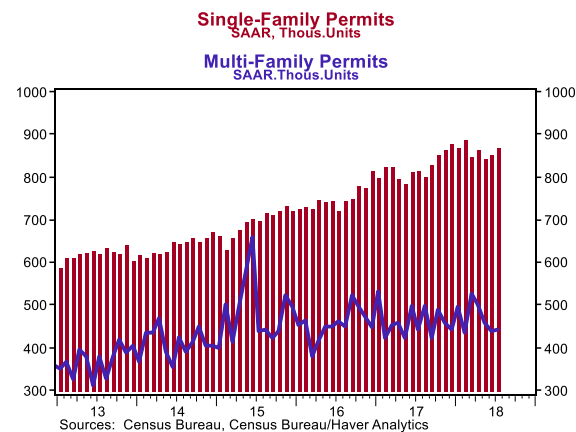
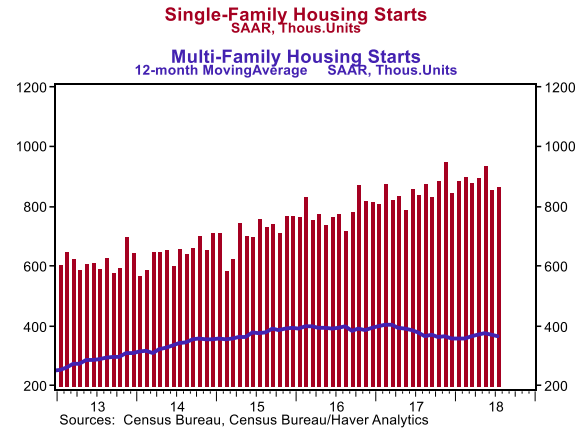


July Housing Starts

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

- Housing starts increased 0.9% in July to a 1.168 million annual rate, well below the consensus expected 1.260 million. Starts are down 1.4% versus a year ago.
- The gain in starts in July was due to both single-family and multi-unit starts. In the past year, single-family starts are up 2.7% while multi-unit starts are down 11.6%.
- Starts in July rose in the Midwest and South but fell in the West and Northeast.
- New building permits increased 1.5% in July to a 1.311 million annual rate, just above the consensus expected 1.310 million. Compared to a year ago, permits for single-family units are up 6.4% while permits for multi-family homes are up 0.2%.

Implications: Hold off on housing starts for a moment, and take a look at this morning’s reading on initial jobless claims which fell last week to 212,000, just 4,000 above the lowest reading since December 1969. Meanwhile, continuing claims fell 39,000 to 1.72 million. These are the types of fundamentals we focus on – rather than prognostications from the pouting pundits of pessimism – to determine if the current “trade war” is really hurting the US economy. With that said, on to housing starts, which eked out a small gain in July, but continue to disappoint. Following June’s decline to the slowest pace of starts since the disruptions caused by Hurricanes Harvey and Irma, new construction rose a tepid 0.9% in July, coming in below even the most pessimistic forecast. 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 noise is to compare the year-to-date pace of starts in 2018 to the same period in 2017. By that measure starts are up 5.9% from a year ago. Now, some analysts are blaming the recent weakness on higher mortgage rates, but if that were the truly the case, the faster pace of starts so far in 2018 wouldn’t have happened. But, there are some real headwinds that may temper growth. 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 tariffs on lumber, steel, and aluminum drive up input costs. Cost and labor concerns were also echoed in yesterday’s NAHB Index, but were offset by strong buyer demand, leaving builder optimism at historically elevated levels. One additional reason to be optimistic going forward is that the pace builders are receiving permits for new construction continues to surpass the pace of actual groundbreaking. This is the reverse of what you would expect if builders saw demand for new units as likely to dry up in the future. Together, the data points towards a trend higher in homebuilding in the year ahead. On the manufacturing front this morning, the Philly Fed Index, a measure of East Coast factory sentiment, fell to +11.9 in August from +25.7 in July, remaining in positive territory and signaling continued optimism from manufacturers, although not as much as in July.



Housing Starts SAAR, thousands	Monthly % Ch.	Jul-18 Level	Jun-18 Level	May-18 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	0.9%	1168	1158	1329	1218	1258	-1.4%
Northeast	-4.0%	97	101	106	101	109	-18.5%
Midwest	11.6%	173	155	239	189	177	7.5%
South	10.4%	636	576	652	621	630	4.1%
West	-19.6%	262	326	332	307	343	-10.9%
Single-Unit Starts	0.9%	862	854	938	885	889	2.7%
Multi-Unit Starts	0.7%	306	304	391	334	369	-11.6%
Building Permits	1.5%	1311	1292	1301	1301	1328	4.2%
Single-Unit Permits	1.9%	869	853	843	855	861	6.4%

Source: U.S. Census Bureau