Weak Data Doesn't Deter Builders

By Spencer Jakab

It wasn't the sort of spring thaw for residential construction that economists expected.

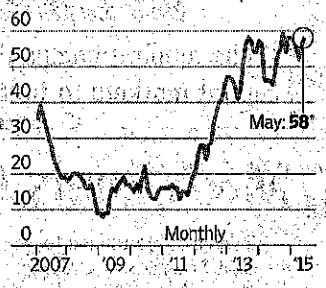
Housing starts in March rose a lot less than forecast to 926,000 units, confounding predictions of a sharp rebound from a frigid winter in much of the country. The figure for April, due out on Tuesday, finally should crack the million-unit mark on that annualized, seasonally adjusted basis—around the average for all of 2014—if a Wall Street Journal poll is accurate.

AHEAD OF THE TAPE

Despite tepid data so far this year on starts and construction permits, home builders themselves have been upbeat. The April reading of the NAHB/Wells Fargo Housing Market Index, a measure of builder optimism covering both forward and backward-looking factors, was released around the same time as the weak starts figure. It rose to 66 and Monday's reading, for May, is seen rising to 58.

Home Sweet Home

NAHB/Wells Fargo Housing Market Index



*WSJ consensus Source: NAHB

A good bit of that optimism wasn't based on what was happening at the time but instead on the strength of the spring and summer selling seasons. For example, April's survey reading for buyer traffic was markedly weaker than for the period November through January. Sentiment about current sales was slightly lower too. The survey's strongest component was for expectations over the next six months.

While there certainly won't be more blizzards in July, storms of the financial variety are brewing. Anticipating an interest-rate increase as early as this summer, mortgage rates rose sharply in just the past few weeks.

Given that rates near historical lows in recent years haven't been enough to spur housing starts back to anywhere near historical norms, the impact of pricier loans is hard to predict.

Housing starts averaged nearly two million annually during the bubble years of 2004 through 2006. But even the decade before that saw over 1.5 million units started annually, on average.

Supply and demand, not to mention demographics, would seem to make a big increase in home construction a no-brainer. The same argument could have been made a year or two ago, though. While the latent demand may be there, the price still has to be right.

Builders may be in for a rude surprise if rising rates raise the affordability bar too high for some of the new customers they have been expecting.

Email: **tape@wsj.com**

INDEX
Bonds, Rates & Yields C4 Currencies C7 Borrowing Benchmarks C5 Financial Flashback C4 Global Finance C3 Heard on the Street C6 IPO Scorecard C6 New to the Market C4 Tides C2