



Economics Group

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Housing Starts Surge to a Five-Year High

Housing starts surged 22.7 percent in November to a 1.091 million-unit pace. Single-family starts jumped 20.8 percent, while multifamily starts spiked 26.8 percent. The gains are likely exaggerated by seasonal factors.

Better News On Housing

November's housing starts data were easily the best numbers we have seen since the recession ended four and a half years ago. Overall starts increased 22.7 percent, with single-family starts rising 20.8 percent and multifamily starts jumping 26.8 percent. With the increase, housing starts are now at their highest level for this cycle. While November's increase is welcome and is supported by yesterday's rise in the NAHB/Wells Fargo Housing Market Index, we would caution against reading too much into the increase. We have repeatedly noted throughout the year that new home construction was being restrained, particularly in the South, which accounts for roughly half of the nation's homebuilding activity, by unseasonably wet weather. Once the rain stopped, construction ramped back up.

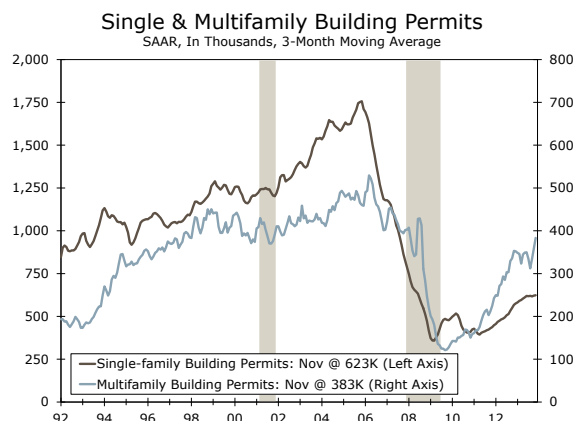
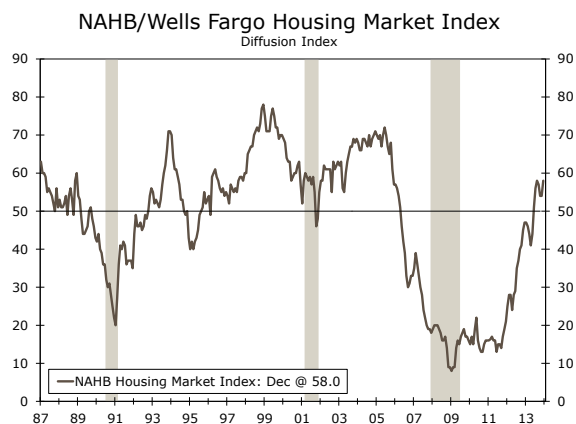
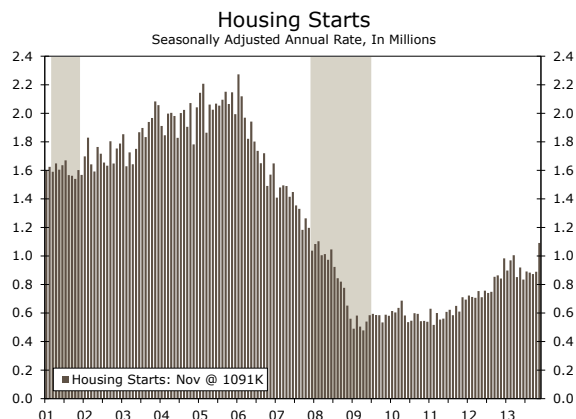
November is typically a seasonally slow month, with building activity tapering off as the work days get shorter and time is lost for the holidays. Even small increases in building activity coming at a time that activity usually declines can be magnified to big seasonally adjusted increases. This year's unusually late Thanksgiving may have further distorted the numbers by allowing more work to begin in November than usual. This is what appeared to happen this year. On a raw, or non-seasonally adjusted basis, housing starts rose 7.1 percent, which translated into a 22.7 percent seasonally adjusted increase. Most of the distortion came from the South.

While November's gains appear to have been exaggerated, there is little doubt that the housing recovery is gaining momentum. Yesterday's NAHB/Wells Fargo home builders confidence survey showed significant gains, with the housing market index rising 4 points in December to 58. Every region except the Northeast reported an increase during the month and both present and future buyer traffic rose during the month.

November's housing starts data followed a similar pattern, with starts rising in every region except the Northeast. The Midwest actually posted the largest percentage gain, with starts up 41.7 percent, although the rise in volume was only about one-third that of the South. The largest percentage gain in single-family starts was in the West, which rose 27.8 percent.

Housing Permits Proved A Better Read on the Housing Market

Housing permits likely provide a more accurate assessment of the underlying momentum in the housing market. Overall permits fell 3.1 percent in November but remained above the key 1-million unit pace for the second month in a row. Permits for new single-family homes rose 2.1 percent to a 634,000 unit pace. November single-family permits are nearly 100,000 units below starts, which suggest we will likely see some payback in coming months. Even if starts give back some of November's gains, the underlying trend remains extremely positive.



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