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Flash Macro Update (06/18/2019)

US May housing starts data was announced today, but probably the data will be overshadowed by the comments of ECB Chief Draghi and US President Trump's tweet ahead of the FOMC meeting. Speaking at a conference Mario Draghi today mentioned the toolbox of ECB hinting that the Bank could cut interest rates again or provide further asset purchases, if inflation doesn't reach its target. Right after these comments, US President Trump criticized these comments highlighting USD's strength. After these comments, already-important FOMC meeting gained more importance!

Housing starts in the US, which is the most important housing data among others, in our view, recorded a m-o-m decline of 0.9% in May. On a y-o-y basis, housing starts were also down by 5% in May. Although the data was slightly better than expectations and although there were upside revisions in April data, we observe that housing market is not strong compared to the same period of last year. With the May data we compute that housing starts were down by 5.7% y-o-y in the first five months of the year.

When we look at the details of the data, we see that the slowdown mainly comes from single-family housing (which accounts for the largest share of the housing market) rather than the multi-family housing. We also observe that Northeast housing starts suffered the most in May, while there were declines in all other regions as well.

It is worth noting that there was one alleviating factor, which was the housing permits in May. Housing permits were in line with the consensus and they were up again. They were at 1.294 million in May against 1.290 million in April suggesting that housing activity continues and there will be no collapse in the short-term.

Mortgage rates are coming down and if FED starts an easing cycle, it might trigger further decline in rates that could give some boost to the housing market going forward. The data overall was weak, in our view and should support the decline in yields in the fixed income market. But the highlight of the week will be the FOMC meeting rather than the housing data.

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