

## US JANUARY HOUSING STARTS ACCELERATE DESPITE BAD WEATHER

*\*U.S. housing starts accelerated in January by a robust 10% to an annualized 1,326k despite the inclement winter weather (Chart 1)*

*\*The strong gain was driven by the volatile multifamily sector (449k from 363k), so this level of starts is unsustainable in the near term. Yet single-family starts also increased, suggesting that home ownership rates will continue to rise as the housing sector transitions to more solid ground*

*\*Building permits increased 7% to an annualized 1,396k, the best pace in this **recovery, reflecting builders' bullish perception of future housing demand (Chart 2)***

With building permits continuing to outpace starts, the number of housing units authorized but not yet started increased again in January (Chart 3). We expect home builders to make up for this backlog in coming months as conditions permit. Weather conditions have been relatively mild since late January, thus likely enabling more projects to proceed.

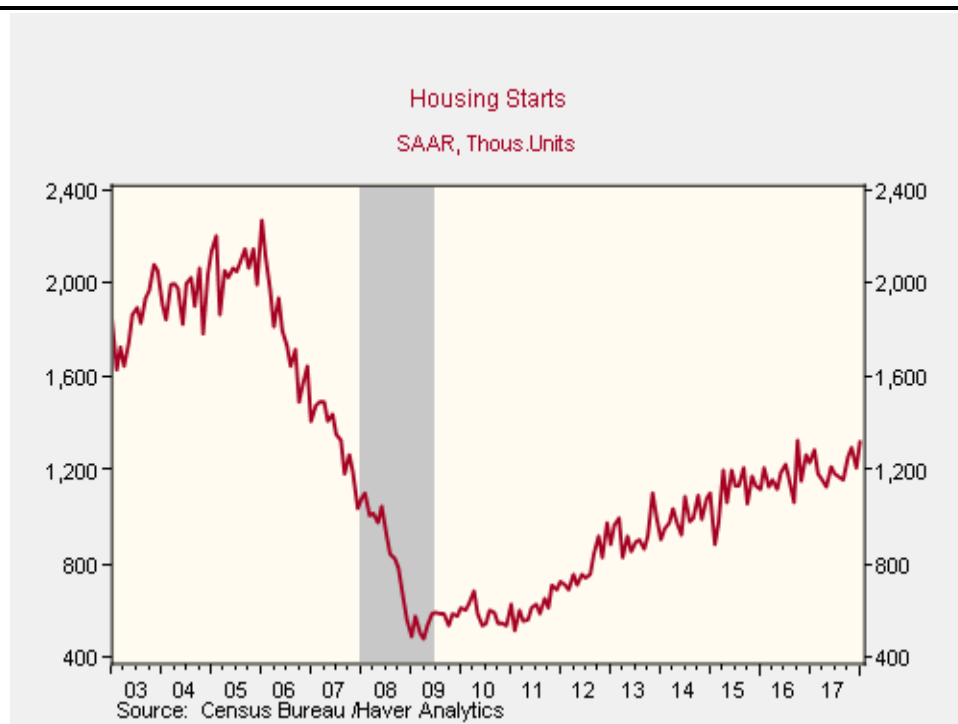
We do not expect the ~50 basis point jump in mortgage interest rates over the last month to derail the housing market recovery. **During “Taper Tantrum” in 2013, housing starts, and sales of new and existing homes, jumped initially as buyers locked in mortgage rates, but then activity soured in subsequent months (Chart 4). We may be seeing a similar trend now.** The fundamentals underlying housing demand are in the best shape of the recovery —rising employment and a very low unemployment rate, rising incomes, and elevated net worth. Pent-up demand is high and there is a chronic shortage of for-sale homes, so any disruption from the recent increases in interest rates should be shorter and smaller in magnitude than the Taper Tantrum, especially considering the low level of mortgage rates.

Home builders appear unfazed by the recent financial market turbulence as the National Association of Home Builders Housing Market Index remained unchanged at an elevated level in February. Home builder sentiment has been running well above starts in recent years, so while this index is not a reliable predictor of future starts, it suggests a continued upward trajectory (Chart 5).

We expect strong sustained housing demand. The rate of household formation accelerated in Q4 and will continue to be supported by favorable demographics — sizable increases in the 25-34 and over-55 age cohorts (Chart 6). We estimate that 1.5-1.8mn housing starts are needed each year to meet demand, but residential **construction has been insufficient (see “[US housing market: plenty of room for improvement](#)[[eqr.berenberg.de](#)], June 26, 2017).** Housing has more room to grow, but given that it is a weather/interest rate/price sensitive sector, the recovery will be choppy.

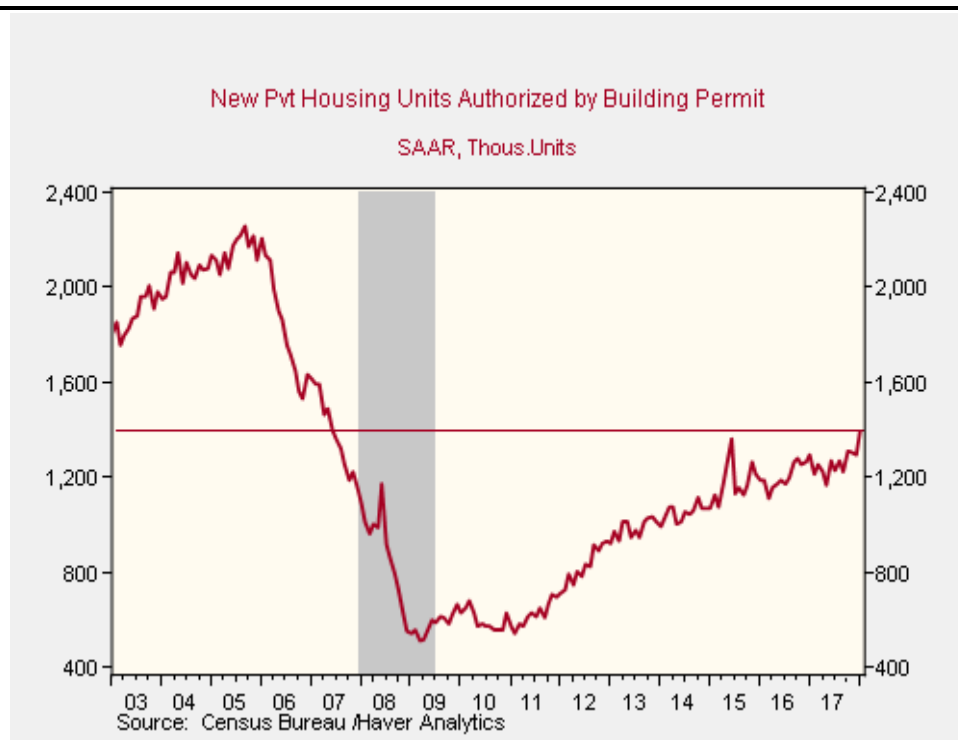
16 February 2018

Chart 1: Total Housing Starts



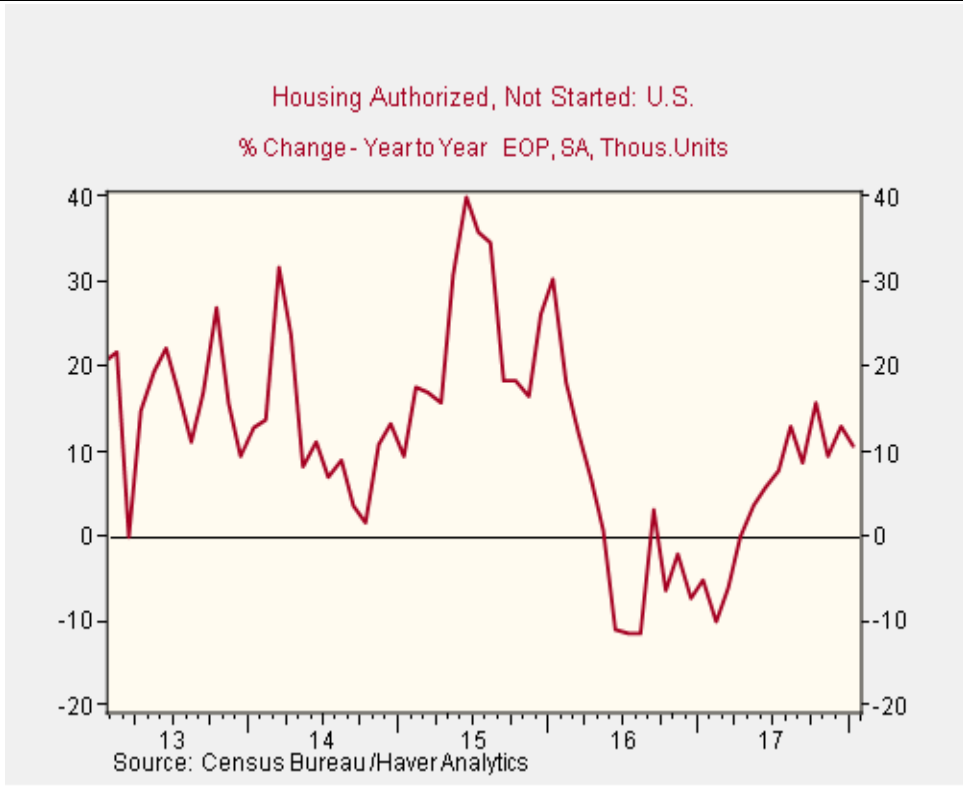
Source: Monthly data. Source: Census Bureau and Haver Analytics

Chart 2: Building Permits



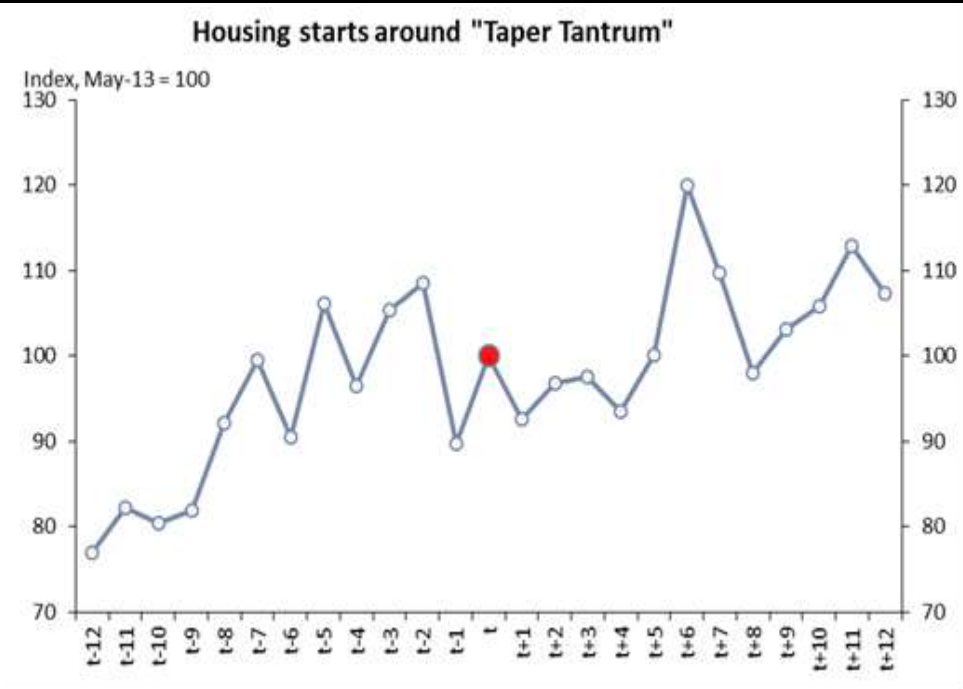
Source: Monthly data. Source: Census Bureau and Haver Analytics

Chart 3: Housing Units Authorized but Not Started (year-over-year, %)



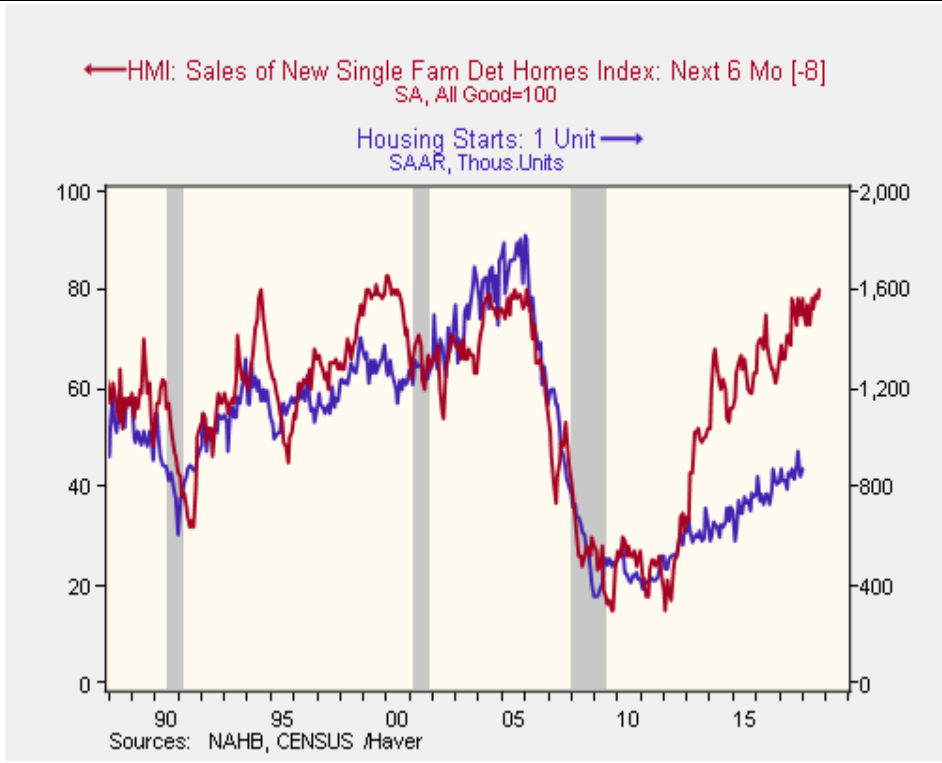
Source: Monthly data. Source: Census Bureau and Haver Analytics

Chart 4: Housing Starts Around "Taper Tantrum"



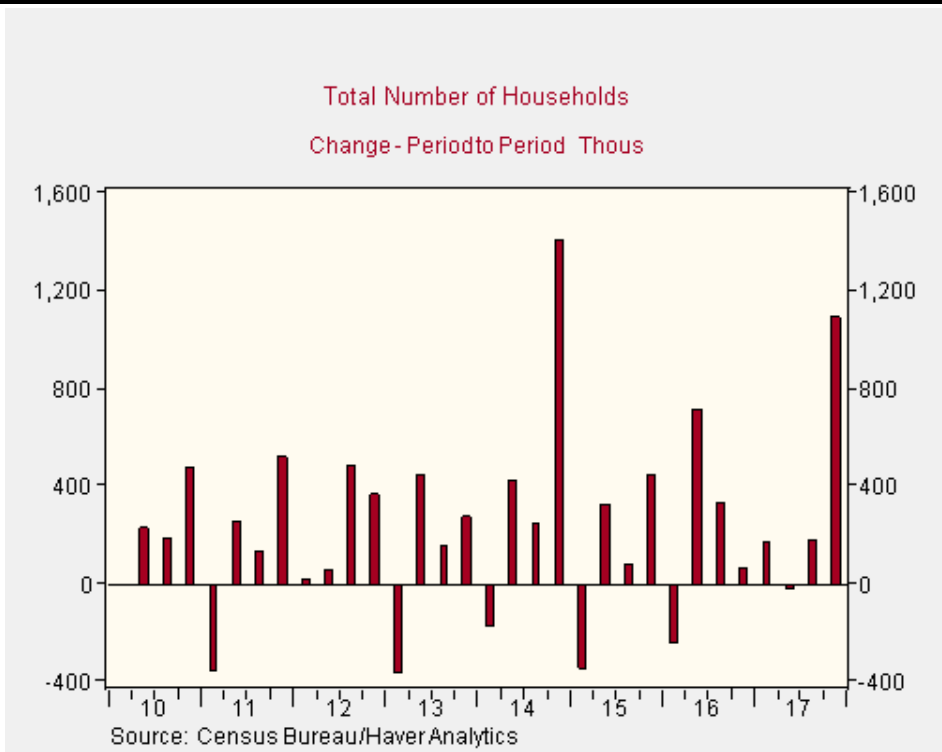
Source: Monthly data. Source: Census Bureau and Berenberg Capital Markets

Chart 5: Home Builders' Expectations for Sales Six Months Ahead and Single-Family Housing Starts



Source: Monthly data. Source: National Association of Home Builders, Census Bureau and Haver Analytics

Chart 6: Household Formation



Source: Quarterly data. Source: Census Bureau and Haver Analytics

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