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TD Economics

Data Release: Housing starts disappoint in September but outlook remains encouraging

- The pace of homebuilding moderated in September, with housing starts falling by 103k units to 1,047k (annualized). The headline number came in considerably weaker than market expectations, which called for an increase to 1,175k new units. Revisions added a combined 14k units to activity over the previous two months.
- The decline was entirely concentrated in the highly-volatile multifamily segment, where starts fell 162k units, or 38% – the biggest decline since 2009. On other hand, the single family segment was up by a very strong 59k (+8.1%) helping somewhat offset the overall decline.
- Building permits on the other hand surpassed expectations, rising by 73k units to 1225k (annualized) on the month. Almost all of the improvement was concentrated in the volatile multifamily sector (+70k), while single family permits recorded only a modest gain of 3k on the month.
- The monthly decline was generally broad-based, with pullbacks recorded in the Northeast (-49k), South (-30k) and Midwest (-24k). Meanwhile, the pace of homebuilding in the West remained unchanged from the month prior.

Key Implications

- This was a mildly disappointing report, that on the face of it, appears to raise some doubts over the underlying strength of homebuilding in America. Nevertheless, the decline was entirely concentrated in the highly volatile multifamily segment, where permit activity actually rose on the month. This suggests that a rebound is likely in the coming months as homebuilders break ground on projects they've already received permits for. Moreover, the pace of new construction in the much larger, and less volatile, single family segment continues to make strides, rising to a 7-month high.
- Hurricane Matthew, which made landfall on Southeastern United States in early October, may have distorted some regional homebuilding activity in the near-term, with builders potentially delaying breaking ground on large projects ahead of its landfall. Having said that, any impact will likely to be smoothed over in the coming months.
- Looking beyond the near-term, single-family starts are expected to remain on the modest upward trend, supported by continued employment, rising household income and still low interest rates – with only modest increase in long term bond yields expected in the coming quarters. In addition, the dwindling inventory levels of existing homes for sale – which in August fell to the lowest level since 2001 – bodes well for new residential construction. This sentiment is also shared by homebuilders, with the NAHB confidence index remaining near post-recession highs. All in all, these factors suggest that continued gradual recovery in the housing market and homebuilding will remain on track.

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