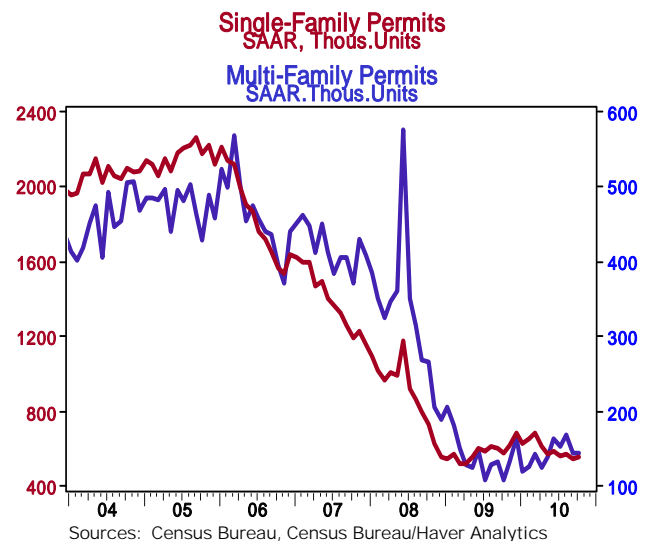
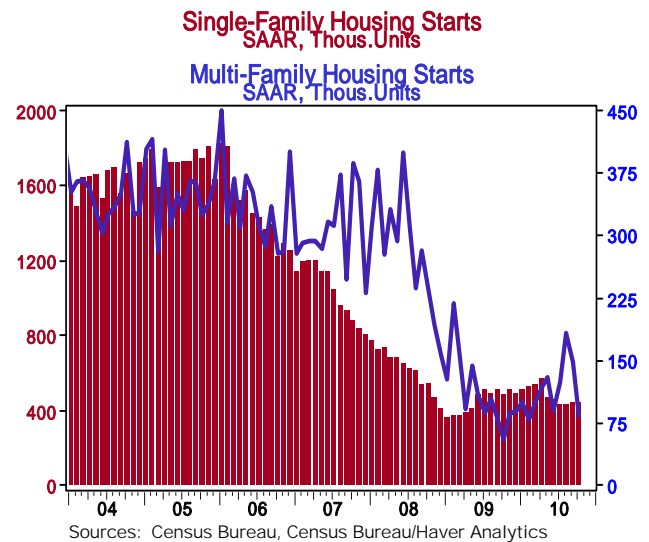


OCTOBER HOUSING STARTS

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

- Housing starts fell 11.7% in October to 519,000 units at an annual rate, well short of the consensus expected 598,000 pace. Starts are down 1.9% versus a year ago.
- Almost all of the decline in October was due to a 43.5% drop in multi-unit starts, which are extremely volatile from month to month. Single-family starts fell 1.1% in October and are down 8.2% versus a year ago, while multi-family starts are up 53.7% over the past year.
- Starts increased in the Northeast and Midwest, but declined in the South and West.
- New building permits rose 0.5% in October to a 550,000 annual rate, coming in below the consensus expected pace of 568,000. Permits are down 4.5% versus a year ago with permits for single-family units down 13.2%.

Implications: The headline large drop in housing starts in October is highly misleading. Almost all the decline was due to multi-family starts, which fell a whopping 43.5%, the largest percentage drop on record for any month going back to 1959. It's important to remember that multi-family starts are extremely volatile from month to month. Despite the large drop in October, the 12-month moving average for multi-family starts is still in a rising trend. Meanwhile the demand for multi-unit dwellings is increasing due to ongoing foreclosures and the rise in rental occupancy. As a result, we anticipate a very large rebound in multi-unit construction over the next couple of months. It is important to recognize that starts are not falling due to excess inventories. Although excess housing inventories remain, they are dropping rapidly and will continue to decline even in the face of a substantial recovery in home building. True, many former "homeowners" (we use that term loosely after an era of zero down payments) are becoming renters, but rental properties require construction too. When you hear stories about a "wave of foreclosures" lifting inventories, remember that when someone leaves their home to rent somewhere else that overall housing inventories do not change. Meanwhile, single-unit starts have been essentially unchanged over the past four months, averaging 434,000 at an annual rate. Single-family starts fell 1.1% in October to a 436,000 rate. Single-family completions have been running higher than that and increased 2.7% in October, as home builders focus on completing the projects they've already begun.



Housing Starts SAAR, thousands	Monthly % Ch.	Oct-10 Level	Sep-10 Level	Aug-10 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	-11.7%	519	588	614	574	566	-1.9%
Northeast	12.9%	79	70	75	75	72	43.6%
Midwest	1.0%	98	97	111	102	98	-2.0%
South	-13.4%	251	290	289	277	281	-6.7%
West	-30.5%	91	131	139	120	116	-13.3%
Single-Unit Starts	-1.1%	436	441	432	436	441	-8.2%
Multi-Unit Starts	-43.5%	83	147	182	137	126	53.7%
Building Permits	0.5%	550	547	571	556	564	-4.5%
Single-Unit Permits	1.0%	406	402	403	404	412	-13.2%

Source: U.S. Census Bureau