



Housing Starts Decline for 2nd Straight Month

September 19, 2017

Housing starts fell in August, the second straight monthly decline, reported the Commerce Department Tuesday, even though economists had anticipated an increase.

The decline was more modest than the one in July. That drop, which caught many by surprise, was nearly 5% and came on the heels of an equally unexpected rise in June. While economists thought housing starts would go up by 20,000 in August, the Commerce Department reported they dropped 0.8%.

There was disagreement on how much of this was due to Hurricane Harvey, which made landfall in Texas in late August. The impact of Hurricane Irma, which struck Florida earlier this month, likely will be seen in future reports.

"The data suggested limited impact on permits from Hurricane Harvey, which lashed Texas in late August and caused unprecedented flooding in Houston. The Commerce Department said the response rate from areas affected by the storm 'was not significantly lower,'" wrote Lucia Mutikani for Reuters.

But John Engle, president of Chicago-area family office merchant bank Almington Capital, was more certain.

"As I feared, downward pressure on housing starts continued in August," said Engle. "The multifamily sector in particular showed worrying weakness, keeping overall starts down even as single-family construction improved. The impact of Hurricane Harvey was definitely evident from the report, especially on the slowdown in housing completions."

Ed Anderson, chief analyst for London-based FxPro, said the numbers show "relatively steady new-home construction" and appear to signal forward movement for the housing market.

"The likely temporary blow from the recent hurricanes," he said, "along with fears of rising raw material costs and a shortage of skilled workers, resulted in weaker builder sentiment."

John Boyd Jr., principal of The Boyd Co. Inc., a Princeton, New Jersey-based location company, attributed the decline to "shortage of labor, lack of land and rising building costs."

"One positive area is a rise in building permits (up 5.7% in August)," Boyd said. "This may indicate some positive news for the weeks and months ahead - as high-growth markets in Florida and Texas in particular are expected to see post-hurricane home building activity."

"How the Fed's meeting [Wednesday] and balance sheet unwind - and likely rising interest rates - affect all of this remains to be seen," Boyd continued. "I tend to believe concerns of rising rates on the real estate market are overstated and trumped by other drivers like an improving national economy, especially as interest rate hikes are expected to be gradual and limited."

"The emphasis for lawmakers is funding for new workforce training programs to train new construction workers as well as infrastructure to keep supply chain of goods and services flowing to high-growth markets especially vulnerable to hurricane damage. The focus is not just on new roads, bridges, flood barriers, electricity and internet system upgrades, but also funds to train new builders. The lack of labor supply is real."

"Some of the most influential business leaders in North America live and have second homes in South Florida, and the chatter today," Boyd said, "is on these issues and how to make Florida more hurricane resilient. In addition to infrastructure investments, more construction-oriented workforce training programs are a big piece of the puzzle."

That would dovetail nicely into the Trump administration's stated goal of improving infrastructure. Barry Ritholtz of Bloomberg writes it may be the "gimme" victory the president needs to jump-start his economic agenda.

"Overall, the downtrend may prove to be a momentary reversal of what has been a very long growth cycle," Engle said, "but that outlook is getting cloudier. Builder sentiment has declined due to mounting economic uncertainty, and that diminished confidence may result in a more cautious market for some time. Expectations for September are already being revised downward, and with good reason."

At market close Tuesday, Florida-based single-family homebuilder **Lennar Corp.** (LEN) sold for \$51.81 per share, an increase of 0.21%. **LGI Homes** (LGIH), a homebuilder based in The Woodlands, Texas, ended the trading day selling for \$46.67 per share (up 3.48%). Arlington, Texas-based **D.R. Horton Inc.** (DHI), the largest home construction company in the U.S., sold for \$37.57 per share, an increase of 0.21%.

The views and opinions expressed herein are the views and opinions of the author and do not necessarily reflect those of The NASDAQ OMX Group, Inc