

Housing Starts Increased 4.4% For September

Third Straight Rise Means Fed Will Boost Rates, Many Analysts Believe

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WASHINGTON — Housing starts increased for the third straight month in September, rising 4.4% to an annual rate of 1,525,000 units, the Commerce Department reported.

Many analysts who expected a smaller increase or even a slight decline in housing starts believe this growth boosts the likelihood that the Federal Reserve will raise short-term interest rates at its Nov. 15 policy meeting.

"These housing-starts figures show that interest-rate increases have had no effect on the housing industry," said Eugene J. Sherman, director of research at M.A. Schapiro & Co. "The Fed is going to have to realize this and raise rates."

Economists attribute the increase in starts to a strengthening economy, which has led to improving job opportunities and income growth. The Fed is concerned that the improving economy will lead to a new burst of inflation and has been raising interest rates as a way to restrain prices.

Indeed, a report issued yesterday by the Federal Reserve Bank of Philadelphia showed not only a strong boost in manufacturing activity in the area but also higher prices for both raw materials and manufactured goods.

The two reports prompted a sharp sell-off in the bond market, with yields on the Treasury's benchmark 30-year bond rising to nearly 8%. The yield on the bellwether bond ended New York trading at 7.996%, the highest level since May 1992.

Adjustable-Mortgage Trend

Another factor in the housing-starts increase is a continuing trend toward using adjustable-rate mortgages, according to David Seiders, chief economist of the National Association of Home Builders. Adjustable-rate mortgages have become more popular because they run around three percentage points less than the standard 30-year mortgages, and this "allows people to stay in the market," Mr. Seiders said.

Still, some analysts believe that September's rise in starts doesn't represent a growth trend as much as an unreliable statistic.

"Housing starts are relatively volatile and what we are seeing is mainly some noise," said David Berson, chief economist for the Federal National Mortgage Association. "Unless the economy is really picking up growth to a significant degree, I would be surprised if [housing starts] continue to rise."

Single-family starts, the largest and most significant part of the total, led the September surge, increasing 6.1% to an annual rate of 1,252,000 after falling 3.2% in August.

Multifamily Starts Fall

Multifamily starts dropped 2.9% in September to an annual rate of 273,000. Construction starts on buildings with two to four units rose 7.7% to an annual rate of 42,000, but starts on units of five or more fell 4.5% to a rate of 231,000. Analysts had expected a decline following an unsustainable 27.7% rise in multifamily starts in August.

Regionally, housing starts grew 21.3% in the West and 6% in the Midwest, while they declined 8.9% in the Northeast and 1.5% in the South.

Strong growth in the West can be attributed to an improving economy in California. The Commerce Department said yesterday in a separate report that personal income in California showed signs of rebounding from the Northridge earthquake in January, rising 3.9% in the second quarter of 1994—the largest gain for any state. Nationally, personal income increased 1.9%, although only 11 states showed above-average gains.

Good Weather Is Cited

The strong housing picture in the Midwest was prompted by good weather, according to Brian Wesbury, chief economist at Griffin, Kubik, Stephens & Thompson Inc.

Building permits for new houses, often an indicator of future growth, rose 6% in September to a strong 1,442,000 annual rate. While single-family permits showed a modest 1% gain to an annual rate of 1,055,000, buildings with five or more units jumped 24% to a rate of 311,000. The rate of permits for buildings with two to four units rose 33% to 76,000.

Separately, the Labor Department said initial claims for state unemployment benefits fell 3,000 to 326,000 last week, but the four-week average for new claims rose to 321,000 from 319,750 the previous week. The four-week average usually gives a better indication of the labor market than the one-week figure.

All figures have been adjusted for normal seasonal variations.