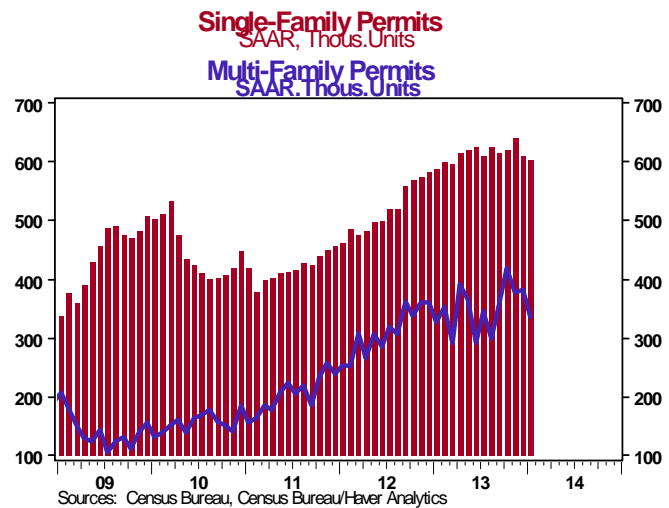
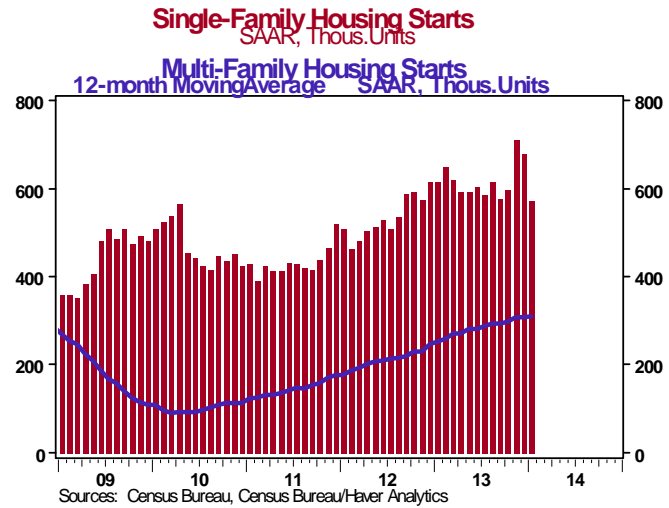


# January Housing Starts

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

- Housing starts declined 16.0% in January to 880,000 units at an annual rate, coming in well below the consensus expected 950,000 pace. Starts are down 2.0% versus a year ago.
- The drop in starts in January was due to declines in both single-family and multi-family units, which were down 15.9% and 16.3% respectively. Single-family starts are down 6.7% from a year ago while multi-family starts are up 8.1%.
- Starts in January declined in the Midwest, South, and West, but were up in the Northeast.
- New building permits declined 5.4% in January to a 937,000 annual rate, coming in well below the consensus expected 975,000 pace. Compared to a year ago, permits for single-unit and multi-family homes are both up 2.4%.



**Implications:** Home building plummeted in January. However, as predicted in [yesterday's Monday Morning Outlook](#), the data on housing starts were just another victim of the polar vortex. Although national average temperatures were only a little below normal in January, that figure is weighted by region size, not population, and includes states that normally have mild winters. NOAA calculates Heating Degree Days (HDD) which ignores areas where the temperature is 65 degrees and above, and which weights the remaining areas by population. The higher the HDD index, the colder it is, and January 2014 had the highest HDD index for any January in 20 years. Not surprisingly, in January of 1994 housing starts plummeted by 17%. When it's this wet, cold and snowy it's nearly impossible to move dirt. In the Midwest, starts fell 67.7% in January to only 50,000 units at an annual rate. This is the lowest level *ever* recorded going back to 1959. Weather is why housing starts fell so much. To smooth out some of this volatility we look at moving averages, and the 4 month moving average of housing starts is the highest since July 2008. Some say weather is a minor factor and look to mortgage rates, but the US had a bubble in housing during 2003-07, when 30-year mortgage rates averaged 6.1%. Today, they are 4.4%. Adjusted for inflation, real mortgage rates are actually a little bit lower today than they were back in 2003-07. We remain convinced that the underlying trends for home building are strong and should remain in that mode for at least the next couple of years. The total number of homes under construction (started, but not yet finished) is up 27% from a year ago. Based on population growth and "scrappage," housing starts will eventually rise to about 1.5 million units per year (probably by the end of 2015). This is the level of construction that keeps the number of homes stable relative to the US population. In other housing news yesterday, the NAHB index, which measures confidence among home builders, came in at 46 in February, down 10 points from January. Builders cited weather as the primary reason for the drop. Also yesterday, the Empire State index, a measure of factory sentiment in New York, declined to +4.5 from +12.5 in January. This signals continued growth in factory activity despite the weather.

Housing Starts SAAR, thousands	Monthly % Ch.	Jan-14 Level	Dec-13 Level	Nov-13 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
<b>Housing Starts</b>	<b>-16.0%</b>	880	1048	1101	1010	947	-2.0%
<b>Northeast</b>	<b>61.9%</b>	136	84	94	105	105	56.3%
<b>Midwest</b>	<b>-67.7%</b>	50	155	212	139	149	-47.4%
<b>South</b>	<b>-12.5%</b>	457	522	567	515	470	-5.4%
<b>West</b>	<b>-17.4%</b>	237	287	228	251	225	1.7%
<b>Single-Unit Starts</b>	<b>-15.9%</b>	573	681	713	656	628	-6.7%
<b>Multi-Unit Starts</b>	<b>-16.3%</b>	307	367	388	354	320	8.1%
<b>Building Permits</b>	<b>-5.4%</b>	937	991	1017	982	981	2.4%
<b>Single-Unit Permits</b>	<b>-1.3%</b>	602	610	641	618	619	2.4%

Source: U.S. Census Bureau

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