

U.S. Data Review

- Housing starts: striking advance in single & multi; permits less impressive
- Industrial production: utility-related drop in December; mfg. & mining post gains

Michael Moran

Daiwa Capital Markets America
 212-612-6392
 michael.moran@us.daiwacm.com

Housing Starts

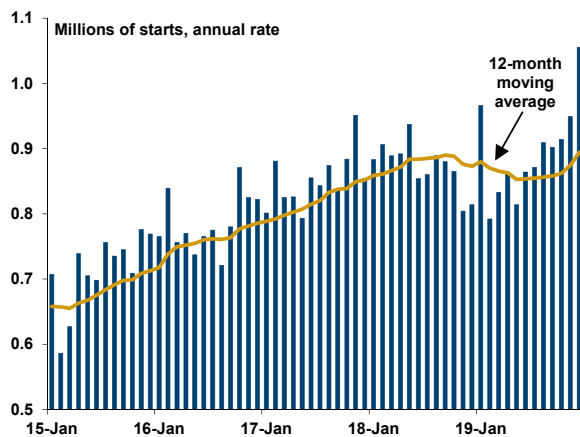
Housing starts in December exceeded previous observations and the expected total for the month by wide margins. The consensus estimate involved an increase of 1.1 percent to 1.380 million units, which would have represented a new high for the current expansion. In fact, starts surged 16.9 percent and moved to 1.608 million, a level far above other recent observations (charts). In addition, the burst in starts occurred from upward revised levels in the prior two months, with activity in October and November combined 1.0 percent firmer than previously believed.

Both single-family and multi-family activity contributed to the increase, with single-family starts jumping 11.2 percent and multi advancing 29.8 percent. Both components easily represented the strongest observations of the current expansion.

One might suspect that favorable weather played a role in triggering the robust results. However, national averages would not support that view, as precipitation was equal to its average of the past 20 years and temperatures, while warmer than normal, were within one standard deviation of the 20-year average.

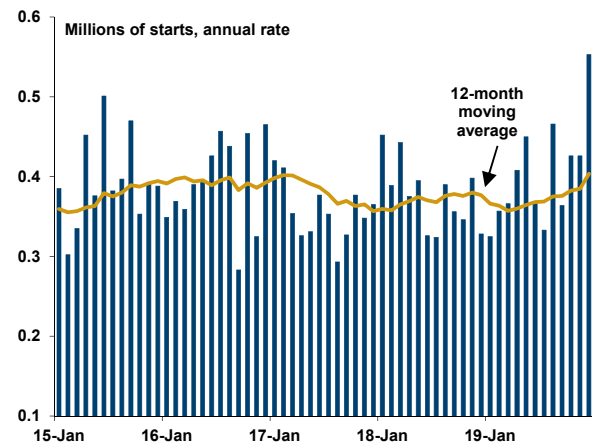
While one cannot lean on weather as a driving force, another element of the report suggests that random factors were probably involved. Specifically, building permits fell in December, with overall authorizations falling 3.9 percent. Multi-family permits led the drop (-9.6 percent), but single-family also contributed (-0.5 percent). Both were still elevated by recent standards, but they were not suggestive of continued strength like that seen in starts.

Single-Family Housing Starts



Source: U.S. Census Bureau via Haver Analytics

Multi-Family Housing Starts



Source: U.S. Census Bureau via Haver Analytics

This report is issued by Daiwa Securities Group Inc. through its relevant group companies. Daiwa Securities Group Inc. is the global brand name of Daiwa Securities Co. Ltd., Tokyo ("Daiwa Securities") and its subsidiaries worldwide that are authorized to do business within their respective jurisdictions. These include: Daiwa Capital Markets Hong Kong Ltd. (Hong Kong), regulated by the Hong Kong Securities and Futures Commission, Daiwa Capital Markets Europe Limited (London), regulated by the Financial Conduct Authority and a member of the London Stock Exchange, and Daiwa Capital Markets America Inc. (New York), a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, a futures commission merchant regulated by the U.S. Commodity Futures Trading Commission, and a primary dealer in U.S. government securities. The data contained in this report were taken from statistical services, reports in our possession, and from other sources believed to be reliable. The opinions and estimates expressed are our own, and we make no representation or guarantee either as to accuracy, completeness or as to the existence of other facts or interpretations that might be significant.

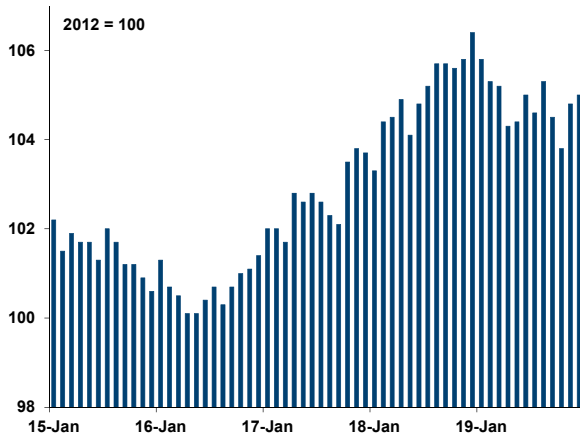
Industrial Production

Industrial production fell 0.3 percent in December, close to the expected drop of 0.2 percent. While activity fell overall, the composition of the report had a favorable tilt. All of the drop occurred in the utility component, where changes are nearly always a function of the weather. Activity in manufacturing and mining are driven more by economic fundamentals, and both of these components rose in December (up 0.2 and 1.3 percent, respectively).

The increase in manufacturing occurred despite a drop of 4.6 percent in the motor vehicle industry. That retreat pushed activity from the upper portion to the middle of its recent range. Production in other manufacturing areas was generally favorable, as 13 of the remaining 19 industries posted gains. Manufacturing activity lost ground in 2019, as the level of production in December was shy of readings in late 2018, but the downtrend was mild (chart, left).

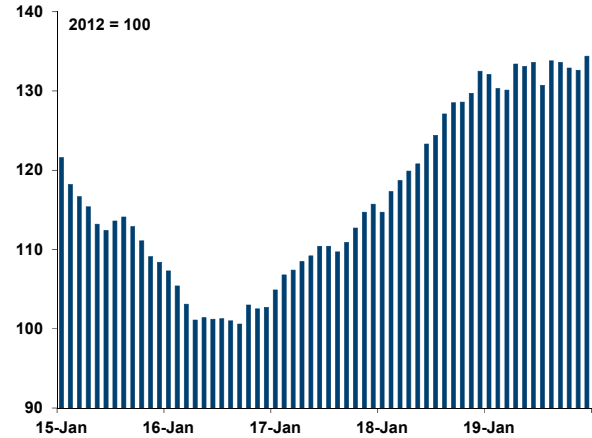
Mining activity eased in the three months before December and it showed little net change in the early months of 2019. However, the pickup in December more than offset the dips from September to November and moved activity to a new record. The latest observation is only marginally higher than several other recent readings, but the latest change was enough to show activity drifting higher from already impressive levels (chart, right).

Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics