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US: SHARP DROP IN HOUSING STARTS IN SEPTEMBER, Q4 REBOUND EXPECTED

** US housing starts fell sharply in September due to an anomalous decline in multifamily starts; single family starts rose*

**Multifamily building permits rose to their highest level in almost a year and suggest that September's drop-off was temporary*

**The outlook remains constructive on housing as fundamentals are solid*

US housing starts fell sharply in September by 9.0% m/m to an annualized 1047k (Consensus: 1175k), due to an anomalous 38% decline in multifamily starts to 264k (see Chart 1). Single family starts, on the other hand, showed a decent 8.1% m/m increase to an annualized 783k, a 7-month high.

All regions except the West showed sharp declines in the multifamily sector. Multifamily starts tend to be very volatile month-to-month, but the magnitude of the decline in September is unusual (-162k) and the largest monthly fall since March 2000. It is possible that after months of unusually stable activity in the multifamily starts – the average of the absolute difference of the change in multifamily starts up to August was 22k, compared to the five year average of 51k – a correction was due (see Chart 2).

September's housing starts confirm that residential construction will again drag on GDP growth in Q3.

Looking ahead, several factors suggest housing activity will strengthen and add to Q4 real GDP. Housing starts are projected to rebound in Q4. Building permits rose by a solid 6.3% to an annualized 1225k (highest since November 2015) and multifamily permits rose by 16.8% to 486k (see Chart 3).

The housing sector still has plenty room for improvement with starts more than 20% below its long-run average. In addition, favorable demographics, better incomes, low mortgage rates and a tight supply of homes suggest that demand for new construction is likely to remain robust in coming years. The outlook remains constructive on new residential construction and it is expected to be one of the primary drivers of growth.

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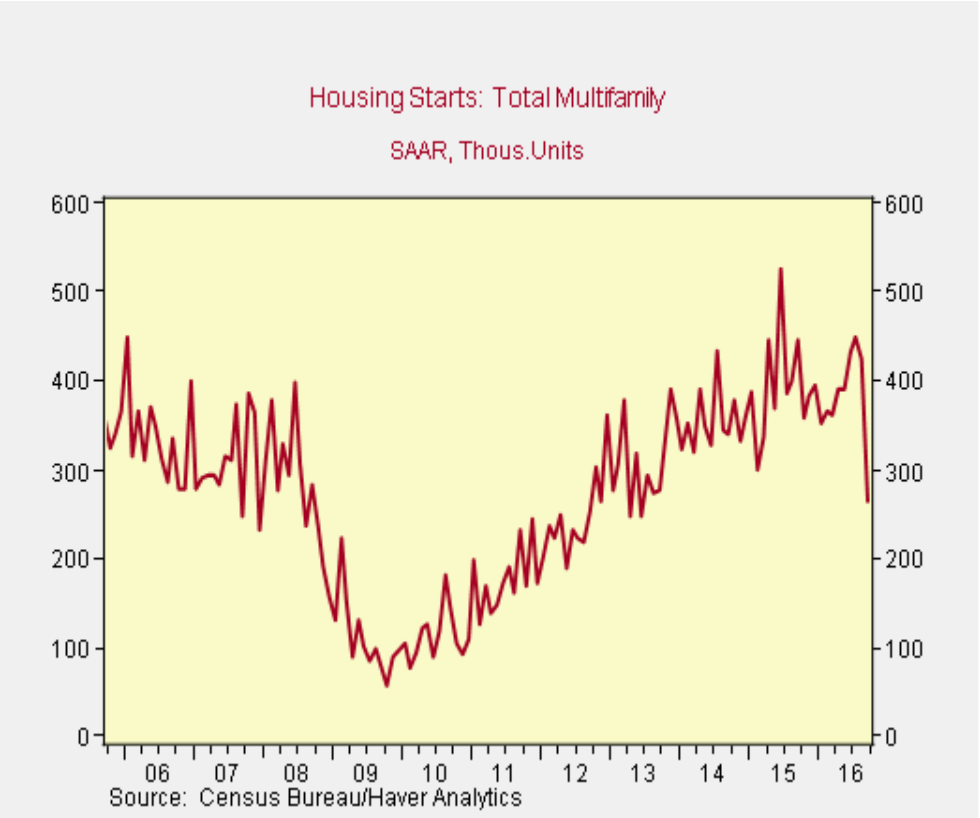
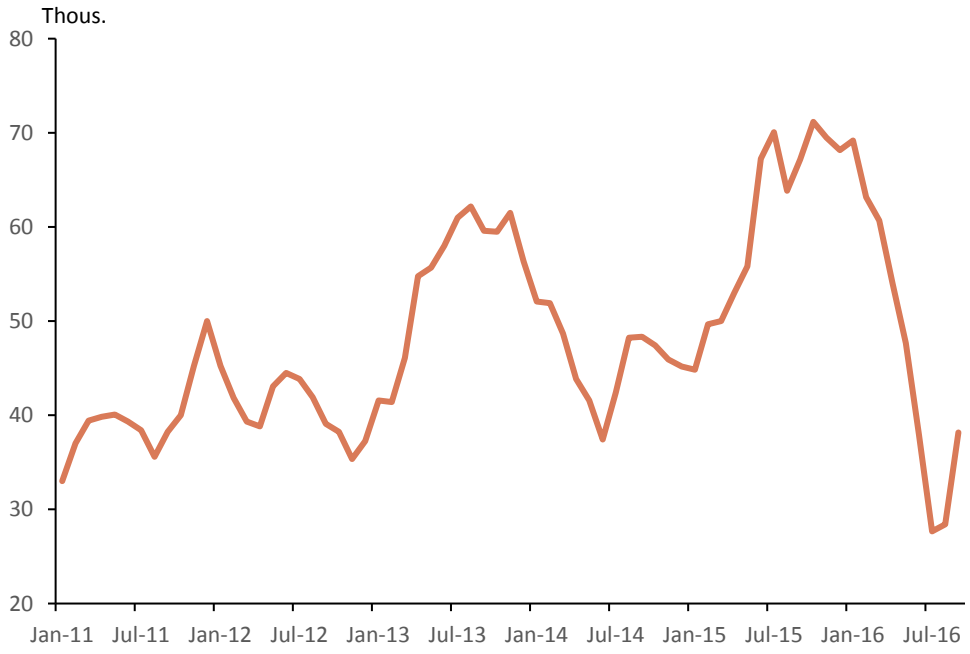
Chart 1: Housing Starts - Total Multifamily



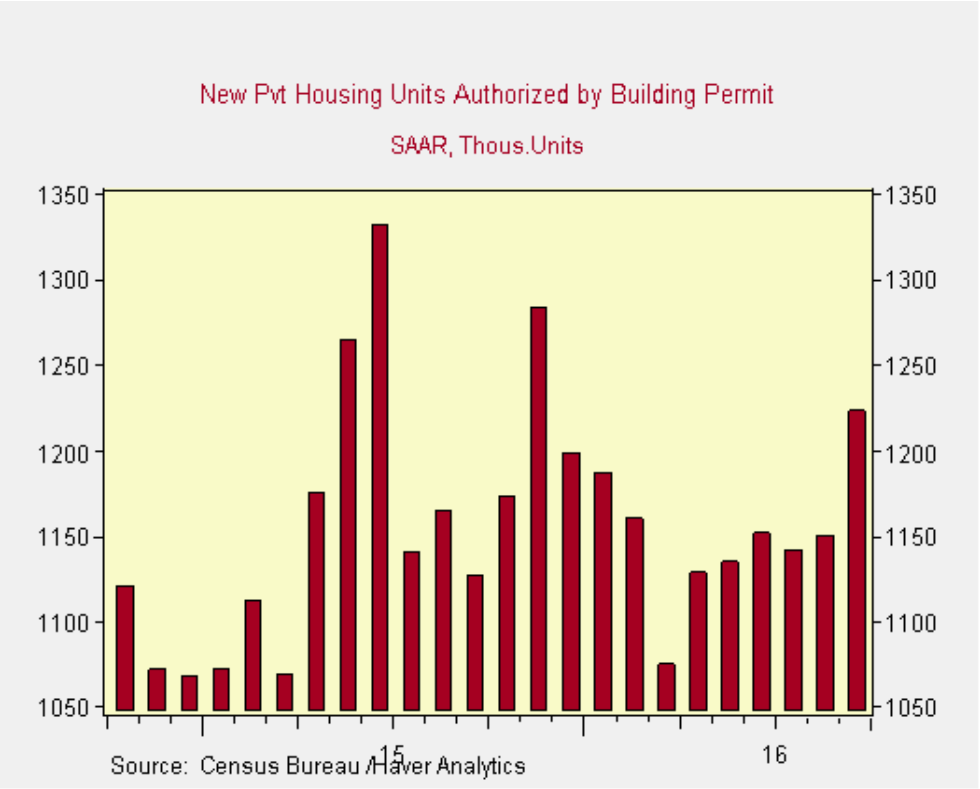
Source: Monthly data. Source: Census Bureau and Haver Analytics

Chart 2: 12-month moving average of the absolute value of the monthly change in multifamily starts



Source: Monthly data. Source: Census Bureau, Berenberg Capital Markets and Haver Analytics

Chart 3: Total Building Permits



Source: Monthly data. Source: Census Bureau and Haver Analytics

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