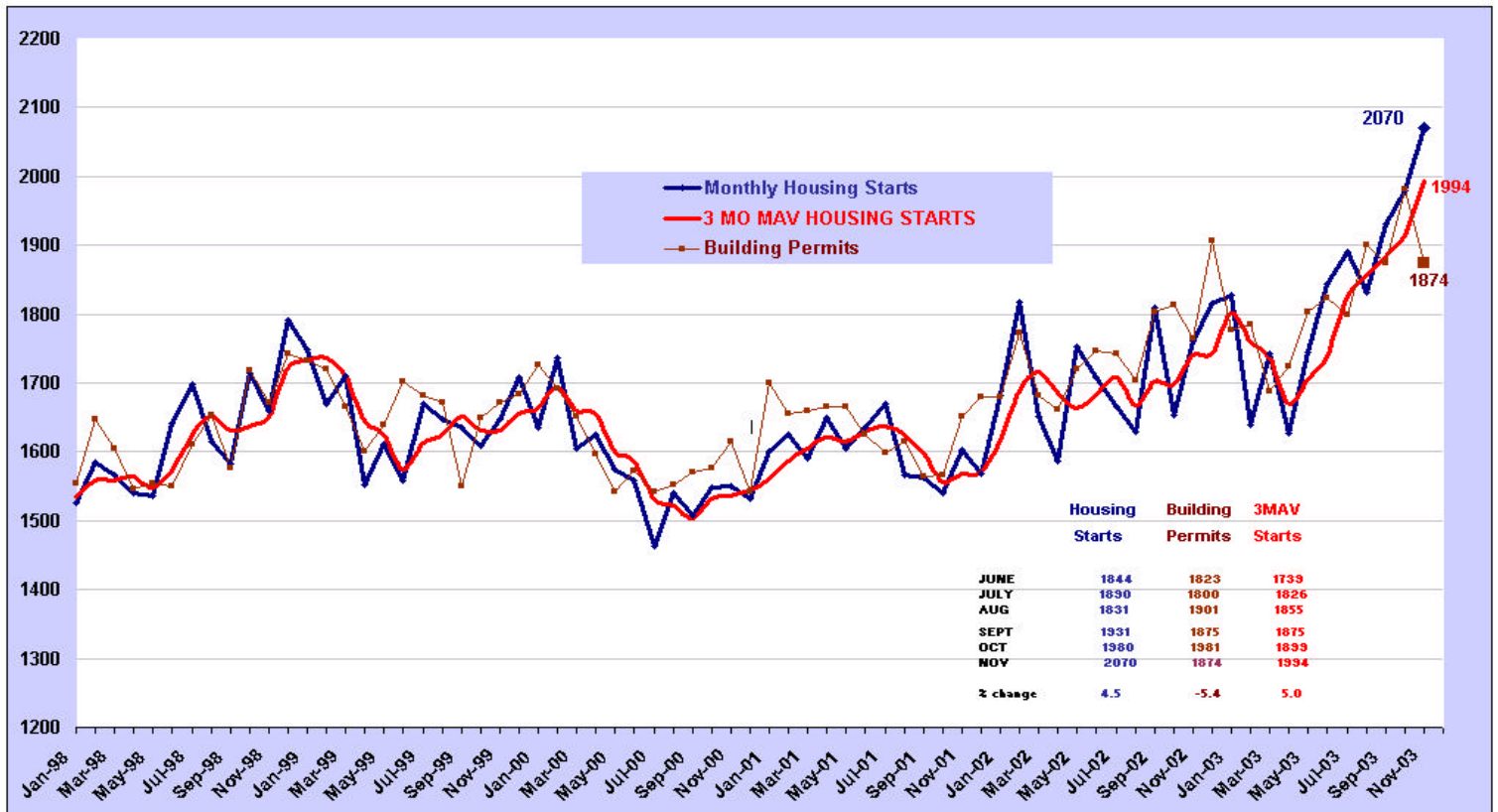




Housing Starts and Permits Yield Conflicting Signals



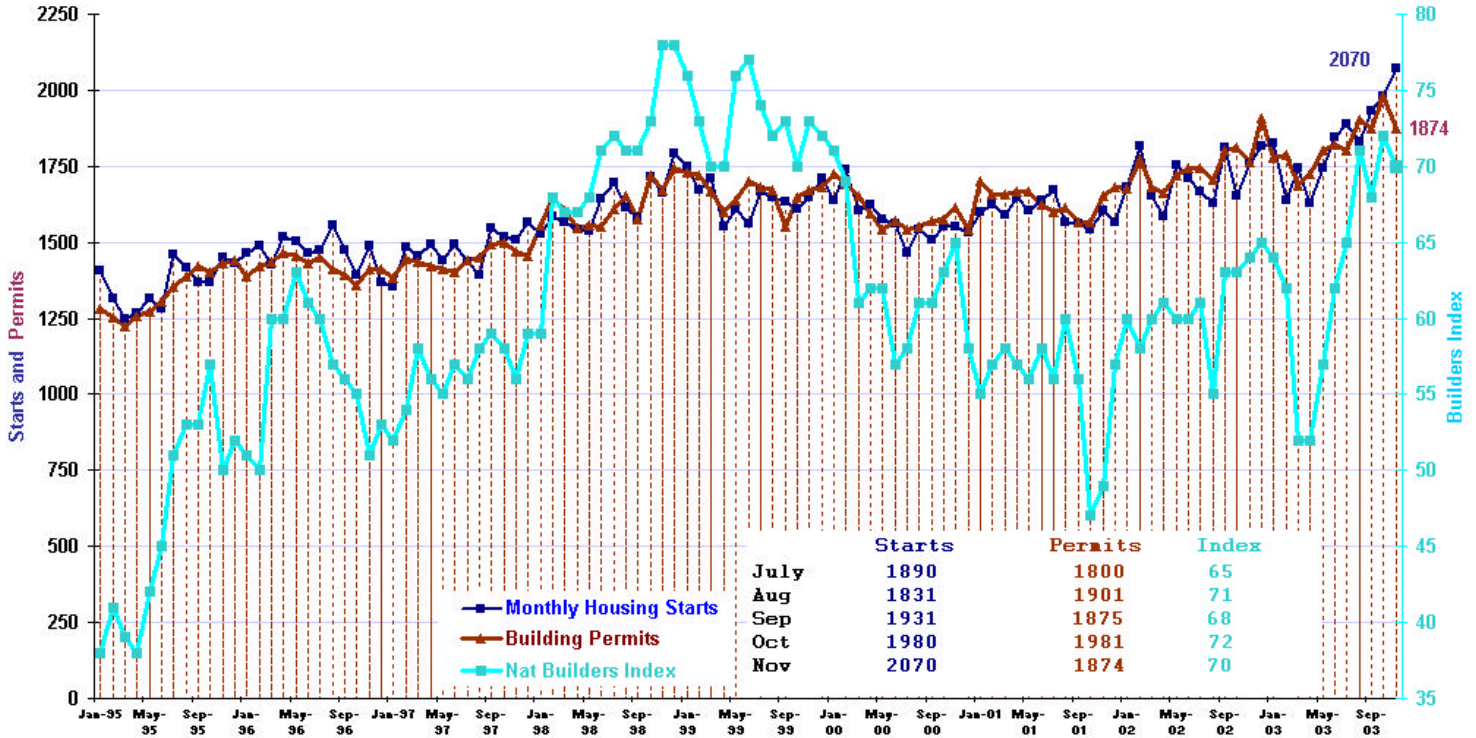
The Housing Starts number was a “blowout” number, posting the highest single month total in the data series since 1984, pulling up the 3-month average along with it. However, building permits dropped signaling a potential reduction in the Starts numbers going forward. The drop in permits was not extreme (although it amounted to a 5.4% drop), considering the very high level of starts over the past 8 months since the “low” in April 2003. Assuming the sales data continue to vindicate this very high level of starts, families seem to be unworried about a sharp decline in their income prospects going forward. This is a bit in conflict with the UMICH consumer sentiment data of last week, however, but we shall have to see which governs: builder optimism or consumer buying intentions.

One way to look at this sentiment issue is to look at the data from the National Home Builders Survey. Below we graph the Builders Survey Series against the principal Starts and Permits data. We note that the Survey series turns down this month suggesting perhaps that Starts and Permits going forward will decline a bit from these very stimulative levels. Still, those who have bet against the consumer have not been rewarded this past year.



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The Builders' series seems intrinsically more volatile, as we might expect a sentiment survey to be. Builder's do seem very optimistic that inventories and sales data are show no excessive buildup of inventory and some have argued that it is the lack of inventory that is holding down sales.