20 June 2018

SENT TO LSU AGCENTER/LOUISIANA FOREST PRODUCTS DEVELOPMENT CENTER - FOREST SECTOR / FORESTY PRODUCTS INTEREST GROUP

Eye on the Economy

June 20, 2018

Housing Starts Reach Post-Recession High

Housing starts increased 5% in May, reaching a 1.35 million seasonally adjusted annual rate. Construction expanded for both single- and multifamily sectors. Construction volume has increased on a year-to-date basis by 9.8% for single-family construction and 13% for multifamily, both numbers exceeding beginning-of-the-year forecasts as demand and demographic conditions remain positive, boosted by tax reform.

However, permit growth was negative in May, with single-family permits down 2%. This decline matched the small drop in the NAHB/Wells Fargo Housing Market Index measure of builder confidence, which declined two points to a still-positive level of 68. The drop was due to recent increases in lumber prices, which have surpassed expectations due to tariffs on Canadian softwood lumber. The Secretary of Commerce has indicated a willingness to look at the factors behind these hikes.

In addition to supply-side cost concerns, interest rates are likely to rise, driven by improved economic growth and tight labor market conditions. Our expectation is for a strong second-quarter GDP estimate and ongoing low rates of unemployment. The Federal Reserve is closely watching labor markets, and at the conclusion of its June meeting, the Fed's policymaking committee raised the federal funds rate for the second time in 2018, with two more rate hikes predicted this year. This projection for four increases, however, means that we would only expect one rate hike in 2020 instead of two.

Overall, housing market conditions remain strong, although price gains are being driven by low levels of inventory and insufficient single-family construction. In fact, first-quarter data for 2018 indicates that the total value of owner-occupied housing has reached $25.1 trillion, with $15 trillion in equity.

–NAHB Chief Economist Robert Dietz

20 June 2018

SENT TO LSU AGCENTER/LOUISIANA FOREST PRODUCTS DEVELOPMENT CENTER - FOREST SECTOR / FORESTY PRODUCTS INTEREST GROUP

Richard P. Vlosky, Ph.D.
Director, Louisiana Forest Products Development Center
Crosby Land & Resources Endowed Professor of Forest Sector Business Development
Room 227, School of Renewable Natural Resources
Louisiana State University, Baton Rouge, LA 70803
Phone (office): (225) 578-4527; Fax: (225) 578-4251; Mobile Phone: (225) 223-1931
Web Site: www.LFPDC.lsu.edu

President, Forest Products Society; President, WoodEMA i.a.