

DAILY ECONOMIC COMMENT

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June 16, 2009

Building a Solid Foundation

The US housing market was probably the single most important factor in causing the 2008/09 recession. But recently there have been rays of light sneaking through the clouds, and as of this morning, another beam poked its body through.

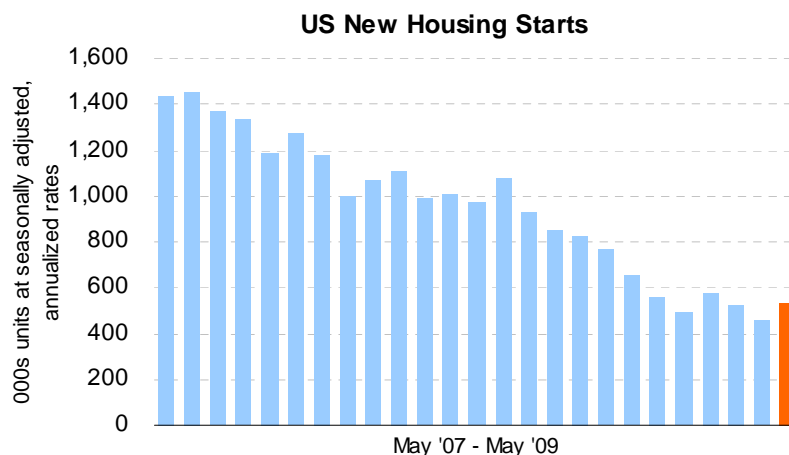
US housing starts jumped by 17.2% in May 2009, reported the US Department of Commerce this morning. Builders broke ground on 532,000 seasonally adjusted annualized units, up from 454,000 units in April. The starts figures were well ahead of a consensus of Bloomberg economists' expectations of 485,000 units.

After becoming inflated during the housing bubble in 2004-2007, housing starts fell to their lowest levels on record in the beginning of 2009, with the all-time low made April. The slump in starts was an indication that

there was an excess housing supply that needed to be absorbed before US housing prices and new construction could stabilize.

Recently, home resale volumes have increased and by some measures, US home prices have stopped falling. These are indications that consumers are reacting to incentives to buy homes, which was probably the first step in the road to recovery for the housing market. As new residential construction begins to come alive it may be an indication the overall US economy is starting to grow again.

It is definitely not time to declare victory in the housing market, residential construction is rising from a very low level. But now more than ever, the all-important US housing market appears to have turned the corner and begun its slow arduous climb back to normalcy.



Source: US Department of Commerce, June 16, 2009

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