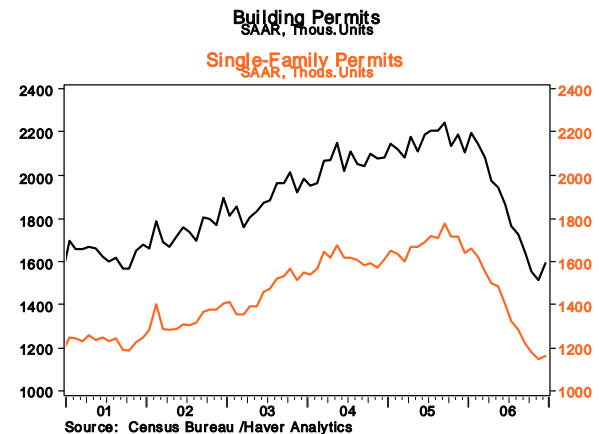
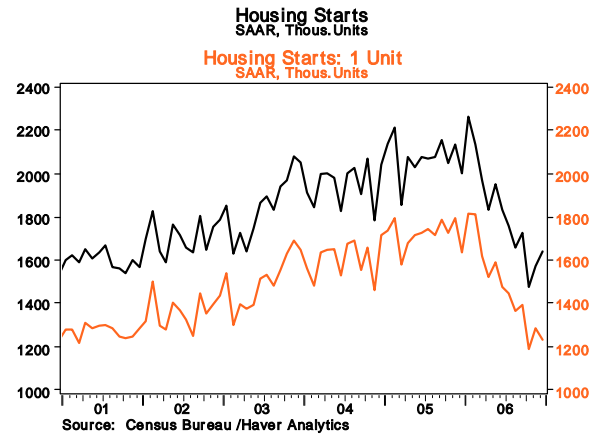


## DECEMBER HOUSING STARTS

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- Housing starts increased 4.5% in December to 1.642 million units at an annual rate, beating the consensus expected 1.565 million unit rate. However, on a 3-month moving average basis, starts fell for the tenth straight month to 1.564 million. Starts are down 18% versus a year ago.
- All of the increase in starts was for multiple-unit structures, not single-family homes. Single-unit starts dropped 4.1% while multiple-unit starts increased 42.1%.
- New building permits increased 5.5% in December to 1.596 million units at an annual rate, beating the consensus expectation of a slight drop. The rise in permits was the first since January 2006, but more than 80% of the increase was in multiple-unit structures, not single-family homes. Permits are down 24.3% versus a year ago.

**Implications:** Look for more turbulence ahead in the housing market. Residential construction fell throughout most of 2006 and appears to be in the process of bottoming out. However, it will most likely bottom out below the level of December starts. December temperatures were 2.9 degrees above normal and apparently contributed to the surge in starts. The increase in permits was a more bullish signal for housing but was focused in multiple-unit structures. We continue to believe housing will be the weakest link in the economy, but will neither drag other sectors down into a recession nor prevent a re-acceleration of economic growth.



Housing Starts SAAR, thousands	Monthly % Ch.	Dec-06 Level	Nov-06 Level	Oct-06 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
<b>Housing Starts</b>	<b>4.5%</b>	1642	1572	1478	1564	1639	-18.0%
<b>Northeast</b>	<b>25.6%</b>	196	156	147	166	157	17.4%
<b>Midwest</b>	<b>1.8%</b>	229	225	235	230	251	-22.4%
<b>South</b>	<b>-2.0%</b>	827	844	715	795	843	-25.1%
<b>West</b>	<b>12.4%</b>	390	347	381	373	388	-10.6%
<b>Single-Unit Starts</b>	<b>-4.1%</b>	1230	1282	1187	1233	1317	-24.7%
<b>Multi-Unit Starts</b>	<b>42.1%</b>	412	290	291	331	322	11.7%
<b>Building Permits</b>	<b>5.5%</b>	1596	1513	1553	1554	1632	-24.3%
<b>Single-Unit Permits</b>	<b>1.2%</b>	1164	1150	1181	1165	1221	-29.1%

Source: U.S. Census Bureau