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SEPTEMBER HOUSING STARTS

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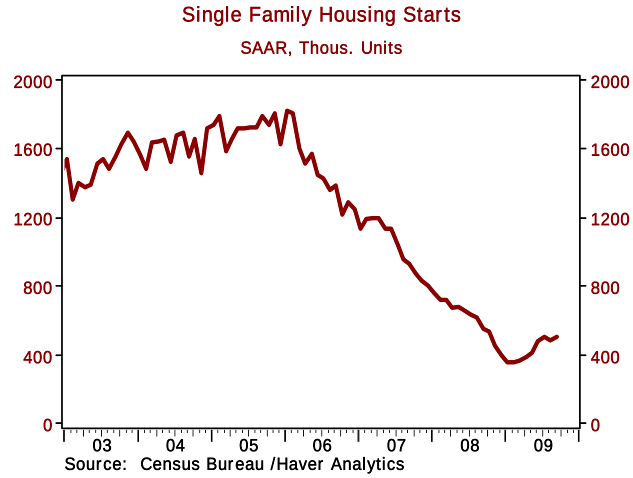
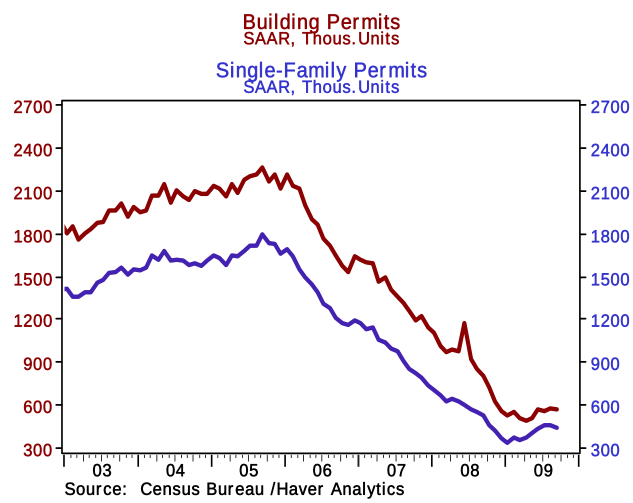
- Housing starts increased 0.5% in September to 590,000 units at an annual rate. The consensus expected pace was 610,000.
- Single-family starts increased 3.9% in September, the sixth gain in the past seven months. Multi-unit starts fell 15.2%.
- Starts rose in the South, declined slightly in the Northeast and Midwest, and fell in the West.
- New building permits declined 1.2% in September to 573,000 units at an annual rate, below the consensus expected pace of 595,000. Permits for single-family units declined 3.0%, the first drop in six months.

Implications: Housing starts did not increase as much as the consensus expected in September. However, the tepid increase in overall starts was due to a large decline in multi-unit building, which is the most volatile part of the housing report (and the most prone to reversals in the following month). Starts for single-family homes increased a solid 3.9% in September – the sixth increase in the last seven months – for a total gain of 40.3% since the bottom in January/February. This turnaround is having a positive effect on the overall level of single-family home building. After falling about 68% from early 2006 through June 2009, the number of 1-family homes under construction has been essentially unchanged for the past four months. Given an increase in other construction measures, we believe home building will add slightly to Q3 real GDP growth, ending the string of negatives that started in early 2006. In 2010-11, and perhaps beyond, home building will add substantially to the growth rate of real GDP. There is still a large excess inventory in the housing market, but the rate of home building remains far below the underlying demand for housing (about 1.6 million per year), based on population growth and "scrappage" (for reasons such as fires, disasters, and knock-downs). As a result, inventories can continue to decline rapidly even as building continues to recover.





Housing Starts *SAAR, thousands*	Monthly % Ch.	Sep-09 Level	Aug-09 Level	Jul-09 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	0.5%	590	587	593	590	565	-28.2%
Northeast	-5.5%	69	73	63	68	66	-38.4%
Midwest	-1.8%	107	109	112	109	100	-22.5%
South	7.1%	300	280	291	290	276	-26.5%
West	-8.8%	114	125	127	122	124	-30.5%
Single-Unit Starts	3.9%	501	482	506	496	461	-8.7%
Multi-Unit Starts	-15.2%	89	105	87	94	104	-67.4%
Building Permits	-1.2%	573	580	564	572	551	-28.9%
Single-Unit Permits	-3.0%	450	464	463	459	432	-14.9%

Source: U.S. Census Bureau