Daiwa Capital Markets

U.S. Data Review

- Housing starts: initiations recover following weather-related decline
- Industrial production: jumps in manufacturing and mining lead rebound

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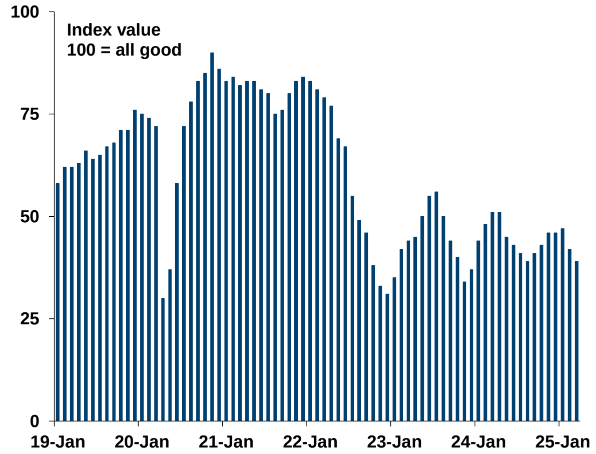
Housing Starts

- Following a weather-related decline in the prior month, housing starts rebounded 11.2 percent to 1.501 million units, annual rate, in February – a reading well above the Bloomberg survey median expectation of a pickup to 1.385 million. Keep in mind, though, that this series can exhibit marked volatility on a month-to-month basis (range of -11.5 percent to +16.9 percent in the past three months), with the latest observation having a 90 percent confidence interval of ±15.7 percent. Moreover, lackluster results for permit issuance (-1.2 percent to 1.456 million, annual rate) raise the possibility of cooling next month.

- Single-family starts accounted for much of the increase in activity, rising 11.4 percent to 1.108 million units, annual rate. Single-family initiations have now increased in four of the past six months, returning to the upper end of the firm post-pandemic range. This development was particularly noteworthy considering the elevated level of builder inventories (current months' [January] supply of unsold new single-family homes standing at 9.0 months). That said, single-family building permits declined for the second consecutive month (-0.2 percent to 0.992 million, annual rate; chart, below left). With home sales sluggish amid high prices and mortgage interest rates, and with builder sentiment depressed, prospects for easing in starts next month appear fairly high (chart on the NAHB housing market index, top right).

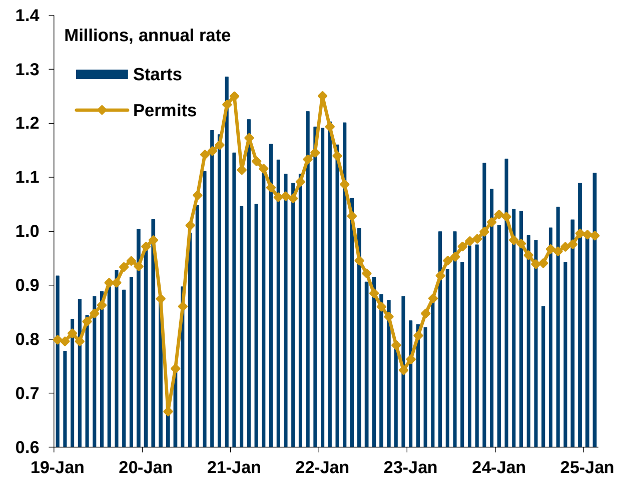
Home Builders: Housing Market Index



Source: National Association of Home Builders via Haver Analytics

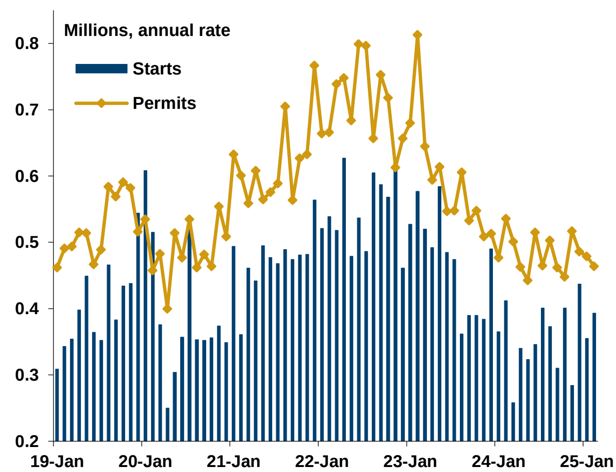
- Multi-family starts also bounced back following adverse winter weather, advancing 10.7 percent to 0.393 million units, annual rate, in February. Despite the uptick, the current pace of activity is well below the cycle peak of 0.627 million in April 2022 and in the low end of the longer-term range. Additionally, multi-family permit issuance fell for the fifth time in the past six months (-3.1 percent to 0.464 million, annual rate, in February; chart, below right). Taken together, the latest results for both starts and permit issuance suggest ongoing cooling after firm demand for rental housing earlier in the expansion drove a strong performance in new multi-family construction.

Single-Family Housing Starts



Source: U.S. Census Bureau via Haver Analytics

Multi-Family Housing Starts

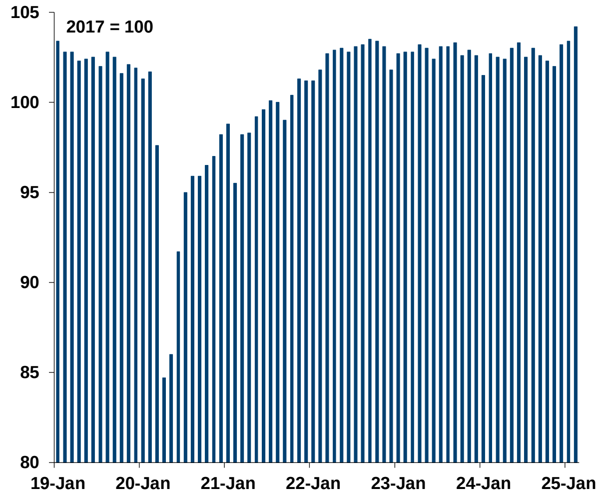


Source: U.S. Census Bureau via Haver Analytics

Industrial Production

- Industrial production rose 0.7 in February (versus the consensus expectation of an increase of 0.2 percent), a sharp rebound following weather-related disruptions in the prior month (chart, right). The manufacturing and mining components drove the latest advance (up 0.9 percent and 2.8 percent, respectively), while the utility area dropped with the return of normal temperatures after surging in the previous two months (-2.5 percent in February).

Industrial Production

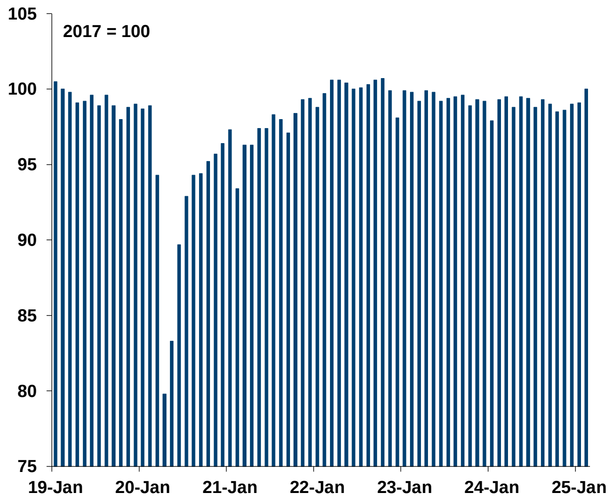


Source: Federal Reserve Board via Haver Analytics

- The advance of 0.9 percent in manufacturing (+0.7 percent year-over-year) was broadly based in February, with 15 of 20 industry groups recording increases in the latest month (chart, below left). Auto manufacturing figured importantly into the results, with the 8.5 percent jump following sharp declines around the turn of the year (off 5.3 percent and 2.5 percent, respectively, in January 2025 and December 2024). Despite the latest burst, auto manufacturing slipped 4.8 percent on a year-over-year basis. Excluding motor vehicles and parts, manufacturing activity rose 0.4 percent. Putting aside the latest rebound after weather-related disruptions in January, manufacturing activity has eased on balance since the fall of 2022 – with restrictive monetary policy and mixed order flows acting as ongoing constraints on the sector. Additionally, the Trump administration's tariff program is likely to hinder activity in coming months. In this regard, the new orders component of the ISM manufacturing index fell to 48.6 percent in February (a contractionary reading) after a firm print in January (55.1 percent), with tariffs cited as a key constraint on order flows.

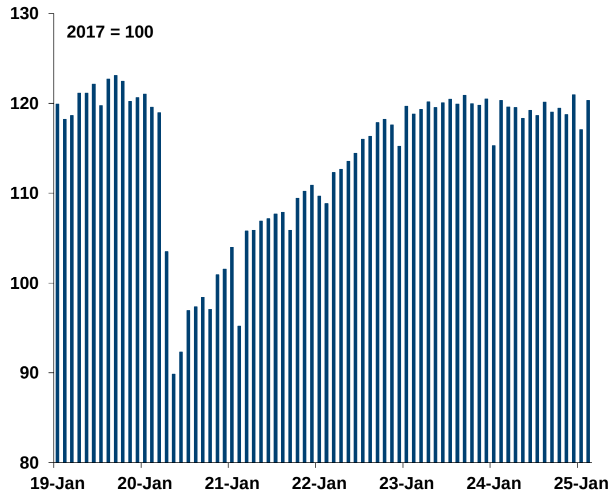
- Mining activity also posted a notable rebound after a drop in January (+2.8 percent after a swoon of 3.2 percent), although the index was flat on a year-over-year basis. This area had mounted a notable recovery from the COVID-related trough through the fall of 2022, but it has since leveled off at pace slower than the one seen just prior to the onset of the pandemic. (chart, below right). There has yet to be a discernable impact on the mining sector from the policies of the new administration, but executive orders reversing constraints enacted by the Biden administration on both mineral extraction and exports of liquified natural gas and new policies designed to boost domestic oil and gas output could prove to be positive catalysts in the near future.

Industrial Production: Manufacturing



Source: Federal Reserve Board via Haver Analytics

Industrial Production: Mining



Source: Federal Reserve Board via Haver Analytics