



Economics Group

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Housing Starts Drop Much Further Than Expected in August

Housing starts fell 5.0 percent to a 571,000-unit pace in August, with weakness in single-family and multifamily starts. Building permits, however, rose 3.2 percent and are up 7.8 percent on a year-ago basis.

Builders Have Very Little Incentive to Ramp Up Activity

Housing starts fell 5.0 percent to a 571,000-unit pace in August, with much of the decline concentrated in the volatile multifamily component. Multifamily starts fell 13.5 percent, but some of the retracement could be payback for the two consecutive monthly gains in June and July. Multifamily starts rose 21.2 percent in June and 7.2 percent in July. The trend in multifamily starts, however, remains encouraging, with starts up 47.9 percent on a year-ago basis. The upward momentum in multifamily starts continues to illustrate the solid recovery in the apartment market. Apartment demand continues to benefit from the housing slump and modestly increasing household formation, which helped drive the apartment vacancy rate down to 6.0 percent in the second quarter.

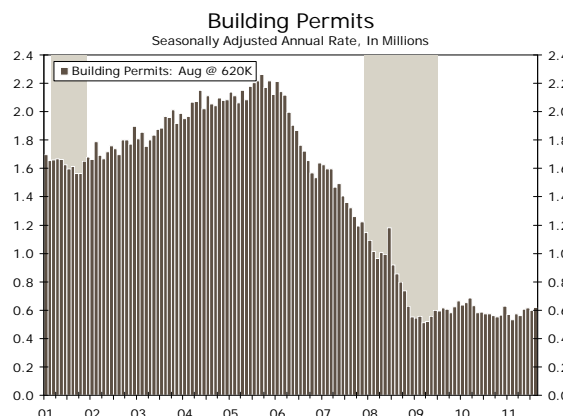
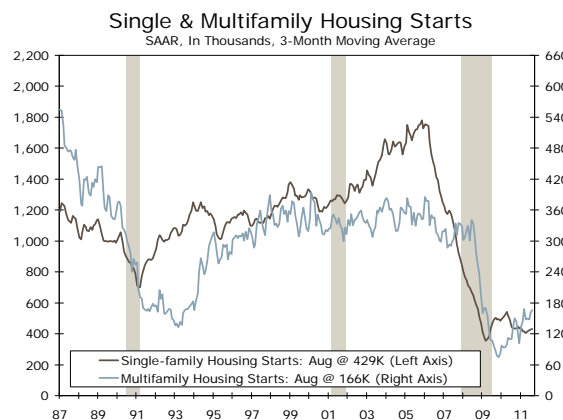
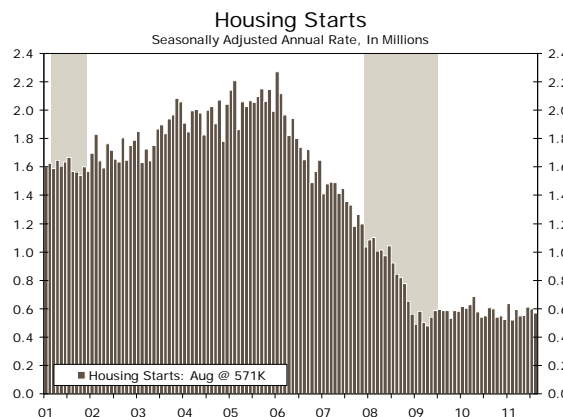
Single-family starts fell 1.4 percent to a 417,000-unit pace and remain at such a low level that the housing market continues to be thought of as “dead in the water.” Single-family starts will likely not show any meaningful increase until the amount of distressed transactions moderates and the oversupply of existing homes is cleared. In fact, the National Association of Realtors reported that 29 percent of all closings in July were distressed. The proportion of homes sold short or due to foreclosure is well below its peak of 49 percent in March 2009, suggesting that the pace of distressed transactions has slowed. With foreclosures and short sales, however, 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 14 in September and has made little progress. Builders still have little incentive to compete with discounted existing home prices. Moreover, expectations for future single-family sales have fallen five out of the past six months and prospective buyer traffic also remains weak.

Single-Family Permits Point To A Firming Trend

Permits for future construction rose 3.2 percent in August to a 620,000-unit pace, marking the third increase in four months. Permits for new multifamily projects rose 4.5 percent and single-family permits rose 2.5 percent, the second consecutive monthly gain. The level of permits, however, has been moving sideways since 2009.

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 10.2 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 and consumer confidence improve.



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