MACRO PULSE™
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Housing Bump or Dump?

Residential construction in October got a "caffeine jolt" when total housing starts smashed expectations with a 25.5% month-over-month (MoM) surge to 1.323 million units – a nine-year-high. Most of the jump was attributable to a 68.8% leap in the multi-family segment. That housing was "on a roll" appeared to be confirmed when the National Association of Home Builders/Wells Fargo Housing Market Index (HMI) rose by seven points (to 70) in December, the highest reading since July 2005 and the largest MoM jump in over 20 years.

"This notable rise in builder sentiment is largely attributable to a post-election bounce, as builders are hopeful that President-elect Trump will follow through on his pledge to cut burdensome regulations that are harming small businesses and housing affordability," said NAHB Chairman Ed Brady. "Though this significant increase in builder confidence could be considered an outlier, the fact remains that the economic fundamentals continue to look good for housing," added NAHB Chief Economist Robert Dietz. "The rise in the HMI is consistent with recent gains for the stock market and consumer confidence."

November housing-start data brought a reality check, however. Total starts tumbled by 18.7% (to 1.090 million units), thanks once again to the ever-volatile multi-family component – which slumped by 45.1%. Admittedly, it would be presumptuous to claim that November's data is a repudiation of Brady and Dietz's optimism. On average, a particular month's HMI reading is most strongly correlated with single-family starts 11 months later; thus analysis of historical data confirms that builders are prognosticating about possible activity nearly a year into the future. What ***is*** fair to say, however, is the path to the conditions that would justify December's high HMI reading could well prove long, and fraught with plenty of setbacks along the way.

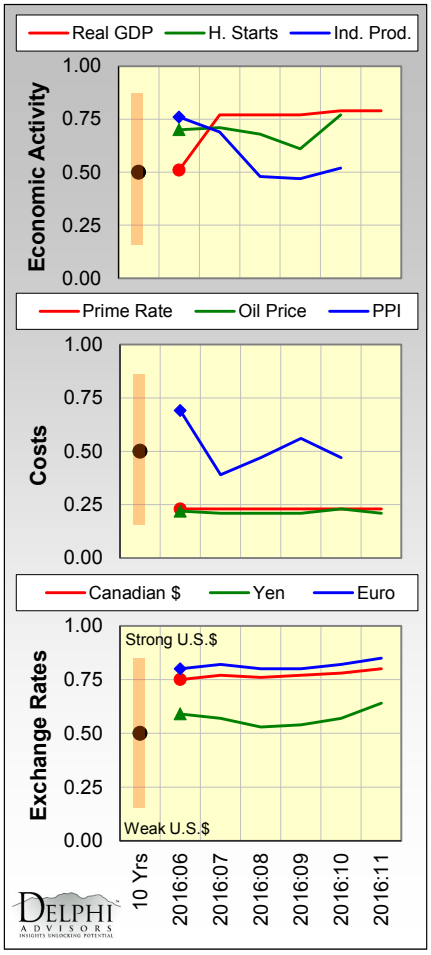
Some potential barriers that could hinder more robust housing activity include:

• *Rising mortgage rates*, which went "parabolic" during November, and could go higher still – particularly if the Federal Reserve follows through on the three interest rate hikes that the minutes of its latest meeting suggest may be forthcoming in 2017.

• *Tepid wage growth*. The Bureau of Labor Statistics' November jobs report showed that average weekly earnings were up only 2.2% from a year earlier – roughly half the rate of increase consistent with a "normal" labor market.

• *A stronger U.S. dollar*. The greenback has appreciated by nearly one-third since July 2011; a stronger dollar encourages imports of foreign goods and discourages exports of domestically produced goods. That, in turn, impacts employment and wage growth.

• *Higher construction-material costs*. The U.S. Lumber Coalition has petitioned the U.S. government to impose duties on Canadian softwood lumber exported to the United States. October marked the end of the one-year standstill period that followed expiration of the Softwood Lumber Agreement of 2006. Imposing interim duties will almost certainly mean consumers pay more for the wood products used in residential home construction. ■



Previous six months' behavior of macroeconomic variables indexed relative to their historical 10-year min, max and average (lower and upper ends of the orange bars, and black dots, respectively)

This report is typically a compilation of articles posted on our website; those articles relate in greater detail recent economic developments to the U.S. forest products sector.