

SOLID Q1 FOR US RESIDENTIAL CONSTRUCTION AND MANUFACTURING PRODUCTION

The headline GDP number will be unflattering in Q1, due to temporary factors holding back private consumption and possibly the statistical quiriness that has held down reported Q1 growth. This masks the solid improvement in both housing and business fixed investment which underperformed significantly in prior quarters – a welcomed support to private consumption that was the only real driver of growth in 2016. The data received today provide further support of these recent trends.

Housing Starts

US housing starts declined to an annualized 1.22mn in March from 1.3mn in February, bringing the average for Q1 housing starts to 1.25mn, up 9% from Q1 2016 (see Chart 1). An unseasonably warm winter probably led builders to pull forward some spring projects to Q1, which could slow the pace of activity in the spring. Nevertheless, the demand for new housing is very high, due to a serious shortage of for-sale homes which has declined for almost two years (see Chart 2).

Building permits continued to increase in March, with single-family permits, which gauge underlying demand for housing remaining relatively elevated (exceeding 800k for the first time in recovery during each of the last four months). Moreover, there has been a tick up in single-family housing units that have been authorized but on which construction has not yet started, pointing to likely increased activity in coming months to clear some backlog (see Chart 3).

Fundamentals continue to remain very supportive for housing, which has registered subpar performance relative to other sector since the crisis:

- 1) Mortgage rates have returned below 4% after surging post-elections, incomes are improving and labor market performance remains solid, all pointing to favorable affordability for potential buyers
- 2) Demographics are favorable for new construction, with large gains in the populations of the 25-34 age cohort that require housing for the first time **and the “Baby boomer” cohort that may need to transition into smaller homes**
- 3) Rally in equity prices has increased net worth for households and could make it easier for households to buy for the first time or transition into new homes

Industrial Production

Total industrial production increased by a strong 0.5% m/m in March, boosted by the 8.6% m/m jump in utilities production as March was not as warm as February and January, and thus required more heating services relative to those months. Note that the surge in utilities production in March is positive for the services component of private consumption in GDP. Elsewhere, factory production was not as strong.

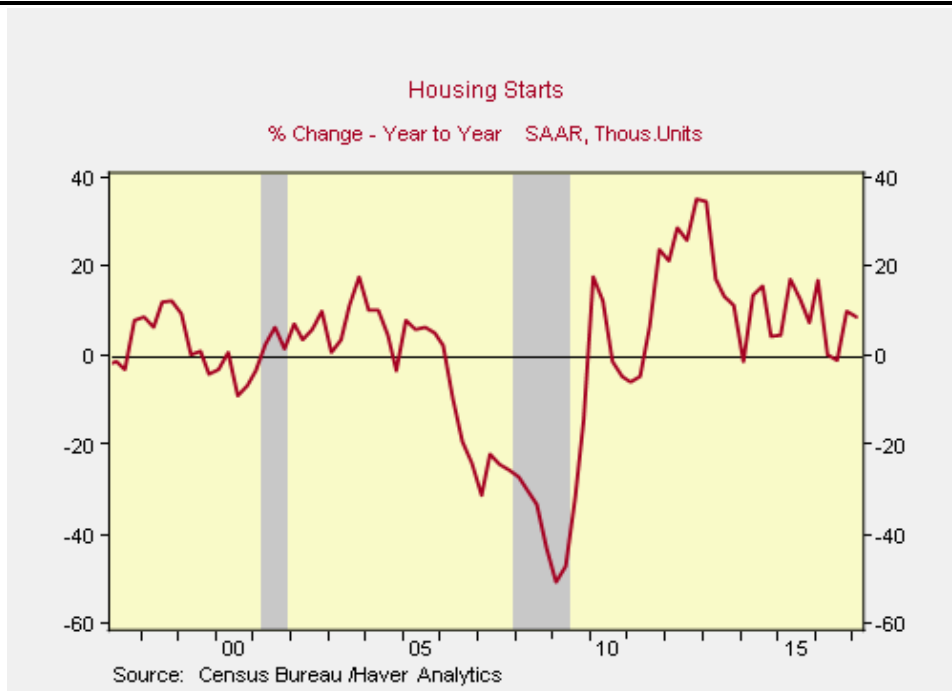
Motor vehicle production fell by a sharp 3% in March m/m, likely due to automakers reducing inventory levels which have become too high relative to demand. Auto production seems to have peaked late last year (see Chart 4).

Motor vehicle production excluding motor vehicles, which tracks underlying

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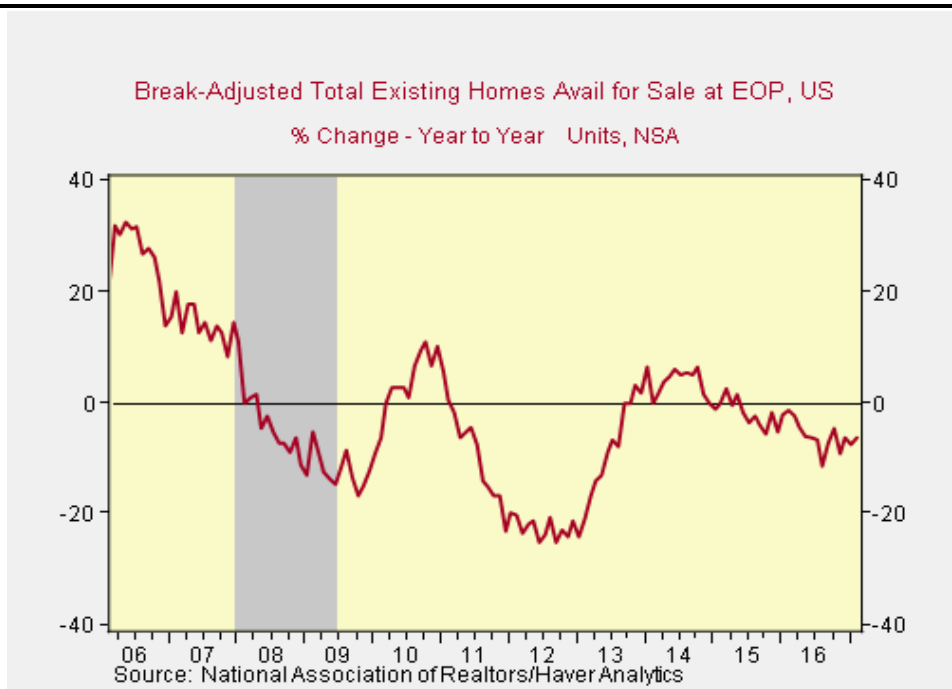
manufacturing demand - fell by 0.2% m/m, breaking a six month streak of gains. A streak of that duration is unusual, so a correction was probably due. Moreover, for Q1, manufacturing production excluding motor vehicles was up by an annualized 3.2%, the strongest quarterly gain since Q2 2014, and provides a strong indication that after years of industrial activity being hindered by low oil prices, a strong dollar, and sluggish global growth, the tide in the sector has finally turned (see Chart 5).

Chart 1: Housing Starts (year-over-year)



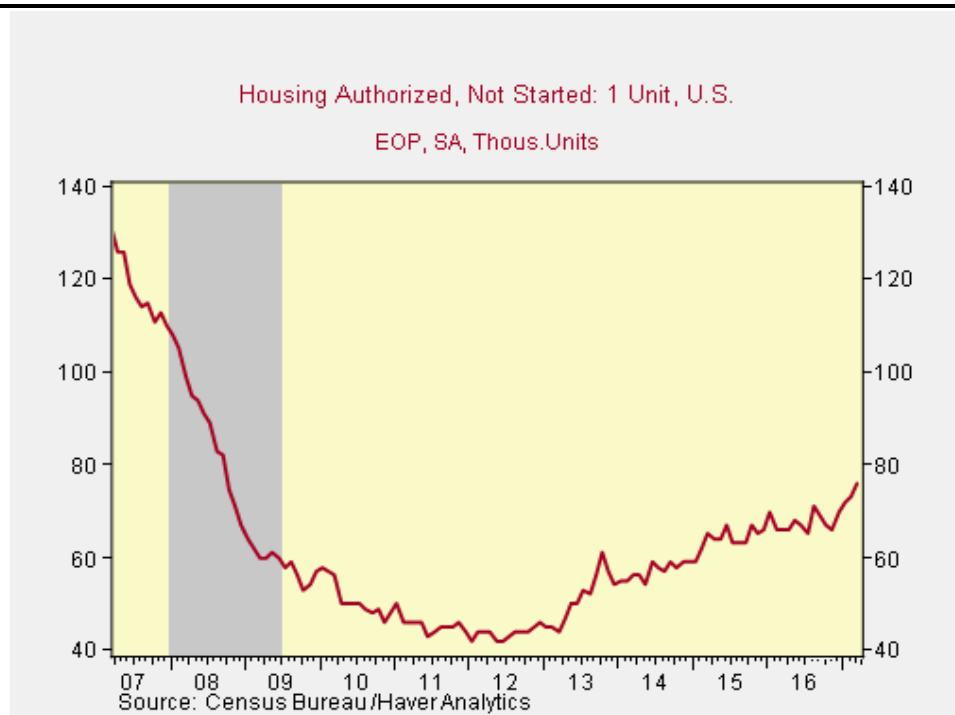
Source: Quarterly data. Source: Census Bureau and Haver Analytics

Chart 2: Existing Homes Available for Sale (year-over-year, %)



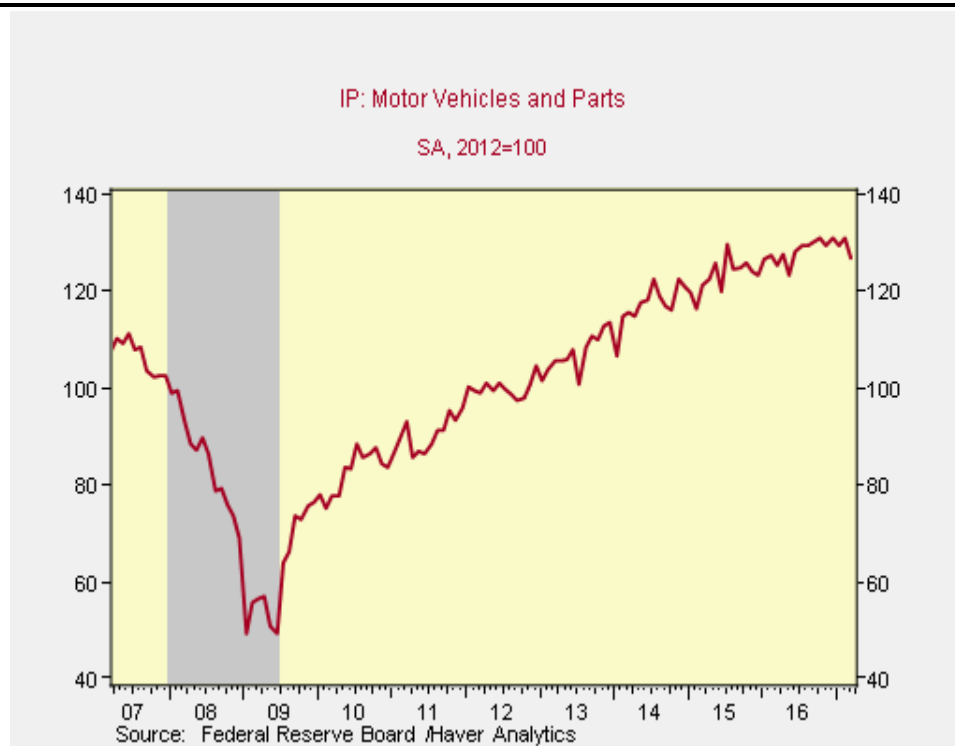
Source: Monthly data. Source: National Association of Realtors and Haver Analytics

Chart 3: Single-Family Housing Units Authorized But Not Started



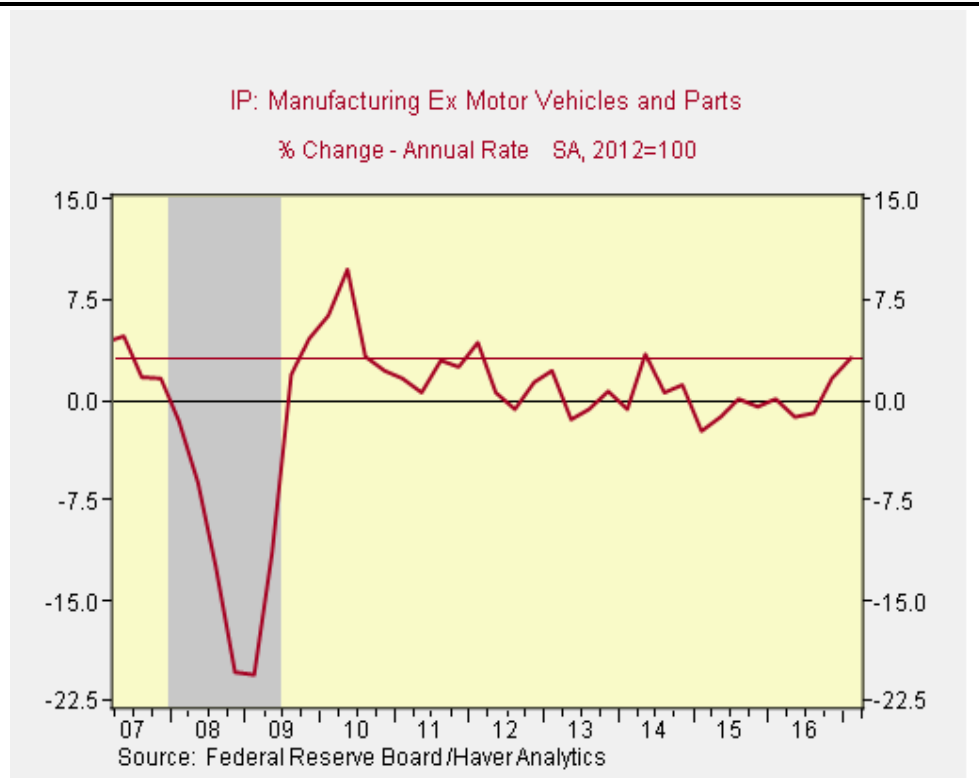
Source: Monthly data. Source: Census Bureau and Haver Analytics

Chart 4: Industrial Production: Motor Vehicles and Parts



Source: Monthly data. Source: Federal Reserve Board and Haver Analytics

Chart 5: Industrial Production: Manufacturing Excluding Motor Vehicles and Parts (quarter-over-quarter)



Source: Quarterly data. Source: Federal Reserve Board and Haver Analytics

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