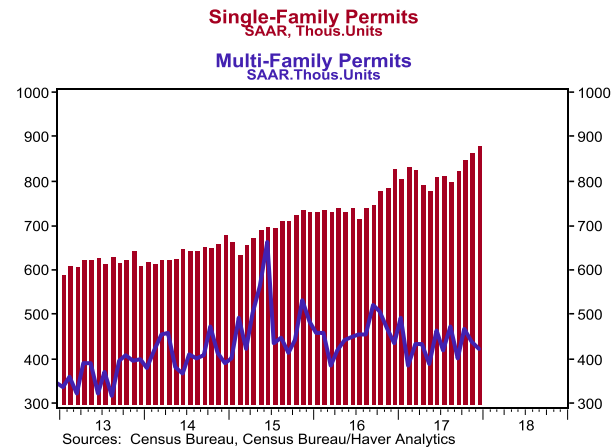
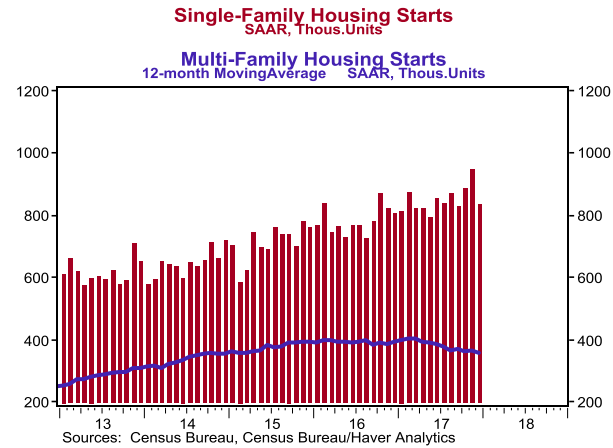


# December Housing Starts

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- Housing starts declined 8.2% in December to a 1.192 million annual rate, below the consensus expected 1.275 million. Starts are down 6.0% versus a year ago.
- The drop in starts in December was entirely due to single-family starts. Multi-unit starts rose in December. In the past year, single-family starts are up 3.5% while multi-unit starts are down 22.6%.
- Starts in December fell in all the major regions.
- New building permits fell 0.1% in December to a 1.302 million annual rate, beating the consensus expected 1.295 million. Compared to a year ago, permits for single-family units are up 6.1% while permits for multi-family homes are down 3.4%.

**Implications:** Housing starts retreated in December, as the surge in construction in the southern region following Hurricanes Harvey and Irma ran its course. Starts fell 8.2% in December and are now down 6.0% in the past year. The South alone was responsible for 90% of the drop in the pace of construction in December. According to the Census Bureau, the counties affected by the hurricanes accounted for 26% of new construction authorized in the southern region in 2016, which explains why the storms have had such a large effect on the data in the past few months. However, this is just a temporary lull in new construction as the storm-related rebound subsides. Despite today’s negative headline number, 2017 annual totals for starts, permits, and home completions were all at their highest levels in a decade, signaling the trend will remain upward. Though overall starts are now down 6% from a year earlier, this is entirely due to multi-family starts, which are down 22.6% over that same period. Single-family starts are up 3.5% from a year ago. 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. We expect this trend to continue and view the shift toward single-family construction as a positive sign for the economy. 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. Although the tax bill looks set to trim the principal limit against which borrowers can take a mortgage interest deduction to \$750,000 versus the current law amount of \$1 million, the bill would only affect new mortgages. In addition, large reductions to marginal tax rates in the early 1980s, which reduced the value of the mortgage interest deduction, coincided with a rebound in housing. In other words, we don’t expect the changes in the deduction to cause problems for the housing industry at the national level, although we do expect some shift in building toward regions with lower land prices. In other news this morning, initial jobless claims fell 41,000 last week to 220,000, hitting their lowest level since 1973. Meanwhile, continuing claims rose 76,000 to 1.952 million. On the factory front, the Philly Fed Index, a measure of sentiment among East Coast manufacturers, fell to a still high 22.2 in January from 27.9 in December.



Housing Starts SAAR, thousands	Monthly % Ch.	Dec-17 Level	Nov-17 Level	Oct-17 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
<b>Housing Starts</b>	<b>-8.2%</b>	1192	1299	1261	1251	1211	-6.0%
<b>Northeast</b>	<b>-4.3%</b>	88	92	145	108	109	-1.1%
<b>Midwest</b>	<b>-2.2%</b>	178	182	200	187	180	-19.8%
<b>South</b>	<b>-14.2%</b>	582	678	613	624	602	2.8%
<b>West</b>	<b>-0.9%</b>	344	347	303	331	321	-12.0%
<b>Single-Unit Starts</b>	<b>-11.8%</b>	836	948	887	890	869	3.5%
<b>Multi-Unit Starts</b>	<b>1.4%</b>	356	351	374	360	342	-22.6%
<b>Building Permits</b>	<b>-0.1%</b>	1302	1303	1316	1307	1275	2.8%
<b>Single-Unit Permits</b>	<b>1.8%</b>	881	865	850	865	839	6.1%

Source: U.S. Census Bureau