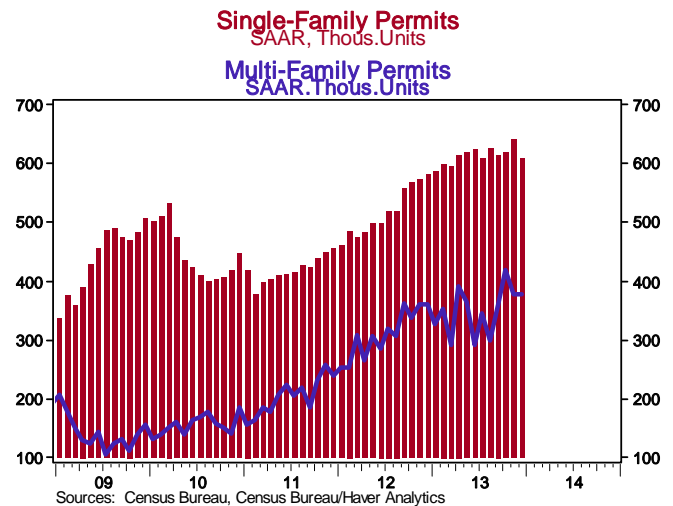
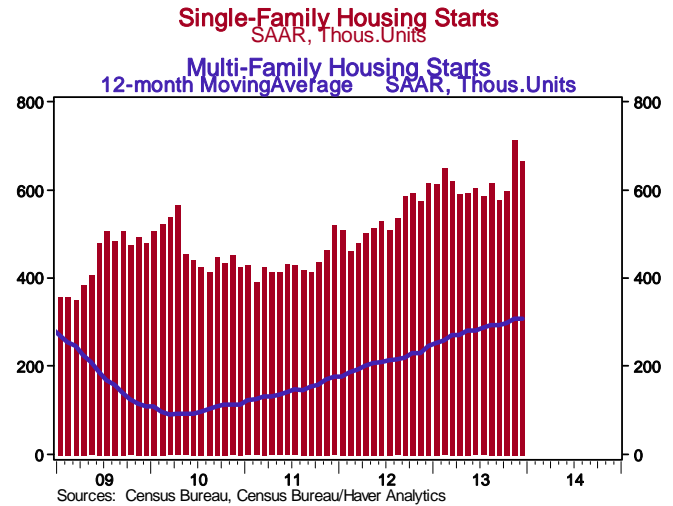


December Housing Starts

Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist
 Strider Elass – Economist

- Housing starts declined 9.8% in December to 999,000 units at an annual rate, coming in above the consensus expected 985,000 pace. Starts are up 1.6% versus a year ago.
- The drop in starts in December was due to declines in both single-family and multi-family units, which were down 7.0% and 14.9% respectively. Single-family starts are up 7.6% from a year ago while multi-family starts are down 8.5%.
- Starts in December declined in the Midwest and South, were unchanged in the Northeast, and up in the West.
- New building permits declined 3.0% in December to a 986,000 annual rate, coming in below the consensus expected 1.014 million pace. Compared to a year ago, permits for single-unit homes are up 4.5% while permits for multi-family units are up 4.7%.



Implications: After booming in November, home builders pulled back on new construction in December, starting homes at a 999,000 annual rate. Still, even with the pullback, home building beat consensus expectations and was the third best month since the recovery started. In other words, the housing recovery is still intact. Some analysts will point out that starts are up only 1.6% versus December 2012, but that month in 2012 was unusually strong, making it a tough month against which to compare December 2013. Here's a better comparison: In all of 2013, builders started 928,000 homes, up 18.4% versus 2012. As the charts to the right show, housing is clearly improving. The trend remains upward for both single-family and multi-family starts despite recent volatility. Those who are looking for signs of a slowdown will jump on the previous few months' volatility and the weather-induced pattern. But we believe this is a mistake. Overall, the underlying trends for home building continue to rise and should remain in that mode for at least the next couple of years. The total number of homes under construction (started, but not yet finished) is up 28.3% from a year ago. Based on population growth and "scrappage," housing starts will eventually rise to about 1.5 million units per year (probably by 2015). This is the level of construction that keeps the number of homes stable relative to the US population. Most of these homes will be owner-occupied but a large share will also be occupied by renters, which explains why multi-family construction has rebounded more sharply than the single-family sector over the past few years. Housing permits declined 3% in December, all due to single-family homes. Again, don't be distracted by volatility from month to month. The trends and housing fundamentals point to further housing gains in the years ahead.

Housing Starts SAAR, thousands	Monthly % Ch.	Dec-13 Level	Nov-13 Level	Oct-13 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	-9.8%	999	1107	899	1002	942	1.6%
Northeast	0.0%	90	90	119	100	101	-21.7%
Midwest	-33.5%	147	221	162	177	167	-22.6%
South	-12.3%	493	562	406	487	454	6.0%
West	15.0%	269	234	212	238	220	26.3%
Single-Unit Starts	-7.0%	667	717	600	661	629	7.6%
Multi-Unit Starts	-14.9%	332	390	299	340	314	-8.5%
Building Permits	-3.0%	986	1017	1039	1014	983	4.6%
Single-Unit Permits	-4.8%	610	641	621	624	621	4.5%

Source: U.S. Census Bureau