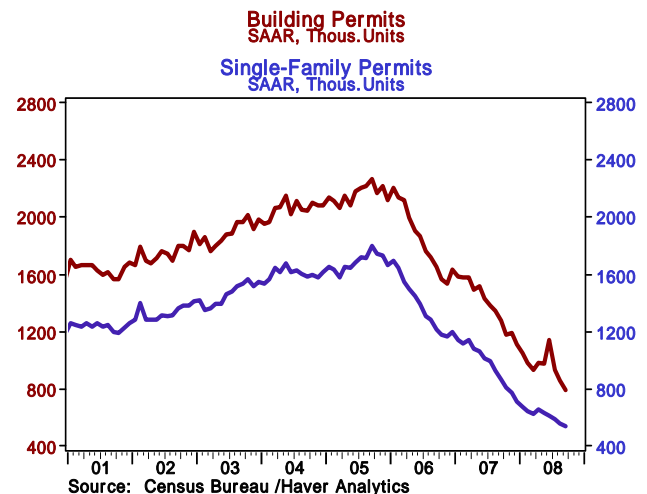
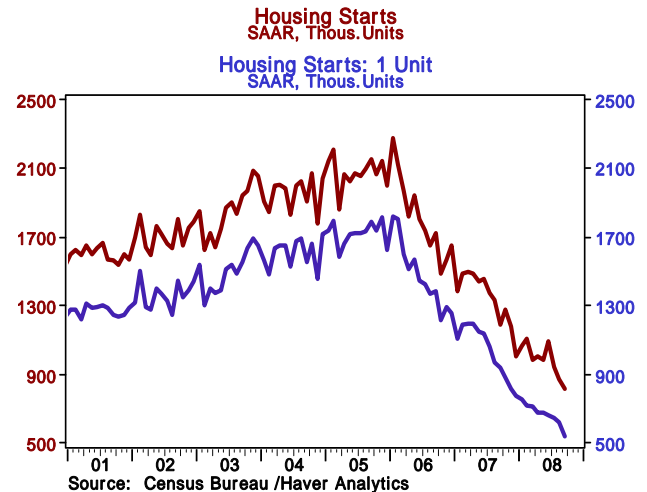


SEPTEMBER HOUSING STARTS

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- Housing starts declined 6.3% in September to 817,000 units at an annual rate versus a consensus expected 872,000 rate. Starts are down 31.1% versus a year ago and off 64.1% from the peak in January 2006.
- All the decline in starts in September was due to single-unit starts, which fell 12.0%. Multi-family starts increased 7.5% in September and are up 9.6% versus a year ago.
- Starts fell in the Northeast and West, rose in the Midwest, and were essentially unchanged in the South.
- New building permits fell 8.3% in September to 786,000 units at an annual rate versus a consensus expected rate of 840,000. Single-family permits declined 3.8% in September, are down 38.9% versus last year, and 70.4% since the peak in September 2005.



Implications: The panic in credit markets hit housing in September. Home builders, faced with tight and expensive credit, reduced activity sharply last month. The good news is that reduced construction is essential to the process of working off excess inventories. Housing starts fell to an 817,000 annual rate in September, the second lowest rate in the past 50 years, with tight credit likely to affect construction for the next few months. However, with the level of building activity now so low, we do not see a *fundamental* reason for housing starts to continue to fall as rapidly. Inventories are already dropping quickly at the current rate of home building. We expect that around mid-2009 housing will start contributing positively to real GDP growth. The economy was flat in the third quarter of 2008 and is very likely to contract in the fourth quarter as the credit crunch forced businesses and consumers to postpone economic activity. However, it is important to note that the sudden credit crunch-related weakness we are witnessing today, including in home building, is not due to the slow economy itself; instead, the weak economy is due to the credit crunch. We suspect that the severeness of the credit crunch will end quickly and the economy will get back on strong footing by early next year.

Housing Starts SAAR, thousands	Monthly % Ch.	Sep-08 Level	Aug-08 Level	Jul-08 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	-6.3%	817	872	949	879	952	-31.1%
Northeast	-20.9%	117	148	168	144	150	-18.2%
Midwest	5.6%	133	126	155	138	143	-21.8%
South	0.5%	403	401	441	415	457	-32.5%
West	-16.8%	164	197	185	182	203	-40.4%
Single-Unit Starts	-12.0%	544	618	644	602	639	-41.9%
Multi-Unit Starts	7.5%	273	254	305	277	314	9.6%
Building Permits	-8.3%	786	857	937	860	946	-38.4%
Single-Unit Permits	-3.8%	532	553	584	556	595	-38.9%

Source: U.S. Census Bureau