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Housing Starts Plunge by the Most in Four Years

Michelle Jamrisko—March 17, 2015

Housing starts plummeted in February by the most since 2011 as plunging temperatures and snow became the latest hurdles for an industry struggling to recover.

Work began on 897,000 houses at an annualized rate, down 17 percent from January and the fewest in a year, the Commerce Department reported Tuesday in Washington. The pace was slower than the most pessimistic projection in a Bloomberg survey of 81 economists.

"Today's report leaves me a little concerned," said Michelle Meyer, deputy head of U.S. economics at Bank of America Corp. in New York. "While the initial reaction is to dismiss much of the drop because of the bad weather, the level of home construction continues to be depressed."

Permits to build single-family dwellings fell to the lowest level in almost a year, indicating home construction is lacking traction after contributing little to economic growth in 2014. At the same time, the data underscore a shift toward more demand for rental properties that make up a smaller part of the market.

Increased household formation, an improving job market and rising wages for younger people all point to a pickup in housing, Meyer said. Many will gravitate to apartments and other rental units, she said, so "multifamily should do well and continue to lead the recovery."

Stocks retreated from the biggest rally in more than a month as commodity and consumer shares slumped before the Federal Reserve's interest-rate decision on Wednesday. The Standard & Poor's 500 Index decreased 0.3 percent to 2,074.2 at the close in New York. The S&P Supercomposite Homebuilding Index, which includes PulteGroup Inc. and Lennar Corp., declined 0.7 percent.

Economists' Forecasts

The median estimate of 81 economists in the Bloomberg survey called for 1.04 million starts. Estimates ranged from annualized rates of 975,000 to 1.08 million after a previously reported January pace of 1.07 million.

Total building permits climbed 3 percent to a 1.09 million annualized pace, the fastest since October and due to a pickup in applications for multifamily structures. Permits for single-family dwellings were the lowest since May.

Starts of single-family properties dropped 14.9 percent to a 593,000 rate in February. Construction of condominiums and apartment buildings decreased 20.8 percent to an annual rate of 304,000.

New construction slumped a record 56.5 percent in the Northeast and fell 37 percent, the most since January 2014, in the Midwest. Starts also dropped in the South and West, indicating weather was only partly to blame.

March Rebound

"Assuming that the weather in March is more normal --which certainly in the Northeast it has been -- I think that bodes well for the spring-selling season," said Stephen Stanley, chief economist at Amherst Pierpont Securities LLC in Stamford, Connecticut. "We have a pretty good chance of getting a solid rebound."

The report corroborated data on Monday that showed builder confidence unexpectedly fell in March to an eight-month low. Sentiment decreased in three of four regions as sales dropped and the outlook for demand stalled, according to the National Association of Home Builders/Wells Fargo.

Last month, the eastern seaboard saw below-normal temperatures from Atlanta to New York and record snowfalls in New England. The National Oceanic and Atmospheric Administration's data showed the snowiest month on record for Boston, while record-low temperatures for any February were reached in Chicago, Buffalo and Cleveland.

Interest Rates

Cheap borrowing costs are keeping homes affordable for some Americans. The average 30-year, fixed-rate mortgage was 3.86 percent in the week ended March 12, according to data from Freddie Mac in McLean, Virginia. That's below the average 4.26 percent rate since the expansion began in June 2009.

Greater employment opportunities are providing support for the housing industry as well. The economy added 295,000 workers last month, more than forecast, and the unemployment rate dropped to 5.5 percent, the lowest in almost seven years.

Weaker incomes may be damping some buyer interest. Average hourly earnings rose a less-than-forecast 0.1 percent in February, according to the Labor Department on March 6. Earnings were up 2 percent over the past year, also less than projected and matching the increase on average since the expansion began in mid-2009.

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