



Economics Group

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 383-5635
 Anika R. Khan, Senior Economist
anika.khan@wellsfargo.com • (704) 715-0575

Big Surprise Jump in Housing Starts in September

Housing starts surged 15.0 percent in September to a 872,000-unit annual pace. The reading is the highest level since July 2008 with broad-based gains in single-family and multifamily. Permits rose 11.6 percent.

Housing Remains a Bright Spot

The housing market continued to show solid improvement with starts posting a larger-than-expected increase in September, jumping 15.0 percent. Previous months' data were also upwardly revised. One of the most impressive components of the report is the steady increase in single-family starts. Single-family starts have risen in six of the past seven months. With single-family starts rising to a 603,000-unit pace, it is now at the highest level since the wake of the Lehman Brothers collapse. The story gets even better with single-family permits. Single-family permits rose 6.7 percent to a 545,000-unit pace, marking the highest level since July 2008. On a year-ago basis, single-family permits are up 27.3 percent. The level of single-family permits is still running below the level of starts, which indicates new construction may level off or even pull back slightly during the seasonally slow fall and winter months. That said, we still expect single-family starts to rise 25.4 percent over last year, ending the year at around a 540,000-unit pace. Despite monthly volatility, the increase in starts reflects a true bottom and we expect the trend to remain positive.

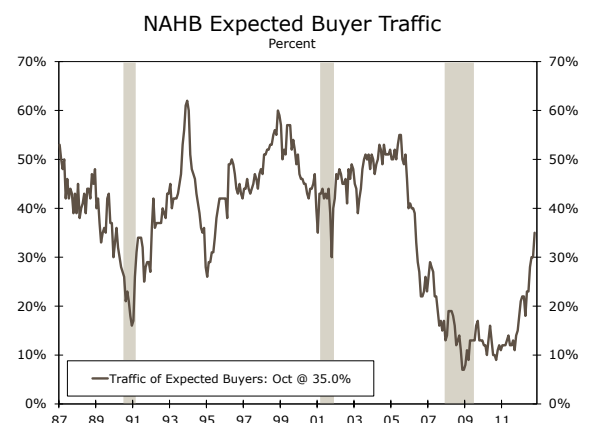
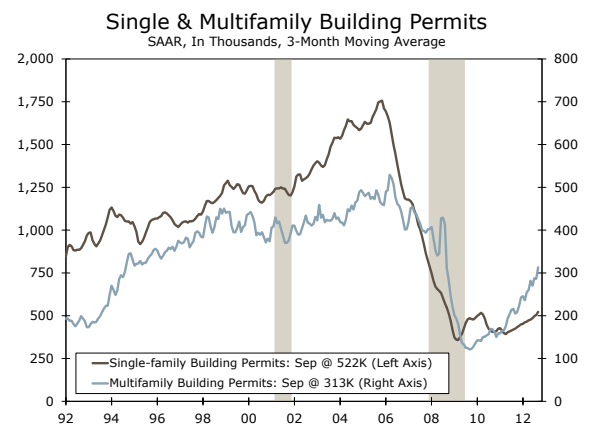
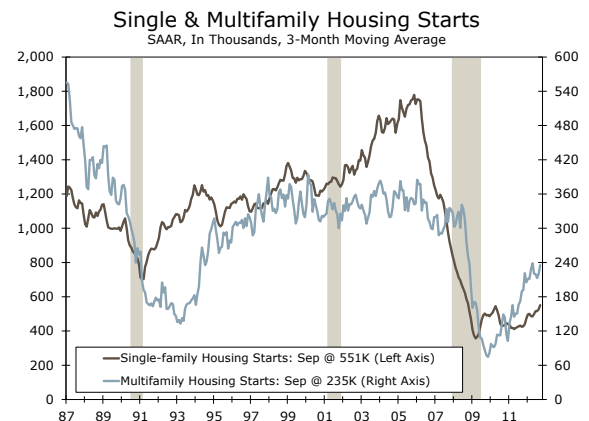
The multifamily sector remains a bright spot for new construction and continues to benefit from favorable demographics. Following two straight monthly declines, multifamily starts rose 25.1 percent to a 269,000-unit pace. With supply constrained, there is somewhat of an apartment building frenzy. Many of these projects will not hit the market for about one to two years during which time apartment vacancy rates should continue to fall further. Multifamily permits rose 20.3 percent on the month and are now up a whopping 85.6 percent on a year-ago basis.

Builder Confidence on the Rise

Builder confidence is another component in the housing market that continues to make consistent gains. The NAHB/Wells Fargo Housing Market Index continued to show resilience climbing to 41 in October, the highest since mid-2006. While a reading under 50 indicates more builders view sales conditions as "poor" rather than "good", the increase in traffic of prospective buyers could lead to stronger starts in the coming months.

The Outlook for Housing Starts

The jump in housing starts is nearly as startling as the drop in the unemployment rate in September to 7.8 percent from 8.1 percent, which leads us to ask if seasonality is at play. While we do not find a consistent trend over the past several years, we do find another sizeable jump occurred in September 2011. On that same note, we do expect a bit of payback in the coming months, but the overall trend will still show gains. We expect starts to complete the year at around a 765,000-unit pace and increase 16.3 percent to a 890,000-unit pace in 2013.



Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 715-8437 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 374-7034	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 383-5635	mark.vitner@wellsfargo.com
Jay Bryson, Ph.D.	Global Economist	(704) 383-3518	jay.bryson@wellsfargo.com
Eugenio Aleman, Ph.D.	Senior Economist	(704) 715-0314	eugenio.j.aleman@wellsfargo.com
Sam Bullard	Senior Economist	(704) 383-7372	sam.bullard@wellsfargo.com
Anika Khan	Senior Economist	(704) 715-0575	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 383-6805	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 374-4407	tim.quinlan@wellsfargo.com
Michael A. Brown	Economist	(704) 715-0569	michael.a.brown@wellsfargo.com
Sarah Watt	Economic Analyst	(704) 374-7142	sarah.watt@wellsfargo.com
Kaylyn Swankoski	Economic Analyst	(704) 715-0526	kaylyn.swankoski@wellsfargo.com
Sara Silverman	Economic Analyst	(704) 715-7395	sara.silverman@wellsfargo.com
Zach Griffiths	Economic Analyst	(704) 715-1030	zachary.griffiths@wellsfargo.com
Peg Gavin	Executive Assistant	(704) 383-9613	peg.gavin@wellsfargo.com
Cyndi Flowe	Administrative Assistant	(704) 715-3985	cyndi.h.flowe@wellsfargo.com

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