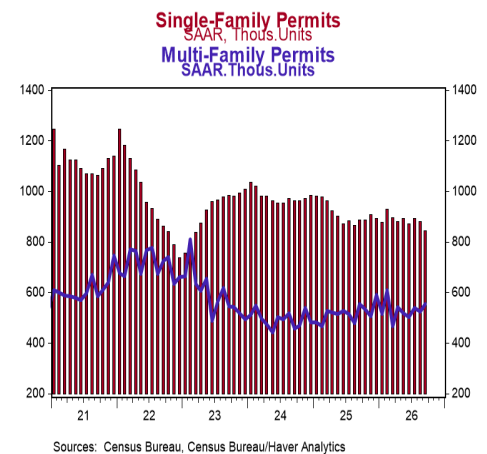
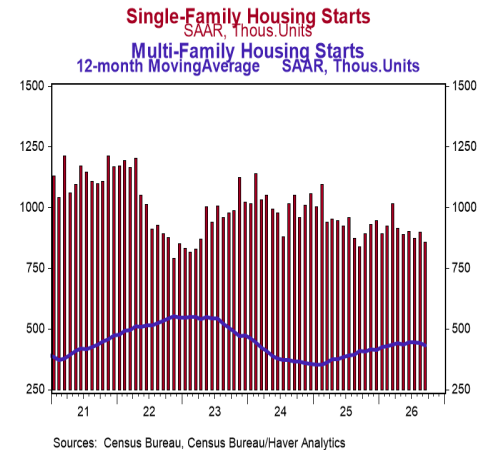


September Housing Starts

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- Housing starts declined 5.2% in September to a 1.221 million annual rate, widely lagging the consensus expected 1.305 million. Starts are down 7.4% versus a year ago.
- The drop in September was due to both single-family and multi-unit starts. In the past year, single-family starts are up 2.6% while multi-unit starts are down 24.9%.
- Starts in September fell in the West and Midwest, but rose in the South, and were unchanged in the Northeast.
- New building permits declined 0.2% in September to a 1.400 million annual rate, beating the consensus expected 1.385 million. Compared to a year ago, permits for single-family homes are down 4.8% while permits for multi-unit homes are down 0.2%.

Implications: New home building continues to disappoint, with starts falling to a 1.221 million annual rate, well below even the most pessimistic forecast from any Economics Group tracked by Bloomberg and the second lowest pace since the initial onset of COVID. The 5.2% overall drop in September was due to single-family and multi-unit structures, which fell 4.6% and 6.7%, respectively. Looking at the big picture, home construction has been on a downward trend since peaking a month after the Federal Reserve began the previous tightening cycle back in March 2022. One key issue for homebuilders is affordability, which has taken a turn for the worse following the conflict with Iran, as surging energy costs have pushed overall inflation temporarily higher, prompting the Federal Reserve to begin increasing its short-term interest rate target for the first time since 2023. This has resulted in a reversal of 30-year mortgage rates, which have moved roughly 110 basis points higher since February and now sit around 7.2%, more than double the levels that prevailed through much of 2021. Another issue is immigration enforcement, which has reduced the number of new homes the US needs to keep pace with population growth, while at the same time making it tougher for builders to find and replace workers. Meanwhile, some of the tariffs have boosted the cost of construction and restrictive local building regulations make it tougher to build. To combat these headwinds, earlier this year homebuilders had been focused on completing projects, but it looks like that activity has dried up with home completions coming in at a 1.192 million annual pace in September, close to the lowest level in more than seven years. Given these developments it is no surprise to see the NAHB index (a measure of homebuilding sentiment) falling to 29 in October from 32 in September, the lowest level since 2012, where a reading below 50 signals that a greater number of builders view conditions as poor versus good (now the 30th consecutive month that has been the case.) Even though higher interest rates do nothing to change the energy supply constraints that are driving consumer prices higher, homebuilding is bearing much of the brunt of the Fed's efforts to fight inflation as one of the most interest rate sensitive sectors in the economy.



Housing Starts SAAR, thousands	Monthly % Ch.	Sep-26 Level	Aug-26 Level	Jul-26 Level	3-mth moving avg	6-mth moving avg	Yr to Yr % Change
Housing Starts	-5.2%	1221	1288	1369	1293	1319	-7.4%
Northeast	0.0%	114	114	201	143	136	-30.9%
Midwest	-19.0%	158	195	225	193	205	-19.4%
South	6.1%	714	673	699	695	701	11.0%
West	-23.2%	235	306	244	262	277	-25.4%
Single-Unit Starts	-4.6%	859	900	875	878	890	2.6%
Multi-Unit Starts	-6.7%	362	388	494	415	429	-24.9%
Building Permits	-0.2%	1400	1403	1433	1412	1407	-3.0%
Single-Unit Permits	-4.0%	845	880	894	873	877	-4.8%

Source: U.S. Census Bureau