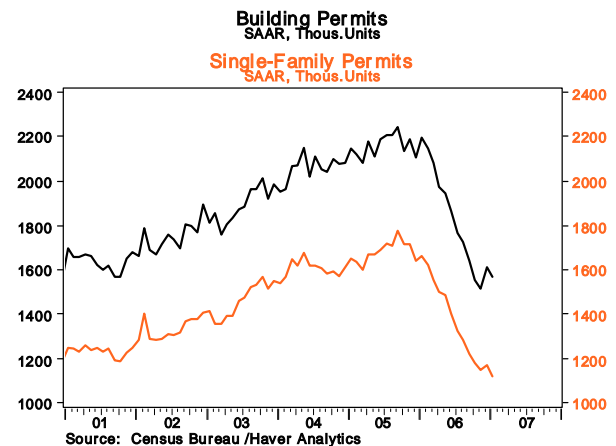
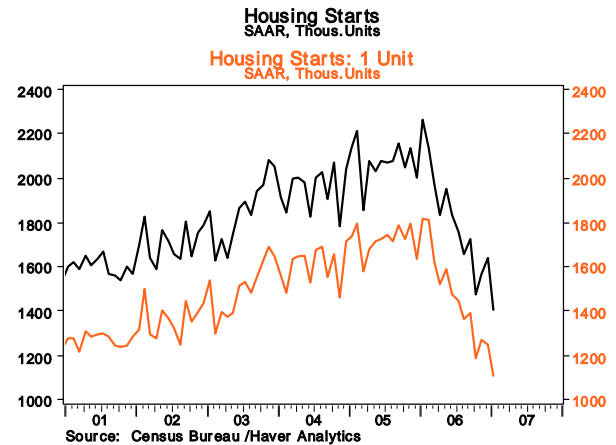


JANUARY HOUSING STARTS

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- Housing starts plummeted 14.3% in January to 1.408 million units at an annual rate, the lowest level since August 1997. The consensus had expected a decline of 2.6% to 1.6 million.
- The decline in starts occurred across almost all regions and for both single-family and multiple-unit structures. Single-unit starts fell 11.2% while multiple-unit starts declined 24.1%. The weakest regions (in terms of the drop in the *number* of starts) were the West and the South, with drops of 28.5% and 11.8%, respectively.
- New building permits fell 2.8% in January to 1.568 million units at an annual rate, a slightly larger drop than the consensus expected. All of the drop in building permits is attributable to single-family units. Building permits were down 28.6% versus January 2006.



Implications: Last month, despite an increase in housing starts, we wrote to expect “more turbulence ahead,” noting that December temperatures were 2.9 degrees above normal, apparently contributing to a December surge in starts. This month’s data cooperated with that assessment. However, there is light at the end of the tunnel. Harsh weather in January following favorable weather in December, created a downdraft in housing starts that is unlikely to be repeated. Averaging December and January shows that starts are just 2.5% below the November level. Also, note that building permits are higher than starts, pointing to a resurgence in housing activity in the months ahead. Moreover, the National Association of Home Builders Market Index increased to 40 in February from 35 in January, the largest gain since 2003. As we wrote last month, 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.	Jan-07 Level	Dec-06 Level	Nov-06 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	-14.3%	1408	1643	1565	1539	1580	-37.8%
Northeast	8.9%	196	180	153	176	162	-18.7%
Midwest	-15.2%	195	230	227	217	235	-47.2%
South	-11.8%	716	812	828	785	809	-37.0%
West	-28.5%	301	421	357	360	373	-42.0%
Single-Unit Starts	-11.2%	1108	1248	1271	1209	1262	-38.9%
Multi-Unit Starts	-24.1%	300	395	294	330	318	-33.5%
Building Permits	-2.8%	1568	1613	1513	1565	1602	-28.6%
Single-Unit Permits	-4.0%	1121	1168	1150	1146	1187	-32.6%

Source: U.S. Census Bureau