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December Housing Starts

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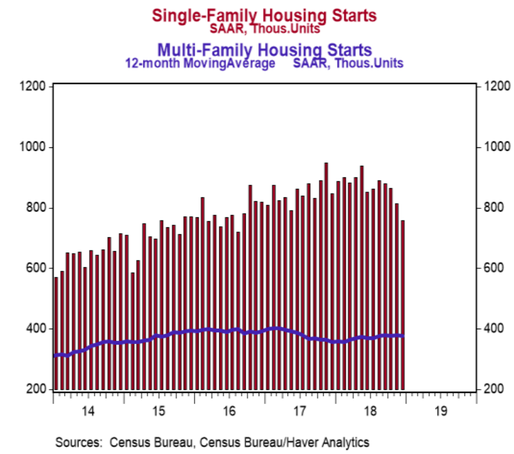
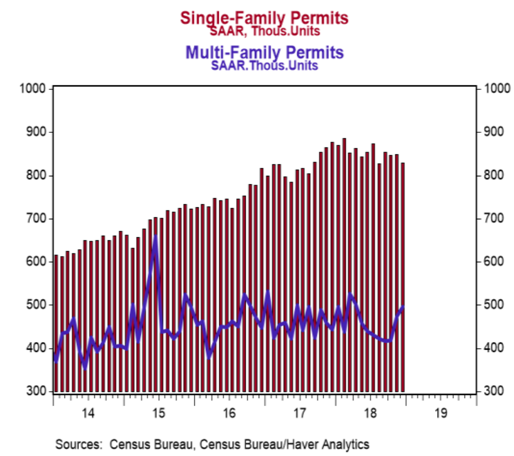
- Housing starts declined 11.2% in December to a 1.078 million annual rate, well below the consensus expected 1.256 million. Starts are down 10.9% versus a year ago.
- The drop in starts in December was due to both single-family and multi-unit starts. In the past year, single-family starts are down 10.5% while multi-unit starts are down 11.8%.
- Starts in December fell in the West, Midwest and South, but remained unchanged in the Northeast.
- New building permits rose 0.3% in December to a 1.326 million annual rate, beating the consensus expected 1.290 million. Compared to a year ago, permits for single-family units are down 5.5% while permits for multi-family homes are up 12.2%.





Implications: Home building ended 2018 on a disappointing note, falling more than expected to the slowest pace of activity in two years. Moreover, the slump in December was broad-based, with nearly every major region showing a decline and both single-family and multi-unit starts falling. However, we believe investors should take this report with a grain of salt. This is the third report from the Census Bureau for the month of December – along with retail sales and durable goods orders – that was delayed by the government shutdown and has come in below consensus expectations. These reports are inconsistent with other figures on the job market as well as reports from purchasing managers and sales figures from Amazon and Walmart. Further, the headline starts number is inconsistent with the moderate weather and falling mortgage rates we saw in December. Although housing starts are down 10.9% from a year ago this is largely due to the effects of the unusually strong hurricane season in 2017. The fourth quarter of 2017 saw a storm-induced jump in new construction in the aftermath of Hurricanes Harvey and Irma. With that in mind, year-ago comparisons involving a single month look like a poor measure of housing health. Looking instead at the annual average for 2018 versus 2017 shows single-family starts up 1.9% while overall starts are up 3.0%. In contrast to starts, the forward-looking data in today's report show that permits for new construction eked out a gain 0.3% in December. Using our annual measure, permits were up 2.2% in 2018 compared to 2017. Notably, about 187,000 homes were authorized but not yet started in December, the largest amount since 2007. At the same time, the pace of housing completions has begun to fall while the number of units under construction remains at a post-recession high. This points toward builders staying busy in 2019, if they can find the workers. The increasingly tight labor market has made hiring difficult across industries, and construction is no exception, with job openings in that sector at a record high and rising rapidly. Despite recent softness, our outlook on housing hasn't changed. We still anticipate a rising trend in home building in the next few years. Based on fundamentals – population growth and scrappage – the US needs about 1.5 million new housing units per year but hasn't built at that pace since 2006. In other housing news today, the national Case-Shiller index was up 0.3% in December and is up 4.7% from a year ago, a meaningful deceleration from the 6.3% increase in the year ending in December 2017. Similarly, the FHFA index, which measures prices for homes with a conforming mortgage, rose 0.3% in December and is up 5.6% from a year ago, a smaller gain than the 6.9% increase in the year ending in December 2017. Finally, On the manufacturing front, the Richmond Fed index, which measures mid-Atlantic factory sentiment, came in at 16 in February after a brief dip into negative territory at -2 in January. This signals a rebound in optimism from the factory sector.

Housing Starts *SAAR, thousands*	**Monthly** ***% Ch.***	**Dec-18** ***Level***	**Nov-18** ***Level***	**Oct-18** ***Level***	**3-mth** ***moving avg***	**6-mth** ***moving avg***	**Yr to Yr** ***% Change***
Housing Starts	**-11.2%**	1078	1214	1209	1167	1200	-10.9%
Northeast	**0.0%**	107	107	91	102	108	21.6%
Midwest	**-13.2%**	125	144	186	152	165	-26.5%
South	**-6.0%**	630	670	592	631	624	6.1%
West	**-26.3%**	216	293	340	283	304	-39.7%
Single-Unit Starts	**-6.7%**	758	812	863	811	844	-10.5%
Multi-Unit Starts	**-20.4%**	320	402	346	356	357	-11.8%
Building Permits	**0.3%**	1326	1322	1265	1304	1289	0.5%
Single-Unit Permits	**-2.2%**	829	848	847	841	846	-5.5%

Source: U.S. Census Bureau