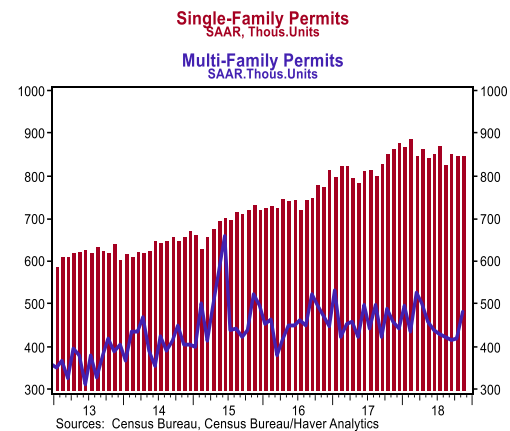
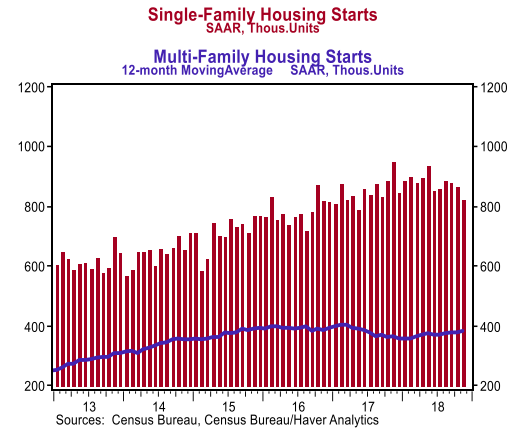


November Housing Starts

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

- Housing starts increased 3.2% in November to a 1.256 million annual rate, beating the consensus expected 1.226 million. Starts are down 3.6% versus a year ago.
- The gain in starts in November was entirely due to multi-unit starts. Single-family starts fell in November. In the past year, single-family starts are down 13.1% while multi-unit starts are up 21.7%.
- Starts in November rose in the Northeast and South, but fell in the Midwest and West.
- New building permits rose 5.0% in November to a 1,328 million annual rate, easily beating the consensus expected 1.260 million. Compared to a year ago, permits for single-family units are down 1.9% while permits for multi-family homes are up 4.6%.

Implications: Housing starts surprised to the upside in November, but the details of the report leave something to be desired. While new construction across all units rose 3.2% in November, single-family starts fell 4.6% for the month. In other words, the gain in November came entirely from the volatile multi-family sector, where starts jumped 22.4%. Some pessimistic analysts will surely dwell on the fact that housing starts are down 3.6% in the past year. But what they may not mention is that this is largely due to impacts from last year's unusually strong hurricane season. The fourth quarter of 2017 saw a storm-induced jump in new construction in the aftermath of Hurricanes Harvey and Irma. With that in mind, year-ago comparisons involving a single month look like a poor measure of housing health. Instead, we prefer to focus on the trend by comparing the first eleven months of this year to the same eleven months in 2017. In contrast to the single-month comparisons, that year-to-date measure shows single-family starts up 3.2% while overall starts are up 4.7%. And it's nearly certain that next month's report will show positive growth for 2018 as a whole, demonstrating that the broader trend in construction growth remains intact. The forward-looking data in today's report shows permits for new construction rose 5.0% in November, the biggest single month increase in over a year. However, once again, this gain was also almost entirely due to multi-family starts. Using our trend measure, permits are up 2.3% in the first eleven months of 2018 compared to the same period last year. Despite recent softness, our outlook on housing hasn't changed. 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 near-term growth in home building. For example, the increasingly tight labor market has made hiring difficult across industries, and construction is no exception, with job openings in that sector near a record high. On the bright side, prices for residential construction inputs (which rose due to tariff concerns) have started to decline, which should take some pressure off builders. On net, there remain some difficulties within the housing sector, but they are little more than a hiccup on the continued march higher. In other recent housing news, the NAHB index, which measures homebuilder sentiment, fell unexpectedly to 56 in December from 60 in November, remaining at a historically elevated level but hitting its lowest reading since 2015. Homebuilders primarily cited rising interest rates causing affordability concerns for buyers as the reason for their declining optimism. Mortgage rates peaked in early November, but have now turned lower, which should help boost sentiment as we close out the year. On the manufacturing front, the Empire State Index, which measures factory sentiment in the New York region, fell sharply to 10.9 in December from 23.3 in November. Despite the drop, the index remains in expansionary territory, and the forward-looking components continue to show optimism heading into next year, most notably in planned capital expenditures.



Housing Starts SAAR, thousands	Monthly % Ch.	Nov-18 Level	Oct-18 Level	Sep-18 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	3.2%	1256	1217	1237	1237	1225	-3.6%
Northeast	37.8%	124	90	141	118	110	33.3%
Midwest	-19.2%	156	193	171	173	175	-12.4%
South	15.1%	687	597	568	617	616	1.3%
West	-14.2%	289	337	357	328	324	-18.4%
Single-Unit Starts	-4.6%	824	864	879	856	862	-13.1%
Multi-Unit Starts	22.4%	432	353	358	381	364	21.7%
Building Permits	5.0%	1328	1265	1270	1288	1285	0.4%
Single-Unit Permits	0.1%	848	847	854	850	850	-1.9%

Source: U.S. Census Bureau