

US: HOUSING STARTS HIT SOFT PATCH IN AUGUST

**US housing starts declined more than expected in August*

**This is likely a weather story, as starts gained in all regions except the South where Louisiana was impacted by serious floods*

**Though starts may not provide a boost to growth in the near-term, fundamentals point to a gradual recovery in coming quarters*

US housing starts declined by 5.8% m/m to an annualized 1142k (Consensus: 1190k) in August (+0.9% yr/yr). The weaker-than-expected housing starts in August is likely a weather story, as starts gained in all regions except the South (-14.8%) where Louisiana was impacted by serious floods. (Note that starts in the South account for around 50% of total starts, so swings in activity there greatly affect the overall number (see Chart 1).) Therefore, expect to see a bounce back in starts in coming months – all of the rebound may not occur in September.

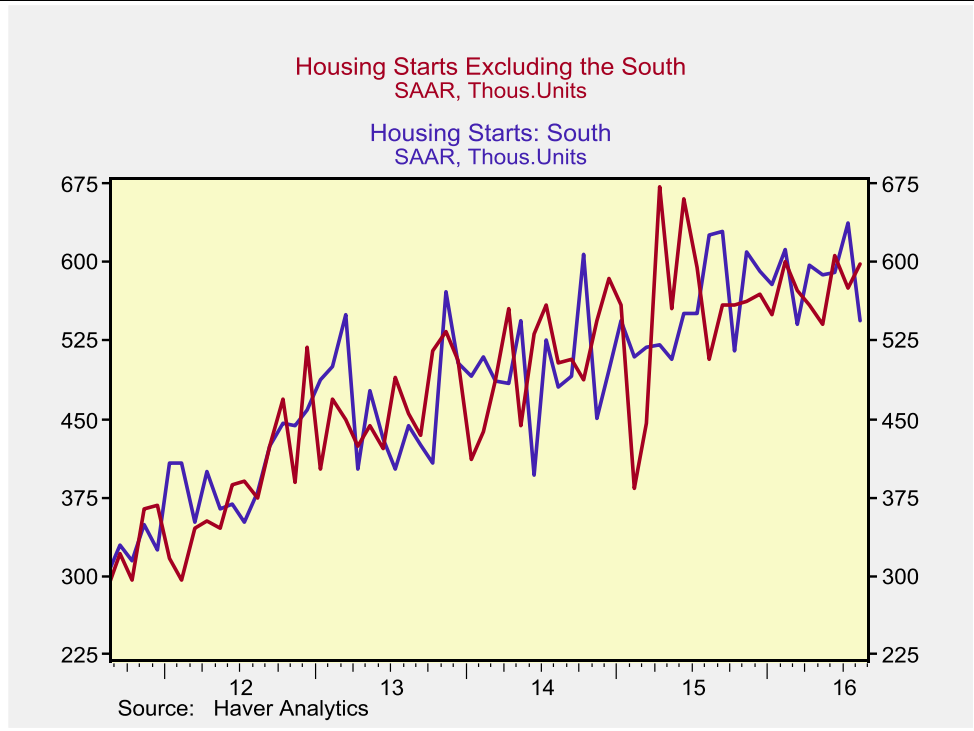
New residential projects were pulled forward to the start of the year due to the warmer-than-usual winter, so construction spending since Q2 has been less favorable compared to the Q1 baseline. Moreover, the drop-off in starts in the South in August will also weigh on residential construction outlays this quarter, making it unlikely to provide a boost to Q3 GDP growth.

Fundamentals support a reacceleration in residential investment in coming quarters, especially amid better homebuilder sentiment. The National Association of Home Builders (NAHB) housing market index for September rose by 6pts to 65 – highest since October 2015 – and one of the biggest monthly gains on record (see Chart 2).

The housing market recovery is not going to follow a straight line, but there is still room for improvement. Housing starts are still well below pre-recession peak of over 2000k – although starts are not expected to return to that level in the medium term – and are still below equilibrium of 1500k. Demand for new construction remains robust – and should continue to be robust – due to favorable demographics, pent-up demand, and importantly, a short supply of existing homes available for sale. The outlook on housing remains constructive in coming years.

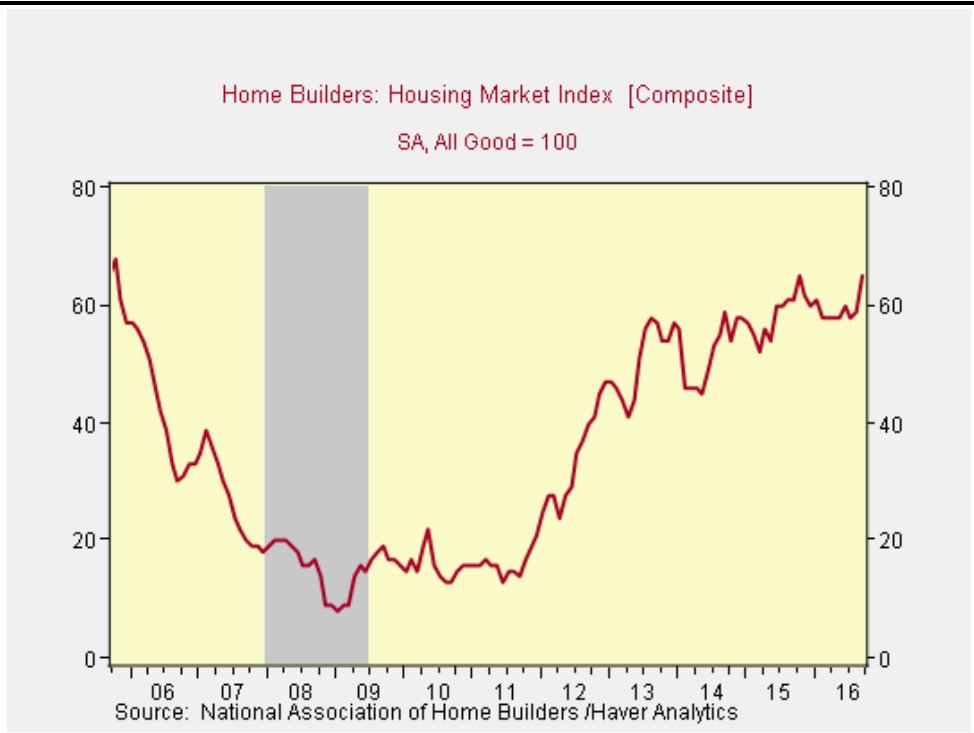
20 September 2016

Chart 1: Housing starts: total excluding the south and the south



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

Chart 2: National Association of Home Builders' Housing Market Index



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

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