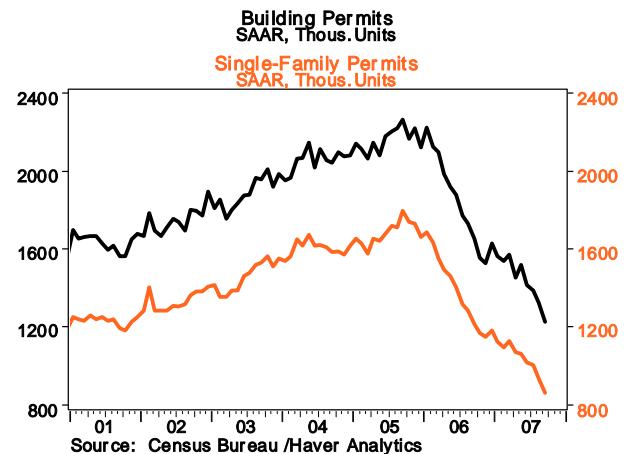
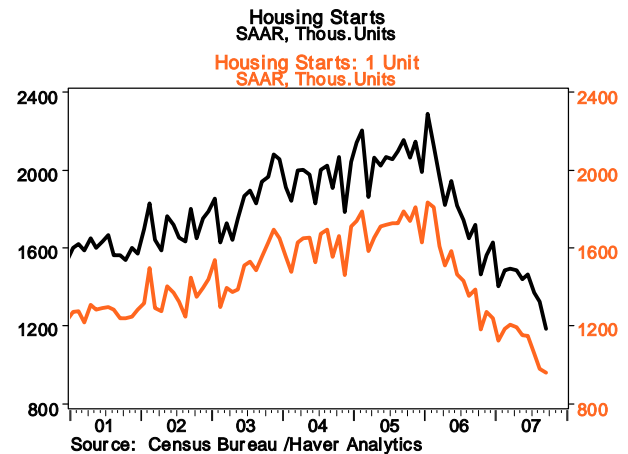


SEPTEMBER HOUSING STARTS

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- Housing starts declined 10.2% in September to 1.191 million units at an annual rate, well below consensus expectations of a 1.280 million rate. Starts are down 30.8% versus a year ago.
- The drop in starts in September was mostly due to multiple family starts, which fell 34.3%. Single-family starts declined 1.7%.
- By region, the drop in the number of starts was concentrated in the South (down 11.7%) and Midwest (down 28.4%). Starts also fell in the West (down 10.1%). Starts rebounded in the Northeast (up 45.4%).
- New building permits declined 7.3% in September to 1.226 million units at an annual rate, slower than the consensus expected 1.285 million. Permits are down 25.9% versus last year, 28.6% for single-family units.



Implications: Home building plunged in September. Housing starts are down 48% from the peak in January 2006. Starts are at the lowest level since 1993 and unlikely to persistently rebound anytime soon, as building permits are the lowest since 1995 and single-family permits are the lowest since 1992. Residential construction looks like it will exert a 0.7 percentage point drag on real GDP growth in the third quarter. That said, we stand by our forecast of 4% annualized real GDP growth in Q3 as we already assumed a substantial drag on GDP from home building. Note that with so much contraction in home building already behind us, the sector's share of the economy has already shrunk from 6.3% to 4.8%, so any given percentage decline in home building has less of an impact on real GDP growth than it did last year.

| Housing Starts SAAR, thousands | Monthly % Ch. | Sep-07 Level | Aug-07 Level | Jul-07 Level | 3-mth moving avg | 6-mth moving avg | Yr to Yr % Change |
|-----------------------------------|------------------|-----------------|-----------------|-----------------|---------------------|---------------------|----------------------|
| Housing Starts | -10.2% | 1191 | 1327 | 1371 | 1296 | 1380 | -30.8% |
| Northeast | 45.4% | 141 | 97 | 150 | 129 | 146 | 2.9% |
| Midwest | -28.4% | 174 | 243 | 240 | 219 | 224 | -34.8% |
| South | -11.7% | 619 | 701 | 647 | 656 | 687 | -33.9% |
| West | -10.1% | 257 | 286 | 334 | 292 | 325 | -32.4% |
| Single-Unit Starts | -1.7% | 963 | 980 | 1058 | 1000 | 1083 | -30.8% |
| Multi-Unit Starts | -34.3% | 228 | 347 | 313 | 296 | 297 | -30.9% |
| Building Permits | -7.3% | 1226 | 1322 | 1389 | 1312 | 1388 | -25.9% |
| Single-Unit Permits | -7.1% | 868 | 934 | 1008 | 937 | 995 | -28.6% |

Source: U.S. Census Bureau