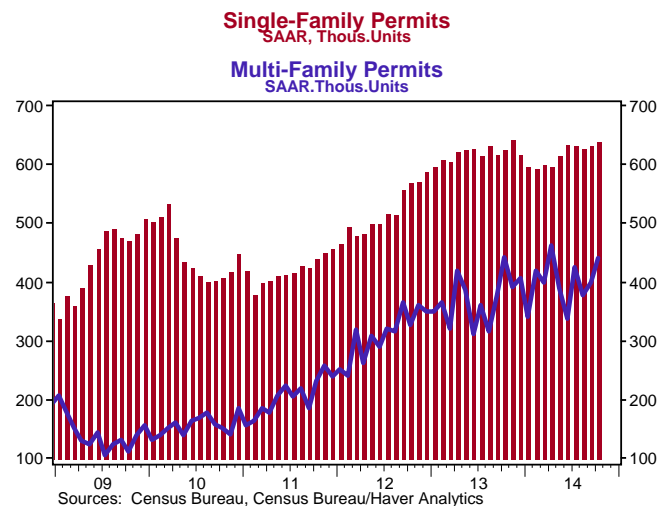
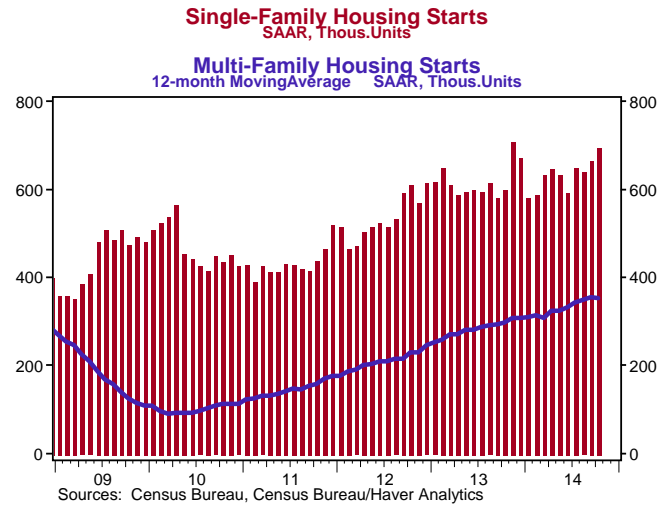


October Housing Starts

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

- Housing starts declined 2.8% in October to a 1.009 million annual rate, coming in below the consensus expected 1.025 million annual rate. Starts are up 7.8% versus a year ago.
- The decline in starts in October was all due to a sharp 15.4% drop in multi-family units; single family starts rose 4.2%. In the past year, single-family starts are up 15.4% while multi-family starts are down 6.0%.
- Starts in October declined in the Midwest, Northeast and West, but were up in the South.
- New building permits rose 4.8% in October to a 1.080 million annual rate, coming in above the consensus expected 1.040 million. Compared to a year ago, permits for single-units are up 2.4% while permits for multi-family homes are down 0.5%.

Implications: Home building has been very volatile over the past few months but the underlying trend remains upward and we expect that to continue. The best news from today’s report was that building permits rose 4.8% in October, as single-family and multi-family permits rose 1.4% and 10% respectively. Permits now stand at the highest level since June 2008, signaling future gains in home building in the months to come. October’s drop of 2.8% for home building was all due to multi-family units, which were down 15.4% in October and have caused large swings in overall housing starts over the past few months. Single-family starts have been steadily rising over the past three months. So, the multi-family volatility over the past few months has masked slow underlying improvement in the housing sector. To smooth out the volatility we look at the 12-month moving average. This is now at the highest level since September 2008. The total number of homes under construction, (started, but not yet finished) increased 1.4% in October and are up 20.1% versus a year ago. No wonder residential construction jobs are up 131,000 in the past year. Although multi-family construction has slowed over the past few months, it has still taken the clear lead in the housing recovery. Single-family starts have been in a tight range for the past two years, while the trend in multi-family units has been up steeply. In the past year, 36% of all housing starts have been for multi-unit buildings, the most since the mid-1980s, when the last wave of Baby Boomers was leaving college. From a direct GDP perspective, the construction of multi-family homes adds less, per unit, to the economy than single-family homes. However, home building is still a positive for real GDP growth and we expect that trend to continue. Based on population growth and “scrapage,” housing starts will rise to about 1.5 million units per year over the next couple of years.



Housing Starts SAAR, thousands	Monthly % Ch.	Oct-14 Level	Sep-14 Level	Aug-14 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	-2.8%	1009	1038	963	1003	1000	7.8%
Northeast	-16.4%	97	116	109	107	108	-22.4%
Midwest	-18.5%	145	178	177	167	171	-15.7%
South	10.1%	546	496	475	506	496	30.9%
West	-10.9%	221	248	202	224	226	-0.5%
Single-Unit Starts	4.2%	696	668	641	668	647	15.4%
Multi-Unit Starts	-15.4%	313	370	322	335	353	-6.0%
Building Permits	4.8%	1080	1031	1003	1038	1025	1.2%
Single-Unit Permits	1.4%	640	631	627	633	630	2.4%

Source: U.S. Census Bureau