



Economics Group

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Housing Starts Fall in September

Housing starts dropped 5.3% to a 1.201 million unit pace in September. Most of the weakness occurred in the South, likely a result of Hurricane Florence. Still, builder confidence edged up in October and remains elevated.

Housing Starts Slow Amid Hurricane Florence

Total housing starts came in slightly below expectations and declined 5.3% in September. Much of the decline occurred in volatile multifamily starts, which dropped 12.9%. New single-family units fared a little better and registered a slight 0.9% decline. Building permits also saw a slight 0.6% decline. Despite the lackluster string of recent data on new residential construction, starts continue to slowly trend higher and are now up 6.4% year-to-date.

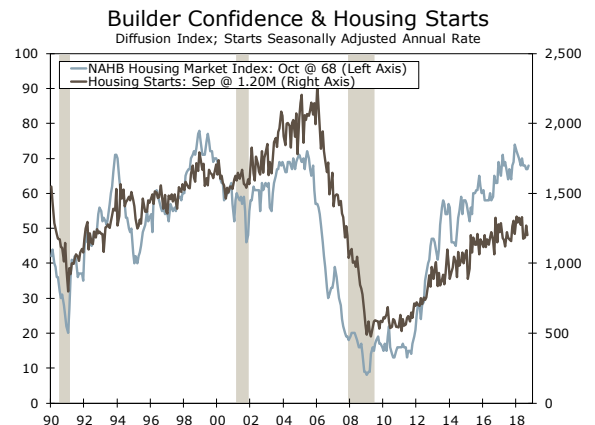
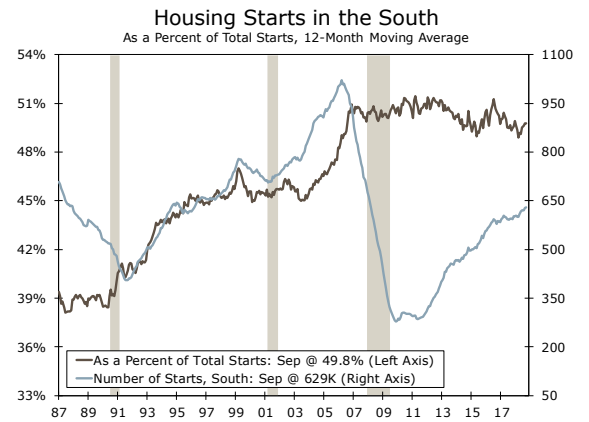
Some of the weakness may be owed to Hurricane Florence, which hit the Carolinas in mid-September. Starts in the South, the largest region for homebuilding, fell 13.7%. New units completed also dropped 17.9% in the South, and 4.1% nationwide. The Midwest saw a steep 14.0% drop in new units started. The Northeast posted the strongest monthly gain, rising 29.0%, while starts in the West rose 6.6%.

Builder Confidence Rises in October

Despite an overall sluggish pace of housing activity, builder confidence remains high. The NAHB Housing Market Index increased one point to 68 in October, as builders continued to report solid housing demand. The index has come down off the cycle high reading of 74 hit at the end of last year, but remains elevated and currently sits at a level equal to 2017's average. Every component of the index edged higher over the month, notably in the prospective buyers traffic component, which increased four points to 53. The present sales index also rose one point to 74, reflecting a still-rosy assessment of current conditions. After weakening for much of the summer, confidence in the outlook also picked up for the second straight month, as the future sales index advanced one point to 75. Builder confidence improved in each region, notably in the Northeast, where it increased four points to a cycle high of 64. Hurricane Florence did not appear to shake builder confidence in the South, which registered a two point rise to 71, a level slightly above last year's average.

New Residential Construction Expected to Gradually Improve

Housing is unlikely to make a significant breakout to the upside at this point in the business cycle. Higher mortgage rates and steadily rising home prices have significantly reduced affordability. Rising costs have made it more difficult to build homes at lower price points where demand is strongest. Labor costs continue to rise amid a shortage of skilled construction workers, a trend that does not appear to be getting better. According to the most recent JOLTS survey, the count of open, unfilled construction jobs reached a fresh cycle high in August. However, builders continue to express a great deal of optimism about current conditions. Builders may also be getting some relief from higher materials prices, as lumber prices have fallen from the highs hit earlier this summer. Given that demand also appears to be holding its own, we expect activity to gradually improve in coming months.



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