Comerica Economic Alert

Robert A. Dye, Ph.D. · Daniel Sanabria · @Comerica_Econon

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March Residential Construction, Industrial Production

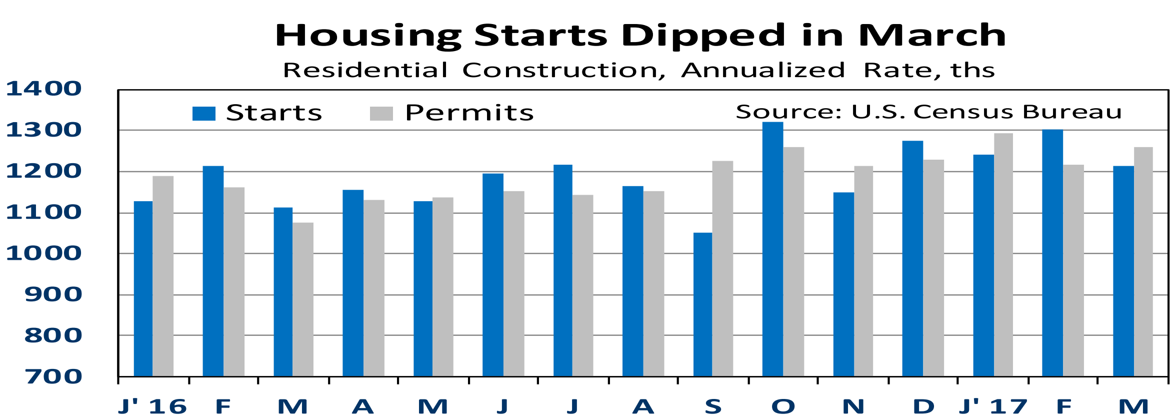
Starts Rebalance After February Bump

- Housing Starts decreased in March by 6.8 percent to a 1,215,000 unit annual rate.
- Permits for new residential construction increased by 3.6 percent to a 1,260,000 unit pace in March.
- Industrial Production increased by 0.5 percent in March, pushed by utility output.

After a 5.0 percent increase in February, total U.S. housing starts dropped by 6.8 percent in March. The trend for total starts still looks positive and the March reset looks like normal monthly volatility. Single-family starts for March dropped by 6.2 percent for the month, but remain up by 9.3 percent over the previous 12 months. Multifamily housing starts fell by 7.9 percent for the month, and remain below the level from last December. Today's housing data reinforces our belief that multifamily construction will be range bound for much of this year as absorption in local markets eases with strong recent supply additions. Conversely, we look for more gains on the single-family side, supported by more economically confident millennials growing their families. The inventory of available new and existing homes for sale remains historically tight and this will keep builders building single-family houses. However, many builders report a shortage of construction labor which is hampering completion rates. Total permits for March were up by 3.6 percent. Permits for new single-family projects eased by 1.1 percent, while multifamily permits gained 13.8 percent, which is not a huge number given the normal monthly volatility. Mortgage rates have eased after the March 15 fed funds rate hike. According to the MBA Mortgage Applications Survey, the rate for a 30-year fixed rate mortgage was down to 4.28 percent for the week ending April 7. Mortgage applications for purchase were positive in early April, a good sign for the spring home buying season.

Total industrial production increased by 0.5 percent in March, pushed by a large increase in utility output. Mild winter weather weighed on utility output in January and February, but that reversed in March as utility output surged by 8.6 percent. Mining output ticked up by 0.1 percent in March, after a strong 2.9 percent gain February. Even though many other manufacturing indicators were positive in March, the Federal Reserve's report shows a 0.4 percent drop in manufacturing output, consistent with a 3.8 percent drop in motor vehicle assemblies for the month. The March decline in auto sales, to a 16.6 million unit rate, invites speculation about the shape of the auto sales curve through this year and next. We believe that there is growing potential for a flattish top to the auto sales cycle for a number of reasons. First, consumer confidence has surged since the general election last fall. Second, labor conditions remain very tight with the unemployment rate down to 4.5 percent. Third, the age of the vehicle stock remains high and vehicles that were purchased in the early months of the economic recovery, in late 2009 and 2010, are at replacement age. Fourth, the share of household income going to auto sales is still low, down from 5-6 percent of total consumer spending in the early 2000s, to 3.8 percent in 2016Q4.

Market Reaction: Stock indexes opened with losses. The yield on 10-Year Treasury bonds is down to 2.20 percent. NYMEX crude oil is down to $52.63/barrel. Natural gas futures are down to $3.24/mmbtu.



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