

## Economics Group

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# Housing Starts Fell Modestly in February

**Housing starts fell 5.9 percent in February, with construction of multi-family units accounting for most of the drop. Starts of new single-family homes fell 0.6 percent, while multi-family starts tumbled 30.3 percent.**

### Homebuilding Is Stabilizing Near Current Levels

Housing starts fell 5.9 percent in February as another huge decline in multi-family starts overwhelmed a slight drop in single-family home construction. Starts of apartments and condominiums have been held back by a lack of financing and oversupply. The weather likely exaggerated the drop in February, however, which saw starts plummet 30.3 percent to just a 76,000-unit pace. While the percentage drop seems large, the actual level of multi-family starts has averaged just an 82,500-unit pace over the past six months.

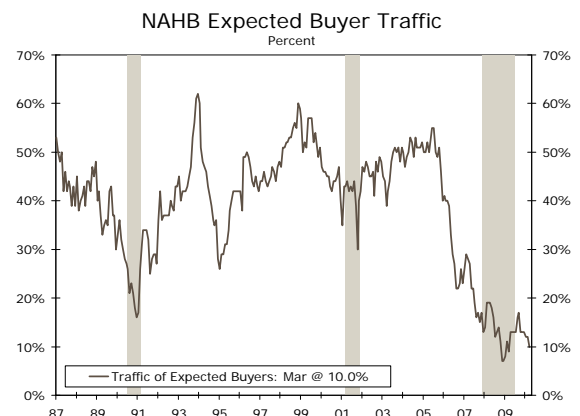
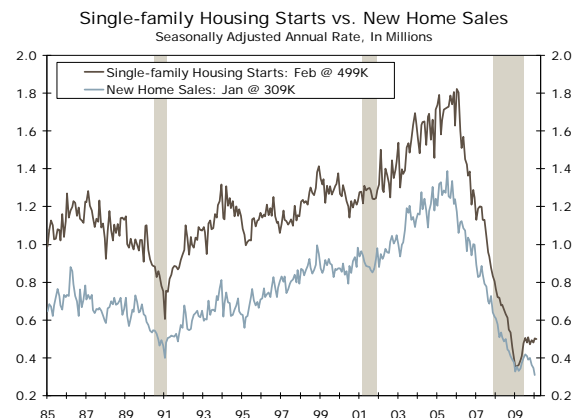
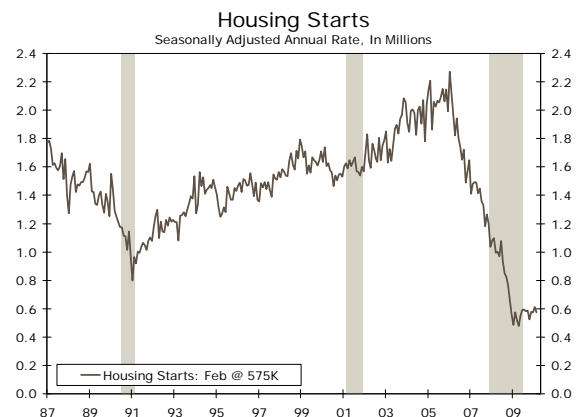
Starts of new single-family homes were less affected by the weather. Although single-family starts fell 0.6 percent to a 499,000-unit pace, that is actually slightly above the 492,000-unit pace averaged over the past six months. Building permits fell just 1.6 percent, with single-family permits declining 0.2 percent and multi-family permits declining 7.6 percent. Permits remain slightly above starts, suggesting construction will improve at least modestly from current levels this spring.

### Builders Need to Build Even When It Is Cold Outside

Single-family starts are likely getting some modest support from the extension of the first-time homebuyers' tax credit. That program was also expanded to include some trade-up buyers. Under the program, buyers need to have a home under contract by April and close by the end of June. For homebuilders, this means that they must have some inventory ready to sell in March and April. Moreover, most builders would need to have started construction on a new home no later than mid-March if they wanted to complete construction by the end of June. The net result is that single-family construction held up relatively well in February, even with the unusually harsh winter weather.

The recent stability in housing starts is a welcome sight but should not be overstated. The level of new home construction is still exceptionally low. We expect home construction to total 650,000 units this year, which would mark the second weakest year since statistics began back in the early 1960s. The worst year was 2009.

For the most part, builders are putting on a brave front. There has been an extraordinary amount of stimulus provided to the housing industry, including tax credits for home buyers and operating loss carry backs for homebuilders. Despite all of this assistance, builder confidence remains extremely low. The NAHB/Wells Fargo Housing Market Index fell 2 points in March to 15.0, as builders reported slower sales and less buyer traffic. The lower readings cast doubt as to how much the extension of the first-time homebuyers' tax credit will boost sales this spring.



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