

Home building jumps 15 percent in September

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Homes were built in September at the fastest pace in 17 months, a hopeful sign for the economy.

Most of the gain was driven by a surge in volatile apartment construction. That should help create jobs and boost economic growth, but it doesn't signal a comeback for the depressed housing market.

Single-family home construction, which represents nearly 70 percent of homes built, rose only slightly. And building permits, a gauge of future construction, fell to a five-month low.

Overall, builders began work in September on a seasonally adjusted 658,000 homes, the Commerce Department said Wednesday. While that's a 15 percent increase from August, it's roughly half the 1.2 million that economists say is consistent with healthy housing markets.

"The overall result is favorable," said Pierre Ellis, an analyst at Decision Economics. "But greater optimism would have been prompted if single-family starts had increased — suggesting that builders were seeing a better market ahead."

A separate report showed that consumers paid more for food and gas in September, although inflation outside those volatile categories was tame.

The Consumer Price Index rose 0.3 percent last month, the Labor Department said. Excluding food and energy, so-called core prices increased 0.1 percent, the smallest rise since March.

Food prices rose 0.4 percent in September, pushed up by big increases in the dairy, cereals, and fruits and vegetables categories. Gas prices rose 2.9 percent.

Inflation has worsened this year, after the cost of oil, corn and cotton spiked in the spring. But some economists believe consumer prices are leveling off. Clothing prices fell in September. Gas prices are down from their May peak. And new and used car prices are flattening now that supply chains disruptions caused by the Japan crisis have started to ease.

The spike in apartment construction helped home building increase to its best pace since April 2010, when a federal homebuyers' tax credit temporarily boosted construction. Apartment building in September surged 53.4 percent to its highest level in three years.

Still, single-family homes rose 1.7 percent and building permits fell 5 percent.

Increased apartment construction could be a sign that builders are gaining access to hard-to-get financing for projects, analysts said. It could also be a positive sign for the broader economy.

The Federal Reserve "will still be more encouraged than not, given the healthy multi-family sector — and the positive hint about availability of financing that it gives," Ellis said.

While home construction represents a small portion of the housing market, it has an outsize impact on the economy. Each home built creates an average of three jobs for a year and about \$90,000 in taxes, according to the National Association of Home Builders.

Overall, homebuilding fell to its lowest levels in 50 years in 2009, when builders began work on just 554,000 homes. Last year was not much better.

Cash-strapped builders are struggling to compete with deeply discounted foreclosures and short sales, when lenders allow borrowers to sell homes for less than what is owed on their mortgages. And few homes are selling.

After previous recessions, housing accounted for at least 15 percent of economic growth in the United States. Since the recession officially ended in June 2009, it has contributed just 4 percent.

New-home sales fell in August to a seasonally adjusted annual rate of 295,000, a six-month low. This year is shaping up to be the worst since the government began keeping records a half-century ago.

Renting has become a preferred option for many Americans who lost their jobs during the recession and were forced to leave their homes. Still, the surge in apartments has not been enough to offset the loss of single-family homebuilding.

Another reason sales have fallen is that previously occupied homes are a better deal than new homes. The median price of a new home is about 30 percent higher than the median price for a re-sale. That's almost twice the markup in a healthy housing market.

The trade group said Tuesday that its survey of industry sentiment rose this month to 18, the highest level in 17 months. Still, the index has been below 20 for all but one month during the past two years. Any reading below 50 indicates negative sentiment about the housing market. The index hasn't reached 50 since April 2006, the peak of the housing boom.