related to a shrinking pool of labor, land availability, and rising material prices – including wood – which have resulted in rising new home prices. Many of these will continue to weigh on the sector, but some rebound later this year should materialize as demand for homes rises. In particular, we expect the building of single-family homes to pick up in the coming months, allowing housing to contribute to growth later this year. Overall, builders remain optimistic, with the June NAHB survey reporting a healthy level of confidence.
- This report adds to the string of disappointing releases in recent weeks. Still, despite the modest drag from residential investment this quarter, we expect economic growth to clock in at just over 3%.

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