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August Housing Starts

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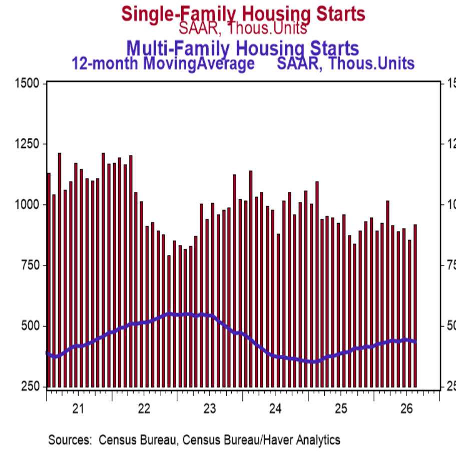
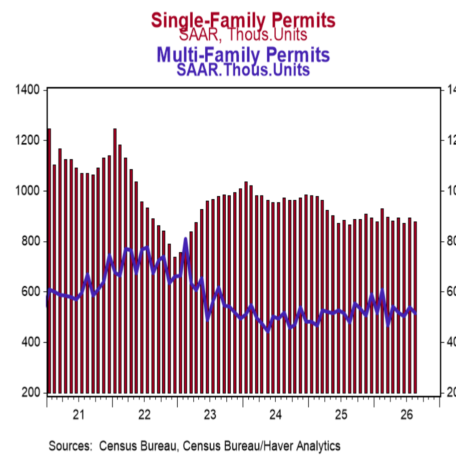
- Housing starts declined 2.6% in August to a 1.275 million annual rate, lagging the consensus expected 1.320 million. Starts are down 1.2% versus a year ago.
- The drop in August was entirely due to multi-unit starts. Single-family starts rose in August. In the past year, single-family starts are up 5.2% while multi-unit starts are down 14.6%.
- Starts in August fell in the Northeast, Midwest, and South but rose in the West.
- New building permits declined 2.7% in August to a 1.394 million annual rate, lagging the consensus expected 1.408 million. Compared to a year ago, permits for single-family homes are up 1.3% while permits for multi-unit homes are up 7.5%.





Implications: New home construction continued to struggle in August, lagging expectations and falling to a 1.275 million annual rate. However, the details of the report were stronger than the headline. The 2.6% drop in overall starts was entirely due to the volatile multi-unit category where starts plummeted 21.7%. Single-family starts rose 7.6% to a five-month high and now stand 5.2% above a year ago, a welcome sign given the conditions homebuilders have faced over the last four years. 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 and currently sit at levels reminiscent of 2019. The key issue for homebuilders remains affordability, which 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 the Federal Reserve raising their short-term interest rate target yesterday for the first time since mid-2023 (click here for more on yesterday's Fed decision). This has resulted in a reversal of 30-year mortgage rates, which have moved roughly 60 basis points higher since February and now sit around 6.7%, 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 11.9% in August to a 1.128 annual pace, 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) declining to 32 in September from 35 in August, where a reading below 50 signals that a greater number of builders view conditions as poor versus good (now the 29th consecutive month that has been the case.) In other news this morning, initial claims for unemployment insurance declined 10,000 last week to 196,000, while continuing claims declined 39,000 to 1.730 million. These figures suggest job gains continue. In manufacturing news, the Philadelphia Fed Manufacturing Index, a measure of factory sentiment in that region, fell to +37.8 in September from +47.4 in August.

Housing Starts *SAAR, thousands*	**Monthly** *% Ch.*	**Aug-26** *Level*	**Jul-26** *Level*	**Jun-26** *Level*	**3-mth** *moving avg*	**6-mth** *moving avg*	**Yr to Yr** *% Change*
Housing Starts	**-2.6%**	1275	1309	1439	1341	1357	-1.2%
Northeast	**-44.5%**	96	173	127	132	138	0.0%
Midwest	**-12.0%**	198	225	274	232	212	-10.8%
South	**-1.3%**	658	667	736	687	709	-1.2%
West	**32.4%**	323	244	302	290	298	5.2%
Single-Unit Starts	**7.6%**	918	853	902	891	916	5.2%
Multi-Unit Starts	**-21.7%**	357	456	537	450	441	-14.6%
Building Permits	**-2.7%**	1394	1433	1374	1400	1400	3.5%
Single-Unit Permits	**-1.8%**	878	894	872	881	885	1.3%

Source: U.S. Census Bureau