

U.S. Housing Flash

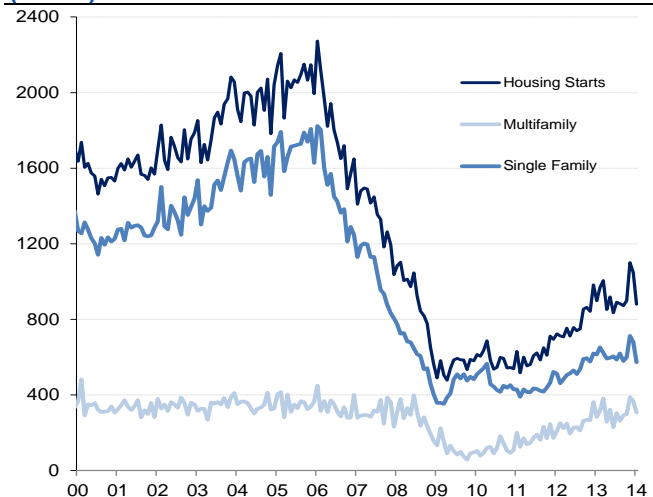
Housing Starts and Building Permits Slump in January

- Housing starts fell 16.0% in January, mostly due to extreme weather conditions
- Building permits dropped 5.5%, signaling slower growth in starts over the short-term
- Although the housing market is slowing, we expect to see acceleration in 2014

After soaring to yearly-highs in November and December, housing starts tumbled in January to 880K on a seasonally-adjusted annualized basis, a monthly decline of 16.0% from December. On a YoY basis, housing starts declined 2.0%, marking the first such decline since August 2011. Significant drops were seen equally in both single-unit and multi-unit homes, as they fell 15.9% and 16.4% MoM, respectively. The drop in housing starts was expected as a result of the cold winter that likely dampened construction and home-building activity across the U.S. Furthermore, the increase in mortgage rates over 2H13 decreased the affordability of homes and likely discouraged potential homebuyers who were on the fence to purchase a house. However, the drop in permits issued was surprisingly low, falling 5.5% MoM, marking the third consecutive month of decline. Although housing construction and sales are often hindered by severe weather conditions, permits should be mostly unaffected by climate. The decline in permits could be an indication of slower building activity over the near future, so it will be crucial to keep an eye on as we move along in 2014.

Though the decline in housing starts can be attributed to the recent extreme weather, the sharp drop in building permits is somewhat concerning. After growing at double-digit rates throughout much of 2013, building permits increased only 2.4% on a YoY basis, the slowest pace since April 2011. The weather may have played a minor role in discouraging potential homebuyers to apply for a permit, but it is more likely that the recent increase in mortgage rates was a bigger player in discouraging consumers to finalize their purchases. Housing activity has definitely decelerated following a pickup during the majority of 2H13, but we do not believe that the January data is enough to cause panic. Overall, we expect the housing market to continue a slow and steady recovery through 2014 (for more information, see our [2014 Housing Outlook](#)).

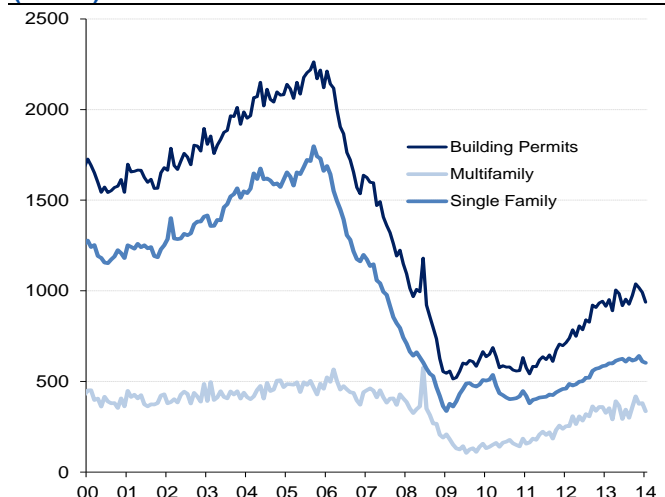
Chart 1
Housing Starts, Single and Multifamily Structures (Thous)



Source: US Census Bureau & BBVA Research

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Chart 2
Building Permits, Single and Multifamily Structures (Thous)



Source: US Census Bureau & BBVA Research

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