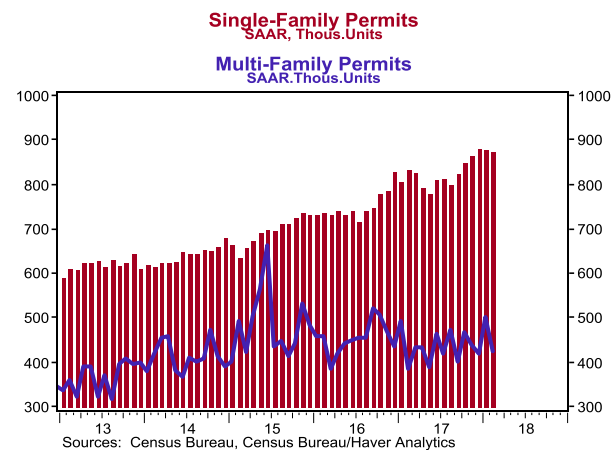
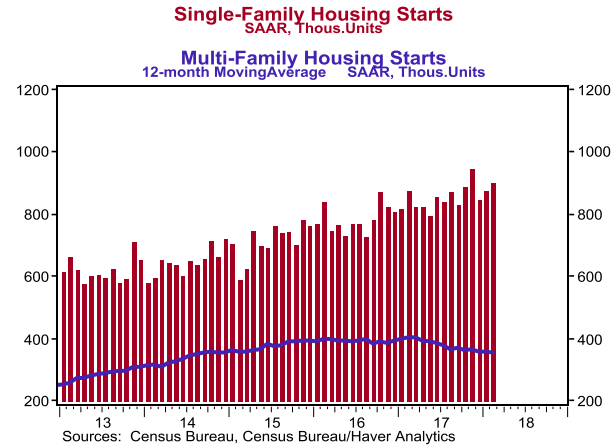


February Housing Starts

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- Housing starts declined 7.0% in February to a 1.236 million annual rate, lagging the consensus expected 1.290 million. Starts are down 4.0% versus a year ago.
- The drop in starts in February was entirely due to multi-unit starts. Single-family starts rose in February. In the past year, single-family starts are up 2.9% while multi-unit starts are down 18.7%.
- Starts in February fell in the West, South, and Northeast, but rose in the Midwest.
- New building permits fell 5.7% in February to a 1.298 million annual rate, below the consensus expected 1.320 million. Compared to a year ago, permits for single-family units are up 4.6% while permits for multi-family homes are up 10.6%.

Implications: After starting 2018 with a bang, housing starts took a breather in February. Starts fell 7% in February to a 1.236 million annual rate, and are now down 4% from a year ago. However, the weakness in today’s headline number came exclusively from the very volatile multi-unit sector, where starts fell 26.1% after rising 25.6% in January. Meanwhile, single family starts rose 2.9% in February, and continue to be the main driver of trend growth, as the chart to the right shows. The transition to more growth in single-family construction than multi-family is 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 new construction fell 5.7% in February, driven primarily by authorizations for multi-unit buildings, the horizon continues to look bright for future activity. Permits are up from a year ago for both single-family and multi-family units. Meanwhile, the number of units currently under construction and the rate at which developers finished building homes, which frees them up to take on new projects, are both at their fastest post-recession pace. Notably, this has all happened despite a significant uptick in mortgage rates in the past year, which some analysts claimed would derail the housing recovery. Based on population growth and “scrappage,” 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. Although tax reform trimmed the principal limit against which borrowers can take a mortgage interest deduction to \$750,000 versus the prior amount of \$1 million, the law only affects new mortgages. Large reductions to marginal tax rates in the early 1980s, which reduced the value of the mortgage interest deduction, coincided with a rebound in housing. In other words, we don’t expect the changes in the deduction to cause problems for the housing industry at the national level, although we do expect some shift in building toward regions with lower taxes and land prices. In other recent housing news, the NAHB index, which measures homebuilder sentiment, fell slightly to 70 in March from 71 in February, remaining at a historically elevated level signaling strong optimism from developers. On the employment front, new claims for jobless benefits fell 4,000 last week to 226,000, while continuing claims fell 4,000 to 1.88 million. These figures are consistent with continued healthy job growth in March, although at a pace that’s likely to be slower than the rapid gains in February.



Housing Starts SAAR, thousands	Monthly % Ch.	Feb-18 Level	Jan-18 Level	Dec-17 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	-7.0%	1236	1329	1207	1257	1249	-4.0%
Northeast	-3.5%	109	113	88	103	108	-1.8%
Midwest	7.6%	155	144	170	156	173	-14.8%
South	-7.3%	633	683	594	637	624	-3.8%
West	-12.9%	339	389	355	361	344	0.6%
Single-Unit Starts	2.9%	902	877	847	875	882	2.9%
Multi-Unit Starts	-26.1%	334	452	360	382	367	-18.7%
Building Permits	-5.7%	1298	1377	1300	1325	1303	6.5%
Single-Unit Permits	-0.6%	872	877	881	877	861	4.6%

Source: U.S. Census Bureau