Housing Starts Accelerate to Fill Severe Shortage of Homes

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Yesterday, Freddie Mac reported a 3.8 million unit shortfall in single-family homes, 52% higher than Freddie's assessment in 2018. The supply/demand imbalance is pushing home prices higher, which disproportionally affects first-time buyers. Compounding the problem is a sharp rise in materials prices. According to *Business Insider*, the cost of lumber has soared over +250% in the past 12 months and nearly +350% from the pandemic low point last March. Data from the National Association of Homebuilders (NAHB) indicates the higher lumber prices increased the average building cost of a new single family home by $24,000.

This morning, housing starts for the month of March rose by +19.4% to a seasonally-adjusted, annualized rate pace of 1.74 million units, *the highest since 2006*. A good portion of the March increase reflects a weather-related rebound, but like most of the recent economic data, starts were much stronger than expected and only add to mounting momentum heading into the second quarter. For perspective, the NAHB reported total starts of 1.25 million in 2018, 1.29 million in 2019 and 1.38 million in 2020. In addition to cost constraints, homebuilders are challenged by supply chain disruptions and difficulty finding skilled workers, two complaints that are becoming very familiar.

Building permits, an indication of future starts, increased by +2.7% to 1.77 million units in March. This permits number (which isn't impacted by weather) is only slightly below the 14-year high logged in December.

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The bottom line to the latest economic surprise is that demand remains well above supply, and significant on-the-ground labor shortages exist across industries. These imbalance are likely to result in higher prices and higher wages. Although both may prove transitory, as Fed officials believe, the economy continues to strengthen week-by-week. The Atlanta Fed's GDPNow calculation for the first quarter was +8.3% as of this morning. If you throw out the third quarter snapback of 2020, first quarter GDP growth is shaping up to be the strongest since 1983. Momentum seems to be in place for even higher GDP growth in the second and third quarters.

Market Indications as of 11:06 A.M. Central Time

DOW	Up 93 to 34,129 (NEW HIGH)
NASDAQ	Down 13 to 14,026 (HIGH: 14,095)
S&P 500	Up 6 to 4,177 (NEW HIGH)
1-Yr T-bill	current yield 0.06%; opening yield 0.05%
2-Yr T-note	current yield 0.16%; opening yield 0.16%
5-Yr T-note	current yield 0.83%; opening yield 0.81%
10-Yr T-note	current yield 1.58%; opening yield 1.57%
30-Yr T-bond	current yield 2.27%; opening yield 2.26%

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Please see disclosure starting on page 2.