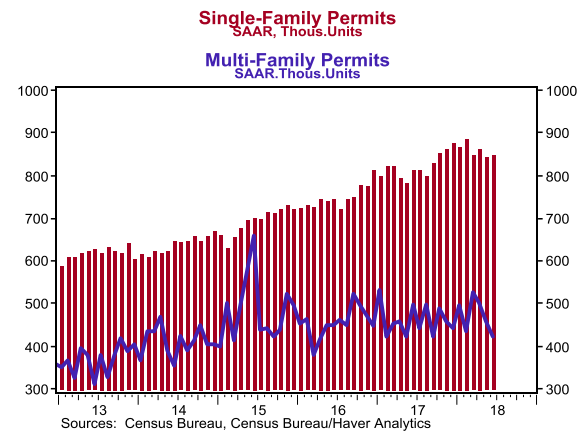
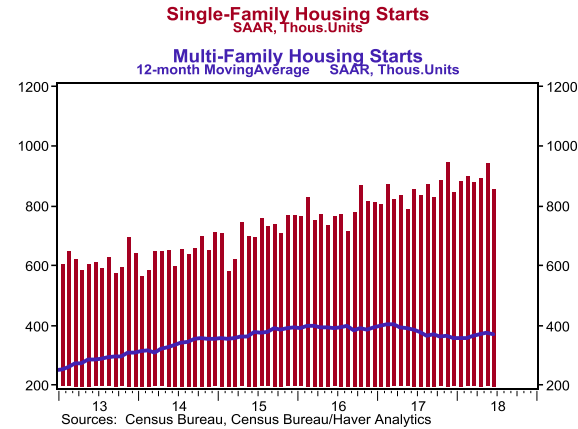


June Housing Starts

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- Housing starts declined 12.3% in June to a 1.173 million annual rate, well below the consensus expected 1.320 million. Starts are down 4.2% versus a year ago.
- The drop in starts in June was due to both single-family and multi-unit starts. In the past year, single-family starts are down 0.2% while multi-unit starts are down 13.7%.
- Starts in June fell in all major regions.
- New building permits declined 2.2% in June to a 1.273 million annual rate, below the consensus expected 1.330 million. Compared to a year ago, permits for single-family units are up 4.6% while permits for multi-family homes are down 15.2%.

Implications: No doubt about it, housing starts were weak in June. After hitting the fastest pace since 2007 in May, new home construction fell 12.3% to a 1.173 million annual rate in June, well below even the most pessimistic forecast. This represents the slowest pace of new construction since the disruptions caused by Hurricanes Harvey and Irma nine months ago. Moreover, the headline number was the result of broad-based declines across every major region. That said, [we don't think this is the beginning of the end](#) for the housing recovery, and it's important to remember that data on housing starts are very volatile from month to month. One way to cut through the monthly noise is to compare the first half of 2018 versus the same period in 2017. By that measure starts are up 7.4% from a year ago. While some analysts are blaming the drop in housing starts in June on higher mortgage rates, these same analysts are ignoring that starts are up in the first six months of 2018 versus the same months in 2017. If higher mortgage rates were a major problem, the faster pace of starts so far in 2018 wouldn't have happened. Going forward, we expect further gains in starts in the year ahead, although we expect the pace of growth to slow. There are a couple of real headwinds that seem to be holding new construction back. The National Association of Home Builders claims 84% of developers cited labor shortages and the rising cost of building materials as their biggest problems in 2018. Both these issues are set to continue as an increasingly tight labor market keeps the number of job openings in construction elevated and tariffs on lumber, steel, and aluminum drive up input costs. Cost concerns were also echoed in yesterday's NAHB index, but were offset by strong buyer demand, leaving builder optimism at historically elevated levels. New single-family construction continues to be the main driver of trend growth, as the chart to the right demonstrates. We expect further strength from single-family starts in the years ahead, and a continued transition to more growth in single-family construction from multi-family will be good news for the overall economy. On average, each single-family home contributes to GDP about twice the amount of a multi-family unit. Even though permits for future construction fell 2.2% in June, this was entirely due to a decline in multi-unit permits. Single-unit permits eked out a 0.8% gain in June and are still up 4.6% from a year ago. The second quarter also saw developers completing units at the fastest quarterly pace since the recession, freeing them up to start construction of new homes which should show up in the headline numbers going forward. Based on population growth and "scrappage," look for housing starts to rise to an average of about 1.5 million units per year by late 2019. And the longer this process takes, the more room the housing market will have to eventually overshoot that mark.



Housing Starts SAAR, thousands	Monthly % Ch.	Jun-18 Level	May-18 Level	Apr-18 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	-12.3%	1173	1337	1276	1262	1290	-4.2%
Northeast	-6.8%	96	103	96	98	111	-40.0%
Midwest	-35.8%	156	243	160	186	173	-23.5%
South	-9.1%	601	661	669	644	643	13.4%
West	-3.0%	320	330	351	334	362	-3.3%
Single-Unit Starts	-9.1%	858	944	898	900	895	-0.2%
Multi-Unit Starts	-19.8%	315	393	378	362	395	-13.7%
Building Permits	-2.2%	1273	1301	1364	1313	1334	-3.0%
Single-Unit Permits	0.8%	850	843	863	852	861	4.6%

Source: U.S. Census Bureau