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CONY Flash Macro Note **April 19, 2019**

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Flash Macro Update (04/19/2019)

Retail sales data for March beat expectations yesterday, whereas housing starts for March unexpectedly fell signalling a clear cool off in the US housing market. Although the data does not suggest a total collapse for March, it came on top of the sharp decline in February, which hints that weak trend in the housing market will continue for a while. Besides, housing permits remained weak that is seen as a proxy for future housing activity. In terms of financial markets, we think that the housing data in the US is positive for the fixed income market and negative for the equity market in the short-term.

Housing starts in the US, which is the most important housing data among others, in our view, recorded a m-o-m decline of 0.3% in March compared to the consensus of +7.7%. On a y-o-y basis, housing starts were also down by 14% in March. In addition, February data was revised down further from -8.7% m-o-m to -12.0% m-o-m. With the March data we compute that housing starts were down by 9.4% y-o-y in the first quarter of the year. Apparently, housing did not make a good start to year 2019. We know that existing home sales accounts for most of the sector, but housing starts provides a clear guide where the market is heading.

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. But in contrast to February, multi-family housing was relatively weak too in March. We also observe that Northeast housing starts continued to suffer in March along with Midwest this time, whereas West was the only region that posted a sharp m-o-m increase.

It is worth noting that housing permits dropped significantly as well in March which is not a good sign. The permits also indicated that a pickup in homebuilding is not likely in the short-term despite some decline in 30-year fixed mortgage rates, according to data from mortgage finance agency Freddie Mac. The problem for developer seems to be building affordable houses amid rising labor and materials costs.

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