

U.S. Data Review

- Housing starts: a jump in multi-family activity; a rebound in single-family building
- Consumer sentiment: firm despite the volatility in the equity market
- Import prices: upward pressure on commodities and motor vehicles

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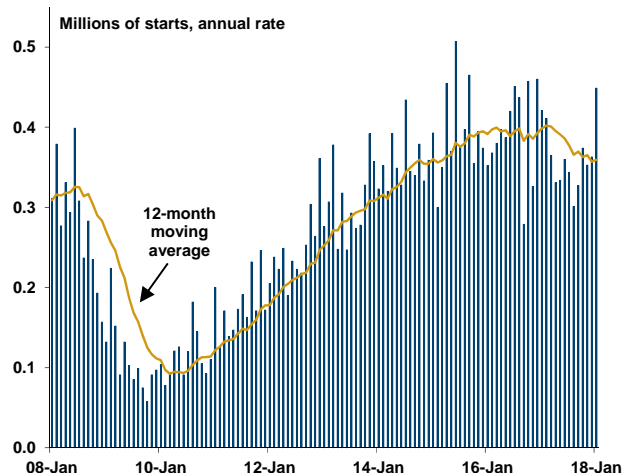
Housing Starts

Housing starts surged 9.7 percent in January, easily beating the expected increase of 3.5 percent. In addition, results in December were revised upward, with the new level of activity 1.4 percent firmer than previously believed. The report was strong, but it did not stir our enthusiasm. Much of the advance was the result of a jump of 23.7 percent in the multi-family sector, and this increase probably contained a large dose of random volatility. Multi-family construction enjoyed a strong recovery during most of the expansion and seemed to reach a peak in the later part of 2016. Activity began to inch lower last year, and we suspect that totals registered in 2016 are not likely to be repeated soon. Multi-family starts often show sharp swings from month-to-month, and we view the jump in January as an instance of upside volatility (chart, left).

Single-family starts performed well with an increase of 3.7 percent. The gain followed a soft reading in the prior month, and thus the increase did not represent a new cyclical high, although activity moved to the upper portion of its recent range. The trend remained upward (chart, right).

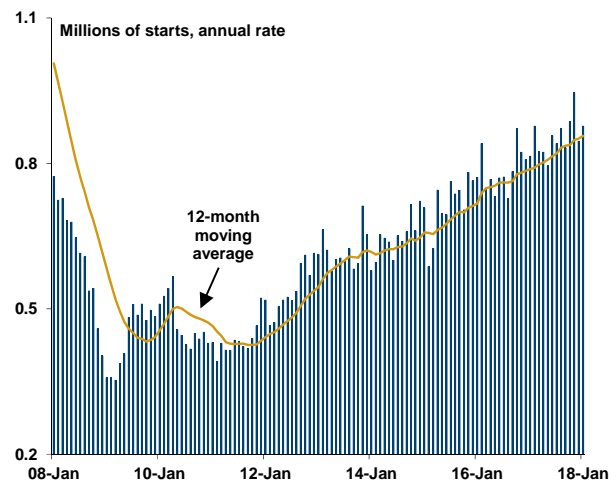
Building permits jumped 7.4 percent in January, although the gain was entirely the result of a surge of 26.5 percent in the multi-family sector and a reflection of the random volatility that often occurs in this area. Single-family permits fell 1.7 percent, but the drop followed sharp increases in the prior four months and the trend was still distinctly upward.

Multi-Family Housing Starts



Source: U.S. Census Bureau

Single-Family Housing Starts



Source: U.S. Census Bureau

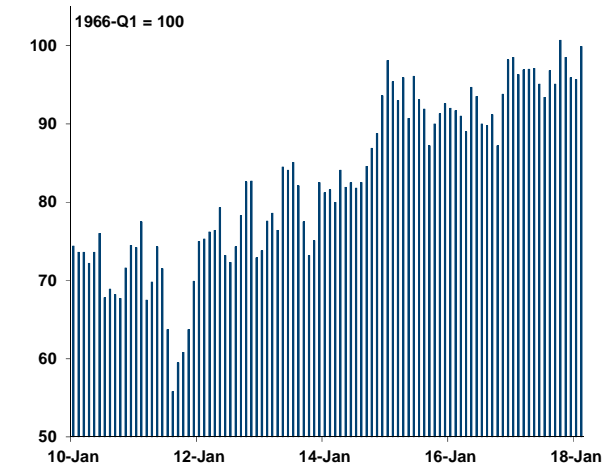
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Consumer Sentiment

The index of consumer sentiment rose 4.4 percent in February, ending a string of three monthly declines and pushing the measure back to the upper portion of its recent range. The index value of 99.9 was only slightly below the cyclical high of 100.7 registered in October. The increase stood in contrast to an expected dip of 0.2 percent. The current conditions and expectations components contributed about equally to the increase in January, and both were in the upper ends of their recent ranges (although not at cyclical peaks).

The inflation expectations measures included with the report, which are monitored closely by Fed officials, were unchanged in February. The expected inflation rate for the next year stood at 2.7 percent and has been in this vicinity for the past few years. The longer-term expectation called for an average inflation rate of 2.5 percent in 6 to 10 years in the future. This measure has gradually moved lower in recent years from an average of 2.9 percent in 2013 to 2.5 percent last year.

Consumer Sentiment



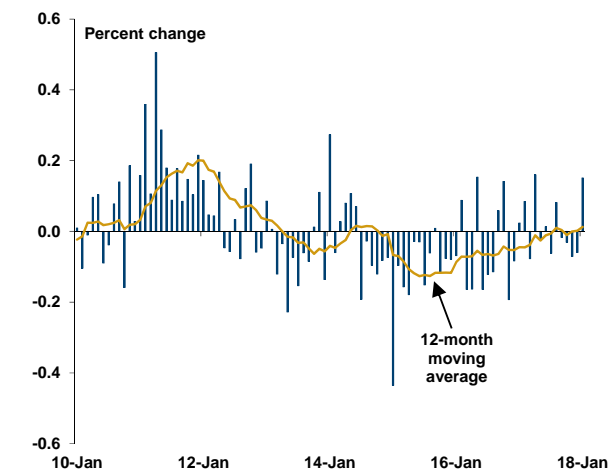
Source: Reuters/University of Michigan Survey Research Center

Import Prices

Prices of imported goods rose 1.0 percent in January, firmer than the expected increase of 0.6 percent. Higher prices of imported fuels played a role in the advance with an increase of 4.7 percent. Such a change was largely expected; the source of the surprise in the headline number was the increase of 0.4 percent in nonfuel prices. Some of this increase was the result of a jump of 1.8 percent in the prices of commodities other than fuels, which can be volatile. In addition, prices of finished goods also rose, with a jump of 0.5 percent in the prices of motor vehicles standing out. Prices of capital goods inched higher (0.1 percent), while prices of consumer goods were unchanged.

Prices of finished imported goods fell during most of 2015 and 2016, as the firm dollar on foreign exchange markets pushed prices lower in those years. However, that constraining influence seems to be fading and the softening in the U.S. currency in the past year is perhaps beginning to push in the opposite direction. Prices of imported finished goods have fluctuated from month-to-month recently, but they have been unchanged on balance. The year-over-year change was slightly positive in January (0.1 percent, chart).

Key Import Prices*



* A weighted average index of imported capital goods, automobile, and consumer goods prices. Weights are derived from import shares into the United States.

Source: Bureau of Labor Statistics; Bureau of Economic Analysis; Daiwa Capital Markets America