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ECONOMIC REPORT

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HOUSING STARTS AND PERMITS UP IN FEBRUARY AS HOMEBUILDING RECOVERY CONTINUES

SUMMARY

- Housing starts rose 0.8 percent from January to February, with gains in both single-family and multifamily starts.
- Residential construction permits increased 4.6 percent over the month, to their highest level since June 2008.
- The National Association of Home Builders' housing market index dropped in March, the second straight decline.
- Gains in homebuilding will be a key driver of economic and job growth in 2013.

Housing starts rose 0.8 percent to 917,000 at a seasonally-adjusted annualized rate in February, up from 910,000 in January (revised up from 890,000). Single-family starts rose to 618,000 from 615,000 (revised up from 613,000). Multifamily starts, covering apartments and condominiums, rose to 299,000 from 295,000 in January (revised up from 277,000). Housing starts increased in the Midwest and Northeast in February, but fell in the South and West.

On a year-ago basis starts were up 28 percent in February, This includes a 63 percent increase in the West, with gains of 56 percent in the Northeast, 33 percent in the Midwest, and 10 percent in the South.

Housing permits also rose in February to 946,000 at a seasonally-adjusted annualized rate, up from 904,000 in January (revised down from 925,000), an increase of 4.6 percent. This was the most permits since June 2008. Single-family permits rose to 600,000 from 584,000 (unrevised), while multifamily permits rose to 346,000 from 320,000 (revised down from 341,000). Permits were up 34 percent year-over-year in February.

The National Association of Home Builders' housing market index fell from 46 in February to 44 in March. After increasing steadily since late 2011, the index has declined for two straight months. The index fell in the Northeast, South and West in March, but rose in the Midwest. Although the overall index fell in March, two of the three subcomponents rose: expected sales over the next six months and traffic of potential buyers. However, there was a big four point drop in the present single-family sales component.

The homebuilding recovery continues. After falling by about 75 percent from their peak in 2006 to their trough in 2009, starts and permits have gradually moved higher, although they are still more than 50 percent below their levels at the height of the housing boom. Demand for housing has picked up as the labor market has improved and price declines and extremely low mortgage rates have made housing highly affordable. A gradual loosening of mortgage credit is also boosting demand. Excess supplies of single-family homes have dwindled with stronger demand, leading to gains in construction. On the apartment side the shift away from homeownership has led to stronger demand and higher rents, leading to a recovery in multifamily building.

These trends will continue in 2013 as the Federal Reserve works to keep interest rates very low and the job market further recovers. Even with its recent decline, the NAHB index points to further near-term growth in single-family construction (see Chart). PNC is forecasting a 23 percent increase in housing starts this year, following a 28 percent gain in 2012, including a 16 percent rise in single-family starts in 2013. The improvement in homebuilding will add to economic and job growth this year. However, starts will not return to the unsustainable levels of the previous decade, as homebuilders, lenders, regulators and policymakers have all learned their lessons. In fact, one concern now is a lack of capacity, with prices of building materials moving higher as demand has picked up and some homebuilders reporting difficulty in hiring



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construction workers. These factors were noted in the press release for the NAHB housing market index. The NAHB

also cited tight credit and appraisals as factors weighing on new home sales.

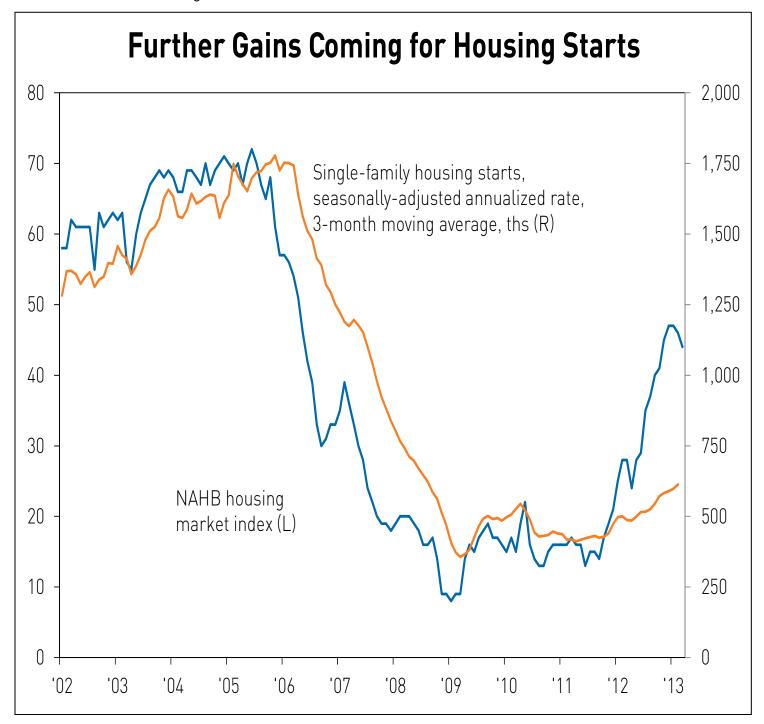


Chart sources: National Association of Home Builders, Census

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