Data Watch

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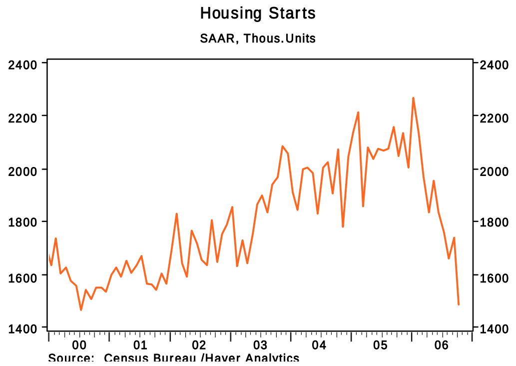
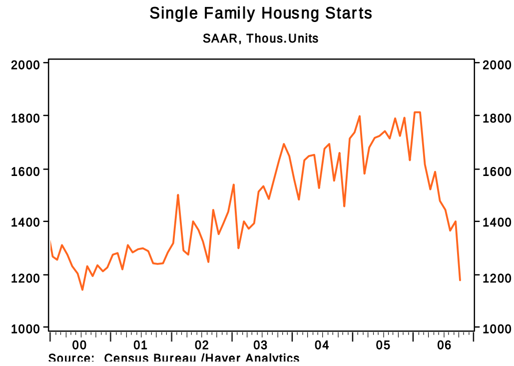
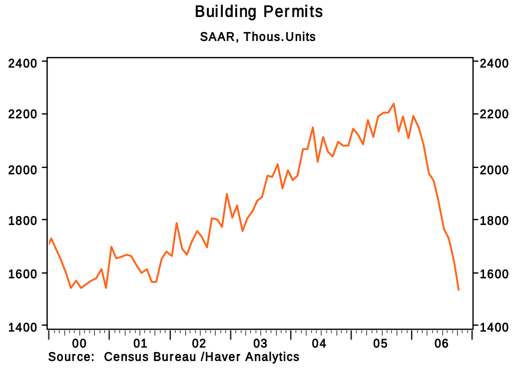
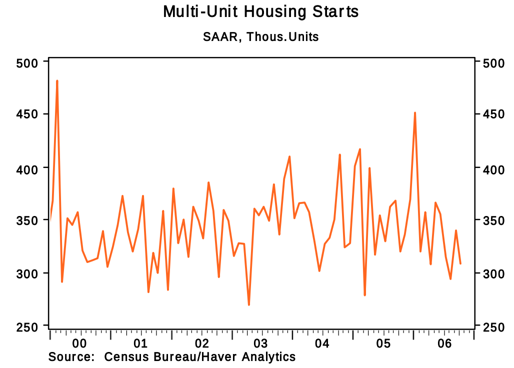
October Housing Starts

- Housing starts plummeted 14.6% in October to 1.486 million units at an annual rate, and stand at their lowest level since July 2000. Single family starts declined 15.9% and multi-unit starts fell 9.1% in October.
- New building permits declined 6.3% in October to an annualized 1.535 million units – the lowest level since Q4 1997.
- Housing completions declined 3.8% to 1.953 million units in October.









Implications: After a rebound in September, which led many to assume the market was stabilizing, housing starts collapsed in October and stand 27.4% below year ago levels. New building permits also tanked and stand 28.0% below year-ago levels. While October was the weakest reading on housing starts in six years, this is slightly misleading. The July 2000 level of starts was a one-month downward blip. If starts stabilized at current levels, the sector would actually be operating at rates not seen since 1997. Housing has typically been a leading indicator of tight monetary policy, and a downturn in housing of the magnitude we have witnessed in the past year could be seen as a harbinger of recession. But, housing was boosted by abnormally low interest rates in recent years, very favorable tax policy, and demographics. The last two factors are still in place, while interest rates are not historically high, in either real or nominal terms. As a result, we continue to believe that housing is going through a sharp correction, not an outright collapse, and does not signal a looming recession. A rebound in lumber prices and a two-month increase in the Homebuilders Index suggests that the sector is actually stabilizing.

Housing Starts *SAAR, thousands*	**Monthly % Ch.**	**Oct-06 Level**	**Sep-06 Level**	**Aug-06 Level**	**3-mth moving avg**	**6-mth moving avg**	**Yr over Yr % Ch.**
Housing Starts	**-14.6%**	**1486**	1740	1659	1628	1739	-27.4%
Northeast	**31.0%**	**165**	126	160	150	161	-2.9%
Midwest	**-11.7%**	**242**	274	255	257	276	-28.0%
South	**-26.4%**	**705**	958	846	836	876	-31.5%
West	**-2.1%**	**374**	382	398	385	425	-26.8%
Single-unit	**-15.9%**	**1177**	1400	1365	1314	1409	-31.8%
Multi-unit	**-9.1%**	**309**	340	294	314	330	-3.4%
2-4 unit	**53.6%**	**43**	28	41	37	48	30.3%
5 unit	**-14.7%**	**266**	312	253	277	282	-7.3%
Building Permits	**-6.3%**	**1535**	1638	1727	1633	1746	-28.0%
Single-unit	**-3.8%**	**1173**	1219	1284	1225	1316	-31.7%
2-4 unit	**-5.6%**	**68**	72	74	71	75	-16.0%
5 unit	**-15.3%**	**294**	347	369	337	356	-11.7%

Source: U.S. Census Bureau