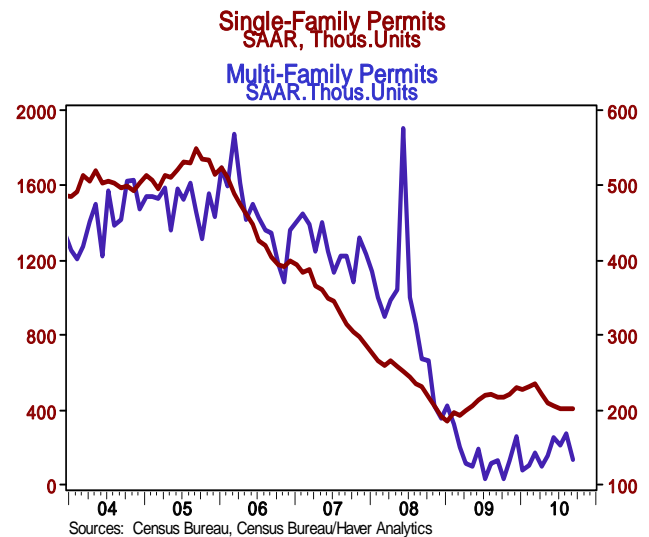
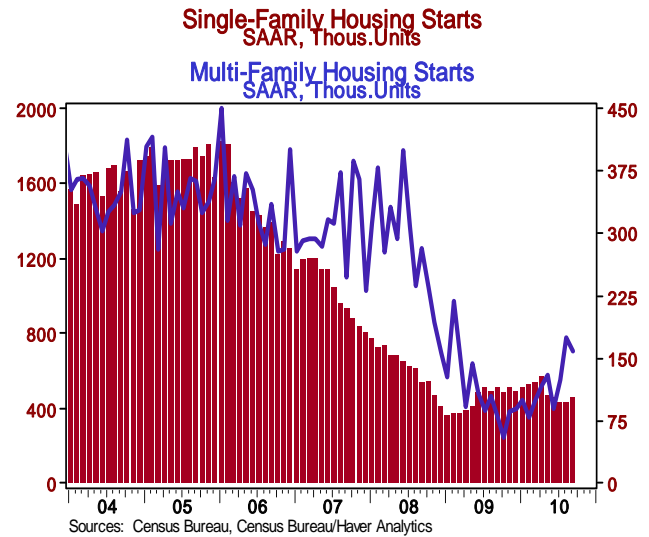


SEPTEMBER HOUSING STARTS

Chief Economist – Brian S. Wesbury
Senior Economist – Robert Stein, CFA

- Housing starts increased 0.3% in September to 610,000 units at an annual rate, beating the consensus expected 580,000 pace. Starts are up 4.1% versus a year ago.
- All of the gain in September was due to a 4.4% rise in single-family starts. Multi-family starts, which are volatile from month to month, fell 9.7%. Multi-family starts are up 100.0% versus a year ago while single family starts are down 10.8%.
- Starts increased in the Northeast and South, but declined in the Midwest and West.
- New building permits fell 5.6% in September to a 539,000 annual rate, coming in below the consensus expected pace of 575,000. Permits are down 10.9% versus a year ago with permits for single-family units down 14.4%.

Implications: Housing starts increased for the third month in a row in September adding to the wide array of data undermining the case for a double dip recession. Single-family starts increased for the second month in a row while multi-family units, which increased 35%-plus in July and August fell 9.7%. Traditionally, multi-family units are extremely volatile from month to month, so a decline in September is not a surprise. However, as the top chart to the right shows, since late last year there is a clear upward trend in multi-family housing starts. In particular, these gains are due to structures that contain at least five units, not structures with two to four units. These data fit well with the decline in home ownership and the rise in rental occupancy, a trend that will likely continue for at least the next couple of years. Although excess housing inventories remain, they are falling rapidly and will continue to decline even in the face of a substantial recovery in home building. True, many former “homeowners” (we use that term loosely after an era of zero down payments) are becoming renters, but rental properties require construction too. When you hear stories about a “wave of foreclosures” lifting inventories, remember that when someone leaves their home to rent somewhere else that overall housing inventories do not change. In other news yesterday, the NABE housing market index rose to 16 in October, beating the consensus expected gain to 14. This is the highest level in four months, and is a good sign that residential construction is continuing to stabilize at these levels.



Housing Starts SAAR, thousands	Monthly % Ch.	Sep-10 Level	Aug-10 Level	Jul-10 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	0.3%	610	608	550	589	596	4.1%
Northeast	2.9%	72	70	75	72	72	7.5%
Midwest	-8.2%	101	110	92	101	102	-3.8%
South	4.8%	305	291	275	290	303	2.7%
West	-3.6%	132	137	108	126	119	12.8%
Single-Unit Starts	4.4%	452	433	427	437	464	-10.8%
Multi-Unit Starts	-9.7%	158	175	123	152	132	100.0%
Building Permits	-5.6%	539	571	559	556	573	-10.9%
Single-Unit Permits	0.5%	405	403	406	405	426	-14.4%

Source: U.S. Census Bureau