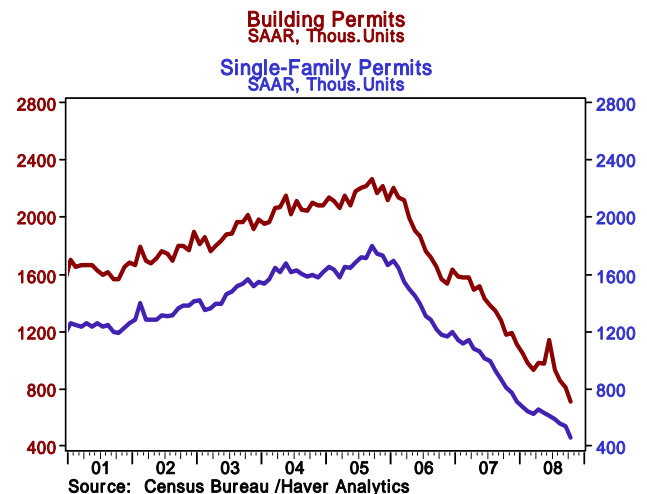
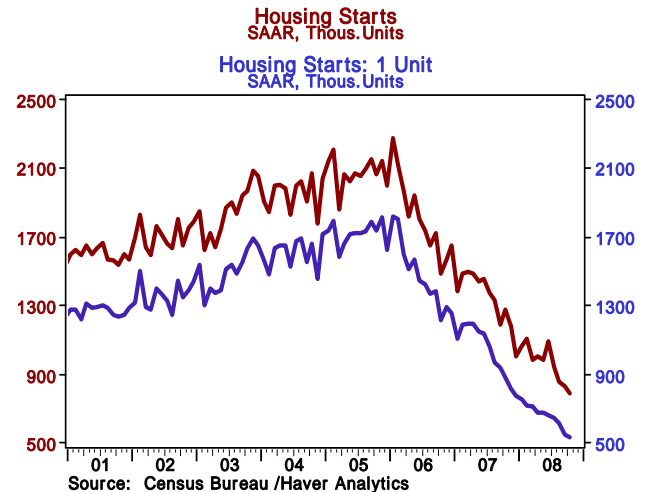


# OCTOBER HOUSING STARTS

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

- Housing starts declined 4.5% in October to 791,000 units at an annual rate, beating the consensus expected 780,000 rate. Starts are down 38.0% versus a year ago and off 65.2% from the peak in January 2006.
- The decline in starts in October affected both single-unit starts, which fell 3.3%, and multi-family starts, which fell 6.8%.
- Starts fell in the Northeast and Midwest, but rose in the South and West.
- New building permits fell 12.0% in October to 708,000 units at an annual rate, well below the consensus expected rate of 774,000. Single-family permits declined 14.5% in October, are down 43.3% versus last year and 74.4% since the peak in September 2005.



**Implications:** Home builders continue to do exactly what they need to do to clear out the excess housing inventory that developed in 2006-07. They are reducing building activity and making plans for even less construction in the months ahead. Housing starts are now the lowest since 1959 and building permits the lowest since 1960, both all-time records dating back to when the government started collecting these two data series. The level of building activity is already low enough to cut deeply and rapidly into excess home inventories. Continued cutbacks in construction will simply bring forward the point in time when home building hits bottom, which we believe will be around the middle of 2009. In addition, from a long-term perspective, new home sales should eventually return to an average annual pace of about 900,000+, just due to increasing population and a taste for newer homes. Adding-in another 300,000 in homes that are torn down each year and replaced (new homes that do *not* have to be sold) suggests a long-term average of 1.2 million+ in single-family housing starts, suggesting substantial room for improvement once building activity starts to grow again.

Housing Starts SAAR, thousands	Monthly % Ch.	Oct-08 Level	Sep-08 Level	Aug-08 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
<b>Housing Starts</b>	<b>-4.5%</b>	791	828	854	824	916	-38.0%
<b>Northeast</b>	<b>-31.0%</b>	78	113	134	108	145	-51.6%
<b>Midwest</b>	<b>-13.7%</b>	126	146	128	133	139	-38.2%
<b>South</b>	<b>1.5%</b>	416	410	401	409	443	-33.9%
<b>West</b>	<b>7.5%</b>	171	159	191	174	189	-39.1%
<b>Single-Unit Starts</b>	<b>-3.3%</b>	531	549	615	565	614	-39.9%
<b>Multi-Unit Starts</b>	<b>-6.8%</b>	260	279	239	259	302	-33.5%
<b>Building Permits</b>	<b>-12.0%</b>	708	805	857	790	904	-40.1%
<b>Single-Unit Permits</b>	<b>-14.5%</b>	460	538	553	517	564	-43.3%

Source: U.S. Census Bureau