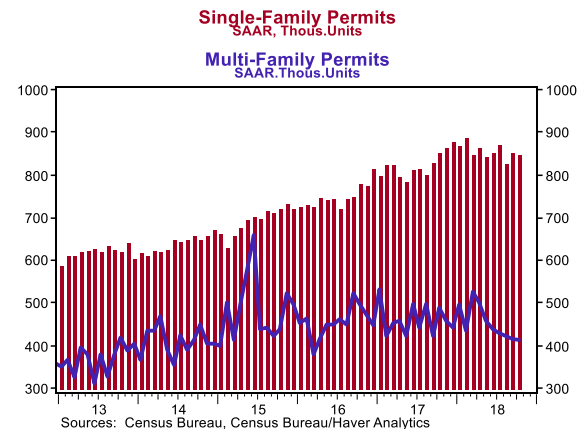
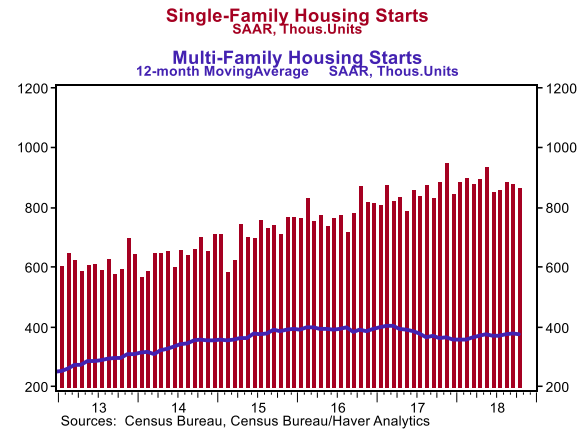


October Housing Starts

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- Housing starts increased 1.5% in October to a 1.228 million annual rate, matching the consensus. Starts are down 2.9% versus a year ago.
- The gain in starts in October was entirely due to multi-unit starts. Single-family starts fell in October. In the past year, single-family starts are down 2.6% while multi-unit starts are down 3.7%.
- Starts in October rose in the Midwest and South, but fell in the Northeast and West.
- New building permits declined 0.6% in October to a 1.263 million annual rate, narrowly beating the consensus expected 1.260 million. Compared to a year ago, permits for single-family units are down 0.6% while permits for multi-family homes are down 15.3%.

Implications: Aside from the positive headline increase, there wasn't much to get excited about in today's report on housing starts. Yes, overall new construction rose 1.5% in October, but single-family starts fell 1.8% for the month; all the gain came from the volatile multi-family sector where starts jumped 10.3%, marking the third monthly double-digit percentage swing in a row. Some pessimistic analysts will focus on the fact that housing starts are down from a year ago, for both single-family and multiple-family units. But the comparisons to October 2017 are distorted by the timing and locations of hurricanes this year and last year. Instead of year-ago comparisons involving a single month, for the time being the trend is best described by the first ten months of the year compared to the same ten months in 2017. And that shows single-family starts up 5.0% while overall starts are up 5.4%, demonstrating that the broader trend in construction growth remains intact. Even though overall permits for new construction fell 0.6% in October, this was entirely due to an upward revision for September; permits in October were 1.8% higher than the prior estimate for September. That said, permits for single-family construction (which weren't very affected by the revision) continued to struggle in October, declining 0.6%. Overall permits are still up 2.5% in the first ten months of 2018 compared to the same period last year. Expect a rebound in the months ahead, as permits are less influenced by weather. We still anticipate a rising trend in home building in the next few years. Based on fundamentals – population growth and scrapage – the US needs about 1.5 million new housing units per year but hasn't built at that pace since 2006. The problem is that there continue to be some headwinds that may temper growth in home building. The National Association of Home Builders said 84% of developers cited labor shortages and the rising cost of building materials as their biggest problems in 2018. And both these issues look set to continue as an increasingly tight labor market keeps the number of job openings in construction elevated and the cost of inputs for residential construction continue to rise. In other recent housing news, the NAHB index, which measures homebuilder sentiment, fell unexpectedly to 60 in November from 68 in October, remaining at a historically elevated level but hitting its lowest reading since 2016. Homebuilders primarily cited rising interest rates causing affordability concerns for buyers as the reason for their declining optimism.



| Housing Starts SAAR, thousands | Monthly % Ch. | Oct-18 Level | Sep-18 Level | Aug-18 Level | 3-mth moving avg | 6-mth moving avg | Yr to Yr % Change |
|-----------------------------------|------------------|-----------------|-----------------|-----------------|---------------------|---------------------|----------------------|
| Housing Starts | 1.5% | 1228 | 1210 | 1280 | 1239 | 1235 | -2.9% |
| Northeast | -34.1% | 87 | 132 | 99 | 106 | 105 | -40.0% |
| Midwest | 32.9% | 210 | 158 | 187 | 185 | 189 | 5.0% |
| South | 4.7% | 596 | 569 | 657 | 607 | 610 | -3.4% |
| West | -4.6% | 335 | 351 | 337 | 341 | 330 | 10.6% |
| Single-Unit Starts | -1.8% | 865 | 881 | 890 | 879 | 881 | -2.6% |
| Multi-Unit Starts | 10.3% | 363 | 329 | 390 | 361 | 354 | -3.7% |
| Building Permits | -0.6% | 1263 | 1270 | 1249 | 1261 | 1280 | -6.0% |
| Single-Unit Permits | -0.6% | 849 | 854 | 827 | 843 | 850 | -0.6% |

Source: U.S. Census Bureau