

Datanote: US Housing Starts, May

In one line: Residential investment likely to plunge in Q2.

- Housing starts dropped to 1,277K in May, from 1,352K, below the consensus, 1,370K.

- Building permits fell sharply too, to 1,386K from 1,440K, also below the consensus, 1,450K.

The sharp falls in total housing starts

and building permits are surprising; they take both series to their lowest levels since June 2020. The declines were quite evenly spread between the single-family and multi-family sectors. The starts numbers are more sensitive to weather conditions, and May was slightly wetter than normal, with a larger-than-usual number of storms, which may have dented starts at the margin. But that fails to explain the significant drop in building permits, which are much less volatile and less heavily influenced by the weather.

We think today's numbers point to a genuine softening in residential construction in Q2, reflecting the rebound in long-term interest rates and weak housing demand. Even if June housing starts reverse the May drop, they would still fall at an annualized rate of about 20% in Q2.

Construction in the multi-family sector fell sharply throughout 2023, as the boom driven by surging rental growth during the pandemic came to an end. Given that rental growth has

now normalized we suspect that both permits and starts in the multi-family sector probably have bottomed out, and will trend sideways from here. The volatility in the numbers means we can't rule out a better month for the single-family sector in June. Still, the near-term outlook appears dim, because new home sales have faltered in recent months and feeble mortgage demand points to additional declines. Moreover, inventory of new homes for sale is now relatively high, reducing the need to build. Lower rates will help

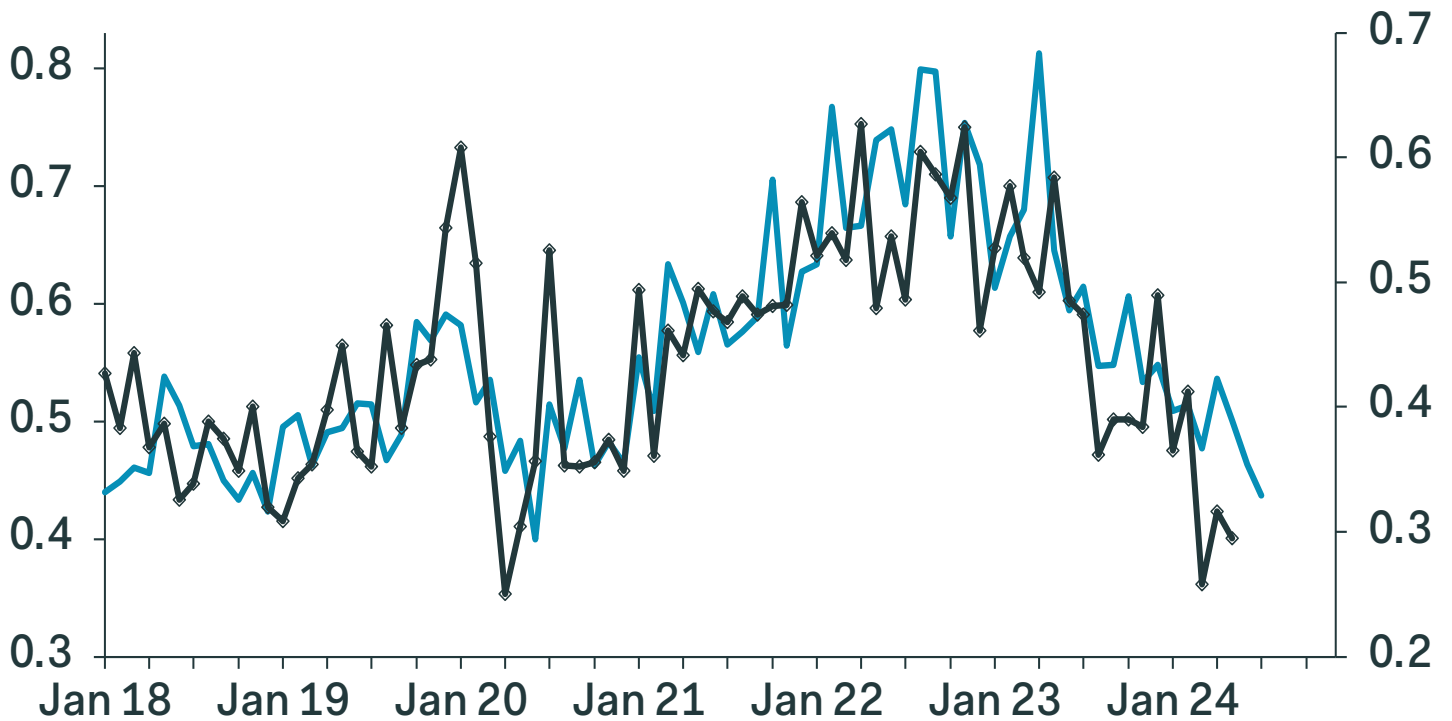
sales eventually, but we expect them to be accompanied by a weaker labor market and a rising unemployment rate, thinning the ranks of potential homebuyers. With that in mind, we expect residential investment to stagnate at best for a while yet.



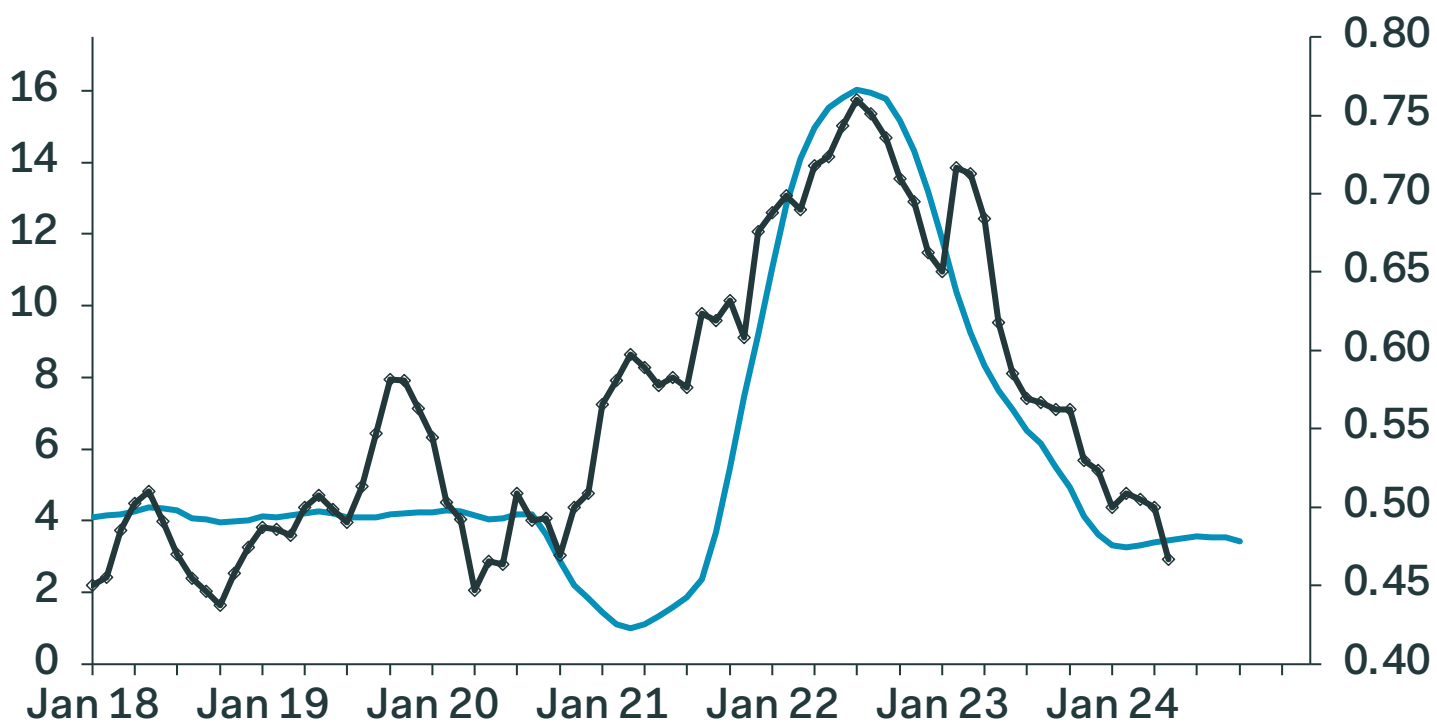
— Single-family building permits, millions, advanced one month (Left)
 —◆ Single-family housing starts, millions (Right)



— Multi-family building permits, millions, advanced two months (Left)
 —◆ Multi-family housing starts, millions (Right)



- Zillow observed rent index, y/y%, advanced five months (Left)
- Multi-family building permits, millions, three-month average (Right)



- New home sales, thousands, advanced one month (Left)
- Single-family building permits, millions (Right)

