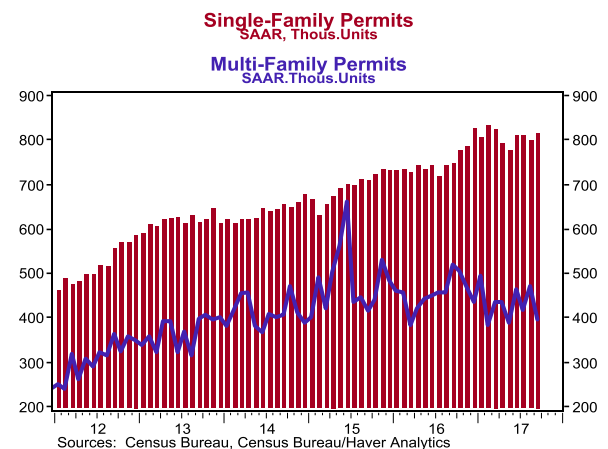
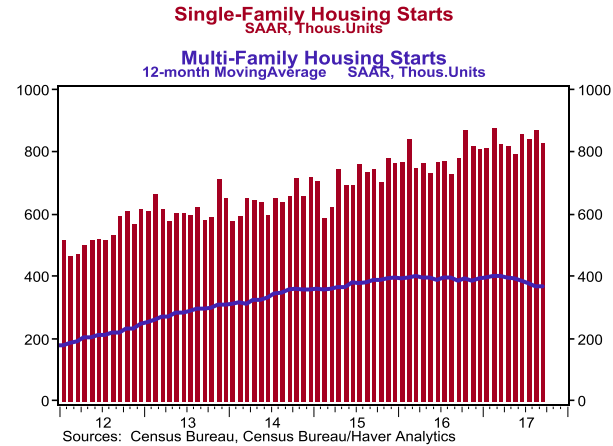


September Housing Starts

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

- Housing starts declined 4.7% in September to a 1.127 million annual rate, well below the consensus expected 1.175 million. Starts are up 6.1% versus a year ago.
- The drop in starts in September was due to a decline in both single-family and multi-unit starts. In the past year, single-family starts are up 5.9% while multi-unit starts are up 6.8%.
- Starts in September fell in the Midwest, South, and Northeast, but rose in the West.
- New building permits fell 4.5% in September to a 1.215 million annual rate, below the consensus expected 1.245 million. Compared to a year ago, permits for single-family units are up 9.3% while permits for multi-family homes are down 24%.



Implications: Housing starts came in weaker than the consensus expected for September, but we expect a sharp rebound in the months ahead. Two key factors held down starts: First, multi-unit starts (apartments), which are normally very volatile, dropped 5.1%. Second, single-family starts plummeted in the South, dropping 15.3%, in large part due to storm impacts from Hurricanes Harvey and Irma. In fact, the South represented 54,000 of the 56,000 decline in starts in September. Strip out that region, and total starts were essentially unchanged from August. According to the Census Bureau, the counties affected by the hurricanes accounted for 26% of new construction authorized in the southern region in 2016, signaling the outsized effect these areas have on headline numbers. Notably, single-family starts rose in every other region in September – the Northeast, Midwest, and West – which supports our view that the fundamentals powering the housing recovery are still in place. In spite of the overall drop in starts for the month, they’re still up 6.1% from a year ago. Although overall permits dropped 4.5% in September - and are now down 4.3% versus a year ago - this was entirely due to a decline in multi-family permits. Permits for single-family units, which are more stable from month to month, rose 2.4% in September and are up 9.3% in the past year. Multi-family construction led the way in the early stages of the housing recovery (2011-15). By 2015, 35.7% of all starts were in the multi-family sector, the largest share since the mid-1980s, when the last wave of Baby Boomers was growing up and moving to cities. Since then, the multi-family share of starts has been trending down, currently standing at 26.4%. We expect this trend to continue and view the shift toward single-family construction is a positive sign for the economy because, on average, each single-family home contributes to GDP about twice the amount of a multi-family unit. Based on population growth and “scrappage,” housing starts should eventually rise to about 1.5 million units per year. And the longer this process takes, the more room the housing market will have to eventually overshoot the 1.5 million mark.

Housing Starts SAAR, thousands	Monthly % Ch.	Sep-17 Level	Aug-17 Level	Jul-17 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	-4.7%	1127	1183	1185	1165	1166	6.1%
Northeast	-9.2%	99	109	120	109	109	4.2%
Midwest	-20.2%	154	193	161	169	179	2.7%
South	-9.3%	527	581	611	573	562	-2.2%
West	15.7%	347	300	293	313	315	24.8%
Single-Unit Starts	-4.6%	829	869	841	846	836	5.9%
Multi-Unit Starts	-5.1%	298	314	344	319	330	6.8%
Building Permits	-4.5%	1215	1272	1230	1239	1231	-4.3%
Single-Unit Permits	2.4%	819	800	812	810	803	9.3%

Source: U.S. Census Bureau