

Economic Analysis

Weekly Focus: Housing Starts, Sales, & Prices

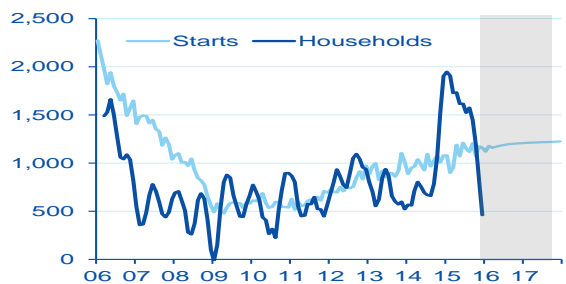
Filip Blazheski / Kim Chase

Rising Home Starts and Prices Continue to Fuel the Housing Market

It's a big week for the housing market with starts, existing sales, and prices on the radar. **March's housing starts (Tuesday)** are expected to remain above 1.15M SAAR for the second consecutive month, although it is possible to see a slight MoM correction as a result of February's decline in building permits and the lower builders' confidence closing out 1Q16 (the lowest since June 2015). The 1.15-1.2 million level of housing starts is in line with the current rate of household formation. We anticipate housing starts to gradually increase throughout 2016 and remain, on average, about 6.5% higher than last year. An interesting trend that started at the beginning of the year is acceleration of the growth of single family housing starts and deceleration of the growth of multifamily housing starts. If this continues, it would be because of the improved employment situation and stronger confidence to buy among prospective buyers compared to the first half of last year. Data from Redfin have shown that homebuyers have been moving farther away from the urban core in most metro areas as home prices have been on the rise, supporting the higher demand for single family houses and explaining the acceleration of growth in single family starts. **April's homebuilder confidence index (Monday)** may improve based on the solid mortgage application figures in the first week of the month, driven by low interest rates.

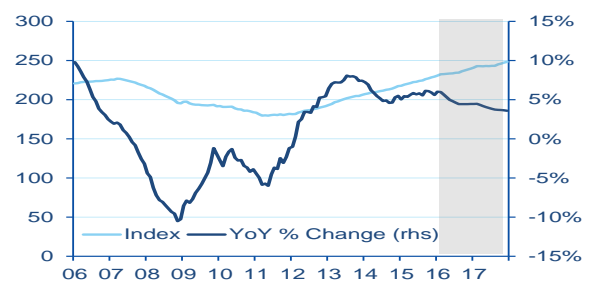
Robust demand has continued to boost prices, and **February's FHFA home price index (Thursday)** should show another gain in home price appreciation at the rate of around 6% YoY. The seasonally adjusted CoreLogic index, which is published the earliest of all house price indexes, increased 1.33% MoM in February, its highest monthly gain in almost three years. The FHFA index, however, is likely to gain somewhat less than this, as the two indexes use different methodologies. Home price increases have been driven by limited inventory, high affordability, and improving labor market conditions. According to Redfin, inventory shortages characteristic of expensive western regions with robust job growth have spread inland to metro areas that pair strong local economies with more affordably-priced homes, like Grand Rapids, Indianapolis, Louisville, Minneapolis and Nashville. The listing activity at the end of last year and in January was very low, as people hesitated selling their homes because of uncertain prospects of finding suitable replacements. This listings situation improved somewhat in February, which should moderate the price increases in March and April. Meanwhile, **existing home sales for March (Wednesday)** are expected to increase slightly on a non-seasonally adjusted basis.

Graph 1
Household Formation and New Home Starts
(3MMA YoY Change in Thousands, SAAR Thous)



Source: U.S. Census Bureau & BBVA Research

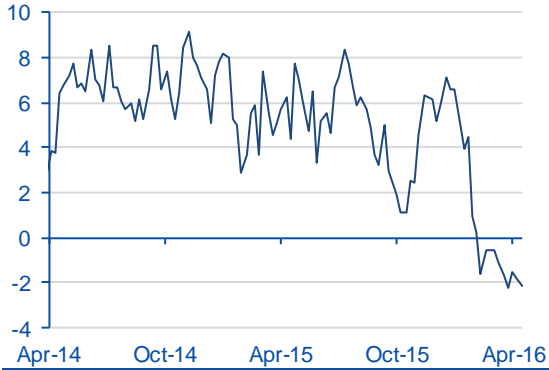
Graph 2
FHFA House Price Index
(Index Jan-91=100 and YoY % Change)



Source: FHFA & BBVA Research

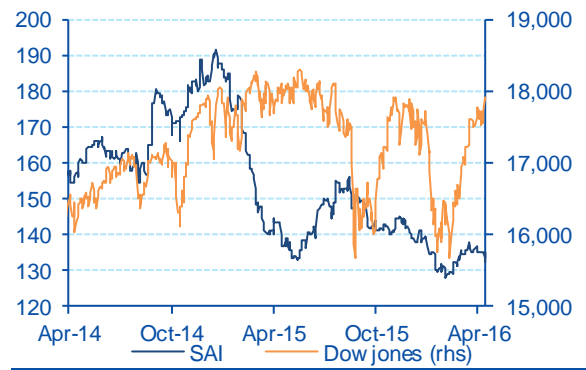
Economic Trends

Graph 3
BBVA USA Weekly Activity Index (3 month % change)



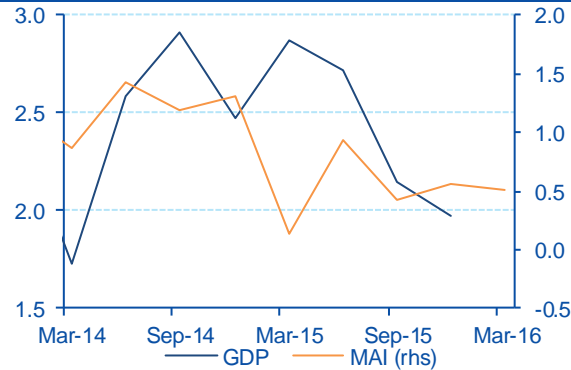
Source: BBVA Research

Graph 4
BBVA USA Surprise Activity Index & Dow Jones (Index 2009=100 & eop)



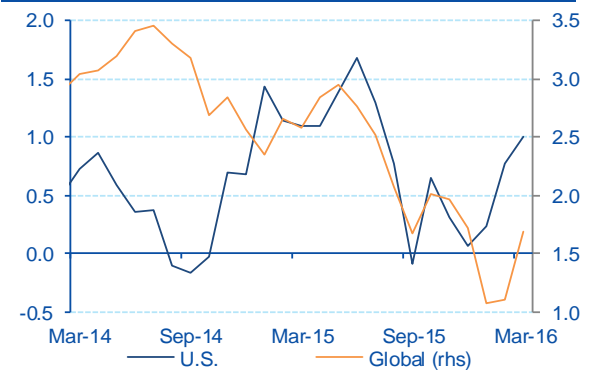
Source: Bloomberg & BBVA Research

Graph 5
BBVA USA Monthly Activity Index & Real GDP (4Q % change)



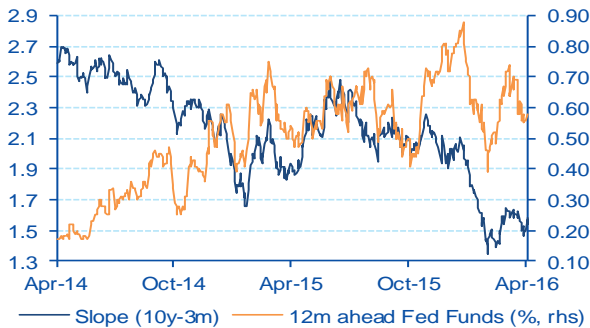
Source: BBVA Research & BEA

Graph 6
BBVA USA Risk Index (> 0 = increasing risk)



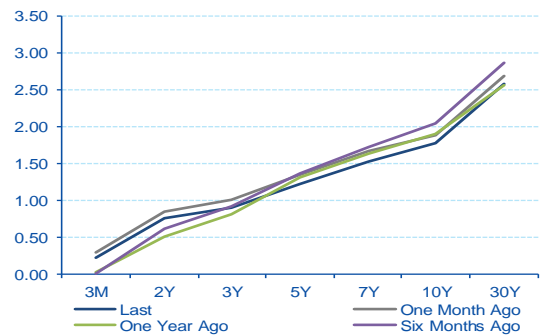
Source: BBVA Research

Graph 7
Fed Futures & Yield Curve Slope (% & 10year-3month)



Source: Haver Analytics & BBVA Research

Graph 8
U.S. Treasury Yield Curve (% p.a.)



Source: Haver Analytics & BBVA Research

Week Ahead Economic Calendar

Date	Event	Period	BBVA	Consensus	Previous
18-Apr	National Association of Home Builders Market Index SA	APR	59.00	59.00	58.00
19-Apr	US New Privately Owned Housing Units Started by Structure Total SAAR	MAR	1190.00	1168.00	1178.00
19-Apr	Private Housing Units Started by Structure Total Monthly % Change SA	MAR	1.02	-0.85	5.20
19-Apr	Private Housing Authorized by Bldg Permits by Type Total SAAR	MAR	1200.00	1200.00	1177.00
19-Apr	Private Total Housing Authorized by Building Permits MoMSA	MAR	1.95	1.95	-2.20
20-Apr	US Existing Homes Sales SAAR	MAR	5.22	5.26	5.08
20-Apr	US Existing Homes Sales MoMSA	MAR	2.66	3.54	-7.13
21-Apr	US Initial Jobless Claims SA	APR 16	263.00	265.00	253.00
21-Apr	US Continuing Jobless Claims SA	APR 9	2175.00	2178.00	2171.00
21-Apr	Chicago Fed National Activity Index	MAR	-0.15	-0.13	-0.29
21-Apr	Philadelphia Fed Business Outlook Survey Diffusion Index General Conditions	APR	9.70	8.00	12.40
21-Apr	Conference Board US Leading Index MoM	MAR	0.20	0.40	0.10

Economic Outlook

	2015		2016		2014	2015	2016	2017
	3Q	4Q	1Q	2Q				
Real GDP (% SAAR)	2.0	1.4	1.5	3.4	2.4	2.4	2.5	2.4
CPI (YoY %)	0.1	0.5	1.1	1.1	1.6	0.1	1.3	2.0
CPI Core (YoY %)	1.8	2.0	2.2	2.1	1.7	1.8	2.1	2.1
Unemployment Rate (%)	5.2	5.0	4.9	4.9	6.2	5.3	4.8	4.6
Fed Target Rate (eop, %)	0.25	0.50	0.50	0.75	0.25	0.50	1.00	2.00
10Yr Treasury (eop, % Yield)	2.17	2.24	1.89	1.95	2.21	2.24	2.27	2.79
US Dollar/ Euro (eop)	1.12	1.09	1.11	1.10	1.23	1.09	1.12	1.16
Core Logic Home Prices (YoY %)	5.05	5.31	5.52	4.81	7.70	5.01	4.78	4.22

Fun Fact

The first British ESA astronaut will be the second astronaut to run a marathon from space. He is participating in the London Marathon on April 24th using the treadmill on the International Space Station. A U.S. astronaut was the first to run 26.2 miles on the space treadmill in the 2007 Boston Marathon. It took her about 4.5 hours to complete. (CBS, April 2016)

Recent Publications

[Mining and Utilities Weigh on Industrial Output in March](#) (April 15, 2016)

[Both headline and core inflation increase in March](#) (April 14, 2016)

[Autos Drag Down Total Retail Sales in March](#) (April 13, 2016)

[Import Prices in March Post First Rise Since June](#) (April 12, 2016)

[Revolving Consumer Credit Growth Hits Post-Crisis High in February](#) (April 7, 2016)

[FOMC Minutes: Hawks Fighting for Faster Action as Doves Maintain Cautious Approach](#) (April 6, 2016)

[Exports Rise in February for the First Time in 5 Months](#) (April 5, 2016)

[Factory Orders Decline 1.7% in February](#) (April 4, 2016)

[March's Hiring, Wages, and Participation Support Fed's Policy Outlook for 2016](#) (April 1, 2016)

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