



Daily Economic Update

May 16, 2017

US housing starts unexpectedly declined in April following a strong Q1

Our Take:

The US economy's disappointing start to the year (Q1 GDP +0.7%) was despite the best efforts of the residential sector, which contributed 1/2 percentage point to growth in the quarter—one of the better adds of the post-recession housing recovery. The unexpected pullback in April's housing starts seems to indicate some of that strength was due to activity being brought forward amid unseasonably mild temperatures earlier this year. As such, we don't expect residential investment can keep up the double-digit gains recorded in Q1, but we look for housing to continue to make a positive contribution to GDP growth going forward. Strong labour markets, rising confidence, improving household balance sheets, accommodative financial conditions and limited supply in the existing home sales market all argue for further recovery in homebuilding activity. Healthy permit issuance and strong homebuilders' confidence also point to recent strength being maintained. The latter improved in May, with no signs of an impact on sentiment from rising costs related to recently-announced duties on Canadian softwood lumber, which the NAHB estimates could add close to \$3600 to the price of a home in the US.

Highlights:

- Housing starts fell to 1,172k annualized units in April from 1,203k in March, well short of market expectations for an increase to 1,260k.
- Single unit starts edged higher while the more volatile multi-unit component declined for a fourth consecutive month.
- Building permits also declined in April but remained solidly above starts at 1,229k annualized units.
- With permit issuance outpacing starts over the last six months there is scope for a near-term rebound in housing starts.
- Today's data is consistent with our monitoring for residential investment to rise at a more moderate 3.6% annualized pace in Q2 following Q1's outsized 13.7% gain.

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