



## Economics Group

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# Housing Starts Dip in July, but the Trend is Still Positive

**Housing starts fell 1.1 percent in July to a 746,000 unit annual pace. Multifamily starts rose 12.4 percent, while single-family starts fell 6.5 percent. Permits rose 6.8 percent and point to further gains.**

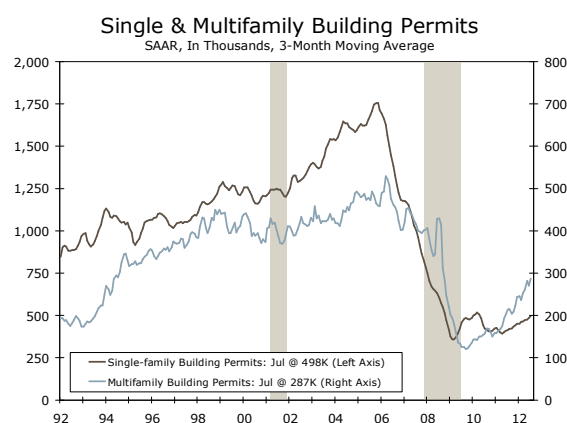
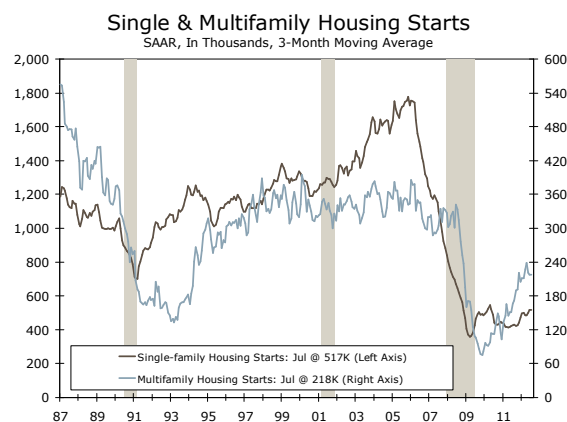
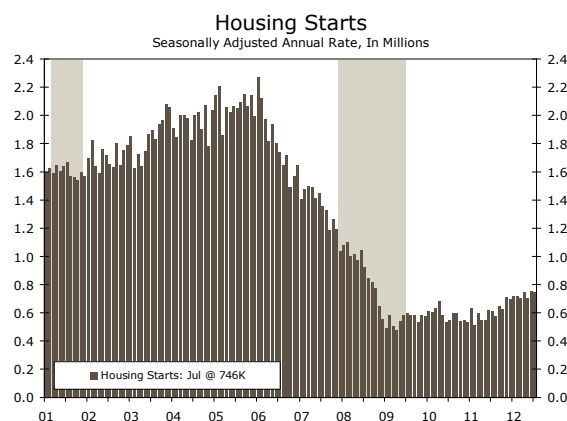
### Digging into the Details, Starts Should Continue to Climb

Housing starts fell 1.1 percent to a 746,000-unit annual rate, which was more than the consensus estimate. The drop was entirely in single-family units, which fell 6.5 percent in July, following four consecutive monthly increases. This pullback seems to be a little suspicious and it is plausible we could see some of this decline revised away. Multifamily starts, however, rose 12.4 percent in July, the second monthly increase. The back-to-back monthly increases in multifamily, however, appear to be a bit of payback for the significant 20.6 percent drop in May. On a regional basis, starts fell in nearly every region with the exception of the Midwest.

Despite monthly volatility, the housing market continues to stabilize with builder confidence rising, sales activity turning up in many areas of the country, a declining share of foreclosed properties and prices firming. Building permits rose 6.8 percent on the month with solid increases in both single- and multifamily. Single-family building permits rose 4.5 percent in July, the fourth consecutive monthly increase and multifamily rose 11.5 percent.

The multifamily sector remains a bright spot for new construction and continues to benefit from favorable demographics. Traditional renters in the 20 to 29 year age range are continuing to drive apartment demand. Moreover, many previous homeowners who lost their home due to either foreclosure or short sale have also turned to the apartment market. With supply constrained, there is somewhat of an apartment builder frenzy. Many of these projects won't hit the market for about one to two years during which time apartment vacancy rates should continue to fall further. Apartment vacancy rates in the second quarter registered a low of 4.7 percent. While we expect the trend in apartment demand to persist for some time, supply should eventually catch up.

The NAHB/Wells Fargo housing market index continued to show resilience and climbed another 2 points to 37 in August. All of the indexes' components improved during the month. The increase in prospects for future sales and traffic of prospective buyers could lead to stronger starts in the coming months. One factor behind the improvement in builder sentiment is the narrowing gap between the median price of an existing home and a new home. While the premium remains well above the long-run average, the trend is promising as the share of foreclosures continues to decline. Another important factor that also points to further strength in starts, is the low supply of inventory. Existing home inventory is being constrained by underwater borrowers and builders are playing catch up in new home construction.



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