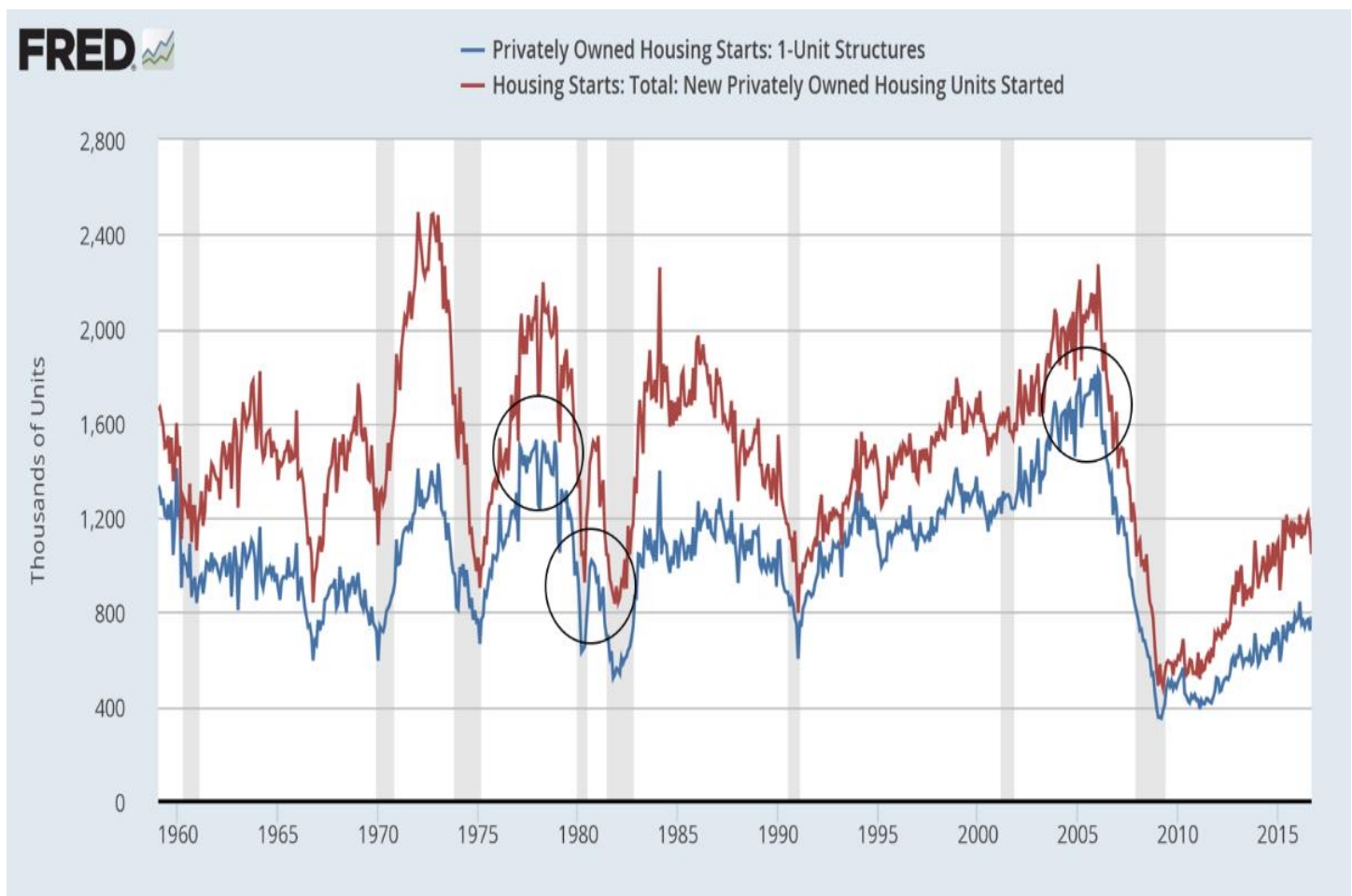


# Tumbling Housing Starts Precede Recessions

Residential construction unexpectedly took a turn for the worse. Housing starts came in at the annualized rate of 1,047,000. That's a slowdown of 103,000, or 9% below the pace in August. What does this mean for the economy? Before I try to answer this question, one thing's for sure, headlines from the WSJ, Market Watch, Business Insider, and USA Today related to last month's housing data appear frighteningly down.

In the following chart (which can be enlarged by ctrl+click), housing starts are compared to single-family dwellings. Since the early 1960s, there have been eight recessions. Seven out of eight (87.5%) of these recessions were preceded by a significant decline in new residential construction. On average, the downturn associated with each of these recessions has been 30%. So, does today's report indicate that the housing market is waning, and caution is warranted? Maybe not; there is a silver lining. Total housing starts encompass both multi-family and single-family construction. September's shortfall is due to a decrease in the multi-family segment; this area is made up of apartment buildings and similar investment related properties. On the other hand, single-family starts increased by a 59,000 annual rate; that's more than 8% (as shown in the next graph). Permits issued to build future single-family homes rose to 739,000, well above the 729,000 average for the year. Single-family homes are purchased by individual consumers. Consumer spending comprises two-thirds of the U.S. economy. As a rule-of-thumb, four jobs are created for each single-family housing unit built in metropolitan areas. Additionally, ten single-family homes create six permanent jobs. In the past fifty years there has never been a recession without at least a greater than 10% downturn in new single-family construction. I guess that's why they say, "There's no place like home."





### Single Family & Total Housing Starts Since 2012

