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July Housing Starts

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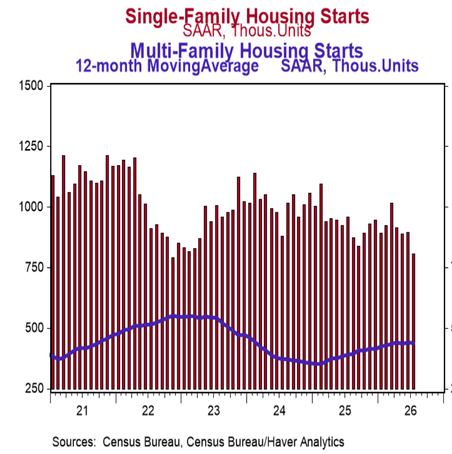
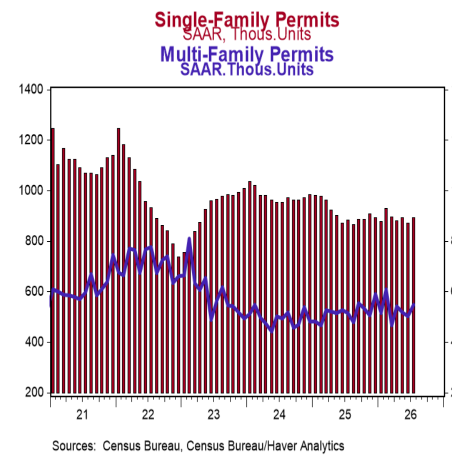
- Housing starts declined 12.4% in July to a 1.239 million annual rate, lagging the consensus expected 1.345 million. Starts are down 13.5% versus a year ago.
- The drop in July was due to both single-family and multi-unit starts. In the past year, single-family starts are down 15.7% while multi-unit starts are down 8.9%.
- Starts in July fell in the South, Midwest, and West but rose in the Northeast.
- New building permits rose 5.0% in July to a 1.443 million annual rate, beating the consensus expected 1.375 million. Compared to a year ago, permits for single-family homes are up 1.1% while permits for multi-unit homes are up 6.4%.





Implications: As expected, the surge in homebuilding in June proved to be short-lived, with housing starts in July lagging even the most pessimistic forecast from any Economics team polled by Bloomberg, falling to a 1.239 million annual rate. Even worse, the 12.4% monthly decline was due to both the single-family and volatile multi-unit categories, where starts dropped 9.9% and 16.8%, respectively. Looking at the big picture, home construction has been on a downward trend since peaking a month after the Federal Reserve began hiking rates back in March 2022 and now sit 13.5% lower than a year ago, reminiscent of 2019 levels. Homebuilders have clearly faced a challenging environment in recent years with affordability remaining the key issue. That has taken a turn for the worse in the aftermath of the conflict with Iran, where surging energy costs have had an upward impact on short-term inflation, resulting in a rapid increase in 30-year mortgage rates. These rates have moved roughly 70 basis points higher since February and now sit around 6.8%, double the levels that prevailed through much of 2021. Meanwhile, high home prices, restrictive local building regulations, tighter immigration enforcement making it tough to find or replace workers, and tariffs are also contributing to a rocky environment. To combat these headwinds, homebuilders had been focused on completing projects, but it looks like that activity has dried up with home completions falling 9.1% in July to a 1.212 annual pace, the lowest level in six years. The report did offer one positive: permits for new builds rose a stronger than expected 5.0% in July to a 1.443 million annual rate, putting them 3.1% above where they stood a year ago. Given these developments, it is no surprise to see the NAHB index (a measure of homebuilding sentiment) moving to 35 in August from 34 in July, where a reading below 50 signals that a greater number of builders view conditions as poor versus good (now the 28th consecutive month that has been the case.) Until affordability meaningfully improves, we expect home construction to remain under pressure.

Housing Starts *SAAR, thousands*	**Monthly** *% Ch.*	**Jul-26** *Level*	**Jun-26** *Level*	**May-26** *Level*	**3-mth** *moving avg*	**6-mth** *moving avg*	**Yr to Yr** *% Change*
Housing Starts	**-12.4%**	1239	1415	1182	1279	1353	-13.5%
Northeast	**17.1%**	164	140	110	138	145	62.4%
Midwest	**-27.6%**	173	239	186	199	196	-27.0%
South	**-12.6%**	645	738	632	672	718	-24.1%
West	**-13.8%**	257	298	254	270	294	5.3%
Single-Unit Starts	**-9.9%**	808	897	889	865	908	-15.7%
Multi-Unit Starts	**-16.8%**	431	518	293	414	445	-8.9%
Building Permits	**5.0%**	1443	1374	1410	1409	1426	3.1%
Single-Unit Permits	**2.5%**	894	872	892	886	894	1.1%

Source: U.S. Census Bureau