



Economics Group

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Housing Starts Decline in July

Housing starts fell 1.5 percent to a 604,000-unit pace in July from a downwardly revised 613,000-unit pace in June. Single-family starts fell 4.9 percent, while multifamily starts rose for the second consecutive month.

Multifamily Construction Activity Remains Solid

Housing starts fell 1.5 percent to a 604,000-unit pace in July with single-family starts accounting for the decline. Single-family starts fell 4.9 percent, while multifamily starts rose 7.8 percent. Single-family starts are still very much “dead in the water” and will likely not show any meaningful increase until the amount of distressed transactions moderates and the oversupply of existing homes is cleared. In fact, the National Association of Realtors reported that 31 percent of all closings in June were distressed. With foreclosures and short sales still accounting for a large share of total transactions, home prices will remain under pressure, which gives builders little incentive to ramp up building activity. Indeed, the National Association of Home Builders/Wells Fargo Housing Market Index remained low at 15 in August, suggesting builders still have very little incentive to compete with discounted existing home prices. Moreover, expectations for future single-family sales have fallen four out of the last five months and prospective buyer traffic remains muted. Much of real estate, however, remains a regional story. Home builder confidence for single-family housing rose in the Northeast and West in July, which corresponds to the increases in single-family starts.

Single-family Starts Firm in the Northeast and West

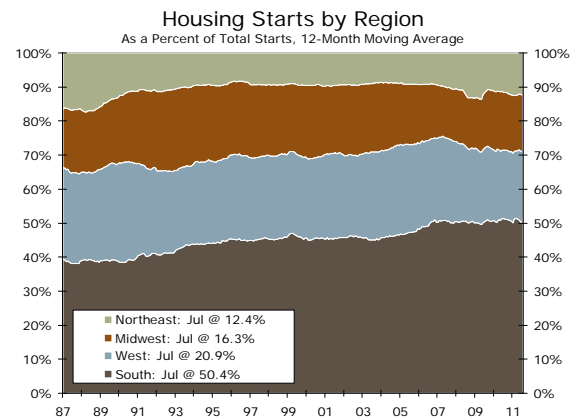
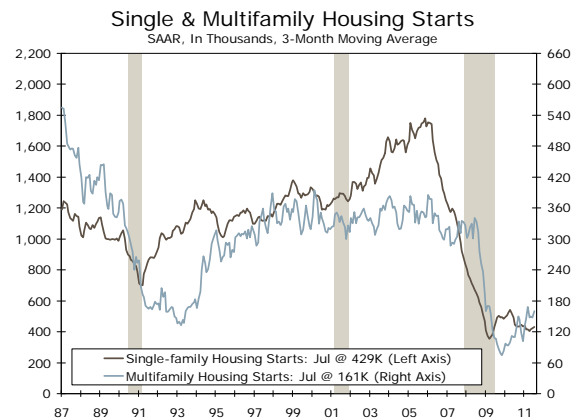
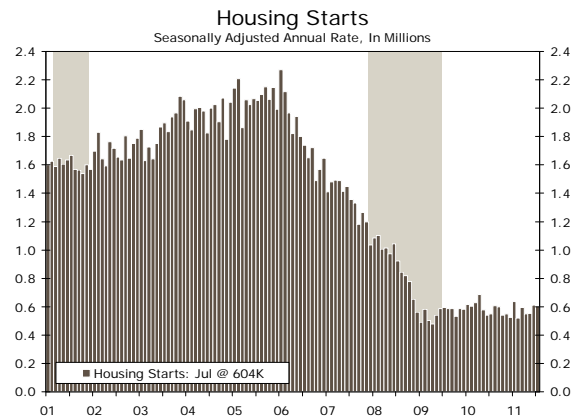
Single-family starts increased in the Northeast and West, rising 34.7 percent in the Northeast and 4.6 percent in the West. Single-family activity in the South, which typically accounts for about half of the nation’s single-family starts, declined 4.2 percent to a 236,000-unit pace. Starts in the Midwest saw the largest declines with single family falling 22.6 percent and multifamily dropping 71.1 percent. Swings in the volatile multifamily component, however, will likely be reversed in the coming months.

Single-Family Permits Point to a Firming Trend

Permits for future construction fell 3.2 percent in July to a 597,000-unit pace. Permits for new multifamily projects fell 10.2 percent following two consecutive months of gains. By contrast, single-family permits rose just 0.5 percent. Single-family permits have increased in the last four out of five months, which bodes well for future construction.

Looking Ahead...

Despite today’s decline and many of the challenges in the housing market, housing starts are looking just a little better. On a year-ago basis, starts are up 2.0 percent with apartment construction supporting much of the gain. The recovery will remain sluggish, however, with starts not likely to pick up in a big way until employment conditions and consumer confidence improve. Our forecast for housing continues to be conservative with activity expected to rise a modest 2.0 percent in 2011 and 20 percent in 2012.



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