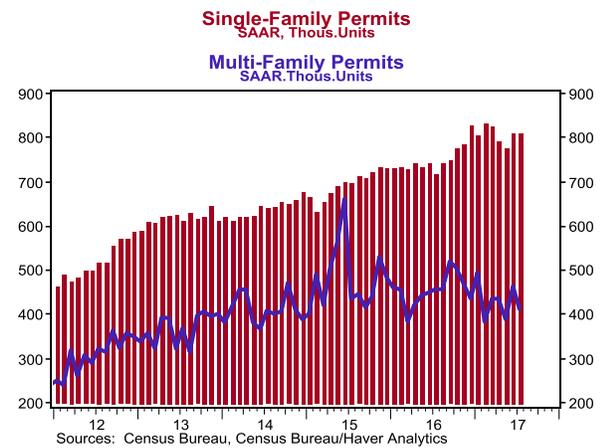
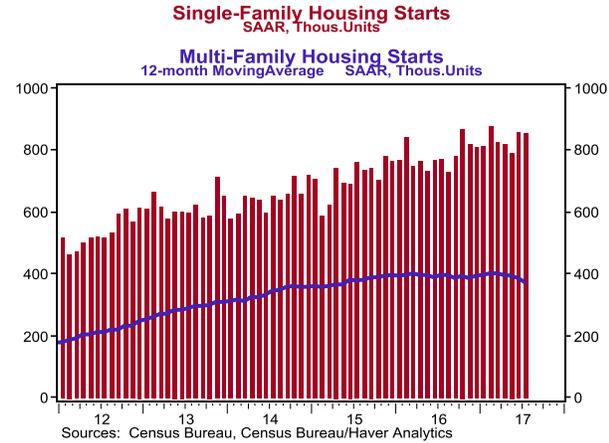


August Housing Starts

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- Housing starts declined 0.8% in August to a 1.180 million annual rate, beating the consensus expected 1.174 million. Starts are up 1.4% versus a year ago.
- The drop in starts in August was entirely due to a drop in multi-unit starts. Single-family starts increased 1.6%. In the past year, single-family starts are up 17.1% while multi-unit starts are down 24.7%.
- Starts in August fell in the Northeast and South, but rose in the Midwest and West.
- New building permits rose 5.7% in August to a 1.300 million annual rate, easily beating the consensus expected 1.220 million. Compared to a year ago, permits for single-family units are up 7.7% while permits for multi-family homes are up 9.4%.

Implications: Considering that Hurricane Harvey hit late in the month, the slight drop in housing starts in August is nothing to worry about. Hurricane Irma may end up depressing home building in September as well, but storm-related rebuilding plus the solid fundamentals of the housing market should push starts to new recovery highs by early next year. Note that all the drop in starts in August was due the extremely volatile multi-family sector (apartments, duplexes,...etc.), which fell 6.5% for the month and are down 24.7% from a year ago. Meanwhile, single-family starts rose 1.6% in August and are up 17.1% from a year ago. Surprisingly, permits for the volatile multi-family sector surged 19.6% in August and are now up 9.4% versus a year ago. However, we don't think this signals a looming shift back toward multi-family starts on the horizon. Multi-family 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, currently standing at 27.8%. We expect that trend to continue. The shift toward single-family is a positive sign for the economy because, on average, each single-family home contributes to GDP about twice the amount of a multi-family unit. Based on population growth and "scrapage," 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. In other recent housing news, the NAHB index, which measures sentiment among home builders fell to 64 in September from 67 in August. That kind of dip is not unusual following a massive storm. Expect further strength in the housing sector in the year ahead as more jobs, faster wage growth, and, for at least the time being, optimism about more market-friendly policies from the Trump Administration, continue to encourage both prospective home buyers and builders. In inflation news, import prices rose 0.6% in August and are up 2.1% from a year ago. Export prices increased 0.6% in August, and have increased 2.3% in the past year. Both figures are a stark contrast to the negative direction of prices in the twelve months ending in August 2016. With monetary policy loose, expect higher inflation readings in the year ahead.



Housing Starts SAAR, thousands	Monthly % Ch.	Aug-17 Level	Jul-17 Level	Jun-17 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	-0.8%	1180	1190	1217	1196	1177	1.4%
Northeast	-8.7%	105	115	158	126	111	-21.1%
Midwest	22.0%	200	164	202	189	178	17.6%
South	-7.9%	563	611	529	568	577	0.2%
West	4.0%	312	300	328	313	311	4.3%
Single-Unit Starts	1.6%	851	838	857	849	831	17.1%
Multi-Unit Starts	-6.5%	329	352	360	347	345	-24.7%
Building Permits	5.7%	1300	1230	1275	1268	1244	8.3%
Single-Unit Permits	-1.5%	800	812	811	808	804	7.7%

Source: U.S. Census Bureau