

Layman's Lumber Guide

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US May Housing Starts +17.2% To 532,000 ; Consensus +7.0%

WASHINGTON (Dow Jones)--Home construction climbed in May far above expectations, with single-family starts rising a third month in a row and giving more evidence of stability in the housing sector.

Housing starts increased 17.2% to a seasonally adjusted 532,000 annual rate compared to the prior month, the Commerce Department said Tuesday. Building permits rose; apartment construction surged.

The 17.2% increase was much bigger than expected. Economists surveyed by Dow Jones Newswires forecast a 7.0% increase to an annual rate of 490,000.

Toll Brothers Inc. (TOL) recently reported its fiscal second-quarter loss narrowed a little. The nation's largest builder of luxury homes posted a loss of \$83.2 million, compared with a year-earlier loss of \$93.7 million. It recorded smaller write-downs. The company operates in 21 states and last reported a profit nearly two years ago. Toll Brothers said it expects to deliver between 2,200 and 2,800 homes during the year, compared with an earlier, March view of 2,000 to 3,000 homes.

Tuesday's report on housing showed building permits in May increased 4.0% to a 518,000 annual rate. Economists had expected permits to rise by 2.4% to a rate of 510,000. April permits fell 2.5% to 498,000.

But the problems of the housing sector are not over. Inventories are way too high, in relation to new-home sales, a key measure indicates. The ratio of those for sale to property sold in April exceeded 10 months.

Layoffs and tight credit are holding back sales. And mortgage rates have started rising, pushed by rising government bond yields. Investors are concerned about inflation because of increased spending in Washington meant to pull the economy out of recession. Freddie Mac (FRE) data showed the average on a 30-year mortgage loan was 5.59% last week - 73 basis points higher than the average four weeks earlier of 4.86%, an advance that could hurt demand for houses.

A report Monday indicated builder confidence faltered in June, after going up two straight months. The National Association of Home Builder's index on builder confidence in sales of new, single-family houses fell to 15 from 16 in May. "The issues in the housing market are going to take some time to play out and won't reverse nearly as soon as some would like," Dan Greenhaus, a bond market analyst at Miller, Tabak & Co. in New York, said in reaction to the NAHB report.

Tuesday's data said starts in April dropped by 12.9% to 454,000; originally, Commerce

reported April starts fell 12.8% to 458,000.

Year over year, housing starts were 45.2% lower than the pace of construction in May 2008.

Single-family starts climbed 7.5% to 401,000, after rising 3.3% in April and 1.1% during March.

Construction of housing with two or more units jumped 61.7% to 131,000; within that category, groundbreakings of homes with five or more units - or multi-family - were 77.1% higher.

Regionally, housing starts climbed 16.8% in the South, 2.0% in the Northeast, 11.1% in the Midwest, and 28.6% in the West.

Nationwide, an estimated 51,200 houses were actually started in May, based on figures not seasonally adjusted. An estimated 48,100 building permits were issued last month, also based on unadjusted figures.

	MAY	APR	MAR
Starts	532	454	521
Percent Change	17.2	-12.9	-9.2
Single Family	401	373	361
Percent Change	7.5	3.3	1.1
Multi Family	124	70	129
Percent Change	77.1	-45.7	-36.8
Northeast	51	50	69
Percent Change	2.0	-27.5	11.3
Midwest	80	72	98
Percent Change	11.1	-26.5	5.4
South	257	220	274
Percent Change	16.8	-19.7	-10.5
West	144	112	80
Percent Change	28.6	40.0	-29.2
Building Permits	518	498	511
Percent Change	4.0	-2.5	-7.1
Unadjusted Building Permits	48.1	46.5	44.0

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