

Housing construction deteriorated markedly in December from an already severely depressed level. Oddly enough, the news was so negative that it finally is reasonable to expect that investment in residential structures might have stopped subtracting from real GDP growth in the fourth quarter.

Housing starts decreased 15.5% in December from a month earlier to the lowest monthly pace of home-building on record dating back to 1947. Starts were down 45.0% from December 2007, about in line with the peak 12-month rate of decline experienced in the 1973-75, 1980 and 1981-82 recessions.

From the peak of the housing cycle to the trough, however, the decline in housing starts on a 3-month moving average basis has been the greatest in this cycle. Since January 2006, housing starts have fallen by 69.3%, compared with a decline of 60.7% in the 1973-75 recession and 52.3% in the 1980 recession.

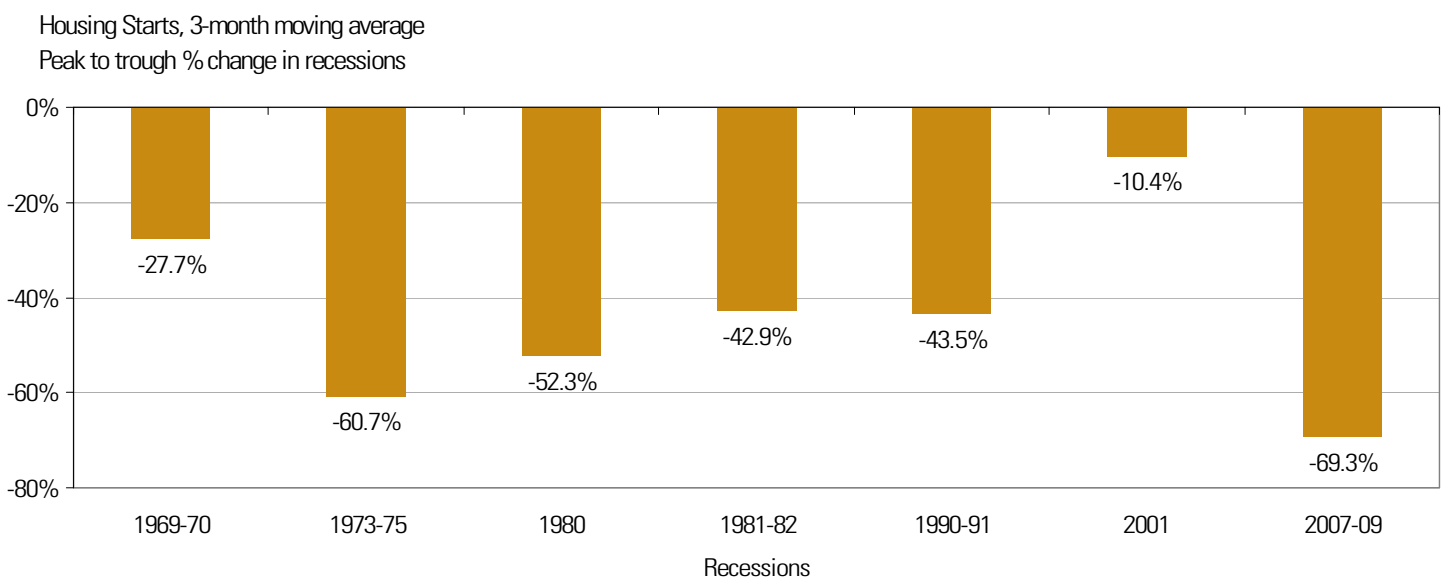
Starts fell a smaller 42.9% in the long and severe 1981-82 recession, but had never fully recovered from the decline during the 1980 recession. Even taking the 1980 and 1981-82 recessions together, housing starts fell by a total of 59.2% from peak to trough – less than in the current cycle.

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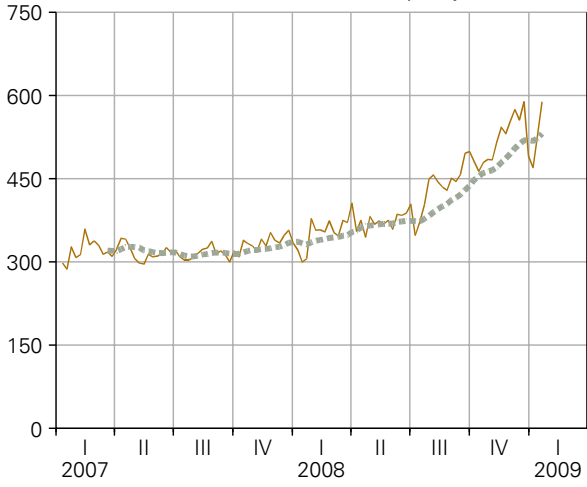
Starts in the Midwest fell 24.5% in December to 41.6% below the year earlier level. Since the peak of 415,000 units in November 2003, the 3-month moving average of Midwest housing starts has declined by 75.4%.

At only 550,000 units at a seasonally adjusted annual rate in December, however, the construction of new homes is well below the trend rate of increase in households of more than 1 million per year. In addition, the affordability of houses has improved to its best level since 1994. It is not inconceivable that housing construction has reached such an unsustainably low level that it subtracts little if anything from first quarter growth and even adds modestly to economic growth later in the year.

Jim Coons



Initial Claims for Unemployment Insurance
Thousands Per Week, Seasonally Adjusted



U. S. Dollar Exchange Rate
FRB Major Currency Index, 1973 = 100



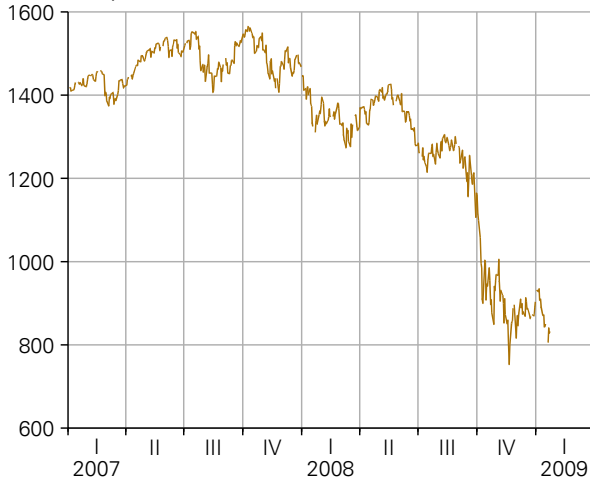
Price of Oil
West Texas Int, \$/bbl



Price of Gold
London PM Fixing, \$/oz



S&P 500 Stock Prices
Daily Close, Index 1941-43 = 10



Mortgage Loan Originations
MBA Purchase Index 3/16/90=100 SA

