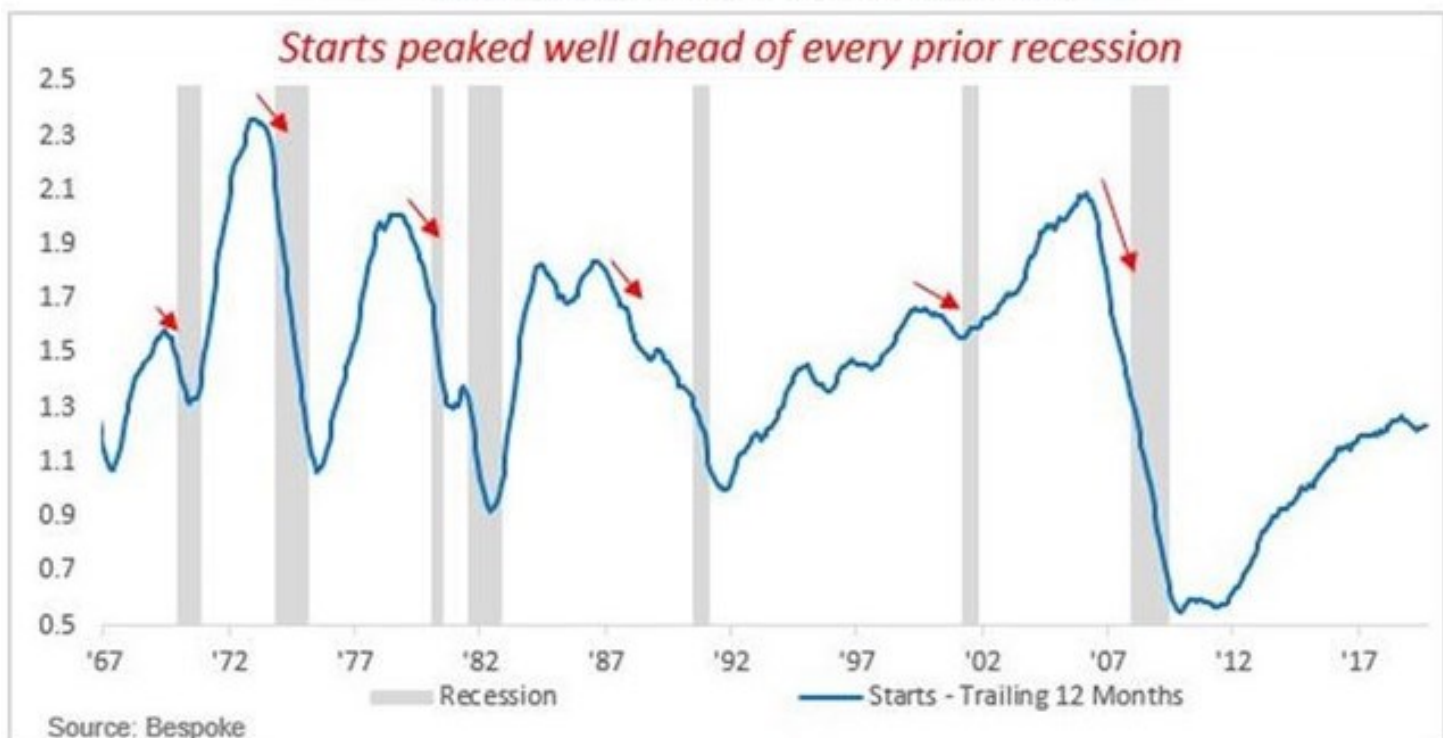


CHART OF THE MONTH

OCTOBER 2019

HOUSING STARTS 12-Month Average (Millions)



Housing starts hit a 12-year high of 1.39 million in August. They consist of single-family homes, townhouses or condos, and apartment buildings with five or more units. Each apartment unit is considered a single start. The construction of a 30-unit apartment building is counted as 30 starts.

Overall housing starts fell 9% in September due to the decline in the more volatile multi-family segment. However, new construction on single-family dwellings, which comprise three-quarters of all U.S. homes, rose for the fourth consecutive month to an annual rate of 918,000. Single units are up 4.3% over the past year. In addition, building permits have increased 7.7% since last fall, signaling a continuation of strength in starts. This underlying momentum is further supported by lower mortgage rates, including an average of 3.57% on 30-year loans.

Meanwhile, confidence among home builders rose in October to the highest level since February 2018. The combination of rising housing starts, permits, and home builder confidence indicates that this sector is healthy and suggests the overall economy is not on the cusp of a major contraction. In fact, as shown in the chart above, housing starts have peaked ahead of every recession over the past 50 years — and by a few years in some cases — and do not appear to be rolling over at this time.

Based on the last six cycles, housing starts are far from topping out. Instead, they are running at a rate closer to the previous lows than the highs. It would not be surprising if housing starts climbed to at least 1.6 million (or more than 25% above the current pace) before cresting.

Notably, the age 35-44 U.S. population, a key home buying demographic, has begun to grow once again and is poised to overtake the previous high in 2000 in five years and advance 15% over the next decade (see graph below). The growth in Millennials (born in 1981-1996), which are on the verge of surpassing the Baby Boomers (1946-1964) as the nation's largest living demographic, means a greater need for apartments, condos, townhouses, and single-family homes in the years ahead.

We remain guardedly optimistic about the economy and believe the next downturn is unlikely to occur before 2021 at the earliest.

U.S. POPULATION Age 35–44 (000's)

