

Why The Drop In US Housing Starts Is A Head-Fake

US housing starts, SAAR, December:

Actual: 1078

Scotia: 1260

Consensus: 1256

Prior: 1214 (revised lower from 1256)

- I think one should fade the sharp decline in US housing starts. New home construction activity dropped by 11.2% m/m in December as data backlogged by the shutdown continues to get released. Before that itchy trigger finger gets the better of some folks inclined to see recession risk and Fed cuts beneath every stone that gets overturned, there are two very good reasons to fully ignore the report and shift the emphasis to how big a Q2 rebound could be.
- One indication that the drop in starts is not reflecting some sinister, longer-lived underlying developments in the US economy is that activity did not reflect intentions. Building permits were up 0.3% m/m in December and were up by 4.5% m/m the prior month (seasonally adjusted). If homebuilders were turning sour on the market then that should be getting reflected in recent momentum within permits data but it is not. The accompanying chart depicts the relationship between permits and starts and the magnitude of the differential in December.
- One factor that explains the weakness is weather.** For example, December 8–10th saw the 3rd largest snowstorm in history for a month of December across much of the southeastern and eastern seaboard of the US. The storms hit the southern plains through the southeast and even included 10 inches of snow getting dumped in parts of Texas. One foot of snow fell through parts of the Carolinas and Virginia resulting in declarations of emergency and power outages ([here](#)). Another major storm disrupted travel along the eastern seaboard just days ahead of Christmas and again into peak shopping season.
- Second is the effect of the US government shutdown on mortgages.** This began on December 22nd and ran through until January 25th. There may have also been somewhat of an anticipatory effect. Mortgage through the Federal Housing Administration or the Department of Veterans Affairs faced delayed underwriting. The IRS also stopped processing 4506-T forms that very tax returns and are necessary in mortgage applications especially for owner-proprietors seeking to buy a home. Also, the impact upon starts could have been material through direct channels (ie: furloughed government workers not getting paid and uncertain about when their next paycheque will arrive) and indirectly through the confidence hit on many others who became dismayed toward the state of affairs in Washington and the market effects.
- Overall, while ‘polar vortex’ and shutdown factors may compound weakness in January, **it’s likely reasonable to expect pent-up construction activity to be subsequently unleashed.** Like retail sales for the month, I find that much activity across the household sector was disrupted by weather, the shutdown and market volatility versus underlying drivers such as growth in jobs and wages that remain strong. Bring on Q2 with an estimated 1% rebound effect from the shutdown and deferred activity from Q4/Q1!

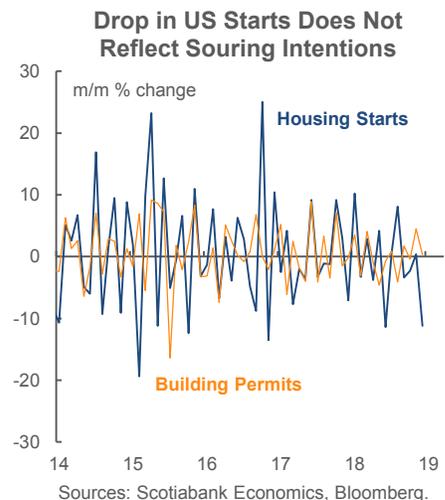
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